APRIL 2016 MAIN EXAMINATION

MODULE:

STRATEGIC AND CHANGE MANAGEMENT

PROGRAMME:

MASTER OF BUSINESS ADMINISTRATION

DATE:	18 April 2016	TIME:	09h00-12h00
DURATION:	3 hours	MARKS:	100
EXAMINER:	OM Seedat	MODERATOR:	D Veerasamy

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 **seven (7) typed pages** excluding the cover page*

QUESTION ONE **[40]**

Read the following and answer the questions that follow:

AFRICA CALLING: MOBILE TELEPHONES OPEN UP OPPORTUNITIES

Africa is the world’s second largest continent with over 800 million people in over 50 countries. Unfortunately, it is also the only area of the world that has experienced a real decline in personal wealth over the past 30 years. Some of the reasons have been well documented by the United Nations – war and conflict, disease including AIDS / HIV and political upheaval. Yet, after years of watching the rest of the world benefit from new mobile telephone technology, African countries are now beginning to catch up. For example, the number of mobile telephones in Africa’s largest country, Nigeria, increased ten-fold between the years 2002 to 2007. Similarly, South Africa’s growth has also been dramatic – more than doubling, albeit from a higher base number, over the same period .

Table 1: Telephone Usage in Selected African Countries

Country	Population	Fixed Telephone Lines		Mobile Telephone Lines	
		2002	2007	2002	2007
Nigeria	135 million	700,000	1,200,000	1,200,000	22,000,000
South Africa	44 million	4,800,000	4,800,000	14,000,000	33,000,000
Tanzania	39 million	150,000	150,000	670,000	2,000,000
Kenya	37 million	300,000	300,000	1,300,000	6,500,000
Uganda	30 million	55,000	100,000	400,000	1,500,000
Ghana	23 million	270,000	320,000	450,000	2,800,000

- Fixed telephone lines: these are the fixed cables that connect homes, offices and businesses to a telephone exchange. They are often old and have the reputation in Africa of not being reliable
- Mobile telephones: all these networks have been set up since 1998 and use transmitters and GSM technology as in the rest of the world

Importantly, the growth has largely come from home-grown African companies rather than the main international mobile telephone companies like France Telecom with its brand Orange, Deutsche Telekom with its brand T-mobile and the USA‟s AT&T. These and other companies reasoned that African incomes were low per head of the population and that there were real risks from political uncertainty in the region. Essentially, they judged that the opportunities were more attractive in other parts of the world. The only international company that took minority shares in some of Africa’s leading companies was the UK business, Vodafone. More generally, it was left to African companies to develop the various African mobile telephone markets.

Some Leading African Mobile Telephone Companies

MSI Cellular becomes part of India’s Airtel
One of the earliest companies into the African continent was MSI Cellular. It began back in 1998 with a Ugandan subsidiary called Celtel. By 2001, it had operations in 11 countries. By 2006, the company had 8.5 million customers in 14 countries and claimed to be a market leader in 10 of them.

Apart from its Sudanese operation, Celtel has chosen to own a majority share in all its subsidiaries: “In principle, we like to control the company,” explained its chief executive Marten Pieters. “This supports our brand, our values, our strategy.”

In 2005, the Kuwait telecommunications company MTC acquired 85% of Celtel for US$ 3.4 billion. Given that Celtel itself only had annual sales of US$58 million in 2000, this shows how sales, profits and valuations have grown over the succeeding years. The founder of MSI, Dr Mohamed Ibrahim, explained that the company has networks that achieve operational profits within six months and real profitability within two years. Return on capital was in excess of 30% per year. “By any yardstick, these projects are more rewarding than in Europe,” he commented. In the early years, MSI Cellular made its profits by acquiring government licences as each African country market opened up from government control. There was relatively little competition and the main aim for each operator was to set up a basic country network in the main centres of population. However, after the initial acquisition of licences, the company’s follow-up strategy was to deepen its coverage across each country and experiment with new services like higher quality 3G telephony.

In addition, Celtel had sufficient coverage across the African continent in 2006 to launch a new service called “One Network”. This was claimed to be the first borderless network across Africa, enabling subscribers in some countries to roam free across neighbouring countries, scrapping roaming chargers, making local calls and receiving incoming calls free of charge. Pieters explained: “Africa’s borders are colonial. They don’t reflect economic or language relations, so there is a lot of inter-country traffic.” By 2007, Celtel coverage with its „One Network‟ was working across 13 African countries – Kenya, Uganda, Tanzania, Gabon, DRC, Congo, Malawi, Sudan, Zambia, Burkina Faso, Chad, Niger and Nigeria.

In 2007, MTC announced that it was re-branding its company name to Zain, which means ‘beautiful’ in Arabic. Zain continued to manage and extend its African interests over the next two years. However, these were then sold to the major Indian telecommunications company Bharti Airtel for around $10.7 billion in 2010. The African networks of Zain were then re-branded with the company’s Indian brand name ‘Airtel’ in 2010.

