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MS-91

MANAGEMENT PROGRAMME

Term-End Examination

December, 2013

MS-91 : ADVANCED STRATEGIC MANAGEMENT

Time : 3 hours *Maximum Marks : **100***

(Weightage 70%)

Note : *(i) There are **two** Sections : **A** and **B**.*

*(ii) Attempt **any three** questions from **Section–A** which carry **20** marks each.*

*(iii) **Section–B** is **compulsory** and carries **40** marks.*

SECTION - A

1. (a) "Much of the success of corporate planning depends on its implementation." Comment citing real world example that you might be aware of.

(b) Distinguish, with examples, amongst corporate level strategy, business level strategy and operating level strategy.

2. (a) Highlighting the role of the Board of Directors, discuss the essentials for creating an effective Board of Directors.

(b) "Good corporate governance is a *sine qua non* for effective and responsible management." Elaborate and illustrate the statement.

3. (a) "Business environment, by and large, has become dynamic today." Discuss and highlight the characteristics of such an environment.

(b) What prompts a company to operate at a global level ? What strategic alternatives are available to such a company ?

4. (a) Explain the role of Information Technology (IT) in strategy implementation. Can it help in enhancing the competitiveness of a firm ? Justify.

   (b) What are the characteristics/ attributes of a creative organization ? How can an organization maintain these characteristics/ attributes ?

5. (a) Explain, how "ethics" are important for business ?

   (b) What motivates corporate businesses to undertake philanthropy ? Describe some of the major forms of taking up philanthropy.

SECTION-B

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

MISTRY - DELTA

It hit Gaurav Mehra at home in an unusual fashion. A feature in *BUSINESS TODAY*, slipped in early that morning under the door of his flat, tantalisingly asked, *How Will Your Business Grow In The Next Three Months ?* And Mehra, as was only to be expected of the 38-year-old Vice-President (Human Resources) of the white goods joint venture, Mistry Delta, scrambled, furiously flipping its pages to get to the forecast for the consumer durables sector.

To be sure, the prognosis wasn't very bright, but that wasn't the bad news. What was worse, realised Mehra, as he read on with a sinking feeling, was that every one of Mistry Delta's in-house forecasts was, once more, off the mark. Way, way off the most optimistic independent projections. The SBU bug had struck again.

For years, Mehra had believed that the company's structure - Strategic Business Units (SBUS), managed by a Corporate Centre- was responsible for all its problems. Although he had voiced his belief on more than one occasion to his CEO, Ashwin Subramaniam, 'Subbu', as the 53 year-old, old-timer insisted everyone call him, had waved aside his arguments. "This structure brings focus to our operations. Focus and accountability," he had chided Mehra everytime they had discussed the subject. He had retreated; Subbu was a good boss, but in a state of perpetual denial when it came to this pet initiative of his.

But Mehra himself had refused to give up, and had started meeting with the CEOs of the SBUs regularly - something Subbu wouldn't find strange simply because Mehra was supposed to constantly interact with them. Slowly, he was putting together a voluminous dossier that proved that Mistry Delta's structure was the cause of several issues confronting the group: exploding overheads, declining margins, lack of synergies .... Cold, hard facts were something even Subbu would not be able to wave away the next time.

That morning, Mehra decided to spend his time on the drive to work constructively. And Rana Singh, his driver, sensing that the *saab* was pre-occupied, did not keep up his normal banter. Just as well because Mehra was lost in time.

When the country's oldest refrigerators major, Mistry Appliances had entered into a 51:49 joint venture with the American white goods company, Delta Inc., in June, 1991, it had been described as a marriage that had not been made on Earth. The former, after all, was the market-leader, with a 40 percent share of the local market. And the latter was one of the best-known brands in consumer appliances in the world. No wonder John Barlow, the CEO of Delta Inc. and Keki Mistry, the patriarch-CEO of Mistry Appliances, were both bullish about the venture.

To Barlow, Mistry Delta was a visa into the Indian market. Not only did Mistry Appliances boast of a state-of-the-art plant that could churn out 1,200,000 units a year, the company also had 1,200 distributors, 4,000 dealers, and 25 branches. To Mistry, the joint venture was a way of realising his lifelong ambition of transforming his company into a complete consumer-appliances giant. Still, the initial months had been a little turbulent, with frequent clashes between Danforth Keaton, who flew in from Delta's headquarters in Tucson to oversee the joint venture's start-up operations, and Mistry himself. Eventually, Mistry had to speak to Barlow before Keaton backed off.

