Business Policy & Strategy (MB311) : January 2008

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. Which of the following is/are the key element(s) in Ansoff‘s strategic success paradigm?
I. There is a universal success formula for all firms.
II. The level of turbulence in the environment determines the strategy required for the success of the firm.
III. The aggressiveness of the strategy should be aligned with the turbulence in the environment to optimize the
firm‘s success.
IV. Internal capability determines the firm‘s success.
(a) Only (I) above
(b) Both (I) and (II) above
(c) (I), (II) and (III) above
(d) (II), (III) and (IV) above
(e) All (I), (II), (III) and (IV) above.

2. Managers of business organizations have various social responsibilities. Which of the following responsibilities
refers to the purely voluntary obligations that a corporation assumes, such as philanthropic contributions and
training the unemployed?
(a) Economic
(b) Legal
(c) Discretionary
(d) Ethical
(e) Political.

3. Functional strategies for personnel management are the basis for decisions pertaining to compensation, labor
relations, discipline and control, to enhance the productivity and motivation of the workforce. Which of the
following are the questions relevant in achieving these objectives?
I. How should the company recruit to meet these needs?
II. What are the appropriate disciplinary steps for various types of undesirable behavior?
III. How should payment, incentive plans, benefits and seniority policies be laid out?
IV. Should there be hiring preferences?
(a) Both (I) and (III) above
(b) Both (II) and (IV) above
(c) (I), (II) and (III) above
(d) (II), (III) and (IV) above
(e) All (I), (II), (III) and (IV) above.

4. A clear understanding of the value chain helps the firm identify its competitive advantage. A firms

differentiation
depends on how its value chain is related to the
(a) Buyers value chain
(b) Sellers value chain
(c) Competitors value chain
(d) Substitutes value chain
(e) Industries value chain.

5. Coordination is a must in the organizations for a smooth functioning. But if the coordination is lacking in the large
functional structure across the organization, the company‘s performance will get disturbed. This problem can be
tackled by
I. Breaking the firm into smaller business units that can focus on particular products, or markets.
II. Employing staff who are responsible for coordinating activities across the functions.
III. Formalizing the role of the product/project manager in a matrix structure.
IV. Seeking approval from higher authorities for taking decisions regarding all the matters.
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(a) Both (I) and (III) above
(b) Both (I) and (IV) above
(c) (I), (II) and (III) above
(d) (I), (II) and (IV) above
(e) All (I), (II), (III) and (IV) above.

6. There are three basic characteristics which differentiate functional strategies from grand strategies: time horizon
covered, specificity and participation in their development. Which of the following statements is/are not true
about specificity?
I. The functional strategy is more specific than a grand strategy.
II. Grand strategies are restricted to the company‘s subunits.
III. The general direction is provided by the functional strategy.
IV. Functional strategies give specific guidance to managers responsible for completing the objectives successfully.
(a) Only (I) above
(b) Both (I) and (IV) above
(c) Both (II) and (III) above
(d) (I), (II) and (IV) above
(e) All (I), (II), (III) and (IV) above.

7. All of the following are factors that often trigger companies to increase sales through international expansion
except
(a) Maturity of their domestic markets
(b) Slower domestic than foreign growth rates
(c) Ability to gain foreign product capabilities
(d) The desire to provide foreign aid to underdeveloped countries
(e) Capture new market opportunities.

8. A landmark study in understanding the choice of structure as a function of strategy is provided by Alfred
Chandler. Over an extended time period, Chandler studied large corporations and found a common strategy-
structure sequence. Identify the correct strategy-structure sequence.
I. Choice of new strategy.
II. A shift to an organizational structure more in line with the strategy's needs.
III. Improved profitability and strategy execution.
IV. Emergence of administrative problems.
(a) (I), (II), (III), (IV)
(b) (I), (III), (II), (IV)
(c) (I), (IV), (II), (III)
(d) (II), (I), (III), (IV)
(e) (IV), (I), (II), (III).

9. The allocation of resources in an organization requires planning and controlling. To achieve this, the method used
by most organizations is budgeting. Which of the following is the main function of executive staff budget?
(a) It focuses on a specific product of the firm and permits determination of returns on investment from each
product
(b) It includes requirements for raw materials, components, energy, human and other resources necessary to
produce the projected output
(c) It indicates special expense accounts, compensation, and human resource requirements for higher levels
of the organization
(d) It is used to establish local or regional revenue and/or cost centers for planning and controlling purposes
(e) It reflects the strategies of the firm in relation to research and development investments; frequent sources
of future sales and revenue.

10. Which of the following statements is/are correct with regard to competitive scope of the value chain?
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

(d) Both (II) and (III) above

(e) All (I), (II) and (III) above.

11. Goals indicate a desired future state that a company attempts to realize. The characteristics of a goal, which make
it meaningful is/are
I. The goals should be precise and measurable.
II. The goals should address important issues.
III. The goals should be common to everyone.
IV. The goals should specify a time period in which they should be achieved.
(a) Both (I) and (II) above
(b) Both (III) and (IV) above
(c) (I), (II) and (III) above
(d) (I), (II) and (IV) above.
(e) All (I), (II), (III) and (IV) above.

12. Which of the following focuses on the relationship between companies involved in the production, distribution
and use of goods and services within an industry?
(a) Internationalization model
(b) Network approach
(c) Obsolencing bargain theory
(d) Internalization theory
(e) Oligopoly theory.

13. Objectives state end results and overall objectives need to be supported by sub-objectives. Thus, objectives form a
hierarchy. Which of the following is the correct sequence of hierarchy of objectives?
I. Mission.
II. Social economic purpose.
III. Overall objectives of the organization.
IV. More specific overall objectives.
V. Department objectives.
VI. Division objectives.
VII. Individual objectives.
(a) I, II, III, IV, V, VI, VII
(b) I, III, II, IV, V, VI, VII
(c) I, II, III, IV, VI, V, VII
(d) II, I, III, IV, VI, V, VII
(e) II, I, IV, III, V, VI, VII.

14. Luostarinen & Hellman attempted to integrate all the three models of internationalization. According to them, the
internationalization process of a firm usually starts with a / an
(a) Forward process
(b) Backward process
(c) Inward process
(d) Outward process
(e) Sideward process.

15. In large firms increased diversity leads to numerous product and project efforts with major strategic significance.
The organizational form that provides and controls skills and resources where and when they are required most is
the matrix organization. Which of the following is/are the associated difficulties in a matrix organizational
structure?
I. Dual chains of command challenge fundamental organizational orientations.
II. The narrow technical expertise sought through specialization can lead to limited perspective and different
priorities across different functional units.
III. Negotiating shared responsibilities, use of resources and priorities can create misunderstanding or confusion
among subordinates.
IV. The evaluation and control of numerous multi-industry divisions may become difficult leading to formation
of another layer of management to improve strategy implementation.
(a) Only (I) above
(b) Both (I) and (III) above
(c) Both (I) and (IV) above
(d) (I), (II) and (III) above
(e) (I), (III) and (IV) above.
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(e) (I), (III) and (IV) above.

16. Problems of the new business are often more complex and difficult to resolve 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 relate to the above statement?
(a) Impatience to grow
(b) Overconfidence
(c) Misjudging success requirements
(d) Siren song of integration
(e) Underestimation of present opportunities.

17. An organization not guided by objectives is an organization not being managed properly. Which of the following
is/are true regarding objectives?
I. Objectives are the goals set by the enterprise, which have to be reached.
II. Objectives are sacrosanct in the sense that a change in situation will have a bearing on these and they may be
changed.
III. Objectives are bound by restrictions of premises.
IV. All objectives of the enterprise at all levels are inter-connected and inter-related because their original source
is one.

(a) Only (I) above
(b) Both (I) and (II) above
(c) (I), (II) and (III) above
(d) (I), (III) and (IV) above
(e) All (I), (II), (III) and (IV) above.

