

Chapter 1 Background and problem statement

1.1 Introduction

This study investigates value creation and the aspects that influence it in a South African courier services company. The underlying philosophy of this study is that parent companies with an ideal fit to its subsidiaries normally create value for these companies and alternatively, poor parent fit may result in value destruction. Corporate break-up specialists often target such corporate parents, as they do not add parenting value to the portfolio companies. (Goold et al. 1994). These break-up specialists seek to unlock value by eliminating the value destroying attributes of the company and by doing so; free the individual companies up to at least potentially unlock significant value to the new shareholders.

This study investigates how value creation is affected by mainly three variables namely; stakeholder interaction, culture and strategic drift. The study is conducted against the backdrop of Skynet Worldwide Express as an operating division of Crossroads Distribution (Pty) Ltd, (also referred to as the Parent).

The reader will be introduced to the Skynet, as part of a group of companies its relationship to its stakeholders, its culture and the strategic drift that may be a result of various influences. The impact of these variables on the value creation processes to the customer is investigated. As background to the development of culture in this organisation, the formation of the current structure is traced by means of an ERA analysis and will at the same time, identify factors that could result in strategic drift.

These three main variables and their effect on value creation thus weave through the discussion and conclusions.

1.2 Era analysis

An Era analysis gives the researcher a chronographic development of Crossroads from the inception of the Parent and its divisions up to the current point from where future strategies are formulated (Goold et al. 1994). This analysis highlights some pivotal milestones which had an effect on shaping the companies current culture and parenting structure and determines how it evolved over the last 76 years from its humble birth in 1929, when the General Motors dealership in Springbok (Namaqualand), started providing a one-truck transport business to a mine. The organisation has grown through organic growth and acquisitions to a point in 1955 where it listed on the Johannesburg Stock Exchange and ultimately, separation from Trencor in the 90's to become Crossroads. Crossroads Distribution (Pty) Ltd is currently deemed to be one of the largest independently owned BEE transport companies in South Africa.

The highlights of the Era analysis pertinent to Skynet are as follows:

- Joe Jowell and JD du Plessis started operating their partnership from a workshop in the backyard of one of the partners' homes in 1929
SA Railways terminated its road transport service from Bitterfontein to Springbok, in late 1929 thus opening up an opportunity for the new company.
- An old Buick was converted into a truck within three days and the first trip was done on 30 June 1930.
- The business grew organically over the following years and obviously more vehicles were acquired.
- One of the founder's retired in 1942 Joe Jowell became the sole owner of the business.
- After World War II, the first big trucks were introduced to cope with the growing demand of the Namaqualand.
- The economy of the region continued to expand and with it so did Jowells transport. Jowells introduced road trains to cope with the movement of large components required by the mines. These vehicles were made up of two 10 ton Leyland Hippo's in the front and back of a 20 ton trailer, all loaded with payload.

- In 1955, the Jowells Garage & Transport facilities were modernised. At this stage, the organisation had grown to a staff of 200 people and the fleet had grown into 45 trucks which carried a variety of loads, ranging from people and fresh produce to base minerals and explosives for the mines.
- In the same year, the company listed on the Johannesburg Stock Exchange.
- The Company acquired Henred Trailers in 1966 and started diversification into engineering and manufacturing of trailers. In the same year Ray Hasson joined the group as engineer.
- In 1969, the group acquired an interest in Ten-Up Re-treaders. Ten-Up-Treaders subsequently became Trentyre and in association with Mastertreads, has become the largest new-tyre dealer and retailer in South Africa.
- A new era was introduced when the company started to manufacture inter-modal containers for export markets and created a division under the name Henred Fruehauf. This division grew into the major business unit and at the time of disposal of the transport divisions, the container division had contributed 90% of the turnover.
- To complement the container manufacturing division the company, now Trencor, acquired a small container leasing business which later became Textainer. Trencor also further diversified into the Indian Ocean Export Group, Wolverine, Trendtrade (vehicle component business), Ocean Container Investments, and Waco International. And Crossroads Express, a road transportation company.
- In 1981, Crossroads Express became one of the first companies to take advantage of the relaxing the rules of the Road Transportation Act of 1977, that allowed the transporting of large volumes of freight, previously done by rail.(Grant 2004).
- Crossroads Distribution (Pty) Ltd was established in 1997 when it bought out the transport division of Trencor in conjunction with Ethos Private Equity Fund III and Community Logistics. This process was repeated in 2003 when the previous entity was sold to form the new Crossroads Distribution (Pty) Ltd.

- The newly formed company acquired the exclusive trading licence of Skynet Worldwide Express for Southern Africa in 1989.
- The second buyout was done in 2003 when Nedcor Investment Ltd. was introduced as a strategic equity partner. This introduced a further empowerment opportunity (Community Logistics). The base of executive management shareholding was increased to 48 individuals and the BEE share was also increased significantly.
- The ownership of management and Community Logistics (Pty) Ltd is combined into Crossroads Distribution (Pty) Ltd with Community Logistics holding the controlling share of 58, 35% and Management the remaining 41.65%. Once combined, the two companies hold a 60% share in Crossroads Distribution Holdings (Pty) Ltd and the remaining 40% of the ownership are held by Nedcor Investments Ltd. According to Nedbank, it has viewed the transaction as an opportunity to enter into a strategic equity relationship that will give it exposure into the full services of the logistics sector. The addition of the Crossroads Distribution share to their portfolio has the added benefit to Nedbank that they have gained a significantly empowered company to its portfolio.
- Nedcor, in its capacity as shareholder and co-owner of Crossroads (Pty) Ltd, has added weight to Crossroads and has opened doors with various other blue chip companies. Shortly after the acquisition, Skynet gained the courier work from Nedbank and the Old Mutual work already done by the group was secured and expanded.

The culmination of the Era analysis can be defined as resulting in a company (Skynet) with considerable potential, but managed at arms length by the Parent company.

1.3 The problem in context

It can be argued that as one of the major stakeholders shareholders continuously assess the opportunity cost of the capital invested. Failure of managers to

perform at the required rate of return invariably causes tension between the shareholders and other stakeholders. This dynamic is complex within even a single business unit. The contention here is that this dynamic tension is further exacerbated within a more complex parenting structure as exhibited in Skynet.

As already illustrated Skynet became part of a dynamic parent structure as a result of acquisitions and mergers. The Parent itself has also evolved to its current form through a further process of mergers, acquisitions and demergers over a period of 75 years. It is suggested that this structural complexity now influences the strategic processes within Skynet. Since Skynet forms part of a larger group of companies, the Parent affects a very wide range of stakeholder relationships. For example, to retain funds within the group, the parent will typically prescribe that all subsidiaries have to use other divisions within the group as suppliers, regardless of whether these suppliers offer the best value or not. This complexity conceivably adds to the dynamic tension in stakeholder relationships. It is further contended that these enforced stakeholder relationships could result in a dichotomy between the existing company culture and the culture enforced by the Parent. This research will investigate these aspects against the context of the historical developments of the company, and will endeavour to determine if this has potentially resulted in strategic drift. If this is so then it is further suggested that the advent of such strategic drift will have a negative effect on the company and might consequently result in value destruction to stakeholders.

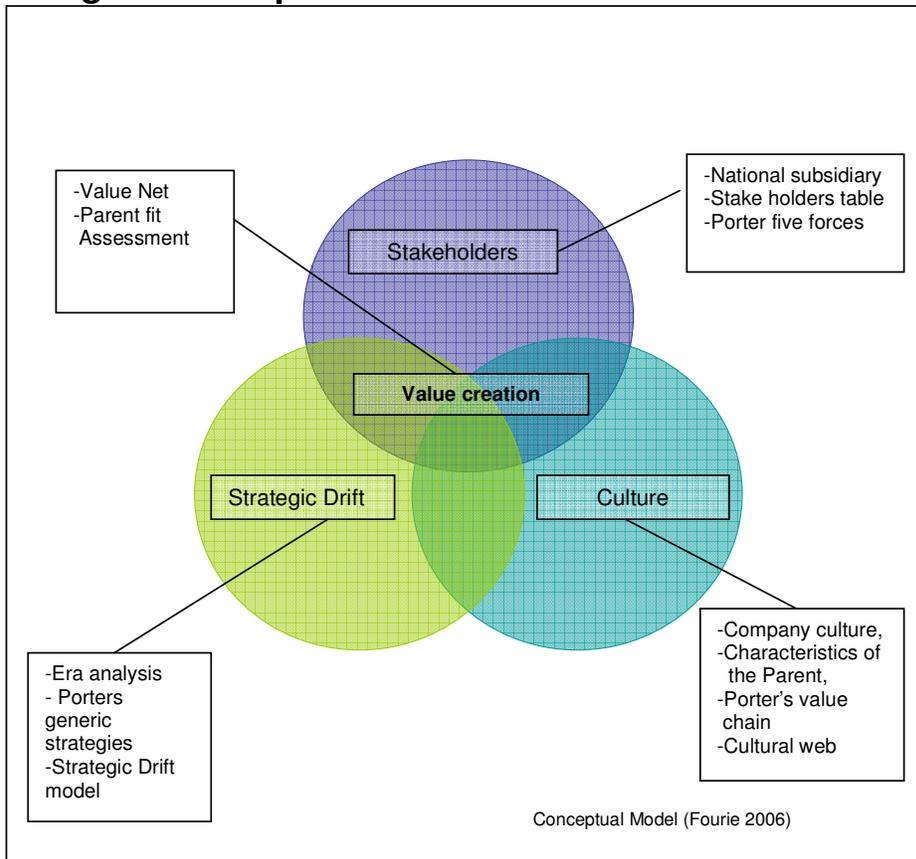
1.4 Problem statement and objectives

The aspects introduced in the previous section highlight the problem under investigation. This study therefore aims to evaluate how value creation is affected by stakeholders, culture and strategic drift within the company. The evaluation considers how stakeholders form the culture of the company and also how the relationship between the company and its stakeholders affects strategic drift.

It is accepted that several aspects surrounding stakeholder expectations, demands and power have an influence on value creation. Although all

stakeholders have to be considered, the customer deemed to be its most important stakeholders and as a result, the study focuses on customer expectations. A satisfaction survey will determine to what extent these stakeholders perceive that their expectations had been met and this is extrapolated back to determining optimum value creation opportunities for the company (Goold et al. 1994).

Figure 1.1 Aspects that influences value creation



In Figure 1.1, a schematic presentation of the variables that forms the objectives of the study is provided. This conceptual model demonstrates the potential interaction of the three main variables under study.

Integrating the issues raised above and with reference to Figure 1.1, the problem statement has been developed as follows: ***An evaluation of value creation in a South African managed courier company***

This problem statement has been broken down into a number of objectives that together sum total the research statement. The objectives of this research are:

- To evaluate the dynamics of stakeholder interaction and its affects on value creation activities.
- To investigate how the development and change of culture and how it affects value creation.
- To determine the extent and effect of strategic drift and how this affects the value creation activities of the company

1.5 Importance of the study

Skynet has grown drastically over the last few years but faces some challenges in the future. Some major changes, combined with a relatively poor performance of some of the other divisions of the group, highlighted cultural conflicts between the company, its Parent and other subsidiaries and raised questions as to future direction of the company.

The frequently asked question by shareholders is 'Is the current parent structure really stimulating synergy and growth or is it, in fact, destroying value for its customers and other stakeholders especially shareholders?' This research investigates the impact of these stakeholder interactions, cultural issues and the related strategic uncertainty that conceivably has an effect on the value creation activities of the company. This report is of an exploratory nature, it will aim to give some direction in terms of developing new corporate strategies for Skynet and to lay the foundation for further study in this regard.

This study differs from previous customer satisfaction surveys carried out within Skynet, both in terms of its focus and depth. This study, deals with the influences of stakeholders interactions, culture and strategic drift on the value creation of the company, something which has not been done before in this context. The focus of this survey is to evaluate the company in terms of the objectives of the study and also reflect on a variety of related value creation aspects. The survey uses a rating scale to determine the importance of the main variables namely, range of services offered, communication and information availability, reliability, flexibility, professionalism, image, price and culture and then offers the respondent the opportunity to rate performance in these categories. The combined result will

hopefully indicate to what extent, if any, the company has drifted from its strategy to understand the needs of the customer and to respond to these with value creation initiatives.

1.6 Delimitations of the study

The objectives of this study were stipulated previously and placed in context of Skynet. The researcher acknowledges that value creation of a company could be influenced by more variables than what is covered in the objectives. Several models and theories are presented and applied in this study.

This study alone does not attempt to formulate a new corporate strategy for the company. Instead, it aims to identify aspects where it performs well and also identifies shortcomings in terms of its corporate strategy. This study will therefore merely present a base for further analysis rather than a solution in itself. It is possible that these findings may ultimately alter some the corporate strategies followed by the organisation.

1.7 Assumptions

Several assumptions were made as part of this study. (Cooper & Schindler 2001). The researcher assumes that the Companies' corporate strategy attempts to achieve a perfect match between the expectations of customers and the value creation activities of the company. Gaps between the expectation of Customers and the critical success factors are assumed to be shortcomings which present opportunities for improvement (Strategic drift).

Several stakeholders are listed and discussed in the following chapters of the study. The researcher assumed that the most important stakeholder of the company under investigation is its customers.

1.8 Overview of the research

In **Chapter 1**, the background of the parent company is sketched and its progression from a small town General Motors dealership into a multinational transport operator. This transition in turn influenced its culture, its relationships

with stakeholders and subsequently these dynamics might have stimulated strategic drift. The interaction between the company and its stakeholders are considered since this aspect has necessitated a cultural shift from a typically white dominated South African company to one that embraces empowerment initiatives and ideals. The fusion between the traditional culture and newly developed culture came about with the involvement of a major Black Economic Empowerment (BEE) partner as co-owner of the group. This had a significant impact on the development of the company culture into its current structure and this background provides the context for further analysis.

Chapter 2 expands on this analysis through a theoretical study of the various concepts introduced in chapter 1. Various models are introduced and discussed.

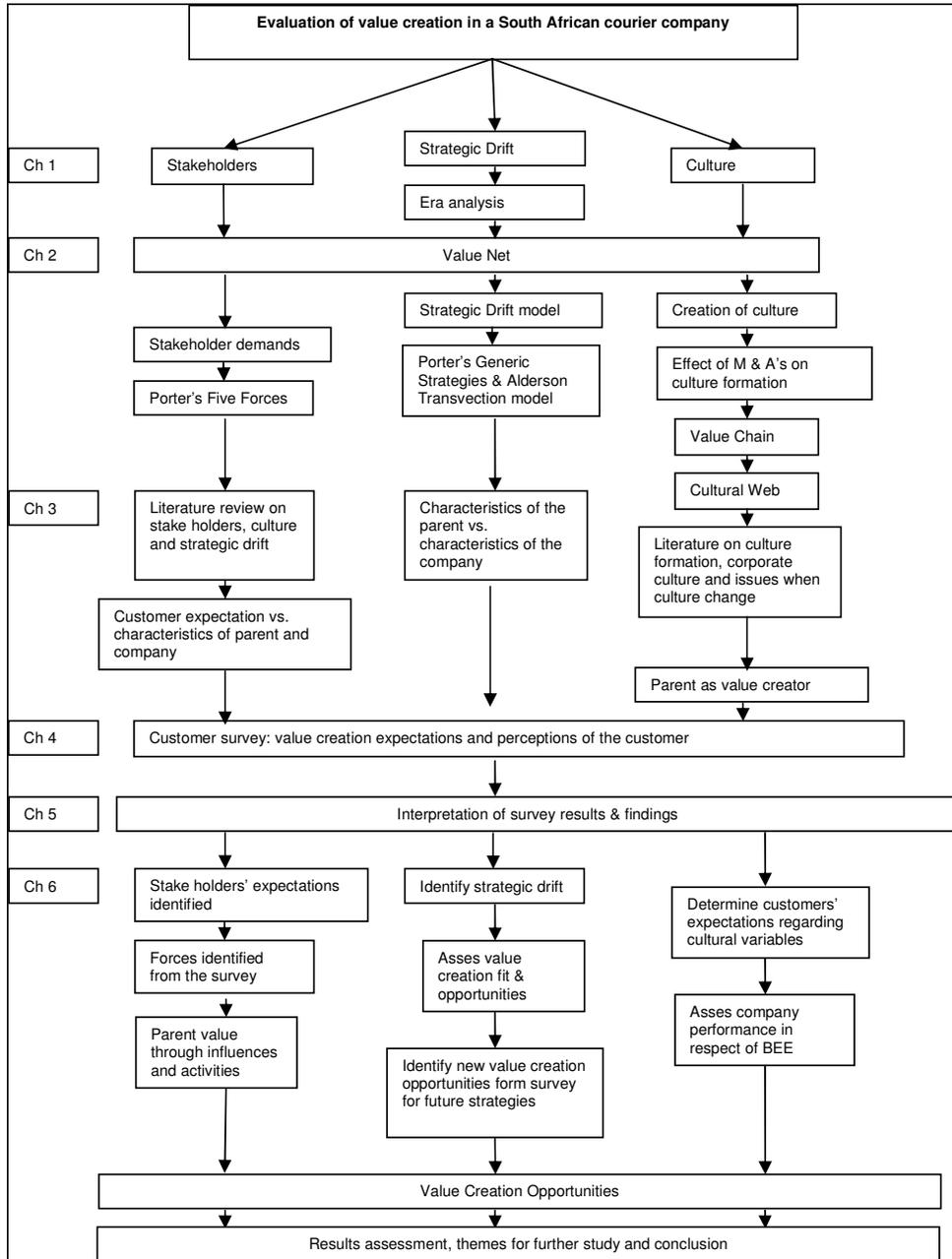
From the theoretical foundation set in chapter 2, the study moves to a literature review (**Chapter 3**) of relevant journals and books, allowing reflection through related thinking of a number of guru's.

The research methodology ensures among others, a tested process for this analysis and supports the validity of the research results (**Chapter 4**). The customer is deemed to be the most important stakeholder of the company; the survey conducted determines the customers' expectations of the company and also determines the customers' perceptions of the companies' performance on three main variables.

In **chapter 5**, the results of the survey are analyzed and discussed. Aspects are identified relating to value can be unlocked to the stakeholders.

In **chapter 6**, the results of the research are analysed and recommendations are made regarding aspects that should be considered when defining a future corporate strategy for the company. The relevance table formulated in figure 1.2 gives an overview of the document and places the various aspects in context.

Figure 1.2 Relevance table



1.9 Summary

In this chapter, the background of the study is sketched. The background of the study leads the reader to the research problem and the researcher uses the opportunity to identify the research question and to formulate the objectives of the study. A conceptual model is introduced that visualizes the inter relationship between stakeholders, culture, strategy and value creation. Finally the reader is prepared for what can be expected in the remainder of the study by means of a relevance table. In the following chapter, the theoretical concepts are investigated and several models dealing with the research problem are introduced.

Chapter 2 Theoretical foundation of the study

2.1 Introduction

In the previous chapter, the research objectives were identified. As part of the theoretical foundation of the study, the various elements of these objectives are analysed. Various stakeholders are identified and the expectations of these stakeholders are highlighted. The Value Net model demonstrates how value flows to and from various stakeholders. These stakeholders have certain expectations and hold certain powers which could affect the strategic direction of the company. Since it does not operate in a vacuum, the company takes cognizance of the demands of stakeholders and by doing so; it shapes its culture to fit into the environment in which it operates. The effect of these gradual adjustments to its original strategy is not immediately noticed but could eventually result in a radical strategic drift.

This chapter evaluates the theoretical models that deal with the various variables that were introduced in chapter 1 and places it in context of the study. The influence of stakeholders, culture and strategic drift on value creation is explained through various models.

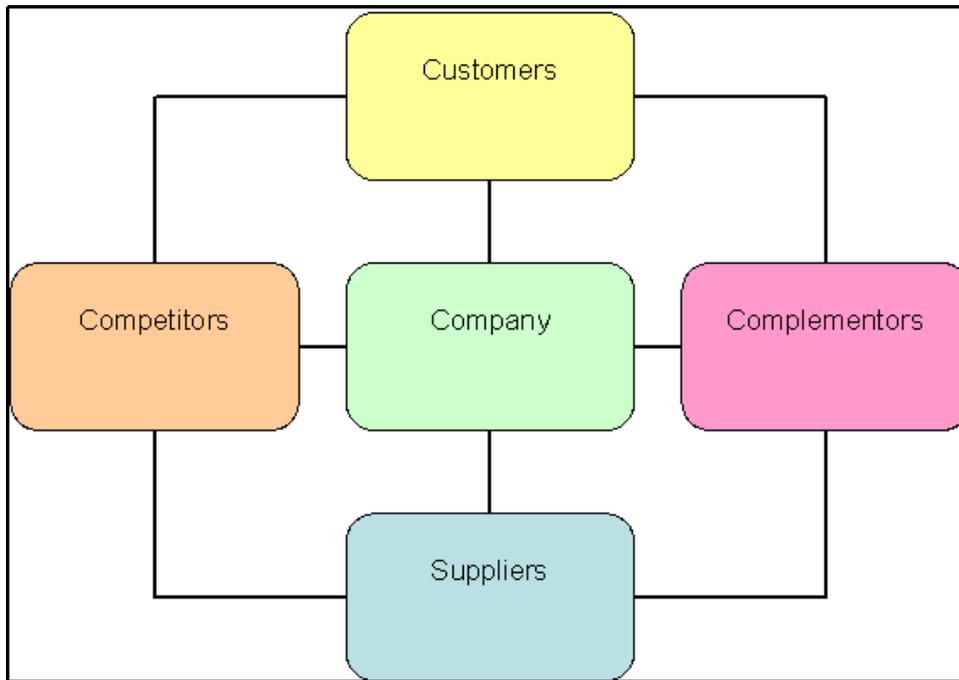
2.2 The role of stakeholders in value creation

The main theme of this research relates to the creation of value within a business, and Goold et al. (1994) define value creation at its most elementary form as the process of creating a surplus above the minimum requirements of the sum of all the stakeholders. Since the stakeholders hold such prominent influence over the company, their roles, influences and expectations are considered as one of the main themes of this study.

Managers are under constant pressure to outperform the opportunity cost of capital of investors as well as to create value to other stakeholders in excess of

their minimum requirements, in order to retain the trust of these stakeholders. To do this, they need to take cognizance of the interactions between the various stakeholders as demonstrated in the Value Net model. This model demonstrates the various stakeholders in the value creation process as well as the flow of raw materials through the companies' value creation activities to the end user. The Value Net model as formalised by Brandenburger and Nalebuff (1996) reflects the interdependencies between the various stakeholders. On the vertical axis the model also shows the flow of raw materials, through the value creation processes from suppliers to the finished product. The horizontal axis reflects the relationship between the organisation and its complementors and competitors. The model, as presented visually in Figure 2.1, demonstrates that the company constantly has to evaluate how the relationship with its various stakeholders affects the value creation processes. When the organisation fails to consider any one of the aspects introduced by the stakeholders presented in this model, it potentially runs the risk of losing its market share. A continuous disregard for these aspects can ultimately result in the demise of the organisation.

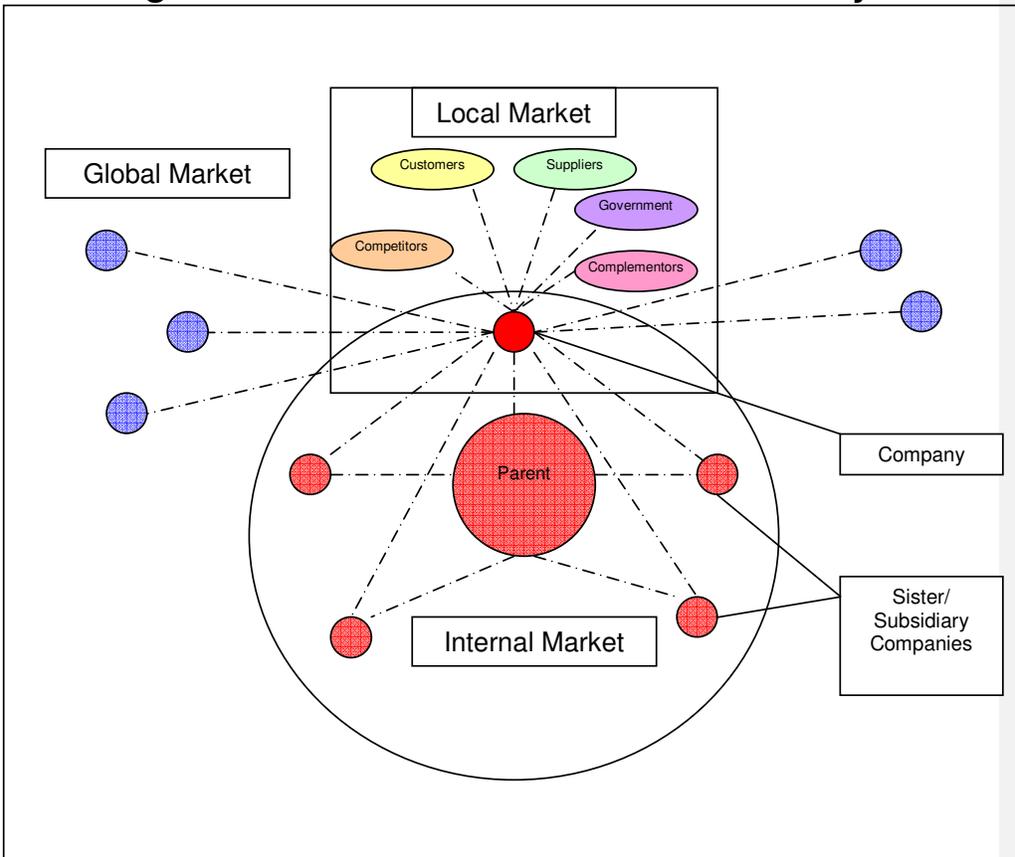
Figure 2.1 The Value Net



Adapted from Brandenburger & Nalebuff (1996)

The interaction between the variables introduced in the Value Net, are placed in context of the global market when one studies the conceptual model of the subsidiary in relation to the internal-, local and global markets in which it operates. The conceptual model of the national subsidiary demonstrates how the role players as introduced in the Value Net model, interact on the local market level. Figure 2.2 demonstrates how the company engages in initiatives with these stakeholders but also with stakeholders in global market and internal market level.

Figure 2.2 Initiatives of a national subsidiary



Conceptual model adapted from Birkinshaw (2004)

On a global level, the interaction is with global role players and involves international initiatives. The operational company is owned by a parent, which also holds interests in various other subsidiaries. The operational company is deemed as one of these and interacts with the parent as well as with other subsidiaries within the same group on a regular basis. This is referred to as internal market initiatives. Biggart and Hamilton (2002) note that according to the market imperfection theory, one can draw the assumption that when markets are not fully competitive various constraints will have an influence. Under these circumstances, the company's size and structure is influenced by constraints but also by the influence of various stakeholders like customers, suppliers, staff and government rulings. These stakeholders hold influence over the organisation and

can influence production and demand requirements and can also manipulate supply.

In Figure 2.2, government is introduced as a fifth stakeholder as it holds certain powers that can affect the way the company operates and these influences could have an impact on value creation opportunities. An example hereof is the effect government can have by introducing trade barriers or subsidies. In this way, government conceivably creates a more or less 'favourable' environment for a business to operate. With more relevance to the South African context, government is a major stakeholder in that it dictates business terms by means of empowerment policies, transformation goals, fiscal and monetary policies. These aspects all affect the business' ability to create value to its customers to a greater or lesser extent. As an example of this, in South Africa, companies are not considered for State tenders unless they comply with an array of various empowerment credentials.

The companies' interactions with the various stakeholders are brought about by various requirements and influences from these stakeholders on an internal, local and global market level. Ultimately, these interactions influence the company to such an extent that it can bring about cultural changes. In table 2.1, various stakeholders are listed. Every stakeholder has some demands and failure to live up to these demands, can and does, cause dissatisfaction and dynamic tension within the relevant stakeholder groups.