It was only in early 1994 that a relieved Mistry finally picked Subbu to head the company, with Barlow's blessings, and retired to his first love, horticulture. He inherited an organisation structured along functional lines. Apart from him, the CEO, there was 1 Executive Vice-President (operations), and 9 Vice-Presidents. While the veeps incharge of Quality, Manufacturing, and Materials worked under the Executive Veep; the others reported directly to the

CEO. This structure served Mistry Delta well in its initial years.

By early 1994, however, the company had built a 300,000 units-a-year facility as a precursor to launching a range of high-end washing-machines. There were also plans to launch a range of air-conditioners by 1995. So, the first thing Subbu did after taking over was to make a presentation to the board, stating that the company should quickly shift to a SBU structure, with 3 separate units- refrigerators, washing-machines, and air-conditioners and cooking systems - handling each business. The board saw no reason for the change, and told Subbu that it would review its decision a few years down the line if the business imperatives demanded it.

Ultimately, the directors had to review their decision almost immediately in July, 1995. Mohan Nair, a portly 45-year-old MBA who then headed the marketing function had, in the course of Mehra's fact-finding quest, filled him in on the details. "The basic problem," Nair had stated," was in the mindset of the sales teams. Long used to selling refrigerators, they found it difficult to concept-sell high-end washing machines." Besides, the product required extensive detailing at the retailer -level, and the sales people were ill-equipped to do that. The result: in 1994-95, Mistry Delta managed to sell a measly 35,000 washing-machines. That wouldn't have hurt but for the fact that the refrigerators market , suddenly, went into a slowdown, with the growth-rate tumbling from 25 percent in 1993-94 to less than 9 percent in 1994-95.

THE FINANCIALS (All figures in ₹ crore)

Year	Turnover	Gross Profit	Net Profit
1991-92	351	25	12
1992-93	440	31	15
1993-94	535	42	25
1994-95	491	-42	-
1995-96	635	5	3
1996-97	806	11	6
1997-98	1005	16	8

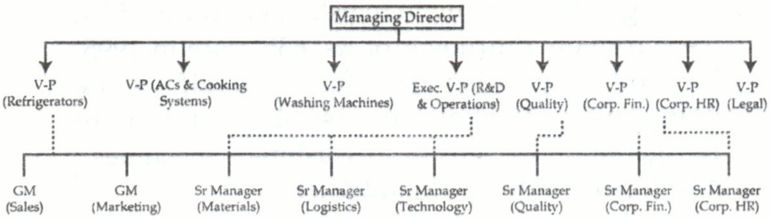
Together, these factors forced the board to review its decision, and Subbu had his SBUs. In August, 1995, the company shifted to the new structure, with Subbu kicking it off with a terse one-line speech that became legendary: Get More Business and Find More Users. Nair was made the head of the refrigerators business as Vice-President (Refrigerators). Rajiv Himmat, a pleasant-faced 36-year-old MBA who had been incharge of sales, was made Vice-President (Washing Machines). And Amrish Bakaya, a lean and balding 50-year-old who had looked after Logistics, Distribution and Servicing, became Vice-President (Air-Conditioners and Cooking System).

Subbu's template allowed each SBU to have 2 General Managers - one heading sales, the other, Marketing - and 6 Senior Managers in charge of Materials, HRD, finance, Quality, Technology and Logistics. Almost all the positions were filled by promoting people from within the organisation. Each division also recruited close to 50 salesmen each. Subbu had also visualised the creation of a corporate office, comprising the veeps in charge of finance, HRD, Quality, and Legal, and the Executive Vice-President (operations), who was to be given the additional responsibilities of product-development and integrating best practices across the SBUs.

Mehra, who was hired to head the newly-created post of Head (Corporate HR), had attended the first all - Mistry Delta meeting where Subbu had unveiled the new structure. Everyone seemed enthusiastic. Which wasn't really unusual. One unit had, suddenly, become three. More Managers, General Managers, and Vice-Presidents had been created. And the SBU's heads had become virtual CEOs, who had the operational leeway to run their businesses as they wished.

The only mildly discordant note had actually come from Delta's headquarters. Andrew Jones, who headed Human Resources for the transnational, had said that he wasn't sure such a structure would work since Delta had, traditionally, boasted a functional structure. Although he was willing to experiment, both he and Richard Knight,

THE SBU STRUCTURE



The structure of the AC's and Cooking Systems SBU and the washing machines SBU are similar to Refrigerators SBU

who headed Delta's Asian operations, had made it clear that it was Subbu's call. Jones had e-mailed

Subbu, with a copy to Mehra: "Mistry Delta may benefit from the focus that comes with an SBU structure, but you will have to ensure that your costs do not rise. Often, when a functional organisation sets-up business units, it is as if one company suddenly becomes three- and costs shoot up."

