COMPETENCIES AND MANAGEMENT STRATEGIES OF SUCCESSFUL CORPORATE RECOVERY EXECUTIVES

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Thesis submitted to fulfil the requirements of the degree of

DOCTOR OF PHILOSOPHY

IN THE FACULTY OF SOCIAL SCIENCES
UNIVERSITY OF CAPE TOWN

May 1996

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ABSTRACT

At some stage during their growth phase from their small entrepreneurial beginnings to their mature years as large majestic organisations, most businesses experience crisis at various stages. These crisis are cross-roads from where some will succeed in recovering their vitality, growing to greater heights, whilst others will dwindle down a spiral of degeneration.

Does corporate recovery or turnaround require strategies and management processes that are different from those applied to stable organisations? Does the chief executive officer that effects such a recovery need specific competencies and characteristics in order to be successful?

This thesis aims to establish the relationships that exist between the:

- ☐ *competencies, cognitive capacity, and personality* of successful corporate recovery executives,
- ☐ their choice of *recovery strategies*,
- ☐ their structuring of key *organisational processes*, and

the *financial success* of the business organisations they manage.

Two groups of business organisations were selected, based on four criteria, namely *profit growth, revenue growth, return on sales and return on assets*. The investigation group of nine organisations which have been successfully recovered was compared with a comparison group of seven organisations with declining financial performance, in terms of the above variables.

The results of this study indicate that in terms of *intervention strategies,* the business organisations which have been successfully recovered, in comparison to those organisations in decline, differed significantly in their choice of intervention strategies, the activities they engage in and the issues on which they spend their time.

The results of this study further indicate that, in terms of *the nature and structure of key management and organisational processes,* the business organisations which have been successfully recovered, in comparison to those organisations in decline, differed significantly in their structuring of 10 of the 11 processes investigated.

The results of this study further indicate that the Chief Executive Officers of the business organisations which have been successfully recovered differed from the Chief Executive Officers of other organisations, in terms of *personality, managerial competence, and cognitive capacity.*

There is sufficient evidence therefore to suggest that certain elements of a corporate recovery strategy were more successful than others, that successfully recovered organisations structured key organisational processes differently, and that the Chief Executive Officers of recovered organisations possess distinct personality characteristics, behavioural competencies, and cognitive capacity.

ACKNOWLEDGEMENT

**TO HIM WHO IS ALL KNOWING
AND ALL POWERFUL AND BY
WHOM ALL IS CREATED,**

**THE AUTHOR OF RECREATION,
REGENERATION AND RESTORATION.**

"BEHOLD, I MAKE ALL THINGS NEW"
(REV. 21:5)

I would also like to express my gratitude to the
Chief Executive Officers of the organisations I have studied,
for the selfless way in which they gave
of their time, their experience and their knowledge.

A further expression of indebtedness to my
Supervisor, Prof. Deo Strümpfer,
for the guidance, counselling and patience he afforded me.

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CHAPTER 1

INTRODUCTION

ROLE OF MODERN BUSINESS ORGANISATION

Peter Drucker (1989) wrote that when Karl Marx started work on his book *Das Kapital* in the 1850s, the phenomenon of management was unknown. The concept of a business enterprise was also new. The largest manufacturing company at that time was a cotton mill in Manchester, England, employing fewer than 300 people, owned by Marx's collaborator Frederick Engels. In this mill there were no managers, just charge hands, who were fellow workers.

> Rarely in human history has any institution emerged as quickly as management or had as great an impact so fast. In less than 150 years, management has transformed the social and economic fabric of the world's developed countries. It has created a global economy and set new rules for countries that would participate in that economy as equals.
> (Drucker,1989,p.213)

Only eighty years ago, at the commencement of World War I, a few thinkers were just becoming aware of the existence of management, although at that time only a very small number of people had anything to do with business. Today, however, managers are the largest single group in the labour force of the USA. According to the US Bureau of the Census, more than one third of the total labour force is classified as managerial and professional (Drucker, 1989).

According to Drucker (1989), the emergence of management explains why for the first time in human history organisations can employ large numbers of people in productive work. He argues that no society before could support more than a handful of such people. No one knew how to put people with different skills and knowledge together to achieve a common aim.

