JULY 2019 SUPPLEMENTARY / AEGROTAT EXAMINATION

MODULE:

STRATEGIC AND CHANGE MANAGEMENT

PROGRAMME:

MASTER OF BUSINESS ADMINISTRATION

(NQF 9)

DATE:	17 July 2019	TIME:	09h00 – 12h00
DURATION:	3 hours	MARKS:	100
EXAMINER:	O M Seedat	MODERATOR:	A Kader

INSTRUCTIONS TO CANDIDATES:

1. Candidates are required to answer **ALL** questions.
2. This is a closed book examination.
3. No written material may be brought into the examination room.
4. Write legibly and neatly.
5. Do **not turn over this page** until permitted by the Invigilator.

*This question paper consists of **six (6) typed pages** excluding the cover page.*

QUESTION ONE [20]

Read the following excerpt and answer the questions that follow:

In June 1984, General Motors (GM) and Daewoo of Korea signed an agreement that called for each to invest $100 million in a Korean based 50/50 alliance, Daewoo Motor Company, which would manufacture a small car, the Pontiac LeMans , based on GM's popular German-designed Opel Kadett. Daewoo executives would oversee the day-to-day management of the alliance, and GM executives would provide managerial and technical advice.

Roger Smith, them GM's chairman told Korean reporters that GM's North American operation would probably end up importing 80 000 to 100 000 cars a year from Daewoo Motor Company.

Eight years of financial losses later, the alliance collapsed in a blizzard of mutual recriminations between Daewoo and General Motors. The divorce was completed in November 1992 with an agreement by Daewoo to pay GM over three years for its 5o percent stake in Daewoo Motor Company.

Adapted from: Hill and Jones (2001) Strategic Management An integrated Approach 5th ed. Houghton Mifflin

2.1 Discuss the general reasons why companies enter into strategic alliances and outline the possible reasons that prompted GM and Daewoo to sign an agreement. (14)

2.2 Outline possible reasons for the breakup of the alliance between GM and Daewoo. (6)

QUESTION TWO [20]

Read the following article and answer the questions that follow

Can MTN become the biggest bank in Africa?

It's certainly pulling out all the stops **Hilton Tarrant**

When the continent's largest mobile operator by subscribers, MTN, appointed Rob Shuter as group CEO, Stephen van Coller as one of its vice presidents and Ralph Mupita as CFO in 2016, the strategy was plain to see. It was hinging its future on financial services.

Shuter has run a mobile operator before (Vodafone Netherlands, following a short stint as CFO at Vodacom), but was an executive at Nedbank for a decade. Prior to joining MTN, Van Coller headed Barclays Africa/Absa Group's corporate and investment bank. Van Coller originally joined to lead strategy, mergers and acquisitions. Within six months, his role was changed to head "Digital Services, Data Analytics & Business Development".

At the time of his appointment, MTN stated plainly that "his substantial commercial experience will assist in the formulation of a revised strategy for MTN, particularly in the area of convergence between mobile telephony and financial services". CFO Mupita was CEO of Old Mutual's Emerging Markets unit, active in Africa, Asia and Latin America.

One of the six pillars of its reformulated strategy is growth through data and digital and – in 2017 – it stepped on the accelerator on both fronts.

Of its 217 million subscribers as at end-2017, 69.1* million are active data users. Mobile Money (MoMo), now active in 14 of its 22 markets, had 21.8 million active customers, year-on-year growth of 35%.
Mobile money services typically offered by mobile operators include: person-to-person transfers, disbursements, bill payments, merchant payments, airtime top-ups, getting cash into the system, as well as getting cash out.

Paul Theron, CEO of Vestact, says Mobile Money is a "vitally important opportunity for MTN, especially in markets where most of their customers are unbanked, and where MTN has a dominant market share (like Nigeria, Ghana and Uganda)". He argues that they should have "many more" MoMo customers than 22 million across the group already.
Vodacom leads the way on the continent, with CEO Shameel Joosub describing the group as the "biggest bank in Africa" in November. This is the title that MTN is after (French rival Orange is a distant third, with 12 million active customers).

