Total Marks = 90

Q.2 (a) Answer (i):

- Both are focusing on increasing and/or maintain the profit stream.
- Cost leadership strategy seeks to achieve the position of lowest cost producer in the industry as a whole, utilizing the experience curve.
- It is a low cost competitive strategy that aims at the broad mass market.
- Cost leadership requires efficient scale facilities, control on over heads; cost minimization in advertising, customer service, R&D, and so on.
- Cost reduction means passing on the difference to customers, hence increasing market share by selling more units.
- Low prices also serves as a barrier to entry.
- Differentiation is aimed at the broad mass market and involves the creation of a unique product or service for which a company can charge a premium.
- Differentiation can be associated with design, image, technology, features, or customer service.
- Differentiation helps create loyalty and lowers customers sensitivity to price.

Answer (ii):

- Yes, improve the system of production and service, to improve quality and productivity, thus constantly decrease costs.
- But don't have to stuck in the middle, gives no competitive advantage.
- Some businesses with both low-cost and differentiation position are very successful.
- Japanese auto makers, Toyota, Nissan, Honda are examples that achieved both
- Like playing the spread.

(b) The formulation of strategic plans is one thing: implementing them is quite another. It is impossible to plan for every eventuality. Some decisions of strategic importance may not be anticipated in the strategic plan. Implementation often involves adjusting the plan in the light of changed conditions.

(a) **Resource planning:** this involves allocating the resources of the undertaking in order that defined and agreed corporate objectives may be achieved. At operational levels there are four stages in resources planning.

i) To establish category wise currently available and currently obtainable resources. Moreover the details of any unavailable or obtainable-making resource audit.
ii) Estimating what resources would be needed to pursue a particular strategy.
iii) Assigning responsibility to managers for the acquisition, use and control of resources.

(b) **Operational planning:** This has two aspects.

i) Deciding what is to be accomplished, by whom and when, and at what cost.
ii) Setting up control points and methods of measuring and monitoring performances.

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Operations processes are relatively short. Major items would need to be quantified, such as sales, cost of sales, operating profits, other income non current assets details, inventory levels, working capital investment and production targets. Budgets are also important to prepare.

Plans for functional departments must be prepared, below the overall corporate level. In a manufacturing company, major functional plans will be for marketing and production.

(c) **Control system:** Successful implementation of the corporate plan demands the continued interest of senior management.

a. Strategic plans must be converted into action plans i.e., operational plans and budgets.
b. Responsibilities must be allocated and authority given to individual manager to use resources.
c. Checkpoints must be established to monitor activities.
d. Pressure must be exerted where ever required. This will help to ensure that the things are done successfully,

Control checkpoints will help:

i) Have deadlines been met and future deadlines going to be met?
ii) Are any targets in danger of being missed?
iii) Will the required resources be available to make the products/services?
iv) Will the products be available in sufficient quantity to achieve the aims of the product-market plan?

A control system requires organizations.

i. The responsibilities of divisions, departments and individual managers must be documented.
ii. Responsibility charts for managers at divisional, departmental and subordinate levels must be prepared.
iii. Activity schedule for managers at divisional departmental and subordinate levels must be prepared.

Implementation requires detailed planning and management of resources and operations. Progress and performance must be properly measured and reported.

Q.3 (a) Functions of objectives

(a) Planning: objectives define what the plan is about.
(b) Responsibility: objectives define the responsibilities of managers and departments.
(c) Integration: objectives should support one another and be consistent; this integrates the efforts of different departments.
(d) Motivation: the first step in motivation is knowing what is to be done. Objectives must be created for all areas of performance.
(e) Evaluation: performance is assessed against objectives and control exercised.

Critical Success Factors

The critical success factor approach is an alternative to the pyramid structure of

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objectives. It aims to identify a small number of performance areas in which satisfactory results will result in successful competitive performance overall.

Critical Success Factors (CSFs) are 'Elements of the organizational activity which are central to its future success. Critical success factors may change over time, and may include items such as product quality, employee attitudes, manufacturing flexibility and brand awareness'.

Johnson, Scholes and Whittington describe a six stage process for using CSFs.

(a) Identify the CSFs for the process under review. (Try to restrict the number of CSFs to six or less).

(b) Identify the underlying competences required to gain a competitive advantage in each of the CSFs.

(c) Ensure the list of competences is sufficient to general competitive advantage.

(d) Develop performance standards – key performance indicators (KPIs).

