

SECTION – B: STRATEGIC MANAGEMENT

SUGGESTED ANSWERS/HINTS

1. (A)

(1)	(2)	(3)	(4)	(5)
(c)	(b)	(d)	(b)	(d)

(B) (b)

(C) (d)

(D) (a)

(E) (d)

(F) (c)

(G) (a)

2. XYZ Ltd. is a sick company with accumulated losses that have eroded its net worth. The multi-product company may analyse its various products to take decisions on the viability of each. **The company may consider a retrenchment strategy.** Retrenchment becomes necessary for coping with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal.

**Retrenchment strategy is adopted** because of continuous losses and unviability and stability can be ensured by reallocation of resources from unprofitable to profitable businesses.

Retrenchment strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. **These steps result in different kinds of retrenchment strategies as follows:**

**Turnaround strategy:** If the organization chooses to transform itself into a leaner structure and focuses on ways and means to reverse the process of decline, it adopts a turnaround strategy. It may try to reduce costs, eliminate unprofitable outputs, generate revenue, improve coordination, better control, and so on.

**Divestment Strategy:** Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of a rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.

**Liquidation Strategy:** In the retrenchment strategy, the most extreme and unattractive is liquidation strategy. It involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure.

The management of multiproduct sick company manufacturing various items need to understand pros and cons of each strategic option. The decision will depend upon the specific circumstances of each product and the management goals of the company.

3. (a) The term 'strategic management' refers to the managerial process of developing a strategic vision, setting objectives, crafting a strategy, implementing and evaluating the strategy, and initiating corrective adjustments were deemed appropriate.

The presence of strategic management cannot counter all hindrances and always achieve success as there are limitations attached to strategic management. These can be explained in the following lines:

- ◆ **Environment is highly complex and turbulent.** It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans. The environment affects as the organisation has to deal with suppliers, customers, governments and other external factors.
  - ◆ **Strategic Management is a time-consuming process.** Organisations spend a lot of time in preparing, communicating the strategies that may impede daily operations and negatively impact the routine business.
  - ◆ **Strategic Management is a costly process.** Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments, devise strategies and properly implement. These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete.
  - ◆ **Competition is unpredictable.** In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to the strategies.
- (b) **Implementation or execution** is an operations-oriented, activity aimed at shaping the performance of core business activities in a strategy-supportive manner. In most situations, strategy-execution process includes the following principal aspects:
- ◆ **Developing budgets** that steer ample resources into those activities that are critical to strategic success.
  - ◆ **Staffing the organization with the needed skills and expertise**, consciously building and strengthening strategy-supportive competencies and competitive capabilities and organizing the work effort.
  - ◆ **Ensuring that policies and operating procedures facilitate** rather than impede effective execution.
  - ◆ **Using the best-known practices to perform core business activities** and pushing for continuous improvement.
  - ◆ **Installing information and operating systems** that enable company personnel to better carry out their strategic roles day in and day out.
  - ◆ **Motivating people to pursue the target objectives energetically.**
  - ◆ **Creating culture and climate conducive** to successful strategy implementation and execution.
  - ◆ **Exerting the internal leadership** needed to drive implementation forward and keep improving strategy execution.
4. (a) A well-designed strategic-management system can fail if insufficient attention is given to the human resource dimension. Human resource problems that arise when a business implements strategies can usually be traced to one of three causes: (1) disruption of social and political structures, (2) failure to match individuals' aptitudes with implementation tasks, and (3) inadequate top management support for implementation activities.
- i. **Disruption of social and political structures:** Strategy implementation poses a threat to many managers and employees in an organization. New power and status relationships are

anticipated and realized. New formal and informal groups' values, beliefs, and priorities may be largely unknown. Managers and employees may become engaged in resistance behaviour as their roles, prerogatives, and power in the firm change. Disruption of social and political structures that accompany strategy execution must be anticipated and considered during strategy formulation and managed during strategy implementation.

