EASTERN UNIVERSITY, SRI LANKA

Faculty of Commerce and Management

Final Year/First Semester Examination in Business Administration - 2005/2006

(Proper / Repeat) (July/August 2007)

MGT 4013 Strategic Management

Answer all five (5) questions

Time: 03 hours

Q1)

Pumping Up BP

It's a major oil deal, a masterstroke for Vladimir Putin, a warning shot to OPEC, and a coup for John Browne, the restless chief of Anglo-American energy giant BP. The Feb. 11 announcement that BP PLC (BP) would pony up $7.1 billion in cash, stock, and assets for a 50 percent stake in what will be Russia's third-largest oil company could even shake up the industry as much as Browne's 1998 acquisition of Amoco, a deal that triggered huge consolidation.

The BP agreement with the owners of Tyumen Oil Co. a major Russian oil and gas producer, boosts the London company's oil reserves by a third. But the agreement has significance far beyond the oil patch. Energy is the most political of businesses, and this deals clearly a bargain struck between Russia and Britain, America's closest ally. As such, it is a reward for British Prime Minister Tony Blair, who was quick to embrace Russian President Putin after the former KGB boss took power in 2000. Having such a marquee Western name as BP link its future to Russia is a boon to Putin, who considers Russian energy companies key levers of his foreign policy. Putin is signaling by the agreement that Russia is welding itself more firmly than ever to the West – and that other multinationals can safely seek investment in Russia. Putin also wants to harness BP's savvy and capital for Russia's purposes. BP's main Russian partner, Mikhail Fridman, says that before Putin blessed the deal, he insisted that the new joint venture focus on expanding westward into the old Soviet bloc and beyond.

With tensions increasing over Iraq, BP's move also fits well with the West's strategic goal of developing Russia as an alternative source of crude to OPEC and its Persian Gulf kingpins. BP's deal could open the way for a surge of badly needed Western capital expand Russia's output and build export pipelines. If so, Russia would gain an edge in jousting with Saudi Arabia for influence in the world markets. The Saudis and others ha only themselves to blame for not gaining huge investment bucks themselves. For the p decade, BP has been trying hard to land deals in the kingdom as well as in Kuwait a Iran, with little success.

Of course, Russia hasn't exactly been a cakewalk for investors – indeed, BP itself been badly burned in the past. But in a conversation in his spacious but Spartan office BP's new London headquarters, Browne expresses confidence that he made the right c " If you look at the world today, there are very few places to go." He says, unwinding o coffee and cigar after a three-hour marathon presentation to investors. "Russia is world's largest oil and gas producer, there are sizable resources yet to be found, and uniquely accessible to us."

Browne and his aides are experimenting with a new model for investing in Russian oil. will contribute most of its existing Russian assets, valued at close to $900 million, and $6.75 billion in cash and stock, stretched over three years, for 50 percent of a comp that mainly consists of TNK(Tyumen Oil), Russia's fifth-largest oil producer, Sidanco, which ranks seventh. Together, the two companies produce about 1.2 mil barrels per day. Three Russian investors – Fridman, 38, who controls 50 percent of T as well as Len Blavatnick, 45, and Viktor Vekselberg, 45 – will realize enormous ha currency gains from the deal.

If the deal flies, it will give BP a Russian beachhead that Exxon Mobil Corp. (XOM) Royal/Dutch Shell Group (RD) are going to find difficult to match. "This is an impo breakthrough for BP," says J.J.Traynor, an analyst at Deutsche Bank in London. "It pressure on all the other companies" BP is also counting on its politically well-conne partners to run interference for the new company as it seeks to expand on its alr considerable Russian holdings. The new company may go after promising new fiel Eastern Siberia or gas deals for China, analysts say.

