

UNIVERSITY OF SWAZILAND

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS ADMINISTRATION

MAIN EXAMINATION 2010

TITLE OF PAPER: STRATEGIC MANAGEMENT AND BUSINESS POLICY

DEGREE AND YEAR: BCOM V (FT) BCOM 7 (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 THREE 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

Telkom's big shift in strategy

Telkom's customer service levels have nosedived in recent months, forcing consumers to the mobile operators. Telkom is throwing in the towel. After playing up its plans to become a significant force in the pay-TV industry in SA, the fixed-line operator has suddenly turned tail and is bolting for the exit. CEO Reuben September surprised analysts at a forum in Centurion this week when he outlined plans to reduce the shareholding in Telkom Media from 66% to what he describes as "the smallest possible stake".

At the same time, Telkom has announced plans to take the fight to the cellular operators, including associate Vodacom, in which it holds a 50% stake, by building its own mobile network. The plan again illustrates the untenable nature of the company's stake in Vodacom. Both Vodacom and MTN are building national fixed-line networks that will enable them to compete aggressively with Telkom.

The latest developments have some analysts wondering whether Telkom has a coherent strategy.

"I always worry that they don't have a clear vision of what they should be doing," says one analyst, who asks not to be named. "I don't have a particularly warm feeling about the management team. They don't inspire much confidence, unfortunately." In pay-TV, it is clear that management has had a change of heart. The company now says there are other projects that will deliver a better return more quickly. These include offshore expansion and investment in new wireless networks. "We have a number of projects that have a better business case for that funding. [They] have a shorter payback period and are more critical to the core of our business," September says.

Telkom wants to have reduced its stake in Telkom Media, or at least have a plan in place for doing so, before it reports its 2008 financial results to shareholders in early June. The development is bad news for Telkom Media, which analysts had held up as the most credible of a raft of pay TV operators that will soon be licensed by the Independent Communications Authority of SA (Icasa) to compete with incumbent MultiChoice. It is not yet clear who — if anyone — will step forward to buy Telkom's stake.

Telkom says the debt financing required for Telkom Media has also been reduced by more than R2bn, from R7,5bn to R5,3bn. This was done by removing "nonessential" aspects of the company's roll-out plans. September says he believes the business model is still sound — and third party consultants, hired by Telkom, have confirmed this, he says. But the long pay-back period envisaged is suddenly no longer acceptable to the fixed-line operator. "Every concept, every proposal in the [Telkom] group has to compete [for limited funds]. We cannot have a situation where there is segregation of capital."

Icasa councillor Zolisa Masiza says it is too early to know what impact a shareholding change in Telkom Media would have. Technically, the new pay-TV operators haven't

been licensed yet. Masiza says it is important that, whatever the shareholding structure eventually looks like, it meets the minimum empowerment requirements — probably 30% of equity, though this hasn't been decided.

Telkom has not yet decided what it will reduce its stake to, though it will almost certainly become a minority shareholder. There is even a chance that it will sell its entire stake. Whatever happens, Telkom Media will probably be renamed to reflect the reduced shareholding. The management team will also face a shake-up. The board is heavily populated with Telkom executives. CEO Mandla Ngcobo, for example, was deployed to the company from Telkom. One analyst says that if Telkom Media is not able to secure another anchor shareholder, it could mean the end of the company. That will be good news for Naspers shareholders — about 90% of the media group's profits come from its investment in MultiChoice, which operates the rival DStv service.

The analyst says he welcomes Telkom's decision, saying Telkom Media has the potential to become a financial black hole. "But it doesn't reflect well on the management team, because it represents an about-turn [in strategy]." Indeed, the decision represents a big blow to Telkom's plans to broaden its business into new, complementary areas. It also runs counter to trends internationally, which have seen fixed-line operators investing in media and IT services companies. Telkom's effort to broaden its business into IT services was scuppered last year when the competition regulator blocked its planned R2,4bn takeover of Business Connexion

Telkom is coming under increasing pressure in its core fixed-line business. And it has made little headway in working more closely with Vodacom to provide converged fixed-mobile products. To compound matters, the company's customer service levels have nosedived in recent months, forcing consumers into the arms of the mobile operators. Telkom's Achilles heel continues to be its stake in Vodacom. It had planned to dispose of it, had Telkom been acquired by MTN. But it backed away when the MTN talks broke down in January.

Asked by an analyst on Monday whether Telkom was open to selling its stake in Vodacom without an alternative mobile investment lined up, September obfuscated. All he would say was that Telkom's growth strategy without Vodacom would involve both domestic and international expansion. Domestically, Telkom has plans to invest in a fixed-wireless network — this is a wireless alternative to fixed-line solutions — and in a mobile data network that will compete head-on with the 3G offerings of MTN and Vodacom. Telkom is prohibited under the Vodacom shareholder agreement with Vodafone from offering mobile voice telephony, but seems keen to do so.

Telkom was recently given access to the spectrum in the 1800MHz and 2100MHz bands. This is the same spectrum that the mobile operators use to provide GSM and 3G services. September could not be drawn on what technology the company would use, but it seems likely that its fixed-wireless solution would use WiMax. The mobile data network could involve GSM/3G or the US developed CDMA standard.

September emphasises that Telkom will not build a mobile network on the same scale as those operated by MTN and Vodacom. To do that would cost billions of rand. “We will be selective,” he says, promising more details by June. Ultimately, though, Telkom could still find itself the prey of a larger operator. It has already rejected a nonbinding offer from Oger Telecom — news of this sent the company’s share price tumbling more than 10% on Monday before losing further ground on Tuesday — but September says the company has “no emotional hang-ups” about selling part or all of the business if the right offer is tabled.

Ultimately, that may be the best option for a company that looks increasingly ill-prepared to cope in a competitive marketplace.

Source: <http://mybroadband.co.za/news/Telecoms/3397.html>

SECTION A Questions:

- a. Comment on the statement that, “I always worry that they don’t have a clear vision of what they should be doing.” Is this true or not? (10)
- b. In your assessment of the strategic direction of Telkom, are they likely to make it or not? Give reasons for your answer. (20)
- c. Recommend a way forward for Telkom and give reasons for your answer. (10)

SECTION B

Answer any ***three*** questions from this section.

Question 1

Why is an understanding of socio-cultural trends important in strategic management?

(20)

Question 2

A newly formed poultry processing organization's strategy of cost focus has come under severe criticism from some directors who prefer servicing the broad market. What could be the basis for this argument and what would determine the likelihood of success of the preferred option.

(20)

Question 3

How can the cultural dimensions as proposed by Hofstede affect a merger between a Swazi based organization and a South African based organization dealing with food retail?

(20)

Question 4

UNISWA is currently in the process of implementing a Performance Management System (PMS) as a means of, among other issues, improving the evaluation and control mechanisms and reward systems. Comment on the likelihood of success of this exercise given the nature of operations within UNISWA and suggest any possible improvements.

(20)

Question 5

a. What is the importance of product and process R&D to competitive strategy?

(8)

b. What factors help determine whether a company should outsource a technology?

(12)