

# Question Paper

## Business Policy & Strategy (MB311): January 2004

### Section A : Basic Concepts (30 Marks)

- This section consists of questions with serial number 1 - 30.
- Answer all questions.
- Each question carries one mark.

1. Grand strategies refer to the strategies that [< Answer >](#)
  - a. Involve diversification into related/unrelated business
  - b. Are aimed at creating entry barriers in the industry
  - c. Provide a basic direction to the company's business
  - d. Lead to a redefinition of the company's culture/mission
  - e. All of the above.
  
2. In the GE Nine - Cell Planning Grid, a company's business units are rated on [< Answer >](#)
  - a. Market growth rate and Relative Competitive Position
  - b. Business Strength and Industry Attractiveness
  - c. Business environment and Business strength
  - d. Time Horizon and Participants
  - e. Both (a) and (c) above.
  
3. When an acquiring firm is focusing purely on the profit pattern of the venture and is little concerned with creating product/market synergy with existing businesses, it is commonly referred to as [< Answer >](#)
  - a. Concentric diversification
  - b. Backward integration
  - c. Horizontal integration
  - d. Conglomerate diversification
  - e. Vertical integration.
  
4. Which of the following is **not** a behavioral consideration affecting strategic choice? [< Answer >](#)
  - a. Degree of firm's external dependence
  - b. Attitude towards risk
  - c. Ability to generate alternatives
  - d. Internal political considerations
  - e. None of the above.
  
5. Which of the following is/are the key feature(s) in distinguishing annual objectives from long-term objectives? [< Answer >](#)
  - a. Time frame
  - b. Focus
  - c. Specificity
  - d. Measurement
  - e. All of the above.
  
6. Strategic control focuses on monitoring and evaluating the strategic management process to ensure that it functions in the right direction. Which of the following is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of a firm's strategy? [< Answer >](#)
  - a. Implementation control
  - b. Premise control
  - c. Operational control
  - d. Strategic surveillance
  - e. Special alert control.
  
7. Which of the following statements is/are **true** regarding the fragmented industry? [< Answer >](#)
  - I. A large number of small and medium sized companies are contained in a fragmented industry.

- II. None of the industries in a fragmented industry can dominate the industry.
  - III. Fragmented industries have high level of entry barriers.
- a. Only (I) above
  - b. Only (II) above
  - c. Both (I) and (II) above
  - d. Both (I) and (III) above
  - e. Both (II) and (III) above.
8. Which of the following activities is associated with collecting, storing and physically distributing the product to buyer, such as finished goods, warehousing, material handling, delivery vehicle operation, order processing and scheduling in the internal analysis of the firm? [< Answer >](#)
- a. Inbound logistics
  - b. Outbound logistics
  - c. Operations
  - d. Marketing and Sales
  - e. Service.
9. Which of the following may **not** be true with regard to a bumper sticker strategy of an organization? [< Answer >](#)
- a. It must be different from competitor's strategies
  - b. It must promise something of value, to the organization, its employees, or owners, but to the world
  - c. The core competencies of the business must underpin it
  - d. The business must be organized distinctively, to make the organization able to deliver it
  - e. Normally it is expressed in one sentence summarizing the direction and purpose of the organization.
10. Which of these pricing strategies attempts to hasten market development and offers the pioneer the opportunity to use the experience curve to gain market share with a low price and dominate the industry? [< Answer >](#)
- a. Penetration
  - b. Pull
  - c. Skim
  - d. Leveraged
  - e. Profit plus.
11. Concentric and conglomerate diversification strategies are popular in which of these organizational life cycle stages? [< Answer >](#)
- a. Birth
  - b. Growth
  - c. Maturity
  - d. Decline
  - e. None of the above.
12. Which of the following is generally considered to be barrier to enter a market or industry? [< Answer >](#)
- a. The lack of sizable scale economies and experience curve effects and low levels of brand loyalty on the part of customers
  - b. The presence of more than 20 rivals already in the industry
  - c. A product that is pretty much standardized from rival to rival
  - d. Relatively large capital requirements and the fact that firms in the industry hold key patents and/or possess significant proprietary technology and/or have skills and know-how not readily available to a newcomer
  - e. The absence of tariffs, import quotas, trade restrictions, and/or government-mandated regulations.
13. Which of the following is **not** a financial defensive measure against acquisition? [< Answer >](#)
- a. Adjustments in asset and ownership structure
  - b. Leveraged recapitalization
  - c. Golden parachutes
  - d. Good cash flow relative to current stock prices
  - e. Poison puts.
14. Which of the following is/are **not** stated advantage(s) of a divisional structure? [< Answer >](#)

- a. Allows local control of local situations
  - b. Leads to a competitive climate within a firm
  - c. Accountability is clear
  - d. Promotes specialization of labor
  - e. Both (a) and (c) above.
15. The most intense rivalry results from [< Answer >](#)
- a. Many equally balanced competitors
  - b. Few competitors, slow industry growth, little differentiation, high fixed or storage costs
  - c. Numerous equally balanced competitors, manufacturing capacity increases only in large increments, low exit barriers
  - d. Lack of differentiation, few competitors, low switching costs, rapid industry growth
  - e. All of the above.
16. Problems of the new business are often more complex and resistant to solution than expected. Connections between the new and old businesses are often superficial and only marginally related to the problems of the new venture. Which of the following reasons for change of a firm from concentration strategies does relate to the above statements? [< Answer >](#)
- a. Impatience to grow
  - b. Overconfidence
  - c. Misjudging success requirements
  - d. Siren song of integration
  - e. Underestimation of present opportunities.
17. A firm's external environment includes a remote sector and an immediate task sector. The remote sector includes which of the following categories? [< Answer >](#)
- a. Political, technological, economic and social
  - b. Political, union activity, economic and technological
  - c. State government, production, social and economic
  - d. Mission, company profile and competition
  - e. All of the above.
18. A horticultural nursery unit entering into production of organic fertilizers is called [< Answer >](#)
- a. Conglomerate diversification
  - b. Backward integration
  - c. Horizontal integration
  - d. Forward integration
  - e. Vertical integration.
19. Which of the following statements regarding organizational culture is **not** true? [< Answer >](#)
- a. It is always a strength to any organization
  - b. It, sometimes, eases and economizes the communication flow inside the organization
  - c. It may generate higher levels of cooperation and commitment in the organization
  - d. It may facilitate in organizational decision making and control
  - e. It is internalized beliefs and values that organizational members hold in common.
20. Which of the following statements with regard to the internal analysis of the company is **not** true? [< Answer >](#)
- a. The small business units normally produce according to the customer's preferences
  - b. The large business units have to bear the risk of technological innovations
  - c. The non-profit organizations need not focus into their finance function
  - d. The marketing department provides the vital information to other departments, which works as a basis in framing their own strategy
  - e. The business units that adopt low-cost strategies normally emphasize on process R&D.
21. Which of the following is a business factor to be considered in choosing a foreign manufacturing site as per Business International Corporation? [< Answer >](#)
- a. Foreign exchange position
  - b. Degree of antforeign discrimination
  - c. Proximity of site to export markets
  - d. Cost of local borrowing
  - e. Competitive situation in the firm's industry.

