

Cork Institute of Technology

Bachelor of Business (Honours) (F/T & ACCS) -Award

(BBUSS_8_Y4)(BBUSA_8_Y4)

Autumn 2008

Business Policy / Strategic Management

(3½ hours)

Examiners:
Mr. James Fairhead
Mr. J. Myler
Ms. N. O'Sullivan

NOTE

Examination is divided into three sections

Section **A** consists of a Case Study with all questions to the Case to be attempted totaling 30 marks.

Section **B** consists of three general questions with TWO Questions – 25 marks each to be attempted.

Section **C** consists of MCQs and ALL questions to be attempted – special answer sheet provided – 20 marks.

SECTION A:

Richard Branson

Richard Branson is a flamboyant British entrepreneur with a seemingly insatiable appetite for starting new businesses. His internationally recognized brand "Virgin" is splashed across everything from credit cards, to airlines and music "megastores".

Richard Branson was born on July 18, 1950. His entrepreneurial ways began early when he was publishing a student magazine at just 16 years. By 17 he had started a Student Advisory Centre, aiming to help young people. At twenty years old, he founded the now famous Virgin brand which had its beginnings in the form of a discount records mail order venture that he and his friend Nik Powell worked on.

Like most first ventures this required total involvement, no cash and lost of dedication but, Branson insists, it was fun, as he believes all work should be.

Virgin Records

Soon after opening a record store on Oxford Street, London, in 1972, a recording studio was built in Oxfordshire where the first Virgin artist, Mike Oldfield, recorded "Tubular Bells", later released in 1973. This was to be the first major success for the British entrepreneur as he started the label with a hit record. Mike Oldfield's "Tubular Bells" was a cash cow for Branson's Virgin Records and it stayed in the UK music charts for 247 weeks. The record label went on to sign top music artists like "Genesis", "The Sex Pistols", "The Rolling Stones" and "Simple Minds". The Virgin Records Group was sold in 1992 to THORN EMI for \$1 billion USD.

Richard Branson obviously wasn't finished with the music recording business as he went on to start V2 Records in 1996. The V2 Music brand has a stable of artists that include "Stereophonics", "Powder Finger", "Mercury Rev" and "Tom Jones".

The Virgin Brand

Virgin has created more than 200 branded companies worldwide, employing approximately 50,000 people, in 29 countries. Revenues around the world in 2006 exceeded £10 billion (approx. US\$20 billion).

In Britain where he focuses much of his attention, Branson has managed to "Virginize" a very wide range of products and services. The variety of businesses he controls is as vast as the geographical coverage the brand has, with business located throughout The United Kingdom, the United States of America, Australia, Canada, Asian, Europe and South Africa.

Some of the businesses Branson has collected include:

- **Virgin Atlantic** - An international airline flying to many major destinations.
- **Virgin Megastores** - Music Super-markets located in major locations in the UK, USA and Australia.
- **Virgin Books** - Publisher and distributor of books.
- **Virgin Credit Card** - Branson's attempt to provide credit card at a reasonable price.
- **Virgin Holidays** - Book a holiday and fly Virgin Atlantic
- **Virgin Trains** – Available in the United Kingdom.
- **V2 Music** - Largest UK based independent recording label.
- **Virgin Active** - Chain of fitness clubs throughout the United Kingdom.
- **Virgin Galactic** - Branson's planned affordable flight to space venture.
- **Ulusaba** - Luxury game reserve located in South Africa.
- **Necker Island** - Branson's own private island located in the British Virgin Islands

There are plenty more businesses that wear the Virgin name throughout the world. On the Virgin.com website there is even a section to submit your new and exciting business venture that Branson may consider pursuing.

Management Structure

To enable the Virgin company to function properly, several factors contribute to making it a success, one of which is the Virgin management style. Virgin has minimal management layers, little bureaucracy, a tiny board and no massive global headquarters. According to Branson, "Virgin's companies are part of a family rather than a hierarchy. They are empowered to run their own affairs, yet other companies help one another, and solutions to problems come from all kinds of sources. In a sense they are a community, with shared ideas, values, interests and goals".

