

SECTION – B : STRATEGIC MANAGEMENT
QUESTIONS

1. State with reasons which of the following statements are correct/incorrect:
 - (a) Businesses function in isolation.
 - (b) Competition is bad for the organizations.
 - (c) Strategies are perfect, flawless and optimal organisational plans.
 - (d) Strategies may require changes in organizational structure.
 - (e) Strategic planning is an attempt to improve operational efficiency.
 - (f) For a small entrepreneur vision and mission are irrelevant.
 - (g) Supply chain management is conceptually wider than logistic management.
 - (h) Balanced Scorecard serves both financial and strategic purposes
 - (i) With the help of strategies organisations easily outmanoeuvre their rivals.
2. Briefly answer the following questions.
 - (a) Discuss profit as business objective as per Peter F Drucker.
 - (b) Define augmented marketing.
 - (c) What do you understand by Key Success Factors?
 - (d) What is Benchmarking?
 - (e) Discuss dogs in BCG Matrix.
3. What is Environment? Briefly explain macro environmental factors that affect an organization's strategy.
4. What is diversification? How a firm may diversify?
5. Explain and discuss concept of value chain analyses.
6. What is Strategic Management Process? Briefly explain its each step.
7. What do you understand by logistics strategy? What factors should be considered while developing a logistics strategy?
8. Explain the evolution and importance of business policy and strategic management.
9. Discuss the importance of proper implementation of strategy in strategic management.
10. Discuss six sigma. What is six sigma methodology for new products or services?
11. What is turnaround management? What are various stages in its implementation?
12. Discuss major steps in implementing supply chain management systems in an business organisation
13. Discuss the important areas where human resource manager can play a strategic role.

14. Asian subsidiary of European banking major Cool Bank manages assets of Rs 20,000 crore. Indian private sector bank Easy Ltd has submitted a letter of interest to buy the Asian arm of Cool Bank. The promoters of Easy Ltd are constantly on the lookout for opportunities in line with their ambition of becoming a global leader in the financial services sector. The firm is looking to expand its global footprint, will get access to more products and markets if it manages to acquire Asian arm of Cool Bank. It will also be able to get a presence across Asia. Easy Ltd has engaged major Indian accounting firm as consultants for the deal. The pricing for the Asian arm would depend on the asset composition and also the sustainability of these assets.

Cool Bank, badly hit by the global financial crisis, is looking to sell its Asian portfolio for over Rs 2,500 crores. However, this portfolio does not include Cool Bank's Indian assets. The European Bank is looking to complete the sale in next three months. Easy Ltd is the only Indian bank interested in acquiring Cool Bank. American financial services firm Swift Money is also in the fray to acquire Cool Bank.

Cool Bank caters to the high end of retail banking where services include the entire range of banking, investment and other financial services. These services are normally offered to clients with assets under management of more than Rs 10 crore.

The Indian accounting firm advised a cautious approach in the deal. They felt that global banking industry is in the state of recession. Even very big banks are failing. The environment is not conducive for making major investments. They also felt that after acquisitions such businesses often lose clients. However, Easy Ltd felt that the recession is right time for them to buy as they can close deal at a low price.

Questions:

- (a) Discuss the strategies of Cool Bank and Easy Ltd.
- (b) What are the implications of presence of Swift Money in the fray?
- (c) Why consultants are recommending cautious approach? Discuss.
- (d) Do you think that the recession is right time for an acquisition? Give reasons for your answer.
- (e) What would be your advice to easy ltd?

SUGGESTED ANSWERS/HINTS

1. (a) Incorrect: Businesses do not function in an isolated manner. They function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business which continually remains passive to the relevant changes in the environment is destined to gradually decline.
- (b) Incorrect: All organizations have competition that makes their working challenging. However, competition is neither a coincidence nor bad luck. The nature and extent

of competition that a business is facing in the market is one of the major factors affecting the rate of growth, income distribution and consumer welfare. Competition makes them work harder, brings innovation and cost economies. The benefit of competition are also enjoyed by the society and the markets in which organisations operate.

