

CHARTERED ACCOUNTANCY PROFESSIONAL III (CAP-III)

Compilation of Suggested Answers

Paper 8: Strategic Management and
Decision Making Analysis
(Dec 2003 - June 2019)



Education Department
The Institute of Chartered Accountants of Nepal

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1. Briefly explain strategic planning as component of strategic management.

(June 2019) (10 Marks)

Answer :

Strategic management consists of several components as planning, implementation, and control. Strategic planning is explained below:

Strategic planning is the process of determining the basic objectives of an organization and deciding the strategies and policies to achieve these objectives. It is the formulation of future direction aimed to achieve strategic advantages of a company coping up with its environment. It is concerned with appraising the environment in relation to the company, identifying the strategies to obtain sanction for one of the best alternatives. Therefore, it is the framework within which future activities of the organization are expected to be carried out.

Strategic planning comprises the following features:

1. Strategic planning concerns with appraisal of environments to identify opportunities and threats of a company.
2. Strategic planning also concerns with appraisal of company strength and weakness. So, it is the appraisal of strength and weakness, opportunity and threats (SWOT).
3. Strategic planning guides the choice among the broad directions in which the company seeks to move.
4. Strategic planning helps to identify strategic alternatives and selection of the best alternatives with the best interest of company and personal value of top management.
5. Strategic planning precedes the operational planning.
6. Strategic planning is prepared by top management and other expertise staff related to planning in the organization.

Strategic planning consists of following steps :

a. Environmental analysis : Under environmental analysis, environmental factors are observed and analyzed. From internal environmental analysis, strengths and weaknesses are examined while from analysis of external environment, threats and opportunities are estimated. This means, SWOT (strengths, weaknesses, opportunities and threats) analysis is conducted through environmental analysis.

b. Strategy formulation and choice: Different strategic alternatives are formulated after the environmental analysis. After formulating different alternative strategies, they need to be analyzed and right strategy should be selected. While evaluating the strategies, strategy managers must consider suitability, acceptability and feasibility.

From all these explanation, it is clear that strategic planning is the beginning stage of strategic management. In order to practice the strategic management in an organization, strategic planning is first and foremost component.

2. How does corporate strategy affect business and functional strategies? Exemplify.

(Dec2018) (10 Marks)

Answer :

Corporate strategy affects business strategy and functional strategies directly and significantly. In fact, corporate strategy is the independent variable and business strategy and functional strategies are dependent variables.

- For example, if a company adopts growth as corporate strategy then it has to design its business strategy and consequently functional strategies in line with growth.
- The company can adopt either cost-based approach or differentiation based approach as business strategies to support growth strategy.
- Suppose it adopts business strategy based on cost approach, then it drives to reduce cost from all possible angles.
- The business divisions exploit all resources optimally and have to have all sources of cost advantage, reap scale of economy, efficient scale facilities, and vigorous cost reduction from experience.
- They sell standard quality products. SBUs have to design, produce, and market a comparable product more efficiently than the competitors. Low cost enables the SBU to compete on price if that is required (i.e. should reduce the price to generate the same profit as enjoyed by other firms)
- The low cost business strategy is possible to happen when functional strategies are tailored to this direction. For example, it has to do all possible efforts to tweak activities in functional departments like marketing costs, financial costs, operational costs, human resource costs, etc.

More specifically, the company has to expend low on advertising and sales promotion activities, has to resort to mass scale production, should use direct channel of distribution extensively, have low profit margin, reduce HR compensation, to acquire land & building on lease in place of purchasing, etc.

3. Write short notes/distinguish on the following:

a) Characteristics of strategy

(Dec 2018) (3 Marks)

- 1) Formulated in line with vision, mission, objectives of the organization
 - Strategy is formulated keeping in mind vision, mission, and objectives of the organization. It must be within the value, norms and expectations as expressed in the strategic goal.
- 2) Concerned with matching organizational strengths with environmental opportunities
 - I.e. fine tuning or strategic fit. Since environment is dynamic and uncontrollable, strategy should be capable of exploiting environmental opportunities and offsetting environmental threats.
- 3) Strategy helps overcome significant problems or enhance problem prevention capabilities of the firm
- 4) For developing necessary resource capabilities/internal efficiency to create/exploit environment opportunities

- There are opportunities in the environment but if the organization doesn't have resources, certain strategy is made for this gap; building on /stretching an organization's resources and competences to create opportunities or capitalize on them
- 5) Strategy often has major resource implications for the organization, hence they are risky
 - Physical resources, financial resources, human resources in significant proportion are involved.
- 6) Strategy affects operational decisions
 - Operational decisions like marketing & distribution, HR policies etc. have to be revised in line with strategy otherwise no matter how excellent the strategy, it will not succeed.
- 7) Strategy is in turn affected by the environmental forces and resource availability of the organization too
 - So considerations of external environment & internal environment is mandatory while making strategy

b) Levels of strategy**(June 2018) (3 Marks)****(i) Corporate level strategy**

Corporate strategy involves decisions about the organization as a whole. Corporate level strategy has top level involvement (*i.e. CE*), and it has a long horizon. It is a key basis of other strategic decisions. It is organization wide strategy involving decisions about overall purpose, mission, objectives, goals, scope; allocation of resources among SBU/divisions. Corporate strategy involves what business areas of operation should an organization be in?

(ii) Business level strategy

Also known as generic strategy, business strategy is related to a single strategic business unit (SBU), or division within the corporation. Business strategy is used by multidivisional companies, *i.e. diversified company*. It is formulated in order to achieve objectives of the SBU or division. It involves deciding how to compete in a particular product-market. Business strategy has to be formulated in line with corporate strategy.

Generic strategies are: (i) cost leadership strategy (ii) cost focus strategy (iii) differentiation strategy (iv) Differentiation focus strategy.

(iii) Functional level strategy

Also known as operational strategy, functional strategy is the strategy & policy of a particular functional department of the business or enterprise, *like marketing, finance, production, human resource*. It is formulated in order to achieve annual objectives & short term strategies of individual department. It involves decisions regarding allocation of resources among different operations within the functional area.

c) Strategic vision**(Dec 2017) (3 Marks)**

Vision is the picture of desired future state of an organization. It is a nicely worded one sentence statement. It specifies the direction that a company intends to follow in developing and strengthening its business. A strategic vision communicates management's aspiration to stakeholders. It should be specific and distinctive to a particular organization. It provides managers with a reference point in making strategic decisions and preparing the company for the future.

d) Functional level strategy**(Dec 2016) (3 Marks)**

There are three levels of strategy in the organization. The strategy, which aims at bringing effectiveness in different functions of an organization, is called functional strategy. It follows from business level strategy, which deals with the question as how to support the corporate level strategy. Functional level strategy incorporates all strategies of action and decision of the organization that add effectiveness in different functional units. It deals with operations of the organization. It involves tactical decisions to achieve strategic advantage.

The functional level strategies aim to attain superior efficiency, quality, innovation and responsiveness to customer needs. The different types of functional level strategies are production strategies, marketing strategies, finance strategies, human resource strategies and research and development strategies.

e) Corporate level strategy**(June 2016) (3 Marks)**

Corporate level strategy is a plan that deals with the objectives of the company, allocation of resources and co-ordination of SBUs for optimal performance. It is the top management plan to direct and run the enterprise as a whole. It represents the pattern of entrepreneurial actions and intents underlying organization's strategic interests in different business, divisions, product lines, customers groups, technologies etc. Corporate Strategy emphasizes upon the fact that how one should manage various activities and how the resources should be allocated over the different priorities of corporation.

Principally, the corporate level composed of members of the board of directors and the chief executives and administrative officers. They are responsible to achieve financial performance of the corporation as a whole and to achieve non financial goals of the firm like corporate image and social responsibility. They set objectives and formulate strategies that extent the activities of strategic business units (SBUs) in the corporation and functional areas of these businesses. Since business level strategies may differ among themselves, it is necessary to formulate corporate level strategy so that none of the business level strategies should go against the corporate level strategy. The corporate level strategy may stress growth or retrenchment or stability or a combination of the three. The growth strategy is common as the companies usually aim at gradual expansion of their operations. But sometimes, they adopt retrenchment strategy when

they have to curtail their operations in view of tough competition or micro-economic downtrend. Some companies adopt the strategy of stability when they like to be satisfied with what they have. However, a combination of them can also be formulated when the corporate strategy allows successful business lines to grow, unsuccessful business lines to cut short their activities and allows others to maintain stability.

f) Importance of vision and mission statement

(Dec 2013) (2.5 Marks)

The importance of vision and mission statements to effective strategic management is well documented in the literature. However, some studies have found that having a mission statement does not directly contribute positively to financial performance. The extent of manager and employee involvement in developing vision and mission statements can make a difference in business success. In actual practice, wide variations exist in the nature, composition, and use of both vision and mission statements. Organizations should carefully develop a written mission statement in order to reap the following benefits:

1. To ensure unanimity of purpose within the organization
2. To provide a basis, or standard, for allocating organizational resources
3. To establish a general tone or organizational climate
4. 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
5. To facilitate the translation of objectives into a work structure involving the assignment of tasks to responsible elements within the organization
6. 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.

g) Strategy execution

(Dec 2013) (2.5 Marks)

A company's work climate may be compatible with what is needed for effective implementation and execution of the chosen strategy. Strategy supportive values, practices, and behavioral norms add significantly to the power and effectiveness of a company's strategy execution effort. Such business principles as pleasing customers, fair treatment, operating excellence, and employee's empowerment promotes employees behaviors and cohesiveness and team spirit that facilitate execution of strategies keyed to high product quality and superior customer service. Taking initiative, challenging the status quo, exhibiting creativity, embracing change, and being a team player promote successful execution of strategies.

h) Vision

Vision is a perception and description of something an organization likes to be in future. Aspirations, expressed as strategic intent, should lead to an end and that end is the vision of an organization. It is what the organization would ultimately like to become in process of strategic

management. Very early in the strategy making process, senior managers must wrestle with the issues of what path the organization should take and what changes in the organization's product-market-technology would improve its position. Top management's views and conclusions about the organization's direction constitute a strategic vision.

A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of organization in a common direction. A strategic vision points a particular direction, charts a strategic path to follow, and molds organizational identity.

i) Strategic planning

Strategic planning is the process of determining the long term objectives of an organization and deciding the strategies to achieve these objectives. It is the formulation of future direction aimed to achieve strategic advantage. It is concerned with appraising the environment in relation to the company. It is the framework within which future activities of the organization are expected to be carried out.

Strategic planning is concerned with the long-term development of the organization, involves long-term decision making and enables the management to face with environmental changes. The features of strategic planning are:

1. Strategic planning is *concerned with appraisal of environments to identify opportunities and threats* of a company.
2. Strategic planning is also *concerned with the appraisal of company strength and weakness*. So, it is the appraisal of strength and weakness, opportunity and threats (SWOT).
3. Strategic planning *guides the choice* among the broad directions in which the company seeks to move.
4. Strategic planning is *helpful to identify strategic alternatives* and selection of the best alternatives with the best interest of company and personal value of top management.
5. Strategic planning is prepared by top management.

4. Elaborate the concept and characteristics of strategy.

(June 2016) (8 Marks)

Answer:

The concept of strategy is central to understanding the process of strategic management. Undoubtedly, strategy is one of the most significant concepts emerged in the subject of management studies in recent past. It has been emerged as a critical input to organizational success and has come in handy as a tool to deal with the uncertainties that organizations face. It has helped to reduce ambiguity and provide a solid foundation as a theory to conduct business. It is a convenient way to structure the many variables that operate in the organizational context and to understand their interrelationship.

A strategy is an integrated plan or course of action or a set of decision rules forming a pattern or creating a common thread. The pattern or the common thread is related to the organization's

activities that are derived from its policies, objectives and goals. It is related to pursuing those activities, which move an organization from its current position to desired future state. It is concerned with the resources necessary for implementing a plan or following a course of action and connected to the strategic positioning of a firm, making tradeoffs between its different activities and creating a fit among these activities.

Igor Ansoff explained the concept of strategy as the common thread among the organization's activities and product-markets that defines the essential nature of business that the organization.

Strategy consists of the following characteristics:

1. **Long-term Horizon:** Strategy is concerned with the long-term direction and scope of the organization. It is forward looking at least for one decade. Top management as a long-term blueprint of the organization formulates it.
2. **Action oriented:** Strategy is concerned with broad action plans. The action plans aim at objectives achievement. It is more specific than objectives and integrated.
3. **Value addition:** Strategy aims at adding value. It seeks customer satisfaction. It is the bridge that matches the resources and capabilities of organization with opportunities. It seeks customer satisfaction.
4. **Strategic decisions:** Strategy is based on strategic decisions. Strategic decisions define the scope of the organization's activities. They pinpoint organizational capabilities and product/ market scope.
5. **Environmental adaptation:** Strategy matches the resources and activities of the organization to the changing forces in the environment. It aims for strategic fit by matching resources with opportunities. It is dynamic and flexible.
6. **Stakeholders' expectation:** Stakeholders can be suppliers, customers, labour unions, financial institutions, employees and even owners. They have interest in the performance of the organization. Strategy fulfills the values and expectations of the stakeholders of the organization.

5. What are the different levels at which strategy operates in a large organization? Explain.

(June 2016) (7 Marks)

Answer:

For many companies a single strategy is not only inadequate but also inappropriate. The need is for multiple strategies at different levels. Strategy operates at different levels. These are corporate level, business level, and functional level. The category of corporate strategy occupies the highest level of strategic decision making and, in comparative terms, would relate to the multi-divisional organization, or the form with wide range of business interests. The actions deal with the objective of the firm, allocation of resources and coordination of various divisions/business groups (known as strategic business units) for optimal performance.

Business level strategy or strategic business unit is a comprehensive plan providing objectives for SBUs, allocating of resources among functional areas and coordination between them for making optimal contribution to the achievement of the corporate level objectives.

Functional strategy relates to a single functional operation and the activities involved therein. Decisions at this level within the organizations are often described as tactical. Such decisions are guided and constrained by some overall strategic considerations. Functional strategy deals with relatively restricted plan providing objectives for specific functions, allocation of resources among different operations within that functional area and coordination between them for optimum contribution to the achievement of SBU and corporate level objectives.

6. What is strategic planning? How far it different from Strategic Management.

(Dec 2015) (3+4=7 Marks)

Answer:

Strategic planning is the process of the formulation of future direction aimed to achieve strategic advantages of a company coping up with its environment. It is concerned with appraising the environment in relation to the company, and identifying the strategies to obtain sanction for one of the best alternatives. Therefore, it is the framework within which future activities of the organization are expected to be carried out. Strategic planning thus, is the careful, deliberate, systematic taking of decisions which affect or intended to affect the organization as a whole over long period of time.

Strategic planning helps to formulate strategy. It compels the management to set objectives and clarify future opportunities and threats, and provides a good framework for decision making throughout the organization because all its activities are expressed in the plan. Therefore, it gives direction or at least guidance to managers as to what they should do and what decisions they should take in order to achieve company objectives and mission.

Strategic management is the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. It focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and information systems to achieve organizational success. The purpose of strategic management is to exploit and create new and different opportunities. Strategic management– the formulation and implementation of long-term plans and carrying out the activities may be expected to yield several benefits. The strategic-management process consists of three stages:

- a) Strategy formulation,
- b) Strategy implementation, and
- c) Strategy evaluation.

From this we can conclude that the strategic planning is determination of future course of action of a company with special reference, where as strategic management is broader term that covers

strategic planning as well as strategic formulation, implementation and evaluation. In general situation, both the terms are used synonymously but when strategic planning proceeds to strategy implementation and that proceeds to evaluation, it is known as strategic management.

7. Why strategy is relevant to professional accountants? Explain. **(Dec 2012) (7 Marks)**

Answer:

Strategy provides a central purpose and direction to the activities of the organization and to the people who work in it, and often to the world outside. In fact, it is as important to inform the public or the market about the company's strategy as it is to inform inside the organization. The strategy must be communicated to suppliers, wholesalers, creditors, and customers if their cooperation is to be gained. It is very relevant to professional accountants.

An organization must recognize these groups, even while it is establishing its strategy. This is particularly true of the customer and market, since in the final analysis, it is the market that success or failure materializes. The business and its professional accountants must continually be aware of market changes and developments if they are to remain in the most advantageous competitive posture.

What is our business is not determined by the producer but by the consumer. In essence, what business or even what industry a company is in is not determined by its product or service alone. It is more clearly designated by its product-market. Also included would be the direction of growth, the basic means by which it will compete, and the way in which all aspects of its strategy fit together and support one another. This articulation of strategy will answer the question of what business the company is in. As Peter Drucker has pointed out, the failure to ask the question is clearly the most important single cause of business failure. These are the reasons for the professional accountants to acquaint themselves with strategy.

8. Compare an organization's mission with its objectives. **(Dec 2011) (7 Marks)**

Answer :

A mission is the unique purpose that sets a company apart from others and identifies the scope of its operations in terms of product, market, and technology terms. Every organization has a mission that defines its purpose and answers the question, "What business or businesses are we in?" In essence the mission is a directional plan. The mission applies to the entire organization, establishes the organization's overall objectives, and seeks to position the organization in terms of its environment. It clarifies the reason for its existence.

Objectives, on the other hand, are desired outcomes that are quantified for achieving specific goals. They can apply to individuals, work units, or the organization as a whole. The mission cannot be accomplished without the accomplishment of objectives.

9. What is strategic planning? Explain the differences between strategic planning and strategic management. **(Dec 2010) (8 Marks)**

Answer :

Strategic planning is a management tool. As with any management tool, it is used for one purpose only: to help an organization do a better job – to focus its energy, to ensure that members of the organization are working towards the same goals, to assess and adjust the organization's direction in response to a changing environment. In short, strategic planning is a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it, with a focus on the future. Strategic planning also implies that some organizational decisions and actions are more important than others – and that much of the strategy lies in making the tough decisions about what is most important to achieving organizational success.

The strategic management process is an eight-step process that encompasses strategy planning, implementation, and evaluation. Even the best strategies can fail if management doesn't implement or evaluate them properly.

The first step in the strategic management process is to identify the organization's current mission, goals, and strategies. Defining the organization's mission forces managers to identify what it's in business to do. Knowing the company's current goals gives managers a basis for assessing whether those goals need to be changed. For the same reasons, it's important for managers to know the organization's current strategies to assess whether any need to be changed. The second and third steps involve an external analysis. Managers need to know, for instance, what the competition is doing, what pending legislation might affect the organization, or what the labor supply is like in locations where it operates. In analyzing the external environment, managers should examine both the specific and general environments to see what trends and changes are occurring. After analyzing the environment, managers need to assess what they have learned in terms of opportunities that the organization can exploit, and threats that it must counteract or buffer against.

The fourth step involves an internal analysis, which provides important information about an organization's specific resources and capabilities. After doing the internal analysis, managers should be able to identify organizational strengths and weaknesses.

This fifth step of the strategic management process forces managers to recognize that their organizations, no matter how large or successful, are constrained by the resources and capabilities they have. The combined external and internal analyses are called SWOT analysis—an analysis of the organization's strengths, weaknesses, opportunities, and threats.

The sixth step is to reassess the organization's mission and objectives in light of what has been learned from the SWOT analysis. The next step is to formulate strategies. As managers formulate strategies, they have to consider the realities of the external environment and their available

resources and capabilities and design strategies that will help the organization achieve its goals. After strategies are formulated, they must be implemented. A strategy is only as good as its implementation. The final step in the strategic management process is evaluating results. How effective have the strategies been? Have they helped the organization reach its goals? What adjustments, if any, are necessary?

10. Define strategy. What are its characteristics?

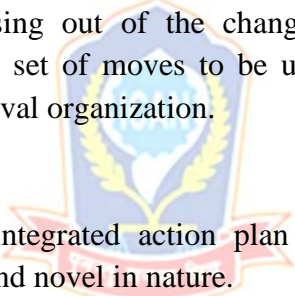
(June 2010) (3+5=8 Marks)

Answer :

The term strategy has been used in respect of army organizations and games. In view of growing competition and rapidly changing environment, it has become equally relevant for business organizations. Strategy may be defined as unified, comprehensive and integrated action plan designed to achieve specific objectives in the event of difficulties.

Strategy may be considered as an action plan, initiative or response of an organization for seeking achievement of the objectives in a changed specific situation. Strategy is a organizational response in the form of deploying , mobilizing and utilizing its resources and strength, either for facing problems or challenges arising out of the changing environment or to exploit the opportunities provided by it .It is a set of moves to be used by the organization to get over problematic situation by restricting rival organization.

Characteristics of strategy

- 
- a) Strategy is a comprehensive and integrated action plan drawn for achieving objectives in changed situation which is specific and novel in nature.
 - b) Strategy aims at deploying, mobilizing and utilizing limited resources for maximizing chance of achieving objectives in event of difficulties.
 - c) Strategy is flexible and dynamic in nature because it is formulated to cope with the changing business environment and maintain its survival, profitability, growth and development of the organization.
 - d) Strategies are usually drawn for a long period of time but it has short term implication also.
 - e) Strategies are basically formulated not only on the basis objectives to be perused but on the basis of careful situational analysis of the organization and its environment.
 - f) Strategy is formulated to handle changes arising out of environment. It ensures allocation of resources so as to exploit new opportunities.
 - g) Strategy is regarded as interpretative planning because it is formulated for the purpose of interpreting the meaning of other policies.

11. What is a mission? Explain its importance to an organization. (June 2010) (3+4=7 Marks)

Answer:

Strategic management encompasses the main elements of strategic positions, strategic choice strategic implementation and strategic control.

Strategic positions; the main elements of strategic positions consist of external environment and internal environment. The external environment comprises those influences that can affect the whole industry in which a business operates. The external environment comprises influences arising from socio-demographic, political, economic, natural and technological factors. The nature of these factors normally means that individual businesses are unable to influence them. Strategies must usually be formulated to cope with changes in the external environment. It provides opportunities and threads to the organizations. The internal environment is that which immediately surrounds a business interacts with frequently and over which it may have some influence. For most purposes, we can identify competitors, suppliers, and customers as comprising the main constituents of these strata of the environment. They affect and are affected by the organization.

Strategic choice; strategic choice is essentially a decision making process. The decision making process consist of setting objectives, generating alternatives, choosing one of more alternatives that will help the organization achieve its objectives in the best possible manner and finally, implementing the chosen alternative. For making a choice from among the alternatives, a decision maker has to set certain criteria on which to accept or reject alternatives. These criteria are the selection factors. There are four steps in the process of strategic choice; focusing on strategic alternatives, analyzing the strategic alternatives, evaluating the alternatives and choosing from among the strategic alternatives.

Strategic implementation; Strategic implementation is all about what issues are considered to be necessary for the successful execution of strategy. Strategy implementation would be carried out only after a company has gathered sufficient information on its internal and external environments. In order to successfully implement a strategy, an organization will need to work out to resource it. This means how it will obtain the requisite finance, skilled employees, and the plant, equipment, and buildings. It should also reconfigure its culture its culture and structure to fit the proposed strategy. Strategy implementation often means change inside the organization in order to achieve the required objectives. Change management is thus the important area to be considered in strategic implementation.

Strategic control; Strategic control is to evaluate the effectiveness of a strategy in achieving organizational objectives and taking corrective action wherever required. There has to be a way of finding out whether the strategy being implemented is guiding the organization towards the intended objectives. Strategic control, therefore, performs the crucial task of keeping the organization in the right track. In the absence of such mechanism, there would be no means for strategists to find out whether or not the strategy is producing the desired effect.

12. Write short notes on – Focus Strategy.

(3 Marks) (June 2019)

Answer:

The focus strategy is an attempt to produce goods or services that serve the needs of a particular competitive segment. Thus, firms adopt this strategy when they utilize their core competencies to serve the needs of a particular industry segment or a different segment of a product line, and a different geographic market.

Through a focus strategy, firms can gain competitive advantage in specific market niches or segments, even though they do not possess an industry-wide competitive advantage.

Focus strategy intends to serve a particular segment of an industry more effectively than the competitors do. The companies with focus strategy get success when they understand the unique needs of the segment and the competitors choose not to serve that segment. There are two types of focus strategy.

- *Focus low cost*: It focuses on a particular segment with lower cost than the competitors. Cost advantage is sought in a particular market.
- *Focus differentiation*: Focus differentiation attempts to serve a particular market with unique products and services.



Question 1

Describe the elements of strategic management.

(Dec 2017) (10 Marks)

Answer

Strategic management is a stream of decisions and actions which leads to the development of corporate strategies to help achieve corporate objectives. Strategic management is a philosophy of managing the organization that is externally oriented and links strategic planning to operational decision making. It is concerned with strategic decisions and actions of top management.

Strategic management broadly includes the formulation, implementation and control of strategy.

The elements of strategic management can be mentioned as:

1. Situational analysis
2. Strategy formulation
3. Strategic implementation
4. Strategic control

1. Situational analysis

Situational analysis is an important component of strategic management. Situational analysis consists of evaluating the organization's mission, vision, values and objectives, analysing the internal strengths and weakness of the organization; and investigating the external environment to determine key external forces. An organization's strategy must take advantage of opportunities in the environment avoid external threats. Capitalize on internal strengths, and reduce the organization's weaknesses. Therefore, before a strategy can be developed, managers must have a clear sense of what the organization should do, what it can do, and what it wants to do.

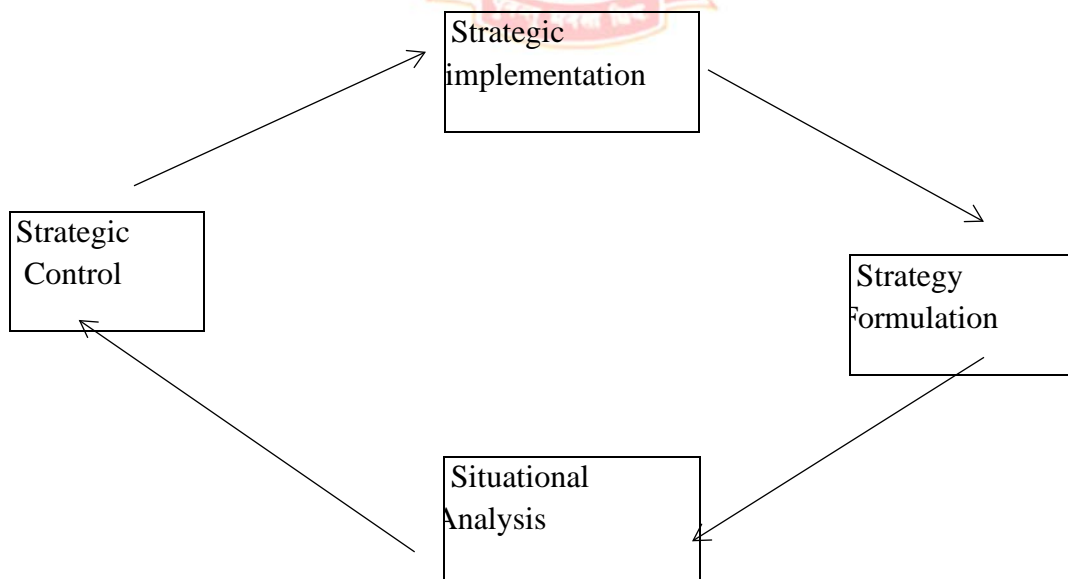


Figure: Elements of Strategic Management

2. Strategy Formulation

Strategy formulation is another component of strategic management process. Based on the results of the situational analysis, organizational goals must be established, strategic alternatives generated. Strategic alternatives can be developed at different levels of the organization, i.e. corporate level, business level, and functional level. All identified alternatives are evaluated based on suitability, acceptability and feasibility criteria. After proper evaluation of available strategic options, the best option is chosen. This entire process is referred to as strategy formulation.

3. Strategic Implementation

Another more critical element of strategic management is strategic implementation. Strategic implementation is the process of translating the strategy into specific actions and programs. Therefore, in the implementation phase, managers and employees are mobilized to translate formulated strategies into action. Operational strategies, both functional and organization-wide strategies are developed that will accomplish the broader Organizational strategies. It is in the implementation stage that managing human, financial, informational, and physical resources becomes most important. During this stage, the strategy is accomplished.

4. Strategic Control

The ultimate component of strategic management is strategic control. The basic objective is to assess whether the strategy and supporting implementation are still appropriate, which is accomplished by practically evaluating the effectiveness of the strategy and its implementation and making any necessary modification.

The fundamental activities of the control phase of strategic management include:

- Reviewing the target goals of the organization
- Measuring the performance of the organization.
- Comparing the target goals with the actual performance
- Taking corrective action if necessary.

Question 2

What is strategy management? Why is strategic management important in organizations?

(June 2017) (3+7=10 Marks)

Answer

Strategic management is concerned with formulation, implementation and evaluation of strategy. It is a set of managerial decisions and actions that determine the long term performance of an organization. In other words strategy management involves those decision and actions in which organizational members analysis the current situation. Develop appropriate strategies, put those strategies in to action and evaluate, modify or change those strategies as needed.

Strategic management involves strategic decision and action of top management. It entails all the basic managerial functions: planning, organization, implementing and controlling. The organizations' strategies must be planned (formulated), organized and put into effect (Implemented), and controlled (evaluated). Strategic management provides long term future

direction to organizations. It evaluates and controls managerial performance. Therefore, strategic management is concerned with future direction, long term performance and overall effectiveness of the organization.

Importance of Strategic Management

Strategic Management is a philosophy or way of managing an organization. Strategic management ties the organization together with common sense of purpose, and shared values. It enables the organization to develop a clear self-concept, specific goals and consistency in decision making.

Strategic Management provides long term direction to organization. It attempts to improve organizational performance in the long run. Strategic management is always goal-oriented. It helps coordinate the diverse division, function, and work activities. Strategic management encourages innovation and reduces resistance to change within the organization in order to meet the needs of dynamic situations.

The importance of strategic management can be highlighted as follows:

1. **Goal attainment:** Every organization has its own goals and objectives to be achieved. Strategic management is goal-oriented. Therefore, it always helps to achieve long-term goals of the organization.
2. **Performance Improvement:** Strategic management attempts to improve long-term financial performance. It also improves managerial performance by developing core competencies and commitments.
3. **Effective communication:** Strategic management requires managers to communicate both vertically and horizontally within the organization.
4. **Overall coordination:** Overall coordination within the organization is often improved in strategically managed organizations.
5. **Organizational effectiveness:** Organizational effectiveness can be achieved through strategic management.
6. **Innovation and change:** Strategic management encourages innovation and change to meet the needs of changing situations.
7. **Competitive advantage:** Effective strategic management helps managers to achieve and maintain competitive advantage.

3. State and explain the relevance of strategic management for professional accountants.

(June 2017) (7 Marks)

Answer

Strategic management– the formulation and implementation of long-term plans and carrying out the activities may be expected to yield several benefits. It is important for organizational adoption and success to its environment. Various authors and executive create a number of reasons as to why an organization engages in strategic management. Some of the points of importance are discussed as follows:

Full Exploitation of Opportunities

Strategic management allows an organization's top executives to anticipate change and provides direction and control for the organization. It allows the organization to innovate in time to take advantages of new opportunities in the environment and reduce the risk because the future was anticipated. Therefore, it helps ensure full exploitation of opportunities. The strategic management process stimulates thinking about the future. It allows the organization to take action at an early stage of new trend and consider the lead-time of effective management.

Clarity in Objective and Directions

Strategic management provides clear objectives and directions for the employees. It indicates the way for the employees to follow. Strategic management provides a strong incentive for employees and management to achieve company objectives. It serves as a basis for management evaluation and control because top executives have a unified opinion on strategic issues and actions. When the objectives are clearly spelled out, these provide clear direction to persons in the organization who are responsible for implementing the various course of actions.

Strategic Alignment

The emphasis of strategic management lies on making a good fit alignment between business strategy and management practices to make an organization more competitive in the market. Effective implementation of strategies depend on how far they can be aligned with the organizational structure, managerial activities and policies. Strategic management has an inherent qualities to maintain horizontal as well as vertical alignment among the strategies, structures, programs, resources, managerial activities and policies.

Efficiency, Effectiveness and Success

Strategic management teaches to put the resources in a way, which ensures their maximum contribution to organizational objectives. It also teaches to CEOs to become better decision makers, which is helpful to achieve effectiveness. It also improves corporate communication, the coordination, allocation of resources and budgeting etc. Strategic management focuses on business problems, not only in the sector of functional areas, but also on business areas, such as marketing, finance etc. Because of all these reasons efficiency can be accelerated, the degree of effectiveness can be increased and corporate success can be assured of an organization.

Others

- i. Strategic management focuses on the research which is essential for growth and diversification. It helps to carry out many researches which are definitely fruitful to the success of business.
- ii. Strategic management helps better understanding of the authorities and responsibilities of individual and groups which reduces the gap and overlap the activities.
- iii. Strategic management helps to cope up with changes.

A survey of nearly fifty corporations engaged in a variety of strategic management has found out to be:

- Clearer sense of strategic vision for the firm
- Sharper focus on what is strategically important
- Improved understanding of a rapidly changing environment

4. Why are "objectives" important to strategic management process?

(June 2016, Dec 2014) (7 Marks)

Answer:

Objectives represent ends towards which all activities of the management are directed. Objectives are considered to be important to strategic management processes for several reasons. Some of the important reasons are unified planning, motivation and control.

Objectives permit unified planning by all strategic business units and all departments. Top management establishes overall objectives that become the framework within which strategic business unit managers and other lower level executives and employees establish their own sub-objectives and plans. Sometime there is a disharmony due to the conflict of interest in the objectives to be achieved by each unit. The top management's role to define the overall objectives and to persuade the strategic business units to make a trade-off would bring in a solution in strategic issues.

The overall objectives of an organization, when set realistically, serve as a basis of motivation to the strategic business units. It is the target that activates all managers of different units and their subordinates. But the objectives must be perceived as realistic to have maximum effect. Objectives that are set too low do not provide a challenge and those set unrealistically high may be depressing or not accepted.

Objectives enable management to perform the functions of strategic evaluation and control. When information obtained indicates that the objectives are not being met, the strategic business units as well as the organization at corporate level must examine the situation and determine the corrective action needed. The corrective action should be promptly taken to see that actual performance conforms to the overall objectives.

Formulation of objective involves analyzing the reason for the existence of the organization and what would be the type of work or product it would specialize in relation to the resources, investment and requirements. Objectives are so important to strategic management process as it shows the starting point with present position to the terminal point with the expected result along with the specified duration of time by which the objectives are to be achieved.

5. Explain the elements of strategic management process.

(Dec 2015) (7 Marks)

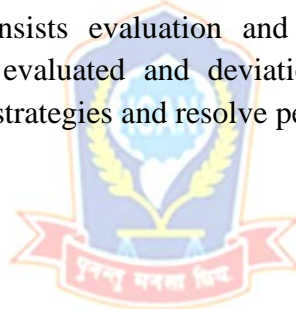
Answer:

The concept of strategic management is based on the strategy itself and can be defined as the continuous process of relating the organization with its environment by suitable course of action

involving strategy formulation, its implementation and mobilizing organizational resources for the purpose. Strategic management as a process consists of different elements, which are sequential in nature. These are as follows:

1. **Strategy formulation:** This process involves environmental analysis and making strategic choices. Environmental analysis monitors and evaluates the changes in the external and internal environment. External environment consists of political-legal, economic, socio-cultural and technological forces. External environment provides opportunities and threats. Internal environment of the organization consists of people, structure, resources and all internal procedures. Internal environment provides strengths and weaknesses. Besides environmental elements strategic option is another element of this phase. Strategic options serve as the basis for formulating different level strategies.
2. **Strategy implementation:** This process involves turning strategies into action. Structure design, resource planning and management system are some important elements that ensure strategies operationalized in practice. The structure design establishes reporting relationships, span of control and chain of command. Resource planning is concerned with people, money, technology and information. Competent human resources are acquired, developed and managed by management system.
3. **Strategy evaluation:** This phase consists evaluation and control elements. Here the actual performance results are monitored, evaluated and deviations are identified. Control element involves corrective actions to modify strategies and resolve performance problems.

6. Write Short notes on following:



a) **Classification of objectives**

(Dec 2015)

Strategic objectives are achievable in the long-term, and involve sizeable capital costs. They are not easily reversible. For example, a cement manufacturing unit that is currently operating in Dang district wants to set up a plant in Janakpur to cover eastern Nepalese market.

Tactical objectives involve a medium-range time frame, related to a planning period of say, 6-18 months. For example, a company is planning to increase employees' productivity through an incentive scheme applicable during a particular accounting period and so on.

Operational objectives are those which relate more to the day-to-day operations of a firm. This could be something as simple as shift-level productivity targets, the number of contract employees in an operation, or the number of sales calls to be completed by a particular sales team. Operational objectives are typically managed by operating managers in order to accomplish immediate tasks.

Individual performance targets are derived from operational tasks that could be related to a process or a person in an operation. For example, a territory manager's sales target is an individual level performance task. Objectives become powerful only when they are subdivided at a micro level and are related to targets in respect of operational objectives.

Objectives trickle down from the top levels, which primarily deals with strategic issues, to the tactical level which sets periodic targets, to the operational level, and then to individual performance tasks.

7. What is strategy? Explain the process of strategic management.

(Dec 2014) (June 2012) (8 Marks)

Answer:

A strategy is a unified, comprehensive, and integrated plan that relates the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprises are achieved through proper execution. It is the direction and scope of an organization over the long-term. It achieves advantages for the organization through its configuration of resources within a changing environment to meet the needs of markets and to fulfill stakeholders expectations. Further, it fits together all parts of the plan to achieve the ends. It ties all parts of enterprise together and aims at gaining sustainable advantages over competitors.

Strategy integrates an organization's goals, policies and action sequences into a cohesive whole. A well formulated strategy helps to allocate organization's resources with a view to anticipated changes in the environment, and contingent moves by opponents. The scope of strategy includes total managerial functions which are related with the determination of organizational objectives in the light of environmental variables and courses of actions to achieve objectives.

Process of strategic Management

Strategic management process involves setting the objectives, analysis of the environmental opportunities and threats and appraising the strengths and weaknesses of an organization to tap the opportunities, overcome threats, formulates strategies, and implementing them to achieve objectives.

Followings are the main steps of strategic management process.

- Review of mission and objectives
- External environmental scanning (PEST) analysis
- Resource analysis (Internal environment diagnosis)
- Formulation of strategies
- Selection of strategy
- Implementation of selected strategy
- Evaluation and control, and
- Strategic change management

8. “Business may need to develop rather than grow in order to adapt to change.” Discuss.

(June 2014) (7Marks)

Answer:

Change is a permanent feature of business as well as environment. If there is some vital change in environmental circumstances, it can challenge the survival of the business. In that situation the organization must revisit the questions of what business are they in and why are they in business. Right from the definition of their business the organization has to adopt new mission and objectives to get benefit from the changed situation or to avoid the risk of failure. One of the major targets of the business is to grow. But it is not possible to grow all the time at the same basic structure and functional activities because of change. It has to develop product market and functions in order to adopt to change. Managing strategic change is a basic element in process of strategic management.

There is no one right formula for managing change. The success of any attempt at managing change will also be dependent on the wider context in which that change is taking place. The fact is that the change is there and the business needs to develop. There are four generic methods for developing the business: stability, expansion, retrenchment and combination. The business may decide to change its function, markets or products under its current generic position or it may decide to change the effort it is putting into its generic position. Drop out old products or old customers while adding new ones too can be a good strategy as per the situation. The development of new strategy manage the new administrative problem, decline in profitability change to a more appropriate organization structure and recovery is the sequence that could be repeated several times during the life time of the organization.

The approaches to managing change are structure-based, people-based and technology-based. Besides change in structure, organizational routines and control system can be changed. Strategy should be reviewed continuously to adapt to environmental changes. It should develop in such a way that competitors cannot duplicate it.

9. Why the knowledge of strategic management is relevant to professional accountants? Explain.

(June 2014) (7 Marks)

Answer:

Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and information systems to achieve organizational success. The term strategic management is used synonymously with the term strategic planning. The latter term is more often used in the business world, whereas the former is often used in academia. Sometimes the term strategic management is used to refer to strategy formulation, implementation, and evaluation, with strategic planning referring only to strategy formulation. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; long-range planning, in contrast, tries to optimize for tomorrow the trends of today.

Strategic management is, in essence, a company's game plan. Just as a football team needs a good game plan to have a chance for success, a company must have a good strategic plan to compete successfully. Profit margins among firms in most industries have been so reduced by the global economic recession that there is little room for error in the overall strategic plan. A strategic plan results from tough managerial choices among numerous good alternatives, and it signals commitment to specific markets, policies, procedures, and operations in lieu of other, "less desirable" courses of action.

Relevance of strategic management to professional accountants

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10. What is strategic management? Explain the process of strategic management. **(3+5=8 Marks)**

Answer:

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Stages of Strategic Management

The strategic-management process consists of three stages:

- a) strategy formulation,
- b) strategy implementation, and
- c) Strategy evaluation.

Strategy formulation includes developing a vision and mission, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue. Strategy-formulation issues include deciding what new businesses to enter, what businesses to abandon, how to allocate resources, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, and how to avoid a hostile takeover. Because no organization has unlimited resources, strategists must decide which

alternative strategies will benefit the firm most. Strategy-formulation decisions commit an organization to specific products, markets, resources, and technologies over an extended period of time. Strategies determine long-term competitive advantages

Strategy implementation requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed. Strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organizational performance. Strategy implementation often is called the “action stage” of strategic management. Implementing strategy means mobilizing employees and managers to put formulated strategies into action. Often considered to be the most difficult stage in strategic management, strategy implementation requires personal discipline, commitment, and sacrifice. Successful strategy implementation hinges upon managers’ ability to motivate employees, which is more an art than a science. Strategies formulated but not implemented serve no useful purpose. The challenge of implementation is to stimulate managers and employees throughout an organization to work with pride and enthusiasm toward achieving stated objectives.

Strategy evaluation is the final stage in strategic management. Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. All strategies are subject to future modification because external and internal factors are constantly changing. Three fundamental strategy-evaluation activities are:

- (1) Reviewing external and internal factors that are the bases for current strategies,
- (2) Measuring performance, and
- (3) Taking corrective actions. Strategy evaluation is needed because success today is no guarantee of success tomorrow!

11. Define strategic management. Why situation analysis is considered a major element of the strategic management process? **(June 2013) (3+4=7 Marks)**

Answer:

Strategic management is defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve an organization's objectives. It is thus all about identification and description of the strategies to achieve better performance and competitive advantage for the organization. Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm’s performance.

The strategic management process is made up of four elements: situation analysis, strategy formulation, strategy implementation, and strategy evaluation.

Situation Analysis

A situation refers to the general position or context in which an organization is operating at a specific point in time. In other words, a situation refers to the general state of things; the combination of circumstances occurring at a given time.

Situation analysis is a systematic collection and evaluation of past and present economical, political, social, and technological data, aimed at

- identification of internal and external forces that may influence the organization's performance and choice of strategies, and
- assessment of the organization's current and future strengths, weaknesses, opportunities, and strengths.

Situation analysis is thus the first step in any strategic management process. It provides the information necessary to create a company mission statement. Situation analysis also involves scanning and evaluating the external environment and the organizational environment. This analysis can be performed using several techniques. Observation and communication are two very effective methods.

12. Discuss the process of strategic management.

(Dec 2012) (8 Marks)

Answer:

Strategic management is that set of managerial decisions and actions that determine the long run performance of the organization. It is the process which deals with the development of strategies, structures and system. This process consists different phases which are sequential in nature. They are:

1. Environmental scanning: Environmental factors are many in external and internal form. By analysis of environmental factors threat and opportunities are identified. Internal strength and weakness can be observed in the process.
2. Strategy formulation: It is necessary to set mission, objectives and goals. Given the mission and objectives and having done the SWOT analysis, it should proceed to generate possible strategy alternatives.
3. Strategy implementation: This phase involves translating the strategies into actions. This requires identifying programmes, allocating budget and developing procedures. It encompasses the operational details to translate the strategy into effective practice.
4. Strategy evaluation and control: This is a phase of monitoring the progress of strategic actions and controlling the resources. This is done by analyzing the deviation from standards and goals and providing the feedback for modification.

Each phase of strategic management process consists of a number of elements. So in broad sense establishing the hierarchy of strategic intent, formulation of strategies, implementation of strategies and performing strategic evaluation and control are the elements of strategic management. Creating and communicating vision, designing a mission statement, defining the business and setting objectives are elements of strategic management in process of establishing the hierarchy of strategic intent. Similarly in process of formulating strategy includes elements like performing

environmental appraisal, doing organizational appraisal, considering different levels of strategies, exercising strategic choice, formulating strategies and preparing strategic plan. Activating strategies, designing structures, developing system, managing functional implementation and operationalising strategies are some elements associated in phase of implementation of strategic management process. Some elements of strategic management like performing strategic evaluation and exercising strategic control and reformulating strategies are concerned to evaluation phase.

13. What is strategic management? Discuss various levels of strategy. (3+5=8 Marks)(Dec 2011)

Answer:

Strategic management can be defined as the process of relating the organization with its environment by suitable course of action involving strategy formulation, implementation and mobilization of organizational resources. Strategic management is that set of managerial decisions and actions that determine the long-run performance of a corporation. It includes environmental scanning, strategy formulation, strategy implementation, strategy evaluation and control. Strategic management emphasizes monitoring and evaluation of external opportunities and threats in light of a corporation's strengths and weaknesses. It incorporates long range planning and strategy. It incorporates integrative concerns of business with environmental and strategic emphasis. It is a stream of decisions and actions which lead to the development of effective strategies to help achieve corporate objectives. Strategic management is a process in which strategists determine objectives and make strategic decisions.

Strategy forms a comprehensive master plan stating how the corporation will achieve its mission and objectives. It maximizes competitive advantage and minimizes competitive disadvantages. A single strategy may be inadequate. Companies may be working in different business lines with regard to either product, market or technology. There is need for multiple strategies at different levels. The typical business firm usually considers three levels of strategy: corporate, business and functional.

1. Corporate strategy: Corporate strategy is for the organization as a whole which guides the allocation of resources. It describes a company's overall direction for the management of its various business and product lines. Corporate strategies typically fit within three main categories of stability, growth and retrenchment.
2. Business strategy: Business strategy applies to strategic business units. It emphasizes improvement of competitive position of a corporation's products or services in the specific product or market segment served by that business unit.
3. Functional strategy: It is for a functional area to achieve corporate and business unit objectives. Functional strategy deals providing objectives for a specific function, allocation of resources for a function, and coordination between them.

Business firms use all three levels of strategy. Functional strategies support business strategies, which, in turn, support corporate strategies.

14. “Businesses which use strategic management have a higher probability of success than those which do not.” How would you respond to this statement? **(June 2011) (7 Marks)**

Answer:

There are many reasons for this proposition. Some of them are as follows:

Strategic management is one way to systematize the most important business decisions. Business involves risk taking, and strategic management attempts to provide data so that reasonable and informed gambles can be made when necessary.

Strategic management helps educate managers to become better decision makers. It helps managers to solve the problems of a company.

Strategic management helps improve corporate communication, coordination among projects, allocation of resources, and budgeting.

Strategic management focuses on business problems, not just functional problems of marketing or financial nature. Strategic management helps build knowledge and develops the attitudes necessary for becoming a successful business practitioner.

Successful companies are successful for many reasons, such as good people, good products and services, and strategic management practices.

15. Define strategic management. How would you “sell” strategic planning to the directors of the board of your organization who do not see the need for it? **(June 2010) (3+5=8 Marks)**

Answer:

Strategic management is defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company’s objectives. It involves the planning, directing, organizing, and controlling of a company’s strategy-related decisions and actions.

The directors must be explained the benefits and importance of strategic planning. The following benefits should be explained to them:

- A strategic plan will be produced that will serve as the basis for the development of operational planning on an annual basis.
- The strategic plan will identify critical challenges facing the organization over the next few years and strategies to meet those challenges.
- Managers at all levels of the firm interact in planning and implementing. As a result, the behavioral consequences of strategic management are similar to those of participative decision making.
- Strategic planning will clarify the organization’s competitive advantage in its market place.
- The strategic planning process results in better decisions because group interaction generates support, enthusiasm and a greater variety of strategies.
- The involvement of employees in strategy formulation improves their understanding of the productivity-reward relationship in every strategic plan and, thus, heightens their motivation.
- Resistance to change is reduced.

These benefits can be discussed. The directors should be encouraged to add other benefits. Another good question to post is “what happens if we do not do any planning for the future?”



1. Write short notes/distinguish on the following:

(3 Marks)

a) ETOP

Answer:

- ETOP stands for environmental threat and opportunity profile. It is a technique of diagnosing external environment in terms of relevant changes there in. ETOP analysis can be demonstrated by the example of a hypothetical company, XYZ Company, as tabulated in exhibit 1.
- It is a convenient means of drawing attention of top management on most critical factors & their potential impact on firm's strategy, i.e. threats and opportunities.
- Unlike PESTEL, ETOP analysis picks up relevant variables in task environment and macro environment, i.e. suppliers, intermediaries, customers, competitors, political, socio-cultural, legal, economic, etc.
- ETOP should be matched with SAP (i.e. strategic advantages profile to develop SWOT analysis (i.e. strengths-weaknesses-opportunities-threats). Such matching generates alternative strategies.

Exhibit 1: ETOP Analysis (for XYZ Company: An example)

Environmental sector	Impact of each sector: + Opportunity - threat
Socio-economic	+ Some Increased foreign markets & high export potential - Slow economic growth - Perception of public about XYZ Company
Technological	+ High growth envisaged in technological up-gradation + Device for reducing pollution by the use of our product
Government	+ Liberalization of technology import policy - Regulation on pollution - Work environment safety rules that increase costs
Supplier	- Hostile labor union - Scarce capital - Scarce source of technology due to formation of technology cartel
Competitive	- Competitors are much shrewd. - Top 3 competitors holding 90 percent of market share

b) **SWOT analysis**

(June 2017) (June 2011) (2.5 Marks)

SWOT analysis is strengths, weaknesses, opportunities and threats analysis. It is concerned with internal as well as external environments of an organization. Internal environmental forces provide strengths and weaknesses whereas external forces generate opportunities and threats.

SWOT analysis no doubt is a technique of environmental analysis.

Internal	Strengths (S)	Weaknesses (W)
External	Opportunities (O)	Threats (T)

Strengths are the basic capabilities of an organization which can be used to gain competitive advantage (e.g. high R & D capability), weaknesses are the basic limitations of an organization which create strategic disadvantage.

Opportunities are the favorable conditions and threats are the unfavorable conditions of the organization. Opportunities provide position of superiority and threats provide position of inferiority in relation to competitors. With the help of SWOT analysis, internal strengths are matched with external opportunities to achieve and sustain competitive advantage.

c. Differentiate between ETOP and SAP

(Dec 2016)

The differences between ETOP and SAP are presented below.

- ETOP is a technique of external environment analysis whereas SAP is used to analyze the internal environment.
- ETOP analyses the likely opportunities and threats of the business. On the other hand, SAP helps to assess the strength and weakness of the business relative to the competitors.
- The analysis based on SAP is more objective than ETOP.

d. Scenario analysis

(Dec 2011) (2.5 Marks)

Scenario analysis is a process of analyzing possible future events by considering alternative possible outcomes (scenarios). Thus, the scenario analysis, which is a main method of projection, does not try to show one exact picture of the future. Instead, it presents consciously several alternative future developments. Consequently, possible future outcomes are observable. Not only are the outcomes, the development paths leading to the outcomes are observable.

The scenario analysis is not using extrapolation of the past. It does not rely on historical data and does not expect past observations to be valid in the future. Instead, it tries to consider possible developments and turning points, which may only be connected to the past. In short, several scenarios are demonstrated in scenario analysis to show possible future outcomes. It is useful to generate a combination of optimistic, pessimistic, and most likely scenarios.

e. Socio-cultural environment

(June 2011) (2.5 marks)

Socio-cultural environment is one of the elements of macro environment which is largely external to the organization. It is a complex of factors such as social traditions, values and beliefs, level and standards of literacy and education, the ethical standards and structure of society and so on. The socio-cultural environment consists of factors related to human relationship within a society, forms and development of such relationship, and the learnt and shared behaviour of groups. Some of the important factors and influences operating in the social environment are attitudes and values as expectation of society from business, social custom, rituals and practices, changing lifestyle patterns and materialism. Socio-cultural concerns such as environmental pollution, consumerism, corruption, use of mass media, the role of business in society, work ethic of the members of society and the attitude towards minority are some determinants of socio-cultural

environment. Population, rural-urban mobility and family structure also affect the socio-cultural environment. All these elements of socio-cultural environment affects strategic management process.

4. State the elements of environment and describe the impact of technological change in business.

(Dec 2016) (5 Marks)

Answer

There are many forces in the environment which influence the working of the organization. The forces may be many and may be classified in different ways, such as cultural, technological, political, legal, economic, sociological, and demographic.

Organizational strategists who ignore technological changes do so at their peril. There are three possible effects of technological change.

It can change relative cost positions within a given business.

It can create new markets and new business segments.

It can collapse or merge previously independent businesses by reducing or eliminating their segment cost barriers.

In any case, when technology advances, all participants in the respective business segment are affected. To survive today, companies must continually innovate. This is not because of some external forces which have imposed upon the world a new and fearsome order of things, but because technological improvement is possible. When improvement is possible in a free economy, someone will attempt it. The Company or person who does, and succeeds in producing a better product at the same cost or a cheaper version of the same product, will be able to dominate the market place. Companies which do not will be driven from the economic scene. Even when competitors make the appropriate technological response, lost market shares may not be regained.

