

Question Paper

Business Policy & Strategy (MB311) : October 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.
- Maximum time for answering Section A is 30 Minutes.

1. Firms usually source raw material from external suppliers and process them to produce the desired product. However, some firms may attempt to produce the raw material or some components on their own. For example, Levi's manufactures the cloth required for making jeans. Which of the following best describes this strategy? < A >
- (a) Integration (b) Horizontal integration
(c) Backward integration (d) Diversification (e) Forward integration.
2. The connections between the way one value activity is performed and the cost of performance of another activity are known as < A >
- (a) Explicit knowledge (b) Tacit knowledge
(c) Linkages (d) Respected activities (e) Protractor knowledge.
3. Which of the following terms refers to the payment of a substantial premium for a significant shareholder's stock in return for the stockholder's agreement that he/she will not initiate a bid for control of the company? < A >
- (a) Greenmail (b) Standstill Agreements
(c) White Knights (d) White Squire Defense (e) Cross-Breeders.
4. 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? < A >
- (a) Special Alert controls (b) Strategic surveillance
(c) Implementation control (d) Premise control
(e) Strategy implementation.
5. Irena has been assigned to work on the development of a budget that plans future investments in major assets such as building and heavy machinery. Irena is working on a (n) < A >
- (a) Cash budget (b) Capital budget
(c) Revenue budget (d) Operating budget
(e) Expense budget.
6. Which of the following describes a company's product, market and technological areas of thrust, and reflects the values and priorities of the strategic decision makers? < A >
- (a) Company's Profile (b) Company's Mission
(c) Company's Objective (d) Company's Strategy
(e) Company's Vision.
7. In which mode of strategic decision-making is strategy formulation confined to owner promoters? < A >
- (a) Entrepreneurial mode (b) Adaptive mode
(c) Planning mode (d) Receptive mode (e) Intuitive mode.
8. Which component in a mission statement represents an organization's basic beliefs, values, aspirations, and ethical priorities? < A >
- (a) Philosophy (b) Self-concept (c) Concern for public image

- (d) Culture (e) Technology.
9. Banking organizations in India have seen a lot of radical change. One of the changes being the implementation of voluntary retirement scheme for their employees. This type of strategic change is called < A >
- (a) Re-engineering (b) Restructuring
(c) Innovation (d) Capacity building (e) Diversification.
10. 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? < A >
- (a) Geographic scope (b) Business scope (c) Industry scope
(d) Segment scope (e) Vertical scope.
11. In which of the following stages of an industry will technological know-how diminish as an entry barrier? < A >
- (a) Embryonic stage (b) Growth stage (c) Shake out stage
(d) Mature stage (e) Decline stage.
12. In which of the following structures are functional and product forms combined simultaneously at the same level of the organization? < A >
- (a) Divisional structure (b) Functional structure
(c) Simple structure (d) Matrix structure
(e) Geographic structure.
13. The strategy of inviting another friendly firm to make a counter offer to a hostile offer is called < A >
- (a) Golden parachute (b) Green mail (c) White Knight
(d) Poison pill (e) Leveraged buy-outs.
14. The difference between the pre-strategy and post-strategy value for the business is referred to as < A >
- (a) Market value added (b) Economic value added
(c) Strategy value added (d) Market driven philosophy (e) Differential value.
15. The marketing tool which uses multiple factors to assess industry attractiveness and business strength is < A >
- (a) GE Grid (b) BCG matrix (c) Five forces model
(d) SWOT (e) PEST Analysis.
16. Technological transfer, market sharing and investment sharing are involved in a/an < A >
- (a) Acquisition (b) Management contracts
(c) Turnkey operation (d) Joint venture
(e) Wholly owned subsidiary.
17. Cultural, legal, political and economic conditions may dictate different optimum operating practices from one country to another. This leads to adoption of < A >
- (a) Multi-domestic strategy (b) Global strategy
(c) Nationalistic strategy (d) Transnational strategy
(e) Regional strategy.
18. Which of the following features of a market encourages the firms to enter the market? < A >
- (a) High competitive advantage, high risk, high market attractiveness
(b) Low competitive advantage, low risk, high market attractiveness

- (c) High competitive advantage, high risk, high exit barrier
 (d) Low competitive advantage, high risk, high market attractiveness
 (e) High competitive advantage, low risk, high market attractiveness.
19. Which of the following does **not** support the contingency approach to strategic choice? < A >
- (a) A downturn in the economy (b) A labour strike
 (c) A technological break through (d) Change in firm's management
 (e) Shortage of critical material.
20. Which of the following statements is/are **correct** with regard to competitive scope of the value chain? < A >
- I. In segment scope, the buyers are served by a variety of products.
 II. The extent to which activities are performed by independent firm instead of in-house is analyzed under vertical scope.
 III. In industry scope the firms view with a coordinated strategy in the range of related industries.
- (a) Only (I) above (b) Only (II) above
 (c) Both (I) and (III) above (d) Both (II) and (III) above
 (e) All (I), (II) and (III) above.
21. Which of the following is **not** an appropriate Question Mark division strategy for a product in the BCG Matrix? < A >
- (a) Product development (b) Divestiture
 (c) Market penetration (d) Conglomerate diversification
 (e) Innovation.
22. Change is any alteration of the status quo. Organizational change is a substantive modification to some part or the entire part of the organization. Which of the following strategies to overcome resistance to change involves explaining the need for and the logic of change to individuals? < A >
- (a) Participation and involvement (b) Facilitation and support
 (c) Negotiation and agreement (d) Education and communication
 (e) Manipulation and co-optation.
23. Which of the following factors is **not** considered in determining the industry attractiveness as per the GE Nine-cell planning grid? < A >
- (a) Entry and exit barriers (b) Economies of scale
 (c) Knowledge of customers and markets (d) Caliber of management
 (e) Industry profitability.
24. Which of the following is **not** a determinant of cost behavior of the value activities constituting the value chain? < A >
- (a) Learning (b) The pattern of capacity utilization
 (c) Linkages (d) Location
 (e) Demand for the end product.
25. Managers play a key role in the decision-making system of the business. Which of the following **does not** come under the decisional roles category? < A >
- (a) Negotiator (b) Resource allocator
 (c) Entrepreneur (d) Leader
 (e) Disturbance handler.
26. The collection of beliefs, expectations, and values learned and shared by a corporation's members and transmitted from one generation of employees to another is known as < A >
- (a) Cultural Integration (b) Cultural Intensity
 (c) Corporate Culture (d) Corporate Integration
 (e) Corporate Identity.
27. The management of change in any company generally fails for one reason, i.e. an inadequate understanding on the part of top management. Quinn (1988) argues that the hardest part of strategic management is implementation of change. The roles of strategic leaders are critical < Answer >