Although the Virgin group is a family of businesses with a shared brand, all of the companies run independently - each company is placed in a self-contained division and supplied with all support functions. Thus each part essentially operates separately from the other parts of the company.

The office of corporate headquarters staff is created to control and oversee the divisions. Headquarters also provides corporate support functions, such as finance and R&D.

Often the companies are set up as joint ventures with other partners, so they all have different shareholders and boards.

Branson is continuously seeking new business opportunities and loves a good challenge, especially when he enters a market that is dominated by a few major players.

Branson's goals

Money, Branson insists, although 'necessary to pay the bills' and useful for his start ups, has never been the point of any of his ventures. 'My businesses grow out of my experiences, usually my bad experiences. I see something done badly which I know that we could do better – like the airline. No one was offering their customers a decent service. I was sure that whoever did so would not only have a successful company but would also change the whole industry'. Virgin Atlantic proved his point. 'Everyone told me that the quickest way to bankruptcy was to make a million and then start an airline' but he knew he could do it his way.

He turns his fascinations into businesses. He maintains that 'there is always a market for the best' and that 'the bottom line sorts itself out'.

Nowadays he energetically promotes himself in order to publicise his brand, donning a wedding gown to launch his bridal fashions venture and driving a tank through Times Square to promote his Virgin Cola.

Richard Branson Adventures

Branson is passionate about life and living every minute to its fullest. Since 1985 he has been getting his adrenaline rushes through world record breaking attempts by boat and hot air balloon. Several distance and speed records have been attempted and achieved, but his attempt to be the first person to circumnavigate the world in a hot air balloon was never achieved. Branson makes each record attempt a media event with his Virgin logo prominently displayed during every launch, which has been an excellent source of free advertising and brand placement for the Virgin Group.

Virgin's social responsibility

Virgin believe that they have not only a huge responsibility but also an excellent opportunity to make a difference through their businesses.

Because of this Virgin have created 'Project Aware', which is a project that aims to embed responsible business practice throughout the Virgin Group. It ensures that they manage their impact on society and the environment through their operations, products and supply chain, as well as continue to do the best they can for their customers and employees.

“We at Virgin believe 100% that we owe it to our customers and our staff to ensure that our future economic growth is built on firm, ethically sustainable business models. Businesses need to be bold and creative, to develop radical new products and find alternative ways of doing business. Since innovation and creativity are at the heart of the Virgin culture we feel that our group of businesses are well placed to take advantage of the opportunity this presents.”

Richard Branson

They recognise that responsible business practice can provide ample opportunity for innovation – a key pillar of their brand – and facilitate the development of new products and services as well as access new markets.

According to Richard Branson, “Project Aware is a renewal of our effort to make responsible business practise an integral part of the Virgin culture – ensuring it is part of every individual’s role and responsibility”.

Conclusion

Richard Branson is admired by the general public who are in favour of the simplicity of his approach and his David against Goliath stance in taking on traditional interests. They like his approach to business and don’t begrudge him his riches, which they see as earned by his own efforts.

The simplicity of his approach carries over to his managerial style, which some have criticised as being too casual. He maintains, however, that if you have the right people in place, treat them well and trust them, they will produce happy customers and the necessary profits to carry on and expand they work.

Richard Branson is not going to stop or rest. He loves what he does and it shows. Some worry that he may stretch the brand too far or that managing his infinite variety of enterprises will overstretch even his capacity for personal relationships, which seem to be crucial to his style.