18. A strategy of a non-profit organization, in which top management retains all decision-making authority, so that
low-level managers cannot take any actions to which the sponsors may object is called
(a) Offensive centralization
(b) Defensive centralization
(c) Conglomerate diversification
(d) Concentric diversification
(e) Vertical diversification.

19. A company‘s ability to meet its imminent financial obligation is known as liquidity. Liquidity ratios are used as
indicators of a firm‘s ability to meet its short-term obligations. Two widely used liquidity ratios are ”Current ratio‘,
and ”Quick ratio‘. Which of the following is true regarding quick ratio?
(a) It measures a firm‘s efficiency in generating sales and making collections
(b) It indicates how effectively a firm is being managed
(c) It recognizes that current assets is usually less liquid than inventory
(d) It recognizes that inventory is usually less liquid than other current assets
(e) It indicates that the firm does not have many assets tied up in inventory.

20. Which of the following variables are related to rivalry among existing firms?
I. Access to distribution channels.
II. Amount of fixed costs.
III. Alternative buyers.
IV. Alternative suppliers.
V. Product differentiation.
(a) Both (I) and (II) above
(b) (I), (II) and (III) above
(c) (I), (II), (III) and (IV) above
(d) (I), (III), (IV) and (V) above
(e) All (I), (II), (III), (IV) and (V) above.

21. The human element permeates all segments and units within an organization. Which of the following is/are the
activity(ies) of the human resource management?
I. Fixing and maintaining compensation package for employees.
II. Creating and maintaining a harmonious organizational climate.
III. Adopting growth strategies for human resource development.
IV. Managing the diversified culture among the employees.
(a) Only (I) above
(b) Both (I) and (II) above

(b) Both (I) and (II) above
(c) (I), (II) and (III) above
(d) (II), (III) and (IV) above
(e) All (I), (II), (III) and (IV) above.

22. Which of the following is the strategy that has adapted to multiproduct market firms in which each product/market
is managed as a separate business or profit center because the firm is not dominated by one product market?
(a) Business portfolio analysis
(b) Corporate portfolio analysis
(c) Divisional portfolio analysis
(d) Financial portfolio analysis
(e) Strategic portfolio analysis.

23. According to Henri Fayol, the objective of control is to point out weakness and errors in order to rectify them and
prevent recurrence. Which of the following are the procedures that the control function does not include?
I. Measuring the actual performance.
II. Comparing actual performance to standards.
III. Developing alternative action plans.
IV. Analyzing on the feedbacks.
(a) Both (I) and (II) above
(b) Both (III) and (IV) above
(c) (I), (II) and (III) above
(d) (I), (II) and (IV) above
(e) All (I), (II), (III) and (IV) above.

24. Which of the following takes place when change patterns are accepted and followed willingly, as a part of
organizational change?
(a) Reengineering
(b) Restructuring
(c) Reshaping
(d) Refreezing
(e) Rewarding.

25. If exit barriers are high, companies can become locked into an unprofitable industry in which overall demand is
static or declining. Which of the following is/are the exit barriers?
I. Investments in plant and equipment that have no alternative uses and cannot be sold off.
II. High fixed costs of exit, such as severance pay to workers who are being made redundant.
III. High liquid amount invested for the technology up gradation in the plant.
IV. Company is not diversified and so relies on the industry for its income.
(a) Only (I) above
(b) Both (I) and (II) above
(c) (I), (II) and (III) above
(d) (I), (II) and (IV) above

(e) All (I), (II), (III) and (IV) above.

26. Which of the following are factors that make a firm a desirable candidate for acquisition and vulnerable to a takeover?
I. A low stock price compared to asset replacement cost or their potential earning power.
II. Relatively large stock holdings under the control of incumbent management.
III. A highly liquid balance sheet with large amount of excess cash, a valuable securities portfolio and a significantly unused debt capacity.
IV. Good cash flow relative to current stock prices.
(a) (I), (II) and (III) above
(b) (I), (II) and (IV) above
(c) (I), (III) and (IV) above
(d) (II), (III) and (IV) above
(e) All (I), (II), (III) and (IV) above.

27. Which of the following is/are the consideration that is/are emphasized by firms, managing a strategy-culture relationship?
I. Key changes should be visibly linked to the basic company mission.

II. Emphasis should be placed on the use of new recruitment.
III. Care should be taken if adjustments in the reward system are needed.
IV. Key attention should be paid to the changes that are least compatible with the current culture.
(a) Only (I) above
(b) Both (I) and (II) above
(c) (I), (II) and (III) above
(d) (I), (III) and (IV) above
(e) All (I), (II), (III) and (IV) above.

28. The General Manager needs a variety of skills. This is because they are required to perform variety of functions and different roles. Which of the following is incorrect regarding the degree of skills required for the General Managers at different levels?
(a) Top level managers require high human relations (HR) skills
(b) The middle level managers require moderate conceptual skills
(c) The middle level managers require high human relations (HR) skills
(d) Lower level managers require low conceptual skills
(e) Lower level managers require high technical skills.

29. The designing of business strategies involves a systematic approach which is multifaceted, complex and requires assessment in depth. Which of the following is/are the reasons for the process being multifaceted?
I. It involves the interactive influences of both remote and operating environments.
II. Environmental forces are very difficult to be controlled, especially external factors.
III. Limited objectivity will not help the management accurately predict future events in the competitive external

environment.
(a) Only (I) above
(b) Both (I) and (II) above
(c) Both (I) and (II) above
(d) Both (II) and (III) above
(e) All (I), (II) and (III) above.

30. Exporting through independent intermediaries to various countries is indirect exporting. In which of the following
ways of indirect exporting does, intermediary manages export for a fee?
(a) Temporary exporter
(b) Domestic exporter
(c) Domestic based exporting agent
(d) Cooperative organization
(e) Export management company.
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Section B : Caselets (50 Marks)
• This section consists of questions with serial number 1 œ 7 .
• Answer all questions.
• Marks are indicated against each question.
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• 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. TCL had entered in to many joint ventures from its beginning to develop its business. Discuss the

various characteristics that are to be taken into account while describing joint ventures. Also, discuss
(6 marks)
the motives behind joint ventures.
2. With respect to the caselet, explain the rationale for TCL's joint venture, TTE's (Thomson Electronics

(8 marks)
Corporation) plans and how TTE ran into troubles.
3. Even after the joint venture between TCL Corporation (TCL) and France-based Thomson SA, the

company reported losses. In this regard, explain the various reasons for failure of joint ventures. (6 marks)

Earlier known as TCL International Holdings Limited (TIHL), TCL Multimedia Technology Holdings Limited (TMTHL) reported a loss before tax of HK$ 584 million on a turnover of HK$ 34.55 billion in the financial year 2005 as compared to HK$ 497 million profit before tax on a turnover of HK$ 25.6 billion in the financial year 2004. TMTHL's core product was television, which accounted for nearly 88% of its revenues. It also manufactured computers and audio-video products. TMTHL's television business was operated under its wholly-owned subsidiary, TCL-Thomson Electronics Corporation (TTE). TTE was the world's largest manufacturer of television sets in terms of volumes. It was a joint venture formed in late 2003 between TCL Corporation (TCL) and France-based Thomson SA.

TTE sold television sets under the brand names TCL (in China), Thomson (in Europe) and RCA (in Asia). TTE attributed the loss primarily to falling market demand for televisions, greater competition from other brands and a substantial fall in prices of high-end television sets in the US and Europe.

The company was not strong in the liquid crystal displays (LCD) segment and this affected its sales particularly hard in Europe, where the LCD television market was growing rapidly. Though TMTHL tried to improve its flat television business in 2005 by investing more money, it failed to turn around this business. The combined loss for North American and European markets in the first quarter of 2006 was HK$ 210 million on revenues of HK$ 3.3 billion while the loss was HK$ 779 million on revenues of HK$ 14.5 billion in the financial year 2005. TMTHL expected that TTE would break even in 2005. The company said that the situation was getting better and it was planning to promote its flat-panel televisions aggressively.