5. What is objective setting? Describe multiple objectives of business organization.

(June 2014) (3+5= 8 Marks)

Answer:

Objectives represent ends towards which all activities of the management are directed. In building up an enterprise the first important task is laying down objectives. Objectives permit unified planning by all strategic business units and all departments. Top management establishes overall objectives that become the framework within which strategic business unit managers and other lower level executives and employees establish their own sub-objectives and plans. The overall objectives of an organization, when set realistically, serve as a basis of motivation to the strategic business units. It is the target that activates all managers of different units and their subordinates. But the objectives must be perceived as realistic to have maximum effect. Objectives that are set too low do not provide a challenge and those set unrealistically high may be depressing or not accepted.

Formulation of objective involves analyzing the reason for the existence of the organization and what would be the type of work or product it would specialize in relation to the resources, investment and requirements. Objectives are so important to strategic management process as it shows the starting point with present position to the terminal point with the expected result along with the specified duration of time by which the objectives are to be achieved. Objectives enable management to perform the functions of strategic evaluation and control. The corrective action should be promptly taken to see that actual performance conforms to the overall objectives.

Objectives set direction, reveal priorities and focus on coordination. Without setting objective planning, organizing, directing and controlling functions of management does not get bases. Business organizations pursue multiple objectives at the same time. Multiple objectives of business organization can be as follows:

1. Profitability: Profit is excess of income over expenditure. It is return on investment. Organizations set target profit.
2. Survival: Survival for organization means staying alive avoiding liquidation.
3. Growth: It is all round growth in terms of assets, profit, sales and market share. It is essential for organizational sustainability.
4. Efficiency: It is low cost operations for higher productivity in relation to competitors. It is input-output relationship with quality assurance.
5. Leadership: It is technological leadership through innovation, creativity and quality products. Market leadership can be in terms of market share and competitive position.
6. Social responsibility: It is contribution to society by safeguarding interests of stakeholders and general public. It is to become responsible corporate citizens.
7. Reputation: It is to gain image of “top organization” or to have environmental friendly image.
8. Employee relation and development: It is to maintain harmonious labour relations and increase competency of employees.

6. How are objectives set in the organization? Give guidelines for objectives setting.
(June 2013) (4+3=7 Marks)

Answer:

Generally, the management determines the overall objectives which members of the organization unite to achieve. In some organizations, the objectives may be set by the vote of the shareholders. In others, by vote of the members or by a few individuals who own and run the organization. In large corporate entities, board of directors, governing board, executive committee may set the objectives. These bodies may formulate or change the objectives according to the needs. But there are many factors which determine the organizational objectives. From strategic management point of view, these factors may be: value system of managers, particularly at the top level, organizational strengths and weaknesses, and external environment. As such, while setting the organizational objectives, managers should take into account all these factors. The managerial purpose of setting objectives is to convert the strategic vision into specific performance targets,

results and outcomes the management wants to achieve and then use these objectives as yardsticks for tracking the company's progress and performance.

Guidelines for objective setting

- i. Objectives must be clearly specified.
- ii. Objectives must be set taking into account the various factors affecting their achievement.
- iii. Objectives should be consistent with organizational mission.
- iv. Objectives should be rational and realistic rather than idealistic.
- v. Objectives should be achievable but must provide challenge to those responsible for achievement.
- vi. Objectives should yield specific results when achieved.
- vii. Objectives should be desirable for those who are responsible for the achievement.
- viii. Objectives should be consistent over the period of time.
- ix. Objectives should be periodically reviewed.

7. What is economic environment of business? What are the economic factors that explore opportunity or threats to the business organization? Explain. **(June 2016) (3+5=8 Marks)**

Answer:

Economic environment

Economic environment refers to all those factors, which give shape and form to the development of economic activities. It comprises the factors and sub factors related to the economy of a country. These factors have an impact on the business activities. For example, increase in interest rate means high saving which leads towards less expenditure on major home appliances.

An organization must consider general economic condition, economic conditions of different segments of the population, their disposable income, purchasing power, trends in income distribution, consumption patterns, current income, market price, availability of credit, saving etc. Rate of growth in economy, rate of inflation, behaviour of capital market, interest rates, exchange rates, tax rates, price of materials, price of energy and the condition of labour market are additional economic factors that must be carefully considered while analyzing economic environment.

In a developing country, the low income may be the reason for low demand for a product. The sale of income-elastic product naturally increases with the increase in income. But a company is unable to increase the purchasing power of the people to generate a higher demand for its product. Therefore, the company may have to reduce the price of the product to increase its sales.

The economic policy of the government has very much impact on business. Some types of business are favorably affected by government policy, some adversely affected, while it is neutral in respect of others. For example, a policy for restriction to register the two Stroke Bike in Kathmandu valley may favorably help the four Stroke Bike Dealers. Similarly, the liberalization of the textile import policy may create difficulties for textile industries of Nepal.

Similarly, an industry that are within the priority sector in terms of government policy may get a number of incentives and other positive supports from the government, where as those industries which are not listed as priority may seriously affected because of government priority policy.

Following are some of the important factors and influences operating in economic environment.

1. Economic System:

Capitalism, Socialism, Communism

2. Stage of Business Cycle:

Prosperity, Recession, Depression, Recovery

3. Economic Policies:

Industrial, Monetary and Fiscal Policy

4. Economic Trend:

Inflation and Deflation

5. Economic Indices:

GDP, Per Capital Income, Balance of Payment

6. Economic planning:

Annual Budget, 3 yrs, 5 yrs, 10 yrs plan

7. Employment level:

Unemployment, Semi-employment and Employment

8. Infrastructure development:

Bank, Transportation, Communication, Energy etc.

9. Productivity:

Agricultural Products and Industrial Product

10. Factors of production used

There are three alternative economic systems: capitalism, socialism and communism. A system of capitalism stresses the philosophy of individualism i.e. individual ownership, individual expression, consumer choice and free market. The whole economic activities/entrepreneurial activities/business units are not controlled by the government. The system of communism has answered for all the weakness associated with capitalism. Under this system, all private property and property rights to income are abolished by the state. The state would own and direct all instruments of production. The system of socialism stands in between capitalism and communism, which bears the strong points of both philosophies and avoids their weaknesses. Because of this reason, it is also called as mixed economy.

Another economic factor that management needs to consider is inflation. Inflation means the prices that are going up. The inflation rate is the percentage increase in the change in prices from one period to the next, usually a year. Economists use different types of indication to measure

inflation, but the most popular is the consumer price index. Inflation occurs because aggregate demand is growing faster than aggregate supply. The demand can occur because of government spending where spending is rising faster than the tax revenue to fund the spending. Inflation of a country affects interest rates, exchange rates, cost of living, purchasing power which affects the whole economic system.

Certain changes in policies such as the industrial policy, tariff policy etc. may have profound impact on business. Same policy developments create opportunities as well as threats. In a simple sentence, a policy which brightens the prospects of some business, may pose a threat to some others. For example, liberalization has opened up new opportunities and threats. It has provided a lot of opportunities to the large number of enterprises to diversify and to make their product standard. But it has also given serious threat to many existing enterprises by the way of increasing competition.

The number of people with the need of product, their income, existing price level and their expectations about future income determine the demand for product at a particular time. Poor economic condition may influence not only the demand for products but also other major business activities. The development of infrastructure, planned economic system and subsidy in agriculture sector increases the green revolution which lead to grow in demand for number of products like tube wells, low horse power motors and so on.

Monetary policy refers to regulate the economic growth through the expansion or contraction of money supply whereas the fiscal policy deals with the tax structure and governmental expenditure. Industrial policies are board guidelines, rules and regulations prepared by government to develop industrial sector. These policies affect national income, distribution of income, level of employment. In turn, these factors affect the business organization. Therefore, these factors should be analyzed to find out the clear picture of business opportunities and threats.

8. What is SWOT analysis? Choose any successful business house and outline the factors that lead towards either strengths or weaknesses of that house within the industry. **(July 2015)(June 2012)**
(3+5=8 Marks)

Answer:

The simplest way to analyze the environment is through SWOT analysis. SWOT is an acronym used to describe those particular strengths, weakness, opportunities and threats that are strategic factors for any corporation. The environmental analysis helps identify opportunities and threats i.e. the external environment of a corporation whereas the corporate appraisal identifies the strengths and weakness i.e. internal factors. The external environment consists of variables—opportunities and threats (OT) that are outside the organization and beyond the control of the top management. It is essential to diagnose the environment by top management to determine what factors in the environment present threats to the company's strategy and objectives and what factors in the environment present opportunities for the accomplishment of objectives.

A firm's external environment consists of all the conditions and forces that affect its strategic options but are typically beyond the firm's control. Analysis of external environment aims at identifying strategic opportunities and threats in the organizations.

Strength (S)

Strength is the basic capabilities of the organization in which it can be used to gain competitive advantages. It is a distinct competence of an organization which gives the competitive advantages. Some of the examples of the strengths of an organization are:

- Well developed strategy
- Strong financial condition
- Human resource competencies
- Strong brand name/image/reputation
- Strong advertising
- Broad market coverage



Weaknesses (W)

It is the basic limitation or constraint of the organization which creates competitive disadvantages. It is the deficiency in resources, skills, capabilities and knowledge which negatively affect the performance of an organization. Following are some of the examples of weaknesses.

- Weak marketing plan
- No clear strategic direction
- Weak financial position
- Inadequate human resources
- Obsolete technology
- Loss of brand name
- Raising manufacturing cost etc.

Opportunities (O)

It is the favorable conditions in the organization's external environment which enables its strength in its position. It provides competitive advantages to the firm exploiting organization's strength in relation to its competitors. Examples of the opportunities of an organization are:

- Expanding new geographical areas/new market segment
- Diversify the business
- Acquisition of rivals
- Alliance or joint venture
- Expand core business
- Exploit new technologies
- Serving additional customer groups

Threats (T)

It is an unfavorable condition of the organization's external environment which causes risk for or damage to the organization's positions. The examples of the threats of an organization are:

- Growing power of customers & suppliers
- Keen competition
- Change in consumer taste, fashion, likes etc.
- Rise of new or substitute product
- Increase in industry rivalry
- Raising labor costs
- Attack on core business etc.



9. What is SWOT analysis? What are the pitfalls of using SWOT analysis indiscriminately?

(Dec 2014) (3+4=7 Marks)

Answer:

SWOT analysis is a popular strategic planning technique having applications in many areas including management. SWOT, is the acronym for strengths, weaknesses, opportunities and threats. Organizations perform a SWOT analysis to understand their internal and external environments. The strengths and weaknesses existing within an organization can be matched with the opportunities and threats in the environment so that an effective strategy can be formulated. An effective organizational strategy, therefore, is one that capitalizes on the opportunities through the use of strengths and neutralizes the threats by minimizing the impact of weaknesses, to achieve the pre-determined objectives. The SWOT analysis is usually done with the help of template in the form of a four-cell matrix, each cell of the matrix representing the strengths, weaknesses, opportunities and threats.

The following could be the pitfalls of using SWOT analysis indiscriminately:

- Simplicity of use many turn to be simplistic by trivializing the reality that may be more complex than represented in SWOT matrices.
- May result in just compiling lists rather than think about what is really important for achieving objectives.

- Usually reflects an evaluator's position and view point that can be misinterpreted to justify a previously decided course of action, rather than be used as a means to open new possibilities.
- Chances exist where strengths may be confused with opportunities or weaknesses with threats.
- The SWOT may encourage organizations to take a lazy course of action of looking for strengths that match opportunities rather than developing new strengths that could match the emerging opportunities.

10. "Combination of corporate analysis and environmental analysis is SWOT analysis" Explain. (June 2014) (7 Marks)

Answer:

Combination of corporate analysis and environmental analysis is SWOT analysis (strengths, weaknesses, opportunities, threats) which is undertaken as an integrated process in strategic management. The basic objectives of SWOT analysis is to provide a framework to reflect on the organizational capabilities to avail opportunities or to overcome threats presented by the environment. In fact, the dimensions of organizational capabilities have relevance in so far as they relate to the environmental conditions.

SWOT analysis provides a logical framework for systematic discussion of various issues bearing on the business situation, generation of alternatives strategies, and finally the choice of strategy. SWOT analysis presents the information about internal and external environment in structured form whereby key external opportunities and threats can be compared systematically with internal capabilities and weaknesses. Thus, organization's external and internal situation can be matched so as to form distinct patterns and strategy can be chosen on the basis of these patterns. These patterns may be in the form of the following:

- i) High opportunities and high strengths
- ii) High opportunities and low strengths
- iii) High threats and high strengths
- iv) High threats and low strengths

Naturally, in all these situations, different strategies are suitable, for example, in the case of first situation, while aggressive growth strategy may be suitable, defensive strategy like divestment may be suitable in fourth situation.

11. How do socio-cultural factors affect business organization? Explain. (Dec 2013) (7 Marks)

Answer:

The environment of any organization is the aggregate of all conditions, events and influences that surround and affect it. It includes factors outside the firm which can lead opportunities for or threats to the firm. Socio-cultural environments include many aspects of society and its various constituents, such as attitudes, beliefs, desires, expectations, education, customs, demographic components, role of women and views towards themselves, society and Nation. It is composed of the attitudes, values, desires, expectations, education, beliefs and customs, opinions, life style of people in a society, traditional and social institutions, class structure and social group pressure

that are developed from their cultural, demographic, religious, educational and ethnic conditioning.

These elements translate into lifestyle changes that affect the demand for products and services. Such factors can create threats and opportunities for their organization. Some of the important factors and influences operating in the socio-cultural environment are:

1. Demographic factors:

Age, sex, family life cycle, education, occupation, religion, ethnic background, social class, life style, personality etc

2. Social norms:

Attitude, value, expectations, customs, belief, ritual, and practices

3. Role of women

4. Social concern:

Pressure group, consumerism, corruption or expectation of society from business

5. Population indices:

Life expectancy, birthrate, migration

6. Career expectations

7. Emphasis on quality of life

8. Education and cultural awareness

9. Views towards others

The socio-cultural factors, such as buying and consumption pattern of people, their language, benefits and values, customs and traditions, taste and preference, education and awareness are all factors that affect the business directly. Sometimes the language also creates serious problems to businessmen and it enforces to change the brand name of a product.

12. “The organization and environment are in reality more unpredictable, uncertain and non-linear”. Explain. **(Dec 2012) (7 Marks)**

Answer:

The environment of any organization is the aggregate of all conditions, events and influences that surround and affect it .Since the environment influences an organization in many ways, its understanding is of crucial importance. Industries and companies are quite interested in knowing about trends that affect their business in multifarious ways.

The environment consists of a number of factors, events, conditions and influences arising from different sources. All these do not exist in isolation, but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once what factors constitute a given environment. All in all, environment is a complex phenomenon- and relatively easier to understand parts but difficult to grasp in its totality.

The environment is constantly in changing in nature. Due to many and varied influences, there is dynamism in the environment causing it to continuously change its shape and character. What shape and character an environment assumes depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is frequently seen when the same development may be welcomed as an opportunity by one company while another company perceives it as a threat. The environment has a far reaching impact on organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environmental change has an impact on the organization.

The environment is complex, dynamic, multi-faceted and has a far reaching impact.

13. Discuss various elements of external environment.

(Dec 2012) (8 Marks)

Answer:

There are large numbers of factors which affect the organization in each sector of the environment. In its working, the organization interacts with different factors and forces. Those forces lying outside of the organization are commonly known as external environment. The external environment is beyond the direct influence and control of the organization but it exerts powerful influence over its functioning. Before an organization begins strategy formulation, it must scan the external environment to identify possible opportunities and threats.

The general environmental forces are external variables. The general environmental forces have an important effect in determining the resources available for inputs and processes. Various characteristics of such factors may be favourable or unfavorable for the growth of the organization. The various elements of general environment can be classified as political, economic, socio-cultural, technological and demographic. The political environment includes such factors as the general state of political development, the degree of politicization of business, the law and order situation, political stability, the political ideology and practices of the ruling party, the efficiency of government agencies, the extent and nature of governmental intervention in the economy. The economic environment includes general economic situation in the nation and conditions in resource markets. Fiscal and monetary policy of the government, interest rates, devaluation and evaluation of the currency in relation to other currencies, balance of payment and inflationary or deflationary trend are the elements of economic environment. Socio-cultural environment consists of factors related to human relationships and impact of social attitudes and cultural values. The technology and business are highly interrelated. Demographic factors are age profile, sex ratio and population growth rate.

The task environment includes those elements or groups that directly affect the organization and in turn, are affected by it. These are suppliers, competitors, customers, creditors, special interest groups and communities. An organization's task environment is typically the industry within which that firm operates. An industry can be conceived of as a set of firms which are in competition with one another for customers for their goods and services and which rely upon others for supply of critical inputs. Customers have their own needs, desires or requirements. It

might be affected by demographic and geographic elements. As suppliers provide capital, labour and materials it affects the cost. New entrants and substitutes are elements that affect competitive environment. Thus various elements constitute external environment.

14. Defining SWOT analysis, choose any successful business firm and outline the factors that lead towards opportunities and threats of that firm within the industry. (Dec 2012) (7 Marks)

Answer:

The simplest way to analyze the environment is through SWOT analysis. SWOT is an acronym used to describe those particular strengths, weakness, opportunities and threats that are strategic factors for any corporation. The environmental analysis helps identify opportunities and threats i.e. the external environment of a corporation whereas the corporate appraisal identifies the strengths and weakness i.e. internal factors. The external environment consists of variables that are outside the organization and beyond the control of the top management. It is essential to diagnose the environment by top management to determine what factors in the environment present threats to the company's strategy and objectives and what factors in the environment present opportunities for the accomplishment of objectives.

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- Acquisition of rivals
- Alliance or joint venture
- Expand core business
- Exploit new technologies
- Serving additional customer groups

Threats (T)

It is an unfavorable condition of the organization's external environment which causes risk for or damage to the organization's positions. The examples of the threats of an organization are:

- Growing power of customers & suppliers
- Keen competition
- Change in consumer taste, fashion, likes etc.
- Rise of new or substitute product
- Increase in industry rivalry
- Raising labor costs
- Attack on core business etc.



15. How do economic and socio-cultural factors affect business organization? Explain.
(June 2012) (8 Marks)

Answer:

Economic factors refer to all those factors which give shape and form to the development of economic activities. It comprises the factors related to the economy of a country. These factors have an impact on business activities. For example, increase in interest rate means high saving which leads towards less expenditure on major home appliances.

An organization must consider general economic condition, economic conditions of different segments of the population, their disposable income, purchasing power, trends in income distribution, consumption patterns, current income, market price, availability of credit, saving etc. Rate of growth in economy, rate of inflation, behaviour of capital market, interest rates, exchange rates, tax rates, price of materials, price of energy and the condition of labour market are additional economic factors that must be carefully considered while analyzing economic environment.

In a developing country, the low income may be the reason for low demand for a product. The sale of income-elastic product naturally increases with the increase in income.

The economic policy of the government very much impacts business. Some types of business are favorably affected by government policy, some are adversely affected, while it is neutral in respect of others.

Similarly, an industry that is within the priority sector in terms of government policy may get a number of incentives and other positive supports from the government, where as those industries which are not listed as priority may be seriously affected because of such policy.

Following are some of the important factors operating in economic environment.

1. Economic System:

Capitalism, Socialism, Communism

2. Stage of Business Cycle:

Prosperity, Recession, Depression, Recovery

3. Economic Policies:

Industrial, Monetary and Fiscal Policy

4. Economic Trend:

Inflation and Deflation

5. Economic Indices:

GDP, Per Capital Income, Balance of Payment

6. Economic planning:

Annual Budget, long term plans.

7. Employment level:

Unemployment, Semi-employment and Employment

8. Infrastructure development:

Bank, Transportation, Communication, Energy etc.

9. Productivity:

Agricultural Products and Industrial Product

10. Factors of production used



Socio- Cultural factors

Socio-cultural environment is composed of the attitudes, values, desires, expectations, education, beliefs and customs, opinions, life style of people in a society, social institutions, class structure and social group pressure that are developed from their cultural, demographic, religious, educational and ethnic conditioning.

These elements translate into lifestyle changes that affect the demand for products and services. Such factors can create threats and opportunities for the organization. Some of the important factors and influences operating in the socio-cultural environment are:

1. Demographic factors:

age, sex, family life cycle, education, occupation, religion, ethnic background, social class, life style, personality etc

2. Social norms:

Attitude, value, expectations, customs, belief, ritual, and practices

3. Role of women**4. Social concern:**

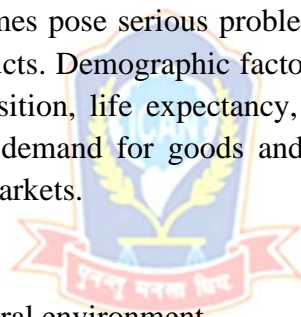
Pressure group, consumerism, corruption

5. Population indices:

life expectancy, birthrate, migration

6. Career expectations**7. Emphasis on quality of life****8. Education and cultural awareness****9. Views towards others**

The differences in language sometimes pose serious problems so that the manufactures need to change brand name of their products. Demographic factors, such as size of the population, population growth rate, age composition, life expectancy, family size, occupational status, employment pattern etc. affect the demand for goods and services. Markets with growing population and income are growth markets.

**16. Discuss various elements of the general environment.****(Dec 2011) (8 Marks)****Answer:**

There are a large number of factors which affect the organization in each sector of the environment. In its working, the organization interacts with all these factors and forces. Those forces lying outside of the organization are commonly known as external environment or general environment or macro environment. The general environmental forces have an important effect in determining the resources available for inputs and processes.

General environment is beyond the direct influence and control of the organization. The various elements of general environment can be classified in political, economic, socio-cultural, technological and demographic.

The political environment includes such factors as the general state of political development, the degree of politicization of business, the law and order situation, political stability, the political ideology and practices of the ruling party, the efficiency of governmental agencies, and the extent and nature of governmental intervention in the

economy and the industry. Political pressure group, legal system and government regulatory framework make a great influence upon the business organization.

The economic environment includes general economic situation in the nation and conditions in resource markets. Economic environment determines the strength and size of the market. The purchasing power in an economy depends on current income, prices, savings, and circulation of money, debt and credit availability. Fiscal and monetary policy of the government, interest rates, balance of payment and inflationary or deflationary trends are the elements of economic environment.

Socio-cultural environment consists of factors related to human relationships that impact social attitudes and cultural values. The beliefs, values and norms of a society, family structure, women participation and many other rituals and practices determine the actions of the organization.

Changing technology can offer major opportunities for improving goal achievement. Demographic factors as general age profile, sex ratio, growth rate affect the business organization

17. What are the resource strengths that help a company to enhance its competitiveness in market? Discuss. **(June 2011) (8 Marks)**

Answer:

Strength is something a company is good at doing or an attribute that enhances its competitiveness. Strength can take any of the several forms:

1. A skill or important expertise—low-cost manufacturing capabilities, strong e-commerce expertise, technological know-how, skills in improving production process, a proven track record in defect free manufacture, expertise in providing consistently good customer service, excellent mass merchandising skills, or unique advertising and promotional talents.
2. Valuable physical assets—state-of –the-art plants and equipment, attractive real estate locations, worldwide distribution facilities, or ownership of valuable natural resource deposits.
3. Valuable human assets—experienced and capable work force, talented employees in key areas, cutting-edge knowledge and intellectual capital, collective learning embedded in the organization and built up over time, or proven managerial know-how.
4. Valuable organizational assets—proven quality control systems, proprietary technology, key patents, a cadre of trained customer service representatives, sizable amount of cash and marketable securities, a strong balance sheet and credit rating, a comprehensible list of customer's e-mail addresses.
5. Valuable intangible assets—a powerful or well brand name, a reputation for technological leadership, strong buyer loyalty and goodwill.

6. Competitive capabilities—product innovation capabilities, short development times in bringing new products in market, a strong dealer network, cutting-edge supply chain management capabilities, quickness in responding to shifting market conditions and emerging opportunities, or state – of – the – art system for doing business via the Internet.
7. An achievement or attribute that puts the company in a position of market advantage-low overall costs relative to competitors, market share leadership, a superior product, a wider product line than rivals, wide geographical coverage, a well name brand name, superior e-commerce capabilities, or exceptional customer service.
8. Competitively valuable alliances or cooperative ventures—fruitful partnerships with suppliers that reduce costs and /or enhance product quality and performance ; alliances or joint ventures that provide access to valuable technologies, competencies or geographic markets.

Taken together, a company's resource strengths enhance its competitiveness in the market.

18. Discuss the concept of environmental scanning and competitive intelligence.
(Dec 2010) (7 Marks)

Answer:

Managers in both small and large organizations use environmental scanning, which is the screening of large amounts of information to anticipate and interpret changes in the environment. Extensive environmental scanning is likely to reveal issues and concerns that could affect an organization's current and planned activities. Organizations that don't keep on top of environmental changes are likely to face the opposite situation.

One of the fastest growing areas of environmental scanning is competitive intelligence. It's a process by which organizations gather information about their competitors and get answers to questions such as: Who are they? What are they doing? How will what they're doing affect us? Competitive intelligence doesn't have to involve spying. Advertisements, promotional materials, press releases, reports filed with government agencies, annual reports, want ads, newspaper reports, and industry studies are examples of readily accessible sources of information. Attending trade shows and debriefing the company's sales force can be other good sources of competitor information. Many firms regularly purchase and analyze competitors' products to learn about new technical innovations.

19. "Every organization has to work within a framework of certain environmental forces". Explain.
(Dec 2010) (7 Marks)

Answer:

No one can get rid from environment, not even the organization. An organization, being a subsystem of the broader societal system has to work within the framework provided by the society and its various constituents. In this working, the organization interacts with the forces lying outside it, commonly known as external environment or general environment. These general environmental forces have an important effect in determining the resources available for inputs,

the specific mission, the most appropriate processes and the acceptability of organizational outputs. Various characteristics of such factors may be favorable or unfavorable for the growth of the organization. Those forces which influence the working of the organization may be classified in different ways such as political, legal, economic, social, cultural, and technical.

The individual organization while operating in the general environment may be influenced by forces more specific to the organization called relevant environment or micro environment. Customer, supplier, competitor, intermediaries, etc constitute task environment. Who are the customers and what benefits are they looking for makes great impact upon the working of any organization.

Nowadays the global or international environment is much more important factor to get special attention by the strategists of most organization. The international environment is more competitive, heterogeneous and complex. The environment presents opportunities and threats.

20. “Since the world is changing rapidly and unpredictably, there is no value in attempting to undertake detailed analysis of the environment”. How would you respond to this statement?
(June 2010) (7 Marks)

Answer:

We believe that ignorance of the state of the world will never result in superior strategies. Such strategies result from an artful synthesis of intuition and a detailed understanding of the emerging state of the world. The fact that it is changing rapidly makes this task more challenging, but does not negate the imperative that it is undertaken. Particularly in capital intensive industries, some view of the distant future is essential in making investment decisions. Nevertheless, in such an unpredictable world, maintaining flexibility is essential.

21. What is environment analysis? How does it relate to strategic management? **(5 Marks) (June 2019)**

Answer:

Environmental analysis is a process by which strategists monitor the environment to determine opportunities for and threats to their firm. The main objective of environment analysis is to assess the likely opportunities and threats arising. An opportunity is a condition in the general environment that if exploited effectively, helps a company achieve its strategic competitiveness. On contrary, a threat may hinder a company's efforts to achieve its strategic competitiveness.

Strategic management emphasizes monitoring and evaluating of external opportunities and threats in light of a firm's strengths and weaknesses. Hence, it is based on environmental analysis. Each step requires analysis of the environment.

- 1. Strategic planning:** Strategic planning is concerned with the formulation of strategy. It begins with situation analysis: the process of finding a strategic fit

between external opportunities and internal strengths while working around external threats and internal weaknesses.

- 2. Strategy implementation:** Strategy implementation is related to translating the strategy into action. It requires environmental analysis. The environment is analyzed to ensure that existing resources and capabilities are able to deal with opportunities and threats. During implementation phase, in some cases, the strategic plans are required to be adjusted with the environmental changes.
- 3. Strategic control:** Under this stage, the assumptions about the internal and external environment in which the current strategy is based are reviewed and the actual performance is measured. Necessary adjustments or changes are made in the strategy if required.
- 4. Feedback:** Under this, information is constantly gathered from the environment to improve the process of strategic management.

Each and every steps of strategic management as mentioned above demand environmental analysis. Hence, strategic management and environmental analysis are closely associated to each other.

22. Write short notes on – Elements of Environment.

(June 2019) (3 Marks)

Answer:

Categories of environment: General environment and industry environment. General environment consists of (a) *Demographic environment* (b) *Economic environment* (c) *Socio-cultural environment* (d) *Political/legal environment* (e) *Technological environment* (f) *Natural environment*. (Explain briefly)

Industry environment consists of i) *Suppliers* ii) *Marketing intermediaries* iii) *Customers* iv) *Competitors*, v) *Creditors* vi) *Financial institutions* vii) *Strategic allies & associations* viii) *Special interest groups/pressure groups* ix) *Publics (media public, local community)* (Explain briefly)

1. Write short notes/distinguish on the following:

a) **Core competencies (Dec 2018, Dec 2016) (July 2015, Dec 2012, June 2011, 2.5 Marks)**

A core competency is the sum of competencies that is widespread within the organization. It is something that the organization can do exceedingly well. Core competencies are the organization's most important sources of competitive advantage. They drive the selection of strategies. Hence, it is central to strategy and competitiveness. Normally, a core competency is knowledge based, residing in people not in the balance sheet.

It can be related to the following.

Expertise in integrating multiple technologies to create a new product.

In cost efficient supply chain management

Expertise in after sales service

Skills in manufacturing high quality products at low cost

b) **Available, threshold and unique resources (Dec 2018) (3 Marks)**

For strategic management purpose, following different resources need to be measured:

a. **Available resources:** Resources which are currently available in the organization are called available resources. Machinery, human resources, capital, raw materials, land and building, stocks available, intellectual capabilities, etc. are such available resources. Such resources are classified into threshold resources and unique resources which create core competencies and competitive advantages.

b. **Threshold resources:** Fundamental resources required for the basic functioning of the organization are called threshold resources. Without the threshold resources, organizations cannot perform their basic functions. Organizations should develop threshold resources in continuous basis. For developing human resources, organizations focus on regular job design, training and development, and effective maintenance programs. Similarly, organizations constantly invest on research and development or acquiring advance technology.

c. **Unique resources:** Critical and valued resources which create competitive advantage to the organization are called unique resources. They are called unique as they cannot easily be copied by other competitors. Unique resources are developed at long times which are the success factor of the organization. Such resources are valuable, inimitable, rare and non-substitutable.

c) **Internal analysis (June 2018) (3 Marks)**

Internal analysis also called internal appraisal. It systematically evaluates organizational capability in terms of strengths and weaknesses in various functional areas. Capability is what an organization does well. Internal analysis is based on the scanning of internal environment. It is done to find out strengths in order to exploit opportunities in the external

environment. It is also done to find out weaknesses in order to face threats in the external environment. It analyses resources and competencies. It identifies unique resources and core competencies of the organization. The internal appraisal must be done within the scope of mission, goals, objectives and strategies.

Internal analysis locates strategic advantage. Strategic advantage is gaining advantage over competitors. Thus internal analysis helps to outperform competitors and create new opportunities.

d) Value chain analysis

(Dec 2017)(June 2014, Dec 2011, 2.5 Marks)

Value chain analysis attempts to understand how a business creates customer value by examining the contribution of different activities within the business to that value. It is important because the firm can earn return only if it creates greater value than the costs incurred to create that value. The value chain shows how a product moves from the raw-material stage to the final customer. The activities in a value chain analysis are divided into primary and secondary activities.

One of the key aspects of value chain analysis is the recognition that organizations are more than a random collection of machines, money and men. These resources are of no value unless deployed into activities which ensure that products are produced which are valued by the final consumer.

The primary activities are grouped into inbound logistics, operations, outbound logistics, marketing and sales and service. Each of these groups of primary activities are linked to support activities. They are procurement, technology development, human resource management and infrastructure.

e) Benchmarking

(June 2017) (3 Marks)

Benchmarking is a continuous process of measuring products, services, and practices against the toughest competitors or the industry leaders. It involves openly learning from others to improve it techniques. The benchmarking process usually involves identifying the area or process to be examined, selection an accessible set of competitors and best-in-class companies against which to benchmark, calculation of the differences among the company's performance measurements and those of the best-in-class and determine why the differences exist, development of tactical programs for closing performance gaps and implementing the programs and then compare the resulting new measurements with those of the best-in-class companies.

f) Strategic advantage

(June 2012) (2.5 Marks)

Strategic advantages are the outcome of organizational activities The existence of organizational capabilities leads to strategic advantages that can be measured in terms of profitability, shareholder's value, market share or reputation comparably in terms of past performance of an organization or its present performance with its competitors.

Competitive advantage is the case of strategic advantages where a company's success (financial or non-financial) is higher than the average for its industry. Competitive advantage is a relative term where the performance of one organization is measured and compared with respect to competitors in an industry. To achieve competitive advantage, a company must either have lower costs than its competitors or it must differentiate its products so that higher price can be charged or it must do both simultaneously.

Competitive advantage is gaining advantage by an organization over its competitors. It is based on the deployment of capabilities and core competencies of an organization. It results only through the use of capabilities that are valuable, rare, costly to imitate, and non-substitutable. Capabilities develop core competencies which serve as a source of competitive advantage for the firm over its rivals. It should be remembered that core competencies are capabilities, but capabilities are not core competencies. Because, capabilities failing to satisfy the four criteria-valuable, rare, costly to imitate & non-substitutable are not core competencies.

2. What are the areas of internal analysis? Explain briefly. (Dec 2017) (5 Marks)
(June 2011) (4 Marks)

Answer:

Internal analysis is done to identify strengths and weaknesses of each functional areas. The major areas of internal analysis are as follows:

- a. **Production/Operations:** This area is related to those activities that transform inputs into finished goods and services. Production and operation factors include production planning, capacity utilization, plant location and layout, inventory management, maintenance system, total quality control etc.
- b. **Marketing:** Marketing attempts to satisfy the needs of target customers to achieve objectives. Its strengths and weaknesses are analyzed in terms of marketing mix, new product development, market share, distribution system, pricing policy, promotion strategy, etc.
- c. **Financial Resources:** Finance is concerned with acquisition, allocation and utilization of financial resources. Its strengths and weaknesses are analyzed in terms of availability of sources of funds. Financial planning, financial control system, capital structure, dividend policy, budgeting system etc.
- d. **Human Resources:** Human Resources are strategic resources for achieving competitive advantage to a firm. The types and nature of required human resources and their skills, knowledge and competencies are analyzed. Effectiveness of human resources management, training and development practices, working conditions, motivation, labour relations, etc. are also analyzed.

- e. **Research and Development:** Research and development is another important area of internal analysis. It is the key to innovation and inventions. Its strengths and weaknesses are analyzed in terms of R& D budget pace of technological change availability of R&D competencies, availability of research facilities and well-equipped labs etc.

3. Define unique resources with their characteristics.

(June 2016) (7 Marks)

The resources that are critical for building core competency are called unique resources. They are related to critical success factors. They are developed over a long period of time. They enable the organization get opportunity and mitigate threats. Unique resources are valuable, non-substitutable, costly to imitate and rare. They increase value on the product. The unique resources are normally embedded with human resource.

The following are some of the notable characteristics of unique resources.

- a. **Valuable:** Unique resources are valuable: They are very important in the strategic positioning of an organization. They add value on product and enhance customer satisfaction.
- b. **Non-substitutable:** Unique resources are non-substitutable. In other words, they cannot be replaced by other resources.
- c. **Costly to imitate:** It is very difficult and costly to imitate unique resources. Hence, all organizations may not be able to develop the unique resources.
- d. **Rare:** Unique resources are rare. Acquisition and development of unique resources are not easy.

4. What is internal environment? Describe the forces of internal environment.

(Dec 2015) (3+5=8 Marks)

Ans: Environment refers to all forces and conditions which influence the ability of strategic management to achieve objectives. Internal environment is located within the organization and provide strengths and weaknesses to strategic management. It defines the scope of strategic management. All conditions and forces within the organization affecting a business operation is internal environment. Such environmental conditions can be controlled by the management. It consists of resources, competencies, organizational cultures and stakeholder's expectations. It determines strategic capability. Internal environment analysis is based on scanning of internal environmental forces.

The forces of internal environment consist of:

Organizational resource:

For effective operation of business, organization needs resources consisting of human, financial, physical, and intellectual and information resources. The success and failure of

the organization depend upon the effective and efficient utilization of these resources. But human resources provide strategic advantage.

Competencies:

Competencies are possessed by available human resources in organization. They are represented by knowledge, skills, attitudes, experience and potential for development. Unique competencies possessed by employees provide strategic advantage.

Organization culture:

Culture refers to shared values, norms, beliefs, customs, symbols and artifacts that guide behavior. Organizations must operate within the framework of organizational culture. It affects strategies.

Organizational structure:

Organizational structure is the foundation of an organization involving job definition, division of work, hierarchy of authorities and responsibility and coordination among all the departments and members. It is a means of implementing strategies and plans to achieve a desired result.

Stakeholders:

Organizations must fulfill stakeholder's expectations. They have a stake in the performance of the organization. Stakeholders may be customers, suppliers, competitors, intermediaries, labor unions, and pressure groups.

5. What is a core competence? What are company resource weaknesses?

(Dec 2015) (3+5=8 Marks)

Ans: A core competence is a proficiently performed internal activity that is central to a company's strategy and competitiveness. A core competence is a more valuable resource strength than a competence because of the well-performed activity's core role in the company's and the contribution it makes to the company's success in the market place. A core competence can relate any of several aspects of a company's business: expertise in integrating multiple technologies to create families of new products, know-how in creating and operating a cost-efficient supply chain, the capacity to speed new or next-generation products to market, good after sale service capabilities, skills in manufacturing a high-quality product at a low cost, or the capability to fill customer orders accurately and swiftly. A company may have more than one core competency in its resource portfolio.

A weakness, or competitive deficiencies, is something a company lacks or does poorly or a condition that puts it at a disadvantage in the market place. A company's weakness can relate to (1) inferior or unproven skills, expertise, or intellectual capital in competitively important areas of the business; (2) deficiencies in competitively important physical, organizational or intangible assets; or (3) missing or competitively inferior capabilities in key areas. Internal weaknesses are thus shortcomings in a company's complement of resources and represent competitive liabilities. Nearly all companies have competitive

liabilities of one kind or another. Whether a company's resource weaknesses make it competitively vulnerable depends on how much they matter in the market place and whether they are offset by the company's resource strengths.

6. What is internal analysis? Explain why research and development and engineering function can be a competitive advantage.

(July 2015)(3+5=8 Marks)

Answer:

Internal analysis is the process by which the strategists examine the firm's marketing and distribution, research and development and engineering, production and operations, corporate resources and personnel, and finance and accounting factors to determine where the firm has significant strengths and weaknesses. Internal analysis also helpful to the strategists to determine how to exploit the opportunities and meet the threats the environment is presenting by using strengths and repairing weaknesses in order to build sustainable competitive advantages. The largest firms have financial strengths, in comparison with small firms, but they tend to move slowly and be less able to serve small market segments effectively. No firm is equally strong in all its functions. So a firm must determine what its distinctive competencies are,- what makes it unique to the competitive arena-so that it can make decisions about how to use how to use these abilities now and in the future.

The research and development and engineering function can be a competitive advantage for two prime reasons: (1) it can lead to new or improved products for marketing, and (2) it can lead to the development of improved manufacturing or materials processes to gain cost advantages through efficiency. It is possible that major technological changes often occurred outside the immediate industry. Even so, research and development can provide significant strength for the ongoing business.

The research and development process is commonly viewed as proceeding through the stages of basic research, applied research, developmental research, and commercialization. But for the individual firm assessing its own research and development and engineering capabilities, the key is to examine the ability to produce or process improvement and the timing and effectiveness of its future efforts. A firm can choose to pursue an offensive and defensive approach to research and development. The offensive approach would accelerate the applied and development research efforts. The defensive approach would

emphasize accelerated developmental research and wait for commercial developments and follow up with minor changes or improvements.

7. “Success of strategic management depends on how well the organization uses its internal resources.” Explain. **(July 2015) (7 Marks)**

Answer:

Strategic management must place realistic requirements on organizational resources. It should match opportunities of competitive advantage with availability of resources. Forces in the internal environment consist of organizational goals, organizational structure, organizational resources and organizational culture. These forces are controllable by organization. So the organization should know how to use these elements. Corporate resource availability should be carefully analyzed to identify strengths and weaknesses. Strength is something an organization does well in relation to competitors. It provides capability. It arises from resources and competencies. It can be expertise of human resources, distinctive product, strong brand, superior technology or better customer service. An organization is a bundle of resources and organizational activities are based on deployment of resources.

It is necessary to go through the internal analysis to use internal resources in best way possible by the organization. Marketing resources, human resources, production resources, financial and accounting resources are key areas of internal analysis. Value chain analysis, cost efficiency analysis, effectiveness analysis and comparative analysis are the methods used for internal analysis. A value chain is a set of interlinked value creating activities, which begin with inputs, go through processing, and continue up to outputs marketed to customers. If this method is used, identification of separate activities to produce, market and deliver become easy and use of resources can be made at its best. Cost efficiency is a measure of the level of resources needed to create a given level of value. Organizations must deliver value to customers to get success. Successful organization provides the product features valued by customers that require ability to operate effectively. Effectiveness analysis assesses how well an organization is matching its products and services to the requirements of target customers. The ability of the organization to meet and beat the performance of competitors can lead to success and comparative analysis is concerned with assessing the performance of an organization from a comparative perspective.

Resources have strategic importance so it should be assessed as available resources, threshold resources and unique resources. The organization should always take in mind that the capability factors that reside in people and other internal functions. Core competencies are skills in coordinating resources for productive use and organizational success.

8. What is strategic advantage? Describe the steps involved in preparation of strategic advantage profile (SAP). **(Dec 2014) (3+5=8 Marks)**

Answer:

The strategic advantage of an organization is in relation to its competitors. It is performing better than competitors. It is the ability to meet and beat the performance of competitors. Strategic advantage is gaining advantage over competitors in terms of unique resources and core competencies. It results from blending of unique resources, core competencies, superior efficiency and superior quality. It out performs competitors and creates new opportunities. It empowers the organization to realize its goals and strategies.

Preparation of strategic advantage profile involves the following steps:

1. Identify key strategic factors: All key internal factors that provide competitive advantage are identified. The factors that provide competitive advantage can be expertise in technological know-how, customer service or promotional talents. Unique physical assets and valuable intangible assets are crucial factors. Competent workforce is valuable human asset.
2. Identify importance of key strategic factors: Organizational effectiveness, strong financial position, product differentiation and low cost all are key factors. The importance of relevant strategic factor is identified.
3. Assess strengths and weaknesses of relevant key strategic factors: It is done by comparing with competitors' accomplishments and own past results. The overall contribution of each key factor in key results area is assessed.
4. Prepare strategic advantage profile (SAP): A profile is prepared showing the strengths and weaknesses of each strategic factors. Strengths in key strategic factors are used to formulate strategy.

9. What are organizational resources? What are its types? Discuss. **(June 2014) (3+5=8 Marks)**

Answer:

Organizational resources analysis is known by various names, such as *corporate* appraisal, internal company analysis, profiling the organization, capability or resources audit, position audit, and strategic advantages analysis. The analysis of the organizational resources is the process by which an organization determines how to exploit the opportunities and meet the

threats the environment is presenting by using strengths and repairing weaknesses in order to build sustainable competitive advantages. It provides an organization with the capability to capitalize the opportunities or protect itself from the threats that are presented in the external environment.

Types of Organizational Resources

A firm is a bundle of tangible and intangible resources that include all assets, capabilities, organizational processes, information, knowledge and so on. These resources could be classified as physical, human, financial, organizational, technological and reputation.

Resources are converted into final products or services by using a wide range of other assets and bonding mechanism such as technology, management information systems, incentive systems, trust between management and labour, and more. These resources consist of know how that can be traded (e.g. Patents and licenses), financial or physical assets (e.g. property, plant and equipment, human capital etc.)

Resources of an organization are tangible as well as intangible. Tangible resources are assets that can be seen and quantified. Production equipment, manufacturing plants, and formal reporting structures are example of tangible resources. There are four major types of tangible resources financial, organizational, physical and technological.

Intangible resources include assets that are rooted deeply in the firm's history and that have accumulated over time. Because they are embedded in unique patterns of routines, intangible resources are less visible and relatively difficult for competitors to understand, and imitate. Knowledge, trust between managers and employees, ideas, innovations, managerial capabilities, firm's reputations and ways to interact with people are some of the examples of intangible resources. These resources are more difficult for competitors to understand, purchase, imitate or substitute and they are foundation for capabilities and core competencies

Box 3.1 Types of Resources

Tangible Resources

Financial resources

- The firm's borrowing capacity
- The firm's ability to generate internal funds

Organizational resources

- The firm's formal reporting structure and its formal planning, controlling, and coordinating system

Physical resources

- Sophistication and location of firm's plant and equipment

<i>Technological resources</i>	<ul style="list-style-type: none"> • Access to raw materials • Stock of technology
Intangible Resources	
<i>Human resources</i>	<ul style="list-style-type: none"> • Knowledge, skills, • Trust • Managerial capabilities • Organizational routines
<i>Innovation resources</i>	<ul style="list-style-type: none"> • Ideas • Scientific capabilities • Capacity to innovate
<i>Reputative resources</i>	<ul style="list-style-type: none"> • Reputation with customers and supplies • Patent, trademark, trade secrets

An assessment of a company's physical resources include plant and equipment, technology, geographic location, access to raw materials, as well as the nature of these resources, such as the age, condition and capability of each resource. The analysis of human resources should assess not only the number and types of different skills within an organization, but also their training, experience, judgment, intelligence and relationship in an organization. The financial resources should include the sources and uses of money such as managing cash, obtaining capital, the control of debtors and creditors, and the management of relationships with suppliers of money. The organizational resources are the formal systems and structures as well as informal relations among groups. The intangible resources have a value when businesses are sold and the part of their value is goodwill. In services based organization goodwill could represent a major asset of the company. It may result from brand names, and company image. The success of an organization depends upon its access to the resources and the cost of acquiring them.

10. What is internal analysis? Explain the process of internal analysis.

(3+5=8 Marks) (Dec 2013)

Answer:

Internal analysis is the process by which the strategists examine the firm's marketing and distribution, research and development, production and development, production and operation, corporate resources and personnel, and finance and accounting factors to determine where the firm has significant strengths and weaknesses. Internal diagnosis is the process by which strategists determine how to exploit the opportunities and meet the threads the environment is presenting by using strengths and repairing weaknesses in order to build sustainable competitive advantages. Internal analysis is the process through which managers

analyze the various factors of their organization to evaluate their relative strengths and weaknesses so as to meet the opportunities and threats of environment.

The process of internal analysis goes through certain sequence of activities. This process is undertaken so that the organization reaches at a point at which it can undertake strategic actions in the lights of its strengths and weaknesses. For this purpose, the relevant information is collected both from internal as well as external sources.

Identification of key factors

Internal analysis process starts with the identification of key factors that can be evaluated for determining corporate strengths and weaknesses. The analysis should cover all aspects of the organization. The factors may be in the area of organization structure and management pattern, personnel, finance and accounting, marketing, manufacturing, research and development, etc.

Identification of strategic importance of factors

All the factors identified for this purpose of corporate analysis may not have equal strategic importance; some are more important, some are less important. The relative importance of the factors depends on the nature of organization and its environment. Their relative importance can be determined by finding out the contributions of each factor in the achievement of certain key results.

Assessing strengths and weaknesses on key factors

Identification of key strategic factors may lead to the assessment of organizational strengths and weaknesses in respect of these factors. Organizational strength on any factor can be defined as the contribution made by the factor towards the achievement of organizational objectives. An organizational weakness on a factor can be defined as the negative contribution on the factor in achieving the organizational objectives.

Preparing strategic advantage profile

On the basis of the assessment of organizational strengths and weaknesses, a strategic advantage profile is prepared which shows the various strong areas of the organization. This profile can show the strengths or weaknesses in terms of degree, either in quantity like 1 to 5 for various factors or definition very strong to average.

11. What is core competency? How can the organization identify core competencies? **(June 2013) (4+4=8 Marks) (Dec 2010) (8 Marks)**

Answer:

Competencies are capabilities represented by collective and accumulated knowledge, learning and experience of the organization and its staff. Core competence is the capability that is most fundamental to the successful operation of the enterprise. It represents activity that the organization must be good in performing or be excellent in achieving its objectives. Companies operating in competitive market can not survive without the appropriate

competencies. Although the organizations need to achieve a threshold level in all its activities, only some will be core competences. These are the competences which underpin the organization's ability to outperform competition. A competence can be defined as bundle of skills and techniques but a core competency represents the sum of learning across individual skill sets and organizational units. Core competency resides in a small team. Core competencies also comprise the coordination, integration, and management of structure, technologies, innovation capabilities, understanding of markets and capacities to manage change. The core competency of the organization provides basic capability. Every organization should identify its core competency and should give attention towards strategy development accordingly.

Customer value, competitive uniqueness and extended ability are the means to identify core competency of the organization. Core competency will make a significant contribution to the customer benefits and value of the product. It satisfies the customer requirements. The greater the contribution of the core competency creating customer value, the greater will be the competitive advantage provided by that core competency. Another important test of its identification is competitive uniqueness. A core competency should be competitively unique and difficult for competitors to imitate. These unique features should provide key sources of product or service differentiation in the market place. It comprises a complete integration and harmonization between staff skills, knowledge, technologies, operational capabilities and network of relationship. A core competency provides increasing or extended access to a wide variety of applications and markets. The core competency is a key source of new applications, new technologies, new products and new processes. A core competency is core when it forms the basis for entry into new product markets and provides long term advantage.

12. Prepare a strategic advantage profile (SAP) for a firm of your choice.

(7 Marks) (June 2012)

Answer:

In internal factors, the strategist should analyze the areas like marketing and distribution, research and development, production and operation, corporate resources and finance. This analysis shows the strengths and weaknesses of the organization. It provides the perception of strategic advantage.

The process relates essentially to functions within the strategic business units. Once the key areas for diagnosis have been analyzed, it is useful to prepare a strategic

advantage profile (SAP) for the firm being analyzed. This is a tool for providing a picture of the critical areas which can have a relationship to the strategic posture of the firm in the future.

Strategic Advantage Profile (SAP)

Internal areas	Competitive strength and weakness
Marketing	+ Product line is extensive, and service is excellent. - Channels of distribution are weak in western region.
R & D	- No research and development performed
Production	+ Excellent sourcing for raw materials. - Facilities are old and becoming out dated
Corporate resources	0 Company size is about average for the industry 0 Profit has been consistent but overage. - Union employees complain frequently.
Finance	+ Balance sheet shows ability to obtain needed capital.

Note: + indicates strength; 0 indicates neutral; - indicates weakness

SAP is combined with other factors to lead to strategic decision making.

13. Explain the role of internal analysis in strategic management. (June 2012) (8 marks)

Answer:

Internal analysis can be considered as the beginning of the strategic management in the sense that organization tries to relate itself to its environment by emphasizing its strengths and overcoming its weaknesses. Thus the organization will appraise only those environmental factors which are relevant in the context of its strengths. Organizational strengths decide the business which it should undertake. For example, if the organization is quite strong in marketing, it may concentrate on marketing activities rather than going for manufacturing and marketing both.

The internal appraisal also enables the managers to overcome their weaknesses. Overcoming a weakness starts with the identification of weakness. The internal analysis pinpoints weak areas of the organization and the organization can take various actions to overcome it. It can adopt two methods. First, it can make its weakness as a strong point by rearranging and reallocating its resources and concentrating on the weak points. However, since the resources at the option of the organization are limited, it cannot go for strengthening all factors. Second, if the first approach is not possible, the organization can try the alternative method in which it

may withdraw itself from the areas which are its weak points. Thus the organization can take the advantages of its limited resources.