22. Competitive scope has a great influence on competitive advantage, because it shapes the configuration and economics of the value chain. Which of the following is **not** an appropriate dimension of competitive scope? [< Answer >](#)
- Geographic scope
  - Business scope
  - Industry scope
  - Segment scope
  - Vertical scope.
23. Which of the following is **not** a step in operational control systems? [< Answer >](#)
- Set standards of performance
  - Measure past performance
  - Identify deviations from standards
  - Initiate corrective action
  - Measure actual performance.
24. Which of the following reveals a firm's financial risk statement? [< Answer >](#)
- Leverage ratio
  - Liquidity ratio
  - Activity ratio
  - Profitability ratio
  - None of the above.
25. With reference to BCG matrix, which of the following would be most disastrous for a company holding portfolio of businesses? [< Answer >](#)
- The cash generated in cash cows to be invested in question marks
  - The cash generated in question marks to be invested in stars**
  - The cash generated in dogs to be invested in stars
  - The cash generated in cash cows to be invested in dogs
  - The cash generated in stars to be invested in cash cows.
26. Which of the following is/are the characteristic(s) of strategic decisions? [< Answer >](#)
- Strategic management integrates various functions
  - Strategic management considers a broad range of stakeholders
  - Strategic management entails multiple time horizons
  - Strategic management is concerned with both efficiency and effectiveness
  - All of the above.
27. Which of the following is/are the structural determinants of competition in declining industries? [< Answer >](#)
- Conditions of supply
  - Exit barriers
  - Volatility of rivalry
  - Conditions of demand.
- Both (I) and (II) above
  - (II), (III) and (IV) above
  - (I), (III) and (IV) above
  - (I), (II) and (IV) above
  - All (I), (II), (III), and (IV) above.
28. Whereas \_\_\_\_\_ answer(s) the question "What is our business?" the \_\_\_\_\_ answer(s) the question "What do we want to become?" [< Answer >](#)
- Long-term objectives; short-term objectives
  - Mission statement; vision statement
  - Strategies; objectives
  - Goal; objectives
  - None of the above.
29. Which power is used in the advertisements of shirts like Van Heusen and Arrow to show how group [< Answer >](#)

acceptance takes place through wearing their shirts?

- a. Expert power
  - b. Coercive power
  - c. Legitimate power
  - d. Referent power
  - e. Reward power.
30. Coca-Cola is entering into different markets. It supplies the bottler's syrup and trains their staff to produce and sell its product. Which of the following mode of entry normally Coca-Cola adopts in entering into a market?
- a. Indirect exporting
  - b. Licensing
  - c. Joint Ventures
  - d. Acquisitions
  - e. Production Sharing.

[< Answer >](#)

<b>END OF SECTION A</b>
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## Section B : Caselets (50 Marks)

- This Section consists of questions with serial number 1 – 6.
- Answer **all** questions.
- Marks are indicated against each question.
- Detailed explanations should form part of your answer.
- Do not spend more than 110 - 120 minutes on Section B.

### Caselet 1

Read the caselet carefully and answer the following questions:

1. Starbucks felt that the key to growth lay in a better understanding of customers and a store experience that would generate a pull effect through word of mouth. In this context, discuss the various growth strategies, which can be adopted by Starbucks in pursuit of its market leadership image.  
(8 marks) < Answer >
2. Long-term objectives are statements of the results a firm seeks to achieve over a specified period. What are the different areas that strategic planners at Starbucks need to identify to achieve long-term prosperity?  
(7 marks) < Answer >
3. Towards the end of 1990's, Starbucks was opening two stores, on an average, each day. To what extent do you think did this hurried expansion contribute to the retailer's success? Justify.  
(8 marks) < Answer >

### The Evolution of Starbucks

Gordon Bowker, Jerry Baldwin, and Zev Siegl opened a store in Seattle, to roast and sell quality whole beans in early 1971. They drew inspiration from a Dutch immigrant, Alred Peet who had begun importing high quality coffee into the US during the 1950s. Their store also offered bulk tea, spices, and supplies, but it did not sell coffee by the cup. The three partners took the name 'Starbucks' from mate Starbuck in the novel *Moby Dick*. They chose a logo based on an old Norse woodcut—a bare-breasted mermaid or siren surrounded by the store's original name: Starbucks Coffee, Tea and Spice. Within 11 years of its establishment, the company had 85 employees, five retail stores selling freshly roasted beans (known as whole bean coffee to distinguish it from traditional canned or instant coffee), a small roasting facility, and a wholesale business that supplied coffee to local restaurants.

In 1982, Schultz earlier general manager of Hammarplast, joined Starbucks as director of retail operations and marketing. In 1983, Schultz traveled to Milan, Italy on a buying trip for the company. In the city's espresso bars, trained *baristas* prepared espresso, cappuccino, and other drinks made from high-quality arabica beans. Each coffee shop had its own individual character but all the shops offered people community, comfort, and some sense of extended family.

Schultz saw a tremendous opportunity for Starbucks. He could recreate the Italian coffee bar culture in the United States, using Starbucks' reputation for fine coffee to serve espresso drinks while providing a pleasing store experience. Schultz was convinced he could easily differentiate the Seattle roaster from the scores of other specialty coffee suppliers entering the American market. After returning to Seattle, he tried to convince his bosses that Starbucks should build a chain of Italian-style espresso bars. But the managing partners were not interested in entering the restaurant business.

Schultz quit Starbucks in late 1985 and raised money to launch his own coffee bars. Schultz's initial store began business on April 8, 1986 in Columbia Center, a well-known office building in Seattle. The store sold Starbucks coffee in whole beans and in espresso drinks, such as cappuccino and cafe lattes. It also offered salads and sandwiches.

