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INTERMEDIATE M'19 EXAM

SUBJECT- S.M.

Test Code – CIM 8225

BRANCH - () (Date :)

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ANSWER-1

ANSWER-A **(20*1 = 20 MARKS)**

1. A
2. A
3. C
4. B
5. B
6. B
7. C
8. B
9. D
10. B
11. A
12. B
13. B
14. A
15. A
16. D
17. D
18. D
19. A
20. C

ANSWER-B **(5*2 = 10 MARKS)**

1. **Correct:** there are three strategic levels in an organization – corporate, business and functional. control systems are required at all the three levels. at the top level, strategic controls are built to check whether the strategy is being implemented as planned and the results produced by the strategy are those intended. down the hierarchy management controls and operational controls are built in the systems. Operational controls are required for day-to-day management of business.
2. **Correct:** Strength is an inherent capacity which an organization can use to gain strategic advantage over its competitors. An example of strength is superior research and development skill which can be used for continuous product innovation or for new product development so that the company gains competitive advantage.
3. **Incorrect:** Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth. Strategic Planning is a function of top management level in the organization and relate the organization with its environment. Operational efficiency is not a direct outcome of strategic planning.
4. **Correct:** An acquisition is a type of growth strategy through which one firm buys a controlling or complete interest in another firm. Acquisition of an existing concern is an instant means of achieving growth through expansion and/or diversification. Ideally, acquisition strategy should be used when the acquiring firm is able to enhance its economic value through ownership and the use of the assets that are acquired.

5. **Incorrect:** Every company has its own organizational culture. Each has its own business philosophy and principles, its own ways of approaching to the problems and making decisions, its own work climate, work ethics, etc. Therefore, corporate culture need not be identical in all organizations. However, every organization over a period of time inherits and percolates down its own specific work ethos and approaches.

ANSWER-2

ANSWER-A

There are three main levels of management in a typical organization: corporate, business, and functional. the corporate level of management consists of the chief executive officer (ceO), other senior executives, the board of directors, and corporate staff. They are responsible for strategic decision making and broadly have following roles:

1. **Oversee the development** of strategies for the whole organization.
2. **Defining the mission and goals** of the organization.
3. Determining what businesses it should be in.
4. **Allocating resources** among the different businesses.
5. Formulating strategies.
6. **Implementing strategies**.
7. Providing **leadership** for the organization.
8. Provide a **link** between the people who oversee the strategic development of a firm and those who own it.

(5 MARKS)

ANSWER-B

A Mission statement tells you the **fundamental purpose of the organization.** It concentrates on the present. It defines the customer and the critical processes. It informs you of the **desired level of performance.** On the other hand, a **vision statement outlines what the organization wants to be. It concentrates on the future.** It is a source of inspiration. It provides clear decision-making criteria.

A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. Following are the major differences between vision and mission:

1. The **vision states the future direction while the mission states the ongoing activities** of the organization.
2. The **vision statement** can **galvanize the people to achieve defined objectives**, even if they are stretch objectives, provided the vision is specific, measurable, achievable, relevant and time bound. A **mission statement** provides a **path to realize the vision in line with its values**. These statements have a direct bearing on the bottom line and success of the organization.
3. A **vision statement defines the purpose or broader goal for being in existence** or in the business and can remain the same for decades if crafted well while a mission statement is more specific in terms of both the future state and the time frame. **Mission describes what will be achieved if the organization is successful.**

(5 MARKS)

ANSWER-3

ANSWER-A

In simple economic terms **globalization refers to the process of integration of world into one huge market.** At the company level globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries and (b) it also means ability to compete in domestic markets with foreign competitors.

A company which goes global is also called a Multinational Company (MNC). The global company views the world as one market minimizes the importance of national boundaries. A global company has three attributes:

(i) It is a **conglomerate of multiple units** located in different parts of the globe but all linked with common ownership.

(ii) Multiple units **draw a common pool of resources** such as money, credit, patents, trade name, etc.

(iii) The units respond to common strategy.

Strategic approaches:

International economic dynamics accompanied by geographical changes have changed the paradigm of global business. A firm / company which wishes to go global will be guided by the following four types of strategies:

(i) **Multi-domestic strategy:** A multi-domestic strategy **focuses on competition within each country in which the firm operates.** This Strategy is adopted when a company tries to achieve a **high level of local responsiveness** by matching their products and services offerings to national conditions prevailing in the countries they operate in. The organization attempts to extensively **customize their products and services** according to the local conditions of different countries.

