Answer NO. 2 (a)

Strategic management allows an organization to be more proactive than reactive in shaping its own future direction. It allows an organization to initiate and influence rather than just respond to activities. Thus it encompasses to exert control over its destiny. Entrepreneurs, CEOs, Presidents, and Managers of many organization around the world for profit and nonprofit organizations have recognized and realized the benefits of strategic management.

The major aim of Strategic Management process is to achieve the understanding of the commitment from all the managers and employees. Understanding may be the most important benefit of strategic management, followed by commitment. When managers and employees understand what the organization is doing and why, they often feel that they are part of the organization and committed to assist it. This is especially true when employees also understand linkages between their own compensation and organization performance. Managers and employees become surprisingly creative and innovative when they understand and support the firm's mission, objectives, and strategies.

Followings are the financial and non financial benefits can be derived by an organization through better strategic management process invoke.

Financial Benefits

(i) Research indicates that organizations using strategic management concepts are profitable and successful than those that do not.
(ii) Business using strategic management concepts show significant improvement in turnover, profitability, and productivity compared to the organizations without systematic strategic management process.
(iii) Organizations having strategic management process in place enjoy more sustainability in their respective performance as compared to parallel industry and market.
(iv) Excellent and timely decision making process for short and long term
(v) Dun & Bradstreet reports that more than 100,000 organizations forced to foreclosure, bankruptcies, liquidations, and court-mandate receiverships due to lake of strategic management process.
(vi) Better and proactive risk management and reward system.
(vii) Effective utilization of resources results in to better financial results.

None Financial Benefits

(i) It allows for identification, prioritization, and exploitation of opportunities
(ii) Better project management
(iii) It help directing the organization activities on objective based management
(iv) It provide foundation for better coordination and control of the activities
(v) It helps in monitoring company performance management, business unit performance, and HR performance management.
(vi) It works as security fire wall against adverse effects, conditions, and changes
(vii) Decision making process is based in line with the strategic process rather than basing on adhocism.
(viii) It helps integrating the individual efforts to the total overall efforts of the organization.
(ix) It reduces the staff turnover
(x) It brought discipline and a frame work of the operation management.
(xi) It provides cooperative, enthusiastic, and integrated approach to tackling the problem and opportunities.
(xii) It ensures the linkage in each and every management process.
(xiii) It create a network of cooperate communication system in the enterprise.
(xiv) It minimizes the effects of adverse and hostile conditions.

SUGGESTED ANSWERS

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Answer – 2 (b)
A mission statement is the foundation for priorities, strategies, plans, and a well defined work assignment. It is the starting point for the design of managerial job, and above all for the design of the managerial structures. Nothing may be simpler or more obvious than to know what the company is business is. A steel mill makes steel, a railroad runs trains to carry freight and passengers, an insurance company underwrites fire, hazard, and money market risk, bank lend the money and guarantees. Hence based on the above treat it is perfectly right in uttering that it the business mission statement define the business and not article or it statues. What is our business is always a difficult business and the right answer is anything but obvious. The answer of this question is first responsibilities of strategies. And the fundamental point which triggers strategies or milestones is mission statement of the company.

Mission statements can and do vary in length, content, format, and specificity. Most practitioners and academicians of strategic management feel that an effective statement exhibits nine characteristics or components. Because a mission statement is often the most visible and public part of the strategic management process, it is important that it includes all those essential components.

- *(i) Customers:- Who are the firm's customers?*
- *(ii) Product and services: What are the firm's major products or services*
- *(iii) Markets: Geographically; where does the firm compete?*
- *(iv) Technology: Is the firm technology is current?*
- *(v) Concern for survival, growth, and profitability: Is the firm committed to growth and financial soundness?*
- *(vi) Philosophy: What are the basic beliefs, values, aspirations, and ethical priorities of the firm?*
- *(vii) Self concept: What is the firm's distinctive competence or major competitive advantage?*
- *(viii) Concern for public image---Is the firm's responsive to social, community, and environmental concern?*
- *(ix) Concern for employees: A employees are the valuable asset of the firm?*

