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THE OPEN UNIVERSITY OF SRI LANKA

COMMENWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC ADMINISTRATION PROGRAMME
FINAL EXAMINATION 2015

STRATEGIC MANAGEMENT MCP1653

DURATION: THREE (3) HOURS

DATE: 15th August, 2015	TIME: 9.30am -12.30pm

This paper consists of 5 questions including a case and has 5 pages

INSTRUCTIONS

01. Answer THREE (3) questions, **Question One (compulsory question) and any Two(2) from others.**
02. Your answers should be methodical and focused.
03. Question No.1 carries 50 marks and question no.s 2 to 5 carries 25 marks each.

Question One – Compulsory question.

Is Your Core Competence Still Relevant?

The sad breakup of Kodak, finalized by the recent bankruptcy court approval to sell some $500 million in digital assets, carries a warning that business leaders may have missed: It's not just your technology that may be growing obsolete but your whole approach to creating strategy. In today's fast-changing world, the central mental skill of leadership is the ability to identify long-term, large-scale opportunities. Once you spot those opportunities, you may have to build new capabilities to pursue them.

The problem for many leaders is that this line of thinking is the opposite of lessons they've learned for much of their careers: Stick to your knitting; stay with your core competencies. For several decades, leaders have grown their businesses by finding new ways to apply their existing core competencies. But that approach tends to prevent leaders from seeing that their company's wonderful unique strength is becoming less relevant in the fast-changing world.

Look again at Kodak. In the late 1990s it expanded its film business into China, an untapped market that then-CEO George Fisher saw as an enticing opportunity for growth. It was virtually impossible to get nationwide access to China back then, and Fisher worked tirelessly to develop relationships with Chinese state-owned enterprises, provincial governments, city governments, ministries, commissions, and banks, and spoke of having Zhu Rongji, who became Chinese prime minster in 1998, as a tennis partner.

Eventually the doors opened. In 1998 the company committed to invest $1.2 billion in two joint ventures to manufacture and distribute film, paper, and photochemical products in the country. Fisher wisely established the ventures in a way that gave local partners minority stakes in exchange for business assets, ensuring that Kodak would have operational control. Despite the political risk, it seemed that Kodak was making a breakthrough, and investors approved.

But while the Chinese deals expanded Kodak's core business and leveraged its tremendous capabilities in film, they did nothing to solve its bigger problem: the shift to digital photography. Kodak had been pioneering digital technology since the 1970s. It had a crude prototype of a digital camera as early as 1975 and in the mid-1990s helped Apple develop its QuickTake 100 digital camera. Competing in digital technology was, however, a different game altogether and one that threatened Kodak's core business. For one thing, the company didn't dominate the field the way it did in film but was one of many players. The market was also less predictable, and margins were lower. Much lower. According to a former executive, gross margins on the traditional business were a whopping 75 percent.

Despite the growing importance of digital imaging, the old business commanded the resources and management attention for too long. Later efforts to speed the transition to digital were unable to stem Kodak's decline.

Outside In, Future Back

The way I see it, strategy making as usual is basically an inside-out, rearview-mirror approach that too often misses the opportunity or necessity for large-scale change. Wall Street is complicit in this myopic point of view. Even as George Fisher recognized the growing importance of digital imaging, Wall Street wanted earnings *now,* which translated into "don't change much."

Expanding your lens and lengthening your time frame is a first step in spotting opportunities for your business and recognizing what core competencies will be needed and which ones will no longer be of much value. The concepts of *Outside In* and *Future Back* can help you take a fresh view of the macro environment:

- Outside In thinking means looking at the business through the lens of a leader sitting elsewhere and identifying global trends without the existing assumptions, biases and rules of thumb.
- Future-Back requires you to extend your time horizon as you assess the world and imagine what the competitive landscape will be some twenty years out. This longer time frame will help you see what trends are enduring, or unstoppable.

