

## Case study 3

### Topic 1: Business organisation and environment

Chapter 1: The nature of business activity

Chapter 2: Types of organisation

Chapter 3: Organisational objectives

Chapter 4: Stakeholders

Chapter 5: External environment

Chapter 6: Organisational planning tools

Chapter 7: Growth and evolution

Chapter 8: Change and the management of change

Chapter 9: Globalisation

### Freeman Wallis plc (FW)

Freeman Wallis plc is a multinational conglomerate with regional headquarters in Europe, the Middle East, Africa, North America and Australasia. In 2009 its global turnover exceeded \$200m with net profits of \$7.36m, making it one of the top 500 companies in the world. The board of directors of FW have recently received an offer of \$1.2m for one of their subsidiaries, Hero Ltd. Hero Ltd specialises in production of plastic injection mouldings for the car industry. With the automotive industry not yet recovered from the recent deep recession, the directors are enthusiastic to take advantage of this cash buyer. Nevertheless, another FW subsidiary in the same town as Hero Ltd could suffer from local ill feeling if the new buyers do not treat workers well. Other FW subsidiaries buy some of their supplies from Hero Ltd. A sale would mean that they would no longer be guaranteed a cheap price. On the other hand, in a highly competitive world market for such products, they could use alternative global suppliers, as quotas rarely apply to such products.

Legal fees for the sale would probably cost around 5% of the sale price. The buyers have said that they would be willing to delay purchase for a year in order to allow FW time to consider their decision. This does not mean, however, that they would be willing to offer the same price. Economists estimate that there is a 30% chance that economic conditions will remain unchanged next year. If that is the case, the offer for Hero would probably stay the same. There is a 40% chance that the recession will deepen. If that is the case, the value of Hero Ltd could fall by 20%. If the world economy turns around, FW do not expect the buyers to offer any more than 5% more for Hero Ltd.

Internal changes would be needed within the central Automotive Products Division of FW if the sale goes through. This would involve around 5% redundancies. Internal and external stakeholders have already expressed their concerns. The board of directors have alerted the HR director and public relations team to possible conflicts. It has been proposed that a project team should be assigned to address issues arising from the potential changes.

**SL questions: 20 marks, 35 minutes**

- 1 Define the term 'multinational conglomerate'. (2)
- 2 Why do big international companies like FW often have subsidiaries in less-developed countries (LDCs)? (5)
- 3 Draw a decision tree to decide whether FW should sell now or delay their decision. (6)
- 4 Discuss how a project team could minimise the problems caused by the changes that could result from FW's sale of Hero. (7)

**HL questions: 25 marks, 45 minutes**

- 1 Define the term 'multinational conglomerate'. (2)
- 2 Draw a decision tree to decide whether FW should sell now or delay their decision. (6)
- 3 Discuss how a project team could minimise the problems caused by the changes that could result from FW's sale of Hero. (8)
- 4 Evaluate whether FW should wait to sell Hero Ltd. (9)