14. What steps need to be followed to identify core competencies of a business firm?

(Dec 2011) (7 Marks)

Answer:

To identify core competences, the following steps are generally followed:

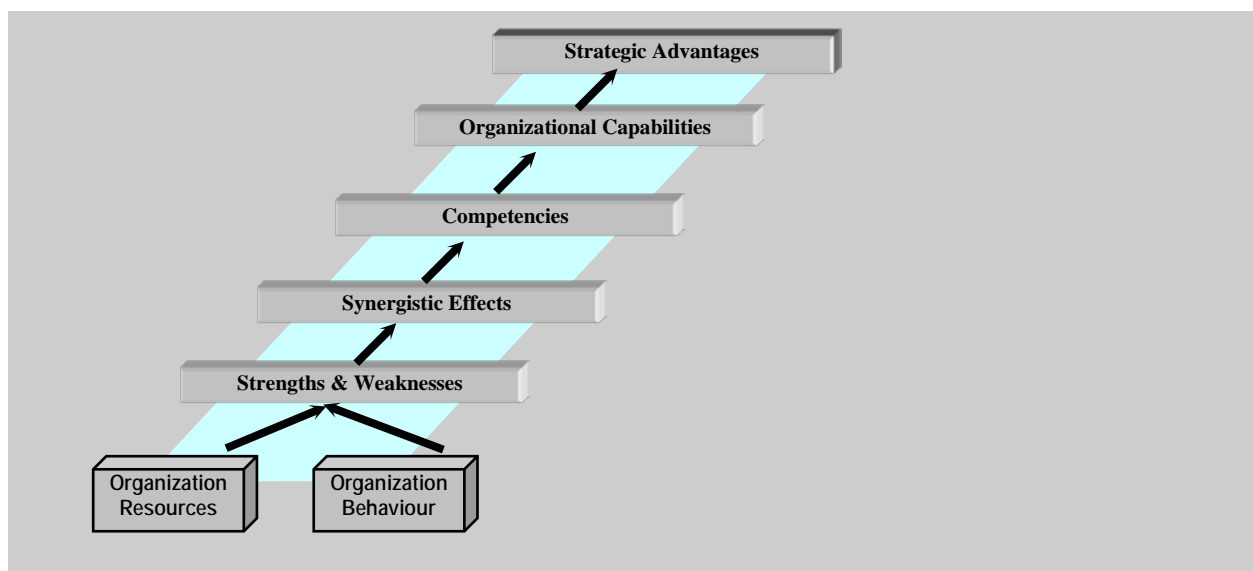
- Brainstorm the factors that are important to firm's clients.
- Identify the factors that influence people's purchase decisions. Brainstorm the factors that customers use in assessing the firm's performance and services.
- Identify the competences that lie behind them. If customers value small products (e.g. cell phones), then the competence they value may be "component integration and miniaturization".
- Brainstorm existing competences and the things the firm does well.
- Prepare a list of factors that are important to clients, screen them using these tests to see if the firm could develop these as core competences.
- Review the list is the following ways:
 - If the firm has identified core competences that it already has, then great! Work on them and make sure that the firm builds them as far as possible.
 - If the firm has no core competences, then look at ones that the firm could develop, and work to build them.

15. What are the various steps for internal analysis of a firm? **(Dec 2011) (8 Marks)**

Answer:

Internal Analysis: Internal analysis is the analysis of organizational resources by which an organization determines how to exploit the opportunities and meet the threats in the environment by using strengths and repairing weaknesses in order to build sustainable competitive advantages. It provides an organization with the capability to capitalize the opportunities and protect itself from the threats that are present in the external environment.

As shown in the figure, resources develop the capabilities of the organization which create core competencies needed to gain competitive advantages.



Organizational Resources

A firm is a bundle of tangible and intangible resources that include all assets, capabilities, organizational processes, information, knowledge and so on. These resources could be classified as physical, human, financial, organizational technological and reputation.

Resources are converted into final products or services by using technology, management information systems, incentive systems, trust between management and labour, and more. These resources consist of know how that can be traded (e.g. Patents and licenses), financial or physical assets (e.g. property, plant and equipment, human capital)

Resources of an organization are tangible as well as intangible. Tangible resources are assets that can be seen and quantified. Production equipment, manufacturing plants, and formal reporting structures are examples of tangible resources. There are four major types of tangible resources financial, organizational, physical and technological.

Intangible resources include assets that are rooted deeply in the firm's history and that have accumulated over time. Because they have unique patterns of routines, intangible resources are less visible and relatively difficult for competitors to understand, and imitate. Knowledge, trust between managers and employees, ideas, innovations, managerial capabilities, firm's reputation and people are some of the examples of intangible resources. These resources are more difficult for competitors to understand, purchase, imitate or substitute. They are foundation for capabilities and core competencies.

An assessment of a company's physical resources includes plant and equipment, technology, geographic location, access to raw materials. The analysis of human resources should assess not only the number and types of different skills within an organization, but also their training, experience, judgment, intelligence and relationships in an organization. The financial sources should include the sources and uses of money such as managing cash, obtaining capital, the

control of debtors and creditors, and the management of relationships with suppliers of money. The organizational resources are the formal systems and structures as well as informal relations among groups. The intangible resources have a value when businesses are sold and the part of their value is goodwill. In service based organization, goodwill could represent a major asset of the company. It may result from brand names, and company image. The success of an organization depends upon its access to the resources and the cost of acquiring them.

16. Explain how value chain analysis can be used to get a better sense of a firm's key building blocks for a successful strategy. **(June 2010) (7 Marks)**

Answer:

The term "value chain" describes a way of looking at a business as a chain of activities that transform inputs into outputs that customers value. Customer value derives from three basic sources: activities that differentiate the product, activities that lower its cost, and activities that meet the customer's need quickly. Value chain analysis attempts to understand how a business creates customer value by examining the contributions of different activities within the business to that value.

The value chain classifies a firm's activities into two broad categories: primary activities and support activities. Primary activities relate directly to the actual creation, development, manufacture, distribution, sale, and servicing of the product or service offered. Support activities refer to those tasks that contribute to help the functioning of primary value-adding activities. The combination of both primary and support activities determines the firm's basis for adding value.

Value chain analysis is the key factor for strategy formulation and implementation. This analysis puts the firm's strategy in a comparative perspective. By breaking up the firm's value chain into discrete, isolated centers of activity, managers can assess whether they are performing each strategic activity in ways that are better than that of their competitors. Value chain analysis allows managers to compare their firm's specific activities with the same activities performed by competitors. Once a firm's various activities have been identified using the value chain, an analyst interested in strategy must then assess the firm's capability in performing each activity. Any activity that the firm can perform more efficiently than its rivals constitutes its strength. Similarly, activities that the firm performs less efficiently than rivals constitute weakness. Identification of strength and weakness is an essential first essential input needed to formulate strategy. Hence, this analysis is a key building block for a successful strategy.

17. Define core competency. What are the characteristics of core competency? (3+5=8 Marks) (June 2010)

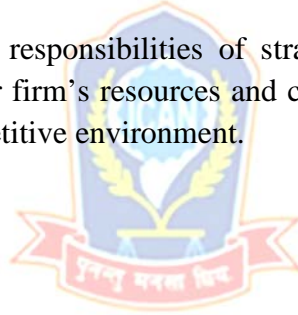
Answers:

Core competency is an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. It is important to distinguish between competencies or capabilities and core competencies. Individual capabilities stand alone and are generally considered in isolation. Core competence, on the other hand, is a combination of complementary skills and knowledge bases embedded in a group or team that results in the ability to execute one or more critical processes to a world class standard.

The characteristics of core competencies are as follows:

- Core competencies provide a set of unifying principles for the organization.
- Core competencies also are pervasive in all strategies.
- Core competencies must provide access to a variety of markets.
- Core competencies must be rare or difficult to imitate.

One of the most important responsibilities of strategic managers is to constantly evaluate whether or not their firm's resources and capabilities continue to add value, despite changes in the competitive environment.



1. Write short notes/distinguish on the following:

a. Growth strategy and Retrenchment strategy

(Dec 2018) (3 Marks)

Answer:

Both of them are corporate level strategic options. Growth strategy is pursued in highly competitive and changing environment. Retrenchment strategy is pursued in threatening environment. The pace of activities are increased in growth strategy where as the pace of activities are decreased in retrenchment strategy. The growth strategy is suitable if the product is in the growth stage of product life cycle but in contrary retrenchment strategy should follow if the product is in the declining stage of product life cycle.

Growth is through increased market share and production capacity. The aim is high growth through diversification, integration, cooperation and globalization. Here new products, markets and functions are added. Retrenchment reduces market share and drop product lines. The aim is contraction of activities through turnaround, divestment and liquidation.

b. Red ocean strategy

(June 2018) (3 Marks)

Answer

If the various firms are operating similar business within same market for limited consumer then the level of competition scales high. In such situation, the market is defined, competitors are also defined but the potential business is small. So, competing firms need typical way to run their business. They compete at cut-throat level as the sharks fight for each other for a single prey and the color of the sea becomes red. As the symbol of the shark's fight is resulted with bloody red color, the competition is termed as Red Ocean. All the strategies formulated by rival competitors in defined market, defined competitor and limited business opportunities are called red ocean strategies.

- a. **Focus on current customers :** Firms focus on the customers currently purchasing the goods and services from it rather than attracting new customers.
- b. **Compete in existing markets :** Under this strategy, any one or very few competing firms try to win the battle with eroding the other firms. For this, any sort of strategies like cut-throat pricing strategy, introducing special benefit packages, etc.
- c. **Exploiting existing demand :** Firms do not try to attract new customers so they formulate the strategies to exploit the existing demand.
- d. **Choose cost-value trade off :** Firms try to maintain the best value at possibly low cost.
- e. **Align the organization with differentiation or low cost:** Organization should choose the differentiation or low cost strategy.

c. Strategic alliance (June 2017) (July 2015, 2.5 Marks) (Dec 2014, 2.5 Marks)(June 2010)

Answer

A strategic alliance is a cooperative strategy in which firms combine some of their resources and capabilities to create a competitive advantage. It involves some degree of exchange and sharing of resources and capabilities to develop, sell, and service goods or services. Strategic alliances

allow firms to use their existing resources and capabilities while working with partners to develop additional resources and capabilities as the foundation for new competitive advantages. The success from strategic alliance is more likely when partners behave cooperatively to solve mutual problems. Other success factors include being trustworthy and combining resources and capabilities of each other to create value.

d. Blue ocean strategy

(Dec 2016) (3 Marks)

Answer

Based on a study of 150 strategic moves spanning more than a hundred years and thirty industries W. Chan Kim and Renee Mauborgne argue that companies can succeed not by battling competitors, but rather by creating “Blue Oceans” of uncontested market space. The blue ocean strategy tries to align innovation with utility, price and cost position. The cornerstone of blue ocean strategy is value innovation. Value innovation is the simultaneous pursuit of differentiation and low cost, creating value for the buyer, the company, and its employees, thereby opening up new and uncontested market space.

Blue ocean denotes all industries not in existence today. This is an unknown market space where is ample opportunity for growth that is both profitable and rapid.

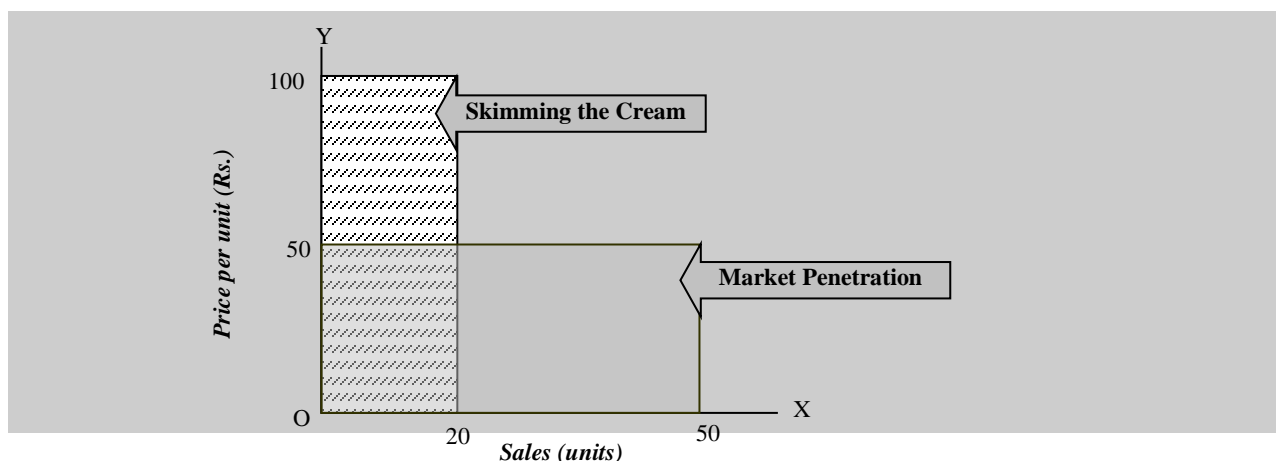
e. Market Penetration

(June 2016) (3 Marks)

Answer

Market penetration refers increasing the market share of existing products in the existing market. It is possible through aggressive marketing tactics like trade allowances, advertising, price reduction, package improvement etc. So many tools can be used to increase product usage among existing customers to find new application of present products and capturing sales. Market penetration utilized the opportunity to gain market shares and builds the organization’s position. However, market share gains are difficult to hold. To increase market share firm may precipitate in competition wars. Market penetration may not be possible when the market share is already high, market is saturated or competition is very intense.

Market Penetration and Skimming the Cream Strategy



A market penetration strategy seeks to increase market share for present products or services in present markets through greater marketing efforts. This strategy is widely used alone and in combination with other strategies. Market penetration includes increasing the number of sales, increasing advertising expenditure, offering extensive sales promotion items, or increasing publicity efforts.

Five guidelines when market penetration may be an especially effective strategy are:

- When current market are not saturated with a particular product or service.
- When the usage rate of present customers could be increased significantly.
- When the market shares of major competitors have been declining while total industry sales have been increasing.
- When the correlation between sales and marketing expenditures historically has been high.
- When increased economics of scale provide major competitive advantages

f. Diversification strategy

(Dec 2015) (Dec 2012) (2.5 Marks)

Answer

Diversification strategy takes the organization away from its present markets and its present products at the same time. According to *Steiner*, 'Diversification is producing new products for new markets involving quite different skills, processes and knowledge from those associated with the present products, services or processes. Though the expansion strategy relies on extension of firm's present market position, the diversification strategy takes away the firm from its present market and present products and enters into new product market areas. So formulation of diversification strategy should begin with examining a broad range of product market alternatives for their inherent growth and profitability prospects.

There are two basic diversification strategies as related diversification and unrelated diversification. Under related diversification, the new product market share skills and facilities of the existing business. The firm attempts to succeed strategic fit in a new industry where the firm's product knowledge, its manufacturing capabilities and the marketing skills are used so efficiently in the original industry that can be put to good use. Related diversification strategy can be further classified into two- vertical integration and horizontal integration. Vertical integration strategy is designed to combine all stages of preparations, manufacturing and marketing of a product. The sources of raw materials, the intermediate operations and final marketing all come within the umbrella of one business. This strategy reduces dependence on outside suppliers or consumers. It enables management to control resources more effectively. But it creates problem of planning and balancing different processes. There is also the problem of establishing intercompany prices. Risks are centered on a single or a limited range of products. Operating costs may raise and flexibility of operations may be reduced

g. Benefits of outsourcing strategy

(Dec 2014)(2.5 Marks)

Answer

Over the past decades, outsourcing has become increasingly popular. A number of single –business enterprises have begun outsourcing a variety of value chain activities formally performed in-house to enable them to better concentrate their energies on a narrower critical portion of the overall value chain. The benefits of outsourcing are that (a) outsiders can often perform certain activities better or cheaper and (b) outsourcing allows a firm to focus its entire energies on its core business-those activities at the centre of its expertise.

h. Stability strategy

(Dec 2014) (June 2011)(2.5 Marks)

Answer

Corporate level strategies are grand strategic alternatives basically about the choice of direction that a firm adopts in order to achieve its objectives. Stability strategy is one of the grand strategies. The stability grand strategy is adopted by an organization when it attempts at an incremental improvement of its functional performance by marginally changing one or more of its business in terms of their respective customer groups, customer functions and alternative technologies. Improve marketing efficiency, provide better after-sale services and improve productivity are some examples of organization's aim at stability.

Here the organizations do not go beyond what they are presently doing, they serve the same markets with the present products using the existing technology. The strategies aim at stability by causing the companies to marginally improve their performance. Or at least letting them remain where they are in case they face a volatile environment and a highly competitive market.

i. Bargaining power of buyers

(June 2014) (2.5 Marks)

Answer

Bargaining power of buyers refers to the ability of the industry's customers to force down price, bargain for higher quality or more services and play competitors against each other. If the customer groups are powerful, there will be buyers market and the producer's profit will suffer. The power of the consumer groups of each industry depends on a number of characteristics of its market situation and on the relative importance of its purchases. A buyer's group is more powerful in the following circumstances hold true.

- A buyer *purchase a large portion* of the seller's product or services.
- The products *produce from the industry represents a significant* fraction of the buyer's cost or purchase. When the product sold by the industry is a small fraction of buyer's costs, buyers are usually less price sensitive.
- The products purchased from the industry are *standard or undifferentiated*.
- *Switching costs* are faced by the buyers. Switching costs are the sum of searching cost facing by the buyers because of switching from one supplier's product to another's. It includes cost and time in testing, or qualifying new sources, need for technical help, cost assuring for quality and even psychic cost of maintaining the relationship.
- High *profitable buyers* are generally less price sensitive whereas low profitable buyers are relatively high price sensitive.

- The industry's *product is unimportant to the quality* of the buyer's products or services. When the quality of the buyer's product is very much affected by the industry's product, buyers are generally less price sensitive.
- *Full information about demand*, actual market price, suppliers costs, when received by buyers, this usually yields the greater bargaining power than when information is poor.
- There is a *threat of backward integration* by the buyers if satisfactory price or quality from suppliers cannot be obtained. In such a situation, their bargaining power is high.

j. Acquisition strategy

(June 2014) (2.5 Marks)

Answer

Acquisition is one method of strategy development. Acquisition is where an organization develops its resources competences by taking over another organization. The need to keep up with a changing environment often dominates the thinking about acquisition. A compelling reason to develop by acquisition is the speed with which it allows the company to enter new product or market areas. In some cases the product or market is changing so rapidly that acquisition becomes the only way of successfully entering the market, since the process of internal development is too slow. Sometimes there are reasons of cost efficiency which make acquisition look favorable. A lack of resources or competences to compete successfully and the reality that the necessary innovations cannot be put in place quickly enough creates the need to adopt the method of acquisition. Acquisition might be driven by the expectation of stakeholders or the reason of cost efficiency.

k. Retrenchment strategies

(June 2012) (2.5 marks)

Answer

The corporate strategy of retrenchment is followed when an organization aims at contraction of its activities through a substantial reduction or elimination of the scope of one or more of its businesses in terms of their respective customers group, customer functions or alternative technologies-either singly or jointly- in order to improve its overall performance. Retrenchment involves total or partial withdrawal from a customer group, customer function, or use of an alternative technology in one or more of a firm's businesses. Retrenchment attempts to 'trim the fat' and results in a 'slimmer' organization.

l. Joint Venture

(Dec 2010) (2.5 Marks)

Answer

Joint venture is a combined effort of two or more organizations for the achievement of certain objectives. An organization may decide to co-operate with another organization in a contractual agreement which allows each to remain independent but which leads to gain for both. The organization pursues both an internal and external strategy simultaneously. There are many variations possible. Sub-contracting on a long term or short term basis may be done. Cross licensing or technology sharing can lead to benefits from patents which might require substantial internal investments otherwise.

A joint venture involves an equity arrangement between two or more independent enterprises which results in creation of a new organizational entity. There are various joint venture strategies. A spider web strategy is that a small firm establishes a series of joint ventures so that it can survive and not be absorbed by its larger competitors. In go together split strategy the firms agree to a joint venture for a specific project or length of time. Sometime, a firm begins a relationship that is weak and then develops several joint ventures that can lead to a merger.

m. Unique resources:

(3 Marks) (June 2019)

Answer:

The resources that are critical for building core competency are called unique resources. They are related to critical success factors. They are developed over a long period of time. They enable an organization get opportunity and mitigate threats. Unique resources are valuable, non-substitutable, costly to imitate and rare. They increase value on the product.

The following are some of the notable characteristics of unique resources.

- a. Valuable:** They are very important in the strategic positioning of an organization. They add value on product and enhance customer satisfaction.
- b. Non-substitutable:** Unique resources cannot be replaced by other resources.
- c. Costly to imitate:** It is very difficult and costly to imitate unique resources. Hence, all organizations may not be able to develop the unique resources.
- d. Rare:** Acquisition and development of unique resources are not easy since they are rare.

2. Discuss the different directions of strategy development.

(June 2018) (Dec 2016) (10 Marks) (Dec 2011) (8 Marks)

Answer:

Directions for strategy development are the strategic options available to an organization in terms of product and market coverage. They are developed considering the strategic capability of the organization and stakeholders' expectations. However, these directions are not mutually exclusive. For example, development into new markets usually requires some product changes too. The following are the directions for strategy development.

a. Protect and Build on Current Position

These strategies are concerned with protecting and building on the current position of an organization. There are a number of strategic options under this category which are mentioned below.

Consolidation

Consolidation is concerned with protecting and strengthening the organization's position in existing market with existing product. Consolidation does not mean rigidity since market situation is likely to be changing. Hence, the organizations adopt and develop their resources and competencies to maintain their competitive position.

It requires attention to the extent to which the organization's resources and competencies continue to fit the market needs and how they should be developed to maintain the competitive position of the organization.

Market Penetration

Market penetration refers to increasing the market share of existing product in existing markets to protect and build market position. It is possible through aggressive marketing tactics like trade allowances, advertising, price reduction, and package improvements. It is also possible through sustaining or improving quality and innovation.

b. Product Development

An organization can achieve growth through product development strategy. It includes delivery of modified or new products to the existing market. The new product can be brought about by:

- Innovation: Product new to the world
- Modification: Product new to the market
- Imitation: Product new to the organization

It involves development of products with new and different characteristics to improve performance. It requires core competences and research and development efforts. Therefore, product development can be risky and unprofitable. However, it is the essence of survivable and growth for an organization.

c. Market Development

An organization can increase sales of its existing product by market development strategy. Market development implies a firm's entry into new market with existing product. This is required when there are no further opportunities in existing markets and/or organization has excess production capacity. Using a market development strategy, a company can capture a larger share of the existing market for current products through market penetration or it can develop new uses and/or markets for current products.

This strategy can be adopted by the following ways:

- Extending into new market segments, which are not currently served
- Opening up additional geographical markets
- Resorting to new channels of distribution
- Developing new uses of existing products

d. Diversification

It is a decision to enter into the new business. This strategy is pursued if growth has plateaued and opportunities for growth in the original business have been depleted. Unless the competitors are able to expand internationally into less mature markets, they may have no

choice but to diversify into different industries if they want to continue growing. The two basic diversification strategies are concentric and conglomerate.

1. Concentric (related) diversification: It is diversifying into an industry related to the current one. It may be an appropriate strategy when a firm has a strong competitive position but industry attractiveness is low. It may be achieved through two ways.

a. Vertical integration: Under this, a firm operates in multiple locations on an industry's value chain from extracting raw materials to retailing. More specifically, assuming a function previously provided by a supplier is called backward integration (going backward on an industry's value chain). Assuming a function previously provided by a distributor is labeled forward integration (going forward on an industry's value chain).

b. Horizontal integration: It is the degree to which a firm operates in multiple geographic locations at the same point on an industry's value chain. Horizontal integration can be achieved through internal development or externally through acquisitions and strategic alliances with other firms in the same industry.


2. Conglomerate (Unrelated) diversification: It is diversifying into an industry unrelated to its current one. It is pursued if the current industry is unattractive and that the firm lacks outstanding abilities or skills that it could easily transfer to related products or services in other industries.

3. Explain the Porter's alternative business strategies and their implications.

(June 2018) (10 Marks)

Answers:

There are 4 alternative business strategies as devised by M.E. Porter's.



		Competitive Advantage	
		<i>Lower Cost</i>	<i>Differentiation</i>
Competitive Scope	<i>Broad target</i>	(1) Cost Leadership	(2) Differentiation Strategy
	<i>Narrow target</i>	(3) Cost Focus Strategy	(4) Differentiation Focus Strategy

Exhibit 4.2: Porter's Generic Strategies

Broad Target

-When the business strategy does not segment market but adopts mass marketing Under this approach, there are 2 sub strategies: cost leadership strategy and differentiation strategy.

1) Cost leadership strategy

Hence, cost leadership strategy aims at broad mass market sets out to become the low (i.e. lowest) cost producer in the industry.

- So the SBU must exploit all resources optimally and has to have all sources of cost advantage, reap scale of economy, efficient scale facilities, cost reduction from experience.
- Such SBU typically sells a standard quality product.
- The SBU has to drive down cost throughout the value chain.
- This strategy allows profit even during heavy competition.
- For example: Wal-Mart, Alamo Rent- A- Car, Southwest Airlines, Timex, Gateway 2000 have been found to have followed cost leadership strategy time and again.

2) Differentiation Strategy

Differentiation strategy aims at broad mass market sets out to become the unique or different in the industry. The SUB's products are assumed as different in the whole industry. This is the mass marketing approach as there is no market segmentation in this strategy.

- It seeks to be unique in the industry on some dimensions & attributes that are widely valued by buyers, i.e. providing unique & superior value to the buyer in terms of product quality, special features or after sale service. Broad scope differentiator bases its strategy on "widely valued attributes" E.g., Walt Disney productions, Maytag Appliance, Nike athletic shoes, Apple computer, Mercedes Benz automobiles, IBM all have adopted this strategy.
- Differentiation based strategy is rewarded for its uniqueness with a *premium price* compared with that of competitors.

A Focus Strategy

Contrary to broad target strategy, in focus strategy, a particular segment is selected to be served. There are 2 sub strategies: cost focus strategy and differentiation focus strategy.

(3) Cost Focus Strategy

Cost focus strategy focuses on a particular segment or niche, i.e. buyer group or geographical market, and in this segment, the SBU is the lowest cost producer, i.e. not in the whole industry. The firm seeks cost advantage in its target segment and becomes the lowest cost producer in the particular segment. For example Fadal Engineering (that deals in machine tools to small manufacturers). This strategy is more possible alternative as compared to cost leadership, i.e. in one industry there may be as many cost focusers as there are segments.

(4) Differentiation Focus

The SBU seeks differentiation action in its target segment, i.e. the SBU differentiates to meet the particular requirements of the segment in a way that allows the firm to charge premium price. In contrast to broad scope differentiator, focus differentiator looks for segments with special needs and meets them better. For example, Apple computers' customized computers, Casey's General Stores, Morgan Stores, and Inner City Entertainment: (the company that builds hi quality movie theaters in inner-city locations for Afro American esp. South side of Chicago).

4. Explain differentiation as a business strategy. What are the conditions of its suitability?
(Dec 2017) (3+7=10 Marks)

Answer:

The differentiation strategy is an action produce goods or services (at an acceptable cost) that customers perceive as being different in ways that are important to them. Under this strategy, an organization tries to offer the products which are distinct in the perception of customers. The differentiation may be based on product parameters, services back up, promotion and image.

The following are some of the conditions of success of differentiation strategy.

1. **Many ways of differentiation:** If there are many ways of differentiating products, this strategy is likely to succeed. For example; mobile phones, car.
2. **Diversification in product use:** If the product can be used for different purposes, differentiation strategy is effective. For example, mobile phone may be used as phone, camera, and music player.
3. **Few rivals:** If there are few rivals in the industry, customer loyalty may be high and differentiation strategy may be successful.
4. **Dynamic technological environment:** If the technological environment is dynamic, differentiation strategy may be more effective.
5. **Quality sensitive buyer:** If the customers are quality sensitive not price, they are ready to pay premium price as a result of which differentiation strategy would be successful.
6. **Extensive research:** Differentiation strategy is effective if a business is involved extensively in research for developing new features on products.

5. Describe the methods of strategy development.

(Dec 2017) (8 Marks)

Answer

Managers must develop different strategies by adopting appropriate methods. Following are the main methods of strategy development:

- a. **Internal development:** Internal development is a well-known method of strategy development. The strategies are developed by building up an organizations are resources and capabilities. Internal development is a slow, but less risky method of strategy development. Therefore, it is also known as “Organic development”.

Internal development method can be adopted in the following ways:

- Developing new products.
- Developing new markets.
- Building competence through learning
- Spreading costs to new activities.

- b. **Mergers and Acquisitions**

Mergers and acquisitions are popular method of strategy development. They involve permanent ownership ties. Merger is the combination of two or more organizations into one. Mergers can be of many types such as horizontal merger, vertical merger, concentric merger and conglomerate merger.

Acquisition is another form of ownership ties. When one company buys another, the purchase is called and acquisition. The purchase can be achieved either by acquiring the seller’s stock or by

purchasing its assets and business. The acquired organization generally keeps its separate identity as a subsidiary.

c. Joint Development and Strategic Alliances

Joint development is a method of strategy development where two or more organizations share resources and activities to develop a strategy. This is a cooperative approach to strategy development. Cooperative strategies involve working with other firms to gain competitive advantage within an industry. Cooperation with other firms, no doubt, can provide access to finance, materials, technology, skills and markets.

Strategic alliance is the best example of joint development. It is a cooperative strategy in which two or more firms combine some of their resources and capabilities to gain competitive advantage.

6. Define blue ocean strategy. How does it differ with red ocean strategy? Explain.
(June 2017) (3+7=10 Marks)

Ans: Blue oceans indicate all the industries not in existence today where the markets are unexplored and untainted by competition. In Blue Oceans, competition is irrelevant. The blue ocean companies follow a different strategic logic called value innovation.

Blue ocean strategy is based on the simultaneous pursuit of differentiation and low cost. Hence, it is and-and strategy not either-or strategy. It does not aim to outperform the competition, rather aims to make the competition irrelevant. It does so by reconstructing industry boundaries.

Blue Ocean creating businesses follow a different strategic logic. They are;

- Challenge industry conditions and paradigms
- Focus on customers, not competitors
- Don't segment customers, aggregate them
- Assets capabilities are not fixed, they are fluid
- Solve problems across the entire supply chain

The following are the differences between Red Ocean and Blue Ocean strategy.

Bases of difference	Red Ocean Strategy	Blue Ocean Strategy
Competition	Compete in existing market space.	Create uncontested market space.
Aim	Beat the competition.	Make the competition irrelevant.
Demand	Exploit existing demand.	Create and capture new demands.
Trade-off	Make the value-cost trade-off.	Break the value-cost trade-off.
Alignment of organizational	Align the whole system of a firm's activities with	Align the whole system of a firm's activities in pursuit of

system its strategic choice of differentiation and low cost.
differentiation or low cost.

7. What are strategic options? Explain the principles that serve as useful guides for developing sound strategies. **(Dec 2016) (3+5=8 Marks)**

Ans: Strategic options are strategic alternatives. The source of strategic options is SWOT analysis. This analysis identifies future opportunities of strategic advantages and matches them with the resource strength of the organization to generate strategic options. The scope of strategic options consists of identifying: alternative strategies, directions for strategy development and methods of strategy development. Strategic options are identified at corporate level, business level and functional level. The role of chief executive officer and strategic business unit level managers is important in generating and analyzing strategic options.

Company experiences over the years prove again and again that disastrous can be avoided by adhering to good strategy making principles. There are some basic principles that serve as useful guide lines for developing sound strategies:

- a) Place top priority on crafting and executing strategic moves that enhance the company's competitive positions for the long term.
- b) Be prompt in adapting to changing market conditions, unmet customer needs, buyer wishes for something better, emerging technological alternatives, and new initiatives of competitors.
- c) Invest in creating a sustainable competitive advantage. Having competitive edge over rivals is the single most dependable contributor to above-average profitability. As a general rule, a company must play aggressive offense to build competitive advantage and aggressive defense to protect it.
- d) Avoid strategies capable of succeeding only in the most optimistic circumstances. Expect competitors to employ countermeasures and expect times of unfavorable market conditions. A good strategy works reasonably well and produces tolerable results even in worst times.
- e) Do not underestimate the reactions and the commitment of rivals firm. Rivals are most dangerous when they are pushed into a corner and their well-being is threatened.
- f) Consider that attacking competitive weaknesses is usually more profitable and less risky than attacking competitive strengths.
- g) Be judicious in cutting prices without an established cost advantage. Only a low-cost producer can win at price cutting over the long term.
- h) Strive to open up very meaningful gaps in quality or service or performance features when pursuing a differentiation strategy.
- i) Avoid stuck-in-middle strategies that represent compromises between lower costs and greater differentiation and between broad and narrow market appeal.
- j) Be aware that aggressive moves to wrest market away from rivals often provoke retaliation in the form of price war-to the detriment of every one's profit.

8. What are merger and acquisition strategies? Explain how merger and acquisition help to achieve strategic objectives of the firm. **(July 2015) (3+5=8 Marks)**

Answer:

- a) A merger is a pooling of two or more companies as equals with the newly created company often taking on a new name. An acquisition is a combination in which one company purchases and absorbs the operation of another. Merger and acquisition are much used strategic options. They are

specially suited for situations in which alliances and partnerships do not go far enough in providing a company with access to the needed resources and capabilities. The difference between a merger and an acquisition relates more to the details of ownership, management control, and financial arrangements than to strategy and competitive advantage.

Many mergers and acquisitions are driven by strategists to achieve some strategic objectives:

1. To pave the way for the acquiring company to gain more market share and, further, create a more efficient operation out of the combined companies by closing high cost plants and eliminate surplus capacity industry wise.
2. To expand company's geographic coverage. Many industries exist for a long time in a fragmented state, with local companies dominating local markets and no company having a significantly visible regional or national presence. Eventually, through, expanded minded companies will launch strategies to acquire local companies in adjacent territories. Over time, companies with successful growth via acquisition strategies emerge as regional market leaders and later perhaps as a company with wide coverage.
3. To gain quick access to new technologies and avoid the need for a time consuming research and development effort. This type of acquisition strategy is a favorite of companies racing to establish attractive positions in emerging markets. Such companies need to fill in technological gaps, extend their technological capabilities along some promising new paths, and position themselves to launch next- wave products and services. Gaining access to desirable technologies via acquisition enables a company to build a market position in attractive technologies quickly and serves as a substitute for extensive in- house research and development programs.

To try to invent a new industry and lead the convergence of industries whose boundaries are being blurred by changing technologies and new market opportunities. In such acquisitions, the company's management is betting that a new industry is on the verge of being born and wants to establish an early position in this industry by bringing together the resources and products of several different companies.

9. What are the generic strategies suggested by Michael Porter? Suggest methods to follow cost leadership strategy in a production entity. **(Dec 2014) (June 2012) (4+4=8 Marks)**

Answer:

Generic Strategies

Generic strategies are the basic strategies of business designed to enhance competitive capabilities by Michael Porter. These are: cost leadership, differentiation, and focus.

Overall Cost Leadership

Overall cost leadership strategic approach of a firm in an industry makes all possible attempts to achieve the lowest costs in the various sectors of operation. It has an aim to gain increased market share through increasing the efficiency and lowering the costs. It is a strategy in which an organization attempts to gain a competitive advantages by reducing its costs below the cost of competing firms.

According to *Porter*, overall cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like research and development, service, sales forces, advertising and so on.

The components that facilitate overall cost leadership are as follows:

- Cost reduction in the area of production/operation. Such as lowering the raw material cost or competitive cost advantage on availability of raw materials, lowering the distribution cost, i.e. low transportation and channel costs and reduction of overhead costs.
 - Through tightening the cost and overall control.
 - Through avoidance of marginal customer accounts.
- Cost minimization in the area of research and development, different services, sales force, advertising and so on.
 - Through accelerating the efficiency.

In another term, we can say that overall cost leadership is achieved by a firm through the reduction of cost on primary activities and supporting activities. Primary activities are concerned with the physical creation of a product or service, its marketing, delivery and provision of after sale support whereas support activities provide input or infrastructure for primary activities to be performed.

10. What is overall cost leadership strategy? Discuss the techniques you can follow while exercising cost leadership strategy in an organization. **(June 2014) (8 Marks)**

Answer:

Overall Cost Leadership

Overall cost leadership strategic approach of a firm in an industry makes all possible attempts to achieve the lowest costs in the various sectors of operation. It has an aim to gain increased market share through increasing the efficiency and lowering the costs. It is a strategy in which an organization attempts to gain a competitive advantage by reducing its costs below the cost of competing firms.

According to *Porter*, overall cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like research and development, service, sales forces, advertising and so on.

The basic components that facilitate to make overall cost leadership to a firm, an industry are as follows:

- *Cost reduction in the area of production/operation.* Such as lowering the raw material cost or competitive cost advantage on availability of raw materials, lowering the distribution cost, i.e. low transportation and channel costs and reduction of overhead costs.
 - Through *tightening the cost* and overall control.
 - Through *avoidance of marginal customer accounts*.
- *Cost minimization in the area of research and development, different services, sales force, advertising and so on.*
 - Through *accelerating the efficiency*.

In another term, we can say that overall cost leadership is achieved by a firm through the reduction of cost on primary activities and supporting activities. Primary activities concerned with the physical creation of a product or service, its marketing, delivery and provision of after sale support whereas support activities provide input or infrastructure for primary activities to be performed.

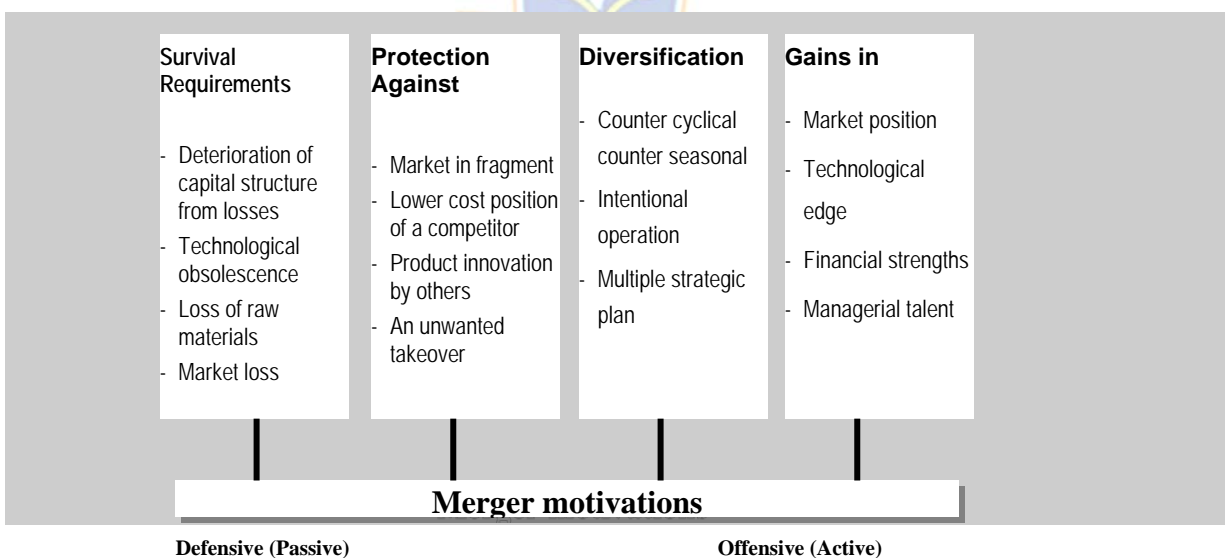
11. What is merger and acquisition strategy? Also discuss the advantages and challenges of merger and acquisition strategy. **(Dec 2013) (3+5=8 Marks)**

Answer:

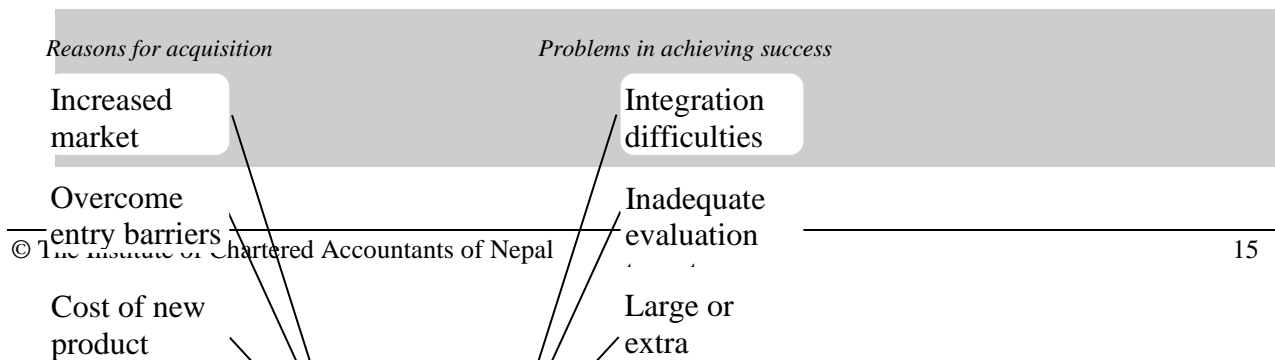
Mergers and acquisition take the form of amalgamation or absorption. When an existing company takeover the business of existing companies, it is know as absorption. If a new company is formed to take over the business of two or more existing companies, it is known as amalgamation. Thus merger as acquisition is the combination of two or more organizations in which one acquires the assets and liabilities of the other in exchange of shares or cash.

The reasons behind the development of merger and acquisition can be explained as: it allows the company to enter to new product or market areas, since the rapid change in this area cannot meet by internal development. Another reasons for the popularity of acquisition is the lack of resources or competence to develop a strategy internally. There are number of objectives which might be accomplished through external strategy-merger and acquisition. Following are the strategic reasons for merger.

Reasons for Mergers



Reasons for Acquisition and Problems in Achieving Success.





Different forms of Merges and Acquisition

1. **Horizontal mergers & acquisitions:** Combination of two or more similar organizations engaged in similar types of production and marketing processes. (e.g. merger of two noodle co.) Horizontal integration strategy is generally follows for the purpose to expand geographically by buying a competitor's business to increase the market share, and to take advantages of economics of scale or efficiency. Horizontal M & A are found where two or more firms engaged in similar lines of activities join hands. If two or more firms manufacturing textile merge, it will be called a horizontal merger. Horizontal mergers and acquisitions help create economics of scale because the size of the firm become larger to reap such gain.
2. **Vertical merger:** It is the combination of two or more organizations engaged to produce the complementary products. Vertical integration moves backward or forward. Backward integration is associated with strategies affecting the supply of a firm's input's while a forward integration refers to move altering the nature of the distribution of the firm's output. For example, sugar company purchases the sugar can firm and sugar distribution. Vertical M & A occur among firms involved in different stages of the production of a single final product. If a cement company and a transportation company merge, it will be called a vertical integration. It reduces cost of transportation and of communicating and coordinating of production.
3. **Concentric mergers:** Combination of two or more organizations related to each other in terms of customer functions, customer groups or alternative technologies. Concentric merger are of three types: product related concentric, technology related concentric and marketing related concentric mergers.
4. **Conglomerate merger:** Combination of two or more organizations unrelated to each other (e.g. merger of Biscuit Co. & Textile Co.) There is no linkages exist between the new businesses/products and the existing businesses/product. It is totally unrelated diversification and has no common thread all with the firm's present position. Generally, various types of

conglomerate mergers and acquisitions are found. Product extension conglomerate broadens the product lines of the firm. Geographical market extension mergers involves two firms operating in different and non-overlapping geographical areas. There are also financial conglomerates where a financial company manage the financial functions of other companies in the group. Similarly, managerial conglomerate combines the management of companies under one roof.

12. Why are enterprises, especially in fast changing industries, making strategic alliances a core part of their overall strategy? **(June 2013) (8 Marks)**

Answer:

The primary reason why firms enter into strategic alliances is to enhance their organizational capabilities and thereby gain competitive or strategic advantage. For this to happen, they continually strive to gain access to new markets and new supply sources. They also wish to become more profitable by using the latest technology and making optimum utilization of resources. When the firms find that it is not feasible to either create resources internally or to acquire them; they rely on strategic alliances to create a network of beneficial relationships.

There are different reasons for use of strategic alliances. They are:

i) Entering new markets

A company that has a successful product or service may wish to look for new markets. Doing so on one's own capabilities may seem to be difficult. This is especially true in case a company wishes to explore foreign markets. Here, it is better to enter into a partnership with a local firm which understands the market better. This is one of the reasons why multinational corporations have entered into strategic alliances with developing countries.

ii) Reducing manufacturing costs

Strategic alliances are used to pool resources to gain economic scale or make better utilization of resources in order to reduce manufacturing costs. This is especially true of precompetitive alliances where a long term relationship is developed with suppliers and buyers.

iii) Developing and diffusing technology

Strategic alliances may be used to develop technological capability by leveraging the technical expertise of two or more firms, an act which may be difficult to perform if these firms act independently. Strategic cooperation is a much –favored approach for new technological development. Whenever industries are experiencing high- velocity technological change in many areas simultaneously, firms find it virtually essential to have cooperative relationships with other enterprises to stay on the leading edge of technology and product performance in their own area of specialization.

13. Suggest methods to follow cost leadership strategy in a production entity. **(Dec 2012)(8 marks)**

Answer:

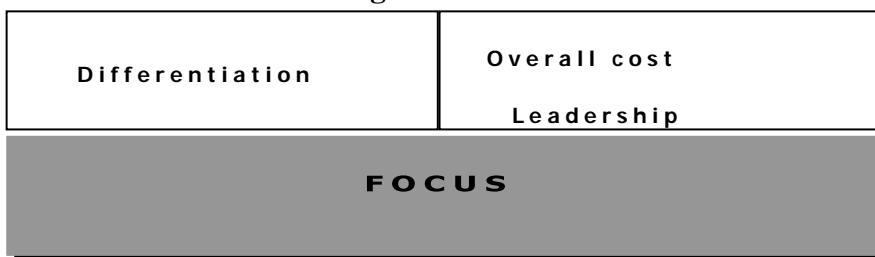
Generic strategies are the basic strategies of business designed to enhance competitive capabilities primarily from Michael Porter. These are: cost leadership, differentiation, and focus. Based on these Miles and snow classified business strategies into three types: defender, prospector, and analyzer. Referring to porter's strategy type, Schuler and Jackson used labels slightly different from those of

Porter to classify business competitive strategies into three types. Cost reduction, innovation, and quality enhancement. Many Scholars have employed different business strategies into different situations as generic strategies.

The difference types of three generic strategies are presented as:

Figure

Three Generic Strategic



Porter has referred to low cost, differentiation and focus as generic business level strategies. These strategies are called generic because all businesses or industries can pursue them irrespective of they are profit or non-profit organizations. Each of these generic strategies result from a company making consistent choices that reinforce each other. According to Porter, a business can strive to supply a product or service more cost effectively than its competitors (cost leadership), it can strive to add value to the product or service through differentiation and command higher prices (differentiation) or it can narrow its focus to a special product market segment that it can monopolize (focus).

Overall Cost Leadership

Overall cost leadership strategic approach of a firm in an industry makes all possible attempts to achieve the lowest costs in the various sectors of operation. It has an aim to gain increased market share through increasing the efficiency and lowering the costs. It is a strategy in which an organization attempts to gain a competitive advantages by reducing its costs below the cost of competing firms.

According to *Porter*, overall cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like research and development, service, sales forces, advertising and so on.

The basic components that facilitate overall cost leadership are as follows:

- *Cost reduction in the area of production/operation.* Such as lowering the raw material cost or competitive cost advantage on availability of raw materials, lowering the distribution cost, i.e. low transportation and channel costs and reduction of overhead costs.
- *Through tightening the cost and overall control.*
- *Through avoidance of marginal customer accounts.*
- *Cost minimization in the area of research and development, different services, sales force, advertising and so on.*
- *Through accelerating the efficiency.*

In another term, we can say that overall cost leadership is achieved by a firm through the reduction of cost on primary activities and supporting activities. Primary activities concerned with the physical creation of a product or service, its marketing, delivery and provision of after sale support whereas support activities provide input or infrastructure for primary activities to be performed.

14. What are the various strategic options at corporate level? Explain the conditions under which expansion strategy can be pursued. **(June 2011) (8 Marks)**

Answer:

Strategic options are strategic alternatives. They are developed by strategist to make the choice of strategy. Corporate level strategic options include:

- Stability Strategy
- Expansion Strategy
- Retrenchment Strategy
- Combination Strategy

Expansion Strategy: Expansion strategy adds new products, market and functions. This strategy is pursued in highly competitive environment. It is generally adopted in the growth stage of product life cycle. Expansion can be done through increased market share and production capacity.

15. Explain the methods of strategy development. **(Dec 2010) (8 Marks)**

Answer:

The development of strategic alternatives emerges out of analysis of the environment and the organization's competitive position. With the different dimension and motives, a number of alternative strategies can be developed. There are different methods of development of strategy. These methods for strategy development can be divided basically into three types: Internal development, acquisition and joint development.

1. Internal development: Here strategies are developed by building up an organization's own resources base and competency. For many organizations, internal development has been the primary method of strategy development. The organization tries to increase the sales and market share of the current product or service line faster than it has been. The organization with products that are highly technical in design or method of manufacture or with own salesforce in advantage of gaining a full understanding of the market, follows this internal expansion method. Although the final cost of developing new activities internally may be greater than that of acquiring other companies, the spread of cost may be more favourable and realistic. This is a strong motive for internal development in small companies. There may also be issues about the business environment which would create a preference for internal development. If the organization wishes to pursue a strategy independently, internal development is the best method.
2. Acquisition: Acquisition is the method where an organization develops its resource and competences by taking over another organization. Acquisition helps to achieve quick expansion as it provides quick access to new market and new product. International development through acquisition has been critically important in some industries like newspaper and media, food and drink, telecommunication sector. Here two companies come together and merge into one entity. The company that absorbs is referred to as the acquiring company. The need to keep up with a changing environment often dominates thinking about acquisition. If the necessary innovations can not be put in place quickly to compete successfully, they must be acquired. Sometimes there are reasons of cost

efficiency which make acquisition look favourable. One should be aware of the possibility that the expected synergistic benefits of acquisition may not be realized because of the inability to integrate the new company into the activities of the old.

3. Joint development: A joint development is an alliance where two or more organizations share resources and activities to pursue a strategy. Organizations cannot always cope with increasingly complex environments from internal resources and competences alone. They may see the need to obtain materials, skills, innovation, finance or access to markets and recognize that these may be as readily available through co-operation. Alliances for joint development vary considerably in their complexity, from simple two partner alliances created to produce a product to one with multiple partners created to provide complex products and solutions. There are variety of arrangements for joint development and alliances. Some may be very formalized inter-organizational relationships, at the other extreme, there can be loose arrangements of co-operation and informal networking between organization with no share holding or ownership involved.

16. What are the principal objectives of diversification? Describe the forms of diversification.

(Dec 2010) (7 Marks)

Answer:

The two principal objectives of diversification are: improving core process execution, and enhancing a business unit's structural position.

The fundamental role of diversification is for corporate managers to create value for stockholders. The additional value is created through synergistic integration of a new business into the existing one thereby increasing its competitive advantage.

Diversification typically takes one of the three forms:

- Vertical integration – along the value chain.
- Horizontal diversification – moving into new industry.
- Geographical diversification – open up new markets.

The means of achieving diversification include internal development, acquisition, strategic alliance, and joint ventures. As each route has its own set of issues, benefits, and limitations, various forms and means of diversification can be mixed and matched to create a range of options.

17. Why should a business choose differentiation strategy? What are the capabilities a firm should possess to support a differentiation-based strategy? **(June 2010) (3+5=8 Marks)**

Answers:

Differentiation requires that the business have sustainable advantages that allow it to provide buyers with something uniquely valuable to them. Differentiation is a business strategy that seeks to build competitive advantage with its product or service by having it to be “different” from other available competitive products. A successful differentiation strategy allows the business to provide a product or service of perceived higher value to buyers at a “differentiation cost” below the “value premium” to the buyers. In other words, the buyer feels the additional cost to buy the

product or service is well below what the product or service is worth compared with available alternatives.

The following are the skills and capabilities a firm should possess to support a differentiation-based strategy:

- Strong marketing abilities
- Product engineering
- Corporate reputation for quality
- Product features maintaining a “distinct” image of the product
- Technical competence of staff and a marketing orientation of service personnel.
- Informative advertisement and promotion
- Tradition of closeness to key customers
- Strong cooperation from channels



1. Explain GE matrix as a tool of selecting corporate strategy. In what ways it is superior to BCG matrix? Discuss. (Dec 2018) (7+3=10 Marks)

Answer:

General Electric, with collaboration of the McKinsey & Company consulting firm, developed GE matrix. It includes nine cells based on long-term industry attractiveness and business strength/competitive position. Beside growth rate and market share of BCG matrix, it includes much more data in its two key factors. The GE matrix has been presented below.

	Business Strength		
	Strong	Average	Weak
Industry Attractiveness High Medium Low	1. Winners	2. Winners	3. Question Marks
	4. Winners	5. Average Businesses	6. Losers
	7. Profit Producer	8. Losers	9. Losers

As depicted in the figure, the GE Business screen includes nine cells. The successful strategic business units in GE matrix have high market attractiveness and strong competitive position. The matrix can be divided in three zones.

Cell 1, 2 and 4

The strategic business units in cell 1, 2, and 4 are the winners. They should be given priority in portfolio. They get priority in investment.

Cell 3, 5 and 7

Cell 3, 5, and 7 indicate the medium or average situation of strategic business units. They should be included in the portfolio on a selective basis for investment.

Cell 6, 8 and 9

Cell 6, 8, and 9 are the loser strategic business units. They should be divested or closed down.

In this way GE nine-cell matrix provides a mechanism for including a host of relevant variables in the process of formulating strategy.

The following are some of the reasons that make the GE matrix superior to BCG matrix.

- The GE matrix considers many more variables and does not lead to such simplistic conclusions as by the BCG matrix.
- Unlike BCG matrix, GE matrix offers an intermediate classification of medium and average ratings.
- GE matrix is a powerful analytical tool to channel corporate resources to business that combine medium to high industry attractiveness with an average to strong business strength competitive position.

2. Write short notes on the following:

a) Portfolio analysis

(Dec 2017, 3 Marks) (Dec 2010, 2.5 marks)

Portfolio is a range of investments held by an organization. Modern organizations are multi-business enterprises. Portfolio analysis helps multi-business managers to choose what business to have in a portfolio. Management uses it to identify and evaluate various businesses that make up the organization. All business units are viewed as investments that provide returns. The objective is to achieve the highest overall return on its investment.

