



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **MGT3114 Corporate Strategy**
Trimester & Year : September – December 2020
Lecturer/Examiner : Joseph Choe Kin Hwa
Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

1. This question paper consists of 2 parts:
PART A (40 marks) : TWO (2) Case Study Questions. Answer ALL of the questions. Answers are to be written in the Answer Booklet provided.
PART B (60 marks) : THREE (3) Structured-Type Questions. Answer ALL of the questions. Answers are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
3. This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
4. Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.

WARNING: The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

Total Number of pages = 5 (Including the cover page)

PART A : CASE STUDY QUESTIONS (40 MARKS)

INSTRUCTION(S) : Answer all **TWO (2)** questions. Write your answers in the Answer Booklet(s) provided.

Alibaba – the Yangtze River Crocodile

In May 2015, the Alibaba Group – China’s largest e-commerce company – got a new Chief Executive. Daniel Zhang was 43 years old, with a career in the accounting firms Arthur Andersen and PwC before joining Alibaba in 2007. Zhang’s experience in international firms was reflected in an early statement: ‘We must absolutely globalize,’ he said during a company-wide strategy session. ‘We will organize a global team and adopt global thinking to manage the business and achieve the goal of global buy and global sell.’

Zhang’s appointment as CEO came at a difficult time. Alibaba had undergone the largest ever Initial Public Offering (IPO) on the New York Stock Exchange in September 2014, achieving a total valuation of \$231bn (€173.3bn). But the first quarter of 2015 had seen profits at half those of the same period in the previous year. The Group’s share price was down a third from its post-IPO peak. Zhang’s predecessor as CEO had been dismissed after just two years in the job.

The man who appointed Zhang was Jack Ma, founder of Alibaba just 16 years earlier. Alibaba started as China’s first business-to-business portal connecting domestic manufacturers with overseas buyers. Since then, the Group had grown in many directions. 1688.com was founded for business-to-business trade within China. Alibaba’s Taobao Marketplace serves small businesses and individuals. Tmall.com provides electronic shop fronts to help overseas companies such as Nike, Burberry and Decathlon to reach Chinese consumers. Juhuasuan offers daily deals on everything from toys to laptops. There is also Alipay, effectively under Ma’s personal control but functioning as the Group’s equivalent to PayPal, which processes 75 per cent of Group transactions. One way or another, it is possible for Alibaba’s customers to trade almost anything: the American security services have even set up a sting operation on Alibaba to catch traders selling uranium to Iran. At the start of 2015, Alibaba had approaching 80 per cent of the e-commerce market in China, the largest e-commerce market in the world, and also had strong positions in Brazil and Russia. International e-commerce represented nearly 10 per cent of the company’s total sales of 76.2bn Yuan in the financial year ending 2015 (about \$12.3bn, €8.2bn).

Strictly, overseas investors do not directly own stakes in the Alibaba Group, instead owning shares in a shell company – a so-called Variable Interest Entity (VIE) – that has a contractual claim on Alibaba’s profits. This VIE structure is a common way for Western-listed Chinese firms to get around Beijing’s foreign-ownership rules. But the Chinese government could close the loophole at any time, and it gives foreign shareholders limited recourse against abuses by Chinese companies’ managers. Ironically, the most notorious VIE controversy so far involved Alibaba’s Jack Ma, who in 2011 separated Alipay from the rest of the Group without board

approval. Ma said new Chinese regulations forced him to make the move. Yahoo was only told about the spin-off five weeks after it had happened. A fund-raising round for Alipay's new parent company valued Alipay at nearly \$50bn.

Alibaba's relationship with the Chinese government is hard to read. Jack Ma insists that he has never taken loans or investment from the Chinese government or its banks: he had gone to overseas investors instead. However, given that a third of Chinese business activity is carried out within state-owned enterprises, the government is bound to be in close liaison with the dominant national player in e-commerce. Ma explained his philosophy as: 'Always try to stay in love with the government, but don't marry them.' The Alibaba Group has built up its political connections. Tung Chee-hwa, Hong Kong's first chief executive after its return to China, served on its board of directors. Alibaba has also allied with several so-called 'princelings', children of important political leaders. Princeling investors include Winston Wen, son of a former Chinese premier; Alvin Jiang, grandson of a former Chinese President; He Jinlei, son of a former Politburo member and a senior manager of the state Chinese Development Bank; and Jeffrey Zang, son of a former vice premier and a senior manager at China's state sovereign wealth fund, Citic Capital.

