

PAPER – 7: ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC MANAGEMENT

SECTION –B: STRATEGIC MANAGEMENT

Question No. 6 is compulsory

*Answer any **three** questions from the rest.*

Question 6

*An XYZ Company is facing continuous losses. There is decline in sales and product market share. The products of the company became uncompetitive and there is persistent negative cash flow. The physical facilities are deteriorating and employees have low morale. At the board meeting, the board members decided that they should continue the organization and adopt such measures that the company functions properly. The board has decided to hire young executive Shayamli for improving the functions of the organization. What corporate strategy should Shayamli adopt for this company and what steps to be taken to implement the corporate strategy adopted by Shayamli? **(5 Marks)***

Answer

XYZ Company is facing continuous losses, decline in sales and product market share, persistent negative cash flow, uncompetitive products, declining market share, deterioration in physical facilities, low morale of employees. In such a scenario, Shayamli may choose **turnaround strategy** as this strategy attempts to reverse the process of decline and bring improvement in organizational health. This is also important as Board has decided to continue the company and adopt measures for its proper functioning.

For success, Shayamli needs to focus on the short and long-term financing needs as well as on strategic issues. During the turnaround, the “product mix” may be changed, requiring the organization to do some repositioning. A workable action plan for turnaround would involve:

Stage One – Assessment of current problems: In the first step, assess the current problems and get to the root causes and the extent of damage.

Stage Two – Analyze the situation and develop a strategic plan: Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions.

Stage Three – Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive.

Stage Four – Restructuring the business: If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.

Stage Five – Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.

Question 7

- (a) "Strategic Management concepts are useful for educational institutions." Explain with reasons. **(5 Marks)**
- (b) "Industry and competitive analysis begins with an overview of the industry's dominant economic features." Explain and also narrate the factors to be considered in profiling in industry's economic features. **(5 Marks)**

Answer

- (a) Education is considered to be a noble profession. An educational institution often functions as a not-for-profit organization managed by trusts and societies. They include schools, colleges and universities. Being inherently non-commercial in nature, educational organisations do not have cut-throat competition as in case of their commercial counterparts. However, as the number of institutions belonging to both public and private sector are increasing, the competition is gradually rising. Key reasons for use of strategic management techniques in educational institutes are as follows:
- Getting better name and recognition.
 - Adopt different strategies for attracting best students.
 - Appointing and retaining quality faculty for teaching.
 - Deliver education to make graduates more employable.
 - Nurturing responsible citizens.
- (b) Industry is "a group of firms whose products have same and similar attributes such that they compete for the same buyers." Industries differ significantly in their basic character and structure. Industry and competitive analysis begins with an overview of the industry's dominant economic features. The factors to be considered while profiling an industry's economic features are fairly standard and are given as under:
- ◆ Size and nature of market.
 - ◆ Scope of competitive rivalry.
 - ◆ Market growth rate and position in the business life.
 - ◆ Number of rivals and their relative market share.
 - ◆ The number of buyers and their relative sizes.
 - ◆ The types of distribution channels used to access consumers.
 - ◆ The pace of technological change in both production process innovation and new product introductions.
 - ◆ Whether the products and services of rival firms are highly differentiated, weakly differentiated, or essentially identical?

- ◆ Whether organisation can realize economies of scale in purchasing, manufacturing, transportation, marketing, or advertising.
- ◆ Whether key industry participants are clustered in a location.
- ◆ Whether certain industry activities are characterized by strong learning and experience effects (“learning by doing”) such that unit costs decline as cumulative output grows.
- ◆ Whether high rates of capacity utilization are crucial to achieve low-cost production efficiency.
- ◆ Capital requirements and the ease of entry and exit.
- ◆ Whether industry profitability is above or below par?

Question 8

- (a) *Why an organisation should have a mission? What considerations are to be kept in mind while writing a good mission statement of a company?* **(5 Marks)**
- (b) *Explain the Strategic Alliance. Describe the advantages of Strategic Alliance.* **(5 Marks)**

Answer

- (a) Organization should have a mission on account of the following reasons:
- ◆ To ensure unanimity of purpose within the organization.
 - ◆ To develop a basis, or standard, for allocating organizational resources.
 - ◆ To provide a basis for motivating the use of the organization’s resources.
 - ◆ To establish a general tone or organizational climate.
 - ◆ To serve as a focal point for those who can identify with the organization’s purpose and direction.
 - ◆ To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organization.
 - ◆ To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assessed and controlled.

The following points must be considered while writing a good mission statement of a company:

- (i) To establish the special identity of the business - one that typically distinct it from other similarly positioned companies.
- (ii) Good mission statements should be unique to the organisation for which they are developed.