TCL was started when Huiyang Electronic Industrial Company, a manufacturer of magnetic recording tapes, formed a joint venture with a Hong Kong-based investor in 1985 and formed TCL Telecommunication Equipment Company Limited (TTECL). During the initial years, TCL manufactured telecom equipment. After registering the TCL trademark in 1986, the company developed its first hand-free, touch-tone telephones in China. By 1989, TCL telephones emerged as the top selling brand in China. TCL forayed into the Chinese television market through a joint venture with the Hong Kong-based Huizhou King Audio Visual Electronics Company Limited and manufactured its first color television in 1992.

In 1995, TCL underwent restructuring and was renamed TCL Holdings Groups Ltd. and in 1997 was again renamed TCL Holdings Co., Ltd. With the money raised through the listing, it acquired other Chinese television manufacturers such as Luk's Industrial (1996) and Henan Meile Electronic Group (1997). In 1998, TCL entered computer manufacturing by forming a joint venture with Taipei-based GVC Corporation. The venture was named TCL-GVC Computer Technology Company. In 1999, TCL established TCL Mobile Communications and started manufacturing mobile phones. In the same year, TIHL was listed on the Hong Kong stock exchange and the television business was brought under it. TIHL raised US$ 128 million through an IPO

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In 1999, Li announced TCL's aim: "Our goal is to create a world-class Chinese enterprise." TCL's first step in this direction was to enter the US and the EU, two of the world's premier markets.

However, the EU followed protectionist measures and levied heavy anti-dumping duties on Chinese television manufacturers since the 1990s.

TCL had to rely on acquiring companies operating in the EU to avoid the heavy import tariffs. The company felt that it was easy to expand using an already existing brand rather than introducing and establishing a new brand, especially in markets like the US and the EU.

Explaining this strategy, Vincent Yan (Yan), CFO of TTE, said, "It's not just realistic to build a new brand in a mature market like North America. You just don't have the kind of profit margin for that."

After mutual consultations, TCL and Thomson established TTE directorate and appointed Li and Dehelly as Chairman and Vice-chairman respectively. Zhao Zhongyao was appointed as the CEO of TTE. The headquarters was located in Shenzhen, China. On July 28, 2004, production started under TTE. TTE planned to turn around its North American and European operations by the end of 2005 and increase the worldwide sales to 30 million units by 2006.

TCL aimed to be among the world's 500 largest companies by 2010 with annual revenues of around US$ 18 billion. However, some industry experts commented that TCL would have to increase its sales significantly, if the company was to reach its goal; and this would be difficult as there were many competitors with larger market shares.

After conducting a study regarding its RCA brand, TCL observed that the brand was doing reasonably well in the high-end television segment but needed some low-end televisions to compete with its close competitor Apex, which had introduced low-priced televisions in 2003.

Instead of focusing on TTE, in August 2004, TCL's TCTH formed a joint venture with the loss-making mobile phone division of the Paris-based Alcatel SA. Alcatel posted a net loss of 74.4 million euros in the fiscal 2003 and 34.8 million euros in the first half of 2004. The joint venture was called TCL Alcatel Mobile Phones Limited (TAMP).

TCL paid 55 million euros to get a 55% equity stake in the joint venture while Alcatel contributed cash and its loss making mobile phone business worth 45 million euros for a 45% equity stake. All of Alcatel's 600 R&D, sales and marketing staff became employees of TAMP.

TAMP distributed Alcatel brand mobile phones in Europe and Latin America and TCL brand phones in China and Asia. Though some analysts praised TCL for taking this bold step, others feared that TCL was overburdening itself as it already had TTE which required considerable attention. They felt that TAMP would further affect the company's overall profitability if not revived quickly.

END OF CASELET 1

Caselet 2

Read the caselet carefully and answer the following questions:

4. —The company had already announced in April 2003 about its plans to spend another ¥1 trillion on a

major restructuring initiative in the next three years. Notably, Sony's business operations were
(7 marks)
restructured five times in the past nine years“. In this light, discuss the restructuring initiatives followed by Sony.

5. Corporate restructuring is the process in which business firms engage in a broad range of activities

including expanding, shrinking and otherwise restructuring assets and ownership structures. In this
(9 marks)
context, discuss the various forms of restructuring.

For the first quarter ending June 30, 2003, Japan-based Sony Corporation (Sony) stunned the corporate world by reporting a decline in net profit of 98%. Sony reported a net profit of ¥9.3 million (mn) compared to ¥1.1 billion (bn) for the same quarter in 2002.

Sony's revenues fell by 6.9% to ¥1.6 trillion for the corresponding period. Analysts were of the opinion that Sony's expenditure on its restructuring initiatives had caused a significant dent in its profitability. In the financial year 2002-03, Sony had spent a massive ¥100 bn on restructuring. Moreover, the company had already announced in April 2003 about its plans to spend another ¥1 trillion on a major restructuring initiative in the next three years. In 2003, the sales of the consumer electronics division fell by 6.5%. Notably, Sony's business operations were restructured five times in the past nine years. Sony reported a net income of ¥115.52 bn in the fiscal 2002-03 compared to ¥15.31 bn in 2001-02. A statement issued by Sony said, "The improvement in the results was partly due to the restructuring of its electronics business, especially in the components units. At the beginning of the new millennium, Sony faced increased competition from domestic and foreign players (Korean companies like Samsung and LG) in its electronics and entertainment businesses. The domestic rivals Matsushita and NEC were able to capture a substantial market share in the Internet-ready cell phones market. Analysts felt that the US based software giants like Microsoft & Sun Microsystems and the networking major Cisco Systems posed a serious threat to Sony's home entertainment business.

On May 7, 1946, Masaru Ibuka (Ibuka) and Akio Morita (Morita) co-founded a company called Tokyo Tsushin Kogyo Kabushiki Kaisha (Tokyo Telecommunications Engineering Corporation), with an initial capital of ¥190,000 in the city of Nagoya, Japan.

They gave importance to product innovation and decided to offer innovative, high-quality products to

their consumers. The founders introduced many new products like the magnetic tape recorder, the 'pocketable radio,' and more. By the 1960s, the company had established itself in Japan and changed its name to Sony Corporation. During the 1960s, the company focused on globalization and entered the US and European markets. In the 1970s, Sony also set up manufacturing units in the US and Europe. During this period, Sony developed and introduced the Walkman, which was a huge success. It significantly boosted Sony's sales during the 1980s. By the mid-1980s, Sony's consumer products were marketed in Europe through subsidiaries in the UK, Germany and France.

Under Ohga's leadership, Sony witnessed negligible growth in sales during 1990 and 1994. Sales and operating revenues improved by only 2% during that period. However, the net income and operating income registered a drastic fall of 87% and 67% respectively. Analysts felt that the stagnation in the electronics industry coupled with factors such as the recession in the Japanese economy and the appreciation of the yen against the dollar led to the deterioration in the company's performance. It was noticed that in the electronics business, the revenues of the video and audio equipment businesses were coming down or were at best stagnant, while the television and 'Others' group were showing signs of improvement. The 'Others' group, which consisted of technology intensive products such as computer products, video games, semiconductors and telecom equipments, was performing very well and had a growth rate of nearly 40%.

In January 1996, a new ten-company structure was announced, replacing the previous eight company structure. Under the new structure, the previous Consumer Audio & Video (A&V) company was split into three new companies - The Display Company, the Home AV Company and the Personal AV Company.

