Marks

Q. 2 (a) External Opportunities and Threats:

- **Availability of capital** can no longer be taken for granted.
- Consumers expect **green operations and products**.
- **Marketing** has moving rapidly to the **Internet**.
- Consumers must **see value** in all that they consume.
- Global markets offer the highest **growth in revenues**.
- In case **price of oil is collapsed**, oil rich countries would focus on supporting their own economies, rather than seeking out investments in other countries.
- **Too much debt** can crush even the best firms.
- **Layoffs are rampant** among many firms as revenues and profits fall and credit sources dry up.
- The **housing market** is depressed.
- **Demand for health services** does not change much in a recession.
- **Dramatic slowdowns in consumer spending** are apparent in virtually all sectors, except some discount retailers and restaurants.
- Emerging countries' **economies could manage to grow** 5% in 2009, but that is three full percentage points lower than in 2007.
- **U.S. unemployment rates** continue to rise to 10% on average.
- Borrowers are faced with **much bigger collateral** requirements than in years past.
- Equity **lines of credit** often now are not being extended.
- Firms that have **cash or access to credit have a competitive advantage** over debt-laden firms.
- Discretionary spending has fallen dramatically; consumers **buy only essential items**; this has crippled many luxury and recreational businesses such as boating and cycling.
- The **stock market crash of** 2008 left senior citizens with retirement worries, so millions of people **cut back on spending to the bare essentials**.
- The double whammy of **falling demand** and **intense price competition** is plaguing most firms, especially those with high fixed costs.
- The business world has moved **from a credit-based economy to a cash-based economy**.
- There is **reduced capital spending** in response to reduced consumer spending.

16 points @ ½ mark = 8

Opportunities and threats other than above may also be considered.

Many companies who do not have online sales in many industries face the severe external threat while companies having online sales capture increase market share in their industry being using the Internet opportunities. 1

Unrest in the Middle East, rising energy costs, or the war against terrorism could represent an opportunity or a threat. For victims these are threats and for beneficiaries these are opportunities like alternate energy producers and ammunition factories. 1

SUGGESTED ANSWERS

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Marks

(b) The Role of Information Technology (IT) in the Strategic Management:

Information technology contributes to strategic management in many ways as under:

(i) Innovative applications:

For example, Federal Express was the first company in its industry to use IT for tracking the location of every package in its system. FedEx was the first company to make this database accessible to its customers over the Internet.

(ii) Competitive weapons:

Michael Dell (founder of Dell Computer) said that the Internet is like a weapon sitting on the table, ready to be picked up by either you or your competitors.

(iii) Changes in processes:

IT can change business processes include better control over remote stores or offices by providing speedy communication tools, streamlined product design time with computer-aided engineering tools.

(iv) Links with business partners:

IT network allows it to connect agents, customers, and travel service providers around the globe.

(v) Cost reductions:

A traditional airline ticket costs eight times to process, as compare to an e-ticket costs.

(vi) Relationships with suppliers and customers:

The supplier offers customers, a product-monitoring system that automatically notifies supplier when customer inventories fall below an agreed level. Supplier then resupplies the product on a just-in-time basis. The customer benefits from an assured supply of product, less capital tied up in inventory, and reduced inventory management time and processing in a way that supplier links its supply system with information and inventory system.

(vii) New products:

A firm can leverage its investment in IT to create new products that are in demand in the marketplace.

(viii) Competitive intelligence:

If a company knows something important before its competitors, or if it can make the correct interpretation of information before its competitors, then it can act first, gaining strategic advantage through *first-mover advantage* (the competitive advantage gained by being the first to offer a particular product or service that customers deem to be of value).

Stating eight (8) ways @ ½ mark = 4

Relevant explanations = 2

Examples of Industries that are using Wireless Technology:

- Airlines – Many airlines now offer wireless technology in flights.
- Automotive – Vehicles are becoming wireless.
- Banking – Visa (credit card network) sends text message alerts after unusual transactions.
- Education – Many secondary (and even college) students may use smart phones for math because research shows this to be greatly helpful.
- Energy – Smart meters now provide power on demand in your home or business.