President Xi Jinping's reform campaigns were partly in response to changing economic conditions in China. After three decades of double-digit growth, China's growth rate has slowed to around 7 per cent a year. Such growth is very respectable by world standards. Besides, faced with rising domestic concern about the environment, President Xi was happy to restrain the expansion of high polluting industries such as cement, coal and steel. At the same time, the Chinese government was promoting e-commerce as a key area for future economic growth. However, there were causes for concern. Many local authorities and firms had borrowed heavily on expectations of higher growth, and there were fears that financial institutions had over-lent. Some warned of a consequent crash. Moreover, it was hard to see China's growth rate picking up again, on account of an ageing population and the drying up of the traditional supply of young labour from rural villages: by 2015, the Chinese workforce was falling by about three million workers a year. Although the government relaxed the famous one-child per family rule in 2013, Chinese parents are still reluctant to have more children because of the cost of housing and a good education in the main urban centres. It is predicted that by the early 2030s, about a quarter of China's population will be over 65 (against 17 per cent in the United Kingdom). Slower economic growth in China overall is being matched by some slowing in the rate of growth of the Chinese e-commerce market.

At the same time, Alibaba faces greater competition. A decade ago, Alibaba had seen off an attack by American rival eBay in the Chinese market with a fierce price-war. Jack Ma had proclaimed: 'eBay is a shark in the ocean; we are a crocodile in the Yangtze River. If we fight in the ocean, we will lose, but if we fight in the river, we will win.' A combination of cultural, linguistic and government policy factors kept Western internet companies at arm's length in the Chinese market: Google has been reduced to a market share of about one per cent, while Amazon eventually chose to list on Alibaba's TMall site after a decade pushing its own venture

in China. But now Alibaba's home-market dominance is facing a local challenge from the aggressive JD.com.

While Alibaba still depends on China's unreliable postal service to get its goods to customers' doors, JD.com has been more like Amazon in investing in its own distribution centres and delivery services. As a result, JD.com can promise same day delivery in 43 of China's biggest cities. Moreover, JD.com is well-placed to benefit from the shift to smartphones for e-commerce. Tencent, China's largest social networking and online games company, has taken a 15 per cent stake in JD.com, giving the challenger access to more than 400 million users of its WeChat phone messaging app. WeChat allows users to scan product bar codes with their smartphone cameras to make instant purchases through JD.com. Alibaba too has been entering smartphone e-commerce, and in early 2015, smartphone sales accounted for half of its retail Chinese sales, twice the proportion of a year earlier. But smartphone screen sizes are less attractive to advertisers, an important part of Alibaba's traditional PC-based business model. JD.com's domestic growth in the year to 2015 has been twice that of Alibaba's. Although JD.com was still only about 15 per cent of its rival's size, founder and chief executive Richard Liu has declared a goal of beating Alibaba to the top position: 'The competition makes the two companies stronger. I'm actually enjoying competing.'

Thus Alibaba's new chief executive Daniel Zhang faced many opportunities and threats in 2015. There were already promising signs in favour of the globalisation strategy, though. Alibaba's international flagship AliExpress had rapidly taken the number one position in Russia and the number three position in Brazil, with local users delighted to have direct access to cheap Chinese goods. One target now is the United States, only second to China in market size. The Yangtze River crocodile is aiming to attack the ocean sharks in their home seas.

(Adopted from Johnson, G., Whittington, R. & Scholes, K., Angwin, D. & Regner, P. (2016). Exploring strategy, 11th Edn. Pearson, United Kingdom. p. 58-68)

Question 1

Examine the macro-environmental factors of Alibaba at the time of the case.

(20 marks)

Question 2

Based on the case study, evaluate Alibaba's long-term plan for the corporate-level strategy.

(20 marks)

END OF PART A

PART B : STRUCTURED-TYPE QUESTIONS (60 MARKS)

INSTRUCTION(S) : Answer all **THREE (3)** questions. Write your answers in the Answer Booklet(s) provided.

Question 1

Your manager has asked you to prepare a report on the use of balance scorecard for strategy mapping. Prepare the report.

(20 marks)

Question 2

The Boston Consulting Group (BCG) Matrix is used to show the contribution of each division or portfolio of an organisation. Illustrate the BCG Matrix using a diagram and explain each quadrant.

(20 marks)

Question 3

Organisation structures can have major implications for organisational priorities and interactions in the marketplace. Structures therefore need careful alignment with strategy.

Analyse **FIVE (5)** main organisational structural types in terms of their strengths and weaknesses.

(20 marks)

END OF QUESTION PAPER