A new company, the Information Technology Company, was created to focus on Sony's business interests in the PC and IT industry. The Infocom Products Company and the Mobile Electronics Company were merged to create the Personal & Mobile Communications Company. The other companies formed were the Components & Computer Peripherals Company (formerly called the Components Company), the Recording Media & Energy Company, the Broadcast Products Company, the Image & Sound Communications Company (formerly called the Business & Industrial Systems Company) and the Semiconductor Company. In order to devise and implement the corporate strategies of the Sony Group, an Executive Board was created.

From 1995 to 1999, Sony's electronics business (on which the restructuring efforts were focused) grew at a compounded annual growth rate (CAGR) of 8.55%. The music business had a CAGR of 10.5% while the pictures business had a CAGR of 17%. Significant gains were, however, recorded by the games and insurance business. The games business registered a CAGR of 21.5%, while the insurance business registered a CAGR of 31%. For the financial year 1998-99, its net income dropped by 19.4%.

During that period, Sony was banking heavily on its PlayStation computer game machines. It was estimated that the PlayStation (Games business) accounted for nearly 42% of Sony's operating profits and 15% of total sales for the quarter-ended October-December 1998. In the late 1990s, many companies across the world were attempting to cash in on the Internet boom.
In April 1999, Sony announced changes in its organization structure. Through the new framework, the company aimed at streamlining its business operations to better exploit the opportunities offered by the Internet.
Sony's key business divisions - Consumer Electronics division, Components division, Music division and the Games division - were re-organized into network businesses. This involved the reduction of ten divisional companies into three network companies, Sony Computer Entertainment (SCE) Company and the Broadcasting & Professional Systems (B&PS) Company. SCE Company was responsible for the PlayStation business while the B&PS Company supplied video and audio equipments for business, broadcast, education, industrial, medical and production related markets. The restructuring aimed at achieving three objectives - strengthening the electronics business, privatizing three Sony subsidiaries, and strengthening the management capabilities.
Sony announced another round of organizational restructuring in March 2001. The company aimed at transforming itself into a Personal Broadband Network Solutions company by launching a wide range of broadband products and services for its customers across the world. The restructuring involved designing a new headquarters to function as a hub for Sony's strategy, strengthening the electronics business, and facilitating network-based content distribution.
END OF CASELET 2
Caselet 3
Read the caselet carefully and answer the following questions:
9

6. Explain whether the remote environmental factors in India proved lucrative for Canon, for investment. (7 marks)

7. Explain the Strengths, Weaknesses, Opportunities and Threats (SWOT) of Canon. (7 marks)

From being known as a camera and copier company, Canon India has moved on to being a reckoning force in the peripherals market. But this didn‘t come easy to this 100% subsidiary of the Japanese imaging giant. Since it came in early 1997, Canon India has had a checkered past. The major players in the photocopier market were Modi-Xerox - the market leader with 58% of market share, RPG-Ricoh and HCL Toshiba. Within two years, Canon proved the analysts wrong by capturing 18% of the photocopier market, knocking Ricoh out from the number two slot.
In India, though the government was a coalition, yet it was pro-liberalisation. This spelt stability on the economic policies front and thus the political environment was conducive to investment. The new economic policies were pro-investment. Deregulation and liberalization of Industrial Licensing had already taken place. FERA was liberalised which meant that foreign investment and technology import were made easier. Fiscal and monetary reforms were in the pipeline and pointed towards a bright future. Public sector participation was encouraged by the government.
Though the middle class was burgeoning, yet the population below the poverty line was a concern. A major part of the Indian population lived in small villages, which did not even have access to electricity. However, this was not of much of a concern to the firm.
India was fast being recognized worldwide as the leader in Information Technology. Allied industries were booming and India seemed to be on its way up. The development of Information Technology pointed to emerging 'paperless offices'. The Indian market was experiencing the Internet and IT business boom, which led to an increase in PC penetration

Canon‘s cameras were already selling through the Mahatta Camera Corporation. It decided to sell the copiers and fax machines through national distributors. The first three years of operation of the subsidiary didn‘t turn out to be successful. The competition was too tough, and there was also the gray market to contend with.

In 2000, when the Indian market was experiencing the Internet and IT business boom the increase in PC penetration led to a spurt in inkjet printer sales. At that point, there were mainly HP and Epson in the inkjet market. While Canon‘s photocopiers and fax machines were doing average business, and cameras had their own presence, there was a need to come forward in the PC peripherals area too. Canon introduced printers in its Indian portfolio, and initially things looked okay, with market share reaching almost 12% at one point. But that was the short-lived effect of a push factor that dwindled later.

Coinciding with a market slowdown, 2001 saw aggressive price wars in the inkjet arena. Both HP and Epson dropped prices of their entry-level models. Canon‘s inkjet share dipped to almost 3%. While HP and Epson had sound channel strategies, Canon seemed to have missed out on that.

The results of the market analysis led Canon to rethink its marketing and distribution strategies. Clearly the peripheral market was where the action was. Cameras were still Mahatta‘s domain. Photocopiers were still there, and were picking up, but they weren‘t enough.

In 2001, Canon seemed to have finally hit paydirt in the peripherals market. Apart from its own strategies, problems faced by the competition have also helped. HP was preoccupied with its parallel shipment problems. Epson‘s Stylus 480 didn‘t live up to its expectations and Epson didn‘t manage to recover from that, and Lexmark, which had so far been selling through TVSE, decided it was time to go solo and proceeded to revamp its distribution plan. As the company went into the IT Peripherals space, it became necessary to reach B&C class cities. Now, with a consumer products thrust, the company plans to tap even smaller locations in India.

Though the market leader, Modi-Xerox, had the lion‘s share of the photocopier market. Modi-Xerox was concentrating on the offices and corporate clients. This was one of their strength areas. Since Modi-Xerox was not focusing on another major segment œ the ”jobber‘ segment (the corner-shop which does a photocopy)- Canon, India decided to vigorously attack it! However, the jobbers segment is spread over a large geographical area - in all major and small towns of India. At this time, RPG-Ricoh (the second largest player) was involved with restructuring its business and could not employ any tactics to thwart Canon India‘s entry. The timing of the entry seems to be strategically very appropriate as RPG-Ricoh was unable to react due to its restructuring. Eyeing the huge market segment of jobbers (which accounted for 60% of India‘s photocopying work) Canon, India formulated several market penetration strategies. Modi-Xerox was catering to the corporate clients and was thus high priced. Canon India introduced slow machines at cheap prices to satiate the demand of the jobbers segment.

In late October 2002, Canon India planned to launch more than 20 new products ranging from inkjets, direct photoprinters, scanners to digital cameras, camcorders, and more. With things more stable, Canon is confident that it‘s the right time to take over the digital camera business. The future, according to Canon, lies in digital imaging. In the same year, it unveiled some of these products in an expo at

Beijing in China, and the thrust clearly was on printing pictures at home directly from your digital camera. With the world reaching the level of digitization it has, Canon feels direct photo printing will make the printer and the digital camera together reach a level where they‘re regarded as consumer appliances rather than just as IT peripherals. India, though not as far ahead as some other countries in the region, seems ripe to receive this technology.

