MGT603 - Strategic Management FAQs For Final Term Exam Preparation

FAQs
Question: How concentric diversification is different from conglomerate diversification?
Answer: Adding new, but related, products or services is widely called concentric diversification. Adding new, unrelated products or services is called conglomerate diversification.

Question: What is the difference between divestiture and liquidation?
Answer: Selling a division or part of an organization is called divestiture. Selling all of a company's assets, in parts, for their tangible worth is called liquidation.

Question: What is mass marketing?
Answer: Mass marketing refers to treatment of the market as a homogenous group and offering the same marketing mix to all customers. Mass marketing allows economies of scale to be realized through mass production, mass distribution, and mass communication.

Question: What is Pro forma financial statement?
Answer: A financial statement showing the forecast or projected operating results, as in pro forma income statements, balance sheets, and statements of cash flows.

Question: What is the difference between annual objective and policy?
Answer: Annual objectives are short-term milestones that organizations must achieve to reach long-term objectives. Like long-term objectives, annual objectives should be measurable, quantitative, challenging, realistic, consistent, and prioritized. They should be established at the corporate, divisional, and functional levels in a large organization. Policies are the means by which annual objectives will be achieved. Policies include guidelines, rules, and procedures established to support efforts to achieve stated objectives. Policies are guides to decision making and address repetitive or recurring situations.

Question: What is opportunity analysis?
Answer: Opportunity analysis involves assessing the costs, benefits, and risks associated with marketing decisions.

Question: What is the difference between horizontal integration and forward integration?
Answer: Horizontal integration refers to a strategy of seeking ownership of or increased control over a firm's competitors. Forward integration involves gaining ownership or increased control over distributors or retailers.

Question: What is “Mission Statement”?
Answer: Mission statements are “enduring statements of purpose that distinguish one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms. It addresses the basic question that faces all strategists: What is our business? A clear mission statement describes the values and priorities of an organization.

Question: What is the difference between objective and long term objective?
Answer: Objectives can be defined as specific results that an organization seeks to achieve in pursuing its basic mission. Long-term objectives represent the results expected from pursuing certain strategies.

Question: What is strategic planning?
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 toward 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. (Adapted from Bryson's Strategic Planning in Public and Nonprofit Organizations).

Question: What is the purpose of an external audit?
Answer: The purpose of an external audit is to develop a finite list of opportunities that could benefit a firm and threats that should be avoided. As the term finite suggests, the external audit is not aimed at developing an exhaustive list of every possible factor that could influence the business; rather, it is aimed at identifying key variables that offer actionable responses.

Question: What is customer analysis?
Answer: Customer analysis is the examination and evaluation of consumer needs, desires, and wants—includes administering customer surveys, analyzing consumer information, evaluating market positioning strategies, developing customer profiles, and determining optimal market segmentation strategies.

Question: What is the difference between market penetration and market development?
Answer: A market-penetration strategy seeks to increase market share for present products or services in present markets through greater marketing efforts. Market development involves introducing present products or services into new geographic areas.

Question: What is contingency planning?
Answer: Contingency planning is the firm’s ability to plan ways to deal with unfavorable and favorable events before they occur. Too many organizations prepare contingency plans just for unfavorable events; this is a mistake, because both minimizing threats and capitalizing on opportunities can improve a firm’s competitive position.

Question: What is strategic management?
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 objective.”

Question: Who are Strategists?
Answer: Strategists are individuals who are most responsible for the success or failure of an organization.

Question: What is “Vision Statement”?
Answer: "Vision statement" answers the question, what do we want to become? Developing a vision statement is often considered the first step in strategic planning.

Question: What is the impact of economic forces on strategies?
Answer: Economic factors have a direct impact on the potential attractiveness of various strategies. For example, as interest rates rise, then funds needed for capital expansion become more costly or unavailable.