- (c) Incorrect: Strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic; it is art of the possible; it does not preclude second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations. However, in a sound strategy, allowances are made for possible miscalculations and unanticipated external events.
 - (d) Correct: Strategies may require changes in structure as the structure dictates how resources will be allocated. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, should follow strategy. Without a strategy or reasons for being, companies find it difficult to design an effective structure.
 - (e) Incorrect: Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth. They relate to the top level in the organisation and relate the organisation with its environment. Operational efficiency is not a direct outcome of strategic planning.
 - (f) Incorrect: Entrepreneur, big or small have to function within their several external forces. Competition in different form and different degree is present in all kind and sizes of business. Even entrepreneur with small businesses can have complicated environment. To grow and prosper they need to have clear vision and mission.
 - (g) Correct: Supply chain management is an extension of logistic management. Logistic management is related to planning, implementing and controlling the storage & movement of goods & services while supply chain management is much more than that. It is a tool of business transformation and involve delivering the right product at the right time to the right place and at the right price.
 - (h) Correct: Balance scorecard is a combination of strategic and financial objectives. It measure company performance, requires setting both financial and strategic objectives and tracking their achievement. Unless a company is in deep financial difficulty, such that its very survival is threatened, company managers are well advised to put more emphasis on achieving strategic objectives than on achieving financial objectives whenever a trade-off has to be made.
 - (i) Incorrect: Although often strategies are aimed at outmanoeuvring rivals, it is not easy task. Competitors are simultaneously developing strategies that act as forces negating strategies of an organisation. Winning is tedious and difficult task.
2. (a) Peter F Drucker was of the view that businesses cannot be explained in terms of profit. The economic criterion of maximising profits for a firm has little relevance in the present times. Profit maximization, in simple terms is selling at a higher price than the cost. Profit maximization is subject to the long-term perspective and

includes development of wealth and several non-financial factors such as goodwill, societal factors, relations and so on.

- (b) Augmented marketing refers to deliberate and accelerated efforts to get better marketing returns through additional means. It includes provision of additional customer services and benefits built around the core and actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.
 - (c) Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure.
 - (d) Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. In simple words, benchmarking is an approach of setting goals and measuring productivity based on best industry practices. It developed out of need to have information against which performances can be measured.
 - (e) Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.
3. Environment is sum of several external and internal forces that affect the functioning of business. Businesses function as a part of broader environment. The inputs in the form of human, physical, financial and other related resources are drawn from the environment. The business converts these resources through various processes into outputs of products and/or services. The latter are partly exchanged with the external client groups, say customers. The extent to which the business thrives depends on the manner in which it interacts with its environment. Macro environment is explained as one which is largely external to the enterprise and thus beyond the direct influence and control of the organization, but which exerts powerful influence over its functioning. Important elements of macro environment are:
- ◆ Demographic environment.
 - ◆ Economic environment.
 - ◆ Political-Legal Environment.
 - ◆ Socio-Cultural environment.
 - ◆ Technological environment.
 - ◆ Global environment.

Students may briefly explain the above. Refer to chapter 1.

4. Refer to chapter 4. Diversification endeavours can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversification endeavours have been classified into four broad categories:
 - (i) Vertically integrated diversification.
 - (ii) Horizontally integrated diversification.
 - (iii) Concentric diversification.
 - (iv) Conglomerate diversification.
5. Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services). Value analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved. These two basic steps of identifying separate activities and assessing the value added from each were linked to an analysis of an organization's competitive advantage by Michael Porter. One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. Refer to Chapter 6.
6. Refer to chapter 2. The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then subsequently initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate. The strategy-making/strategy-implementing process consists of five interrelated managerial tasks. These are
 - ◆ Setting vision and mission.
 - ◆ Setting objectives.
 - ◆ Crafting a strategy.
 - ◆ Implementing and executing.
 - ◆ Evaluating performance and initiating corrective adjustments.
7. Management of logistics is a process that integrates the flow of supplies into, through and out of an organization to achieve a level of service that facilitate movement and availability of materials in a proper manner. When a company creates a logistics strategy it is defining the service levels at which its logistics is smooth and is cost effective.

A company may develop a number of logistics strategies for specific product lines, specific countries or specific customers because of constant changes in supply chains. There are different areas that should be examined for each company that should be considered and should include:

- ◆ Transportation: Does the current transportation strategies help service levels required by the organisation?
 - ◆ Outsourcing: Areas of outsourcing of logistics function are to be identified. The effect of partnership with external service providers on the desired service level of organisation is also to be examined.
 - ◆ Competitors: Review the procedures adopted by competitors. It is also to be judged whether adopting the procedures followed by the competitors will be overall beneficial to the organisation. This will also help in identifying the areas that may be avoided.
 - ◆ Availability of information: The information regarding logistics should be timely and accurate. If the data is inaccurate then the decisions that are made will be incorrect. With the newer technologies it is possible to maintain information on movement of fleets and materials on real time basis.
 - ◆ Strategic uniformity: The objectives of the logistics should be in line with overall objectives and strategies of the organisation. They should aid in the accomplishment of major strategies of the business organisation.
8. The origins of business policy can be traced back to 1911, when Harvard Business School introduced an integrative course in management aimed at the creation of general management capability. This course was based on interactive case studies which had been in use at the school for instructional purposes since 1908. The course was intended to enhance general managerial capability of students. However, the introduction of business policy in the curriculum of business schools/management institutes came much later. Refer to Chapter 2
9. Refer to chapter 6. Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. Strategy execution deals with supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results. Strategic implementation is concerned with translating a decision into action, with presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate system.
- There are situations where an organisation formulates a very competitive strategy, but is showing difficulties in implementing it successfully. This can be due to various factors, such as the lack of experience, the lack of necessary resources, missing leadership and so on. Unless corrective actions are taken the strategy will fail.
10. Primarily Six Sigma means maintenance of the desired quality in processes and end products. It means taking systemic and integrated efforts toward improving quality and reducing cost.