In early 1987, Schultz saw an opportunity to expand his business even faster. As it so happened, the two remaining founders of Starbucks (Zev Siegl had sold his interest in the business in 1980) were thinking about selling their Seattle coffee business in order to pursue other opportunities. So in August 1987, Schultz bought the Seattle assets of Starbucks, including its name, for \$3.8 mn. He financed the purchase by selling equity to private investors, most of whom already owned stock in the business.

Schultz decided to call the new organization the Starbucks Corporation, consolidating all the stores under the name. The combined enterprise had about 100 employees. It had nine outlets located in Seattle and Vancouver, and a roasting plant.

Starbucks was one of the fastest growing companies in the US. During the period 1987 to 2002, the number of coffee

shops increased from 17 to 5,689. Since it had made its IPO in 1992, Starbucks had been growing at a rate of 20% per annum and profits at a rate of 30% per annum.

Starbucks felt that the key to growth lay in a better understanding of customers and a store experience that would generate a pull effect through word of mouth. Schultz could see that a number of demographic, economic, and social developments were creating new consumer preferences and growth opportunities. He envisioned a retail experience that revolved around high-quality coffee, personalized, knowledgeable service, and sociability. So, Starbucks put in place various measures to make this experience appealing to millions of people and create a unique identity for Starbucks products and stores. By the late 1990s, consumers in a dozen countries associated the Starbucks brand with coffee, accessible elegance, community, individual expression, and control.

During most of the 1990s, Starbucks continued to launch outlets at breakneck speed. In 1990, for example, the company had 75 outlets, two years later, it had 154 and in 1995, 676. Towards the end of the decade, the retailer was opening two stores on an average, each day.

In the early 1990s, Starbucks developed a three-year geographic expansion strategy that targeted areas, which had favorable demographic profiles and could be supported by the company's operations infrastructure. For each targeted region, Starbucks selected a large city to serve as a 'hub'. Chicago served as a hub for the Midwest, while New York City and Boston played the same roles in the Northeast. Atlanta was a regional hub for Starbucks' southeastern growth. Once stores blanketed the hub, additional stores were opened in smaller, surrounding 'spoke' areas in the region. In strategic locations, Starbucks had opened several stores in very close proximity to each other. In a fashionable area of downtown Vancouver, for example, Starbucks had stores on two of the corners at the intersection of two important streets. By 1998, there were three company-owned cafés located in and around the celebrated Harvard Square in Cambridge, Massachusetts. In Manhattan, Starbucks had 124 cafes located within an area of 24 square miles. This blanketing strategy did lead to cannibalization but Starbucks felt that it was inevitable in its quest for growth. Zonal vice-presidents directed the development of each region, to implant the Starbucks culture in the newly opened stores. The vice-presidents had extensive operating and marketing experience in chain-store retailing.

In 1995, Starbucks' new stores generated an average of \$700,000 in revenues in their first year, far more than the average of \$427,000 in 1990. The growing popularity of the brand led to increased acceptance. As of 1997, Starbucks had closed only two out of the 1,500 sites it had opened.

Starbucks had notable success in identifying top retailing sites for its stores. Many analysts felt that the company had the best real estate team in the coffee-bar industry. It had a sophisticated system to identify not only the most attractive individual city blocks but also the best store locations.

Starbucks also looked at generating faster growth by expanding its distribution network. One of the most important channels for reaching coffee consumers was supermarkets. In 1998, supermarkets and food stores accounted for almost half of total coffee sales in the United States. With more than 26,000 stores in operation, grocery chains offered the possibility of more rapid market penetration than Starbucks could achieve, through its own retail and specialty sales operations. Selling through supermarkets also held out the possibility of increasing traffic in Starbucks stores and strengthening the company's retail franchise. But in the process of growing fast, Schultz did not want to dilute Starbucks' brand image.

## Caselet 2

**Read the caselet carefully and answer the following questions:**

4. 'Hindustan Motors itself is responsible for its inability to sustain leadership position in the post-liberalization era.' Critically comment on the above statement while analyzing the factors that led to the company's downfall.  
(10 marks) < Answer >
5. In the 1990s, HM had lost its position in the passenger car market to MUL and foreign automobile companies that entered the automobile market after the opening up of the Indian economy. To face the competition, HM had undertaken many restructuring initiatives. Examine the restructuring initiatives of HM.  
(9 marks) < Answer >
6. External environment has a significant influence on the functioning of an organization. Of all the elements of the external environment, political environment can have the most serious a positive or negative influence on an organization. Study the effects of the political environment on the functioning of HM.  
(8 marks) < Answer >

### Hindustan Motors

Until the 1980s, Hindustan Motors' (HM) Ambassador and Premier Automobiles Ltd's (PAL) Padmini were the only two cars available in the Indian market. However in 1981, with the entry of MUL, the scenario changed drastically.

MUL's small, fuel-efficient and well-designed car, Maruti 800, became a huge success. By the late 1980s, MUL became the market leader, leaving HM way behind.

In the early 1990s, when the Indian economy opened up, many multinational automobile companies entered the country. In the 1990s, Daewoo, General Motors, Daimler Benz, Hyundai and Honda entered India through joint ventures and partnerships with Indian firms.

HM was badly hit after the entry of foreign players. In the face of stiff competition from foreign players, HM launched the Ambassador Nova in 1990 (with better interiors) and an improved Ambassador 1800 ISZ (with better engine performance) in 1993. The company also appointed consultants McKinsey & Co for a restructuring plan to turn around its business.

HM decided to tap new segments to ease the competitive pressure. In 1995, the company collaborated with Oka Motor Co. to develop a vehicle specifically targeting the rural markets. This led to the launch of the Trekker (also referred to as the Rural Transport Vehicle – RTV) in 1995. Launched in three northern states, the Trekker was received well in the rural markets. However, the vehicle soon came under criticism owing to a host of technical problems.

By late 1998, Trekker's sales dropped by two-thirds of its initial volumes to around 800 a year. In 1999, HM launched the redesigned Trekker and an upgraded version of the Ambassador. Despite all the product up gradations and restructuring efforts, HM could not stem the decline in sales.

Analysts opined that HM's dismal performance was due to its lax management policies and shortsightedness. Before MUL entered the market, HM was the market leader. It was able to sell whatever it produced and therefore it did not care to upgrade the technology or production facilities.

However, HM's poor performance was not due to external factors such as competition only. The company had a host of internal problems – particularly in the human resource front at the Uttarpara (West Bengal) plant. The Uttarpara plant had workforce of 14,000 employees and the wage bill alone constituted 22% of plant's expenditure. Against the standard output of 8-10 cars per employee per annum, the plant's output was as low as 3 cars.