in the process because they are responsible for the proposed change.

Which of the following statements is contradictory to the Quinn's Incremental Model?

- (a) The strategic leaders will develop their information channels within and extend to the organization
- (b) The strategic leader should generate awareness of the desired change within the organization
- (c) The strategy will be floated as a clear major change so that it will attract minimum resistance
- (d) In the initial period, the strategy will be flexible, so that changes can be made in the light of trials
- (e) Finally, the proposed changes will be formalized and ideally accepted within the organization.

28. A leveraged buyout proposal serves as a signal to market that

[< Answer >](#)

- (a) Firm's operating income in future is high
- (b) Operating income in the future will be less
- (c) Firm's operating income in the future will be high and highly risky
- (d) Firm's operating income in the future will be high and less risky
- (e) Firm's operating income in the future will be small and less risky.

29. What is the meaning of the advice to firms to "stick to the knitting"?

[< Answer >](#)

- (a) Never pursue diversification strategies
- (b) Focus on efficiency rather than effectiveness
- (c) Do not stray too far from the firm's basic areas of competence
- (d) Use a focus strategy whenever possible
- (e) Both (a) and (b) above.

30. Which power is used in the advertisements of shirts like Van Heusen and Arrow to show how group acceptance takes place through wearing their shirts?

[< Answer >](#)

- (a) Expert power
- (b) Coercive power
- (c) Legitimate power
- (d) Referent power
- (e) Reward power.

END OF SECTION
A

Section B : Caselets (50 Marks)

- This section consists of questions with serial number 1 – 7.
- 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. What are the advantages and disadvantages of demerging the distribution division into a separate firm?
(6 marks) < Answer >
2. What is your recommended strategy for Alpha? Support with reasons.
(6 marks) < Answer >
3. What are the benefits to companies from spin-offs? Discuss.
(5 marks) < Answer >

"The balance of power in the financial services sector hinges on two factors: the size of operations, and the quality of customer relationships," said Anil Roy, President, Omega Consultants. "There is nothing new or profound here. But it is good to be reminded of the basics, particularly when you are changing course."

Roy, a well-known corporate advisor, was addressing the executive committee meeting of Alpha Finance Ltd. Fifteen years since its inception, Alpha had grown to be a premier non-banking finance firm. It was now moving out of corporate finance-where demand had dried up because of the availability of newer, and economical sources of funds-and focusing on the burgeoning retail finance business. The move from a fund-based business to a fee-based business necessitated suitable changes in internal structure.

Roy had been invited by Alpha's MD, Sudhakar Menon to help navigate this transition. "Let us review the existing structure so that we know where we stand," said Roy.

"We have four revenue streams at Alpha," said Menon. "The oldest among these is a corporate finance division-handling merchant banking, leasing, hire purchase, and bill discounting. The second one is a stock broking outfit that manages investment portfolios. The mutual funds division manages four sector-specific funds. We have a risk management and insurance wing, just set up in a joint venture with a German major. Each of these is an independent outfit with its own product development, operations, and logistics teams. The autonomy is driven by the regulatory requirements of creating firewalls between one business and the other. Of course, because of the focus it brings to each profit centre, it also makes business sense."

"But not any more," said Ajay Shah, President, Alpha. "There are several reasons why a consolidated structure for each business no longer makes commercial sense. The fact that we are moving out of corporate finance is only one reason. Look at our three other businesses. What is the core skill we need there? Distribution. We get a grip on our business, and on the market, once we have a grip on distribution."

"A distribution system, in turn, derives its strength from a large customer base," said Raj Marwaha, Vice-President (Marketing). "We have a total of five lakh customers at Alpha, of which about 5 per cent are corporates. Incidentally, the largest non-banking finance company (NBFC)-we are the second-has eight lakh customers. We must grow this number in order to enjoy the benefits of scale. The existing structure will only give us an organic growth of 10 to 15 per cent per annum. What we need is a geometric leap-of 50 to 60 per cent-in the number of customers every year. Instead of selling each product individually to the customer, what we should do is cross-sell. We should bundle all our products-loans, investment products, safety products-and offer them from a single source. That will bring in new customers, and retain the existing ones."

"In effect, what Marwaha is suggesting," said Menon, "is that all distribution tasks should be demerged from individual business units, and aggregated into an independent business by itself. The new unit, to be headed by a CEO on the same lines as other units, will be responsible for the sales of all our business units while the marketing activities-like new product development, advertising, resource allocation, brand building-will be specific to each unit. The business unit owns the product, while the distribution unit owns the customer."

"Here, we can learn from FMCG firms," said Roy. "Some of them have centralised sales and logistics. The results have been mixed. A major downer is that margins tend to fall. Why? The mindset of a salesman is geared towards turnover, not profits. He likes talking big numbers. For him, a sale is basically something that has contributed to volumes, and only incidentally something that has an impact on profits. But the success of your initiative depends upon your objectives."

