<u>ANSWER KEY</u>

STRATEGIC MANAGEMENT (IAT-3) MBA-II SEMESTER (2017-2019 BATCH)

1 (a) Define Business environment.

ANSWER: Business Environment means a collection of all individuals, entities and other factors, which may or may not be under the control of the organisation, but can affect its performance, profitability, growth and even survival. Every business organisation operates in a distinctive environment, as it cannot exist in isolation. Such an environment influence business and also gets affected by its activities.

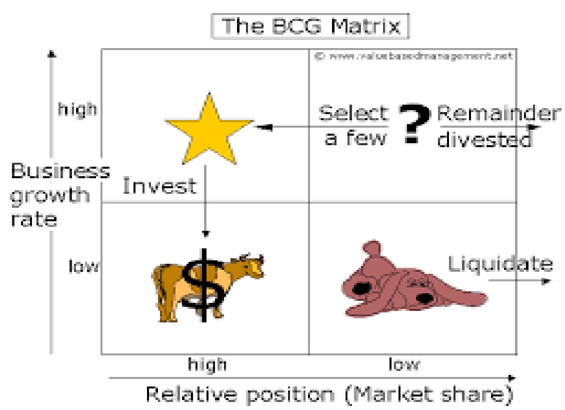
1 (b) Discuss in detail BCG Matrix with a suitable example.

ANSWER: Boston Consulting Group (BCG) Matrix is a four celled matrix (a 2 * 2 matrix) developed by BCG, USA. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in its portfolio on the basis of their related market share and industry growth rates. It is a two dimensional analysis on management of SBU's (Strategic Business Units). In other words, it is a comparative analysis of business potential and the evaluation of environment.

According to this matrix, business could be classified as high or low according to their industry growth rate and relative market share.

Relative Market Share = SBU Sales this year leading competitors sales this year.

Market Growth Rate = Industry sales this year - Industry Sales last year.



1. **Stars-** Stars represent business units having large market share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. SBU's located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.

Strategic choices: Vertical integration, horizontal integration, market penetration, market development, product development

2. **Cash Cows-** Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These SBU's are the corporation's key source of cash, and are specifically the core business. They are the base of an organization. These businesses usually follow stability strategies. When cash cows loose their appeal and move towards deterioration, then a retrenchment policy may be pursued.

Strategic choices: Product development, diversification, divestiture, retrenchment

3. **Question Marks-** Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable.

Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.

Strategic choices: Market penetration, market development, product development, divestiture

4. **Dogs-** Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's/rival firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

Strategic choices: Retrenchment, divestiture, liquidation

DISADVANTAGES:

1. BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
2. Market is not clearly defined in this model.
3. High market share does not always leads to high profits. There are high costs also involved with high market share.
4. Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
5. At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
6. This four-celled approach is considered as to be too simplistic.

ADVANTAGES:

1. The BCG-Matrix is helpful for managers to evaluate balance in the companies's current portfolio of Stars, Cash Cows, Question Marks and Dogs.
2. BCG-Matrix is applicable to large companies that seek volume and experience effects.
3. The model is simple and easy to understand.
4. It provides a base for management to decide and prepare for future actions.
5. If a company is able to use the experience curve to its advantage, it should be able to manufacture and sell new products at a price that is low enough to get early market share leadership. Once it becomes a star, it is destined to be profitable.

1(c) "Diversification is a need of any business". Justify the statement and also discuss the types of diversification with a suitable example of each.

ANSWER: Diversification strategies are used to expand firms' operations by adding markets, products, services, or stages of production to the existing business. The purpose of diversification is to allow the company to enter lines of business that are different from current operations. When the new venture is strategically related to the existing lines of business, it is called concentric diversification. Conglomerate diversification occurs when there is no common thread of strategic fit or relationship between the new and old lines of business; the new and old businesses are unrelated.

NEED FOR DIVERSIFICATION STRATEGIES:

- Large size or large market share can lead to economies of scale. Marketing or production synergies may result from more efficient use of sales calls, reduced travel time, reduced changeover time, and longer production runs.

- Learning and experience curve effects may produce lower costs as the firm gains experience in producing and distributing its product or service. Experience and large size may also lead to improved layout, gains in labor efficiency, redesign of products or production processes, or larger and more qualified staff departments (e.g., marketing research or research and development).