The president and CEO of Canon‘s South East Asia regional headquarter Singapore, Fukui Eiji, is confident that India is going to be an important market for Canon. With the upcoming launch of products, its distribution strategy in place, cross-selling opportunities in digital cameras, and competitive pricing, Canon India‘s spirits are buoyant. Going forward, two product categories œ digicams and projectors œ will be the prime focus areas for Canon‘s consumer strategy. These product categories are vital for it to scale its operations from business communications or automation to IT peripherals to consumer products. ―It‘s a big change for Canon,“ says Alok Bharadwaj, Director and GM, Consumer Imaging & Information Division.
END OF CASELET 3
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. Strategy refers to the plans made and actions taken to enable an organization fulfill its intended

strategy. Discuss the various characteristics of strategic decisions. Also, explain the various reasons, due to which the firms often fail to develop sound strategic management perspective. (10 marks)
9. Politics is a key aspect of strategy implementation because it enables managers to be proactive and to

influence their environment rather than being manipulated and dominated by external events. In this context, what does Politics and Machiavellianism mean. Also explain the various political tactics applied to obtain results.
(10 marks)
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Suggested Answers
Business Policy & Strategy (MB311) : January 2008
Section A : Basic Concepts
Answer
Reason
1. D According to Ansoff there is no universal formula for all firms. All the other statements are true.
< TOP >
2. C Discretionary responsibilities refer to the purely voluntary obligations that a corporation assumes, such as
< TOP >
philanthropic contributions and training the unemployed.
3. D Functional strategies for personnel management
are the basis for decisions pertaining to compensation,
< TOP >
labor relations, discipline and control, to enhance the productivity and motivation of the workforce. The
following are the questions relevant in achieving these objectives:

- What are the standards for promotions?
- How should payment, incentive plans, benefits and seniority policies be laid out?
- Should there be hiring preferences?
- What are the appropriate disiplinary steps for various types of undesireble behavior?

Hence option (d) is the answer.
4. A A firm‘s differentiation depends on how its value chain is related to the buyers value chain.
< TOP >
5. C Coordination is a must in the organizations for a smooth functioning. But if the coordination is lacking in
< TOP >
the large functional structure across the organization, the company‘s performance will get disturbed. This
problem can be tackled by:

- Breaking the firm into smaller business units that can focus on particular products, or markets.
- Introducing staff who are responsible for coordinating activities across the functions.
- Formalizing the role of the product/project manager in a matrix structure.

Thus the option (c) is the correct answer.
6. C A functional strategy is more specific than a grand strategy. Functional strategies are restricted to the
< TOP >
company‘s subunits, carrying out certain functional activities in key areas, in order to omplement the

grand strategy. The general direction is provided by the grand strategy. Functional strategies give specific
guidance to managers responsible for completing the objectives sucessfully. Such strategies are meant to
ensure that managers meet their objectives in the best possible way.
7. D The factors that often trigger companies to increase sales through international expansion are the maturity
< TOP >
of their domestic markets, slower domestic than foreign growth rates, ability to gain foreign product capabilities and the incentive to capture new market opportunities.
8. C A landmark study in understanding the choice of structure as a function of strategy is provided by Alfred
< TOP >
Chandler. Over an extended time period, Chandler studied large corporations and found a common strategy-structure sequence.
1. Choice of new strategy.
2. Emergence of administrative problems.
3. A shift to an organizational structure more in line with the strategy's needs.
4. Improved profitability and strategy execution.

Hence option (c) is the answer.
9. C The executive staff budget indicates special expense accounts, compensation, and human resources
< TOP >
requirements for higher levels of the organization.
10. C The following statements are correct with regard to competitive scope of the value chain i.e., the segment
< TOP >
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.
11. D Goals indicate a desired future state that a company attempts to realize. To be meaningful, goals should
< TOP >
have three main characteristics. They are:
• The goals should be precise and measurable.
• The goals should address important issues.
• The goals should specify a time period in which they should be achieved.

Hence option (d) is the correct answer.
12. B The network approach focuses on the relationship between companies involved in the production,
< TOP >
distribution and use of goods and services within an industry. Firms internationalize by establishing and cultivating relationships with partners in foreign networks.
13. D The hierarchy of objectives is as follows:
< TOP >
1. Social economic purpose
2. Mission
3. Overall objectives of the organization
4. More specific overall objectives

5. Division objectives
6. Department objectives
7. Individual objectives.
Hence, option (d) is the correct sequence of the hierarchy of objectives.
14. C Luostarinen & Hellman, attempted to integrate all the three models of internationalization. According to
< TOP >
them, the internationalization process of a firm usually starts with an inward process.
15. B There are certain associated difficulties in a matrix organizational structure. They are.
< TOP >
• It is easy to design but difficult to implement.
• Dual chains of command challenge fundamental organizational orientations.
• Negotiating shared responsibilities, use of resources and priorities can create misunderstanding or confusion among subordinates.
Hence option (b) is the answer.
16. C The statements are appropriately pointing towards the reason, which is often called as misjudging success
< TOP >
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. D All the options except (II) ie, Objectives are the sacrosanct in the sense that a change in situation will
< TOP >
have a bearing on these and they may be changed are true. Hence option (d) is the answer.
18. B Defensive centralization deals with retaining all decision making authority at the top management level.
< TOP >
The top management of a not-for-profit organization must always be alert to the sponsors' view of an organizational activity. Answers a, c, d, e are incorrect since they do not pertain to retention of all decision making authority at the top management level.
19. D The quick ratio recognizes that inventory is usually less liquid than other current assets.
< TOP >
20. A Existence of alternative suppliers, buyers and product differentiation leads to reduction in rivalry among
< TOP >
existing firms. Access to distribution channels is a cause of rivalry among existing firms as the channels
are limited and all the players are eying for the given distribution channels. Amount of fixed costs also leads to rivalry among existing firms as the proportion of fixed costs in the cost structure (i.e operating leverage) decides the responsiveness of the firms to business risks.
21. E All the activities ie,
< TOP >
• Fixing and maintaining compensation package for employees.
• Creating and maintaining a harmonious organizational climate.

• Adopting growth strategies for human resource development.
• Managing the diversified culture among the employees.
are included under human resource management. Hence option (e) is the answer.
22. B Corporate portfolio analysis has to be adaptable to multiproduct market firms in which each
< TOP >
product/market is managed as a separate business or profit center because the firm is not dominated by one product market.
23. B The control function includes three procedures they are :
< TOP >

• Measuring the actual performance.
• Comparing actual performance to standards.
• Taking corrective action to ensure that planned events actually occur.
Hence option (b) is the answer.
24. D Refreezing takes place when change patterns are accepted and followed willingly. Often rewards are
< TOP >
influential in ensuring that refreezing takes place.
25. D Common exit barriers include the following:
< TOP >
• Investments in plant and equipment that have no alternative uses and cannot be sold off.
• High fixed costs of exit, such as severance pay to workers who are being made redundant.
• Company is not diversified and so relies on the industry for its income.
• Emotional attachment to an industry; a common is unwilling to exit from its original industry for sentimental reasons.
Hence option (D) is the answer.
26. C factors that make a firm a desirable candidate for acquisition and vulnerable to a takeover are:
< TOP >
• A low stock price compared to asset replacement cost or their potential earning power.
• A highly liquid balance sheet with large amounts of excess cash, a valuable securities portfolio and a significantly unused debt capacity.
• Relatively small stock holdings under the control of incumbent management.
• Subsidiaries or properties that can be sold off without significantly affecting the cash flow.
• Good cash flow relative to current stock prices.
Thus the option (c) is the right answer.
27. D The four basic considerations that are emphasized by firms managing a strategy-culture relationships are:
< TOP >
• Key changes should be visibly linked to the basic company mission
• Emphasis should be placed on the use of existing personnel not on new recruits
• Care should be taken if adjustments in the reward system are needed
• Key attention should be paid to the changes that are least compatible with the current culture. Hence option (d) is the answer.
28. A Degree of skills requirement for the General Managers at different levels is as follows:
< TOP >
General Management
Degree of Skills Requirement
level Conceptual

Human
Technical
skills
Relations Skills
skills
Top Level Managers High Moderate Low
Middle Level Managers Moderate High Moderate
Lower Level Managers Low Moderate High
29. A The designing of business strategies involves a systematic approach which is multifaceted, complex and
< TOP >
requires assessment in depth. This process is multifaceted because it involves the interactive influences of
both remote and operating environments. The strategic decision which is to be prepared must be systematic and comprehensive.
30. E Exporting through independent intermediaries to various countries is indirect exporting. The export
< TOP >
management company manages export for a fee.

