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K 4516

M.B.A. DEGREE EXAMINATION, NOVEMBER/DECEMBER 2007.

Third Semester

BA 1702 — STRATEGIC MANAGEMENT

(Regulation 2005)

Time : Three hours

Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. What is strategy?
2. What is corporate governance?
3. What is competitive advantage?
4. What are core competencies?
5. What is vertical integration?
6. What is hostage taking?
7. What is strategic change?
8. What is strategic control?
9. What are non-profit organisations?
10. What are entrepreneurial ventures?

PART B — (5 × 16 = 80 marks)

11. (a) Explain in detail the components of strategic management process.

Or

- (b) Explain the various governance mechanisms followed to remove incompetent or ineffective managers.

12. (a) Explain the Porter's Five Forces Model to analyse competitive forces in an industry environment.

Or

- (b) Explain the four generic building blocks of competitive advantage. How to achieve this competitive advantage and make it durable?

13. (a) Explain the various strategies to manage rivalry in mature industries.

Or

- (b) What are strategic alliances? Explain their advantages and disadvantages. How to make strategic alliances work successfully?
14. (a) What is the role of organizational structure on strategy implementation? Explain the two types of organizational design concepts that decide how a structure will work.

Or

- (b) What is organizational conflict? What are its sources? Explain its process. Suggest strategies to resolve it.
15. (a) Why failure rate with regard to innovations is high? Elaborate the various steps to build a competency in innovation and avoid failure.

Or

- (b) Read the case given below and answer the questions given at the end :

GETTING IT RIGHT AT McDONALD'S

In the restaurant business maintaining product quality is a major problem because the quality of food, service, and the restaurant premises varies with the chefs and waiters as they come and go. If a customer gets a bad meal or poor service or dirty silverware, not only that customer may be lost, but other potential customers, too, as negative comments travel by word of mouth. Consider then the problem Ray Kroc, the man who pioneered McDonald's growth, faced when McDonald's franchises began to open by the thousands throughout the US. How could he maintain product quality to protect the company's reputation as it grew? Moreover, how could he try to increase efficiency and make the organization responsive to the needs of customers to promote its competitive advantage? Kroc's answer was to develop a sophisticated control system, which specified every detail of how each McDonald's restaurant was to be operated and managed.

Kroc's control system was based on several components. First, he developed a comprehensive system of rules and procedures for both franchise owners and employees to follow in running each restaurant. The most effective way to perform such tasks as cooking burgers, making fries, greeting Customers, or cleaning tables was worked out in advance, written down in rule books, and then taught to each McDonald's manager and employee through a formal training process. For example, prospective franchise owners had to attend 'Hamburger University' the

company's training centre in Chicago, where in an intensive, month-long program they learnt all aspects of a McDonald's operation. In turn, they were expected to train their work force and make sure that employees understood operating procedures thoroughly. Kroc's goal in establishing this system of rules and procedures was to standardize McDonald's activities so that whatever franchise customer walked into they would always find the same level of quality in food and service. If customers always get what they expect from a restaurant, the restaurant has developed superior customer responsiveness.

However, Kroc's attempt to control quality went well beyond written rules and procedures specifying task activities. He also developed McDonald's franchise system to help the company control its structure as it grew. Kroc believed that a manager who is also a franchise owner (and receives a large share of the profits) is more motivated to maintain higher efficiency and quality than a manager paid on a straight salary. Thus McDonald's reward and incentive system allowed it to keep control over its operating structure as it expanded. Moreover, McDonald's was very selective in selling its franchises; the franchises had to be people with the skills and capabilities to manage the business, and a franchise could be revoked if the holder did not maintain quality standards.

McDonald's managers frequently visited restaurants to monitor franchises, and franchises were allowed to operate their restaurant only according to McDonald's rules. For instance, they could not put in a television or otherwise modify the restaurant. McDonald's was also able to monitor and control the performance of its franchisees through output control. Each franchise provided McDonald's with information on how many meals were sold, on operating costs, and so forth. So using this mix of personal supervision and output control, managers at McDonald's corporate headquarters would quickly learn if sales in a franchise declined suddenly, and thus they could take Corrective action.

Within each restaurant, franchise owners also paid particular attention to training their employees and instilling in them the norms and values of quality service. Having learned about McDonald's core cultural values at their training sessions, franchise owners were expected to transmit McDonald's concepts of efficiency, quality, and customer service to their employees. The development of shared norms, values, and an organizational culture also helped McDonald's standardize employee behaviour so that customer would know how they would be treated in a McDonald's restaurant. Moreover, McDonald's tried to include customers

in its culture. It had customers bus their own tables, but it also showed concern for customer needs, bu building playgrounds, offering Happy Meals, and organizing birthday parties for customers' children. In creating its family oriented culture, McDonald's was ensuring future customer loyalty because satisfied children are likely to remain loyal customers as adults.

Through all these means, McDonald's developed a control system that allowed it to expand its organization successfully and create an organizational structure that has led to superior efficiency, quality, and customer responsiveness. Its control system has played an important role in McDonald's becoming the largest and most successful fast-food company in the world, and many other fast-food companies have imitated it.

Questions :

- (i) What were the main elements of the control system created by Ray Kroc? (10)
- (ii) In what ways would this control system facilitate McDonald's strategy of global expansion? (6)