Question: What is the impact of technological factors on organization?
Answer: Technological forces represent major opportunities and threats that must be considered in formulating strategies. Technological advancements dramatically can affect organizations' products, services, markets, suppliers, distributors, competitors, customers, manufacturing processes, marketing practices, and competitive position.
Question: What is Competitive Intelligence Programs?
Answer: Systematic and ethical process for gathering and analyzing information about the competition’s activities and general business trends to further a business’ own goals.

Question: Why does a well-designed strategic management system fail?
Answer: If insufficient attention is given to the human resource dimension. Human resource problems that arise when businesses implement strategies can usually be traced to one of three causes: (1) Disruption of social and political structures, (2) Failure to match individuals' aptitudes with implementation tasks (3) Inadequate top management support for implementation activities.

Question: What are strategies?
Answer: Strategies are the means by which long-term objectives will be achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint venture.

Question: What are business ethics?
Answer: Business ethics can be defined as principles of conduct within organizations that guide decision making and behavior. Good business ethics is a prerequisite for good strategic management; good ethics is just good business.

Question: What is the importance of The Competitive Profile Matrix (CPM) for firms?
Answer: The Competitive Profile Matrix (CPM) identifies a firm's major competitors and their particular strengths and weaknesses in relation to a sample firm's strategic position.

Question: What is marketing research?
Answer: Marketing research is the systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services.

Question: What is the practical use of Boston matrix?
Answer: The Boston Matrix offers a very useful 'map' of the organization's product (or service) strengths and weaknesses (at least in terms of current profitability) as well as the likely cash flows.

Question: What is the difference between internal and external assessment?
Answer: Internal assessment involves analysis of internal strength and internal weaknesses of an organization. They arise in the management, marketing, finance/accounting etc. and are controllable by an organization. External assessment focuses on key opportunities and threats that are beyond the control of a single firm such as economic conditions, increased foreign competition etc.

Question: What is the role of intuition in strategic management?
Answer: Intuition is an immediate form of knowledge in which the knower is directly acquainted with the object of knowledge. Intuition differs from all forms of mediated knowledge, which generally involve conceptualizing the object of knowledge by means of rational/analytical thought processes (and, hence, placing a mediating idea or concept between the knower and the known). In decision making an important intuitive method for identifying options is brainstorming. Intuition is sometimes popularly thought of as the sixth sense. Apparently there are many unconscious processes occurring within a person and when those unconscious signals become strong enough, a conscious thought is experienced.

Question: What is the importance of financial ratios?
Answer: Financial ratios are useful indicators of a firm's performance and financial situation. Most ratios can be calculated from information provided by the financial statements.
Financial ratios can be used to analyze trends and to compare the firm's financials to those of other firms. In some cases, ratio analysis can predict future bankruptcy.

Question: What is the difference between strategic planning and long-range planning?
Answer: Although many use these terms interchangeably, strategic planning and long-range planning differ in their emphasis on the "assumed" environment. Long-range planning is generally considered to mean the development of a plan for accomplishing a goal or set of goals over a period of several years, with the assumption that current knowledge about future conditions is sufficiently reliable to ensure the plan's reliability over the duration of its implementation. On the other hand, strategic planning assumes that an organization must be responsive to a dynamic, changing environment (not the more stable environment assumed for long-range planning). Strategic planning, then, stresses the importance of making decisions that will ensure the organization's ability to successfully respond to changes in the environment.

Question: What is a strategic plan?
Answer: Planning that represents what must be done by the company in order to achieve its long-term objectives and goals.

Question: What is SWOT Analysis?
Answer: The SWOT analysis provides information that is helpful in matching the firm’s resources and capabilities to the competitive environment in which it operates. It is the scan of firm’s internal and external environment.

Question: What is the difference between mission and vision statement?
Answer: Mission statement defines the business in which a company competes, the company's objectives, and the approach it will take to reach those objectives A vision statement outlines what a company wants to be. It focuses on tomorrow; it is inspirational; it provides clear decision-making criteria A mission statement gives the overall purpose of an organization, while a vision statement describes a picture of the "preferred future." A vision statement, describes how the future will look if the organization achieves its mission. A mission statement explains what the organization does, and for whom benefit.