"They are clear," said Marwaha. "But let me deal with the focus on margins first. It is a matter of training. As long as there is a common understanding-right from the CEO of Alpha to the salesman in the field-on key business drivers of the company-you are on safe ground. Now, to the objectives of demerger: It helps Alpha develop selling competencies-like negotiating skills, the art of closing the deal, and relationship management-as an integral part of building a critical mass of customers and capturing them for life. It leaves the mainline business free to concentrate on product development."

"But the major objective is to enhance revenue streams," said Vaman Bajpai, Vice-President (Systems). "We can sell similar products from multiple providers-including our own competitors. It will be a value addition to the customer. We can use the channel to sell unrelated products-like mobile phones-for a fee. We can even build up back office capacity for processing insurance claims, say, for a fee. It is a world of opportunities out there."

"Major groundwork needs to be done in the area of technology," said Menon. "Alpha has been talking informally with three NBFCs to create a mega financial services outfit, through a merger. It will take a while. Would you suggest that we put our internal restructuring on hold till the merger issue is decided?"

"I don't think so. The merger will be between business units, which are, after all, separate legal entities. That need not preempt internal demerger. There are four considerations a firm should keep in mind whenever a change in organisation structure is planned. Does the new structure build enough management depth in the company? Does it help develop new competencies? Does it provide for cross learning across business units? Does it leverage the company's resources fully? I think the demerger stands the test on all four counts," said Roy. And added, after a thoughtful pause, "Or does it?"

Caselet 2

Read the caselet carefully and answer the following questions:

4. In 1999, Kim Woo Choong (KIM), the founder of the Daewoo group, came up with a restructuring plan. He planned to sell about \$7.5 billion worth of assets of other companies of the group and concentrate on the automobiles and finance business. Kim planned to sell Daewoo Group's shipyards to a Japanese company. Kim also planned to exchange the Group's electronics business for Samsung Group's car division. What could be the reasons behind Kim's decision to sell Daewoo Group's shipyards and electronics?

(9 marks) < Answer >

5. GM had expressed interest in Daewoo at a time when most automobile manufacturers had shown disinterest towards Daewoo. Explain why GM was interested in Daewoo and how Daewoo will benefit after being acquired by GM?

(8 marks) < Answer >

In the late 1990s, the leading South Korean car manufacturer, Daewoo Motors (Daewoo), was in deep financial trouble. For the financial year ending 1999-2000, Daewoo generated revenues of \$197.8 million and net loss after tax of \$10.43 billion. The company's revenues had dropped by 94 percent since 1999. The loss was regarded as South Korea's largest ever corporate loss. Apart from this, the company's domestic market share came down to 23 percent in 2000 from 33 percent in 1998.

According to analysts, borrowings by the company for its expansion programs were considered the reasons for the losses. By December 1999, the company's domestic and foreign debt amounted to more than \$16.06 billion. The entry into risky markets and selling products at very low price in order to gain market share are the other reasons that affected the company's financial condition. Even there was labour unrest, which aggravated the problem. However, some analysts felt that the primary reason for Daewoo's problems was mismanagement and the corrupt corporate governance practices adopted by Kim Woo Choong (KIM), the founder of the Daewoo group. In 1999, Kim came up with a restructuring plan. He planned to sell about \$7.5 billion worth of assets of other companies of the group and concentrate on the automobiles and finance business. Though the creditors appreciated the plan, it seemed difficult to execute. Kim planned to sell Daewoo Group's shipyards to a Japanese company, but Japan was planning to reduce its own shipyards by 50 percent. Kim also planned to exchange the Group's electronics business for the Samsung Group's car division. However, Samsung was not interested in buying the debt-ridden Daewoo electronics.

Since Kim was not able to execute his restructuring plan successfully, in July 1999, the South Korean government

declared Daewoo insolvent and put the company on sale. In November 2000, the Korean Government officially announced Daewoo's bankruptcy and its assets were put on sale. The government also set up a committee for restructuring Daewoo. Around the same time when the company was about to be announced bankrupt, General Motors (GM), Ford and Daimler-Chrysler expressed interest in acquiring Daewoo. By June 2000, Ford entered into negotiations with the committee. However, after a few months of negotiations, Ford reported that its due diligence had revealed some discrepancies in Daewoo's valuation of its assets. In September 2000, Ford announced the withdrawal of its offer, citing the discrepancies in Daewoo's accounts as the primary reason. From August 2000, Daewoo stopped paying its 19,000 employees since further loans were not sanctioned to the company.

Meanwhile, Daewoo employees opposed the sale of the company to a foreign automaker. There were strikes at all Daewoo plants in Korea. One of the South Korea's largest trade union groups, Korean Confederation of Trade Unions, also protested the sell-off. There were also protests from a group of activists comprising some high-profile members of the country. The group launched a campaign offering to buy Daewoo and name it a 'people's company.'

In October 2000, GM and its partners, including Isuzu Motors, Fuji Heavy Industries and Suzuki Motors, announced their interest in acquiring a part of Daewoo's assets. GM also insisted on the completion of the restructuring plan, which involved laying off hundreds of workers at various Daewoo plants.

Amidst revolts and controversies, an agreement was reached between the Korean government and GM in September 2001. GM signed a memorandum of understanding with Daewoo's creditors to acquire two plants in Korea and one each in Egypt and Vietnam, along with all their outstanding debts for \$1.2 billion. The agreement also included the acquisition of 22 sales units of the company across the world. However, this agreement ran into problems when GM reported a discrepancy in Daewoo's overseas accounts. In February 2002, GM made a renewed bid for some of the Daewoo's assets to its main creditor KDB. In this bid, GM expressed interest in only nine sales units of Daewoo as against the earlier 22. It also refused to pay the \$260 million debt of these units as it had discovered new debts in some of Daewoo's overseas operations, including Daewoo's plant in Egypt.

In April 2002, GM and Daewoo's creditors arrived at an agreement. According to this agreement, GM would create a new company, which would be owned jointly by Daewoo's creditors and GM. GM would own a 75 percent stake in the new company, with an investment of \$400 million. Creditors were to pay \$137 million for the remaining 33 percent stake.