It is a highly disciplined process that helps in developing and delivering near-perfect products and services. It strives to meet and improve organizational goals on quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones.

For implementing six sigma for new products, processes and services we use DMADV: DMADV is acronym for the steps followed in implementing six sigma. They are:

- ◆ Define.
- ◆ Measure.
- ◆ Analyze.
- ◆ Design.
- ◆ Verify.

Refer to chapter 7.

11. Turnaround Management is the formulation and implementation of a strategic plan and a set of actions aimed towards corporate renewal and restructuring, during times of severe corporate financial distress. Rising competition, business cycles and economic volatility have created a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Organizations those have faced a significant crisis that has negatively affected operations requires turnaround strategy. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Being organization's first objective is to survive and then grow in the market; turnaround strategy is used when organization's survival is under threat. Once turnaround is successful the organization may turn to focus on growth.

Action plan for turnaround strategy

- (i) Assessment of current problems: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.
- (ii) Analyze the situation and develop a strategic plan: Before you make any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan. For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. Analyze the strengths and weaknesses in the areas of competitive position. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.

- (iii) 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. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.
- (iv) Restructuring the business: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement.

During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive. Some facilities might be closed; the organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche.

The 'people mix" is another important ingredient in the organization's competitive effectiveness. Reward and compensation systems that encourage dedication and creativity encourage employees to think profits and return on investments.

- (v) 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. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

12. Successful implementing supply management systems requires a change from managing individual functions to integrating activities into key supply chain processes. It involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. A key requirement for successfully implementing supply chain will be network of information sharing and management. The partners need to link together to share information through electronic data interchange and take decisions in timely manner.

Implementing and successfully running supply chain management system will involve:

- (i) Product development: Customers and suppliers must work together in the product development process. Right from the start the partners will have knowledge of all Involving all partners will help in shortening the life cycles. Products are developed and launched in shorter time and help organizations to remain competitive.

- (ii) Procurement: Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling without interruptions. Suppliers are involved in planning the manufacturing process.
 - (iii) Manufacturing: Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences. Manufacturing should be done on the basis of just-in-time (JIT) and minimum lot sizes. Changes in the manufacturing process be made to reduce manufacturing cycle.
 - (iv) Physical distribution: Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing. Thus supply chain management links a marketing channel with customers.
 - (v) Outsourcing: Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services that traditionally have been provided within an organization. The company will be able to focus on those activities where it has competency and everything else will be outsourced.
 - (vi) Customer services: Organizations through interfaces with the company's production and distribution operations develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn help in producing positive feelings in the organization and the customers
 - (vii) Performance measurement: There is a strong relationship between the supplier, customer and organisation. Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.
13. The human resource strategy of business should reflect and support the corporate strategy. An effective human resource strategy includes the way in which the organization plans to develop its employees and provide them suitable opportunities and better working conditions so that their optimal contribution is ensured. Strategic human resource management may be defined as the linking of human resource management with strategic goals and objectives to improve business performance and develop organizational culture that fosters innovation and flexibility. The success of an organization depends on its human resources. The prominent areas where the human resource manager can play strategic role are as follows:
- (i) Providing purposeful direction.
 - (ii) Creating competitive atmosphere.
 - (iii) Facilitation of change.
 - (iv) Diversion of workforce.

- (v) Empowerment of human resources.
- (vi) Building core competency.
- (v) Development of works ethics and culture.

Refer to chapter 5.

14. This case is for your practice. Remember, there is no rigid solution to a case problem. You can arrive at your own solutions. The opinions differ and your approach will also be different. However, you must offer supporting evidence for your views and judgments.

For answering the questions, you should draw inferences from theoretical concepts of strategic management and integrate them. You should not rely upon unsupported opinions and over generalizations and clearly demonstrate that your interpretations are reasonable, logical and objective.