Ironically, Browne was nearly snookered out of Russia in the late 1990s by the s business barons whom he now embraces. Back in 1997, BP purchased a 10 percent s

Browne and spooked other foreign investors, Tyumen's owners elbowed BP aside and gained control of one of Sidanco's prime oil fields. The nasty legal dispute wasn't settled until 2001, when Tyumen's owners returned the field to Sidanco. The Russian owners took a majority stake in Sidanco, while BP upped its share to 25 percent and won management control. Gradually – and surprisingly – the enemies turned into partners, even allies.

This "bloody nose" was a crucial learning experience, Browne now says. Browne praises the strides Russia has made in bettering its business-climate. Fridman counters that the environment is not "dramatically different" from the robber baron days of a few years ago. What made the deal possible is "a kind of trust between the partners," he says.

Good feeling aside, BP is doing its best to protect its shareholders from what can be a rapacious environment. The key Russian partners will be unable to sell their shares in the new company until 2007, giving them an incentive to make the arrangement work. BP will provide the CEO, Robert Dudley, and the chief financial officer. The partners will split board members, but the company will be incorporated outside of Russia with the option of referring disputes to arbitration in Sweden.

There's always the possibility of a blow-up. But Browne says BP teams have been poring over TNK's books and examining the company's fields for a year, and that BP knows what it is buying. He's hoping to achieve significance gains by bringing better technology and management to existing fields and by standing at the head of the line for new opportunities. The Russian side is betting that an alliance with a name-brand Western player will make it easier for them to acquire marketing and refining assets in Central and Eastern Europe, where Russian-owned companies have been viewed with considerable suspicion.

The Russians have an excellent hand to play. BP needs to replace its fields in the North Sea and Alaska's Prudhoe Bay, mainstays since the 1970s. And while the company has spent the past decade trying to strengthen its comparatively weak position in the Persian Gulf, it has been unable to secure major assets in Kuwait, Iran, or Saudi Arabia. "The Middle East clearly has the right opportunities for someone," says Browne. "But it may not be a Western oil and gas company." In contrast, cold, perilous Russia seems welcoming indeed.

Questions:

(a) What are the strategic issues that you can come across in this case study?

(08 Marks)

(b) What are the main areas in the strategic management process that would relate with the answer for the question (a)

(06Marks)

(c) List out the various strategic alternatives for **BP**

(06 Marks)

(d) Which of these strategy that you would propose for **BP** (justify your answer)?

(08 Marks)

Q2) **a.** "Since the world is changing rapidly and unpredictably, there is no value in attempting to undertake detailed analysis of the environment". How would you respond to this statement?

(06 Marks)

b. Briefly describe the strategic-management process with support of a ***Strategic Management Model***?

(06 Marks)

c. What are the most important components that should be included when writing a ***mission statement***? Why?

(06 Marks)

Q3) **a.** "An understanding of the internal environment is more important than an understanding of the external environment". Discuss

(06 Marks)

b. Make a distinction between a "**TOWS Matrix**" and "**Grand Strategy Matrix**".

(06 Marks)

c. Explain the role of "***instituting best practices and continuous improvement***" in strategy implementation.

(06 Marks)

Q4) **a.** Strategy evaluation and control allows an organization to take a proactive stance towards shaping its own future. Discuss this statement with a support of ***"Balance Scorecard"***.

(06 Marks)

b. Identify the major stakeholders and their claim for your University and plot them in the ***stakeholder mapping*** based on power and interest (The source of power should be clearly identified)

(06 Marks)

c. Describe the importance of ***Suitability criteria*** in evaluating the strategic options. Briefly describe the techniques that are used in this respect.

(06 Marks)

Q5) **a.** Briefly explain the five ***Generic Competitive strategies***. List out reasons for recommending any of the five Generic Competitive strategies for a firm that is familiar to you.

(06 Marks)

b. Are ***defensive strategies*** likely to create wealth for shareholders? Discuss this with respect to all defensive strategies.

(06 Marks)

c. Explain the importance of ***"Strategic Position and Action Evaluation (SPACE) Matrix"*** in strategy choice.

(06 Marks)