Vodacom has moved about $100 billion through M-Pesa (via associate Safaricom in Kenya as well as its other international operations) in the last year.

As at end-September, it had 33.3 million active M-Pesa customers, of which nearly two out of every three were in Kenya. Over R82 billion is transacted monthly via M-Pesa on Safaricom's network, while R24 billion is transacted monthly in Vodacom's other international operations.

Given its unprecedented and as yet unreplicated success, M-Pesa accounts for over a quarter of Safaricom's service revenue. In the 2018 financial year, this will be in the region of R6.5 billion (of a R24 billion total). In Vodacom's other international operations (particularly Tanzania), M-Pesa already contributes 13.6% of service revenue.
Vodacom group CFO Till Streichert, made the rather obvious point on the Q3 earnings call that "M-Pesa is clearly an accretive service from a margin point of view".
This provides some idea of the scale of the revenue opportunity.

Mobile industry trade body the GSMA, highlights this point in its 2017 State of the Industry Report on Mobile Money: "Just a few years ago, mobile money was valued by many mobile network operators for its indirect benefits, such as less churn and greater brand loyalty. Today, it is widely viewed as a source of direct revenue."

MTN is catching up to Vodacom, and fast. Eight out of every ten of its mobile financial services subscribers come from five markets: Ghana, Uganda, Côte d'Ivoire, Nigeria and Cameroon. These are five of its seven largest operations. This diversity is good, as MTN is not relying on only one or two markets as in the case of Vodacom. Shuter said recently that because of high financial services penetration rates, the MoMo model was not suited to either South Africa or Iran (the remaining two of its seven largest operations).
"Mobile Money is a vitally important opportunity for MTN, especially in markets where most of their customers are unbanked, and where MTN has a dominant market share (like Nigeria, Ghana and Uganda)."
In 2017, MoMo made up 13.6% of the Ghana operation's revenue, with 7.1 active customers. That's very comparable with Vodacom's efforts in Tanzania (6.2 million active M-Pesa customers).

Shuter told Bloomberg in November that the operator was adding “about 500 000 active banking clients a month”. This peaked in December, when it added 900 000 active subscribers across the group and processed transactions totalling $5.3 billion (then ±R70 billion).
Theron adds that its distribution makes this all possible: “MTN has built sophisticated networks for selling airtime and handling cash, right down to the neighbourhood yellow umbrella, so it’s a no-brainer! The functionality to handle micro-finance (deposits and payments) is already fully operational on their core Ericsson billing system”.
The MoMo engine processed an average of 4 600 transactions per minute through last year, has 325 000 active agents in place and delivered average revenue per user (ARPU) of $1.10.

This uplift provided by MoMo-driven revenue is obvious in the ARPU reported across many of its core markets through last year. In Ghana, for example, ARPU increased from GH¢13.66 in Q4 2016 to GH¢18.15 in the same quarter last year.

MTN’s strategy to drive additional services revenue extends beyond just banking, however. There are efforts underway in e-commerce as well as entertainment services. It has 9.3 million active gaming subscribers in 10 markets and 1.8 million music subscribers.
Shuter told Bloomberg in November that “in the right markets, there is no reason why an MTN version of Spotify, where we collect the money from the pre-paid wallet or mobile-money account and we arrange the local content, can’t be successful.”

Its stated focus for this year is to “rapidly scale Mobile Money and rich media subscriptions”. Getting there is going to rely on MTN continuing to drive mobile data adoption and usage.
In its 2017 integrated report, MTN says, “the big aspects of growth in our industry are data and digital. Data is about selling megabytes: we want to bring another 130 million customers into the data world and reach 200 million data customers in the next few years.”