Portfolio analysis is a set of tools that help top management in making strategic decisions with regard to various businesses in its portfolio. A number of techniques like BCG Matrix, GE's business screen and Hofer's Matrix have been developed. It is used for competitive analysis and strategic planning in multi-business companies. It enables an organization to revise the portfolio by closing down the unprofitable business units.

b) Risk analysis

(July 2015, 2.5 Marks)(Dec 2010, 3 Marks)

Risk analysis is one of the criteria of acceptability of strategic option. The approaches for analyzing risk are financial ratios projection, sensitivity analysis, simulation modeling, heuristic models and decision matrices.

Financial ratios project changes resulting from a strategic option. The ratios can be related to capital structure and liquidity. Sensitivity analysis tests sensitivity of performance outcomes to each of the assumptions. It questions and challenges the underlying assumptions of a particular strategic option. Simulation modeling is used to analyze a strategic option when several uncertain variables affect its outcomes. Simulation builds model to represent reality of a system. Heuristic models are rules of thumb. They are based on managerial memory and judgment. Risk assessment of strategic options is based on past experience, memory, intuition, hunch and abstract reasoning. Decision matrices are rectangular array of numbers arranged in rows and columns, which are used to assess the level of risk of different strategic options.

c) Corporate portfolio analysis

(July 2015, 2.5 Marks)

Corporate portfolio analysis is a set of techniques that help strategist in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and strategic planning in multi-product and multi business firms. The main advantages in adopting portfolio approach in a multi-product, multi business firms is that resources could be targeted at the corporate level to those businesses that possess the greatest potential for creating competitive advantage. For instance , a diversified company may decide to divert resources from its cash- rich businesses to more prospective one that hold promise of a faster growth ,so that the company achieves its corporate level objectives in an optimal manner.

There are a number of techniques that could be considered as corporate portfolio analysis techniques. Among them we have the Boston Consulting Group (BCG), General Electric's Nine Cell, Hofer's Product- Market Evolution, Directional Policy and the Strategic Position and Action Evaluation Matrices.

d. Strategic choice in strategy formulation

(June 2010) (3 Marks)

Strategic choice is an important logical element of the strategy formulation process. Choice is at the centre of strategy formulation. If there are no choices to be made, there can be little value in thinking about strategy at all. On the other hand, there will always, in practice, be limits on the range of possible choices. In general, small enterprises tend to be limited by their resources, whereas large enterprises find it difficult to change quickly and so tend to be constrained by their past. In large corporations, managers may find their range of choice limited because some choices are made at a higher level or in another country.

Any process of choice could be rationally divided into four steps: identify options, evaluate the options against preference criteria, select the best option, and then take action. This suggests that identifying and choosing options can be done purely analytically. In practice, it may be difficult to identify all possible options with equal clarity or at the same time. Unexpected events can create new opportunities, destroy foreseen opportunities, or alter the balance of advantage between opportunities.

Good strategic choices have to be challenging enough to keep ahead of competitors but also have to be achievable. Always has an important role in making strategic choice but judgment and skill are also critical. Strategic choices that keep options open may be preferable in an uncertain future to define strategies that depend for their success on uncertain events happening. Such judgments require wisdom as much as analytical skill.

3. Explain the portfolio analysis and discuss the BCG Matrix.

(June 2016) (7 Marks)**Answer**

The portfolio approach provides a simple visual way of identifying and evaluating alternative strategies for the generation and allocation of corporate resources. One of the approaches for identifying strategic alternatives for multi business organization is to construct business portfolio matrix. On the basis of that matrix corporate portfolio analysis has been conducted. Corporate portfolio analysis could be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or business. It is used for competitive analysis and strategic planning in multi-business organizations. The main advantage in adopting a portfolio approach in multi product or multi business organization is that resources could be channelized of the corporate level to those businesses that possess the greatest potentiality.

There are number of techniques that could be considered as a corporate portfolio analysis techniques. One of the most widely used portfolio approaches to corporate strategic analysis has been the growth-share matrix pioneered by the Boston Consulting Group (BCG). Here the organization's business is plotted according to market growth rate (percentage of growth in sales) and relative competitive position (market share). Market growth rate provides an indicator of the relative attractiveness of the markets served by each of the businesses. Relative competitive position provides a basis for comparing the relative strengths of different businesses.

Market Share

		Market Share	
		High	Low
Market Growth Rate	High	Stars	Question marks
	Low	Cash cows	Dogs

The stars, as the BCG matrix labeled them, are business in rapidly growing markets with large market shares. Stars represent the best long run opportunities in the firm's portfolio. These businesses require substantial investment to maintain and expand their dominant position in a growing market.

Cash cows are high market share businesses in maturing low growth market. Because of their strong position and minimal investment requirements for growth, these businesses often generate cash in excess of their needs.

Dogs are business units that are in saturated mature market with intense competition and low profit margins and are thus the worst of all combination. Ineffective dogs should be considered prime candidates for harvesting, divestiture or liquidation.

A question mark or a problem child is business units whose cash needs are high as a result of rapid growth while their cash generation is low due to small market share. If the long run shift in a business position from question mark to star is unlikely, the BCG matrix suggests divesting the business.

4. What is Portfolio Analysis? Discuss the GE Business Screen that supports to analysis market and competitive position of a business. **(Dec 2015) (2+5=7 Marks)**

Answer:

Portfolio analysis aids to develop corporate strategy in a multi business corporation. In this analysis, top management view its product lines and business units as a series of investments from which it expects a profitable return. From a portfolio analysis, the top management constantly judge to ensure the best return on the corporations invested money. Following are the most popular portfolio analysis.

- BCG matrix
- GE's Business screen
- Hofer's product market evolution matrix, etc.

GE Business Screen /GE Nine -Cell Matrix

GE Nine cell matrix has been developed to overcome the limitations of four-cell matrix. This concept was created by General Electric planners and the counseling firm McKinney and company USA. Two dimensions are content in this business serene– market attractiveness and competitive position. Market attractiveness refers all the strengths and resources relating

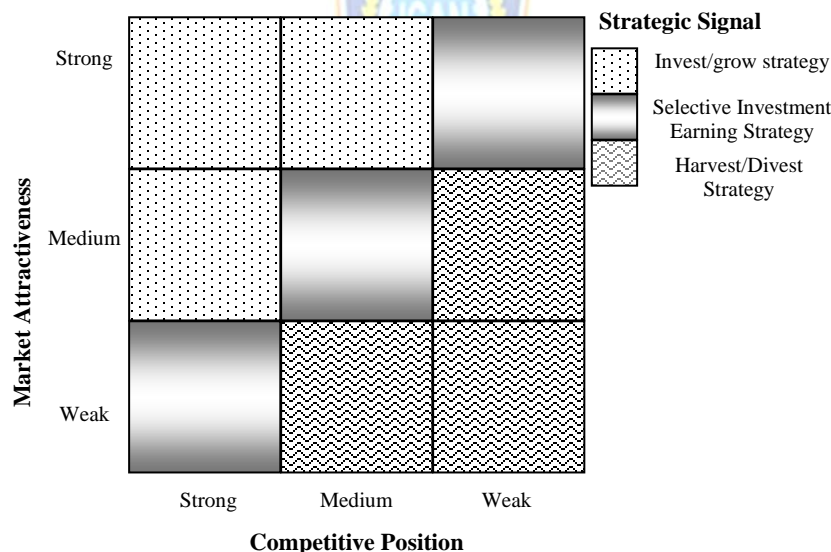
to market such as- economics of scale, competitive intensity, customer satisfaction, technology, seasonality etc. Competitive position is a composite of several factors such as marketing, organization, customer loyalty, R&D, product quality, service etc. In this business screen, both market attractiveness and competitive positions are classified into high, medium and low. The GE nine-cell grid suggests three basic strategic approaches in the corporate portfolio depending on its location within the grid:

- invest to grow,
- invest selectively and manage for earnings, and
- harvest or divest for resource.

The resource allocation decisions remain quite similar to those in the BCG matrix. These businesses would be accorded resources to pursue growth oriented strategies. Business classified in the harvest/divest category would be managed like the dogs in the BCG matrix. They would follow strategies that provided net resources for use in other business units. Business classified in the selectivity/earnings category would either be managed as cash cow (providing maximum earnings for corporate wide use) or as question marks (selectivity chosen for investment or divestment).

Following figure shows business screen of nine cell model suggested by General Electric Company and the factors are pointed out to be analysed while determining market attractiveness and competitive position.

Business Screen/ Nine Cell Matrix



The nine-cells of GE matrix can be divided into three zones. The three cells in the upper left corner indicate strong SBUs in which the company should invest or grow. The diagonal cells stretching from the lower left to the upper right indicate SBUs that are medium in overall attractiveness. In these SBUs, the company should pursue selectivity and manage for earnings. The three cells in the lower-right corner indicate SBUs that are low in overall attractiveness. The company should give serious thought to harvesting/diverting these companies.

5. What are the challenges faced in strategy formulation and how can they be mitigated? **(July 2015) (3+4=7 Marks)**

Answer:

Strategy formulation has to be scientific. We come across many instances wherein the strategy management process has failed to deliver the required results. This obviously reflects the multiplicity and complexity of challenges faced at this stage.

Achieving shared vision

This is one of the major issues in strategy formulation. There are instances where after choosing an appropriate strategy, the top management, among themselves and across organization, fails to achieve synchronization of the vision, strategies intent and hence the strategy for way forward. This leads to problems in implementation and in the obtainment of commitment from the stake holders. This is a serious issue in making decision.

Inability of partners to map a vision

The inability of partners to map a vision and agree on strategy formulation could be another issue, especially in case of alliances and joint ventures, venture capitalists, and group companies. Though partners have well defined area of interest, when it comes to the nitty-gritty of strategy formulation, there could be divergent of views.

Leadership and managerial bias

Imposing leaders and self motivated managers are often causes dissonance at the strategy formulation stage.

Managers over-emphasizing tools and techniques

Another issue involves managers over-emphasizing tools and techniques and losing touch with the pulse of the market or going in the wrong direction due to a herd mentality. Sometimes, they may be following the market without understanding the internal factors, leading to difficulty in strategy formulation.

The challenges can be mitigated by practicing the following techniques:

To overcome such problems, creating a shared vision is critical. Building confidence among stakeholders and communicating objectives are critical for creating a shared vision. It not only creates a shared vision but also a philosophy of oneness and growth through commitment of effort and energy for the benefit of all stakeholders. The problems among partners can be addressed by promoting healthy understanding and transparency. Key partners such as venture capitalist can be given board responsibilities and may be involved in a decision making. Leaders who have a tendency to follow the success of others must be engaged in the details of operational situations and exposed to internal factors adequately so that someone, success is not imitated. The ability to manage the issue of bias towards tools and techniques, and find the right the balance of experience, intellect and deployment of tools and techniques for decision making is required. This can again be achieved by involving senior board members and making a committee responsible for major strategic decision.

6. Discuss the criteria used for evaluation of strategic alternatives. **(Dec 2014) (7 Marks)**

Answer:

Strategic alternatives should be carefully evaluated for making strategic choice. The criteria used for evaluation of strategic alternatives or options are suitability, acceptability and feasibility. The evaluated strategic options are ranked in terms of their potential strategic advantage for objective achievement.

Suitability is concerned with environmental fit of the strategic option. The strategic option should address the circumstances in which the organization is operating. It should fit with the future trends and changes in the environment. The strategic option should be suitable from the viewpoint of exploiting opportunities and avoiding threats, capitalizing on strengths and avoiding weaknesses and addressing stakeholder expectation. Ranking, decision trees and scenarios are screening methods for suitability.

Acceptability is concerned with the expected performance outcome of a strategic option. Return, risk and stakeholder reactions are the criteria for acceptability of a strategic option. The approaches used for analyzing return are profitability, cost/benefit and shareholder value analysis. The approaches for analyzing risk are financial ratio projection, sensitivity analysis, simulation modeling, heuristic models and decision matrices. Stakeholders have a stake in the outcomes of the organization. The methods for analyzing stakeholder reactions are stakeholder mapping and game theory.

Feasibility is concerned with availability of resources and competencies to deliver a strategic option. It determines an option's workability in practice. It assesses the organization's capability to make the strategic option succeed. The methods available to analyze feasibility are fund flow, breakeven and resource deployment analysis. Fund flow analysis forecasts the funds required and the likely sources of funds for a strategic option. Break Even analysis studies cost-volume-profit relationships to assess financial feasibility. Resource deployment analysis identifies needs for resources and competencies for a specific strategic option.

7. What is portfolio analysis? Discuss the BCG matrix as a portfolio matrix.

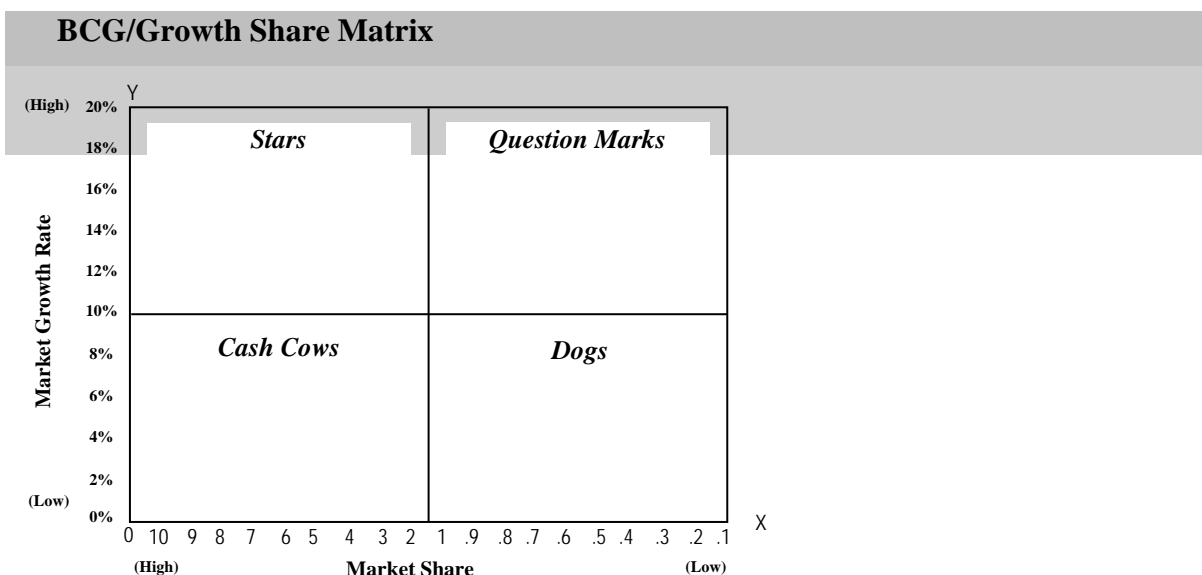
(June 2014) (7 Marks)

Answer:

Portfolio analysis started in the mid- 1960s with the Boston Consulting Group USA (BCG) growth share matrix, which was pioneered and used extensively by the BCG. The concept tells to position each business within the two-dimensional matrix shown in figure. The market share dimension (actually the ratio of share to that of the largest competitor) is regarded as pivotal because it reflects cost advantages. The growth dimension is considered the best single indicators of market strength.

The market growth rate (percentage growth in sales) is the projected rate of sales growth for the market to be served by a particular business. It is usually measured as a percentage increase in a market's share or unit volume over the two most recent years. Market growth rate provides an indicator of the relative attractiveness of the market served by each of the business in the corporation's portfolio business.

Market share (relative competitive position) is usually expressed as the ratio of a business's market share divided by the market share of the largest competitor in that market. Thus, relative competitive position provides a basis for comparing the relative strengths of different businesses.



The BCG growth share matrix is associated with a colourful cost of character representing strategy recommendations. The stars (the high share, high growth quadrant) are important to the current business and should receive resources if needed. Cash cows (in high share, low growth quadrant) should be the sources of substantial amount of cash that can be channeled to other business areas. Dogs (low growth, low share quadrant) are potential cash traps they perpetually absorb cash. Question marks (low share, high growth quadrant) are assumed to have heavy cash needs before they can convert into starts and cash cows.

Dogs: Business are defined as dogs, in which the growth rate is slow and the relative market share is low compared to the leading competitors. Because of their low market share, these businesses are often expected to have a higher cost structure than industry leaders. It is difficult and extremely expensive for them to gain share in a mature market. Divestment or rapid harvesting are the recommended strategies for such weak businesses.

Question Marks: Question marks are high growth, low market share products or divisions. Such businesses are seem to indicate opportunity. They need to gain share by generating additional market share and hence lower cost via experience gains, while the growth rate in the industry is high. The primary objective of such businesses should be to gain share rather than maximize short-term profitability. So questions marks should be converted into stars then later into cash cows.

Stars: Stars are businesses that have high market share in a high growth environment. They are growing rapidly and are the best for long-run opportunities in terms of growth and profitability in the firm's portfolio. They are leaders in their business and generate large amount of cash. they required substantial investment to maintain and expand their dominant position in a growing market. The investment requirement often exceeds the internal cash generation. These business, therefore, are expected to enjoy a lower cost structure than their competitors because of the experience effects.

Cash Cows: Cash cows are low-growth, high market-share products or divisions. Because of their high market share, they have low costs and generate cash. Since growth is slow, reinvestment costs are low. Cash cows provide funds for overhead, dividends and investment for the rest of the firm and are in excess of their needs. Therefore, these businesses serve as a source of corporate resources for deployment elsewhere (to stars and question marks) and are managed to maintain their strong market share while efficiently generating excess. They are the foundation of the firm, and stability is the appropriate strategy for them.

8. What is strategic choice? Identify methods of strategy development.

(June 2014) (3+5= 8 Marks)

Answer:

Strategic choice is the core of strategic management. It is concerned with decisions about an organization's future and the way in which it needs to respond to many pressures and influences identified in strategic analysis. The consideration of future strategies must be mindful of the realities of translating strategy into action which themselves can be significant constraints on strategic choice. The common theme in choice is that have to be made to do with satisfying expectations of stakeholders by creating value in the context of actual or potential competition. The strategic decisions at the corporate level affect those at the business unit level and the decisions at the business unit level affect those at the corporate level. The links between these levels can yield strategic advantage for an organization. The management of the organizations needs to consider some fundamental strategic issues like ownership, strategic intent and scope of business while making choice at corporate level. Bases of strategic choice for strategic business unit can be considered in context of the overall generic competitive strategy.

So the strategic choice should consider the competitive environment competences, specific strategic directions and methods. The evaluation of strategies and the building of competences to sustain selected strategies are equally important elements in strategic choice.

There are different methods of strategy development. The methods identified can be divided into three types; internal development, acquisition and joint development.

Internal development is where strategies are developed by building up an organization's own resource base and competences. For products that are highly technical in design or method of manufacture business may choose to develop new products themselves. This method is seen as the best to the development of new markets by direct involvement. Although the final cost of developing new activities internally may be greater than that of acquiring other companies, the spread of cost may be more favorable and realistic.

Acquisition is where an organization develops its resources and competences by taking over another organization. They can follow the method of merger too. The need to keep a changing environment often dominates the thinking about acquisitions and mergers. In some case the product or market is changing so rapidly that acquisition becomes the only way of successfully entering the market since the process of internal development is too slow. Acquisition can be driven by the expectations of key stakeholders to see growth in quick way. There may be resource considerations too.

A joint development is where two or more organizations share resources and activities to pursue a strategy. The joint development and strategic alliances are the methods used if

organizations cannot cope with increasingly complex environments from internal resources and competence. Alliances may be formed either to exploit current resources and competences or to explore new possibilities. This can lead to cost reduction and improved customer offering.

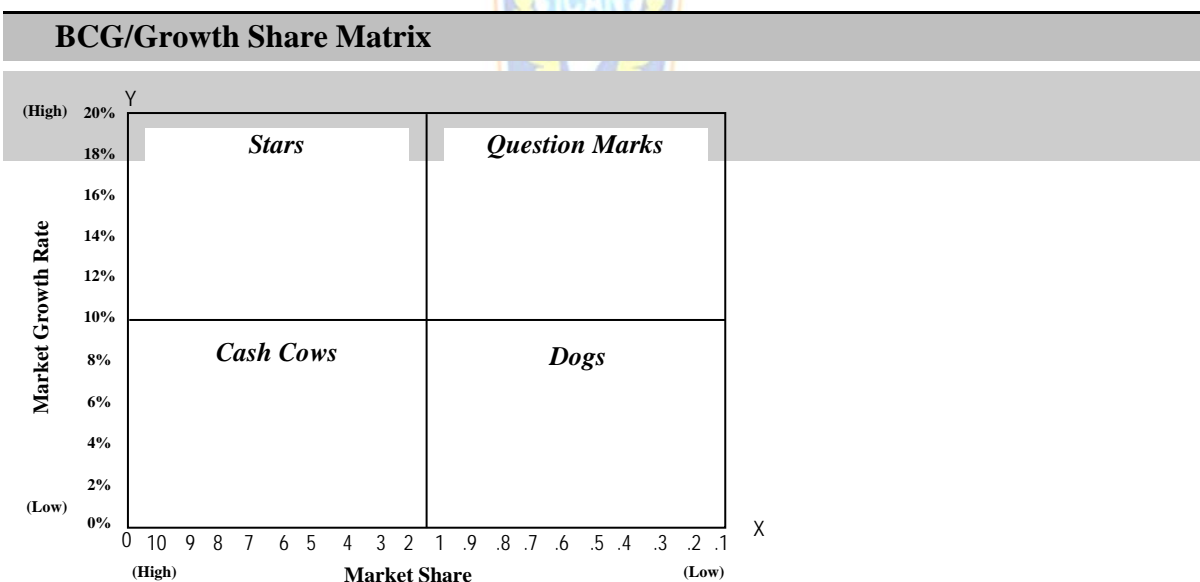
9. BCG portfolio matrix is a widely used tool to assess the suitability of strategy. Explain.
(Dec 2013)(Dec 2011) (7 Marks)

Answer:

Portfolio analysis started in the mid- 1960s with the Boston Consulting Group USA (BCG) growth share matrix, which was pioneered and used extensively by the BCG. The concept tells to position each business within the two-dimensional matrix shown in figure. The market share dimension (actually the ratio of share to that of the largest competitor) is regarded as pivotal because it reflects cost advantages. The growth dimension is considered the best single indicators of market strength.

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Dogs: Business are defined as dogs, in which the growth rate is slow and the relative market share is low compared to the leading competitors. Because of their low market share, these businesses are often expected to have a higher cost structure than industry leaders. It is difficult and extremely expensive for them to gain share in a mature market. Divestment or rapid harvesting are the recommended strategies for such weak businesses.

Question Marks: Question marks are high growth, low market share products or divisions. Such businesses are seem to indicate opportunity. They need to gain share by generating additional market share and hence lower cost via experience gains, while the growth rate in the industry is high. The primary objective of such businesses should be to gain share rather than maximize short-term profitability. So questions marks should be converted into stars then later into cash cows.

Stars: Stars are businesses that have high market share in a high growth environment. They are growing rapidly and are the best for long-run opportunities in terms of growth and profitability in the firm's portfolio. They are leaders in their business and generate large amount of cash. they required substantial investment to maintain and expand their dominant position in a growing market. The investment requirement often exceeds the internal cash generation. These business, therefore, are expected to enjoy a lower cost structure than their competitors because of the experience effects.

Cash Cows: Cash cows are low-growth, high market-share products or divisions. Because of their high market share, they have low costs and generate cash. Since growth is slow, reinvestment costs are low. Cash cows provides funds for overhead, dividends and investment for the rest of the firm and are in excess of their needs. Therefore, these businesses serve as a source of corporate resources for deployment elsewhere (to stars and question marks) and are managed to maintain their strong market share while efficiently generating excess. They are the foundation of the firm, and stability is the appropriate strategy for them.

10. Explain the process of strategy formulation.

(Dec 2013) (7 Marks)

Answer:

Strategy formulation starts from review of strategic intent. The process of strategic formulation consists of the following.

1. Review strategic intent:

The hierarchy of strategic intent lays the foundation for the strategic management. In this hierarchy, the vision, mission and objectives are established. Vision is what the organization aspires to become in the long run. Mission is the reason for the existence of the organization. It is reexamined to ensure that it serves as a unifying them. The objectives of an organization state what is to be achieved in a given time period. They are reviewed and reformulated if necessary.

2. Conduct SWOT analysis :

Environmental and organizational appraisals help to find out the opportunities and threats operating in the external environment and the strengths and weaknesses of the organization created by internal environment. SWOT analysis is done to analyze the external and internal environment of the organization in order to create a match between them. In such

a manner, opportunities could be availed of and the impact of the threats neutralized in order to capitalize on the organizational strengths and minimize the weaknesses. Opportunities and threats are identified by scanning political, economic, socio-cultural and technological factors. Strengths and weaknesses are identified from resources and competencies factors internal to the organization.

3. Identify strategic options:

Strategic options are strategic alternatives. Strategic alternatives are carefully identified for corporate level and strategic business unit level. Stability, growth, retrenchment and combination are corporate strategies. Cost leadership, product differentiation and focused strategies are business strategies. Each of these strategies has its own advantages and disadvantages. It should be carefully understood to adapt a particular strategy under what conditions.

4. Evaluate strategic options:

Strategic options should be carefully evaluated for making strategic choice. The criteria used for evaluation of strategic options are suitability, acceptability and feasibility. The option should be suitable to the environmental circumstances of the organization. Suitability provides the rationale to a strategy. The strategic option should be acceptable in terms of risk, return and stakeholders reactions. Feasibility is concerned with availability of resources and competencies to deliver a strategic option. It determines an option's implement ability and workability in practice.

5. Make strategic choice:

Strategic choice is the decision for selection of the best strategic option. The evaluated strategic options are ranked in order of their potential to achieve objectives. The strategic choice is made from among these ranked alternatives. In order to qualify for strategic choice, the evaluated strategic option should meet the criteria like completeness, success, internal consistency and fulfillment of strategic gap.

11. Describe the strategic choice process.

(June 2013) (7 Marks)

Answer:

As a core of strategic management, the strategic choice is concerned with decisions about an organization's future and the way in which it needs to respond to many pressures and influences identified in strategic analysis. The choice is likely to be a much better choice which is reasonable. Where do the reasonable strategic alternatives come from? One begins to consider alternatives.

The alternatives the strategists consider are incremental steps, usually small incremental steps from present pace and business. This is why a clear business definition is useful. The purpose of strategic choice is to accomplish objectives. The managerial perception of risk, dependence, past strategy and power will limit the number of alternatives considered. In order to generate several reasonable alternatives, a systematic comparison of trade-offs, strengths and weaknesses are made.

A strategy can be chosen to close the gap in objectives. The size of the gaps, the nature of the gap and whether or not management believes that it can be reduced will strongly influence the choice of some alternatives over others. If the gap is perceived to be narrow, stability choice is more likely. If the gap is large due to past poor performance, retrenchment is more likely. If

it is large due to expected environmental opportunity, expansion is more likely. The negative gaps or threats lead to retrenchment and the positive gaps or opportunities lead to expansion.

The gaps are coming from perceptions of desired and expected goal attainment. The generation of reasonable alternatives can also be accomplished through a systematic comparison of the environmental threat and opportunity profile and the strategic advantage profile. The strategic choice should link the corporate level with the strategic business unit level.

12. Explain portfolio analysis and illustrate General Electric Business Screen.

(Dec 2011) (8 Marks)

Answer:

One of the approaches for identifying strategic alternatives for multi-business organization is to construct business portfolio matrix. On the basis of the matrix, corporate portfolio analysis is conducted. Corporate portfolio analysis could be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or business.

The main advantage in adopting a portfolio approach in a multi product, multi business firm is that resources could be channelized at the corporate level to those businesses that provide the greatest potential. A diversified company may decide to divert resources from its cash rich business to more prospective ones that hold promise of a faster growth with the help of portfolio analysis.

General Electric business screen has developed a nine cell business portfolio matrix based on long term industry attractiveness and business strengths. In the matrix both industry attractiveness and business strengths are classified into high, medium and low. If both of these factors are combined, they will give nine alternative situations. The nine cells of the GE Matrix are grouped on the basis of low to high industry attractiveness and weak to strong business strength.

A business lies in green zone when both strengths and opportunities are high or one high and another medium. The signal of green zone is “go ahead” which means the organization can adopt growth strategy. Similarly the red zone indicates the situation that both opportunities and strengths are low or one low and another medium. For red zone, the signal is “stop” indicating retrenchment strategy for divestment and liquidation, or rebuilding approach for adopting the turnaround strategy. In case of opportunities and strengths being medium, it lies in yellow zone. In that case, caution should be taken as ‘question marks’ because these are border line situations that might go either way. For yellow zone, the signal is “wait and see” indicating hold and maintain type of strategies aimed at stability and consolidation.

13. Explain the process which you would follow while formulating strategy in an organization.

(June 2011) (8 Marks)

Answer:

The process of strategy formulation involves the following steps.

1. **Review of strategic elements:** The first stage of strategy formulation is the review of strategic elements of organization. Strategic elements refer to the organization’s mission objectives, strategies and policies.

2. **Analysis of external environment:** The external environment includes factors outside the organization which can lead to opportunities and threats. The effective strategist must scan the various environmental factors to look for opportunities and threats. For this purpose, managers use systematic techniques to analyze the external environment.
3. **Corporate appraisal:** Corporate appraisal is the process through which top management analyzes the various factors in their organization to evaluate their strength and weaknesses. Unless the top management is fully aware of their strategic advantages, they may not choose the best opportunity from the various alternatives available to lead to the greatest success,
4. **Identification of strategic alternatives:** After preparing environmental threats and opportunity profile and strategic advantage profile, the executives are in the position of generating reasonable number of strategic alternatives.
5. **Choice of particular strategy:** Strategic choice is the decision to select the best strategy from the various alternatives which will meet Organization's objectives. This decision is based on the various elements such as suitability, feasibility, acceptability.

14. "Strategic choice is made in the context of decision situation" Explain this in the context of various factors affecting strategic choice. **(Dec 2010) (7 Marks)**

Answer:

The process of strategic choice is essentially a decision making process. Decision making process consists of setting objectives, generating alternatives, choosing one or more alternatives that will help the organization achieve its objectives in a best possible manner. For making a choice from among the alternatives, a decision maker has to set certain criteria on which to accept or reject alternatives. These criteria are the selection factors. They act as guides to decision making.

The existence of different modes of choice process suggests that universality in the process cannot be expected. Therefore, managers may go through their strategic choice depending on various decision contexts. From the point of view, organization's mission, nature of environment, organization's strength and weaknesses and organization's past strategies will affect the choice of strategy. However, in actual practice, choices are not governed by these factors alone but various personnel factors also enter into the choice factors. This happens because, in one way, choices are the outcome of the personal preferences of managers, particularly of those who are making decisions. Further the analysis of decision situations may be greatly influenced by personal factors. Such personal factors may be managerial value system, attitude toward risks, and managerial power relationships in the organization. Thus, strategic choice, like any other choice, is made in the context of decision situation and decision maker. Interaction of both these types of factors actually determines what strategy will be chosen.

Factors affecting choice of strategy:

Organizations are deliberate creations and they have mission towards which all efforts are directed. The mission of an organization limits the choice of strategic action because the action should fit

with its mission. The organizations start considering strategic alternatives in the light of its business mission. The mission will specify the nature of strategic choice that the managers can take.

The nature of environment affects the way in which strategy choice is made. The strategy is essentially meant to relate the organization with its environment and the best strategy is one which relates the organization with its environment effectively. The managers select strategy depending on the nature of environment.

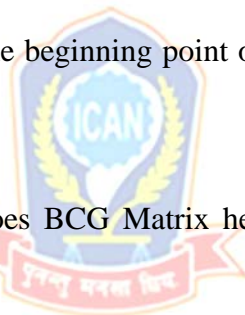
Personal factors affect the choice of strategy. The strategic choice is an ordering of a kind of personal preferences particularly of top management. When there is a change in management pattern of any organization, there is often a change in strategies because of personal factors of new management. Personal preferences and aspirations, value system of top management, attitude towards risk, and managerial power relationship affect strategic choice.

Value system of top management affects the types of strategy that an organization pursues. Personal preferences and aspirations of key strategists also affect what kind of strategies will be pursued by the organization. The choice of strategy depends on the risk-taking attitudes of the management, particularly of top management who takes major decisions.

The managers go for their strategic choices in the light of their organizational strength and weaknesses, thereby emphasizing strengths and overcoming weaknesses. In fact, the basic objective of strategic choice is to relate the organization with its environment in the light of the strengths and weaknesses.

Past strategies of the organization are the beginning point of strategic choice and may eliminate some strategic choice as a result.

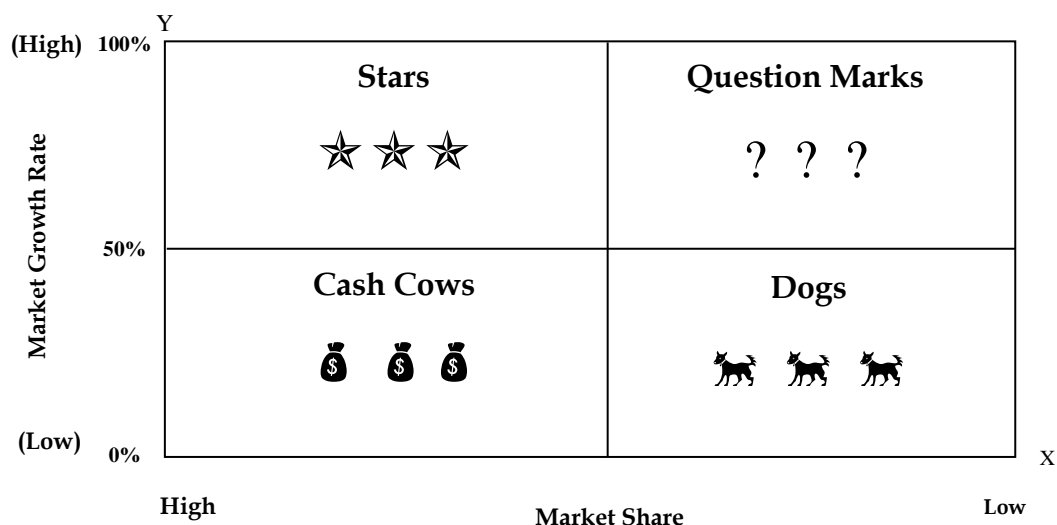
15. What is BCG Matrix? How does BCG Matrix help in strategic choice decision? (3+7=10) (June 2019)



Answer

Portfolio analysis is the approach of analyzing product lines and business units as a series of investments from which it expects a profitable return. From a portfolio analysis, the top management constantly judges to ensure the best return on the corporations invested money. For effectiveness of the strategy, portfolio analysis can be done. BCG is one of the most popular portfolio analysis in strategy.

Boston Consulting Group (BCG) is one of the most popular matrix method of analyzing the strategic options for choosing the best one. Under BCG, options are evaluated under two situational variables i.e. market share and the market growth potential. The market growth rate (percentage growth in overall sales) is the projected rate of sales growth for the market to be served by a particular business. Market share (relative competitive position) is usually expressed as the ratio of a business's market share divided by the market share of the largest competitor in that market. Thus, relative competitive position provides a basis for comparing the relative strengths of different businesses.



Stars : Star is the condition of any business organizations having high market share with a high market growth potentiality. In such condition, organizations grow rapidly and can do their best for long-run opportunities in terms of growth and profitability in the organization's portfolio. Organizations in such situation become leaders in their industry and generate large amount of cash. They require substantial investment to maintain and expand their dominant position in a growing market. The investment requirement often exceeds the internal cash generation.

Cash Cows : Cash cows are the situation in which organizations face low-growth but high market-share of the products or divisions. Because of their high market share, they have low costs operations and easily generate more cash. Since market growth potentiality is slow, therefore, organizations need to reinvestment less or not. Cash cows provide funds for overhead, dividends and investment for the rest of the firm and are in excess of their needs. Therefore, these businesses serve as a source of corporate resources for deployment elsewhere (to stars and question marks) and are managed to maintain their strong market share while efficiently generating excess. They are the foundation of the firm, and stability is the appropriate strategy for them. Business organization can chose the diversification, retrenchment and even divestiture depending upon the condition and number of competitors in the industry.

Dogs: Businesses are defined as dogs, in which the growth rate is slow and the relative market share is low compared to the leading competitors. Because of their low market share, these businesses are often expected to have a higher cost structure than industry leaders. It is difficult and extremely expensive for them to gain share in a mature market. Divestment and rapid harvesting are the recommended strategies for such weak businesses.

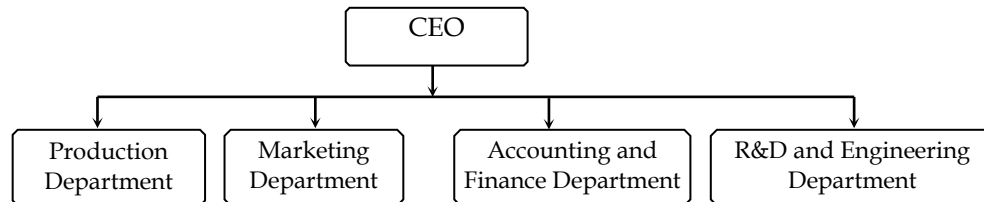
Question Marks: Question marks are the situations of business organizations with high market growth potentiality but low market share of products or divisions. Such businesses can improve their strength as there is growth potentiality, otherwise become dogs. They need to increase market share by generating lower cost operation. Primary objective of such businesses should be to gain market share rather than maximize short-term profitability. So, questions marks should be converted into stars then later into cash cows.



1. Explain functional organizational structure essential for effective strategic implementation. **(June 2019) (7 Marks)**

Answer:

For effective implementation of the strategy, organizational structure is the prerequisite. Different organizational structures need to formulate based on size and the nature of the business. Functional structure consists of the chief executive officer and a limited corporate staff, with functional line managers for main functional areas i.e. production, accounting, marketing, R&D, Finance and Human Resources as shown below:



Following table summarizes advantages and disadvantages of functional organizational structure.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Fixed authority and responsibility • Group of specialists in top level and middle level management • Simplified control/direct supervision • Simple communication and decision net work • Status to major functional areas • Efficiency through specialization. • Improved development of functional expertise. • Differentiates and delegates day-to-day operating decisions. • Retains centralized control of strategic decisions. 	<ul style="list-style-type: none"> • Coordination between the department is difficult • Overburden to chief executives, limits internal development of general managers • Encourage interdepartmental rivalry and conflict • Difficult to cope with diversity • Functional rivalry or staff-line conflict

2. Describe the types of strategic control useful in strategic management.

(Dec 2018) (8 Marks)

Answer:

Strategic control systems are the formal target, measurement, and feedback systems that allow strategic managers to evaluate whether a company is achieving superior efficiency, quality, innovation, and customer responsiveness or not while implementing its strategy. The strategic controls identify the key assumptions and keep track of any change in them so as to assess their impact on the strategy and its implementation. Further, strategic control monitors the progress of various activities undertaken while implementing the strategy and if deviation exists, starts the corrective actions. There are four areas in which strategic control involves.

- Premise control
- Implementation control
- Strategic surveillance and
- Special alert control

i. Premise Control: A strategy may be based on certain premises related to environment and industry factors. The environmental factors are beyond the control of a company and they exercise considerable influence over the success of the strategy. These factors differ among industries. The premise control is designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid.

The premise control enables the strategist to take corrective action at the right time rather than continuing with a strategy based on invalid assumptions. The responsibility for premise control can be assigned to the corporate planning staff that can identify key assumption and keep a regular check on their validity.

ii. Implementation Control: The implementation of a strategy results in a series of steps, plans programs, projects, investment, and moves undertaken over a period of time and the resources are allocated for implementing these. Strategic control continually evaluates the performance of implemented strategy and identifies the gap of actual performance comparing with objectives. It evaluates whether the plans, programs, and projects are actually guiding the organization towards its predetermined objectives or not. If it is felt to revise, they have to be revised. In this manner, strategic control leads to strategic rethinking.

iii. Strategic Surveillance : Strategic surveillance aims at a more generalized and overarching control. It is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the company's strategy. After the examination of assumptions and evaluation of implemented strategy, the strategic control adjusts the strategies according to new requirements. This is done because of the dynamic environments and gap identified while implementing strategy, likely to threaten the course of the firm's strategy.

iv. Special Alert Control: Special alert control is a mechanism for a quick response and urgent reassessment of the strategy in the light of sudden and unexpected events. It can be

exercised through the formulation of contingency plans and assigning the responsibility of handling unforeseen events to teams constituted for the purpose of unexpected product launch. Industrial disaster, natural catastrophe are the examples of such unforeseen events.

3. Discuss the role of organizational structure in strategy implementation.

(June 2018) (June 2012) (7 Marks)

Answer

Organizational structure specifies the work to be done and how to do it in regard to the strategy or strategies. It influences how managers work and the decisions resulting from that work. Organizational structure determines the processes used to complete organizational tasks to support the implementation of strategies. When the strategy is modified, it demands changes in organizational structure.

Strategy and structure are closely related to each other. This relationship shows interconnectedness between strategy formulation and strategy implementation. More precisely, changes to the firm's strategy demand changes in structure. Similarly, the existing structure may require a particular strategy to be pursued. However, strategy has a much more important influence on structure than the reverse. It is important that matching each strategy with a structure enables the use of current competitive advantages as well as provides flexibility required to develop future advantages. The following points show how and why strategy demands structure.

- a. New strategy is formulated
- b. New administrative problem emerges
- c. Organizational performance decreases
- d. Organizational performance improves
- e. A new organizational structure is established.

4. Describe various types of strategy evaluation after explaining its concept.

(June 2018) (8 Marks)

Answers:

Strategy evaluation continually assesses the changing environment to uncover events that significantly affect the course of the strategy. Top management exercises strategy evaluation. It is long term oriented. It focuses on external environment. It is proactive and provides early warning about the performance of the strategy. Strategy evaluation involves reexamination of assumptions, measuring performance and appropriate corrective measures. Assumptions made while formulating a strategy may no longer be valid and relevant as the environment is dynamic. So the strategy evaluation takes into account the changing assumptions. Strategy evaluation continually evaluates the implementation performance of a strategy and gaps are identified. Appropriate measures are taken to adjust

the strategy with due consideration to changing assumptions and implementation gaps. Strategy evaluation can be strategic and operational.

Strategic evaluation can be of four types: premise evaluation, implementation evaluation, strategic surveillance evaluation and special alert evaluation. Premise evaluation involves reexamination of the validity of premises to make necessary changes at the right time. It is concerned with keeping track of changes in premises and assessing their impact on strategy implementation. Implementation evaluation evaluates whether the plans, program, projects and budget are guiding the organization towards objective achievement. It involves strategic rethinking. Strategic surveillance monitors a broad range of events inside and outside the organization, which threaten the course of action. It can be selective surveillance or organizational surveillance. Special alert control is triggered by detection of a crisis. It provides rapid response through immediate reassessment of strategy during crisis situation.

Operating evaluation controls the allocation and use of resources through performance evaluation of strategic business units. It is a cyclical process of four steps: setting standards of performance, measure actual performance, evaluate performance and taking corrective actions. Standards in the form of planned or budgeted performance are set for implementation. Then actual performance is measured and compared against performance standards. Corrective actions are taken to bring performance in line with the standards.

5. “Strategy implementation is all about ensuring a fit between strategy and structure, resource, leadership, policies, etc.” Elaborate this statement. **(Dec 2017) (7 Marks)**

Answer

Implementation of strategy is the process through which a chosen strategy is put into action. Good strategy with poor implementation or poor strategy with good implementation is likely to lead to problems. Mere choice of even the soundest strategy will not precipitate into organizational activities and accomplishment of its objectives. *Strategy formulation* requires primarily conceptual & analytical skills, *Strategy implementation* requires administrative skills. Strategy is the independent variables and organization structure, leadership, functional strategies, resources, etc. are the dependent variables. So, the dependent variables have to be changed and adapted as per strategy. More specifically.

i) Strategy- organization structure fit

- Appropriate organization structure should be created so that the chosen strategy can be readily implemented and strategic goals can be accomplished.
- Do not assume that every strategy change requires organizational restructuring, as sometimes the existing organization structure might be appropriate for the new strategy.

ii) Strategy-resource fit

- To implement the selected strategy, the necessary human resources, financial resources, infrastructure based resources, informational resources, etc. must be acquired.
- Decisions and actions have to be taken regarding requirement of the quality and quantity of each type of resources necessary for implementing the chosen strategy and determining from where they will be accumulated.
- Once required resources are collected they have to be allocated/reallocated to different SBUs/departments etc. in line with the chosen strategy.

iii) Strategy-Leadership fit

- Appropriate leadership should be present in the organization that will ensure successful implementation of the chosen strategy.
- Either the existing executives may change their leadership style to suit to the chosen strategy or they can be trained to do so. If both is not possible, the existing leaders should be replaced by capable leaders from within or outside the organization who can successfully implement the strategy.

iv) Strategy-SIS fit

- As per the selected strategy, appropriate strategic information system (SIS) should be developed that will monitor strategy implementation process and collect, classify, process, store, and disseminate accurate, complete, and timely information/feedback on its progress on a continual basis.

v) Strategy-management system fit

- General management is the foundation over which the building of strategic management shall be created. Strategic management is not the alternative to general management. In other words, general management is the prerequisite to strategic management.
- *For example, 70% of joint ventures during the 80s failed to meet their objectives due to failure on management's part to set up a sound general management system to implement the strategy.*

vi) Strategy-functional plans, policies, and strategies fit

- It is necessary to develop appropriate functional plans, policies, and strategies (*in line with the selected corporate/SBU strategy*) in order to realize the objectives of the strategy chosen.
- Implementing the functional plans, policies, and strategies is a must; otherwise they remain only on papers and cannot contribute to the success of the strategy.
- For this, functional managers should be motivated to carry out the implementation of the revised functional policies.

vii) Strategy- and change management

- As per the requirement of the selected strategy, managing strategic change in less painfully and with great enthusiasm is a must.

6. Write short notes on the following:

a) Resource planning

(Dec 2017) (3 Marks)

Resource planning includes the allocation of resources in different businesses and units. For a successful implementation of strategy, managers should determine the resource needs in term of technology, information, fund and people. After acquisition of necessary resources, they should be allocated to various organizational units and departments. The managers are required to review the budget proposals and ensure the resource flow the units or departments which are critical from strategy implementation point of view.

b) Premise control

(June 2017) (3 Marks)

Assumptions or predictions are planning premises around which a firm's strategy is designed. A strategy may be only as long as the planning premises remain valid. The premise control is designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid. A strategy may be based on certain premises related to environment and industry factors. The environmental factors are beyond the control of a company and they exercise considerable influence over the success of the strategy. These factors differ among industries. A company should be aware of the factors that influence success in its particular industry. Managers must choose those premises and variables that are likely to change and would have a major impact on the company and its strategy.

Assumptions refer the prediction of external environments and internal resources of an organization, which are dynamic and explore the strengths and weaknesses, opportunities and threats. Because of the time gap between strategy formulation and its implementation, the assumptions predicted earlier may not be relevant at present. This is a serious warn to the organization about the performance of the strategy, which takes into account by strategic control. Therefore, it serves the purpose of continually testing the assumptions to find out whether they are still valid or not. The premise control enables the strategist to take corrective action at the right time rather than continuing with a strategy based on invalid assumptions. The responsibility for premise control can be assigned to the corporate planning staff that can identify key assumption and keep a regular check on their validity.

c. Resource plan

(June 2016, 3 Marks) (June 2012, 2.5 Marks)

The organization needs resource plan to identity in details the requirements of specific strategy developments. A resource plan sets out what resource and competence need to be created and

which disposed of. This may well be in the form of a budget, but might also be usefully expressed as a sequence of actions or a timetable of priorities in a written plan.

Human, physical, financial and intellectual resources have a strategic importance. They provide strategic capability to an organization. A resource plan predetermines future resource needs and sources of acquisition to implement strategy. It serves as a framework for mobilizing and allocating resources to activities related to strategy implementation. The resource plan identifies activities, time frame, accountability and outcomes. Resource planning is necessary at corporate as well as business level.

d. Team-based structure

(June 2016) (3 Marks)

Structure is a means to implement strategy as it defines the way of organizing activities. There are different types of organization structure and team-based is one of them. A team is a group whose individual efforts result in positive synergy through coordinated efforts. There will be a collective performance to achieve team objectives. Here the coordination is needed.

Team-based structure combines both horizontal and vertical coordination. They consist of members from different departments and work areas. They are carefully selected to accomplish specific task. Cross-functional teams are used to implement strategy. The team-based structure does not have rigid hierarchy. Team has authority to make decisions. Employees' talents and skills are better utilized in team-based structure.

e. Culture and strategy execution

(Dec 2016) (3 Marks)

A company's present culture and work climate may be compatible with what is needed for effective implementation and execution of the chosen strategy. A culture grounded in strategy supportive values, practices, and behavioral norms add significantly to the power and effectiveness of a company's strategy execution effort. A culture built around such business principles as pleasing customers, fair treatment, operating excellence, and employee's empowerment promotes employees behaviors and cohesiveness and team spirit that facilitate execution of strategies keyed to high product quality and superior customer service. A culture in which taking initiative ,challenging the status quo ,exhibiting creativity, embracing change, and being a team player pervade the work climate promotes creative collaboration and a drive to lead market change –outcomes that are conducive to successful execution of product innovation and technological leadership strategies.

f. Leadership and culture for strategy implementation

(Dec 2014, 3 Marks) (Dec 2012, 2.5 Marks)

Leadership has been considered as one of the most important elements affecting organizational performance. Issues associated with appropriate leadership skills are a critical component of the administrative system to implement, strategy. It is the focus of the activity through which the goals and objectives of the organization are accomplished.

CEO as a leader must act and perceived seriousness of commitment to the chosen strategy. Leader must instill value which is concerned for quality, honesty and risk taking for its stakeholders. Therefore, he should have the ability to use power effectiveness and in a responsible manner. He should have the quality to inspire and act in a manner that will develop a climate conducive to responding and developing motivation.

Organizational culture is an integral part of organizational life, and has important implications for managerial action. It provides meanings, direction and the basis for action. Therefore, an organization has to be perfectly clear about its culture so that customer, employee and shareholders know what it is and what it stands for. But it may also be necessary to change the culture.

The strengths of the culture influence the organizational member to get about their day-to-day activities. It manifests an organization in shared things (e.g. the way people dress) shared saying (e.g. lets do the work), shared actions (e.g. lets support customer), shared feeling (e.g. hard work is rewarded here) etc. Generally, culture with many layers of important shared beliefs and values have strong influence on behaviors.

g. Strategic evaluation

The strategic evaluation is to evaluate the effectiveness of strategy in achieving organizational objectives. The strategic evaluation performs the crucial task of keeping the organization on the right track. Through the process of strategic evaluation, the strategist attempts to answer the questions related to performance and change.

In evaluation of strategy, suitability, acceptability and feasibility are basic criteria used. Suitability is a broad assessment of whether the strategy addresses the circumstances. Acceptability is concerned with the expected performance outcomes in line with the expectations of stakeholders. Feasibility is concerned with whether the strategy could be made to work in practice with assessment of the practicalities of resourcing and strategic capability.

h. Strategic control

(Dec 2011) (2.5 Marks)

Strategic control systems are formal, measurement and feedback systems that allow strategic managers to evaluate whether a company is achieving superior efficiency, quality, innovation, customer responsiveness while implementing strategy.

It takes into account the changing assumptions that determine a strategy, continually evaluate the strategy as it is implemented, and take the necessary steps to adjust the strategy into the new requirements. Since there is a time gap between strategy formulation and its implementation, some assumptions may change. Strategic controls identifies the key assumptions and keeps track of any change in them so as to assess their impact on the strategy and its implementation. Further, strategic control monitors the progress of various activities undertaken while implementing the

strategy and if deviation exist, corrective actions are taken. There are four areas of strategic control:

- a. Premise control
- b. Implementation control
- c. Strategic surveillance and
- d. Special alert control

Premise Control

The premise control is designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid.

A strategy may be based on certain premises related to environment and industry factors. The environmental factors are beyond the control of a company and they exercise considerable influence over the success of the strategy.

Because of the time gap between strategy formulation and its implementation, the assumption predicted earlier may not be relevant. It serves the purpose of continually testing the assumptions to find out whether they are still valid or not.

The premise control enables the strategist to take corrective action at the right time rather than continuing with a strategy based on invalid assumptions.

Implementation Control

The implementation of a strategy results in a series of steps, plans, programs, projects, investment, and moves undertaken over a period of time and the resources are allocated for implementing these. Managers convert broad strategic plans into concrete actions and results for specific units and individuals. Implementation control aims to ensure that action takes place as planned and is designed to assess whether the overall strategy should be changed in the light of unfolding events and results associated with incremental steps and actions or not.

Strategic Surveillance

Strategic surveillance aims at a more generalized and overarching control. It is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the company's strategy.

Special Alert Control

Special alert control is a mechanism for a quick response and urgent reassessment of the strategy in the light of sudden and unexpected events. It can be exercised through the formulation of contingency plans and assigning the responsibility of handling unforeseen events to teams constituted for the purpose of unexpected product launch. Industrial disaster, natural catastrophe are the examples of such unforeseen events.

i. Strategic Evaluation and Control**(Dec 2010) (2.5 Marks)**

Strategic evaluation and control constitute the final phase of strategic management. The purpose of strategic evaluation is to evaluate the effectiveness of strategy in achieving organizational objectives. The purpose of strategic control is to take corrective action wherever required. Strategic evaluation and control performs the crucial task of keeping the organization on the right track.