- Lower average unit costs may result from a firm's ability to spread administrative expenses and other overhead costs over a larger unit volume. The more capital intensive a business is, the more important its ability to spread costs across a large volume becomes.

- Improved linkages with other stages of production can also result from large size. Better links with suppliers may be attained through large orders, which may produce lower costs (quantity discounts), improved delivery, or custom-made products that would be unaffordable for smaller operations. Links with distribution channels may lower costs by better location of warehouses, more efficient advertising, and shipping efficiencies. The size of the organization relative to its customers or suppliers influences its bargaining power and its ability to influence price and services provided.

- Sharing of information between units of a large firm allows knowledge gained in one business unit to be applied to problems being experienced in another unit. Especially for companies relying heavily on technology, the reduction of R&D costs and the time needed to develop new technology may give larger firms an advantage over smaller, more specialized firms. The more similar the activities are among units, the easier the transfer of information becomes.

- Taking advantage of geographic differences is possible for large firms. Especially for multinational firms, differences in wage rates, taxes, energy costs, shipping and freight charges, and trade restrictions influence the costs of business. A large firm can sometimes lower its cost of business by placing multiple plants in locations providing the lowest cost. Smaller firms with only one location must operate within the strengths and weaknesses of its single location.

TYPES OF DIVERSIFICATION:

1. **HORIZONTAL DIVERSIFICATION**

This strategy of diversification refers to an entity offering new services or developing new products that appeal to the firm's current customer base. For example, a dairy company producing cheese adds a new variety of cheese to its product line.

2. **VERTICAL DIVERSIFICATION**

This form of diversification takes place when a company goes back to a previous stage of its production cycle. For example, a company involved in the reconstruction of houses starts selling construction materials and paints.

3. **CONCENTRIC DIVERSIFICATION**

In this form of a diversification strategy, the entity introduces new products with an aim to fully utilize the potential of the prevailing technologies and marketing system. For example, a bakery making bread starts producing biscuits.

4. **CONGLOMERATE DIVERSIFICATION**

In this form of diversification, an entity launches new products or services that have no relation to the current products or distribution channels. A firm may adopt this strategy to appeal to an all-new group of customers. The high growth scope and return on investment in a new market segment may prompt a company to take this option.

2(a) List down the names of two companies that have recently undergone expansion in their operations.

ANSWER:

- H&M To Expand Retail Presence In India, Plans To Hire 800 In 2018

- Amazon To Launch Grocery Delivery Service In France; Plans Expansion

2(b) Write a detailed note on the following:

i) Innovation strategy: An **innovation strategy** is a plan used by a company to encourage advancements in technology or services, usually by investing money in research and development activities.

An innovation strategy is essential for companies that want to gain competitive advantage. An effective innovation strategy should be inspiring and add something unique to the product or service being developed. As a company, you want to increase the value of a current product or create something brand new that will draw the consumer in.

Innovation should push boundaries and be out of the ordinary. When thinking about innovation, it is impossible not to think about Apple. Apple has created and continues to create unique products with tremendous success. The iPhone, iPad, and iWatch have all been innovative products. Although smaller companies may not have Apple's global success, the beauty of innovation is that you never know what might happen with a product and the success it can bring your company.

TYPES OF INNOVATION STRATEGIES:

1. **Proactive**

Companies with proactive innovation strategies tend to have strong research orientation and first-mover advantage, and be a technology market leader. They access knowledge from a broad range of sources and take big bets/high risks. Examples include: Dupont, Apple and Singapore Airlines.
The types of technological innovation used in a proactive innovation strategy are:

- radical - breakthroughs that change the nature of products and services
- incremental - the constant technological or process changes that lead to improved performance of products and services.

2. **Active**

Active innovation strategies involve defending existing technologies and markets while being prepared to respond quickly once markets and technologies are proven. Companies using this approach also have broad sources of knowledge and medium-to-low risk exposure; they tend to hedge their bets. Examples include Microsoft, Dell and British Airways.

These companies use mainly incremental innovation with in-house applied research and development.

3. **Reactive**

The reactive innovation strategy is used by companies:

- which are followers
- have a focus on operations
- take a wait-and-see approach
- look for low-risk opportunities.

They copy proven innovation and use entirely incremental innovators. An example is Ryanair, a budget airline which has successfully copied the no-frills service model of Southwest Airlines.

