NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS MANAGEMENT

ORGANISATIONAL DESIGN – CBU 4110

Supplementary Examination Paper
August 2015

This examination paper consists of 5 pages

Time Allowed: 3 hours 15 minutes
Total Marks: 100
Examiner's Name: Mr M Nyathi

INSTRUCTIONS TO CANDIDATES

1. Answer question **One** and any other **Three** questions from Section B.

INFORMATION TO CANDIDATES

1. All questions in Section B carry **20 marks.**
2. Questions may be answered in any order.
3. Credit will be given for the use of appropriate examples.
4. This paper contains seven questions.

MARK ALLOCATION

QUESTION	MARKS
1.	**40**
2.	**20**
3.	**20**
4.	**20**
5.	**20**
6.	**20**
7.	**20**

SECTION A

Question 1

Case Study: Corporate unbundling on the way in dollarised Zimbabwe – Imara

In the year ahead, watch out for a wave of private-sector unbundling, subsidiary disposals and corporate restructuring across the dollarised Zimbabwean economy. The prediction for 2013-14 comes from Imara, the Pan-African financial services group that has a strong presence in Zimbabwe and is close to business sentiment as a leading international investment facilitator.

In a recent report to international investors and fund managers, Harare-based Imara Asset Management notes that historical factors led in Zimbabwe to the creation of conglomerates and wide-ranging holding company structures. But dollarisation could be a catalyst for change. John Legat, CEO of Imara Asset Management, explains: "Operationally, doing business has become considerably easier under dollarisation… (this) implies that good management will quickly spot any inefficiencies in their business models and take appropriate action.

"Many business models in Zimbabwe simply do not work in the new dollarised and competitive environment, but managed to get by in a less competitive and inflationary environment. Such companies could well be those whose models were built on import-substitution products." In Imara's view, businesses like this will be closed, sold or remodelled.

Scrutiny of Zimbabwe's listed companies indicates that a number are holding companies. "Often there may be little synergy or correlation between each business, largely because group structure was a product of history, driven by former mergers or economic imperatives," says Legat. "In Zimbabwe, exchange controls and lack of foreign exchange were such imperatives."

He gives as an example of Delta, which took control of Ariston to access foreign exchange. Post-dollarisation, Delta has chosen to sell its Ariston stake to unlock capital for its core brewing and beverages business. "We believe there is huge scope among listed companies to undertake such restructurings, given the need for capital and skills," says Legat.

Imara points out that one mechanism is the issuing of shares in a subsidiary to a technical partner able to provide capital and skills. Legat adds: "Where there is little or no synergy between the subsidiaries of a company, it makes sense to unbundle them. This is a great method to adopt should the major shareholders wish to remain invested in both businesses while allowing management of the parent company to focus on the core business of the group. "It further allows management of the spun-off division to act independently."

Internationally, the unbundling by US cigarette and food group Altria of first Kraft (in 2007) and then Philip Morris International (in 2008) had demonstrated the advantages of the approach, Imara noted. Says Legat: "In Zimbabwe there are many opportunities for group companies to unbundle a division (or divisions) that has little synergy with the core business of the group.

"One way would be to issue the shares in that division to the shareholders of the main group in the form of a dividend in specie. That division could then be separately listed on the stock exchange. The original shareholders can then decide whether they wish to retain or dispose of the division. "Such a strategy more often than not increases overall shareholder value, especially if it is done in a tax-efficient manner."

A further advantage of this strategy would be to deepen Zimbabwe's stock market through the listing of spin-off companies, thereby encouraging trading and attracting equity investors. As most Zimbabwean companies need money for working capital or long-term capital investment, it will often make sense for them to restructure or unbundle, says Legat. He adds: "Shareholders will need to accept dilution if their businesses are to grow significantly from current levels through capital expansion. Rather have a smaller share of a much bigger pie!"

(Source: Financial Gazette: June 4, 2013)

<u>Required:</u>

(a) Demonstrate why unbundling is said to be the ideal strategy for the majority of Zimbabwean corporates. [**10 Marks]**

(b) ‘Many business models in Zimbabwe simply do not work in the new dollarised and competitive environment, but managed to get by in a less competitive and inflationary environment’ (John *Legat).*

Discuss the reasons that would make many business models not work in the new environment, and suggest the changes that are needed. **[10 Marks]**

(c) Legat gives as an example of Delta, which took control of Ariston to access foreign exchange. Post-dollarisation, Delta has chosen to sell its Ariston stake to unlock capital for its core brewing and beverages business. “We believe there is huge scope among listed companies to undertake such restructurings, given the need for capital and skills,” says Legat.

‘Strategy determines structure.’ Evaluate this statement by referring to this case and other research findings. **[20 Marks]**

SECTION B

Question 2

‘Organizations need the ***right fit*** between ***internal structure*** and the ***external environment***.’ Elaborate. **[20 Marks]**

Question 3

‘Increasing size promotes structural differentiation but at a decreasing rate.’ Discuss.

[20 Marks]

Question 4

Critique the hypothesis that there is a best organizational-technology fit that leads to optimal efficiency. **[20 Marks]**

Question 5

'To be cost efficient and competitive, an organisation may need to adopt structural properties similar to those of other organisations in its industry or its market niches or that of organisations following similar strategies.' Build an argument for and against this statement. **[20 Marks]**

Question 6

The structure of a corporate is a result of strategic decisions made by a dominant coalition. Discuss. **[20 Marks]**

Question 7

Illustrate how structure could be used as a corporate competitive weapon.

[20 Marks]

END OF EXAMINATION