

# **EXPERIENTIAL LEARNING**

# AUDIO VISUAL TEACHING & IT BASED TEACHING

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RASHTREEYA SIKSHANA SAMITHI TRUST

# R V INSTITUTE OF MANAGEMENT

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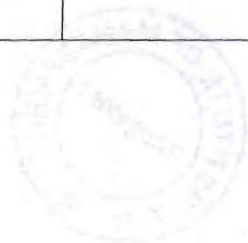
<b>Subject code /Title :</b> 3   STRATEGIC MANAGEMENT and BUSINESS ETHICS
<b>Course / Branch:</b> MBA
<b>Semester / Academic Year:</b> III(A) Batch. 2019-21/Section-A
<b>Objectives of Course :</b> <ul style="list-style-type: none"><li>To study the usage and applications of Strategic management</li><li>To acquire knowledge on Strategic management</li><li>To understand the basic concepts, principles of Strategic management</li></ul>

## LESSON PLAN

Module / Unit	Topic No/classes	Topic	Teaching method	Books Referred/Material used in class
Module 01	1/1	Meaning and Nature of Strategic Management	<b>Case based discussion- Opening case</b>	<i>Text Book for Reference:</i> <i>Crafting and executing Strategy</i> <i>Arthur Thompson</i> <i>Opening Case: Robin hood</i>
	1/2	Characteristics of Strategic Management. Process importance & role	<b>Class Lecture</b>	<i>Text Book for Reference VSP</i> <i>Rao 17,14,20</i>
	2/3	Relationship between Company's Strategy and Business Model.	<b>Class Lecture</b> Discussion of Mini experiential learning project- Strategic Human League	<i>Text Book for Reference VSP</i> <i>Rao 56-73</i>
Module 02	3/4	Strategy formulation- Strategic vision and Mission	<b>Lecture</b> With use of RVIM Vision statement	<i>Text Book for Reference VSP</i> <i>R.10</i>  <i>Additional Reading:</i> <i>RVIM PRISM-Case</i> <i>Article strategy for new india a 75</i>
	4/5	Setting Objectives Balanced score card	<b>Lecture:</b> Use balance score card- Video for students understanding	<i>Text Book for Reference</i> <i>Strategic Management VSP Rao</i> <i>11</i>  <i>Additional Video:</i>



			<a href="https://libri.org/video/3633937-148001-the-explainer-the-balanced-scorecard">https://libri.org/video/3633937-148001-the-explainer-the-balanced-scorecard</a>	Use balance score card- <a href="https://www.linkedin.com/posts/activity-6716985696114110464-uPFN">https://www.linkedin.com/posts/activity-6716985696114110464-uPFN</a>
	5/6	The hierarchy of Strategic Intent Strategy into a Strategic Plan	<b>Lecture:</b>	<i>Text Book for Reference</i> USP Rao 10, 32  <i>Additional Reading Material :</i> Article by CK Prahalad
Module 03	5/7	Analyzing a company's External Environment -	<b>Lecture</b>  <b>Class Discussion:</b> With Use of Industry data-For analysis of external environment	<i>Example of industry data: Gem and Jewellery industry.</i> <a href="https://www.ibef.org/industry/gems-and-jewellery-presentation">https://www.ibef.org/industry/gems-and-jewellery-presentation</a>
	6/8	Porter's dominant economic features - Competitive Analysis	<b>Lecture</b> with Learning Video: <a href="https://libri.org/video/embed/3590615226001-the-explainer-porters-five-forces">https://libri.org/video/embed/3590615226001-the-explainer-porters-five-forces</a>	<i>Text Book for Reference:</i> <i>Crafting and executing Strategy</i> ArthurThompson  <i>Additional Video for learning:</i> <a href="https://www.youtube.com/watch?v=gm1E2-FB0vXw">https://www.youtube.com/watch?v=gm1E2-FB0vXw</a>
	6/10	Porter's five force model, key success factors concept and implementation		
	7/11	Analyzing a company's resources and competitive position	<b>Lecture</b> With case data analysis – Airtel (PPT provided to class)	<i>Text book for Reference:</i> <i>Strategic Management -Fred David</i>
	8/12	Analysis of the company's present strategies – SWOT Analysis	<b>Class Discussion</b> with use of template of SWOT with Airtel Company data <a href="https://app.creately.com/diagram/1.3701j.Wc/Sp/edit">https://app.creately.com/diagram/1.3701j.Wc/Sp/edit</a>	<i>Additional reading:</i> <i>Strategy that works</i> <a href="https://youtu.be/n-akeozOmZk">https://youtu.be/n-akeozOmZk</a>
	9/13	Value chain Analysis	<b>Lecture</b>  With Video of Porter value chain analysis  <b>Class Discussion:</b> use of Airtel Company data for VCA	<i>Text book for Reference:</i> <i>Strategic Management -Fred David</i>
Module 04	10/14	Generic Competitive Strategies – Low cost	<b>Lecture</b>  <b>Class Discussion:</b> Low-cost leadership strategy at Walmart and IKEA	<i>Text book for Reference:</i> <i>Strategic Management -Fred David</i>



				<i>Additional Reading material:</i> Strategies for beating Low cost rivals-Prof. Nrmalaya Kumar
	11/15	Differentiation. Best cost	<b>Lecture</b>	<i>Text book for Reference:</i> Strategic Management -Fred David
	12/16	Bench marking. Focused Strategies.	<b>Class Discussion:</b> Best value strategy used at Samsung Differentiation used at Bajaj Auto.  Case Study on Video and Class Discussion <a href="http://hbsp.harvard.edu/product/7653-AVO-I-NC1">http://hbsp.harvard.edu/product/7653-AVO-I-NC1</a>	
	13/17	Strategic alliances. Collaborative partnership	<b>Lecture</b>	<i>Text book for Reference:</i> Crafting and executing Strategy- Arthur Thompson
	14/18	Joint Ventures Strategies Outsourcing Strategies	<b>Lecture</b>	<i>Text book for Reference:</i> Crafting and executing Strategy- Arthur Thompson
	15/19	Strategic alliances Mergers and acquisition	<b>Lecture</b>	<i>Text book for Reference:</i> Crafting and executing Strategy- Arthur Thompson
	16/19	<b>Case Discussion</b>	<b>Case Discussion.</b> Flipkart vs Amazon vs Snapdeal	<i>Text book for Reference:</i> Crafting and executing Strategy- Arthur Thompson
	17/21	International Business level strategies	<b>Case Discussion:</b> TCS in China	<i>Text book for Reference:</i> Crafting and executing Strategy- Arthur Thompson
<b>Module 05</b>	18/22	Formulating long term and Grand Strategies	<b>Lecture:</b> Explanation of concept followed by <b>Class Activity</b> Exercise on building a Grand Strategy (text book exercise –pg-209 )	<i>Text book for Reference:</i> Strategic Management -Fred David.
	19/23	Tailoring grand Strategy to fit specific Industry and company situation	<b>Lecture with Video on</b> <a href="https://www.youtube.com/watch?v=Uj6t8L19K0Q">https://www.youtube.com/watch?v=Uj6t8L19K0Q</a> <i>Fit for Growth</i>	<i>Text book for Reference:</i> Crafting and executing Strategy- Arthur Thompson
	20/24	Long term objectives for Grand Strategies- Innovation	<b>Lecture:</b>	<i>Text book for Reference</i> Strategic Management, Charles Hill
	21/25	Integration and diversification, Retrenchment.	<b>Lecture:</b>  <b>Class Discussion:</b> Discuss retrenchment or turnaround strategy used in India in	<i>Text book for Reference:</i> Crafting and executing Strategy



		Three PSU's Air India, BHEL, and	
22/26	Restructuring and turnaround – GE nine cell	<p><b>Lecture:</b></p> <p>Use of the GE nine cell matrix tool explain choice of strategy</p> <p>Template from Creatively  <a href="http://creately.com/diagram-sample/mc3wmt24GE-%20McKinsey%20Matrix">http://creately.com/diagram-sample/mc3wmt24GE-%20McKinsey%20Matrix</a></p>	<i>Text book for Reference</i> <i>Strategic Management, Charles Hill</i>
23/27	Planning grid and BCG Matrix.	<p><b>Class Activity:</b> build BCG for a case company data by Using of BCG template in <a href="http://www.strategyclub.com">www.strategyclub.com</a></p>	<i>Text book for Reference</i> <i>Strategic Management, Charles Hill</i>
24/28	Strategy Implementation Operational zing strategy	<p><b>Lecture</b></p> <p>Video: capability assessment  <a href="https://www.youtube.com/watch?v=q1sb6dlyY8&amp;feature=youtu.be">https://www.youtube.com/watch?v=q1sb6dlyY8&amp;feature=youtu.be</a></p>	<i>Text book for Reference:</i> <i>Crafting and executing Strategy</i> <i>ArthurThompson</i>
25/29	Developing Functional strategies	<b>Lecture</b>	
30/31	Developing and communicating concise policies.	<b>Lecture</b>	
31/32	Institutionalizing the strategy-Structure	<p><b>Class Discussion on the Video</b></p> <p><a href="https://youtu.be/WAJORLr9kC">https://youtu.be/WAJORLr9kC</a>  <i>Fit for Growth</i></p>	
32/33	Leadership and Culture	<b>Class Discussion on Enron case-</b> Video:	
33/34	Ethical Process	<a href="https://www.youtube.com/watch?v=...">https://www.youtube.com/watch?v=...</a>	
34/35	Strategic review and audit	<p><a href="https://www.journalofaccountancy.com/issues/2002/apr-the-rise-and-fall-of-enron.html">https://www.journalofaccountancy.com/issues/2002/apr-the-rise-and-fall-of-enron.html</a></p>	<i>Text book for Reference:</i> <i>Crafting and executing Strategy</i> <i>-ArthurThompson</i>
35/36	Strategic control guiding and evaluating strategies	<p><b>Lecture:</b></p> <p>Link for strategic planning for unpredictable times:  <a href="https://youtu.be/pRAIPsic0Ic">https://youtu.be/pRAIPsic0Ic</a></p>	
36/37	Challenges of strategy Implementation		
37/38	Strategic thinking among managers		



