

Business Management (S-15)

(Suggested Answers)

Ans. 1. The following human resource policies and practices may contribute towards SSGL's success in achieving high-performance systems in its operations:

- (i) **Selective Hiring** – Pursuance of rigorous hiring procedures and recruitment of only those individuals who have necessary qualifications/skills, fitness, aptitude and willingness to perform in challenging and demanding work environments.
- (ii) **Extensive Training Programs** – According high priority to the learning proficiencies, cultural flexibility and open mindsets of staff to perform in diverse working conditions because official regulations, working environment and cultures vary considerably from ports to ports. Comprehensive training on a continuous basis would enable the employees to meet the challenges in the performance of their duties.
- (iii) **Self-managed teams and decentralised decision making** – Developing effective work groups and teams of individuals of diverse backgrounds, because they are required to take timely actions, reach well-considered decisions and assume responsibilities.
- (iv) **Emphasis on high-quality performance** – A culture of high quality performance from the employees should be expected and encouraged at all levels since their cumulative efforts are of critical importance for achievement of organization's goals.
- (v) **Pay for performance rewards** – A performance related rewards system would retain a motivated and committed workforce. Such a reward system is perceived by the employees to be fair, equitable and merit-based.
- (vi) **Employment security** – the organization would provide security to its employees in order to gain their loyalty and commitment for achieving top quality performance.
- (vii) **Transformational leadership** – The top leadership would pursue a transformational style of management whose positive impact permeates at all levels in the organization. This style of leadership would be a source of continuous inspiration and motivation for the employees who have to work as a coordinated team.

Ans 2.a.A Company should adopt the following strategies and tactics to meet the challenges posed by the competitors and maintain its sustainable cost-leadership advantages:

- (i) Efficient operation of the physical facilities – The manufacturing plant, raw material handling equipment and packaging and loading facilities should operate at high capacities with minimum down-time for maintenance, repairs and other stoppages.
- (ii) Vigorous pursuance of policies of purchase of raw materials in optimal quantities to minimise costs, including inventory carrying costs and overall financial costs.
- (iii) Exercise of tight control on all operating costs, such as salaries and wages, power and fuel and other overhead expenses.
- (iv) Continuous review and revision of marketing strategies to make them more effective and customer-value oriented.

Ans.2.b. Formal Succession Planning is an important HR function as it ensures availability of sufficient number of appropriately qualified and competent employees from internal sources to meet the future HR needs of the organization. Suitable employees are identified in the early stages of their careers and are groomed through a process of job rotation and training, to assume more responsible positions in the organization arising due to promotions, transfers, retirement or death of key employees.

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Ans. 3

Decision Making Process at Operating, Tactical and Strategic levels.

Operational Level Decisions

- decisions are concerned with day-to-day systems and procedures.
- decisions are more structured and are of a routine nature.
- outcomes of decisions are immediate and of short term nature.
- decisions involve fewer risks.

Tactical Level Decisions

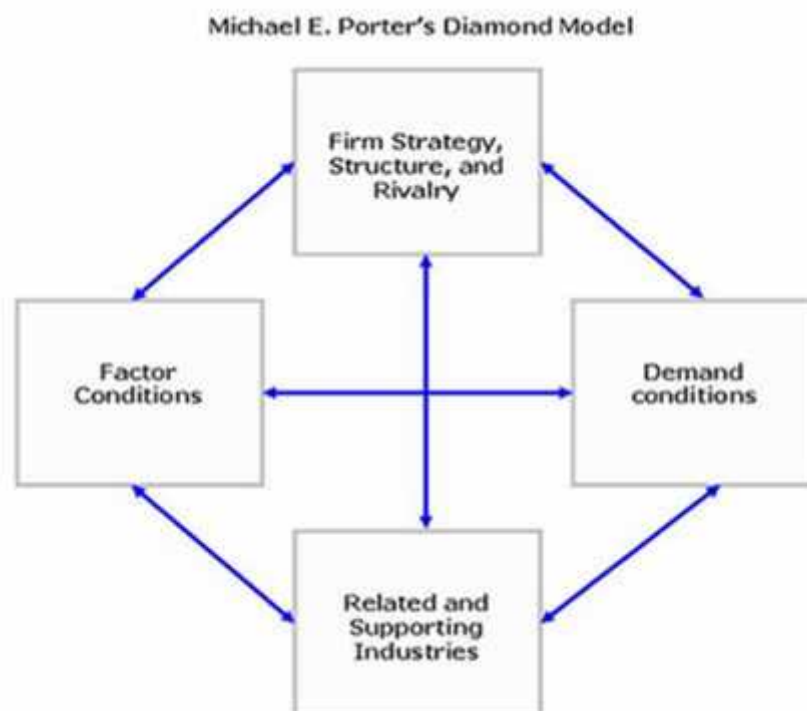
- decisions are concerned with short to medium term objectives.
- decisions are often related with implementation and success of strategic decisions.
- decisions are concerned with overseeing and handling of budgets, personnel, schedules and resources.
- risks of failure of decisions are moderate.