According to analysts, GM's acquisition of Daewoo seemed to be the ideal solution for the latter's problems. An analyst commented, "GM badly needs Daewoo to establish a beachhead in the Asian market. And without GM, Daewoo will simply collapse." They also opined that GM was the ideal buyer as it had owned a 50 percent stake in Daewoo till 1992. Analysts felt that in the long run, GM could use

Daewoo to gain a foothold in Asia. Moreover, GM was facing problems in the US. Though its sales were more than those of Daimler-Chrysler and Ford, GM's net earning were decreasing. Prior to the acquisition, GM depended solely on its European subsidiary Ada Opel to manufacture small cars for developing countries. However, some analysts felt that restoring Daewoo's brand image would require a lot of time and money. Alan Perriton, who was in charge of GM's business development in Asia, commented, "Daewoo's acquisition gives us high-quality, low-cost products for the rest of Asia. However, sales have been hit so badly because Koreans weren't sure Daewoo would survive. We have to let customers know that the company is back in business and stand behind its products." However, some analysts felt that GM was adding to its problems by acquiring a company like Daewoo.

Caselet 3

Read the caselet carefully and answer the following questions:

6. The organizational structure of HP was changed several times under various heads. What are the structural choices available with HP and which according to you is the best structure for HP? Justify your answer.

(8 marks) < Answer >

7. Under Carly Fiorina, there were dynamic changes in organizational structure of the company to accommodate the needs of strategy. With reference to the case, discuss the relationship between strategy and structure.

(8 marks) < Answer >

HP followed a highly centralized organizational structure till 1950s. In 1960s the company adopted a divisional structure as the top management thought that the divisional structure would give considerable autonomy to its employees. The company brought in certain changes in 1968. With increasing number of operating divisions and product lines, the company adopted a group structure. Under the group structure, related divisions were combined and a group manager headed the group. The company's orientation towards decentralization process enabled it to improve its field marketing activities.

In early 1970s, the company moved towards decentralization from its traditional centralized structure. A new concept 'local decentralization' has emerged. The objective of this concept was to reduce the level of bureaucracy and enable the company take decisions immediately. With the increase in the number of divisions there seemed to be lack of synergy between the divisions. However, the then CEO, John Young, further decentralized the decision-making process.

In the mean time, there were reports that innovation was getting bogged down by high level of bureaucracy. Revenues stagnated and profits started declining. This was the time when Carly Fiorina took the mantle at HP. Immediately after taking over, Fiorina brought in certain changes. Some of the changes were demanding regular updates on key units, inculcation of discipline in salesforce, focus on breakthrough projects, etc. Finally, in 2000, Fiorina dismantled the decentralized organization structure. At that time, there were 83 independent product divisions. Fiorina reduced the number to 6 centralized divisions. Fiorina expected that there will be more collaboration between sales and product development executives. However, according to experts, this approach requires laser focus and superb coordination between thousands of product lines of HP. The new approach smoothened the company's operations.

Previously, the product chiefs used to take care of operations from designing to selling of products. Now, the onus of marketing and selling of the product was on sales department of the organization. Therefore, R&D people were unable to allocate R&D funds due to lack of authority to set sales forecast.

According to analysts, the R&D product designers would not able to deliver products as per the requirements of customers since, they were not involved in the interaction process with customers. Further, there was no clear assignment of responsibility for profits and losses. Even there were many complaints from HP customers about the operations of the company. One of the customers said, "It's beyond my ability to communicate our frustration. It's painful to watch them mess up million-dollar deals."

There was not much improvement with regard to structural problems and the company's business performance under Fiorina. According to one HP manager, "The people who deal with Fiorina directly feel very empowered, but everyone else is running around saying, "What do we do now?" Even there were accusations by some analysts that Fiorina is over ambitious with regard to tackling of all HP's problems at one go. Analysts feel that bringing such substantial changes was tough anywhere and specifically in the case of HP, which was traditional and further suffered from slowdown in the technology sector.

END OF SECTION B

Section C : Applied Theory (20 Marks)

- This section consists of questions with serial number 8 - 9.
- Answer **all** questions.
- Marks are indicated against each question.
- Do not spend more than 25 -30 minutes on section C.

8. Strategic partnering occurs when two or more organizations establish a relationship that combines their resources, capabilities, and core competencies for some business purpose. In this backdrop discuss the rationale behind joint ventures and the possible reasons for their failure.

(10 marks) < Answer >

9. Hero Honda, a two-wheeler company promoted by Munjals, faced severe competition from Bajaj's Boxer and Caliber, Kinetic Challenger, LML's Adreno, Energy, Yamaha's YBX and YD. The Japanese partner Honda, which shared technical expertise with the Munjals, opted out of the venture. Simultaneously, customers have become extremely price-conscious which is putting pressure on the company's profitability. Thus, Hero Honda is witnessing many problems in its operating environment. In this backdrop, discuss the importance of the operating environment in formulating strategies.