	37/39	Strategic Audit	Case study -Case on Dabur India	
	38/40	Operational Control Systems	Class with Video for learning	<b>Text book for Reference:</b> <i>Crafting and executing Strategy</i> -ArthurThompson  Lecture/Video: capability assessment  <a href="https://www.youtube.com/watch?v=q1sb6dlyY8&amp;feature=youtu.be">https://www.youtube.com/watch?v=q1sb6dlyY8&amp;feature=youtu.be</a>
	39/41	Managing Technology and Innovation-  Strategic issues for Non Profit organizations.	<b>Lecture</b>  <i>Video for Class Discussion:</i> <a href="https://youtu.be/F1sc2rgFvjx">https://youtu.be/F1sc2rgFvjx</a>	<b>Text book for Reference:</b> <i>Crafting and executing Strategy</i> -ArthurThompson
	40/42	Blue Ocean Strategy.	<b>Lecture</b>  <b>Video for Explaining Strategy:</b> <a href="https://hbr.org/vid-co/6089366740001/the-explainer-blue-ocean-strategy">https://hbr.org/vid-co/6089366740001/the-explainer-blue-ocean-strategy</a>  <b>Video for class discussion:</b> <a href="https://youtu.be/sYdaa02CS5E">https://youtu.be/sYdaa02CS5E</a>	<b>Text book for Reference:</b> <i>Crafting and executing Strategy</i> -ArthurThompson
	41/43	Managing In An Economic Crisis, New Directions In Strategic Thinking	<b>Lecture</b>	<b>Text book for Reference:</b> <i>Crafting and executing Strategy</i> -ArthurThompson
	42/44	Small Scale Industries, New Business	<b>Lecture</b>	<b>Text book for Reference:</b> <i>Crafting and executing Strategy</i> -ArthurThompson
	43/45	Models and strategies for Internet Economy	<b>Lecture</b>  <b>Case of Netflix -Class Discussion</b>	
	44/46	Internet Economy	<b>Lecture</b>	<b>Text book for Reference:</b> <i>Crafting and executing Strategy</i> -ArthurThompson
<b>Module -06</b>	45/47	Defining Corporate Governance,	<b>Lecture</b>	<b>Text book for Reference</b> Business Policy and Management Gupta



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46/48	Exploring Corporate Governance	Lecture	<b>Text book for Reference</b> Business Policy and Management Gupta
47/49	Relationships between Internal and External Stakeholders	Lecture	<b>Text book for Reference</b> Business Policy and Management Gupta
48/50	The organization's Responsibility and Accountability to its shareholders. The Organization's Accountability to its Board	Lecture	<b>Text book for Reference</b> Business Policy and Management Gupta
49/50	Directors, Role and Responsibilities of the	Lecture	<b>Additional Reading: Article</b> Role of Corporate Board
50/51	Board, Integrity and Ethical Behaviour	<b>Simulation:</b> Game to learn role of Board	

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# CASE STUDY APPROACH

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# Case 22



## Robin Hood

Joseph Lampel  
*New York University*

It was in the spring of the second year of his insurrection against the High Sheriff of Nottingham that Robin Hood took a walk in Sherwood Forest. As he walked he pondered the progress of the campaign, the disposition of his forces, the Sheriff's recent moves, and the options that confronted him.

The revolt against the Sheriff had begun as a personal crusade. It erupted out of Robin's conflict with the Sheriff and his administration. However, alone Robin Hood could do little. He therefore sought allies, men with grievances and a deep sense of justice. Later he welcomed all who came, asking few questions and demanding only a willingness to serve. Strength, he believed, lay in numbers.

He spent the first year forging the group into a disciplined band, united in enmity against the Sheriff and willing to live outside the law. The band's organization was simple. Robin ruled supreme, making all important decisions. He delegated specific tasks to his lieutenants. Will Scarlett was in charge of intelligence and scouting. His main job was to shadow the Sheriff and his men, always alert to their next move. He also collected information on the travel plans of rich merchants and tax collectors. Little John kept discipline among the men and saw to it that their archery was at the high peak that their profession demanded. Scarlock took care of the finances, converting loot to cash, paying shares of the take, and finding suitable hiding places for the surplus. Finally, Much the Miller's son had the difficult task of provisioning the ever-increasing band of Merry men.

The increasing size of the band was a source of satisfaction for Robin, but also a source of concern.

The fame of his Merry men was spreading, and new recruits were pouring in from every corner of England. As the band grew larger, their small bivouac became a major encampment. Between raids the men milled about, talking and playing games. Vigilance was in decline, and discipline was becoming harder to enforce. "Why," Robin reflected, "I don't know half the men I run into these days."

The growing band was also beginning to exceed the food capacity of the forest. Game was becoming scarce, and supplies had to be obtained from outlying villages. The cost of buying food was beginning to drain the band's financial reserves at the very moment when revenues were in decline. Travelers, especially those with the most to lose, were now giving the forest a wide berth. This was costly and inconvenient to them, but it was preferable to having all their goods confiscated.

Robin believed that the time had come for the Merry men to change their policy of outright confiscation of goods to one of a fixed transit tax. His lieutenants strongly resisted this idea. They were proud of the Merry men's famous motto: "Rob the rich and give to the poor." "The farmers and the townspeople," they argued, "are our most important allies. How can we tax them, and still hope for their help in our fight against the Sheriff?"

Robin wondered how long the Merry men could keep to the ways and methods of their early days. The Sheriff was growing stronger and becoming better organized. He now had the money and the men and was beginning to harass the band, probing for its weaknesses. The tide of events was beginning to turn against the Merry men. Robin felt that the campaign must be decisively concluded before the Sheriff had a

chance to deliver a mortal blow. “But how,” he wondered, “could this be done?”

Robin had often entertained the possibility of killing the Sheriff, but the chances for this seemed increasingly remote. Besides, killing the Sheriff might satisfy his personal thirst for revenge, but it would not improve the situation. Robin had hoped that the perpetual state of unrest, and the Sheriff’s failure to collect taxes, would lead to his removal from office. Instead, the Sheriff used his political connections to obtain reinforcement. He had powerful friends at court and was well regarded by the regent, Prince John.

Prince John was vicious and volatile. He was consumed by his unpopularity among the people, who wanted the imprisoned King Richard back. He also lived in constant fear of the barons, who had

first given him the regency but were now beginning to dispute his claim to the throne. Several of these barons had set out to collect the ransom that would release King Richard the Lionheart from his jail in Austria. Robin was invited to join the conspiracy in return for future amnesty. It was a dangerous proposition. Provincial banditry was one thing, court intrigue another. Prince John had spies everywhere, and he was known for his vindictiveness. If the conspirators’ plan failed, the pursuit would be relentless, and retributions swift.

The sound of the supper horn startled Robin from his thoughts. There was the smell of roasting venison in the air. Nothing was resolved or settled. Robin headed for camp promising himself that he would give these problems his utmost attention after tomorrow’s raid.

## **Crisis Communication: Lessons from 9/11, Paul A. Argenti - INTRODUCTION (for all)**

At 8:45 am on September 11, 2001, John Murphy, the CEO of Oppenheimer Funds, was out for a run in lower Manhattan's Battery Park. He was thinking about the company's reorganization plan, which he had announced the day before, when suddenly he saw an explosion near the top of the north tower of the World Trade Center. He stopped to watch black smoke pour from the place of impact—an awful lot of smoke, it seemed, for what was probably a small plane that had lost its way. He thought of his own employees in the neighboring south tower and made a mental note not to renew Oppenheimer's lease in that building. "First the bombing in 1993 and now a plane accident," he thought. "What's next?" He continued jogging, now in the direction of the office.

At the same moment, some 1,600 miles away, Timothy Doke was fighting rush-hour traffic on his way to American Airlines headquarters in Dallas. His pager went off at the same time his cell phone started ringing. As Doke, American's vice president of corporate communications, scrambled to answer the phone and fish the pager out of his pocket, a sinking feeling came over him—a feeling made worse by a voice on the phone informing him that one of American's flights out of Boston had been hijacked. Doke passed the exit to his office and headed for the next one, which would take him to American's strategic command center, the company's hub for handling crisis situations.

Back in New York City, Mary Beth Bardin was in a cab on the traffic-snarled streets of midtown Manhattan on her way to a breakfast meeting when she, too, saw smoke billowing into the otherwise clear blue skies. "Something must be on fire downtown," she thought. The cabdriver turned on the radio, and Bardin was stunned to hear that a jetliner had crashed into one of the World Trade Center's towers. Traffic ground to a halt, and Bardin, executive vice president of public affairs and communications at Verizon, jumped out of the cab and headed on foot to her company's offices at 42nd Street and Sixth Avenue. She immediately thought about the 2,200 Verizon employees working in lower Manhattan, especially those located in the World Trade Center and in Verizon Wireless's store there. Could they have been hurt? Her pace quickened, and she reached for her cell phone to let headquarters know she was on her way in. • • •

Many companies have faced disasters in the past. What was unique about the events of September 11 was the breadth of their impact on business. Some companies lost scores of employees. Many others saw key components of their infrastructure destroyed, at least temporarily. A still larger group had to struggle with secondary effects—customers requiring heroic levels of service, suppliers unable to fill orders, breakdowns in transportation and communication, collapses in demand. And every company in the country had to deal with traumatized and bewildered workers. Suddenly, crisis management was every executive's job.

I've spoken with many managers about their experiences and how they responded to the events of 9/11. Some of them, like John Murphy and Mary Beth Bardin, were near Ground Zero. Others, like Tim Doke, were far away from the site of the attacks but were nevertheless buffeted by their impact. What I discovered is that, in a time of extreme crisis, internal communications take precedence. Before any other constructive action can take place—whether it's serving customers or reassuring investors—the morale of employees must be rebuilt. In the words of Ray O'Rourke, managing director for global corporate affairs at Morgan Stanley in New York, "We knew within the first day that, even though we are a financial services company, we didn't have a financial crisis on our hands; we had a human crisis. After that point, everything was focused on our people."

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In my conversations with a range of executives, I was able to distill five lessons that I think can serve as guideposts for any company facing a crisis that undermines its employees' composure, confidence, or concentration. Many of these lessons relate to preparation—to establishing plans and mechanisms for emergency action. But if 9/11 taught us anything, it's that we can't anticipate every contingency. Sometimes, we have no choice but to improvise. Here, too, the experiences I uncovered can serve as useful models. Improvisation, after all, is most effective when a strong corporate mission and vision are already in place to inform and guide it.

## Get on the Scene - GROUP 1 : Swati

In a move that would soon attain legendary status, New York City Mayor Rudolph Giuliani arrived at the World Trade Center within minutes of the first attack to take charge of the rescue operation. In the days and weeks that followed, he would conduct several press conferences in the vicinity of the destroyed towers, attend many funerals and memorial services, and maintain what seemed like a ubiquitous presence in the city. His visibility, combined with his decisiveness, candor, and compassion, lifted the spirits of all New Yorkers—indeed, of all Americans.

