



**COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF BUSINESS MANAGEMENT
MID YEAR ASSESSMENT**

MODULE: COMMERCE
CODE: COM100
TIME ALLOWED: 120 Minutes
TOTAL MARKS: 100

EXAMINER(S): Mrs S Hughes
MODERATOR: Ms C van Tonder
NUMBER OF PAGES: 20 pages

INSTRUCTIONS:

- This is a closed-book assessment.
 - Question papers must be handed in together with your answer books.
 - Read the questions carefully and answer only what is asked.
 - Answer all the questions:
 - Answer **section A** at the back of the answer book. Indicate the correct answer as per the instructions.
 - Answer **section B** in the answer book.
 - Number your answers clearly.
 - Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.
 - Structure your answers by using appropriate headings and subheadings.
 - The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.
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SECTION A**[40 MARKS]****QUESTION 1**

In order to determine how to deal with a problem employee, Sithabile evaluated the employee, the problem, and the context in which the problem occurred. She is applying which of the following perspectives?

- A Participative view
- B Universalist view
- C Autonomy view
- D Contingency view

QUESTION 2

A naturally occurring social group within an organization is part of the:

- A formal organisational structure
- B informal organisation
- C scalar chain
- D reorganisation process

QUESTION 3

According to Mintzberg, which of the following is an interpersonal role?

- A Monitor
- B Negotiator
- C Liaison
- D Disturbance handler

QUESTION 4

One of the roles that a small business manager may emphasize over a counterpart in a large organisation is:

- A information processing
- B spokesperson
- C liaison
- D leader

QUESTION 5

It is often difficult to make decisions about subsystems because they are:

- A interdependent
- B independent
- C managed differently
- D filled with employees

QUESTION 6

Gail, manager of the finance division, distributes relevant information every day to all her employees, enabling them to make quality decisions. Gail is performing which of the following roles?

- A Monitor
- B Disseminator
- C Spokesperson
- D Disturbance handler

QUESTION 7

Lilian is a top-level executive at a banking institution. She spends a significant part of her day meeting with local government officials, everyday consumers, and federal banking officials to address key issues in the banking industry. Lilian's role can best be described as:

- A boundary spanning
- B adaptive
- C interorganisational
- D external

QUESTION 8

GreenTech Candies is a U.S.-based company that manufactures and distributes candy bars and snack foods globally. The company sources most of its cocoa and sugar from South American companies. This business relationship highlights which of the following dimensions of the task environment?

- A customers
- B competitors
- C culture
- D suppliers

QUESTION 9

Executives at One World Advertising have learned that it is necessary to establish strong personal relationships and emotional bonds with Chinese business partners. This relates most closely to which of the following dimensions of the general business environment?

- A Natural
- B Sociocultural
- C Legal/Political
- D International

QUESTION 10

When two or more organisations combine to become one, it is referred to as a(n):

- A joint venture
- B merger
- C flexible structure
- D mechanistic structure

QUESTION 11

A new drug has not been approved by the FDA to sell in the United States because further testing is needed. The company has a chance to sell its product in another country immediately to start recovering the costs of research and development and production three years ahead of time. This example places the decision in which of the following categories?

- A ethical domain
- B domain of free choice
- C legal domain
- D obstructive category

QUESTION 12

Disk Replacement Services has just completed a procedure manual to handle employee grievances. One of the main criteria is to make it clear to employees that rules will be administered fairly and consistently. Disk Replacement operates on the:

- A procedural justice approach
- B utilitarian approach
- C individualism approach
- D defensive approach

QUESTION 13

_____ means that managers are honest and trustworthy, fair in their dealings with employees and customers, and behave ethically in both their personal and professional lives.

- A Followership
- B Concern for production leadership
- C Ethical leadership
- D Command-and-control approach

QUESTION 14

Any group or person within or outside the organisation that has some type of investment or interest in the organisation's performance and is affected by the organisation's actions is called:

- A a supplier
- B a stakeholder
- C an international customer
- D a trade association

QUESTION 15

Africa Airlines has three planning specialists who help division managers develop their own division plans. Serving as consultants to the divisions, the planning specialists give advice about strengths, weaknesses, opportunities, and threats. Africa Airlines is utilizing which of the following approaches to the planning function?

