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COMMERCE & LAW
PROGRAM DIVISION (CLPD)

GKL2(H)

Roll. No. …………………………….

Total No. of Question -10 **Maximum Marks : 45**

Test Paper with Solutions

Strategic Management

CA-Intermediate (May 2023)

Examination

Instructions for the Candidates :

- The question paper comprises two **Part I and Part II.**
- Part I comprise Multiple Choice Question (MCQs).
- Part II comprises question which require descriptive type answers.
- Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
- Answers to Question in Part I are to be marked on the OMR answer sheet only. Answer to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs, if written in the descriptive type answer book, will not be evaluated.
- OMR answer sheet will be in English only for all candidates, including for Hindi medium candidates.
- **The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive type answer book.**
- You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
- Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, (b) OMR answer sheet thereon and (c) the answer book in respect of descriptive type answer book to the invigilator before leaving the exam hall, after the conclusion of the exam.
- The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above – mentioned items
- Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

PART-II

- **Section A :** Question paper comprises **5** questions (1 to 5). Answer Question No. **1** which is compulsory and any 3 out of the remaining **4** questions.
- **Section B :** Question paper comprises **5** questions (6 to 10). Answer Question No. **6** which is compulsory and any 3 out of the remaining **4** questions.
- Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.
- Working note should form part of the respective answer.

Disclaimer Clause :

- These Solutions are prepared by the Expert Faculty Team of RESONANCE .
- Views and Answers provided may differ from **ICAI** due to difference in assumptions taken in support of the answers .
- In such case answers as provided by "**ICAI**" will be deemed as final .

PART– II

Section - B

6. Ramesh and Suresh own software development firms ACS Ltd. and BDS Ltd. Ramesh and Suresh pitch their business in international markets and win international contracts. Ramesh has fifty software engineers in his team Suresh, on the other hand, leads a team of forty software engineers. Every project has a specific and fixed timeline. Individual projects are assigned to project heads by Ramesh and Suresh. Ramesh adheres to strict rules and procedures. He met with the project heads to get an update but exchanged ideas occasionally. He set a weekly target of forty hours to complete the assigned goal or task. The group that meet the deadline and completed the task received a 10% bonus. The group that was unable to meet the deadline was penalized. The group that did not meet the deadline was penalized with unpaid extra working hours to complete the task. Suresh, unlike Ramesh, did not prioritise a structured approach to work. Suresh inspired the project managers by making them feel like leaders rather than just participants. Suresh's empowering attitude helped to align individual goal with group goals. Ramesh established routines to maximise his team efficiency. Suresh, on the other hand, used positive reinforcement to maximise his team efficiency.

6. (a) Identify the leadership style employed by Ramesh and Suresh.

(1 Mark)

Ans. **Ramesh is Transactional leader & Suresh is Transformation leader.**

6. (b) What are the conditions/situations that make such leadership styles more appropriate?

(2 Marks)

Ans. **Ramesh as a Transactional leader** focuses more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation.
Transactional leaders try to build on the existing culture and enhance current practices.
Transactional leadership style may be appropriate in static environment, in mature industries, and in organizations that are performing well. **Suresh is Transformational leader** style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes.

6. (c) Discuss the characteristics of the leadership styles.

(2 Marks)

Ans. The strategic leaders must be able to use the strategic management process effectively by guiding the company in ways that result in the formation of strategic intent and strategic mission, facilitating the development and implementation of appropriate strategic plans and providing guidance to the employees for achieving strategic goals.
Strategic leadership entails the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessitated by external environment.

Strategic leaders have following characterstics Staying on top of what is happening, closely monitoring progress, solving out issues, and learning what obstacles lie in the path of good execution.

a. Promoting a culture of *esprit de corps* that mobilizes and energizes organizational members to execute strategy in a competent fashion and perform at a high level.

b. Keeping the organization responsive to changing conditions, alert for new opportunities, bubbling with innovative ideas, and ahead of rivals in developing competitively valuable competencies and capabilities.

c. Exercising ethical leadership and insisting that the company conduct its affairs like a model corporate citizen.

d. Pushing corrective actions to improve strategy execution and overall strategic performance.

7. (a) "Management at all levels develop strategies." Explain the different strategies formulated at different levels of management.

(5 Marks)

Ans. **Strategic Levels in Organisations**

An organization is divided into several functions and departments that work together to bring a particular product or service to the market. There are three main levels of management: 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. 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, formulating and implementing strategies that span individual businesses, and providing leadership for the organization.

Business-level general managers are concerned with strategies that are specific to a particular business. The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategics for individual businesses.

Functional-level mangers are responsible for the specific business function or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity.

