## SECTION – B : STRATEGIC MANAGEMENT

## QUESTIONS

1. State with reasons which of the following statements are correct/incorrect:
   (a) Environment changes occur continuously.
   (b) Companies must analyse global environment.
   (c) In businesses that are owned by same family, cooperation occurs automatically between family members.
   (d) Vision and mission are important for a small entrepreneur.
   (e) Strategies may require changes in organizational structure.
   (f) The term strategy originally relates to wars.
   (g) Strategic planning is an attempt to improve operational efficiency.
   (h) Diversification can bring synergistic gains.
   (i) SWOT analysis merely examines external environment of an organization.
2. Briefly answer the following questions.
   (a) What do you understand by ethnic mix?
   (b) What do you understand by competitive advantage?
   (c) Explain the concept of retrenchment strategy.
   (d) What do you understand by the term benchmarking?
   (e) Explain question marks in BCG Matrix.
3. What is business policy. How it has evolved?
4. Enumerate and discuss major environment forces impacting the business of a firm.
5. What is strategic vision? What are its elements?
6. Discuss General Electric Model of analysing business portfolio.
7. Modern marketing is highly promotional oriented. Explain how a product can be promoted.
8. Strategic planning is necessary but not sufficient condition for success of an enterprise. Discuss.
9. What is decision making? What are the major dimensions of strategic decisions?
10. What is strategic management process? Briefly explain its each step.
11. What is turnaround management? What are various stages in its implementation?
12. 'A good strategy may fail if it is not implemented properly'. Discuss.
13 What is business process reengineering? Why is it getting popular?

14. Spice and Taste Foods Limited (STFL) is an average size company in the ready to eat snacks segment consisting of chips and biscuits. It operates in a volatile, fast-growing and challenging environment. It has presence all over India. The environment is characterized by strong regulatory control and keen customer expectations and their insistence on good taste and quality. In every 5-6 months a new small player will launch products. However, very few would be able to survive in the difficult market conditions. STFL is growing at a modest rate of 5 % p.a. The products of STFL are very popular with the young generation.

STFL's mother company, Steady International Inc., has been in the industry for over 40 years and operates in 20 countries worldwide. Steady International Inc. has over 2500 employees. Strategic planning is currently centralized at Headquarters in New York and country managers are not consulted about their targets and/or budgets although they are required to set targets for their units and also to operate strictly within budgetary limits. Each of the country unit operates as a separate profit centre.

Steady International Inc. is still considered a "small player" in the International arena. Its global market share is just about one per cent. In recent years Steady International Inc. is losing customers in western market on account of global recession. There is no or negative growth in 15 countries.

Simran Deol, Head of STFL admits this position when she opines in their international meet: "The global recession will kill us. We are a small company and have fewer range of products than our competitors. Although, in 5 markets we have some growth, but it is too less to sustain as a group in long run." She also floated a few points for discussion.

- Expenditure on advertisement is kept at minimum.
- STFL competes on price alone.
- High margins are given to the resellers to maintain their interest in selling their products.
- Appropriate displays are made at point of sales
- Reduce the number of branches within each country.
- Retrench staff as a result of cut in branches

She also suggested that each country unit should be made a separate SBU and advocated increased authority of country heads.

Required:

(i) What is a SBU? Why Simran Deol recommended SBUs.

(ii) Discuss the promotion strategy for STFL.

(iii) Critically examine the ideas given by Simran Deol.

(iv) Examine the impact of recession on STFL and Steady International Inc.

## SUGGESTED ANSWERS/HINTS

1. (a) **Correct:** The business environment is dynamic and constantly changing in nature. Due to the many and varied influences operating, there is dynamism in the environment causing it to continuously change its shape and character.

(b) **Correct:** Companies must analyse global environment as it is also rapidly changing. The new concept of global village has changed how individuals and organizations relate to each other. Further, new migratory habits of the workforce as well as increased offshore operation are changing the dynamics of business operation.

(c) **Incorrect:** Although some members of family in business may have easy and better understanding, their relationships may not always be good. Sometimes, quarrels and conflicts among the managing members of the family on family matters tend to distort their behaviour in managing the enterprise also and thereby damage its functioning. Many a times succession remains a tricky and conflicting issue in businesses.

(d) **Correct:** 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.

(e) **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.

(f) **Correct:** A typical dictionary will define the word strategy as something that has to do with war and deception of an enemy. In business organizational context the term is not much different. Businesses have to respond to a dynamic and often hostile environment for pursuit of their mission. Strategy seeks to relate the goals of the organization to the means of achieving them.

(g) **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.

(h) **Correct:** Diversification can have synergistic advantage. It may be possible to improve the sales and profits of existing products by adding suitably related or new products, because of linkages in technology and/or in markets. Diversification can also utilise existing facilities and capabilities in a more effective and efficient manner.

(i) **Incorrect**: SWOT analysis presents the information about both external and internal environment in a structured form to compare external opportunities and threats with internal strengths and weaknesses. This helps in matching external and internal environments so that strategic decision makers in an organisation can come out with suitable strategies by identifying patterns of relationship and develop suitable strategies.