Answer – 2 (c)

"XYZ computer mission is to be the most successful computer company in the world at delivering the best customer experience in markets we serve. Our world class leadership in computer technology is dedicated to a management philosophy that holds people above profits. In doing so, XYZ will meet customer expectations of highest quality; leading technology; competitive pricing, individual and company accountability; best in class service and support; flexible customization capability; superior corporate citizenship; financial stability"

Answer No. 3

(a) *A Corporation is a body or a mechanism established to allow different parties to contribute capital, expertise, and labour. The investors/shareholders contribute the investment to participate in profit of the enterprise without taking the responsibilities of the operations. Management uses its expertise without taking responsibility of making an investment. To make these parties work on the common ground the shareholders liabilities are limited consequently their involvement in the company's operational activities is barely limited. That involvement does include, however, the right to elect directors who have a legal duty to represent the shareholders and protect their interest in the organization. As representative of the shareholders, directors have both the authority and the responsibility to establish basic corporate policies and to ensure that they are followed. Hence it is necessary to have board of directors to management the corporate governance to maintain the code of ethics in managing the relationship among the three stake holders like, investors, management, and the board itself.*

(b) *The board of directors role in the strategic management process of the company is summarized as follows:*

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(i) Monitor:- By acting through its committees, a board can keep abreast of development inside and outside the corporation, bring to management attention developments its might have overlooked. A board should at least carry out this task.
(ii) Evaluate and influence:- A board can examine management's proposals, decisions and actions; agree or disagree with them; give advice and offer suggestions; outline alternatives. More active boards perform this task I addition to the monitoring one.
(iii) Initiate and determine:- The board of directors can delineate corporation's mission and specify strategic options to its management. Only the most active boards take on this task in addition to the above mentioned contribution they make to the strategic management process of the corporation.

(c) *Board of directors duties and responsibilities are specified below.*

(I) Control and oversight over management
- *(i) Select the CEO*
- *(ii) Sanction the CEO team*
- *(iii) Ensure managerial competencies in the management of the operational and strategic activities*
- *(iv) Evaluate Management Performance*
- *(v) Set and approve the managerial staff salaries and perquisites*
- *(vi) Guarantee managerial integrity and transparency through continuous auditing.*
- *(vii) Chart the organization course*
- *(viii) Devise and revise policies to be implemented by management*

(II) Adherence and compliances
- *(i) Keep abreast of the new laws and regulations*
- *(ii) Ensure the entire organization fulfills legal compliances*
- *(iii) Pass ordinary and extra ordinary resolutions*
- *(iv) Select new directors on the completion of the tenure or if the vacancy is created.*
- *(v) Approval the financial and capital budget of the company*
- *(vi) Authorize borrowing, declaration of dividend, and issue of stocks or bonus shares.*

(III) Consideration of stakeholders interest
- *(i) Monitored product quality*
- *(ii) Facilitate upward progression in employee qualify of work life.*
- *(iii) Review labour policies and practices*
- *(iv) Improve the customers climate*
- *(v) Keep community relations at the highest level*
- *(vi) Use influence to better governmental, professional association,*
- *(vii) Maintain the corporate image*

(IV) Advancement of stockholders rights
- *(i) Preserve stockholders equity*
- *(ii) Stimulate corporate growth so that the firm will survive and flourish*
- *(iii) Guard against the security liquidation*
- *(iv) Ensure equitable stockholders representations*
- *(v) Inform stockholders through letters, reports, and meetings.*
- *(vi) Declare proper dividends*
- *(vii) Guarantee corporate survival.*

(d) *Corporate Governance refers to the relationship among the stakeholders (investors) management, and board of directors in determining the direction and performance of the corporation. Its characteristics of ensuring that long term strategic objectives and plans are established and that the proper management structure is the place to achieve those objectives, while at the same time making sure that structure functions to maintain the corporations integrity, reputation and responsibility to its various constituencies. Whereas the concept of social responsibility proposes that a private corporation has responsibilities to society that extend beyond making a profit.*

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Strategic decisions often affect more than just the corporation. A decision to retrench by closing some plants and discontinuing product lines, for example affects not only the firm's workforce, but also the communities where the plants are located and the customers with no other source of the discontinued product; such situations raise questions of the appropriateness of certain missions, objective and strategies, of business corporations; Management must be able to deal with these conflicting interest in an ethical manner formulate viable strategic plan.

