Marks

Q.2 (a) Objectives can be defined as specific results that an organization seeks to achieve in pursuing its basic mission. 1

Objectives are essential for organizational success because they:

- state direction;
- aid in evaluation;
- create synergy;
- reveal priorities;
- focus coordination; and

2

- provide a basis for
- effective planning,
- organizing,
- motivating, and
- controlling activities.

2

(b) Guidelines for effective strategic planning process:

It should be:

- A people process more than a paper process.
- A learning process for all managers and employees.
- Words supported by numbers rather than numbers supported by words.
- Simple and non-routine.

It should:

- Vary assignments, team memberships, meeting formats, and even the planning calendar.
- Challenge the assumptions underlying the current corporate strategy.
- Welcome bad news.
- Welcome open mindness and a spirit of inquiry and learning.

It should not:

- Be a bureaucratic mechanism.
- Become ritualistic, stilted, or orchestrated.
- Be too formal, predictable, or rigid.
- Contain jargon or arcane planning language.
- Be a formal system for control.
- Disregard qualitative information.
- Be controlled by "technicians".

Do not pursue too many strategies at once.

Continually strengthen the "good ethics is good business" policy.

5 marks @ ½ mark for any 10 guidelines

(c) According to Porter, strategies allow organizations to gain competitive advantage **from three different bases**: cost leadership, differentiation, and focus. Porter calls these bases generic strategies. Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price sensitive. 0.5

Two alternative types of cost leadership strategies can be defined. "**Type 1 is a low-cost strategy** that offers products or services to a **wide range of customers** at the lowest price available on the market". 0.5

Marks

Type 2 is a best-value strategy that offers products or services to a wide range of customers at the **best price-value** available on the market; the best-value strategy aims to offer customers a range of products or services at the lowest price available compared to a rival's products with similar attributes. 0.5

Type 3 generic strategy is differentiation, a strategy aimed at **producing products and services considered unique** industry-wide and directed at consumers who are relatively price-insensitive. 0.5

Focus means producing products and services that fulfill the **needs of small groups** of consumers. Two alternative types of focus strategies are.

Type 4 is a low-cost focus strategy that offers products or services to a **small range** (niche group) **of customers at the lowest price** available on the market.

Types 5 is a best-value focus strategy that offers products or services to a **small range** of customers at the **best price-value** available on the market.

Types 4 strategies offer products services to a niche group at the lowest price, **Type 5** offers products/ services to a niche group at higher prices **but loaded with features** so the offerings are perceived as the best value. 1

A firm must be careful, in employing a cost leadership strategy, not to use such aggressive price cuts that their own profits are low or nonexistent. Cost leadership strategy can be especially effective under the following conditions:

1- When price competition among rival sellers is especially vigorous.
2- When the products of rival sellers are essentially identical and supplies are readily available from any of several eager sellers.
3- When there are few ways to achieve product differentiation that have value to buyers.
4- When most buyers use the product in the same ways.
5- When buyers incur low costs in switching their purchases from one seller to another.
6- When buyers are large and have significant power to bargain down prices.
7- When industry newcomers use introductory low prices to attract buyers and build a customer base.

3 marks @ ½ mark for at least 6 conditions

Differentiation Strategies

Type 3 definition strategy can especially effective under the following conditions:

1- When there are many ways to differentiate the product or service and many buyers perceive these differences as having value.
2- When buyer needs and uses are diverse.
3- When few rival firms are following a similar differentiation approach.
4- When technological change is fast paced and competition revolves around rapidly evolving product features.

2 marks @ ½ mark for each condition

Focus Strategies

A low-cost (Type-4) or best-value (Type-5) focus strategy can be especially attractive under the following conditions:

1- When the target market niche is large, profitable, and growing.
2- When industry leaders do not consider the niche to be crucial to their own success.
3- When industry leaders consider it too costly or difficult to meet the specialized needs of the

Marks

target market niche while taking care of their mainstream customers.

4- When the industry has many different niches and segments, thereby allowing a focuser to pick a competitively attractive niche suited to its own resources.

5- When few, if any, other rival are attempting to specialize in the same target segment.

2 marks @ ½ mark for at least 4 conditions

Q. 3 (a) Some strategists agree with Ralph Nader, who proclaims that **organizations have tremendous social obligations**. Nader points out that firms having more assets have an obligation to help society cure its many ills. **Other** people, however, agree with the economist Milton Friedman, who asserts that **organizations have no obligation to do any** more for society than is legally required. 2

We can all agree that the first social responsibility of any business must be **to make enough profit** to cover the costs of the future because if this is not achieved, **no other social responsibility can be met**. Indeed, no social need can be met by the firm if the firm fails. 2

Strategists should examine social problems in terms of potential costs and benefits to the firm, and focus on social issues that could benefit the firm most. 1

(b) External audit:

The purpose of an external audit is to develop a **finite list of opportunities** that could benefit a firm and threats that should be avoided. As the term finite suggests, the external audit is not developing an exhaustive list of every possible factor that could influence the business; rather, it is aimed at identifying key variables that offer actionable responses. 1

External force can be divided into **five broad categories**:

1- economic; 2- social, cultural, demographic, and natural environment forces; 3- political, government, and legal forces; 4- technological forces; and 5- competitive forces.