Strategic Level Decisions

- decisions are concerned with long-term goals and future direction of business.
- decisions are more conceptual and have elements of uncertainty.
- decisions have far-reaching consequences and are therefore of considerable importance.
- decisions are taken at the highest management and board levels.

Ans. 4.

Michael E. Porter argued that a nation can create new advanced factor endowments such as skilled labor, a strong technology and knowledge base, government support, and culture. Porter used a diamond shaped diagram as the basis of a framework to illustrate the determinants of national advantage. This diamond represents the national playing field that countries establish for their industries.



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The individual points on the diamond and the diamond as a whole affect four ingredients that lead to a national comparative advantage. These ingredients are:

1. the availability of resources and skills,
2. information that firms use to decide which opportunities to pursue with those resources and skills,
3. the goals of individuals in companies,
4. the pressure on companies to innovate and invest.

The points of the diamond are described as follows:

I. Factor Conditions

- A country creates its own important factors such as skilled resources and technological base.
- The stock of factors at a given time is less important than the extent that they are upgraded and deployed.
- Local disadvantages in factors of production force innovation. Adverse conditions such as labor shortages or scarce raw materials force firms to develop new methods, and this innovation often leads to a national comparative advantage.

II. Demand Conditions

- When the market for a particular product is larger locally than in foreign markets, the local firms devote more attention to that product than do foreign firms, leading to a competitive advantage when the local firms begin exporting the product.
- A more demanding local market leads to national advantage.
- A strong, trend-setting local market helps local firms anticipate global trends.

III. Related and Supporting Industries

- When local supporting industries are competitive, firms enjoy more cost effective and innovative inputs.
- This effect is strengthened when the suppliers themselves are strong global competitors

IV. Firm Strategy, Structure, and Rivalry

- Local conditions affect firm strategy. For example, German companies tend to be hierarchical. Italian companies tend to be smaller and are run more like extended families. Such strategy and structure helps to determine in which types of industries a nation's firms will excel.
- In Porter's Five Forces model, low rivalry made an industry attractive. While at a single point in time a firm prefers less rivalry, over the long run more local rivalry is better since it puts pressure on firms to innovate and improve. In fact, high local rivalry results in less global rivalry.
- Local rivalry forces firms to move beyond basic advantages that the home country may enjoy, such as low factor costs.

Ans5a. Corporate Social Responsibility involves an organization's obligation to provide benefits to society in ways that protect and improve the welfare of the society, along with pursuance of the organization's own business interests.

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Ans5.b.

According to Rogene. A. Buchholz , Business ethics refers to right or wrong behaviour in business decisions .

Business Ethics or Ethical standards are the principles, practices and philosophies that guide the business people in the day today business decisions. It relates to the behaviour of a businessman in a business situation. They are concerned primarily with the impacts of decisions of the society within and outside the business organizations or other groups who keep interest in the business activities . Business ethics can be said to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong

IMPORTANCE OF BUSINESS ETHICS

There may be many reasons why business ethics might be regarded as an increasingly important area of study, whether as students interested in evaluating business activities, or as managers seeking to improve their decision-making skills.

It is generally viewed that good business ethics promote good business.

- i. The power and influence of business in society is greater than ever before. Business ethics helps us to understand why this is happening, what its implications might be, and how we might address this situation.
- ii. Business has the potential to provide a major contribution to our societies, in terms of producing the products and services that we want, providing employment, paying taxes, and acting as an engine for economic development and thereby increases the goodwill.
- iii. Business malpractices have the potential to inflict enormous harm on individuals, on communities and on the environment. Through helping us to understand more about the causes and consequences of these malpractices, business ethics helps to create mutual trust and confidence in relationship.
- iv. The demands being placed on business to be ethical by its various stakeholders are constantly becoming more complex and more challenging. Business ethics provides the means to appreciate and understand these challenges more clearly, in order that firms can meet these ethical expectations more effectively.
- v. Business ethics can help to improve ethical decision making by providing managers with the appropriate knowledge and tools that allow them to correctly identify, diagnose, analyze, and provide solutions to the ethical problems and dilemmas they are confronted with.
- vi. A business can prosper on the basis of good ethical standards and it helps to retain the business for long years.
- vii. Business ethics can provide us with the ability to assess the benefits and problems associated with different ways of managing ethics in organizations.
- viii. In the age of complexity in business fields, competition is increasing day by day. Good ethical standard helps the business to face the challenges

Ans 6. A company may pursue a policy of growth by organic/internal expansion and not through acquisition for the following reasons:

- (i) Expansion of its physical infrastructure and facilities can be planned more efficiently to fulfill the organizational requirements. In case of acquisition, the company would have to utilize the existing sites and facilities which may not be the most suitable option for its requirements.