Section B : Problems
1. A joint venture leads to the creation of a separate business enterprise. This, however, does not imply that the
< TOP >
participants to the joint venture cease to exist. Joint venture participants continue to exist as separate firms. A joint
venture may take the form of a partnership, a corporation, or any other form of business organization the participating
firms might choose to select.
The following characteristics are taken into account while describing joint ventures:
1. Contribution of money, property, effort, knowledge, skill or other asset to a common undertaking, by the partners
involved.
2. Joint property interest in the subject matter of the venture.
3. Right of mutual control or management of the enterprise.
4. Expectation of profit, or presence of "adventure".
5. Right to share in the profit.
6. Usual limitation of the objective to a single undertaking or ad hoc enterprise.
The scope and duration of joint ventures is, therefore, limited. Joint ventures involve only a small fraction of each
participant's total activities. Each participant must contribute or offer something unique and of importance to the
venture and, at the same time, provide a source of gain to the other participants in the venture.
More recently, joint ventures are being referred to as "strategic alliances". Joint ventures are stimulated by a
number of motives as described below:
• The primary motive for starting a joint venture is to share investment expenses or enable a large company rich in

cash that it can invest to collaborate with a smaller company having a product or production idea but lacking in funds to pursue the opportunity. However, it has been observed that finance is usually forthcoming if the product idea is a good one. It is only when the outcome is highly uncertain (high risks involved) and payoff is not likely to ensure till several years into the future that financing is likely to become a problem. Even though outside investors may be reluctant to finance the project even on an equity basis because of the high risks involved, a business firm may be interested because it possesses more information on the project or has other projects that may benefit from the learning experience that may be gained from the joint venture.

- The learning experience that may be obtained is the second strong motive for joint ventures.
- A joint venture serves as a method for reducing the investment outlay and sharing the risks, even for a large company. This is, of course, in addition to the learning experience that may be achieved.
- Joint ventures result in an increase in the number of firms while mergers lead to a decrease in the number of firms. In a joint venture, parent firms continue their operations even after a new firm is created. The likelihood of receiving endorsement from government agencies is particularly more in case of joint ventures in research and development areas.

Further, joint ventures may be used to acquire complementary or technological resources at lesser cost or to derive benefits from economies of scale, critical mass, and learning experience, all of which are elements of strategic alliances.

Joint ventures may also be used as an element for long-range strategic planning by firms. Similar to a spider's web, a small firm in a highly concentrated industry acquires countervailing power among rivals in a product market and among rivals for a scarce resource by entering into joint ventures with several of the industry's dominant firms, thus forming around itself a self-protective network of counterbalancing forces. This strategy is feasible only when the small firm has something unique to offer the industry leaders.

2. Rationale for joint ventures:

< TOP >

- To augment financial and technical ability to enter a particular line of business.
- To share technological knowledge and management skills
- To diversify the risk involved in the project
- To obtain distribution channels or raw materials supply
- To gain economies of scale
- To extend business by sharing investments
- To take advantage of tax treatment or political incentives.

Rationale for TCL‘s Joint Venture

In 1999, Li announced TCL's aim: "Our goal is to create a world-class Chinese enterprise." TCL's first

step in this
direction was to enter the US and the EU, two of the world's premier markets.
16

However, the EU followed protectionist measures and levied heavy anti-dumping duties on Chinese television
manufacturers since the 1990s.
TCL had to rely on acquiring companies operating in the EU to avoid the heavy import tariffs. The company felt that
it was easy to expand using an already existing brand rather than introducing and establishing a new brand, especially
in markets like the US and the EU.
Explaining this strategy, Vincent Yan (Yan), CFO of TTE, said, "It's not just realistic to build a new brand in a mature
market like North America. You just don't have the kind of profit margin for that."
TTE's Plans
After mutual consultations, TCL and Thomson established TTE directorate and appointed Li and Dehelly as
Chairman and Vice-chairman respectively. Zhao Zhongyao was appointed as the CEO of TTE. The headquarters was
located in Shenzhen, China. On July 28, 2004, production started under TTE. TTE planned to turn around its North
American and European operations by the end of 2005 and increase the worldwide sales to 30 million units by 2006.
TCL aimed to be among the world's 500 largest companies by 2010 with annual revenues of around US$ 18 billion.
However, some industry experts commented that TCL would have to increase its sales significantly, if the company
was to reach its goal; and this would be difficult as there were many competitors with larger market shares.
After conducting a study regarding its RCA brand, TCL observed that the brand was doing reasonably well in the
high-end television segment but needed some low-end televisions to compete with its close competitor Apex, which
had introduced low-priced televisions in 2003.
TTE Runs Into Trouble
Instead of focusing on TTE, in August 2004, TCL's TCTH formed a joint venture with the loss-making mobile phone
division of the Paris-based Alcatel SA. Alcatel posted a net loss of 74.4 million euros in the fiscal 2003 and 34.8
million euros in the first half of 2004. The joint venture was called TCL Alcatel Mobile Phones Limited (TAMP).
TCL paid 55 million euros to get a 55% equity stake in the joint venture while Alcatel contributed cash and its loss
making mobile phone business worth 45 million euros for a 45% equity stake. All of Alcatel's 600 R&D, sales and
marketing staff became employees of TAMP.
TAMP distributed Alcatel brand mobile phones in Europe and Latin America and TCL brand phones in China and

Asia. Though some analysts praised TCL for taking this bold step, others feared that TCL was overburdening itself as it already had TTE which required considerable attention. They felt that TAMP would further affect the company's overall profitability if not revived quickly.

3. REASONS FOR FAILURE OF JOINT VENTURES

< TOP >

Joint ventures, like any other long-term contracts are prone to difficulties. According to independent studies conducted by McKinsey & Co. and Coopers & Lybrand. 70 percent of joint ventures are either disbanded or fall short of expectations. Other studies suggest that on an average, joint ventures do not even last as long as one half the term of years stated in the joint venture agreement. Some of the reasons for the failure of joint ventures are:

• The contract may be too inflexible to permit required adjustments in the future
• Lack of commitment and time in implementing the project
• Inability or failure to develop the desired technology
• Lack of adequate pre-planning for the joint ventures
• Failure to reach an agreement on alternative approaches to achieve the basic objectives of the joint venture
• Refusal by managers possessing expertise in one company to share knowledge with their counterparts in the joint venture
• Inability of parent companies to share control or compromise on difficult issues
• Critical issues of public policy and long-term strategies of individual business firms may arise in certain joint ventures.

4. Restructuring:

< TOP >

Restructuring programs involve changes in the relationships between divisions and function. Tere are two basic steps to restructuring. They are:

• In the first step, the organization reduces its level of differentiation and integration by eliminating divisions, departments or levels in hierarchy.
• Next, it downsizes by reducing the number of its employees to reduce operating costs.

Reasons for companies going for restructuring:

• Sometimes unforeseen changes might occur in the business environment.
• Sometimes organizations have excess capacity because customers do not want its products.
• To build and improve competitive position.

• Downsize because, over time the organizations have grown too tall and bureaucratic and due to this operating costs increase to a large extent.
• Companies are forced to downsize because they have not paid attention to the need to reengineer themselves.

Restructuring of Electronics Business (1994)

Under Ohga's leadership, Sony witnessed negligible growth in sales during 1990 and 1994. Sales and operating revenues improved by only 2% during that period. And the net income and operating income registered a drastic fall of 87% and 67% respectively. Analysts felt that the stagnation in the electronics industry coupled with factors such as the recession in the Japanese economy and the appreciation of the yen against the dollar led to the deterioration in the company's performance. It was noticed that in the electronics business, the revenues of the video and audio equipment businesses were coming down or were at best stagnant, while the television and 'Others' group were showing signs of improvement. The 'Others' group, which consisted of technology intensive products such as computer products, video games, semiconductors and telecom equipments, was performing very well and had a growth rate of nearly 40%.