4. **Passive**

Companies with passive innovation strategies wait until their customers demand a change in their products or services. Examples include automotive supply companies as they wait for their customers to demand changes to specification before implementing these.

ii) Turnaround Strategies: **Turnaround Strategy** is a retrenchment strategy followed by an organization when it feels that the decision made earlier is wrong and needs to be undone before it damages the profitability of the company. Simply, turnaround strategy is backing out or retreating from the decision wrongly made earlier and transforming from a loss making company to a profit making company.

Now the question arises, when the firm should adopt the turnaround strategy? Following are certain indicators which make it mandatory for a firm to adopt this strategy for its survival. These are:

- Continuous losses
- Poor management
- Wrong corporate strategies
- Persistent negative cash flows
- High employee attrition rate
- Poor quality of functional management
- Declining market share
- Uncompetitive products and services

Also, the need for a turnaround strategy arises because of the changes in the external environment Viz, change in the government policies, saturated demand for the product, a threat from the substitute products, changes in the tastes and preferences of the customers, etc.

Example: 1. Dell is the best example of a turnaround strategy. In 2006. Dell announced the cost-cutting measures and to do so; it started selling its products directly, but unfortunately, it suffered huge losses. Then in 2007, Dell withdrew its direct selling strategy and started selling its computers through the retail outlets and today it is the second largest computer retailer in the world.

2. PayPal, believe it or not, was not founded to be the online payment service that it is today. In her book *Founders at Work*, Jessica Livingston interviews PayPal founder Max Levchin. During the interview, Levchin reveals that PayPal was originally envisioned as a cryptography company, and then later as a means of transmitting money via PDAs. Only after several years of trial and error (and overcoming user fraud that almost destroyed the company) did PayPal find its sweet spot as the default online payment system of millions.

The transition wasn't effortless, and the company, at various points in time, deliberated the merits of the staying the course or changing business models. But ultimately, their flexibility proved to be a major asset. Despite being founded in 1998, PayPal was swift enough to change course in time to go public in 2002 and later get bought out by eBay for $1.5 billion.

3. Google: For much of its early life, Google had no business model to speak of. As Wired co-founding editor John Battelle explains in his book The Search, Google was once a maddeningly unprofitable company, fumbling left and right for a stable revenue source. After making marginally profitable forays into selling search appliances to businesses and its own search technology to other search engines, Google radically changed course.

In 2003, the company launched its AdWords program which allowed businesses to advertise to people searching for things on Google.com. Almost overnight, Google took the leap from popular search tool to advertising juggernaut. In 2008, Google reported to the SEC that it had generated $21 billion in advertising-driven revenue alone. To this day, AdWords comprises the lion's share of Google's total revenue and profits. AdWords also paved the way for other search engines, such as Yahoo's Search Marketing service and MSN's Bing platform among others.

2© Summarize the factors affecting the internal and external environment.

ANSWER: **External Environment of Organization**

In a simple way factors outside or organization are the elements of the external environment. The organization has no control of how the external environment elements will shape up.

The external environment can be subdivided into 2 layers: the general environment and the task environment.

1. General Environment
2. Task Environment

FACTORS AFFECTING:

1. **Economic Dimension**

   The economic dimension of an organization is the overall status if the economic system in which the organization operates. The important economic factors for business are inflation, interest rates, and unemployment.

2. **Technological Dimension**

   It denotes to the methods available for converting resources into products or services. Managers must be careful about the technological dimension.Investment decision must be accurate in new technologies and they must be adaptable with them.

3. **Socio-cultural dimension**

   Customs, mores, values and demographic characteristics of the society in which the organization operates are what made up the socio-cultural dimension of the general environment.

   The socio-cultural dimension must be well studied by a manager.It indicates the product, services, and standards of conduct that the society is likely to value and appreciate. The standard of business conduct vary from culture to culture and so does the taste and necessity of products and services.

4. **Political-Legal Dimension**

   The politico-legal dimension of the general environment refers to the government law of business, business-government relationship and the overall political and legal situation of a country. Business laws of a country set the dos and don ts of an organization.

   A good business-government relationship is essential to the economy and most importantly for the business. And the overall situation of law implementation and justices in a country indicates that there is a favorable situation in of business in a country.

5. **International Dimension**

   Virtually every organization is affected by the international dimension. It refers to the degree to which an organization is involved in or affected by businesses in other countries.

   Global society concept has brought all the nation together and modern network of communication and transportation technology, almost every part of the world is connected.