(10 marks) < Answer >

END OF SECTION C

END OF QUESTION PAPER

Suggested Answers

Business Policy & Strategy (MB311) : October 2004

Section A : Basic Concepts

1. Answer : (c) [< TOP >](#)
Reason : Levi's manufacturing the cloth required for making jeans, the process is termed as backward integration which takes place when a firm assumes a function previously provided by a supplier.
2. Answer : (c) [< TOP >](#)
Reason : Linkages enables the firms to establish connections between the way one value activity is performed and the cost of performance of another activity. The examination of linkages lends itself to the enhancement of a competitive advantage. Answers a, b, d, e are incorrect since, they do not tend towards linkages nor establish connections.
3. Answer : (a) [< TOP >](#)
Reason : Greenmail refers to the payment of a substantial premium for a significant shareholder's stock in return for the stockholder's agreement that he/she will not initiate a bid for control of the company.
4. Answer : (b) [< TOP >](#)
Reason : Strategic surveillance is designed specifically to monitor a broad range of events inside and outside the company that are likely to threaten the course of a firm's strategy.
5. Answer : (b) [< TOP >](#)
Reason : A budget is a plan expressed in numerical terms. They are usually expressed in financial terms. The budget, which shows costs of major assets such as new plant, machinery, land etc is known as capital budget. The other budgets included are cash budget which shows all the sources of cash income and cash expenditure revenue budget shows the anticipated income from normal operations, operating budget is concerned with planned operations within the organization, expense budget shows the anticipated expenses for the organization during the coming time period.
6. Answer : (b) [< TOP >](#)
Reason : The mission statement is enduring statement of instruction of an organization; it refers to the philosophy of business in order to build the image of the company by activities currently pursued by the organization and its future status. While, Vision statement describes the aspiration for the future, but without specifying the means to achieve those desired ends.
7. Answer : (a) [< TOP >](#)
Reason : In the entrepreneurial mode of strategic decision-making, strategy formulation is confined to owner promoters. The owner promoters then delegate their vision / mission to the organizational hierarchy for implementation.
8. Answer : (e) [< TOP >](#)
Reason : An annual objective must be clearly linked to one or more long-term objectives of the business's grand strategy. However, to accomplish this (a) Time frame (b) focus (c) specificity (d) measurement are the four dimensions required to distinguish annual objectives from long-term objectives.
9. Answer : (b) [< TOP >](#)
Reason: Restructuring program involves changes in the relationship between division and function. Banking organization is downsizing the number of employees though VRS to reduce operating cost. (a) Re-engineering is the fundamental rethinking and radical redesign of business process to achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality, service and speed (c) Innovation is a process by which organizations use their skills and resources to create new technologies or products (d) capacity building is the increase in the volume from the existing one. (e) Diversification is a growth strategy that entails effecting growth the development of new areas that are clearly distinct from current business.
10. Answer : (b) [< TOP >](#)
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).
11. Answer : (b) [< TOP >](#)

Reason : By the time an industry enters its growth stage, the importance of technological know-how as an entry barrier diminishes. Other entry barriers also tend to be low because few companies manage to achieve significant economies of scale or have differentiated their product sufficiently to guarantee brand loyalty. An industry that is just beginning to develop is referred to as an embryonic industry. Growth at this stage is slow due to factors such as buyers unfamiliarity with the industry's product etc. In the Shake out stage the rate of growth slows down in course of time. In Mature stage the market is completely saturated and demand is limited to replacement demand.

12. Answer : (d) [< TOP >](#)

Reason : Matrix structures are functional and product forms combined simultaneously at the same level of the organization.(a) 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 (b) Functional structure is a type of departmentalization in which positions are grouped according to their main functional area or specialized area.(c) In simple structure all the strategic and operating decisions are under the control of the owner-manager(e)Geographic structure is a form of divisional structure involving divisions designed to serve different geographic areas.

13. Answer : (c) [< TOP >](#)

Reason : The takeover defense strategy of inviting a friendly company to make a counter offer is called White Knight.

Golden parachutes are agreements that provide for payment of huge severance packages to senior management in case of takeover of the firm.

Green mail is a form of share repurchase at a substantial premium, to prevent a hostile takeover.

Poison pill strategy involves issue of new securities, which would be convertible into equity at a low price in case of a hostile takeover of the firm.

14. Answer : (b) [< TOP >](#)

Reason : Economic Value Added is a concept that measures the difference between pre and post strategy implementation. EVA may replace ROI as the standard performance measure. Answers a, c, d, e are incorrect as they do not measure the difference between pre and post strategy

15. Answer : (a) [< TOP >](#)

Reason : The GE Grid uses multiple factors to assess industry attractiveness and business strength

16. Answer : (d) [< TOP >](#)

Reason : Joint ventures usually involve technological transfer, market sharing and investment sharing

17. Answer : (a) [< TOP >](#)

Reason : Cultural, legal-political and economic condition may dictate different operating practices from one country to another. This leads to adoption of Multi-domestic strategy.

18. Answer : (e) [< TOP >](#)

Reason : High competitive advantage, low risk, high market attractiveness are the features of a market which encourage the firms to enter the market.

19. Answer : (d) [< TOP >](#)

Reason : Change in firms management does not support the contingency approach to strategic choice

20. Answer : (c) [< TOP >](#)

Reason : The following statements are correct with regard to competitive scope of the value chain i.e., the segment scope, the buyers are served by a variety of products and in industry scope the firms view with a coordinated strategy in the range of related industries.

21. Answer : (d) [< TOP >](#)

Reason : Conglomerate diversification is **not** an appropriate Question Mark division strategy in a BCG Matrix, as the viable strategy for question mark business would be to divest the weaker businesses and invest heavily in high potential businesses to turn them into stars in the near future.(a)(b)(c)(e) Product development, divestiture, market penetration and innovation does form the appropriate strategy in the question mark division in a BCG matrix.

22. Answer : (d) [< TOP >](#)

Reason : One strategy for overcoming resistance to change is education and communication . This involves explaining the need for and the logic of change to individuals. (a) In participation and involvement resistance tends to be less pronounced when the individuals who will be affected by a change are allowed to participate in planning and implementing it. (b) The use of facilitation and support is another

way to overcome resistance, when fear and anxiety are responsible for resistance to do things in a new and different way. (c) Negotiation can be a particular important strategy when one group perceives that it will be hurt by the change and is in a position to cause the change effort to fail. (e) Manipulation refers to covert influence attempts. It usually involves selectivity providing information about a change so that it appears more attractive or necessary to potential resisters. Co-optation normally involves token participation. In this, a leader or an influential person among the potential resisters is given a seemingly desirable role in the change process in order to gain cooperation.

23. Answer : (a) [< TOP >](#)

Reason : GE matrix takes two factors into consideration – Business strength and industry attractiveness. Exit and entry barriers is considered in determining the business strength and not the industry attractiveness. Hence the correct answer is (a).