Table 2.1 Stakeholders and their demands

STAKEHOLDER GROUP	DEMANDS
Shareholders / Parent	Return on investment
Employees	Job satisfaction
Customers	Value for money
Suppliers	Dependable contracts form buyers
Government	Adherence to laws and tax revenue
Unions	Members benefits
Competitors	Fair play
Local communities	Responsible citizenship by company
General public	Quality of life improvement

Adapted from Baden-Fuller & Stopford (2003)

2.3 Influence of culture on value creation

Culture is an intangible occurrence which develops within every organisation. A core set off assumptions and implicit rules communicate acceptable and desirable behaviour from the members of that organisation. Failure to fully embrace these rules prevents new entrants to the culture, to be fully embraced and deviating from these rules normally results in disapproval and sanction (Robbins 1998).

Corporate culture is formulated indirectly by the influences of stakeholders on the organisation and directly by various factors implemented and maintained by the parent. The most direct influence comes from the parent on the internal market level. The influence of the parent in establishing a corporate culture is of great importance and the role of the parent is in part to ensure compliance with the corporate culture prescribed by the parent (Goold et al. 1994). According to these authors a parent can offer four types of value creation opportunities. These are:

- Stand- alone influence
- Linkage advantage
- Functional and services influence
- Corporate development activities

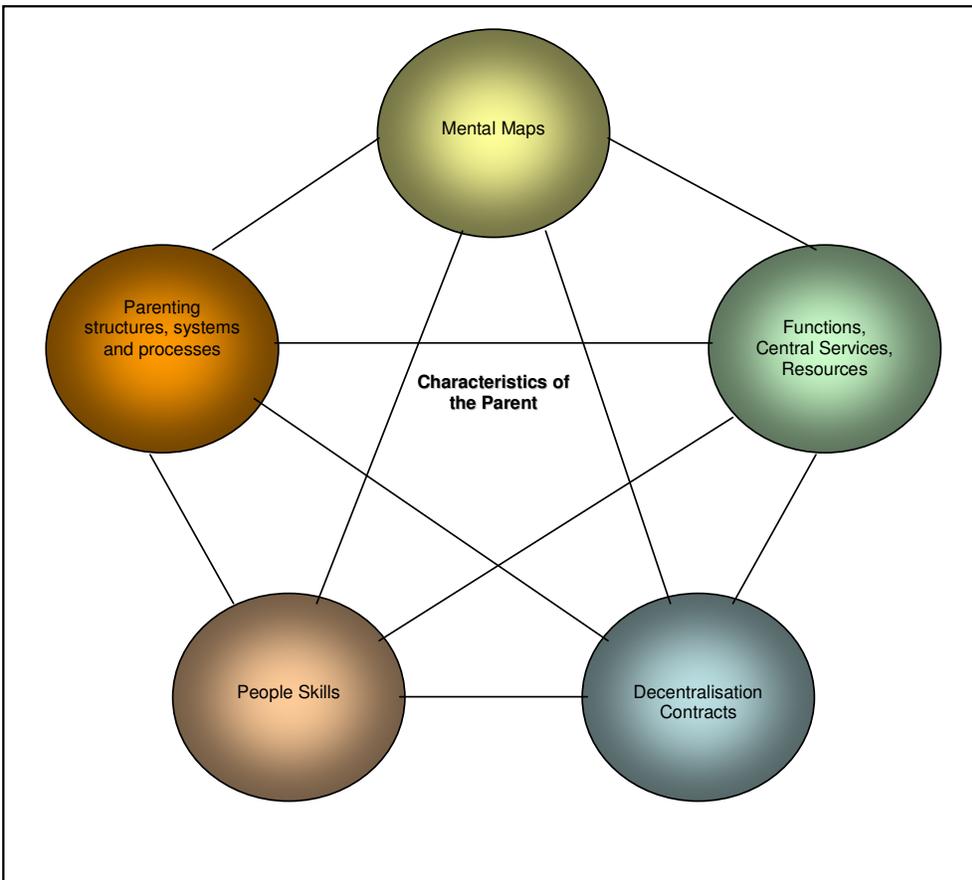
To understand the characteristics of the parent and how it influences corporate culture, Goold et al. (1994) propose that one needs to analyse the parent through five lenses (as reflected in Figure 2.3). Since each of these investigations could dictate a detailed study on its own, these authors propose that the model can be applied to various levels of intensity, ranging from exploratory diagnosis to formulation of detailed corporate strategies.

The varying influence of corporate culture can be viewed through these different lenses. To ensure parent fit between the operating company and the parent, it is important to understand the characteristics of the parent and to then compare it to that of the operating company. By doing so, one can determine the level of parent fit.

Mental maps – The managers of the parent have certain mental models which they use to generate and interpret information. The mental maps develop through experience and bias and influence the parents' perceptions of improvement opportunities available to the organisation (Goold et al. 1994). These mental maps range from general business aspects to very business specific concepts which focus on how employees should deal with specific situations. The most dominant mental maps could be the ones widely shared by the management or the mental maps followed by dominant and prominent people within the parent.

Parenting structures, systems and processes - The formal design of structures, systems and processes and the way that managers interact with these, determine the uniqueness of a company. Value creation from the parent occurs through these aspects and can vary drastically from one organisation to the next (Goold et al. 1994).

Figure 2.3 Characteristics of the parent

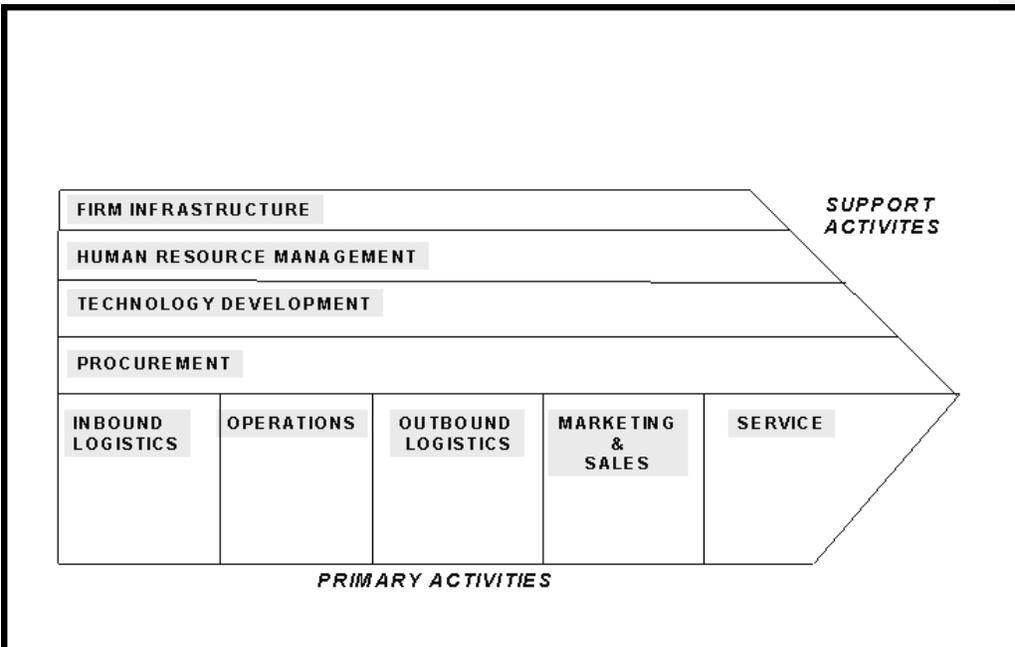


Adapted from Goold et al. (1994)

Functions, Central services and Resources - Line management is supported by corporate staff departments. The size and composition of these departments can vary in size and functionality and influence the characteristics of the parent (Goold et al. 1994).

Michael Porter's Value Chain model distinguishes between primary activities and secondary activities (see Figure 2.4). Line managers will typically be responsible for the primary activities. Corporate staff will typically take responsibility for the support activities (Grant 1998).

Figure 2.4 Porter's value chain



Porter (1985)

Since the design of organizations could vary drastically from one to the next, the allocation of the primary and secondary functions could differ from one to the next. The decentralization contracts will determine the allocation of these various functions within the organization.

Decentralization contracts - This arrangement between the parent and the subsidiary determines which functions is retained within the parent and which are decentralized (Goold et al. 1994).

People and skills - The parent can create value by the influence of certain individuals and available unique skills. Different from the general mental maps contained in the parent, these aspects rather refer to individuals who make a dramatic difference within the parent and when taken out of the parent, their influence is radically reduced (Goold et al. 1994).

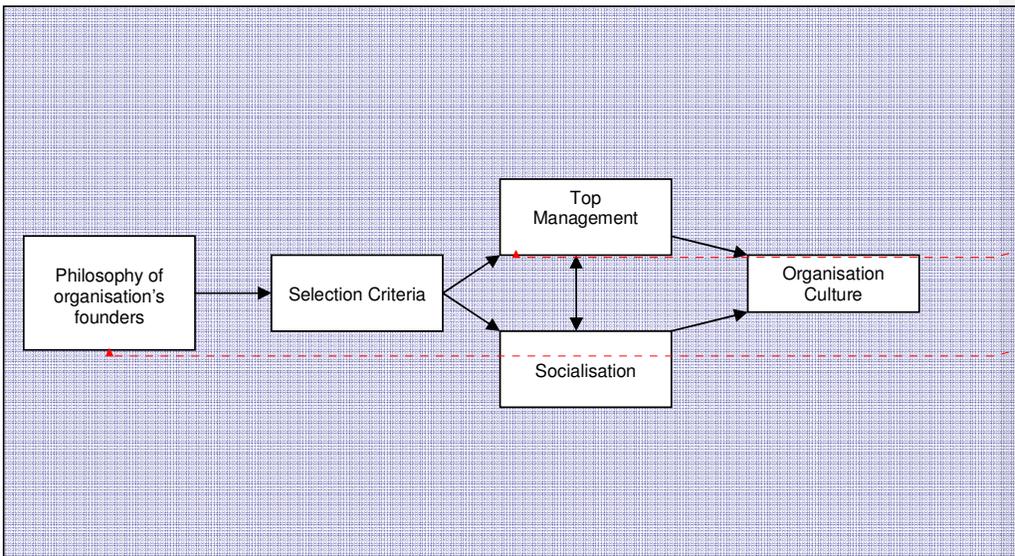
In addition to the corporate culture the company operates in, the national culture has a major implication on the organisation. In the discussion on stakeholders, the role of government was discussed as a stakeholder with certain stakeholder powers which affects the level of value creation. In addition to legislative influences of the government it is also the major director of culture within the country. On that score, Broad Based Black Economic Empowerment is high on the national agenda and cultural change is affected by government through example, charters and requirements set out to suppliers and legislation. This is certainly also the case in the formulation of the organizational culture of Crossroads and its subsidiaries.

A strong culture is one where the organization's core values are intensively held and widely shared. Robbins (1998) states that the more members who accept the core values of the culture, the stronger that culture becomes. When a strong culture exists within an organization, it can act as a substitute for formalization which creates an environment that is easily predictable by members of such culture and create a sense of order and consistency.

Culture acts as a mechanism to define boundaries between various organizations and gives the members of the culture a sense of identity. The culture also entrenches a sense of purpose with its members and acts as a control mechanism that communicates guidelines of acceptable and desirable behaviour to its members (Robbins 1998).

Culture originates from the founder's philosophy and this sets the tone for all future activities. Figure 2.5 illustrates the process of the development of the culture from the original philosophy of the founder. Recruitment criteria are dictated by this philosophy and individuals are recruited based on their fit to the founder's philosophy. The philosophy gets entrenched in individuals joining the culture and the top management structure is compiled from individuals who embrace the culture (Robbins 1998). The behaviour of top management sets the tone of what behaviour is acceptable and desirable and what is not. New employees are selected on their ability to match the culture of the company and are then socialized into fully embracing the culture.

Figure 2.5 Organisational culture developments



Robbins (1998)

This simplistic model demonstrates how culture develops from a philosophy of the founder into a fully fledged culture but it does not go into detail on the components that make up a culture. The cultural web (Figure 2.6) model provides one view of these issues and also reflects the components used by the culture to socialize new entrants.

Stories and myths – Stories and myths are a powerful vehicle of conveying the culture to employees. These have the power to travel over time and to enforce the principles of the culture, even decades after the story originated (Robbins 1998).

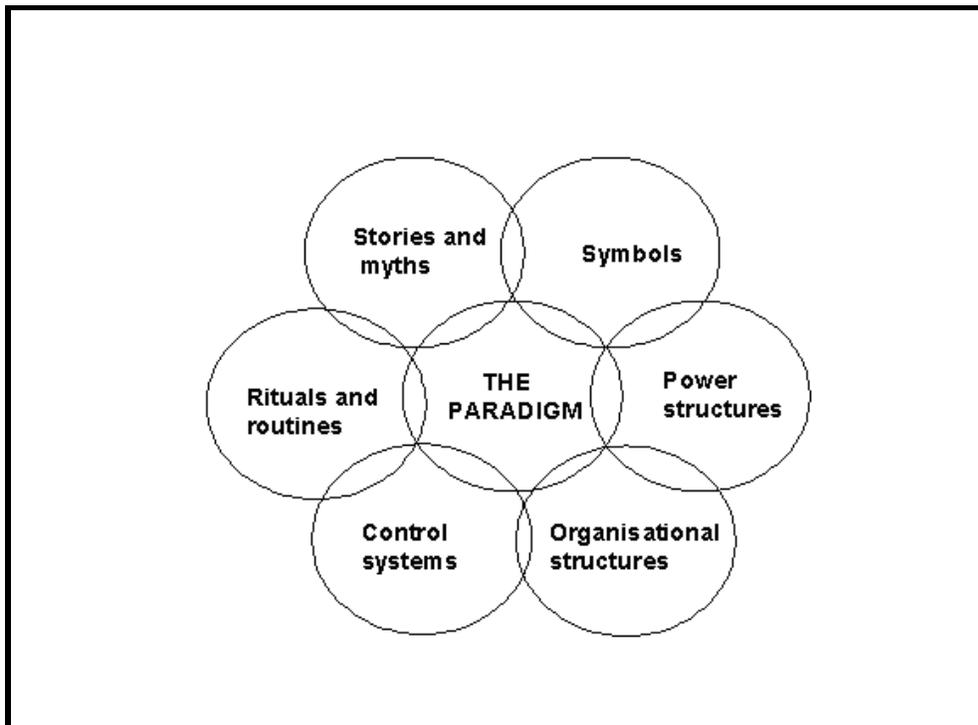
Rituals and routines – These are repetitive sequences of activities that express and reinforce the culture and values of the organizational culture (Robbins 1998). By recognising high achievement, the message is communicated that the company values hard work and accomplishments.

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Control systems – Certain control systems are in place to measure the level of integration and compliance to the culture and to set the boundaries of the culture (Robbins 1998). This system deals with rules on how to behave, timing and prioritizing rules as well as exit rules. Failure to fully embrace the norms of the culture is frowned upon and continued non-compliance results in the extrication of such a person.

Figure 2.6 The cultural web



Johnson (2004)

Organizational structures – Despite the apparent similarities between organizational structures of companies, no two companies are identical in structure. These structures are created to direct the activities within the organisation and acts as a conveyor, socialization mechanism and control mechanism to enforce the core values of the culture.

Power struggles – In addition to the institutionalized power, communicated in the organogram, various implicit power relationships develop within departments and

companies alike. These pockets of power come into conflict with other powerful individuals and as a result, as in nature, power struggles occur. Robbins (1998) lists seven forms of power tactics identified:

- Reason – Use of facts and data to convey ideas
- Friendliness – Use creation of goodwill before requests
- Coalition – Support of other people within the organization for backing
- Bargaining – Negotiation for the exchange of benefits
- Assertiveness – Forcefully and directly insist on compliance
- Higher authority – Gaining backup from higher levels in the organisation
- Sanctions – Using the organizations standard reward and punishment system to get a required result

Symbols – The values of openness, equality, creativity and flexibility are conveyed through the visual symbols contained and utilized within the organisation. These include image of buildings, layout of offices, quality of furniture, dress code etc. These symbols convey aspects like status, desirable and acceptable behaviour to name but a few (Robbins 1998).

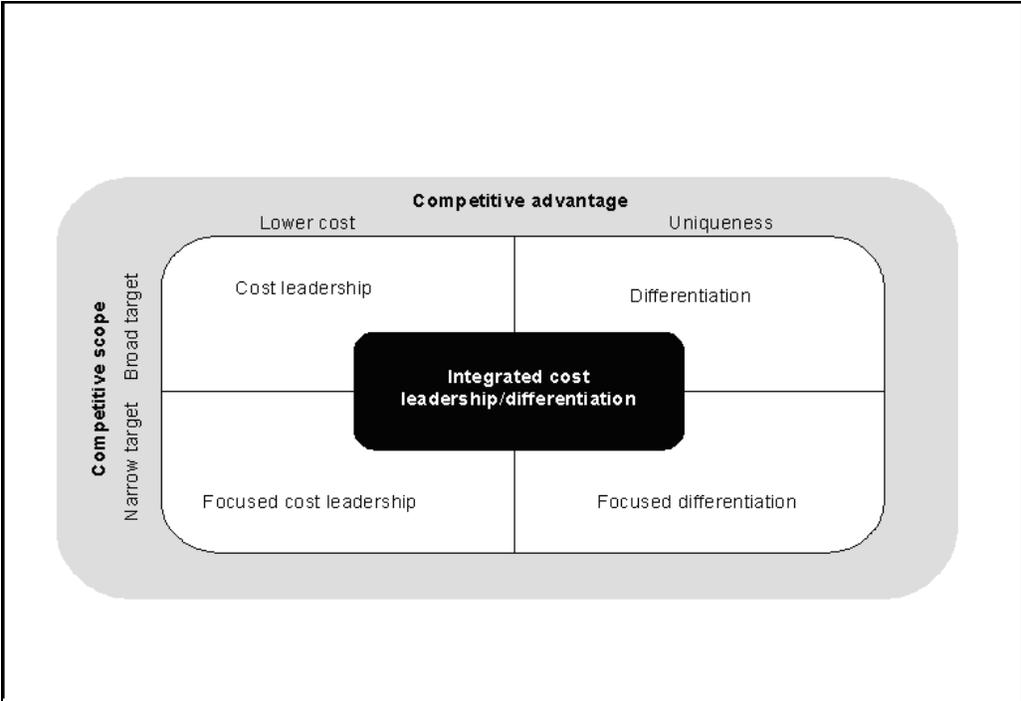
Johnson (2004) notes that, although environmental forces and organizational capabilities affect the performance of an organization, only people can create organizational strategy. One of the mechanisms for creating strategy is at a cognitive cultural level at the paradigm. The paradigm is the cognitive structure and is protected by the other cultural artefacts discussed above (Johnson 2004). To influence a paradigm shift, changing company culture is an involved process which has developed into a study field of its own due to its complexity. The interactions between the various aspects as demonstrated in the Cultural Web are so interweaved, that no single variable can be changed without affecting the remaining variables.

2.4 Development of strategy

Porter identified that companies can either follow a cost leadership or a differentiation strategy. These are known as *Porter's Generic Strategies* (Porter

1985). Porter's contention is that an organisation can achieve higher profitability over its competitors by following one of the generic strategies. The first strategy is to supply an identical product or service to the market at a cost, lower than that of competitors in the same market. The second strategy is to provide a product or service that is a differentiated product or service. This is achieved when the company offers a unique product or service to the market that is deemed valuable by buyers, despite a price premium being charged (Grant 1998).

Figure 2.7 Porter's generic strategies



Porter (1985)

Several theorists have criticized this theory and as a result, positioning is added to the equation. According to Porter, an organisation trying to follow both strategies are stuck (positioned) at a point in-between these two strategies and are not particularly good at any one of these strategies. In reality however, very few companies can follow a pure form of any one of these strategies and as a result, Focus is added to the equation (see Figure 2.7). Instead of merely diversifying its offering, management needs to decide on which customer requirements they will

be focusing on and where to position themselves relative to the rest of the market (Grant 1998). Positioning is an effort to drive a wedge between cost and differentiation. Optimal positioning represents a choice from a wide spectrum of trade-offs between cost and differentiation instead of having to choose between two mutually exclusive variables or between two mutually exclusive generic strategies (Ghemawat 1999).

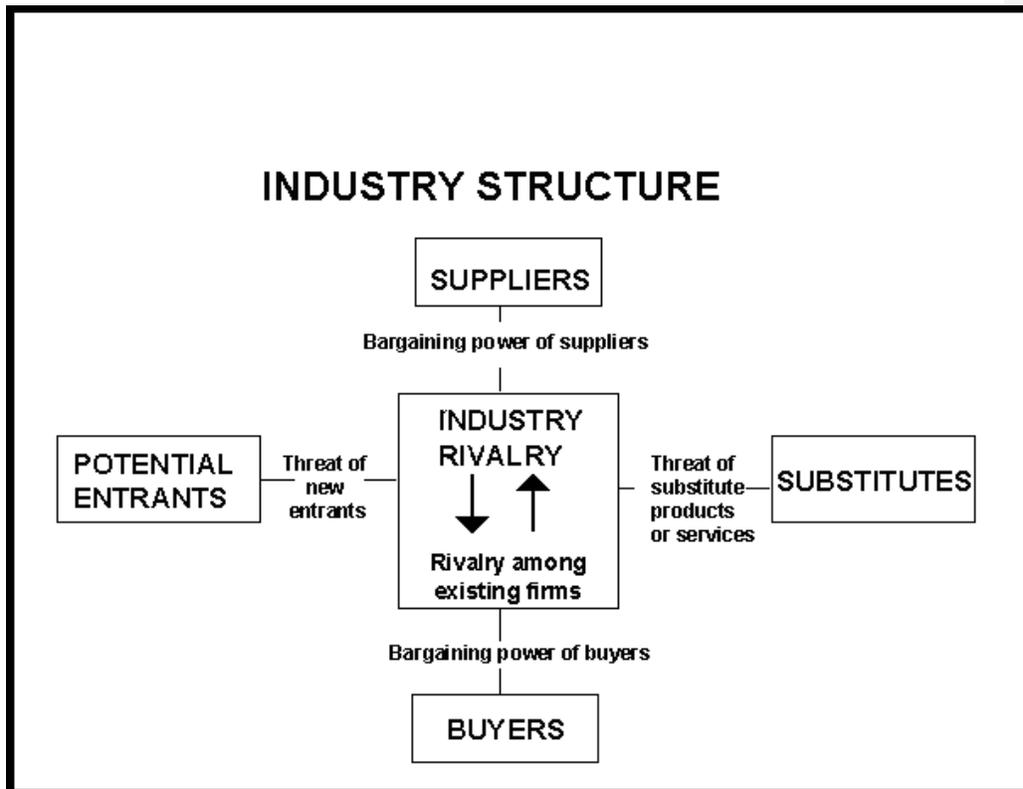
The competitiveness and profitability of industries can vary drastically from the one to the next. Similarly the extent to which diversification and cost leadership is relevant in an industry varies in appropriateness and ranges from extremely diversified and profitable to totally commoditised industries with very low margins. Porter's five forces framework demonstrates the features and stakeholders that influence the profitability of an industry and the companies that operate within an industry.

Supplier power – Price sensitivity for the product offered by a supplier is determined by the cost of the item it supplies, relative to the total cost of the finished product or service produced. The extent to which the product is diversified, in relation to the needs of the company, and also the level of competition between rival suppliers has an effect on the price of input cost. The size and concentration of the company, relative to suppliers has an influence on the power of the various suppliers. Suppliers with relevant integrated supply chains could have an effect on the switching cost between various suppliers and affects the profitability relative to the industry it operates in (Grant 1998).

Buyer power - Similarly to the effect of suppliers industry, buyers hold certain powers to a greater or lesser extent which determines the profitability of an industry. The buyers' sensitivity to price for the product offered is determined by the cost of the item, relative to the total cost of the finished product or service required by the buyer. The extent to which the product is diversified in relation to the needs of the buyer, equally affects its profitability. The level of competition between competitors has an effect on the price of the product or service offered to the buyer. The size and concentration of the buyer, relative to his suppliers has an influence on the power of the buyer. A buyer's ability to backward integrate

could have an effect on the premium that can be charged. The switching cost for the buyer between various suppliers also impact on profitability (Grant 1998).

Figure 2.8 Porter's five forces model



Porter (1985)

Threat of substitutes – When the price of the product or service increases sufficiently substitutes products become more attractive. The buyer will have an incentive to substitute the companies' product or service with a substitute product. The propensity to substitute varies between buyers (Grant 1998).

Threat of new entrants – When the price of the product or service increases sufficiently the market becomes attractive to new entrants. In certain industries, high barriers of entry prevent these new entrants but in others, the barriers of entry are very low. These barriers are determined by things like absolute cost advantage, capital requirements to enter the market, the level of product differentiation, access to distribution channels, government and legal barriers.

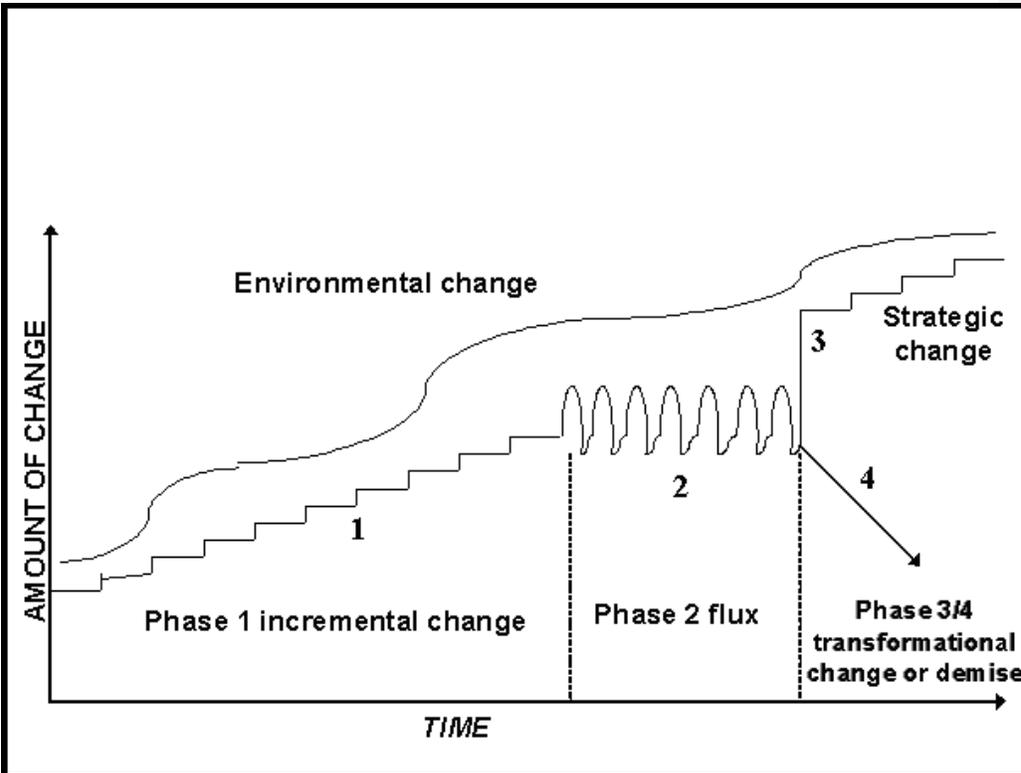
New entrants also run the risk of being targeted by established producers (Grant 1998).

Industry rivalry – The level of concentration of competitors in an industry, coupled with the diversity of competitors and their product offerings affects the profitability of the industry. The reigning cost conditions as well as the availability of access capacity and exit barriers also have an effect on the profitability of the industry.

2.5 Strategic drift

Market leadership is held in most industries by the organisation that manages to maximize customer satisfaction by reconciling cost leadership with effective differentiation strategies. Companies operate in a dynamic environment and as a result, various factors alter the original strategic direction. A conceptual model depicting the danger of strategic drift is presented in Figure 2.8. Strategic drift is represented as the gap between environmental demands and the ability of a company to service those demands.

Figure 2.9 The risk of strategic drift



Johnson (2004)

Competitive edge is achieved by responding to the challenges brought about by the dynamic environment in which it operates, by constantly adjusting its capabilities. This concept is called *dynamic resource fit* and was coined by Hiroyuki Itami (Grant 1998).

