

**MANAGEMENT PROGRAMME**

**Term-End Examination**

**December, 2016**

**MS-011 : STRATEGIC MANAGEMENT**

*Time : 3 hours*

*Maximum Marks : 100*

*(Weightage 70%)*

- 
- Note :**
- (i) *There are two Sections : Section-A and Section-B.*
  - (ii) *All questions carry equal marks.*
  - (iii) *Answer any three questions from Section-A.*
  - (iv) *Section-B is compulsory.*
- 

**SECTION - A**

1. Explain the concept of strategic management as a process. Illustrate your answer with suitable examples.
2. What is Porter's Five Forces Framework ? Explain how these forces have an impact on the competitive environment of an industry.
3. (a) Explain the concept of 'Focus Strategy'. Describe giving examples.  
(b) Discuss different types of focus strategies.
4. Why do Mergers and Acquisitions happen ? Discuss various steps in Merger and Acquisition deals.

5. Explain as to how the functional policies help in translating strategies into business operations. Explain with help of suitable examples.

## SECTION - B

6. Read the following case and answer the questions given at the end of the case :

In March 2014, Zhang Ruimin (Zhang), Chairman and CEO of Chinese multinational consumer electronics and home appliances company, the Haier Group (Haier), stood 22<sup>nd</sup> on Fortune magazine's list of the World's 50 Greatest Leaders. Zhang was credited with transforming Haier into the world's largest appliance brand through his 'radical management innovations'. The Fortune article noted that Zhang "groups employees into small, self-managing teams that choose their own managers, compete for internal talent, and can earn big bonuses."

Zhang was credited with reinventing the company's business model and corporate culture after taking charge at Haier. In 1984, when Haier's predecessor, the Qingdao General Refrigerator Factory, was producing substandard products and was selling them at a premium due to huge demand, several consumers complained to the company about the poor quality of its products. Realizing that this model was unsustainable in the long run, Zhang focused on enhancing the brand and developing quality products. Zhang's second reinvention at Haier came in 1991, when he saw that quality alone was not enough to woo consumers; great service was also needed. Thus, he reinvented the business

model around providing service responsiveness. This required the workers to change the way they delivered their services to the consumers.

During the Cultural Revolution (1966-76), the company's name was changed to 'East Wind Electric Machine Factory'. In 1979, the company merged with a small machine factory and was renamed Qingdao Home Appliance Factory. The same year, the company began manufacturing no-frills washing machines.

From 1979 to 1983, the Qingdao Home Appliance Factory produced around 58,000 washing machines under the White Heron brand. However, the washing machines did not find too many takers given their poor quality and unattractive appearance. In January 1984, the company started making refrigerators, and subsequently, its name was changed to 'Qingdao General Refrigerator Factory'. But things did not really change for the better even then. By the end of 1984, the company had incurred a debt of RMB 1.47 million, and was teetering on the brink of bankruptcy.

## **ZHANG RUIMIN AND THE SLEDGEHAMMER STORY**

In December 1984, Zhang Ruimin (Zhang) was appointed the director of the Qingdao General Refrigerator Factory to turn the company's fortunes around. It did not take Zhang long to realize that the Chinese consumers were unhappy with the quality of the products his company was making. He saw too that the company would

lose its market share if it did not come out with quality products, and that it would eventually be driven out of business, given the fact that domestic and foreign competitors were making their mark in the Chinese consumer appliances market. Hence, Zhang decided to leave the unprofitable washing machine market altogether, and to focus exclusively on the more promising refrigerator market.