- A centralised planning department
- B decentralised planning staff
- C planning task force
- D centralised planning committee

QUESTION 16

A blueprint specifying the resource allocations schedules, and other actions necessary for attaining goals is referred to as a(n):

- A plan
- B goal
- C mission
- D vision

QUESTION 17

Mingles, Inc. concentrates its efforts on its target market of 18- to 25-year-olds. It is using a(n) _____ strategy.

- A differentiation
- B cost leadership
- C focus
- D multidomestic

QUESTION 18

Which of the following is a commonly-cited limitation of planning?

- A Plans limit employee motivation and commitment
- B Plans make resource allocation more difficult
- C Plans boost intuition and creativity
- D Plans can create a false sense of security

QUESTION 19

Melissa is a manager at InStylez Clothing. Her job is very complex and she feels that she does not have enough time to identify and/or process all the information she needs to make decisions. Melissa's situation is most consistent with which of the following concepts?

- A bounded rationality
- B the classical model of decision making
- C satisficing
- D scientific management

QUESTION 20

Thandi is a manager at the Tinker Tools. She is expected to make decisions that are in the organisation's best economic interests. Her decisions should be based on which of the following models?

- A The administrative model of decision making
- B The scientific management model of decision making
- C The classical model of decision making
- D The humanistic model of decision making

QUESTION 21

Bobby, a product manager, wants to increase the market share of his product. He is unsure about how to go about it, not knowing for sure how costs, price, the competition, and the quality of his product will interact to influence market share. Bobby is operating under a condition of:

- A risk
- B ambiguity
- C certainty
- D uncertainty

QUESTION 22

Flash Card Inc. recently underwent a significant company-wide change that involved revision of its manufacturing and leadership processes. The result of this was a stronger emphasis on horizontal coordination. This level of change is referred to as:

- A reorganization
- B reengineering
- C corporate structuring
- D strategic planning

QUESTION 23

Organ Rentals Corporation has been having numerous problems. Communication across departments is poor and decisions are backing up at the top of the organisation. Organ Rentals uses a _____ structure.

- A geographic
- B product
- C functional
- D matrix

QUESTION 24

Innovative Creations Corporation is designed along functional lines. New product development is very slow, and the process is plagued by many problems. One of the problems is that the people in marketing never communicate with the people in production. This is an example of poor:

- A coordination
- B planning
- C motivating
- D leading

QUESTION 25

Makai's Marketing Mix (MMM) does not use its resources wisely. The employees at MMM spend too much time in meetings and not enough time focusing on the task at hand. MMM's management should consider changing the organizational structure from _____ to _____.

- A horizontal; vertical
- B team-based; horizontal
- C vertical; team-based
- D mechanistic; rigid

QUESTION 26

For the compact disc industry, the advent of MP3 technology can best be described as which of the following types of innovation?

- A service innovation
- B disruptive innovation
- C productive innovation
- D restructuring innovation

QUESTION 27

Which of the following is a characteristic of the large-group intervention model?

- A results in incremental change
- B learning for the small group
- C addresses the entire system
- D gradual time frame

QUESTION 28

Successful change requires that organizations be capable of both creating and implementing ideas, which means the organization must learn to be:

- A cordial
- B rightsized
- C ambidextrous
- D compliant

QUESTION 29

Ashley has average technical skills, but her real strengths lay in visualizing the benefits of other's ideas and in finding financial and political support for these ideas. Ashley is an excellent example of a(n):

- A critic
- B sponsor
- C inventor
- D idea champion

QUESTION 30

Jason has been unemployed for three months. When his wife asked him why he was not looking for a job, Jason responded, "If I am lucky, I will get my old job back." Jason would be considered as having a(n):

- A external locus of control
- B high conscientiousness
- C sensation and intuition type personality
- D internal locus of control

QUESTION 31

Jay is a trusting and forgiving individual who gets along with others because of being good-natured and cooperative. This describes which of the following Big Five personality factors?