In Figure 2.9, the various stages of change is plotted against a timeline to demonstrate the risk of strategic drift. In the first phase, management constantly makes small incremental changes in response to environmental changes. What invariably happens is that minor changes are continued to be made (Phase 1) despite the fact that the environmental is changing even more rapidly. These environmental changes can cause management to make greater but still inadequate incremental adjustments to its internal and external capacity in an attempt to retain or extend competitive advantage. This leads to the second

phase of instability and erratic fluctuation within the company, as a reaction to environmental dynamics. The strategic drift is thus increasing (Phase 2) and companies' then attempt to make more drastic, although still inadequate, changes. These changes can eventually become more erratic and eventually, the company can drift so far away from the original strategy it set out to achieve that realignment could be required. At the inflection point at the end of phase 2, the stage is reached where very drastic changes (paradigm shift) are required (phase 3). In the final phase, a point is reached where it has to engage in a total re-look of its original strategy. This could result in a total transformation of the company with increased competitive advantage. Failing to adopt a new strategy in line with stakeholders' expectations and the dynamic demands from the environment will ultimately result in the demise of the organization (phase 4).

Strategic drift can occur over a long period of time and as a result of several interdependent occurrences and decisions or could be triggered almost instantly by some internal or external factors or sudden change in the environment. (Grant: 1998). It is for this reason that the strategic fit between the subsidiary, its parent and the expectations of its stake holders should constantly be evaluated, since failure to do so can result in failure altogether.

According to Grant (1998) a company will only be successful if its strategy is consistent with its internal goals and values as well as the demands of the external environment in which it operates and with the resources and capabilities and systems of the organisation.

2.6 Summary

The objectivities of the study as introduced in Chapter 1 are investigated and analyzed against available theoretical models of this subject field. The theoretical investigation explains the roles of various stakeholders, their influence on the culture of the company and also the resulting strategic drift that could occur as a result of this. The theoretical study lays the foundation for the analysis of relevant literature on the subject that will follow in the next chapter.

Chapter 3 Literature review

3.1 Introduction

In the preceding chapters, the overview of the group demonstrates how it developed from a small partnership into an international organisation. The objectives of the study are investigated against relevant theoretical models available from subject theory and in this analysis, the researcher considers the value creation processes between the company and its stakeholders, as well as the impact that these interactions have on the formation of corporate culture. In this chapter, an extensive literature review is done on the subject under investigation. Some emphasis is given to cultural aspects, the role of stakeholders in corporate strategy and the effect these aspects have, alongside with strategic drift, on the value creation processes. In this chapter, the literature relating to the topic of the study is reviewed in the light of the dynamics of stakeholder interactions, the impact of change on the formation of culture as well as the effect of strategic drift on the value creation activities.

3.2 Business environment

Atkinson and Waterhouse (1997) explain that various changes occurred over decades in terms of management practices. The early parts of the twentieth century were known for the build-up of major corporations and financial corporations. Management attention shifted to financial analysis as the main managerial function. This management style is not limited to any specific industry and companies from across the spectrum were affected by this.

Since the 1980's the deal decade has seen the rise and fall of many financial fads like leveraged buyouts, junk bonds etc (Atkinson and Waterhouse 1997). The boom of e-business saw an irrational trend of false value creation attempts on a global scale. During this period, investors committed billions of dollars to Internet start-ups without the assurance that the fundamental financial data made sense.

Large numbers of companies based its business models on that of Amazon.com (Manner-Romberg 2001). The concept of e-shopping stimulated the demand for supporting industries such as courier and wireless communication. Forbes (2002) has done a study into this phenomenon and found that, despite the initial collapse of the dotcom boom, companies in this industry with sound fundamental models survived and is expanding fast.

Manner-Romberg (2001) conducted a study for the German regulatory authority for telecommunication and post that focused on the courier express segments of the industry. According to this study, the businesses in this industry has grown at an average growth rate of 59, 5%. This study contributes the growth of this industry in large to the development of e-commerce business.

In another study, Manner- Romberg (2000), the growth in the courier industry is used as indication of growth in the e-commerce industry. According to this study, the additional market growth of the courier industry in Germany is estimated as high as 40% in 2004 due to the expansion of e-commerce. In accordance to the boom in e-commerce, thousands of small courier companies mushroomed all over, promising to offer a similar service to the institutionalized players at a drastically reduced price. As long as the market was large enough for all these players, more start-ups entered the industry which, at a glance, seem to have a relatively low barrier of entry.

Forbes (2002) observes in his study into the collapse of the dotcom boom that this phenomenon is riddled with myths. The general perception that these companies were started up by 20 something's with access to large amounts of equity is found to be flawed. The terror attacks in the USA during 2001 sparked economic downturn forced this large multi-national corporation to cut away the fat of the business and to refocus on its core profit making business (Brickley et al. 2001). Despite this reality check, e-commerce companies with sound fundamental business models sparked a new boom in e-commerce. Bible (2006) reports that on-line purchases in 2004 has increased with 65% since the previous year and businesses dealing in this industry has reported growths of electronic transactions in the region of 25% since the previous year.

The growth of e-commerce transactions can however not be translated directly into a growth of courier industry, since some electronic offerings acts as substitutes and competitors to the traditional courier industry. Bible (2006) reports that 30% of Quantas airlines ticket sales were done on-line. The introduction of e-tickets has negated the utilization of courier companies for this purpose. Similarly the reported growth in on-line payments and electronic document transfers erodes the traditional courier market. Despite the loss in opportunity to courier companies due to substitution, Forbes (2002) emphasizes the development of the e-commerce industry has stimulated the parallel development of associated industries like the courier industry.

Brickley et al. (2001) eludes one to the fact that the change in business environment became more rapid over the last decade with things like the dotcom collapse, the Enron scandal and 9/11 creating an awareness amongst managers to be more vigilant in their business dealings.

Javed (2006) states that the era's of B2B (business-to-business) and B2C (business to consumer) are making way for a new era namely M2E (manufacturer-to-end-user). He attributes this shift to the well developed international supply chain offered by courier companies. According to him, the fact that the international logistics barrier has been overcome by the development of the internet, combined with an extensive courier infrastructure, negates the need for intermediate distribution channels. This also limits the need for companies to hold large inventories since products ranging from commodities to highly specialized equipment can be delivered globally in a relatively short period of time (Javed 2006).

Javed (2006) observes that the U.S and other Western economies are heavily dependent on intermediate services and is struggling to cope with the pressures associated with this change. Porter (2004) notes that the quest for productivity, quality and speed has triggered a drastic increase in the number of management tools available to managers. Concepts like process reengineering, total quality management, benchmarking outsourcing change management and outsourcing

are widely deemed to create competitive advantage (Porter 2004). Initially the drastic increase in product obsolescence due to rapid product development caused managers to constantly re-look processes in order to ensure that inefficiencies are dealt with rapidly. These noble ideas took the business world by storm (Brickley et al. 2001). The need for cost savings caused by the increased competitiveness of the 1990's and the economical downturn of the early part of this decade, made re-engineering even more attractive to business. Soon, companies globally and across industries were thinking up ways to reengineer tasks, divisions, and companies merely for the sake of changing. The focus on supply chain reengineering focused the attention of specialists on the transportation industry and consultants developed industry related solutions. The aim of these is to deal with inefficiency in activities and to streamline processes by eliminating unnecessary processes and steps, but managers often blindly followed fads, with little consideration for the up- and downstream implications of changes. Brickley et al. (2001) brand these 'packaged solutions' as fads, due to the fact that they often fail to meet the created expectation.

Brickley et al. (2001) explains that these fads are often created by management gurus, consultants and academics that are looking for solutions for practical problems identified in a specific company or circumstance. As can be expected, the solution found for the specific problem often proves to be successful. This new-found recipe for success often inspires its inventor to package the concept and market it – often with great success. Unfortunately, however, the invention is applied to situations remotely different from the original problem on which the solution is based. Subsequently, these fads often fail with tragic results to the organisation.

Brickley et al. (2001) explain that these fads often fail since unrealistic expectations are created by consultants when marketing the product. One of the most common improvements promised by these fads is increased competitive advantage. Since the offering of consultants are generally widely advertised, the chances are good that one's competitors might also buy into the same idea and by doing so, cancelling out any advantage the revised system might have offered. Competitive advantage can be maintained only if competitors cannot easily

replicate the asset that caused this advantage. Since these fads are widely applied, improvements are competed away across the industry.

Porter (2004) notes that managers confuse operational effectiveness with competitive advantage. *A consultant is someone that will save the company almost enough money to pay his consultation fees – Anon.* Although this phrase is tongue in the cheek, it surely echoes the rising number of criticisms against such once-off consultation projects. The concerns that are widely raised in the business environment are that incentives exist for consultants to provide more examples of where their techniques have worked than, for examples where they did not. The measurability of the improvements is also difficult to achieve over a short period of time. The consultant is under pressure to perform and might implement some short-term initiatives that offer a quick fix result but with detrimental long-term implications. Brickley et al. (2001) highlight the fact that despite fads that are implemented to improve efficiency and decrease cost, managers often neglect to consider the up- and downstream implications as well as the indirect costs involved for implementing these changes. This observation is confirmed by Porter (2004) who explains that all differences between companies in cost of differentiation develop as a sum total of all the activities of that company. The mistake made by many managers is to focus on only a specific aspect of the business without considering the up and downstream implications of such changes.

Brickley et al. (2001) states that consultants often promise savings which result from the elimination of control processes. This quick-fix method claims that by improving overall quality, the need for quality checks is eliminated. Improved quality presumably results in a saving to the company, since none of the control measures used to identify deviations would be required. In many cases, however, this approach seems to be ineffective in the least and could be highly destructive on the other end of the scale. When one considers the extensive amount of management time and effort required as well as the investment in other corporate resources necessary to implement and maintain the re-engineered process, the financial benefit is often cancelled out even before the revised processes are even fully implemented. Often, managers view the improvements made in the target

area as successful but do not consider the impact on the rest of the business. Ultimately the increased costs required to ensure a small saving often does not justify the investment made to implement it. Instead, the manager should view the initiative as an investment of corporate resources with an uncertain return on investment (Brickley et al. 2001). The benefits should be weight up against the opportunity cost of such a project. This does not mean that improvement projects with a long-term pay-off horizon should be left, since it does not make economical sense in the present fiscal period. Quality does cost money, but so does a lack thereof. Often managers underestimate the cost of poor quality due to reduced consumer confidence. The value-maximizing manager would have to consider the quality improvements where the incremental benefits exceed the incremental cost of the improvement in quality (Brickley et al. 2001). Efforts in this regard however do not mean that the company is increasing its competitive advantage.

Porter (2004) demonstrates that the productivity frontier that comes about as a result of constant improvement in operational efficiency does not improve competitive advantage. This model demonstrates that competitors rapidly defuse the benefit of best practices introduced by replicating these or by adopting practices that are superior to the ones introduced into the company. He introduced the Red Queen effect which implies that companies have to constantly improve just to remain at the same level they are at. This leaves no room for complacency and as a result, no organisation can continue to survive unless it undergoes continuous change.

Atkinson and Waterhouse (2002) observe that the constant change brought about by these factors influences fundamental changes to companies. These changes include changes to corporate cultures and corporate strategies and as a result, the relationship between the company and its stakeholders were fundamentally changed.

3.3 Stakeholder interaction

Atkinson and Waterhouse (1997) distinguish between two types of stakeholders. Environmental stakeholders are customers, owners and the community. Process stakeholders include employers and suppliers. These authors define stakeholders as an individual or group, inside or outside the company, who has a stake or that, can influence the performance of the organisation.

Murphy et al. (1999) observe that more companies are starting to realize that relationships with their stakeholders are their most valuable asset. According to these authors, the net sum of stakeholder relationships is a major determinant of the value of any organisation. The changes of the business environment discussed in the preceding section, brought about radical changes in the way that companies viewed the acquisition of resources. Companies have been downsized and restructured and as a result, non-core functions were outsourced to stakeholders. The traditional arms-length relationship with these stakeholders has made way for a more relationship-based, long-term partnership (Atkinson & Waterhouse 2002). Equally, the customers adopted a more relationship orientated approach and intangible variables such as reliability, flexibility, service, communication and interaction became more prominent. Suppliers act as an extension of the business itself and in this role, synergies between the company's culture and that of its customer became more prominent. Because of the importance of the interrelationship between the organisation and its stakeholders, most companies use formal performance measurement systems to measure the performance of its various stakeholders. Conventional performance measurement systems are based on financial accounting systems because of the consistency gained from this as well as the fact that these instruments give a good indication of profitability of such relationships (Atkinson & Waterhouse 2002). A great deal of money and effort is spent on designing measurement systems that do not measure all the relevant variables. Most systems disregard the contributions made by employees and suppliers and also do not consider the role of the organisation in defining the environment in which it operates.

Atkinson and Waterhouse (2002) propose that the performance measurement instrument should encompass a two-way process which enables the organisation to measure the performance of stakeholders but also enables stakeholders to assess if the company is able to fulfil its obligations to the various stakeholders. Management should therefore focus on the nature and focus of the various relationships and should stimulate these to promote value creation. Performance measurement instruments should be designed by identifying the requirements of customers, contribution potential of employees and suppliers and should consider the environmental aspects in which it operates; and not on a financial basis only (Atkinson and Waterhouse 2002). These authors argue that the organisation's success is created by monitoring and managing the performance of secondary objectives, since success on this level positively influences success on a primary objective level (Atkinson and Waterhouse 2002). Secondary objectives, like customer satisfaction, are not important in their own right, but because they drive the primary objectives of the company. An example of this is that customer satisfaction relates to higher unit sales and increased profitability.

Sound stakeholder interaction is based on a mutually beneficial and long-term relationship between the company and its various stakeholders that are based on ethical values of value creation between the various parties (Murphy et al. 1999). It should therefore develop a performance management system that focuses on measurement of the secondary objectives e.g. customer satisfaction, employee retention etc. since these are indicative of the performance of the organisation and its stakeholders with regards to its primary objectives. Such a performance management system should determine if each stakeholder is contributing sufficiently to help achieve the primary objectives. It should also measure if the business is sufficiently satisfying the demands of each of these stakeholder groups.

Grant (2002) argues that a number of capabilities of the organisation are held by various stakeholders and the role of the management is to co-ordinate these

various capabilities in such a way that value is created. The interaction between various stakeholders and other resources are managed through an interactive and completed number of routines, which includes monitoring of resources and stakeholders, various budgeting activities and strategy formulation. Murphy et al. (1999) state that a well developed integrated marketing communications programme enhances interaction between the business and its stakeholders. Since stakeholders can affect influence on the routine processes, it is evident that such interaction can influence the strategic direction of the company, which can ultimately lead to strategic drift. An organisation should therefore ensure that sufficient communication exists between itself and its stakeholders to clearly communicate the mission, since failure to do so could cause stakeholders to act against the primary objectives.

Although the types and quantity of resources available are important determinants of core competencies, Grant (2002) argues that the real competitive advantage lies in the company's ability and method of co-coordinating these resources with various stakeholders.

Grant (2002) warns that in some instances, an individual stakeholder can hold a unique characteristic that is so unique that the organisation can be vulnerable without that trait. The relationship with such a stakeholder is of vital importance and the management naturally has to be more sensitive to the needs of such a stakeholder. In the extreme case, failure to attend to the demands of such a stakeholder could ultimately result in the demise of the business.

Form this, it is evident that relationships are built on trust and stakeholders therefore become more intensely involved with integrated strategic and decision making processes. To manage this process effectively, a performance management system needs to be implemented that measures whether the various stakeholders are contributing sufficiently and whether the demands of the various stakeholder groups are met. Furthermore, such a measurement system should stimulate and guide the development and implementation of new

processes that will enhance the improvement of the primary objectives of the organisation (Atkinson and Waterhouse 2002).

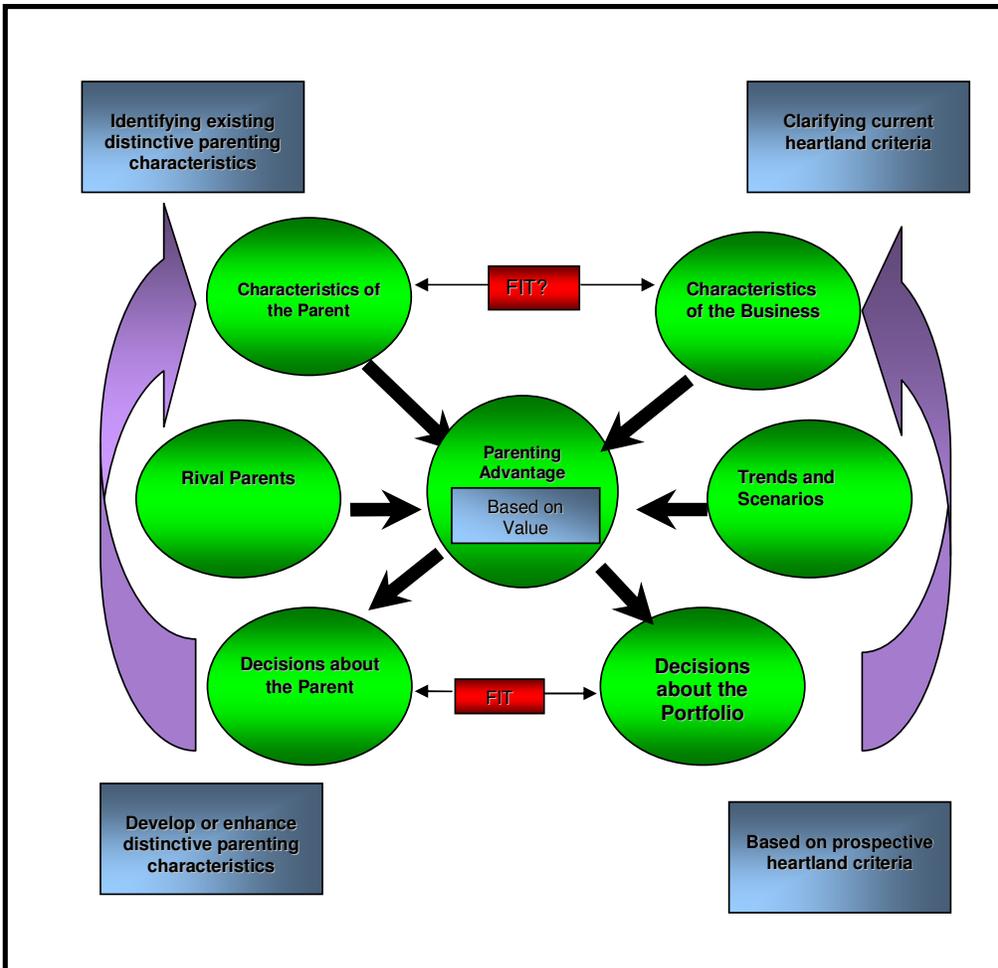
3.4 The parent as stakeholder

The traditional scholars define the company to be an entity that owns its existence for the sole purpose of creating optimised wealth to its shareholders. Campbell and Yeung (2002) state however that this one-sided view is hardly valid and explains that the role of the organisation is to satisfy the needs of all its stakeholders. This view also attracts some criticism however, since managers will be dissatisfied working for an organisation that only aims to satisfy the needs of its stakeholders. Instead, a successful company is one that can create value in excess of the needs of stakeholders. Profit is an example of such excess in value creation.

Successful corporate parents are those who facilitate and stimulate value creation by its subsidiaries in excess of the requirements of all stakeholders (Goold et al 1994). The influence of the parent can affect the business level plans and controls and the investment made by the parent can also provide various other forms of value added. These include gearing and financial backing, specialist services and influence, tough discipline as well as economic clout, which can greatly benefit the company (1994). The authors argue that corporate strategy is about matching parenting characteristics with those of the business. These authors have developed the corporate strategy framework (Figure 3.1). This model proposes the following four steps in developing such strategy (1994):

- Step 1: Understand parent characteristics
- Step 2: Understand the business characteristics
- Step 3: Do a rival parent assessment and determine strengths and weaknesses
- Step 4: Forecast changes in these factors in future

Figure 3.1 Corporate strategy framework



Adopted from Goold et al (1994)

The dynamic of this process is demonstrated by the Corporate Strategy Framework. This framework explains the developmental process of a corporate strategy and the interaction between the company and the parent on various levels.

A successful parent is one that has clearly defined value creation insights. The second feature of a successful parent is one that is well equipped with specialised skills to achieve improvement opportunities identified and to exploit those

opportunities to the fullest. The presence of these distinctive parenting features is important to achieve value creation. A successful parent is one that has the ability to focus on business that will yield high net value creation and has the ability to identify a misfit that is likely to destroy value (Goold et al. 1994).

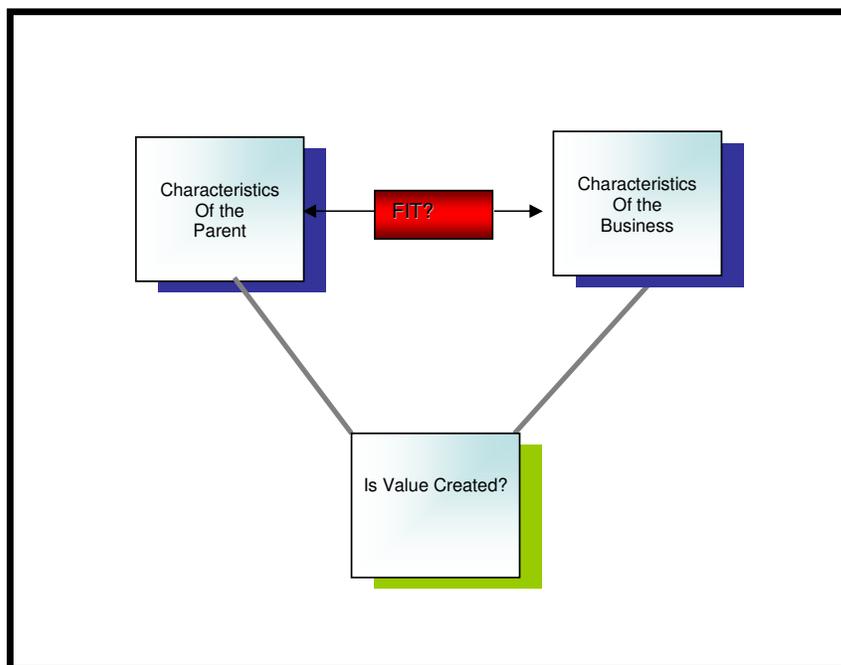
Since the business community places a high premium on diversification, companies generally like to expand their business into vast geographical areas or to diversify into high growth areas (Goold et al. 1994). Successful parents know their heartland business and resist temptation to get involved in business that falls outside that scope. Furthermore, this parent will ensure that the divisions within its portfolio remain focused on this heartland business. A parenting advantage statement can be formulated in order to include the areas in which the parent has remarkable parenting advantage, which in turn can add value to the business. In contrast to this, the strategic misfit in the portfolio of such corporate parent can cause significant value destruction by means of delays in decision making, encouraging misguided ambitions and suicidal behaviour (Goold et al. 1994).

Goold et al. (1994) notes that acquired businesses are often taken up into a new parent's portfolio as part of a larger merger or acquisition by a rival. In the instances where the acquisition is applied as a blanket deal, little consideration is placed on the parent fit of the operational subdivisions. As a result of this, the history is filled with examples of merger and acquisition transactions that turned out to destroy value instead of unleashing the value creation opportunities (Goold et al. 1994).

As illustrated in Figure 3.2, the essence of successful parenting is to ensure that sufficient fit is created between the business and the parent's characteristics. Further to this, a successful parent will offer significant improvement opportunities that are suitable for this relationship of fit between the business and the way that the parent operates (Goold et al. 1994). As an intermediary between the shareholders and other external stake holders and the various business units, it is extremely important that the parent has specific and distinctive characteristics that are specifically relevant to the business.

Companies operate in a dynamic environment and factors that previously dictated good parent fit might change to such an extent that the ruling parent does not offer suitable fit for the business any longer. For this reason Goold et al. (1994) notes that the corporate strategy and related parent fit needs to be assessed as a dynamic and continuous process). Similarly, parenting opportunities that did not previously exist might arise and might now offer value optimising opportunities to the business.

Figure 3.2 Parent fit



Goold et al (1994)

For a corporate strategy to offer real competitive advantage to the business the parent cannot merely encompass characteristics that offer some resemblance to the characteristics of the business but have to offer distinctive abilities and characteristics stimulate parenting advantage in excess of what a rival parent can offer. For this reason, all corporate level strategic decisions should reflect the model as shown in Figure 3.2. When the ideal fit between parent and the business exists, parenting advantage offers value creation opportunities which benefit the business as a whole.

Successful parents understand what the main patterns are that link them with the individual businesses in their portfolio. Value is created by them when they adopt a focused approach in which the opportunities for value creation is identified and understood by the parent. The extraordinary skills contained within the parent enable it to create value by focusing on the parenting advantages that will unlock major value to the business, or to follow unexploited opportunities or to understand improvement opportunities within the business that can be exploited by the parent to unlock value (Goold et al. 1994). The typical characteristics required by a parent to enable them to be successful are as follows:

- Possession of value creation insights available by the parenting advantage offered by the parent
- Possession of characteristics that make the parent distinctly unique and that equip the parent to unlock value within the business by offering parenting advantage
- Focus on heartland business which offers the potential to unlock high net value and avoid business that will lead to value destruction.

Value is created by the parent through stand alone influence, linkage influence, functional and services influence and through corporate development activities (Goold et al. 1994).

Stand alone influence of the parent deals with its relationship with each of the businesses in the portfolio and the parents' ability to create value through its influence within the subsidiaries. The parent regulates the interactions between the company and other subsidiaries of the parent as stakeholders.

Linkage influence is achieved by facilitating interaction and linkages between units in the portfolio and by doing so, enhancing value creation (Goold et al. 1994). Problems arise however when the parent attempts to enforce inappropriate linkages that would not occur naturally if the business was a stand-alone unit. The parent regulates the interactions between the company and other

stakeholders. Goold et al (1994) often notes that the solution available from within the group is not always an ideal fit to the requirements of the organisation, and as a result, misfit can occur. This can lead to strategic drift. When the subsidiary follows a generic strategy that differs from that of the parent, the parent might insist on compliance to its strategy, despite the fact that it might not be the best business decision at that stage (Goold et al. 1994). Such enforced business relationships is not built on market powers and since a captive market is created in this way, subsidiaries could compromise on the quality of service delivery amongst themselves. A strictly enforced transfer pricing policy can also result in the business often paying non-market related prices for services rendered by other divisions. When the parent ignores these shortcomings and continues to enforce unnatural business linkages, it could destroy value within the business. This results in strategic drift which results in value destruction (Goold et al. 1994).

In some companies the parent holds staff functions thus adding value via specialised skills (Goold et al. 1994). Previously the process of how culture is formed is explained. The founder of the parent holds certain mental maps which become entrenched within the parent and the subsidiaries. In order to create value within the organisation, these functions should be provided to the businesses at a more cost effective basis than at what it is obtainable from outside suppliers or from fulfilling these functions from within the business itself - something that is not easily achieved when a large staff complement is held by the parent. The parent, in this instance holds some unique skills entrenched by extremely experienced and capable individuals. The management style of the parent, enforced on a micro level within the operating divisions however results in various non-value creating activities within the business. The parent often introduces controls and functions into the business which does not add any value to the business. In order to cope with these demands, the parent has to inflate its head office staff and some of these functions are created to merely cope with the endless additional procedures and requirements constantly being introduced by the parent. The result of this is that, despite the fact that the parent structure could hardly be criticised for being inflated, the knock-on costs created by the demands from the parent result in over inflated costs within the business units themselves.

One of the main functions of the parent is to decide on what businesses to take up in its portfolio. This function relates to the parent's corporate development activities. When a new business is taken up by the parent, it incorporates it within the parenting structure to ensure that it integrates into the corporate culture and follows the strategic direction of the parent.

The various influences discussed here highlight the importance of fit between the company and its parent. A misfit between the business and its parent results in value destruction within the organisation (see Figure 3.2). The parent controls the selection of managers into the business and by doing so; the influence of the parent develops into the organisational culture.