Question: What mean by business ethics?
Answer: Business ethics is a form of applied ethics that examines ethical principles and moral or ethical problems that arise in a business environment, like occupational safety and health, anti-competitive practices, etc. Business ethics is related to strategic management in the sense that it provides the basis for developing policies and strategies.

Question: What is Code of business ethics?
Answer: Those regulatory guidelines established by the governing members of professional/business organizations which regulate the manner its members must conduct themselves.

Question: What is the concept of Evaluation Matrix of Mission Statements?
Answer: Evaluation matrix is prepared to study the components of a mission statement i.e. whether the nine components which have been discussed in lecture are present in mission statement or not.

Question: What is monitory policy?
Answer: Policies affecting the money supply, interest rates, and credit availability, that are intended to promote national macroeconomic goals-particularly with respect to employment, gross domestic product, price level stability, and equilibrium in balance of payments.

Question: What is meant by disposable income & how it is calculated?
Disposable income is your net income minus your monthly expenses. Disposable income is calculated as gross income minus income tax on that income.

Question: What is meant by Fiscal policy?
Answer: The federal government’s decisions about the amount of money it spends and collects in taxes to achieve a full employment and non-inflationary economy. It is a macroeconomic policy tool used by the government to regulate the total level of economic activity within a nation. Examples of fiscal policy include setting the level of government expenditures and the level of taxation.

Question: What is meant by Racial Equality?
Answer: Racial equality means that all the races are equal in the group under discussion like blacks and whites are equal.

Question: What are the lobbying efforts?
Answer: Lobbying efforts mean trying to persuade government officials to support the goals of a special-interest group. Like many firms spend considerable amounts of money on lobbying government for changes in laws and regulations for their own interest.

Question: What is Antitrust Legislation?
Answer: The law intended to promote free competition in the market place by outlawing monopolies.

Question: What is meant by key external factors?
Answer: External factors refer to factors in external environment of the organization, like social, cultural, economic forces.

Question: What is External Factor Evaluation (EFE) matrix?
Answer: External Factor Evaluation (EFE) matrix method is a strategic-management tool often used for assessment of current business conditions. The EFE matrix is a good tool to visualize and prioritize the opportunities and threats that a business is facing.

Question: What is Competitive Profile Matrix?
Answer: The Competitive Profile Matrix analysis critically profile and compare the selected firm against known competitors.

Question: What is the concept of five forces model?
Answer: Michael Porter described a concept that has become known as the five forces model. This concept involves a relationship between competitors within an industry, potential competitors, suppliers, buyers and alternative solutions to the problem being addressed.

Question: What does the term Corporate strategy mean?
Answer: These are strategic planning or management decisions that effect the direction or performance of company. It directs the organization as a whole toward sustainable competitive advantage.

Question: What is a Cost Leadership strategy?
Answer: This strategy involves the organisation aiming to be the lowest cost producer within their industry.

Question: What is a Differentiation strategy?
Answer: To be different, is what organisations strive for. Having a competitive advantage which allows the company and its products ranges to stand out is crucial for their success. With a differentiation strategy the organisation aims to focus its effort on particular segments and charge for the added differentiated value.

Question: What are Focus strategies?
The organisation focuses its effort on one particular segment and becomes well known for providing products/services within the segment. They form a competitive advantage for this market and either succeeds by being a low cost producer or differentiator within that particular segment.

Question: What is the concept of Internal Factor Evaluation (IFE) matrix?
Answer: Internal Factor Evaluation (IFE) matrix is a strategic management tool for auditing or evaluating major strengths and weaknesses in functional areas of a business. IFE matrix also provides a basis for identifying and evaluating relationships among those areas. The Internal Factor Evaluation matrix or short IFE matrix is used in strategy formulation.