During the crisis, the most effective managers maintained similarly high levels of visibility in their own organizations. They understood that a central part of their job is political and that their employees are, in a very real sense, their constituents. In periods of upheaval, workers want concrete evidence that top management views their distress as one of the company's key concerns. Written statements have their place, but oral statements and the sound of an empathic human voice communicate sincerity. And if the voice belongs to a company leader, the listener has reason to think that the full weight of the company stands behind whatever promises and assurances are being made. In the words of Rob Densen, Oppenheimer's director of corporate affairs and a survivor of the 1993 bombing of the World Trade Center, most people engulfed in a crisis "want to be led and accordingly need to trust that you are going to lead them."

As the local telephone service provider to much of New York, Verizon faced enormous business and operational challenges in the wake of the Trade Center attacks. The 2,200 Verizon employees who were situated in the vicinity of the Center were involved in running the densest knot of cables and switches anywhere in the world. The attack knocked out 300,000 voice access lines and 4.5 million data circuits and left ten cellular towers inactive, depriving 14,000 businesses and 20,000 residential customers of service. Within hours, Larry Babbio, the head of the company's telecom business, traveled to the site to inquire after the safety of employees and inspect the damage. The CEO, Ivan Seidenberg, during the week following the attack, worked closely and at length with the communications team to craft and record voice mails addressed to employees who could still be reached outside the area of devastation. These messages went out daily until the stock market reopened the following Monday. "This was a time for leadership, and employees wanted to hear directly from the leader," Bardin says. The messages focused on employee safety, those unaccounted for, the condition of the network, and how Verizon was going to get the New York Stock Exchange open for business. In addition, senior managers toured various facilities to meet with employees, and Seidenberg himself inspected the damage to Verizon's building at 140 West Street.

Employees at the *New York Times* faced a particularly harrowing challenge after the attacks. They were as traumatized as other New Yorkers—the company's main offices are on West 43rd Street, about three miles from Ground Zero, close enough for them to see the smoke. But it was their job to cover the attacks with the clearheadedness and distance of professional journalists. The sheer scale of the event, and its effect on friends and neighbors, shook even the most hard-bitten news-room veterans. Russell Lewis, CEO of the New York Times Company, realized that the leadership team had to be seen acting "calmly, rationally, and humanely"—indeed, to be seen smiling—"so that our staff would mirror our behavior." One of the first things he did was to go to the building's fire command station and use its emergency public-address system to assure the staff that, until more was known about the attack, the safest place to be was within the *Times*' fortress-like headquarters. He would use the system frequently over the next several days to reassure and update employees.

"When people heard us on the speakers, they listened. Your voice must sound calm, in control and, most important, earnest," says Lewis, thinking back. He, Chairman and Publisher Arthur Ochs Sulzberger, Jr., and *Times* newspaper President Janet Robinson became the crisis management team, walking throughout the building each day to answer employees' questions concerning such matters as building security and to thank them for their dedication. "Most of all, we wanted people to know we were all in the same boat," Lewis says.

Communicating with the people actually covering 9/11 was far from unnecessary. "If anything," he says, "journalists needed more information [than other *Times* employees] about what the company was doing in response to the crisis. They are paid to be skeptical of authority, and if you can't adequately explain and defend what it is you're telling them, they won't go along."

The presence of senior management wasn't just important for companies in Manhattan—all around the country, bewildered and frightened employees were hungry for leadership. Think of Dell. It's headquartered in Texas, and

its people suffered little direct impact from the terrorism. Yet they were devastated emotionally. Within a few days of 9/11, CEO Michael Dell and Kevin Rollins, Dell's president and chief operating officer, out of a simple desire to be involved and heard, decided they would meet with all of their directors and vice presidents, who were encouraged to talk about how they and their teams were holding up. To keep the meetings small and personal, three were held. The meetings were also taped and put on the company intranet for the benefit of every employee. In a stark departure from business as usual, Dell and Rollins said the focus should not be on sales or margins but rather on Dell's people and helping affected customers rebuild.

### **Choose your Channels Carefully – GROUP 2: Saher**

Whether natural or man-made, disasters often disrupt normal flows of communication. Phone lines and power lines may be destroyed. Computer networks may go down. Groups of employees may be stranded or isolated. This was certainly the situation many companies faced after 9/11. To reach their people, managers often had to be creative in using unusual communication channels. Many, for instance, used the mass media to communicate with employees. Oppenheimer Funds, which occupied five floors at Two World Trade Center, wanted to send a message to both its employees and its customers that it would be operational as soon as the markets reopened. So CEO John Murphy appeared on CNBC's *Squawk Box* to deliver that message. In fact, its contingency site in New Jersey was ready for trading before the markets reopened.

Normally, of course, the news media and corporate America have what may best be described as an adversarial relationship—one that communications officers are asked to “manage.” However, as the events of 9/11 unfolded, many of them realized that they needed to start thinking of the media as allies—in part because their failed communications systems left them no other choice. At Morgan Stanley, the voice mail system serving its 2,700 employees based in Two World Trade Center and another 1,000 in Five World Trade Center, a smaller structure, had been disabled, as had the internal Web site for its broker network.

But affected companies did not view the media channel as merely a default communications system. Ray O'Rourke of Morgan Stanley explains: “[Our employees] take real-time news feeds on their desktops. They are very news sensitive. They read it, analyze it, question it. The media were critical for communicating with our employees.”

Oppenheimer's Rob Densen concurs: “Employees take their cue from the external media, so you need to demonstrate your functionality through the media.” One way Oppenheimer did so was by publishing a full-page letter from Murphy to his employees in the *Wall Street Journal*, *USA Today*, and the *New York Times*.

Some employees will trust a message that has been mediated by independent gatherers and distributors of the news more than one that comes directly from the company or appears as a paid advertisement. This filtering effect is especially useful at companies where employees tend to be suspicious of statements from management. American Airlines, for instance, has had a history of troubled relations with two of its unions, the Association of Professional Flight Attendants and the Allied Pilots Association. According to Tim Doke, “In a crisis, we usually end up relying on news media to get our message out... [CEO] Don Carty speaking directly to employees through media outlets such as CNN's *Larry King Live* and the network morning shows has built bridges and created understanding between management and labor.” In the aftermath of 9/11, both unions waived a number of the rights of their rank and file to help American Airlines get its planes back in the air.

Although some companies have put computer kiosks on factory floors, the continuous nature of manufacturing operations and the distance of some workers from on-line hookups make communicating via e-mail in such venues difficult. American Airlines found a way around this by using its reservation system to reach as many employees as possible. “[Carty's] voice mails were transcribed and sent to the SABRE machines—those machines that print your itineraries and tickets—as well as posted on the Internet and e-mailed to employees,” says Doke.

The machines are scattered all over airports, including employee lounges. While their major function is to receive messages, they do have a module permitting the company to communicate with employees, especially those in the field. “The SABRE machines meant that even maintenance people on tarmacs, who might not have Internet access at work, could be kept informed,” Doke says. American Airlines also recorded Carty's messages on Internet hot lines and posted transcripts of them on its Web site.

To confirm that they were safe, Morgan Stanley's employees could call one of the toll-free numbers that fed into the company's Discover Card call centers. The firm also put the number on the ticker display that wraps around its Times Square building. Here, too, the TV networks played a role by broadcasting the number. Quickly, the Discover Card call center became *the* call center during the crisis, even routing calls from non-Morgan Stanley employees looking for information.

### **Stay Focused on the Business – GROUP 3: Rachel**

"Everyone wanted to know what they could do in the wake of 9/11," says Russell Lewis. "At the New York Times Company, no one had to even ask that question. Our mission is to put out the best newspaper we can so that readers can be as informed as possible. Just like a trauma surgeon, this is what we train for. There was no question that our employees felt that their job had meaning. And in the end, the *Times* received Pulitzer Prizes for its 9/11 reporting."

A focus on work, in fact, can be enormously helpful to employees in a time of crisis. It provides an outlet for their desire to help, gets them back into a normal routine, fosters their pride in the company and what they do, and builds strong bonds between themselves and their customers, many of whom desperately need the company to keep their products and services flowing.

According to Elizabeth Heller Allen, vice president of corporate communications at Dell, "the key was finding an outlet for our employees' desire to help." The urgency of getting some 75 of Dell's customers at Ground Zero and others in the DC area back in business pulled the staff together. At the same time, the senior leadership knew that only a revitalized staff would be able to deliver on Dell's strong reputation for customer service. A Dell document stated that the objective of its response plan was "to increase employee understanding of how the September 11 terrorist attacks affected Dell's customers and business and how Dell would respond." But, other company documents showed, top management knew that Dell's employees could assist affected customers only if they had a sense of security themselves.

Dell's business model, which dispenses with the middleman, puts the firm directly in touch with its thousands of customers. Because of that direct contact, employees know exactly what these customers need and want. "We have complete records of what we've sold to every customer, so we knew what they had lost," said Allen. "While it meant working around the clock to get the computers configured with the correct software, it was our way of giving back."

Other employees worked those hours to pack and ship systems to the affected customers, who could place orders 24/7. Dell also established service and response teams that customers could reach through dedicated phone lines and the company's Web site, which gave instructions for obtaining immediate assistance.

"Reaching out to employees struggling with shock, grief, and anger with a more family-like tone enabled us to focus those feelings on responding to our customers' urgent needs. Maintaining that tone with regular updates more firmly than ever linked our customer-experience strategy to our teams' everyday work," says Rollins.

Months after 9/11, the company tried to measure how effective these strategies were. It determined that Dell Helping Rebuild America, an internal Web site, received 54,947 hits in its first two months. The site averaged 603 hits per day, and had 11,016 unique visitors during that period, almost a third of the workforce. In addition, the company asked for feedback from employees and found that 90% thought that Web casts from the CEO and COO during the crisis were helpful and relevant to their jobs and the organization.

Starbucks displayed a similar mixture of head and heart. The chain of coffee shops had a total of 250 branches in New York City's five boroughs, four of them adjacent to Ground Zero. "A major part of what's helped us through this was engaging in the relief effort," Marty Annese, a senior vice president, told a trade publication. The initial "instinctive" response of the company's crisis management team, according to Chairman Howard Schultz, was to close all company-owned stores in North America so that employees "could return home to be with family and friends," according to a company statement. Headquarters conveyed this message by voice mail and e-mail to all the stores.

But with the exception of 15 or so stores at the southern end of Manhattan, the New York City branches reopened on September 13. Several served food and coffee to rescue workers at Ground Zero, to people at blood donation centers, and to those at the Jacob Javits Convention Center, the command center for volunteer operations during the crisis.