3.5 Culture

Rashid et al. (2003) define corporate culture as the set of behaviours, values believes that forms a cognitive map that defines the paradigm of the company. Lee and Yu (2004) focus more on the implied qualities of culture and note that culture is non-rational values which govern how people interact amongst themselves. The phenomena of culture within organisations are a relatively new field of study and only started to attract attention over the last 25 years. This field has however developed into a popular subject of study, and several research projects have been conducted to identify the nature and types of corporate cultures of organisations and to try and identify key values, norms, believes that contribute to a successful company (Rashid et al. 2003).

A positive correlation exists between the type of corporate culture present within the organisation and the commitment of the social actors within that culture. Research done in this regard identified four types of corporate cultures and has proven that companies with positive and participative cultural types are significantly more successful than ones that are not (Rashid et al. 2003). Entrepreneurial cultures focus on dynamic creativity, innovation and risk taking. In contrast to this culture, the bureaucratic culture emphasises traits of stability, formalised rules, standard operating procedures and hierarchical coordination.

This cultural type is concerned with predictability, procedures and stability. In the consensual culture, great emphasis is placed on self management, loyalty, commitment and social influence. The competitive culture holds values associated with demanding goals, competitive advantage, marketing superiority and profitability (Rashid et al. 2003).

Several studies have proven that the type of corporate culture present in a can significantly influence the level of success of the company and that identifiable relationships exist between the corporate culture and its performance (Rashid et al. 2003). A study done by Lee and Yu (2003) found that certain cultural elements are recurrent across organisational boundaries. This aspect explains why certain companies fit better with a certain parent than others. They also found that industries are differentiated from one another in the type of cultures that are prevalent within them. Just as one can distinguish between different cultures amongst companies, so can one distinguish between cultural differences amongst industries. These authors confirmed the results of Rashid's research in that proof was found that a positive correlation exists between cultural strength and companies' financial performance.

Lee and Yu (2003) identified three benefits in understanding the corporate culture. Firstly, managers could better understand the strengths and weaknesses of the prevalent culture and asses the impact of such a culture on its various stakeholders. Secondly, this knowledge can be utilised in the recruitment process to appoint employees who fit well with the prevalent culture. Finally, managers can use the knowledge to affect cultural change if needed and can adopt appropriate motivational methods to regain commitment from employees (Rashid et al. 2003).

From the preceding discussion it is evident that certain cultural types are not conducive to long-term success and that management should institute change. Wilson (2001) warns that culture is complex and multifaceted and that one cannot rigidly just classify it into any one particular category. Equally, to change the culture one cannot just engage in an ad hoc project that runs over a limited period. Instead, he warns that a cultural paradigm shift involves change in areas

such as leadership, the business environment, informal socialization and formal corporate communication. As a result of a combined effort in this regard, staff values and behaviour will slowly change. The key to successful change lies in the integrated effort at all levels of the organisation. It is important that management generates coherent messages and actions that signal the desired cultural change (Wilson 2001).

Pratt (2003) explains that service level agreements provide an ideal mechanism to facilitate cultural change. This mechanism guides the establishment of better relationships between the core business and infrastructure, resources and stakeholders that support it. Previously, the importance of a performance management system between the company and its stakeholders were discussed and the importance of two way performance measurements was explained. Managers are more driven to adopt strategies when it is pressured to achieve specific timing, frequency and control targets (Pratt 2003).

3.6 Strategic drift

In the previous section, the developmental process of culture and dynamics surrounding the aspect of culture were investigated. In this section, the researcher analyses literature dealing with the effect of strategic mismatch between the company and its parent. Several conflicts between the parent and the company are investigated and the resultant development of strategic drift is considered.

Clayton and Gregory (2000), focused on the strategic drift that occurs when the culture of the parent differs from that of the subsidiary. In the previous chapters, the various generic strategies available were discussed. Porter's five forces model also demonstrates how the features and stakeholders influence the profitability of an industry. Radical variances may occur between sub industries that still fall within a major industry. As an example, one can consider the variances between the courier industry and the road freight industry. Both of these belong to the major grouping of the transport industry but major cultural differences exist between these groups. In the previous chapters, the researcher

examined various generic strategies used by companies and the implication of the various combinations available from these. In this section, literature is examined that highlights the implication of cultural differences between the parent and the company.

Dobni and Luffman (2000) have drawn a distinction between two types of market orientations, namely that of high market orientation and low market orientation. These authors state that promoting the customers' interest is the main theme of any high market orientated organisation. The culture of such a company is focused on customer satisfaction and these values are widely insisted upon. Employees within such an organisation have a certain amount of authority to incur cost and take actions in order to rectify situations which might have inconvenienced a customer. These employees are also allowed to use their initiative within reason to offer diversified services to customers (Dobni & Luffman 2000).

Dobni and Luffman (2000) observe that when the parent communicates a set of values different from that of the subsidiary, the difference in market orientation philosophy causes conflict and confusion amongst the managers of the company and that of the parent. When the parent is, for example, focusing on cost leadership and standardization, such strategy is indicative of a low market orientation. Conflict occurs when such market orientation differs from that of the company who might be promoting strong market orientation strategies like innovation and differentiation (Dobni & Luffman 2000).

The parent in this example typically influences the acquisition take-on of new projects at discounted rates. The problem however is that such projects might not match the strategic profile of the subsidiary (Dobni & Luffman 2000). When a parent directs the activities of its subsidiaries even on a micro level, managers are forced into compliance with the generic strategy of the parent. The result of this is that procedures, often implemented to ensure cost leadership, clash with differentiation strategies. The result of this is that the responsiveness to the needs of stakeholders is compromised (Dobni & Luffman 2000). To ensure its grip on the subsidiary, such parent will typically get involved with the daily running

of the operating company by strictly regulating it by means of procedures and controls instituted by the parent. These strict procedures are implemented to ensure that the parents generic strategy is sustained at all cost, with the resulting strategic drift within the company (Robbins 1998).

According to Clayton and Gregory (2000), this type of parent is a perfect example of a rule-bound system. The parent captures the few positive aspects of a bureaucracy along with the negative aspects of it into the corporate culture. The culture is enforced within the subsidiaries by means of codified rules as well as by the unspoken rules entrenched in the culture of the organisation. Rule bound systems are maintained by the actors within the organisation that subscribe to these systems.

Through the autocratic management style enforced by a rule bound parent, actors within the business are seen to subscribe to these ideals that are determined and enforced by the parent, without necessarily agreeing to it, since these interests are determined outside their area of influence and control (Clayton and Gregory 2000). Compromise between conflicting viewpoints are made, not because agreement was reached, but rather because this system takes the ability to influence decisions outside the control of the actors, leading them to concede, not because they agree to the compromise but because they are not allowed to influence the situation in any way.

The rule-bound system conceived by the parent are maintained by the creation of a sub-set of actors who are given the power to make decisions that are converted to enforceable rules that support the rule-bound system advocated by the parent. These actors are strategically placed parallel to the line management functions and are tasked to constantly develop new unspoken rules and to codify these rules on a daily basis, converting these rules into procedures (Clayton and Gregory 2000). This process can cause a company to be burdened by ever-increasing rules which are not necessarily conducive to value creation. As explained before, the system allows for these rules that are formulated to be enforced into the culture of the subsidiary by means of systems already in place.

The rule-bound organisation is held together by these strict rules and the relationships and interactions within this organisation are dictated by these rules. Clayton and Gregory (2000) conclude that the performance of the rule-based organisation is constrained by these rules.

Clayton and Gregory (2000) note that the lack of flexibility and responses to customers' needs might result in the alienation of customers. Employees do not dare to go in against the regime implemented and sustained by the parent. Such highly regulated culture is enforced by the appointed actors and sustained by retaliating against managers that would deviate from this culture, regardless of positive outcomes that might have resulted from such initiatives. In order to comply with procedures set out by the parent, staff and managers refrain from using their initiative and rather focus on providing a moulded and standardised solution to customers. This tendency is maintained by strong centralized staff groups.

Goold et al. (1994) distinguishes between functional central staff and central service staff in their literature and also analyse the dynamics surrounding the cultural dynamics that might occur as a result. Functional central staff's function is to provide specialist functional guidance for the business and support to senior line managers. These central service employees should provide the subsidiary with efficient and cost effective service. In reality however these roles are often combined in most companies, creating some hybrid function that often lack focus. According to the authors, these departments normally involve themselves in aspects of the business that does not really need their involvement and then claim that the ruling policy requires them to act in ways that are unsuitable and irritating to the business (Goold et al. 1994). Through their research, the authors have discovered that the majority of these functions actually destroy value to the business, since it adds unnecessary bureaucratic processes, claiming that the policy necessitates these. The result of this is that the company becomes unresponsive to the needs of customers. A further problem with centralised functions is that inefficiencies are hidden by transfer pricing mechanisms and these departments are normally not held responsible for their own cost effective performance. Porter's theory notes that the primary value chain activities,

combined with the secondary value chain activities that are supposed to offer support to the primary activities of the business, are the potential sources of competitive advantage (Priem et al. 1997). Functions normally provided by the parent and the head office staff are classified as secondary functions that should be provided in support of the primary line functions. When an organisation becomes over regulated, the business runs the risk to become top heavy, since a number of supporting staff is appointed to monitor the implementation and performance of the managers against the said procedures.

Corporate staff often destroys value rather than create value for stakeholders. Since these departments do not traditionally attract the most dynamic specialists in the respective fields of expertise, the performance of these departments will hardly ever outperform an external consultancy or service provider that can offer the same service at more cost effective and superior standards (Priem et al. 1997).

Several major companies have, over the last few years, drastically reduced the number of centralised head office staff within their companies, since these functions normally do not add value to the company. This is done in three ways namely by eliminating redundant personnel from the head office environment, by outsourcing the portion of staff that could be more effective in a competitive environment in which they are forced by market forces to provide a superior service to the company or risk losing the business and finally by decentralising in-house functions that could be better managed by line managers in the respective regions (Goold et al. 1994).

3.7 Change management

Implementing change within an organisation is arguably one of the most difficult things to achieve. Ballé (1998) states that managers often state that they devote most of their time on strategic matters when in reality they spend most of their time on mediocre routine tasks and administration. The problem with this is that, whilst the subsidiary operates in a stable environment, management is content with the status quo but as soon as rough times hit, the it is not prepared and a

single major crisis can lead to the demise of the company. Ballé (1998) states that such demise could have been prevented if the parent proactively advocated constant change and rejuvenation within its respective business units.

Freedman (2003) identifies strategy implementation as the most important part of management practice. Some of the problems identified in the study are also noted by him as results of poor implementation and could arguably have been the reason for the problems identified in this study. Some of these pitfalls identified and discussed in this document are strategic apathy, lack of commitment from stakeholders, strategic drift and dilution and resulting value destruction. Chuanmugam et al. (2005) found that value destruction can be avoided by careful integration strategies between the parent and its subsidiaries. They suggest that the most successful merger and acquisition transactions are as a result of a superior execution of an explicit value capture strategy that treats each merger and acquisition as a holistic process. Furthermore, great focus is placed on value creation and not just integration, and that the planning and execution of such changes are done swiftly and decisively and that the ruling culture is used as a value creation tool.

Most companies have good planning tools and use these on a regular basis. The problem however is in the implementation (Ballé 1998). Unless clearly stipulated milestones are set out and full management buy-in is achieved, strategic decisions will remain good ideas which were never properly implemented. Companies tend to ignore the limiting factors that prevent smooth implementation. Instead, middle level management is labelled as incompetent and the failure of strategic decisions is blamed on the managers, something which they had no control over.

Ballé (1998) concludes that the only way implementation will be successful is when the managers focuses its attention on proper time and resource allocation to the implementation of a new strategy. A cross-sectional implementation team should be allocated to the implementation and these individuals should be excused of their daily functional commitments to allow them to focus on the proper

implementation of strategy. This process is often ignored or neglected, even when radical change like a merger or acquisition occurs in an organisation.

According to Hoare and Cartwright (1997) some historical patterns exist with peaks and troughs in the popularity of mergers and acquisitions (M & A). These activities probably have the most radical impact on existing company culture, since the process normally fuses two different cultures into one. These seasons of mergers and acquisitions were caused by certain catalysts in the economies in which those companies operated. In the 1920's, these M & A's were caused by the surge in mass production methods. Companies had to create economies of scale to make these production methods effective. A popular way to achieve this was to acquire other companies with synergies to the original entity.

In the 1960's the globalisation of companies became popular and as a result, companies merged across national borders in order to increase the footprint of the parent company (Hoare and Cartwright 1997). This phase was followed by a peak in M & A's in the 1980's as a result of strict corporate control. In this phase, shareholders insisted on value creation by the companies it invested in and poor management was punished by hostile take-overs. M & A's served as a tool to free up retained earnings and to explore synergies between similar or complementary companies. Since the late 1980's and through the 90's, these peaks and troughs have stabilised and instead of employing M & A's as a fashion statement, these transactions seemed to have become part of the normal processes in a market economy. The concept of de-merger also seemed to have become more popular. The privatisation of state departments and the fragmentation of large companies became more popular over the last decade.

With the process of M & A's, the managers involved enter into these transactions with the hope that the new, larger company will become more profitable due to the synergies created by the combination of two previously independent organisations (Hoare and Cartwright 1997). In many cases however the results were not as profitable as was originally anticipated. In stead of unlocking increased profitability, these transactions often led to increased employee costs and a loss of staff morale due to the uncertainties associated with the M & A.

In chapter 2, the process of how organizational culture develops was discussed. Similarly, corporate culture is altered through a process that originates from the parent and is sustained by the selection of managers that will institutionalize and sustain the mental maps of the parent into an organizational culture. Shelton et al. (2003) comments that a large number of mergers and acquisitions has failed to achieve the targeted results, since little attention has been given to the impact of change of culture in this process. In many cases, poor implementation and disregard for cultural dynamics has resulted in value destruction.

These sentiments are echoed by Shelton et al. (2003) who quote several previous studies that have proven that in the majority of cases, mergers and acquisitions resulted in value destruction to shareholders since expectations of value creation as a result of synergies between the companies involved were overstated or did not materialise at all. This author notes that the result of the M & A's considered in these studies has resulted in shareholder value. According to Sheldon et al. (2003), the drop in value creation is reflected in the listed share prices of the affected entities. This classical symptom of parental misfit occurs when the parent enforces its generic strategy onto the business instead of allowing it to capitalise on its own critical success factors. The result of a generic strategy being enforced on subsidiaries is that strategic drift occurs, since the company no longer pursues the initial strategy in its pure form. As a result of strategic drift, performance is compromised. This gets filtered through to other aspects of the business as well and in turn increases pressure on the management even further. This, in turn, results in loss of morale amongst staff, which leads to increased stress and dysfunctional behaviour amongst the staff. High staff turnover occurs as a result of this, with a related loss of valuable skills. The newly formed company does not necessarily operate more efficiently, fuelling the negative spiral of value destruction.

Shelton et al. (2003) note that the product which emerges from the merger is often far removed from the colourful image that was painted to stakeholders before the M & A took place. Since the process normally results in duplication of functions, and in order to show quick results to shareholders, employees are laid off. As a

result of this, staff seems to be less committed to the larger bureaucratic organisation that emerged through the M & A and as a result, the larger organisation can actually have the opposite effect than what it set out to achieve.

Goold et al. (1994) state in their literature that before the parent should consider a merger with or acquisition of another company, it is important to evaluate if sufficient parenting opportunities and benefits exist for the newly formed organisation. The first question to be asked is whether the business definition of the organisation is defined in such a way that it unlocks sources of competitive advantage (Goold et al. 1994). This is a critical assessment that needs to be made since certain parents manage to create value within the divisions in its portfolio just by changing the business definitions and restructuring of these divisions.

Secondly, Goold et al. (1994) note that one should consider the size of the entity and its effect on the value creation process. A company that is too small will struggle without financial muscle and also with obtaining and retention of the necessary skills. One that is too large on the other hand could result in low staff morale. The bureaucratic management style associated with a too large organisations will in turn result in a general lack of entrepreneurial spirit and slow decision-making processes will result in a sacrifice of responsiveness towards the needs of customers since bureaucratic companies tend to implement over regulated decision processes which take away the initiative from the contact staff and lower management levels (Goold et al. 1994).

The third factor to take into consideration is the quality of managers employed in relation to their peers in competing companies. The question should be asked whether these managers focus on the correct objectives and if a culture is created that is conducive to attracting and retaining exceptional managers (Goold et al. 1994).

The fourth factor listed by Goold et al. (1994) to be analysed, is the extent to which the nature of the business encourages managers to make mistakes. The temptation exists for managers to over-diversify the products when the traditional

business reaches maturity in its lifecycle. Lack of organic growth in this phase of the business lifecycle often result in attempts by managers to implement growth strategies based on cost leadership or diversification, which can dilute focus on its core business with a resulting loss in value creation for existing customers. Cyclical and seasonal trends affect the requirement for resources differently at various stages of these cycles. Managers could be tempted to over resource in up-times or lay off valuable, skilled staff in down periods, resulting in a loss of these talents (Goold et al. 1994).

The fifth consideration is whether the opportunity exists to link the current business with other business and by doing so, achieve improved market positioning or efficiencies. The grade of difficulty to achieve these linkages should also be considered (Goold et al. 1994).

The sixth consideration is to identify capabilities that are common between the business and other businesses and also to determine if these commonalities can be shared between the companies to achieve higher levels of efficiency out of such a mutual arrangement (Goold et al. 1994).

The parent should have some special expertise present amongst its managers that is required and not present amongst the management of the potential business units. The presence of such specialised skills can place the parent in a good position. Without these specialised skills, little opportunity exists for the parent to create value for the companies in its portfolio (Goold et al. 1994). The relationship of the company with its external stakeholders should be evaluated. In the instances where it has some difficult external stakeholders, the parent can assist in managing the relationships with these stakeholders like trade unions, government departments, non-executive shareholders etc. Should the company struggle with major strategic decisions or the funding for large expansion projects, the parent would probably be better qualified to make these decisions and have the financial muscle to secure funding for these new projects.

The business environment is very dynamic and strategic drift can easily occur when the environment in which it operates changes in such a way that the original

business definition does not sufficiently satisfy the needs of customers anymore. The final assessment that Goold et al. (1994) propose, implies that a parent with the most suitable skills could guide the subsidiary into a new strategic direction that will once again create optimum competitive advantage.

In the study into the Daimler Chrysler merger, Sheldon, et al. (2003) identified certain factors that resulted in value destruction after the merger. Despite the apparent similarities between German and American culture (both Western, first world countries), the effect of subtle cultural differences were underestimated. Although the effect of these differences is more apparent when companies of different countries merge, inter-company cultural differences could have a similar negative effect. Since the success of M&A's normally has great benefit for the parties that initiate the process, they often discount the apparent effect of cultural differences and overstate the supposed value creation opportunities that will be achieved by the M & A (Goold et al. 1994). When little attention is given to integration strategies and no consideration is given to the shared values between these two companies, the benefit from combining these shared values is lost. Furthermore, lack of strong leadership through this process results in value destruction within the newly formed organisation.

Goold et al. (1994) suggests that the most important criterion for making any corporate-level strategic decisions should be governed by the impact such decision will have on the competitive advantage of the company.

An effective parent can recognise the shared values between businesses but can also recognise the diversity between these businesses. Such a leader will have the ability to create a new, strong culture that recognises these diverse individuals in the organisation along with the need to allow them some freedom to act creatively and by doing so, unleash shareholder value (Sheldon et al. 2003). Normally, when a merger or acquisition occurs, the leader of the strongest unit becomes the leader of the newly formed company. Sheldon et al. (2003) identify this automatic appointment as problematic, with the potential to destroy value within the newly formed organisation since little attention is given to changing the leadership style in such a way as to suit the newly formed corporation. Instead of

releasing the value created by the combined companies, the parent often enforces its own culture onto the newly acquired business.

Clayton and Gregory (2000) proposed that the culture should be changed by means of arranging multi-participant planning events where dialogue is facilitated between conflicting viewpoints. Jost (2000) notes that change within an organisation can cause major distress with employees and recommends that the management should set up mechanisms to detect early signs of problems with regards to its staff. Early identification of problems will enable them to take proactive measures and to keep staff turnover down. This is important since staff turnover influences productivity of the business and has a major cost implication. Further to this, Clayton and Gregory (2000) suggest that working environments are created in which employees of all levels feel empowered. These concepts are vague and offer little tangible principles to be used in order to effect change within the organisation. In contrast to this, Sheldon et al. (2003) propose that the management of the newly formed company should adopt seven skills which they call quantum skills in order to affect cultural change within the newly formed corporation.

Quantum seeing is the first skill listed by them and refers to the parents ability to involve all stakeholders in the process of formulating a dynamic vision for the new company. His ability to communicate and entrench this clearly formulated vision within business units will also result in eliminating resistance to change (Sheldon et al. 2003).

Quantum thinking is the second skill identified and refers to the ability to recognise that, in order to affect a successful merger or acquisition, it is often necessary to adopt strategies that contradict the concepts generally associated with mergers and acquisitions. The leader will recognise the fact that the historical success of the company, to be incorporated into the parents' portfolio was, as a result of the entrepreneurial spirit harvested as a result of the smaller business unit, something which is often lost in the process of and M & A (Sheldon et al. 2003).

Thirdly, quantum feeling refers to the ability to recognise the negative effect of stress on the energy levels of staff (Sheldon et al. 2003). The parents' ability to cultivate a culture of appreciation for the diversity in personalities and talents of staff will result in increased energy levels of staff and will result in a more pleasant workplace. In contrast to this, a problem-focused leadership style has a draining effect on the energy levels of staff.

Quantum knowing refers to the ability to, despite scientific proof, use intuition to judge a situation. Sheldon et al. (2003) explains this trait as the parents' ability to, despite what data and quantitative processes indicate, have the ability to make successful judgement calls.

Quantum acting encompasses the parents' commitment to acting with integrity in all its conduct since failure to do so expose the business and may result in loss of integrity and the resulting value destruction (Sheldon et al. 2003).

The sixth skill required is called quantum trusting. This skill indicates the parents' ability to focus beyond the immediate, bottom line performance of the company and recognises the long-term potential of the organisation. The leaders' ability to detach from the apparent chaos and understanding the upward and downward trends in economical and business cycles is translated into quantum trusting (Sheldon et al. 2003).

Quantum being is the ability of the parent to recognise that profits are the result of healthy relationships. A successful parent will focus on the successful integration of the two organisations in such a way that healthy and lasting relationships are formed which will result in value creation (Sheldon et al. 2003).

3.8 Summary

The researcher managed to explore in great depth, various literary works that relates to the objective of the study. The influence of stakeholders, cultural considerations and strategic drift on value creation processes were discussed throughout. The importance of establishing performance measuring tools were discussed and in the following chapter, the scientific methodology to be followed when one conducts such a survey will be explained in the context of the survey conducted by the researcher.

Chapter 4 Research methodology

4.1 Introduction

The study investigates the influence of stakeholders and corporate culture on the strategic direction of the company. In addition it aims to establish to what extent the most important stakeholders, namely customers, perceive that their needs are understood and met (value creation). This in turn implies the evaluation of data and understanding the nature of the variables under analysis. This is the domain of research design.

4.2 Methodology

This study aims to determine the organisations performance in terms of satisfying the needs of its stakeholders, the influence of culture in the organisation and the extent to which strategic drift is present. An in-depth survey is conducted to determine the perceptions of respondents selected by means of a random sample from the universe of existing customers. The sampled respondents are interrogated about a variety of aspects related to the subject matter. Care is taken in constructing a reliable instrument that produces results which can be generalised to the population. Respondents are prompted to establish if a linkage to a larger parent structure is perceived to be an important determinant when the decision to use the company was made.

Two sets of results are obtained from the survey. The respondents' priorities on the critical success factors compared to the objectives of the study and by doing so, strategic gaps are highlighted. Some recommendations are made on how these gaps should be addressed in future corporate strategy.

In this study, the customer is deemed to be the most important stakeholder for the organisation. The customers' needs are deemed to be the value creation opportunities for the business. The company's ability to identify these

opportunities and to offer solutions to address these, determine its level of successfulness in creating such value.

The development path of the business in question was discussed in previous chapters and compared to models available in the existing academic theory. These aspects demonstrate the influence of stakeholders, culture and strategic drift on the value creation processes. This empirical research is conducted to determine what the customer deems to be the priorities on which the company should focus and how successful it is perceived to be in unlocking these value creation opportunities. This research will also attempt to determine the critical characteristics expected from customers or the business. By doing this, the researcher would be able to determine whether customers' perceptions are in line with those identified by the researcher.

This empirical study analyses newly collected quantitative data from the customer satisfaction survey as well as existing qualitative data obtained through various sources. The qualitative evaluation of information gathered through data mining of journals, academic resources and other theoretical text will be combined with the findings of the quantitative data obtained from the survey to be conducted. The survey provides respondents the opportunity to give semi-structured feedback on its perception of the study subject and by doing so, providing more qualitative data that assists the researcher to evaluate the real impact of the three main variables, namely, stakeholders, strategic drift and culture on the process of value creation.

As part of the study, various stakeholders in the courier industry as well as in the academical environment have been consulted to provide guidance in the research design that will most likely provide meaningful feedback from respondents.

The research takes a representative, random sample from the population and will conduct a customer satisfaction survey to answer the management question through asking several researches, investigative and measurement questions. The researcher chooses to use a descriptive rather than a prescriptive scope when presenting the findings. (Cooper & Schindler 2001).

When conducting a survey, the researcher needs to be sensitive to variables that could generate errors. Results can be contaminated by several factors. A respondent can be biased as a result of a negative connotation created as a result of historical experiences or could give guessed answers when they do not know the subject well enough (Cooper & Schindler 2001). Situational factors also play a role and respondents may fear to answer questions truthfully when anonymity is not guaranteed, for fear of persecution. The researcher (measurer) is also in the position to create errors by rewording or paraphrasing respondents' answers but this can also result due to negligent recording and data analysis. Finally, errors in the compilation of the measurement instrument could be confusing or unclear and thus, resulting in errors. When the questions covered in the instrument do not represent the full universe of content items, the instrument will fail to give a representative result on the management question (Cooper & Schindler 2001).

The advice of Cooper and Schindler (2001) is considered to ensure the formulation of a successful instrument. They prescribe that development is to go through four levels of questions, referred to as the management research hierarchy when formulating the questionnaire. These various questions are explained in detail in addendum B.

This study aims to identify to what extent is customer satisfaction influenced as a result of drift from its strategy, to offer a high quality, diversified service to its customers? This is done by measuring the level of customer satisfaction of respondents. The effectiveness of the company to create value to the customer through product offerings and the service levels are also investigated. The survey aims to establish what should be done to change the culture (if needed) to enhance value creation to the customer.

An exploratory study was done. The researcher conducted some focus group discussions with staff and one on one interviews with executives and customers of the relevant organisation. The consensus scaling method was used to allow members of the focus group to list and rank possible aspects surrounding the

study subject. This is done to limit the chances for making the universe of content error (Cooper & Schindler 2001).

From the exploratory study, several questions were raised that is of interest to this study. Does the present culture provide significant value added to the customer? Does the parent relationship between the subsidiary and the parent acts as a creator of value? Are the domestic operational and supporting functions performing on the standard expected by customers? Are the international operational and supporting functions performing on the standard expected by customers? How does a customer experience the efficiency of contact staff and communication with the company in general? How do customers perceive the after-sales experience when dealing with the debtors department and other supporting functions? Is the customer satisfied with the level of involvement from account managers? Should the image of the organisation be improved? The research questions are tabled in Table 4.1. The matrix presented in Table 4.1 is utilized as a base to formulate the survey instrument which is utilized to conduct the survey (see Annexure A). The response strategy decisions used to formulate the investigative questions focuses on using words in such a way that bias is limited (Cooper & Schindler 2001).

The survey consists of a hybrid between the majority of questions which are structured and some unstructured ones which give the respondents the freedom to give open ended feedback (Cooper & Schindler 2001). The structured question method is appropriate in instances where the researcher has a good idea of the issues in the organisation whereas an open ended question allows more for exploration purposes.

Since the main objective of the study is to determine the respondents' perception on certain priory selected variables, the closed question method is a suitable format for the survey. The researcher has developed a clear opinion of the study subject and the study is not of an exploratory nature (Cooper & Schindler 2001). This method limits some of the previously identified concerns regarding bias and respondents' reluctance to answer questions since the structured question is not

of a too personal nature. Since the researcher has a clear understanding of the management question, this method is suitable for this study.