Through the process of strategic evaluation and control, the strategists attempt to answer the questions like: Is the strategy guiding the organization towards its intended objectives? Is there a need to change and reformulate the strategy? How is the organization performing? Strategic evaluation helps to keep a check on the validity of a strategic choice. Strategic evaluation, through its process of control, feedback, rewards and review, helps in a successful culmination of the strategic management process. The process of strategic evaluation provides a considerable amount of information and experience to strategists that can be useful in new strategic planning. Different types of strategic control are used to take the necessary steps.

7. How strategy and structure are related to each other? In what conditions multi divisional structure is suitable? Write. **(June 2016) (4+3=7 Marks)**

Answer:

Organizational structure specifies the work to be done and how to do it in regard to the strategy or strategies. It influences how managers work and the decisions resulting from that work. Organizational structure determines the processes used to complete organizational tasks to support the implementation of strategies. When the strategy is modified, it demands changes in organizational structure.

Strategy and structure are closely related to each other. This relationship shows interconnectedness between strategy formulation and strategy implementation. More precisely, changes to the firm's strategy demand changes in structure. Similarly, the existing structure may require a particular strategy to be pursued. However, strategy has a much more important influence on structure than the reverse. It is important that matching each strategy with a structure enables the use of current competitive advantages as well as provides flexibility required to develop future advantages. The following figure shows how and why strategy demands structure.

- New strategy is formulated
- New administrative problem emerges
- Organizational performance decreases
- A new organizational structure is established.
- Organizational performance improves.

The multidivisional structure consists of a corporate office and operating divisions which represents a separate business or profit centre. The responsibilities for day-to-day operations are delegated to divisional managers.

Multidivisional structure is suitable for the business having multi products. It encourages the management to concentrate on the business and functional strategy. The organizational effectiveness may be enhanced due to high coordination among the functional units. Under it, each functional division can address the environmental dynamism which encourages the management to concentrate on the business and functional strategy.

8. “Strategy needs structure”. Based on this statement, give your argument about the significant of structure for effective implementation of strategy. **(Dec 2015) (8 Marks)**

Ans: “Strategy needs structure”. Based on this statement, give your argument about the significant of structure for effective implementation of strategy.

After strategy has been formulated, strategy implementation is a key part of strategic management. The formulation and implementation of strategy are considered as two sides of the same coin. It is noted that strategy formulation requires primarily conceptual and analytical skills while implementation requires administrative skills. The implementation of strategy can be defined as, *“The implementation of policies and strategies is concerned with the design and management of systems to achieve the best integration of people, structure, process and resources, in searching organizational purpose.”* This definition stresses the integration of people, structure, resources and processes required for strategy implementation.

An organization is a group of people working together in a coordinated effort to attain a set of objectives. It is the grouping of activities and assignment of each grouping who have necessary authority to manage. Thus it is a structural framework where division of labour is made by delegation of authority with assignment of responsibility. The strategy and organizational structure for strategy implementation must have close relationship like two-way traffic. In one hand, the structure should be according to the need of the strategy so that it is implemented effectively; on the other hand, structure of the organization may play a critical role in influencing its choice of strategy.

Following are the major types of organizational structure facilitating strategy implementation.

- Simple Structure
- Functional Structure
- Multi-Divisional Structure
- Holding Company Structure
- Matrix Structure

Selection of Organization Structure

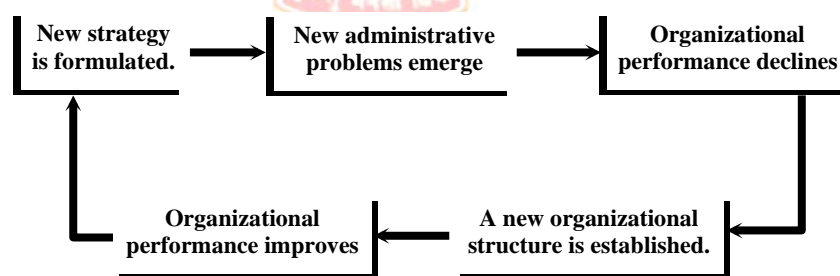
A structure that fits the organization's environment and its internal resources is considered the best for the organization. The appropriateness of the structure depends on the strategy of the firm. The structural design of an organization binds together key activities and resources of the firm, and must be closely aligned with the needs of the firm's strategy.

In general, the functional structure is more suited for stable environments that places less demand on inter departmental coordination and innovation. The narrower the product line and markets, the better the functional structure works. Divisional organization works best in changing environments which required faster adaptation, more coordination and communication and innovation. The more complex, the product line and markets, the better divisional or every matrix forms works. If the strategy is rapid expansion through a merger-increased size may require new structures. If the strategy is to serve new markets or add unrelated products, the added complexity and diversity call for a changed structure.

The reason why changes in strategy often require changes in structure is that structure dictates how resources will be allocated. If an organization's structure is based on customer groups, then resources will be allocated in that manner.

Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reasons for being mission, companies find it difficult to design an effective structure. *Chandler* found a particular structure sequence to be often repeated as organizations grow and change strategy over time; this sequence is depicted in figure.

Figure Chandler's Strategy-Structure Relationship



There is no one optimal organization design or structure for a given strategy of an organization. What is appropriate for one organization may not be appropriate for a similar firm although successful firms in a given industry do tend to organize themselves in a similar way. For example, consumer goods companies tend to emulate the divisional structure-by-product form of organization. Small firms tend to be functionally structured (centralized). Medium-size firms tend to be divisionally structured (decentralized). Large firms tend to use an SBU (Strategic business unit) or matrix structure. As organizations grow, their structures generally change from simple to complex.

Changes in structure can facilitate strategy-implementation efforts, but changes in structure should not be expected to make a bad strategy good, to make bad managers good, or to make bad products sell.

Four important points need be stressed on the basis of *Chander's* research about the selection of an structure.

- a. All forms of organizational structure are not equally effective in implementing a strategy.
- b. The organizational structure particularly in larger organizations, have a life of their own. As a result, the need for immediate and radical changes in structure is not immediately perceived.
- c. Sheer growth can make restructuring necessary.
- d. As firms diversify into numerous related or unrelated products and markets, structural change appears to be essential to form it to perform effectively.

A firms' strategy determine the choice of structure. The organizational structure must clearly identify the key activities and strategy operating units to improve efficiency through specialization, in a competitive environment. The structure must also integrate and coordinate the activities and unit to accommodate interdependence of activities and overall control. The choice of structure reflects strategy in terms of the firm's (a) size, (b) product/service diversity (c) competitive environment and volatility (d) internal political considerations, and (e) information/coordination needs for each components.

9. "Appropriate organizational structure is essential for effective implementation of selected strategy" In line with this argument, explain the matrix structure with its advantages and disadvantages.

(July 2015) (8 Marks)

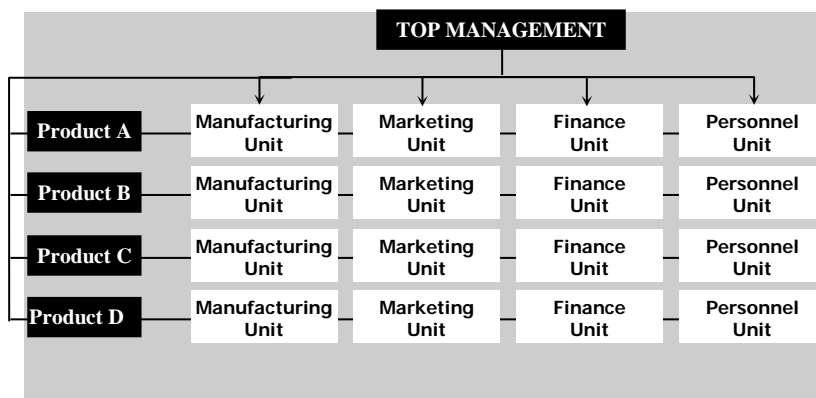
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The matrix structure is very appropriate when organization concludes that neither functional nor divisional forms are right for their situation. It combines functional and product forms simultaneously at the same level of the organization. Employees of this type of organization have two superiors- a product or project superior and functional superior. The functional department is comparatively permanent, such as manufacturing, marketing, finance and personnel.

Matrix Structure



Advantage and Disadvantages of Matrix Structure

Advantages	Disadvantages
<ul style="list-style-type: none"> • Very useful when the external environment is very complex and changeable • Improves the quality of decisions • Direct communication • Increase motivation and management development through increased involvement in decisions. • Maximum use of limited functional specialist 	<ul style="list-style-type: none"> • Time taken for decisions • Unclear responsibility • Dilution of priorities • Leads to possible conflict with existence of two separate operating systems • Power struggle increased.

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10. Explain the concept of strategy evaluation. Describe various types of strategy.

(July 2015) (3+5=8 Marks)

Answer:

Strategy evaluation continually assesses the changing environment to uncover events that significantly affect the course of the strategy. Top management exercises strategy evaluation. It is long term oriented. It focuses on external environment. It is proactive and provides early warning about the performance of the strategy.

Strategy evaluation involves reexamination of assumptions, measuring performance and appropriate corrective measures. Assumptions made while formulating a strategy may no longer be valid and relevant as the environment is dynamic. So the strategy evaluation takes into account the changing assumptions. Strategy evaluation continually evaluates the implementation performance of a strategy and gaps are identified. Appropriate measures are taken to adjust the strategy with due consideration to changing assumptions and implementation gaps. Strategy evaluation can be strategic and operational.

Strategic evaluation can be of four types: premise evaluation, implementation evaluation, strategic surveillance evaluation and special alert evaluation. Premise evaluation involves reexamination of the validity of premises to make necessary changes at the right time. It is concerned with keeping track of changes in premises and assessing their impact on strategy implementation. Implementation evaluation evaluates whether the plans, programmes, projects and budget are guiding the organization towards objective achievement. It involves strategic rethinking. Strategic surveillance monitors a broad range of events inside and outside the organization, which threaten the course of action. It can be selective surveillance or organizational surveillance. Special alert control is triggered by detection of a crisis. It provides rapid response through immediate reassessment of strategy during crisis situation.

Operating evaluation controls the allocation and use of resources through performance evaluation of strategic business units. It is a cyclical process of four

steps: setting standards of performance, measure actual performance, evaluate performance and taking corrective actions. Standards in the form of planned or budgeted performance are set for implementation. Then actual performance is measured and compared against performance standards. Corrective actions are taken to bring performance in line with the standards.

11. What is Strategic control? Discuss the major areas of strategic control.

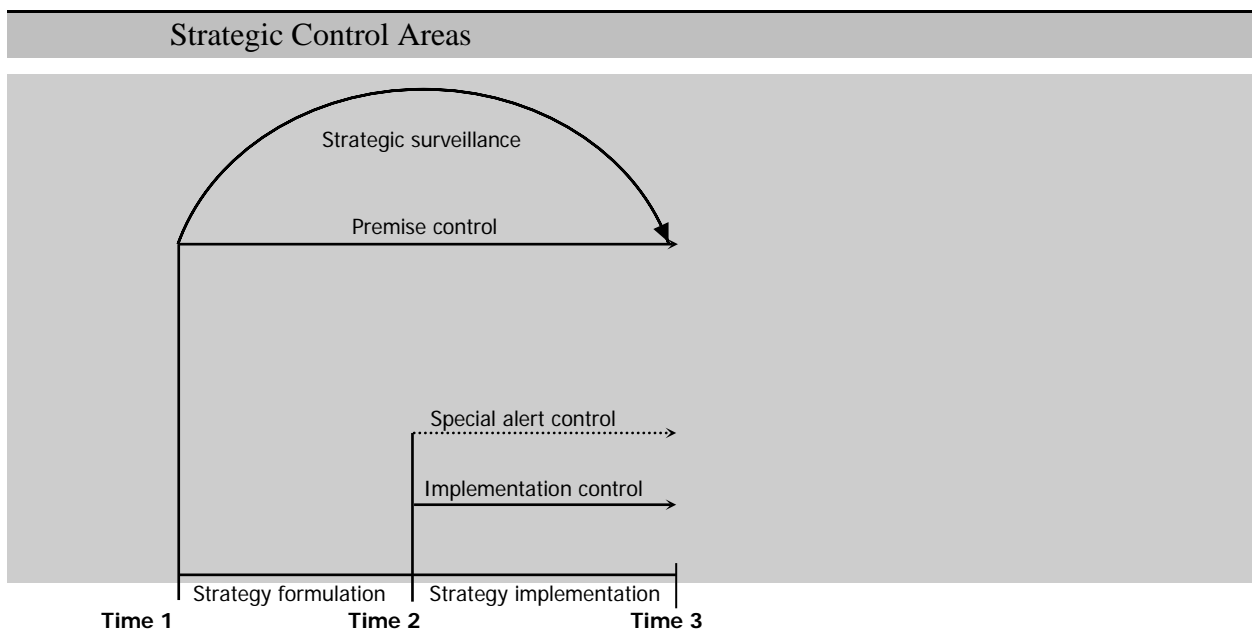
(July 2015) (Dec 2014) (3+4=7 Marks)

Answer:

Strategic control systems are the formal target, measurement, and feedback systems that allow strategic managers to evaluate whether a company is achieving superior efficiency, quality, innovation, customer responsiveness or not while implementing its strategy.

It takes into account the changing assumptions that determine a strategy, continually evaluate the strategy as it is being implemented, and take the necessary steps to adjust the strategy into the new requirements. Since there is a time gap between strategy formulation and its implementations, some assumptions (environmental predictions) may change out either fully or partially. But the strategic controls identify the key assumptions and keep track of any change in them so as to assess their impact on the strategy and its implementation. Further, strategic control monitors the progress of various activities undertaken while implementing the strategy and if deviation exist, starts the corrective actions. There are four areas in which strategic control involves.

- a. Premise control
- b. Implementation control
- c. Strategic surveillance and
- d. Special alert control



Premise Control

Assumptions or predictions are planning premises around which a firm's strategy is designed. A strategy may be only as long as the planning premises remain valid. The premise control is designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid.

A strategy may be based on certain premises related to environment and industry factors. The environmental factors are beyond the control of a company and they exercise considerable influence over the success of the strategy. These factors differ among industries. A company should be aware of the factors that influence success in its particular industry. Managers must choose those premises and variables that are likely to change and would have a major impact on the company and its strategy.

Assumptions refer the prediction of external environments and internal resources of an organization, which are dynamic and explore the strengths and weaknesses, opportunities and threats. Because of the time gap between strategy formulation and its implementation, the assumption predicted earlier may not be relevant at present. This is a serious warn to the organization about the performance of the strategy, which takes into account by strategic control. Therefore, it serves the purpose of continually testing the assumptions to find out whether they are still valid or not.

The premise control enables the strategist to take corrective action at the right time rather than continuing with a strategy based on invalid assumptions. The responsibility for premise control can be assigned to the corporate planning staff that can identify key assumption and keep a regular check on their validity.

Implementation Control

The implementation of a strategy results in a series of steps, plans programs, projects, investment, and moves undertaken over a period of time and the resources are allocated for implementing these. Managers convert broad strategic plans into concrete actions and results for specific units and individuals. Implementation control aims to ensure that action takes place as planned and is designed to assess whether the overall strategy should be changed in the light of unfolding events and results associated with incremental steps and actions or not.

Strategic control continually evaluates the performance of implemented strategy and identifies the gap of actual performance comparing with objectives. It evaluates whether the plans, programs, and projects are actually guiding the organization towards its predetermined objectives or not. If it is felt to revise, they have to be revised. In this manner, strategic control leads to strategic rethinking.

Strategic Surveillance

Strategic surveillance aims at a more generalized and overarching control. It is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the company's strategy.

After the examination of assumptions and evaluation of implemented strategy, the strategic control adjust the strategies according to new requirements. This is done because of the dynamic environments and gap identified while implementing strategy, likely to threaten the course of the firm's strategy. It is done through some design of general monitoring of multiple information sources that are likely to affect the strategies of the organization. As *Aaker* suggested that strategic surveillance is a formal yet simple strategic information scanning system that can enhance the effectiveness of the scanning effort and preserve much of the information lost within the organization. In conclusion, we can say that strategic control also focus towards more generalize and over searching mechanism to capture much of the information that is otherwise lost in an organization through strategic surveillance.

Special Alert Control

Special alert control is a mechanism for a quick response and urgent reassessment of the strategy in the light of sudden and unexpected events. It can be exercised through the formulation of contingency plans and assigning the responsibility of handling unforeseen events to teams constituted for the purpose of unexpected product launch. Industrial disaster, natural catastrophe are the examples of such unforeseen events.

Special alert more or less like a crisis management where the organization was not prepared previously. Organizations have to prepare contingency strategies to overcome any unfavourable situation affecting the organizations adversely. Such unfavourable situation may happen in the form of sudden change in political factor, unfavourable industrial disaster, sudden entry of a new and powerful competitor and so on. Generally, the unfavourable situation, like crises are critical situations that occur unexpectedly and threaten the course of a strategy. But, strategic control focus continually to assess such events and crises that may adversely affect the course of the organization's strategy and forwards to exercise through the formulation of contingency strategies.

12. "A number of prominent companies have succeeded in establishing core competencies and capabilities that have been instrumental in making them winner in the market place". Explain with examples. **(Dec 2014) (7 Marks)**

Answer:

A top priority in the strategy implementing process is the need to build and strengthen valuable core competencies and capabilities. Managers identify desired competencies and capabilities in the course of crafting strategy. Strategy execution requires putting the desired competencies and capabilities in place, upgrading them as needed, and modifying them as market conditions evolve. Sometimes a company already has the needed competencies and capabilities, in which case managers can concentrate on nurturing them to promote better strategy execution.

A number of prominent companies have succeeded in establishing core competencies and capabilities that have been instrumental in making them winners in the marketplace. Honda's core competence is its depth of expertise in gasoline engine technology and small engine design. Intel's is in the design of complex chips for personal computers and services. Procter & Gamble's core competencies reside in its superb marketing/ distribution skills and its R&D capabilities in five core technologies-fats, oils, skin chemistry, surfactants, and emulsifiers. Sony's core competencies are its expertise in electronic technology and its ability to translate that expertise into innovative products. Dell computer can deliver state-of-the-art products to its customers at attractively low costs.

13. What is resource allocation? Describe the factors affecting resource allocation.

(Dec 2014) (3+5=8 Marks)

Answer:

Resource allocation deals with the procurement, commitment and distribution of financial, human, information and physical resources to strategic tasks for the achievement of organizational objectives. The importance of resource allocation can be observed from the fact that strategic management itself is sometimes referred to as a 'resource allocation process'. Resource allocation is both a one time and a continuous process. When a new project is implemented, it would require allocation of resources. An on-going concern would also require a continual infusion of resources. Strategy implementation should deal with both these types of resources allocation. Resource allocation, especially for financial and physical resources, could be done through budgeting.

The factors that affect resource allocation are: the objectives of the organization, preference of dominant strategists, internal politics and external influence.

Objective of an organization: There are number of objectives. Some are official(or explicit) while others are operative(or implicit). Employees of any organization tend to judge the importance given by strategists to tasks on the basis of the amount of resource allocated to them .

Preference of dominant strategists: The dominant strategists – most often the chief executive officer- tend to affect the process of resource allocation. Their preferences are reflected in the way the resources get allocated.

Internal politics: The ownership of resources is often misconstrued as possession of power. Those departmental units which are able to attract more resources are perceived as being more powerful. Executives who are in a position to affect the process of resource allocation in their favor are perceived to be more effective. These perceptions make resource allocation a rational- political process. Internal politics within the organization, therefore, affects the process of resource allocation.

External influence: Apart from internal politics, external influences also affect resource allocation. These influences arise due to government policy and stipulations, the demand of external shareholders, financial institutions, community and others.

14. "Strategy implementation requires establishment of management system." Explain.

(Dec 2013) (7 Marks)

Answer:

Management gets the job done by working with and through people to implement strategy. Human resource management, information management, leadership and shaping organization culture are the essentials of management system. Strategy implementation requires all these essentials so it is said that strategy implementation requires establishment of management system.

1. Human resource management:

The unique competencies of people are the key strategic factors enabling the success of strategies. The components of human resource management consist of putting together a strong management team, acquiring competent employees, development of employees, utilization of employees and retention of employees. Unless the talented and competent employees are acquired and equipped them with knowledge through training and development, the strategy implementation cannot be successful. Retention of these talented employees with their fully motivated performance is equally required for strategy implementation.

2. Information management:

Strategy implementation requires establishment and use of information, communication and e-commerce systems. They enable people to carry out their roles successfully and effectively. Information technology is advancing rapidly. The ability of organizations to access and process information is crucial to strategy implementation. Information management enables success of strategy.

3. Leadership:

Effective leaders carry out important tasks to put strategy into action. These are benchmarking, performance-based rewards, open communication, teambuilding, conflict management, supportive environment and environmental adaption. Leaders push for continuous improvements with benchmarking and incentives. It helps strategy implementation creating a strategy supportive work environment conducive to change. It keeps the organization responsive to changing forces that affect implementation. Conflict is managed through avoidance, diffusion or confrontation approaches by them. Promoting open communication they reduce conflict and manage change. Synergistic effects can be achieved through team building. Successful implementation depends on leader's ability to motivate employees towards objectives achievement.

4. Shaping organization culture:

Strategy implementation is facilitated by culture through emphasizing key themes or core values in organizational philosophy, institutionalizing systems, procedures and practices that reinforce desired values and managing strategy-culture relationships for strategy-culture fit. Stories and legends about key people and events and role modeling and coaching by key managers are important means of shaping organization culture. Thus the management shapes supportive organization culture for strategy implementation.

5. Reengineering:

It is a management tool for strategy implementation. It involves change in structure, technology, policies, rules, procedures and people. The focus is changing the ways the work is carried out. It recreates organization structure, reassess work processes, identify competitive advantage, develop information networks, and build cross functional and self-managed teams. It ensures employee participation and strong leadership and commitment by top management for directing reengineering efforts.

15. Why is strategy evaluation important to the organizations? Explain. (Dec 2013)(8 Marks)

Answer:

The process of strategic management requires that strategists lay down the objectives of the organization and then formulate the strategies to achieve them. The process of implementation of strategy starts with the identification of key managerial tasks which form the basis for the creation of organizational structure and design of systems. The segregation of key managerial tasks leads to a situation where individuals managers are required to perform a small portion of the overall tasks required to implement a strategy. The importance of strategic evaluation lies in the ability to coordinate the tasks performed by individual managers-and also groups, division or SBU- through control of performance.

Besides the basic reason of coordinating tasks there could be other reasons of gaining importance of strategic evaluation in the organization as described below.

Need for feedback, appraisal and reward

There is a need within an organization to receive feedback on current performance so that *appraisal can be done and good performance rewarded. This is essential for the motivation of employees.*

Check on the validity of strategic choice

Strategic evaluation helps to keep a check on the validity of a strategic choice. An ongoing process of evaluation would, in fact, provide feedback on the continued relevance of the strategic choice made during the formulation phase. This is due to the efficacy of strategic evaluation to determine the effectiveness of strategy.

Congruence between decisions and intended strategy

During the course of strategy implementation, managers are required to take scores of decisions. Strategic evaluation can help to assess whether the decisions match the intended strategy requirements. This is due to the inherent nature of any administrative system which leaves some amount of discretion in the hands of managers. In absence of such evaluation, managers would not explicitly know how to exercise such discretion.

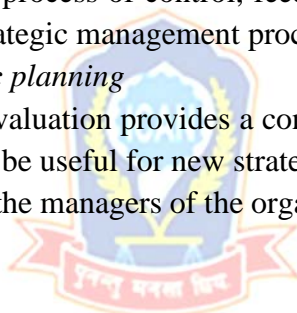
Successful culmination of the strategic management process

Strategic evaluation, through its process of control, feedback, rewards and review helps in a successful culmination of the strategic management process.

Creating inputs for new strategic planning

Lastly, the process of strategic evaluation provides a considerable amount of information and experience to strategists that can be useful for new strategic planning.

These are the main reasons why the managers of the organization give emphasis on strategic evaluation.



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17. What kinds of problems are generally encountered in the process of strategic plan implementation? What can be done to overcome these problems?

(June 2013) (4+4=8 Marks)

Answer:

Problems of successful plan implementation centre around how well or badly the existing organization responds and how adequate its reporting proves to be. In practice there are four problem areas associated with the successful implementation of strategic plan:

The first problem is that, although strategies need to be developed around the business units (SBUs) of the corporation, these units often do not correspond to parts of the organizations structure. Business units have an external market-place for goods and services, and their management can plan and execute strategies independent of other pieces of the company. Moreover, the organization structure - and its functions - derive from its history of take-over, tax considerations, shareholders considerations, economies of scale, personnel strengths and weaknesses, national legal requirements, and so on. Therefore, at any time strategy and structure need to be matched and be supportive of each other.

A second problem area is that management reports are not sensitive enough to monitor the implementation strategies, thus the strategic manager is not fully aware of what is happening. Hence the performance of existing structure is not monitored properly, and as a result control mechanisms may be ineffective.

Third problem is implementing strategy involves change, which in turn involves uncertainty and risk. Therefore, motivating managers to make changes is a key determinant.

Finally, management systems (such as compensation schemes, management development, communications systems and so on) are often in place as a result of past strategies; they are rarely revised to meet the new needs.

To overcome these problems, the following suggestions are given:

- allocating clear responsibility and accountability for the success of the overall strategy;
- limiting the number of strategies pursued at any one time;
- identifying actions to be taken to achieve the strategies;
- identifying a lists of milestones, or major intermediate progress points;
- identifying key performance measures to be monitored throughout the life of the strategy, and creating an information system to record progress.

18. Explain the relationship between strategy and structure of an organization.

(Dec 2012) (7 Marks)

Answer:

The first basic consideration in strategy implementation is creation of suitable organization structure. Structure is the pattern in which the various parts of the organization are interrelated or interconnected. Thus it prescribes relationship among various positions and activities. Since these positions are held by individuals the structure prescribes relationships among people in the organization. In designing organization structure for strategy implementation, it is advisable to make distinction between basic structure and operating mechanism. Design of basic structure involves such central issues as to how the work of the organization will be divided and assigned among various positions, groups, and departments and how the coordination necessary to accomplish total organizational activities. Such an exercise may be recorded in the form of organizational chart and manuals. Operating mechanism, on the other hand, includes such factors as control procedures, reward and punishment systems, standardized rules and procedures, information system etc.

For implementing strategy, the organization structure should be designed according to the needs of the strategy. The relationship between structure and strategy can be thought in terms of utilizing structure for strategy implementation because structure is a means to an end and not an end in itself. The most appropriate end is the objectives for which the organization exists as revealed by the strategy. Without coordination between strategy and structure, the likely outcomes are confusion, misdirection, and splintered efforts within the organization.

19. Explain the process of strategy implementation. In your opinion, which factor is the most appropriate for successful strategy implementation in an organization?

(2+5=7 Marks)(June 2012)

Answer:

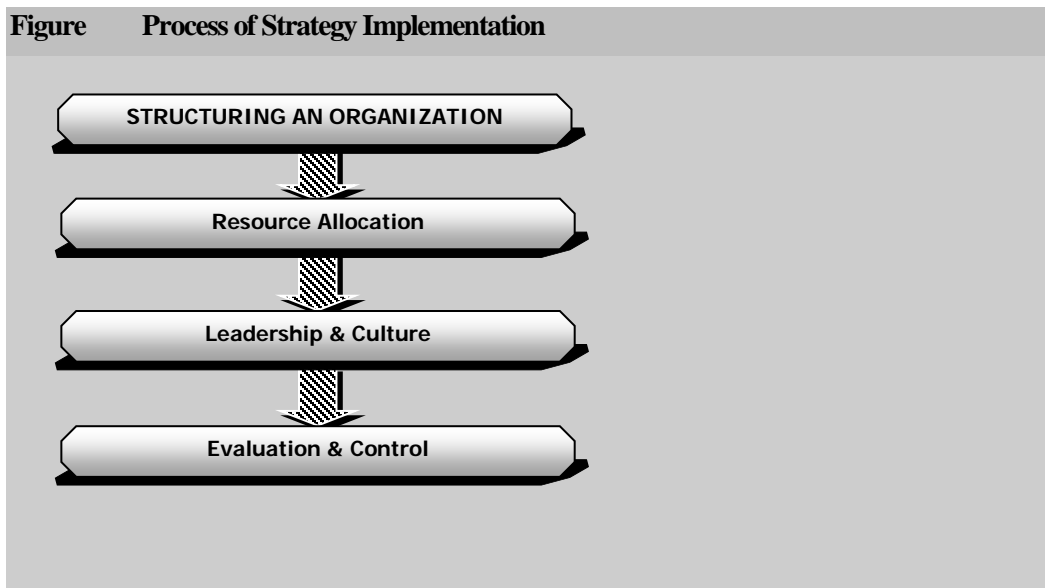
The implementation of strategy is concerned with the design and management of systems to achieve the best integration of people, structure, process and resources. This definition stresses the integration of people, structure, resources and processes required for strategy implementation. It is the sum total of the activities and choices required for the execution of a strategic plan. It is the process by which strategies and policies are put into action through the development of programs, budgets and procedures. Strategists must consider three questions.

Who will carry out the strategic plan?

What must be done to align the company's operations in the new direction?

How is every one going?

From these various opinions and expressions, we can point out the basic steps of strategic implementation.

**Structuring an organization**

Structure is very important for strategy implementation.

An organization is a group of people working together in a coordinated effort to attain a set of objectives. It is the grouping of activities and assignment of each grouping who have necessary authority to manage. Thus it is a structural framework where division of labour is made by delegation of authority with assignment of responsibility. The strategy and organizational structure for strategy implementation must have close relationship like two-way traffic. In one hand, the structure should be according to the need of the strategy so that it is implemented effectively; on the other hand, structure of the organization may play a critical role in influencing its choice of strategy.

Following are some of the major type of organizational structure for strategy implementation.

Simple Structure

Functional Structure

Multi-Divisional Structure

Holding Company Structure

Matrix Structure

20. Define strategy evaluation. Discuss difficulties generally encountered in the process of strategy evaluation. **(Dec 2011) (3+4=7 Marks)**

Answer:

Strategy evaluation is appraisal of how well a business performs. It is an attempt to look beyond the obvious facts regarding the short-term health of a business and appraise instead those more fundamental factors and trends that govern success in the chosen field of endeavor.

Strategy evaluation is becoming increasingly difficult with the passage of time. Domestic and world economies were more stable in years past, product life cycles were longer, product development cycles were longer, technological advancement was slower, changes occurred less often, there were fewer competitors, foreign companies were weak, and there were more regulated industries.

Business scenario has changed today. Business firms operate in a situation of uncertainty, intense competition and environmental turbulence. Hence, strategy evaluation has become more difficult. The following reasons pose difficulties for strategy evaluation.

- A dramatic increase in the environment's complexity
- The increasing difficulty of predicting the future with accuracy
- The rapid rate of obsolescence of even the best strategic plans
- The increase in the number of both domestic and world events affecting organizations
- The decreasing time span for which strategic planning can be done with any degree of certainty.

21. Describe the role of resource planning in activating strategies?

(June 2011) (8 Marks)

Answer:

Money and the way that it is managed can be a key determinant of strategic success. The whole process of strategic management is meant for success. Strategies are developed for implementation. Implementation activates strategies. The implementation process demands the support of structure and resources. Nothing really happens until resources are allocated to tasks for the accomplishment of objectives. For this purpose, an organization needs resource plans. The resource plan plays vital role in identification of the critical

factors for success of a particular strategy. It activates the strategies with setting priorities and allocating resources.

Critical success factors are those aspects of strategy in which an organization must excel to perform. They are underpinned by core competences in specific activities. Critical success factor analysis underlines the important relationship between resources, competences and choice of strategies. It is important while implementing strategies that the responsibilities for each of the activities from the critical success factor are properly identified.

A resource plan sets out what resources and competences need to be created and disposed of. This may well be in the form of a budget expressed as a sequence of actions or a timetable of priorities in a written plan. Network analysis can be useful in detailed planning of implementation. It is a technique for planning projects by breaking them down into their component activities and showing these activities and their interrelationships in the form of a network. The network can be used for scheduling materials and other resources and for examining the impact of changes in one sub area of the project on others.

Identifying the appropriate resources to support strategy implementation is important but it should be followed by resource allocation. The resource plan helps the activation of strategies by distributing the resources within the organization to different strategic business units, functions and tasks. The main instrument for resource allocation is budget. It should be remembered that resource allocation as expressed in the budget needs to be carefully linked to strategy. The question of who gets the most money from the budget has a major effect on the process of resource allocation. The factors could be objectives preference of dominant managers, internal policies and external influence

22. "Strategy formulation is worthless if implementation is not effective". Comment.

(June 2011) (8 Marks)

Answer:

“Strategy formulation is worthless, if implementation is not effective.” This statement is correct because strategy formulation is followed by implementation. A strategy only become meaningful when it is implemented effectively.

Strategy implementation is the process by which strategies and policies are put into action through the development of programs, budgets and procedures and integration of people, structure, process and resources. Therefore effective implementation of strategy should be supported by appropriate structure, resource planning, dynamic leadership, proper reward system for motivation, and information system.

First of all top management has to make decision about organization structure. Structure is a means to implement strategy which defines roles, activities and reporting relationship. Appropriate structure helps to implement the chosen strategy effectively.

Proper resource planning is equally important for effective implementation of strategy. Resource plans are developed to estimate future resource requirements to achieve predetermined goals. Dynamic leadership is an essential aspect of strategy implementation. Leadership influences and guides employees to implement the strategy.

Strategy implementation also requires effective communication and information system. Two way communication system and information technology are very crucial to strategy implementation. Finally, proper reward system and motivation also help to implement the strategy effectively.

23. Explain the managerial components of the strategy implementation process.

(Dec 2010) (8 Marks)

Answer:

While a company's strategy implementation approaches have to be tailored to the company's situation, certain managerial bases have to be covered no matter what the circumstances. Some managerial tasks crop up automatically in implementing strategy. They are:

- Build an organization with competencies, capabilities, and resource strengths to implement strategy successfully.
- Marshalling resources for good strategy implementation and operating excellence.
- Design appropriate policies and procedures that will facilitate strategy implementation.
- Adopt best practices and strive for continuous improvement in how value chain activities are performed.
- Install information and operating systems that enable company personnel to carry out their strategic roles proficiently.
- Tie reward and incentives directly to the achievement of strategic and financial targets and to strategy implementation.
- Shape the work environment and corporate culture to fit the strategy.
- Exert the internal leadership needed to drive implementation forward and keep improving on how the strategy is being implemented.

How well managers perform these tasks has a decisive impact on whether the outcome is a success, failure, or something in between. In devising an action agenda for implementing and executing strategy, the place of managers to start is with a probing assessment of what the organization must do differently and better to carry out the strategy successfully. They should then consider precisely how to make the necessary internal changes as rapidly as possible.

24. Explain the critical issues that emerge in the process of strategy implementation?

(Dec 2010) (8 Marks)

Answer:

Strategy implementation almost always involves the introduction of change in an organization. Managers may spend months, even years, evaluating alternatives and selecting a strategy. Frequently this strategy is then announced to the organization with the expectation that organization members will automatically see why the alternative is the best one and will begin immediate implementation. Strategy implementation involves both macro-organizational issues (e.g., technology, reward systems, decision processes, and structure), and micro-organizational issues (e.g., organization culture and resistance to change).

Macro-organizational issues are large-scale, system-wide issues that affect many people within the organization. There are several major internal subsystems of the organization that must be coordinated to successfully implement a new organization strategy. These subsystems include technology, reward systems, decision processes, and structure. As with any system, the subsystems are interrelated, and changing one may impact others. The technology employed must fit the selected strategy for it to be successfully implemented. Companies planning to differentiate their product on the basis of quality must take steps to assure that the technology is in place to produce superior quality products or services. This may entail tighter quality control or state-of-the-art equipment. Firms pursuing a low-cost strategy may take steps to automate as a means of reducing labor costs. Similarly, they might use older equipment to minimize the immediate expenditure of funds for new equipment. The other critical issues are: reward systems, decisions pertaining to resource allocations, job responsibilities, and priorities, and organizational structure.

Micro-organizational issues pertain to the behavior of individuals within the organization and how individual actors in the larger organization will view strategy implementation. Implementation can be studied by looking at the impact organization culture and resistance to change has on employee acceptance and motivation to implement the new strategy. Organizational culture is more than emotional rhetoric; the culture of an organization is influenced by the values, actions and, beliefs of individuals at all levels of the organization.

25. Modern organizational designs attempt to combine control and flexibility. How is it done?

(June 2010) (7 Marks)

Answer:

Matrices allow organizations to simultaneously have two kinds of structure – usually functional and product-based. In these compromised or mixed structures, the normal bureaucratic hierarchy is overlaid with a lattice of product-based teams or project groups. The matrix thus has dual lines of authority from a divisional structure and a basic functional chain

of command. Individuals will belong to a particular department, but will have membership of a number of teams or project groups. The advantages of matrix structures are that they allow the benefits of grouping specialisms, and flexibility this brings, together with benefits of a stable career ladder that comes from retaining a departmental base for the different occupations.

26. Write short notes on the following:

a. Nature of strategic change

(June 2017, Dec 2016)
(3 Marks)

Strategic change can be defined as a shift in the product or service mix produced by the organization and the markets to which it is offered. A key step in the shift is the discovery of a product-market idea. It is necessary to survive and grow. Strategic drift occurs when the current strategy loses the relevance to changing environment.

Strategic change implies change in strategy. Strategies in business organizations are formulated to cope with the environment. As business environment is dynamic in nature, the strategies should be reviewed constantly to address the dynamism. Strategic change consists of rethinking, reviewing and changing strategy to adapt to environmental changes. It is not an instantaneous event, but a protracted time and cost consuming process. The entire processes of strategic change should be planned and guided by the management.

b. Product based structure

The group of activities on the basis of the product or product lines is followed by organizations where there is a need to delegate to a division, All functions related to that particular product or product line. Such a need arises when the strategy adopted requires exclusive attention to a product or group of products. Expansion and diversification strategies may require a product based structure as it facilitates the addition and deletion of product divisions. Besides, a product – based structure offers the advantages of an optimum use of specialized skills and equipments, increases coordination and enables fixation of responsibility for profit making and uses of resources. However, a product- based structure can only be justified where the volume of sales of the product line is large enough to create an optimum use of resources and skills.

c. Needs assessment for strategic change

Organizational change can affect practically all aspects of organizational functioning, including organizational structure, culture, strategies, control systems, groups and teams, and human resource management system, as well as critical organizational processes such as communication, motivation, and leadership. Organizational change can bring alterations in the ways managers carry out the critical tasks of planning, organizing, leading, and controlling and the ways they perform their managerial roles.

Needs assessment for strategic change calls for two important activities: recognizing that there is a problem and identifying its source. Sometimes the need for change is obvious, such as when an organization's performance is suffering. Often, however, managers have trouble determining that something is going wrong because problems develop gradually.

Organizational performance may slip for a number of years before it becomes obvious. Thus, during the needs assessment process, managers need to follow the following steps:

- **Recognize that there is a problem**

Often gaps exist between desired performance and actual performance. To detect such a gap, managers need to look at performance measures, such as falling market share or profits, rising costs, or employees' failure to meet their established goals, which indicate whether change is needed. These measures are provided by organizational control systems.

- **Identify the source of the problem**

To discover the source of the problem, managers need to look both inside and outside the organization. Outside the organization, they must examine how changes in environmental forces may be creating opportunities and threats that are affecting internal work relationships. Managers also need to look within the organization to see whether its structure and culture are causing problems between departments.

27. Explain the approaches of strategic change management in context of strategic change.

(Dec 2015) (8 Marks)

Answer:

Strategy is the direction and scope of an organization over the long term that matches its resources to its changing environment. The need for strategic change arises from the formulation and implementation of the strategy that underpins the direction and activity of an organization. Environment is dynamic in nature. It is continually changing in shape and character. Change makes things different. It is departure from status quo. Organizations should operate in such a dynamic environment. So the ability to adapt to changing environmental forces is the essence of organizational survival and effectiveness.

Strategic change implies change in strategy. It consists of rethinking, reviewing and changing strategy to adapt to environmental changes and changing resource capabilities. It involves management tasks and processes for organizational renewal. The strategic change needs to be managed effectively following the process of understanding the force of change and diagnosing the change situation.

The approaches to managing strategic change are structure-based, people-based and technology-based. The structure-based approaches involve organizational reengineering. They consist of the levers of change in structure, control system and routine. The authority-responsibility relationships or span of control are changed. Standards and systems for measuring and appraising performance are changed or organizational routines are changed. The people-based approaches emphasize change in people's styles and roles. Reconfiguration of power structure is done to manage strategic change. Members of the organization must clearly understand the need for change and should be communicated what is involved in change. Communication reduces resistance to change by overcoming counter communications like rumors and gossips. The technology-based approaches involve change in technology. The strategic change can be based on adoption of new technology or change in production process and methods of doing work. Change in tactics is followed as tactics facilitate the execution of strategic change process.

28. Elucidate the framework for managing change.

(June 2013) (8 Marks)

Answer:

Managers have important role in managing change. They need to consider how to balance the different approaches to manage strategic change. Moreover, managers as strategic leaders need to be able to help create the organizational context which will facilitate change. The framework for managing strategic change are diagnosis of the situation. In this process the variety of contextual factors and cultural forces blocking or facilitating change should be diagnosed. There are different types of strategic change. It can be incremental, big bang, transformation and realignment. A force field analysis provides an initial view of change problems that need to be tackled.

Managing strategic change encompasses management styles and roles. They need to consider the style of management whether it is collaboration, intervention, direction or coercion. The management of change is often linked to the role of a strategic leader who is in position to have influence. Strategic change sees middle managers as implementers of strategy. Middle managers may contribute substantially either by commitment to change process or blocking it.

The framework covers the levers for managing strategic change. It is worth noting that most of the levers correspond to the outer rings of the cultural web. The implication is that the forces that act to protect current ways of doing things and current paradigm can also be levers for changing the situation. These are structure and control, organizational routines, power and political processes, communicating change and change tactics.

Different approaches and means of managing change are likely to be required for different types of change. Wider aspects of organizational context such as resources and skills that need to be preserved, the degree of homogeneity or diversity in the organization, the capability, capacity and readiness for change and the power to make change happen are important elements of change management. Normally there will be tendency towards inertia and resistance to change. Generally people will tend to hold on to existing ways of doing things. Managing strategic change must therefore address the powerful influence of the paradigm and the cultural web on the strategy being followed by the organization.

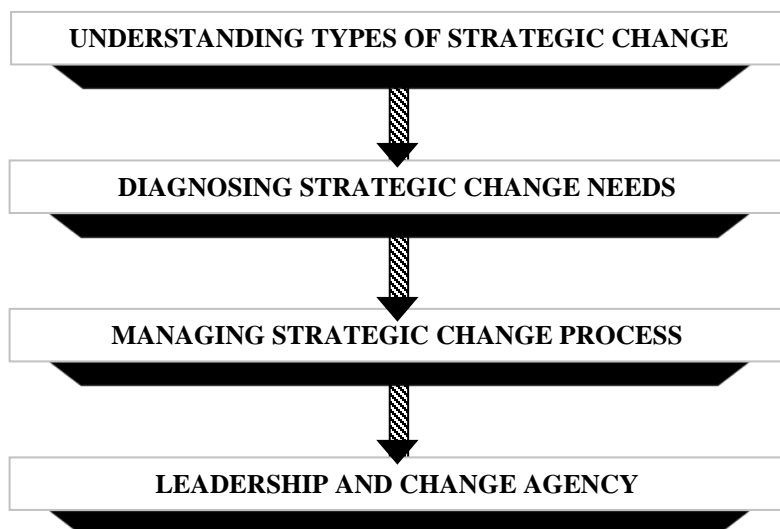
29. What are the necessary processes carried out while managing strategic change?

(Dec 2012) (8 Marks)

Answer:

It is a matter of truth that a formulated and implemented strategy is not adopted forever by an organization. Strategy is dynamic like the environment, which is changing. Strategy basically depends on the assessment of external environment which is not static. Therefore, change of strategy is unavoidable to achieve the objectives. But change of strategy in an organization depends on the extent to which people change their behavior. It is concerned with the beliefs and assumptions that they hold and the processes in the organization.

Figure presented, summarizes a framework of managing strategic change process of an organization.



There are mainly two ways to change the strategies. (a) *Incremental* i.e. change of strategy in an increasing process. In this way, the skills, routines, and beliefs of those in the organization will build up so that change is efficient and likely to win their commitment. (b) *Transformational* i.e. complete change which cannot be handled within the existing paradigm and organization routine. There are also two types of changes. (i) *Proactive* i.e. controlling a situation by making things happen rather than waiting for things and (ii) *Reactive* i.e. showing a reaction or response.

Increment change approach suggests that organizations can change by mutually reinforcing and amplifying stimuli within their system. Change takes place in the gradual manner in the current way of doing things. Increment change might therefore be seen as an adaptive process in a continually changing environment. If such incremental strategic change lags behind environmental change, the organization may get out of line with its environment.

30. Write short notes on – Strategic Change.

(3 Marks) (June 2019)

Answer:

Business environment is dynamic in nature. Strategies are formulated and implemented to cope with the environmental dynamism. They should be reviewed constantly to address the dynamism. Strategic change involves changes in the content of a firm's strategy as defined by its scope, resource deployments and, competitive advantages. Strategic drift demands change in strategy. It occurs when the current strategy loses relevancy in terms of addressing the environmental issues.



1. What is the role of Chief Executive in strategic management? **(Dec 2016) (7 Marks)**

Answer

The role of chief executive officer in strategic management is the most important among the roles by different strategists. Basically the corporate level strategy is decided and makes linkage of it to the business level strategy by the chief executive. He is the key person responsible for the execution of functions which are of strategic importance to the organization. Various types of external general environmental elements are analyzed in supervision of the chief executive officer. He analyzes and diagnoses the most concerned forces of task environment. He involves in analysis of internal factors and preparing strategic advantage profile.

A chief executive officer performs the strategic tasks and actions, which are necessary to provide a direction to the organization so as to achieve its purpose. He plays a pivotal role in setting the mission of the organization, deciding the objective and goals, identifying the organization's competitive position, developing the strategic options, making strategic decisions and preparing strategic plan. This role is to implement the strategy and watch it that the organization does not deviate from its predetermined path designed to move it from the position it is in to where it wants to be. As he is responsible for strategy implementation, he has got role in design of organization structure, allocation of resource and preparation of resource plan. He should engage in managing strategic change. The chief executive is a person whose responsibility is to make major decisions for the organization as a whole.

A chief executive, whether his position is combined with the chairman or otherwise, stands in better position to take up strategic functions. A chief executive is a chief liaison officer between the board and other personnel of the organization. On the one hand he provides information what board has decided in terms of organizational goals, policies, and on the other hand he is responsible to execute these policies and programs into action. His role is important not only in terms of actual decision making but also in terms of taking initiative to implement decisions.

2. The role of CEO in strategy formulation and implementation is vital. In light of this statement, briefly discuss the role of CEO in strategy formulation and implementation.

(June 2016) (8 Marks)

Answer

Chief executive is a person whose responsibility is to make major decisions for the organization and implementation of that decisions to secure the ends. In most of the Nepalese companies, the chief executive is referred as the chief executive officer; managing director, chairman, president, general manager etc. The CEO of the firm has to perform the roles of strategists, organizational builder, and a leader. Though, the board of director and members of top management play an important role, the strategic responsibility still lies with the CEO.

According to Mintzberg the chief executive officer, as a top management, has to perform three sets of behavioral roles: interpersonal, informational and decisional. The interpersonal roles are

ceremonial duties to be performed as a figurehead, directional roles as a leader, and liaison for outside contacts. Informational role consists of monitoring (information), and disseminating (inside the organization), and spokesman (external world). The decisional roles are those calling for entrepreneurial action, sorting out problems, allocation resources, and acting as a negotiator.

According to Ansoff and Steiner, there are two types of management, as strategic management and operational management. We should prefer to discuss with reference to Steiner's analysis, which is more practical and useful in the context of Nepal. Strategic management is top management and all other management is operational management. There are a vast difference in the thought processes, the attitudes, the perspective, the frame of reference, the method of analysis and the skills between these two types of management. The operating managers– the specialist in the particular areas say marketing, finance, production devote their entire lifetime to specializing in the particular areas that suit them, where as the CEO or general manager considers all the relevant functional areas and makes decision which are in the best interest of the organization. The CEO or general manager does not act like a "line manager" in any department or division; because it is viewed as narrow as compared to that of chief executive officer (CEO).

From this explanation, we can summarize the roles played by the CEO.

Interpersonal roles

- Figure head
- Leader
- Liaison agent

Informational roles

- Monitoring information
- Disseminating
- Spokesman

Decisional roles

- Entrepreneurial action
- Sorting out problems
- Allocating resources and
- Negotiator



According to Reilly the chief executive officer as the top management has to perform the following functions:

- Setting the objectives for the management
- Establishing policies
- Assigning responsibilities
- Selecting and developing key personnel

- Integrating people's efforts in achieving company objectives.
- Stimulating creative thinking
- Measuring and evaluating result.

Similarly, Jauch and Glueck define the role of CEO as the entrepreneur (set of goals) strategists (plans), organization build (organizes), leader (directs), and chief implementer (controls).

Role of Chief Executives

1. Setting goals	CEO is basically responsible for setting major organizational objectives: corporate philosophy, corporate mission, long-term goals and major policies.
2. Identification of opportunities	CEO is responsible for diagnosis of external environment, analyzing opportunities and threats and managing relationship in order to create condition for growth.
3. Implementation and evaluation of results	CEO is responsible for implementing projects, committing new projects or resources, measurement of performance against plans, monitoring deviations, measuring organization effectiveness and managerial effectiveness.



In Nepalese context, we find that many of the CEOs get involved in internal functioning as day-to-day operations. It results that they have less time for strategic issues. It had to be recognized that too much involvement in routine matters reduces one's creativity. This is in sharp contrast to the CEOs in the US, where they are able to allocate a large part of their time for long range planning and policy issues.

The role of chief executive, as perceived by Andrews Kenneth R is the variety of aspects grouped into three:

1. **CEO as an architect of strategy.** The requirements of this role are: **analytical** ability, creativity, self-awareness and sensitivity to society's expectations regarding the businessman's broader social responsibilities.
2. **CEO must have the sense of personal purpose and awareness of personal needs.** Similarly, awareness of society's expectation requires the CEO as innovator and organization leader. CEO must be the defender to strategy. Like other administrators, the CEO has to find himself in the role of mediator and negotiator. He must deal the conflict emerged among organizational employees. He is also responsible to make climate. Here the term climate is used to designate the quality of cooperation, the development of individuals, the extent of

member's commitment to organizational purpose, and the efficiency with which that purpose becomes translated into results.

3. **CEO as a personal leader.** Personal leadership of a CEO can be characterized in various ways, such as behavior from self oriented to organization oriented to people oriented or from task centered to relationship centered or from autocratic to democratic or laissez faire and approaches from classical to human relations to revisionist. The business leaders must have such qualities as drive, intellectual ability, initiative, creativeness, social ability and flexibility. Therefore, the CEO must examine his own characteristic behaviour to try to see whether it meets or complicates the needs of his own organization or it directs or distracts the attention given by his followers to organizational goals.

3. Who are the people involved in strategic management? Explain the role of chief executive in strategic management. **(June 2013) (4+4=8 Marks)**

Answer:

Strategic management is carried on by specific category of people in the organization. The focus of strategic management is basically on top management because it is this level of management which can take care of total organization and relate it to its environment. However; there may be other groups of personnel who may also be involved in strategic management either directly or indirectly either in staff capacity or line capacity. These people may be corporate planning staff, senior managers, SBU-level executives, middle level managers, executive assistants, and outside consultants. Within top management, there may be three types of people; shareholders, board of directors, and chief executives. Thus, in strategic management, the roles of board of directors and the chief executives are important.

The role of chief executive in strategic management is significant, both in professionally managed companies as well as family – managed companies. Chief executive is a person whose responsibility is to make major decisions for the organization as a whole. A chief executive, whether his position is combined with the chairman or otherwise, stands in a better position to take up strategic functions of the company. He is a part of the board in setting policies to be followed and objectives to be achieved. He is also responsible for implementation of these decisions. Thus, on the one hand, he is chief liaison officer between the board and other members of the organization and provides information about what board has decided in terms of organizational goals, policies, etc: On the other hand, he is responsible to execute these policies and programs into action. The role of chief executive in strategic management is quite important not only in terms of actual decision making but also in terms of taking initiative and providing relevant information to the board in order to arrive at such decisions.

3. "Critical to the success of strategic management is the role of chief executive officer". Explain. **(Dec 2012) (7 Marks)**

Answer:

The chief executive officer is referred as chairman, president, managing director or general manager. He represents the top management and has ultimate responsibility for success of the organization. Success is possible only when direction can be taken towards own competences by the organization in uncertainty of changing environment. The chief executive's main duty is to define long term direction and scope of the organization. His responsibility is to make major decisions for the organization and implementation of these decisions to secure the end. He is responsible for defining what the business firm is in and matching the best product-market opportunities with the best use of the enterprise's resources. So he must conceptualize the strategy and then initiate and maintain the strategic management process. He has to perform the roles of strategist, organizational builder and a leader. The strategic responsibility lies with the chief executive officer. In all phase of strategic management process, the role played by chief executive officer is vital.

The chief executive officer sets the major organizational objectives, corporate mission, long term goals and major policies. He is responsible for diagnosis of external environment, analyzing opportunities and threats and managing relationship in order to create condition for growth. He is also responsible for internal functioning of the organization. He determines and allocates major resources to various functions and projects. He designs organizational structure. He develops formal plan, budget and human resources. He is also involve in monitoring deviations and measuring organizational effectiveness. All the elements involved in strategic management process are linked up with the activities and responsibilities of the chief executive officer.