Bharti Airtel attempted to merge with South African-based MTN Group in 2009. This was refused by the South African telecommunications authorities, who wanted to retain some influence over the merged entity but were prevented by the terms of the proposed merger. It was after this failed merger with MTN that Bharti Airtel then turned to the acquisition of Zain.

MTN Group

Headquartered in South Africa, MTN claims to be the largest mobile telephone operator on the African continent. Its most profitable business lies in South Africa itself, but it also has substantial interests in 11 other African countries, including a profitable venture in Nigeria. In 2006, MTN extended its mobile interests into the Middle East by acquiring a company called Investcom for US$5.5 billion. This extended its franchise into five West African countries plus Sudan, Cyprus, Syria, Iran, Afghanistan and Yemen. As a result of the acquisition, MTN increased its total number of subscribers from 23 to 28 million – substantially ahead of the 19 million subscribers of its main South African competitor, Vodacom. By 2013, MTN Group had a subscriber base of 180 million customers of which nearly 57 million were in Nigeria.

A strong subscriber base is important for the profitability of any mobile telephone company: after its investment in networks and other infrastructure, increased profitability for a phone company comes from greater usage of the network – achieved both by larger numbers of subscribers and also by increased usage of the telephone.

One of the strategic problems for both of the leading South African mobile companies is that South Africa, as a country, has become a relatively mature mobile telephone market. According to World Bank data, mobile penetration had reached around 72% of the South African market in 2005 –

compared, for example, with only 13% of the Nigerian market in the same year. MTN used its strong position in the South African market as the basis for expansion elsewhere: its position provided a useful cash flow and, more importantly, training and experience in the operation of a mobile telephone business. The company then used this knowledge as it expanded, sometimes by acquisition, and sometimes by setting up its own company in other African countries.

The maintenance of growth was the main reason behind MTN‟s expansion into other parts of Africa and the Middle East. Some of the new markets acquired by MTN had even lower levels of mobile penetration than its existing operations. According to MTN‟s Chief Executive Mr Nhleko, "The combined companies‟ countries had, on average, just 9% mobile penetration, giving MTN very meaningful potential for upside."
Inevitably with its entry into some politically sensitive Middle Eastern countries, there were criticisms of MTN with regard to political risk. Mr Nhleko commented, "Our job is to be a mobile operator that delivers infrastructure, not to try to second-guess the politicians. Political risk is a politically loaded term. But there are countries where there are certainly challenges."

Vodacom
Also based in South Africa, this company was a 50-50 joint venture between South Africa‟s largest individual telephone company called Telkom and the British based, international mobile telephone company Vodafone until 2009. Telkom was for many years the leading South African provider of telephone services, particularly using fixed lines. It founded a mobile company in 1993, with Vodafone taking a minority share at that time. The British company then increased its stake to 50% in 2005 because it was attracted by the growth potential of the African market. Vodafone then raised its share of Vodacom to 65 per cent in 2009 at a price of $2 billion. The British based company was particularly interested in acquiring Telkom's shares in Vodacom because many of its existing European mobile phone markets – such as the UK – were highly mature and would no longer deliver the company's growth objectives.

Behind this change in control, Vodafone identified Vodacom as being its gateway into the fast expanding African telephone market. In addition to its major share of the South African market, Vodacom also had mobile interests in Tanzania, Lesotho, Mozambique and the Democratic Republic of Congo. However, Vodacom had not expanded as rapidly as its rival MTN because there was a legal agreement when Vodacom was founded that it would not enter markets north of the Equator. However, Vodacom also had a reputation born out of its relationship with its South African parent, Telkom – reputedly a quasi-public, unionised and more bureaucratic organisation – that was also not conducive to growth. Whatever the background, Vodacom came under the control of the international mobile telephone company Vodafone in 2009. By 2013, Vodafone had eight African subsidiaries with ambitions to grow further.

Telkom
The movement of control in Vodacom to Vodafone freed up the previous joint partner, South Africa's Telkom, to expand beyond its business into mobile telephones not only in South Africa but elsewhere on the African continent. The company is effectively controlled by the South African state and has a monopoly of fixed line provision and international calls originating in South Africa. Its dominance of the domestic South African market is reflected in strong complaints from both customers about high prices and from competitors about network access.