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- (ii) The cost of acquisition of an existing company may be much higher than the cost of expansion of assets through internal growth.
 - (iii) Often, acquisitions require substantial investment outlays and the acquiring companies resort to heavy borrowings which may extend financial leverage beyond prudent limits.
 - (iv) In acquisitions, a company acquires functions of other companies which may result in duplication of facilities or redundancies which ultimately results in lowering of employees morale.
 - (v) Human Resources can be utilized more effectively and with a greater degree of cohesion of corporate culture by adopting strategies of organic growth. Also, in the case of organic growth, better career development opportunities are provided to the employees.
 - (vi) In case of expansion by acquisition of other businesses, the company usually has to acquire and assimilate the staff of those businesses.
- 6.b.** Four guidelines for when forward integration may be an especially effective strategy are:
- When an organization's present distributors are especially expensive, or unreliable, or incapable of meeting the firm's distribution needs.
 - When the availability of quality distributors is so limited as to offer a competitive advantage to those firms that integrate forward.
 - When an organization competes in an industry that is growing and is expected to continue to markedly; this is a factor because forward integration reduces an organization's ability to diversify if its basic industry falters.
 - When an organization has both the capital and human resources needed to manage the new business of distributing its own products.
- 7.a.** Leading MNCs engage in international or cross-border financing and raising funds, including equity, debt and bank financing in different countries:
- (i) to obtain financing at overall lower costs, comprising of interest costs and impact of any adverse fluctuations in exchange rates.
 - (ii) because of liberalization of foreign exchange regulations which allow easy and free movement of capital in the important financial centers.
 - (iii) because financing can be obtained conveniently in different countries in which MNCs conduct significant business operations.
 - (iv) fund raising in certain countries is easier because the debt and equity markets there are broad-based and have greater market depth.
 - (v) to seize strategic advantages of their presence and relationships in important financial centers in many countries.
- 7.b.** Market-value based transfer pricing transactions among inter-group companies offer the following advantages:
- (i) The selling entity would have to offer good quality products as the buying entity has the option to purchase the goods/services from other sources. Consequently, there would be all round improvement in the levels of efficiency within the transacting entities of the group.
 - (ii) Market-value based transfer pricing are free from administrative biases and help in accurate measurement of performance of individual entities.

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- (iii) Since the individual entities function as independent cost/profit centers, the chances of internal disputes over determination of prices of inter-company transactions would be eliminated.
 - (iv) The tax authorities would more readily accept the tax returns filed by the different entities based on market-value based transfer pricing transactions.
- 8.
- 1. **Backward integration** is development into activities concerned with the inputs into the company's current business
 - 2. **Lock-in** is where an organisation achieves a proprietary position in its industry; it becomes an industry standard
 - 3. **Scenarios** are detailed and plausible views of how the business environment of an organization might develop in the future based on groupings of key environmental influences and drivers of change about which there is a high level of uncertainty
 - 4. **Core competencies:** The particular set of strengths, experience, knowledge and abilities that differentiate a company from its competitors and provide competitive advantage. Employees should possess these qualities in order to advance business goals.
 - 5. **Discrimination:** The favoring of one group of people, resulting in unfair treatment of other groups.
 - 6. **Performance Appraisal:** A periodic review and evaluation of an individual's job performance.
 - 7. **Viral marketing** The Internet version of word-of-mouth marketing: Web sites, videos, e-mail messages, or other marketing events that are so infectious that customers will want to pass them along to friends.
 - 8. **Unsought product** A consumer product that the consumer either does not know about or knows about but does not normally consider buying.
 - 9. **Product mix** (or product portfolio) The set of all product lines and items that a particular seller offers for sale.
 - 10. **Customer equity** The total combined customer lifetime values of all of the company's customers.
- 9.a. Multinational Corporations seek to achieve the following advantages through policies of centralised cash management and establishment of cash pools at prominent financial centers:
- (i) **Security and Convenience:** Centralised cash pools are maintained at major financial centers which offer advantages of political and economic stability, convertibility of currencies, access to international communication facilities and well defined legal procedures. The pooling of cash funds at such locations provides security and convenience of prompt transfer of funds from and to the subsidiaries.
 - (ii) **Availability of Information:** Location of cash pools at major financial centers provide advantages of immediate access to latest information of the relative strengths and weaknesses of various currencies, fluctuations in rates of return on financial instruments in various currencies and ease of execution of financial transactions.
 - (iii) **Holding of Minimum Surplus Funds for Precautionary Purposes:** The pooling of funds at centralised locations in excess of the transaction requirements of the subsidiaries enables the MNCs to reduce the overall size of the cash pool without any loss of level of protection to any individual subsidiary.
 - (iv) **Reduction in Interest Costs:** The large size of the pooled funds enables financial managers to negotiate borrowings most effectively and thus reduce borrowing costs.
 - (v) **Acquisition of Services of Competent Personnel:** The funds can be managed by highly competent financial managers whereas individual subsidiaries may not be in a position to acquire the services of such executives.

