MBA – INFORMATION TECHNOLOGY MANAGEMENT (MBAITM)

Term-End Examination

December, 2014

00464

MBM-015 : BUSINESS POLICY AND STRATEGY MANAGEMENT

Time : 3 hours *Maximum Marks : 100*

Note :

*(i) Section I is **compulsory**.*

*(ii) In Section II, answer any **five** questions from the options provided.*

(iii) Assume suitable data wherever required.

(iv) Draw suitable sketches wherever required.

(v) Italicized figures to the right indicate maximum marks.

SECTION I

1. Case Study

Cisco Systems, Inc., provides end-to-end networking solutions that customers use to connect to someone else's network or to build a unified information infrastructure of their own. Essentially, Cisco provides the hardware and software that are behind state-of-the-art Internet networks. Cisco, the global leader in networking for the Internet, generates over $12 billion in annual sales, and, in early 2000 was recognized as the company creating the second highest amount of capital for its shareholders.

Contributing significantly to Cisco's strategic competitiveness and its ability to consistently earn above-average returns is the company's acquisition strategy. CEO John Chambers, architect of that strategy, believes that advancing technology precludes Cisco from doing everything itself. As a result, corporate growth is achieved by acquiring firms with products and technologies the firm cannot or does not want to develop internally.

Cisco is highly active with its acquisition strategy. For example, during the six-and-one-half-year period ending in March 2000, Cisco had acquired 51 companies, with 21 of the acquisitions completed in the last 12 months of that period. Mid-year 2000 figures showed that the firm was on pace to complete at least 25 acquisitions in that year. Not every one of Cisco's acquisitions has been successful. CEO Chambers says that, of the dozens and dozens of acquisitions his firm has made, two or three have not met his expectations. But to prevent people who joined Cisco as part of a less-than-satisfactory acquisition experience from viewing their former top-level management team as a failure, Chambers chooses not to identify his acquisition disappointments. An overall evaluation of Cisco's acquisition strategy causes some analysts to suggest that "Cisco has succeeded repeatedly in using acquisitions to reshape itself and plug holes in its product line." Survey results identify Cisco as the most successful company using a merger and acquisition strategy. Yahoo! Inc. and US West, Inc., study Cisco's acquisition strategy, while competitors Lucent Technologies, Inc., and Nortel Networks Corp. attempt to mimic it.

What accounts for Cisco's successful acquisition strategy ? Clearly, CEO Chambers deserves a great deal of credit. Appointed to the position in 1991, he conceived the strategy in 1993 and continues to fine-tune it today with the assistance of valued employees. With high expectations of those working with and for him, Chambers has been instrumental in the development of acquisition guidelines to which Cisco adheres rigorously. Although it is occasionally tempting to pass over one of the five inviolate guidelines to complete a prospective acquisition, Chambers says that "it takes courage to walk. It really does. You can actually get caught up in winning the acquisition rather than making the thing successful." Because of its commitment to the five acquisition guidelines, Cisco has refused to finalize a number of acquisitions.

Having a shared vision is the first of the five acquisition guidelines. Chambers believes that the acquiring company and the target firm must be in agreement regarding where the industry is going and the role each party is to play in the industry's anticipated future. Creating short-term wins for employees in the acquired firm is the second guideline. According to Chambers, these people must "see a future. They've got to see a culture they want to be a part of. They have got to see an opportunity to really do what they were doing before or even more." A company strategy that blends with Cisco's is the third guideline. In this context, the target firm's strategy must be one that, when integrated with Cisco's operations, will create value for shareholders, employees, customers and business partners. Cultural similarity and compatibility is the fourth guideline. Chambers and his colleagues are skeptical of efforts other companies take to integrate cultures that differ dramatically from one another. Last, target firms must be geographically proximate to parts of Cisco's current operations with which they would be most closely associated. Geographic dispersion between units prevents the development of operational efficiencies, in Cisco's view.

Facilitating compliance with the five guidelines is the work of Cisco's integration team. Approximately three dozen Cisco employees work full time "shepherding newcomers into the fold." Largely because of work this group completes before an acquisition is finalized, negotiations between Cisco and target companies tend to be brief. For example, only two-and-one-half hours of negotiations spread over three days were required for Cisco to finalize its \$ 7·2 billion acquisition of Cerent Corp. At the time, this was the largest dollar transaction of all acquisitions Cisco had completed during Chamber's tenure. In early 2002 Cisco moved forward with its aggressive acquisition strategy, and by July of 2002 it had already bought out Navarro Networks, Hammerhead Networks, and Ayr Networks. Chamber revealed that the company plans to acquire up to 12 small to mid-size companies by the end of the year.