In 2011, Telkom announced that it aimed to expand its fixed line and mobile business into other telecommunications areas and countries. Specifically 'our strategy is to differentiate ourselves from competitors by moving from a provider of basic voice and data connectivity to become Africa's preferred ICT (Information and Telecommunications Technology) service provider, offering fully converged voice, data, video and Internet services.' This strategy – essentially based on new broadband and 3G technology – has been successful; by 2013, Telkom was involved in 38 African countries with regional hubs in Nigeria and Kenya.
Safaricom

In individual African countries, there were also other major telephone companies. For example, Safaricom was one of the dominant companies in the Kenyan mobile market. It was formed in 1997 as a wholly owned subsidiary of the government-owned Kenyan supplier of telephone services – Telkom Kenya. In 2000, the British company Vodafone acquired a 40% stake in Safaricom and provided its international experience and coverage to its Kenyan associate.

Reasons behind the Continued Growth in African Mobile Telephones
Beyond the obvious point that existing penetration of mobile telephones remains low at 15 – 20 per cent of the population, it is possible to identify at least three reasons for the rapid growth in African mobile telephones:

- *Political Will*: African governments were willing to support and encourage new forms of telecommunication. They identified real benefits for their relatively poor populations through the wider spread of information technology. They accepted that the provision of fixed line telephone cables was so expensive as to be virtually unachievable in rural areas – better to have mobile than nothing at all.
- *Risk-Taking Companies***:** Companies like MSI Cellular and MTN took significant risks in investing in the mobile telephone infrastructure. For example, it was reported that MTN had to overcome significant infrastructure problems when it was building its Nigerian network in 2004 at a cost of US$900 million. Commenting on its early investment in Africa, the Chairman of MSI Cellular, Dr Mohamed Ibrahim said: “There is money willing to go to Africa as long as it is backed by credible people. African telecoms is no place for opportunists of amateurs. To survive requires a very experienced management team, a successful record and the ability to attract finance.”
- *Increased Demand for Communication***:** As the world has become more integrated and – in that sense – global, the demand for increased and instant communication has grown in Africa both for individuals and for multinational companies. Fixed line cables were incapable of providing enough links and capacity. Both companies and individuals needed more opportunities for contact. Two examples: individual farmers were able to check prices using their mobile phones and head for the best market; relatives were able to use a new mobile telephone service to transfer funds between families – it was no longer necessary to trek two hours by minibus to the local bank.

Importantly, these reasons suggested that there was still substantial growth in African mobile telephones over the next few years. But there would be some risks – political, economic and social. There was also one remaining structural problem associated with the small number of fixed line telephone services in Africa. The growth of the internet and web relies, at present for technical reasons, on fixed lines rather than mobile telephones. Fixed lines can hold and transmit more data than mobile lines in the current state of technology development. However, the newer technologies associated with 3G and 4G mobile networks were overcoming this problem as such networks became widely available in Africa. Moreover, new and fast undersea cables had been laid that link Africa to regional and world markets. There were still plenty of opportunities for mobile telephone services in the African continent.
Adapted from Lynch R (2015) Strategic Management Seventh Edition. Pearson Education

Questions

1.1 Discuss the industry driving forces which are impacting on the mobile telecommunications market in Africa. (10)

1.2 Discuss the extent to which the strategies of the African mobile telephone companies have appropriately addressed the industry driving forces identified in 1.1. (10)

1.3 Critically discuss the risks and benefits of African companies expanding beyond their home countries. (10)

1.4 Industry leaders, such as MTN in Africa, are concerned with defending and extending their leadership position within their industry. Critically discuss the strategies which would assist industry leaders in defending and extending their leadership position. (10)

QUESTION TWO **[40]**

Read the following and answer the questions that follow:

CEO CARLY FIORINA DIRECTS STRATEGIC CHANGE AT HEWLETT-PACKARD

When Carly Fiorina joined Hewlett-Packard (HP) as its Chief Executive Officer in 1999, she began forging a new strategic direction for the computer company. She re-organised its organisational structure and re-oriented its organisational culture in the first two years of her tenure.
Named after its two founders, Bill Hewlett and Dave Packard, HP had started in 1939 making scientific instruments for the US Navy. It grew steadily during the war years of the early 1940s and then branched out into business and consumer electronics in the 1950s and 1960s.
The company's two founders were particularly skilled at encouraging, supporting and then driving skilled employees to develop new products – moving into hand held electronic calculators, personal and business computers, scientific instruments, electronic measurement devices and computer printers. The organisational culture of HP was crucial to this rapid growth: it was called the 'HP Way'.
The 'HP Way' encouraged and supported small group engineering initiatives to develop business ideas. The atmosphere was ideas driven and supportive, but it also had a hard-edged results side. The seven elements of the HP way were:

- Recognise that profit is the best measure of a company's contribution to society and the ultimate source of corporate strength.
- Continually improve the value of the products and services offered to customers.
- Seek new opportunities for growth, but focus efforts on fields in which the company can make a contribution.
- Provide employment opportunities that include the chance to share in the company's success.
- Maintain an organisational environment that fosters individual motivation, initiative and creativity.
- Demonstrate good citizenship by making contributions to the community.
- Emphasise growth as a requirement for survival.