24. Answer : (e) [< TOP >](#)

Reason : The cost behavior of value activities is determined by ten major drivers. These are:

- Economies of scale.
- Learning.
- The pattern of capacity utilization.
- Linkages.
- Interrelationships.
- Integration.
- Timing.
- Discretionary policies.
- Institutional factors.

Demand for the end product is not one of these drivers. Hence the correct answer is (e).

25. Answer : (d) [< TOP >](#)

Reason : Decisional roles includes the role of an entrepreneur, disturbance handler, resource allocator and negotiator. The role of leadership is not included in decisional role but is included in interpersonal role.

26. Answer : (c) [< TOP >](#)

Reason : The collection of beliefs, expectations, and values learned and shared by a corporation's members and transmitted from one generation of employees to another is known as the corporate culture.

27. Answer : (c) [< TOP >](#)

Reason : Quinn's approach can be illustrated as follows:

- The strategy may be floated as a minor change to minimize resistance. So the alternative (c) is the answer.
- The strategic leaders will develop their information channel within and extend to the organization and will draw on this using formal system. So the alternative (a) is correct statement.
- The strategic leader then should generate awareness of the desired change within the organization. So the alternative (b) is correct statement.
- The strategic leaders will seek to legitimize the new strategies by lending authority to them. Then they will gather key supporters for strategy.
- The steps are taken to remove or minimize opposition. For example, opponents can be moved to other parts of the organization.
- In initial period, the strategy will be flexible, so that changes can be made in the light of trials. The principle of learning by doing is practiced by strategic leaders.

Finally, the proposed changes will be formalized and ideally accepted within the organization. It is important to look ahead and consider how the new strategy might be developed further in the future.

28. Answer : (d) [< TOP >](#)

Reason : A LBO is defined as the acquisition, primarily financed by borrowing, of all stock, or assets, of a public company by a small group of investors. So a leveraged buyout proposal serves as a signal to market that firms operating income in the future will be high and less risky. (a)(b)(c)(e) are not correct as per the explanation given above.

29. Answer : (c) [< TOP >](#)

Reason : “Stick to the knitting” advice conveys the message that firms should pursue growth strategies in the business that they are familiar with, and not stray too far from the firm's basic areas of competence.

30. 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.

Section B : Problems

1. Advantages of demerging the distribution division

- Adopt a customer-centric Approach By offering multiple products to the customer from a single window
- Setting up a separate distribution outfit will create a strong sales bias and culture.
- It is a natural extension of owning a set of customers who are loyal to the Alpha brand.
- Offers an opportunity to leverage the existing customer base by serving products manufactured not only by in-house divisions, but even by competitors.
- By enhancing the power of choice at the customer end, you are reinforcing the customer's bonding with the company.
- The payoffs from an independent distribution business unit are that you get a critical mass.
- The productivity of channels improves.
- The speed of response increases.
- A single-window provides simplicity to the customer in meeting his requirements.
- Can develop cutting edge competencies in the sales system.

Disadvantages of demerging the distribution division

- May not function at a level that gives economies of scale,
- Difficult to manage if it does not possess the required core competence among its people.
- Need for balancing the volumes-margins issue.
- Need to ensure that the basic product cost of each of the products is low, in relation to competitors, even as you top it up with customer service and product superiority.
- This may require creation of a CRM platform to distribute products to a continuously evolving customer.
- The cost of setting up a distribution network is high. May not be able to recoup the investments by just distributing own products
- Without a proper degree of control over operations, costs can go haywire.
- A pure distribution set-up, without manufacturing capabilities, is a vulnerable proposition, as it does not always give you enough throughput and margins to justify the costs of distribution.
- Small-time direct selling agents with no overheads can wipe you out of business.

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2. It is important to review the strategy of each of the four business units. What is the source of competitive advantage in each? What is the basis on which it competes in the market place? What specific skills are required at the sales level vis-à-vis competitors-product knowledge, customer access, and speed of response? It is necessary to look for complementarities across units. Without those synergies, putting a new structure in place will not deliver any results.

Alpha can go ahead and merge the distribution divisions into a new firm. By this, it can enhance brand value by offering a diverse range of products. It can choose to stick to its traditional product-centric approach. It can become a reinsurer, an insurer, or a manager of mutual funds. It can build value propositions for customer groups. It can track and analyse customer database for trends, to cross-sell more products. It can also set up strong front-end solutions units to increase customer satisfaction

Potential Pitfalls of this strategy are the absence of product specific sales teams. The company will also have to manage culturally diverse alliance partners, and focus on volumes rather than profits. It has to keep up the pace of new product launches, and manage coordination among different product units when dealing with customers

It can make own products and distribute both own and others' products. It can manufacture products for others on contract, and distribute them through own channels. But the best alternative is to manufacture some products where scale can be achieved, and use ones own network to distribute both own and competitors' products. An Own portfolio of products gives a depth to the business.

It is necessary to ensure that there is no misalignment between the sales unit and the business units. It is important to ensure a common understanding of business objectives, and key success factors across Alpha. The company has to focus on the following aspects to make its strategy work:

Goals

The ease of getting new business in a particular segment might motivate salesmen to focus on that segment in preference to others. This could lead to a perception among business units that the sales team is giving "unequal focus" on some products. It is therefore necessary to fix, right in the beginning, the templates of each business with

clearly defined goals and time frames.

Performance Measures

This is also the right time to review the performance measures at Alpha, both at the strategic and operating levels. If increasing the number of customers is a business priority—as is the case at Alpha—then the number of 'new' customers acquired should become a major performance measure.

Growth

The distribution business is an opportunity for rapid growth, if the company has a large customer ownership, which is not fully catered to by its independent business units. A single-product business centre approach is very risky in the context of open markets. Today's customer has access to multiple products and options and, therefore, is sure to run away if the company does not offer all products that are available in the market.