### **Have a Plan in Place – GROUP 4: Kusum**

While many companies have crisis contingency plans and disaster recovery plans in place, few had been tested as rigorously as they were on September 11. As Gregor Bailar, then chief information officer of Nasdaq, commented, “People will have to look very carefully at their backup strategies and see whether they can communicate with everybody easily, whether [critical data] are stored in that same building that could experience [a] disaster.”

Having contingency plans means, among other things, establishing contingency work sites. Soon after a truck bomb exploded in the garage of the World Trade Center in 1993, the New York Board of Trade began planning them. By 1995, it had built two sites in the borough of Queens. For six years, they sat empty, costing NYBOT \$300,000 annually in rent and utilities. After September 11, 2001, however, these remote trading pits proved to be one of the best investments NYBOT had ever made.

Web-based communications require their own version of contingency planning. When the destruction of Oppenheimer’s Trade Center offices knocked out its intranet Web server, staff moved quickly to post crisis communications on a newly created employee section of the company’s Web site. Many other companies also took that approach so that employees who had Internet access at home could stay connected.

Although operations during a crisis should be decentralized, decision making should not be. Airlines have some of the better-developed crisis command centers. At American, the strategic command center is a vast room featuring a large, horseshoe-shaped table with fully equipped workstations and a conference call line that can accommodate as many as 200 outside callers. Large-screen televisions set up to receive satellite broadcasts allow command center employees to monitor all news coverage of the crisis.

Operations during a crisis should be decentralized, but decision making should not be.

Messages should also be sent from a centralized source. At Oppenheimer Funds, Bob Neihoff, then manager of contingency planning, called a designated number within moments of the attack, punched in some information, and activated the company’s crisis plan. Employees already knew to call into the Denver operation, which assumed control of the technology running the Web sites and voice mail systems. However, the substance of all communications came from Densen, the corporate affairs director, and CEO Murphy in New York City.

A widely circulated toll-free number can help ensure that employees obtain information from a single authorized source. Because Verizon had such a number, its 250,000 employees nationwide were able to access recorded messages containing the latest information about the crisis. Morgan Stanley’s toll-free number was televised as early as 11:00 am on September 11, making it, according to President and COO Bob Scott, “the first national emergency number of any organization, including the federal government.” By 1:30 pm that day, the firm’s crisis center had received more than 2,500 calls.

Finally, many executives I spoke with emphasized how important it was to have experienced communications professionals on board. These people were panic proof, executives said. “The advantage of communications veterans,” adds American Airline’s Tim Doke, “is that they have done everything, so in a crisis you can easily pull them out of one job and put them in another.”

### **Improvise, but from a Strong Foundation – GROUP 5: Kritika**

“All of the planning that you do for a crisis helps you get through the basics,” says the New York Stock Exchange’s Robert Zito, its executive vice president for communications. Still, “people need to think on their feet and make quick decisions. Until the crisis comes, in whatever form, you don’t really understand how valuable all the preparation was.”



There is more to preparation than training. As important is instilling in employees the firm's values. Although Starbucks ordered its 2,900 North American stores closed within a few hours of the attacks, the managers of several undamaged stores near the disaster site decided on their own initiative to stay open, a few all night, to provide coffee and pastries to hospital staffs and rescue workers. Others served as triage centers for the injured. People who had been wandering the streets of lower Manhattan in a daze were grabbed by Starbucks employees and pulled inside—and in some cases, lives were saved when nearby buildings collapsed.

One of the eight precepts recited in Starbucks' mission statement is, "Contribute positively to our communities and our environment." Many of Starbucks' outlets are, even in Manhattan, neighborhood-gathering places, full of comfortable chairs in which customers may linger for hours. Essentially, they had helped bring together the community they served.

Goldman Sachs's neighborhood is, in the abstract, the global marketplace, but its employees' dedication to this community couldn't have been fiercer. In one of his regular voice mails, Goldman Sachs CEO Henry Paulson saw something of the typical bond trader's agility and coolness under fire in his employees' ability to cope with a disabled transportation system. "Getting to work remains very difficult," he said. "Many routes are sealed off or closed. But that hasn't stopped you... The police stepped in and stopped the buses [you chartered]. So one of you had the clever idea to secure ferryboats. What you couldn't do by land you did by sea. Today, the idea of special buses with police escorts was a winner. And every colleague who needed to be in the office was here."

That may have been due, in part, to other remarks Paulson had made. "Our assets will always be our people, capital, and reputation, with our people being the most important of the three... And the lesson here is that our principles will never fail us as long as we do not fail to live up to them."

Goldman Sachs employees weren't the only ones using nautical approaches to get to the office. At the *New York Times*, Russell Lewis told us that one reporter kayaked across the Hudson River to get to work.

Many of the executives we spoke with emphasized that a company cannot start communicating its mission and vision during a crisis. Employees will know what to do only if they have been absorbing the company's guiding principles all along. Two of Oppenheimer's shared values, according to an internal document, are "dedication to caring" and "team spirit." Thinking back to 9/11, CEO John Murphy says, "If you have a strong culture, you have the ability to maintain focus. On 9/11, we had a structure, a belief system, and a hierarchy all in place. That helped us to get through the crisis, and we haven't skipped a beat since."

Employees will know what to do in a crisis only if they have been absorbing the company's guiding principles all along.

The company had one more advantage: a communications strategy, which succeeded in reminding its employees and the world of those assets. When the markets reopened, Oppenheimer, the only mutual fund manager in the towers, had one of the largest net inflows of any broker-sold fund family in the United States.

The most forward-thinking leaders realize that managing a crisis communications program requires the same dedication and resources they typically give to other dimensions of their business. They also realize that a strong internal communications function allows them not only to weather a crisis but to strengthen their organization internally.

Just as a death in the family often brings people closer together, so did the catastrophe on 9/11. Many of the executives I interviewed talked about how their companies sustained that sense of community long after 9/11 by keeping the lines of communication open. At the *New York Times*, the strength of these bonds was tested soon after the terrorist attacks when a reporter received an envelope containing a white powder suspected to be anthrax. Once again, Russell Lewis and other senior executives went on the public address system. "For that time period," he recalls, "we were a family, and that doesn't wear off, as long as you are consistent in your concern for coworkers."

A version of this article appeared in the [December 2002](#) issue of *Harvard Business Review*.



# Analysis of Toyota Motor Corporation

By: Thembani Nkomo

This paper will explore the external and internal environment of Toyota Motor Corporation, and suggest recommendations to sustain its competitive advantage.



## **ANALYSIS OF TOYOTA MOTOR CORPORATION**

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## 1. TOYOTA CORPORATE OVERVIEW:

Founded in 1937, Toyota Motor Corporation is a Japanese company that engages in the design, manufacture, assembly, and sale of passenger cars, minivans, commercial vehicles, and related parts and accessories primarily in Japan, North America, Europe, and Asia. Current brands include Toyota, Lexus, Daihatsu and Hino. Toyota Motor Corporation is the leading auto manufacturer and the eighth largest company in the world. As of March 31, 2013, Toyota Motor Corporation's annual revenue was \$213 billion and it employed 333,498 people.<sup>1</sup>

## 2. EXTERNAL ENVIRONMENT OF AUTOMOTIVE INDUSTRY:

### 2.1. Industry Overview and Analysis

Toyota Motor Corporation competes in the automotive industry. The past five years were tumultuous for automobile manufacturers. Skyrocketing fuel prices and growing environmental concerns have shifted consumers' preferences away from fuel-guzzling pickup trucks to smaller, more fuel-efficient cars. Some automakers embraced the change by expanding their small-car portfolios and diversifying into the production of hybrid electric motor vehicles. Other automakers were more reluctant to shift their focus from big to small cars, expecting the price of fuel to contract eventually, bringing consumers back to the big-car fold. When fuel prices did fall during the second half of 2008, it was due to the US financial crisis ripping through the global economy. This had a domino effect throughout the developed and emerging worlds, with many Western nations following the United States into recession. Industry revenue fell about 15.4% in 2009.<sup>2</sup> Pent-up demands will aid industry revenue growth, estimated at 2.1% in 2013, thus bringing overall revenue to an estimated \$2.3 trillion.<sup>3</sup> Overall, the large declines followed by recovery are expected to lend the industry average growth of 2.2% per year during the five years to 2013. Throughout the past five years, growth in the BRIC countries supported production. Rising income in these countries led to an increase in the demand for motor vehicles. Also, Western automakers moved production facilities to BRIC countries to tap into these markets and benefit from low-cost production. Over the next five years, the emerging economies will continue their growth, and demand for motor vehicles in the Western world will recover. Industry revenue is forecast to grow an annualized 2.5% to total an estimated \$2.6 trillion over the five years to 2018.<sup>4</sup>

### 2.2. Industry Life Cycle

This industry is in the mature stage of its life cycle.

### 2.3. Industry Demand Determinants

Worldwide automobile demand is tied to vehicle prices, per capita disposable income, fuel prices and product innovation. On the supply end, vehicle prices stem from material and equipment costs, with higher steel and plastic prices raising manufacturers' purchasing costs and, ultimately, retail prices. During the past five years, automakers have been plagued with high steel and plastics prices, which have raised manufacturing costs and product prices. On the demand side, per capita disposable incomes determine affordability for consumers. As incomes increase, the propensity to purchase motor vehicles increases as they become more affordable. Incentives are used to generate sales during periods of low economic growth. Over the past five years, there has been a significant increase in the number of automobile financing companies being established in the BRICs. This has resulted in the number and range of automobile loans increasing, which has contributed to stronger industry demand. In the developed world, overall improved quality among most manufacturers has caused buyers to feel freer to use price to differentiate similar products. Consumers are increasingly better informed about a vehicle's actual cost and less likely to accept large annual price increases. In an era of low inflation, customers familiar with dealer cost information from consumer publications and the internet have become more astute when negotiating the purchase of a vehicle. In this way, consumer awareness and access to information can determine demand. Movements in fuel prices also generally influence the demand for vehicles by type. During periods of high fuel prices, more fuel-efficient vehicles are in demand. Over the past five years, the price of fuel has been rising, which has encouraged the adoption of hybrid and other fuel-efficient models. For example, Japanese carmakers offering more fuel-efficient vehicles took market share from manufacturers of large vehicles throughout the latter half of the past decade. Last, product innovation can spur demand, especially with regard to more fuel-efficient vehicles such as hybrids and electric models. The more fuel-efficient a model is, the more likely a consumer will be willing to invest up front in a new car for potential savings on fuel costs down the road.