In its bid to turn around the plant, HM invested around Rs 750 million to modernize the assembly line, build new body and paint shops and purchase new equipment. The company also embarked on a cost-cutting exercise and announced a Voluntary Retirement Scheme (VRS) for workers in April 1998 and again in November 1998, offering a Rs. 0.1 million package per employee.

However, the VRS was not well received by the strong Center of Indian Trade Union (CITU) and the Indian National Trade Union Congress (INTUC) led employee unions. Commenting on a similar VRS offered by the Fiat management at its Kurla, (Maharashtra) plant, employees said "Workers at the Fiat factory at Mumbai have got an average of Rs.0.35 million per worker while we are fobbed off with such measly sums." The strong political patronage to the unions made it tough for the management to convince workers about the VRS.

Both the CITU and INTUC union leaders refused to accept the VRS offered by the company. The unions were confident that the West Bengal State Government would back them on the issue. As employee protests intensified, HM approached the state government with a proposal to run the plant for only three days in a week, in an attempt to save Rs. 0.32 million every week. The company also promised that it would continue to pay the workforce full wages for an entire week. However, the government rejected HM's proposal, following which the company decided to seek legal recourse. In January 1999, HM filed a writ petition in the Calcutta High Court, claiming that its decision to run the plant for three days was not prompted by industrial relations, but by the company's poor financial position. It also stated that the layoff in the Uttarpara plant was temporary in nature and the company would resume normal production as soon as demand picked up. The High Court then ordered the state government to reconsider the issue.

In May 1999, instead of reconsidering the issue, the state government filed an appeal before the division bench of the Calcutta High Court, claiming that HM had suppressed facts and figures during its meeting with them to settle the issue. The division bench directed that the matter be referred to the Industrial Tribunal. In July 1999, the Industrial Tribunal dismissed the company's proposal. HM again filed a writ petition against the Tribunal's order in the division bench of Calcutta High Court and the division bench upheld the Tribunal's order. In response to the division bench's order, HM moved the Supreme Court in July 1999. During all this time, productivity at the plant suffered considerably, which added to company's woes.

When its attempts to reorganize its operations did not pay off, HM decided to look beyond its existing product portfolio to come out of its problems. As per McKinsey's recommendations, the company explored the global auto components business in 2000 and established a unit at Indore to assemble engines and gearboxes.

In order to use its design and engineering skills to enter new businesses, HM entered into an agreement with Mahindra & Mahindra (M&M) for developing petrol engine for M&M vehicles. The company also tied up with GM to market the entire range of transmission equipment manufactured by Allison Automatics (a company owned by GM).

HM then overhauled its distribution system in order to become more market-friendly and dealer-friendly. In 1999, the company unveiled a new distribution strategy, wherein dealers were divided into three tiers – red, blue, and green depending on their location and performance records. While the red-tier catered to the metros for selling and servicing Lancers, the blue-tier catered to the semi-urban areas for Contessas and Ambassadors and the green-tier catered to the rural markets for Trekkers.

HM also decided to explore the overseas markets for its products and began exporting around 150 RTVs to Bangladesh in 2001. The company also managed to secure an export order for 300 petrol engines from a UK-based company, in addition to the 1,800 engines already supplied.

In February 2001, HM sold its earthmoving equipment manufacturing division to a wholly owned Indian subsidiary of Caterpillar Inc. for Rs 3.3 billion. The company used this money to repay debts worth Rs 2.25 billion. This helped reduce the gross loss in 2000-01 to Rs 152.2 million from Rs 255.5 million in the corresponding quarter of 1999-00. The remaining sum of Rs1.05 billion after the repayment of debt from the sale was used for working capital requirements and automotive business.

HM continued its customer relations enhancement initiatives with the launch of the ‘click and customize’ service for Lancer customers in September 2001. The company set up kiosks in six cities (New Delhi, Bangalore, Chennai, Hyderabad, Chandigarh and Pune) that had computer terminals displaying the features of the petrol and diesel versions of the Lancer. HM had invested Rs 2.5 million in the software and Rs 0.1 million on each kiosk. The company planned to install 16 such computer kiosks at its dealers’ premises across the country by the end of fiscal 2001-02. According to company sources, after the launch of the service, Lancer’s market share had gone up by 4%.

In November 2001, HM announced its plans to manufacture engines for other automobile companies. The company was awaiting the outcome of its bid to make the engines for Ford’s Ikon. With the second phase of the restructuring efforts in place, HM hoped to improve its growth in the automotive division and offset the losses from the passenger car segment.

The company’s moves seemed to be finally bearing fruits as it was able to narrow down the losses in the first quarter of 2001-02 by around 30%. HM was banking on the Ambassador’s niche markets (government and taxi) and hoped to retain the segment by launching new variants. The Trekker was also poised to do well after the re-launch in 1999 and HM hoped to sell 3,200 vehicles in 2001-02.

Analysts however remained skeptical about HM’s future prospects and its ability to make a turnaround as a passenger carmaker. They felt that the only way out for HM was to turn itself into auto-component supplier to multi-nationals producing passenger cars in the country.

**END OF SECTION B**

**Section C : Applied Theory (20 Marks)**

- This section consists of questions with serial number 7 - 8.
- Answer **all** questions.
- Marks are indicated against each question.
- Do not spend more than 25 -30 minutes on Section C.

7. The present status of Hindustan Motors is precarious. The top management feels that there is no need to panic and still there is lot of room for playing in the automobile market in India. In fact there are records that suggest a huge export potential for its cars in Europe and African continents. How can a corporation keep from sliding into the Decline stage of the organizational life cycle?

**(10 marks)** < Answer >

8. Shell company has adopted a new Management Information System (MIS) in its Chennai branch. Though the MIS promised rich benefits, Shell’s employees were quite apprehensive about the new system and resisted this recent move of the company. Can you suggest some measures or techniques for overcoming resistance to change at Shell?