“Our dual-data strategy is very important here: delivering high capacity 4G in cities and broad 3G coverage in rural areas. A big piece of digital is MTN Mobile Money because consumers really need an easy, affordable, transactional financial services product that has not been provided by the mainstream commercial banks. Who else will lead that if not MTN?”
Having 200 million data subscribers is a stated aspiration for 2022. Along with this, it is targeting 100 million digital subscription customers in less than five years’ time, including 60 million for Mobile Money.
The ever-shifting regulatory environment may temper financial services growth in some markets, and Theron says that MTN “does need regulatory approval to operate effectively, without workarounds and odd partnerships with local banks. MTN doesn’t need (or probably want) full banking licenses in each market”. Growth in Nigeria, for example, remains hampered by the requirement that MoMo users have actual bank accounts. Cracking Nigeria could change the game completely.
Look out, Vodacom. “Under new CEO Rob Shuter the business is in much better shape,” says Theron. “It’s a good time to buy MTN shares.”
http://moneyweb-2.instantmagazine.com/investor/the-moneyweb-investor-issue-41/can-mtn-become-the-biggest-bank-in-africa

Questions

2.1 Identify and critically discuss the strategy MTN is attempting to implement. Your answer must include the inherent risks attached to this strategy. (10)

2.2 Discuss the strategic leadership expectations of Shuter by considering the tasks and responsibilities of strategic leadership in an organisation. (10)

QUESTION THREE **[25]**

Implementation of any change programme needs to take account of the restraining forces of change. Managers should anticipate some employee resistance and plan for this eventuality in the change strategy (Brown, 2011:171)

3.1 Explain the difference between “overt’ and “covert” resistance and discuss the reasons why change is resisted in organisations (10)

3.2 The response to change tends to move through a life cycle. Describe the phases typical of an organisational change process. (5)

3.3 Discuss the ways in which resistance to change can be managed. (10)

QUESTION FOUR **[15]**

Organisational processes are sometime seen as being synonymous with excessive bureaucratisation. Yet, processes are also key to strategy implementation.

With reference to this, discuss the salient differences between bureaucracy and good process, and explain how process can facilitate strategy implementation.

QUESTION FIVE **[20]**

Read each of the following extracts (Adapted from Pitt M and Koufopoulos D (2012) Essentials of Strategic Management Sage) and answer the following question:

Compare and contrast the strategies of Honda and Carlsberg as to their international operations and discuss the main conclusions that can be drawn from this analysis.

EXTRACT 1 HONDA

In 1946, Soichiro Honda founded a motorcycle company that still bears his name. In the 1960s it began making cars and has since become one of the largest, truly global car companies. As a late entrant to the domestic (Japanese) car market it was disadvantaged against other Japanese manufacturers, so it had to export to survive and grow. It had opened a US sales office in 1959 and the United States spearheaded its export drive, followed later by Europe and various Asian countries.

Later still, it began to build factories overseas, again starting in the United States. It diversified into a range of power products – portable electricity generators, lawn mowers, small agricultural equipment, snowmobiles and quad bikes – exploiting its growing expertise in the design and manufacture of internal combustion engines.

Honda's global network now spans 390 subsidiaries and 102 other affiliates, found on every continent and it employs 176 000 people. The network includes manufacturing and assembly plants for cars, motorcycles, components and power products, located in Asia (Japan, China, Malaysia, Indonesia, Philippines, Vietnam, Thailand and Taiwan), North and South America (United States, Canada, Mexico and Brazil), Europe (England, Belgium, France, Spain and Italy) and in Turkey, India, Pakistan, and Australia.

Honda has developed a successful financial services business to support sales of its three product-centred businesses. These are the four businesses on which its statutory financial reporting is based – motorcycles, automobiles, power products and financial services.

Since the late 1980s Honda has pursued the strategy of 'global-local' manufacturing with a clear 'Honda Philosophy', mission and management policies. Design, research and development subsidiaries are distributed across its major markets. The three product manufacturing groups are complemented by five operations groups for purchasing (supply chain), production, business support, business management and customer service. These eight groups interface with six regional operations groups (for Japan, China, North America, Latin America, EMEA and Asia/Oceania) in a complex matrix-style network. In addition, Honda operates four dedicated research and development companies in Japan that focus on advanced technologies, product research and development, production systems and equipment, and motorcycle racing, respectively.