The chief executive is an architect of strategy and spends more time managing the process of strategic planning than they do making strategic decision. Yet the role played by the chief executive officer sets the tone for strategy formation. Hence, the chief executive officer's roles and values play a significant part in strategic management.

4. "The chief executive officer is the catalyst in strategic management". Explain. **(June 2011) (7 Marks)**

Answer:

The chief executive officer is the catalyst in strategic management. This individual is most closely identified with and ultimately accountable for a strategy's success. In most firms, particularly in larger ones, CEOs spend up to 80 percent of their time developing and guiding strategy.

The nature of the CEO's role is both symbolic and substantive in strategy implementation. First, the CEO is a symbol of the new strategy. This individual's actions and the perceived seriousness of his or her commitment to a chosen strategy, particularly if the strategy represents a major change, exert a significant influence on the intensity of subordinate managers' commitment to implement the strategy. Second, the firm's mission, objectives

and strategy, are strongly influenced by the personal goals and values of its CEO. CEO's time and personal values are important source for clarification, guidance, and adjustment during implementation of strategy.

Major changes in strategy are often preceded or quickly followed by a change in CEO. The timing suggests that different strategies require different CEO if they are to succeed. A successful turnaround strategy will require almost without exception either a change in top management or a substantial change in the behavior of the existing management team. Clearly, successful strategy implementation is directly linked to the characteristics, orientation, and actions of the CEO.

5. Define strategic leadership. What is its importance as a potential source of competitive advantage? **(June 2010) (3+5=8 marks)**

Answer:

Strategic leadership rests at the top, in particular with the CEO. Other commonly recognized strategic leaders include members of the board of directors, the top management team, and divisional managers. Regardless of their title and organizational function, strategic leaders have substantial decision-making responsibilities. Top level managers are an important resource for firms to develop and exploit competitive advantage. Strategic leaders must ensure that their firm exploits its core competencies, which are used to produce and deliver products that create value for customers, through the implementation of strategies.

Strategic leadership is the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary. Multifunctional in nature, strategic leadership involves managing through others, managing an entire organization rather than a functional unit, and coping with change that continues to increase in the competitive landscape. Because of this landscape's complexity and global nature, strategic leaders must learn how to effectively influence human behavior, often in uncertain environments.

The ability to manage human capital may be the most critical of the strategic leader's skills. At present, intellectual capital, including the ability to manage knowledge and create and commercialize innovation, affects a strategic leader's success. The crux of strategic leadership is the ability to manage the firm's operations effectively and sustain high performance over time.

A firm's ability to achieve strategic competitiveness and earn above-average returns is compromised when strategic leaders fail to respond appropriately and quickly to changes in the complex global competitive environment. The inability to respond or to identify the need to respond is one of the reasons that some of the CEOs fail. A firm's long-term competitiveness depends on managers' willingness to challenge continually their managerial frames. Strategic leaders must learn how to deal with diverse and complex competitive situations. To survive, managers do not have to make optimal decisions. They only need to make better decisions than their competitors. They also need to understand how such decisions will affect the internal systems currently in use in the firm. It is thus seen that every crucial decision of the firm

revolves around the strategic leadership. Hence, this leadership is an important potential source of a firm's competitive advantage.

6. Explain the role of CEO in strategy management.

(8 Marks) (June 2019)

Answer:

Chief Executive Officer (CEO) is the person responsible for strategic formulation and implementation. The CEO has to perform the roles of strategist, organizational builder, and a leader. Though, the board of director and members of top management play an important role, the strategic responsibility still lies with the CEO. As strategy formulation, CEO plays following vital roles.

- i. **CEO as a designer of strategy:** CEO is a designer of organizational strategy. S/he analyzes the business environment minutely and sets the long term action plan. To accomplish this role, CEO requires analytical ability, creativity, self-awareness and sensitivity to society's expectations.
- ii. **CEO as mediator and negotiator:** CEO is senior authority of the organization who deals with the conflict emerged among organizational employees, and between the business organizations. S/he should be responsible to make climate for trust, cooperation, individual development, member's commitment to the organizational purpose, and efficiency turn the strategy into end result.
- iii. **CEO as a personal leader:** CEO must examine own characteristic behavior to try to see whether it meets or complicates the needs of his own organization or it directs or distracts the attention given by followers to organizational goals. They control people by their behavior and lead the strategy formulation process.
- iv. **CEO as a resource allocator:** CEO plans and allocates resources for effective implementation of strategies formulated in order to accomplish the goal. One of the strong parts of strategic management is the best fit between organizational resources to the environmental opportunities.
- v. **CEO as strategic control:** CEO should regularly evaluate and take initiation to attain the organizational goals. S/he monitors, analyzes and selects course of action to lead the organizational success. Timely and systematic approach of the strategic control helps to achieve the goals. During this course of action, CEO may require to restructure the organization and they do.

1. Discuss the stages in rational decision-making process.

(Dec 2018) (7 Marks)

Answer:

Followings are the stages in rational decision-making process.

1) Identification of a problem

First, the manager should recognize and define decision situation *i.e. problem or opportunity*. Recognize symptoms and causes leading to problem or opportunity clearly and precisely, *i.e. its causes & relationship to other factors*. Understand the situation clearly and accurately, *i.e. falling profit, lagging sales, rising cost, customer complaint, machine failure, losing market share*. Pinpoint the gap between what we want to happen & what is likely to occur if no action is taken. Let's take an example; buying a company car is the identified problem.

2) Identification of decision criteria

Decision criteria to buy a company car may be engine size, car size, car maker nationality, navigation facility, car price, durability, after sales services, comfort, etc.

3) Allocation of weights to criteria

All decision criteria may not be equally important, hence each selected criteria in step 2 will be given weights as per priority. For example, 10 for price, 8 for interior comfort, 5 for durability, 3 for fuel economy, 1 for handling.

4) Development of alternatives

(Courses of effective action to solve the problem)

Then the decision maker lists the alternatives that could succeed in resolving the problem, e.g. Toyota Camry, Volkswagen Golf, Hyundai Elantra, Ford Focus, Kia soul, BMW 335etc. No attempt is made in this step to appraise these alternatives, only to list them.

5) Analysis of alternatives

Once the alternatives have been identified, the decision maker must critically analyze each one. Each alternative is evaluated by appraising it against the criteria. The strengths and weaknesses of each alternative become evident as they're compared with the criteria and weights established in steps 2 and 3.

6) Selection of an alternative

Select the best alternative considering the weighted criteria, *i.e. that alternative scoring the highest*.

7) Implementation of the alternative

Although the choice process is completed in the previous step, the decision may still fail if it's not implemented properly. Decision implementation includes conveying the decision to those affected and getting their commitment to it. Implementation of a decision sometimes may be obstructed by people's resistance to change (*due to feeling of insecurity, inconvenience, fear of unknown*).

2. Give the concept of strategic decision making. Examine the importance of strategic decision making. (June 2017) (3+5=8 Marks)

Answer

Strategic decisions are made by top management. Such decisions are non-routine and non-programmed decisions. They are generally made in uncertain environmental conditions. Strategic decisions are concerned with the selection of organizations mission, long-term goals and strategic plans. Strategic decisions are very broad that define the scopes of business activities. They attempt to achieve and sustain competitive advantage in the long run.

Strategic decisions making refers to the selection of best course of action for the long term future of an organization. It involves a series of activities, i.e. developing strategic options, and choosing appropriate options to achieve strategic goals.

Strategic decisions are very important decisions because of the following reasons:

- **Strategy formulation:** Strategic decisions are directly related to strategy formulation. Strategic decisions make strategic choice from among many strategic options.
- **Future direction:** Strategic decisions are important as they provide long-term direction to the organization. They guide organizations to achieve long-term goals and objectives.
- **Competitive advantage:** Strategic decisions are also important to achieve competitive advantage. They always search for unique resources and core competencies that result in competitive advantage.
- **Resource mobilization:** Strategic decisions estimate the resources requirements, identify sources of resources, accumulate and allocate resources among various strategic business units.
- **Environmental adaptation:** Strategic decisions are made within a changing environment. They are based on comprehensive analysis of external environmental forces. They promote managerial competency to adopt to the changing circumstances.
- **Strategic control:** Strategic decisions also support to strategic control. They not only set standards for future performance, but also suggest relevant corrective actions to solve the problems.
- **Performance improvement:** Strategic decisions improve managerial performance. Managerial efficiency can be evaluated in terms of quality of strategic decisions.

3. What is strategic decision making? What are its characteristics?

(June 2017) (2+3=5 Marks)

Answer

Strategic decision deals with the long run future of the entire organization. It is primarily concerned with the external rather than the internal problems and the selection of the product mix which the firm will produce and the markets to which it will sell. It is concerned with the long-term directions to achieve some advantages along with matching the activities of an organization to the environment.

Jauch and Glueck defined the strategic decision as, 'Strategic decisions are means to achieve ends'. These decisions encompass the definition of the business, products and markets to be served, functions to be performed, and major policies needed for the organization to execute these decisions to achieve objectives. This definition is regarded as a comprehensive definition, from which we can point out the core of strategic decision as:

- It is the means to achieve objectives.
- It is the long-term decision related with overall business.
- It focuses the execution of decisions.

Strategic decision have three important characteristics.

- i. **Rare:** Strategic decisions are not common and have no precedents.
- ii. **Consequential:** Strategic decision involves commitment towards substantial resources of the company and hence, high degree of efforts needed from persons at all levels.
- iii. **Directive:** Strategic decision can serve as precedence for further decisions and future actions throughout the organization.

Characteristics of strategic decision making.

1. Strategic decision is concerned with the- **long-term direction** of an organization. It is a major decision which affects the whole or main parts of the organization.
2. Strategic decision is helpful to achieve **strategic advantage** for an organization. It searches for effective positioning to achieve advantage.
3. Strategic decision **concerns with the activities** of the organization. Change in product production policies, personnel policies, etc. are the examples of strategic decisions related with the organizational activities.
4. Strategic decision **matches the resources and activities** of the organization to its environments in which it operates. It helps the organization to cope up with environment demand.
5. Strategic decision **affects operational decision**. The operational decision is related with day-to-day operations of the organization. Such decisions are mostly of repetitive nature and is taken within the overall framework of strategic decision.
6. Along with the environmental forces and resources availability, the strategic decision is **affected by the value and expectations of top management**.

7. Strategic decision is affected not only by environmental forces, resources availability and value and expectations of top management, but also by the **values and expectations of other stakeholders** who have power in the organization.

8. Strategic decision is **helpful to build on organization's resources and competence** to create opportunities. It identifies the existing resources and competence, which is a base for creating new opportunities.

4. Explain the modern quantitative techniques of strategic decision making.

(Dec 2016) (8 Marks)

Answer

The modern quantitative and scientific of decision making are more applicable for solving complex, unique and novel problems. To make some specific decision the manager does not totally rely on his personal abilities like judgment, skills and creativity but uses these abilities through scientific methods and prepares an optimal blend. The main objective of developing and introducing quantitative techniques is to ensure a high degree of precision and accuracy known as techniques of “operation research”, they use for solving complex problems. Some of the techniques are explained below:

(i) Linear Programming: This technique is used for determining the optimal combination of limited resources for achieving a given objectives. It is based on the assumption that there exists a linear relationship between the variables. With the help of linear equation, optimum combination of cost, time, and utilization of machines can be prepared. The objective function of this technique is either to maximize benefit or to minimize cost.

(ii) Probability theory: This statistical device is based on the assumption that certain things are likely to happen in the future in a pattern which can be predicated to some extent by assigning various probabilities. Decision making based on probabilities is common in all areas of strategic management. In this technique, pay-off matrices and decision trees are constructed to represent variables. Pay-off matrices help in choosing an appropriate strategy which would make the maximum contribution for achieving the objectives. The decision tree is an extension of pay-off matrices and helps the managers in assigning final results to various available courses of action, modifying these results probabilities and comparing them for selecting an appropriate course of action.

(iii) Queuing theory: It is also known as “waiting line theory” to be applied for maintaining a balance between the cost of waiting time cost of preventing the waiting line in respect of utilization of personnel, equipment, and services. It is based on the assumption that although delays are costly, eliminating them may be even more costly. This technique may be used in service organizations, hospitals and banks.

(iv) Simulation: In this method, instead of studying and analyzing the behavior of a particular system, a model is prepared in an artificial setting. All features and variables of the actual system are structured in a model and by making changes in the variables. The consequences are studied and a suitable course of action is developed for tackling the real situation. By making changes in

respect of several variables of the model, the results can be evaluated and the likely behavior of events can be observed in the model. On the basis of this exercise, necessary modification can be made in real particular system and problem related to it.

(v) Network techniques: Network techniques of project evaluation and review technique (PERT) and critical path method (CPM) are used for planning, monitoring and implementing time-bound projects. These techniques help managers in deciding the logical sequence in which various activities will be performed. By applying these techniques, large and complex projects can be executed within the stipulated time.

(vi) Decision tree: The decision tree is a graphic method used for identifying the available alternatives and the risk and outcome associated with each alternative. The pay-offs corresponding to each event are calculated. The basic data is summarized in a pay-off matrix in a tabular form. It shows the conditional values for each alternative under both positive and negative conditions.

5. What makes a decision strategic?

(Dec 2015) (7 Marks)

Answer:

Unlike many other decision, strategic decisions deal with long run future of the entire organization. Some important components make decision strategic, which comes in process of strategic management. Strategic decisions commit substantial resources and demand a great deal of commitment from people at all levels. If the decision is rare it becomes strategic decision. Strategic decisions are unusual and typically have no precedent to follow.

Decision-making pertains to all managerial functions but the strategic decision-making largely relates to the responsibilities of the senior management. Decision making in performing strategic tasks is an extremely difficult and complicated. In process of strategic management, the basic thrust of strategic decision-making is to make a choice regarding the courses of action to adopt. Some important issues related to strategic decision making are rationality, creativity and variability. Objective setting is important in strategic decision as serves as the criteria for decision making. Implementation of the selected strategy and evaluation of the implemented strategy follow in process of strategic decision-making. The strategic decision making process follows the steps of evaluating current performance result, review corporate governance, assess the external and internal environment, analyze the strategic factors, generate, evaluate and select the best alternative strategy.

The decision is the choice the strategist makes in full awareness of all available feasible alternatives. Choosing among alternatives will suggest some analytical techniques to aid in the identification of strategies and prescriptions about why some might be better than others under certain circumstances.

6. Write Short notes on :

a) Outsourcing strategies

(Dec 2013) (Dec 2012) (2.5 Marks)

Over the past decades, outsourcing the performance of some value chain activities traditionally performed in-house has become increasingly popular. Some companies have found vertical integration to be so competitively burdensome that they have disintegrated and withdrawn from some stages of the industry value chain. Moreover, a number of single –business enterprises have begun outsourcing a variety of value chain activities formally performed in-house to enable them to better concentrate their energies on a narrower, more strategy –critical portion of the overall value chain. Outsourcing strategies thus involve a conscious decision to abandon or forgo attempts to perform certain value chain activities internally and instead to farm them out to outside specialists and business partners. The two driving themes behind outsourcing are that (a) outsiders can often perform certain activities better or cheaper and (b) outsourcing allows a firm to focus its entire energies on its core business-those activities at the centre of its expertise.

b) Modular organization

A modular organization is one in which different functional components are separated from one another. This is in contrast to a composite organization in which there is no separation between functions. Modular organization is also distinct from [hierarchical organization](#). Modular organization is chiefly concerned with the horizontal design of a system whereas hierarchical organization involves a consideration of the vertical nature of the design. Thus, each level in a hierarchical system may be sub-divided into functionally-distinct modules.

A modular organization is structured via outsourcing. Different parts of the tasks needed to provide the organization's product or service are done by a wide array of other organizations brought together to create a final product or service based on the combination of their separate, independent, self-contained skills and business capabilities.

c. Value of decision trees in managerial decision making

(June 2010)

Decision trees are like road maps. They provide a means for plotting one's alternatives in a decision problem and determining where each alternative leads. This technique is based on probability analysis. Relative values for the predicted outcomes of each decision are evaluated and taken into account. This technique enables the decision maker to evaluate alternatives in terms of the best estimates of future results.

Decision trees are useful ways of showing the outcomes and potential consequences. They are particularly useful in situations where a series of decisions may be needed to be taken which could not be easily shown in a tabular form.

7. Discuss the characteristics of strategic decisions. (June 2012) (June 2010) (7 Marks)

Answer:

The strategic decisions are concerned with the long term direction of an organization. The strategic decisions are normally about trying to achieve some advantage for the organization. Strategic decisions are sometimes conceived of as the search for effective positioning to give advantage in a market or in relation to supplier.

The strategic decisions are concerned with the scope of an organization's activities.

The strategic decisions are likely to affect operational decisions. Store operation, marketing and advertising policies might need change. If the operational aspects of the organization are not in line with the strategy, no matter how well considered the strategy is, it will not succeed. It is the operational level where real strategic advantage can be achieved.

The strategy is the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and to fulfill stakeholder's expectations. Strategic decisions are likely to be complex in nature. Strategic decisions can involve a high degree of uncertainty. Strategic decisions are also likely to demand an integrated approach to managing the organization. So the uncertainty, change, long term direction, effective positioning and strategic advantages are some specific characteristics of strategic decision.

8. Explain different techniques of strategic decision making. (Dec 2011) (7 Marks)

Answer:

Strategic decision deals with the long run future of the entire organization. It is concerned with the long-term directions to achieve advantage by matching the activities of an organization to its environment.

Strategic decisions have three important characteristics.

- i. **Rare:** Strategic decisions are not common and have no precedents.
- ii. **Consequential:** strategic decisions involve commitment of substantial resources of the company and hence, high degree of efforts are needed from persons at all levels.
- iii. **Directive:** Strategic decision can serve as precedents for further decisions and future actions throughout the organization.

Techniques of strategic decision making are:

- a) Rational- Analytical Decision

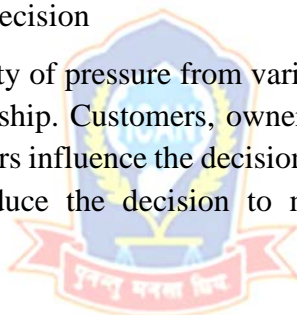
In this approach, the decision maker is a unique actor whose behavior is intelligent and rational. The actor chooses the best decision in full awareness of all available feasible alternatives. Therefore, the decisions maker considers all the alternative as well as the consequences of all the possible choices. It rests on the assumption that managers are logical and rational and they make decisions that are in the best interest of the organization. Most managers like to think of themselves as rational decision maker. Many experts argue that managers should try to be as rational as possible in making decisions. It prescribes rational, conscious, systematic and analytical approach.

b) Intuitive- Emotional Decision

Intuition is an innate belief about something without conscious consideration. Just opposite of rational- analytical decision, the intuitive emotional decision maker prefers habit or experience, gut feeling, reflective thinking to carryout the decisions. The decision maker considers a number of alternatives and simultaneously jumps from one step to another and back again. An inner sense or emotion may help managers make decision without going a full-blown rational sequence of steps.

c) Political- Behavioural Decision

The decision maker consider a variety of pressure from variety of stakeholders in a series of interdependent exchange relationship. Customers, owners, suppliers, government and even competitors or other stakeholders influence the decision makers to make the decision. So, the decision maker must produce the decision to meet the demand of various stakeholders.



9. What is strategic decision? Explain the process of strategic decision making.

(June 2011) (7 marks)

Answer:

Strategic decision making involves choices regarding the courses of action for the long term future of the organization. It is based on the consideration of strategic alternatives. Strategic decisions are made by the top management. They are made in the context of uncertain decision making environment. Strategic decisions aim for competitive advantage in the long term. They are concerned with matching organization's internal strengths with future opportunities in the environment. They define the scope of business activities. They identify markets to be served, products to be offered, resources to be committed, and capabilities to be enhanced.

The process of strategic decision making consist of:

1. **Awareness of strategic issues:** Strategic decision maker must have awareness of strategic issues. Such awareness can result from previous experience and gut feeling of decision makers, deviations in sales, profit,

performance, productivity, budget variances, and customer reaction on quality, price and services.

2. **Formulation of strategic issues:** Strategic decision maker should formulate key strategic issues. It can be based on information gathering, analysis about strategic issues, debate and discussion of issues with stakeholders, and making sense of information.
3. **Solution development:** Alternative solutions for strategic issues are developed. They can be based on known and tried solutions in the past, drawing on judgment and experience of the decision maker, collective wisdom of managers and key employees, and strategic workshops to develop solutions.
4. **Solution selection:** Solution selection is made from among the available alternative solutions. It can be based on judgment, negotiation, and bargaining.

10. Describe the trend of strategic decision making practices widely prevalent in Nepalese organizations. **(5 Marks) (June 2019)**

Answer:

Strategic decision is guided by policies, available resources and the insights of the strategists. It is normally about trying to achieve some advantage for the organization over competitors and concerned with the scope of an organization's activities. It deals with knowing organizational objective, resources availability, customers to be served and the competitors to be faced; and preparing alternative strategies to select one of the most appropriate.

The widespread trends of making strategic decisions in Nepal are;

1. **Less focus on strategic issues:** Nepalese organizations are found to give less priority for developing organizational vision and mission as well as strategy for long-term survival.
2. **Focus on short term benefits:** Nepalese organizations mostly focus on short term financial benefits at the expense of strategic goal. They tend to focus less on strategic outcomes.
3. **Lack of environmental analysis:** Strategic decisions are based on intuitive approach of the owner or manager. Environmental analysis is less emphasized.
4. **Less attention on multi effects:** A decision may affect many parts or units of an organization. This is considered less by Nepalese organizations. As such, decisions may be conflicting.

11. Write short notes on- PERT and CPM.

(3 Marks) (June 2019)

Answer:

PERT denotes Program Evaluation and Review Technique. CPM denotes Critical Path Method. Both of them are scheduling techniques that have been found useful in project management.

PERT was developed by the U.S. Navy in cooperation with Booz Allen Hamilton and the Lockheed Corporation. DuPont developed CPM. PERT has primarily been used for R&D projects though its use is more common on the development side of R&D than it is on the research side. CPM was designed for construction projects and has been generally embraced by construction industry.

Originally, PERT was strictly oriented to the time element of projects and used probabilistic activity time estimates to aid in determining the probability that a project could be completed by some given date. CPM, on the other hand, used deterministic activity time estimates and was designed to control both the time and cost aspects of a project.



1. What is project control? Discuss the fundamental purpose of control.

(Dec 2018) (6+4=10 Marks)

Answer:

Project management stress on the need to plan, check on progress, compare progress to the plan, and take corrective action if progress does not match the plan. Control is the act of reducing the gap between plan and real performance. It is the last element in the implementation cycle. Project managers wish to decrease the gaps in plan and performance. So they monitor and collect information about system performance making comparison and taking action to decrease the differences. Control process is perceived as a closed-loop system, with revised plan and schedule as possible following corrective actions. The planning-monitoring –controlling cycle is continuously in process until the project is completed.

The aim of the project is to help achieve some strategic objective of the organization. Thus the regular deliberations of the project management office or group charged with implementing the project portfolio process must include an appraisal of the continuing value of the project in achieving those objectives. Using the information, this project group may need to take some form of control action regarding the project, such as redirecting it, getting it back on track, or perhaps even terminating it.

The key things to be planned, monitored, and controlled in project management are time schedule, cost budget and scope of performance. Project management is constantly concerned with these three aspects of the project. Is the project delivering what it promised to deliver, or more? Is it making delivery at or below the promised cost? Is it making delivery at or before the promised time? The project requires the control on scope if unexpected technical problems arise. It requires the control on cost if technical difficulties need more resources. If technical difficulties took longer than planned to solve the project requires the control on time. The Problems in these aspects might be mechanistic or human. There are no purely mechanistic or purely human problems on project but a mixture of feeling and fact that is difficult to examine. So the balance in control is required instead of criticizing people in public.

Two fundamental purposes of control are the regulation of results through the alteration of activities and the stewardship of organizational assets. Mostly the control function is focused on regulation. Different activities are altered with strict regulation to achieve objectives. But the project management needs to be equally attentive to both regulation and conservation. The project manager has role of regulator as well as conservationist. Basically when we talk about the purpose of control one should never forget the fact that project management must guard the physical assets of the organization, its human resources and its financial resources. Physical asset control is concerned with asset maintenance, whether preventive or corrective. Stewardship of human resources requires controlling and maintaining the growth and development of people. Financial resource controls are exercised through a series of analysis and audits.

2. What do you mean by project? What are the essential skills required to be a successful project manager? Discuss. **(Dec 2018) (3+7=10 Marks)**

Answer:

A project is any series of activities and tasks that has specific objective to be completed within certain specifications, have defined start and end dates, have funding limits and consume resources. It is a unique one-time job that has specified starting and ending dates, a clearly specified objective and goals, a scope of work to be performed, predefined budget and usually a temporary organization in dynamic environment

The major characteristics of the project are

- ♦ Specific objectives
- ♦ Life span
- ♦ Single entity
- ♦ Custom made
- ♦ Time, cost/budget and quality constraints

The essential skills required to be a successful project manager are discussed below.

- 1. Technical skills:** It refers to the knowledge, abilities and proficiencies in performing a specialized task using technology. For this he/she should;

- ♦ Have a clear understanding of technology involved in the project
- ♦ Have a technical concept and solution
- ♦ Communicate technically with project team
- ♦ Assess technical risk, trend and innovations.

- 2. Managerial skills:** It is the ability to practice management concepts, tools and techniques. In regard to management skill the project manager must possess.

- ♦ Planning and control skills
- ♦ Organizational skills
- ♦ Decision making skills
- ♦ Human resource management skills
- ♦ Leadership skills

- 3. Human skills:** It is the ability to understand, communicate, motivate, coordinate, lead and control the behavior of project team members including project stakeholders. They basically are related to human side of project management. The major human skills required are

- ♦ Communication skill

- ♦ Motivation skill
- ♦ Negotiation and bargaining skill
- ♦ Conflict management skill
- ♦ Stress management skill

4. Conceptual skill: It involves the ability of the project manager to visualize holistically the project in its environment. These skills include the project manager's ability to identify problems and resolve problems for the realization of project deliberates within the various constraints.

5. Team building skills: One of the major responsibilities of project manager is to build a team. Hence, he must be capable of identifying, committing and integrating the various cross functional task groups into a single project team.

3. Write short notes/distinguish on the following:

(Dec 2018) (3 Marks)

a) Project termination

Answer:

Termination comes to every project. But the process of termination is never easy, always complicated. The termination stage of the project rarely has much impact on technical success or failure. It has a great deal to do with residual attitudes of the client, senior management and the project team toward the project in the form of the taste left. Implementation of plans has been carried out and death of project can be declared in clean way. But there are times when it is practically impossible to establish that death of project has occurred. The skill with which termination is managed has a great deal to do with the quality of life after the project.

In construction-type projects where the project cadre remains intact, the termination issue is eased because the team moves on to another challenge. For non-recurring projects, the issue is far more akin to the breakup of a family.

b) Project planning

(Dec 2017)

Answer

Project planning is an important phase of project life cycle process. It is concerned with the development of project for investment. Project planning is deciding in advance about what activities those are needed to be done, how the activities will be done, when the activities are to be done and who will do the activities. It is the process of setting goals and choosing the action to achieve specific goals and objectives of the project.

Project planning is an integral part of project management. It is an interdisciplinary activity involving specialized in different fields. It involves both the assessment of future opportunities and challenges of an organization and developing strategies to achieve the predetermined goals.

Project planning is defined as the function of selecting the enterprise objectives and establishing the policies, procedures and programs necessary for achieving them. It is the description of the technical contents of the project. It involves detailed design, estimates, scheduling, budgeting and allocation of human and non-human resources. Therefore, project planning is a continuous process of taking original decision with a view to achieve specific goals in future using standard norms and methodologies.

c. Critical path method (CPM)

(Dec 2016)

CPM (Critical Path Method) includes the way of relating the project schedule to the level of physical resources allocated to the project. This allows the project management to trade time for cost or vice versa. In CPM, two activity times and costs are often specified. Thus CPM charts provide the framework from which detailed planning can be initiated and costs can be controlled. CPM is activity oriented not events because, in activities such as construction, percent complete along the activity line can be determined. The CPM has been widely used in the process industries, in construction, and in single-project industrial activities.

Using strictly the CPM approach, project managers can consider the cost of speeding up, or crashing, certain phases of a project. In order to accomplish this, it is necessary to calculate a crashing cost per unit time as well as the normal expected time for each activity

4. Explain the project selection with its criteria and models.

(June 2018) (10 Marks)

Answers:

Project selection is the process that evaluates proposed projects or group of projects and chooses some set of them to implement for the purpose of achieving the objectives of the parent organization. Its same systematic process applied to any area of the organization's businesses in which choices are made between competing alternatives. Each project will have different costs, benefits, and risks. The selection of one project out of a set is a difficult task, as these are rarely known with certainty. It is important to the success of the project management that project manager fully understands the parent organization's objectives. It is better to involve project manager in the process by which projects are selected. It is important to know by the project manager why this project was selected for investment. The proper choice of investment projects is crucial to the long-run survival of every organization.

In fact project selection is only one of many decisions associated with project management. But it is concerned with many issues and problems. What we need is use models that abstract the relevant issues about a problem from the mass of detail in which the problem is embedded. The models allow stripping away almost all the reality from a problem, leaving only the relevant aspects of the real situation to deal with. The following criteria are the most important when an organization chooses a project selection model.

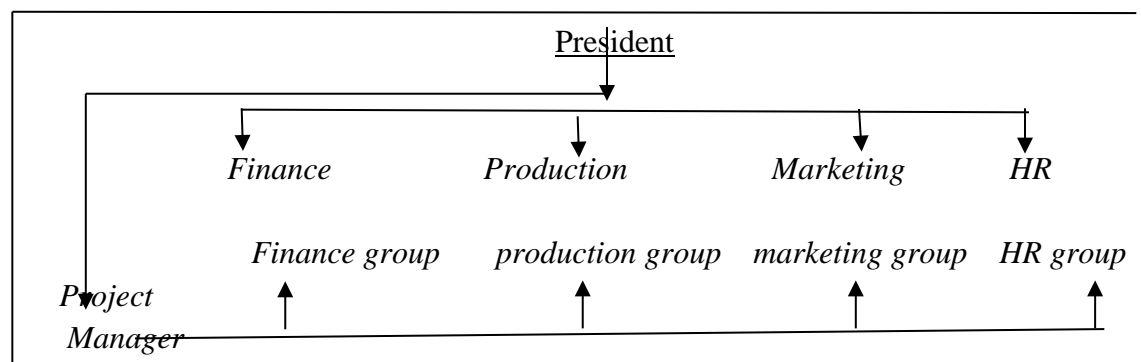
- **Realism:** The model should reflect the reality of the organization's decision situation bearing in mind that without a common measurement system, direct comparison of different projects is impossible. It should take into account the realities of organization's limitations on facilities, capital and personnel.
- **Capability:** The model should be sophisticated enough to deal with the relevant factors like multiple time periods and all types of situations.
- **Flexibility:** The model should be easy to modify in response to changes in the environment that can give valid result.
- **Ease of use:** The model should be reasonably convenient, easy to use and understand. It should not require special interpretation, excessive personnel or unavailable equipment.
- **Cost:** Including the costs of data management the modeling costs should be low relative to the cost of the project and less than the potential benefits of the project.
- **Easy computerization:** It should be easy and convenient to gather and store the information in a computer database, and to manipulate data in the model through use of widely available standard computer package.

Model assists in making decision of project selection. There are two basic types of project selection models, numeric and nonnumeric. Nonnumeric models are old and simple with some subtypes like the sacred cow, the operating necessity, the competitive necessity, the product line extension and comparative benefit model. Most uses profitability as main measure for numeric model. Real options, scoring, window of opportunity analysis and discovery driven planning are some numeric type model. Selecting the type of model to aid project selection process depends on the philosophy and wish of management.

5. Draw and describe the project organization structure. Also explain the relationship between line and project authorities. (June 2018) (4+6=10 Marks)

Answer:

Project-based organization structure (single project)



- Only one project exists across the functional departmentation

- Here the president has line authority and finance manager, production manager, marketing manager, and HR manager have line authority in their own respective specialized departments.
- Project manager directly reports to the president.
- Project manager procures finance staff, production staff, marketing staff, HR staff for the project either through outsourcing or insourcing from the respective functional departments by requesting directly to the president.

Matrix organization structure (multiple projects)

“Is a combination of structures which could take the form of product and geographical divisions, or functional and divisional structure operating in tandem”

Features

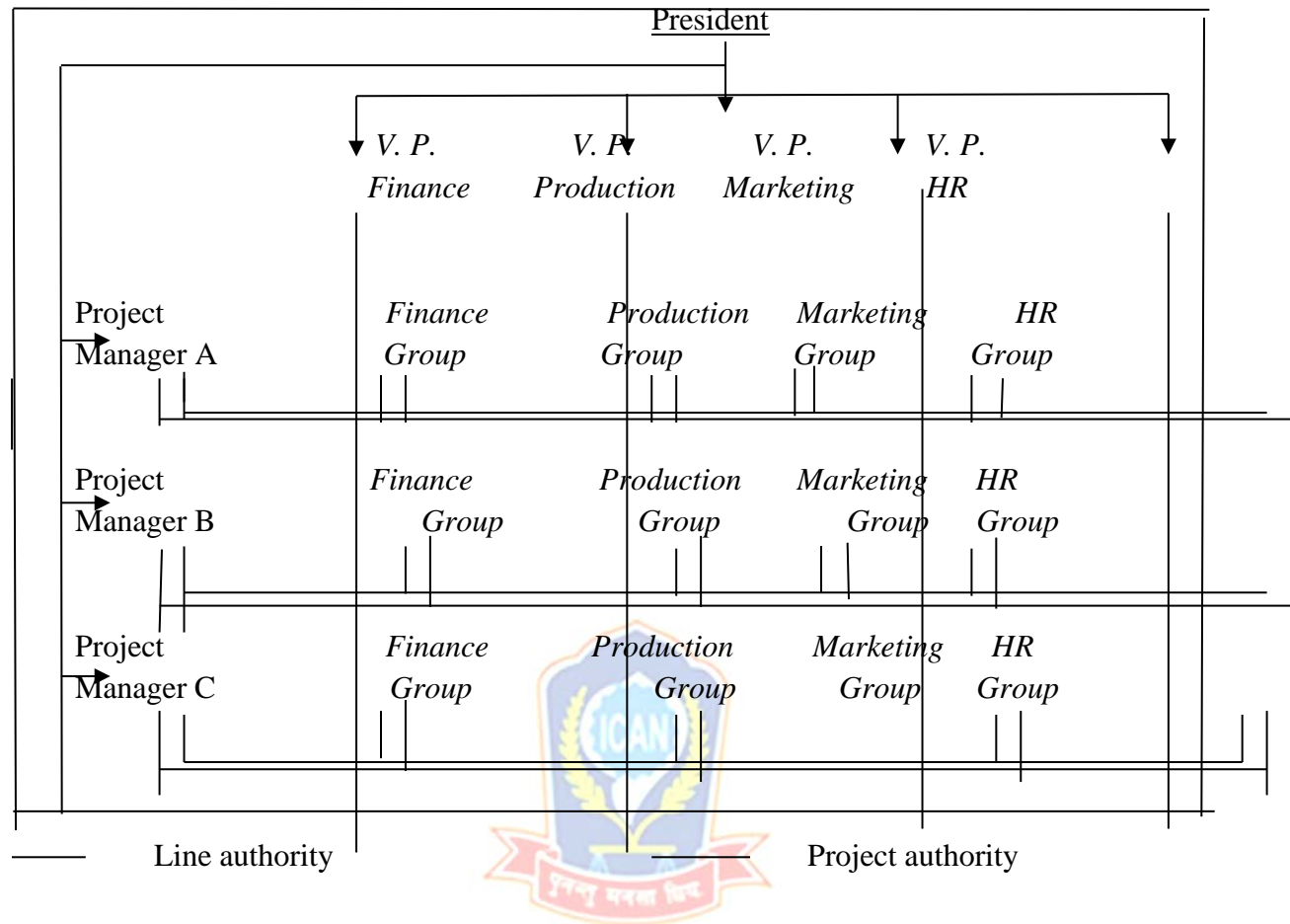
- Combination of project management and functional departmentation
- Project manager (middle managers) report directly to president.
- Project groups are temporary & scrapped when the project is completed. The employees in the project then return to their original departments.
- In matrix structure, several projects may be simultaneously undertaken.

This organization structure

- Suitable for firms whose products change frequently and are short lived, e.g. defense firms
- Permits maximum use of limited pool of functional specialists
- Direct contact replaces bureaucracy (project managers & CE)
- Increases managerial motivation
- Development of managers through increased involvement in decisions

But in matrix organization structure there

- May create power struggle/conflict between project managers and functional area heads (I.e, VPs) due to Joint responsibility
- May be delayed decisions than in conventional structure due to the conflict of line and staff
- Unclear job & task responsibilities between the staff
- Unclear cost & profit responsibilities due to the sharing of resources between the groups
- Not suitable if managers are incapable to collaborate & are fiercely competitive (internally) & who cannot cope with ambiguity
- Frequent referral to the CEO by managers in conflict will not allow CEO to devote on strategic issues.



6. Define project. Why is effective project management essential? (Dec 2017) (2+8=10 Marks)

Answer

Definition of Project

A project is a temporary activity to achieve specific objectives. It is undertaken to create a unique product or service. Project has definite starting and ending points. Project operates within the constraint of time cost and quality performance.

Harold Kerzner has defined project as any series of activities and tasks that:

- Have a specific objectives to be completed within certain specifications
- Have defined start and end dates.
- Have funding limits.
- Consume Resources.

Why Project Management ?

Project management is concerned with the planning, organizing, directing and controlling of organization resources to complete specific goals and objectives. In other words, it is the task of getting the project activities done on time, within budget and according to specifications by project team in a dynamic environment.

Project management is a new way of thinking about management. It consists of knowledge, tools and techniques to achieve specific project objectives through effective utilization of resources.

Effective Project management is very essential because of the following reasons:

- a. **Goal Attainment:** Every project has specific goals and objectives. A project without goals is unthinkable. However, specified goals can only be achieved through effective project management. Project management helps in improving the overall organizational performance through effective achievement of project objectives within the constraints of time, cost and quality.
- b. **Proper Utilization of Resources:** All projects require different types of resources. Effective project management acquires and mobilizes needed physical, financial, human and information resources. Resources are prioritized in a disciplined and practical way.
- c. **Change Management:** Project management is also important to introduce new tools, techniques, methods, equipment, processes, and functions for achieving desired results. It serves as an instrument for adopting and managing change. It removes all functional barriers which reduce resistance to change.
- d. **Better Coordination:** Better coordination can be established through effective project management. The project manager is fully responsible for project results. This promotes coordination across functional lines. The project manager makes decisions when required. Misunderstanding and conflicts can be managed quickly.
- e. **Team Management:** A project consists of multi-disciplinary diverse team formed from various functional departments. Project management promotes teamwork for better results. It attempts to maintain trust, respect and understanding among team members.
- f. **Organizational Re-engineering:** Project management is based on temporary organization structure. Project organization structure can be pure project structure or maturity structure. These structures are flexible in nature which facilitates organizational re-engineering.
- g. **Customer satisfaction:** Project management is customer oriented. It is always committed to fulfill the needs of the customers who are the ultimate users of the projects results.

7. Discuss the requirements of project negotiation with principles of negotiation.
(Dec 2017) (10 Marks)

Answer:

The negotiation is a process that a project manager needs to know. The main requirements of project negotiation indicate towards the probability of few conflicts arise and in situation of conflict too the conflicting parties seek the solutions for both. The most important requirement is honesty between parties in project.

The key to understand the nature of negotiation as it applies to project management is the realization that few of the conflicts arising in projects have to do with whether or not a task will be undertaken or a deliverable produced. Instead, they have to do with the precise design of the deliverable and/ or how who will achieve the design, when, and at what cost. The implication is clear that the work of the project will be done. If conflicts between any of the parties to the project escalate to the point where negotiations break down and work comes to a halt, everyone loses.

A second requirement for the conflict resolution or conflict reduction methods used by project management is that they allow and foster honesty between the negotiators. Any behavior that breeds mistrust will make future negotiations extremely difficult, perhaps impossible.

In fact the conflicting parties at interest to a project are not enemies or competitors, but rather allies as members of an alliance with strong common interests. It is a requirement of all conflicting parties to seek solutions to the conflict that not only satisfy their own individual needs, but also satisfy the needs of other parties to the conflict as well as the needs of the parent organization. In the language of negotiation, this is called a “win-win” solution. Negotiating to a win-win solution is the key to conflict resolution in project management. R.Fisher has developed a negotiation technique that tends to maintain the above-discussed requirements. These are the principles of negotiation.

1. **Separate the people from the problem.** Conflicting parties tend to attack one another rather than the problem because their emotion and objective fact get confused. They might be highly emotional. To minimize the likelihood that the conflict will become strictly interpersonal, the substantive problem should be carefully defined.
2. **Focus on interests, not positions.** Otherwise each party develops a high level of ego involvement in his or her position and the negotiation never focuses on the real interests and concerns of the conflicting parties. When negotiation focuses on interests, the negotiator must determine the underlying concern of the other party.
3. **Before trying to reach agreement, invent options for mutual gain.** Some efforts should be devoted in finding a wide variety of possible solutions that advance the mutual interests of the conflicting parties. Success at finding options that produce mutual gain positively reinforce win-win negotiations.
4. **Insist on using objective criteria.** Rather than bargaining on positions, attention should be given to find standards like market value or company policy that can be used to determine the quality of an outcome. Doing this tends to make the negotiation less a contest of wills

8. What are the criteria you set forth to claim that your project is successful? Explain.

(June 2017) (10 Marks)

Answer:

The definition of project success is obviously critical. After all, that's how you'll be judged as a project manager. Unfortunately, there are almost as many definitions of project success as there are project management professionals. To add to the confusion, every organization has its own view of what matters in project outcomes. So, instead of trying to focus on one definition, I'd like to offer a framework of thought on success. If you consider the many ways that projects could be deemed successful, you come to realize that project success exists on four levels, each with a unique perspective and set of metrics. And despite the specific values used to quantify success or failure, the principle remains constant. Following are the four levels of success of each project.

Level I—Meeting Project Targets

Did the project meet the original targets of cost, schedule, quality, and functionality? Although it's certainly admirable to beat these targets, my concept of success is tied to whether the project manager did what was expected. In other words, maximum success is zero variance between project targets and results. There are at least two reasons why I embrace this interpretation. First, it supports the organization's need for certainty. Second, I believe that project managers who chronically beat targets are suspect, at best.

Level II—Project Efficiency

How well was the project managed? This is a metric for the process. If the project meets its targets, but the customer groups, project team, or others were adversely affected by the project experience, the project will probably not be perceived as successful. Project efficiency can be evaluated through the use of criteria such as the following:

- The degree of disruption to the client's operation
- How effectively resources were applied
- The amount of growth and development of project team members
- How effectively conflict was managed
- The cost of the project management function

Level III—Customer or User Utility

To what extent did the project fulfill its mission of solving a problem, exploiting an opportunity, or otherwise satisfying a need? Here are some questions to help assess Level III success:

- Was the original problem solved?
- Was there a verifiable increase in sales, income, or profit?
- Did we save as much money as expected?
- Are the customers using the product as intended?

When you're assigned to manage a project, one of your first steps should be to uncover the true need. If you don't, you can't be certain that your project will satisfy that need. Unfortunately, taking time to determine the true need may be viewed by some as "backtracking." But the

alternative is to risk being perceived as unsuccessful. So back up if you aren't sure you understand the true need.

Level IV—Organizational Improvement

Did the organization learn from the project? Is that knowledge going to improve the chances that future projects will succeed at each of the three levels described above? High-performing organizations will learn from their failures—and their successes—and use that knowledge to improve their success rate in

over time. This level assumes a long-term perspective and measures organizational learning and a resultant increase in project successes. The primary tools for organizational improvement are the maintenance of accurate historical records and the widespread use of lessons learned.

9. Explain the project portfolio management highlighting the key factors of its success.

(June 2017) (10 Marks)

Answer

Projects are managed concurrently under a single umbrella and it may be either related or independent of one another. The key to portfolio management is realizing that a firm's projects share a common strategic purpose and the same scarce resources. The concept of project portfolio management holds that firms should not manage projects as independent entities, but rather should regard portfolios as unified assets. There may be multiple objectives, but they are also shared objectives. In a project-oriented company, project portfolio management poses a constant challenge between balancing long-term strategic goals and short-term needs and constraints. Project management does not mean only selection of a project in competition with other projects. In reality organization should maintain portfolio of projects and keep a proper balance among this portfolio.

Managers must be aware of the questions all the time what projects are good to fund and does the organization has the resources to support them. The project must be complementary to other company projects with good business sense. Project portfolio management is the process of bringing an organization's project management practices into line with its overall corporate strategy. By creating complementarity in its project portfolio, a company can ensure that its project management teams are working together rather than at cross-purposes. Portfolio management is also a visible symbol of the strategic direction and commercial goals of a firm. Taken together, the projects that a firm chooses to promote and develop send a clear signal to the rest of the company about priorities, resource commitment, and future directions. Finally, portfolio management is an alternative method for managing overall project risk by seeking a continuous balance among various families of projects, between risks and return trade-offs, and between efficiently run projects and nonperformers. As more and more organizations rely on project management to achieve these ends, it is likely that more and more firms will take the next logical step: organizing projects by means of portfolio management.

The successfully managed project portfolios usually reflect the following factors, which are keys to success:

- **Flexible structure and freedom of communication:** Restrictive layers of bureaucracy and narrow communication channels create constraints. When project teams are allowed to improve and experiment on existing product lines, innovative new product ideas are likely to emerge.
- **Low cost environmental scanning:** Successful organizations should constantly build and test new projects prior to full-scale development with low cost as a routine work. It is not necessary all the time devote a lot of money struggling to take new market.
- **Time-paced transition:** Successful organizations use project portfolio planning routinely to develop long lead times and plan ahead in order to make the smoothest possible transition from one product to another. Accurate predictions of the likely life cycle of current products are necessary keys.

10. What is project planning? What control process would you suggest for making the project successful? Explain **(Dec 2016) (4+6=10 Marks)**

Answer

Project planning is concerned with development of project for investment. It identifies and addresses the tasks required for accomplishment of project objectives. It acts as a road map for managing the project. It determines how the project objectives will be accomplished. It involves detail design, budgeting, scheduling and allocation of resources.

Project planning is concerned with looking ahead at the future work plan of a project. It is deciding in advance about: what activities need to be done in the project? How the activities will be done? When the activities are to be done? And who will do the activities? Project planning involves defining project objectives, determining and evaluating alternative courses of actions, and selecting an alternative to achieve objectives. It is estimating, sequencing and scheduling of project work. It is allocation of resources in a coordinated manner. It is planning the project work in a logical and structured manner.

Control is an essential function of project management. It ensures that the right things are done in the right manner and at the right time. Control is a managerial process. It is interrelated with planning. Planning provides standard of control. Control measures actual performance and compares it with standards to identify deviations. Deviations are analyzed to take corrective actions. Thus, the following control process would help to achieve project objectives:

- a) **Setting project standard:** Targets are set for each project activity in terms of time, cost, quality, etc. They serve as standards for control. Project planning is used to set such standards.

- b) Performance monitoring: Actual performance of each project activity is measured against project standards to provide feedback. Project reporting system is the source of such information.
- c) Find performance deviation: The actual performance is compared with the standards to find out deviations for each activity. The causes and incidence of deviations are analyzed.
- d) Corrective actions: Corrective actions are taken to improve performance in future period.

This is the crux of project control. It remedies the deviations to keep the system stable.

Project control should focus on critical control points in which performance deviations cause the greatest damage to the project. It should find and resolve problems to get the project back on track.

11. Define project and explain about project life cycle.

(Dec 2016) (3+7=10 Marks)

Answer

A project is a unique group of activities designed to achieve a specific objective with the constraints of time, cost and quality using resources (physical, financial, human, natural and informational). Putting differently, a project is a temporary endeavor, having a defined beginning and end usually constrained by date, cost and quality, undertaken to meet particular goals and objectives, usually to bring about beneficial change or added value. It is only a one-time activity designed to achieve specific objectives. It has fixed beginning and ending dates and formed a life cycle. It is a temporary endeavor, integrates human and non-human resources to create a unique product or service within the constraints.

The various phases in the life cycle are presented below.

a. Initiation/Formation or Conception Phase

This is the conception phase of the project. The conception takes place with the creative ideas through the situation survey, external sources (from the external environment) and internal sources (from the internal environment). Ideas are carefully screened in terms of objectives, constraints, and resource capabilities. Following this, a detailed project formulation is carried out by developing project scope, objectives and outputs, preliminary estimates of schedules, costs and resources required. Similarly, the statement of work is developed. Lastly, a detailed project proposal is developed to move the project ahead.

b. Project Planning and Design

This is the critical phase of project life cycle. This phase includes the planning of all the elements/parameters of the project so to be ready for implementation. This phase of life cycle plans resource utilization, prepares detailed plans and estimates for time, cost and quality. In this phase, feasibility study, appraisal and detailed design are performed. On the basis of technical, financial, management, marketing, economic and environmental analysis, detailed feasibility study is carried out and lastly, detail project is designed including development of operating plans and performance standards, allocation of roles and responsibilities, determination activities and resources, and setting down work schedules.

c. Project Execution and Control

This phase is concerned with getting things done through and with people. It focuses on the performance of the work of the project i.e. design, construction, production, site activation, testing, delivery etc. More specifically, it consists of managerial task of procurement of goods, services and works, building and testing, development of support materials, analysis of results to produce the system, verifying performance and modification of the system as required standards.

d. Project Closure

The last phase of project life cycle is termination phase. The project is completed and handover to the customer during this phase. It also includes the evaluation of the processes used in the project and of the outcomes achieved. The basic managerial tasks in this phase are- train functional personnel, transfer materials, transfer responsibility, release resources, reassign project team members. Differently, tasks such as assisting in transfer of project product, transfer of human and non-human resource to other organization, transfer or complete commitment, terminate the project and reward personnel.

12.

a. What is project life cycle? Explain its different stages.

(3+7=10) (June 2019)

b. Explain different attributes of project managers.

(10 Marks) (June 2019)

Answer:

The project life cycle refers to a logical sequence of activities to accomplish the projects goals or objectives. Every project has a fixed life span and it is divided into phases. The phases are collectively known as project life cycle.

The following are the different stages of project life cycle.

1. Initiation/Formation or conception phase: It is the first phase of project. The conception takes place with the creative ideas through the situation survey, external sources and internal sources. A series of managerial activities and actions are carried out in the initiation phase. It consists of;

- ♦ Determination of the need of project
- ♦ Goal establishment
- ♦ Estimation of resources the organization can commit
- ♦ Sell the organization on the need for a project organization
- ♦ Make key personnel appointments

2. Project planning and design: This phase includes the planning of all the elements of the project to be ready for implementation. This phase of project life cycle involves;

- ♦ Plans resource utilization
- ♦ Prepares detailed plans and estimates for time, cost and quality

In this phase appraisal and detailed designing are performed.

3. Project execution and control: This phase is about implementing the project. It is more concerned in getting things done through and with people. It basically, focuses on design, construction, production etc related to the project. Here performance standard are set, actual performance are measured and compared with standard so that deviation can be identified and corrected.

4. Project closure: It is considered as the last phase of project life cycle. Also called termination phase here the project is completed and handover to the customer is carried out. The basic managerial tasks in this phase are to train functional personnel, transfer materials, transfer responsibility, relines resources, reassign project team members etc.

3 b) Effective project manager is one who effectively leads the project team so that project objectives can be attained at the right time. Project managers, in general, possess the following attributes:

- 1. Effective communication skills :** Project manager is to set project goals, set work plan, member's task, responsibilities, expectation and feedback and communicate these things to project team members as well as other stakeholders. Thus, managers must be a good communicator so that they can connect with people at all levels.
- 2. Strong leadership skills :** Effective project management should have strong leadership qualities such as motivating the team member, supervising, leading and controlling the team activities and drive them to maximum performance.
- 3. Sound decision maker :** An effective project manager needs to make decision-making in several issues. S/he should have special skills of making decisions for effectiveness and efficiency.
- 4. Technical expertise :** An effective project manager needs to have sound technical knowledge to understand the issues that are related to the technical aspect. Knowledge of theory as well as the technical side can greatly help manager in taking strategic initiatives when needed.
- 5. Inspires a shared vision :** An effective project manager should to articulate the team vision to members effectively. A visionary person can lead his people to the right direction as well as easily adapt to the changes that come in the way.
- 6. Good negotiation skills :** One of the qualities needed for effective project management is the ability to negotiate. In times that conflict arise due to differences in opinion, project managers need sheer negotiating skills to settle the issue and maintain harmony in the team.
- 7. Empathetic :** Understanding and caring for people as well as being grateful for their help are a few of the things that an empathetic leader shows to his members. It includes understanding the needs of the project and its stakeholders.

1. Outline the strategic management practices typically observed in Nepalese corporate sector.
(Dec 2018) (5 marks)

Answer:

The strategic management practices typically observed in Nepalese corporate sector are as follows:

1) *less competitiveness*

-Most Nepalese organizations are less competitive in international market and the main reason for this is lack of strategic management perspective.

2) *domination of foreign multinationals*

National market is captured by foreign multinationals because they have extended their strategic management practice from their home country to Nepal.