The first section of the survey utilizes a ranking strategy (Table 4.1), giving the respondents the opportunity to rank the top seven variables that influence their decisions regarding courier services. The ranking method is used to identify the order or priority of each variable, and by doing so, gives the researcher an understanding of which factors influence respondents behaviour the most.

Table 4.1 Priority ranking

ATTRIBUTE	RANKING
Range of services offered	
Cultural Considerations	
Communication and information availability	
Reliability	
Flexibility	
Professionalism and image	
Price	

The following section consists of the bulk of the survey. In this section, the researcher uses the arbitrary scaling method to determine perceptions of the respondents regarding the main variables of the survey covered with a number of statements regarding the company. Respondents have to scale the variables on a scale of one to four (see Table 4.1). The summated rating scale is used as a structured response method (Cooper & Schindler 2001). To avoid central tendency, no neutral response option is included in the rating scale and the strength of the descriptive adjectives are selected to be strongly descriptive of the scenario sketched by the statement and an even number of adjectives are used on the scale. The rating scale used in this survey is shown in Table 4.2.

In order to control the quality of the survey, the researcher will conduct all telephone interviews personally as far as possible. In the instance where interviews are conducted by a third party, interviewers (appointed by the researcher), 20% check backs is done to monitor the quality of these surveys. All the questionnaires are checked to ensure accurate input quality before the data will be analysed and interpreted.

Table 4.2 Rating scale

Never	Sometimes	Mostly	Always
1	2	3	4

The researcher uses a variety of statements ranging from 'never' to 'always', related to each main variable. This is done to avoid leniency and the halo effect by the respondents. To limit halo effect, questions relating to specific traits are grouped together to ensure that the respondent is not affected by the halo effect when jumping from one trait to the next (Cooper & Schindler 2001). Great care is taken to ensure that categories comply with the rules of appropriateness, exhaustiveness, mutually exclusiveness and is representative of a single dimension in each case (Cooper & Schindler 2001). The critical success factors identified in the focus group discussions are used as category headings for the various structured statements that formed the body of the survey. Various statements are formulated that address the critical success factors of the business as rated in the previous section. Since certain aspects of the business are specialized and not necessarily used by all clients, some respondents may struggle to give a truthful response to some of the questions. For those cases, the respondent is left with the option to select the 'don't know' option. Cooper and Schindler (2001) suggest that if these responses occur randomly and not in a significant number of instances, that the researcher can ignore them.

As mentioned before central tendency is avoided by limiting response options to four in stead of the traditional five options normally offered by the Lickert scale. The questioning process is designed to trigger interest with the respondent and is

designed in such a way that the respondent is not confronted with ego challenging questions too early in the survey (Cooper & Schindler 2001).

4.3 Data types

Various data types exist and it is important to distinguish between these to prevent confusion when data mining is done. In the ranking section, respondents are expected to assign an ordinal value to the different variables, ranking it from 1- least important to 7-most important. These ordinal values are utilised to calculate certain weights for the various categories which acts as a control to identify strategic gaps.

The satisfaction survey section of the instrument consists of 79 statements attached to a rating scale (See Table 4.2). The data collected from this section are applied in two ways namely ordinal presentation and nominal presentation. Each variable is assigned with a nominal figure which groups the particular variable under one of the three main objectives of this study. Data is collected and tabulated based on the ordinal ratings from respondents. As an example, variables with the number one (1) as a response is interpreted to have lower score than a variable receiving the number four (4) as a response. This ordinal data is tabulated and utilised in various calculations to determine the relevant score for each variable. The scores obtained also have an ordinal characteristic and is used to rank the company's performance on a range of variables. Cooper and Schindler (2001) prescribe that the appropriate measure of central tendency when ordinal data includes opinion scales is to utilise the median, a method which will be appropriate in this study.

To create a visual representation of the distribution of data, the nominal qualities of the data collected are utilised. In this exercise, the data is not ranked but its unique characteristics is utilised to group certain responses together. This information is utilised to construct histograms that demonstrate the distribution of results. Nominal data does not suggest any order of distance relationships and have no mathematical origin (Cooper & Schindler 2001).

4.4 Data collection

This survey is classified as a field study, done on a cross-sectional basis from September 2006 to October 2006. This study is classified as a communication study and responses are collected from respondents by means of interrogation. The researcher elected to utilize the interview method of data collection.

The study is of a descriptive nature and employs communication study methods for data collection (Cooper & Schindler 2001). The data is collected with a hybrid questionnaire with a section utilizing the ranking method, structured statements and a section for unstructured feedback by the respondents (Cooper & Schindler 2001). The researcher recognizes the potential risk that the Hawthorne effect might have during the survey process. This phenomenon refers to the tendency of respondents to second guess the questions to try and impress the researcher or to hide certain truths.

The study is ex post facto and the researcher will not have any control over the variables of the study. To ensure the validity of the results and limit bias, great care is taken to follow the scientific methods prescribed for business research methodology, including strict sampling procedures and analysis of the findings (Cooper & Schindler 2001).

4.5 Limitations and delimitations

Several aspects are considered to avoid errors with the construction of the target questions. Three main areas of decision in question design has to be considered, namely question content, question wording and response strategy. Cooper and Schindler (2001) prescribe that questions need to be explicit, allow alternatives and explain the meanings of the subject matter. They have also identified the factors that could negatively affect the results of the study if not considered.

The researcher has to be sure that the selection of statements covers the full scope of the research and for that reason; the questionnaire matrix was constructed to group questions with the relevant theme of the study. To prevent confusion for the respondents, the researcher kept the statement construction

simple and avoided the use of double-barrel questions or imprecise questions. Questions need to be precise to ensure that the correct information is extracted from the respondent. Only matters that respondents can reasonably respond to are tested.

The survey instrument has been compiled to address the specific subject under investigation. In order to verify the relevance of the questions on the current research subject, these questions were compiled with input from key people within the relevant business sector. The instrument comprises of a fully structured section, asking the customer to rate the variables related to the study subject and a semi structured section where respondents can give comment on general perceptions about the company (Cooper & Schindler 2001).

The Hawthorne effect causes respondents to try and impress the researcher. The researcher uses some filter questions to qualify the level of subjective knowledge of respondents to identify untruthful respondents and eliminate these from the survey results (Cooper and Schindler 2001). These questions are interwoven with the target questions to avoid them being recognised as such. In the instance where gross untruthful responses are noted, the interview is prematurely terminated. The researcher has chosen questions that are in line with the respondents' level of knowledge on the subject matter and that relates to recent history which is easily recallable. The researcher attempted to strike a balance between too general and too specific questions and allowed for some freedom in this regard by adding an open-ended section to the survey. This limits the possibility of important information being excluded.

Research questions are kept objective as far as possible to prevent a situation where the respondent is lead by the tone of the question. Statements are made in both a positive as well as a negative tone, to limit the Hawthorne effect. Questions that may cause discomfort with the respondent are avoided as far as possible and focus is placed on wording of questions to prevent misunderstandings. Since the researcher is aware of the fact that vocabulary can be specific to a particular subculture, statements are kept neutral in terms of

industry specific vocabulary. Simple and well defined terminology is utilized as far as possible.

By making unsupported assumptions when formulating the target questions, the researcher runs the risk of excluding certain sectors of the universe and by doing so; the validity of the study could be affected. The researcher avoids the unintentional use of biased wording and considered the level of personalization of the questions to limit this potential error. The respondent is offered sufficient alternatives not to force responses into a particular direction (Cooper & Schindler 2001).

Due to the practical limitations, the researcher has to make some trade-offs between the ideal research project and the limitations faced with this survey. Practical consideration is given to the economy of the study. The method of data collection is limited to the cost involved of doing a national survey on a full scale and as a result, telephone interviews are conducted, based on the guidelines given on this method by Cooper and Schindler (2001). The researcher acknowledges the fact that generalisation of results are limited in instances where the survey is adjusted for economic and convenience's sake (Cooper & Schindler 2001).

4.6 Sampling

The relevant population of the survey is defined to be active customers of the company with an average monthly billing of at least R 10 000 per month. Probability sampling is used to select the sample from the population. This means that each population element has a known and equal chance of selection (Cooper & Schindler 2001). These authors recommend that the researcher clarifies several aspects when one secures the sample.

The relevant population of the study consists of the current customer base of Skynet, which totals over 3 000 accounts on record. Since these accounts can range in size from very small (spending less than R 1000 per month) to very large (spending in excess of R 1 000 000 per month) not all the accounts listed are of

equal significance. The small accounts might only interact with the company once a month or less whereas the larger customers might have specialized staff and departments established to deal solely with interaction between them and the company. For this reason, the researcher observes that certain subsets of the population should be excluded before the sampling process takes place. The sampling frame of the survey is therefore reduced to include only companies with an average monthly billing of R 10 000 and more (Cooper & Schindler 2001). With such clear parameters available, a representative, probability sample is possible and likely.

A random sample is taken from this revised population and the n th respondent selected by this method from the population is contacted to participate in the survey. A random numbers table is utilized to draw the sample (Cooper & Schindler 2001). Where the contact person is not available, two more attempts are made to contact that person. The interviews are conducted with the contact person listed in the database. The reason for this is that in most instances, these people are normally the ones most familiar with the courier industry and can therefore give more meaningful input into the questions asked.

4.7 Validity, reliability and generalisation

Surveys have the potential to harm customers' perceptions of the company if the process and content of the research instrument is not formulated and executed professionally and for that reason, great care is put into this process.

Content Validity – Content validity relates to the survey instrument's coverage of the universe of subject matter of interest (Cooper & Schindler 2001). To achieve content validity the researcher needs to make sure that the elements of the study constitute adequate coverage of the subject matter. This is done by deciding that knowledge, attitudes and opinions are relevant to the measurement of the three objectives of this study.

To enhance the level of content validity, the researcher used the focus group method to generate the relevant critical success factors. The researcher presented the three main objectives of the study namely, stakeholders, culture and strategic drift and prompted the focus group to identify the various critical success factors dealing with these objectives. As a follow-up step, the focus group identified over 150 statements that dealt with the critical success factors. The resulting statements were then categorised by the members of the focus group according to the three main objectives of the study. The survey instrument was presented to a panel of employees of the company who assessed the validity of the various statements in relation to the objectives of the study. Further changes were proposed and once validated; further amendments were made to the instrument.

Criterion-related validity – This type of validity relates to the extent to which the survey instrument obtains information that is valid in terms of gathering relevant information that is free of bias, reliable and available (Cooper and Schindler 2001). The survey instrument is constructed in a way that each variable has an equal opportunity to score well. The reliability of the survey relates to the stability and reproducibility of the survey. The researcher has taken great care in avoiding geographical and situation specific information in the statements and aimed to create an instrument that can be applied widely and is reproducible. Finally, criterion related validity is enhanced by ensuring that information required is reasonably obtainable.

Construct validity – The researcher is challenged to achieve construct validity despite the wide-ranging views held amongst respondents (Cooper & Schindler 2001). Abstract variables are investigated in the survey and the researcher therefore takes care to formulate statements in such a way that emotionally charged factors are eliminated. More abstract objectives are translated into a range of tangible and measurable statements which define certain aspects of these objectives and by doing so, construct validity is enhanced

Reliability of the instrument relates to the robustness of the instrument as well as its reliability in producing consistent results. The researcher utilised pilot testing to identify weaknesses in the instrument and to eliminate these shortcomings before the full-blown survey was conducted (Cooper & Schindler 2001).

The researcher certainly aims to secure results that achieve internal validity; meaning that the conclusions drawn from the results truly imply cause as well as external validity; meaning that they can be generalised to the population of the study (Cooper and Schindler 2001). Generalisation is enhanced by utilising a robust measuring instrument that passed the test of validity and apply it to a randomly taken, representative sample of the population (2001). The researcher is confident that despite the limitations and delimitations of the study, the results can be generalised to the population of the study.

4.8 Pilot study

When conducting research of this nature, it is imperative that the researcher predetermine the effectiveness of the research design to achieve the objectives of the study. A pilot study was conducted to determine the relevance of the survey on the subject matter and to reveal errors in the design of the survey (Cooper & Schindler 2001). The pilot study was conducted by reproducing the interview process in a controlled laboratory environment. Employees of the company acted as pilot test subjects and the survey interviews were conducted with these individuals. Problems identified here were corrected and a second phase of the pilot study was then done. In this phase, the researcher visited some clients and conducted the survey on them. Respondents were asked to evaluate if the survey addresses the objectives of the study and if it covers the universe of subject matter sufficiently. The findings of the pilot study were utilised to streamline the instrument and to ensure that it represents the objectives of the study.

4.9 Summary

The aim of the survey is to test the perception of customers surrounding the value creation activities of the company. The survey also identifies current value creation and destruction practices present in the business. The survey identifies perceived critical success factors as viewed by the customers. The prioritisation of the critical success factors can be compared to the strategic direction followed by the company and by comparing these; potential strategic drift can be identified. Once this is done, the information will create the foundation for future studies as well as to assist management in addressing identified problems. The results of the survey could set the foundation for compiling a revised corporate strategy.

Chapter 5 Research results

5.1 Introduction

The study is concerned with value creation processes within Skynet and how stakeholders' interaction, culture and strategic drift affect the company's value creation activities. The results of the survey are analysed and placed into context of the company's performance in relation to the expectation of the most important stakeholder as identified before, namely the customer. In this chapter, the results of the empirical research are analysed and interpreted within the relevant context of the various variables. As previously identified, the objectives of this research are:

- To evaluate the dynamics of stakeholder interaction and its affects on value creation activities.
- To investigate how the development and change of culture and how it affects value creation.
- To determine the extent and effect of strategic drift and how this affects the value creation activities of the company

5.2 Statistical analysis

In chapter 4, a detailed explanation was given on the methodology followed for this research. Great care is taken in ensuring the validity, reliability and generalisation of the data collected. The analytical process is of equal importance and it is imperative that the researcher follows the correct analytical protocols. In the following sections, the researcher presents the results of the survey in histogram format and various calculations are made to determine the validity of these results.

Cooper and Schindler (2001) notes that central tendency is visualized through typical values of responses and can be measured by the *mean* calculation. The mean is the arithmetic (mathematical) average. In a histogram of normal distribution, the mean indicates the approximate centre point of the distribution. This value can however be misleading in instances where skewness exists in the histogram. In this instance, the *median* gives a more accurate central tendency. This value indicates the exact midpoint of the distribution, with half of the observations falling off either side of the median value. The *mode* is an indication of nominal value frequencies. This value indicates which response occurs most frequently.

The *sample variance* is an indication of the statistical scattering of responses around the expected value. A more commonly used measure of spread is the *standard deviation*, which is a measure of how widely values are dispersed from the average value (the mean) (Cooper & Schindler 2001). This is an effective measure of data validity in the data set. Extreme scores will increase the standard deviation value, which reduces the validity of the results. The *standard error* can be defined as the standard deviation of the sampling distribution. The standard error is affected by the size of the sample. This value can be used to calculate the confidence interval in instances where the probability distribution is available.

The distribution shape of the histogram is just as important as the location of the histogram and its spread. A mesokurtic (-) peak indicates a flat peak with observations too widely spread and a leptokurtic (+) peak indicates tightly clustered observations that results in a highly pointed peak. The larger value of the index indicates a more extreme result (Cooper & Schindler 2001). The researcher therefore utilizes the *kurtosis* calculation to determine the level of distribution peakedness (Brown 1997).

Skewness is the measure of shape which indicates the distributions deviation from symmetry. The skewness calculation is done to determine the extent of skewness of the distribution (Cooper & Schindler 2001). The skewness value is closer to zero in instances of symmetry but when the tail stretches to the left, the

histogram is negatively skewed and visa versa for a tail that stretches to the right. Normal distribution produces a result of zero (0). Similarly, a negative skew produces a negative value while a positive skew produces a positive value.

The *range* is the difference between the *minimum* and the *maximum* scores and is computed from the minimum and maximum scores. The range serves as a point of comparison for other spread calculations.

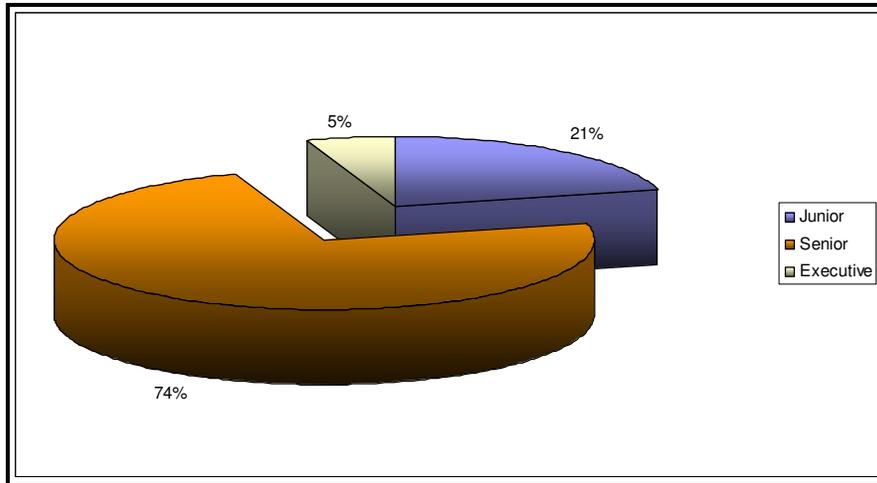
Finally, the researcher calculates the *confidence level* which is an indication of the level of confidence that the population mean falls within the specified intervals (Cooper & Schindler 2001).

5.3 Demographic data

The first section of the survey deals with demographic information regarding respondents. Respondents were prompted to indicate the level of seniority they hold. The respondents' names were extracted from the database of the company. The selected individuals were those with a partial or full influence on the selection of a courier company to be used. This person is normally also responsible for the operational and administrative aspects of courier services.

The survey identified that the majority of respondents represented their respective organizations on a senior managerial level. The data collected are nominal values and are merely recorded in one of the three categories and presented in Figure 5.1.

Figure 5.1 Seniority levels of respondents



5.4 Dynamics of stakeholder interaction

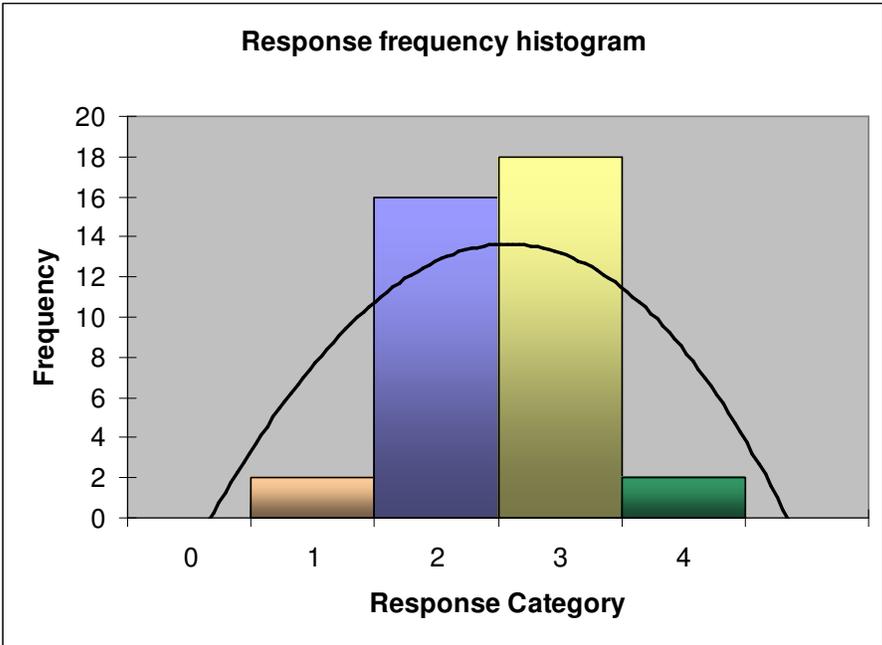
Statements that relates the company's relationship with its stakeholders were grouped together to achieve the first objective of the study namely to evaluate the dynamics of stakeholder interaction and its affects on value creation activities. In Figure 5.2, these results are presented in histogram format. The accompanying Table 5.1 gives a detailed breakdown of the various descriptive statistics related to this objective.

The results of the survey relating to stakeholder interaction display a histogram with a normal distribution. Siegel (1997) notes that a normal distribution represents an ideal data set that has the majority of observations concentrated close to the mean of the range. A normal distribution is important since it indicates that the dataset is convincingly approximated. Skewness in a histogram is not always desirable and the result of this is that some efficiency is lost. The researcher is confident that the histogram in Figure 5.2 is a normal distribution, since the skewness indicates a low level of negative skewness and the kurtosis level is satisfactory.

The median value is slightly higher than the mean value, confirming the observation that the histogram has a slightly negative skewed tail but the variance is small enough to conclude that the distribution is approximately normal.

Since it is established that an approximate normal distribution exists, the conclusion can be made that a 95% probability exists that the population mean falls within 1.38 and 3.94, calculated as 2x standard deviations from the sample mean (2.66) value (Siegel 1997).

Figure 5.2 Stakeholder interaction response histogram



In figure 5.2, the numbers on the X-axis represents the following response category options: 1 - never, 2 - sometimes, 3 - mostly and 4 – always. This histogram indicates that the median score given to the company by respondents is 2.95, meaning that an approximate equal number of responses fell higher and lower than the median value.

Table 5.1 Descriptive statistics: Stakeholder interaction

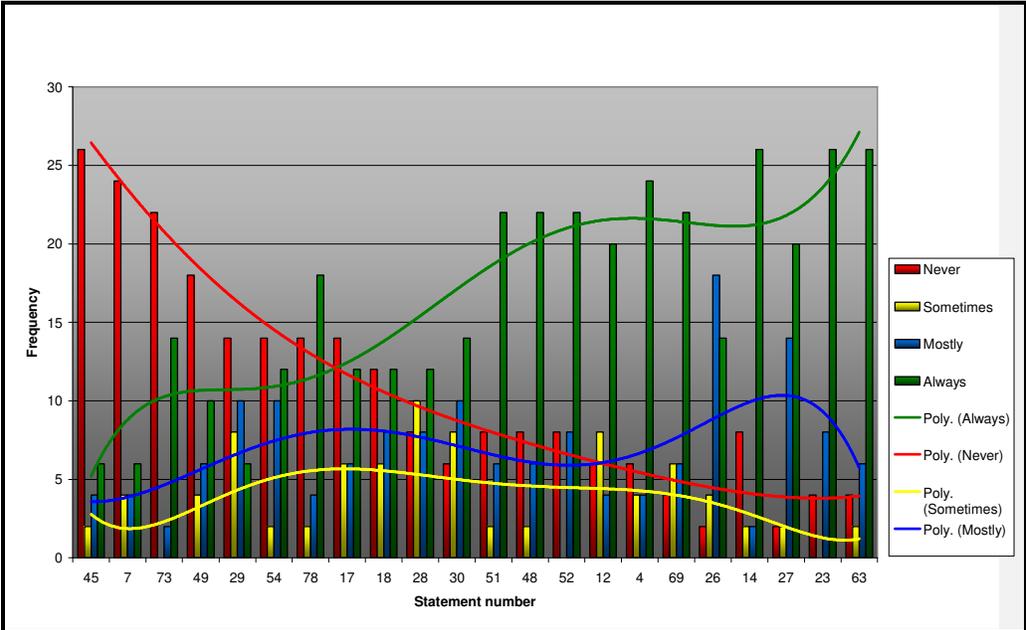
Mean	2.66
Standard Error	0.10
Median	2.95
Mode	3.20
Standard Deviation	0.64
Sample Variance	0.41
Kurtosis	-0.64
Skewness	-0.50
Range	2.40
Minimum	1.25
Maximum	3.65
Sum	101.00
Count	38.00
Largest(1)	3.65
Smallest(1)	1.25
Confidence Level (95.0%)	0.21

The observation is made that the majority of respondents perceive the company to perform in the description that mostly complies with the expectations of stakeholders. The large percentage of responses indicating a rating of “never” is of concern however and indicates that some scope for improvement in terms of its interaction with respondents exists. These results are too general and one needs to analyze the category in more detail to determine the strengths and weaknesses Skynet with regards to stakeholder interaction.

In Figure 5.3 the results of the various statement related to this category is shown individually and it is evident from this visual presentation that although the median is at 2.95 (the expectations of respondents are mostly met), several statements attracted much more negative responses. Statements that attracted more significant responses should be investigated to identify strategic gaps within the companies’ interaction with its stakeholders.

In Figure 5.3, the various statements dealing with the first objective of the study are plotted. The trend lines indicate that respondents formed mostly strong opinions of the subject matter, with the two middle response options attracting little significant results. This figure indicates a fairly dominating positive trend.

Figure 5.3 Stakeholder interaction statements



In Figure 5.3, the statement dealing with the companies’ communication of financial statements to its customers attracted the most significant negative response (statement 45). This very negative result confirms some quantitative responses from respondent in the open-ended section of the survey that indicates the dissatisfaction of respondents with the quality of the companies invoicing system. This system is perceived to be unreliable and since financial information communicated to customers is not deemed to be accurate, customers often delay payments in order to first verify invoicing. The implication of this is that the companies’ cash flow is negatively affected and since customers can not trust the quality of invoices, dealings with the company become riddled with suspicion. This aspect could also negatively impact on the trust relationship between the

business and its customers since the customers could perceive the organisation to be unreliable in general, regardless if this only relates to the invoicing system.

'The company's website is easy to navigate'. This statement deals with the ease of interaction between the stakeholder and the companies' website and this statement attracted the second largest negative trend in this section (statement 7). Previously, the importance of interaction and communication between the business and its stakeholders were discussed in some detail. The role of courier companies in the e-commerce environment was also discussed. The result of this statement indicates that respondents are not satisfied with the level of ease associated with navigating the companies' website. The implication of this result is that the company fails to utilize this method of constant communication to its customers. The relationship between e-commerce and the courier industry also implies that a great demand exists for companies to offer an e-commerce solution. This result could therefore indicate that the Skynet is losing out on value creation opportunities that could arise from increase in this industry.

Figure 5.3 also deals with the interaction between the branch managers and the stakeholders in their respective areas (statement 73). The poor performance on this variable indicates that customers are not satisfied with the level of communication and accessibility of these managers. Earlier in this document, the shift of stakeholder dynamics from arms-length to long-term relationship building was discussed and this result indicates that the business is not fully embracing the trend towards relationship orientated interaction with its stakeholders.

Respondents indicated that staff generally does not place the needs of customers above the rules and regulations of the organisation (statement 49). Although respondents have indicated that it is flexible to the individual needs of customers this result indicates the contrary. This negative result suggests that the rule-bound system prevents staff from taking decisions which could add value to customers. In stead, such decisions are avoided in fear of punishment and as a result, value creation opportunities are potentially missed (see Figure 5.3).

Stakeholder interaction takes place at various levels and in the courier industry; drivers are the most visible representatives of Skynet. The survey deals with the quality of interaction between the customer and this contact staff (statement 54). As is indicated in Figure 5.3, respondents indicated that drivers generally can not assist them with basic queries relating to the business. This could create a perception that the organisation does not value the quality of its human resources and could also strengthen the perception of poor stakeholder interaction.

It is accepted that Skynet forms part of a larger community and the role of government as a major stakeholder was discussed in previous chapters. In the South African context, black economic empowerment is arguably one of the most prominent aspects on the agenda. These results reflect that Skynet is deemed to be the first major BEE courier business in South Africa. The perception of respondents is however that the staff is not representative of the demographics of the country (statement 78). The problem with this is that critics could deem the company to engage in window dressing activities, since a marked disparity exists between the actual ownership and organisational composition and the perception of customers.