Question: What is Consolidate Processing?
Answer: Consolidate processing of products means the company consolidate the production at one place instead of diverse places. For example, the company consolidates production volumes from its Lahore, Karachi and Dubai processing plant into the company’s Dubai processing plant in Lahore and Karachi over the next several months.

Question: What can be the role of Disperse Processing of Service?
Answer: In disperse processing; the service is being processed at different places. Like a regional manager is authorized for all the operations related to his branch, instead he has to consult the head office for all the matters.

Question: What does the term “Market Share” refer?
Answer: Market share – A company’s sales, in terms of dollars or units, relative to the sales of entire market.

Question: How can market share of a firm be calculated?
Answer: Suppose the total sales of the entire market is Rs. 200,000 million Sales of firm ABC is Rs. 50,000 million Market share of ABC firm= 50,000*100/200,000 Market share of ABC firm =25%

Question: What is meant by “Debt to equity ratio?”
Answer: The debt to equity ratio (D/E) is a financial ratio indicating the relative proportion of equity and debt used to finance a company's assets For example: Debt / equity= total debt / stockholder equity= 340/79 =4.304

Question: What is Leverage?
Answer: The use of borrowed capital to increase the return of an investment It generally refers to using borrowed funds, or debt, so as to attempt to increase the returns to equity

Question: What is Boston Consulting Group Matrix?
Answer: The BCG matrix method is based on the product life cycle theory that can be used to determine what priorities should be given in the product portfolio of a business unit. To ensure long-term value creation, a company should have a portfolio of products that contains both high-growth products in need of cash inputs and low-growth products that generate a lot of cash. It has 2 dimensions: market share and market growth.

Question: How the rates are assigned in IFE matrix?
Answer: Assign a 1 to 4 rating to each factor. Major weakness (rating = 1), a minor weakness (rating = 2), a minor strength (rating = 3), or a major strength (rating = 4).

Question: How the rates are assigned in EFE matrix?
Answer: Assign a rating to each factor. Rating should be between 1 and 4. Rating indicates how effective the firm’s current strategies respond to the factor. 1 = the response is...
poor. 2 = the response is below average. 3 = above average. 4 = superior. Weights are industry-specific. Ratings are company-specific.

Question: What does push marketing strategy mean?
Answer: A “push” marketing strategy makes use of a company's sales force and trade promotion activities to create consumer demand for a product. A good example of “push” marketing is mobile phones, where the major handset manufacturers such as Nokia promote their products via retailers such as Mobile Zone.

Question: What does pull marketing strategy mean?
Answer: A “pull” marketing strategy is one that requires high spending on advertising and consumer promotion to build up consumer demand for a product. A good example of a pull is the heavy advertising and promotion of children's’ toys – mainly on television.

Question: What is the difference between Preserve and Conserve?
Answer: Conserve: Trying to make wise use of a situation or to maintain the status quo. A forestry company that plans to replant trees that have been taken is practicing conservation. Preserve: Trying to keep something in its original state or to keep something as it is. Fruit preserves refer to fruit, or vegetables, that have been prepared, canned or jarred for long term storage.

Question: What is the difference between plan and strategy?
Answer: Plan: A detailed scheme, program, or method worked out beforehand for the accomplishment of an objective, a systematic arrangement of details. A strategy is a course of action, designed to accomplish, or help accomplish, a goal or an objective. So, plan is different from strategy. Plan is broken down into strategies to achieve a goal or objective.

Question: What does the term Environmental scanning mean?
Answer: It involves continuous monitoring of the whole Business environment, primarily in order to identify Opportunities and Threats resulting from change.

Question: What is the difference between incremental change and sudden change?
Answer: An incremental change is increasing gradually by regular degrees or additions, for example, a salary may receive an annual increment; and sudden change is the change happening quickly, for example a sudden decision by the manager.

Question: What is a Market penetration strategy?
Answer: Market penetration refers to the company's strategy to increase its market share of present product/service in present market through greater marketing efforts.