(e) Ensure these standards cannot be matched by competitors. (If they can be match by competitors they will not form the basis of competitive advantage.

(f) Monitor competitors and assess the impact on the CSFs of any response competitors may make.

(b)

- Management must scan the external environment to identify possible opportunities and threats by monitoring, evaluating, and disseminating of information to key people in the organization.
- These forces do not directly touch the organizations, but can influence its decision making. External forces can be divided into five broad categories:
  - Economic forces
  - Technological forces
  - Political governmental and legal forces
  - Socio-cultural forces
  - Competitive forces
- Relationships among these forces and an organization are depicted in Figure. External trends and events significantly affect all products, services, markets, and organizations in the world. 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. Identifying and evaluating external opportunities and threats enables organizations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives.
- The other external forces they have a direct relationship with the organization, these elements do directly effect the organization, in turn, are affected by it.

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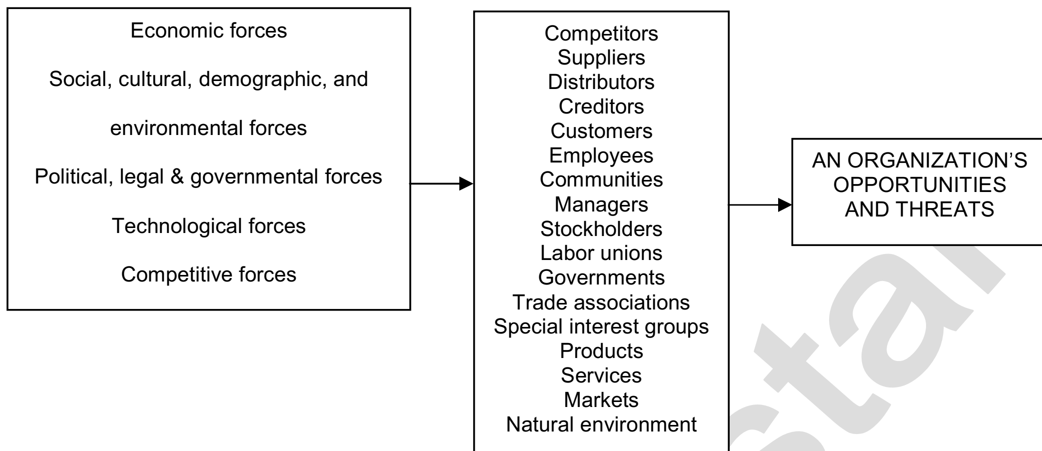
Relationships Between Key External Forces and an Organization



Q.4 (a)

- Strategy evaluation activities must be economical; too much information can be just as bad as too little info; too many controls can do more harm than good.
- Should be meaningful; they should specifically relate to a firm's objectives.
- Should provide managers with useful information about tasks over which they have control and influence.
- Strategy evaluation activities should provide timely information.
- Should be design to provide a true picture of what's happening.
- Evaluation process should not dominate decisions; it should foster mutual understanding, trust, and common sense.
- There is no ideal way to evaluate. The unique characteristics of an organization, including its size, management style, purpose, and strengths can determine a strategy evaluation.

(b) Johnson, Scholes & Wittington suggested the following principles and guidelines for product-market planning.

(a) Total potential for improvement and growth. It is one thing to eliminate unprofitable products but will there be sufficient growth potential among the products that remain in the product range?

(b) Cash generation. New products require some initial capital expenditure. Retained profits are by far the most significant source of new funds for companies. A company investing in the medium to long term which does not have enough current income from existing products, will go into liquidation, in spite of its future prospects.

(c) The timing decision for killing off existing products. There are some situations where existing products should be kept going for a while longer, to provide or maintain a necessary platform for launching new models.

(d) The long-term rationale of a product or market development.

(e) Diversification by acquisition. It might pay to buy product ranges or brands in a takeover deal. If the product-market strategy includes a policy of diversification,

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then the products or services which the expanding company should seek to acquire should provide definite benefits.

If a firm is looking to implement product-market growth strategies it needs to be aware of the potential risks it will be facing.

Market risk

- If a firm enters a new market, it will face competition from the existing firms in the market who will want to protect their market share.
- The new entrant needs to understand the culture of the market and the needs of the customer if it is to be able to compete successfully.
- The new entrant needs to persuade customers to buy from it in preference to the existing firms.