Social responsibilities are segmented to economic, legal, ethical, and discretionary.

(I) *Economic : responsibilities of a business organization's management are to produces goods and services of value to society so that the firm may repay its creditors and shareholders*
(II) *Legal:- responsibilities are defined by the law that management is expected to obey. For example firms are required to hire and promote people based on their credential rather than to discriminate on non-job-related characteristics such as race gender, or religion.*
(III) *Ethical:- responsibilities of an organization's management are to follow the generally held beliefs about behavior in a society. For example, society generally experts firms to work with the employees and the community in planning for layoffs, even though no law may require this. The affected people can get very upset if an organization's management fails to act according to generally prevailing ethical values.*
(IV) *Discretionary: responsibilities are the purely voluntary obligations a corporation assumes. Examples are philanthropic contributions, train the hard-core unemployed, and providing day-care centers. The difference between ethical and discretionary responsibilities is that few people expect an organization to fulfill discretionary responsibilities whereas many expect an organization to fulfill ethical ones. Thus social responsibility includes both ethical and discretionary but not economic and legal responsibilities.*

Answer No. 4

a) *Scanning and analyzing the external environment for opportunities and threats is not enough to provide an organization a competitive advantage. Strategic Analyst must also look within the corporation itself to identify internal strategic factors—those critical strength and weakness that are likely to determine if the firm will be able to take advantage of opportunities while avoiding threats; This internal scanning is often referred to as organizational analysis and is concerned with identifying and developing an organizations resources.*
A resource is an asset, competency, process, skill, or knowledge controlled by the corporation. A resource is strength if it provides a company with a competitive advantage. It is something the firm does or has the potential to do particularly well relative to the abilities of existing or potential competitors. A resource is weakness if it is something the corporation does poorly or does not have the capacity to do although its competitor has that capacity. The basic premise of the RBV is that the mix, type, amount, and nature of a firm's internal resources should be considered first and foremost in devising strategies that can lead to sustainable competitive advantage. Managing strategically according to the RBV theory asserts that resources are actually what helps a firm exploit opportunities and neutralize threat.

b) *Framework of analysis consist of three qualities or questions to evaluate each of a firm's key resources which can be described as empirical indicators;*
Following questions are proposed
(i) *Rare*
(ii) *Hard to imitate*
(iii) *Not easily substitutable*
These three characteristics of resources enable a firm to implement strategies that improve its efficiency and effectiveness and lead to a sustainable competitive advantage. The more resources(s) is rare, non imitable and non substitutable, the stronger firms competitive advantage will be and the long it will last.
Rare resources are resources that other competing firms do not possess. If many firms have the same resources, then those firms will likely implement similar strategies, thus giving no one firm a sustainable

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competitive advantage. It is also important that these same resources are difficult to imitate. If firms cannot easily gain the resources, say RBV analyst then those resources will lead to a competitive advantage more so than resources easily imitable. The third empirical indicator that can make resources a source of competitive advantage is substitutability. Borrowing from Porters Five Forces Model, to the degree that there are no viable substitutes, a firm will be able to sustain its competitive advantage.

c) *According to Porter, the business of a firm can best be described as a value chain, in which total revenues minus total cost of all activities undertaken to develop and market a product or service yields value. All firms in a given industry have a similar value chain, which includes activities such as obtaining raw materials, designing products, building manufacturing facilities, developing cooperative agreements, and providing customer services. A firm will be profitable as long as total revenues exceed the total cost incurred in creating and delivering the product or service. Firms should strive to understand not only their own value chain operations but also their competitors supplier; and distributors value chain.*

This a process whereby a firm determines the cost associated with organizational activities from purchasing raw materials to manufacturing product(s) to marketing those products; Value Chain analysis aims to identify where low cost advantages or disadvantages exist anywhere along the value from end to end lock. Value chain analysis can enable a firm to better identify its own strengths and weakness, especially as compared to competitors value chain analysis and their own data examined over time.

