**THE OPEN UNIVERSITY OF SRI LANKA**
**COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC ADMINISTRATION**
**FINAL EXAMINATION – 2017**
**MCP1653– STRATEGIC MANAGEMENT**
**DURATION: THREE (03) HOURS**

| **Date: 15.07.2017** | **Time: 9.30 am – 12.30 pm** |
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Answer Question One (01) and any Two (02) from other Questions.
Your answers should be methodical and clear.
This paper contains 5 questions and has 5 pages.

## Question One

Read the following and attempt the questions given at the end.

### Cobbler's Shoes: Strategy Guru Michael Porter's Monitor Group Bankrupt

Michael Porter, the Bishop William Lawrence University Professor, at Harvard University occupies a ratified perch at the world's leading university as this worshipful October 2012 Fortune article explores. But the consulting firm he co-founded in 1983, Monitor Group, officially bit the dust on November 7. It's not clear what happened, but "self-inflicted wounds" are the likely culprit.

And one of those wounds was ignoring a key Porter prescription on strategy.

Monitor Group's greatest claim to fame in the last few years has been far from its roots as a firm that used Porter's concepts to help companies grow. As the Wall Street Journal put it, Monitor "got into some hot water in 2011 for its relationship with former Libyan dictator Moammar Gadhafi."

While that publicity was no doubt painful, the Journal reports that Monitor's financial difficulties became acute in 2008 when its "revenues shrank and liquidity tightened."

In response, Monitor's partners wrote checks of $4.5 million to the company and did not take $20 million in bonuses in 2009. It also borrowed $51 million -- "by issuing notes to private equity firm Caltius Capital Management," according to the Journal.

Things started getting tight again this year. In September and October 2012, it could not pay the rent at its headquarters on the opposite end of Cambridge (near Boston's Museum of Science) that it moved to after I left. Nor could it make the most recent payments due on its Caltius notes.

Deloitte Consulting acquired Monitor's assets for $116.2 million and the Boston Globe reports that it may lay off 235 of its 1,200 employees.

Porter is well-known among business students who must memorize and apply two of his earliest ideas -- five forces and value chain analyses -- in order to earn their degrees. However, as I pointed out in the preface to my new book, Hungry Start-up Strategy, published November 5, those students are rebelling against Porter.

The New York Journal of Books concluded that "while Porter advocates a highly structured, even dispassionate approach to an already established business, Mr. Cohan promotes personal passion and customer connection to creating the business."

I worked for Monitor when it was a babe in the corporate woods -- from 1986 to 1989 -- with offices next to Harvard's Kennedy School at University Place in Cambridge, Mass. During that time, I had the honor of working directly with Porter on a few projects and traveled the world helping big companies develop growth strategies. My colleagues were outstanding and I learned a huge amount in a short time.

But rumors that Monitor was bankrupt or heading there have been circulating among my former colleagues who went on to other endeavors. I have no additional details about why Monitor ran into financial problems or how it scrambled to fix them.

But one thing I know for sure is that Monitor did not follow all of Porter's ideas when it came to running the firm. The most important idea that Monitor neglected is that companies need to choose how they will win in the marketplace.

Porter argued that companies can win by pursuing one of two generic strategies: they can either be low cost producers -- offering customers the lowest price -- think Wal-Mart (WMT) -- or differentiators -- delivering competitively superior value to customers and charging them a higher price for it -- think Apple in iPhones.

Monitor's problem was that it did not choose -- instead, it tried to win by delivering what it thought was a customized solution while charging a lower than industry-average price. Simply put, Monitor thought its services were more valuable than most customers did.

Moreover, customizing was expensive and Monitor did not charge the few customers who were willing to pay enough money to cover the full costs of such customization. Among the biggest costs was the missed profit that Monitor would have gotten had it been willing to use well-tested approaches that would generate results with lower risk.

Monitor was founded by six entrepreneurs -- many from Bain & Co. -- at Harvard Business School (HBS), including Porter. While Porter was "instrumental in the conception of the company and in acquiring clients at the early stage, the other five co-founders actually managed and ran the company," according to an interview with a former Monitor partner.

Monitor's operating co-founders decided not to do what the other firms were doing -- instead trying to be "creative and different." They wanted to uncover new information that the manager and user didn't know. Instead of focusing on cost reduction, Monitor focused on delivering unique but viable solutions.

Monitor's basic problem was that many clients did not perceive that difference as something that was worth paying more money for. Simply put, most companies wanted old ideas because most companies are "traditional, close-minded and slow to change."

Not only that but creative ideas are unproven -- so selling them to a client and getting them implemented is only possible if the client is willing to fail. In industries that are not making money, creative ideas might have a greater chance of being accepted since leaders' backs are up against the wall. But in industries that are making money, "creativity helps firms stay ahead but is sometimes not worth the risk to them. Being different does not appeal to many clients."