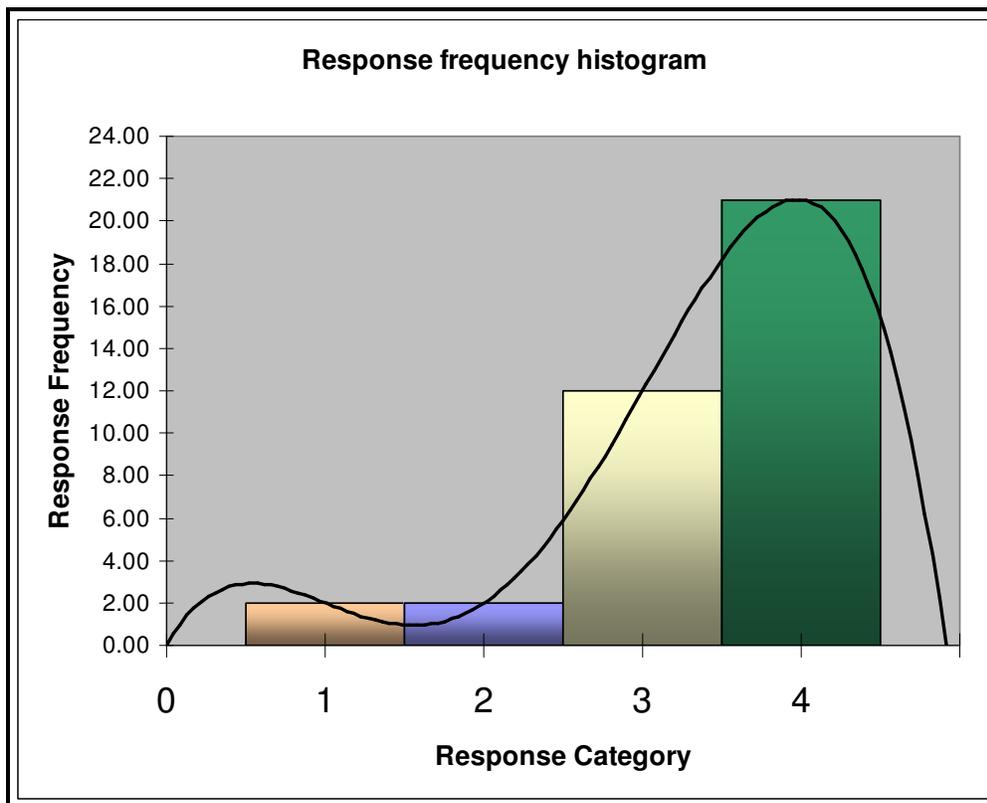
'I am informed if my delivery or collection will be done late'. This aspect (statement 17) deals with the interaction between Skynet and its customers when deliveries are delayed. The survey result has indicated that respondents are not satisfied with the level of communication when deliveries are not done on-time. Since customers entrust time-sensitive items to deliver within certain deadlines, this negative result indicates that value is destroyed to customers when the organisation fails to perform as expected in this regard.

From the results already discussed, it is evident that respondents are not satisfied with the level of communication between the company and its stakeholders. In statement 18, this result is confirmed again. The perception of respondents is that problems are not communicated promptly to them, something which is paramount in relationship orientated stakeholder interaction.

5.5 Company culture and value creation

This section investigates the second objective of the study and look at how the development and change of culture affects value creation. The birth and development of culture have been discussed in detail in previous chapters. The history of Skynet demonstrates how its culture has developed. The company went through a variety of changes which had an impact on the development of its culture. An evaluation of the Skynet's performance in terms of cultural variables is listed as one of the objectives of this study. Respondents were prompted to evaluate the business on a range of statements relating to its corporate culture.

Figure 5.4 Company culture response histogram



In Figure 5.4, the numbers on the X-axis represents the following response category options: 1 - never, 2 - sometimes, 3 - mostly and 4 – always. The results of these responses are schematically presented and the related descriptive

statistics are listed in Table 5.2. The histogram presented in Figure 5.4 reflects a slightly skewed negative distribution with a leptokurtic kurtosis of 0.4. These indexes are quite small however and the distribution curve represents an approximate normal distribution.

Table 5.2 Descriptive statistics: Company culture

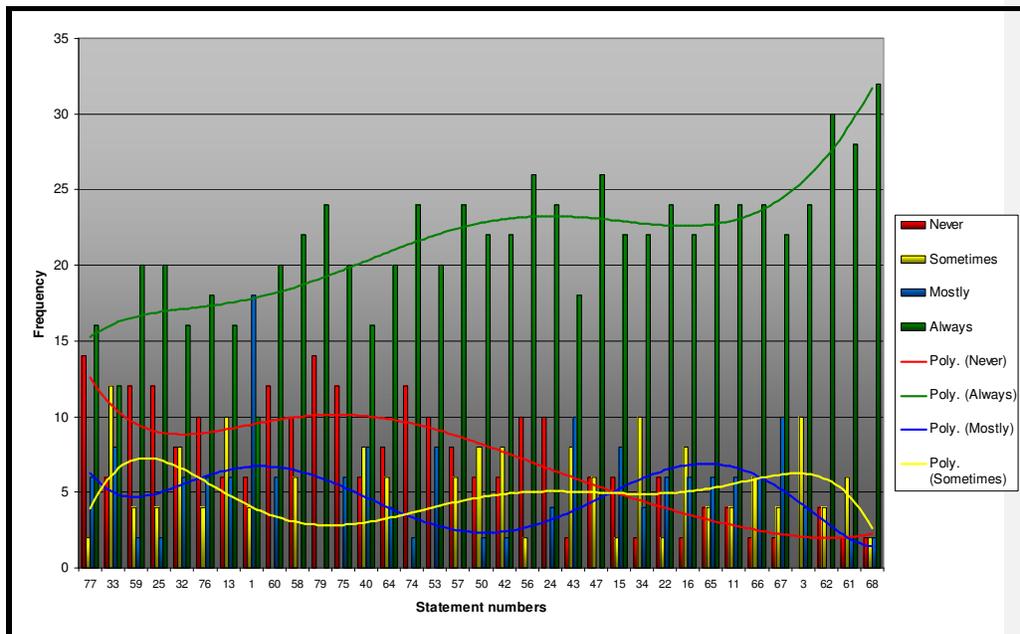
Mean	2.73
Standard Error	0.10
Median	2.79
Mode	2.79
Standard Deviation	0.64
Sample Variance	0.41
Kurtosis	0.40
Skewness	-0.58
Range	2.53
Minimum	1.21
Maximum	3.74
Sum	103.89
Count	38.00
Largest(1)	3.74
Smallest(1)	1.21
Confidence Level (95.0%)	0.21

The confidence statement stipulates that 95% probability exist that the population mean falls within 1.51 and 4.0, calculated as 2x standard deviations from the sample median (2.79) value. The median value is used since the distribution of the histogram is skewed (Siegel 1997).

The results of this section are skewed predominantly positive but the statements with significantly negative indicators have to be analysed to identify instances of value destruction. Here too one needs to investigate the various related statements in more detail to identify weaknesses. Figure 5.5 gives a detailed break-down of the results of statements related to the corporate culture.

The trend lines in Figure 5.5 indicate a significantly positive trend, with the majority of responses indicating an extreme positive response. The negative trend line is significantly less prominent but sufficient variance is evident to identify areas which might require attention in future strategy.

Figure 5.5 Company culture statements



In Figure 5.5, the most significantly negative in this section. The result indicates that a number of respondents still do not perceive Skynet to live up to the image of an empowerment company (statement 77). Although negative responses are in the minority, the result is still significant enough to be considered. Further to this, statement 79 also deals with empowerment and states as follows: ‘I would not have used Skynet if they were not a BEE company’. The result of statements 75 and 79 indicates that BEE considerations are conceivably a non-event with respondents on a daily basis. This is probably since the BEE status of a courier supplier is considered at the selection process already and non complying suppliers are disqualified in advance. For this reason, users do not have to constantly consider BEE credentials every time they want send a parcel.

As indicated, a significant number of respondents gave a negative rating with regards to the following statement: ‘Employees seems proud to be part of the Company’ (statement 74). This item deals with the perception of respondents regarding staff morale. A number of respondents indicated signs of low morale amongst staff.

The negative response implied from the results for statement 25 indicate that contact staff does not always go the extra mile to ensure that client understand the way that the company operates.

Skynet generally does not actively advertise and since the majority of vehicles belong to third party contractors, thus not bearing the company logo, the branding of the company is not strong. Figure 5.5 indicates that a number of respondents responded negatively to the following statement: 'I can clearly identify the companies' vehicles' (statement 59).

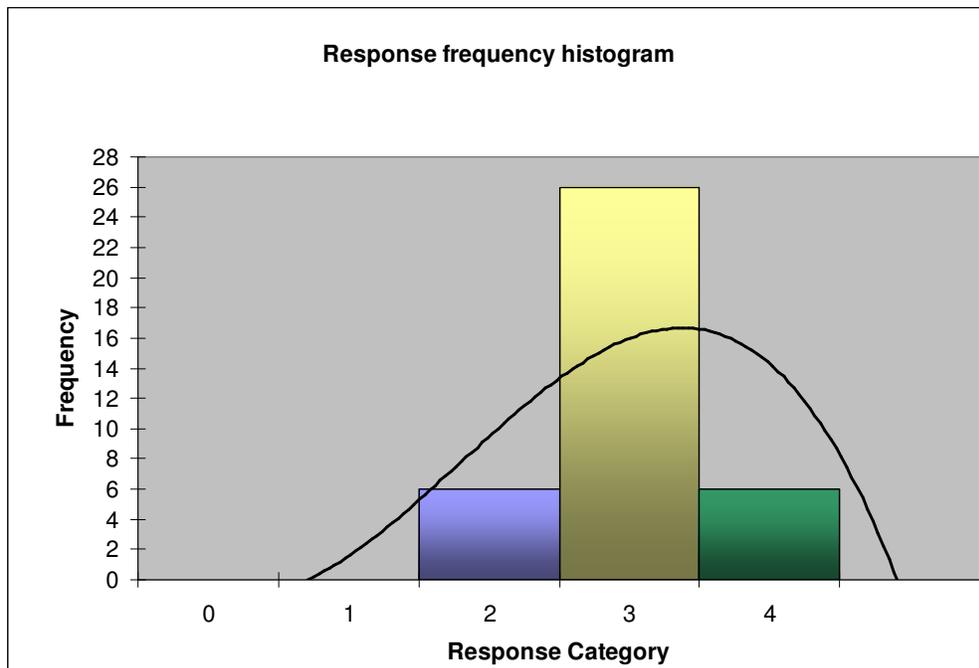
5.6 Strategic drift and its impact on value creation

This section deals with the third objective of the study namely to determine the extent and effect of strategic drift and how this affects the value creation activities of the company. In Figure 5.4, the results of the survey relating to the companies performance in terms of applying strategies that addresses the needs and expectations of stakeholders are evaluated.

In Figure 5.6, the numbers on the X-axis once again represents the following response category options: 1 - never, 2 - sometimes, 3 - mostly and 4 – always.

The histogram presented in Figure 5.6 resembles a negatively skewed distribution with a leptokurtic kurtosis. Since the histogram does not represent a normal distribution, the researcher has opted to utilize the median value (3.23) as indication of central tendency. The researcher concludes that one can assume with 95% confidence that the population mean will fall between 2.13 and 3.78.

Figure 5.6 Strategic drift response histogram



A detailed analysis of statements related to strategic performance of the company indicates that the company falls short of its generic strategies in certain instances.

Table 5.3 Descriptive statistics: Strategic drift

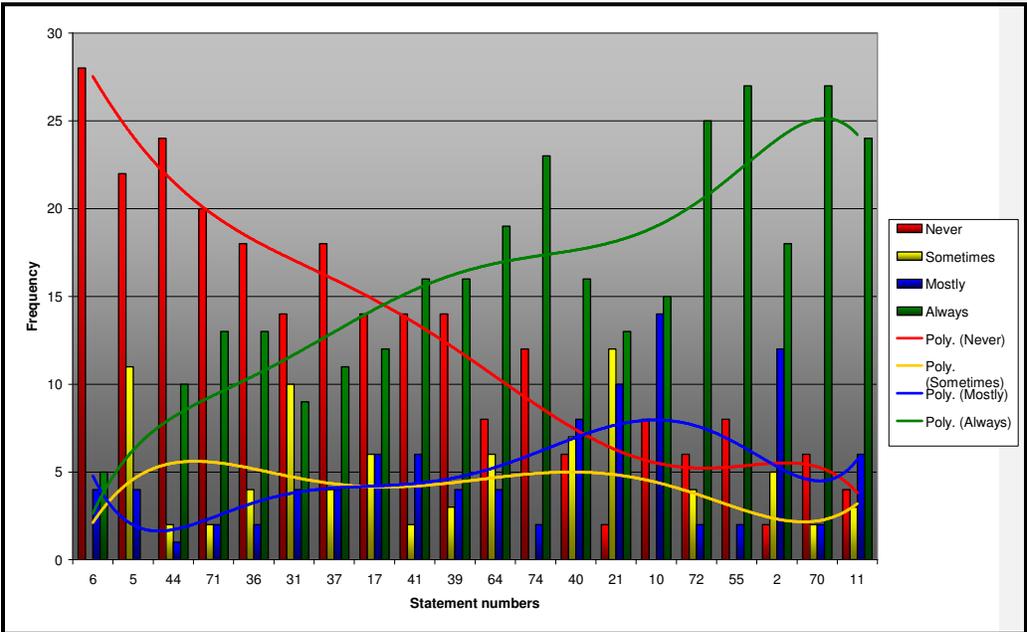
Mean	3.05
Standard Error	0.09
Median	3.23
Mode	3.23
Standard Deviation	0.55
Sample Variance	0.30
Kurtosis	1.71
Skewness	-1.12
Range	2.40
Minimum	1.50
Maximum	3.90
Sum	115.75
Count	38.00
Largest(1)	3.90
Smallest(1)	1.50
Confidence Level (95.0%)	0.18

Figure 5.7 contains an array of positive and negative statements. As was the case in the previous sections, the mid-section responses did not attract significantly strong trends. Some strong negative trends are evident which is balanced out with a strongly positive trend to the right of the graph.

The following statements deals with the web based offerings: and states: 'I trace my parcels on the Internet' and 'The Company's website is informative' (statement 5 & 6) once again deals with the companies' technological differentiation. Respondents do not perceive the value creation in terms of its website offering, something which was identified as a strategic growth opportunity for the industry.

The result relating to statement 44 indicates that respondents do not deem the Skynet to be a cost leader in terms of its insurance offering. This perception is also evident on the companies' rates to international destinations. Respondents gave a poor rating in terms of its affordability of its international service (statement 71).

Figure 5.7 Strategic performances and value creation



Statement 36 and 37 also indicate that the company does not always perform well in terms of differentiating itself as a service leader. Furthermore respondents rated the companies' performance on international collections and deliveries negatively. In statement 31 and 17 the result also indicates a negative rating on the companies' performance on communication with regards to international and domestic collections and deliveries. This theme is also present in the result of 'Early deliveries are done in standard' (statement 41), which gave the negative rating in terms of early morning (or so-called dawn deliveries).

Value is destroyed to customers when the company does not perform according to its strategies with regard to these service levels. When a service failure occurs, it is imperative that a recovery strategy is in place. The result of statement 39 indicates that respondents do not perceive the Skynet to be pro-active enough with regards to its recovery of service failures.

5.7 Value creation

In the previous section, the performance was measured against main objectives of the study to identify its effectiveness in the process of value creation to its stakeholders. As part of the survey, the researcher utilized focus group discussions and interviews with senior people from within the industry to determine critical success factors. Most of the critical success factors identified hold relevance to all three objectives of the study.

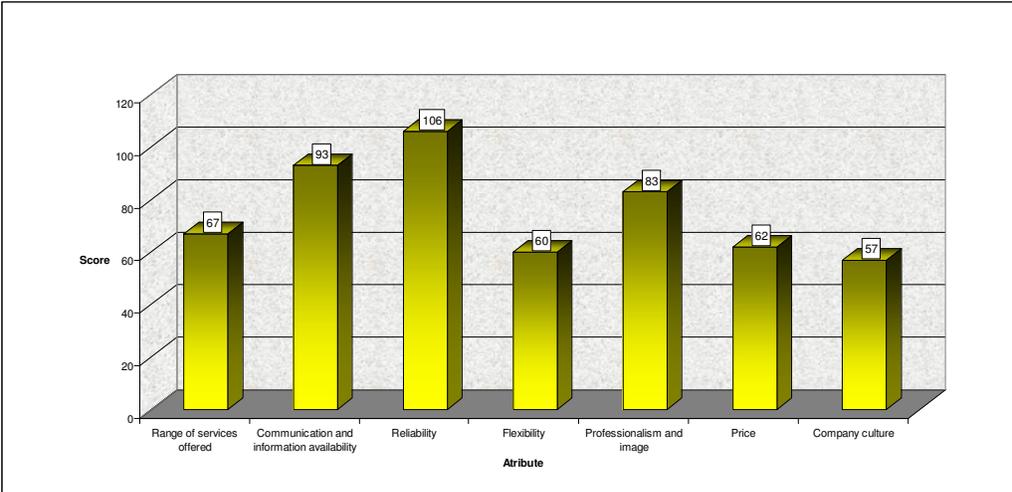
The critical success factors are paramount in the process of value creation to stakeholders. In the previous section, it became evident that, although the company seems to perform reasonably well in terms of the three main objectives, some room for improvement remains.

The seven key attributes as identified by the focus group, were presented to respondents in the form of a rating scale. Respondents rated these attributes to range from least important (1) to most important (7). This rating scale method has

proven to be very effective in prioritizing the critical success factors of the company. This section has certainly confirmed certain expectations of the researcher but also show some surprising results. In previous chapters it became evident that the company prides itself on being a very price competitive supplier.

From the previous section it became evident that the company performs relatively well in terms of its stakeholder interactions. One of the most popular selling points is that it is extremely flexible and can offer a variety of custom made solutions to its customers. The observations regarding the company's Cultural orientations also indicate that respondents perceive the company to be successful in terms of this main objective. The company established itself as the leader in terms of Black Economic Empowerment and there is no argument that its great success in obtaining large State and para-statal tenders are highly dependant on this critical success factor. Although these aspects are important in obtaining business, the results of the survey indicate a mismatch between the strategic direction of the company and the expectations of the main stakeholder.

Figure 5.8 Critical success factor ranking

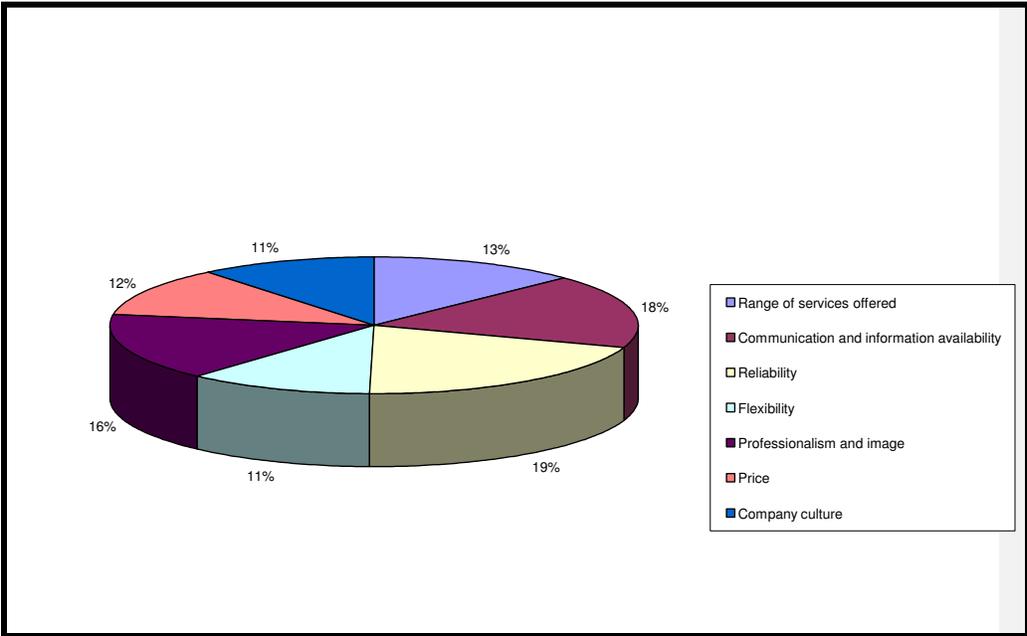


In Figures 5.8 and 5.9, the results of the ranking scale are presented. The critical success factors of the company are prioritized by respondents as follows:

Reliability: Customers entrust the company with a variety of items, ranging from extremely sensitive data and documents to expensive and irreplaceable commodities. These items have to be collected, transported and delivered securely and within strict timelines. Failure to achieve these strict requirements might result in great financial or sentimental loss to the customer and subsequently loss of goodwill. For these reasons, it is understandable that this variable has been rated as the most important critical success factor to respondents.

Communication and Information Availability - The results of the survey indicate that respondents highly value transparency in terms of information availability. Due to the sensitive nature of the items handled, its major stakeholder has a vested interest in the operational procedures of the company. From the survey it became evident that respondents highly value constant and relevant information regarding their shipments.

Figure 5.9 Critical success factor priorities



Professionalism and Image - In previous chapters, customers were identified as the most important stakeholders. Similarly, customers enter into a relationship of trust with the organisation and view it as one of their major stakeholders. The nature of the business relationship is normally governed by some form of contract and is more formal than business interactions normally found in the retail industry. Customers outsource non-core functions to the company and by doing so; view the organisation as an extension of themselves. For this reason, customers are prone to associate themselves with a business that portrays an image that represents that of their own.

Range of services offered - The variety of items shipped by the Company varies greatly. Originally, courier companies came about to offer an alternative to the traditional postal services. With time, the service offerings from courier companies have developed into a variety of services offered. To the customer, this offers a variety of services at various pricing structures, suitable to their various needs. The various service offerings enable Skynet to regulate freight volumes and to spread it out more evenly to achieve higher levels of optimum resource utilization. From the ranking scale it became evident that customers value a variety of products offered to them.

Price - In previous chapters, price as a competitive advantage was discussed in some detail. For some customers, courier cost only makes up a small administrative expense and therefore price is not considered greatly important. Other customers utilize courier services as part of their main distribution function and as such, this could represent a significant portion of their cost of sales. In these instances, competitive pricing affects competitive advantage and to satisfy the requirements of the customer, the company's pricing becomes a major factor.

Flexibility - The success of courier companies depend on their ability to consolidate the freight of a number of clients in such a way that sufficient critical mass is obtained to enable cost effective services.. To achieve this, the company has to standardize its operations to a large extent. Collection and delivery cut-offs are maintained, packaging is standardized as far as possible to ensure ease of

processing and weight and size restrictions are maintained etc. The company however, prides itself in its ability to be flexible to the special needs of clients. This flexibility ranges from daily operational concessions to more permanent and involved, customized service offerings to customers.

5.8 Summary

The results of the satisfaction survey have opened up a number of issues, even some very unexpected results. In the following chapter, these aspects will be addressed against the background of the theoretical and literature analysis from preceding chapters. These results highlighted some vital information required by the researcher to formulate recommendations from this study, to identify themes for possible future studies and to draw relevant conclusions.

Chapter 6 Discussion, conclusions and recommendations

6.1 Introduction

The focus of this study is an *evaluation of value creation in a South African courier company (Skynet)*. Three main objectives were identified and discussed and expanded on in previous chapters. This background information highlights the roles of stakeholders, the development of culture and the dynamics of strategic drift and how they affect value creation. The subsequent theoretical study and literature review places these objectives in context of theories and current thinking amongst theorist on related subjects.

The customer satisfaction survey produced some interesting results and these findings are assessed against the theoretical background. This chapter brings together the various aspects of the study and recommendations are drawn in this regard.

6.2 Discussion

The discussion here will revolve around the study objectives. The objectives are:

- To evaluate the dynamics of stakeholder interaction and its effects on value creation activities.
- To investigate how the development and change of culture affects value creation.
- To determine the extent and effect of strategic drift and how this affects the value creation activities.

Skynet is one of the largest courier companies in South Africa and the holding company is one of the top three transport related parent companies in the country. The parent culture has developed from a transport operator of bulk items on the mines and has grown and changed in strategic direction over the decades. The

company was obtained through acquisition and thus the fusion of two different cultures.

Various authors have commented that culture not only differs from one company to the next, but also differs between industries. The parent and all its subsidiaries operate in the transportation industry, although certain sub-industries exist. One conclusion from these results is that major differences exist between the cultures of the subsidiary, the parent and between the company and other subsidiaries that form part of this group. These differences vary from subtle cultural variances to major fundamental strategic matters. This is evident in the fact that the company's generic strategy is almost directly opposite to that of other subsidiaries in the group. Since the parent developed out of one of these subsidiaries, the generic strategy of the parent is thus conceivably also different from that of Skynet.

Through its BEE initiatives and related infrastructure, the parent is potentially contributing significant value added capabilities. The reality of the matter is however that because of fundamental generic strategy differences this value added is not being fully realised. Although the parent is successful in adding value in some instances, other evidence from the results suggest a clash between the opposing strategic issues, which can result in value destruction.

A review of the literature suggests that the parent is by implication a rule bound bureaucratic cultural type. In contrast, Skynet promotes an entrepreneurial culture. Involvement of the parent at the micro level invariably results in a mismatch of expectations and the subsequent development of dynamic tension between the interacting stakeholders. The corporate cultural differences exacerbate the situation and strategic drift is one potential consequence for Skynet since it has to compromise on its own strategic direction to accommodate the expectations of the parent. This obviously has the potential to negatively influence value creation within the company.

The parent as one of the most influential stakeholders obviously can influence the strategic direction and culture of Skynet. This phenomenon has been reported in

the literature i.e. *Value Trap* businesses are a result of a parent, creating value in certain areas but destroying it in other aspects of the business (Goold et al 1994). Due to the limitations of scope of this study, this phenomenon is not explored fully and leaves some scope for future studies. The results however, suggest that the Parent / Company relationship exhibits certain classic symptoms of a value trap syndrome.

Goold et al. (2004) suggests that parenting opportunities must fit with the value creation insights of the operating company if real value creation is to occur. Throughout this study, the various parenting advantages as well as differences between the respective cultures of the subsidiary and the parent were identified and discussed. Some differences between these two entities seem to be on the basis of generic strategies pursued by the various groups and also the difference in market orientation between them. On the one side, the Skynet is focused on a customer service orientation and follows a generic strategy of differentiation. Under this orientation, it promotes values which are in line with the findings of Dobni and Luffman (2000) who define companies with promoting the customers interest as its main objective, as a high market orientated organisation. On the same score, it aims to promote differentiation as a generic strategy by constantly adding new value added services to customers and by being flexible to the changing needs of customers.

In contrast to the high market orientation followed by the operating company, the parent communicates a different set of values focusing on standardisation and cost leadership, which is also entrenched into the subsidiaries of the group. This difference in market orientation philosophy again results in a value trap business as already mentioned (Goold 2004).

The results presented in chapter 5 suggest that in the case of the absence of a proper parenting advantage statement between the parent and the operating company, confusion of roles of the various parties might result. This study has highlighted that the parent creates some advantages by means of supplying an extensive infrastructure network as well as BEE status achieved by its ownership

structure. This has greatly benefited the company in obtaining business it otherwise would not be possible to achieve.

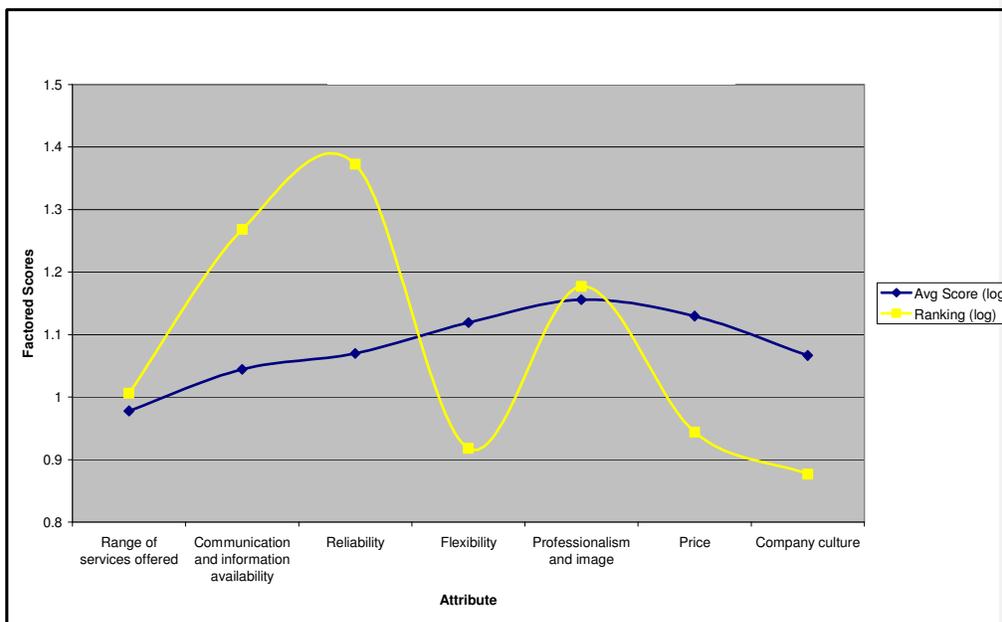
In contrast to this however, the results suggest that the parent often interferes in daily management issues which could have been dealt with by the company directly. Often, the conflicting generic strategies of the parent are enforced on the company without considerations of the potential value destruction resulting from that (Goold et al. 2004). To comply with the parent, the operating company has adjusted its behaviour to alleviate the possibility of conflict. This result potentially indicates a state of strategic drift as a result of a mismatch between the expectations of customers and the value creation processes.