The value chains of most industries can be split into two segments, upstream and downstream halves. In the petroleum industry, for example upstream refers to oil exploration, drilling, and moving the crude oil to the refinery, and downstream refers to refining the oil plus the transporting and marketing of gasoline and refined oil to distributors and gas station retailers. Even though most large oil companies are completely integrated, they often vary in the amount of expertise they have at each part of the value chain

In analyzing the complete value chain of a product, note that even if a firm operates up and down the entire industry chain, it usually has an area of primary expertise where its primary activities lie. A company's center of gravity is the part of the chain that is most important to the company and the point where its greatest expertise and capabilities lie-its core competencies; a company center or gravity is usually the point at which the company started. After a firm successfully establishes itself at this point by obtaining a competitive advantage, one of its first strategic moves is to move forward or backward along the value chain in order to reduce cost, guarantee access to key supplies or to guarantee distribution. This process is called vertical integration.

When a major competitor or new market entrant offers products or services at very low prices this may be because that firm has substantially lower value chain costs or perhaps the rival firm is just waging a desperate attempt to gain sales or market share; thus value chain analysis can be critically important for a firm in monitoring whether its prices and cost are competitive. More and more companies are using value chain analysis to gain and sustain competitive advantage by being especially efficient and effective along various parts of the value chain.

d) *Benchmarking is an analytical tool used to determine whether a firm's value chain activities are competitive compared to rivals and thus conducive to winning in the market place. This is the continual process of measuring products services, and practices against the toughest competitors or those companies recognized as industry leader. Benchmarking, an increasingly popular program, is based on the concept that it makes no sense to reinvent something that someone else is already using. It involves open learning how others do smoothing better than one's own company so that one not only can imitate, but perhaps even improve on their current techniques; the benchmarking process usually involves the following steps;*

(i) Identify the area or process to be examined.
(ii) Find behavioural and output measures of the area or process and obtain measurements;
(iii) Select an accessible set of competitors and best-in-class companies against which to benchmark.

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SUGGESTED ANSWERS

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(iv) Calculate the differences among the company's performance measurements and those of the best in class and determine why the differences exist.
(v) Develop tactical programs for closing performance gaps
(vi) Implement the programs and then compare the resulting new measurements with those of the best in class companies.

Benchmarking has been found to produce best results in companies that are already well managed; apparently poorer performing firms tend to be overwhelmed by the discrepancy between their performance and the benchmark-and tend to view the benchmark as too difficult to reach.

Answer No. 5

(a) There are certainly good reasons to keep the strategy process and strategies themselves visible and open rather than hidden and secret. There are also good reasons to keep strategies hidden from all the top executives. Strategist must decide for themselves what the best for their respective organization is. However more and more advocating on the side of more visible and open but certainly this may not be best for all strategist and all the organizations.
Some reasons for the completely open with the strategy process and resultants decisions are these:-
(i) Managers, employees, and other stakeholders can readily contribute to the process. They often have excellent ideas. Secrecy would forgo many excellent ideas.
(ii) Investors, financiers, creditors, suppliers, have more confidence in supporting an organization when they know what the organization is doing and where the organization is going?
(iii) Visibility promotes democratic process and secrecy promotes autocracy.
(iv) Participation, openness enhance understanding, cooperation , commitment and communication within the organization

Reasons in favour of the organization conduct strategic planning process secret and keep strategies secret and hidden from all but the highest level executives are as follows:

(i) Free dissemination of organization strategies may easily translate into competitive intelligence for rival firms who would exploit the firm given that information.
(ii) Secrecy limits criticism second guessing and hindsight
(iii) Participants in a visible strategy process become more attractive to rival firms who may lure them away.
(iv) Secrecy limit rival firms from imitating or duplicating the firms strategies and undermining the firm.