Customer Relationship & Product Development

The focus should be on relationships and customised product development. Such a focus is a key necessity in a distribution-driven company. This approach however, needs a good training plan, quality relationships and motivated manpower. A good technology infrastructure is crucial in maintaining good service standards.

The transition would have to be carried through carefully, with considerable training of the staff. Affiliations and product choices should be based on customer needs, rather than on the revenues generated by the factories.

To have the financial factories as a partner will be an advantage for the distribution business. However, no single partner should have a majority stake in the company. That alone will pre-empt conflicts with the customer-centric approach of Alpha.

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3. Information

- Subsidiary true value hidden
- Preference for pure-play (single-industry) securities
- Increased availability of information

Managerial efficiency

- Management's inability to manage complex organizations
- Sell-offs sharpen focus, get rid of poor fit subsidiaries, eliminate negative synergy

Management incentives

- Bureaucracy and consolidation of financial statements stifle entrepreneurial spirit — hide good (bad) performance
- Conflict of objectives between parent and subsidiary
- Tie compensation directly to subsidiary performance

Tax and/or regulatory factors

- Tax motives — subsidiaries can take forms that shelter income
- Regulatory motives — spin-offs can free parent from regulatory scrutiny

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4. During late 1990s, the leading South Korean car manufacturer, Daewoo Motors (Daewoo), was in deep financial trouble. The net loss after tax was \$10.43 billion in the financial year ending 1999-2000. The company's revenues had dropped by 94 percent since 1999. The loss was regarded as South Korea's largest ever corporate loss. Apart from this, the company's domestic market share came down to 23 percent in 2000 from 33 percent in 1998. The company's domestic and foreign debt amounted to more than \$16.06 billion by 1999. Therefore, these factors played a role in divestment decision of Daewoo Group by Kim Woo Choong (KIM), the founder of the Daewoo group.

To turnaround the company's fortunes, in 1999, Kim came up with a restructuring plan. He planned to sell about \$7.5 billion worth of assets of other companies of the group and concentrate on the automobiles and finance business. He even planned to sell Daewoo Group's shipyards to a Japanese company and electronic business to Samsung Group. Based on this, we can say that the divestment decision plans falls under planned category.

The possible reasons behind Kim's decision to sell Daewoo Group's shipyards and electronics are:

Change in corporate goals

Change in corporate image

Poor business fit

Change in corporate goals- Generally, this is the common reason for companies to begin divestment programs. Most of the companies use the statement as a mask to divest any division. Kim also might have thought of using this statement as a mask.

Change in corporate image – In order to change its image, Kim might have brought in this divestment, because Daewoo's shipyards and electronic businesses do not have long-term potential as they are not Daewoo's core activities.

Poor business fit- One more reason for the divestment decision of the company's shipyards and electronics could be the divisions' inability to fit with the core divisions of the company.

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5. GM was one of the largest automobile manufacturers in the world. It had presence in different continents which included manufacturing plants. There are many reasons for GM showing interest in Daewoo. By acquiring Daewoo, GM can establish a strong presence in the Asian market. GM can leverage on the marketing and distribution strength of Daewoo. GM will get access to the manufacturing plants of Daewoo and the distribution channels of Daewoo. All these can help GM to strengthen its position in the Asian market.

Daewoo will also benefit from being acquired by GM. Daewoo was in financial mess. The company needed a financially sound company to infuse capital and take Daewoo out of the mess. GM being one of the world's largest automobile company was in good financial health and could afford to infuse funds into Daewoo. Thus Daewoo needed a savior who could rescue the company from the financial trouble and the savior could be GM.

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6. A structure can be described as the division of tasks for efficiency and clarity of purpose and coordination between the interdependent divisions of the organization to ensure organizational effectiveness. The structural choices available with HP are:
 - Simple organizational structure
 - Functional organizational structure
 - Divisional organizational structure
 - Strategic business unit
 - Matrix organizational structure

Simple organizational structure – This structure generally prevails in small business units. In simple structure, all the strategic and operating decisions are under the control of the owner-manager. Further, responsibility is always vested in the hands of owner-managers. This model is suitable when there is low range of volume.

Functional organizational structure – This model exists in firms that concentrate on one or few related products or markets. Functional structure does grouping of similar tasks as a separate functional units. This structure encourages greater efficiency and refinement of particular expertise. However, coordination of separate functional units is the strategic challenge in this model.

Divisional organizational structure – This form is required for coordination and decision making in organizations which are diverse products and huge in size. This structure helps the management to delegate authority for the strategic management of a distinct business entity.

Strategic business units – Here, various divisions in terms of common strategic elements are grouped together. This form is used when the organization's operations increase in diversity, size and number of divisional units increase and it becomes difficult to evaluate and manage the various divisions.

Matrix organizational structure – This form has the advantage of both functional and product specialization.

In 1950s, HP followed a highly centralized organizational structure. However, with growing size of the company, it became difficult for the top management to monitor various operations and take quick decisions. Therefore, in 1960s the company adopted a divisional structure. However, the divisional structure did not work well in HP. In the case it has been clearly mentioned that there was complete lack of synergy between the various divisions during the regime of John Young. When Fiorina took over the mantle from Young, there was high level of bureaucracy in the organization. The bureaucracy was partly due to too many independent product divisions. Further, there was stagnant revenues and declining profit growth rate. This conveys that the existing decentralization was not suitable for the organization. For a company of HP's magnitude, there should be clear cut responsibilities and decision-making power. And the existing bureaucracy can be removed only when there are lesser number of divisions and also synergy between the divisions.

HP can reorganize itself into strategic business units. Strategic business units are suitable for companies that are

huge and have diverse products.

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7. The structure of a company helps in tying up key activities and resources of the firm. The structure of a firm needs to be aligned with the strategies of the organization. In many cases, the structure of an organization does not match the requirements of strategy. This happens more in large organizations. Structural changes are required when an organization diversifies its products or markets.

