JANUARY 2019 SUPPLEMENTARY / AEGROTAT EXAMINATION

MODULE:

STRATEGIC AND CHANGE MANAGEMENT

PROGRAMME:

MASTER OF BUSINESS ADMINISTRATION (NQF 9)

DATE:	16 January 2019	TIME:	09h00 - 12h00
DURATION:	3 hours	MARKS:	100
EXAMINER:	OM 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 **eight (8) typed pages** excluding the cover page.*

QUESTION ONE **[35]**

Read the following and answer the questions that follow:

Reinvigorating Renault

The trend in 2005 for Renault, the French car manufacturer was certainly disturbing. Granted, it was still Europe's most popular car brand, and the flagship Mégane range, which accounted for 60 percent of its operating profit, remained popular. The low cost Logan saloon, manufactured in Romania by its Dacia subsidiary, had exceeded expectations in generating demand, not only in developing countries but also in some developed ones. However, by late 2005, it had become clear that the company was gradually losing share in the western European markets that accounted for nearly three-quarters of its sales. Gross margins, a key indicator of profitability in automobile manufacturing, were also slipping.

There was little dispute that in Carlos Ghosn, the newly appointed president/CEO, Renault had the man to tackle such issues. Educated in Beirut and later as an engineer at two of France's Grandes Ecoles, Ghosn had built a formidable track record in addressing tough situations. As chairman and CEO of Michelin North America he had presided over the integration of newly acquired Uniroyal Goodrich. He joined Renault in 1996 as executive vice president in charge of purchasing, manufacturing and research and development (R & D). The tough measures he took then, involving a number of plant closures, laid the foundations for Renault's prosperity in the 1990s, giving the firm a competitive cost base and earning him the nickname 'le cost killer'.

The achievements that raised him to near-mythical status in the automobile industry came after he was dispatched in 1999 to run Nissan, in which Renault had taken a 36.8 percent stake. In order to save that company from bankruptcy, Ghosn put in place a change programme that broke with several traditions cherished both by Nissan and the Japanese industry in general. He dissolved linkages with long standing suppliers, and cross-shareholdings with other firms. He closed down plants, made several thousand workers redundant, and changed the basis of promotion from seniority to performance. He announced a set of demanding financial targets and declared he would resign if they were not met.

He took some bold gambles in pursuit of these targets, building a brand new plant in a part of the US with no established supplier network or auto making tradition. Nearly 6000 people with no car manufacturing experience were recruited to make four completely new models of pick-up, minivans and SUV vehicles that commanded high margins in North America. When quality problems materialised with vehicles from the plant, Ghosn diverted over 200 American and Japanese engineers from their normal jobs to troubleshoot the source of the problems.

Nissan's workers, dispirited after many years of poor profitability, responded strongly to these new challenges. They surpassed not only Ghosn's original targets but the successively more demanding ones he announced as each previous set of goals was exceeded. Nissan's return to profitability was so pronounced that by 2005 some two-thirds of Renault's net income came from its share of the Japanese auto-maker's profits. His status was such that in Japan a comic book character was modelled on him, while in the UK he received an honorary knighthood.

In 2005 Ghosn was promoted to the post of Président Directeur Général (PDG) at Renault, while retaining his CEO role at Nissan. (A French PDG is broadly the equivalent of a CEO, but has greater power to act autonomously). While Renault and Nissan were strongly linked through cross-shareholdings, an alliance management structure and a number of collaborative initiatives in areas such as purchasing, they remained legally and culturally separate. Ghosn was to divide his time more or less equally between France and Japan, while setting aside one-fifth of it for the US and other markets. That time needed to include personal visits to dealers, suppliers and manufacturing facilities, to which Ghosn placed great importance; he also served on the boards of Sony, IBM and Alcoa.

One of Ghosn's first acts in 2005 was to set up seven cross-functional task forces with titles such as 'Business Development', 'mastering product Complexity' and 'Service effectiveness'. Four further task forces followed in 2006. Each comprised around ten staff members, a leader drawn from the six-member Executive Committee which was Renault's highest decision making body, and a facilitator nominated by Ghosn in person. Each had a brief to identify risks, opportunities and untapped areas of potential. Similar teams had successfully identified €3 billion of efficiency gains for Renault in the late 1990s.