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- 9.b. The factors which have contributed to the creation and significant expansion of the Global Markets are:
- (i) **Specialisation of Products** – Certain countries have achieved high degrees of specialisation in the manufacturing of specific types of goods which have worldwide demand. These products are promoted on a worldwide scale through aggressive advertising campaigns to create and expand their global markets.
 - (ii) **Reduction in tariff barriers and relaxation of direct foreign investment regulations** – MNCs have been able to increase their exports significantly and expand global markets as policies of liberalisation of trade restrictions and relaxation of foreign investment regulations have received worldwide acceptance.
 - (iii) **Economies of Scale** – Access to global markets allow MNCs to obtain benefits of economies of scale which are achieved by manufacturing large quantities that can be sold in several markets in different countries.
 - (iv) **High R&D expenditures on Products** – A number of knowledge-based products involve exceptionally large R&D costs which can be incurred only in countries with substantial financial resources and technical human resource base. Worldwide demand for such R&D-intensive products is responsible for creation of global markets for these types of products.
 - (v) **Reduction in Communication and Transportation Costs** – Efficient and fast means of communications and reduction in transportation costs have provided considerable impetus to the growth of global markets for a large number of products
10. The packaging features which would influence a consumer's decision to purchase an edible consumer product are:
- (i) **Convenience of the Size of the Package**– The consumer should be able to chose from a range of sizes available, that is, a sachet for a single use, or a size which would meet the requirements for a period of say, one month or an economy package for a large family.
 - (ii) **Preserve the Quality of the Product**–The packaging should be capable of preserving the quality of the edible product from the elements e.g. sunlight, humidity or moisture.
 - (iii) **Product Information**–The packaging should provide vital information regarding the ingredients of the food item, their nutritional value and expiry date
 - (iv) **Attractiveness of the Package**–The packaging should be attractive in its presentation and colour scheme to draw the attention and interest of the customer at the point of display of the product on the shelves in the retail outlets. The design and color should be in line with the brand and brand name should be displayed prominently
 - (v) **Convenience of Handling the Package** –The packaging should make it easy to take out the edible product for use and also close the package easily after use.
 - (vi) **Convenience of Storage**–The package containing the edible product can be stored conveniently and occupy minimum storage space.
 - (vii) **Disposal of the Package**–The package, after consumption of the contents, can be disposed of safely from the environmental viewpoint

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Ans11.a.The market consists of many types of customers, products, and needs. The marketer must determine which segments offer the best opportunities. Consumers can be grouped and served in various ways based on geographic, demographic, psychographic, and behavioral factors. The process of dividing a market into distinct groups of buyers who have different needs, characteristics, or behaviors, and who might require separate products or marketing programs is called **market segmentation**.

There are many ways to segment, but not all segmentations are effective. To be useful, market segments must have certain characteristics. Among the most significant of these are:

- 1) **Measurability** is the degree to which the size, purchasing power, and profiles of a market segment can be measured.
- 2) **Accessibility** refers to the degree to which a market segment can be reached and served.
- 3) **Substantiality** refers to the degree to which a market segment is sufficiently large or profitable.
- 4) **Differentiation** refers to the degree to which a market segment can conceptually be distinguished and has the ability to respond differently to different marketing mix elements and programs.
- 5) **Action ability** is the degree to which effective programs can be designed for attracting and serving a given market segment.

Ans11.b.Steps of product development process:

1. Idea generation
2. Idea screening
3. Concept development and testing
4. Market strategy development
5. Business Analysis
6. Product development
7. Test marketing
8. Commercialization

(The End)