## **FORMING THE HAIER GROUP**

Zhang noted that quality issues were not the only problem plaguing the Qingdao General Refrigerator Factory, there were other major issues such as lack of discipline and order among the workers, who had no incentive to work at all. According to Xie Jingchang (Xie), senior staff member of Haier's Enterprise Culture Change, "Zhang saw two bad things had been hampering the factory : inferior-quality products and too large an inventory. You may not know that the way of the government in factories was to have reservoirs. Reservoirs hold a lot of inventory, in hope that, someday, someone will want it. In those days, there was no competition, and there was no issue of demand and supply. The refrigerators stood in a line in a department store. If a customer could afford one, then he'd take one home. At that time, Chinese products were categorized into three grades : top grade, second grade, and third grade. No matter what, these products would be shipped out of the factory and sold in the department stores. Zhang said that our idea was to have a river, with goods flowing out, and very little inventory.

## **FOSTERING A CULTURE OF INTERNAL COMPETITIVENESS AND INNOVATION**

In the 1980s and 1990s, Zhang realized that merely meeting targets was not good enough; the focus had to be on the important aspect of employees showing consistent improvement over time. Haier had a management model called OEC (O stood for Overall; E stood for Everyone, Everything, and Every day; and C stood for Control and Clear), which stated that each employee should finish the assignment of the day, add a little more to what had been done the previous day; and thus attain a 1 percent gain in productivity (Refer to Exhibit I for a note on the OEC management model). Zhang's focus was not just on shaping the employees by rewarding or penalizing them but on using the OEC as a first step in altering the mindset of employees, or as he described it, their culture. According to Zhang, "If a corporation lacks its own culture, it may be able to grow fast for a short period, but it will lack stamina and won't last long..... In terms of management, Haier's ultimate objective is to get to the point where all employees manage themselves, a state of perfect self-awareness.

### **REINVENTING HAIER**

Zhang decided to have a three-step goal, each step taking about seven years, to turn around the company (Refer to Exhibit II for the three stages of Haier's Management Mode Innovation). He said, "The first was to establish a brand name. It was something new in China to have quality design in appliances. In 1984, there were three hundred refrigerators factories, most of them making poor products. We wanted to distinguish ourselves, and eventually we did".

## **FOCUSING ON QUALITY**

Zhang changed the business model to embrace branding on the basis of superior quality. He made big choices about the culture in the organization so that they would have disciplined workers who built quality products, and they could have a brand. That was the first big step. In between, Zhang was so successful that he was asked by both the national government and the local government to take on some ailing state-owned enterprises (SOEs) and turn them around...

## **SERVICE RESPONSIVENESS**

In 1991, Zhang realized that there were a lot of quality goods available in China and several brands that were becoming well known. He felt that quality alone was not sufficient; Haier needed to offer great service. He reinvented the business model around providing service responsiveness. Under 'responsiveness', Zhang focused on the need to listen to the customer and respond quickly. Hence, the workers had to change and the way in which they charged for their services had to change...

## **CUSTOMER ENGAGEMENT THROUGH ZZJYT**

Zhang felt that having focused on quality and service responsiveness, Haier had to move from 'responsiveness' to 'intimacy'. The prevailing slogan at Haier concerning customer engagement was 'zero distance from the customer'. Zhang felt that to do this he needed to have an organization that was fluid in terms of how it responded to changes in the marketplace. He recognized that the existing departmental,

functional, siloed organization would be too slow to do that. So he had to hire new skills, and then he had to put them into an organization that was able to move quickly and coherently, the way the customers wanted...

## **THE RESULTS**

Industry experts felt that Zhang's focus on reinventing Haier's business model and corporate culture, identifying it as a key strategy to develop the brand, had paid off. According to the 2012 World's 50 Most Innovative Companies list published by the Boston Consulting Group, Haier was the only Chinese company in the top 10, as well as the top-ranked consumer product retailer...

## **LOOKING AHEAD**

By December 2014, Haier had some 200 "micro-enterprises" out of which only 10 percent had become fully independent and were able to earn all their revenues through market-oriented innovations. According to Zhang, "It takes time, as it inevitably will, for workers to adapt to the change and to tap the new resources they can use..."

- (a) Explain how Haier has achieved excellence by reinventing their :
    - (i) Business model ?
    - (ii) Corporate culture ?
  - (b) How did Haier compete with multinational corporations in the international market ? Discuss.
-