6.3 Conclusions

Table 2.1 depicted some of the demands of various stakeholder groups. In addition the research survey identified a number of critical success factors that need to be applied to meet stakeholder expectations. Deviation between the company's performance and the expectations of stakeholders subsequently can create strategic gaps which, if left unattended, will result in value destruction to customers. Alternatively, the organisation might be offering services for which no specific stakeholder need exists. These services therefore do not really add significant value to clients.

The priority ranking results of this research survey has identified specific needs of customers. In the conclusion of the study, these results are presented in Figure 5.8 and are plotted against the average scores per attribute as is reflected in Figure 5.2, 5.4 and 5.6 respectively. These results are presented in Figure 6.1.

Figure 6.1 Comparison: Score vs. ranking



From this visual presentation the strategic match between the needs of customers and the performance of the company with respect to a number of customer specific attributes are evident. From Figure 6.1, it is concluded that the company performs well in terms of its strategic orientation in certain aspects but that a number of value gaps are present.

Range of services offered –Strategically, the company understands the needs of customers and one can therefore conclude that conceivably, no strategic drift is evident. According to the survey, there would be little benefit to diversify its current service types offered.

Should the decision be taken to diversify into new business ventures, the implication of such diversification would need to be strategically evaluated in order to prevent a dilution of resources into something that would not necessarily add significant value to stakeholders. Further diversification could open new markets

but if potential implications are not thoroughly considered, the company again runs the risk of strategic drift.

Communication and information availability – From the results the conclusion is drawn that strong dissatisfaction on communication specifically with regard to financial information and operational feedback is evident. The results also show dissatisfaction with the companies' web site and communication with branch managers, and drivers. In short, it is concluded that the perception of the respondents was that the company lacked good customer communication systems in general and problems are not being communicated promptly to customers. The expectations of customers with regard to communication and information availability thus vastly exceed the current features offered. Significant strategic drift could result if this negative attribute continues.

This conclusion can be linked also to a related finding that perceives the Skynet to fail in its strategic direction with regards to differentiating itself on a technological level. Website communication, parcel tracking and proof-of-delivery information of parcels are deemed to be on a substandard level to that of the industry. The message here is clear i.e. this is one of two major priorities for the company to focus on. Failure to respond to such a significant finding will conceivably further dissociate the company and its customers (strategic drift).

The shortcomings in technology driven communication is more specifically driven home by the fact that stakeholders expect Skynet, in this age of technology, to be in tune with IT developments, specifically developments that could add customer value. An example of this is that respondents expressed a need for a more real-time, technologically advanced information communication in terms of shipment tracking and proof-of-delivery communication.

The IT backbone of the organisation is based on systems developed internally by the parent and is functional within all the subsidiaries of the company. This thus highlights a potential issue in value creation between parent and operating company as the current, system is to a large extent archaic, user-unfriendly and unreliable yet its effect on Skynet's clients is not obvious at the parent level.

The findings also indicated that branch managers are perceived to be unapproachable. This is significant in this industry as respondents indicated that they value an interactive relationship with reliable account managers who keep them informed of all aspects related to their account. On these scores however, Skynet is at risk i.e.:

Reliability – Respondents ranked this attribute as the most important priority. A most significant variance exists between the priority ranking of this variable and the perception scores of respondents. The risk of Strategic drift is therefore high.

Skynet scored well with regards to on-time collections and deliveries. And this conceivable underscores a parent added value as one of the biggest linkage advantages between the parent and the company is the combined and shared infrastructure of the subsidiaries available to the company. Furthermore the group holds a strong domestic network and generally, respondents perceive it to be reliable in this area of the business.

Problems with regards to reliability are however more evident in other areas. The perception of respondents is that insurance claim settlement process takes too long. Respondents furthermore hold the perception that communication regarding international collections and deliveries is not especially reliable. The results highlights the fact that respondents are not satisfied with feedback on shipments that are not collected or delivered on-time and that the customer services departments do not always seem to get back quickly enough to customers with regard to queries.

These attributes are linked to communication and information availability. A concerted focus on communication at all levels will thus significantly improve the value add to customers.

Flexibility – Skynet prides itself that it is a very flexible service provider. This is borne out in the results as the perception is that the business is receptive to special requests by customers and confirms that Skynet is perceived to be

flexible. Paradoxically however, respondents indicated that employees seems to be bound by the rules and procedures and are reluctant to make out-of-the-box decisions to accommodate customers. This conceivably delays on-the-spot decisions that could add value to customers when done timely.

Despite flexibility being given a high rating the risk of further strategic drift is not necessarily reduced as respondents also did not rate flexibility as a high priority. The company therefore outperforms the expectations of respondents with regards to flexibility in product offering but fails to be responsive enough to decentralised decision-making. This indicates that energy is wasted on aspects that do not necessarily add significant value to customers yet not enough energy is spent on real customer demands. The inverse 80/20 rule probably applies here i.e. a small number of customers (20%) constantly expect flexibility and specialised services. And this few have been enforced by parental decision. Since these extraordinary requirements normally falls outside the scope of the standardised service offerings additional resources are allocated to ensure that the requests are executed. This additional effort does not result in the 80% returns and thus causes a dilution of resources that is normally allocated to standardised functions. The result could have a negative effect on the operations of the Company and could lead to value destruction for the remainder of the customers. The risk of strategic drift is thus increased.

Professionalism and Image – The Company is committed to internationally standardise corporate identity and brand awareness. From the results indicated in Figure 6.1 it is concluded that the expectations of respondents are being met. In that Skynet has recently replaced its uniform with an internationally standardised version. This move has certainly boosted the company image and probably contributed to the close match between the scoring of the survey and the expectations of respondents.

Price – Porter's cost leadership strategy was previously identified as a generic strategy strongly promoted by the parent. The company manages to obtain low unit cost levels in comparison with other competitors in the industry and as a result, it has the luxury to offer aggressive pricing to customers. From the results

of the survey it is concluded that the company scored particularly well on certain aspects of this attribute but other aspects, like its international service and insurance offering, did not perform well. This phenomenon again suggests a positioning paradox i.e. a company that is stuck between different generic strategies.

Contrary to expected business principles, respondents indicated that pricing is not a high priority consideration. This observation possibly suggests that Skynet should focus more on a diversification strategy instead of a cost leadership strategy. This result might also indicate that the company is discounting its services more than what customers expects.

Company Culture – Over the last few decades, the company has made a considerable effort to align its corporate culture with that of the dynamic environment in which it operates. As a result, the company managed to become the first South African courier company to achieve an Empowerdex AA rating. There is no argument that consequently the company has been extremely successful in securing state related business. All large corporations are under increasing pressure to comply with empowerment legislation, and as a result, utilising BEE suppliers assist them in achieving government stipulated targets. This feature has therefore consistently proven to be invaluable to the company.

Due to the success of the company as a result of this attribute, the expectation was that respondents would prioritise this attribute as high. The results of the survey however, surprisingly gave a relatively high score in terms of the companies' achievement of BEE aspects, yet a relatively low score in terms of its priority. The suggestion here is that the company has managed to make advances in this field in excess of the expectations of respondents. The discrepancy between the survey score and the priority ranking again, on first analysis might suggest a possible increase the risk of strategic drift, due to an excess focus on an attribute that has an apparent low priority rating.

After careful reflection on this matter however, one might conclude that the empowerment status of a company is considered when the initial selection of a

courier supplier is made. This process is normally done by a decision process that involves several people representing the customer's organisation. In this evaluation phase, the BEE status is used as a qualifying attribute to shortlist possible suppliers. The results of the survey indicate however that little attention is given to this aspect thereafter. Users of the courier service probably do not continuously consider the BEE credentials of the supplier when they need to use the service. Instead, they would be more directly concerned with aspects like reliability and information availability.

Since this aspect is constitutionally regulated, the company can obviously not merely abandon all efforts in this regard and has to be sensitive to the expectations of other stakeholders. It must therefore continue to develop its empowerment agenda, and by doing so, retain a competitive advantage over its competitors.

After careful consideration of the various aspects covered in this document, the researcher observes that management should be sensitive to the fact that various stakeholders influence the value creation processes of the company on a daily basis. Unbalanced and excessive interference from any single stakeholder can result in a situation where value is destroyed or at the very least the risk of strategic drift is increased. Immediate and high priority value enhancement opportunities have been identified in this research and should the company addresses these, both itself and its stakeholders will benefit from the additional value creation.

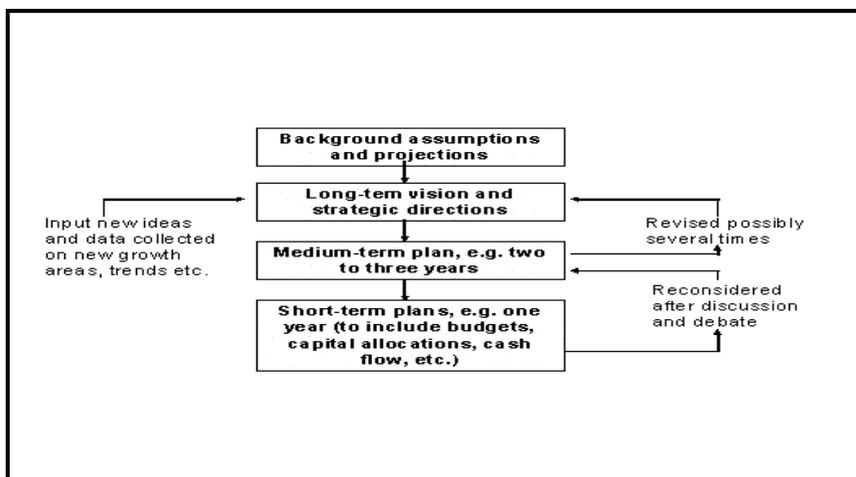
On the level of cultural orientation, the Skynet has achieved some major successes. This study has however identified that some mismatch exists between the company's actual performance in this regard and the expectation of stakeholders. These findings therefore suggest that this discrepancy can potentially increase the risk of strategic drift. If so, the negative strategic drift will affect the value creation activities and as a result competitive advantage could be compromised. This study did not attempt to provide all the answers to these issues but instead, created a foundation for possible future study (see recommendations). The researcher is confident however that this study has been

successful in its purpose, and recommends that the company considers these aspects when formulating future corporate strategies.

6.4 The strategic planning process

Information obtained from this study can guide the company to shape the direction of future corporate strategies. A suggested strategic process is presented in Figure 6.2.

Figure 6.2 Strategic planning processes



Mintzberg (2002)

The results of the current study arguably fall in the category of Background assumptions and projections (Figure 6.2). Furthermore this study does not attempt to formulate short- medium and long-term strategies but identifies aspects that need attention in future strategic planning processes. It will therefore be recommended that the company should consider utilizing the findings of this study as a basis for formulating short- medium and long-term strategies in future strategy formulation.

6.5 Recommendations

Competitive advantage is established when the company is responsive to external change and adapts quickly to changing demands. It has to encourage innovation

from within and needs to strive for cost efficiency (Grant 1998). This view might be considered as a contradiction to Porter's generic strategies model that states that an organisation should either compete on cost leadership or innovation and that trying to achieve both will end up not being successful at any one of these variables. However, other theorist has proven that Porter's model cannot rigidly apply and that a hybrid strategy is possible (Dobni and Luffman 2000). The researcher recommends that Skynet continues to focus on a cost leadership strategy, but that attention also is given to addressing the shortcomings identified in this research.

Throughout the study, the researcher referred to the importance of a strategic match between the needs of stakeholders and the culture of the company with the resulting value creation due to sound strategic thinking. The recommendations made here will include these considerations.

The recommendations are:

Communication:

Lack of communication on various levels was identified as a major problem that affects company-stakeholder interactions. The researcher recommends that Skynet address the current restraints that result from the archaic IT network. A holistic solution is required that will speed up information availability, improve web based communication to customers and also enable its employee's easier access to reliable information. Improved information credibility will also address the concerns regarding communication of financial information

A modernised system will also enable the company to offer value to other stakeholders e.g. government and the Parent, since financial reporting will happen faster and be more reliable. The demands of suppliers as a stakeholder can also be managed better by automating order processing systems.

Employee satisfaction:

These results have indicated that employees, who are also stakeholders, demand job satisfaction and it is recommended that more attention be paid to achieving

these demands. Improvement in employee satisfaction will create value across a number of other stakeholder categories. By improving the IT systems of the company employees will be able to offer a more reliable and professional feedback to its customers and as a result, create value to customers. Such improved reliability will in turn entrench higher levels of job satisfaction amongst employees which can translate into increased staff morale with the related increase in loyalty of staff and the cycle will be repeated by creating greater customer satisfaction.

Role of account managers:

A third recommendation relates to branch and account managers. Respondents expressed the need for improved personal interaction and also reported that the company has very loyal and reliable account managers and employees. It is recommended that the company exploit this positive correlation.

It may not be possible to consider changes to the role of the branch manager functions, as due to the general nature of their functions they do not interact with customers on a continuous basis. More scope however, exists in terms of relationship orientated account management and it is therefore recommended that this function is expanded to increase the influence of account managers. By addressing the concerns regarding stakeholder interaction, significant value could be added to customers.

Administrative functions:

Based on the results of the survey, it is recommended that the company focuses more attention on the reliability of its administrative functions with specific reference to reliability of invoicing and insurance claim processing and to meeting International requirements.

Decision making:

Customers have expressed concerns on rigidity in decision making. The success of the courier industry is reliant on the ability of companies to consolidate freight of various customers and this requires flexibility and thus empowered decision making. Although economies of scale are a consideration that may be

compromised in too flexible a system, it is nevertheless recommended that the company investigates opportunities to standardise a greater variety of service offerings more. This would then allow more flexibility in decision making while not compromising efficiencies. An added benefit is that by improving customer communication channels (recommendation 1) the company can educate customers better on the benefit of utilising the expanded standardised services.

In addition in order to obviate the concern over the perception of a rule based company. It is recommended that non-critical decision-making processes should be decentralized. Employees need to be more educated to handle the increased responsibility and should be made aware that with such responsibilities comes increased accountability. It is suggested that in line with the companies' empowerment agenda, the company can enhance value creation capacity by empowering staff down to a branch level.

The decentralization of decision making will only be successful however if management supports employees when they make decisions to assist customers without being too critical. A vote of confidence could enhance loyalty of employees and could also positively affect the moral, which is perceived by respondents to be low.

Pricing:

The results regarding the companies' performance on pricing warrants a recommendation that Skynet should focus more on a diversification strategy and less on a cost leadership strategy. This does not mean that the company should abandon its cost control systems. Instead, this observation indicates that Skynet can probably afford to invest in more resources that can address shortcomings in the attributes previously identified as problematic, without destroying value to customers.

The results also indicates that the company might be discounting its services more than what customers expect. Skynet could probably command higher premiums on diversified services without destroying value to customers, providing that these live up to customer expectations. It is therefore also recommended that

the charging higher premiums on some of its diversified service offerings be considered since it was found that this could probably be done without destroying value to customers.

Parenting advantage statement:

The absence of a proper parenting advantage statement results in confusion of roles of the various parties. The corporate strategy framework (Figure 3.1) should be explored in more detail to determine if the fit between the company and parent is currently creating substantial value. A detailed recommendation of this nature falls outside the scope of this research but could form part of a future study. This study should include aspects such as a Parent / Company service level agreements and issues of rule bound relationships. It is acknowledged that to discard of the formal, traditional and rigid procedures formulated over a number of years in favour of a more user friendly SLA (Service level agreement) will require a major cultural shift between the parent and the company.

It is recommended as a first step in this process that a clearly formulated parenting advantage statement should be drawn up that will assist in defining roles and thus avoidance of unnecessary interference from the parent. Such a statement should deal with the value creation insights of the parent in the light of the distinctive characteristics of the parent, defining the type of business that the subsidiary, in conjunction with the parent, should focus on. Furthermore it is recommended that the corporate strategy is revised to allow for the company to function more independently from the parent (Goold 2004).

Corporate strategy:

When formulating a new corporate strategy, the Parent should be sensitive to avoid value destruction influences and should ensure that it aligns its resources with the needs and opportunities of the company as outlined in this research. The corporate strategy should therefore be to focus on value creation influences and should show the necessary restraint from interfering in operational situations.

Government legislation:

This aspect remains an ever-increasing burning point in the South African context and could therefore be a possible theme of future study. Already, state departments entrust very sensitive and strategic projects to the company and strategic partnerships in this field could present new diversification possibilities. The scope of such a study could purely focus on the company’s future role in the country as an organisation closely aligned with government or para-statal stakeholders.

Change considerations:

Miller (2004) explains in his Icarus paradox, that companies that engender overconfidence as a result of historical success can ultimately lead to their own demise i.e. the very causes of historical success may over time become the very causes of its decline. This decline is due in part by the inability to accept change.

The results of this study suggest that the inability to accept change may well be entrenched at both Parent and Company level. Clayton and Gregory (2000) found that individuals who control rule-bound systems are reluctant to change to more flexible styles. Some issues around resistance to change are depicted in Figure 6.3.

Figure 6.3 Resistance to change

Internal Resistance		External Resistance
Individual Level	Organizational Level	
Fear of Failure	Board Members	Investors
Ignorance	Culture	Suppliers
Loss of job or career status	Structure	Collaborators
Inertia	Sunk costs	Regulators
Uncertain consequences	Limited resources	Media
Reduction in personal role and influence	Contractual agreements	Politics
	beliefs and recipes	

Baden-Fuller & Stopford (2003)

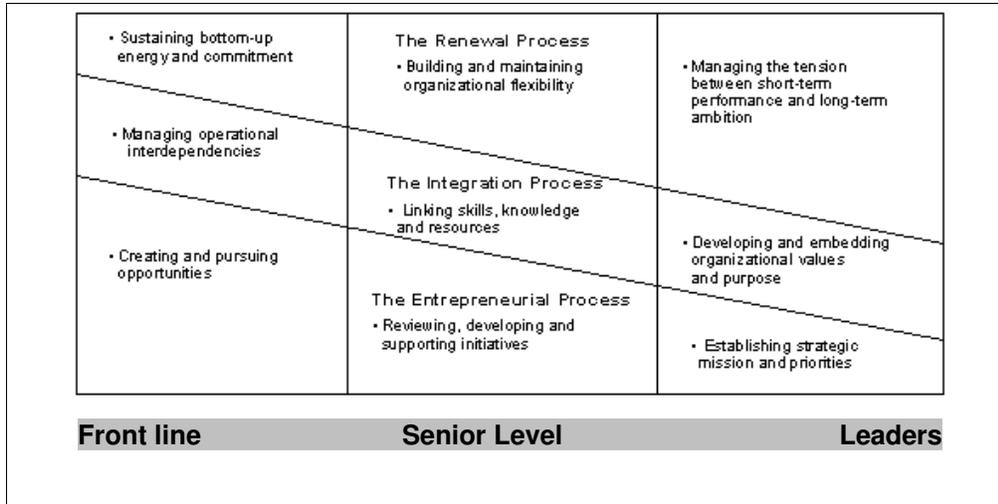
Change is however a reality in every modern corporate business. The recommendation is therefore that managers take cognisance of the stress and problems associated with change in general and more specifically to the change

that will be required if these recommendations are implemented. To limit the impact of these changes the researcher refers to the findings of Clayton and Gregory (2000). These authors propose the support for multidisciplinary events where people suffering from change phobia interact with other members of the organisation that are more positive about change. They also propose that formal and informal dialogue should be encouraged between viewpoints that create conflict and finally they propose that working situations should be created in which employees at all levels of the company feel empowered to participate meaningfully. By doing this, the organisation can involve all relevant stakeholders in the process of change and by doing so obtain buy-in.

Since the current parental culture is conservative, great emphasis is placed on achieving monthly financial targets. The proposed changes might cause a slump in short term performance, since a high degree of focussed resources is proposed. It is also recommended that management launch an extensive, communication initiative in conjunction with any restructuring plan to forestall any negative perceptions that may arise externally.

In the change process, managers of the company should be made aware of the fact that their roles are now those of change agents. Figure 6.4 depicts that their new roles will expect them to focus attention on sustaining bottom up energy and commitment from employees and that organisational flexibility is developed and sustained. Every effort should be made to manage tensions between short term performance and long term ambitions of both the company and that of the parent.

Figure 6.4 Management Roles and Tasks



Bartlett et al. (2004)

6.6 Summary

This research project evaluated the dynamics of stakeholder interaction with the company, the development and change of corporate culture and its effects on strategic drift. Furthermore, this research focused on how these three objectives affected the value creation activities of the company.

A number of recommendations are made with respect to the formulation of a new corporate strategy that takes the findings of this study into consideration. As previously indicated, this document does not aim to propose a new strategy but should be used as a guideline for formulating a revised strategy.

The researcher is confident that the study has managed to achieve its purpose as is stipulated in the objectives and that it investigated the subject matter extensively according to the boundaries set by the scope of the study.

This study introduced a variety of information, theories and observations which should stimulate further discussion. The researcher is confident that the findings of the research is sufficient to at least set the foundation for further study and for

developing a revised corporate strategy that better deals with the shortcomings identified.

Chapter 7 Publishable article

An Evaluation of Value Creation in a South African Managed Courier Company

Abstract

This research project evaluates the dynamics of stakeholder interaction, the development and change of culture and its effects on strategic drift within the company under investigation. The resulting problem statement is investigated: ***An evaluation of value creation in a South African managed courier company.*** The objectives are to evaluate the dynamics of stakeholder interaction and its affects on value creation activities, to investigate how the development and change of culture and how it affects value creation and to determine the extent and effect of strategic drift and how this affects the value creation activities of the company. Generic strategies and some additional theories are considered and expanded in the literature review. Critical success factors are identified through focus group discussions and the results are incorporated into a customer satisfaction survey. Respondents ranked these success factors and evaluated an array of statements addressing a variety of issues within the company. The results of the survey indicate an increased risk in strategic drift in the areas of reliability and stakeholder interaction. It is recommended that the company should consider formulating a new corporate strategy that will add more value to all stakeholders.

Purpose

To identify and evaluate how stakeholder interaction, culture and strategic drift affect the value creation activities in a South African services company.

Background

The study investigates the influence of stakeholders, company culture and strategic drift as a result of environmental pressures, on the value creation aspects of the company. The research measures the satisfaction of customers on the level of value creation to stakeholders in general. The customers' needs are deemed to be value creation opportunities and the companies' ability to identify these opportunities and to offer solutions to address these, determines the level of success of the company in creating such value.

The Parent is identified as a major developer of the strategic direction of its subsidiaries. Conceptually, Parents with an ideal fit with its subsidiaries create an environment that is conducive to value creation within its subsidiaries. Similarly, poor parent fit may result in value destruction. Corporate break-up specialists often target corporate parents, which do not add parenting value to the companies in its portfolio. These break-up specialists unlock value by eliminating the value destroying attributes of the Parent and by doing so; free the individual companies to unlock significant value to the new shareholders.

Integrating the issues rose above, the problem statement has been developed as follows: ***An evaluation of value creation in a South African managed courier company***

This problem statement has been broken down into a number of objectives that together sum total the research statement. The objectives of this research are:

- To evaluate the dynamics of stakeholder interaction and its affects on value creation activities.
- To investigate how the development and change of culture and how it affects value creation.

- To determine the extent and effect of strategic drift and how this affects the value creation activities of the company

This study measures the companies' performance in terms of satisfying the needs of its stakeholders, the influence of culture in the organisation and the extent to which strategic drift is compromised.

Design, Methodology and Approach

This empirical research is conducted to determine what the customer deems to be the priorities for the company to focus on and how successful the company is perceived to be in unlocking these value creation opportunities. (Cooper & Schindler 2001). The research consists of an in-depth literature review of recent journals and articles. With this theoretical foundation in mind, focus group discussions and interviews with executives and customers of the company were conducted. The focus group listed a comprehensive collection of activities and characteristics of the company that resorts under the three main influences. These activities were qualified and categorized and the seven most relevant critical success factors of the company were extracted. The information gained through this process was formatted into a survey document.

In addition to the administrative information collected, the survey document consisted of three sections. The first section lists the seven critical success factors of the company and respondents are prompted to rank these critical success factors in order of most important (7) to least important (1).

In the following section a variety of statements related to the seven critical success factors are listed and respondents are expected to evaluate the companies' performance on these aspects. This is followed by an open-ended section that asks respondents to comment on the companies' strengths and weaknesses and to make general comments about the company.

The survey identifies current value creation and destruction practices present in the organisation and were conducted on a representative and randomly selected sample that was done on the significant population of the companies' customer

base. The results of the survey were statistically analyzed and related back to the three main influences that are incorporated into the three objectives of the study.

Importance of the study

The focus of this study is to unveil issues relating to customer needs and to identify potential issues between parent and operating company. As such, it is considered that the results will impact on the competitive ability of the company and will thus have benefits for the operational and parent companies (profit), as well as for customers (satisfaction).

Awareness of the dangers of strategic drift should have a positive effect on the strategic planning of managers. This study will identify areas of potential strategic drift. This study is therefore expected to make an important contribution to the future strategic direction of Skynet.

Employee issues will also be addressed and if appropriate results are obtained employee satisfaction levels should be enhanced.

Research limitations and implications

The researcher acknowledges that value creation of a company could be influenced by more variables than what is covered in the objectives. Several models and theories are presented and applied to the company under investigation.

The results presented at the end of the study will hopefully act as guideline to management on where to focus more attention when modifying corporate strategy in future. This study alone does however, not attempt to formulate a new corporate strategy. In stead, it aims to identify aspects where the business performs well and also identify shortcomings in terms of its corporate strategy. The researcher assumes that the companies' corporate strategy attempts to achieve a perfect match between the expectations of customers and the value creation activities of the organisation. The researcher assumed that customers are the most important stakeholders but that the parent also holds significant powers.

Discussion

The company under evaluation forms part of a group of companies and its relationship with various stakeholders is investigated. As one of the major stakeholders, shareholders continuously assess the opportunity cost of the capital invested in a company. This study is concerned with the effect of the interactions between the parent and its stakeholders on the development of the company and the risk of strategic drift that may occur as a result of various influences. The researcher investigates the impact of these variables on the value creation processes of the company and how this influences the company.

To understand the development of culture of the organisation under investigation, the researcher traces the formation of the organisational structure by means of an Era analysis and identifies factors that could have resulted in strategic drift within the company. The parent company originated from a small-town motorcar dealership into a multi-national corporation. The company under investigation became part of the parent structure as a result of an acquisition.