A sudden jolt broke Mehra's reverie. Rana had swerved sharply to avoid an urchin who had darted across the road, almost in front of his office.

Mehra's morning went in the mundane tasks that occupied his time: appraisals, transfers across SBUs, hirings *et al.* By 1.30 p.m., though, he was done. And he got down to the task of studying how the SBU structure had benefited the company -- an argument Subbu was certain to use when he made his anti-SBU pitch.

On an average, the refrigerators business had grown by 30 percent; washing -machines by 20 percent; and the air-conditioners business by 17 percent in the 3 years ended March, 1998 -- all three higher than the rates at which the market had. Thanks to a series of operational initiatives Subbu had championed, the company had also been able to survive the recession. It was the only white goods company to register net profits of Rs. 3.40 crore on a turnover of Rs. 635 crore in 1995-96. Its focus also manifested itself in the company's market shares: 45 percent in refrigerators: 13 percent in washing - machines ; and 7 percent in air-conditioners.

However, numbers were an integral part of the presentation, Mehra too had planned. Overhead costs had gone up by 75 percent after Mistry Delta switched to the SBU structure. Gross margins too had been adversely affected. Between 1991-92, and 1997-98, they had dipped by a factor of 5 : from 8 to 1.6 percent. And while the much-routed benefits of the SBU structure did not materialise in the first 2 years -- with sales growing from Rs. 640 crore to just Rs. 851 crore between 1995-96 and 1997-98 -- profits never did manage to reach even the absolute levels of those attained in the early years.

If it hadn't been for the TQM initiatives that the company had launched at the first signs of a downturn, the impact on the bottomline would have been enormous. Each SBU operated almost like an independent company, making it impossible for the company to derive economies of scale in functions like purchase, advertising, marketing, and finance. And this was something even the heads of the SBUs acknowledged. Himmat had, in response to a query from Mehra, sent him e-mail that captured this feeling best; "We may have pushed autonomy so far down the line that each of the businesses is getting compartmentalised. As a result, we haven't been able to exploit the winning edge of size."

Mehra discovered that each SBU had its own ad budget and agency. Sales -conferences, training-programmes and trade-promotions were all handled independent of one another. "Lastyear there was an absurd situation when the same dealer won 2 over seas trips in a year from 2 different SBUs!" Himmat had concluded. In fact, Mehra's study had come up with the shocking fact that several dealers played off a salesperson from one SBU against a salesperson from another, effecting, in the process, lesser bargaining-power for both on issues like displays and dealer-credit. Besides, his research made it evident that there was a degree of commonality in the profiles of customers of the 3 SBUs. Most of them liked the idea of shopping for several durables at the same outlet.

Worse still, the SBU structure had, inadvertently, created another layer of management in the organisation. At one level, this increased the time involved in the decision-making process. This was contrary to the very concept of such a structure. With the senior managers incharge of Logistics, Materials, Technology, Quality, Corporate Finance, and Corporate HR reporting not just to the SBU head, but also to their functional heads in the Corporate Centre, decisions did tend to take more time than they did in the functional structure. At another level, the executive wage-bill, although just around 1 percent of the company's 1997-98 turnover, had increased by 20 percent.

Mehra shut the lawyer's pad where he had been making notes as he ate. His fact-finding mission was almost complete. Now, he had to make his submission to Subbu. That night, Mehra ran through the implications of his project in his mind. Subbu, once he was convinced that the SBU structure wasn't working, would certainly restructure Mistry Delta. But Mehra wasn't sure if he should recommend that. It would have made sense to build critical mass- in terms of volumes and customer-base before setting up such a structure since that would have offset the increase in costs. With such volumes now in sight, Mehra did not know whether abandoning the SBU structure was the right solution - or not. He decided to sleep on it.

POSTSCRIPT : Eventually, Mehra did make his presentation to Subbu, advocating a return to the company's original functional structure. Subbu wasn't convinced about the merits of merging 3 marketing and sales departments to create a large one that would sell the entire range of Mistry Delta's appliances. But, faced with data that showed that the SBU structure was hurting the company's margins, Subbu decided to follow Mehra's advice. And remerge the SBUs.

Questions :

(a) Analytically diagnose the problem the company is faced with.

(b) Was it right for the company to revert to the functional structure and disband the SBU structure ? Give reasons for your answer.

(c) What benefits it might have thought of reverting to the functional structure ?

(d) Analyse the soundness or otherwise of the company's product-market strategy.