

Step by Step - Paper Set

**M.B.A. (Semester - III) (Dec 2009)**  
**BUSINESS POLICY & STRATEGIC MANAGEMENT**  
**(2008 Pattern)**

[Time: 3 Hours]

[Max. Marks: 70]

**Instructions to the candidates:**

- 1) Attempt any THREE questions from section I and any one case from section II.
- 2) Each question from section I carry 15 marks and each case from section II carry 25 marks.
- 3) Support your answers with relevant examples.
- 4) Clarity and brevity will be given due weightage.

**SECTION - I**

- (Q1) a) Define strategy and explain the concept of strategic management process.
- b) Explain the followings terms :
- i) Vision
  - ii) Mission
  - iii) Objectives
  - iv) Strategic Intent
- [15]
- (Q2) a) Describe BCG matrix.
- b) Explain GE Nine cell model. What are the advantages of GE Nine cell over BCG matrix ?
- [15]

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- (Q3) What do you understand by the terms Mergers & Acquisitions ? What are various types of mergers ? What are the issues in implementing 'merger strategy' successfully ? Cite latest Indian & Global examples relevant to the merger strategy.

- (Q4) a) Describe Mintzberg's 5Ps of strategy. [15]
- b) Explain Porter's Five Forces Framework of Competition.

- (Q5) Define a business model. List key aspects of E-commerce business environment. How do they influence strategy

(18)

- formulation and implementation for E-commerce based business ? Explain with appropriate examples.
- (Q6) Write short notes on any Three :
- a) Corporate culture.
  - b) Value chain
  - c) Core competence
  - d) McKinsey's 7s framework.
  - e) Outsourcing Strategies.
  - f) Low cost competitive strategies.

**SECTION - II**

Cases : I

**GEONILEKO DROPS HINTS**

[25]

**Bharti-MTN**  
**'deal contours**  
**'may change'**

Two Cos Talk To South Africa's Central Bank, On Courses To Complete Transaction.



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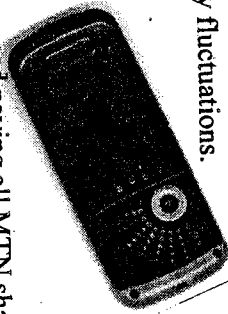
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MTN's CEO Phuthuma Nhleko on Thursday said the contours of the proposed deal with Indian telecom company Bharti Airtel announced on May 25 may "very well change" - a possible indicator that some issues remained to be resolved, even as the two companies attempted to finalise negotiations with regulators in South Africa and India.

A number of person close to the transaction said it was on course to be completed before the end of september, the latest deadline set by the two companies, but some details relating to payment by Bharti Airtel to MTN and its shareholders remained to be finalised. Any change would be minor, they said. The Indian telecom company, may, for instance, rejig its earlier offer to MTN shareholders and offer them an option to be paid entirely in cash or in shares in addition to the combination of both that is currently on offer. At the same time, Bharti is looking to pay some of the larger shareholders of MTN in dollars instead of the South African currency, the rand, in which the smaller shareholders will be compensated.

Bharti and MTN have been in talks with the South African Reserve Bank (SARB) for the past few weeks on this issue. By paying foreign institutional and other institutional shareholders for MTN in dollars, Bharti will also protect itself from currency fluctuations.



The Indian company had earlier proposed paying all MTN shareholders 86 rand per share along with half a share of Bharti Airtel in the form of a Global Depository Receipt (GDR). But this may have to be reworked, if some investors want the entire amount in cash or in shares. India's largest mobile company by subscribers and revenues is, however, unlikely to increase price per share, other than the rise caused by the South African currency's appreciation against the dollar.

Mr. Nhleko told analysts in the conference call from Johannesburg that "whatever was published on May 25 may very well change," after the South Africa-based telco had announced its half-yearly results for the period ended.

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June. "Or it may stay the same," he added, after a brief pause. But in the call, Mr Nhleko also expressed enthusiasm for the deal, describing it as "transformational" for MTN. "We want to do the deal sooner rather than later, because we are really uncomfortable with the uncertainty," Nhleko told Reuters.

One official close to the negotiations said talks were on with SARB to allow institutional shareholders in South Africa a fixed time frame to convert dollars into rand. "Some of the larger shareholders are more comfortable with shares rather than cash. The smaller shareholders are, however, likely to prefer payment in cash," said an official close to the talks. The companies are currently awaiting feedback from SARB. Sound-ing out a country's central bank is standard operating procedure in case of transaction that involves large movements of money. South Africa's foreign exchange reserves were \$35.7 billion at the end of June this year.

The larger shareholders of MTN include South Africa's state-owned Public Investment Corp, which holds a 20% stake; Lebanon's Milkuiti family, which owns a tad less than 10% and Newsell 664 (a company owned by MTN managers and staff), which holds 14.87%. Some of the smaller shareholders include Fidelity, Vanguard, Oppenheimer, Franklin Templeton among others. Issues related to foreign exchange and the challenge of dealing with two jurisdictions, India and South Africa, were the main reasons for the delay in consummating the transaction, a person close to the deal said. "Besides each type of investor needs to be handled differently," he said. The MTN chief also said in the conference call that the proposed \$23-billion merger, which could lead to the creation on the world's third-largest telecom firm stretching across Africa, West Asia and the India subcontinent, could offer the South African telco "diversification, scale and Synergy benefits."