## 2.4. Porter's Five Forces of the Automotive Industry

### *Threat of New Entry (Weak):*

- Large amount of capital required
- High retaliation possible from existing companies, if new entrants would bring innovative products and ideas to the industry
- Few legal barriers protect existing companies from new entrants
- All automotive companies have established brand image and reputation
- Products are mainly differentiated by design and engineering quality
- New entrant could easily access suppliers and distributors
- It is very hard to achieve economies of scale for small companies
- Governments often protect their home markets by introducing high import taxes

### *Supplier power (Weak):*

- Large number of suppliers
- Some suppliers are large but the most of them are pretty small
- Companies use another type of material (use one metal instead of another) but only to some extent (plastic instead of metal)
- Materials widely accessible
- Suppliers do not pose any threat of forward integration

### *Buyer power (Strong):*

- There are many buyers
- Most of the buyers are individuals that buy one car, but corporates or governments usually buy large fleets and can bargain for lower prices
- It doesn't cost much for buyers to switch to another brand of vehicle or to start using other type of transportation
- Buyers can easily choose alternative car brand
- Buyers are price sensitive and their decision is often based on how much does a vehicle cost
- Buyers do not threaten backward integration

### *Threat of Substitutes (Weak):*

- There are many alternative types of transportation, such as bicycles, motorcycles, trains, buses or planes
- Substitutes can rarely offer the same convenience
- Alternative types of transportation almost always cost less and sometimes are more environment friendly

### *Competitive Rivalry (Very Strong):*

- Moderate number of competitors
- If a firm would decide to leave an industry it would incur huge losses, so most of the time it either bankrupts or stays in automotive industry for the lifetime
- Industry is very large but matured
- Size of competing firm's vary but they usually compete for different consumer segments
- Customers are loyal to their brands
- There is moderate threat of being acquired by a competitor

## 2.5. Automotive Industry Cost Structure Benchmark

Purchases (70.7%), wages (6.3%), depreciation (6.0%), rent & utilities (1.7%), other (10.4%), profit (4.9%)<sup>5</sup>

## 2.6. Automotive Industry Competitive Landscape

Market share concentration in the industry is low. The industry is deemed to have a low level of concentration, and the largest four automakers are estimated to account for about one-third of global revenue.

## 2.7. Major Companies in the Automotive Industry

Toyota (10.2%), Volkswagen (9.6%), General Motors (6.9%), Ford (5.6%), Others (67.7%)<sup>6</sup>

## 2.8. Key Success Factors in the Automotive Industry:

- *Flexibility in determining expenditure:* Controlling employee-related costs, such as health and pension costs, makes manufacturers in the developed world more competitive.

- **Establishment of export markets:** Development of export markets helps negate any downturns in domestic markets.
- **Use of most efficient work practices:** Good industrial relations through a motivated workforce assist in minimizing industrial disputes.
- **Effective cost controls:** A close relationship with suppliers and good distribution channels assist controlling costs.
- **Access to the latest available and most efficient technology and techniques:** The industry is highly competitive, so enterprises need a technology-enabled competitive edge.
- **Optimum capacity utilization:** Excessively high plant utilization is required for success in any modern automobile and light-duty motor vehicle manufacturing plant.

### 3. INTERNAL ENVIRONMENT OF TOYOTA:

#### 3.1. Core Competency

The core competence of Toyota Motor Corporation is its ability to produce automobiles of great quality at best prices, thereby providing a value for money to the customers. This core competence of quality can be attributed to its innovative production practices. The quality aspect of Toyota's products have revolutionized the automobiles in the past and almost all the automobile companies had to try and better the quality of their products. It is a cornerstone of the cost leadership strategy that the company pursues.

#### 3.2. Distinctive Competency

Toyota's distinctive competence is its production system known as the "Toyota Production System" or TPS. TPS is based on the Lean Manufacturing concept. This concept also includes innovative practices like Just in Time, Kaizen, and Six Sigma and so on. Toyota has worked tirelessly over the years to establish this distinctive competence. No other automobile manufacturer can do it as well as Toyota does. This distinct competence has led to a competitive advantage that has given Toyota a sustainable brand name and a market leader position.<sup>7</sup>

#### 3.3. SWOT Analysis

##### *Strengths:*

- **Strong market position and brand recognition:** Toyota has a strong market position in different geographies across the world. The company's market share for Toyota and Lexus brands, (excluding mini vehicles) in Japan was 45.5% in FY2012. Similarly, Toyota has a market share of 12.2% in North America, 13.4% market share in Asia (excluding Japan and China), and 4.3% market share in Europe. In addition, the company holds a 7% share of the Chinese market and a significant market share in South and Central America, Oceania, Africa and the Middle East regions. Such strong market position allows the company to gain competitive advantage and also expand into international markets. In addition, Toyota holds a portfolio of strong brands in the automotive industry. Thus, the company's strong market position gives it significant competitive advantage and helps it to register higher sales growth in domestic and international markets.<sup>8</sup>
- **Strong focus on R&D:** Toyota has a strong focus on R&D to expand its product portfolio and improve the functionality, quality; safety and environmental compatibility of its products. The company's R&D efforts are directed at developing new products and processes and improving the capabilities of existing products. The company conducts its R&D operations at 14 facilities worldwide. Strong focus on R&D has helped the company in incorporating newer features to its existing range of products and also in bringing out latest technologies in the varied areas. The company's strong focus on R&D allows it to uphold the technological leadership in most of its product segments. It also enables Toyota to develop innovative products, leading to strong sales.<sup>9</sup>
- **Extensive production and distribution network:** Toyota has an extensive production and distribution network. Toyota and its affiliates produce automobiles and related parts and components through more than 50 manufacturing companies in 27 countries and regions besides Japan. During FY2012, the company produced 7,435,781 vehicles, including 3,940,000 vehicles in Japan and 3,495,000 vehicles across all other manufacturing locations. In addition, Toyota has an extensive distribution network. While the company's geographically well spread production base diversifies business risks, its extensive distribution network provides a wider reach, thus boosting revenues.<sup>10</sup>

##### *Weaknesses:*

- **Product recalls could affect brand image:** Toyota has conducted a number of product recalls in the recent past, which could affect the brand image and overall sales of the company. For instance, in 2011, Toyota recalled 111,000 models of Toyota and Lexus brands' vehicles due to the damage to elements of the substrate and potential shutdown of the hybrid system. Further in the year, Toyota recalled 181,000 vehicles in Japan in relation to abnormal noise and oil leakage that

may have resulted from slack of bolts in the sub transmission and the rear wheel differential. In addition, the company was involved in government investigations related to product recalls. For instance, in February 2012, the National Highway Traffic Safety Administration initiated a preliminary investigation of a potentially faulty power window master switch in the driver-side doors in model year 2007 Camry and RAV4 vehicles. This could also result in significant penalties, which could affect the operational margins.<sup>11</sup>

- **Declining sales in key geographic segments:** Toyota witnessed a decline in its sales in key geographic segments. In FY2012, the company witnessed declining sales across North America, Asia, Europe and other geographic regions, which together accounted for 60.8% of the total revenues of the company. Thus, a continuous decline in the company's key geographic segments could put pressure on the profit making segments and the overall revenues of Toyota.<sup>12</sup>
- **Poor allocation of resources as compared to peers:** Toyota has low return on equity (ROE) and return on assets (ROA) compared to its peer companies. The company's competitors such as Honda Motor and Nissan Motor have more ROE when compared to Toyota. Honda Motor's ROE was 4.8%, while Nissan Motor's ROE was 8% in FY2012. In contrast, Toyota's ROE was 2.7% in FY2012. Lower ROE and ROA compared to its peers indicates that the company is not using the shareholders' money efficiently and that it is not generating high returns for its shareholders. Thus, poor allocation of resources could hurt shareholder's value and confidence in the long term.<sup>13</sup>

#### *Opportunities:*

- **Growing global automotive industry:** The global automotive industry was severely affected by the economic downturn, with a decline in revenues being recorded in 2008 and 2009. However, 2011 saw a strong rebound which has continued into 2012. According to MarketLine, the global automotive manufacturing industry grew by 8.9% in 2012 to reach a value of \$1,563.9 billion. The recovery of global automotive industry thus provides Toyota an opportunity to gain more customers and increase revenues.<sup>14</sup>
- **Toyota poised to benefit from growing partnership with BMW:** Toyota is poised to benefit from the growing partnership with BMW. In June 2012, BMW and Toyota signed a memorandum of understanding aimed at long-term strategic collaboration on technological fields. As part of the agreement, the two companies will partner for the joint development of a fuel cell system, joint development of architecture and components for a future sports vehicle, collaboration on power-train electrification and joint research and development on lightweight technologies. The growing partnership between the two companies is expected to boost the technological know-how of the companies and may result in the development of new products thus increasing revenues in the long run. Also, in the short run, the combined partnership will result in significant synergies and cost-savings, boosting the operational margins.<sup>15</sup>
- **Strong outlook for the global new car market:** The global new cars market has experienced moderate growth during 2008-2012. However, forecasts suggest this will accelerate to strong double digit growth during the 2012-2016 periods. Thus, the strong outlook for the global new car market coupled with the company's new product launches provides a growth opportunity for the company.<sup>16</sup>

#### *Threats:*

- **Intense competition:** The worldwide automotive market is highly competitive. Toyota faces strong competition from automotive manufacturers in its various markets. The competition among various auto players is likely to intensify in light of continuing globalization and consolidation in the worldwide automotive industry. The factors impacting competition include product quality and features, the amount of time required for innovation and development, pricing, reliability, safety, fuel economy, customer service and financing terms. Increased competition may lead to lower vehicle unit sales and large inventory, which may result in downward pricing pressure, thus impacting the financial condition and results of operations of the company.<sup>17</sup>
- **Appreciating Japanese Yen a major concern:** Toyota is sensitive to the fluctuations in foreign currency exchange rates and is principally exposed to fluctuations in the value of the Japanese Yen, the US dollar and the Euro. The strengthening of the Japanese Yen against the US dollar and fluctuations in foreign exchange rates would have a material adverse effect on Toyota's reported operating results, which in turn would impact the valuation of the company.<sup>18</sup>
- **Natural disasters could impact production structure:** Toyota is subject to disruption of production due to natural disasters such as earthquakes, floods, among others. Toyota primarily operates in Japan which is a highest earthquake prone region in the world. The country has witnessed many devastating earthquakes in the recent years which seriously disrupted the economy. In 2011, the country witnessed one of the worst hit earthquakes in its history in the form of 2011 Tohoku earthquake, which led to a temporary production halt at its domestic auto manufacturing facilities. In the same year, major floods occurred in Thailand which halted its operations and production of about 150,000 Toyota automobiles. Such natural calamities, if occur frequently, could severely influence the production output of the company due to work stoppages and in turn impact the overall revenue base and profitability.<sup>19</sup>