Honda tries to manage this complex network so as to concentrate each particular task at the most appropriate levels and locations. Much of its research and development activity, long considered its most distinctive capability, is still based in Japan. Product design is shared between central and regional centres, enabling new designs to be tailored for each market. Production is located in those countries where demand is greatest, reducing distribution costs within each region that a factory supplies. Sales and marketing offices feature in many more countries to ensure close relationships with Honda's franchised sales and service networks.

EXTRACT 2 CARLSBERG

Brewing beer and other alcoholic drinks are among the world's oldest and most universal industries. As brewing became more organised and began to exploit scale economies, dedicated regional and national brewers emerged, including Carlsberg of Denmark. Founded in Copenhagen by J C Jacobsen in 1847, Carlsberg is a very late comer, judged against brewers such as Stella Artois (Belgium), Kronenbourg (France) and Oettinger (Germany).

In 1875 the Carlsberg Laboratory began to explore the science of yeast fermentation when brewing pilsner (lager) beer. This successful venture evolved later into the world-renowned Carlsberg Research Centre, a pioneering institution in yeast genetics, biotechnology and biomedical research. In 1876 Jacobsen formed the philanthropic Carlsberg Foundation, to which he bequeathed ownership of his brewery. Meanwhile his son, Carl had founded his own Carlsberg brewery; the two companies were reunited in 1906. Today the Foundation remains the majority owner of Carlsberg A/S, the brewing company, and supports various Carlsberg foundations and research interests.

After 1868 Carlsberg slowly developed an export business. Non-European destinations included South America; after 1903 and collaboration with the East Asiatic Company, China and other east Asian countries became significant markets for Carlsberg bottled beers. By 1939 Britain had become one of Carlsberg's biggest export markets. From the 1950s onwards Carlsberg appointed European licensees such as Charrington and Tetley in Britain to brew and bottle Carlsberg beer. During the 1970s Carlsberg became joint and later sole owner of the Carlsberg breweries in Britain. A joint venture with Scottish & Newcastle (S&N) created Baltic Beverages Holding, which Carlsberg now wholly owns, extending its presence to Russia, Ukraine, Kazakhstan, Uzbekistan and the Baltic states. When Heineken and Carlsberg jointly acquired and dismembered S & N, Carlsberg gained additional operations in France, Vietnam and China.

In 1970 Carlsberg became the senior partner in a merger with Danish rival, Tuborg. In 1972 it opened a brewery in Malaysia. In 1980 it began a joint venture brewery in Hong Kong, which it subsequently acquired and then transferred production to the Huizhou brewery in mainland China, another licensee in which Carlsberg acquired a majority share in 1995. Today, Carlsberg owns 20 breweries in China, fully or partially. It owns three breweries in India. In 2000 it merged with Orkla of Norway, a major brewing and soft drinks enterprise covering the Nordic area and Russia. Initially Carlsberg owned 60% of the merged enterprise, called Carlsberg A/S , becoming 100% owner in 2004.

Through its multiple acquisitions and overseas investments the Carlsberg Group has become a global brewer. In 2012 it had 7.5% global share by volume, making it the fourth largest brewing corporation after AB InBev (Belgium, 21% share by volume), SABMiller (UK, 13%) and Heineken (Netherlands, 9%). Its 2009 sales were 59.4 billion Danish Kroner, on which it achieved a 15.8% operating profit margin. It employed 43000 people and marketed over 500 brands and sub-brands of beer. These include prestige international brands such as Carlsberg Pilsner, Tuborg, Kronenbourg 1664 and Baltika; and country-specific brands such as Tetley's (Britain), Ringnes (Norway), Feldschlösschen (Switzerland), Lav (Serbia) and 'Wind Flower Snow and Moon' (China). Its advertising strap line 'probably the best beer in the world' and its variants are widely recognised in many of the 150 countries where it competes.

Carlsberg's strategy focuses on the geographic regions of Northern and Western Europe; Eastern Europe; and Asia (including China). Its future strategy emphasises innovation in its core brewing activities and premium brand positioning wherever possible. It will continue investing in its own assets where these constitute a core capability. Where it does not own brewing facilities it will export or maintain local licensing agreements.

END OF QUESTION PAPER