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- Health care – Patients use mobile devices to monitor their own health, such as calories consumed.
- Hotels – Days Inn sends daily specials and coupons to hotel guests via text messages.
- Market research – Cell phone respondents provide more honest answers, perhaps because they are away from eavesdropping ears.
- Politics – President Obama won the election partly by mobilizing Facebook and MySpace users, revolutionizing political campaigns. Obama announced his vice presidential selection of Joe Biden by a text message.
- Publishing – eBooks are increasingly available.

Eight (8) examples @ ½ mark = 4

Q. 3 (a) Retrenchment:

Retrenchment occurs when an organization regroups through cost and asset reduction to reverse declining sales and profits. Sometimes called a *turnaround* or *reorganizational strategy,* retrenchment is designed to fortify an organization's basic distinctive competence.

Five guidelines which make the retrenchment an especially effective strategy to pursue are as follows:

- When an organization has a clearly **distinctive competence** but has **failed consistently to meet its objectives and goals** over time.
- When an organization is one of the **weaker competitors** in a given industry.
- When an organization is plagued by inefficiency, low profitability, poor employee morale, and **pressure** from stockholders **to improve performance**.
- When an **organization has failed** to capitalize external opportunities, minimize external threats, take advantage of internal strengths, and overcome internal weaknesses over time; that is, when the organization's **strategic managers have failed** (and possibly will be replaced by more competent individuals).
- When an organization **has grown so large so quickly** that major internal **reorganization** is needed.

Five (5) guidelines @ ½ mark = 2½

Divestiture:

Selling a division or part of organization is called *divestiture*. Divestiture often is used to raise capital for further strategic acquisition or investments. Divestiture can be part of an overall retrenchment strategy to rid an organization of businesses that are unprofitable.

Six guidelines when divestiture may be an especially effective strategy to pursue are as follows:

- When an organization has pursued a **retrenchment strategy and failed to accomplish** needed improvements.
- When a division needs **more resources to be competitive than the company can** provide.
- When a division is responsible for an organization's **overall poor performance**.
- When a division is a **misfit** with the rest of an organization; this can result from **radically different markets, customers, managers, employees, values, or needs**.

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- When a large amount of **cash is needed quickly** and **cannot be obtained** reasonably from other sources.
- When government **antitrust action threatens** an organization.

Six (6) guidelines @ ½ mark = 3

Liquidation:

Selling all of a company's assets, in parts, for their tangible worth is called *liquidation*. Liquidation is a recognition of defeat and consequently can be an emotionally difficult strategy. However, it may be better to cease operating than to continue losing large sums of money.

Following are three guidelines indicate when liquidation may be an especially effective strategy to pursue:

- When an organization has **pursued both a retrenchment strategy and a divestiture strategy**, and neither has been successful.
- When an organization's **only alternative is bankruptcy**. Liquidation represents an orderly and planned means of obtaining the greatest possible cash for an organization's assets. A company can legally declare bankruptcy first and then liquidate various divisions to raise needed capital.
- When the stockholders of a firm can **minimize their losses** by selling the organization's assets.

Three (3) guidelines @ ½ mark = 1½

(b) Importance of Vision and Mission Statements:

King and Cleland recommend that organizations carefully develop a written mission statement in order to reap the following benefits:

- To **ensure unanimity of purpose** within the organization.
- To provide **a basis**, or standard, **for allocating organization resources**.
- To **establish a general** tone or **organizational climate**.
- To **serve as a focal point** for individuals to identify with the **organization's purpose and direction**, and to **deter those who cannot** from participating further in the organization's activities.
- To **facilitate the translation of objectives into a work structure** involving the assignment of tasks to responsible elements within the organization.
- To specify organizational purposes and then **to translate these purposes into objectives** in such a way that cost, time, and performance parameters can be assessed and controlled.

Six (6) benefits @ ½ mark = 3

(c) Steps in Developing the External Factor Evaluation (EFE) Matrix:

An external factor evaluation (EFE) matrix allows strategists to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information. EFE matrix can be developed in five steps: 1

(i) **List key external factors** as identified in the external-audit process. Include a total of 15 to 20 factors, including both opportunities and threats, that affect the firm and its industry. List the opportunities first and then the threats. Be as specific as possible, using percentages, ratios, and comparative numbers whenever possible. 1

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(ii) **Assign to each factor a weight** that ranges from 0.0 (not important) to 1.0 (very important). The weight indicates the relative importance of that factor to being successful in the firm's industry.