**2.** **(a)** Ethnic mix reflects the changes in the ethnic make-up of a population and has implications both for a company's potential customers and for the workforce. Issues that should be considered by organisations include:

- ♦ What do changes in the ethnic mix of the population imply for product and service design and delivery?
- ♦ Will new products and services be demanded or can existing ones be modified?
- ♦ Whether managers are prepared to manage a culturally diverse workforce?
- ♦ How can a company position itself to take advantage of increased workforce heterogeneity?

**(b)** Competitive advantage is position of a firm to maintain and sustain a favorable market position when compared to the competitors. Competitive advantage is ability to offer buyers something different and thereby providing more value for the money. It is the result of a successful strategy. This position gets translated into higher market share, higher profits when compared to those that are obtained by competitors operating in the same industry. Competitive advantage may also be in the form of low cost relationship in the industry or being unique in the industry along dimensions that are widely valued by the customers in particular and the society at large.

**(c)** A business organization can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. Retreat is not always a bad proposition to save the enterprise's vital interests, to minimise the adverse effects of competition, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder is launched.

**(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)** Question Marks, sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.

**3.** 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.

**4.** There are two types of environmental forces, which influence an organizations business operation. Some of these forces are external to the firm and the organization has little control over them. Whereas the other types of forces can be controlled by it to a large extent. Macro Environmental forces are difficult to control and consist of demographics and economic conditions, socio-cultural factors, political and legal systems, technological developments, etc. These constitute the general environment, which affects the working of all the firms. Organisations have better control over micro environment consisting of suppliers, consumers, marketing intermediaries, etc. These are specific to the said business or firm and affects it's working on short term basis. Refer to chapter 1.

**5.** A strategic vision delineates organisation's aspirations for the business, providing a panoramic view of the position where the organisation is going. A strategic vision points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.

A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

There are three elements of a strategic vision as follows:

- ♦ Coming up with a mission statement that defines what business the company is presently in and conveys the essence of "Who we are and where we are now?"
- ♦ Using the mission statement as basis for deciding on a long-term course making choices about "Where we are going?"

Communicating the strategic vision in clear, exciting terms that arouse organization wide commitment.

**6.** Refer to Chapter 3. In order to analyse the current business portfolio, the company must conduct portfolio analysis (a tool by which management identifies and evaluates the various businesses that make up the company). In portfolio analyses top management views its product lines and business units as a series of investments from which it expects returns. The General Electric Model uses two factors in a matrix / grid situation as shown below:

| Market Attractiveness | Business Position: High | Medium | Low |
|---|---|---|---|
| High | Invest | Invest | Protect |
| Medium | Invest | Protect | Harvest |
| Low | Protect | Harvest | Divest |

**7.** Promotion stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, and sales promotion into a coordinated campaign. In addition promotional strategies must be adjusted as a product move from an earlier stages from a later stage of its life.

Organizations strive to push their sales and market standing on a sustained basis and in a profitable manner under conditions of complex direct and indirect competitive situations. Promotion also acts as an impetus to marketing. It is simultaneously a communication, persuasion and conditioning process. There are at least four major direct promotional methods or tools – personal selling, advertising, publicity and sales promotion. Refer to chapter 5.

**8.** Students should explain the concept of strategic planning and its linkages with the complex and turbulent environment. To be successful business has to not only recognise different elements of the environment but also respect, adapt to or have to manage and influence them. The business must continuously monitor and adapt to the environment if it is to survive and prosper. Disturbances in the environment may spell extreme threats or open up new opportunities for the firm.

The success of business depends on the ability to manage Key Success Factors (KSFs) that include those things that most affect industry members' ability to prosper in the marketplace. KSFs include 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. KSFs by their very nature are so important that all firms in the industry must pay close attention to them. They are the prerequisites for industry success or, to put it another way, KSFs are the rules that shape whether a company will be financially and competitively successful.

**9.** Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions may relate to general day to day operations. They may be major or minor. They may also be strategic in nature. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations. The major dimensions of strategic decisions are given below:

- Strategic issues require top-management decisions.
- Strategic issues involve the allocation of large amounts of company resources.
- Strategic issues are likely to have a significant impact on the long term prosperity of the firm.
- Strategic issues are future oriented.
- Strategic issues usually have major multifunctional or multi-business consequences.
- Strategic issues necessitate consideration of factors in the firm's external environment.

**10.** 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.

**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 require 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.** 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.

**13.** Business process reengineering (BPR) refers to the analysis and redesign of workflows and processes both within and between the organizations. The orientation of the redesign effort is radical, i.e., it is a total deconstruction and rethinking of a business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum gains in the performance of the process in terms of time, cost, output, quality, and responsiveness to customers.

Improving business processes is paramount for businesses to stay competitive in today's marketplace. Over the last decade several factors have accelerated the need to improve business processes. The most obvious is technology. New technologies (like Information Technology) are rapidly bringing new capabilities to businesses, thereby raising the strategical options and the need to improve business processes dramatically.

Refer to chapter 7.

**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.