7. (b) "The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends on characteristics of resources and capabilities", Explain this statement.

(5 Marks)

Ans. Competitive advantage allows a firm to gain an edge over rivals when competing. 'It is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.'

The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon four major characteristics of resources and capabilities:

1. **Durability:** The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate. In industries the rate of product innovation is fast, product patents are quite likely to become obsolete. Similarly, capabilities which are the result of the management expertise of the CEO are also vulnerable to his or her retirement or departure. On the other hand, many consumer brand names have a highly durable appeal.
2. **Transferability:** Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals. The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is to transfer resources and capabilities between companies.
3. **Imitability:** How easily and quickly can the competitors build the resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability. For Example: In financial services, innovations lack legal protection and are easily copied. Here again the complexity of many organizational capabilities can provide a degree of competitive defence. Where capabilities require networks of organizational routines, whose effectiveness depends on the corporate culture, imitation is difficult
4. **Appropriability:** Appropriability refers to the ability of the firm's owners to appropriate the returns on its resource base. Even where resources and capabilities are capable of offering sustainable advantage, there is an issue as to who receives the returns on these resources.

8. (a) Health Pharma Pvt. Ltd. (HPPL) a one person company with limited Liability is manufacturing generic and medicinal drugs in India.

Hygiene Laboratories Plc. (HLP) a multinational company with its strong financial position is one of the major players in pharmaceutical sector.

Individually, each company has its own core competencies. However additional focus by the state on generic medicine with renewed regulatory requirements are posing challenges in fierce competitive environment.

Considering benefits of synergies, both the companies are considering to join hands for better growth opportunities. Earlier, they tried to go for joint venture or strategic alliance but the arrangement could not materialize.

In view of the facts given below :

8. (a) (i) If HPPL and HLP join hands and make new entity named Health N Hygiene Pharma Ltd., what type of growth strategy will this strategic development be?

(1 Mark)

Ans. Acquisition 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.

8. (a) (ii) In case, HLP is sold out to HPPL and HLP ceased to exist, what type of growth strategy will this strategic deal be? **(1 Mark)**

Ans. When one organization takes over the other organization and controls all its In case, HLP is sold out to HPPL and HLP ceased to exist, the type of growth strategy will this strategic deal will be acquisitions. business operations, it is known as **acquisitions**. In this process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. The combined operations then run under the name of the powerful entity.

8. (a) (iii) What are the differences between the above two identified growth strategies?

(3 Marks)

Ans. **Joint ventures or merger both companies have control over new entity**

but in Merger acquisitions is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity but **Acquisitions** one of the company have entire control over the business of takeover company has a holding company.

8. (b) Buyers of an industry's products or services can sometimes exert considerable pressure on the company. In the light of the five forces as propagated by Michael Porter explain this force. Also state as to when this leverage is evident.

(2+3 = 5 Marks)

Ans **Bargaining Power of Buyers**

Buyers of an industry's products or services can sometimes exert considerable pressure on existing firms to secure lower prices or better services. This leverage is particularly evident when

(i) Buyers have full knowledge of the sources of products and their substitutes.

(ii) They spend a lot of money on the industry's products i.e. they are big buyers.

(iii) The industry's product is not perceived as critical to the buyer's needs and buyers are more concentrated than firms supplying the product. They can easily switch to the substitutes available.

9. (a) Strategic planning is an important constituent of strategic management. In the light of the same explain the meaning of strategic planning. Also Outline the characteristics of strategic planning.

(1+4 = 5 Marks)

Ans.

- It can be **done for the entire organization or to a specific business unit.**
- It is helpful in **selecting the best strategy,** among the various strategies taking into account the firm's interest personal values and corporate social responsibility.
- It acts as a **guide to the executive** to reduce the risk involved in the to reduce the risk involved in the business and also to take the best possible advantage of the opportunities. So, in this way, it contributes to the success of the enterprise.
- It presupposes that a **firm should always be ready** to adapt itself according to the dynamic business environment. For this purpose alternative strategies are developed for different circumstances, i.e. from best to worst, for the future
- It can be **done for the entire organization or to a specific business unit.**
- It is helpful in selecting the best strategy, among the various strategies taking into account the firm's interest, personal values and corporate social responsibility.
- As a **forward-looking activity** wherein the future opportunities and threats are ascertained while considering its profitability, market share, product and competition.