3) *lack or ambiguity of strategic plan*

Many Nepalese organizations do not have mission, objectives, goals or they are unclear; without which they do not know where they are proceeding.

4) *inability to recognize strengths/core competencies*

-Most Nepalese organizations are unable to identify their strengths, core competencies with which to exploit environmental opportunities. Nepalese managers are not able to realize the significance of environmental analysis & diagnosis and corporate appraisal. Hence, they are not able to identify their organizational strengths & weaknesses as well as environmental opportunities & threats.

5) *short term perspectives*

-Most Nepalese organizations are concerned with short run results not long run perspectives.

-Nepalese managers do not base their decisions on the long run forecasts, but have the spur-of-the-moment reactions.

6) *reactive not proactive approach*

-Most Nepalese organizations are reactive rather than proactive and operating under entrepreneurial mode of planning. Nepalese managers and top executives are not able to anticipate the future and to plan in time to take advantages of new opportunities and to reduce the risk, i.e. inability to proact or make changes happen.

7) *inescapable global competition*

-Nepalese organizations cannot face global cut throat competition as they are not strategically strong enough to sustain this, i.e. vulnerable. Nepalese managers are not skilled enough to optimum utilization of resources and remain competitive and be capable of withstanding the severity of the global cut-throat competition.

8) *executives/managers not better decision makers*

Due to lack of strategic management practice, they are not skilled in better decision-making and actions that determine whether an organization or a country excels, survives, or dies. Hence, majority of these organizations a lower probability of success.

9) Less integration of knowledge and experience:

The Nepalese managers are not able to integrate the knowledge and experience gained in various functional areas of management and to foster a generalist approach to decision-making, problem solving, and management. They do not view organizational problems in their totality and in assessing a situation from all possible angles. They are not able to function under conditions of partial ignorance by using their judgment and intuition.

10) Lack of broad perspective:

They lack broad perspective and so infected with business myopia. So, they are not able to understand the complex interactions taking place among different functional units. They are not capable to deal with constraints and complexities of the real life business with the systemic vision.

11) Succession plan:

The middle level managers are not prepared as successors to the senior level management position and thus middle level managers are not able to contribute to the success by securing resources essential to their sub units.

2. State some planning and decision making practices common in Nepalese organizations.

(June 2018) (5 Marks)

Answers:

Organization in any country operates in a unique environment and so is the case in Nepal too. Environmental forces greatly influence the development, performance and outcomes of Nepalese organizations. Business environment in Nepal is characterized by rapid change, growing uncertainty and emerging globalization.

Environment can be external and internal. Political, economical, socio-cultural and technological forces are external environment. The situation is that the political uncertainties are increasing. The economic growth rate is very low. Foreign direct investment is being attracted. Modernization coupled with cross-cultural influences and high rate of migration are vital forces changing socio-culture. The role of information technology is increasing. But Nepalese managers do not carry out systematic auditing of environmental influences for strategic consideration. Scenario analysis is little emphasized. There is no effective competitor analysis. The state of competitive position is not very clear to the managers of Nepalese organizations. Very little emphasis is given to environmental scanning to identify opportunities.

The scenario of external environment is challenging to Nepal. It is creating threat but institutions in general are not in position to handle it properly. They are weak to grasp in time the available opportunities.

Most of management practices in Nepal are largely classical. Managers are reluctant for changing their way of making decision with prudent management practices. Though Nepal started way of industrialization but management practices have not become fully advanced and competitive. Here are some common planning and decision making practices in Nepalese organizations :

Planning practices

- Basically 'Top down' approach of planning is in practice in Nepalese organization. Managers plan and give instructions to the lower level staffs to implement.
- Nepalese managers tend to dislike pre-determined courses of action. They wish to implement ad-hoc plans at their own will. The choice of the course of action is based on their experience and interest.
- In Nepal most of organizations prepare short term strategic plan.
- Managers do not like to participate their subordinates in planning process.

Decision making practices

- Decision making is highly centralized in both public enterprises and private enterprises.
- Decisions making process lacks the employee participation and is based on experiential learning of the managers.
- Decision making tools are rarely used and the decision alternatives are not prepared. Basically intuitive decision making practice in common.
- Nepalese managers usually postpone the decision for tomorrow.
- Decisions in Nepalese organization are not effectively implemented effectively implemented. Implementation process lacks effective monitoring, evaluation and follow-up. Feedback system is not used properly.

3. Enlist any five points to show the importance of strategic management in the least developed country like Nepal. **(Dec 2017) (5 Marks)**

Answer:

Nepalese organizations should develop long-term vision and strategies in every sector to withstand the challenges posed by globalization. The following are some of the points to show the importance of strategic management in Nepal.

- **Exploitation of opportunities:** Resources like people, capital, technology and information can be fully and effectively utilized through proper strategic management. There are ample of opportunities in Nepal in terms of water resources, agriculture, tourism and human resource for the Nepalese organizations to explore.
- **Strategic fit:** Strategic management helps to identify the opportunities prevalent in the external environment by matching them with the most important resources of Nepal like people, water, and natural beauty. It alerts Nepalese organizations to adjust with the changing environmental forces.
- **Face competition:** Due to globalization and liberalization, competition is rapidly increasing in every sector of Nepalese business. Nepalese organizations can face the competition in such a competitive world market only through the effective strategic management.

- **Role management:** Strategic management helps better understanding of the authorities, responsibilities and accountabilities of individuals and groups. Such understanding reduces the gap and overlap of activities. Nepalese organizations may foster role clarity through effective strategic management. It further enhances the social responsibility of business.
- **Research and development:** Strategic management focuses on the research and development, which are very essential for growth and diversification of an organization. They result in innovations which are cornerstones for business success. Research and development are vital for the development of trade and business in Nepal.

4. Write any five major issues of strategic management in Nepal. **(June 2017) (5 Marks)**

Answer

a) The major issues of strategic management in Nepal are;

- Intuitive approach of strategy formulation is adopted rather than a systematic approach based on environmental analysis.
- Very fewer considerations are laid on infrastructures of strategic management such as resource planning, organizational structuring, development of management system, etc.
- Nepalese organizations are found to be poor in strategy evaluation.
- Lack of empowerment among operating personnel is an important issue of strategic management in Nepal.
- Most of the organizations adopt red ocean strategy.

5. How is strategy implemented? Explain the trend of strategy implementation in Nepalese organizations. **(Dec 2016) (3+7=10 Marks)**

Answer

Strategy implementation is one of the steps in strategic management process. This step is concerned with turning strategies into action. It ensures that strategies are operating in practice. Strategy is implemented in practice involving the process of structure design, resource planning and management system.

First of all the structure for strategic management is determined. It establishes reporting relationships, span of control and chain of command. Authority and responsibility relationships are clearly defined. Then the resources are matched with opportunities through plans. Resources consist of people, money, technology, time and information. Resource plans enable success of strategies. But a good management system is necessary for strategy implementation. Leadership is

provided. A change process is managed. A strong management team is put together for successful implementation of strategy.

Poor implementation of strategy has been a critical constraint for strategic success in Nepal. The Nepalese organization climate is not friendly to strategy implementation. Mostly outdated functional structures of tall hierarchy are used to implement strategies. Authority-responsibility relationships tend to be distorted. Accountability is generally missing. The organization structure in Nepal is not appropriate for successful implementation of strategy. The resource allocation plays vital role in strategy implementation but Nepalese practice of the resource allocation is not based on proper plans and budgets.

The management system for strategy implementation is weak in Nepalese organizations. Frequent changes in top management distort strategy implementation. Human resource management is not performance-based. Motivation is lacking. Decentralization is not adopted. Leadership does not give proper consideration to participative approach. Conflicts and personality clashes constrain effective implementation.

Strategic evaluation is ineffective in Nepal. Most things are not done in right manner and at the right time. Corrective actions stay postponed. The trend of strategy implementation practice is not satisfactory.

6. Define strategic decision? Enlist the strategic management issues in Nepalese organizations. **(Dec 2016) (5 Marks)**

Answer:

Strategic decision is selecting the best strategy among various probable strategies. It is the process of evaluating strategic alternatives and making choice of them which best suits on aiding the achievement of organizational objectives. Strategic decision is guided by policies, available resources and the insights of the strategists. It is normally about trying to achieve some advantage for the organization over competitors and concerned with the scope of an organization's activities. Strategic management emphasizes strategic decision making.

Some of the strategic management issues in Nepalese organizations are as follows.

- Nepalese organizations lack formal long term thinking and planning.
- The strategic components such as vision, mission, and objectives are not formulated with proper environmental analysis. In most organizations, they are not precise and well communicated to the stakeholders.
- Many organizations develop strategic planning. However, implementation and evaluation of those planning is found to be very poor.
- Management system, resource planning and leadership development are found to remain in a weak state in Nepal.

Nepalese managers are found to be weak in maintaining relationship internally as well as externally

7. Evaluate the strategic management practices in Nepalese organizations.

(Dec 2015)(June 2012,8 marks)(June 2011) (7 Marks)

Answer:

Nepalese organizations generally lack long term strategic orientation. Most of them lack vision, mission, and strategy statements. Nepalese organizations state their objectives in terms of desired outputs but the growing presence of global enterprises has compelled them to think of capturing market share and survival as the main objectives too.

Strategic planning is not important for Nepalese managers. But some selected organizations have formulated strategic plans in respective areas of activities. And multinational companies working in Nepal do prepare strategic plans. Effective SWOT analysis is lacking for strategic planning exercises in Nepal. Environmental scanning is poorly done.

Resources provide internal strengths and weaknesses to Nepalese organizations. They can be human, physical, financial and intellectual. Unique resources provide strategic advantage. Nepalese organizations have not been able to gain strategic advantage over competitors. The cheap imports from China, India and overseas have already affected Nepal's industrial growth and survival. Nepalese organizations suffer from inefficient and ineffective utilization of resources. Cost efficiency is neglected.

Strategic options are strategic alternatives. The lack of strategic orientation has resulted in very little attention to strategic options by Nepalese organizations. Most Nepalese organizations give little consideration to generic strategies, such as stability, expansion, retrenchment and combination. Market based generic strategies, such as low cost leadership, and product differentiation are somewhat considered as options.

Strategy formulations are not effective in Nepalese organization. SWOT analysis, strategic options identification and evaluation, and strategic choice are not effectively done. Portfolio analysis for resource allocation to strategic business units are missing. Even big houses are not practicing portfolio analysis exercises.

The management systems for strategy implementation are weak in Nepalese organization. Frequent changes in top management distort strategy implementation. Human resource management is not performance based. Motivation is lacking. So is decentralization. Leadership does not give proper consideration to participative approach. Conflicts and personality clashes constrain effective implementation. The organizational structure for strategy implementation is not strategy friendly.

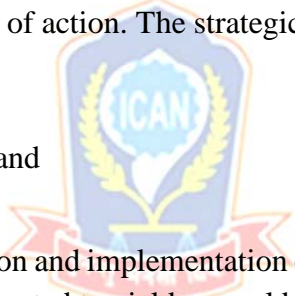
8. Defining strategic management, explain why the study of strategic management is relevant for professional accountants of Nepal?

(July 2015) (3+4=7 Marks)

Answer:

Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an

organization to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research and development, and information systems to achieve organizational success. The term strategic management is used synonymously with the term strategic planning. The latter term is more often used in the business world, whereas the former is often used in academia. Sometimes the term strategic management is used to refer to strategy formulation, implementation, and evaluation, with strategic planning referring only to strategy formulation. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; long-range planning, in contrast, tries to optimize for tomorrow the trends of today. A strategic plan is, in essence, a company's game plan. Just as a football team needs a good game plan to have a chance for success, a company must have a good strategic plan to compete successfully. Profit margins among firms in most industries have been so reduced by the global economic recession that there is little room for error in the overall strategic plan. A strategic plan results from tough managerial choices among numerous good alternatives, and it signals commitment to specific markets, policies, procedures, and operations in lieu of other, "less desirable" courses of action. The strategic-management process consists of three stages:

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- The logo of the Institute of Chartered Accountants of Nepal (ICAN) is positioned in the background of the list. It features a blue shield with a white border, containing a white book and a white torch. The letters 'ICAN' are written in white across the center. The shield is flanked by two yellow laurel branches. Below the shield is a red banner with white text.
- a. strategy formulation,
 - b. strategy implementation, and
 - c. Strategy evaluation.

Strategic management– the formulation and implementation of long-term plans and carrying out the activities may be expected to yield several benefits. It is important for organizational adoption and success to its environment. Various authors and executive create a number of reasons as to why an organization engages in strategic management. Some of the points show the relevance of the study of Strategic Management in Nepal are as follows:

Full Exploitation of Opportunities

Strategic management allows an organization's top executives to anticipate change and provides direction and control for the organization. It allows the organization to innovate in time to take advantages of new opportunities in the environment and reduce the risk because the future was anticipated. Therefore, it helps ensure full exploitation of opportunities. The strategic management process stimulates thinking about the future. It allows the organization to take action at an early stage of new trend and consider the lead-time of effective management.

Clarity in Objective and Directions

Strategic management provides clear objectives and direction for employees. It points the way for the employees to follow. Strategic management provides a strong incentive for employees and management to achieve company objectives. It serves as a basis for management evaluation and control because top executives have a unified opinion on strategic issues and actions. When the objectives are clearly spelled out, these provide clear direction to persons in the organization who are responsible for implementing the various course of actions.

Strategic Alignment

The emphasis of strategic management lies on making a good fit alignment between business strategy and management practices to make an organization more competitive in the market. Effective implementation of strategies depend on how far they can be aligned with the organizational structure, managerial activities and policies. Strategic management has an inherent qualities to maintain horizontal as well as vertical alignment among the strategies, structures, programs, resources, managerial activities and policies.

Efficiency, Effectiveness and Success

Strategic management teaches to put the resources in a way, which ensures their maximum contribution to organizational objectives. It also teaches to CEOs to become better decision maker, which is helpful to achieve effectiveness. It also improves corporate communication, the coordination, allocation of resources and budgeting etc. Strategic management focuses on business problems, not only in the sector of functional areas, but also on business areas, such as marketing, finance etc. Because of all these reasons efficiency can be accelerated, the degree of effectiveness can be increased and corporate success can be gained by an organization.

Others

- i. Strategic management focuses on the research which is essential for growth and diversification. It helps to carryout many researches which are definitely fruitful to the success of business.
- ii. Strategic management helps better understanding of the authorities and responsibilities of individual and groups which reduces the gap and overlap the activities.
- iii. Strategic management helps to cope up with changes.

A survey of nearly fifty corporations in a variety of strategic management has found out to be

- Clearer sense of strategic vision for the firm
- Sharper focus on what is strategically important
- Improved understanding of a rapidly changing environment

9. Evaluate the strategic management practices in Nepal.

(July 2015) (7 Marks)

Answer:

The Nepalese scenario presents an encouraging picture of the development of strategic management and business policy. We find that almost all management education programs have a component in the curriculum devoted to strategic management. But research in strategic management is still unknown in different organizations. The process of liberalization, globalization and privatization has provided a boost to the adaption of strategic management. Nepalese organizations generally lack long term strategic orientation. Most of them lack vision, mission, and strategy statements. Nepalese organizations state their objectives in terms of desired outputs but the growing presence of global enterprises has compelled them to think of capturing market share and survival as the main objectives too.

Strategic planning is not important for Nepalese managers. But some selected organizations have formulated strategic plans in respective areas of activities. And multinational companies working in Nepal do prepare strategic plans. Effective SWOT analysis is lacking for strategic planning exercises in Nepal. Environmental scanning is poorly done. In public sector, Chief Executive Officers tend to practice aphorism. They postpone decisions making for “tomorrow”. They survive in their positions by creating and managing crisis. Strategic management is not in their priority.

Resources provide internal strengths and weaknesses to Nepalese organizations. They can be human, physical, financial and intellectual. Unique resources provide strategic advantage. Nepalese organizations have not been able to gain strategic advantage over competitors. The cheap imports from China, India and overseas have already affected Nepal’s industrial growth and survival. Nepalese organizations suffer from inefficient and ineffective utilization of resources. Cost efficiency is neglected. Functions that can be outsourced are being performed by armies of employees.

Strategic options are strategic alternatives. The lack of strategic orientation has resulted in very little attention to strategic options by Nepalese organizations. Most Nepalese organizations give little consideration to generic strategies, such as stability, expansion, retrenchment and combination. Market based generic strategies, such as low cost leadership, and product differentiation are somewhat considered as options.

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The management systems for strategy implementation are weak in Nepalese organization. Frequent changes in top management distort strategy implementation. Human resource management is not performance based. Motivation is lacking. So is decentralization. Leadership does not give proper consideration to participative approach. Conflicts and personality clashes constrain effective implementation. The organizational structure for strategy implementation is not strategy friendly.

10. Describe the trends of strategic orientation in Nepalese organizations.

(Dec 2014) (3+5=8 Marks)

Answer:

Nepalese organizations generally lack long- term strategic orientation. They lack a long term vision of what they aspire to become. Similarly they are unclear about why do they exist in terms of mission. Many of them are confused about their future strategic direction and scope. They prepare annual budgets and strictly follow the provisions of the budget. Managers resort to for crisis management and decisions they take depend on the events and situation.

Most organizations have profit as their objectives. They aim at maximizing profit in short term.

The growing competition from globalization, together with the growth of big business houses, has made market share an important objective in recent years. The growing presence of global enterprises has made survival an important objective for Nepalese organizations.

Most organizations lack strategic perspective in decision making. This has led to suboptimization and lack of synergistic effects. Strategic decision making process is not based on careful development of strategic issues and solution alternatives. Similarly many organizations lack strategy formulation at corporate and business unit levels.

The growing presence of global enterprises has been gradually bringing consciousness about the importance of strategy in Nepalese organizations to survive in the competitive market.

11. Describe present trends of strategic orientation in Nepalese organizations.

(Dec 2013) (8 Marks)

Answer:

Nepalese organizations generally lack long- term strategic orientation. They lack a long term vision of what they aspire to become. Similarly they are unclear about why do they exist in terms of mission. Many of them are confused about their future strategic direction and scope. They prepare annual budgets and strictly follow the provisions of the budget. Managers ready for crisis management and decisions they take depending on the events and situations.

Most organizations have profit as their objectives. However the profit objective is generally not measurable. They aim at maximizing profits in short term.

The growing competition from globalization, together with the growth of big business houses, has made market share an important objective in recent years. The growing presence of global enterprises has made survival an important objective for Nepalese organizations.

Most organizations lack strategic perspective in decision making. This has led to sub optimization and lack of synergistic effects. Strategic decision making process is not based on careful development of strategic issues and solution alternatives. Similarly many organizations lack strategy formulation at corporate and business unit levels.

The growing presence of global enterprises has been gradually bringing consciousness about the importance of strategy in Nepalese organizations to survive in the competitive market.

12. What makes a decision strategic? Evaluate the decision making practices in Nepal.

(Dec 2013) (3+4=7 Marks)

Answer:

Unlike many other decision, strategic decisions deal with long run future of the entire organization. Some important components make decision strategic which comes in process of strategic management. Strategic decisions commit substantial resources and demand a great deal of commitment from people at all levels. If the decision is rare it becomes strategic decision. Strategic decisions are unusual and typically have no precedent to follow.

Decision making pertains to all managerial functions but the strategic decision making largely relates to the responsibilities of the senior management. Decision making in performing strategic tasks is an extremely difficult and complicated. In process of strategic management, the basic thrust of strategic decision making is to make a choice regarding the courses of action to adopt. Some important issues related to strategic decision making are rationality, creativity and variability. Objective setting is important in strategic decision as serves as the criteria for decision making. Implementation of the selected strategy and evaluation of the implemented strategy follow in process of strategic decision making. The strategic decision making process follows the steps of evaluating current performance result, review corporate governance, assess the external and internal environment, analyze the strategic factors, generate, evaluate and select the best alternative strategy.

The basic thrust of strategic decision making in the process of strategic management is to make a choice regarding the courses of action to adopt. Most aspects of strategy formulation rest on strategic decision making. The strategic decision making is more intuitive than intellectual and the

process is more rational and holistic than ordered and sequential. But the decision making practice in Nepal is conventional type and intellectual format. In most of the organization of Nepal, the decision making practice is in an ordered form and in situation of complexity, they use to evaluate few alternatives and make decision in direction of strong environmental pressure. They prefer the formal structured approach of decision making. Entrepreneurial opportunistic approach is lacking here in Nepal. Decision at ad hoc basis is the best practice of Nepal as the formal planning system is weak.

13. Examine strategic management practices in Nepal.

(Dec 2012) (8 Marks)

Answer:

Nepalese organizations generally lack long term strategic orientation. Most of them lack vision, mission, and strategy statements. Nepalese organizations state their objectives in terms of desired outputs but the growing presence of global enterprises has compelled them to think of capturing market share and survival as the main objectives too.

Strategic planning is not important for Nepalese managers. But some selected organizations have formulated strategic plans in respective areas of activities. And multinational companies working in Nepal do prepare strategic plans. Effective SWOT analysis is lacking for strategic planning exercises in Nepal. Environmental scanning is poorly done.

Resources provide internal strengths and weaknesses to Nepalese organizations. They can be human, physical, financial and intellectual. Unique resources provide strategic advantage. Nepalese organizations have not been able to gain strategic advantage over competitors. The cheap imports from China, India and overseas have already affected Nepal's industrial growth and survival. Nepalese organizations suffer from inefficient and ineffective utilization of resources. Cost efficiency is neglected.

Strategic options are strategic alternatives. The lack of strategic orientation has resulted in very little attention to strategic options by Nepalese organizations. Most Nepalese organizations give little consideration to generic strategies, such as stability, expansion, retrenchment and combination. Market based generic strategies, such as low cost leadership, and product differentiation are somewhat considered as options.

Strategy formulations is not effective in Nepalese organizations. SWOT analysis, strategic options identification and evaluation, and strategic choice are not effectively done. Portfolio analysis for resource allocation to strategic business units are missing. Even big houses are not practicing portfolio analysis exercises.

The management systems for strategy implementation are weak in Nepalese organization. Frequent changes in top management distort strategy implementation. Human resource management is not performance based. Motivation is lacking. So is decentralization. Leadership does not give proper consideration to participative approach. Conflicts and personality clashes constrain effective implementation. The organizational structure for strategy implementation is not strategy friendly.

14. Evaluate the strategic management practices in Nepal.**(Dec 2010) (7 Marks)****Answer:**

The Nepalese scenario presents an encouraging picture of the development of strategic management. We find that almost all management education programs have a component in the curriculum devoted to strategic management. But research in strategic management is still unknown in different organizations. The process of liberalization, globalization and privatization has provided a boost to the adoption of strategic management. Nepalese organizations generally lack long term strategic orientation. Most of them lack vision, mission, and strategy statements. Nepalese organizations state their objectives in terms of desired outputs but the growing presence of global enterprises has compelled them to think of capturing market share and survival as the main objectives too.

Strategic planning is not important for Nepalese managers. But some selected organizations have formulated strategic plans in respective areas of activities. And multinational companies working in Nepal do prepare strategic plans. Effective SWOT analysis is lacking for strategic planning exercises in Nepal. Environmental scanning is poorly done. In public sector, Chief Executive Officers postpone decisions making for “tomorrow”. They survive in their positions by creating and managing crisis. Strategic management is not in their priority.

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Question 1

Read the following and answer the questions accordingly:

(Dec 2018) (20 Marks)

Bhat-Bhateni Supermarket (BBS) is a leading supermarket and departmental store chain in Nepal. Min Bahadur Gurung, the Chairman and also the Managing Director of Bhat-Bhateni Group, established Bhat-Bhateni in the year 1984 AD as a private company. Gurung is an extraordinarily dynamic, self-made businessman. His passion for history led him to explore ancient and recent civilizations and culture. With an impressive growth history since its inception, BBS has developed a reputation for continuous improvements, low price and unique product offer to the consumers.

There are currently more than fourteen stores conveniently located in Kathmandu, Lalitpur, Bhaktapur, Pokhara, Chitwan, Dharan and Butwal. All the stores used to open from 7:30 am to 8:30 pm, 7 days per week and offer a full range of 150,000 products from 1,000 local and international suppliers.

There is an interesting history of Bhat-Bhateni supermarket. Min Gurung, born in Khotang district of Nepal, started banking career after completing his university education (MA Economics). Gurung with his wife started a single shutter grocery shop of 120 sq. feet in 1984 having initial investment of NRs. 35,000 with daily sales of NRs. 2,000. This single shutter store has transformed to become a leading supermarket chain in Nepal with his vision and courage. He left his career with the vision of extending business in a full-time capacity following the expansion to a two floor (3,000 sq. ft.) supermarket in 1992 AD having investment of NRs. 2,500,000 with daily sales of NRs. 50,000 with eleven dedicated staffs.

With the slogan 'save time, save money' Gurung always dedicated to offer quality products at reasonable price to the diversify customers which made an impressive growth of historic single shutter grocery Bhat-Bhateni to the today's BBS. As per the company report, more than 50,000 people visit the stores every day to enjoy purchasing of daily consuming kitchen products, utensils, to garment and jewelry products. It is one of the largest organizations employing about 5,000 people directly as store staff, merchandising and customer service. BBS currently does a huge business of minimum of NRs. 35 million (\$ 350,000) per day. It is known now for consistent merchandising and guaranteed customer service. It is going to be extended across the nation with its good name very shortly.

BBS has established as a known name for social responsibility. It has made remarkable contribution on establishment of fully fledged Emergency Treatment Building in Tribhuvan University Teaching Hospital (TUTH) with the funding of NRs. 140 million (\$ 1,750,000). BBS has provided job opportunities to the families of political martyrs and indigenous people. Social responsibility is being way of life at Bhat-Bhateni. It has set the vision of farmer's cooperative throughout the country to uplift their lives. BBS, now is selling the grocery items, vegetables and more purchasing from such cooperative societies. Gurung claims that his commitment to social responsibility is as strong today as it was when the company was founded. A list of areas of social responsibility contributions of BBS are as donation of money, clothes, food, cooking utensils and blankets to the Dubhekol (1995) and Sungdel (2003), Khotang flood victims,

donation of an ambulance to Tamu Boudha Sewa Samittee and funding construction of primary school in Khotang village, funding construction of Ganesh Temple (Khotang), Sai Centre (Narayan Chaur) and Shiva Temple (Haridwar, India) and constructed the green parks in Maharajgunj, Baluwatar and Koteshwor. Apart from this, BBS as part of its Corporate Social Responsibility (CSR) has provided scholarships to two students each year from the remote districts of Nepal for five-year long MBBS programmes at a leading medical college in Nepal. It is also contributing to the environmental protection campaign.

BBS offers a unique shopping experience for customers in Nepal following the international 'hypermarket' format. The ground floor offers a wide range of fresh organic food and vegetables and a broad range of leading international Liquor, Toiletries and Cosmetics brands. The remaining floors offer a wealth of choice including Kitchenware, Clothing, Sports & Toys and Electricals, with convenient escalators and air-conditioning on all floors. Each store includes a shirting & suiting service and a promotional area to display carefully selected promotions. In addition, furniture & fixtures is a new exciting offer introduced in 2009. Bhat-Bhateni and Maharajgunj premises benefit from the co-location of an excellent value jewelry stores that offer a wide range of gold and silver items in both traditional and modern ornaments. Excellent free parking facility on the premises, a secure locker system to keep personal belongings, restaurants, ATM facility of various banks, on line payments, dry cleaning services in the vicinity, a free home delivery service to the bulky purchasing, etc. make the BBS a one-stop shopping destination.

Economic development indicators are positive and different international organizations are forecasting the GDP remains at the growth rate of 6.8 per cent next year. But, continuous decrease in currency value (weakest in the history), increasing tariff, increasing valuation rate of the importing goods, etc. will increase the cost of products. Bank interest rate is fluctuating, liquidity is uncertain and the public sector expenses are too low. Increasing inflation rate will decrease the purchasing power of the buyers. Socio-economic dimension has been changing. Political stability has set a milestone to the corporate sector development. Such macro environmental factors cause the future business level of BBS.

Besides the inspiring successful history, there are few symptoms for decreasing the sales volume in future. Big Mart, a grocery super market is expanding its coverage throughout Kathmandu valley. It is providing wide range of grocery goods almost in each nook and corner at comparable price range. Big Mart provides information regarding new arrival and the change in price offer to each household. It facilitates home delivery facility. More importantly, Big Mart is extending its stores at nearest location of major residential areas. Likewise, KK store is another supermarket extending its business in the city. Thus, many marts at the individual level are also providing purchasing joys to the customers. Many shopping malls provide the varieties of kitchenware, clothing, toys and electronics. Such developments in business structure models alarm the sales expansion of BBS in the future.

- a) Prepare Environmental Threat Opportunity Profile (ETOP) for Bhat-Bhateni supermarket. What is the competitive advantage over the other sellers can BBS enjoy? (7+3=10)

- b) What different strategies do you suggest to the BBS in order to sustain the Continuous Growth ? (10)

Answer:

1. a) Environment threat and opportunity profile is a technique to structure the environment for fundamental business analysis. It is the analysis of external environment of any business. This technique was developed by glueck. The preparation of ETOP involves dividing the environmental factors into different sectors and then analyzing the impact of each sector on the organization. A summary description of ETOP of Bhat-Bhateni supermarket is presented below :

Environmental sector	Environmental indicators	Nature of Impact	Impact of each sector
Political	<ul style="list-style-type: none"> - Political stability - Majority government - Local government formation 	+ + +	There will be positive impact of political change on business
Economic	<ul style="list-style-type: none"> - Growing per capita income - Growing GDP - Weak national currency - Increasing inflation 	+ + - -	There will be immediate impact of economy on business but long term benefits can be attained
Social	<ul style="list-style-type: none"> - Employing both husband and wife - Advancing marriage age - Involving female for higher education. - Social involvement - Increasing consumerism - Increasing involvement of people in agriculture production 	+ +/- + + +/- +	There seems to be benefits of change in social dimension on business in aggregate.
Technological	<ul style="list-style-type: none"> - Online shopping - Home delivery service - Business applications 	+ - -	Technological environment seems to increase investment on supply of goods and services.
Market	<ul style="list-style-type: none"> - Growth of market - Decreasing demand of local products 	+ -	Market changes seem to create more challenges on selling local products.
Competition	<ul style="list-style-type: none"> - Increasing supermarkets - Increasing franchising 	- -	Competition creates threats to the existing level business on the product line
International	<ul style="list-style-type: none"> - Threats of Chinese substitutes 	-	International business creates always challenges

Competitive advantages: A competitive advantage is an advantage gained over competitors by offering customers greater value, either through lower prices or by providing additional benefits and service that justify similar, or possibly higher, prices. Competitive advantage is gained through internal environmental analysis. Only the unique resources create competitive advantages. Bhat-Bhateni supermarket has the following competitive advantages over competitors:

Specialized products: BBS provides specialized product which are not available in the market. It purchases at bulk from large number of suppliers which cannot be purchased by small supermarket.

- **Local products:** BBS has set local suppliers on cooperative producers. It is difficult to set such channel by every supermarket.
- **Unique service:** BBS has several unique services like free parking facility, home delivery, ATM lounges, restaurants and more.
- **Providing international purchasing experience:** BBS is departmentalized one-stop purchasing supermarket with specialized product display. Large number of products offering within the same product line is the best value creating action.
- **Integrated target customers:** BBS provides blend of products offering from kid to senior citizens with wide range of price affordable to each customers. It is thus, a center for all the customers.

b) Following different strategies are suggested to BBS to sustain and grow the sales.

i. Corporate level strategy: Since BBS is strong organization having good organizational image and wide coverage of product and customers, it should continue growth strategy. For the growth strategy, following different strategies are suggested:

- **Market penetration strategy:** BBS should start up its new branches in major cities of Nepal. It should follow strategies for lowering the price in various occasions.
- **Market development strategy:** As being the market leader, BBS should continue the market development strategy for different innovative products.
- **Product expansion strategy:** Though BBS provides wide range of products with 150000 varieties; it should continue to add the number of products. Less contributing products should be dropped down.
- **Diversification strategy:** BBS should conduct marketing research and should provide the products which customers mostly like to purchase.

ii. Strategic business level strategies: BBS has departments on the basis of the product line. Each department has some specific features and contributes to the net profit. As per the case, there is competition on grocery product line, thus, BBS can highlight the strategies in more profitable departments. Likewise, research department should try to standardize the products,

sales department should innovate how the additional sales can be made. Proper advertisement should be focused. Human resources should be motivated to have best contribution. For instance, during winter, special discount offer can be made in refrigerators. Product depth should be increased. Product should have own design, color and texture so that consumers feel BBS provides unique products.

iii. Operational strategies: In many of the cases, current level of operational strategies should be followed. Especially in grocery items, products should be standardized, organic products should be kept separate from non-organic products, and there should be frequent price change as Big Mart does. Human resources should be properly supervised so that they can pay due concern in quality. Product packaging for vegetables should be trustable.

Question 2

Read the following and answer the questions accordingly:

(June 2018) (20 Marks)

Mr. Bhagawat Malhotra, chairman of Nepal's largest business group, decided to restructure and streamline the company by focusing on a few key industries and selling off business that do not logically fit into those industries. He made the decision suddenly after the blockade in December 2015.

He had started his business fifty years back. In 1965 he opened Bhagawat grocery shop near Basantapur. After one year he added there a tea corner with comfortable chairs decorating the wall by Nepalese Thangka paintings. The tea stall became a unique place for foreign tourists visiting Nepal. He did not miss the opportunity of flourishing tourist business in Nepal. Next year he moved to Basantapur Durbar square area near to immigration office and fully decorated the shop with traditional cultural reflection with additional background music of Nepalese folk songs.

While enjoying the growing success of the Teashop for five years, he identified another sector of business mostly related to previous one. He wishes to lead market of teashop with unique flavor and taste of tea grown in hill region of Nepal and serve variety of tea to the customers in typical Nepalese village with view of natural tea garden. He presented his proposal to the government and it had been immediately accepted, as the government policy was to support the tourism industry in the nation. So he got full support of central and local government as well financial to land acquisition. His business was expanded to all fourteen zones.

He assessed the need for transportation service to operate the business through out the nation. The government granted the permission of importing cars and buses and custom duties are exempted. As all the time he analyzed the economic and political situation, he found the opportunities of forming new establishments and adding new product lines. After the people's movement of 1991 his decision was so fast and compatible to situation that he could make the money from every business unit. Now he owns Bhagawat group of twenty-two diverse companies that manufacture a wide range of merchandise from tea to steel.

In one side the weak monetary and fiscal policy, instable government and labour unions created threat to those steel and cement manufacturing industries. On the other side the market of organic tea is expanding globally and globalization is making space for competency promoting multi-country operations. Mr. Bhagawat Malhotra's vision is to become a regional leader in organic tea and coffee. To implement this vision, Bhagawat group already have formed joint partnerships and strategic alliances with a number of well known Tea-Coffee companies of South East Asian Nations.

- a) Explain the ability of Mr. Bhagawat Malhotra in making decision to assess the impact of external environment? **10**
- b) Discuss the above case from a strategic viewpoint. **10**

Answers:

a) An organization's ability to cope with its external environment is probably the major factor for its success or failure. Changes in customer needs, economic and political conditions not only affect the business company but can make or break an entire industry. Bhagawat group has learned to interact profitably with its environment. Generally the managers have a tendency to focus on the working of the organization, that is, its internal environment. They usually underestimate the effect of the external environment on their business. It is important to take in consideration the external environmental forces during management decision-making. The prioritizing of these external factors needs considerable conceptual ability in the context of specific situation.

In above case, Mr. Bhagawat Malhotra has been successful to do this. He has ability to analyze each of the external environmental forces and structure its impact on his business with clear picture of opportunities and threats. Opportunities provide potential for market growth and he pursued the growth strategy. New product, new markets and new functions are added in Bhagawat group business. He followed growth strategy through diversification. It facilitated growth in size and large scale of operations provides strategic advantage to his business.

The major factors in the external environment are political, economic, socio-cultural and technological. Keeping an eye on political and sociological factors, Mr. Malhotra had been able to identify opportunities that he could expand the grocery shop to multiline big business company. Tourism industry was flourishing at time of his new venture in business. Government policy was to support the tourism industry and Bhagawat group grasped the opportunity. He went on adding new product line in his business as environment favors.

Environmental analysis results in a mass of information related to forces offering opportunities and challenging with threats. As per the information provided in above case, recently he visualized the threat of weak governance system and weak political institutions. As all the time he analyzes the economic and political situation, he became aware of the threatening alarm by the impact of weak monetary and fiscal policy. The opportunity prevailing in the environmental

element of global context is very positive in present situation. So he chooses the strategy of joint development and strategic alliances method.

b) Strategy is something that is critical and provides long term future direction. It is not a quick fix. The modality of business followed by Bhagawat group for sure is not like a quick fix. It has vision of long-term future direction. From the very start of its business fifty years back, it is heading towards growth and expansion. It is clear about its way to get success and survive for long run.

As a grocery shop it protected its market share and new product teashop was developed for existing market. Market development strategy adapted with new territories and new competencies. With diversification it exploited its core competencies of uniqueness in new business too. So in above case, the business owner is very sharp in directions for strategy development.

Its central focus is on continuity of the business. Alternative strategies are considered and right method for strategy development is followed. As the political and economic environment of the country is getting complex and threatening, Bhagawat group has formed joint development and strategic alliances. This alliances help to exploit current resources and competencies. In future, learning from partners can develop new competencies. Mr. Malhotra as a strategist of Bhagawat group of business is critical enough in thinking and making the decision right.

Just from above information, it cannot say that it is strictly following the strategic management process or not. But the company is creating competitive advantages as strategic management does. It is leading successfully through all changes in the environment. Strategic management includes understanding the strategic position of the company, strategic choices for the future, and turning strategies into actions. In above case, it seems to have gone this process and done well.

Question 3

(Dec 2017)

Miss Ruby Pandey was the first beautician of Nepal. People from cold Himalayan region to hot Tarai region began to come in her beauty parlor situated in Kathmandu to learn beauty tips. They began to share the traditional methods of hair wash and available herbs used to make skin soft. After a year they formed a small group with motivation of Miss Pandey and dedicated their time in sharpening their knowledge of using Nepalese herbs for beauty purpose. Ruby Pandey registered Shringar Company and started production employing same group of people. It got success in marketing of its product and the business has been expanded.

Shringar Company's success had been based on extremely high levels of employee's productivity. The company attributes its productivity to a strong organizational culture of respect for the ability of the individual. Its focus was on recruitment of highly skilled manpower. It had satisfied workers with different incentive schemes. After ten years of its establishment the company merged with Nepal Saundarya Sadhan Limited.

For few years the company earned a quite satisfactory level of profit. But then after its market share and profit went on declining. Since the days of attraction to Nepalese people for foreign job, the company faced the problem of retaining its skilled workers. Most of them left the

company as they got opportunities to go abroad. Newly hired workers were not perfect to the job. They had little knowledge about operation of the machine and perfect timing of mixing the herbs. The training and development part of the employees remain ignored. The company could not correctly motivate employees for better performance. The managers focus all their time on today. They never paid attention towards success for tomorrow. They did not believe that the business managers should be aware of the need for strategic management. The company replaces the old machines by new machines, which needs skilled manpower to handle. But they paid less attention towards the factor of lacking skilled manpower in the labour market. With long process of selection and recruitment the company hired the people but they left the job within one year. The managers of Nepal Saundarya Sadhan Limited have not gone through a thorough grasp of the external environment and internal reality. The company lacks strategic planning and strategic management.

- a) Explain the problem of Nepal Saundarya Sadhan Limited from managerial point of view.
(10 Marks)
- b) Do you think the managers of above company know the value of environmental analysis?
(10 Marks)

Answer:

a) Shringar Company started at the time when people are interested to share their knowledge among a group. Miss Ruby took the initiation in production and distribution of beauty product and it should be noted that she is a beautician. Her depth knowledge and public relation works well for qualitative product and wider distribution. The history of success of the company looks to be rooted on family type environment. But now the whole scene is changed. It became Nepal Saundarya Sadhan after merger. Immediately after few years of merger the profit has been slow down. Its market share declined. In fact the likely problems should be viewed from managerial point of view to manage successfully.

The main problem of Nepal Saundarya Sadhan Limited is that its managers have no knowledge of management science and philosophies developed recently. They never tried to follow the new principles of management. They did not believe that the business managers should be aware of strategic management. The concept of strategy has entered in the field of management recently and the business managers began to adopt the strategic management. The strategic management is a future-oriented proactive management system but the managers of Nepal Saundarya Sadhan Limited focus all their time on today. Managers should see the value of trying to anticipate the future and to prepare for it. The company should prepare systems, procedures, budget and long term plan. Here the company lacks strategic plan and strategic management. This is the problem. The managers of above Company have not yet thought about the new strategies as per the change in environment. Today's global relationship and flow of human resources from one country to another is a great challenge to this company. But the company did not accept any effect upon its operation style. The company is so rigid that it is purchasing same complicated

machines though their workers do not have knowledge of its operation. The management lacks the component of training and development of human resources. The management did not pay any attention towards motivation. There is defect in human resource management that it could not retain the employees for more than a year.

The threat to the company is the declining rate of profit and market share. The problem is the management team who did not care the changed situation. They have not gone through a thorough grasp of the external environment and internal reality. The whole scenario has been changed but the managers have not changed their management style.

b) The managers of Nepal Saundarya Sadhan Limited are not interested in environmental analysis. Its market share and profit is declining. It does not seem to be aware of change in external environment and industry environment. They are unaware about technology and machines. They install the machines which are difficult to operate. The taste and choice of customer in product of beauty is so fast changing that unless the strategic planning has done in proper way, one cannot be in position to survive. Traditional type of connection cannot grasp the market share for its product in to-day's global age.

In the process of environmental analysis, management monitors the environmental factors that determine the opportunities and threats to own organization. The managers of above Company have neither gone through thorough external environment nor internal reality factors. Internal factors like organizational policies, resources, structure and culture determine the relative strengths and weaknesses of the organization. Strengths are the positive internal characteristics that can be exploited to achieve goals. Weaknesses are internal characteristics that restrict its performance. At initial phase when it started in the name of Shringar Company, it had strength of employees' group work and high level of employee's productivity. But now the problem is getting required level skilled manpower. They lack basic knowledge of herb mixing perfect time, which directly affect the quality of the beauty product. In above case discussion, managers are silent in its weakness. Their attention is not towards the uniqueness of own product.

In its context the political, economical, social, technical and global elements of environment have been changed dramatically. Multiparty system has been established in the country that followed different industrial and economic policies. Buyers' bargaining power has been strengthened. Labor union formed in the organizations. The number of suppliers and competitors has been increased. Economic reality and global opportunity made Nepalese people go abroad for job. Expectation level and behavior pattern of employees are changed as per change in society and social norms. A business has to interact with society made up of beliefs, values and even class structure. It looks that above company ignored all social surroundings. Factors in technology impact business but even the technology has not been given priority here. The managers should diagnose the environment and identify opportunities and threats affecting their

business. Environmental analysis and organizational appraisal lead to the generation of strategic alternatives.

The strategy might not be always expansion; it can be stability or some time retrenchment. It has to develop its core competences. But it seems that the company has never gone through these processes. There is a direct cause- effect relationship between the environmental change and the strategy adapted. The managers in above case did not analyze the environment as it is ignoring the strategic management.

Question 4

(June 2017)

Tea industry in Nepal is growing rapidly due to the active participation of the private sector. Now, Nepal is self-sufficient in CTC tea. There is a huge international market for Orthodox tea. According to Nepal Tea and Coffee Development Board, 20 million kg of tea is produced in the country annually. Out of this, only four million kg is orthodox type. About eight million kg of tea produced in the country is consumed domestically and the rest 12 million kg are exported.

International demand for tea produced in Nepal was hit hard in Europe and USA when a test in Germany few months ago revealed that it contained a harmful chemical called 'anthraquinone'. However, the situation has improved. Recently, a Chinese businessman contacted to make a recurring deal of 200,000 kg organic tea per year. Chinese are also among the major customers of Nepali organic tea. Nepal produces varieties of high-quality teas that cater to the varied needs of global customers. Quality tea is sold at €100 per kg in foreign markets.

The organic feature of the tea has become a minimum quality acceptable in Western markets. Western customers have started seeking other standards in tea production, such as eco-friendliness and bio-friendliness. In the past few weeks, Indian tea producers and traders have been seeking ban on import of non-organic orthodox tea from Nepal in their country.

Keeping health issues in mind, some organic tea producers in the country have demanded the government to make all the production of tea organic in Nepal. They have argued that this step not only have health benefits for consumers, but also helps the economy grow.

However, those in opposition say that the move could do more harm than good. Organic production takes at least three years to complete. And with the lengthy time, the production can be affected by fertilizers shortage and other challenges, according to non-organic tea producers.

Frequent strikes by the workers, effect of climate change, low labour productivity, poor support from the government, high cost of capital, use of modern technologies, competition with Indian tea, and promotion at international market, etc. are some of the major issues confronting the Nepalese tea industries.

Questions:

- a) Identify the components of the task and general environments that Nepalese tea industries are facing in light of the probable opportunities and threats they create. **(10 Marks)**
- b) In view of the growing globalization, what strategies should Nepalese tea industries adopt to remain competitive in the market? **(10 Marks)**

Answer

a) Each and every business is environment specific. This equally applies to the tea industry. The operating or task environment is composed of the factors that are directly related to the competitive position of a business. It consists of different stakeholders who have direct or indirect interest in the performance of the business. The general environment is composed of the factors that are broad and affect the industries and the firms competing each other. The general environmental forces should be scanned, monitored, forecasted, and assessed to determine their effects on the firm in terms of opportunities and threats.

The general environmental components of Nepalese tea industry are;

- Political environment: Instable leading to policy instability and political risks
- Economic environment: Increasing purchasing power of the people
- Legal environment: Favourable legislations of the government emphasizing the private sector
- Technological environment: Low investment in R & D and low level of technology employed
- Socio-cultural environment- Exists tea culture
- Global environment- Poor integration with global economy

The task environment of Nepalese tea industry consists of;

- Customer: High bargaining power
- Supplier: Moderate bargaining power
- Competitiveness: High with domestic and Indian products
- Substitution: High due to presence of different coffee brands, other drinks.
- New entrants: Moderate possibility

b) Globalization is a gradual process of integrating the world. Economic globalization views the whole world into an economic unit. All the business organizations are affected by the trend of globalization. Nepalese tea industry is not an exception.

Nepalese tea industry should follow expansion strategy at corporate level and differentiation strategy at business level to compete successfully in the global market. It should pursue the expansion strategy through product as well as market development. Product line development and product innovations are possible long term actions of Nepalese tea industry to take competitive advantage at international level. Likewise, the limited market coverage of Nepalese tea in the world should be expanded as much as possible. Nepalese tea should be exported in large quantity in diversified countries.

At the business level, Nepalese tea industry should follow differentiation strategy. Nepalese tea has its unique features due to climatic favorableness and organic way of production. However, cost leadership strategy may be followed for the products that are likely to be sold at domestic products. These ways, Nepalese tea can compete with the foreign products (especially Indian).

Question 5**(Dec 2016)**

There was a time in Nepal when the government strictly censored people's voice. Each and every word of songs should pass through the strict censorship. At that time Ramro Recording Company (RRC) was only one organization that recorded variety of songs and distributed its records in market. After the democracy of 1990, music industry was expanded to such a level that the audio recording companies exceeded to one hundred. Development of technology created the market of video songs. With increased television channels two hundred telefilm studios were registered. Today in every nook and corner of big cities, there are a number of the music video entertainment businesses. These businesses in operation are highly affected by technology development and people's life style habituated with television set in every house.

Recently Ministry of Communication and Ministry of Industry designed a policy of merger of telefilm studio and audio recording organizations. As a result together Ramro Recording Company and Hamro Sundar Cinema (HSC) merged together. RRC was 40 years old organization whereas since the last 4 years old HSC was dominating the music video entertainment market. RRC had enormous investments in classical music and music assets such as best-selling song records. It has recorded songs in voice of great artists with its copyright. As these two business organizations merged together their market power increased. It brought together HSC's millions of modern song lover customers with RRC's typical classical music lovers. By assembling assets, equipment, audiences and advertisers of two different sectors, this merged organization created an opportunity to move so far ahead that others would not catch up for years. It engineered the creation of audiovisual entertainment domain.

RRC has a lot to gain from the merger as its market had dropped substantially during 2000 in line with other hi-tech visual stocks. HSC had never got the opportunity of video making in the classical songs of legend singers though it has large advertising revenues and large domain in music industry. Delivering next generation products with digital music is found to be a tough agenda for them in future.

- a. How can be the issues facing by RRC and HSC including their decision is strategic? **(10 Mark)**
- b. Discuss the method of strategy development followed in above case. **(10 Mark)**

Answer**a)**

All actions and final decision of merger is strategic in above case. Strategic decision is selecting the best strategy among various probable strategies. They can choose the strategy of joint development, which share resources and activities on temporary nature. They can also combine some of their resources and capabilities to create a competitive advantage following the strategy

of strategic alliance. Both of the organizations have option of internal development strategy. From among the many options RRC and HSC agree to integrate their operations on a relatively coequal basis merging one with another. This decision is dynamic in nature since they are taken to exploit the opportunities from the environment and also to protect the organization from threats. The hi-tech video music was diminishing the competitiveness of RRC and the merging decision could protect it. HSC also got opportunity to get the market of classical music loving customers.

Though RRC had goodwill of best-selling records and copy right of legend singers' songs, it was loosing its market. This issue is strategic as it affects the survival of the organization. This decision is strategic because it has been done after 40 years of its establishment. Issues are crucial and the rare decision is taken for sustained growth and development of the organization. It is for long-term goal as the impact of strategic decision is far reaching.

Though HSC seems to have dominating market portion of music video entertainment industry, it was facing a threat of new entry of competitors. There was a registration of telefilm studio in such a vast ratio, which was alarming its competitive environment. This merger decision has supported to gain competitive advantage. It created new scope of market expansion with combination of valuable classical music.

The decision made in above case engineered the creation of audio-visual entertainment domain, which provides the new scope for the merged organization.

b)

Strategic options are developed on the basis of market and product conditions. Internal development, acquisition and merger, joint development and strategic alliances are some methods of strategy development. Methods of strategy development refer to the means through which any strategic development will be pursued. In above case the method of acquisition and merger is followed. Acquisition is the case of absorption and merger is the case of amalgamation.

RRC merged with HSC. These two companies are combined. Simply on the basis of information provided in above case, it can be said that merger is the method they selected as strategy development. A merger is a strategy through which two companies agree to integrate their operations on a relatively coequal basis. It is the combination of two or sometime more organizations into one single organization.

It was the merger between organizations in the same line of business. RRC was involved in music recording and distribution business; HSC engaged in entertaining music video market. Both of them are in same business of music entertainment business. So it's a horizontal merger. Besides horizontal merger, there can be vertical merger, concentric merger or conglomerate merger.

Achieving greater market power is a primary reason of merger and here too RRC because of its dropping market and HSC to expand its strength in market with legend singers' classical songs agreed to combine together. Developing new product is difficult and it also requires significant

investment. Here the merger created new opportunity of combining old classical music with hi-tech video cinema and expanded its market. Through this strategy market penetration is possible with low risk.

Thus in above case all key factors are analyzed and top managers involved gaining synergic effect of two different organizations' combination. They aimed to move far ahead in the domain of audio-visual entertainment that other competitors find difficult to catch up for years and years. By this method the above companies complement each other's capabilities and be able to sustain and grow in competitive environment where the number of competitors are increasing.

Question 6

(June 2016)

A restaurant was established at the heart of Kathmandu in 2000 with the slogan your next kitchen. It was established with an initial capital of Rs 5 million with 20 staff. It served mainly Nepali food items. However, it had Indian as well as continental foods in its menu. In the opening years, its turnover was satisfactory. On an average, it served 2,000 customers per month. Its net profit margin was approximately 25 percent of the sales. Its greenery environment and free wifi services along with complementary dishes attracted the customers.

The success of the restaurant for the first three years of its operation inspired its owners to expand its branches. In 2004, it started two new restaurants in other parts of the city. By the end of 2006, it had altogether 7 branches inside the Kathmandu city. The total number of the staff reached 210. As the number of staff grew up, the employees were unionized.

From 2007, the restaurant started experiencing hard times. Its total sales started decreasing. Out of the seven, only two restaurants were in profit. Out of the rests, three were in break even and two were in loss. Employee turnover was severe. The restaurant could not update its menu and operation management was also stagnant. Adverse political conditions further supported by mapase (drinking and driving) rules by the traffic police severely affected the sales of the restaurants.

By the end of 2008, the management decided to close down the restaurants running in loss. The union strongly opposed this decision. To settle this, the management had to pay a big amount for compensating the employees. The number of employees was reduced to 150. The management plans to offer stock ownership to the employee to restate the previous position. One of the major shareholders commented that we would not have expanded beyond two.

- a) What corporate strategy did the restaurant follow? Do you think it was suitable time to adopt the strategy? Comment. (2+5=7 Marks)
- b) Enlist the major strategic decisions taken by the restaurant. What factors make them strategic? (4+4=8 Marks)

Answer:

- a. At the corporate level, the restaurant followed expansion strategy at the beginning. This strategy is pursued by an organization when it attempts to achieve high growth. This strategy seeks to exploit market opportunities through the maximization of core competencies.