6. Competitors

Policies of the organization are often influenced by the competitors.

A competitive marketplace companies are always trying to stay and go further ahead of the competitors. In the current world economy, the competition and competitors in all respects have increased tremendously.

7. Customers

"Satisfaction of customer"- the primary goal of every organization. The customer is who pays money for organization's product or services. They are the peoples who hand them the profit that the companies are targeting.

Managers should pay close attention to the customers' dimension of the task environment because its customers purchase that keeps a company alive and sound.

8. Suppliers

Suppliers are the providers of production or service materials. Dealing with suppliers is an important task of management.

A good relationship between the organization and the suppliers is important for an organization to keep a steady follow of quality input materials.

9. Regulators

Regulators are units in the task environment that have the authority to control, regulate or influence an organization's policies and practices.

Government agencies are the main player of the environment and interest groups are created by its members to attempt to influence organizations as well as government. Trade unions and chamber of commerce are the common examples of an interest group.

10. Strategic Partners

They are the organization and individuals with whom the organization is to an agreement or understanding for the benefit of the organization. These strategic partners in some way influence the organization's activities of in various ways.

Internal Environment of Organization

Forces or conditions or surroundings within the boundary of the organization are the elements of the internal environment of the organization.

The internal environment consists mainly of the organization's owners, the board of directors, employees and culture.

1. Owners

Owners are people who invested in the company and have property rights and claims on the organization. Owners can be an individual or group of person who started the company; or who bought a share of the company in the share market. They have the right to change the company's policy at any time.

2. Board of Directors

The board of directors is the governing body of the company who are elected by stockholders, and they are given the responsibility for overseeing a firm's top managers such as the general manager.

3. Employees

Employees or the workforce, the most important element of organization's internal environment, who performs the tasks of the administration. Individual employees and also the labor unions they join are important parts of the internal environment.

If managed properly they can positively change the organization's policy. But ill-management of the workforce could lead to a catastrophic situation for the company.

4. Culture

Organizational culture is the collective behavior of members of an organization and the values, visions, beliefs, habits that they attach to their actions.

An organization's culture plays a major role in shaping its success because culture is an important determinant of how well their organization will perform.

As the foundation of the organization's internal environment, it plays a major role in shaping managerial behavior.

The environment irrespective of its external or internal nature, a manager must have a clear understanding of them. Normally, you would not go for a walk in the rain without an umbrella, because you understand the environment and you know when it rains you can get wet.

3 (a) What are annual objectives? Give example.

ANSWER: Management issues central to strategy implementation include establishing annual objectives that relate logically to the strategy's long-term objectives. Annual objectives are essential for strategy implementation because they:

1. Represent the basis for allocating resources,
2. Are a primary mechanism for evaluating managers,
3. Are the major instrument for monitoring progress towards achieving long-term objectives, and

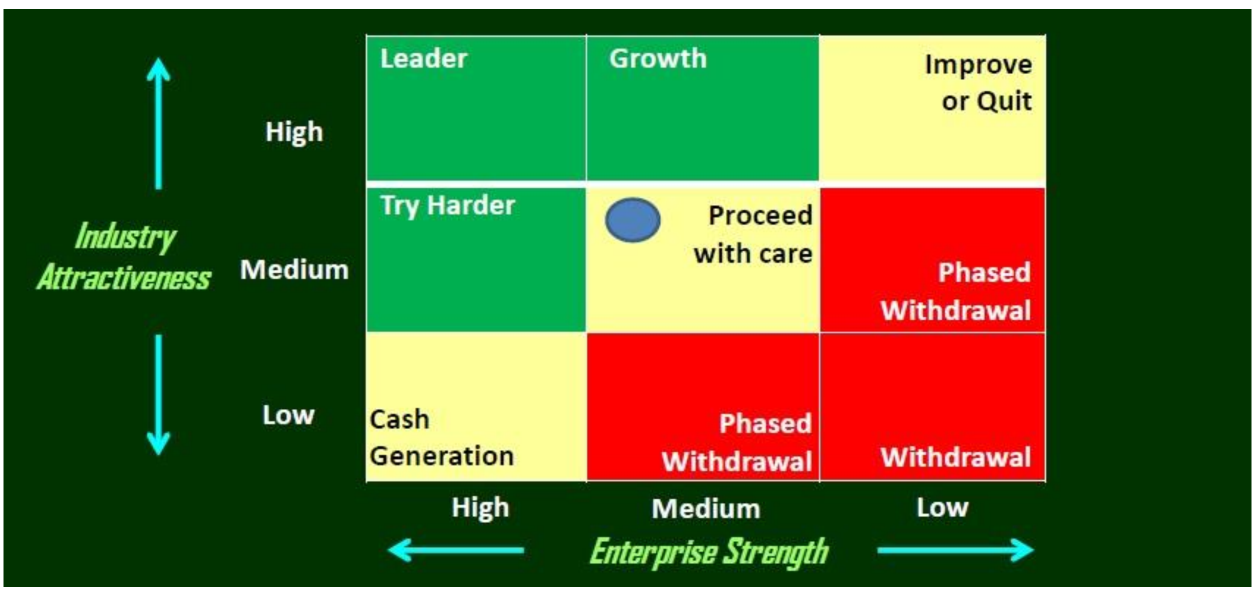
4. Establish organizational, divisional and departmental priorities.