**(10 marks)** < Answer >

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END OF SECTION C

END OF QUESTION PAPER

## Suggested Answers

### Business Policy & Strategy (MB311): January 2004

1. Answer : (c) [< TOP >](#)  
Reason : Grand strategy is otherwise termed as a statement of means that indicates the method for achieving the objectives and it provide a basic direction to the company's business. All other options refer to different strategies like growth etc.
2. Answer : (b) [< TOP >](#)  
Reason : In the GE Nine - Cell Planning Grid, a company's business units are rated on business strength and industry attractiveness.(a) BCG developed a model for managing a portfolio of different business units (or major product lines). This matrix takes into consideration the Market growth rate & relative competitive position.(c) Arthur D. Little approach takes into consideration the business environment and business strength.
3. Answer : (d) [< TOP >](#)  
Reason : Conglomerate diversification is diversification into a new business area that has no obvious connection with any of the company's existing areas. It is also called unrelated diversification (a) Concentric diversification occurs when an organization diversifies into a related, but distinct business. In other words, it involves the acquisition of business that are related to the acquiring firm in terms of technology, markets or products.(b) Backward integration takes place when a firm assumes a function previously provided by a supplier (c) In horizontal integration the firm's long-term strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of production-marketing chain.(e) Vertical integration involves effecting growth through the production of inputs previously provided by suppliers or through the replacement of a customer role by disposing ones own inputs
4. Answer : (c) [< TOP >](#)  
Reason : Among the criteria used in assessing strategic choice alternatives are strategic managers attitude towards risk, flexibility, stability, growth, profitability and diversification. Other factors included in the decision making process are volatility of the external environment, life cycle stages of the evaluated product and the company's current level of commitment to its organizational structures, access to needed resources, traditional competitive advantages, as well as the potential reaction of influential external or internal interest groups. Hence option (c) is the correct answer.
5. Answer : (e) [< TOP >](#)  
Reason : An annual objective must be clearly linked to one or more long-term objectives of the businesses grand strategy. However, to accomplish this (a) Time frame (b) focus(c) specificity (d) measurement are the four dimensions required to distinguish annual objectives and long-term objectives.
6. Answer : (d) [< TOP >](#)  
Reason : Strategic surveillance is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of a firm's strategy.(a) implementation control determines whether or not the overall strategy should be changed in light of the unfolding events and results associated with incremental steps and actions that implement the overall strategy.(b) Premise control helps to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid.(c) Operational controls are concerned with "steering" the company's future direction and they are concerned with providing action controls.(e) Special alert control reflects the need to thoroughly reconsider the firm's basic strategy based on a sudden unexpected event.
7. Answer : (c) [< TOP >](#)  
Reason : The statements, a large number of small and medium sized companies are contained in a fragmented industry and none of the industries in a fragmented industry can dominate the industry are true but the statement fragmented industries have high level of entry barriers is false. Fragmented industries are characterized by many number of small industries hence, the industry poses very little entry barriers.

8. Answer : (b) [< TOP >](#)  
Reason: Outbound logistics is associated with collecting, storing, and physically distributing the product to buyers, such as finished goods warehousing, material handling, delivery vehicle operation, order processing and scheduling.(a) Inbound logistics is associated with receiving, storing, and disseminating inputs to the product, such as material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers.(c) Operations are the activities associated with transforming inputs into the final product form, such as machining, packaging, assembly, equipment maintenance, testing, printing, and facility operations.(d) Marketing and Sales provide a means by which buyers can purchase the product and inducing them to do so, such as advertising, promotion, sales force, quoting, channel selection, channel relations and pricing.(e) Activities associated with providing service to enhance or maintain the value of the product, such as installation, repair, training, parts supply and product adjustment.
9. Answer : (b) [< TOP >](#)  
Reason : Every business should be able to summarize its direction, purpose and strategy in one sentence and preferably in a few words. This has nicely been described as the ‘bumper sticker strategy’. It is only valid if the following points are followed:  
1. They must be different from competitors’ strategies.  
2. They must promise something of value, not to the business, its employees, or owners, but to the world.  
3. The core competencies of the business must underpin the strategy.  
The business must be organized distinctively, to make it peculiarly able to deliver the strategy and the business must be absolutely committed in doing so. So the answer is alternative (b).
10. Answer : (a) [< TOP >](#)  
Reason : A penetration price strategy describes the pricing policy where the company brings a product to market with a remarkably low price to penetrate the market.(b) Value pricing is an attempt to win the loyal customers by charging a fairly low price for a high-quality offering (c)A skimming price strategy describes the pricing policy where the company brings a product to the market with a remarkably high price to skim the market.(d) Cost-plus pricing is the most common method used for pricing. Under this method, the price is set to cover costs (materials, labor and overhead) and a predetermined percentage for profit. (e) Virtual pricing is a generic term
11. Answer : (c) [< TOP >](#)  
Reason : Concentric and conglomerate diversification strategies are popular in maturity stage of the organizational life cycle as the market is saturated and demand is limited to replacement demand in a mature industry . Hence the companies look out for conglomerate diversification and concentric diversification, which are venturing into new business areas, which has no relation with the previous ones. Options (a)(b)(d)(e) are not relevant in this context.
12. Answer : (d) [< TOP >](#)  
Reason : Relatively large capital requirements and the fact that firms in the industry hold key patents and/or possess significant proprietary technology and/or have skills and know-how not readily available to a newcomer are considered to be barriers to enter a market or an industry. All other options are not correct.
13. Answer : (d) [< TOP >](#)  
Reason : Organizations generally put some financial defenses to thwart acquisitions. They are, adjustments in asset and ownership structure; leveraged recapitalizations; golden parachutes; and poison puts. But, good cash flow relative to current stock prices make the firm attractive for acquisition.
14. Answer : (d) [< TOP >](#)  
Reason : Divisional structure is a type of departmentalization in which positions are grouped according to similarity of products, services or markets. The Divisional structure does not promote specialization of labor. Whereas options (a)(b)(c) i.e. it allows local control of local situations, leads to a competitive climate within a firm, accountability is clear are the advantages of the divisional structure.
15. Answer : (d) [< TOP >](#)  
Reason : The most intense rivalry results from Lack of differentiation, few competitors, low switching costs, rapid industry growth.
16. Answer : (c) [< TOP >](#)

Reason : The statements are appropriately pointing towards the reason, which is often called as misjudging success requirements. So the alternative (c) is the answer.

Other reasons are explained as follows: (a) Small firms often feel they are too small to be important in their field. (b) A company doing well may conclude that it has superior ability and can be successful in almost any business. Management often forgets the years of experience it took to earn the success being achieved. Such firms lack this experience in the new business. (d) Forward and backward integration creates opportunities to control resources or markets. (e) Spreading resources too thin may cause an organization to overlook opportunities in its existing field.