When Ghosn took the stage in February 2006 for a major presentation of his plans for the future, there were fears in France that, given his track record as a cost-trimmer , he might be about to announce a further round of cuts and closures. With typical frankness, Ghosn did not rule restructuring out entirely, but said that given the firm's genuine strengths, it would only be needed if his planned growth offensive failed. He started with his diagnosis of the situation: Renault was not in crisis, but remained fragile, he said. The problem was not one of costs: the product range was too narrow and the brand image had weakened. He then unveiled his programme to address these issues; entitled 'Renault Commitment 2009', it focused on three areas:

- Quality: the company saw this as a key customer requirement. The most specific target was that Renault's top-of-the-range Laguna would figure in the top three in its segment for product and service quality. The new version of the Laguna, for launch in 2007, was positioned against redoubtable competitors: the BMW 3 Series, Mercedes C Class, Audi A4, and Toyota Avensis. In meeting this objective, Renault aimed to symbolise a greater commitment to quality that would be reproduced across the range.
- Profitability: Ghosn set Renault an objective for 2009 of nearly doubling its operating profit margin from its 2005 figure of 3.2 percent of sales to 6 percent, a level it had not attained since 1999. It would thereby become the most profitable volume producer of cars in Europe. It recognised that margins would drop in the short term as the change programme took effect, but set intermediate milestones for them to be no lower than 2.5 percent in 2006 and 3 percent in 2007.
- Growth: The firm was to grow sales at an unprecedentedly high rate, with 2009 sales being 0.8 million units above the 2005 level of 2.54 million. Two subsidiary targets underpinned that growth figure. No fewer than 26 models were to be launched by 2009, a 50 percent increase on the firm's previous rate of new product introduction. Half of these would be upgrades of existing offerings, while others would be entirely new, expanding the range into areas such as sports cars, pickups, and 4x4 vehicles. And sales in markets outside Europe were to grow by 80 percent and to constitute 37 percent of total sales, as against 27 percent in 2005.

It was typical of Ghosn to express the strategy in this precise fashion, with quantified objectives and milestones.

1.1	Evaluate Ghosn's handling of the change programme at Nissan	(10)
1.2	Outline the steps Ghosn undertook in his diagnosis at Renault	(5)
1.3	Discuss the challenges Ghosn would have faced in implementing his change strategy at Renault	(10)
1.4	Discuss the extent to which Ghosn was the ideal change agent at Renault.	(10)

QUESTION TWO **[15]**

Read the following extract and answer the question that follows:

Three views on the purpose of a business

Milton Friedman and profit maximisation

Milton Friedman, a renowned economist wrote:

In a free enterprise, private property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of society...What does it mean to say that the corporate executive has a 'social responsibility'?... If the statement is not purer rhetoric, it must mean that he is to act in some way that is not in the interests of his employers...Insofar as his actions in accordance with his 'social responsibility' reduce returns to stockholders (shareholders), he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money.

Milton Friedman's maxim was that 'the business of business is business', and that the 'only social responsibility of business is to increase its profit'. Market mechanisms are then adequate in themselves. If customers are not satisfied, they take their business elsewhere. If employees are not satisfied they work elsewhere. It is the job of government to ensure that there is a free market to allow those conditions to take effect.

Charles Handy's stakeholder view

Citing the corporate scandals of the last decade, Charles handy argues that the driving for shareholder value linked to stock (share) options for executives, has resulted in the system 'creating value where none existed'. He accepts

that there is, first, a clear and important need to meet the expectations of a company's theoretical owners: the shareholders. It would, however, be more accurate to call them investors, perhaps even gamblers. They have none of the pride or responsibility of ownership and are ...only there for the money...But to turn shareholder's needs into a purpose is to be guilty of a logical confusion. To mistake a necessary condition for a sufficient one. We need to eat to live; food is a necessary condition of life. But if we lived mainly to eat, making food a sufficient or sole purpose of life, we would become gross. The purpose of a business, in other words, is not to make a profit. It is to make a profit so that the business can do something more or better. That 'something' becomes the real justification for the business.

The new capitalists' argument: 'Society and share owners are becoming one and the same'

In their book, *The New Capitalists*, the authors (Davies, Lukommik and Pitt-Watson) also recognise that ‘a corporation is the property of its stock owners and should serve their interests’. However it is the ‘millions of pension holders and other savers ... [who]...own the world’s giant corporations’. These ‘new capitalists are likely to be highly diversified in their investments’. Investment funds such as pension funds are their representatives and ‘hold a tiny share in hundreds, perhaps even thousands, of companies around the world’. They then argue:

Imagine that all your savings were invested in one company. The success of that company alone would be your only interest. You would want it to survive, prosper and grow, even if that did damage to the economic system as a whole. But your perspective would change if you had investments in lots of companies. [Then] it is to your disadvantage that nay business should seek to behave socially irresponsibly towards other businesses, the customers, employees or society generally. By doing so they will damage the interests of other firms in which you have an interest. The new capitalist has an interest in all the firms in which he or she is investing behaving responsibly: ‘in creating rules that lead to the success of the economic system as a whole, even if, in particular circumstances, those rules may tie the hands of an individual company’... managers of a business should quite properly ‘concentrate single mindedly on the success of their own organisations ... however they will not be serving their share owners’ interest if they undertake activities that may be good for them individually , but damaging to the larger economic system.