- A conscientiousness
- B agreeableness
- C emotional stability
- D openness to experience

QUESTION 32

Maliah bases her judgments on impersonal analysis. To resolve problems at work, she uses reason and logic rather than personal values or emotional aspects of the situation. In gathering information, Maliah prefers routine and order. Based on this information, Maliah ranks highly in which of the following Myers-Briggs categories?

- A Judging-Perceiving
- B Intuitive-Thinking
- C Sensation-Thinking
- D Sensation-Feeling

QUESTION 33

Josh evaluates Karabo's performance and gives her an "outstanding" based on his knowledge that she came to work every day earlier than anyone else and therefore she is extremely hardworking. Josh is making which of the following errors in perceptual judgment?

- A perceptual defence
- B projection
- C stereotyping
- D the halo effect

QUESTION 34

One of Ruby's few flaws is that she does not consider possibilities beyond what she is told, accepting her supervisor's ideas without thinking. She can best be described as which of the following types of thinker?

- A transformational
- B servant
- C uncritical
- D transactional

QUESTION 35

Andy's subordinates say that they love working for Andy because he inspires them to not only believe in the organization but also to believe in their own potential. Andy can best be described as which of the following types of leader?

- A transformational
- B servant
- C authentic
- D interactive

QUESTION 36

Peter has the ability to convince others to work toward the attainment of goals. This ability is known as:

- A motivation
- B leadership
- C commitment
- D a conceptual skill

QUESTION 37

Ian does not have much of a relationship with his subordinates. They feel obligated to do as he says because he's the boss. This is an example of:

- A referent power
- B legitimate power
- C coercive power
- D expert power

QUESTION 38

At Rightway Industries, new hires spend a significant portion of their first week of training just walking around the factory, observing other workers and watching them get rewarded for doing their jobs well. This is an example of:

- A vicarious learning
- B self-efficacy
- C self-reinforcement
- D delegation

QUESTION 39

Carla's subordinates view her as a great manager. Not only does she get the job done, but she also organizes the workplace in such a way that employees experience a sense of meaningfulness, connection, and growth. This is an example of employee:

- A pay-for-performance
- B delegation
- C empathy
- D engagement

QUESTION 40

Frank is primarily driven by a need to establish close social relationships with other people. Alderfer would say he is motivated by:

- A growth needs
- B existence needs
- C relatedness needs
- D self-actualization needs

SECTION B**[60 MARKS]**

ALTHOUGH YOU RECEIVED THE CASE STUDY IN ADVANCE IT IS INCLUDED HERE FOR YOUR CONVENIENCE. PLEASE ANSWER THE QUESTIONS BELOW WITH REFERENCE TO THE CASE:

Eskom-can they keep the lights on?

With effect from 1 July 2002, Eskom was converted into a public company as Eskom Holdings Limited. The two-tier governance structure of the Electricity Council and the Management Board was replaced by a Board of Directors. The Board is the accounting authority of Eskom in terms of the Public Finance Management Act (PFMA). The Board is responsible for providing strategic direction and leadership, ensuring good corporate governance and ethics, determining policy, agreeing on performance criteria and delegating the detailed planning and implementation of policy to the Executive Management Committee (EXCO). The Board meets quarterly and monitors management's compliance with policy and its achievements against objectives. Compliance, not only with the letter but also with the spirit of relevant governance codes, remains a priority for the organization. As a state owned enterprise, Eskom is guided by the principles of the Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance for South Africa 2002 (King II Report), as well as the Protocol on Corporate Governance in the Public Sector 2002. The Government of the Republic of South Africa is the sole shareholder of Eskom. The shareholder representative is the Minister of Public Enterprises.