Questions :

(a) Critically comment on Cisco's acquisition from the perspective of "Market Power". *5*

(b) While the CEO seems to be overly focused on acquisitions, highlight the reasons as to why synergies may not be achieved. *5*

2. **Case Study**

The Top and Bottom of Boards of Directors

In the summer of 2000, 18 people met to make a critical decision. They decided who will succeed Jack Welch of GE, who many feel is the best CEO among active top executives. Welch had been referred to as the CEO of the 20th century. The good news is that GE's board (making this critical decision) has been chosen as the best board of directors in the year 2000. The board was rated as the best through a survey conducted by *Business Week* of the largest investors on Wall Street and prominent experts in corporate governance.

Some of the other top-rated boards are those of Johnson & Johnson, Campbell Soup, Compaq, Apria Healthcare, Intel, and Texas Instruments. Alternatively, some other poorly rated boards were those of Disney, Rite Aid, First Union, Cendant, Dillards, Starwood Hotel, Warnaco, and Waste Management. The boards are rated on several criteria, including quality (e.g., allowing an open debate in meetings), independence (e.g., having a reasonable percentage of independent outside members), accountability (e.g., directors having an ownership stake in the company) and firm performance. An example of quality is evidenced by the GE board meeting regularly with lower-level managers without Jack Welch present. Welch himself suggested this practice.

While GE's board received strong support as the best board, Disney's board was deemed the worst board of directors. It is not considered independent from Michael Eisner, and Disney's performance in recent years has been mediocre. At Disney, Eisner has agreed to some changes, but still has refused to make major alterations in the board's composition. Because of the firm's mediocre performance, he is coming under increasing pressure.

Question :

Explain as to how ownership concentration (Shareholders and FIs) and BODs can serve as effective/ineffective internal governance mechanisms. *10*

3. Case Study

Harrods is a brand that is recognised all over the world. Its Knightsbridge store has 1 million square feet of selling space with over 330 different departments. Its global reputation and prestige is instilled through its brand values. Brand values represent what an organisation stands for. Harrods values are – British; Luxury; Service; Innovation and Sensation.

Harrods has been in business for over 160 years. It employs 4,000 employees with an additional 3,500 agency and concession employees. In 2010, Qatar Holdings purchased Harrods from Mohamed Al-Fayed. The new owners are strongly committed to all of Harrods' employees.

They recognise that engaged employees are essential to the continuing success of the business. Such employees are likely to be happy and consistently high performers who want to progress their careers with Harrods. Managing employee relationships is the role of the Human Resources department.

Employee turnover measures the rate at which employees leave their employer, usually over a one-year time period. The statistics indicated that Harrods needed to take action to improve employee engagement and reduce its employee turnover. A high employee turnover rate has significant cost and performance implications to a business. These include the costs of recruitment, the loss of expertise and the increased need for training new employees.

The employee survey has now become an integral aspect of Harrods' Human Resource Management programme. The survey results were used to create strategic plans for change focused on improving employee engagement and trust. The four main elements were :

- Changing organisational structure : Senior managers felt that the organisation was too hierarchical i.e. had too many layers. The new structure is flatter with employees taking on more responsibilities. This enables job enrichment, providing opportunities for employees to take on further responsibilities to enhance their job satisfaction.

- Changing leadership : Creating an environment where employees are encouraged to make more decisions themselves. Senior managers create the business vision but ground level employees are delegated more leadership responsibilities, for example, in dealing with customers. The model employed is one of transformational leadership where the vision is built at the top but everyone engages with the vision through personal leadership.

- Improved communications : Better communications inform all employees about the strategies of the company. These outline the aims and direction of the business. They also inform employees about operational (day-to-day) plans which directly affect their work. A radical improvement was to encourage employees to inform management of their views.

- Living the brand values : Making sure that everyone understands and models the brand values.

Question :

Critically comment on the value creating potential of support activities at Harrods. *10*

SECTION II

*Answer any **five** of the following in brief.*

4. Explaining the concept of strategic competitiveness, what according to you would constitute strategic assets i.e. resources and capabilities that give rise to core competencies in the automotive sector globally ? *14*

5. (a) Elaborate on the pros and cons of Strategic Group Analysis. *7*

   (b) Elaborate on the steps involved in Strategic Group Analysis. *7*

6. Hindustan Unilever's foray into Water Purification equipment probably belies the synergies one may gain from a diversification strategy that is related and constrained. What are the probable reasons for this unrelated diversification ? *14*

7. (a) How does a firm generate multiple forms of competitive advantage ? *5*

   (b) How are multiple forms of advantage critical to a firm in a globalized environment ? *5*

   (c) Provide a suitable example of multiple forms of advantage. *4*

8. Illustrate a model of competitive rivalry and elaborate on competitor analysis with reference to market commonality and resource similarity. *14*

9. Elaborate on the need for strategic alliances in slow and standard cycle markets. *14*
