JANUARY 2020 SUPPLEMENTARY/ AEGROTAT EXAMINATION

MODULE:

STRATEGIC AND CHANGE MANAGEMENT

PROGRAMME:

MASTER OF BUSINESS ADMINISTRATION

NQF 9

DATE:	15 January 2020	TIME:	09h00 – 12h00
DURATION:	3 hours	MARKS:	100
EXAMINER:	O M Seedat	MODERATOR:	L Kaplan

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 [30]

Read the following and answer the questions that follow:

Singapore Airlines

Over the past four decades, Singapore Airlines (SIA) has developed an enviable reputation for providing its passengers with a high-quality travel experience.

The company prides itself on being the 'most awarded airline' a title it has gained through winning many prizes for its customer service standards. What is perhaps less well known is that SIA is also one of the most cost-effective operators in the airline business.
SIA has based its strategy on two main pillars: its planes and its people. In April 2014 it was estimated that the average age of the SIA fleet was 81 months as opposed to an industry average of around 128 months. SIA was the first airline to launch the Airbus A380 high-capacity jet and has continued to invest significant sums both in new aircraft and in new cabin products, such as in-flight entertainment systems and ergonomically designed seats.

The policy of operating a young fleet also means that SIA's aircraft are more fuel efficient and require less repair and maintenance than those of its rivals. SIA's aircraft also spend less time in hangars and more time in the air – 13 hours on average per day versus the industry average of 11.3 hours.

In terms of its people, the Singapore International Airlines group as a whole (including cargo, repair and maintenance services) employed approximately 23 000 people in 2013, of which 14 000 were employed by the airline business. The company spends around US $ 70 million a year putting each of its employees through 110 hours of retraining annually. Much of this training is focused on embedding the culture of customer service into everything employees do.

While emphasis is given to customer service, any opportunity to cut costs, however small, is taken. The headquarters of the airline is housed in modest premises near Changi Airport in Singapore and the central head count is kept to a minimum. Training takes place with the airlines' offices and is delivered by senior members rather than by outside trainers. Staff are encouraged to find ways of reducing waste and bonus schemes are in place that incentivise cost-cutting behaviour.

SIA tries to achieve both differentiation and cost saving through its approach to innovation. The company is willing to experiment and is fast to adopt any incremental innovations that improve customer service. It was one of the first airlines to introduce fully reclining seats, in-flight mobile telephones, fax services and biometric technology to simplify and speed up check-in-times.

While the company seems to have very successfully reconciled the apparently contradictory strategies of cost minimisation and differentiation, it does face problems. The company dominates the business class market segment on many of its routes and it is this segment that is particularly sensitive to the level of economic activity. The company was badly hit by the 2008 financial crisis and in 2009 posted its first full-year loss.

Competition, in addition, remains intense, particularly in the premium air travel segment which has been aggressively targeted by Middle east airlines such as Emirates, Etihad Airways and Qatar Airways.

To avoid excessive dependence on mature markets, SIA has also entered the low-cost segment of the airline business, first by acquiring shares in Tiger Air (a budget carrier serving the Asia-Pacific region) and then by launching its own budget airline, Scoot, in 2012. Scoot operates medium- and long-haul flights from Singapore to Australia and China.

Adapted from Grant RM and Jordan J (2015) <u>Foundations of Strategy. Second edition</u> Wiley

1.1 Discuss the key success factors for SIA. (10)

1.2 Discuss whether Singapore Airlines' competitive advantage is sustainable. (10)

1.3 Explain why the strategies of cost minimisation and differentiation are 'apparently contradictory'. (10)

QUESTION TWO [30]

Read the following and answer the questions that follow:

Can MTN become the biggest bank in Africa?

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 [30]

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 (10)

1.3 Discuss the challenges Ghosn would have faced in implementing his change strategy at Renault (10)

QUESTION FOUR **[20]**

Discuss the nature and forms of strategic alliances and the reasons and the reasons why organisations enter strategic alliances.

END OF QUESTION PAPER