AUGUST 2017 SPECIAL EXAMINATION

MODULE:

STRATEGIC AND CHANGE MANAGEMENT

PROGRAMME:

MASTER OF BUSINESS ADMINISTRATION

(NQF 9)

DATE:	14 August 2017	TIME:	09h30 – 16h30
DURATION:	3 hours	MARKS:	100
EXAMINER:	O M Seedat	MODERATOR:	D Nag

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 **[25]**

Read the following and answer the questions that follow:

When Maria Ramos joined Transnet in 2004, it was floundering. The organisation was in deep trouble financially, strategically and operationally. A loss of R6 billion was reported in 2003/2004. The then president of South Africa, in the state of the nation address, had committed the government to ensuring that the public sector discharged its responsibilities to the people of South Africa in the process of growth, reconstruction and development of the country. To achieve this, the government needed a well-functioning, efficient and low cost transport system. Thus the political importance of Transnet's role in the economy increased substantially.

Over the previous ten years the organisation had been through a number of unsuccessful change efforts. There had been three different CEO's.

When Ramos took the reins as CEO of Transnet in 2004, it was clear in her mind that the structure of Transnet simply did not provide the platform necessary to maximise the growth and competitiveness needed for the South African economy. The GDP target envisaged was 6 per cent, and the inefficiencies at Transnet were hampering the achievement of that target. Many problems faced Transnet and inhibited its ability to respond to the demands of its business environment. Ramos needed to find a way to formulate an appropriate strategy that would bring about the desired change.

Amongst a myriad of problems, Ramos found that there was mediocre financial performance and weak controls. Almost every week there was one corruption charge or another at Transnet. Risk management and governance were also poor, and there was lack of capital investment – in a sector where having up-to-date infrastructure was key.

In addition, Ramos found that morale was poor and there was a lack of a clear sense of purpose. She said: "People were disgruntled. There was a culture of hiding things. People were tired of multiple strategies and change. The organisation felt like a complex foggy ecosystem, where there were not one but many cultures."

Ramos also found a company that was completely fragmented. Over time, Transnet had come to comprise more than 20 businesses, as shown in Exhibit 1 below. Moreover, one of the main constraints to developing a coherent strategy was that Transnet was run by a group of managers, operating in different silos. The fragmentation was evident not only in the way different systems operated, but in a particular mentality that was deeply ingrained in the thinking of the managers and the staff.

There were four operations involved in the supply chain that transported goods from the factory onto a ship to the customer somewhere else in the world: the rail which carried the goods; port operations, which handled the freight; the National Port Authority, which brought the ship in and arranged when to take the ship out; and rail engineering, which helped with the maintenance of the rail fleet. All of these had to work together, but were not.

All the fragmentation and lack of coordination between different elements within Transnet made the South African supply chain very uncompetitive: a far cry from the government mandate Ramos had been asked to deliver.

EXHIBIT

NPA (National Ports Authority): provides port infrastructure and marine-related services; manages port activities in a landlord capacity for eight ports.
SAPO (South African Port Operations): Port and cargo operator in all major ports of South Africa, managing port, terminal and cargo operations.
Spoornet: Freight and rail operator, which focuses on the transport of freight, containers and mainline passengers by rail.
South African Airways (SAA): Major commercial airline with extensive national and global operations.
Metrorail: Operates commuter rail transport in most of the major cities in South Africa.
Petronet: owns and operates an extensive high-pressure fuel pipeline network through which petroleum products and gas are transported
Freight Dynamics: Freight road transport
Propnet: Property management
Transtel: Operator of Transnet's private telecommunications network.
Transwerk: Supplier and refurbisher of railway wagon and rolling stock
Autopax: Passenger and road transport
Protekon: Construction and project management
South African Express Airways: Regional passenger airline.
Viamax: Logistics and fleet management
Marine Data Systems: Transport logistics
Owner Driver Management: Transport logistics

Ramos decided first to deal with the senior management team. A number of people were moved out, a new position of chief operations officer (COO) was created and filled, a new chief financial officer (CFO) was hired and a head of strategy was appointed.

There were a number of challenges that Ramos had to deal with in crafting the change strategy for Transnet. The organisation needed alignment and integration with a new thrust in government policy, which stressed the need for efficient and effective delivery of transport. Ramos realised that:

- There was a need for Transnet to develop key port, rail and pipeline infrastructure while maintaining financial strength and operating efficiency.
- It was imperative for Transnet to provide appropriate capacity ahead of demand and for the organisation to inspire confidence in the country's economy.
- There was a need to integrate delivery structures within Transnet
- Transnet needed to respond to the country's freight logistics systems and improve its efficiency significantly.

In 2005 a small internal team worked to develop the strategy. They did not go through the normal process of crafting mission and vision statements. They developed a four-point turnaround plan with seven or eight projects under each point, where progress could be tracked against each element of the strategic plan (Exhibit 2).