Annual objectives are specific, measurable statements of what an organization subunit is expected to achieve in contributing to the accomplishment of the business's grand strategy.

Annual objectives are the objectives made for a year. Annual objectives are the short term milestones should be achieved in order to meet long term objectives. Similar to long term objectives, annual objectives should be SMART; Specific, Measurable, Attainable, Realistic and Timely.

3(b) Explain GE 9 cell planning grid with a suitable example.

ANSWER: GE nine-box matrix is a strategy tool that offers a systematic approach for the multi business enterprises to prioritize their investments among the various business units. It is a framework that evaluates business portfolio and provides further strategic implications.



Each business is appraised in terms of two major dimensions – Market Attractiveness and Business Strength. If one of these factors is missing, then the business will not produce desired results. Neither a strong company operating in an unattractive market, nor a weak company operating in an attractive market will do very well.

Market Attractiveness	Business Unit Strength		
	High	Medium	Low
High	Grow	Grow	Hold
Medium	Grow	Hold	Harvest
Low	Hold	Harvest	Harvest

The vertical axis denotes industry attractiveness, which is a weighted composite rating based on eight different factors. They are:

1. Market size and growth rate
2. Industry profit margins
3. Intensity of Competition
4. Seasonality
5. Product Life Cycle Changes
6. Economies of scale
7. Technology
8. Social, Environmental, Legal and Human Impact

The horizontal axis indicates business strength or in other words competitive position, which is again a weighted composite rating based on seven factors as listed below:

1. Relative market share
2. Profit margins
3. Ability to compete on price and quality
4. Knowledge of customer and market
5. Competitive strength and weakness
6. Technological capability
7. Caliber of management

The nine cells of the GE matrix are grouped on the basis of low to high industry attractiveness, and weak to strong business strength. Three zones of three cells each are made, indicating different combinations represented by green, yellow and red colors. So it is also called **‘Stoplight Strategy Matrix’**, similar to the traffic signal.

The **green** zone suggests you to ‘go ahead’, to grow and build, pushing you through expansion strategies. Businesses in the green zone attract major investment.

Yellow cautions you to ‘wait and see’ indicating hold and maintain type of strategies aimed at stability.

Red indicates that you have to adopt turnover strategies of divestment and liquidation or rebuilding approach.

ADVANTAGES:

- Helps to prioritize the limited resources in order to achieve the best returns.
- The performance of products or business units becomes evident.
- It’s more sophisticated business portfolio framework than the BCG matrix.
- Determines the strategic steps the company needs to adopt to improve the performance of its business portfolio.

DISADVANTAGES:

- Needs a consultant or an expert to determine industry’s attractiveness and business unit strength as accurately as possible.
- It is expensive to conduct.
- It doesn’t take into account the harmony that could exist between two or more business units.

3© Analyse the role of Leadership and Culture in institutionalizing the strategies.

ANSWER: Institutionalizing a Strategy includes;

1. Align Structure
2. Choose Leaders who support strategy
3. Develop Culture
4. Revise and enforce Policies
5. Link Rewards to desired action

- ❖ **STRUCTURE:**

Structure is the basic way the firm's different activities are organized. Structure in which there is an owner and a few employees and where the arrangement of tasks, responsibilities, and communication is highly informal and accomplished through direct supervision is called simple organizational structure.