The business case at Eskom

Eskom generates approximately 95% of the electricity used in South Africa and approximately 45% of the electricity used in Africa. Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors. Additional power stations and major power lines are being built to meet rising electricity demand in South Africa. Eskom aims to continue to focus on improving and strengthening its core business of electricity generation, transmission, trading and distribution. Eskom buys electricity from and sells electricity to the countries of the Southern African Development Community (SADC). The future involvement in African markets outside South Africa (that is the SADC countries connected to the South African grid and the rest of Africa) is limited to those projects that have a direct impact on ensuring security of supply for South Africa.

Ethical Business Conduct

According to Eskom's website their statement about ethical business conduct is called 'the Way'. According to the Eskom way: Eskom commits itself to upholding its values and ethical standards and demonstrating this commitment to all its stakeholders. Therefore, Eskom's directors and employees are required to apply the Code in their day-to-day activities, especially if there are no rules governing the decisions. The Eskom Code of Ethics; 'The Way', reflects the organisation's commitment to the highest ethical standards and principles in all Eskom business. It not only describes the acceptable

behaviour and attitudes that are essential in living the Eskom values of Zero Harm, Integrity, Innovation, Sinobuntu, Customer Satisfaction and Excellence (ZIISCE), but it also establishes the foundation for the interaction of Eskom's Board of Directors and employees with colleagues, customers, suppliers, shareholders, the environment, the public and other stakeholders. Adhering to this Code is not optional; "it is The Way we do business at Eskom, the Eskom Way." Eskom is also committed to the fight against fraud, corruption, and other forms of economic crime, and irregularities and has established the Fraud Prevention and Whistle Blowing Policies. Eskom adopts a zero-tolerance approach to these activities, irrespective of whether they are committed in or outside the organisation.

The following contact details are also provided on the Eskom website: for any advice on ethical issues, please contact the Ethics office on 011 800 2725/6324 or ethics@eskom.co.za. To report fraud, corruption and irregularities to Eskom's confidential, whistle-blowing hotline: dial 0800-11-27-22. The line is managed by an independent service provider.

Organisation structure

According to the Eskom website, the organisational structure is "currently" in the process of being revised to incorporate the recent appointments and changes. It must be highlighted however that Eskom does have a new board, appointed in January 2018, with Jabu Mabuza as the chairperson. Mabuza has been credited with turning around Telkom's disastrous performance since 2012. The appointment of the new board came as Eskom faced a leadership crisis after several board members, including the chairman and chief executive, resigned in 2017 amid growing concerns about governance at the state-owned enterprise, in spite of the lofty ethical statements on the website.

2018 Wage strike

Wage talks between Eskom and the National Union of Metalworkers (NUM), alongside Numsa in 2018 had a fruitless end as members of the two unions staged a walkout as negotiations collapsed. The power utility has decided not to offer a wage increase this time around, citing its well-documented financial problems, something which has not gone down well with the unions, who are now threatening to plunge the country into darkness if an offer is not placed on the table. Following the talks, Numsa issued a statement revealing a hostile environment during the wage negotiation, as the talks were held in the presence of private security personnel. "We cannot be expected to talk with the threat of guns hovering above us," Numsa said.

According to The Citizen, the workers are demanding an increase of 15% across the board, a R2 000 increase in housing allowance, as well as an 80% contribution into medical aid from the power utility. Despite an overhaul at the power utility by President Cyril Ramaphosa, its financial woes have not shown any signs of letting up. The cash-strapped parastatal is reportedly not planning to make any new appointments or issuing out any bonuses anytime soon. Eskom spokesperson, Khulu Phasiwe was on eNCA, where he revealed that they are making an effort to rein in costs, which has led to them

holding firm to their zero percent offer.

Eskom's CFO on Bonuses and Salary increases

"With regard to staff costs, we acknowledge that we have to address this. We've started by giving no bonuses or salary increases to senior managers, while for middle-managers there was just an inflationary salary adjustment with no bonuses. In terms of the staff complement, we need to look to reduce this over the next three to five years to come in line with an efficient base. "We must not forget that finance costs are also significant, and must be in line with our proposals for the balance sheet optimisation.