### 3.4. BCG Matrix: Internal Analysis of Toyota Portfolio

	High Relative Market Share	Low Relative Market Share
High market growth	<p><b>STAR</b></p> <ul style="list-style-type: none"> <li>• Lexus- luxury sedans</li> <li>• Prius hybrid</li> <li>• Land Cruiser SUV</li> </ul>	<p><b>QUESTION</b></p> <ul style="list-style-type: none"> <li>• Scion – for youth in USA</li> <li>• Camry / Corolla – as hybrids</li> <li>• Bio –fuel, Solar –powered , hydrogen gas</li> <li>• Diesel engine cars for India, Southeast Asia</li> <li>• Small cars for India / China</li> <li>• More SUVs and MPVs : Fortuner</li> </ul>
Low market growth	<p><b>CASH COW</b></p> <ul style="list-style-type: none"> <li>• Camry , Corolla sedans</li> <li>• Innova , Venza –MPV</li> <li>• Daihatsu -small cars</li> </ul>	<p><b>DOG</b></p> <ul style="list-style-type: none"> <li>• Celica , MR2 -for youth</li> <li>• Tundra –pick-up</li> <li>• Crown, Cressida, Corona, Quails: Withdrawn</li> <li>• Declining markets in UK, Europe</li> <li>• Petrol cars to be phased –out</li> </ul>

### 3.5. VRIO Framework Analysis

- **Valuable:** Yes, because it has been proven to keep production costs low
- **Rare:** Yes, just-in-time production is a popular strategy used by companies in all industries; however, Toyota’s methodology is very rare.
- **Inimitable:** Yes, many companies have tried to recreate the system; however none have been able to do it in as efficient of a manner.
- **Organization:** Yes, Toyota has been using this system since the 1960’s and have been perfecting it along the way.
- **Competitive Implication:** This creates a sustained competitive advantage

### 3.6. Toyota’s Efforts in Emerging Economies

Toyota’s emerging market sales have increased significantly in the period 2000 to 2011, from 18.6% to 45%.<sup>20</sup> If this trend continues, Toyota’s sales in emerging markets will shortly surpass its sales in developed markets. Toyota successfully observed and responded to the needs of the rising of middle class in the emerging markets. Through localization initiatives, Toyota designs and produces cars in these markets to meet these consumers’ unique needs.

### 3.7. Case Study: Toyota’s Successful Strategy in Indonesia

Toyota first began selling cars in Indonesia in 1971 and began producing them in 1977. Toyota entered the market via a joint venture with Astra Motor.<sup>21</sup> From 2008 to 2012, sales have more than doubled from 199,000 units to 409,000 units.<sup>22</sup> In terms of market share, Indonesia is Toyota’s best performing market, with an estimated market share of 40%.<sup>23</sup> Four of the top ten best-selling cars in Indonesia are Toyotas, with the Toyota Avanza taking the clear lead. The success of Toyota in Indonesia can be attributed to its “Innovative International Multi-Purpose Vehicle” strategy launched in 2003. Specifically, Toyota designed and produced cars in Indonesia to meet the needs of the local market, with the Toyota Avanza priced at \$16,000. Toyota launched its second auto plant in Indonesia in March 2013 at an investment of \$340 million, and earlier this year, Toyota announced that it plans to invest an additional \$1.3 billion over the next five years.<sup>24</sup> If Toyota proceeds with this plan, this will represent a doubling of Toyota’s FDI of the last 40 years in the country. Motives for Toyota’s FDI initiatives in Indonesia include:

- To capture Indonesia's growing middle class; which is expected to double by 2020.
- To maintain its market dominance.
- In response to Government incentives for new car buyers, which include tax breaks as low as 0% for low cost eco-friendly cars, while maintaining interest rates in the low single-digits.

### 3.8. Toyota’s Strategic M&A, Partnerships, Joint Ventures, and Strategic Alliances (2009 – 2013)

Shown in APPENDICES 2 & 3.



### 3.9. Analysis of Financial Performance

Overall, Toyota has outperformed the industry over the past five years. Total assets increased 586.8 billion yen from the end of the previous fiscal year to 3,243.7 billion yen due mainly to an increase in market value of investment securities. Liabilities amounted to 1,718.8 billion yen, an increase of 259.7 billion yen from the end of the previous fiscal year due mainly to an increase in deferred tax liabilities. Net assets amounted to 1,524.9 billion yen, an increase of 327.1 billion yen from the end of the previous fiscal year. Cash flows from operating activities increased by 151.2 billion yen in fiscal 2013, due mainly to posting income before income taxes of 80.1 billion yen. Net cash provided by operating activities increased by 49.5 billion yen compared with an increase of 101.7 billion yen in fiscal 2012. Cash flows from investing activities resulted in a decrease in cash of 274.2 billion yen in fiscal 2013, attributable primarily to an increase in payments for purchases of property, plant and equipment amounting to 112.4 billion yen. Net cash used in investing activities increased by 264.8 billion yen compared with a decrease of 9.4 billion yen in fiscal 2012. Cash flows from financing activities resulted in an increase in cash of 7.0 billion yen in fiscal 2013, due mainly to 51.7 billion yen of net increase in short-term loans payable, despite the redemption of bonds payable of 54.1 billion yen. After adding translation adjustments and cash and cash equivalents at beginning of period, cash and cash equivalents as of March 31, 2013 stood at 179.3 billion yen, a decrease of 117.5 billion yen, or 40%, over fiscal 2012. <sup>25</sup> *Detailed Financial Ratios are shown in APPENDIX I.*

## 4. RECOMMENDATIONS:

- 1) Toyota should continue to undertake concerted efforts to strengthen its management platform and raise corporate value.
- 2) As immediate tasks, Toyota should promote business and cost structure reforms to realize a solid management platform so that it can respond quickly to the changing market circumstances. Specifically, Toyota should maintain a streamlined structure through the reduction of fixed costs and enhance its business in established markets in developed countries.
- 3) Toyota should accelerate its business expansion into rapidly growing emerging countries by thoroughly and meticulously monitoring market conditions in respective regions and introducing products suited to the characteristics and needs of each market. Toyota should also strive to establish production and supply structures to realize optimum product pricing and delivery, and to enhance the value chain to provide a wide range of customer services in each country and region.
- 4) Toyota should consider making Lexus a priority in the Chinese market. This will enable it to become competitive with other car manufacturers in the luxury segment. By increasing production facilities in Asia, this will enable Toyota to have cheaper delivery channels and become closer to the emerging market customer. Toyota should also cut out layers of middle management so that engineers get more authority over what specific customer needs are answered in the design and development of a new car.
- 5) Toyota should pursue the development of environmentally conscious, energy-saving products while incorporating functions and services demanded by customers (value chain) and delivering them to the global market. Acting on these measures, Toyota should aim for growth in three business units, namely, “solutions” in the areas of materials handling equipment, logistics and textile machinery; “key components” in the fields of car air-conditioning compressors and car electronics; and “mobility” in the domains of vehicles and engines.
- 6) To support consolidated management on a global scale, Toyota should enhance the power of the workplace and diversity in the use of human resources, and strive to nurture global human resources.
- 7) In addition to placing top priority on safety, Toyota should thoroughly enforce compliance, including observance of laws and regulations, and actively participate in social contribution activities.
- 8) Toyota should aim to support industries and social infrastructures around the world by continuously supplying products and services that anticipate customers’ needs in order to contribute to engendering a compassionate society.
- 9) Overall, Toyota has outperformed the industry over the past five years and gained market share. A shift toward smaller, more fuel-efficient vehicles, which Toyota can manufacture at a relatively low price, will support growth in the United States.

## ICT ENABLED TEACHING – PPT's

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# CORPORATE SOCIAL REPORTING