- ii. **Failure to match individuals' aptitudes with implementation tasks:** A concern in matching managers with strategy is that jobs have specific and relatively static responsibilities, although people are dynamic in their personal development. Commonly used methods that match managers with strategies to be implemented include transferring managers, developing leadership workshops, offering career development activities, promotions, job enlargement, and job enrichment.

It is surprising that so often during strategy formulation; individual values, skills, and abilities needed for successful strategy implementation are not considered. It is rare that a firm selecting new strategies or significantly altering existing strategies possesses the right line and staff personnel in tight positions for successful strategy implementation. The need to match individual aptitudes with strategy-implementation tasks should be considered in strategy choice.

- iii. **Inadequate top management support for implementation activities:** Inadequate support from strategists for implementation activities often undermines organizational success. Chief executive officers, small business owners, and government agency heads must be personally committed to strategy implementation and express this commitment in highly visible ways. Strategists' formal statements about the importance of strategic management must be consistent with actual support and rewards given for activities completed and objectives reached. Otherwise, stress created by inconsistency can cause uncertainty among managers and employees at all levels.

- (b) Woodworld is having a product portfolio that is evidently in the decline stage. The product is being replaced with the latest designs with better quality of the product. Strategically, the company should minimize their dependence on the existing products and identify other avenues for the survival and growth. As a CEO of Woodworld Ltd., following can be the strategic options available with the CEO:

- Invest in new product development and switchover to the latest designs. Woodworld Ltd. also need time to invest in hiring interior designers.
- They can acquire or takeover a competitor, provided they have or are able to generate enough financial resources.
- They may also consider unrelated growth and identify other areas for expansion. This will enable Woodworld Ltd. to spread their risks.
- In longer run, they should divest the existing products. However, they may continue with the existing products in a limited manner for such time there is demand for the product.

5. (a) The competitive rivalry will be a significant force in case of company of Rajiv Arya as all the rivals are similar in sizes and are manufacturing similar products. It is difficult for any single manufacturer to dominate the market. Large number of patents will make it difficult for new entrants to break into the market. Further, as there are a large number of small suppliers the power that suppliers can exert will also be low.

There is no information relating to substitutes and bargaining power of customers in the information given in scenario. However, a domestic vacuum cleaner will directly compete with other options

such as house maids. Availability of house maids at low cost can significantly disturb the sales of products.

Further, as the products are similar customers can easily shift from one company to another. This will only enhance competitive rivalry.

- (b) Strategic Control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.

There are four types of strategic control:

- ◆ **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.
  - ◆ **Strategic surveillance:** Strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.
  - ◆ **Special alert control:** At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.
  - ◆ **Implementation control:** Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results.
6. (a) Strong cultures promote good strategy execution when there's fit and hurt execution when there's negligible fit. A culture grounded in values, practices, and behavioral norms that match what is needed for good strategy execution helps energize people throughout the organization to do their jobs in a strategy-supportive manner. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility. This is very conducive to successful execution of a strategy of delivering superior customer service.

A work environment where the culture matches the conditions for good strategy execution provides a system of informal rules and peer pressure regarding how to conduct business internally and how to go about doing one's job.

A strong strategy-supportive culture makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realizing the organizational vision, do their jobs competently and with enthusiasm, and collaborate with others.

(b)

Strategic planning	Operational planning
Strategic planning shapes the organisation and its resources.	Operational planning deals with current deployment of resources.
Strategic planning assesses the impact of environmental variables.	Operational planning develops tactics rather than strategy.
Strategic planning takes a holistic view of the organisation.	Operational planning projects current operations into the future.

Strategic planning develops overall objectives and strategies.	Operational planning makes modifications to the business functions but not fundamental changes.
Strategic planning is concerned with the long-term success of the organisation.	Operational planning is concerned with the short-term success of the organisation.
Strategic planning is a senior management responsibility.	Operational planning is the responsibility of functional managers.