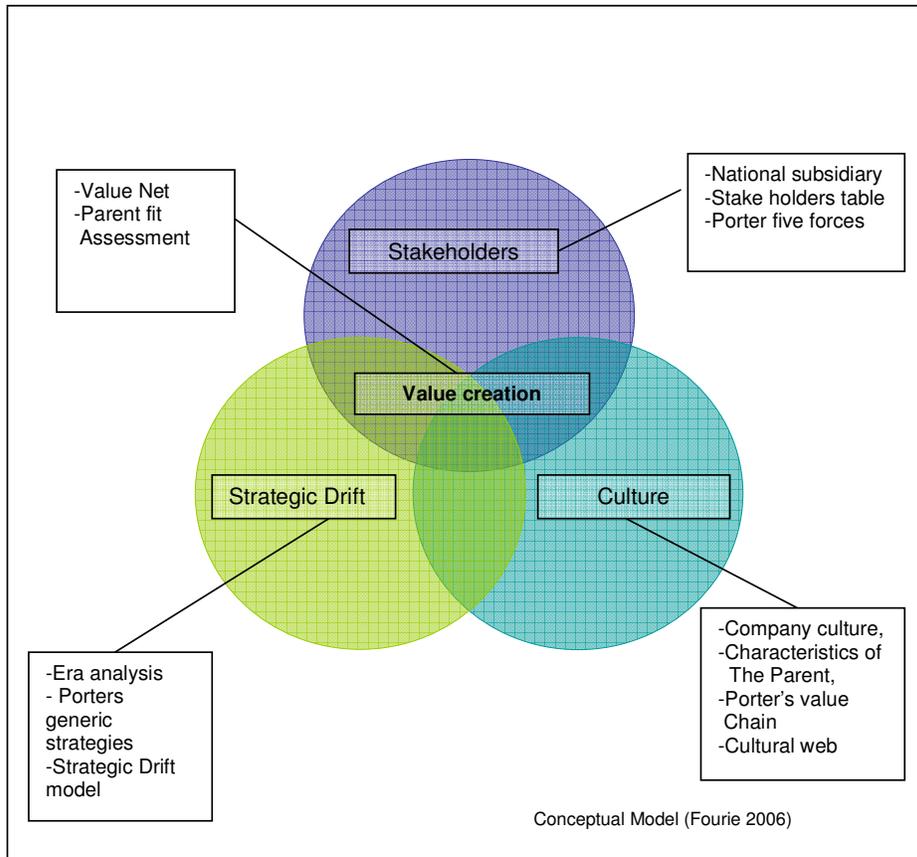
The parent holds power over the subsidiary and expects it to comply with its strategic direction. When the generic strategy of the subsidiary differs widely from that of the parent, the parent applies pressure to affect conformance to its strategy, without consideration to the appropriateness of such strategy on the business of the operating company. The resulting misfit between the two entities potentially negatively influences the relationship with customers and can result in an increased risk of strategic drift and value destruction for the customer.

Stakeholder relationships are influenced in the way the parent engages itself on micro management matters within its subsidiaries. For example the company is forced to use other divisions within the group as suppliers, regardless of whether these suppliers offers the best value to the company, resulting in dynamic tension in stakeholder relationships. Such dynamic tension in stakeholder relationships further illuminates the discourse between the operating company culture and the culture enforced by the parent.

A cultural shift from a typically white dominated South African company to one that embraces empowerment initiatives has taken place. This change has had a significant impact on the development of the company culture into its current structure. A conceptual model is introduced that visualizes the inter relationship between stakeholders, culture, strategy and value creation. Various stakeholders are identified and the expectations of these stakeholders are highlighted. The Value Net model (Brandenburger & Nalebuff 1996) demonstrates how value flows via the company to and from various stakeholders. These stakeholders have certain expectations of the company and hold certain powers which could affect the strategic direction of the company. The influence of stakeholders, culture and strategic drift on value creation is explained through various models.

A schematic presentation of the variables that forms the objectives of the study is presented in Figure 1. This conceptual model demonstrates how the three main variables identified, interacts to result in value creation by the company and how existing theoretical models deals with the various influences reflected in the objectives of the study.

Figure 1 Aspects that influences value creation of the Company



Stakeholder interaction

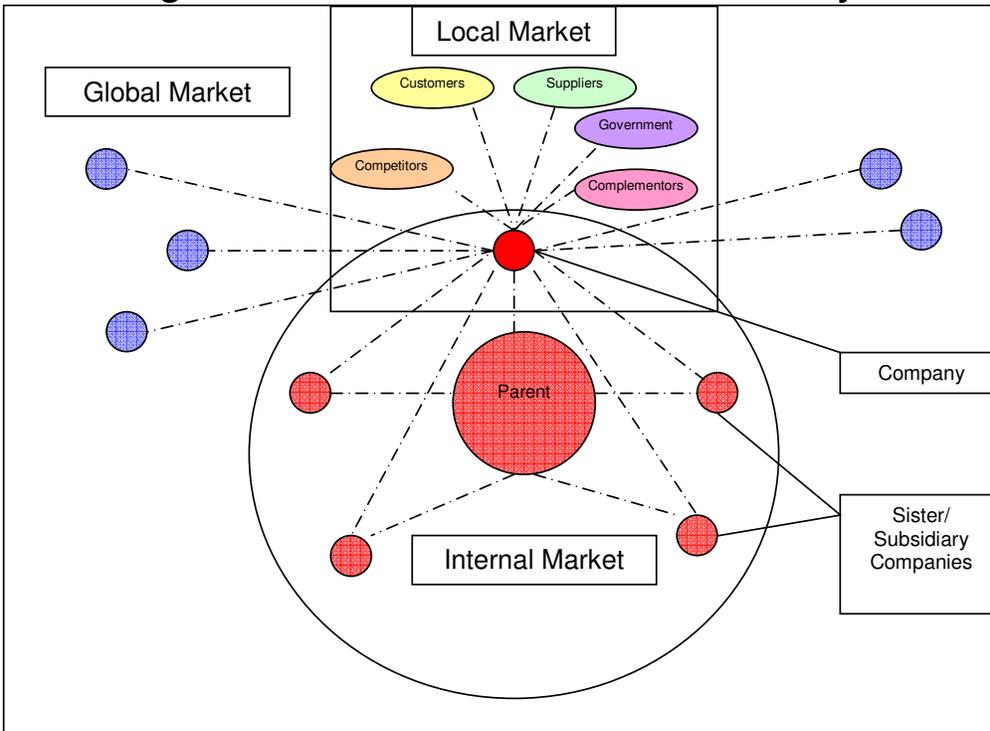
Atkinson and Waterhouse (1997) define stakeholders to be an individual or group, inside or outside the organisation, that has a stake or that can influence the performance of the business. They distinguish between two types of stakeholders namely environmental and process stakeholders. Environmental stakeholders are customers, owners and the community. Process stakeholders include employers and suppliers. Grant (2002) argues that a number of capabilities of the company are held by various stakeholders of the company and the role of the company is to co-ordinate these various capabilities in such a way that value is created. Effective communication and information availability between the organisation and the stakeholder is one of the critical success factors of the company.

Since the main theme of the document relates to value creation within a company, it is important to understand some value creation concepts that affect the company and its relation with various stakeholders. Goold et al. (1994) defines value creation at its most elementary form as the process of creating a surplus above the minimum requirements of the sum of all the stakeholders of the company. In Figure 2 the interaction of the company with stakeholders on three different levels namely, internal, local and global market is explained.

This model incorporates the Value Net model formulated by Brandenburger and Nalebuff (1996) that demonstrates the interdependencies between the various stakeholders of a company.

The company has to meet the various demands for value creation by stakeholders. Since no organisation is perfect, it might prioritise these demands and neglect some in favour of others but a continuous disregard of these needs can ultimately result in the demise of the company.

Figure 2 Initiatives of a national subsidiary



Conceptual model adapted from Birkinshaw (2004)

Stakeholders influence the various processes of the company ranging from routine tasks to the strategic direction. Such interaction can influence the strategic direction of the organisation, and when this strategic direction differs from the one selected by the company, strategic drift occurs. To prevent such strategic drift, it is important for managers to clearly communicate the mission of the company to all its stakeholders. Failure to do so could cause stakeholders to act against the primary objectives of the company and in so doing destroy value.

To address this problem, Murphy et al. (1999) states that a well developed integrated, internal and external marketing communications program enhances interaction between the organisation and its stakeholders and this can ultimately ensure that all stakeholders adopt the strategic direction of the company and work together to achieve its objectives.

The parent is identified as a major stakeholder who holds a great deal of influence over the subsidiary. The presence of distinctive parenting features is important to achieve value creation within the business. Companies are often taken up into a new parent's portfolio as part of a larger merger or acquisition by a rival parent. As a result of this, the history is filled with examples of merger and acquisition transactions that often destroy value, instead of unleashing the value creation opportunities.

When the ideal fit between parent and the business exists, parenting advantage offers value creation opportunities which benefit the business as a whole. Thus a parent with clear value creation insights can create significant parenting advantage to the company. As a major stakeholder of the company, the parent regulates the interactions between the company and other subsidiaries. When done appropriately, the parent can facilitate value creation interactions. When however, the parent enforces interactions which do not match the companies' generic strategy, such interference can result in an increase in the risk of strategic drift. A misfit between the business and its parent thus results in value destruction to stakeholders

Culture

Rashid et al. (2003) define corporate culture as the set of behaviours, values and beliefs that forms a cognitive map that defines the paradigm of the company. Several studies have proven that the type of corporate culture present in an organisation can significantly influence the level of success of such entity and that identifiable relationships exist between the corporate culture of the company and its performance (Rashid et al. 2003). These studies suggest why certain companies fit better with a certain parent than others.

Lee and Yu (2003) identified three benefits in understanding the culture of an organisation. Firstly, managers could better understand the strengths and weaknesses of the prevalent culture and assess the impact of such a culture on its various stakeholders. Secondly, the company can use this knowledge in its recruitment process and appoint employees who fit well with the prevalent culture. Finally, managers can use the knowledge to affect cultural change if needed and

can adopt appropriate motivational methods to regain commitment from employees (Rashid et al. 2003).

From the preceding discussion it is evident that certain cultural types are not conducive to long-term success and that management should institute change. Wilson (2001) warns that culture is complex and multifaceted and that one cannot rigidly just classify it into any one particular category. Equally, to change the culture one cannot just engage in an ad hoc project that runs over a limited period. Instead, he warns that a cultural paradigm shift involves change in areas such as leadership, the business environment, informal socialization and formal corporate communication. As a result of a combined effort in this regard, staff values and behaviour will slowly change. The key to successful change lies in the integrated effort at all levels of the company. It is important that management generates coherent messages and actions that signal the desired cultural change (2001).

Pratt (2003) explains that service level agreements provide an ideal mechanism to facilitate cultural change. This mechanism guides the establishment of better relationships between the core business and infrastructure, resources and stakeholders that support it. The importance of a performance management system between the company and its stakeholders is discussed and the importance of two way performance measurements is explained. Managers are more driven to adopt strategies when it is pressured to achieve specific timing, frequency and control targets (Pratt 2003).

Strategic drift

Clayton and Gregory (2000), focus on the strategic drift that occurs when the culture of the parent differs from that of the subsidiary. Various generic strategies available to the company are discussed in this report. Porter has identified two major generic strategies namely cost leadership and differentiation leadership (Dobni and Luffman 2000). The company aims to promote differentiation and a strong market orientation, while the parent enforces values of cost leadership and standardization. The result of this is that the business can lose some responsiveness to the needs of stakeholders when the company deviates from its

original strategy to comply with the expectations of the parent. When the needs of customers are ignored value destruction occurs.

Change management

Implementing change within a company is arguably one of the most difficult things to achieve yet Freedman (2003) identifies strategy implementation as the most important part of company practice. Chuanmugam et al. (2005) found that value destruction can be avoided by careful integration of strategies between the parent and the company. Managers tend to ignore the limiting factors that prevent smooth implementation. Corporations need to create economies of scale to ensure these production methods are cost effective. A popular way to achieve this was to acquire other companies with complementary synergies to the acquiring company. The newly formed company does not necessarily operate more efficiently, potentially fuelling the negative spiral of value destruction.

Goold et al. (1994) state in their literature that before the parent considers a merger with or acquisition of another company, it is important to evaluate if sufficient parenting opportunities and benefits exist for the newly formed company. Secondly, Goold et al. (1994) note that one should consider the size of the company and its effect on the value creation process. A company that is too large on the other hand could result in low staff morale. The third factor to take into consideration is the quality of managers employed within that entity in relation to their peers in competing companies. The relationship of the organisation with its external stakeholders should be evaluated continuously. The final assessment that Goold et al. (1994) proposes, implies that a parent with the most suitable skills could guide the company into a new strategic direction that will once again create optimum competitive advantage for the company.

Although the effect of these differences is more apparent when companies of different countries merge, inter-company cultural differences could have a similar negative effect. Furthermore, lack of strong leadership through this process often results in value destruction within the company.

Normally, when a merger or acquisition occurs, the leader of the strongest company becomes the leader of the newly formed company. Instead of releasing the value created by the combined companies, the parent often enforces its own culture onto the newly acquired business.

The company under investigation in this study is one of the largest courier companies in South Africa and is portfolio managed by one of the top three transport related parent companies in the country. The parent company culture has developed from a transport company of bulk items on the mines and has grown and changed in strategic direction over the decades. The company was obtained through acquisition and this process brought about the fusion of two different cultures.

Some fundamental generic strategy differences exist between the company and the parent. The parent is one of the most influential of these stakeholders and as a result, can influence the strategic direction and culture of the company and when these do not match with the parent, the risk of strategic drift escalates. Goold et al. (1994) explains that when a parent is creating value in certain areas but destroying it in other aspects of the business, a *Value Trap* business develops. The parent should therefore determine if the parenting opportunities in the business fit with the value creation insights of the company and to ensure that value is created to stakeholders.

Various parenting differences between the respective corporate cultures of the parent and its subsidiaries were identified. On the one side, the subsidiary is focused on a customer service orientation and follows a generic strategy of differentiation. The company promotes values which are in line with the findings of Dobni and Luffman (2000). These authors define companies promoting customers interest as their main objective, as high market orientated organisations. In contrast to the high market orientation followed by the operating company investigated here, the parent company communicates a different set of values focusing on standardization and cost leadership, which is also entrenched into the subsidiaries of the company. It is suggested that this difference in market

orientation philosophy between the parent and the company could result in a value trap business.

Results of the study

The customers' needs are deemed to be the value creation opportunities for the company. The company's ability to identify these opportunities and to offer solutions to address these, determine the level of success of the company in creating such value. The company has scored well in most instances, but in evaluating value creation opportunities, one has to focus on the results that indicate weaker performance. This study identified several aspects of strategic drift between the intended strategy and the perception of respondents on the companies' actual performance in this regard.

The courier industry is strategically related to the e-commerce environment and as a result of increased popularity of e-commerce transactions; the need for courier services has increased. The results of the survey indicate that the company fails to fully capitalize on these opportunities. This suggests that the company is not fully exploiting these potential value creation opportunities.

The company prides itself that it is a very flexible service provider. This is borne out in the results as the perception is that the business is receptive to special requests by customers and confirms the perception of flexibility. Paradoxically however, respondents indicated that employees seem to be bound by the rules and procedures and are reluctant to make out-of-the-box decisions to accommodate customers. This conceivably delays on-the-spot decisions that could add value to customers when done timely.

The results indicated a strong dissatisfaction on communication specifically with regard to financial information and operational feedback. The results also showed dissatisfaction with the companies' web site and communication with branch managers, and drivers. In short, it is concluded that the perception of the respondents were that the company lacked good customer communication systems in general and problems were not being communicated promptly to customers. The expectations of customers with regard to communication and

information availability thus vastly exceed the current features offered. Significant strategic drift could result if this negative attribute continues.

A detailed analysis of statements related to strategic performance indicates that the company does not meet its generic strategy targets in certain instances. Respondents do not deem it to be a cost leader in terms of its insurance offering. Respondents also rated the company poorly with regards to its affordability of its international service offerings. The results indicate that the business does not always follow cost leadership principles, nor does it always perform well in terms of differentiating itself as a service leader. Value is destroyed to customers when the organisation does not perform according to its strategies with regards to these service levels.

This study found that in the case of the operating company, the absence of a proper parenting advantage statement between the parent and its subsidiaries might result in confusion of roles of the various parties. Often, conflicting generic strategies of the parent are enforced on the operating divisions without considerations of the potential value destruction resulting from that (Goold et al. 2004).

By focusing its efforts on improving these aspects, the company can significantly improve the value offered to customers.

Recommendations

The company is recommended to consider the findings of this study as a basis for formulating future short- medium and long-term strategies.

Throughout the study, the importance of a strategic match between the needs of stakeholders, the culture of the company with the resulting value creation due to sound strategic thinking was highlighted. From this study it became evident that the parent closely manages the company in a rule-bound system. It is recommended that the parent company should consider allowing the operating company to function more independently as suggested by Goold et al. (2004).

When formulating a new corporate strategy, the parent should be sensitive to avoid value destruction influences and should ensure that it aligns its resources with the needs and opportunities of the company. The parent should focus on value creation influences and should show the necessary restraint from interfering in situations where it could destroy value within the company.

Any change that occurs within an organisation causes uncertainty and stress amongst employees, which could result in loss of productivity if not properly managed. The researcher recommends that the company take cognisance of the stress and problems associated with changes in company culture. Managers should also be made aware of the fact that their roles have been altered to that of change agents.

To address the apparent lack of effective communication between the company and customers, it is recommended that the IT systems of the company are revamped. Employees will be able to offer a more reliable and professional feedback to its customers and as a result, create value to customers. In addition the company can create significant value to customers by offering more accessible and user-friendly solutions.

The account manager function has recently been created to enhance a strong company-stakeholder interaction with customers. It is recommended these functions should have customer relationship management (CRM) as a first priority. In addition the company should investigate opportunities to standardise more service offerings and use the CRM approach to convey the availability of these new services.

The effect of the rule-bound corporate culture is evident from the research results. To combat these perceptions it is recommended that in line with the companies' empowerment agenda, the company should endeavour to enhance value creation capacity by empowering staff down to a branch level.

The results regarding the companies performance on pricing warrants a recommendation that the company should focus more attention on a

diversification strategy in stead of a cost leadership strategy. The results also indicates that the company might be discounting its services more than what customers expect and it is recommended that the company investigates opportunities to charge a higher premium on some of its diversified products.

Conclusion

This research project evaluated the dynamics of stakeholder interaction with the company, the development and change of its corporate culture and the effects of these aspects on strategic drift. Furthermore, this research focused on how these three objectives affected the value creation activities of the company.

The company should consider formulating a new corporate strategy that takes the findings of this study into consideration. A revised corporate strategy that builds a heartland around the expectations of its stakeholders should be developed. The ultimate aim of such strategy should focus on optimising the value creation opportunities identified by this research. By doing this, the company can set itself up for spectacular future advancement.

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Appendix A

CUSTOMER SURVEY

Part A: Administrative Section

Company Name:

(Optional) Respondent Name & Tel no:

Respondents seniority level within the company:

Junior

Senior

Executive

Part B: Attribute Rating Scale

Please rank the following variables from most important (7) to least important (1)

ATTRIBUTE	RANKING
Range of services offered	
Communication and information availability	
Reliability	
Flexibility	
Professionalism and image	
Price	
Company culture	

Part C: Satisfaction Survey

Attribute 1: Range of services offered

Number	Statement	Never	Sometimes	Mostly	Always	Don't Know
1	The company understands my business	1	2	3	4	0
2	The product mix offered by the company addresses my needs	1	2	3	4	0
3	The company caters for me with specialised service offerings that suits my needs	1	2	3	4	0
4	The company maintain a personal relationship despite its size	1	2	3	4	0

Attribute 2: Communication and information availability

Number	Statement	Never	Sometimes	Mostly	Always	Don't Know
5	I trace my parcels on the Internet	1	2	3	4	0
6	The company's website is informative	1	2	3	4	0
7	The company's website is easy to navigate	1	2	3	4	0
8	Proof of delivery is easily accessible on the internet	1	2	3	4	0
9	Proof of delivery is supplied promptly when request it from the Company	1	2	3	4	0
10	Parcel tracking is accurate	1	2	3	4	0
11	I find it easy to communicate with the local Skynet branch	1	2	3	4	0
12	When I phone Skynet, my calls are answered promptly	1	2	3	4	0
13	It is easy to get hold of the customer services department	1	2	3	4	0
14	When I phone Skynet, my calls are transferred to the correct person/ department	1	2	3	4	0
15	The customer services staff conducts telephone calls in a professional manner	1	2	3	4	0
16	I find it easy to arrange a collection with the Company	1	2	3	4	0

17	I am informed if my delivery or collection will be done late	1	2	3	4	0
18	Problems are communicated to me promptly	1	2	3	4	0
19	I receive the statement on-time every month	1	2	3	4	0
20	My statement is correct every month	1	2	3	4	0
21	I pay the company on-time every month since the invoicing is correct	1	2	3	4	0
22	The rates has been explained to me	1	2	3	4	0
23	I understand the rate structure	1	2	3	4	0
24	The company communicate key performance indicator (KPI) information back to me	1	2	3	4	0
25	The account manager explains the performance statistics to me	1	2	3	4	0

Attribute 3: Reliability

Number	Statement	Never	Sometimes	Mostly	Always	Don't Know
26	The staff I normally deal with is knowledgeable and is able to assist me	1	2	3	4	0
27	The company supply me with accurate information on my queries	1	2	3	4	0
28	When staff promises to phone me back, they do it within a reasonable time	1	2	3	4	0
29	Expected times of arrivals are communicated accurately to me	1	2	3	4	0
30	The staff delivers on their promises	1	2	3	4	0
31	Communication regarding international collections or deliveries is on standard	1	2	3	4	0
32	The customer services department is well informed about service levels to various destinations	1	2	3	4	0
33	The company delivers on its promises	1	2	3	4	0
34	Domestic collections are done on-time	1	2	3	4	0

35	The company delivers on-time domestically	1	2	3	4	0
36	International collections are done at the arranged times	1	2	3	4	0
37	The company delivers on-time internationally	1	2	3	4	0
38	After hour collections are done when I request it	1	2	3	4	0
39	The recovery of missed collections are done swiftly	1	2	3	4	0
40	Special instructions are been followed	1	2	3	4	0
41	Early deliveries are done in standard	1	2	3	4	0
42	The company is a reliable service provider	1	2	3	4	0
43	My parcels are handled securely	1	2	3	4	0
44	The companies insurance is affordable	1	2	3	4	0
45	My insurance claims are resolved promptly	1	2	3	4	0
46	Instance payments are done within a reasonable time period	1	2	3	4	0

Attribute 4: Flexibility

Number	Statement	Never	Sometimes	Mostly	Always	Don't Know
47	The company is flexible enough to accommodate my special requests	1	2	3	4	0
48	Contact staff takes proactive decisions to assist me	1	2	3	4	0
49	The staff places my needs above compliance to rules and regulations	1	2	3	4	0
50	The company will go the extra mile for me	1	2	3	4	0

Attribute 5: Professionalism and Image

Number	Statement	Never	Sometimes	Mostly	Always	Don't Know
51	The drivers, assistants and in-house staff are helpful	1	2	3	4	0
52	The drivers, assistants and in-house staff are friendly	1	2	3	4	0
53	The drivers, assistants and in-house staff are professional	1	2	3	4	0
54	The drivers can assist me with information on basic queries	1	2	3	4	0
55	The driver supplies me with a waybill as reference number for tracking	1	2	3	4	0
56	Drivers and in-house staff wears uniforms correctly	1	2	3	4	0
57	The quality of delivery vehicles are satisfactory	1	2	3	4	0
58	Vehicles are clean and tidy	1	2	3	4	0
59	I can clearly identify the companies vehicles	1	2	3	4	0
60	The level of professionalism of administrative staff is on standard	1	2	3	4	0
61	The account manager visits me	1	2	3	4	0
62	The account manager calling on me is professional	1	2	3	4	0
63	The account manager seems to know the company well	1	2	3	4	0
64	Accounts personnel resolves queries on my statement promptly and efficiency	1	2	3	4	0
65	Problems reported to a manager is resolved promptly	1	2	3	4	0
66	The overall appearance of the company is professional	1	2	3	4	0
67	The companies corporate identity is professional	1	2	3	4	0
68	The company's brand is easy to recognize	1	2	3	4	0

Attribute 6: Price

Number	Statement	Never	Sometimes	Mostly	Always	Don't Know
69	The company offers me value for money	1	2	3	4	0
70	The companies pricing in general is better than other courier companies I know	1	2	3	4	0
71	I find the cost of sending shipments internationally reasonable	1	2	3	4	0
72	The company offers a more affordable service to domestic destinations than its competitors	1	2	3	4	0

Attribute 7: Company culture

Number	Statement	Never	Sometimes	Mostly	Always	Don't Know
73	I find the branch manager of the local branch easily accessible	1	2	3	4	0
74	Employees seems proud to be part of the Company	1	2	3	4	0
75	I consider BEE credentials of a supplier before I use them	1	2	3	4	0
76	The company portrays a strong BEE culture	1	2	3	4	0
77	The company live up to its image of a successful empowerment company	1	2	3	4	0
78	The staff of the company is representative of the demographics of the country	1	2	3	4	0
79	I would not have used Skynet if they were not a BEE company	1	2	3	4	0

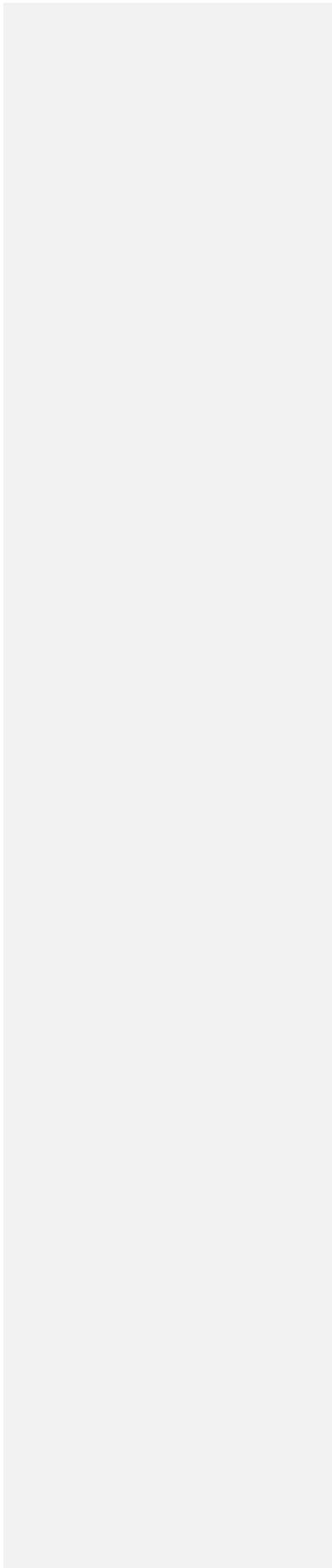
Quantitative evaluation

80 What is the biggest weakness of the company?

81 What is the biggest strength of the company?

82 Would you recommend the Company to others?
Why?

83 Do you have any other relevant feedback that has not been
covered by the survey?



Appendix B

Management Question - The first level of the hierarchy focuses on the following management question: To what extent is customer satisfaction influenced as a result of drift from its strategy, to offer a high quality, diversified service to its customers? This question is translated in the second and third levels of the hierarchy to measure the level of customer satisfaction with the effectiveness of the company as well as with the level of value created to the customer through the company's' product offering and the service levels achieved by the company.

The information gained through this process is utilized to draft research questions. The research questions of this study are as follows:

Research Questions - Does the culture of the company provide significant value added to the customer? Does the parent relationship between the company and the Parent acts as a creator of value? Are the domestic operational and supporting functions performing on the standard expected by customers? Are the international operational and supporting functions performing on the standard expected by customers? How does a customer experience the efficiency of contact staff and communication with the company? How do customers perceive the after-sales experience when dealing with the debtors department and other supporting functions of the company? Is the customer satisfied with the level of involvement from account managers? Should the image of the company be improved?

Investigative Questions –Specific investigative questions are formulated and presented in the format of the questionnaire presented as Annexure A. Some questions attempts to gain information about the demographics of the respondents. The measurement question however focuses to answer the management question more specifically (Cooper & Schindler 2001).

The response strategy decisions used to formulate the investigative questions focuses on using words in such a way that bias is limited (Cooper & Schindler 2001). Three types of measurement questions are covered in the questionnaire.

Administrative questions - These questions are utilized to study patterns within the data to identify trends and possible sources of errors. This is done by identifying the respondent, the respondents' location as well as details about the interviewer and the interview location.

Classification questions – Demographic and sociological information are gathered with these questions and enables the researcher to classify the respondent into various categories.

Target questions - The target questions aim to ultimately answer the management question.