Question: What is a Retrenchment strategy?
Answer: A strategy adopted for the purpose to reduce the expenditures in order to become financially stable. For example: Khyber Pass of PAKISTAN RAILWAY (built by the British in 1920) is now officially closed to passenger trains.

Question: What is a Divestiture Strategy?
Answer: Divestiture is the sale of a division of a unit, also called a spin-off or asset sale.

Question: What does the term strategic management model mean?
Answer: Strategic management model refers to the pattern or mode of strategic management. According to the strategic management model, a number of steps are taken to achieve the objectives of a company. A strategic management model is selected for the purpose of formulating and implementing the strategic management plan of a particular organization.

Question: How can we identify the global competition?
Global competition exists when competitive conditions across national markets are linked strongly enough to form a true international market.

Question: What are the uses of business ethics?

Answer: Business ethics is used in making decisions that are in the owners'/shareholders’ best interest. Considering the needs and interests of multiple stakeholder groups, not just those with a direct financial stake in the organization’s profits and losses.

Question: What does the term Creed statement mean?

Answer: Creed statement means statement of belief.

Question: Why is the mission statement also known as creed statement?

Answer: "Creed" means declaration, conviction, communion, cause, cult and belief. As firm's mission statement is its philosophy of conducting its business and dealing with its various stakeholders, communicates a sense of intended direction to the entire organization, that’s why it is called creed statement.

Question: What are strategic Goals?

Answer: Strategic goals are the overall goal of an organization in terms of its market position in the medium or long-term. A strategic goal forms part of an organization's corporate strategy, and should act as a motivating force as well as a measure of performance and achievement for those working in an organization. These goals set out the direction of the organization; they are a statement of its priorities in the medium to long term. Everything the organization does should be related back to a strategic goal.

Question: What does the term diversification mean?

Answer: A substantial extension of an organization’s activities through the introduction of new varieties of product or service and/or moves into markets which the organization has not penetrated to any great extent.

Question: What does the term Economies of Scale mean?

Answer: The characteristics of a production process in which an increase in the scale of the firm causes a decrease in the long run average cost of each unit. For example: When for each 1% increase in production volume, the total cost of production increases by less than 1%, and the organization’s average cost per unit of output falls.

Question: What is the difference between effectiveness and efficiency?

Answer: An output or activity is effective if it does what the intended user or beneficiary, inside or outside the organization, requires it to do. Whereas, efficiency is getting or keeping the cost of an output or process as low as possible, minimizing wastage and unnecessary activities.

Question: Which firm can be entitled as a global firm?

Answer: A firm whose value chain activities are spread across the world is known as a global firm.

Question: What is innovation?

Answer: Innovation is implementation of a significantly new idea in a specific context. This may apply to products, technologies, or processes.

Question: What is termed as Macro environment of an organization?

Answer: The set of factors and influences those are not specific to an organization or the industry in which it operates, but that however affect them.

Question: How is the merger formed?

Answer: Merger is formed when a new legal entity is created by the bringing together of two or more previously independent companies.
Question: What is a Portfolio?
Answer: The range of products, services, or brands offered by a business. Also, the range of strategic business units (SBUs) controlled by a diversified corporation.

Question: What is positioning?
Answer: Positioning is the building of an image of a product, service, or brand in the mind of the customer as to what it promises and what values are associated with it.

Question: Who can be the stakeholders of a firm?
Answer: People with an interest in an organization’s success, failure, or activities, and therefore a desire to influence its behavior are referred as stakeholders like sellers, shareholders, buyers, etc.

Question: What can be the switching cost?
Answer: The cost incurred by a buyer (seller) when he/she switches to a different supplier (distributor) is known as switching cost. This involves costs like identifying, investigating and negotiating a contract with a new supplier (distributor), the risk of quality problems, etc.

Question: What can be the competencies of a firm?
Answer: Competencies are the combination of observable and measurable knowledge, skills, abilities and personal attributes that contribute to enhance employee performance and ultimately result in organizational succes.