The business organisation has become one of the most important institutions in the social and economic system and the health and survival, or decline and death, of the business organisation are critical to the social fabric of society.

Khandwalla (1992) contended that management creativity, although seldom as stunning as the great achievements of the arts and science, had lead to significant management innovations in this century, notably scientific management thought; operations research; job enrichment; quality circles; brainstorming; human relations; organisation development; portfolio management; long-range planning; matrix, network and cluster structures; cost-benefit analysis; social marketing; formal managerial training; virtual organisations; SWOT analysis and others.

These innovations, according to Khandwalla (1992), have had a profound influence on the shaping of our civilisation and the fabric of our society. Very little else influences so profoundly the way we live and the structure of society as the way work is organised (Drucker, 1989). Such innovations have had as profound an influence on human existence as relativity theory, quantum physics, psycho-analysis, cognition economics or cubism. Khandwalla further asserted that in most business organisations there are also numerous less glamorous organisation-specific innovations which, although not very original, are used ingeniously on a daily basis to solve organisation problems.

CHANGE AND TURBULENCE

The elements of change and turbulence which organisations face today are the phenomena of globalisation, the development of transnational economies (Drucker, 1989), the fuel crisis, inflation and higher interest rates (Whitney, 1987), increased competition and a glut of production capacity (Welsch, 1993), privatisation and deregulation. These issues necessitate greater attention to management, commercial awareness and concern for quality. Managers face complex and challenging pressures and opportunities where they must ensure efficient use of resources whilst at the same time guaranteeing the long-term effectiveness of the organisation.

Whitney (1987) maintained that despite the fact that today's business managers are better educated, better informed and harder working than their predecessors of the 1950s and 1960s, the intensified competition and turbulence make them look less capable. Whitney explained that past practices and traditional business education prepared them like generals to fight the last war, not the present one and much less the next one.

In explaining the emergence of turnaround management, Whitney (1987) stated that from 1948 to 1973 the growth in GNP in the USA averaged 3.7%. Unemployment was low, the inflation rate was below 5% and interest rates were thus also low. American business served the growing domestic market and also expanded into Europe, Asia and Latin America. America was a net exporter, developing a surplus at one stage of $157 billion. A body of business practice and literature developed which suited this environment.

Vertical organisations, with tall structures, a narrow span of control and powerful staff functions suited this stable business environment (Whitney, 1987). Decisions took a long time to make, given the channels one had to go through; long-term planning became a fetish; managers were rarely fired; debt was used liberally; and management made massive concessions to unions in pay rates and work rules. Turnaround management was rare and seldom necessary in such a business climate.

According to Whitney (1987) and Drucker (1989), the turbulence in the business world began during the early 1970s. Environmental change accelerated and competition intensified. Oil prices sky-rocketed, prime interest rates reached 20% in 1981 and then fell to 8% in 1986. Real growth in GNP averaged only 2.3% from

1973 to 1985. By 1985, the US net export deficit was $79 billion, from the previous surplus of $157 billion. US overseas markets were invaded by the Pacific Rim countries. The rate of technological change accelerated and suddenly new items started replacing previously unassailable products.

From an American perspective, Whitney (1987) alleged that when the prime rate soared, energy costs increased, the Japanese and other producers entered their markets. Many leaders of respected companies could no longer cope. Their legacy had failed them and their organisations could not adapt and mobilise to compete. Economies in Europe and other parts of the world, such as South Africa, experienced the same fate, as major developments in the USA had a rippling international effect on her trading partners.

SIZE OF CORPORATE DECLINE PROBLEM

Through the growth phase of any organisation from its small entrepreneurial beginnings to its mature years as a large, majestic organisation, most experience crisis at various stages. This is a cross-road from where some will succeed in recovering their vitality, whilst others will dwindle down a spiral of degeneration.

Most organisations are likely to face financial crises at some point during their lifetime and they would be in need of a turnaround (Bibeault,1982). These would include firms that never rise above a low performance level or firms that have swiftly risen and then collapsed, and even fashionable superstars and mature, professionally managed companies with a declining trend in earnings and market share, operating well below or near break-even point. Such businesses then face an irreversible set of decisions (O'Shaughnessy, 1986). According to Bibeault (1982) corporate collapse can follow years of outstanding success, yet spectacular business failures that suddenly hit the headlines had been developing for years.