The point of course is to see what's coming— soon or many years away— in time to adjust. This kind of broad, forward looking view informed GE's decision to sell its plastics division in 2007. Top management foresaw that a move into plastics by the Saudi Arabian public-private partnership SABIC would ultimately alter the competitive game. Plastics was a profitable core GE business, whose distinguished alumni include former CEO Jack Welch and current CEO Jeff Immelt. But neither profits nor sentiment kept the decision makers from looking at the business with clear eyes. They realized that one of the unit's core competencies was no longer going to be differentiated, given the incoming competition and commoditization. Reshuffling the portfolio for the future global game, they sold the division to SABIC for roughly $11 billion.

Jumping onto a new growth trajectory may require capabilities you lack or barely have. That shouldn't necessarily stop you. Indian infrastructure company GMR, which built the Indira Gandhi International Airport in Delhi to rave reviews, knew virtually nothing about building or running airports when it made a successful venture into that business. It partnered with experienced players it could learn from and worked hard and fast to build its competence. Its successful entry into the airport business followed similar moves into power plant and highway construction.

Fight the Short-term Beast

It's true that publicly held companies in the North face a conundrum: How do you think ten or twenty years out when Wall Street thinks short term? After all, the owners of capital are represented vociferously by middlemen such as fund managers, whose compensation rests on delivering near-term profits.

Don't let short-termism be an excuse for not doing the right thing. *Clearly communicate the logic of your short-term/long-term balance and direction— to investors if you're a CEO, to your higher- ups if you're a middle manager.* Remember that your highest duty is to build long-term economic value. If you are in fact building a marathon company, say so.

(Extracted from Forbes, Ram Charan, March 19th 2013)

Answer the following questions

a) The resource-based school has more fundamentally questioned the view that generic strategies cannot be the basis of competitive advantage and they suggest that organizations must develop unique firm-specific core competences that will allow them to outperform competitors by doing things differently and better (Prahalad & Hamel, 1990). Explain the concept of "core competency" using the examples in case study

(14 Marks)

b) Critically evaluate the model of "Ansoff Matrix" highlighting the Diversification Strategy of Indian infrastructure company GMR. (12 Marks)

c) "*Clearly communicate the logic of your short-term/long-term balance and direction to investors if you are a CEO, to your higher- ups if you are a middle manager*"

Evaluate the importance of "Stakeholder" concept using examples.

(12 Marks)

d) Explain the importance of "Environmental scanning" in Strategic Management.

(12 Marks)

(Total -50 Marks)

Question Two

'The generic strategy framework has been the focus of far more than criticism (Miller, 1992; Mintzberg, Quinn, & Ghoshal, 1995). There is considerable evidence that many companies consciously operate a hybrid strategy combining low cost with differentiated products or services and, rather than being stuck in the middle, they are highly successful businesses.'

Explain above statement with examples in Sri Lankan context.

(25 Marks)

Question Three

The value chain includes all those activities that contribute to the final value of an organization's product. Value added, or margin, is "the difference between the total value and collective cost of performing the value activities" (Porter, 1985)

a) Explain the difference between primary activities and secondary activities in value chain. (10 Marks)

b) "Value chain analysis is Porter's technique for understanding an organization's ability to add value through its activities, and their internal and external linkages, and allows managers to identify where value is currently added in the system and where there is potential to create further value in the future by reconfiguration and improved coordination of activities".
Explain this statement with example. (15 Marks)

(Total -25 Marks)

Question Four

An organization engaged in providing mobile communication and data services is planning to acquire the rights of using electricity power lines for data and voice communication. The use of power lines for data communication is expected to facilitate high speed data communication. Also almost all computer users and over 90% of the Sri Lankan households have the connectivity to national electricity grid.

Using Michael Porter's five forces model for industry analysis, critically analyse the mobile communication provider's decision to acquire the rights of using power lines for data and voice communication.

(Total -25 Marks)

Question Five

Explain any FIVE from the following concepts in brief: (5 marks each)

a) Balanced Scorecard as a strategic management system
b) Strategic Business Unit(SBU)
c) TOWS matrix
d) The McKinsey 7S Framework
e) BCG Matrix for business portfolio analysis
f) Corporate social responsibility

(Total -25 Marks)