Research on corporate stages of development can help understand the structure-strategy relationship better. Researchers are of the opinion that companies move through many stages as size and diversity increases. To compete effectively, they need to have different structures at various stages.

In the case also when Fiorina became the CEO of the company, she immediately realized that there is a need to bring certain changes in the existing strategy of the company. To implement new strategies, she realized that the existing organizational structure needs to be changed.

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Section C: Applied Theory

8. Rationale behind Joint Ventures.

1. To augment insufficient financial or technical ability to enter a particular line of business
2. To share technology and/or generic management skills in organization, planning, and control.
3. To diversify risk
4. To obtain distribution channels or raw materials supply
5. To achieve economies of scale
6. To extend activities with smaller investment than if done independently
7. To take advantage of favorable tax treatment or political incentives (particularly in foreign ventures)

In view of alternative forms of business relationships, a basic issue is why the use of joint ventures versus other forms of contractual arrangements is justified. The literature suggests that the underlying theoretical justification for joint ventures lies in the transaction cost theory of the firm.

Every exchange between productive agents involves transaction costs. The benefits of interaction arise from using resources efficiently, but resources are used up by the organizing activity itself through obtaining information on exchange opportunities, negotiating and enforcing contracts, and so on. The exchange and organizational patterns viewed in the marketplace are responses to varying levels of transaction costs, which affect the allocation of resources in society. According to the theory, resource misallocation cannot exist in the absence of transaction costs.

Complementary production refers to the joint use of assets or inputs to create products which cannot be unambiguously attributed to any single input. Nor can the inputs simply be summed to yield the total output of the process, that is, synergy. A complementary asset is one whose value in a production process depends on its combination with other assets or a specifically chosen technology. The difficulty arises when these inputs are owned by different firms.

In general, an asset's productivity increases with its specialization to other inputs used in the production process. However, specialization also increases the risk of loss to the owner of the complementary asset if the other inputs are withdrawn. Complementary or composite quasi-rent is the economic term for the investment cost of the complementary asset which is nonrecoverable if the other inputs with which it is used are withdrawn. Thus, the owners of the other inputs, by threatening to remove their inputs, can expropriate the owner of the complementary asset by taking a larger share of the return from the process (which, by definition, cannot be unambiguously attributed to any single input).

Input owners will choose the organizational form which minimizes transaction costs. Long-term explicit contracts and common ownership of the complementary assets are possible solutions to the problem. However, a flexible contract may result in litigation for interpretation. A comprehensive contract is costly both to write and to enforce. These costs may outweigh the benefits of the contract. Business complexity increases the number of contingencies that might arise, thus increasing the cost of enumerating contingencies, the risk of omitting to specify contingencies, and costs of monitoring in a contractual relationship.

Finally, the greater the frequency of exchange of inputs, the greater the likelihood of joint ownership. The prospect of recovering the investment cost of specialized assets increases with the frequency of the transaction. In a contractual relationship, repetitive activity would mean repetitive contracting and thus higher contracting costs. The specialized organizations required in common ownership are easier to justify for recurring transactions than for identical transactions occurring only occasionally.

In some cases, common ownership might extend to complete merger, but in general, joint venture is appropriate where:

1. Complementary production activity involves only a limited subset of the firms' assets.
2. Complementary assets have limited service life.
3. Complementary production has limited life.

Joint ventures are a form of a long-term contract. Like all contracts they are subject to difficulties. As circumstances change in the future, the contract may be too inflexible to permit the required adjustments to be made. There is also evidence that in many joint ventures, the participants early become enamored of the idea of the joint activity, but do not spend sufficient time and effort to lay out a program for implementing the joint venture. About 70 percent of joint ventures was found to fall short of expectations or be disbanded. Other studies suggest that on average joint ventures do not last as long as one half the term of years stated in the joint venture agreement. An independent survey by the present authors uncovered many examples of joint ventures that came apart either before they started or early into the venture. Some of the reasons for the abortive lives of joint ventures are:

1. The hoped-for technology never developed.
2. Preplanning for the joint venture was inadequate.
3. Agreements could not be reached on alternative approaches to solving the basic objectives of the joint ventures.
4. Managers with expertise in one company refused to share knowledge with their counterparts in the joint venture.
5. Management difficulties may be compounded because of inability of parent companies to share control or compromise on difficult issues.

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9. The challenges that a firm faces as a result of the immediate competitive situation are a part of the operating environment. Hero Honda faced challenges from various components of the operating environment. The major components are a firm's competitive position, customer profile, reputation among suppliers and creditors, and accessible labor market. In the case of Hero Honda, a joint venture between the Munjals and Honda will end in 2004. Thereafter, Hero Honda has to sign a new contract or develop technology on its own. Moreover, Honda would launch motorcycles on its own, adding to the competition for Hero Honda.

Though Hero Honda is the largest manufacturer of motorcycles in the world, in terms of volume, it faces severe competition from its arch rival Bajaj. Apart from Bajaj, a few more players like TVS, Kinetic and LML entered the motorcycle segment and, within a short time, gained significant market share. This squeezed the profits of Hero Honda.

Thus, Hero Honda needs to assess its competitive position. The factors that need to be considered in that assessment are market share, breadth of product line, effectiveness of sales distribution, proprietary and key account advantages, price competitiveness, advertising and promotion effectiveness, location and age of facility, capacity and productivity, experience, raw material costs, financial position, relative product quality, R&D advantages/position, caliber of personnel and the general image.

Developing the customer profile is yet another task for the companies. It is said to be one of the most important components of the strategies aimed at the operating environment. Several factors need to be considered before a firm arrives at the customer profile. A company needs to analyze geographic, demographic and psychographic factors, along with buyer behavior, in designing a customer profile. In the case of Hero Honda, customers can be divided into three categories: economic, executive and luxury.

Apart from competitive position and customer profile, a firm needs to analyze other components of the operating environment, like reputation among suppliers and creditors, and accessible labor market.

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