Slatter (1984), commenting on the size of the turnaround problem in the United Kingdom, claimed that about 20% of all quoted companies and a greater percentage of smaller, unlisted companies had been in need of turnaround strategies in the last decade. According to Slatter (1984), business failures in England and in Wales grew from 3 506 in 1971 to 12 067 in 1982. In Table 1.1 the chances of successful recovery are shown, considering the depth of crisis in terms of the number of years of declining earnings. Only one in four managed successful recovery.

Table 1.1: Chance of successful recovery:

Number of years of declining earnings in 1970 prices	Number of firms needing recovery	Number of firms successfully recovered	Recovery success (Proportion)
3	335	81	0.24
4	84	23	0.27
5	13	2	0.15
6	5	1	0.20
Total	**437**	**107**	**0.24**

Source: Slatter,1984,p.19.

O'Shaughnessy (1986) stated that at any point about 15-20% of the 850 largest British manufacturers risk insolvency and such companies needing turnaround have in the past included some of the best names, such as Leyland, ICI and Courtaulds. His research indicated that only 24% of businesses in financial crisis were recovered. The majority of businesses in crisis either became insolvent or were acquired by larger competitors.

Nelson and Clutterbuck (1988) quoted strategist W.S.Howe as stating that in the ten years from 1967 to 1976, some 9% per cent of the most important companies in the USA underwent a recovery from crisis. "Crisis" was defined here as an 80% drop in earnings. For every company that recovered in this period in the USA, two others failed.

Bibeault (1982) examined the records of 4 000 listed companies on three stock exchanges in the USA, over the period 1967-1976. During this period 1 100 of these companies declined to the point of sustaining losses in net income or had an earnings decline of more than 80%. Of these 1 100, only 370 were successfully turned around, i.e. just under one third of those in crisis succeeded in accomplishing a turnaround.

According to Altman (1983), the average age of companies from inception to bankruptcy in the UK was five to seven years, in the USA also five to seven years, in Israel nine to thirteen years and in Japan 31 years. The failure rate as a percentage for these countries was UK 1-2%; USA 0.5 - 0.7%; Israel 0.2 - 0.7% and Japan 0.5%. It should be remembered however that Altman's criterion for failure was actual bankruptcy. Many companies, particularly smaller ones, simply cease to exist or are acquired by larger concerns. Bankruptcy statistics therefore give a distorted view, in that they minimise the problem (Kharbanda & Stallworthy,1987).

To indicate the size and magnitude of the corporate crisis problem, in India alone, the amount of capital tied up in sick enterprises grows at a rate of 15% per annum (Khandwalla,1992); in Britain and the USA one in every three to four corporations is in crisis at any given point in time (Bibeault,1982; Slatter, 1984; Weitzel & Jonsson,1989).

NEED FOR RESEARCH INTO CORPORATE RECOVERY

For the last half a decade the organisational sciences have attempted to identify the key factors which determine organisation performance. The initial findings indicated that the sound application of certain principles of management (span of control, division of labour, etc.) determined organisational success. This school of thought resulted in a preoccupation with management style: Theory X and Y, participative management, situational leadership, contingency theories, etc., were the buzz words of this period. This again was followed by the issues of down-sizing and right-sizing, in the belief that if the organisation design is in line with its operating requirements, efficiency would result. Even more recent attempts were to isolate certain characteristics of successful organisations (Ball & Asbury, 1989; Khandwalla 1992; Lee 1980; Peters & Waterman 1982).

Most of these concepts emerged in the USA and Europe and only later influenced thinking in parts of Africa and Asia. Barling, Fullagar and Bluen (1986) contended that as early as the 1910s certain of these principles of organisational behaviour had been utilised in South Africa. However, it was with the establishment of the National Institute of Personal Research (NIPR) in 1946, that research in the field of organisational behaviour was formalised. Of late, the work of Ball and Asbury (1989) was an attempt at a South African perspective on the characteristics of successful organisations along the style and methodology of Peters and Waterman (1982).

