

UNIVERSITY OF SWAZILAND

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS ADMINISTRATION

MAIN EXAMINATION 2008

TITLE OF PAPER: BUSINESS POLICY AND STRATEGIC
MANAGEMENT

DEGREE AND YEAR: BCOM V (FULL TIME)
BCOM VII (IDE)

COURSE NUMBER: BA 511/ IDE- BA511

TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS:1. THIS PAPER CONSISTS OF SECTIONS (A) AND (B)

2. THE CASE STUDY SECTION (A) IS COMPULSORY

3. ANSWER ANY TWO QUESTIONS FROM SECTION B.

Note MARKS WILL BE AWARDED FOR GOOD
COMMUNICATION IN ENGLISH AND FOR ORDERLY
PRESENTATION OF WORK

**THIS EXAMINATION PAPER SHOULD NOT BE OPENED
UNTIL PERMISSION HAS BEEN GRANTED BY THE
INVIGILATOR.**

SECTION A: CASE STUDY

This section is compulsory

MTN & Iran

Iran, like any other market, would have some risk perception.

Last year, the MTN group announced that it would be opening shop in Iran in 2006. But have the prospects of a good profit harvest been shrivelled by growing political rumblings over Iran's nuclear programme? After a E300 million licence fee had been paid to operate in the country, a second GSM licence was granted to IranCell, in which MTN holds a 49% stake. Since mobile penetration in Iran stands at a paltry 10%, the investment represents an opportunity for the company to spread its base of International operations outside Africa. 'Diversification is one of the reasons, besides the opportunity being attractive in its own right,' said Merrill Lynch telecoms analyst Meloy Horn. 'Indeed, the fact that Iran as a low mobile penetration and a population of about 70 million people, half of whom are estimated to be under the age of 25, make it a very attractive Greenfield opportunity for any operator'. Also, Iran's current economic growth is 5,2 per cent, population growth 1,2 per cent, and its per capita income US\$2 554. 'However, other incentives for MTN to enter the country could be that the operator could see Iran as being a springboard into other territories, such as Turkmenistan, Uzbekistan and Kazakhstan,' says BMI-Tech Knowledge telecoms analyst Richard Hurst.

The foray into Iran is also a case of 'preferring to develop green-field opportunities' – one of MTN's core competences, say Horn. A degree of market liberalisation in certain Middle Eastern countries, such as Iran and Saudi Arabia, has offered an ideal opportunity for the company to gain a foothold in the market. The decision to launch into Iran, argues Hurst, would be in line with MTN's goal of becoming a leading player in the telecoms markets of emerging countries. 'This is a very significant rollout opportunity, which is possibly bigger than Nigeria,' MTN CEO Phuthuma Nhleko said last year. Although peak funding for the network is estimated to be \$1,5-billion within two to three years of the network rollout, Nhleko explained that the capital expenditure for the project is likely to be more. In addition to the upfront licence fee paid to the Iranian government in November, the government will also receive a 28.1% revenue share every year. The plan is that, once the network is established and begins to do business, revenue from the operation will also be used to fund the network.

At its results presentation last year, MTN stated that one of its priorities is to 'proactively manage financial, economic and political risk inherent in international expansion'. With the February 4 decision by the International Atomic Energy Agency to report Iran to the United Nations Security Council, MTN is certain to be monitoring the situation closely. With a decision by the five permanent members of the Security Council and Germany to delay action against Iran for at least a month, many are wondering what form the action is likely to take. 'Economic and political sanctions would be detrimental to the country's

economy as a whole, with a resultant effect on those conducting business in such an environment,' notes Hurst. 'Capital-expenditure rollout might also be affected,' says another analyst. Sanctions could possibly have an impact on foreign vendors contracted by MTN to help deliver services, argues Horn. Sanctions, however, seem likely to be less damaging to business than military conflict. 'The most major impact on business in Iran would be the prospect of conflict with Western powers', says Hurst.

Another important consideration is the status of the country's legal system and its ability to resolve disputes in a transparent and just way. 'The Iranian courts are based on Islamic law and, as such, should at least be perceived to be fair and equitable. However, there could be some uncertainty surrounding the impartiality of the country's judges,' adds Hurst. 'Judges are politically appointed and not impartial,' says Besada. 'The Iranian legal system is quite challenging, which adds to the risk premium that investors should take into account when valuing this opportunity,' explains Horn. Besides global concerns over Iran's nuclear agenda, there is still the lingering risk associated with instability in Iraq.

The group's stake in IranCell brings to 11 its total number of operations, which include South Africa, Nigeria, Cameroon, Rwanda, Uganda, Swaziland, Cote d'Ivoire, Zambia, Congo Brazaville and Botswana. Its base in developing African countries has been fertile ground for growing profit with countries like Nigeria, which contributed over R2-billion to the company's profit after tax for the six months ended 30 September 2005.

Roughly 56% of the company's subscribers now come from outside its South African base (as at September 2005). In addition to its existing footprints in Africa, MTN is also busy reviewing bidding opportunities in Tunisia and Namibia. The question then, as is the case with any business, is whether the risk outweighs the reward. 'The rewards far outweigh the risks,' says Hurst. He adds, however, that MTN needs to manage these risks as closely as possible. It is likely that the 'y'ello' operator is going to have to obey the yellow light of 'be careful' – a stance that will require it to keep a sharp ear for the ringtone of risk in the region.

Source: Louw, L and Venter, P. eds. (2006) *Strategic Management: Winning in the Southern African Workplace* Oxford Southern Africa

Questions

1. Based on the information provided, evaluate Iran's political, legal, economic, socio-cultural and technological environments at both the global and the country levels, where applicable. What are the major opportunities and threats facing MTN in expanding to Iran? (20)
2. What international competitive strategy is MTN pursuing? Is it the most appropriate strategy given its products/service(s) and the industry in which it is involved. (10)
3. What mode of foreign market entry has MTN adopted? Is it the most appropriate mode of entry for MTN's expansion to Iran? Why or Why not? (10)

SECTION B

Answer any two questions from this section.

Question 1

Discuss the benefits of using the balanced score-card for an organisation such as Swaziland Electricity Board (SEB) in evaluating and controlling performance and suggest a framework for doing so. (20)

Question 2

Critically evaluate the strategies for survival that can be undertaken by a not-for profit organisation such as CANGO (Coordinating Assembly for Non-governmental Organisations) (20)

Question 3

Why would it be important for an organisation such as Tibiyo to review its product portfolio. Discuss the tools that they can adopt and the extent to which these can be effective. (20)

Question 4

The CEO of a local firm of insurance brokers has been accused of being dishonest in his practices by deliberately withholding essential information pertaining benefits payment conditions to beneficiaries from policies with the aim of raising company gains. What would be your opinion of his actions and what advise would you provide in this regard? (20)

Question 5

Why is an understanding of national cultures important in strategic management? (20)