**Sustainable Development**



Contribution of companies

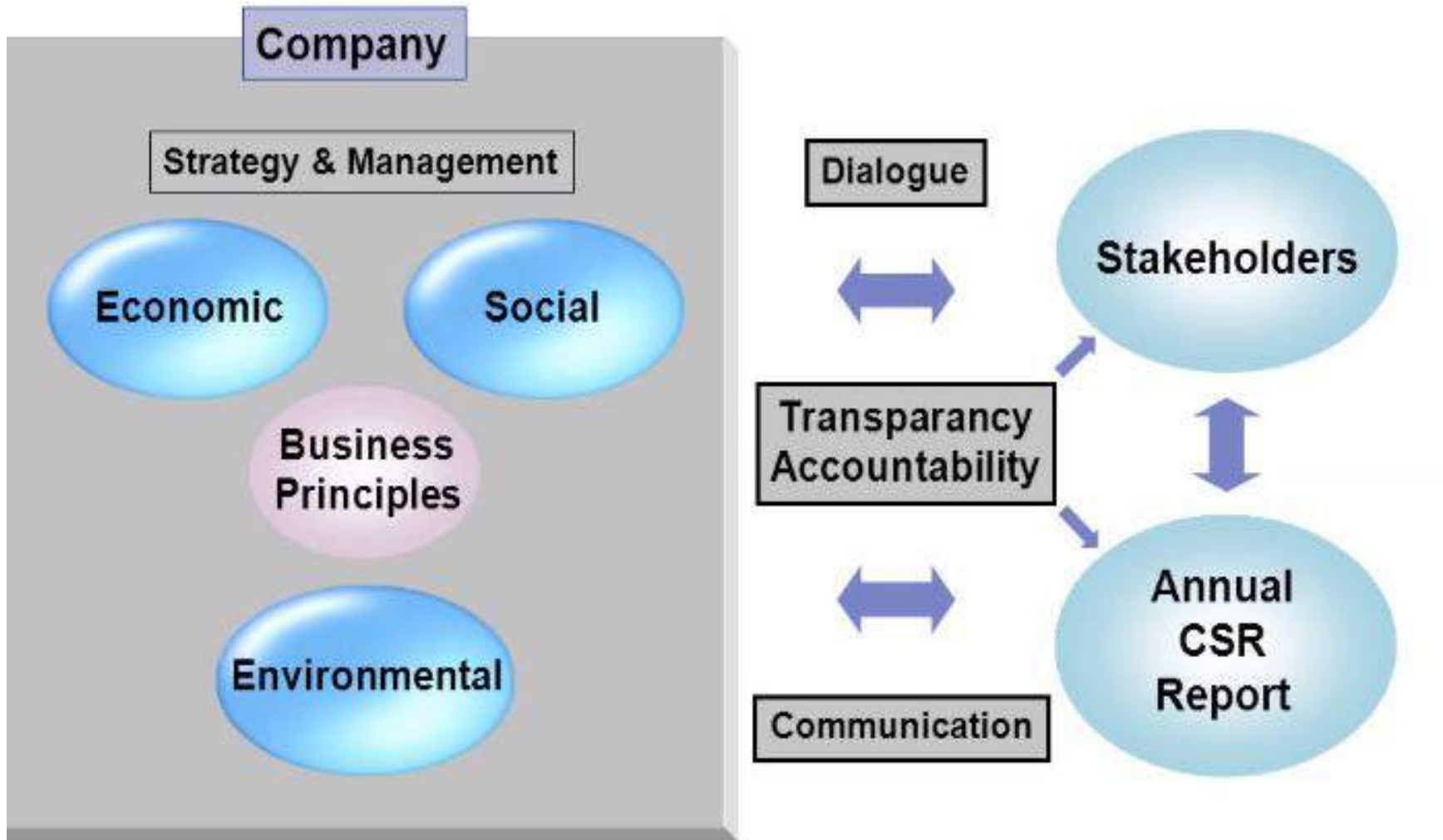


**Corporate Social Responsibility**

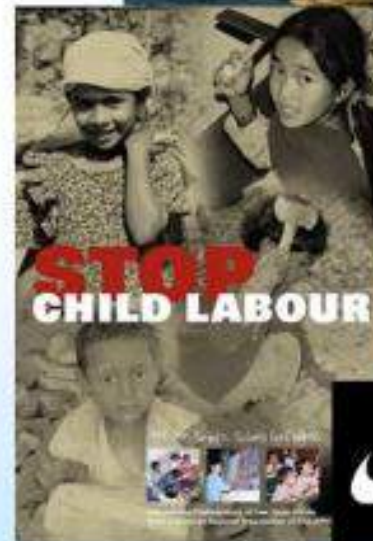
*"Sustainable development comprises economic and social development that protect and enhance the natural environment and social equity"*

Creating value by responding to society's needs

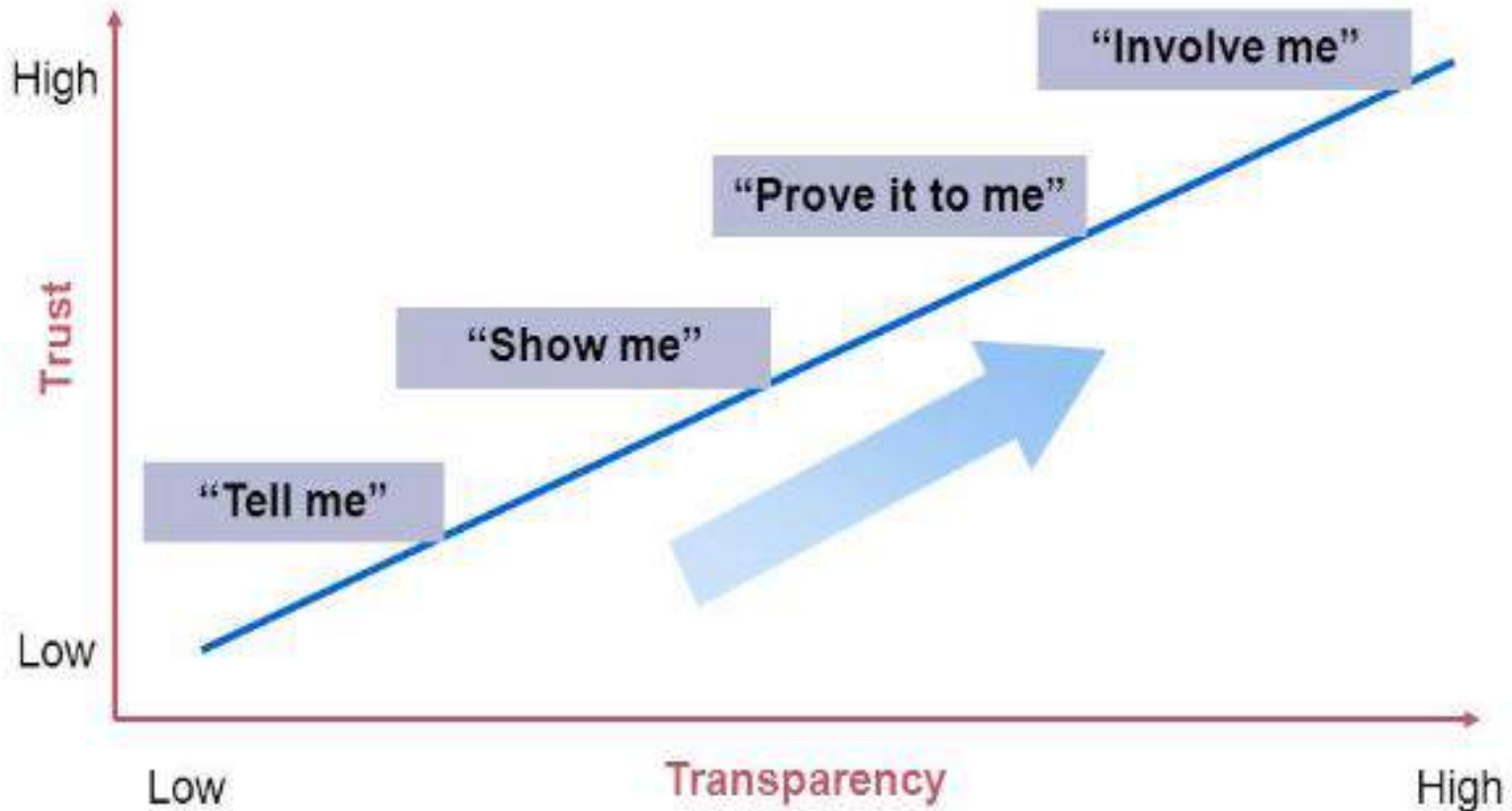
# MAIN ELEMENTS OF CSR



# EXTERNAL DRIVERS OF CSR



# EXTERNAL DRIVERS OF CSR



To obtain the trust of stakeholders,  
companies must become more transparent

# EXTERNAL DRIVERS OF CSR

## External Drivers for CSR Reporting

- **Business issue**

- Risk management
- Supply chain requirement

- **Laws and Regulations**

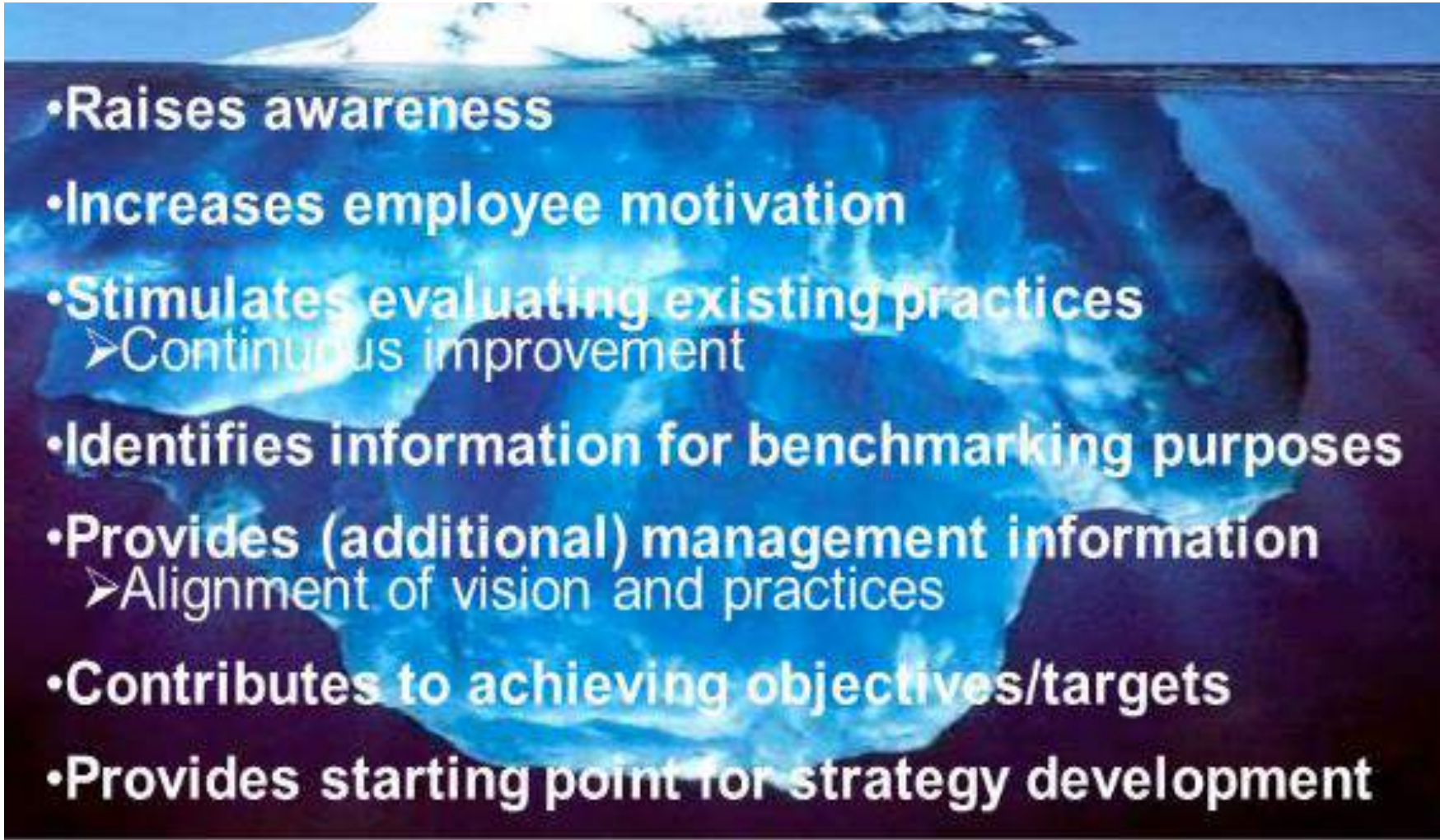
- Number of countries require mandatory reporting

- **Financial Sector Pressure**

- Sustainability Indexes (DJSI, FTSE)
- SRI
- Mainstream investors (increasingly)



# INTERNAL BENEFITS OF CSR

- 
- An iceberg floating in the ocean, with a small portion visible above the water surface and a much larger, jagged portion submerged below. The text is overlaid on the submerged part of the iceberg, symbolizing that the internal benefits of CSR are the much larger, less visible part of the overall picture.
- **Raises awareness**
  - **Increases employee motivation**
  - **Stimulates evaluating existing practices**
    - Continuous improvement
  - **Identifies information for benchmarking purposes**
  - **Provides (additional) management information**
    - Alignment of vision and practices
  - **Contributes to achieving objectives/targets**
  - **Provides starting point for strategy development**