Appropriate weights can be determined by comparing successful with unsuccessful competitors or by discussing the factor and reaching a group consensus. The sum of all weights assigned to the factors must equal 1.0. 1

(iii) **Assign a rating between** 1 and 4 to each key external factor to indicate how effectively the firm's current strategies respond to the factor.

It is important to note that both threats and opportunities can receive a 1, 2, 3, or 4 rating. 1

(iv) **Multiply each factor's weight by its rating** to determine a weighted score. 1

(v) **Sum the weighted scores for each variable** to determine the total weighted score for the organization. 1

Regardless of the number of key opportunities and threats included in and EFE matrix, the highest possible total weighted score for an organization is 4.0 and the lowest possible total weighted score is 1.0.

Q. 4 (a) Functions of Management and Stages of Strategic Management Process:

Function of Management	Stage of Strategic Management Process	Description
Planning	Strategy Formulation	Planning consists of all those managerial activities related to preparing for the future. Specific tasks include forecasting, establishing objectives, devising strategies, developing policies, and setting goals.
Organizing	Strategy Implementation	Organizing includes all those managerial activities that result in a structure of task and authority relationships. Specific areas include organizational design, job specialization, job descriptions, job specifications, span of control, unity of command, coordination, job design, and job analysis.
Motivating (Coordinating)	Strategy Implementation	Motivating involves efforts directed toward shaping human behaviour. Specific topics include leadership, communication, work groups, behaviour modification, delegation of authority, job enrichment, job satisfaction, needs fulfillment, organizational change, employee morale, and managerial morale.
Staffing	Strategy Implementation	Staffing activities are centred on personnel or human resource management. Included are wage and salary administration, employee benefits, interviewing, hiring, firing, training, management development, employee safety, affirmative action, equal employment opportunities, union relations, career development, personnel research, discipline policies, grievance procedures, and public relations.
Controlling	Strategy Evaluation	Controlling refers to all those managerial activities directed toward ensuring that actual results are consistent with planned results. Key areas of concern include quality control, financial control, sales control, inventory control, expense control, analysis of variances, rewards, and sanctions.

Pointing out relationship of management function with stages of strategic management process = 5

Explanation of each function/ stage = 5

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SUGGESTED ANSWERS

Marks

(b) Financial Objectives versus Strategic Objectives:

Financial objectives include those associated with growth in revenues, growth in earnings, higher dividends, larger profit margins, greater return on investment, higher earnings per share, a rising stock price, improved cash flow, and so on; while *strategic objectives* include things such as a larger market share, quicker on-time delivery than rivals, shorter design-to-market times than rivals, lower costs than rivals, higher product quality than rivals, wider geographic coverage than rivals, achieving technological leadership, consistently getting new or improved products to market ahead of rivals, and so on.

Although financial objectives are especially important in firms, oftentimes there is a trade-off between financial and strategic objectives such that crucial decisions have to be made.

For example, a firm can do certain things to maximize short-term financial objectives that would harm long-term strategic objectives.

To improve financial position in the short run through higher prices may, for example, jeopardize long-term market share.

The dangers associated with trading off long-term strategic objectives with near-term bottom-line performance are especially severe if competitors relentlessly pursue increased market share at the expense of short-term profitability.

There are other trade-offs between financial and strategic objectivities, related to riskiness of actions, concern for business ethics, need to preserve the natural environment, and social responsibility issues.

Both financial and strategic objectives should include both annual and long-term performance targets.

Ultimately, the best way to sustain competitive advantage over the long run is to relentlessly pursue strategic objectives that strengthen a firm's business position over rivals.