External tends and events, such as the global economic recession, significantly affect products, services markets and organizations worldwide.

Changes in external forces translate into changes in consumer demand for both industrial and consumer products and services. External forces affect the types of products developed, the nature of positioning and market segmentation strategies, the type of services offered, and the choice of businesses to acquire or sell. External forces directly affect both suppliers and distributors. 2

The **process of performing an external audit** must involve as many managers and employees as possible. Involvement in the strategic management process can lead to understanding and commitment from organizational members. 0.5

To perform an external audit, a company first must gather competitive intelligence and information about economic, social, cultural, demographic, environmental, political, governmental, legal, and technological trends. 0.5

Individuals can be asked to monitor various sources of information, such as magazine, trade journal newspapers. These persons can submit periodic scanning reports to a committee of managers charged with performing the external audit. 0.5

The Internet provides another source for gathering strategic information, as do corporate, university, and public libraries. Suppliers, distributors, salespersons, customers, and competitors represent other sources of vital information. 0.5

Marks

A meeting or series of meetings of managers is needed to collectively identify the most important opportunities and threats facing the firm. These key external factors should be listed on flip charts or a chalkboard. A prioritized list of these factors could be obtained by requesting that all managers rank the factors identified, from 1 for the most important opportunity/ threat to 20 for the least important opportunity/ threat. 2

Relationships with supplier or distributors are often a critical success factor. Other variables commonly used include market share, breadth of competing products, world economies, foreign affiliates, proprietary and key account advantages, price competitiveness, technological advancements, population shifts, interest rates, and pollution abatement. 1

Internal audit:

All organizations have strengths and weaknesses in the functional areas of business. No enterprise is equally strong or weak in all areas. Internal strengths/ weaknesses, coupled with external opportunities/ threats and a clear statement of mission, provide the basis for establishing objectives and strategies. Objectives and strategies are established with the intention of capitalizing upon internal strengths and overcoming weaknesses. 1

For different types of organizations, such as hospitals, universities, and government agencies, the functional business areas, i.e., marketing, finance accounting, management information system and production/ operation of course, differ. 1

A firm's strengths that cannot be easily matched or imitated by competitors are called distinctive competencies. Building competitive advantages involves taking advantage of distinctive competencies that can provide the firm with competitive advantages over rival firms. 1

The process of gaining competitive advantage in a firm:

Weaknesses → Strengths → Distinctive Competencies → Competitive Advantage 1

The **process of performing an internal audit** closely parallels the process of performing an external audit. **Representative managers and employees** from throughout the firm need to be involved in the determining a firm's strengths and weaknesses. The internal audit requires gathering and assimilating information about the firm's management, marketing, finance/ accounting, production/ operations, research and development (R&D), and management information systems operations. Key factors should be prioritized, so that the firm's most important strengths and weaknesses can be determined collectively. 1

Compared to the external audit, the process of performing an internal audit **provides more opportunity for participants to understand how their jobs, departments, and divisions fit** into the whole organization. This is a great benefit because managers and employees perform better when they understand how their work affects other areas and activities of the firm. For example, when marketing and manufacturing managers jointly discuss issues related to internal strengths and weaknesses, they gain a better appreciation of the issues, problems, concerns, and needs of all the functional areas. 1

In organizations that do not use strategic management marketing, finance, and manufacturing managers **often do not interact with each other in significant ways**. Performing an internal audit thus is an excellent vehicle or forum for improving the process of communication in the organization. Communication may be the most important word in management.

Marks

Performing an internal audit requires **gathering, assimilating and evaluating information** about the firm's operations. Critical success factors, consisting of both strengths and weaknesses, can be **identified and prioritized.** A task force of managers from different units of the organization, supported by staff, should be charged with determining the 10 to 20 most important strengths and weaknesses that should influence the future of the organization. 1

Q. 4 Techniques and means for altering an Organization's Culture:

1- Recruitment
2- Training
3- Transfer
4- Promotion
5- Restructuring
6- Reengineering
7- Role modeling
8- Positive reinforcement
9- Mentoring
10- Revising vision and/ or mission
11- Redesigning physical spaces/ facades
12- Altering reward system
13- Altering organizational policies/ procedures/ practices

5 marks @ ½ mark for at least 10 points

Following elements are most useful in linking culture to strategy:

1- Formal statements of organizational philosophy, charters, creeds, materials used for recruitment and selection, and socialization.
2- Designing of physical spaces, facades, buildings
3- Deliberate role modeling, teaching, and coaching by leaders
4- Explicit reward and status system, promotion criteria
5- Stories, legends, myths, and parables about key people and events
6- What leaders pay attention to, measure, and control
7- Leader reactions to critical incidents and organizational crises
8- How the organization is designed and structured
9- Organizational systems and procedures
10- Criteria used for recruitment, selection, promotion, leveling off, retirement, and "excommunication" of people.