17. Answer : (a)

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Reason : The remote environment is composed of a set of forces that originate beyond and usually irrespective of any single firm's operating situation- that is, political, economic, social, technological. It presents opportunities, threats and constraints for the firm, while the organization rarely exerts any meaningful reciprocal influence. All other options are not correct.

18. Answer : (d)

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Reason : A horticultural nursery unit entering into production of organic fertilizers is called forward integration. In forward integration the company which is primarily into manufacturing, is moving forward towards its immediate customers in the value chain. (a) Conglomerate diversification is an approach that entails affecting growth through the development of new areas that are clearly distinct from current business(c) When a firm's long-term strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of the production-marketing chain, its grand strategy is called horizontal integration (e) Vertical integration involves effecting growth through the production of inputs previously provided by suppliers or through the replacement of a customer role by disposing of one's own inputs.

19. Answer : (a)

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Reason : The organizational culture is the set of important assumptions that members of an organization share in common. It is a strength as well as a weakness to any organization. It is a strength since culture eases and economizes communications, facilitates organizational decision making and control. It may generate higher levels of cooperation and commitment in the organization. The result is efficiency in that these activities are accomplished with a lower expenditure of resources. On the other hand it becomes a weakness when important shared beliefs and values interfere with the needs of business, its strategy, and the people working on the company's behalf. So the alternative (a) is the wrong statement while other alternatives like (b), (c), (d) and (e) are true statements. So the answer is alternative (a).

20. Answer : (c)

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Reason : Regardless of the type of institution, the finance function must be examined in order to get an insight into its health. Even non-profit institutions must pay their bills in time to continue operations. Even though profit is profit is not the objective of non-profit organizations, an excess of income over expenses allows them to grow larger and stronger to accomplish their service objectives. So the alternative (c) is the answer

21. Answer : (e)

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Reason : The appropriate business factor is the competitive situation i.e. alternative (e). Alternative (a), (b), (c) and (d) are respectively economic factor, political factor, geographic factor, and capital source factor. So the corrective answer is alternative (e).

22. Answer : (b)

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Reason : The competitive scope includes four dimensions that affect the value chain. They are segment scope, geographic scope, vertical scope and industry scope. So the alternatives (a), (c), (d) and (e) are not the answer. Business scope is a general term, which is not used in defining the competitive scope while framing the value chain of a company. So the answer is alternative (b).

23. Answer : (b)

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Reason : Operational controls are concerned with providing action controls. Operation control systems exist because operating managers need control methods appropriate to their level of strategy implementations. These provide post-action evaluation and control over short time periods. Operational control must take the following four steps in order to be effective I,e set standards of performance, Measure actual performance, identify deviations from standards and initiate corrective action or adjustment. Hence, measuring past performance is not a step in operational control systems.

24. Answer : (a)

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Reason : Leverage ratio reveals a firm's financial risk statement.(b) Liquidity ratios measure a firm's capacity to

meet its short-term financial obligations.(c) Activity ratios reflect a firm's efficiency in resource utilization.(d) Profitability ratios provide a firms overall economic performance.

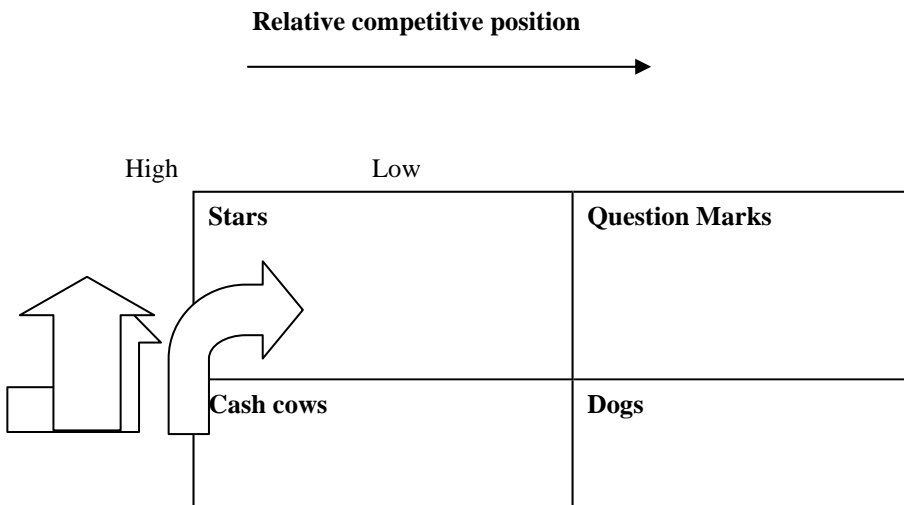
25. Answer : (d)

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Reason : Answer :

(d)

Reason : BCG matrix is as follows (Investments are shown in arrows):



So the alternative (d) is the answer.

26. Answer : (e)

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Reason : Strategic decisions have all the following characteristics (a) Strategic management integrates various functions(b) Strategic management considers a broad range of stakeholders(c) Strategic management entails multiple time horizons(d) Strategic management is concerned with both efficiency and effectiveness. Hence option (e) is correct.

27. Answer : (b)

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Reason : Declining industries are industries that have experienced an absolute decline in unit sales over a sustained period. This decline cannot be attributed to one single business cycle, or strikes, or material shortages. The decline in these industries results due to slower economic growth, product substitution and continued technological changes in areas such as electronics, computers and chemicals. However, the decline in the industry can be reversed some times through innovations, cost reduction and changes in other circumstances. Factors that influence competition in a declining industry include conditions of demand, exit barriers and volatility of rivalry. Hence option (b) is the correct answer.

28. Answer : (b)

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Reason : Mission statement answer(s) the question "What is our business?" and the vision statement answer(s) the question "What do we want to become". I.e to say a vision statement describes aspirations for the future, but without specifying the means to achieve those desired ends. In business strategy, a vision refers to the category of intentions that are broad, all-inclusive and forward thinking. A mission statement is a broad declaration of the fundamental, unique purpose that distinguishes an organization from others of its type; a general, enduring statement of company intent. (a) Long term objectives are the guide points in defining standards of what the organization should accomplish in providing direction and motivation and the time period is more than one year and if the time taken is less than one year it is referred to as short term objectives. (c ) Strategy refers to the determination of the purpose and the basic long-term objectives of an enterprise, and the adoption of courses of action and allocation of resources necessary to achieve these aims where as objectives are the guide points in defining standards of what the organization should accomplish in providing direction and motivation.(d) Goal is a major planning component that is a future target or end result than an organization wishes to achieve.