Load shedding bad news for jobs, investment, food prices

The interruptions caused by load shedding will have a negative impact on the costs small businesses in various sectors have to carry, according to industry representatives and analysts. The power utility has pinned load shedding to plant breakdowns, and a connection between SA and Mozambique – the Apollo line – going down, due to cyclone Idai. Eskom's spokesperson Khulu told Fin24 that it was too early to say how long load shedding would last, but Eskom is getting feedback from power stations on the status of the units, and the department of public enterprises is engaging with Eskom's board to address the problem.

It's a 'very expensive' problem

"Load shedding is very expensive, not only to Eskom, because we cannot sell as much electricity as we want to, but also for the country. It means many of the companies using electricity – like the steel industry and others, would have to reduce operating hours because of load shedding. All these things have a negative effect on the economy," Phasiwe said.

Meanwhile Agri SA issued a statement warning that load shedding would have a negative impact on the sector and the broader value chain. Electricity costs account for 5%, or about R7bn, of the sector's expenses, Agri SA said. "Electricity is an important input cost for many farmers, especially farmers that depend on irrigation... Load shedding will have an impact on irrigation-reliant and energy-intensive industries like the horticulture, dairy, poultry, grains and agro-processing industry," said Nicol Jansen, chairman of Agri SA's centre of excellence for economics and trade. FNB senior agricultural economist Paul Makube told Fin24 that past experience shows that load shedding comes at a cost for farmers, as they have to make provision to run generators to keep operations going. "Farmers may face pressure if the costs of maintaining operations increase," he said. Makube said that if load shedding is sustained, and if there is no security of electricity supply in the long term, it will be costlier to produce food. "Obviously those costs will be passed onto the consumer," he said. "Eventually in the longer term it will have an impact on food inflation, if it is sustained."

Smelters closing down

Marique Kruger, an economist of the Steel and Engineering Industries Federation of Southern Africa

(Seifsa) said that electricity input costs amount to 2% - R9.3bn for iron and steel products, and R2.2bn for basic non-ferrous metals. Load shedding comes at a time when the metal and engineering sector has started to stabilise. Load shedding could affect the competitiveness of the sector and reverse gains which have been made, she explained. Shaun Nel - spokesperson for the Energy Intensive Users Group of South Africa, whose members include chemicals and oil company Sasol, paper manufacturer Mondi, mining companies such as Sibanye-Stillwater and Anglo American – warned that load shedding would see smelters closing down. "Load shedding, or the lack of power, is causing several businesses to reassess their smelting operations," he said.

What has caused this round of load shedding?

The country is on its knees with regards to the electricity supply, especially if Stage 4 load shedding comes into effect. It seems a failure to prepare has hurt Eskom the most, as they are running short on the essentials needed to keep the grid online. During the height of the last round of loadshedding, executives at the power giant outlined the key issues that are causing these blackouts:

- Problems with coal supply.
- Questionable quality of coal provided.
- Not enough water at the dams of the hydro-plants.
- A loss of power from imported sources in Mozambique, due to Cyclone Idai.
- A large number of tube failures and breakdowns at local coal-fired power stations.

Just one of these problems on their own is enough to constitute a crisis. Several of them piled up at the same time puts us nearer “disaster” territory. In addition to this, many of South Africa’s power stations are between 35 – 50 years old. They are effectively past their sell-by date, and cannot operate at an optimal level. Rather tellingly, Eskom has tried to shift the blame for the last round of stage 4 loadshedding onto the extreme weather north of the border. However, attempts to frame Cyclone Idai as the sole reason for this misery have fallen flat. Only a fraction of our power supply is imported from Mozambique, and the adverse conditions cannot be held responsible for the drop to Stage 4. Moving forward, Gordhan’s office assured the public that the task team charged with getting Eskom back on track will “intensify” their operations this week. According to the statement, the team will provide important information about plant unit failures and what urgent measures can be taken to ensure power stations operate at optimal levels.