The Ten-Company Structure (1996)

In January 1996, a new ten-company structure was announced, replacing the previous eight company structure. Under the new structure, the previous Consumer Audio & Video (A&V) company was split into three new companies - The Display Company, the Home AV Company and the Personal AV Company.

A new company, the Information Technology Company, was created to focus on Sony's business interests in the PC and IT industry. The Infocom Products Company and the Mobile Electronics Company were merged to create the Personal & Mobile Communications Company. The other companies formed were the Components & Computer Peripherals Company (formerly called the Components Company), the Recording Media & Energy Company, the Broadcast Products Company, the Image & Sound Communications Company (formerly called the Business & Industrial Systems Company) and the Semiconductor Company. In order to devise and implement the corporate strategies of the Sony Group, an Executive Board was created.

The Implications

From 1995 to 1999, Sony's electronics business (on which the restructuring efforts were focused) grew at a compounded annual growth rate (CAGR) of 8.55%. The music business had a CAGR of 10.5% while the pictures business had a CAGR of 17%. Significant gains were, however, recorded by the games and insurance business. The games business registered a CAGR of 21.5%, while the insurance business registered a CAGR of 31%. For the financial year 1998-99, its net income dropped by 19.4%. During that period, Sony was banking heavily on its PlayStation computer game machines. It was estimated that the PlayStation (Games business) accounted for nearly 42% of Sony's operating profits and 15% of total sales for the quarter-ended October-December 1998. In the late 1990s, many companies across the world were attempting to cash in on the Internet boom.

The Unified-Dispersed Management Model
In April 1999, Sony announced changes in its organization structure. Through the new framework, the company
aimed at streamlining its business operations to better exploit the opportunities offered by the Internet. Sony's key business divisions - Consumer Electronics division, Components division, Music division and the Games
division - were re-organized into network businesses. This involved the reduction of ten divisional companies into
three network companies, Sony Computer Entertainment (SCE) Company and the Broadcasting & Professional
Systems (B&PS) Company. SCE Company was responsible for the PlayStation business while the B&PS Company
supplied video and audio equipments for business, broadcast, education, industrial, medical and production related
markets. The restructuring aimed at achieving three objectives - strengthening the electronics business, privatizing
three Sony subsidiaries, and strengthen the management capabilities.
Restructuring Efforts in 2001
Sony announced another round of organizational restructuring in March 2001. The company aimed at transforming
itself into a Personal Broadband Network Solutions company by launching a wide range of broadband products and
services for its customers across the world. The restructuring involved designing a new headquarters to function as a
hub for Sony's strategy, strengthening the electronics business, and facilitating network-based content distribution.
5. CORPORATE RESTRUCTURING
< TOP >
Corporate restructuring is the process in which business firms engage in a broad range of activities including
expanding, shrinking and otherwise restructuring asset and ownership structures.
Forms of Corporate Restructuring
The various forms of restructuring discussed below are: expansion, sell-offs, corporate control and change in
Ownership structure.
Expansion

Finns can expand their operations through any of the following: mergers and acquisitions, tender offers and joint
ventures. A merger can be defined as any transaction through which two or more firms integrate their operations on a
relatively co-equal basis. Thus, a merger refers to any transaction that forms one economic unit from two or more
previous ones. Different firms have different resources and capabilities and bringing them together can lead to the
creation of competitive advantage. Mergers can be classified as horizontal mergers, vertical mergers or conglomerate
mergers.

In a tender offer, a company which intends to acquire a controlling interest in another company asks the shareholders
of the target company to submit or tender their shares of stock in the firm. If a company wants to have control over
another company it has to first take approval from the target company's management and the board of directors of the
target company.
In a joint venture, the participants continue to exist as separate firms with the joint venture representing a newly
created entity. Partners share proportional capital, distinctive skills, personnel, reporting systems and technologies to
gain competitive advantage. Joint ventures result in a collaborative approach among the partners to create new value.
The following are the characteristics of a joint venture:

• Partners contribute money, property, effort knowledge, skill or other assets to a common undertaking.
• Partners have the right to control and manage the venture.
• Partners come together in expectation of some profits and they have the right to share the profits.

The scope and duration of joint ventures is limited and involves only a small fraction of each participant's total
activities. Each participant must contribute someth.ing unique which is of importance to the venture and at the same
time, provide a source of advantage to the other partner.

Sell-offs

There are two major types of sell-offs: spin-offs and divestitures. A spin-off results in the creation of a separate legal
entity; the shares are distributed among existing shareholders of the parent company on a prorata basis. It is a form of
dividend to the existing shareholders. The new entity has the power to make independent decisions. It can also
develop policies and strategies which are different from those of the parent company.

Corporate Control

Corporate control can be established through premium buy-backs, standstill agreements, anti-takeover amendments
and proxy contests. In premium buy-backs, a substantial stockholder's ownership interest is re-purchased at a
premium that is above the market price, (called green mail). In connection with such buy backs, often a standstill
agreement is signed. A standstill agreement is a voluntary contract in which the stockholder whose shares have been
purchased agrees that he or she will not make further attempts to take over the company in the future. If a buy-back is
not involved in the standstill agreement, the stockholder with substantial influence agrees not to increase his or her
ownership control. Anti-takeover amendments refer to the changes made in the corporate bylaws to prevent mergers
and acquisitions. In proxy contests, a group which is external to the firm (often referred to as "dissidents" or
"insurgents") tries to obtain representation on the company's board of directors.

Changes in Ownership Structure

This includes exchange offers, share repurchases, going private and leveraged buyouts. Exchange offers involve exchanging debt or preferred stock for common stock or exchanging common stock for debt or preferred stock. The ownership structure can also be changed by repurchasing shares i.e. a company can buy back some portion of its outstanding shares of common stock. A going-private transaction involves a small group of investors purchasing the entire equity interest in a public company. When the members of the incumbent management group initiates the transaction (purchasing substantial proportion of the equity Ownership of the new private company) it is known as a management buy-out. A small group of outside investors may provide funds and secure representation on the private company's board of directors. They may also arrange finance from third party investors. When the private company borrows substantially from third parties, such transactions are called leveraged buyouts (LBOS).

6. Canon evaluated the remote environmental factors appropriately before investing in India. The remote environment

< TOP >

can be evaluated as follows:

The political environment at the time of Canon‘s entry in 1997 was stable. Though the government was a coalition, yet it was pro-liberalisation. This spelt stability on the economic policies front and thus the political environment was conducive to investment.

Economic environment, in India, too was very healthy. The new economic policies were pro-investment. Deregulation, and liberalization of Industrial Licensing had already taken place. FERA was liberalised which meant that foreign investment and technology import were made easier. Fiscal and monetary reforms were in the pipeline and pointed towards a bright future. Public sector participation was being abetted by the government. All in all, the economic environment too was ripe.

The social environment in India was a mixed bag. Though the middle class was burgeoning, yet the population below the poverty line was a concern. A major part of the Indian population lived in small villages, which did not

even have access to electricity. However, this was not of much of a concern to the firm.

The technological environment prevalent in India was very dynamic. India was fast being recognized worldwide as the leader in Information Technology. Allied industries were booming and India seemed to be on its way up. The development of Information Technology threatened to produce a ”paperless office‘. But despite this the growth augured well for Canon.