5 marks @ ½ mark for each element

Q. 5 (a) Strategy evaluation is necessary for all sizes and kinds of organizations. Strategy evaluation should initiate managerial questioning of expectations and assumptions, should trigger a review of objectives and values, and should stimulate creativity in generating alternatives and formulating criteria of evaluation. 2

Evaluating strategies on a continuous rather than on a periodic basis allows benchmarks of progress to be established and more effectively monitored.

Some strategies take years to implement; consequently, associated results may not become apparent for years. 1

Corrective actions are almost always needed except when (1) external and internal factors have not significantly changed and (2) the firm is progressing satisfactorily toward achieving stated objectives. 1

Marks

Possible corrective action to competitively reposition a firm:

1- Alter the firm"s structure
2- Replace one or more key individuals
3- Divest a division
4- Alter the firm"s vision and/ or mission
5- Revise objectives
6- Alter strategies
7- Devise new policies
8- Install new performance incentives
9- Raise capital with stock or debt
10- Add or terminate salespersons, employees, or managers
11- Allocate resources differently
12- Outsource (or rein in) business functions

6 marks @ ½ mark for at least 10 points

(b) The Balanced Scorecard is an important strategy-evaluation tool. It is a process that allows firms to evaluate strategies from four perspectives: financial performance, customer knowledge, internal business processes, and learning and growth. The Balanced Scorecard 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: 2

1- How well is the firm continually improving and creating value along measures such as innovation, technological leadership, product quality, operational process efficiencies, and so on? 1

2- How well is the firm sustaining and even improving upon its core competencies and competitive advantages? 1

3- How satisfied are the firm's customers? 1

Using Balanced Scorecard the firm examines six key issues in evaluating its strategies in the following manner:

Area of objectives	Measure or Target	Time Expectation	Primary Responsibility
Customers 1 . . 4			
Managers/ Employees 1 . . 4			
Operations/ Processes 1 . . 4			
Community/ Social Responsibility 1 . . 4			
Business Ethics/ Natural environment 1 . . 4			
Financial 1 . . 4			

3 marks @ ½ mark for each "area of objectives")

Marks

The Balanced Scorecard approach to strategy evaluation aims to balance long-term with short-term concerns, to balance financial with non financial concerns, and to balance internal with external concerns. It can to an excellent management tool, and it is used successfully today by numerous firms. The Balanced Scorecard 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's strategies based upon key quantitative and qualitative measures. 2

Q. 6 Schedule of projected sales and collections from October 2011 to March 2012:

	July-11	Aug-11	Sept-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
Sales									
Cash sales 25%	1,125.00	1,312.50	1,500.00	562.50	750.00	750.00	1,125.00	937.50	750.00
Credit sales 75%	3,375.00	3,937.50	4,500.00	1,687.50	2,250.00	2,250.00	3,375.00	2,812.50	2,250.00
Total	4,500.00	5,250.00	6,000.00	2,250.00	3,000.00	3,000.00	4,500.00	3,750.00	3,000.00

Cash Budget

For the half year ended June 30, 2009 Rs. '000'

	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	
Beginning cash balance	1,500.00	3,401.25	3,877.50	2,441.25	1,530.00	2,056.50	
CASH COLLECTIONS:							
Cash sales 25%	562.50	750.00	750.00	1,125.00	937.50	750.00	1
Last month's							
Credit sale - 60%	2,700.00	1,012.50	1,350.00	1,350.00	2,025.00	1,687.50	3
2 Months' old							
Credit sale - 30%	1,181.25	1,350.00	506.25	675.00	675.00	1,012.50	3
3 Months' old							
Credit sale - 10%	337.50	393.75	450.00	168.75	225.00	225.00	3
Total receipts	4,781.25	3,506.25	3,056.25	3,318.75	3,862.50	3,675.00	
DISBURSEMENTS:							
Purchases	2,400.00	2,400.00	3,600.00	3,000.00	2,400.00	3,600.00	3
Wages & Salaries	450.00	600.00	750.00	750.00	600.00	525.00	1
Rent	30.00	30.00	30.00	30.00	30.00	30.00	1
Interest			112.50			112.50	1
Tax				750.00			0.5
Capital investment						450.00	0.5
Total disbursement	2,880.00	3,030.00	4,492.50	4,530.00	3,030.00	4,717.50	
Cash balance without borrowing	3,401.25	3,877.50	2,441.25	1,230.00	2,362.50	1,014.00	
Borrowing needed to maintain min. bal.				300.00		525.00	2
Loan repaid					(300.00)		0.5
Interest paid					(6.00)		0.5
Cash balance after borrowing/ repayment	3,401.25	3,877.50	2,441.25	1,530.00	2,056.50	1,539.00	

THE END