Eskom’s failures

Despite the clarity conveyed on Eskom’s website regarding governance and the role of the board it has not been smooth sailing at Eskom. Public Enterprises Minister Pravin Gordhan has said that government plans to hold those responsible for Eskom’s failures to account. Gordhan said there would be litigation against those responsible for the poor design of the Medupi power station and also suggested that, in terms of corruption, some people might soon “find themselves in orange uniforms”. “We are going to have difficulties for a short while,” he said. “The board will ensure, as will government itself that the experience of load shedding will be as short as possible and ensure it does not become a permanent feature for SA.”

Gordhan highlighted Eskom's three-pronged crisis – financial, structural and operational. Speaking to Eskom's financial problem – Gordhan said Finance Minister Tito Mboweni would provide details on the kind of financial support Eskom would receive from government, given the fiscal and economic constraints the country is facing. "Eskom should not be a huge financial burden for the fiscus over the medium term," he said. As for Eskom's current structure, Gordhan said that the utility is not being managed in a way that was consistent with similar utilities in other parts of the world. "Security of supply is imperative - not just for our economy but for every household relying on electricity for basic things," he said. He also stressed that the unbundling of Eskom into three entities - generation, transmission and distribution – does not mean the utility will be privatised.

As for Eskom's operational problems, government has met with Eskom's board to determine what is happening at the power stations, why they are breaking down and if Eskom has the "technical competence" to resolve those issues. The Medupi and Kusile coal plants were meant to create a buffer - or extra energy space – so that older power stations could be taken offline and receive "deep maintenance". But this has not happened, he explained. "Eskom's current dilemma on the operational side – is that we do not have the safety margins that the Medupi and Kusile construction should have provided," he said. There has been a "distinct neglect of maintenance".

The way forward

President Cyril Ramaphosa announced in the State of the Nation Address that Eskom would be broken up into three entities - generation, transmission and distribution, in an effort to make the power utility operationally and financially sustainable. Eskom has R420bn in debt it has to service, and so far has used R255bn of government's R350bn guarantee. The president also said that government would be supporting Eskom's balance sheet. Unions however have objected to the unbundling as they believe it would lead to privatisation and ultimately job losses in the generation sector, particularly coal mines. However Eskom CEO Phakamani Hadebe has said that the president has committed to not sell key state assets.

Why South Africa's latest plan for Eskom could work

South African President Cyril Ramaphosa has unveiled a new plan for the country's beleaguered state owned power utility, Eskom. During his State of the Nation Address on 7 February 2019, Ramaphosa announced that Eskom would be unbundled into "three separate entities – generation, transmission and distribution". These would all be established "under Eskom Holdings". This announcement has been a long time coming. It was first proposed and formalised 20 years ago in the country's 1998 White Paper on Energy Policy. Among other things, the policy sought to break Eskom into distinct smaller entities. Ramaphosa's speech was the seventh State of the Nation Address in which a president committed to structural reforms in the electricity sector. But the unbundling will have far reaching consequences for South Africa's energy sector.

Unbundling explained

Unbundling is a type of structural reform. In the electricity sector, vertical unbundling refers to the

separation of a utility's generation, transmission, distribution and (sometimes) retail functions. Horizontal unbundling refers to the creation or entry of multiple players into each of these functions. Generation, transmission and distribution companies will have their own boards and executive structures. This process will take time to implement, probably in the region of five years.

The players may compete against each other to deliver the same service.

South Africa is certainly not the first country to undergo this type of reform. There are a number of benefits associated with unbundling. These include:

- more efficiency, resilience and sustainability through a tighter focus and clearer incentives within each functional area;
- More competition and diversification of players;
- Clarity in costs and functions of unbundled entities, which increases accountability for the purposes of governance and oversight; and,
- Low-cost procurement driven by effective planning, competition and transparency.

Eskom currently operates as a vertically integrated monopoly. This means it performs the generation, transmission, distribution and retail functions. This outdated structure, which is characterised by a lack of transparency and accountability, has continued to shape the utility in the years since democracy.

