

MANAGEMENT PROGRAMME

Term-End Examination

June, 2014

00128

MS-11 : STRATEGIC MANAGEMENT

Time : 3 hours

Maximum Marks : 100

(Weightage 70%)

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- Note : (i) There are two Sections. Sections A and B.*
(ii) Attempt any three questions from Section-A, carrying 20 marks each.
(iii) Section - B is compulsory which carries 40 marks.
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SECTION - A

1. Describe the different phases in a 'Strategic Management Process'.
2. Explain 'SWOT Analysis'. Why is it important for an organisation to follow 'SWOT Analysis' ? Discuss.
3. 'A growth strategy is one that an organisation pursues when its level of objectives move upwards in a significant increment'. Critically examine the statement in terms of organization's performance for expansion.
4. Describe the concept of leadership. Explain how does leadership help in managing the strategy of an organization ?
5. Write short notes on **any two** of the following :
 - (a) Hofer's Product / Market Evolution Matrix.
 - (b) BCG's Growth Share Matrix.
 - (c) Experience Curve.

SECTION - B

6. Read the following case and answer the questions given at the end.

Turn around of Visakhapatnam Steel Plant

Visakhapatnam Steel Plant (VSP) is one of the most modern steel plants in the country. In the year 1979, to meet the growing domestic needs of steel, Government of India signed an agreement with erstwhile USSR for cooperation in setting up 3.6 million tons integrated steel plant at Visakhapatnam. The project was estimated to cost Rs. 3,897.28 crores based on prices of fourth quarter of 1981 but on completion of construction and commissioning of whole plant in 1992, the cost was escalated to around Rs. 8,500 crores. The plant has a capacity of producing 3 million tons of liquid steel and 2.656 million tons of saleable steel. The main products of VSP are angles, billets, channels, beams, squares, flats, rounds rebars, wire rods. The major units in VSP are Coke Ovens, Sinter Plant, Blast Furnace, Steel Melt Shop (SMS), Light and Medium Merchant Mill (LMMM), Wire Rod Mill (WRM), Medium and Structural Mill (MMSM).

The vision of VSP is to become a 10 million tons world class integrated steel plant by 2019-20. Its mission is to be a continuously growing company through technological upgradation, operational efficiency and expansion, producing steel at international standards of cost and quality ensuring optimal return on investment to stakeholders and meeting expectations of the customers. The core value of VSP are commitment, customer satisfaction, continuous improvement, concern for environment.

Constraints faced by VSP

Today, VSP is moving forward with an aura of confidence with pride to enable the company to reach new heights in organisational excellence. But in the earlier days, the plant, inspite of securing a reduction in the interest burden to a large extent through capital restructuring in 1993, could not attain envisaged capacity levels and financial viability. While price of steel was stagnant, high capital cost and large borrowings resulted in huge cost overruns and high capital-related charges. The input costs were high and raw materials prices had gone up. The recession in the steel industry was another cause for depression. It has been exposed to global competition by liberal imports. Apart from all this, in the year 1998-99, Coke Oven Batteries came to a halt for the production of pig iron and finished steel as well as forcing a lengthy repair schedule. Also, sluggish economy both in domestic and international market led to reduction in sales turnover. Economic crisis in South-East Asian markets led to a large scale dumping of steel from their countries which adversely affected the export performance. The production factor of finished steel had declined in 1998-99 as compared to previous years.

Due to all these constraints faced by VSP, it was written off as the 'sick child of the industry'. The plant's accumulated losses crossed 50% of its capital base. VSP had to report the fact to BIFR (Board for Industrial and Financial Reconstruction) as the accumulated losses were necessitating reportability for potential sickness. In the process, the situation engendered the loose talk of privatization of the plant. VSP was directed to formulate turn around strategy for long-term

financial viability of the plant. VSP had submitted a capital restructuring proposal during July 1993 to Government, which had not been approved. Again, a second capital restructuring proposal was undertaken in 1998, converting government loans into redeemable preference share capital.

Turn around Strategies Implemented at VSP

It was time that VSP realized the changed economic and industrial scenario and also that nothing could be expected of cash-strapped Union Government. It needed to pick up the gauntlet to face the rough weather by identifying areas needing improvement and concentrating on them to lead to progressive results. During 1998-99, the company facilitated the issue of 7% non-cumulative preference shares to Government of India that resulted in the increases of authorized share capital of the company from Rs. 6,500 crores to Rs. 8,000 crores. The interest rates on long-term were reduced. Introducing the corporate cash management scheme through Canara Bank, the company got daily sales collection of major branches on the same day at Head quarters. The company prepaid entire outstanding loan to UTI and part prepayments of terms loans from banks through the wealth made out of internal generation through various measures.

The major step taken by VSP is utilizing the element of aggressive treasury management. The company had taken the step of rescheduling of high cost loans with low cost loans by pre-paying loans with higher interest and obtaining softer interest loan from banks. VSP has substituted high cost working capital demand loans with softer

interest product like commercial paper. Also VSP secured cheaper lines of credit for import of raw materials.

During 2001-02, savings were achieved by change in mode of shipment of limestone, reduction in price of major purchases achieved by way of negotiation and cash flow was reduced on account of special additional duty. VSP has strived to achieve the best from its internal resources and attain funds through internal generation. The plant has taken innovative steps to operate consistently beyond rated capacities in all the production units. Efficient operation management coupled with optimum waste utilization and improved techno-economic parameters along with cost reduction measures have been the major contributing factors that led to VSP's turnaround.

With regard to techno-economic front, during the period from 1998-99 to 2002-03, the plant has made a significant improvement in the specific energy consumption, specific refractory consumption, average converter life, rolling rate, total coke rate and fuel consumption. Thrust was given for recycling of metallurgical waste and smaller fractions of coke in solid waste and the materials generated in the plant were collected, segregated, used or sold. Initiatives taken to recycle the solid waste and utilizing them led to a saving of raw material consumption.

Another major strategy of VSP that resulted in the turnaround of the company is the cost reduction measures taken in the plant production. Technological improvement schemes, usage of recycled sold wastes, usage of certain inputs in partial replacement with costlier ones, power

generation through was heat, internal recovery of copper for making value-added steel were major cost reduction measures taken. Initiatives were taken to consume freshly generated and accumulated metallurgical wastes. The company had laid emphasis on total involvement by workers participation in management through suggestion schemes, which played a major role in rapid growth of techno-economic parameter labour productivity.

Questions :

- (a) Carry out the SWOT analysis for Visakhapatnam Steel Plant (VSP).
 - (b) Discuss the strategy(ies) adopted by VSP for its turnaround. Do you think that the strategies adopted by VSP are appropriate ? Justify.
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