I. Types of Organization Structures

1. Functional Organizational Structure

Advantages

- enhances operating efficiency where tasks are routine and repretitive
- promotes emphasis on professional standards and functional expertise
- tightly links structure to strategy
- centralizes control and focuses on strategic results
- differentiates and delegates day-to-day operating decisions

Disadvantages

- may promote overspecialization and narrow management viewpoints
- creates coordination problems
- limits development of general managers
- may encourage functional area rivalry, competition and conflict
- does not encourage cross-functional problem solving

2. Geographic Organizational Structure

Advantages

- structure can help tailor strategy to geographic market
- delegates profit/loss responsibility to the lowest meaningful strategic level
- improves functional coordination in the target geographic market
- takes advantages of economies of local operations
- provides excellent training for future higher level general managers

Disadvantages

- creates potentially disadvantageous geographic diffferences in policies, image, products
- adds a management layer to run the geographic units
- may duplicate functions especially staff services

- may create geographic division competition and reduce information sharing

3. Divisional Organizational Structure

Advantages

- decentralizes decision making
- improves rapid response to environmental change and problems
- frees CEO for dealing with broader strategic issues
- focuses accountability for performance on a specific individual
- maintains functional specialization in each division
- provides good training for future CEO of a multi-division company as a division president

Disadvantages

- divisional conflicts and differences may erupt in competition for corporate-level resources
- potential for policy inconsistencies between divisions
- creates problem in distributing corporate overhead across divisions
- raises problems of division manager/president authority and responsibility that can creates tensions

4. Strategic Business Unit (SBU) Organizational Structure

Strategic business units are planning units within a large, diversified company. A strategic business unit (SBU) must serve an external, rather than internal, market; must have control over its own destiny; should have a clear set of external competitors; and should be a true profit center.

Advantages

- faciltates business planning and strategic control
- clarifies SBU manager/president authority and responsibility and usually reduces tensions with CEO
- focuses accountability on managers of meaningful business units

Disadvantages

- more management layers and staff
- hard to define SBUs in some cases
- SBU conflicts and differences may erupt in competition for corporate-level resources
- potential for policy inconsistencies between SBUs

- creates problem in distributing corporate overhead across SBUs

1. **Matrix Organizational Structure**

Advantages

- supports project-oriented business activity
- provides good training for future general managers
- provides for efficient use of functional managers
- gives middle management broader exposure to strategic issues

Disadvantages

- promotes narrow specialization and functional rivalry
- creates coordination problems and may increase stress for employees
- can create excess reporting
- may encourage turf battles and competition and conflict between functional managers and project managers

Choosing an Appropriate Structure:

1. A single-product firm or single dominant business firm should employ a functional structure.
2. A firm in several lines of business that are somehow related should employ a multidivisional structure.
3. A firm in several unrelated lines of business should be organized into strategic business units.
4. Early achievement of a strategy-structure fit can be a competitive advantage.

- ❖ **LEADERSHIP:**

Leadership is a process whereby one person exerts social influence over the members of a group. A leader is a person with power over others who exercise this power for the purpose of influencing their behavior. Leadership is essential at all levels in an organization. Leadership may however take different forms at different levels. At lower levels, leadership may be the ability to organize and carry out a complex project, involving and motivating others, and getting the work done well and on time. At higher levels, leadership is more likely to be the ability to conceptualize what needs to be done, to articulate the needs persuasively, and to shape a process of deliberation that includes all the necessary constituencies. Communication is an essential capability of leaders at all levels.

Leadership Issues:

1. Clarifying strategic intent
2. Building an organization
3. Shaping Organizational culture
4. Assignment of **Key** managers

Successful Strategic Leadership practices

1. Challenging the process - seek and accept challenge
   - Experiment and take risks even though you might fail.
   - Ask "what can we learn" when things don't go as expected.
   - Always look for ways to improve and innovate.

2. Enabling others to act - leadership is a team effort
   - Involve others in planning the actions that affect them.
   - Give people the freedom to make their own decisions.
   - Create an atmosphere of mutual respect and trust.

3. Modeling the way - set a good example
   - Be clear about your values and beliefs.
   - Make certain that people adhere to agreed-upon values.
   - Be consistent in practicing what you preach.

4. Inspiring a shared vision - vision is the force that invents the future
   - Describe to others the kind of future you can create together.
   - Show others how their interests can be fulfilled by a common vision.
   - Clearly communicate a positive and hopeful outlook.