There is a narrow window for municipalities and the private sector to play a role in distribution and retail, and generation, respectively. Eskom exercises tremendous power in controlling access to the national grid. It has used its dominance to oppose national energy policy by, for example, refusing to sign power purchase agreements with independent power producers. Reform is a complex social and technical process. It is not without risk and costs. This time, however, failure of implementation is not something the country can afford.

What is at stake if Eskom does not “get it right”

Considering its importance to the South African economy, many people are deeply concerned about power utility Eskom's financial status as a going concern. Calib Cassim CA(SA) was appointed Eskom CFO in November 2018 after serving as acting CFO from July 2017. The costs of unbundling and restructuring Eskom are still to be determined. In November 2018, he forecast a loss of R15bn for the 2018/19 financial year. This loss was revised to R20.2bn, with a further R19.7bn loss forecast for 2019/20, even assuming Eskom gets the 17.1% increase applied for to Nersa (National Energy Regulator of South Africa), plus the 4.41% RCA (Regulatory Clearing Account) award already granted for April 1, 2019. But ultimately, what it comes down to is that if the tariffs granted by Nersa are much lower than that requested, the amount of support needed would have to increase accordingly to balance the cash flows. Here are some questions Cassim answered in an interview:

Journalist: Eskom is not generating enough cash flow annually to service debt principle and interest payments, how will it survive? What will Eskom's debt service coverage ratio be (i.e. net operating income / debt service costs) for the 2018/19 financial year?

Cassim: At the moment, based on our December 2018 projections, we are forecasting our debt service cover ratio to be 0.47, which is less than half of where it should be to meet our commitments. So as I have said, as we approach year-end Eskom is effectively using one credit card to pay back

the other credit card, which is never sustainable under any circumstances.

Journalist: If Eskom does not get the 17.1%, 15.4% and 15.5% MYPD4 tariff increases it wants for the next three years, what are the implications for Eskom? For example, if Nersa only allows 10% for three years, what will be the financial hole to be plugged through increased debt and equity, and decreased expenses?

Cassim: On average, Eskom is looking at a revenue requirement of about R200bn per annum. So every 1% of that in terms of price increase not granted would give a shortfall of about R2bn. Thus a drop from 17.1% applied for, to 10% for the first year of MYPD4, would increase the funding gap by about R15bn for that year alone. But this gets compounded over the next three years. Ultimately we can manage cash-flows in the short term by deferring some of our capital expenditure. But it would get to a point where Eskom cannot meet its debt repayments. As a significant portion of our debt is guaranteed, this would eventually lead to us going to government cap in hand for them to step into our shoes and take over those commitments. I think it's important to highlight that this doesn't mean the full R240bn of guaranteed debt will be required to be repaid immediately. Government would just service those terms and conditions going forward. It would, however, result in a potential debt restructuring event that we would have to address with all the lenders.

Journalist: What do you think needs to change, both structurally and in Eskom's business model, to shift to a more sustainable path? Is the internal functional ring-fencing that you proposed in December 2018 sufficient, or should Eskom be unbundled and restructured with greater urgency?

Cassim: President Cyril Ramaphosa has given Eskom its "marching orders" in terms of unbundling the utility into separate generation, transmission and distribution entities. I think there is definitely an element of urgency required, and together with government, we now need to come up with plans to execute this. Ultimately it will help as we see value, from a transparency perspective, in terms of what the real costs are for generation, transmission and distribution. It will also highlight the cross-subsidies that may exist between the different business units. More importantly, from the regulator's perspective, going forward much greater clarity will be required on what the prices for each of these services should be to the end-consumer. This will help everyone focus on the efficiencies to be gained from the respective elements of this value chain.

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QUESTION 1

Eskom is facing a challenging operating environment with almost weekly exposé's detailing the latest concerns. Explain the importance of *effectiveness* and *efficiency* to the senior managers at Eskom by defining each term and providing relevant examples.

(4 marks)

QUESTION 2

Those who don't learn from the past are doomed to repeat it. This is true, both for Eskom's past mistakes and for the lessons that can be taken from the evolution of management theory. In this vein, explain THREE characteristics from Max Weber's ideal *bureaucracy* that should be implemented at Eskom to improve its performance.