Product risk

- If a firm is developing a new product, or a new production process, production costs may be increased to lack of experience.
- There may be problems with quality and reliability to begin with, and these could severely damage the firm's reputation and its prospects in the market.
- Because the firm is making a new product, it may have to develop new supply-chain relations, and the absence of an existing supply chain infrastructure could adversely affect cost and quality.

Managerial risk

- The management team may not be able to run the new business effectively, especially if it is in a significantly different business area to its existing business.
- There is a related risk here that if management devote too much time to the new business at the expense of the existing business, the performance of the existing business will suffer.

Financial risk

- The cash flow from a new business are likely to be volatile.
- The business may need to raise additional funds to support a new investment, but there is a risk the new venture will not be successful meaning that the new assets may have to be written off.
- The need for funds to support the business may reduce the level of dividend paid to shareholders. The firm will need to reassure shareholders about the respective levels of risk and return, so that they support the new projects.
- Equally the company will need to try to reassure the markets that the projects will be successful, because uncertainty tends to lead to a fall in a company's share price.

Q.5 (a) For multi businesses corporations management has to deal with the many products and business units in various industries. Large corporations using the divisional structure combine their divisions into Strategic Business Units – SBUs based on divisional similarities. Analyzing SBUs progress is done on the similarities of Portfolio Analysis. This places the corporate head office in the role of an investment banker, views them as a series of investments from which it expects to earn a profitable return.

The Boston classification (BCG matrix) classifies products in terms of their capacity for growth within the market and the market's capacity for growth as a whole. A firm should have a balanced portfolio of products.

The Boston Consulting Group (BCG) matrix assesses a company's products in terms of potential cash generation and cash expenditure requirements. Products or SBUs are

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categorized in terms of market growth rate and a firm's relative market share.

BCG Matrix – plot the competitive position (market share) against business growth rate to ascertain the product life cycle and funding decisions.

- Question marks
- Stars
- Cash cows
- Dogs

		Relative market share	
		High	Low
Market growth	High	Stars	Question marks/ Problem children
	Low	Cash cows	Dogs

The product portfolio should be balanced, with cash cows providing finance for stars and question marks; and a minimum of dogs.

(a) **Stars.** In the short term, these require capital expenditure in excess of the cash they generate, in order to maintain their market position, but promise high returns in the future. Strategy; build.

(b) In due course, stars will become cash cows. Cash cows need very little capital expenditure and generate high levels of cash income. However apparently mature products can be invigorated, possibly by competitors, who could come to dominate the market. Cash cows can be used to finance the stars. Strategy; hold or harvest if weak.

(c) **Question marks.** Do the products justify considerable capital expenditure in the hope of increasing their market share, or will they be squeezed out of the expanding market by rival products? Strategy; build or harvest.

(d) **Dogs.** They may be ex-cash cows that have fallen on hard times. Although they will show only a modest net cash outflow, or even a modest net cash inflow, they are cash traps which tie up funds and provide a poor return on investment. However, they may have a useful role, either to complete a product range or to keep competitors out. There are also many smaller niche businesses in market that are difficult to consolidate that would count as dogs but which are quite successful. Strategy: divest or hold.

Although developed for use with a product portfolio, the BCG matrix is also used in diversified conglomerates to assess the strategic position of subsidiary SBUs. This is an important point to note: the BCG matrix can be applied either to a product portfolio or a business portfolio.

The BCG matrix offers management a simple and convenient way of looking at a diverse range of businesses and products, within a single overall portfolio. In doing so, it encourages management to look at the portfolio as a whole rather than simply assessing the needs and performance of each unit independently. For example, the portfolio would allow a group of companies to consider the cash flow requirements of the group as a whole rather than focusing on individual units in isolation.

(b) Lewin's 3 Stage Model

Lewin suggested that organizational changes actually have three steps (stages); 'unfreeze', 'move', and 'freeze' or 'refreeze'.

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The unfreeze-change-refreeze model

Unfreeze

This first step involves unfreezing the current state of affairs, and creating the motivation to change. This means defining the current state of an organization, highlighting the forces driving change and those resisting it and picturing a desired end state.

Crucially, the unfreeze stage involves making people within an organization ready to change; making them aware of the need (trigger) for change, and creating a readiness to change among the workforce.

A key part of this stage is weakening the restraining forces that are resisting change, and strengthening the driving forces that are promoting change.