EXHIBIT

Transnet's Four-point Turnaround Strategy

1. **Redirect and Re-engineer the Business**. This pillar is aimed at improving efficiencies and effectiveness of the core business units through re-engineering processes and realising synergies between the various operating divisions.
2. **Restructuring the Balance Sheet**. This pillar seeks to rationalise the business portfolio and achieve a better focus on the core business units. Non-core businesses will be transferred to government and others will be sold. The proceeds will be used to fund infrastructure investment and reduce borrowings
3. **Ensure Corporate Governance and Risk Management**. This pillar is designed to ensure the highest standards of corporate governance are adhered to and the company's risk management is improved.
4. **Develop human capital**. This is focused on revitalising the human resources by transforming the culture and behaviour of employees. The aim of this pillar is to increase talent management and leadership development, transformation management as well as performance and reward management.

Before announcing the strategy, Ramos tested it with government, a critical stakeholder, and gained support. The plan was presented to the Transnet Board and then to the Minister of Public Enterprises.

One of the key strategies for restructuring the balance sheet was to dispose of non-core assets. Early in 2004, even before the strategic plan was devised – Transnet disposed of a number of non-core assets including Fleet Call, Marine Data Systems, Virtual Care, Transtel Autopax and Transnet Housing. The plan was now proposed privatising Freight Dynamics, the Transnet pension Fund administration, and the Blue Train, as well as transferring SAA, Metrorail and Shosholoza Meyl out of Transnet, and moving other business units within Transnet.

In January 2006, the Transnet leadership made the decision to engage more fully with labour In February the Unions embarked on a rolling strike throughout the country, protesting against 'unilateral decision-making and unilateral implementation." The unions declared their 'ideological' opposition to the privatisation of strategic public assets.
Faced with this strike, Ramos wondered whether they had gone about developing and implementing their strategy in the right way.
The strike ended in May 2006 when Transnet concluded an agreement with the unions regarding the principles that would guide the disposal of the non-core assets. By September 2006 Transnet had disposed of most of its non-core businesses.
By 2007 Transnet had done away with the old semi-autonomous and fragmented structure and replaced it with a single, integrated one, so that the organisation comprised:

- Transnet Freight Rail (formerly Spoornet)
- Transnet Rail Engineering (formerly Transwerk)
- Transnet National Ports Authority (formerly the NPA)
- Transnet Port Terminals (formerly SAPO)
- Transnet Pipelines (formerly Petronet).

This re-engineering effort managed to improve the efficiencies and effectiveness of the core operating divisions, particularly the port system and the freight rail business. In implementing the strategic plan, the issues of operational efficiency and productivity were steadfastly pursued.

In 2006, Transnet Projects was set up to implement major capital investment projects (investments worth more than R300 million).

There were significant improvements in financial performance. For example, the net value of assets increased by 246 per cent in Transnet national Ports Authority from 2004 to 2007. Operating profit at Transnet increased from R4.74 billion in 2004 to R8.47 billion in 2007 and rose a further 15 per cent to R10.7 billion in 2008. Gearing levels were reduced to 39 per cent (an improvement of 15 per cent), which meant that Transnet had developed significant borrowing capacity. The net worth of the business had in three years grown fourfold to more than R37 billion.

Once the disposal of non-core assets was completed, Transnet had 48 578 permanent employees and 8543 employees on fixed-term contracts. By 2007, Transnet was able to begin a human capital development strategy. The main elements of this strategy included:

- Skills demand planning
- Recruitment and retention
- Capacity-building and skills retention
- Performance management
- Talent management
- Culture

A 2008 article in the *Financial Mail* remarked: “With steely nerves and unwavering focus, Ramos moved swiftly to introduce sweeping changes to transform and restructure Transnet from a lumbering and heavily-indebted loss making company into a profitable entity. She dared to tackle management productivity and corporate governance issues despite fierce opposition from within and outside the group. She reversed its losses and the once-daily complaints about poor service and backlogs subsided.”

Source: Smit, Cronje, Brevis and Vrba (2011) Management Principles A Contemporary Edition for Africa 5th edition Juta

Questions

1.1 Ramos and her team would have conducted an environmental analysis prior to developing their turnaround plan. With reference to this, discuss the environmental context (PEST/PESTEL) that Ramos found Transnet in when she assumed leadership of the organisation. (15)

1.2 Evaluate the turnaround plan that was proposed by Ramos and her team in the light of the context described in 1.1 and the information supplied in the extract. (15)

1.3 “They did not go through the normal process of crafting mission and vision statements”.

1.3.1 Explain what mission and vision statements are and outline their importance to the strategy development process. (6)

1.3.2 Explain why this ‘normal’ process was omitted. (4)

1.4 Discuss the characteristics of strategic leadership that Ramos would have to display in implementing the turnaround strategy at Transnet. (10)

QUESTION TWO **[25]**

Resistance to change is complex and misunderstood concept which has often been used for the failure of a change process. It is crucial to have a thorough understanding as to the basis and form of resistance such that it may be managed in a constructive manner. Resistance can be perceived as more of a help rather than a hindrance. With reference to this:

2.1 Describe the five phases typical of change. (5)

2.2 Describe the factors that lead to resistance to change. (8)

2.3 Discuss the ways in which resistance to change can be addressed. (12)

QUESTION THREE **[25]**

3.1 Discuss the nature and forms of strategic alliances and the reasons and the reasons why organisations enter into strategic alliances. (15)

3.2 Discuss the reasons why currently successful organisations may lose their edge and competitive advantage. (10)

END OF QUESTION PAPER