(ii) **Global strategy:** A global strategy assumes more **standardization of products** across country boundaries. Under this strategy, the company tries to **focus on a low cost structure** by leveraging their **expertise in providing certain products and services** and concentrating the production of these standard products and services at a few favourable locations around the world. Competitive strategy is **centralized and controlled** by the home office.

(iii) **Transnational strategy:** Many large multinational firms, particularly those with many diverse products, may use a **multi-domestic strategy** with some product lines and a global strategy with others. A transnational strategy seeks to **combine aspects of both multi-domestic and global strategies.** Thus there is emphasizes on both local responsiveness and **global integration and coordination**. Although the transnational strategy is difficult to implement, environmental trends are causing multinational firms to consider the needs for both **global efficiencies and local responsiveness**.

When a firm adopts one or more of the above strategies, the firm would have to take decisions on the manner in which it would commence international operations. The decision as to how to enter a foreign market can have a significant impact on the results. Expansion into foreign markets can be achieved through following options:

- Exporting.
- Licensing/ Franchising.
- Joint Venture.
- Foreign Direct Investment.

(6 MARKS)

ANSWER-B

To gain a deep understanding of a company's industry and competitive environment, managers do not need to gather all the information they can find and waste a lot of time digesting it. Rather, the task is much more focused. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

- Competitive pressures associated with the **market manoeuvring and jockeying for buyer patronage** that goes on among rival sellers in the industry.
- Competitive pressures associated with the **threat of new entrants into the market**.
- Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.
- Competitive pressures **stemming from supplier bargaining power and supplier-seller collaboration.**
- Competitive pressures **stemming from buyer bargaining power and seller- buyer Collaboration.**

(4 MARKS)

ANSWER-C

Retrenchment strategy implies substantial reduction in the scope of organization's activity. A business organization can redefine its business by divesting a major product line or market. While retrenching organizations might set objectives below the past level of objectives. It is essentially a **defensive strategy** adopted as a reaction to operating problems stemming from either internal mismanagement, unanticipated actions by competitors or hostile and unfavourable changes in the business environmental conditions. With a retrenchment strategy the endeavour of management is to **raise the level of enterprise achievements** focusing on improvements in the functional performance and cutting down operations with negative cash flows.

(3 MARKS)

ANSWER-D

Business Process Reengineering (BPR) is an **approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems.** It is revolutionary redesign of key business processes that involves examination of the basic process itself. It looks at the minute details of the process, such as why the work is done, who does it, where is it done and when it is done. BPR refers to the **analysis and redesign of workflows and processes** both within the organization and between the organization and the external entities like suppliers, distributors, and service providers.

The orientation of redesigning efforts is basically radical. In other words, it is a total **deconstruction and rethinking of business process** in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum jump in process performance in terms of time, cost, output, quality, and responsiveness to customers. BPR is a revolutionary redesigning of key business processes. BPR involves the following steps:

(2 MARKS)

i. **Determining objectives:** Objectives are the desired end results of the redesign process which the management and organization attempts to realize. They will **provide the required focus, direction, and motivation** for the redesign process and help in building a comprehensive foundation for the reengineering process.

ii. **Identify customers and determine their needs:** The process designers have to understand customers - their profile, their steps in acquiring, using and disposing a product. The purpose is to **redesign business process that clearly provides value addition** to the customer.

iii. **Study the existing processes:** The study of existing processes will provide an important base for the process designers. The purpose is to gain an understanding of the 'what', and 'why' of the targeted process. However, as discussed earlier, some companies go through the reengineering process with **clean perspective without laying emphasis on the past processes**.

iv. **Formulate a redesign process plan:** The information gained through the earlier steps is **translated into an ideal redesign process**. Formulation of redesign plan is the **real crux of the reengineering efforts**. Customer focused redesign concepts are identified and formulated. In this step alternative processes are considered and the best is selected.

v. **Implement the redesigned process:** It is easier to formulate new process than to implement them. Implementation of the **redesigned process and application of other knowledge** gained from the previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalize the new process.

(5*1 = 5 MARKS)

ANSWER-4

ANSWER-A

Rohit Bhargava needs to break higher level strategies into functional strategies for implementation. These functional strategies, in form of Marketing, Finance, Human Resource, Production, Research and Development help in achieving the organizational objective. **The reasons why functional strategies are needed can be enumerated as follows:**

- Functional strategies lay down clearly what is to be done at the functional level. They provide a **sense of direction** to the functional staff.
- They are aimed at **facilitating the implementation of corporate strategies** and the business strategies formulation at the business level.
- They act as **basis for controlling activities** in the different functional areas of business.
- They help in bringing **harmony and coordination** as they are formulated to achieve major strategies.

- Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

(5 MARKS)

ANSWER-B

For development of matrix structure; Davis and Lawrence have proposed three distinct phases:

- **Cross-functional task forces:** Temporary cross-functional task forces are initially used when a new product line is being introduced. A project manager is in charge as the key horizontal link.
- **Product/brand management:** If the **cross-functional task forces** become more permanent, the project manager becomes a product or brand manager and a second phase begins. In this arrangement, function is still the primary organizational structure, but product or brand managers act as the **integrators of semi-permanent products** or brands.
- **Mature matrix:** The third and final phase of matrix development involves a true dual-authority structure. Both the functional and product structures are permanent. All employees are connected to both a vertical functional superior and a horizontal product manager.

(4 MARKS)

ANSWER-C

A typical large organization is a multidivisional organisation that competes in several different businesses. It has **separate self-contained divisions** to manage each of these. There are three levels of strategy in management of business - corporate, business, and functional.

The corporate level of management consists of the chief executive officer and other top level executives. These individuals occupy the **apex of decision making** within the organization. The role of corporate-level managers is to **oversee the development of strategies** for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses and so on rests at the Corporate Level.

The development of strategies for individual business areas is the responsibility of the general managers in these different businesses or business level managers. A business unit is a **self- contained division** with its own functions - for example, finance, production, and marketing. The strategic role of business-level manager, head of the division, is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Functional-level managers are responsible for the **specific business functions** or operations such as human resources, purchasing, product development, customer service, and so on. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.

(5 MARKS)

ANSWER-D

Steps to understand the Competitive Landscape:

(i) **Identify the competitor:** The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share. This answers the question: Who are the competitors?

(ii) **Understand the competitors:** Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets. This answers the question: What are their product and services?

(iii) **Determine the strengths of the competitors.** What are the strength of the competitors? What do they well? Do they offer great products? Do they utilize marketing in a way that reaches out to more consumers than other companies? Why do customers give them their business? This answers the questions: What are their financial positions? What gives them cost and price advantage? What are they likely to do next? How strong is their distribution network? What are their human resource strengths?

(iv) **Determine the weaknesses of the competitors.** Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor. This answers the question Where are they lacking?

(v) **Put all of the information together.** At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthen by the firm. This answers the questions: What will the business do with this information? What improvements does the firm need to make? How can the firm exploit the weakness of competitors?

(6 MARKS)

ANSWER-5

ANSWER-A

The terms Entrepreneur and the Intrapreneur might seem the same words to hear, but both the terms have much differences including their spelling and characteristics. The differences between these two terms have been shortly gleaned below:-

	Entrepreneur	Intrapreneur
Dependency	An entrepreneur is independent in his operations.	An intraprenuer is dependent on the entrepreneur, i.e. the owner.
Raising of Funds	An entrepreneur himself raises funds required for the enterprise.	Funds are not raised by the Intrapreneur.
Risk	Entrepreneur bears the risk	An intraprenuer does not fully bear

	involved in the business.	the risk involved in the enterprise.
Operation	An entrepreneur operates from out side.	On the contrary, an intraprenuer operates from within the organization itself.
Orientation	An entrepreneur begins his business with a newly set up enterprise.	An intrapreneur sets up his enterprise after working someone else's organization.
Experience	As an entrepreneur establishes new business, so he does not possess any experience over the business.	An intrapreneur establishes his business after gathering experiences through working in the other organizations.

According to the above table, anyone can differentiate between the entrepreneur and intrapreneur as both the terms are heterogeneous.

(5 MARKS)

ANSWER-B

Mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup. Following points are useful while writing mission of a company:

- Good mission statements are highly personalized – unique to the organization for which they are developed.
- One of the roles of a mission statement is to give the organization its own special identity, business emphasis and path for development.
- A company's business is defined by what needs it is trying to satisfy, customer groups it is targeting, technologies and competencies it uses and the activities it performs.
- Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.
- The mission should not be to make profit.

(5 MARKS)

ANSWER-C

Backward integration is a step towards, **creation of effective supply by entering business of input providers.** Strategy employed to **expand profits and gain greater control** over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.

In case of hospitals there can be number of businesses that can be entered. Following are indicative list of backward integration strategies that hospitals may pursue:

- Drugs and pharmaceuticals – Specific drugs can be manufactured or traded.
- Business of gases required in hospitals – oxygen.
- Pathology labs / diagnostic services. This can be created in-house if not available already. Alternatively, a chain can be started.