Approaches to the unfreeze stage include:

- Physically removing individuals from their accustomed routines, sources of information and social relationships, so that old behaviours and attitudes are less likely to be reinforced by familiarity and social influence.
- Consulting team members about proposed changes. This will help them to feed less powerless and insecure about the process. It may also involve them in evaluation and problem-solving for more effective change measures – which will create a measure of ownership of the solutions. This in turn may shift resistant attitudes.
- Confronting team members' perceptions and emotions about change. Failure to recognize and deal with emotions only leads to later problems. Negative emotions may be submerged, but will affect performance by undermining commitment.
- Positively reinforcing demonstrated willingness to change: validating efforts and suggestions with praise, recognition and perhaps added responsibility in the change process.

Change (Move)

The change (move) stage involves learning new concepts and new meanings for existing concepts. This is the transition stage, by which an organization moves from its current state to its future state.

It is important that an organization encourages the participation and involvement of its staff in this phase so that they do not feel alienated by the change process.

This phase is mainly concerned with identifying the new, desirable behaviours or norms; communicating them clearly and positively; and encouraging individuals and groups to 'buy into' or 'own' the new values and behaviours.

- Identification: encouraging individuals to identify with role models from whom they can learn new behaviour patterns. For example, the team leader should adopt the values and bhaviours he or she expects the team to follow. Team members who have relevant skills, experience and/or enthusiasm may be encouraged to coach others.
- Internalisation: placing invididuals in a situation in which new behaviours are required for success, so that they have to develop coping behaviours. Pilot schemes or presentation of the changes to others may help in this process.

Refreeze (Freeze)

The refreeze stage involves internalizing new concepts and meanings. It focuses on stabilizing (refreezing) the new state of affairs, by setting policies to embed new bevaiours, and establishing new standards.

It is crucial that the changes are embedded throughout an organization to ensure that

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staff do not lapse back into old patterns of behaviour.

Once new behaviours have been adopted, the refreeze stage is required to consolidate and reinforce them, so that they become integrated into the individual's habits, attitudes and relationship patterns.

- Habituation effects (getting accustomed to the new situation) may be achieved over time, through practice, application and repetition.
- Positive reinforcement can be used to reward and validate successful change. For example, an element of a staff bonus scheme could be dependent on staff members adopting the new methodology.

Q.6 (a) Earl says that information systems and information strategy are too important to leave in the hands of technology professionals alone. He suggests the following characteristics of IT/IS strategy support this view:

- Involves high cost
- Is critical to the success of many organizations
- Is now used as part of the commercial strategy in the battle for competitive advantage
- Impacts on customer service
- Potentially affects all levels of management and staff in an organization
- May lead to structural changes within an organization which require HR planning
- Affects the way management information is created and presented
- Requires effective management to obtain the maximum benefit
- Involves many stakeholders inside and outside the organization, therefore stakeholder analysis is required.

(b) It is true that the management has to very vigilant about shareholders to maximize the value of their investment. In fact management is answerable to them as they are the main contributors to finance the project.

Shareholders value is the "total return to the shareholders in terms of both dividends and share price growth, calculated as the present value of future free cash flows of the business discounted weighted average cost of the capital of the business less the value of its debt".

Shareholder value = (corporate value - debt)

The value based management is a managerial process which effectively links strategy, measurement and operational processes to the end of creating shareholder vaue. VBM consists of three elements i.e. strategy for value creation, matrics and management.

The elements of VBM are as under;

a. Strategic planning: Strategies should be evaluated to establish whether they will maximize shareholder value
b. Capital allocation: Funds should be allocated to the strategies and divisions that will create most shareholders value.
c. Performance measurement: The economic performance of the organization needs to lead to increase in share prices, because these promote the creation of shareholders wealth.

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d. Management remuneration: Rewards should be linked to the value drivers, and how well value based targets are achieved.

e. Internal communication: the background to the program and how VBM will benefit the business need to be explained to staff.

f. External communication: Management decisions, and how they are designed to achieve value. Must be communicated to the market. The market's reaction to these decisions will help determine movements in the organization's share price.

Thus success also depends to measure how well the business is performing for the shareholders.

Q.7 (a) Strategic Analysis

Strategic analysis can also viewed as understanding the strategic position of any organization.