Section A

Case Questions:

1. *Last year Branson gave \$2.1 million away to charities.*
Do you believe that strategic decision makers, like Richard Branson, should only be responsible to shareholders or do they have broader responsibilities? (10 marks)
2. *The increased complexity of simultaneously managing more than one business creates several concerns and issues for any company.*
Critically analyse Virgin's management structure with regards to the above statement. (10 marks)
3. Would the Virgin brand be able to cope / live on if Richard Branson leaves? What advice would you offer to Virgin in preparation of this? (10 marks)

(Total: 30 marks)

Section B

Attempt **TWO** questions from this Section

1. The *transnational strategy* appears to solve all the conventional tradeoffs that have to be made when one decides to go global but what are the major difficulties associated with this strategy? (25 marks)
2. *Competitors, having created a competitive advantage, will stay ahead if they innovate and look for improvements on a continuous basis.*
Discuss the above statement. (25 marks)
3. How might a company configure its strategy-making processes to reduce the probability that managers will pursue their own self-interest at the expense of stockholders? (25 marks)

Name: _____ Date: _____

1. Companies that have general organizational competencies should pursue unrelated diversification.
 - A) True
 - B) False

2. Vertical integration can be disadvantageous when
 - A) competitors are vertically integrated.
 - B) demand is stable.
 - C) industry technology is changing rapidly.
 - D) technology is changing slowly.
 - E) competitors are vertically integrated *and* industry technology changes rapidly.

3. Which of the following strategies facilitates the implementation of a just-in-time inventory system?
 - A) Short-term contracts
 - B) Vertical integration
 - C) Unrelated diversification
 - D) Diversification based on transferring competencies
 - E) Diversification based on realizing economies of scope

4. When a company has cash in excess of the amount needed to maintain a competitive advantage in its core business, it will most likely pursue
 - A) taper integration.
 - B) full integration.
 - C) diversification.
 - D) long-term contracts.
 - E) strategic alliances.

5. Agency theory offers a way of understanding why managers do not always act in the best interests of stakeholders.
 - A) True
 - B) False

6. When an intermediate manufacturer moves into final assembly, it is pursuing
 - A) backward integration.
 - B) forward integration.
 - C) taper integration.
 - D) related diversification.
 - E) unrelated diversification.

7. Which of the following is *not* a governance mechanism used to align the interests of managers and stockholders?
- A) Stockholder meetings
 - B) The board of directors
 - C) Stock-based compensation schemes
 - D) The mission statement
 - E) Takeover constraints
8. _____ refers to the process of divesting businesses and exiting industries to focus on core distinctive competencies.
- A) Industry positioning
 - B) Competitive alignment
 - C) Restructuring
 - D) Vertical integration
 - E) Strategic decomposition
9. Business ethics is concerned with
- A) teaching people the difference between right and wrong.
 - B) ensuring managers weigh the ethical implications of their decisions.
 - C) ensuring that employees obey the law.
 - D) replacing economics with social responsibility in the decision-making process.
 - E) increasing profits.
10. Which of the following entry strategies should be used when speed is an important consideration?
- A) Internal new venture
 - B) Acquisition
 - C) Joint venture
 - D) Unrelated diversification
 - E) Related diversification
11. Economies of scope arise when one or more of a diversified company's business units are able to realize cost-saving or differentiation advantages because they can more effectively pool, share, and utilize resources or capabilities.
- A) True
 - B) False
12. Which of the following is (are) the probable consequence(s) of an inability to integrate two divergent corporate cultures after an acquisition?
- A) High management turnover
 - B) Damaging political tensions between the management of the acquired and acquiring companies
 - C) An inability to realize potential gains from synergies
 - D) All of these
 - E) None of these