Financial objectives can best be met by focusing first and foremost on achievement of strategic objectives that improve a firm's competitiveness and market strength. 5

Benefits of Having Clear Corporate Objectives:

- Provide direction by revealing expectations
- Allow synergy
- Aid in evaluation by serving as standards
- Establish priorities
- Reduce uncertainty
- Minimize conflicts
- Encourage hardworking
- Aid in allocation of resources
- Aid in design of jobs
- Provide basis for consistent decision making

Ten (10) benefits @ ½ mark = 5

SUGGESTED ANSWERS

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Q. 5 (a) Management Issues Central to Strategy Implementation Process:

- Establish annual objectives
- Devise policies
- Allocate resources
- Alter an existing organizational structure
- Restructure and reengineer
- Revise reward and incentive plans
- Minimize resistance to change
- Match managers with strategy
- Develop a strategy-supportive culture
- Adapt production/ operation processes
- Develop an effective human resources function
- Downsize and furlough as needed
- Link performance and pay to strategies

Ten (10) issues @ ½ mark = 5

Annual Objectives:

Annual objectives are essential for strategy implementation because they:

(i) represent the basis for allocating resources;

(ii) are a primary mechanism for evaluating managers;

(iii) are the major instrument for monitoring progress toward achieving long-term objectives; and

(iv) establish organizational, divisional, and departmental priorities.

Considerable time and efforts should be devoted to ensuring that annual objectives are well conceived, consistent with long-term objectives, and supportive of strategies to be implemented. Approving, revising, or rejecting annual objectives is much more than a rubber-stamp activity.

Four (4) points @ ½ mark = 2

The purpose of annual objectives can be summarized as follows:

- Annual objectives serve as guidelines for action, direction and channelling efforts and activities of organization members.
- They provide a source of legitimacy in an enterprise by justifying activities to stakeholders.
- They serve as standards of performance.
- They serve as an important source of employee motivation and identification.
- They give incentives for managers and employees to perform.
- They provide a basis for organizational design.

Clearly stated and communicated objectives are critical to success in all types and sizes of firms.

Six (6) purposes @ ½ mark = 3

SUGGESTED ANSWERS

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(b) Taking Corrective Actions:

The final strategy-evaluation activity, *taking corrective actions*, requires making changes to competitively reposition a firm for the future.

Corrective actions possibly needed to correct unfavourable variances are as under:

- Alter the firm's structure
- Replace one or more key individuals
- Divest a division
- Alter the firm's vision and/ or mission
- Revise objectives
- Alter strategies
- Devise new policies
- Install new performance incentives
- Raise capital with stock or debt
- Add or terminate salespersons, employees, or managers
- Allocate resources differently
- Outsource (or rein in) business functions

Mentioning twelve (12) actions @ ½ mark = 6

SUGGESTED ANSWERS

How the Anxieties of Employees and Managers could be Satisfied:

- Taking corrective actions raises employees' and managers' anxieties.
- It is suggested that participation in strategy-evaluation activities is one of the best ways to overcome individuals' resistance to change.
- Individuals accept change best when they have a cognitive understanding of the changes, a sense of control over the situation, and an awareness that necessary actions are going to be taken to implement the changes.

Mentioning three (3) points @ 1 mark = 3

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Q.6 Workings:

Variable overhead proportion of total overhead = $\frac{\text{Variable overhead}}{\text{Total overhead}}$

= $\frac{\text{Rs. (1,500,000 – 900,000)}}{\text{Rs. 1,500,000}}$ = $\frac{\text{Rs. 600,000}}{\text{Rs. 1,500,000}}$ = **40%** — 2

Variable overhead percentage of direct labour cost = Total overhead rate x percentage of variable overhead proportion of total overhead

= 25% x 40% = **10%** — 1

Hence, total variable cost for the newly ordered boat will be:

	Rs.	Marks
Direct material	50,000	
Direct labour	80,000	
Variable overhead (10% of Rs. 80,000)	8,000	1
Total	138,000	1

(a) (i) If the customer's offer of Rs.150,000 is accepted, there would be an increase in income of Rs. (150,000 – 138,000) i.e., Rs.12,000 (before taxes). — 2

(ii) The minimum selling price Mr. Ismail could have quoted, without having any effect on net income is Rs.138,000. — 2

(b) Advantage:

- Contribution margin approach indicates the relationship between the marginal cost to be incurred and sales revenue as a result of accepting the order. — 1
- Minimum selling price can be estimated. — 1
- The profit on specific order can be estimated. — 1

(c) Pitfalls:

- The fixed cost is ignored fully in the contribution margin approach for pricing. — 2
- It is important to note that fixed cost may be overlooked in the short run. However, in long run, it is advisable to include all proportionate fixed overheads. — 1

THE END

SUGGESTED ANSWERS

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