7. Strengths
< TOP >
• Focus on revamping distribution and marketing strategies
• Presence in many product segments helping realize synergies
• Large distribution network, cross-selling and competitive pricing
• Strategic focus on the product categories of digicams and projectors, which are products based on new
technology
Weaknesses
• Canon, India realized that its weakness lies in the fact that it is serving the jobbers segment. This is a weakness
that the jobbers segment is spread over a large geographical area- in all major and small towns of India. Thus,
the geographical spread which Canon, India had to cover to service the machines would make after sales service
a very arduous task.
Opportunities
• Canon identified weaknesses of competitor‘s and converted them into opportunities Modi-Xerox, had the lion‘s
share of the market, Canon, India was spot on in analyzing its strengths and weaknesses. Modi-Xerox was
concentrating on the offices and corporate clients. This was one of their strength areas. Since Modi-Xerox was
not focusing on another major segment œ the ”jobber‘ segment (the corner-shop which does a photocopy)-
Canon, India decided to vigorously attack it!
RPG-Ricoh (the second largest player) was involved with restructuring its business and could not employ any
tactics to thwart Canon, India‘s entry. The timing of the entry seems to be strategically very appropriate as
RPG-Ricoh was unable to react due to its restructuring. Thus, Canon, India capitalized on another weakness
(though a temporary one).
In 2001, HP was preoccupied with its parallel shipment problems. Epson‘s Stylus 480 didn‘t live up to its
expectations and Epson didn‘t manage to recover from that, and Lexmark, which had so far been selling through
TVSE, decided it was time to go solo and proceeded to revamp its distribution plan.
• Canon realizes that its core competencies lie in the area of digital imaging.
• India is a strategic market for Canon in Asia
• Many product segments can be tapped for growth œ peripherals, SOHO and consumer segments
Threats
• The development of Information Technology pointed to emerging ”paperless offices‘.
• Competition from HP, Epson, Modi Xerox and RPG Ricoh.
• Sound channel strategies of HP and Epson.
Section C: Applied Theory
8. Characteristics of Strategic Decisions
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There are several important differences between strategic management and various management

functions like operations, human resources, marketing, accounting, finance, research and development, etc. The characteristics of strategic decisions are listed below:

• Strategic management integrates various functions

Excellence in a wide range of functional specialties is considered an essential prerequisite for success in a competitive marketplace. There needs to be a guiding force that integrates the efforts of these specialists throughout the organization. Strategic management is central to capitalizing on functional expertise and integrating all functions to a suitably broad strategy for the organization.

• Strategic management considers a broad range of stakeholders

Organizations must meet the needs of various stakeholders such as customers, suppliers, employees, owners, managers, the government and the public at large. Corporate level managers must understand that their decisions affect the various stakeholders involved. Functional managers are expected to focus on individual stakeholders, rather than balancing the needs of all the stakeholders in the organization. For instance, a sales manager concentrates on the customer while the human resources manager pays more attention to the employees. The purchasing manager may have to think only about suppliers, and the production manager about product output and quality. This leads to the flow of effort in different directions. However, optimum results can be obtained

only when all the resources of the different functions of the organization are integrated and utilized. Hence, the top management should have a strategic perspective and necessarily take account of all stakeholder groups when outlining strategies.

• Strategic management entails multiple time horizons

The top management cannot be oblivious to the long-run viability of the organization. It should have clear idea as to where the organization stands today and where it is expected to reach in the near future. In addition, it should be conscious of the short-run and long-run ramifications of different organizational activities. Functional managers tend to focus on short-run issues alone. But as strategic planners, they can broaden their perspective to make a better contribution to the organization in the short run as well as in the long run.

• Strategic management is concerned with both efficiency and effectiveness

The difference between being efficient and being effective is the difference between doing things right and doing the right things. In their efforts to focus on doing things right, functional managers often neglect to do the right things that can lead their organization toward its ultimate objectives. Strategic management encourages a

balanced emphasis on both these dimensions of managerial work.
Developing a Strategic Perspective
Developing a right strategic perspective contributes to effective implementation of strategy. However, organizations often fail to develop sound strategic management perspective for a variety of reasons. Some of these reasons are:
1. Lack of awareness within the top management team about the organization's real operating situation. This happens when information systems fail to provide the information the top management needs to determine the organization's position relative to competitors, consumption trends, relative costs, etc.
2. "Kidding themselves" syndrome: This happens when senior managers are collectively deluding themselves about the organization's condition. Usually this occurs when the senior management team acts as a tightly-knit group. As there is no flow of either fresh information or new perspectives, the top managers tend to hold the same stereotyped view of the business environment. They reject or ignore or reinterpret the unpleasant information that does not tally with their own preferred views of the operating environment
3. Vested interests of the managers also play havoc with strategic planning. Managers prefer to maintain their existing position and power. This personal interest results in continuation of the same strategies even in a changed business environment.
4. Excessive involvement in everyday operational problems also leads to inefficient strategic plans. This over-emphasis on regular activities leaves no time to study emerging trends and to think about future plans.
5. The top management in many organizations gets complacent after some initial successes. This blinds the managers to difficult situations the company faces. This is another reason why managements often continue with tried and trusted strategies that may be inappropriate in the present and future scenarios.
6. A change in direction is often misinterpreted as an admission that what was done in the past was a mistake. This makes managers who were closely associated with decisions taken in the past, reluctant to see the organization move in a new direction.
7. Inability on the part of the top management to locate. its competitive edge may also lead to its ignoring strategy planning altogether.
In general, organizations, like individuals, abhor change and resist it tenaciously. A crisis is necessary to make the top management pay more than lip service to strategic management. Perhaps the biggest hindrance to strategy formulation is the manager's involvement in day-to-day business. Everyday events drive away the best strategic intentions. The solution is to make strategy development process a forma/ activity.
9. Organizational politics are tactics that strategic managers engage in order to obtain and use power to influence

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organizational goals. In other words, organizational politics is the process by which differing interests reach accommodation. These accommodations relate to the behavior that is not prescribed by the policies established within the organization. Politics can be described in terms of three dimensions.

- Legitimate or illegitimate.
- Vertical or lateral.
- Internal or external to the organization.

For instance, a suggestion/complaint by an employee to a senior manager, by passing an immediate superior, would be classified as legitimate, vertical and internal. Threats and attempts of sabotage is illegitimate. Politics is a key aspect of strategy implementation because it enables managers to be proactive and to influence their environment rather than being manipulated and dominated by external events.

Machiavellianism

Machiavellianism is the term used to describe coercive management tactics. It means the ruthless use of power, particularly coercive power and manipulation to attain personal goals. Sometimes, coercive power is used effectively by managers but it is not easy to justify coercive power especially if other alternatives are available.

Moreover, coercion is not practical if used on a repeat basis and any fear of threat not carried out recedes quickly.

The strategic leader, while developing and strengthening the strategic perspective should concentrate his efforts outside the organization. In order to be able to do this, the managers must be supportive of proposals from the top. This implies that the internal structure and systems must be sound and effective. The general and functional managers should be free to operate and make changes, but their overall power should be contained.

In considering the feasibility of changes and how to implement them, it is important to examine the underlying political abilities and behavior within the firm. Without taking this into account the implementation of change is likely to be hazardous.

Political tactics to obtain results

Develop liaisons: As mentioned above, it is important to develop and maintain both formal and informal contacts with other managers, functions, and divisions. Again it is important to include those managers who are most powerful.

Present a conservative image: It can be disadvantageous to be seen as too radical as an agent of change.

Diffuse opposition: Conflicts need to be brought out into the open and differences of opinion aired rather than

kept hidden. Divide and rule can be a useful strategy.
Trade-off and compromise: In any proposal or suggestions for change it is important to consider the needs of
other people whose support is required.
—Strike while the iron is hot": Successful managers should build on successes and reputation quickly.
Research: Information is always vital to justify and support proposals.
Use a neutral cover: Radical changes, or those which other people might perceive as a threat to them, can
sometimes be usefully disguised and initiated as minor changes. This is linked to the next point.
Limit communication: A useful tactic can be to unravel change gradually in order to contain possible opposition.
Withdraw strategically: If things are going wrong, and especially if the changes are not crucial, it can be a wise tactic on occasions to withdraw œ at least temporarily.