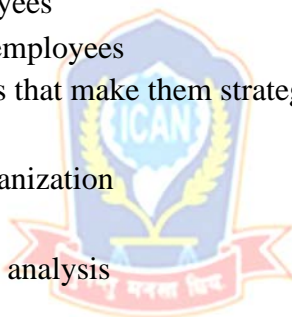
The strategy followed by the restaurant was not suitable since the external environmental components were not favorable. The political condition was not satisfactory. Similarly, the mapase rule also adversely affected the sales of the restaurant. The economic condition of the country also was not satisfactory. There was problem of labor relations as well. In such a situation, the stability strategy would be satisfactory for the restaurant till the environmental components get improved.

- b. Strategic decisions are the long term decisions that affect the growth and development of an organization over a long period of time. The major strategic decisions taken by the restaurants are;

- Establishment of new restaurants
- Closing of unprofitable restaurants
- Reduction in the number of employees
- Huge compensation to the employees
- Offering stock ownership to the employees

The following are some of the factors that make them strategic.

- They are long term decisions
- They provide direction to the organization
- They are irreversible decisions
- They are based on environmental analysis



Question 7

(Dec 2015)

The Safa Water is the oldest drinking water factory in Nepal. It is situated at Rasuwa District linked by high way. It has managed to establish factory in such a location that it can use water from Betrawati River. The Betrawati water is said to be as fine as any in mid region of Nepal. It contains all the necessary properties for mineral water purposes. The natural herbs used for purifying water are easily available at cheap price in all seasons in near village market. Sourcing for raw materials is excellent. The most of employees are from the same village. They are loyal and highly productive. But the traditional method of processing is slow and can produce small quantities. The mineral water produced by The Safa Water Factory has unique flavor and taste. Its uniqueness is partly to do with the water and partly it reflects the skill and care that is instrumental in purifying with natural herbs. Unique flavor and unique taste of water is complete mystery.

Recently, Phurba Lama has been appointed as Chief Executive Officer. He analyzed the internal factors to know the competitive strength. No research and development is yet performed there. The company size is about average for the industry. Profits have been consistent for years with

average rate. Balance sheet shows ability to obtain needed capital. It is at high working capital position. But facilities are old and out dated. The local salesmanship service is excellent for those who visit factory and buy the product but channels of distribution are weak.

- a) Discuss the strengths and weaknesses of The Safa Water and prepare its strategic advantage profile (SAP). **(8 Marks)**
- b) What are the roles that Phurba Lama should play as CEO ? **(7 Marks)**

Answer:

a)

Strengths create strategic advantage over competitors and weaknesses create strategic disadvantage. The forces in the internal environment of The Safa Water should be diagnosed and analyzed to find its strengths and weaknesses. Some of the internal factors are marketing and distribution factors, research and development factors, production and operations management factors, corporate resources and personnel factors, finance and accounting factors. The above factory has never done market research to identify the market. The local salesmanship is its strength but it did not pay more attention towards wide distribution and channels of distribution are weak. Research and development can lead to the development of improved manufacturing to gain cost advantages through efficiency but it did not consider R&D as important factor. Only the traditional method allowed it to continue. There is no fund to modernize. Plant capacity and productivity improvement lead to important competitive advantage but it is weak in facilities. Organization's climate and culture can be analyzed as a key advantage. Highly loyal and productive employees are its strengths. High working capital position of the company is also considered as strength.

Once the key areas for diagnosis have been analyzed, it is useful to prepare a strategic advantage profile (SAP). This is a tool for providing a picture of the more critical areas, which can have a relationship to the strategic posture of the Safa Water.

Strategic Advantage Profile (SAP)

Internal Area	Competitive Strengths or weaknesses
Marketing & Distribution	+ Service is excellent - Channels of Distribution are weak
Research & Development	- No R & D performed
Production & Operation	+ Excellent sourcing for raw materials - Facilities are old and out dated
Corporate Resources & Personnel	+ Highly loyal and productive employees 0 Profits have been consistent but average 0 Company size is about average for Industry

Finance &	+ High working capital position
Accounting	+ Ability to obtain needed capital

Note: +indicates strength; -indicates weakness; 0 indicates neutral

b)

The CEO is responsible for defining what business the company is in and matching the best product-market opportunities with the best use of its resources. This person must conceptualize the strategy and then initiate and maintain the strategic management process. Phurba Lama has ultimate responsibility for success of strategy. His main duty is to define long-term direction and scope of the factory. Phurba should play the key role in formulation, implementation and evaluation of strategies.

The roles of CEO in strategy formulation are key as strategist, decision maker, resource planner and negotiator. He should play the role of chief architect in defining vision, mission and objectives of the factory. He should conceptualize and craft strategies to achieve objectives. After analysis, he makes strategic choice from among strategic options. His role is related to identification of opportunities and match organizational resource strengths with such opportunities. Negotiator role of CEO is very important as it balances the conflicting interests of stakeholders. The CEO ensures the acceptability of strategy by stakeholders.

Phurba should play role as such that ensures strategies are operationalized in practice. Informational role, leadership role, organizer role and resource manager role are important in putting strategy in action. The CEO plays role in disseminating information about strategy within the organization and outside the organization.

Strategic control role, strategic surveillance role and special alert control role are important in evaluation phase of the strategic management process. The CEO monitors a broad range of events both inside and outside the organizations that threaten the course of strategy.

As Phurba Lama is going to engage in strategic management process of the Safa Water, he should make internal and industry analysis. From the very beginning, several scenarios of the future of the company should be drafted, decided, implemented and monitored

Question 8

(June 2015)

Hamro Luga Company was one of the leading companies in Nepalese market for school uniforms. Hamro Luga's success had been based on extremely high levels of employee productivity. The company attributes its productivity to a strong organizational culture of respect for the ability of the individual. Its focus was on recruitment of highly skilled manpower. It had satisfied workers by its incentive scheme based on piecework.

Since the days of attraction to Nepalese people for foreign job, the company faced the problem of retaining its skilled workers. Newly hired workers were not perfect to the job. They had little knowledge about operation of the machine. The training and development part of the employees remained ignored. It could not correctly motivate employees for better performance. The

managers focused all their time on today. They never paid attention towards success for tomorrow. They did not believe that business managers should be aware of the need for strategic management. The company replaced the old machines by same category, which need skilled manpower to handle. But skilled manpower were lacking in labour market. The company hired the people but they left the job within one year. The managers of Hamro Luga Company lack thorough grasp of the external environment and internal reality. The company lacks strategic planning and management.

- a) What is the problem of Hamro Luga Company? 7
- b) Do you think the managers are interested in environmental analysis? Justify your answer. 8

Answer:

- a) The main problem of Hamro Luga Company is that its managers have no knowledge of management science and philosophies developed recently. They never tried to follow the new principles of management. They did not believe that the business managers should be aware of strategic management. The concept of strategy has entered in the field of management recently and the business managers began to adopt the strategic management. The strategic management is a future-oriented proactive management system but the managers of Hamro Luga focus all their time on today. Managers should see the value of trying to anticipate the future and to prepare for it. The company should prepare systems, procedures, budget and long term plan. Here the company lacks strategic plan and strategic management. This is the problem.
Hamro Luga Company has not yet thought about the new strategies as per the change in environment. Today's global relationship and flow of human resources from one country to another is a great challenge to this company. But the company did not accept any effect upon its operation style. The company is so rigid that it is purchasing same old-fashioned complicated machines though their workers do not have knowledge of its handling. The management lacks the component of training and development of human resources. The management did not pay any attention towards motivation and maintain. The threat to the company is the declining rate of profit and market share. The problem is the management team who did not care the changed situation. The whole scenario has been changed but the managers have not changed their management style.
- b) The managers of Hamro Luga Company are not interested in environmental analysis. Its market share and profit is declining. It does not seem to be aware of change in external environment and industry environment. They are using the same old technology and old-fashioned machines. The taste and choice of customer in product of school uniform is so fast changing that unless the strategic planning has done in proper way, one cannot be in position to survive.

In its context the political, economical, social, technical and global elements of environment have been changed dramatically. Multiparty system has followed different industrial and economic policies. Buyers' bargaining power has been strengthened. The number of suppliers and competitors has increased. Economic reality and global opportunity has made Nepalese people go abroad for job. The managers should diagnose the environment and identify opportunities and threats affecting their business. Environmental analysis and organizational appraisal lead to the generation of strategic alternatives.

The strategy might not be always expansion; it can be stability or same time retrenchment. It has to develop its core competences. But it seems that the company has never gone through these processes. There is a direct cause- effect relationship between the environmental change and the strategy. The managers of Hamro Luga Company did not analyze the environment.

Question 9**(Dec 2014)**

Educational Publishing House (EPH) is one of the big organizations in book business. Since the establishment of Tribhuvan University in Nepal, EPH has been the single supplier of higher education books to library of all constituent colleges. It has a big showroom in Kathmandu. EPH is providing reading rooms with capacity of fifty readers at a time. All faculty members can use the reading room where almost all the newly published books of Nepal and India are available. The library purchases the books recommended by faculty members. EPH has been in a position to publish textbooks written by highly qualified authors. It has good management and satisfied staff. EPH provides bonus to its staff every year. It is in a position to cover 80 percent of higher education books market. It is in close contact with policy makers to keep up with the changes in education policy.

Since the increase in affiliated colleges and establishment of new universities, the market share of EPH came down gradually. Many colleges have been opened in districts of the country. Book suppliers from India contact directly to retail book shops established in front of colleges. Small book shops as well as individual authors have begun to publish books. The students have stopped consulting library books. They have cultivated the habit of buying one book for one subject. They have option of reading eBooks too.

Recently, the board of directors of EPH decided to hire an expert with knowledge of strategic management to reposition the business.

Questions:

- a) Analyze the situation of The Educational Publishing House. **(7 Marks)**
- b) What elements of strategic management would you suggest for bringing improvements in the business of EPH? **(8 Marks)**

Answer:

- a) The Educational Publishing House (EPH) is a leading organization in book business. It is a pioneer publisher of higher education books in Nepal. There are no competitors. It has

monopoly in supply of books to all libraries of colleges. The library books are the main source of knowledge to students. EPH has been successful to provide new service to concerned faculty members. As they have been offered reading room with plenty of new books, they recommend buying of books from EPH. The book published by EPH are by highly qualified authors.

Educational Publishing House is a successful business organization from marketing, financial and management point of view. The management group of EPH concentrated on present and did not see the value of anticipating future and preparing for tomorrow. An organization should be aware of strategies that should be followed to cope with change. Managers must understand how and why strategic decisions are made. The management group of EPH could not see the change taking place in book market.

There was change in habits of book user, change in technology, change in book distribution pattern and change in geographic situation. So EPH remained traditional while many things changed in the environment. EPH ignored the change and did not adopt strategic management.

- b) The above case shows ignorance of strategic management. The analysis and diagnosis of environment is missing. Analysis and diagnosis is the process of determining environmental threats and opportunities as well as internal strengths and weaknesses. The important element missing is analysis of industry environment. Industry environment consists of customers, suppliers and competitors.

Effective strategies are concerned with customers' needs and desires. Here the group of potential customers has changed. Previously the books were purchased by college libraries in bulk but in current days students purchase by themselves. Faculty members recommended the books to the library for purchase, which is not in practice today. Opportunities come through identifying and providing customer needs and threats come from failure to meet changing customer requirements. Not only buyer identification but also the demographic factors and geographic location create change. The colleges have been opened in many districts and students as customer are scattered all over the country. The booksellers of India contact directly retail shop, the power relationship has changed. The bargain with supplier has weakened. With new entrance of competitors, the publishing house is compelled to face more competition. The competitors' action can provide a significant opportunities or threats.

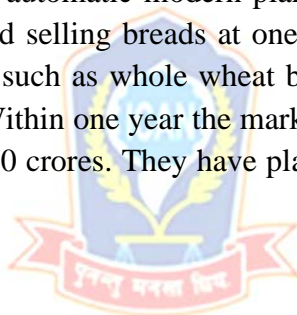
The size and desire of customer, the power of supplier and competitive behavior make sense for future strategy. The organization might be in trouble to survive. It is facing new threats in the environment, it has to rethink the course of actions for future years.

Question 10

(June 2014)

Himalayan Bread Ltd., a highly reputed bread manufacturer of Kathmandu established in the year 2000, entered into business of bread manufacturing in all the regions of Nepal- Eastern, Central, Western, Mid Western, and far Western by acquiring brand name ‘Delicious’ from ‘Krishna bread’ in Kathmandu known for its quality breads. Krishna Bread kept on preparing and selling breads with a different name – ‘healthy’ in changed package. It has different range of products in different region like “super” in Eastern, “Delicious” in Central, “Healthy” in Western, “Swadilo” in Mid Western, and “Khaja” in Far Western region.

Himalayan Bread Ltd invested heavily in the machinery and equipment. In fact, it invested a sum of rupees thirty-five crores over a period of five years. It got immediate acceptance in the market. Delicious, a household name, was well known for its quality. It captured major markets in Biratnagar, Pokhara and Nepalgunj. In the year 2005 its total turnover was Rs 10 crores per annum with 50% market share in Kathmandu. ‘Healthy’ bread also was able to grow. Some loyal customers shifted back realizing that the baker had changed the name of the product. Its market share in 2005 stood at 20% in Pokhara city. Inspired by the success of ‘Delicious’ the baker joined with his two rich friends to form a partnership by the name of ‘Himalayan Healthy Foods’ in the year 2007. They acquired an automatic modern plant to manufacture breads. They were able to reduce their costs and started selling breads at one rupee cheaper than the competitors. They also introduced new products such as whole wheat bread, breads enriched with vitamins, bread for kids in chocolate flavor. Within one year the market share grew to 35% in Kathmandu. In the year 2010, the turnover was 20 crores. They have plan to enter into business of cakes and biscuits on a large scale.



Answer the following questions:

- a) Do you think Himalayan Bread missed something while acquiring the brand name? Also Discuss the strategy adopted by Himalayan Bread Ltd and intended strategy of Himalayan Healthy Foods.
- b) Prepare SWOT analysis for Himalayan Bread Ltd.

Answer:

- a) Yes, the Himalayan Bread Ltd missed opportunity of acquiring brand name, product related information, distribution channel and other related ownership on that product. It is not able to take the goodwill of “Krishna Bread” in public even though these two are merged. Himalayan started joint efforts towards expansion and growth strategy of the company. Similarly, it started on related diversification strategy with different range of products and focused on different groups and regions. It expanded market as well as product range to cover most parts of the country. Overall cost leadership strategies are followed with high use of technology and economies of scale in manufacturing process. It can be suggested that in future the organization need to be focused on quality of products to focus on quality serious customers and needs to expand the products at least in neighboring countries to

nurture the large number of customers. Product branding is required and employee competencies need to be focused to develop and implement different strategies. Product development and market development strategies should focus towards diversification with different profit centers.

- b) The facts given in the case may be categorized as strengths weaknesses, opportunities and threats. Strengths prevail in the case like clear vision, objectives, and programs. The organization is led by experienced entrepreneurs with high cooperation with all investors. The business has covered most of the parts of the country. It has good network for distribution, marketing and customer retention. However the weaknesses are: lack of employee development, lack of quality raw materials, obsolete machines and tools used and high cost of labor especially in recent days. Poor infrastructure and electricity are also negatively affecting the business operation. There are a lot of opportunities to the fast food and bakery production business. Every day the population is increasing. People are busy and getting more job opportunities. Himalayan Bread has also started cookies, biscuits along with bakery. Not only the size of the population, the culture of using biscuits, cookies is also increasing. Technology is facilitating the business to produce mass products with high quality and design. Economic conditions of population are increasing in current days and middle class families are increasing. Government regulations also encourage the bakery entrepreneurs.

Question 11

(Dec 2013)

Rasuwa Whisky Distillery is the oldest in Nepal. It is situated at the border of Nuwakot and linked by highway. It has established factory in such a location that it can use water from Betrawati River. The Betrawati water contains all the necessary properties for distilling purposes. Rasuwa Distillery uses the traditional methods of fermentation and local ingredients. Those ingredients are easily available at cheap price in all seasons. Employees are loyal and productive. But the traditional method of process is slow. The whisky is strong and smooth with golden colour and unique flavor. Its uniqueness is partly to do with the water, partly it reflects the quality and purity of the ingredients and partly it reflects the skills and care that is instrumental in the distilling. Unique flavor and unique colour of Rasuwa whisky is a complete mystery. It is situated at about three hours drive from Kathmandu. It is one of the major tourist attractions.

Recently, Phurba Tamang has been appointed as Chief Executive Officer. He analyzed the internal factors to know the competitive strength. Research and development was missing. The company size is about average for the industry. Profits have been consistent for years. Balance sheet shows ability to obtain needed capital. It is at high working capital position. But facilities are old and outdated. Marketing service for those who visit factory and taste drink is excellent. But channels of distribution are weak.

Questions:

- a) Discuss the strengths and weaknesses of Rasuwa Whisky Distillery and prepare its strategic advantage profile (SAP). **(8 Marks)**
- b) What actions should Phurba Tamang take as CEO to improve strategic management process of the distillery? **(7 Marks)**

Answer:

- a) Strength is something the organization does well compared to competitors. It arises from resources and competencies available in an organization. Weakness arises from deficiency in resources and competencies. Strength creates strategic advantage over competitors and weakness creates strategic disadvantage.

The forces in the internal environment of Rasuwa Whisky Distillery need to be diagnosed and analyzed to find its strengths and weaknesses. Some of the internal factors are marketing and distribution factors, Research and Development factors, production and operations management factors, corporate resources and personnel factors, finance and accounting factors. The above company has never done market research to identify the market, test the customer reaction, determine distribution and decide promotion approaches. It's typical local culture is appealing to the tourists from Kathmandu and marketing service to them is its strength. It did not pay much attention towards wide distribution. Channels of distribution are weak. It supplies to a few customers so the marketing function is not very strong. Lack of market expertise is its weakness. Research and development can lead to the development of improved manufacturing to gain cost advantages through efficiency but it did not consider R&D as important factor. R&D is weakness of above company. Only the traditional method has allowed it to continue. There is no fund to modernize. Plant capacity and productivity improvement lead to important competitive advantage but it is weak in facilities. It has no flexibility even in product design. Organization's climate and culture can be analyzed as a key advantage. Highly loyal and productive employees are its strengths. High working capital position of the company is also strength.

Once the key areas for diagnosis have been analyzed, it is useful to prepare a strategic advantage profile (SAP). This is a tool for providing a picture of the more critical areas, which can have a relationship to the strategic posture of Rasuwa Whisky Distillery.

Strategic Advantage Profile (SAP)	
Internal Area	Competitive Strength or weakness
Marketing & Distribution	+ Service is excellent - Channels of Distribution are weak
Research & Development	- No R & D performed
Production &	+ Excellent sourcing for raw materials

Operation	- Facilities are old and out dated -No Flexibility in product design
Corporate Resources & Personnel	+ Highly loyal and productive employees o Profits have been consistent but average o Company size is about average for Industry
Finance & Accounting	+ High working capital position + Ability to obtain needed capital

Note: +indicates strength; -indicates weakness; 0 indicates neutral

- b) Crucial to the success of strategic management is the role of the corporate-level general manager who is also called chief executive officer. The CEO is responsible for defining what business the company is in and matching the best product-market opportunities with the best use of its resources. This person must conceptualize the strategy and then initiate and maintain the strategic management process.

CEO is a strategist. Phurba Tamang, being CEO of Rasuwa Whisky Distillery has ultimate responsibility for success of strategy. His main duty is to define long term direction and scope of the company. Phurba should play the key role in formulation of strategies, implementation of strategies and evaluation of strategies.

The roles of CEO in strategy formulation are key strategist, decision maker, resource planner and negotiator. He should play the role of chief architect in defining vision, mission and objectives of the Distillery. He should conceptualize and craft strategies to achieve objectives. After analysis, he should make strategic choice from among strategic options. His role is related to identification of opportunities and match organizational resources of strengths with such opportunities. Negotiator role of CEO is very important as it balances the conflicting interests of stakeholders. The CEO ensures the acceptability of strategy by stakeholders.

Phurba should play the role that ensures strategies are operationalised in practice. Informational role, leadership role, organizer role and resource manager role are important in putting strategy in action. The CEO plays role in disseminating information about strategy within the organization and outside the organization. Phurba Tamang in the role of Chief Administrator assumes overall leadership for implementation of strategy. His role is to manage change and conflict. The CEO is an organization builder too. The role of CEO ensures efficient and effective mobilization, allocation and utilization of resources for implementing strategies.

Strategic control role, strategic surveillance role and special alert control role are important in evaluation phase of strategic management process. The CEO monitors a broad range of events both inside and outside the organization that threaten the course of strategy.

As Phurba Tamang is going to engage in strategic management process of Rasuwa Whisky Distillery, he should make internal and industry analysis. From the very beginning, several scenarios of the future of the company should be drafted, decided, implemented and monitored.

Question 12**(June 2013)**

Manakamana Cable Car Company, the cable car that ferries pilgrims and tourists to the hill-top shrine of Manakamana Devi in Gorkha district has been operating since 1998. The cable car has 31 passenger Gondolas and 3 freight carriers. The average time of travel from the bottom station of Kurintar to top station of Manakamana Temple is 9 minutes. An average hourly capacity of the cable car has been calculated as roughly 600 persons.

The company had run introductory awareness promotion campaign before launching the cable car. Because of the novelty of the project, it immediately caught the attention of the media. Much of the publicity was free of cost. From day one of the inauguration, the company had a tough time in managing the crowd.

The company was given a strategic plan with implementation matrix by its consultants anticipating a normal product life cycle from introduction to growth, maturity, and decline. However, the company found that many of the projections of the consultants were not realized after the launching. For example, an aggressive promotion campaign was suggested during the "growth" stage. However, the company did not see the "growth" stage at all. The cable car experienced peak performance from the very beginning. The cable car has been ferrying around 2,500 passengers daily. The company also has been revising the fare at regular intervals. This rise in fare did not have any negative impact on demand. However, the company was not completely out of problems. It had to face local community and labor related problems occasionally. "Social responsibility" has not been the company's choice but it was a forceful obligation. Despite these, the company enjoys smooth operations.

Today, despite satisfactory sales and full capacity utilization, the company has merely sustained its business. It had not grown as anticipated. The promoters know that a stagnant business is a dead business. They are also aware that the decline stage is sure to come one day. Now Manakamana Temple is accessible by road also. A few more cable car ventures are in the pipeline in Pokhara and nearby locations. The company is not very sure about the impact of these developments on its business and the business strategy it should develop for the future.

- a) Why the product life cycle turned out to be different from what the consultants had anticipated? **(7 Marks)**

- b) In your opinion, what strategic moves the company should plan to prolong the growth phase and prevent the possible decline?

(8 Marks)

Answer:

- a) Product life cycle identifies success factors against which a company can evaluate its competencies relative to its key products. The product life cycle is a concept that describes a product's sales, profitability, and competencies that are key drivers of the success of that product over a time period.

The consultants of Manakamana Cable Car had perhaps thought of the normal life cycle of a product which generally goes through a process of introduction-growth-maturity-decline. Their expectation was that each phase would require a different mix of marketing activities to maximize the lifetime profitability of the product.

However, in the case of this company, unanticipated results were found. Without passing through the normal phases of the life cycle, the company jumped to the growth stage of its business. The company gained maximum and full capacity utilization. It was because of the following factors:

- Being the first cable car in Nepal, people wanted to have the experience of the cable car ride.
- As it was connected to the Manakamana Temple and also because there was no other easy access to the Temple, the flow of passengers picked up right from the beginning.
- As it was near Kathmandu, people used to spend their weekends in that location.
- As it was connected to the highway from Pokhara and Narayangarh to Kathmandu, people had easy access to the place for a stop over.

The consultants might have analyzed some of these environmental factors. But beyond their expectation the combined forces of thrill and pilgrimage created unexpected life-cycle scenario. Perhaps the consultants did not anticipate all these environmental factors at the planning phase of the project. Different external elements affect strategies at different times with varying strengths. Sometimes it is difficult to predict the impact of these environmental factors.

Not all products follow the same product life cycle. Some products are introduced quickly, and they die quickly; others stay in the mature stage for a very long time. Some products enter the decline stage of the life cycle and are then recycled back into the growth stage through aggressive and strong promotion or repositioning.

- b) For prolonging the growth phase, the company should add new features to existing services; it should refresh its service offering from time to time. The company can extend its existing service to another destination in the same area. By adding new features the company can potentially get former customers interested in its services again, or attract a market of new

consumers. Adding new features can however be risky if the costs to add the features are high.

The challenge for the company is how to prolong its existing growth phase. However, for this, the company needs to develop a well-defined strategy for its future plan of activities. Two alternative strategic options for the company could be: extending the service package, and adding more value to its service offerings. With these strategies, the company can broaden its operations. The company should use a variety of strategies to prolong the life cycle by adding value to its existing services. The company should work out the strategy to take advantage of its favorable reputation and brand name.

The following are some of the strategic moves the company should plan to prolong the existing growth phase and prevent the possible decline:

- Improve quality of services.
- Add new features to the existing services.
- Consider the factors that provide a positive customer experience.
- Analyze the strengths and weaknesses within an organization. These factors are seen in company culture and image, organizational structure, staff, operational efficiency and capacity, brand awareness, financial resources, etc.
- Attain operational excellence by providing customers with convenient and reliable services at competitive prices.
- Revisit policies, create value, and offer a positive customer experience.
- Lower prices at the right time to attract more and new customers.

Question 13

(Dec 2012)

There was a vacancy of Industrial Relations Officer in one of the industries located in Balaju Industrial District of Kathmandu. The industry advertised for the post in Kantipur Daily. Mr. Ram Krishna, working as a public relations officer in a private company at Birjung applied for the post. Ram Krishna was very much interested to get a job in Kathmandu and wants to continue the career of public relations. In order to get selected in that company, he put influences on management of the company through some high-ups of political parties and even bureaucrats.

Mr. Ram Krishna was selected for the post. Some of the candidates who were the children of the existing employees were very much annoyed over Ram Krishna's selection. Mr. Ram Krishna joined the company despite resentment among the staff. The company of Birgunj, in which he was working was highly impressed with Mr. Ram Krishna. In order to retain him in the company, it offered an increment in salary and allowances, but he declined this offer. When asked, he did not disclose the name of the company where he was going to work.

Some of the employees came to know that Mr. Ram Krishna had used the influence of some high-ups to get the job in the company. The employees started testing his abilities and planned to harass him. The management had put him in-charge of the workers' canteen. It was the most

challenging responsibility in the company. Though Mr. Ram Krishna was working from morning to evening, the workers started finding fault with his work. One afternoon before the new shift was to start, the workers gathered in the canteen and shouted slogans against management and Mr. Ram Krishna. It was due to the dead lizard found in one worker's meal.

The union leader of the company arrived in the scene and started blaming the management for its inefficiency and selecting an inefficient person for such responsible position. The management instituted an inquiry against the incident and immediately suspended Mr. Ram Krishna without giving chance to listen his side of the story. The inquiry continued for some months and finally, the management terminated the services of Ram Krishna.

Based on above case answer the following questions.

- a. Point out the strengths and weaknesses of the organization. **(8 Marks)**
- b. If you are the chief of the company, what would you do to deal with the problem? **(7 Marks)**

Answer:

a. Point out strengths and weakness of the organization

The organization given in the case has strengths and weaknesses. Followings are some of the strengths:

- Continuous improvement in business, well known brand and clear goals
- Competent human resources, talent search paractices and good working environment
- Practice of participation for problem solution and decisions

However, some weaknesses are:

- Lack of proper job to the proper person, no matching of job and person, and job assignment not based on job analysis.
- Unionization and politicization dominates administrative work and work culture.
- Improper recruitment and selection practices, no motivation and incentives to existing staff poor training and development practices.

b. If you are the chief of the company what would you do to deal the problem?

I will form a committee consisting of senior staff to make recommendation to top management. Immediately, Mr. Ram Krishna will be transferred to other section. In coming days, staffs will be posted based on their knowledge, skills, and job preferences. Conflict and grievance committee will be formed to solve problems of employees. Management information systems will be managed properly, to stop leaking of information.

Question 14

(June 2012)

Mr. Manoj Agrawal graduated in Business Administration with specialization in entrepreneurship from Management Development Institute. He is planning to establish a tea processing business. He searched internet, consulted many business experts, brainstormed ideas

with colleagues and explored the potential markets nationally and internationally. He visited India, China, Thailand and Australia to consolidate the ideas. He established a firm in 1995 in the name of Himalayan Tea.

Since its inception, Himalayan tea earned profit and currently it has 250 staff in the garden, 52 staff in the operation and processing department, 16 staff in marketing besides others in different duties. It is a well known firm and has a good image not only in the mind of people of country but also in different parts of the world.

However, in recent days, because of globalization, liberalization, emergence of WTO and multinational companies, and transformation in information technology, Nepal welcomes tea from all over the world. Tea manufactured in China, which is low in price, has become intense competitor for Himalayan tea. It is a challenge for Himalayan Tea to compete with Chinese Tea because of high cost, manual processing, poor technology and services. Regular strikes in factory by labor demanding high salaries and Nepal Banda by many political parties have adversely influenced Himalayan Tea. But people who have already tasted Himalayan tea continue placing their order. Sometimes, the manager is unable to fulfill the demand from International business community. The audit report of last year shows that the company is neither in profit nor in loss.

- a. What are the problems in this case and why they arose? (7 Marks)
- b. Suggest suitable strategies to the company to develop its competitiveness. (8 Marks)

Answer:

- a) Himalayan Tea is not able to examine internal and external environment. It is necessary to make a diagnosis of the external environment like political, legal, global, competitive, technological, economic and other factors to identify the opportunities and threats. Similarly, the resources analysis like employees competencies, leadership practices and philosophy of top management, organizational culture, tangible and intangible resources should be scanned to determine strengths and weaknesses. These are the source of main problems in the organization. Therefore, low priced products, unfavorable political/ business environment has created the problems of inefficiency and less productivity.
- b) In this scenario, consolidation strategy should be adopted to strengthen the organization. After the consolidation strategy, it will be better to integrate/ merge with another company to carter the south Asian market. India and China are huge market and they have wide networks. Therefore, strategic alliances should be developed with Indian and Chinese companies.

Question 15

(Dec 2011)

ABC Battery Company was established in Kathmandu about 20 years ago. Its range of main products is: Sun Battery, Moon Battery, Light Battery, and Long Battery brands. Initially, the total investment made was Rs. 30 million out of which 79 percent was foreign direct investment of Indian Battery Company (IBC) and 21 percent was of local shareholders of Nepal. The average annual turnover was Rs. 80 million in 2007, Rs. 110 million in 2009, and is expected to reach 130 million in 2011. It was making 30% profit on investment in 2010 and the trend shows gradual increment of profit for last 10 years. It was paying corporate and other taxes to the Government of Nepal. Currently 300 operation level staff are working and it is recognized as a reputed manufacturing firm of Nepal. The technology and management are handled by foreign investors as major shareholders. However, participation while making major decisions is common practice in the firm.

In order to face competition, especially with Chinese Products available in cheap rate, the top management of the company, after portfolio analysis, decided to extend its product and market so that per unit cost can be lowered and large share of market can be covered. Consolidation, product development, and market penetration strategies are being considered.

The company hired 50 new staff for manufacturing new brand of Batteries: Young Battery, Brave Battery, and Sun light Battery. The company has altogether seven different brands of products and needs aggressive marketing. It published vacancies in national newspapers, the Kathmandu Post and the Himalayan Times, for young and dynamic CEO for effective strategy formulation and implementation. The company expects that the new CEO would craft proper strategy to gain competitive advantage to become leader in the industry.

In light of this scenario, answer the following questions:

- a) What are the major strengths and weaknesses of this firm? Discuss. (7 Marks)
- b) What strategies should the newly appointed CEO craft to achieve strategic advantage? Suggest the best strategy for this firm with sufficient logic. (8 Marks)

Answer:

a) Strengths and Weakness of the organization

The strengths of the organization are:

- Glorious history and successful position in the market.
- Full capacity utilization
- Diverse range of products
- Foreign investment and foreign experienced management
- Increasing trend of market share
- Continued profits
- Good corporate practices and recognition by government
- Good brand image
- Effective utilization of resources

The weaknesses of the organization are:

- Difficult to compete with Chinese products which are keen competitors in the market (tough competition)
- Lack of appropriate size of staff (shortage of human resources).
- Lack of portfolio decisions in the competitive situation
- Lack of effective decisions by CEO

b) Appropriate strategy

Growth strategy should be crafted by newly appointed CEO

Growth strategy is based on investing in companies and sectors which are growing faster than their peers. The benefits are usually in the form of capital gains rather than dividends. Any one or more strategies can be exercised.

- **Market Penetration** – The company may try to increase or, maintain market share. This strategy is the least risky since it leverages existing capabilities and resources. The other strategy can be market Penetration which includes providing more content for existing clients or finding more clients in the same market.
- **Market Development** – The company may take existing (or repackaged or repriced) products to new markets, e.g., new segments, new regions, new distribution channels. While riskier than Market Penetration, this strategy leverages the company's product knowledge. □□**Product Development** – The company may develop new products for an existing market through product innovation.
- **Diversification** – Diversification is the riskiest growth strategy, as it involves developing new markets and new products simultaneously.

Question 16

(June 2011)

Soft Solutions (SS), headquartered in Japan is one of the 10 best software companies in the world. Its Zii program, one of the famous products, enables organizations to easily receive specific information from massive amounts of computerized data, like airline reservation, inventories, cash and credit transaction. In one Computer World survey of data base management, Zii received the highest user satisfaction ratings.

SS has also established a subsidiary firm in Nepal in consideration of emerging markets in India and China. The target market of the company is very competitive as both the countries already have excellent software companies. SS adopted employee stock program. The primary reason behind it was to increase the employee commitment towards the company.

Work pattern in the subsidiary is quite similar to other subsidiaries in rest of the World. The employees dress as specified and work 10 hours a day. The company gives its technical staff the responsibility needed to develop software. While many of the software developers are Nepali, there are Japanese, American and Indian staff as well.

The employee culture is distinct in the company. The Japanese prefer to spend more time in the company and work for about 14 hours a day. Americans do not like to work more hours than the specified hours per week. Nepalese are flexible in working hours and spend time

talking on personal matters including national politics. The company operation has three different work patterns and culture.

Foreign employees have work permit but they are not clear about getting permission from the government for holding stock. The company has already completed three years of its operations in Nepal. Procedural complexities have been noticed in case of employee stock program. The Managing Director has sensed that some technical employees do not want to work with conflicting work patterns and culture.

Questions:

- a) Identify and explain three critical issues confronting the subsidiary of soft solutions in Nepal. (8 Marks)
- b) What strategy would you recommend to solve the critical issues? (7 Marks)

Answer

- a. Three critical issues confronting the subsidiary of soft solutions in Nepal can be identified as follows:

1. **Rapid change in products and product attributes:** Soft solutions are doing its business in an industry where change is very common. Software industry has dramatically changed specially in the last two decades. Plant design and layout, office automation, materials and transaction processing, quality control, health care and many other areas have been heavily dependent on software performance. In most of the cases, the software working best yesterday has become questionable today and it is certain that it will be useless tomorrow.
2. **Requirement of human creativity and intelligence:** The job of software design in based on creativity which is linked to human being. Strong interest of an individual towards work promotes positive thinking and instills seeds of creativity. Software industry needs high level of human creativity and intelligence. Persons who have such level of competency do not want to be associated with a firm for a long period of time. Soft solution needs to ensure the availability of high caliber people in the firm.
3. **Urgency of promoting compatible work patterns and culture:** Soft solution employs people mostly from Japan, USA, India and Nepal. It has different work patterns of the individual grown up in different cultures. For instance, Japanese work for more hours because they love work. American work more hours if their work pays more. Indian and Nepali enjoy talking and take more breaks. The most challenging and serious issue in this company is to make work patterns and culture compatible. As a consequence of incompatible work patterns and culture the company is unable to design and implement employee motivation schemes. The employee stock program has been questionable.

- b.. The frequency of change in number and nature of software is very high in technology companies like soft solution. What worked best yesterday is not working best today, and it is

likely to disappear tomorrow. Every company involved in software is compelled to address change. Software solutions need to rely on new knowledge. Persons having excellent knowledge today may become useless tomorrow. It should hire employees on project basis. As long as the project works, employees would be working with it. The company should keep close surveillance over the plans and programs of its present and future clients in order to track its future course of actions.

Competency of software solutions heavily depends on human creativity and intelligence. Regular hunt for new knowledge is necessary in order to strengthen its competency in the days ahead. The company should always keep the door open for creative and intelligent people. It should adopt a policy of linking with universities and training institutes, around the globe in order to ensure the regular flow of competent people in the company. Job design should be made virtual where employees get to work for the company from their home country. Flexible benefits plan should be promoted as a strong motivator.

Virtual work stations should be developed in order to minimize the negative impact of conflicting work patterns and culture. Office hours should be eliminated; Quality, Quantity, as well as deadlines for output should be fixed. Individual contribution should be tailored to team performance. Employee stock program should be replaced by flexible benefits plan.

Question 17

(Dec 2010)

National Airways Company Limited (NACL) of Nepal has been experiencing a rough turbulence for the last 15 years. It has been running in losses continuously. Two near bankruptcy situations were protected by the Government. Due to liberalization policy of the Government, the sky has now been open to the private sector and also internationally. This has intensified competition in the airlines industry for customers and resources.

During this period, 10 chief executives were changed. They failed to bring about any improvement in the financial position of the company. The employees in the NACL are unionized. Several cases of strikes and agitations were experienced in the past. The morale of employees is low. Service is terrible, and the airplanes rarely arrive or leave the terminal on time. NACL has been in the news recently because of the cancellation of many of its flights due to mechanical troubles.

This is costing the NACL significant amount of money in passenger layovers. Senior managers are paralyzed by anxiety. They do not know how to correct the worsening situation, bring strategic changes in its operations, and set goals that work. One-third of all flights lose money, and the company is near financial collapse. NACL is overstaffed. Due to strong resentment of employees, its voluntary retirement scheme (VRS) was withdrawn. The number of aeroplanes has also decreased from 12 to 5. Many profitable destinations were curtailed due to shortage of aircrafts.

In view of this deteriorating situation of the company, the Board of Directors have appointed an experienced CEO. The newly hired CEO has to analyze the deteriorating condition, put the company back on track, get employees to quickly improve operational efficiency, and do something immediately to improve performance.

Questions:

- a. Analyze the NACL's current situation and its competitive environment by using Michael Porter's five-forces model. **(8 Marks)**
- b. What change strategy should the newly appointed CEO adopt to improve performance in NACL? **(7 Marks)**

Answer:

a)

The airline industry in Nepal is very competitive. Michael Porter's five-forces model can be used to analyze the intensity of competition and explain the deteriorating operational efficiency of this company. Porter's five forces model is a business unit strategy tool which is used to make an analysis of the value of an industry structure. The analysis is made by the identification of five fundamental competitive forces. These include:

- Entry of Competitors
- Threat of Substitutes
- Bargaining Power of Suppliers
- Bargaining Power of Buyers
- Rivalry among the existing players



One of the forces identified by this model is the threat of new entrants which refers to the possibility of new competitors entering the industry and undermining the profits of the established businesses. The degree of threat for NCAL in the future is determined by the existing barriers to entry. New entry in airline industry is not easy because of high cost of entry. The airline industry is one of the most expensive industries, due to the cost of buying and leasing aircrafts, safety and security measures, customer service and manpower. Other barriers to entry which will restrict new comers into the airline industry include Government restrictions and high capital costs to develop new airlines. However, the entry barrier for new airline is lower today. This has produced far greater competition than ever before. The deregulation has allowed many private airlines to enter the market and reduce the market share for NACL with the added competition, together with pricing freedom; there is a major constraint on profitability for this company.

The bargaining power of buyers is another force that can affect the competitive position of a company. This refers to the amount of pressure customers can place on a business, thus, affecting its prices, volume and profit potential. The various airlines in Nepal are competing for the same customer, which also results in strengthening the buyer power. Individuals wishing to travel to

and from the Kathmandu airport are presented with various choices when selecting an airline. Hence, the bargaining power of customers in the airline industry is very high since they are price sensitive and search for the best deals available.

In addition to buyers, suppliers can also exercise considerable pressure on a company by increasing prices or lowering the quality of products offered. The bargaining power of suppliers depends on supplier concentration, substitute supplies, switching costs, threat of forward integration and buyer information. As the supplier industry is dominated by a few aircraft manufacturers, the ability of airlines such as NACL to exercise control over suppliers and earn higher profits is very limited. However, other suppliers who work with the airline do not have the same bargaining power as NACL has a choice over who they are purchase from.

The availability and threat of substitutes is another factor that can affect competition within the airline industry. It refers to the likelihood that customers may switch to another product or service that performs similar functions. Substitutes for air travel include travelling by bus or car to the desired destination. The degree of this threat depends on various factors such as money, convenience, time and personal preference of travellers. The competition from substitutes is affected by the ease with which buyers can change over to a substitute. NACL can lure both price sensitive and convenience oriented travellers away from these substitutes.

The final force in Porter's model is competitive rivalry that describes the intensity of competition between established firms in an industry. Industries that are very competitive generally earn low profits since the cost of competition is high. The airlines industry is usually characterized by cut-throat competition that exists among the rival airlines. Since the carriers are involved in a constant struggle to take away the market share from each other, industry growth is average and as it is easy for buyers to switch between the airlines companies, depending on price, the rivalry is increased. Rivalry is also high in the airline industry due to high fixed costs, as much of the cost of a flight is fixed, there is a great opportunity for airlines to sell unsold seats cheaply, which resolve in pricing wars between the airlines. The airlines are continually competing against each other in terms of prices, technology, in-flight customer services and many more areas.

In conclusion we can understand that the airline industry is very competitive and Michael Porter's five-forces model can be used to explain why the potential for returns is so low in this industry. Firstly, the threat of new companies entering the industry is high and the entry barriers are low. Secondly, the bargaining power of customers is high since they are price sensitive and search for the best deals. The third force, bargaining position of suppliers, is strong since they are concentrated and this limits the control airlines have over suppliers to reduce prices and earn higher profits. The availability and threat of substitutes is another factor that can affect a company's competitive position. However, the degree of this threat depends on various factors such as time, money, convenience and personal preferences of travelers. The final force in Porter's model is competitive rivalry between the companies within an industry. Cut-throat

competition exists among the airlines and since there is a constant struggle for market share, the overall profit potential of this industry is low.

b)

Transforming an underperforming company into a performing organization is a critical management challenge. This managerial task would demand a great deal of strategic skills. With radical changes and some tough decisions. Here are some essential elements in a change strategy of NACL:

The CEO must embrace the paradox of people and profits. He must improve profits, of course, yet be consistent with the values and precepts. Abrupt changes cannot be made in an organization like NACL. Unionism is strong and there would definitely be resistance to reforms. Hence, the issues related to overstaffing and VRS should be worked out wisely and in close consultation with unions. NACL should emphasize the importance of labour-management partnership. Without this, this organization cannot function. Moreover, the process of change and reforms cannot be top down, though the direction must come from the top.

A senior management team that embraces the values and perspective of employees needs to be formed. This team should also be engaged in a discussion of purpose, mission, values, strategy, and the approach of NACL which it needs to pursue for attaining business turnaround situation. Divisional discussions should be encouraged about the strengths and barriers in the organization to achieving that direction.

Based on the opinions gathered and environmental analysis made, the top management should then develop a plan that will turnaround the business in 2-3 years, and prepare a set of corporate change initiatives to transform the company. This may accommodate crucial corporate actions to achieve performance alignment, psychological alignment, and the capacity for ongoing learning and change. These include a learning and governance process, a strategic performance management process by which the senior team sets strategy and goals, develops strategic initiatives, and reallocates human and financial resources as needed; an organizational design that enables coordination; and human resource management policies and practices to enhance competence and commitment and develop a community of purpose.

NACL may not achieve its goals alone. It needs the support of its stakeholders to make the structural and policy reforms. It cannot remain unprofitable if it is to succeed within the increasingly challenging Nepalese airline industry. Above all, the CEO has to work out the financial plan and look for sources to finance its reform initiatives.

Question 18

(June 2010)

The banking sector in Nepal has undergone transformation in recent years. The deregulation of the banking and financial sector has brought both challenges and opportunities for long-standing players like Nepal Commercial Bank (NCB). NCB is a leading private sector commercial bank of Nepal. As the corporate sector in the country has greater freedom of

access to the capital markets today, the dependence of industry on bank funds has been declining. This has led to a gradual erosion of income from loans for working capital.

NCB perceives its role in the country's financial sector as provider of a wide portfolio of services to a varied range of customers under one roof. Initially, its line of business was merchant banking. With growing competition in the financial sector, its merchant banking business decreased considerably. However, this segment of its business is still the dominant one. As part of strengthening its lending portfolio, NCB has been examining various options. Personal banking is perceived, among others, as a growing market. It offers a platform on which new products tailored to specific customer needs and regular bank profits could be launched.

The research cell of the bank began conceptualizing various products based on its own understanding of customer needs. A study was undertaken on a sample size of 500 individuals covering a cross-section of incomes, age groups and urban-rural divides. One of the products that finally took shape was personal banking. The sheet anchor of the strategy of the new product is that this would offer to a savings account holder – both new and old – an automatic interest-free overdraft facility of up to Rs. 50,000 for six months. This new product would aim at the burgeoning Nepalese middle class, both in cities and the countryside, whose demand for personal credit is growing with the ongoing consumer boom in the country. The research cell submitted the report to the bank management for consideration.

The bank management handed over the report to a team of three directors for thorough review and comments. The following were their observations and comments:

- The director of HR was in favour of launching the new product. He was of the opinion that the bank should aggressively go ahead targeting it towards middle-class customers. Their financial standing was stable, and they were also the potential customers for other related services like credit cards and personal loans. They were the ones most likely to try the new product.
- The director of credit had some reservations. According to him the middle-class customers were not loyal. They shift their accounts from one bank to another. As many banks provide this type of service, it was not easy to attract the customers only with the proposed overdraft facilities. The lower-income segment of the society was the market for the future.
- The director of strategic planning was against the proposed scheme. He was of the opinion that this was a major shift from the bank's traditional line of business. This should be studied more seriously before making a strategic decision of this type. His personal view was that the new product should give emotional benefit apart from the benefit of availability of ready cash. The focus should be on how to empower the

account holders – a concept hitherto lost sight of in Nepalese banking. The business should be built around this concept to be one step ahead of in the market.

- a) What are the key strategic issues in this case to be considered by NCB? **(7 marks)**
- b) What kind of strategic analysis should go into NCB's efforts to launch a new product? **(8 Marks)**

Answers:

a.

The success of any new product is measured by the extent to which it meets its pre-determined goals. Several issues would obviously surface in connection with the proposed new product. Is the new product in conformity with the NCB's mission and objectives? What is the value this new product can add to the bank's portfolio of activities? Is any other bank offering something similar and if so, what extra plus NCB can offer over its competitors? What is the possibility of market retaliation and the proliferation of "me-too" which may dilute the novelty factor of the proposed new product?

The answers to these issues cannot be found in isolation of the larger context of what the NCB perceives its role in the country's financial services sector. The key strategic issues to be examined here are whether the bank wants to be a big player in one particular product group or provide a wide portfolio of services to a varied range of customers; whether it wants to be a niche player or become a full-fledged consumer bank offering diverse financial products under one roof; whether the bank wants to stick to the knitting and consolidate its strengths in the existing product portfolio, or whether it wants to diversify; whether it seeks profits from every single activity or is willing to cross-finance activities which, though unprofitable, are necessary from the customer's point of view; and finally, whether the bank has the necessary resources for the purpose.

b.

Economic liberalization has indeed opened up both challenges and opportunities in the banking sector and many banks are now taking a critical look at their product offering. In this context, two different aspects need to be considered by the corporate planners of NCB – its existing market leadership, its internal capability to offer personal banking services, and the growing competition. NCB's corporate planners should properly understand the features of this product and assess its internal strengths before making any decision. First, personal banking is a slow-burn business. Unlike merchant banking for instance where a bank can make a million in one single deal, personal banking generates profits only over a long haul. Second, the number of accounts and of transactions in each individual account is large in the personal banking segment. Third, it requires investment in infrastructure – like technology, people, systems, logistics and networking. Fourth, there has to be a major shift in the mindset of bank staff and management. The requirements of personal banking are quite different from the requirements of say investment banking. The bank should believe in building relationships with customers to make

them feel confident and comfortable. The bank management should seriously assess itself in terms of these requirements.

The other important thing is that any decision of this type should be linked to the corporate mission and objectives of NCB. Is this what the management of NCB wants? This is the crucial strategic issue. This major strategic decision cannot be based just on the surface report. The report is based on an illustrative, but by no means an exhaustive, sample of customers. The findings of the report are mere pointers to certain important trends. The methodology and other matters of the survey can be issues of debate.

The dilemma facing the corporate planners of NCB is whether the bank should build a product around the needs of the customer or swing the customer towards a product already on hand. The existing research literature, however, indicates that it is a myth that a product would succeed only when it is built around the existing needs of a customer. The best companies in the world are not necessarily those which respond to current customer needs. The best companies are often those who foresee the customer needs of tomorrow and build products around them. This fact has to be properly taken note of by the planners.

The critical issue to be examined by the corporate planners of NCB here is whether the bank wants to be a big player in one particular product group or provide a wide portfolio of services to a varied range of customers. Hence, a definite strategic choice has to be made by the leadership of the bank. The other issue to be examined by the corporate planners is: can the bank deal with the various risks and uncertainties that are bound to surface during the implementation phase.

Question 19

(June 2019)

Read the following and answer the questions accordingly:

Dristi Publication was established in 2010 with an initial capital of NPR 1 billion with the vision of 'Connecting People with Knowledge'. Currently, its capital is around NPR 50 billion with over 150 full time employees working throughout the country. Now, it publishes over 550 books which range from school to college level covering almost all the universities.

Initially, it was solely involved in publishing books on accounts and finance. Later, it was involved in publishing other books on management for Plus Two and Bachelor levels. By 2012, it also started publishing question bank and exam solution manuals and some books on science. By 2013, it started publishing books of school levels. It has also published few books on literature and politics. However, it has not published any book on education and humanities. The market of Dristi Publication has spread throughout the country.

The publication has been managed with simple structure since its inception. The managing director is the owner who directs and controls all the activities. The delegation of authority and responsibility is very poor. Some of the family members are also involved in the operations of the publication with no defined position. The publication has outsourced both distribution and production facilities. Marketing is done by its full time staff in different regions of the country.

The books of the publication have premium price. However, it has been able to attract the readers due to consistency in quality. The publication believes that the readers are ready to pay certain extra amount for quality.

The writers are found satisfied with the royalty they get. However, some of them comment transparency is poor. The publication emphasizes standardized way of writing books. Some writers view this has hindered their creativity. Employee turnover is lower compared to other publications. Salary and other benefits for the employees are good. Like other publications, career development opportunities to the employees seem poor. It is seen that books are mostly prescribed both in schools and colleges based on faculty recommendation and personal relationship rather than quality of text.

There is no official data about the number of publication house in Nepal for school and college levels. Approximately, it exceeds fifty. There are no much legal formalities and administrative works for the establishment of publication in Nepal. Over the years, competition among the publishing houses is getting severe. The publishing houses are more regulated for the school level by the Curriculum Development Centre. Copyright infringement is a major problem of publication industry in Nepal. There is news that corporate sectors are also interested in publication business.

Currently, it is constructing a high tech building for its central office. The massive growth of the publication inspires the owner to open school and college in near future.

Questions:

- What business strategy is adopted by Dristi Publication? Justify your answer. You are also required to analyze the industry environment using Porter's Five Force Model. (3+7=10)
- What type of organizational structure is followed by the organization? Describe. Is it suitable for the publication? Justify. If not which structure do you suggest? (4+6=10)

Answer

- Dristi Publication has adopted differentiation strategy for its business growth. It is an integrated set of actions taken to produce goods that customers perceive as being different in ways that are important to them.

According to Porter, an industry environment is composed of the threat of new entrants, power of suppliers, power of buyers, threat of product substitutes, and rivalry among competitors. The interactions among these five factors determine an industry's profit potential that eventually determines the strategic options of the firms. The industry environment of Dristi Publication is presented below.

Components	Degree	Reasons
Threats of new entrants	High	Low legal and administrative formalities Less regulated sector

		Comparatively lower cost of establishment
Buyers' power	High	Large number of publishing house allows the customer more choices making them more powerful
Suppliers' power	Moderate	Distributors, printing press and book writers can be managed reasonably.
Threats of substitute	High	Paper books may be replaced by e-books. Online blogs and notes may also replace paper books.
Competitive rivalry	High	Presence of large number of publications.

The industry environment of Dristi Publication is competitive based on the above analysis.

b) The publication has followed simple structure. Initially, this structure was suitable for the publication. Under this structure, the owner makes all major decisions. He/she monitors all activities. The employees serve as the assistants of the manager. It is characterized by informal relationships, few rules, limited task specialization, and informal information systems. Coordination is relatively high due to frequent and informal communications between the manager and employees.

With the increase in size and products, the simple structure is not suitable for the publication as it may not be able to cope up with the environmental and organizational complexity. With the growth and success, the publication may have to change its actions and strategy which demands new structure. Hence, divisional structure may be suitable for the publication. It consists of a corporate office and operating divisions which represents a separate business or profit centre. The responsibilities for day-to-day operations are delegated to divisional managers. The publication can divide the organization in different divisions based on disciplines such as science division, management division or School division, Plus Two division and University division. Each functional division can address the environmental dynamism. It encourages the management to concentrate on the business and functional strategy.