

Department of Management Sciences (PUMBA)
MBA ++ (AY: 2011-12)
Mid-Term Examination
Management Control System

SEM IV

Marks-30

All questions are compulsory.

Que1. Organizational Restructuring of L & T.

Mr. A.M.Naik the Chairman of the company believes that no other company in the world is as complex as L&T.....not even GE. He also said that no one Chairman can manage such a complex operation. He said he was able to do this job because he has been with the company for 46 years and has started 60% of these businesses.

L&T does not have a promoter in the traditional manner. Its largest shareholder is LIC with about 14% holding. It is thus a professionally managed company. For quite some time now Mr. Naik has been saying that he is finding it very difficult to find a successor who will be able to manage this complex company involved in many businesses.

Right now many of its SBUs work on the Profit Center basis and are managed by a management team that reports to the HO.

Now the company plans to restructure itself by carving out the Rs. 37000 crore engineering and infrastructure behemoth into nine virtual companies.

Each of these to be called "independent companies" for the time being will have a full-fledged CEO, CFO and HR head and will manage its own P&L account. Each will even have its Board of Directors with at least three independent directors.

Going forward some of these companies could be spun out of L&T and listed by 2015. Mr.Naik says that most of these companies will be ready for listing by March 2012, if it is so decided.

The nine boards will be soon set up will not have any legal or statutory standing but will merely advise the CEO and the management of these entities. Ten of the 27 independent directors required are already been identified according to Mr. Naik. He says that these companies will act as if they are listed entities short of facing shareholders. The L&T board has approved this restructuring and the implementation is in full swing.

The independent units will be:

Power

Hydrocarbon

Machinery & products

Heavy Engineering

Infrastructure

Building & Factories

Metals & Minerals

Electrical Business

Each of these is worth a billion dollars in revenues or very close to that figure. According to the Chairman this restructuring is part of an exercise to make the job easier for his successor by streamlining L&T's sprawling and complex web of 64 businesses.

Most CEOs of these independent companies will be in the age group of 55-59 years thus ensuring there are no more succession challenges for 5 to 10 years. However it is not clear if anyone of these 9 will ultimately succeed Mr. Naik.

L&T as it is today will in all probability become the holding company for these 9 companies plus many other subsidiary companies like L&T Infotech and L&T Finance.

1. Comment on the strategy of restructuring of L&T.
2. What kind of Management Control System this new structure will require? (15)
3. What challenges do you fore see in controlling this structure?

Que2. Briefly discuss the concept of EVA. (9)

Consider the following data for the two geographical divisions of ABC Ltd that operate as profit centers.

Mumbai Div	New Delhi Div.	
Total Assets	Rs 10 lakhs	Rs. 50 lakhs
Current Liabilities	Rs.2.5 lakhs	Rs. 15 lakhs
Operating income	Rs. 2 lakhs	Rs. 7.50 lakhs.

Que3. Calculate ROI using operating income as measure of return and net assets as the measure of investment.

If ABC Ltd. has equity capital of Rs. 35 lakhs and long-term debt of Rs. 35 lakhs, cost of equity 14% and rate of interest 12% what is the EVA? (6)