- (iii) Needs which business tries to satisfy, customer groups it wishes to target and the technologies and competencies it uses and the activities it performs.
- (b) A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated.

Advantages of Strategic Alliance

Strategic alliance usually is only formed if they provide an advantage to all the parties in the alliance. These advantages can be broadly categorised as follows:

1. **Organizational:** Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain. Strategic partners may provide a good or service that complements thereby creating a synergy. Having a strategic partner who is well-known and respected also helps add legitimacy and credibility to a new venture.
2. **Economic:** There can be reduction in costs and risks by distributing them across the members of the alliance. Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline. Finally, partners can take advantage of co-specialization, creating additional value.
3. **Strategic:** Rivals can join together to cooperate instead of compete. Vertical integration can be created where partners are part of supply chain. Strategic alliances may also be useful to create a competitive advantage by the pooling of resources and skills. This may also help with future business opportunities and the development of new products and technologies. Strategic alliances may also be used to get access to new technologies or to pursue joint research and development.
4. **Political:** Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry. Forming strategic alliances with politically-influential partners may also help improve your own influence and position.

Question 9

- (a) *Discuss in what conditions rivalry among competitors tends to be cut-throat and profitability of the industry goes down.* **(5 Marks)**
- (b) *Discuss the various approaches for evaluating the worth of a business.* **(5 Marks)**

Answer

- (a) The intensity of rivalry in an industry is a significant determinant of industry attractiveness and profitability. The intensity of rivalry can influence the costs of suppliers, distribution, and of attracting customers and thus directly affect the profitability. The more intensive the

rivalry, the less attractive is the industry. Rivalry among competitors tends to be cutthroat and industry profitability low when

- (i) An industry has no clear leader.
 - (ii) Competitors in the industry are numerous.
 - (iii) Competitors operate with high fixed costs.
 - (iv) Competitors face high exit barriers.
 - (v) Competitors have little opportunity to differentiate their offerings.
 - (vi) The industry faces slow or diminished growth.
- (b) Various approaches for determining a business's worth can be grouped into three main approaches:
- (i) **Net worth or stockholders' equity:** Net worth is the total assets minus total outside liabilities of an organisation.
 - (ii) **Future benefits to owners through net profits:** These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.
 - (iii) **Market-determined business worth:** This approach involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

Question 10

- (a) *Distinguish between transformational leadership style and transactional leadership style.*
- (b) *Explain concept and nature of BPR.* **(5 Marks)**

OR

Write a short note on the concept of cost leadership strategy and how to achieve it?

(5 Marks)

Answer

- (a) Difference between transformational and transactional leadership are as follows:
1. Transformational leadership style uses charisma and enthusiasm to inspire people to exert them for the good of organization. Transactional leadership style uses the authority of its office to exchange rewards such as pay, status symbols etc.

2. Transformational leadership style may be appropriate in turbulent environment, in industries at the very start or end of their cycles, poorly performing organisations, when there is a need to inspire a company to embrace major changes. Transactional leadership style can be appropriate in static environment, in growing or mature industries and in organisations that are performing well.
 3. Transformational leaders inspire employees by offering excitement, vision, intellectual stimulation and personal satisfaction. Transactional leaders prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement and non-achievement. Transactional leaders focus mainly to build on existing culture and enhance current practices.
- (b) BPR stands for business process reengineering which means starting all over again from scratch. It refers to the analysis and redesign of workflows and processes both within and between the organisations. Its objective is to improve performance in terms of time, cost, quality, and responsiveness to customers. It implies giving up old practices and adopting the improved ones. It is an effective tool of realising new strategies.

Improving business processes is paramount for businesses to stay competitive in today's marketplace. New technologies are rapidly bringing new capabilities to businesses, thereby raising the strategic options and the need to improve business processes dramatically. Even the competition has become harder. In today's market place, major changes are required to just stay even.

OR

Cost leadership strategy requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Accordingly, the cost leader is able to charge a lower price for its products than its competitors and still make satisfactory profits. The low cost leadership should be such that no competitors are able to imitate so that it can result in sustainable competitive advantage to the cost leader firm.

To achieve cost leadership, following are the actions that could be taken:

1. Forecast the demand of a product or service promptly.
2. Optimum utilization of the resources to get cost advantages.
3. Achieving economies of scale leads to lower per unit cost of product/service.
4. Standardisation of products for mass production to yield lower cost per unit.
5. Invest in cost saving technologies and try using advance technology for smart working.
6. Resistance to differentiation till it becomes essential.