# CARBON ACCOUNTING

## What is Carbon Accounting

Measuring and reporting the CO<sub>2</sub> emissions of an organization

Often called a 'Carbon Footprint'

Carbon Footprint Includes:

- direct power usage (from non-renewable power source)
- fuel-powered transport (travel and/or shipping)

The 'wider footprint' may include:

- Recycling and waste policies
- carbon reduction agreements with supply chain partners
- carbon reduction initiatives with employees

# CARBON ACCOUNTING

## Why follow Carbon Accounting

- Corporate social responsibility
- Supply chain expectations
- Brand value and image
- Expectations of related legislation
- Savings in energy consumption
- Provides superior management data

# CARBON ACCOUNTING

## Carbon Strategy

A Carbon Audit is first step to develop a Carbon Strategy

A Carbon Strategy is a long term action plan to manage and reduce the carbon footprint of an organization, it's clients and it's supply chain

A Carbon Strategy is compulsory in certain designated industries

# CARBON ACCOUNTING

## Elements of Carbon Audit

- An analyst calculates the carbon footprint in accordance with GHG standards
- Organizations apply GHG Protocol standards
- Carbon Reporting is split:
  - Power:
    - electricity, natural gas, oil-fired
  - Transportation:
    - road mileage (vehicle type), rail mileage, air mileage (origin-destination)
    - Ground freight (mileage & weight)
    - Air freight (weight) courier mileages

# CARBON ACCOUNTING

## Wider Carbon Footprint

### Materials (and recycling)

- Paper used (quantity & type)
- Materials sent to recycling (quantity & type)
- Waste not recycled (mixed, by weight)

### Detailed Footprint Analysis

- Detailed energy usage by supplier
- Detailed air & road travel (vehicle class and mileages)
- Commuting: distance and type for all employees
- Other savings e.g. video conferencing

# CARBON ACCOUNTING

## Basic Carbon Goals

Generic solutions:

- Cut energy usage
- Cut waste
- Increase re-cycling
- Cut down travel & shipping
- Reduce commuting

# CARBON ACCOUNTING

## Carbon Reporting Standards

- Total emissions, core and non-core
- Power used per square foot (offices)
- Carbon value per employee (per job / project / dept)
- Benchmark results with industry and market



# CARBON ACCOUNTING

## Corporate Carbon Culture

- Create carbon-conscious corporate culture
- Balance short term 'opportunities' with long term objectives
- Integrated carbon strategies (multiple reduction strategies)
- Improve carbon / energy / travel reporting procedures
- Delegate responsibility efficiency to departmental level
- Engage employees in work-based and domestic carbon reduction initiatives

# CARBON ACCOUNTING

## Corporate Carbon Culture

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# RESPONSIBILITY ACCOUNTING



# RESPONSIBILITY ACCOUNTING

- A Method of accounting wherein Costs are identified with persons assigned to their control rather than with products or functions.

# RESPONSIBILITY ACCOUNTING

## Basic Principles

- The organization structure must be clearly defined, and responsibility delegated so that each person know his role.
- The extent and limits of functional control must be determined.
- Responsible individuals must be served with regular performance reports.
- Every item should be the responsibility of some individuals within the organization.

# RESPONSIBILITY ACCOUNTING

## Basic Principles

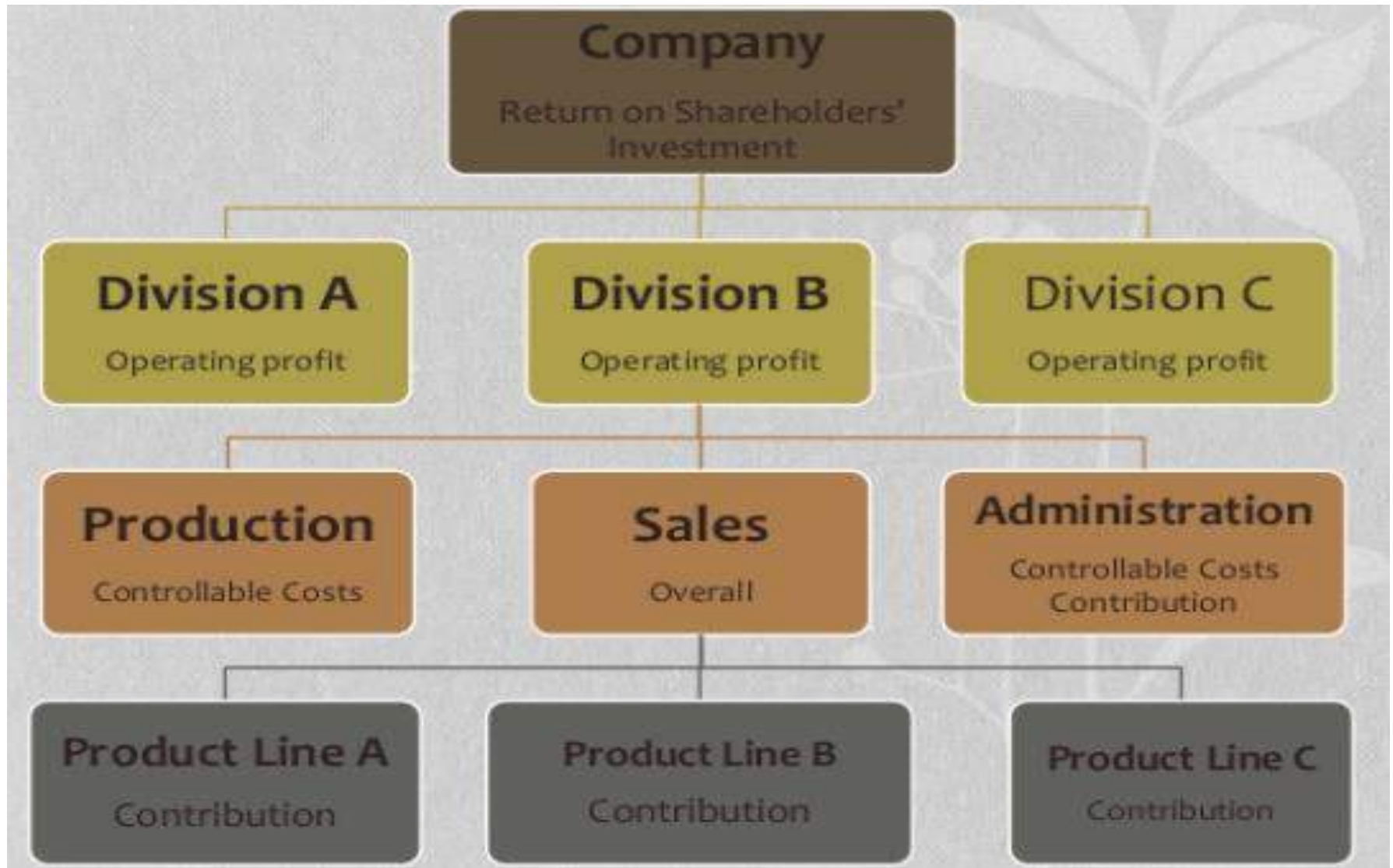
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- Every item should be the responsibility of some individuals within the organization.

# RESPONSIBILITY ACCOUNTING

## Benefits of Responsibility accounting

- It necessitates the need of clearly defining and communicating the corporate objective and individual goals.
- It compels management to set realistic plans and budgets.
- Exception reporting, built into any fully developed responsibility accounting system, enables managers to concentrate on the key issues which need their attention.
- It provides as system of closer control.

# RESPONSIBILITY ACCOUNTING





# RESPONSIBILITY ACCOUNTING

## Responsibility Report

Department:		Month:			
Foreman:					
Production (in units)		Budgeted	Actual	Variance (adverse/ favourable)	Remarks
<b>Controllable Costs:</b>					
Direct material		XXX	XXX	XX	
Direct labour		XXX	XXX	XX	
Indirect material		XXX	XXX	XX	
Maintenance		XXX	XXX	XX	
Indirect labour		XXX	XXX	XX	
	(a)	XXX	XXX	XXX	
<b>Noncontrollable Costs:</b>					
Depreciation		XXX	XXX	XX	
Building maintenance		XXX	XXX	XX	
Other allocated cost		XXX	XXX	XX	
	(b)	XXX	XXX	XX	
<b>Total Cost</b>	<b>(a) + (b)</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	

# RESPONSIBILITY CENTERS

- There are 4 types of responsibility centers:
  1. Revenue centers
  2. Expense centers
  3. Profit centers
  4. Investments centers

# REVENUE CENTERS

- If a responsibility center manager is held responsible for the outputs of the center as measured in monetary terms but is not responsible for the costs of the goods or services that the center sells, then the responsibility center is a revenue center.



The Reservations  
Department of an airline.

# EXPENSE CENTRES

- If the control system measures the expenses incurred by a responsibility center but does not measure its outputs in terms of revenues, then the responsibility center is called an expense center.



The Paint Department  
in an automobile plant.

# PROFIT CENTRE

Profit is the difference between revenue and expense.

If performance of the responsibility center is measured in terms of profit then it is a profit center.

A profit center resembles a business in miniature.

It is a good training ground for general management responsibility.

This concept has made possible the decentralization of profit responsibility in large companies.



Company-owned restaurant in  
a fast-food chain.

# INVESTMENT CENTERS

- An investment center is a responsibility center in which the manager is held responsible for the use of assets as well as for profit.
- The manager is expected to earn a satisfactory return on the assets employed in the responsibility center.



A division of a  
large corporation.

# Environmental Accounting

- EA is often referred to as Green Accounting which incorporates environmental assets and their source and sink functions into national and corporate accounts.
- It is the popular term for environment and natural resource accounting

# Environmental Accounting

- E A is a growing field that identifies resource use, measures and communicates costs of a company or the national economy actual or potential impact on the environment
- It aims to incorporate both economic and environmental information.
- It can operate at the company level or at the level of the national economy



# Environmental costs

- Costs to clean up or remediate contaminated sites, environmental fines, penalties and taxes,
- Purchase of pollution prevention technologies and waste management costs.

# Environmental accounting system

- It is composed of environmentally differentiated conventional accounting and ecological accounting.
- Impacts of the natural environment on a company in nominal or monetary terms
- Ecological accounting•It measures the impact a company has on the environment, but in physical units (e.g. kilograms of waste produced, kilojoules of energy consumed) rather than in monetary units.
- It is closely related to sustainability.