	Stage	Comment	Key tools, models, techniques
Step 1	Mission and/or vision	Mission denotes values, the business's rationale for existing; vision refers to where the organization intends to be in a few years time	• Mission statement
Step 2	Goals	Interpret the mission to different stakeholder	• Stakeholder analysis
Step 3	Objectives	Quantified embodiments of mission	• Measures such as profitability, time scale, deadlines
Step 4	Environmental analysis	Identify opportunities and threats	• PEST analysis • Porter's 5 force analysis: 'diamond' (competitive advantage of nations) • Scenario building
Step 5	Position audit or situation analysis	Identify strengths and weaknesses Firm's current resources, products, customers, systems, structure, results, efficiency, effectiveness	• Resource audit • Distinctive competence • Value chain • Product life cycle • BCG matrix • Marketing audit
Step 6	Corporate appraisal	Combines Steps 4 and 5	• SWOT analysis charts
Step 7	Gap analysis	Compares outcomes of Step 6 with Step 3	• Gap analysis

Strategic Choice

Stage	Comment	Key tools, models, techniques
Strategic options generation	Come up with new ideas: • How to compete (competitive advantage) • Where to compete • Method of growth	• Value chain analysis • Scenario building • Porter's generic strategic choices • Ansoff's growth vector matrix • Acquisition vs organic growth
Strategic options evaluation	Normally, each strategy has to be evaluated on the basis of • Suitability • Acceptability • Feasibility	• Stakeholder analysis • Risk analysis • Decision-making tools such as decision trees, matrices, ranking and scoring methods • Financial measures (eg ROCE, DCF)

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(b) Organizational culture has a very important impact on the management of change. Every organization will have its own cultural blueprint which dictates how it interacts with its environment and manages its people.

Understanding the relationships between an organization's culture and its (changing) environment greatly assist the organization in managing change.

Johnson, Scholes and Whittington argue that 'Strategic developments can only be successful if they recognize and address the cultural aspects of the change at hand.'

In other words, change cannot be isolated from the organization overall, and therefore change needs to be linked to the culture of the organization.

Two important characteristics of successful strategic change initiatives highlight this:

Alignment – ensuring that all the components of the change plan form an integrated whole. This means they are consistent within themselves, but are also linked the whole organizational system.

Attunement – mirroring the preferred organization culture, and ensuring that all aspects of the change are carried out in line with organizational values, and with sufficient attention to the human side of change.

Johnson & Scholes bring these ideas of culture and change to create what they call the cultural web. The web helps an organization analysis its current culture and identify which aspects of this culture need to be changed in order for the organization to be able to achieve its strategic goals.

The Cultural Web

The cultural aspects which need to be considered when managing change can be illustrated in the cultural web:

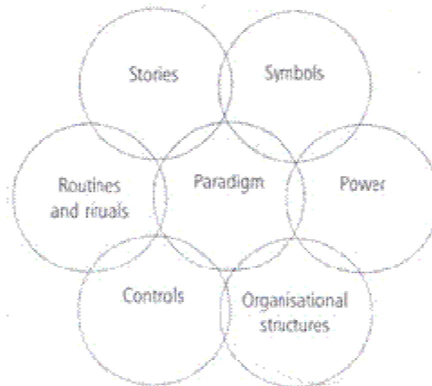

Figure: The Cultural Web (Johson, Scholes & Whittington)

The web comprises six physical manifestations of culture:

a. **Stories –** The past events and people talked about inside and outside the company. Who and what are talked about most in these stories can illustrate the behaviour and organization encourages, and the sorts of things it values.

b. **Rituals and Routines –** The daily behaviour and actions of people that signal what is considered acceptable. This determines what is expected to happen in given situations, and what is valued by management.

c. **Symbols –** The visual representations of an organization including logos, premises and dress can illustrate the nature of that organization. Also, verbal representations like language and titles can also act as symbols of the nature of

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an organization.

d. **Organizational Structure –** This includes both the formal structure defined by the organization chart, and the unwritten lines of power and influence that indicate whose contributions are most valued. Structure is likely to reflect power.

e. **Control Systems –** The ways that the organization is controlled. These include financial systems, quality systems, and rewards (including the way they are measured and distributed within the organization.) Looking at the areas which are controlled most closely can indicate what is seen as most important to an organization, and where most attention is focused.

f. **Power Structure –** The pockets of real power in the company. This may involve one or two key senior executives, a whole group of executives, or even a department. The key is that these people have the greatest amount of influence on decisions, operations, and strategic direction.

These cultural elements all combine to underpin the paradigm. The paradigm signifies the basic assumptions and beliefs that an organization's decision-makers hold in common and take for granted.

THE END

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