Khandelwal Vaish Girls Institute of Technology

Internal Examination 2017 - 18

Business Policy and Strategic Management

MBA Semester III

Question Paper & Answer Key

MM: 30 Time : 02:30 hours

1. **What is Business Policy?** (3)

Ans. The term "Business Policy" comprises of two words, Business and Policy. Business: "Business means exchange of commodities and services for increasing utilities." Policy: Policies may be defined as "the mode of thought and the principles underlying the activities of an organization or an institution." Policies are plans in they are general statements of principles which guide the thinking, decision making and action in an organization. Business policy as a principle or a group of related principles, along with their consequent rule (s) of action that provide for the successful achievement of specific organization / business objectives. Accordingly, a policy contains both a "principle" and a "rule of action." Both should be there for the maximum effectiveness of a policy.

2. **Detail the variants of Growth Strategy?** (4)

Ans. **Variants of Growth Strategy**:

a) Intensification Strategy (Internal Growth) Internal growth, which consists of increasing the sales revenue, profits and market share of the existing product line or services, is generally known as, intensive growth strategy.

   When a firm selects the intensification strategy, it means that the firm is opting to go deeper in its existing business. As the very word denotes, in intensification, the firm is intensifying, i.e., deepening and strengthening its involvement and position in its existing business. In the first place, it finds additional opportunities in that business and secondly, it consciously commits itself to exploiting these opportunities. It is ready to put in more investment in the existing business, seeking a new position therein. Thus, intensification basically means product-market expansion in existing businesses. And, intensification strategies provide ways to intensify the firm's position in existing businesses.

   Type of Intensification strategy:

   - Market penetration
   - Market development
   - Product development

3. **What are the characteristics and scope of stability strategy?** (4)

Ans. **Characteristics and Scope of Stability Strategy:**

- A firm opting for stability strategy stays with the same business, same product-market posture and functions, maintaining same level of effort as at present.
- The endeavor is to enhance functional efficiencies in an incremental way, through better deployment and utilization of resources. The assessment of the firm is t hat the desired income and profits would be forthcoming through such incremental improvements in functional efficiencies.
- Naturally, the growth objective of firms employing this strategy will be quite modest. Conversely, only firms with modest growth objective will vote for this strategy.
- Stability strategy does not involve a redefinition of the business of the corporation.
- It is basically a safety-oriented, status quo-oriented strategy.
- It does not warrant much of fresh investments.
- The risk is also less.
- It is a fairly frequently employed strategy.
- With the stability strategy, the firm has the benefit of concentrating its resources and attention on the existing businesses / products and markets. But the strategy does not permit the renewal process of bringing in fresh investments and new products and markets for the firm.

4. **Elaborate the significance of Corporate Governance?** (4)

Ans. Good corporate governance has assumed great importance and urgency in India due to the following reasons:

- **Changing Ownership Structure:** The profile of corporate ownership has changed significantly. Public financial institutions are the single largest shareholder in most of the large corporation in the private sector. Institutional shareholders have reversed the trend of scattered shareholders. Institutional investors (foreign as well as Indian) and mutual funds have now become singly or jointly direct challenges to managements of companies. Due to threat of hostile takeover bids and the growth of institutional investors the big business houses started talking about corporate governance.

- **Social Responsibility:** A company is a legal entity without physical existence. Therefore, it is managed by board of directors which is accountable and responsible to shareholders who provide the funds. Directors are also required to act in the interests of customers, lenders, suppliers and the local community of enhancing shareholders' value. An effective system of corporate governance provides a mechanism for regulating the duties of directors so that they act in the best interests of the companies. Control systems are established either through law or self-regulations.

- **Scams:** In recent years several corporate frauds have shaken the public confidence. Harshad Mehta scandal, CRB Capital case and other frauds have caused tremendous loss to the small meetings. Shareholders, associations, investors, education and awareness have not emerged as a countervailing force.