- It presupposes that a **firm should always be ready** to adapt itself according to the dynamic business environment. For the purpose alternative strategies are developed for different circumstance, i.e. from best to worst, for the future
- It can be **done for the entire organization or to a specific business unit.**
- Strategic Planning is an **analytical process** which formulates strategic and operational plans for the and operational plans for the organization. The implementation of strategic plans is possible through projects, whereas various units or divisions of the firm implement operational plans.
- It performs **SWOT Analysis**, i.e. during the planning process, the firm's strengths, weakness, opportunities and threats are taken into consideration.
- It is a forward-looking activity wherein the future opportunities and threats are ascertained while considering its profitability, market share, product and competition.

9. **(b)** "Strategic control focuses on implementation and results produced by The strategy". Explain strategic control along with its different types.

(1+4 = 5 Marks)

Ans. **Strategic Control:**

Strategic control is the process of evaluating strategy as it is formulated and implemented. It is directed towards identifying problems and changes in premises and making necessary adjustments.

Types of Strategic Control: There are four types of strategic control as follows:

(i) **Premise control:** A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Over a period of time these premises may not remain valid. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors:

- Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and legal-regulatory.
- Industry factors such as competitors, suppliers, substitutes.

It is neither feasible nor desirable to control all types of premises in the same manner. Different premises may require different amount of control. Thus, managers are required to select those premises that are likely to change and would severely impact the functioning of the organization and its strategy.

(ii) **Strategic surveillance:** Contrary to the premise control, the strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy. It involves casual environmental browsing. Reading financial and other newspapers, business magazines, attending meetings, conferences, discussions and so on can help in strategic surveillance.

Strategic surveillance may be loose form of strategic control, but is capable of uncovering information relevant to the strategy.

(iii) **Special alert control:** At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy. To cope up with such eventualities, the organisations form crisis management teams to handle the situation.

(iv) **Implementation control:** Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions. Strategic implementation control is not a replacement to operational control. Unlike operational control, it continuously monitors the basic direction of the strategy.

10. (a) Changes in environmental focus often require businesses to make modifications in their existing strategies. In view of the same explain the areas to be focused while considering concept of strategic change. Also explain the steps to initiate strategic change process.

(2+3=5 Marks)

Ans. **Strategic Change**

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process that involves a corporate strategy focused on new markets, products, services and new ways of doing business.

Steps to initiate strategic change: For initiating strategic change, three steps can be identified as under:

1. **Recognize the need for change:** The first step is to diagnose which facets of the present corporate culture are strategy supportive and which are not. This basically means going for environmental scanning involving appraisal of both internal and external capabilities may be through SWOT analysis and then determining where the lacuna lies and scope for change exists.
2. **Create a shared vision to manage change:** Objectives of both individuals and organization should coincide. There should be no conflict between them. This is possible only if the management and the organization members follow a shared vision. Senior managers need to constantly and consistently communicate the vision to all the organizational members.

   They have to convince all those concerned that the change in business culture is not superficial or cosmetic. The actions taken have to be credible, highly visible and unmistakably indicative of management's seriousness to new strategic initiatives and associated changes.
3. **Institutionalise the change:** This is basically an action stage which requires implementation of changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things. Capacity for self-renewal should be a fundamental anchor of the new culture of the firm. Besides, change process must be regularly monitored and reviewed to analyse the after-effects of change. Any discrepancy or deviation should be brought to the notice of persons concerned so that the necessary corrective actions are taken. It takes time for the changed culture to prevail.

10. (b) Ratu has been appointed as CEO of PRO Ltd. He is given the responsibility of developing new products and improving old products. He is facing a conflict whether the firm should develop research and development expertise internally or outsource it to external agency. What guidelines will help Ratu to make this decision?

(5 Marks)

Ans. **A critical question is whether a firm should develop research and development expertise internally or outside to external agencies. The following guidelines we will suggest to Ratu, can be useful to help make this decision:**

(i) If the rate of **technical progress is slow,** the rate of **market growth is moderate,** and there are significant barriers to possible new entrants, then in-house R&D is the preferred solution. The reason is that R&D, if successful, will result in a temporary product or process monopoly that the company can exploit.

(ii) **If technology is changing rapidly** and the **market is growing slowly,** then a major

(iii) effort in R&D may be very risky, because it may lead to the development of an ultimately obsolete technology or one for which there is no market.

(iv) If **technology is changing slowly** but the **market is growing quickly**, there generally is not enough time for in-house development. The prescribed approach is to obtain R&D expertise on an exclusive or nonexclusive basis from an outside firm.

(v) If both **technical progress and market growth are fast**, R&D expertise should be obtained through acquisition of a well-established firm in the industry.

OR

You have been appointed as head of the Strategic Business Unit (SBU) of a large multiproduct company. Explain the leadership roles, you have to play as Manager in pushing for good strategy execution.