"We have given ourselves until September 30 to find something that is palatable to ourselves and our shareholders, and makes strategic sense," Mr Nhleko added. "The rationale for the transaction is compelling, and includes 'diversification and synergistic benefits as well as addressing the objective of becoming one of the pre-eminent emerging market telecommunication companies,'" MTN said in a separate statement while announcing its interim results for the first six months of the calendar year. An indicator that the deal structure may be tweaked, if only a

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little, is that the South African telco also said "no decision or agreement to acquire any shares or GDRs.... has yet been made by the\*boards of either MTN or Bharti."

Bharti Airtel had earlier informed India's markets regulator, Sebi, that its equity expansion will only be in the form of GDRs that will be listed on the Johannesburg Stock Ex-change, implying that the South African company's entire 36% holding in the Indian company—25% through MTN and the rest through its shareholders—— will be in the form of GDRs. MTN's statement on Thursday may also imply that Bharti may be considering the possibility of increasing the cash component of the deal by reducing the share of GDRs.

The deal's contours, unveiled in May, involve a complex structure in which both firms would pay cash and equity for stakes in each other, the end result of which will see Bharti Airtel getting a 49% stake in MTN, and the South African telco and its shareholders getting a 36% economic interest in Bharti. As reported by ET on Thursday, the rising African currency could increase the cash component that Bharti Airtel would have to pay to MTN shareholders by at least an additional \$413 million (Rs 2,017 crore). At the end of May, Bharti had said it would have to make a cash payment of 86 rand for every MTN share. The total dollar outgo at that time came to around \$6.94 billion. However, this amount has now gone up by around \$413 million to around \$7.38 billion.

**Source: Economic Times****Questions:**

- Q1) Carryout an Environmental Threats and Opportunities Profile (ETOP) for Bharti - MTN.
- Q2) Will Bharti - MTN have a sustainable competitive Advantage? Justify your answer.

**Case : II****Cruising Through Rough Weather**

[25]

At around this" time last year, the IT sector took most of the beating on the bourses, following the never-ending woes in the global subprime market, subsequent bankruptcies and mergers of financial institutions, and the feeble currency market. The situation has not seen much of a turn-around this year either, atleast at the time of compiling the lists of India's largest companies. In this scenario, it becomes imperative to understand

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how the latest year's assessment panned out for this sector, which contributes 16% to India's total exports and provides direct employment to 2.2 million people.

The IT sector, once a favourite of investors and analysts' alike, has seen some upheavals on domestic bourses in the last couple of years. This is reflected in the falling valuations of the top companies in the sector. For instance, the price-earnings multiple (P/E)—one of the important indicators of stock market valuation—for the top IT pack has fallen sharply, from above 30 in 2006 to close to 20 now. This largely mirrors the market expectations of slower growth due to industry-specific risks such as rupee volatility and the public outcry against outsourcing in the major markets for Indian IT services—the US and Europe. The IT industry is also facing macro-economic issues that may curtail future growth: the recessionary winds in the global economy and difficulties with user industries, especially automobiles and telecom.

The top-line and bottom-line growth for IT companies has tapered substantially over a period of time. In each of FY 2008 and FY 2009, the top three IT exporters—TCS, Infosys, and Wipro—reported an increase of just 26% in revenue and 17% in net profit (PAT) at the aggregate level. This can be compared with the 44% jump in revenue and 47% increase in PAT in FY 2007. Not only did growth slow, but profit margins also shrank drastically in FY 2009.

One reason for the subdued performance of the IT sector in the last fiscal was the worsening situation in the global financial markets. The IT sector earns nearly 40% of its revenue from the banking, financial services and insurance (BFSI) vertical. Most top-tier IT exporters witnessed a drop in their BFSI revenue in this period. Another vertical that took a beating was telecom. Clients in this vertical suffered lower demand and reduced realisations, compelling companies such as the UK telecom giant BT to reduce their outsourcing work. Other verticals including automobiles and other manufacturing also witnessed lower demand during the year.

The rupee has continued to weaken against the dollar. This intensified the losses of IT exporters such as TCS and HCL Technologies, which posted higher forex hedging losses. These companies had previously booked forward covers and options when the rupee-dollar rates were over

41. Any depreciation in the rupee beyond this level resulted in hedging losses for these companies. For instance, during the year ended March 09, TCS reported forex loss of Rs. 781.5 crore against a gain of Rs. 500.5 crore in the previous year. The loss also restricted the company's net profit growth to just over 5%, even as the revenue/rose by 23%.

While slower demand due to IT spending cuts, delays in project finalisations and pressure on billing rates were the operational headwinds at one end, IT exporters saw some traction at the other end, with multi-year, multi-million-dollar outsourcing projects. Total IT outsourcing was another trend which picked up momentum during the year, following an urgent need for clients to streamline operations and cut costs. TCS, Wipro, Infosys, and HCL Technologies announced such deals in \$ 50-100-million range during the year.

The previous year also witnessed most top IT players taking the domestic IT services market seriously. The domestic market had so far been dominated by multinationals like IBM, Accenture and HP. However, Indian IT companies have now become nimble enough to identify opportunities in the domestic space, especially in telecom, education and government projects.

Going ahead, while the domestic space looks more promising, the global market is also expected to post a recovery sooner than expected which augurs well for the Indian IT players.

#### Source: Economic Times

#### Questions:

- Q1) Carryout an Environmental Analysis (SWOT) for IT Sector.
- Q2) Develop a strategic plan for TCS and HCL companies.