Adapted from Johnson G, Whittington R and Scholes K (2011) <u>Exploring Strategy Ninth edition</u>. Pearson

Critically discuss the implications of the different views of the purpose of a business organisation for the development of organisational strategy.

QUESTION THREE **[30]**

Read the following article and answer the questions that follow:

Leading SA Franchise Group Cash Crusaders Continues On Its Growth Path

National franchise group **Cash Crusaders** continues to show positive growth results despite a rollercoaster economy. The 1.7-billion-rand company saw an impressive 13% year on year same store growth between 2015 and 2016 with figures remaining favourable in 2017.

The company is growing from strength to strength thanks to its recession-proof business model that is built around three profit centres – specially imported new goods, second-hand trade and secured financial lending.

New store openings

The results speak for themselves. This year, the brand opened its landmark two-hundredth store in Soweto (the second store for the area), with ten new store openings following in quick succession including Mayfield Square, Robertson, Raslouw, Vryheid, Tembisa, Parow Station and Lydenberg.

By the end of the year, the total of new stores is expected to reach 214.

Cash Crusaders is South Africa's largest second-hand retailer – three times the size of its closest competitor- and hasn't stopped growing yet, with new store openings scheduled well into 2018.

A sure thing for franchisees

The brand is seen as a lucrative business opportunity for franchisees, most of whom own more than one store.

"The investment that the franchisor makes on innovation, research and development ensures we stay ahead of competition, remain relevant in the industry and persist as a strong player over the long term," says Franchisee Damian Ohajunwa

With a successful track record of more than 20-years, Cash Crusaders is seen as a 'sure thing' business opportunity by potential franchise owners who see to benefit from a proven three-tier profit system and an existing customer base.

3 Customer drawcards

Cash Crusaders' unique business model incorporates three distinct product offerings, namely private label new goods, second-hand goods and secured loans, all of which translate into good sales figures.

Cash Crusaders' directly-imported private label goods include home theatre systems, home and car audio, DJ equipment, musical instruments and household appliances. For value-conscious consumers, these quality products present a less-expensive alternative to big brands, a trend that's becoming more pronounced in South Africa's tough economic climate.

A reliable business partner

Cash Crusaders unique business model ensures franchisees have the support they need. A highly-experienced team are on hand to offer advice, planning, training and ongoing support from day one. It's a symbiotic relationship that benefits everyone.

Business owners form part of the Cash Crusaders network, and are equipped with a proven system of operation, thorough training and all the tools needed to succeed. The Projects Department work closely with franchisees, giving them the full benefit of their expertise from day one.

"Set up was assisted greatly by Operational Management who was involved from the get-go, from lease negotiation to build out costings and contractor sourcing. The final quality of workmanship was exceptional," franchisee Christo Burger.

Dedicated to raising the industry

The proudly South African brand is dedicated to empowering entrepreneurs to be in business for themselves and helping them grow every step of the way.

Cash Crusaders has also shown its commitment to raising and changing the public's perception of the second-hand industry by advocating honest trading and regulating second-hand trade in South Africa through its association with **National Association of Franchised Secondhand Dealers** (NAFSHD).

The group is also a member of The Franchise Association of South Africa (FASA) and proudly subscribes to the FASA code of ethics and business practices.

"Make no mistake, Cash Crusaders is not just another second-hand business. We maintain the highest standards and ethics, and have gone above and beyond to change the public's perception of the second-hand trade by proudly demonstrating our honesty, integrity and legitimacy," says Cash Crusaders CEO Sean Stegmann.

R300 000 start-up assistance

Cash Crusaders is the only franchise group that offers financial assistance to help entrepreneurs find their feet. If a potential franchisee has R800 000 in unencumbered capital, Cash Crusaders will give them R300 000 start-up assistance to cover initial running costs. T&Cs apply.

“Franchising is our passion, and our network of Franchisees are our family. From the outset, we pledged to partner with entrepreneurs who share our vision – innovative thinkers as committed as we are to building this brand. We want to do business with you and work together to ensure the success and profitability of your business. You’ll soon come to appreciate our “Make It Happen” attitude,” says Stegmann. **http://www.entrepreneurmag.co.za/advice/franchising/franchisee-advice/leading-sa-franchise-group-cash-crusaders-continues-on-its-growth-path/**

Questions

3.1 Evaluate the strategy of Cash Crusaders focusing on the contention that the business model is ‘recession-proof’. (15)

3.2 Discuss the elements of strategic leadership displayed by Stegman in the context of growing Cash Crusaders as an organisation. (15)

QUESTION FOUR **[20]**

Change which is imposed on an individual by his or her manager is always going to be resisted. With reference to this:

4.1 Discuss the reason why individuals resist change. (10)

4.2 Discuss the strategies that managers can utilise for enhancing the success of change initiatives. (10)

END OF QUESTION PAPER