29. Answer : (d)

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Reason : Referent power is used in the advertisements of shirts like Van Heusen and Arrow to show how group acceptance takes place through wearing their shirts. i.e. referent power is the power that results from being admired , personally identified with or liked by others.(a)Expert power is the power that is based on the possession of expertise that is valued by others.(b)Coercive power is the negative side of reward

power, based on the influencers ability to punish the influence.(c) Legitimate power is the power that stems from a position's placement in the managerial hierarchy and the authority vested in the position. (e)Reward power is the power based on the capacity to control and provide valued rewards to others.

30. Answer : (b)

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Reason : A license is normally given by a licensor to the foreign company to use its production process, trademark, patent, trade secret or other item of value for a fee or royalty. Coca-Cola normally adopts this strategy in entering into a market. So alternative (b) is the answer.(a) Exporting through independent intermediaries to various countries is indirect exporting (c) Joint venture is an agreement involving two or more organizations that arrange or produce a product or service jointly(d) ) An acquisition is defined as the purchase of a controlling interest in a firm, via a tender offer for the target shares.(e)The higher labor skills and technology available in developed countries with the lower cost labor available in developing countries is combined by production sharing.

## Section B : Caselets

1. The growth strategies are adopted when firms remarkably broaden the scope of their customer groups, customers functions and alternative technologies singly or in combination with each other. They involve a significant increase in performance objectives. Thus, growth strategies are those grand strategies that involve organizational expansion along some major dimensions. In business organizations, growth typically means increasing sales and earnings. Though other criteria such as increase in number of geographic locations, clients served, etc may also be the criteria for growth. The major growth strategies are:

- Concentration
- Market development
- Product development
- Innovation
- Horizontal integration
- Vertical integration
- Joint ventures
- Concentric diversification
- Conglomerate diversification

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2. Long term objectives are statements of the results a firm seeks to achieve over a specified period .To achieve long-term prosperity, strategic planners commonly establish long-term objectives in seven areas. They are as follows:

- Profitability : The ability of any firm to operate in the long run depends on attaining an acceptable level of profits. The profit objective is generally expressed in earning per share or return on equity.
- Public responsibility: In the long run, firms recognize their responsibilities to their customers and to society at large. Such firms work to establish themselves as responsible corporate citizens.
- Productivity: Strategic managers constantly try to improve the productivity of their organization. Sometimes, the productivity objective is stated in terms of desired cost decreases. For example, objectives may be set for reducing defective items or for overtime, and so on.
- Competitive position: One measure of corporate success is relative dominance in the market place. Therefore, organizations formulate long-term objectives for improving their competitive position.
- Employee development: Employees value growth and career opportunities. Thus, strategic planners often include an employee development objective in their long-term plans.
- Technological leadership: Another long-term objective that is often set by strategic planners is with regard to technological leadership.
- Employee relations: Organizations are bound by union contracts and they actively seek good employee relations. Strategic planners set objectives for safety programs, employee stock option plans for improving employee relations.

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3. The hurried expansion of Starbucks did contribute to the success of the company in a big way and it is evident from the following :

- Starbucks felt that the key to growth lay in a better understanding of customers and a store experience that would generate a pull effect through word of mouth. Schultz could see that a number of demographic, economic and social developments were creating new consumer preferences and growth opportunities.
- The company developed a three-year geographic expansion strategy that targeted areas, which had favorable demographic profiles and could be supported by the company's operations infrastructure and they are justified in opening the chains of stores.

- Analysts felt that the company had the best real estate team in the coffee-bar industry. It had sophisticated system to identify not only the most attractive individual city blocks but also the best store locations.
- With the increase in the stores operations, grocery chains offered the possibility of more rapid market penetration that star bucks could achieve.

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4. Hindustan Motors was one of the first companies in the Indian automobile sector, having started car production way back in 1949. Its cars went on to become very popular and the company acquired a strong brand image. HM's market share was as high as 50% till the mid-1980s. At that point of time, the automobile market was a producer's market rather than a consumer's market; therefore, the company was able to sell whatever it produced. Consumers used to wait as long as six months to take delivery of the vehicle. Some of the reasons for the company's success are:

- Lack of strong competition – the only other player was Premier Automobiles with its 'Padmini', a model from the Italian automobile major Fiat's stable
- A captive market in the form of the Indian government
- Immense popularity in the taxi segment
- A strong brand equity
- The 'strong-sturdy-safe' image.

However, things changed with the entry of Maruti Udyog Ltd (MUL) in 1984. MUL became the market leader thanks to its technologically superior and sleek cars. MUL soon acquired over 80% of the market share. With the liberalization of the Indian economy in the 1990s, a host of MNCs entered the market. HM could not withstand this onslaught and its market share dipped to 3.3% in 2001. The company's downfall can be traced to the following factors:

- **Technology:** Before multinationals entered the Indian market, HM was selling whatever it produced. After the entry of MNCs who brought in better technology and huge investments, the market dynamics changed. However, in spite of the growing popularity of technically superior cars, HM neither invested in upgrading its production plants, nor in technological improvements. The fact that the Ambassador launched in 1954 was upgraded only in 1990 shows the complacency and slackness on the part of the company. Analysts also remarked that the company took too long to decide on investing Rs 750 million for the plant's upgradation.
- **Marketing:** Unlike MNCs, HM never went in for major product/corporate advertising campaigns. Apart from a few sporadic efforts, HM's marketing left a lot to be desired. HM also did not pay much attention to its distribution network and failed to ensure dealer participation, which had become very important after liberalization. HM also did not take care of its distribution system since a majority of its sales were to government departments and institutions. Therefore, the company did not invest much in strengthening its distribution network.
- **Human Resources:** HM's plant at Uttarpara was highly overstaffed, which caused a big burden on its financials over the years. According to analysts, the company had 14,000 employees, as against a requirement of just 3,000. Moreover, unionism was very strong at the plant as unions had patronage of the political parties. The militant nature of the unions was the main reason behind the failure of VRS offered by the management on various occasions.

Further, HM was very slow in introducing its models in the market. When competitors introduced models at regular intervals, HM's first new offering, the Lancer came only in 1998. Moreover, its RTV also failed because of technical problems. In the light of the above facts, it would not be too far-fetched to say that the company was responsible for its poor performance and loss of market share.