However, many key growth initiatives were achieved by acquisition. Considerable efforts were made to bring newly acquired companies into the 'HP Way', sometimes resulting in delays to planned merger benefits.
When Fiorina arrived at HP she quickly decided that there were fundamental problems with the company's organisation structure. The company was organised as a series of separate divisions that allowed strong, decentralised, local initiative, but meant duplication of valuable resources. The group had 83 product divisions each of which was headed by a general manager with complete responsibility for all aspects from new product development to marketing. The organisational culture of HP was imbued with this long tradition of autonomy.

In 2001, Fiorina combined the various operating companies into a simple 'front end/back end' structure:

Front end:

- *Business Customer Organisation*: selling technology solutions to corporate customers (20 000 employees).
- *Consumer Business Organisation*: selling consumer items (5 000 employees)
- *HP services*: delivering customer education, consulting and outsourcing (30 000 employees).

Back end:

- *Computing Systems*: making servers, software and storage (13 000 employees)
- *Imaging and Printing Systems*: building new printing and imaging products (15 000 employees).
- *Embedded and Personal systems*: making appliances, PCs and embedded solutions (1450 employees)
- *HP Labs*: providing technological leadership for HP and inventing new technologies (850 employees)

The front end would be customer-oriented and was essentially split into business and personal customers, with a separate section covering ongoing services. The back end would contain all the production and research functions, structured around product groups.

Even after the re-organisation, the company's profitability did not improve – arguably for other reasons, such as a downturn in its markets – and the management response was that the situation might have been even worse if the re-organisation had not occurred. The re-organisation had come at a time when three external factors were making business even more difficult:

- There was a downturn in the world economy during the period 2001 onwards.
- The after-effects of the dot.com bubble.
- Increased competition from companies such as IBM, Dell Computers and Sun Microsystems.

The results of these pressures were evident in the 2001 results of HP: the worst set of profit figures for many years:

	1994	1995	1996	1997	1998	1999	2000	2001
Sales ($ billion)	25.0	31.5	38.4	42.9	47.1	42.3	48.8	45.2
Net income ($ million)	1 599	2 433	2 586	3 119	2 945	3 491	3 697	408
Number of employees '000	98	102	112	122	125	84	89	86

The company needed to do something fast. The result was a battle between two groups:

- *The old guard at HP*- some of the earlier managers and the original Hewlett and Packard family trusts that still owned substantial blocks of shares in the company.
- *The new guard at HP* – represented by Fiorina and her immediate colleagues who judged that there were no easy strategic solutions.

The old guard and the new guard were to clash fundamentally on the new strategic directions for HP in 2001.
The four strategic options available to HP were:

- Focus on the imaging and printing systems – this was the main competitive advantage of the company.
- Focus on the low end personal computer market by acquisition of a rival.
- Focus on the large computer server market – HP had some business in this area but was significantly smaller than IBM, the market leader.
- Focus on the computer IT consultancy market – also dominated by IBM but highly profitable.

In May 2002, after a protracted battle, Fiorina won the approval of 51 per cent of HP shareholders to acquire Compaq Computers. Compaq was absorbed into HP. Although Compaq managers and shareholders resolved to accept the HP takeover bid ($21 billion), some of the HP shareholders were against the deal.

Fiorina had risked her job twice – first, in pursuing the merger against the old guard; second, in delivering the results of a new, larger and more streamlined HP.

In 2005, HP made the announcement that Fiorina had been dismissed. The HP Board felt that Fiorina's basic strategy was correct, but a new chief executive was needed to drive the company forward.

Adapted from Lynch R (2015) Strategic Management Seventh Edition. Pearson Education

2.1 Discuss the main problems at Hewlett-Packard by analysing the organisational culture and the power balance at HP. (10)

2.2 The 'HP Way' was originally developed in the 1950s.
Evaluate the contention that it was still relevant 50 years later. (8)

2.2 Effective change management requires a clear perception of need, a way forward, the capability to change and commitment.
With reference to these four 'criteria' evaluate the changes made by Fiorina at HP. (12)

2.3 It was said that 'turning around the company's entrenched culture would always be difficult' for Fiorina. In this context discuss culture as a facilitator and inhibitor of change in organisations. (10)

QUESTION THREE **[20]**

3.1 Critically discuss the following statement:
Formal strategic planning systems are irrelevant for organisations competing in high-technology industries where the pace of change is so rapid that plans are routinely made obsolete by unforeseen events. (10)

3.2 Competitive advantage can built by redefining the product offering of an organisation through value innovation and creating a new market space. The process of thinking through value innovation has been described as searching for a "blue ocean".
With reference to this, explain the terms competitive advantage and value innovation and discuss the concept of a 'blue ocean' in this context. (10)

END OF QUESTION PAPER