- Blood Banks.
- Ambulance services.

(4 MARKS)

ANSWER-D

It is a **low cost competitive strategy** that aims at broad mass market. It requires **vigorous pursuit of cost reduction** in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Because of its lower costs, the cost leader is able to change a **lower price for its products** than its competitors and still make **satisfactory profits.** For example, McDonald's fast food restaurants have successfully followed low cost leadership strategy.

A primary reason for pursuing forward, backward, and horizontal integration strategies is to **gain cost leadership benefits**. But cost leadership generally must be pursued in conjunction with differentiation. A number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors.

Other cost elements to consider in choosing among alternative strategies include the **potential for sharing costs and knowledge** within the organization, R&D costs associated with new product development or modification of existing products, labour costs, tax rates, energy costs, and shipping costs.

Striving to be the low-cost producer in an industry can be especially effective when the market is composed of many price-sensitive buyers, when there are few ways to achieve product differentiation, when buyers do not care much about differences from brand to brand, or when there are a large number of buyers with significant bargaining power. The basic idea is to underprice competitors and thereby gain market share and sales, driving some competitors out of the market entirely.

A successful cost leadership strategy usually **permeates the entire firm**, as evidenced by **high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment, and broad employee participation in cost control efforts.** Some risks of pursuing cost leadership are that competitors may imitate the strategy, thus driving overall industry profits down; that technological breakthroughs in the industry may make the strategy ineffective; or that buyer interest may swing to other differentiating features besides price.

(6 MARKS)

ANSWER-6

ANSWER-A

The financial strategies of an organization are related to several finance/ accounting concepts considered to be central to strategy implementation. These are: acquiring needed capital/sources of fund, developing projected financial statements/budgets, management/ usage of funds, and evaluating the worth of a business.

Various methods for determining a business's worth can be grouped into three main approaches which are as follows:

(i) **Net worth or stockholders' equity:** Net worth is the **total assets minus total outside liabilities** of an organization.

(ii) **Future benefits to owners through net profits:** These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.

(iii) **Market-determined business worth:** This, in turn, involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

(4 MARKS)

ANSWER-B

A strategy audit is needed under the following conditions:

- When the performance indicators reflect that a strategy is not working properly or is not producing desired outcomes.
- When the **goals and objectives** of the strategy are not being accomplished.
- When a **major change takes place** in the external environment of the organization.
- When the top management plans:
  a) to fine-tune the existing strategies and introduce new strategies and
  b) to ensure that a strategy that has worked in the past continues to be in-tune with subtle internal and external changes that may have occurred since the formulation of strategies.
  (c) Adequate and timely feedback is the cornerstone of effective strategy audit. Strategy audit can be no better than the information on which it is based.

(4 MARKS)

Strategy Audit includes three basic activities:

1. Examining the underlying bases of a firm's strategy,
2. Comparing expected results with actual results, and
3. Taking corrective actions to ensure that performance conforms to plans.

(2 MARKS)

ANSWER-C

Changing problem cultures is very difficult because of deeply held values and habits. It takes concerted management action over a period of time to replace an unhealthy culture with a healthy culture or to root out certain unwanted cultural obstacles and instil ones that are more strategy-supportive.

- The first step is to diagnose which facets of the present culture are strategy supportive and which are not.

- Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed.
- The talk has to be followed swiftly by visible, aggressive actions to modify the culture-actions that everyone will understand are intended to establish a new culture more in tune with the strategy.
- The menu of culture-changing actions includes revising policies and procedures, altering incentive compensation, recruiting and hiring new managers and employees, replacing key executives, communication on need and benefit to employees and so on.

(4*1 = 4 MARKS)

ANSWER-D

Acquisition of or merger with an existing concern is an instant means of achieving the expansion. It is an **attractive and tempting proposition** in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth. Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair.

Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of **achieving a measure of synergy** between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Only positive synergistic effects are relevant in this connection which denote that the positive effects of the merged resources are greater than the some of the effects of the individual resources before merger or acquisition.

Some of the recent / popular instances of acquisition are listed below:

- Tata's acquisition of Anglo Dutch steelmaker Corus
- Tata's acquisition of British Jaguar Land Rover
- Mittal Steel's takeover of Arcelor
- HPCL's acquisition of Kenya Petroleum Refinery Ltd.
- Hindalco's acquisition of Canada based Novelis

(6 MARKS)