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5. HM discovered that it needed to restructure its operations to survive in the industry and get out of its financial problems. The company appointed consultants McKinsey for a restructuring plan. The following were McKinsey's recommendations:

- Upgrade the technology
- Restructure the marketing and distribution network
- Improve productivity by reengineering on the shop floor

- Reduce employee costs
- Speed up the delivery process
- Explore new products and new markets

HM then tried to incorporate the recommendations. Some of its efforts were:

- A collaboration with Oka Motor Co of Australia, which led to the launch of the rural transport vehicle Trekker. Though the vehicle had some technical problems immediately after its launch, HM reportedly corrected these and relaunched the vehicle.
- In its bid to cut costs at the Uttarpara plant, HM introduced a VRS in April 1998 and again in November 1999. The company wanted to retain only 3,000 employees and retrench the remaining 11,000. However, the VRS met with severe opposition from the trade unions. The issue even went to the court. When the matter was finally resolved, HM still had 9,200 workers on its rolls. HM's request to curtail production at the plant in order to save costs was also turned down by the West Bengal state government.
- HM decided to explore the global auto components industry and established a unit at Indore to assemble engines and gearboxes. Analysts opined that with this move HM could hope to bring in extra cash, and also become a component supplier to both domestic and global auto manufacturers.
- HM sold its Earthmoving Equipment manufacturing division and used the sale proceeds to repay debts worth Rs 2.25 billion, and decreased its interest burden.
- HM revamped its distribution by dividing the dealers into 3 tiers – red, blue and green according to their location and performance records. The Red-tier catered to the metros, the blue-tier catered to semi-urban areas and the green-tier catered to rural areas. This facilitated better dealer services.
- In its attempt to become customer-friendly, HM launched an online 'car customizing' service for the Lancer. For the first time in India, customers could choose the car color, interiors and accessories themselves.

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6. As a part of cost-cutting exercise HM announced a Voluntary Retirement Scheme (VRS) for workers in April 1998 and again in November 1998, offering a Rs. 0.1 million package. The VRS was met with stiff resistance from employee unions backed by Center of Indian Trade Union (CITU) and the Indian National Trade Union Congress (INTUC). Unions demanded VRS package at par with VRS offered by the Fiat management at its Kurla, plant. The political patronage that the employee unions enjoyed worsened the situation.

Both the employee unions refused to accept the VRS offered by the company. The unions were pretty sure of the support from the West Bengal State Government, lead by a communist party. With employee protests getting intensified, HM approached the state government with a proposal to run the plant for only three days in a week, so that it could save Rs. 0.32 million every week. The company also promised that it would continue to pay the workforce full wages for an entire week.

But the rejection of HM's proposal by the government created more problems for it. As a result the company had to fight a legal battle. In January 1999, HM filed a writ petition in the Calcutta High Court, claiming that its decision was not prompted by industrial relations, but by the company's poor financial position. In a counter move, the state government filed an appeal before the division bench of the Calcutta High Court, claiming that HM had suppressed facts and figures during its meeting with them to settle the issue. The division bench directed that the matter be referred to the Industrial Tribunal. In July 1999, the Industrial Tribunal dismissed the company's proposal. HM again filed a writ petition against the Tribunal's order in the division bench of Calcutta High Court and the division bench upheld the Tribunal's order. In response to the division bench's order, HM moved the Supreme Court in July 1999. During all this time, productivity at the plant suffered considerably, which added to the company's woes. Thus, HM was severely affected by the political environment.

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## Section C: Applied Theory

- 7 Even though a company's strategy may still be sound, its aging structure, culture, and processes may be such that they prevent the strategy from being executed properly – thus the company moves into decline. However, a revival phase may occur sometime during the maturity or decline stages. The corporation's life cycle can be extended by managerial and product innovations. This often occurs during the implementation of a turnaround strategy. Unless a company is able to resolve the critical issues facing it in the decline stage, it is likely to move

into corporate death – also known as bankruptcy. A corporation might nevertheless rise like a phoenix from its own ashes and live again under the same or a different name. The company may be reorganized or liquidated, depending on individual circumstances.

The key is to be able to identify indications that a firm is in the process of changing stages and to make the appropriate strategic and structural adjustments to ensure that corporate performance is maintained or even improved.

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8. Managers promoting change often possess insufficient knowledge to determine as to how a firm should respond to change. A senior manager interested in bringing about change must rely on employees to implement the new response once it has been developed. Therefore, they need to support managers and employees in designing a change initiative and implementing it. In certain organizations, employees withhold such support. Certain reasons for withholding support are:

#### **Lack of Awareness**

Change requires a broad view of both the competitive and general environment. Manager (at middle and lower level) and employees are often too focused on current activities to develop this kind of perspective. They become narrowly focused to the aware of potential change over the horizon. They fail to appreciate the need for change, especially if change means learning new methods, processes or techniques.

#### **Lack of Interest**

Even when managers and employees recognize the need for change, they often perceive it with lack of interest. This kind of reaction is common even with new developments. People also tend to ignore developments that represent, transcend or relatively small opportunities for expansion.

#### **Incompatibility With Cherished Values**

Mostly firms develop their own sense of shared values and corporate cultures. Managers and employees oppose new strategies, products or approaches that appear to conflict with established practices. Therefore, strongly held values and corporate cultures can become significant obstacles to change

#### **Fear Of Cannibalization**

Development new products that are distinct from those of the firm's current lineup means admitting the possibility that alternatives or substitute products exist. Facing the threat of substitute products is hard for any company. Therefore, cannibalization is one of the main reasons that prevent companies from investing in new technologies/products before competitors compel them to do so.

#### **Fear Of Personal Loss**

The fear of restructuring that would eliminate entire divisions or business, along with people involved in it, making corporate change painful. Moreover, change may reduce the career opportunities for employees and may even cost them their jobs.

#### **Different Perception**

A manager may make a decision and recommend change base on his/her own assessment of a situation. Other may resist the change because they may perceive the situation differently. As a result of different perception it become difficult for organizations to implement change.

The opposition to change must be overcome, if it is to be implemented successfully. Casualties are possible and sometimes inevitable. Moreover, some people will leave because they are uncomfortable with the changes. But there are several techniques to overcome resistance. They are:

#### **Participation And Involvement**

Participation is the most effective technique for overcoming resistance to change. Employees who participate in planning and implementing a change are better able to understand the reasons for change

#### **Education and Communication**

Education and Communication helps people understand the logic and the need for change. If open communication is established and maintained during the change process, uncertainty can be minimized

#### **Facilitation and Support**

Facilities and support involve training and counseling. An example could be making only necessary changes, announcing those changes in advance and allowing time for people to adjust to new way of doing things. This can help in reducing resistance to change.

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