The obvious benefits of the visible versus hidden extremes suggest that a working balance must be sought between the apparent contradictions.

*(b) **Balanced Score Card** is an important strategy evaluation method. It is the most commonly used tool in translating the strategies in to the operation of the company through a well defined road map and processes. It is a process that allow the organizations evaluate the strategies from four prospective; financial performance, customer knowledge, internal business process; and learning and growth. The BSC analysis requires that firms seek answers to the following questions and utilize that information; in conjunction with financial measures; to adequately and more effectively evaluate strategies being implemented.*
(i) How well is the organization continually improving and creating value along measures such a innovation, technological leadership, product quality, operation process efficiencies, and so on?
(ii) How well is the organization sustaining and even improving upon its core competencies and competitive advantages?
(iii) How satisfied are the firm's customers?

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SUGGESTED ANSWERS

If you see BSC of many firms the structure of which might be different but in principle they examined

(i) Customers
(ii) Managers/employees
(iii) Operations/processes
(iv) Community /social responsibility
(v) Financial.
(vi) Business ethics /natural environment

The basic form of balanced score card may be different for different organization. The balanced score card approach to strategy evaluation aims to balance long term with short term concerns, to balance financial with nonfinancial concerns, and to balance internal with external concerns; it can be an excellent management tool, and it is used successfully today by many fortune 500 companies of the world. For instance Unilever has a financial objective to grow revenue by 5% to 6% annually; the company also has a strategic objective to reduce its 1200 food, household and personal care products to 400 core brands within three years time frame. The balanced score card would be constructed differently, that is adapted to particular firms in various industries with the underlying theme or thrust being the same, which is to evaluate the firm strategies based upon both key quantitative and qualitative measures.

Answer No. 6 (a)

(i) Where is the firm financially strong and weak as indicated by financial ratio analysis?
(ii) Can the firm raise needed short term capital?
(iii) Does the firm have sufficient working capital?
(iv) Are capital budgeting procedures effective?
(v) Are dividend policies and payout reasonable?
(vi) Does the firm have good relations with its investors and stockholders?
(vii) Are the firm's financial managers experienced and well trained?

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Answer No. 6 (b)

Company A is the merchandiser – evidenced by:

- **Low gross profit margin ratio**
- **Low net profit margin ratio**
- **High inventory turnover**
- **High accounts receivable turnover**
- **Higher advertising to sales ratio**

Company B is the pharmaceutical – evidenced by:

- **High gross profit margin ratio**
- **High research and development costs to sales**
- **Slightly higher advertising costs to sales**

Company C is the utility – evidenced by:

- **Low advertising expenses to sales**
- **High long-term debt to equity ratio**
- **Non applicable inventory turnover**
- **Higher interest expense to sales**

Answer No. 6 (c)

Arbor's profit margins are higher than Kampa's. However, Kampa has significantly higher total asset turnover ratios. As a result, Kampa generates a substantially higher return on total assets.

The trends of both companies include evidence of growth in sales, total asset turnover, and return on total assets. However, Arbor's rates of improvement are better than Kampa's. These differences may result from the fact that Arbor is only 3 years old while Kampa is an older, more established company. Arbor's operations are considerably smaller than Kampa's, but that will not persist many more years if both companies continue to grow at their current rates.

To some extent, Kampa's higher total asset turnover ratios may result from the fact that its assets may have been purchased years earlier. If the turnover calculations had been based on current values, the differences might be less striking. The relative ages of the assets also may explain some of the difference in profit margins. Assuming Arbor's assets are newer, they may require smaller maintenance expenses.

Finally, Kampa successfully employed financial leverage in 2006. Its return on total assets is 8.9% compared to the 7% interest rate it paid to obtain financing from creditors. In contrast, Arbor's return is only 5.8% as compared to the 7% interest rate paid to creditors.

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