13. A company achieves full integration when it produces all of a particular input needed for its processes or disposes of all of its completed products through its own operations.
- A) True
 - B) False
14. A takeover constraint
- A) limits the extent to which managers pursue strategies that are inconsistent with shareholder interest.
 - B) prevents a company from being taken over.
 - C) uses the threat of a takeover to cause the CEO to fear the loss of his or her job.
 - D) is reduced by corporate raiders.
 - E) is greatest when a company's stock price is significantly higher than book value.
15. In an agency relationship the agent is the person delegating authority and the principal is the person to whom authority is delegated.
- A) True
 - B) False
16. Acquisitions often fail because of
- A) poor commercialization.
 - B) too much pre-acquisition screening, which increases the time it takes to enter a market.
 - C) large-scale entry.
 - D) differences in corporate culture.
 - E) slowness in establishing significant market presence.
17. Parallel sourcing policy occurs when a company enters into a long-term contract with two of the firm's own business units to achieve economies of scale.
- A) True
 - B) False
18. One outcome of horizontal integration is industry consolidation, leading to more bargaining power over buyers and suppliers.
- A) True
 - B) False
19. Taper integration occurs when a company buys from two or more independent suppliers at the same time.
- A) True
 - B) False

20. Although stockholders are legal owners, CEOs do not always pursue stockholders' interests. CEOs can pursue their own interests because
- A) they can use their authority over corporate funds to satisfy their desires for status, power, and income.
 - B) they have the ability to initiate a leveraged buyout.
 - C) if an outside director chairs the board, he or she will not have knowledge of inside operations.
 - D) stockholders are the weakest stakeholder group since they are removed from operations.
 - E) stockholder meetings are not required.
21. Which of the following is not a benefit of vertical integration?
- A) Facilitating investments in specialized assets
 - B) Enhancing product quality
 - C) Improved scheduling
 - D) Increasing cost structure
 - E) All of the above are benefits of vertical integration.
22. When corporate CEOs and top managers use their power and control over funds to satisfy their personal desires for wealth or status, this is called
- A) on-the-job consumption.
 - B) agency theory.
 - C) information asymmetry.
 - D) a tradeoff between stakeholders.
 - E) a performance measurement.
23. If a company fails to take stakeholder claims into account, stakeholders may withdraw their support.
- A) True
 - B) False
24. An appropriate reason to diversify is to pool the risk from several business ventures in order to create a more stable income stream.
- A) True
 - B) False
25. Hamel and Prahalad have developed a model that can help managers assess how and when they should expand beyond their current market or industry. They find that it is useful to view a company as a
- A) portfolio of resources.
 - B) portfolio of distinctive competencies.
 - C) portfolio of strategies.
 - D) portfolio of situational advantages.
 - E) portfolio of strategic intent.

26. Vertical integration can raise costs if, over time, a company continues to purchase inputs from company-owned suppliers when low-cost independent suppliers that can supply the same inputs exist.
- A) True
 - B) False
27. One way a diversified company can increase its profitability is by acquiring inefficient or poorly managed companies and then restructuring them to improve their performance.
- A) True
 - B) False
28. Which of the following is *not* a potential cause of unethical behavior in organizations?
- A) Failure to examine the ethical dimensions of a decision
 - B) An organizational culture that deemphasizes ethical behavior
 - C) Management pressure to meet organizational objectives by “cutting corners”
 - D) Dynamic competitive environment
 - E) Weak ethical leadership
29. Unfortunately, there is little that a company can do to ensure the success of a long-term cooperative relationship and to lessen the chance that one company will take advantage of the other.
- A) True
 - B) False
30. _____ looks at the problems that can arise in a business relationship when one person delegates decision-making authority to another.
- A) Procedural justice
 - B) The Friedman Doctrine
 - C) Agency theory
 - D) Information asymmetry
 - E) Empire building

BBS4 MCQ Answer Sheet

Date.....I.D.....Name.....

1	a b	2	a b c d e	3	a b c d e	4	a b c d e	5	a b	6	a b c d e	7	a b c d e	8	a b c d e
9	a b c d e	10	a b c d e	11	a b	12	a b c d e	13	a b	14	a b c d e	15	a b	16	a b c d e
17	a b	18	a b	19	a b	20	a b c d e	21	a b c d e	22	a b c d e	23	a b	24	a b
25	a b c d e	26	a b	27	a b	28	a b c d e	29	a b	30	a b c d e				

NOTE: Do NOT use red ink

N.B. Please hand this up with your work book.