(3 marks)

QUESTION 3

Organisational culture is a very important component of the internal environment in a business. Ideally the culture should embody what it takes to succeed in the environment the company operates in.

- 3.1 List and briefly define the FOUR types of *corporate culture* that display a fit between the company culture, organisations strategy and the environment the business operates in (4 marks).
- 3.2 Identify the type of culture that Eskom currently has (from 3.1) and explain if this is an appropriate culture given the power generators future goals (2 marks).

(6 marks)

QUESTION 4

Theory explains to us that individuals bring specific personality and behavioural traits to the job. While a company may have a code of ethics the reality is that individuals operate at different stages of moral development.

- 4.1 Explain the THREE levels of *personal moral development* (3 marks).
- 4.2 During the most recent ethical dilemmas that have come to light at Eskom, what level of personal moral development did managers at Eskom display? Provide justification for your choice (2 marks).

(5 marks)

QUESTION 5

The changes that need to take place at Eskom are easier said than done. Based on the status quo presented in the case, as well as the future plans and ideas that are outlined in the case, answer the following questions;

- 5.1 List the THREE levels within the organisation as well as the nature of plans and goals set by each level (3 marks).
- 5.2 Based on insights into the case, briefly outline what the plans for each level listed in 5.1 should be (3 marks).

(6 marks)

QUESTION 6

Eskom has to be very proactive in their decision making to turn the future of the company into a good story. In light of the current crises, including astronomical debt levels, allegations of corruption, maintenance backlogs and generation capacity that is nearing “end of life”, answer the following questions;

- 6.1 While managers have different preferences in terms of personal decision styles, certain decision styles are more appropriate in certain situations. Which decision making style do you advise as the ideal for Eskom to address current challenges (1 mark). Describe the characteristics of the identified decision making style (1 mark). (2 marks).
 - 6.2 Identify THREE decision making biases that Eskom should avoid in order to be more successful in future (3 marks).
- (5 marks)

QUESTION 7

In each organisation there is a chain of command tied to the organisational structure which comes with certain roles. Explain to the senior leaders at Eskom how *authority* (2 marks), *responsibility* (1 mark), *accountability* (1 mark), and *delegation* (1 mark), should function in Eskom in order to improve the organisations performance in the future.

(5 marks)

QUESTION 8

The culture at Eskom has contributed to poor performance and the situation is unlikely to improve without a change in the organisational culture. Eskom needs to go through an organisational development process in order to stand a chance to meaningfully improve. Describe the THREE phases of the *organisational development* process by referring to what needs to take place at Eskom.

(6 marks)

QUESTION 9

Studies have shown that there is a positive relationship between job performance and a high emotional intelligence quotient (EQ). In light of the difficult working environment at Eskom it is very important for managers at Eskom to cultivate Emotional Intelligence. Advise managers about the FOUR basic components of EQ.

(4 marks)

QUESTION 10

Turning around the situation at Eskom is a complex task that is not just about the capabilities of leaders but also about the readiness of followers. The situational model of leadership developed by Hersey & Blanchard assists in identifying the appropriate leadership style in light of the level of readiness of employees.

- 10.1 Identify the FOUR leadership styles by matching each to the accompanying readiness of followers. Remember to identify the TWO dimensions that can be used to distinguish leadership styles in this situational model. (6 marks)
- 10.2 Identify the type of leadership and level of follower readiness most prominent at Eskom and justify your choice with evidence from the case. (2 marks)

(8 marks)

QUESTION 11

Eskom clearly needs to address the motivational levels of staff as their human capital is a key resource in achieving organisational goals. The process theories of motivation can help managers understand how people select behavioural actions to meet their needs and determine whether their choices were successful. Goal setting theory proposes that managers can increase motivation and enhance performance.

- 11.1 Explain the FOUR key components of goal setting theory (4 marks)
- 11.2 Use your insights into the case study to provide examples/advice to guide managers at Eskom regarding each component listed in 11.1 (4 marks)

(8 marks)

END OF ASSESSMENT