Monitor believed too much in the value of its own brilliance. It "tried to be so creative that it often failed to give the simple best solution. When someone asks for Kleenex, they don't need customized Kleenex."

And the recession hit Monitor particularly hard because clients needed well-tested solutions that were inexpensive to implement and that would deliver quick results. Monitor could not deliver such solutions.

Perhaps Monitor could have survived if it had broken itself into two pieces: a cash cow and an innovation engine. The cash cow would have delivered practical solutions with well-tested methodologies -- and the profits to fund the innovation engine that would come up with new ideas that would yield future growth for Monitor and its clients.

Ultimately Monitor suffered from the cobbler's shoe problem -- it could not apply Porter's prescription to make a fundamental strategic choice about how to deliver competitively superior value to its customers.

And although its rise and fall would make a great HBS case study -- Monitor's investors, creditors, and employees are now paying the price.

Source –Forbes, Peter Cohan , NOV 14, 2012

a) Critically evaluate the real issue of the company by using Porter's generic strategy and any two other models in strategic management. (28 Marks)

b) "Not only that but creative ideas are unproven -- so selling them to a client and getting them implemented is only possible if the client is willing to fail". Explain this statement using Blue ocean strategy. (22 Marks)

**Question Two**

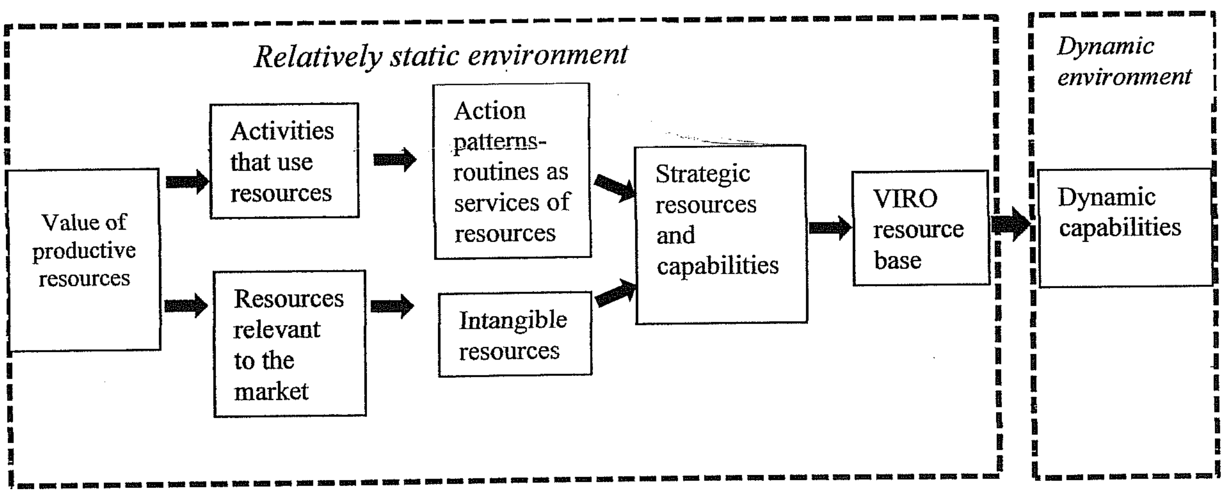
Some organization establish explicit objectives and measures in the learning and growth perspective, as an organization capital component, for whether employees are aware of and understand the vision, mission, and values statements. They measure whether employees believe they practice the principles in these statements in the workplace, and, most importantly, whether they believe that their managers and co-workers are practicing these principles. Thus, the Balanced Scorecard (BSC) can translate even the most intangible ''S'' of them all into quantifiable objectives that lead to action (education, training, and practice initiatives) and feedback (Kaplan,2005).

Critically evaluate the relationship between Balanced Scorecard (BSC) and McKinsey 7- S model with a suitable example.

**Question Three**

Teece et al. (1997,) defined dynamic capabilities as "the ability to integrate, build, and reconfigure internal and external competences to address rapidly changing Environments".

Using an example explain the concept of "Dynamic capability". You can use following diagram as a guide for explanation.




Source: Breznik and Hisrich(2014)

**Question Four**

"To select resources for VRIO (Value-Rarity-Imitability-Organization) analysis, Barney and Hesterly (2006) advocated using a Value chain to think in a disaggregated way about how a firm's activities relate to its Resources."

Explain this statement by linking VRIO analysis into Value Chain model.

**Question Five**

Briefly explain any Five (5) of the following concepts related to strategic management and their usefulness.

a) Corporate social responsibility of an organization
b) Core Competency of an organization
c) Learning organization
d) TOWS matrix
e) Ansoff Matrix
f) Strategic Business Unit(SBU)