
UNIVERSITI SAINS MALAYSIA

Master of Business Administration

Second Semester Examination
Academic Session 2007/2008

April 2008

AGW612 – Corporate Strategy

Duration: 3 hours

Please check that this examination paper consists of **THREE** pages of printed material before you begin the examination.

Answer **ALL** questions. Your answers should be clear and concise—follow the rule of one-page-one-question

Question 1 (Case)**Southwest Airlines: The King of the Hill that is changing an Industry**

Much has been written about Southwest Airlines but more should be said. It is arguably the best airline in the United States and among the best in the world. Most competitors and analysts focus on Southwest's low-cost strategy. However, Southwest follows an integrated cost leadership/differentiation strategy. It differentiates its service with excellent human capital. The firm has fewer customer complaints than most competitors and has high "on-time" performance, among other distinctions.

Southwest's leadership in implementing the integrated strategy is changing the airline industry. Many of the "full service" airlines have tried to imitate Southwest's strategy but have been unable to manage costs effectively and/or offer comparable levels of services. Southwest continues to out-do most of its competitors such that they will have to change or die. In other words, Southwest is literally killing its competition. In the second quarter of 2005, Southwest announced a record increase in profits of 41 percent. Such an increase would be impressive enough under normal business conditions; coming at a time when the price of fuel is at record levels, causing most other airlines to announce major net losses, it is almost incredible. How was Southwest Airlines able to make such profits? It is effective in managing its costs, particularly through its hedging program. Gary Kelly, the CEO of Southwest Airlines, has suggested that no airline can make a profit when the price of oil is above \$50 a barrel. As a result, Southwest has negotiated hedging agreements that extend through 2009 to pay no more than \$35 a barrel for at least 25 percent of its fuel needs. It holds options for approximately 85 percent of its oil for \$26 a barrel. It has been hedging the cost of its fuel since 2001, when the price of a barrel of oil was only \$17. In recent times, the cost for a barrel of oil has been greater than \$70. These types of decisions have helped Southwest to achieve 57 straight profitable quarters and allow the executives the flexibility to never lay off employees (even following September 11, 2001, when many large companies and most other airlines experienced major employee layoffs).

Southwest has also become increasingly aggressive in competitive actions. For example, it acquired an interest in AirTran Airways, thereby obtaining access to six additional gates at Midway Airport in Chicago. At a time when most of Southwest competitors are reducing capacity, Southwest plans to add 29 planes to its fleet, bringing the total to 417, in order to increase its capacity for flights and passengers by 10 percent. "I feel very good about our competitive position as long as we continue to improve", Southwest's CEO Kelly said, adding that if Southwest's growth hurts a competitor, it is a byproduct of the growth. Most of his competitors, Kelly suggested, will have to manage their cost structure more effectively or they will not be likely to survive.

- (a) What are the critical facts that have affected Southwest Airlines historical strategic direction and performance?
- (b) How do you analyze the general environment of Southwest Airlines?
- (c) How do you analyze the industry in which Southwest Airlines does its business?
- (d) How do you assess strengths and weaknesses of Southwest Airlines?

- (e) How do you analyze the functional activities of Southwest Airlines?
- (f) What are the opportunities and threats of Southwest Airlines?
- (g) What strategies and alternatives do you chose for Southwest Airlines?
- (h) What implementation actions would you recommend?

[25 marks]

Question 2

Explain Penrose's theory of growth and elaborate on "Receding management limit".

[25 marks]

Question 3

Describe Miles and Snow's typology of organizations in relation to culture and strategy formation. List the different types, explain their characteristics and strategy formation.

[25 marks]

Question 4

What are the purposes and elements of strategic thinking? As you are aware, organizational learning is required in strategic thinking. What are the elements of organizational learning?

[25 marks]