- **Globalization:** As Indian companies went to overseas markets for capital, corporate governance became a buzzword. Sinking capital markets in India from 1994 through 1998 and the desire of more and more companies in India to get listed on international stock exchanges also prompted them to pay attention to corporate governance. We must, however, remember that corporate governance is not a trick to prop up the sensex of to bring in foreign capital. It implies management of the corporate sector within the constraints of fair play, responsibility and conscience with regard to all the stakeholders.

5. **What is linkage between corporate objective & corporate strategy?** (4)

Ans. Linkage between Corporate Objective and Corporate Strategy While objectives indicate where the firm wants to reach, strategy provides the design for getting there. While the objective specifies the results the firm seeks in a given timeframe, the strategy spells out the programmed of action for achieving the results. In finally deciding the business- product - market choices for the firm, corporate strategy fills in those areas left blank in the objective formulation stage. Objectives and Strategy together describe the Firm's Concept of Strategy The firm raises many questions before finally clinching its growth objective. For instance, it agitates questions such as; what part of its overall growth ambition it should target for realization during the present planning period? To what extent can its existing businesses contribute to this target? To what extent they can grow and to what extent can new markets be found for these businesses? From where else can the desired growth come? To what extent do the firm's capabilities match the desired growth? The firm clinches its growth objective after agitating all such questions in detail. Even after clinching the growth objective in this way, the firm is not totally clear about the specific routes through which the growth gap is going to be filled. Subsequently, in the strategy formulation stage, these explorations continue; and it is at this stage that it is finally clinched as to how and through which businesses / products / markets the intended quantum of growth will be actually achieved. In other words, the scope of the existing businesses, the choice of additional businesses and deletions from the existing basket are all concluded at this stage. The contributions of existing businesses, their expansions and that of new businesses to the total growth are ascertained. In other words, even the objective becomes complete only when the strategy component, i.e., the business choices, is finalized. And, objective and strategy together fully clarify the future plan.

6. **Define different circumstances under which firms adopt Retrenchment Strategy?** (4)

Ans. **Retrenchment Strategy:**

- A firm considers divestment strategy when it finds that some of its businesses have become unattractive, unprofitable and unviable.
- Obsolescence of product / process can be another setting for divestment.
- High competition can be another setting; firms that are unable to compete successfully, whatever the reason, may consider divestment.
- When the industry as a whole is in dire straits, firms may consider divestment. Industry overcapacity can be one of the settings in this category.
- When a business is in the decline stage of the PLC, more attempts at divestment are usually seen.

7. **What do you understand by Strategic Analysis and Choice (SAC) ?** (3)

Ans. Strategy Analysis and Choice (SAC) seeks to determine alternative courses of action that could best enable the firm to achieve its mission and objectives. The firm's present strategies, objectives and mission coupled with information gathered through external and internal analysis provide a basis for generating and evaluating feasible alternative strategies. SAC tries to find out the answers to three basic question:

- How effective has the existing strategy been?
- How effective will that strategy be in the future?
- What will be the effectiveness of selected alternative strategies (or changes in the existing strategy carried out using certain tools) in the future ?

SAC largely involves making subjective decisions based on objective information. The analytical tools employed in SAC such as BCG Matrix, DPM, SPACE etc. can significantly enhance the quality of strategic decisions. However, these should be used to pick up appropriate strategies after a careful examination of behavioral, cultural and political factors influencing strategy generation and selection.

8. **Interpret the five force model.** (4)

Ans. Porter's model is one of the most useful conceptual frameworks used to assess the nature of the competitive environment and to describe an industry's structure. A highly attractive industry is one where a firm is able to make profits easily. In an unattractive industry, the profitability is generally low or consistently depressed. To remain an effective competitor, a firm should:

- Appreciate which of the five forces is the most significant (it can be different for different industries), and concentrate strategic attention in this area.
- Position itself for the best possible defense against any threats from rivals.
- Influence the forces detailed above through its own corporate and competitive strategies.
- Anticipate changes or shifts in the forces - the factors that are generating success in the short-term may not succeed long-term.
- When a firm perceives some environmental threats, it sometimes turns towards divestment strategy. As a general rule, in times of environmental flux more moves are seen on the divestment front.