5. Encouraging the heart - show people that they can win!
   - Praise people for a job well done.
   - Celebrate when project milestones are met.
   - Link rewards to achievement.

❖ CULTURE:

Organizational culture is the set of important assumption (often unstated) that members of an organization share in common. Corporate culture includes the assumptions, values, traditions, and behaviors that prescribe the actions of individuals within a firm.

Managing Organizational Culture

1. Encourage key themes or dominant values
2. Encourage dissemination of stories and legends about core values
3. Institutionalize practices that systematically reinforce desired beliefs and values
4. Adapt some very common themes in their own unique ways

Corporate Culture or Organization (**al) Culture**

The "culture" of a corporation or an organization includes the assumptions, values, traditions, and behaviors that informally and indirectly prescribe the actions of individuals within a firm. Deal and Kennedy (1982) defined organizational culture as the way things get done in an organization.

They measured 2 dimensions associated with organizations:

- **Speed of Feedback** - quick feedback to slow feedback
- **Risk and Level of Stakes** - represents the degree of uncertainty in the organization's activities.

Based upon these dimensions, they identified four organizational cultures:

1. The Tough-Guy Macho Culture. Feedback is quick and the rewards are high. This can be a very stressful culture in which to operate.

2. The Work Hard/Play Hard Culture is characterized by few risks, all with rapid feedback.

3. The Bet your Company Culture, where high stakes decisions are taken, but it may be years before the results are known.

4. The Process Culture occurs in organizations where there is little or no feedback and low risk.

PART B

4(a) What were the major advantages of expansion to CCD and Barista?

ANSWER: **ADVANTAGES**:

- **New Personnel**

One clear advantage to expanding a business is the opportunity to staff the firm with new, qualified people. Since people are often recognized as the most important asset of a company, acquiring new and talented personnel is a clear-cut advantage to business expansion. These people can help streamline processes, bring fresh ideas to the organization and bring a sense of camaraderie to the organization.

- **Broader Customer Base**

Business expansion often has the advantage of exposing the business to a wider audience. This increased pool of potential customers can dramatically improve sales, resulting in increased profitability. Customers, like employees, are important in operating a successful company. Expansion, when done properly, can place the company in the forefront of many customers' minds.

- **Favorable Financing Opportunities**

Successful business expansion can put the firm in a positive place when it comes to acquiring necessary financing. This financing can be a lifeline to the business during the expansion process and a fallback after the expansion has occurred. A company with increased market share and a solid financial position can typically acquire financing with little to no problem.

- **Relocation Possibilities**

Business expansion may present the owner with the opportunity to relocate the business, whether it be across town or across state or international lines. Many states, such as Kentucky, offer tax incentives to companies that bring new business endeavors to their area. Wise business owners should consider the advantages of such scenarios if relocation is a possibility. Enhanced access to suppliers and logistics suppliers can also be an important factor to consider when contemplating relocation.

4(b) Discuss the factors that lead to the growth of these two coffee giants.

ANSWER:

- **Lesser scope for speculative gains**: When business firms were few in number, there was opportunity for gains by speculation. But when the number of firms increased, the gain through speculation became less. This led business to combine among themselves.

- **Desire to avoid wasteful competition**: The industrial revolution which took place in the 19th century facilitated large scale production. Many new firms entered into the market. Large scale production resulted in a situation of surplus, as supply was more than demand. Businessmen began to resort to cut-throat pricing to retain and attract customers. Many businesses failed and existing businesses also were facing a doubtful future. This created the desire among businessmen to combine and avoid wasteful competition,

- **Better means of transport and communication**: The invention of the steam engine boosted the industrial revolution and resulted in better means of transport. The invention of the telephone and telegraph resulted in faster communication. Due to faster transport and communication, both local trade and international trade grew. This resulted in intense competition. To avoid such intense competition, businessmen felt the need for combinations.

- **To benefit from large scale production**: Large scale production results in lower cost per unit. The fixed costs are spread over a number of units. Lower cost benefits both the producer and the consumer. If there are a number of small firms they cannot enjoy the benefits of large scale production. Therefore businessmen began to combine and form large firms to benefit from large scale production.

- **To enjoy monopoly power**: When there are a number of firms in a market selling similar products, each firm enjoys limited control. In case all the firms combine to form a single entity, they can enjoy monopoly power. The benefits of monopoly such as control over supply and prices can be achieved. They can aim for high profits.