The changing world economic environment and the resultant turbulence in all markets brought to the surface the issue of corporate recovery and turnaround management. Whitney (1987) indicated that turnarounds are no longer special cases, but have become a familiar part of business life.

O'Neill (1986) stated that one of the most fascinating subjects in the study of industrial management is the study of rescuing ailing organisations. However, he advocated the more rigorous and systematic study of corporate turnaround and recovery. He believed that the earlier attempts to research turnaround actions relied solely on case and anecdotal data.

Khandwalla (1992) saw the study of turnaround management as a subset of management. Turnaround actions can be broadly classified as incorporating strategic management (e.g. expansion, diversification, vertical integration and other concepts) and operational management (marketing actions, production actions, etc.)

Kharbanda and Stallworthy (1987) commented that the literature on turnarounds is of fairly recent origin. The serious study of corporate failure and collapse, according to them, only began in the 1970's, the work of Altman (1971) and Argenti (1976) being among the first influential publications. Until the early eighties very little had been written and published on the business strategies applied in turning around business organisations in crises. Donald Bibeault's book, Corporate Turnaround, published in 1982 was one of the first works in this field.

Di Primio (1988) argued that the growth of turnaround management to its current prominent status, was largely due to narrower profit margins, a less forgiving attitude toward poor quality and service, and to shareholders and investors putting pressure on the management teams of companies to become more effective and profitable. According to Kharbanda and Stallworthy (1987), the explosion in the literature has largely been directed at the potential investors, warning them of impending crises.

The turnaround phase is an abnormal period in the history of the organisation and it often requires approaches that are quite different from those that are appropriate for entrepreneurial or stable companies. Often old and proven management concepts lose their validity in this context (Bibeault,1982).

It can be concluded that the revival of a business from sickness is one of the more critical social phenomena to study. Corporate turnaround or recovery is also one of the most crucial events in a society where the survival of a company is intertwined with the fortunes or tragedies of all the men, women and children who are dependent on its success for their livelihood. The fabric of that micro society surrounding even one organisation is dependent on and at the mercy of the execution of a successful turnaround.

Technological innovation has been with us for a long time and has been extensively researched. Management creativity, however, has not been subjected to the same scrutiny and during a turnaround situation corporate innovation is often at its flood-tide. This is because so much has to be achieved in such a short period of time (Khandwalla,1992). It is during organisation crisis, and in response to crisis, that corporate innovation is observed. In business not under threat the "business as usual" culture does not generate this kind of energy. Khandwalla (1992) wrote that the difficult issue of organisation dynamics is easier to study during turnarounds, because during this process all actions and events take place in a compressed period of time. The inter-relationships and the influences the various systems within the organisation have on each other and on the organisation as a whole are more prominent and manifest.

In one of the few international studies of 65 successful turnaround cases in countries such as the USA, Britain, Canada, Germany, Japan, India, Africa, Sri Lanka and the Caribbean, Khandwalla (1992) said that turnaround management is quintessential management, management of crisis situations at its dynamic best.

REASONS FOR THIS STUDY

Kharbanda and Stallworthy (1985) alleged that it is possible to predict corporate crisis and failure and that this failure can be averted when management changes its approach, reappraises its strategy and takes determined steps to prevent failure.

Corporate recovery requires management strategies that are different from those applied to stable organisations. Not only are strategies for revival different, but priorities change dramatically. The nature of a recovery situation is vastly different from the nature of an organisation which is stable and profitable. Corporate recovery or turnaround is about the management of business organisations that are in crisis and that will become insolvent unless specific actions are taken to restore their profitability (Slatter,1984).

The management of a turnaround is also decidedly more difficult than that of a stable organisation. The reason is the pressure from customers, creditors, employees, bankers and shareholders. The stress can become acute. Bibeault (1982), Khandwalla (1992), Kharbanda and Stallworthy (1987) and O'Neill (1986,March) are in agreement that unlike other areas of organisational life, generally accepted formulae or general management principles on how to recover an ailing business organisation have not yet been established. Their publications, along with others were building blocks in our understanding of this concept. In the review of the influential literature on this subject it becomes apparent that this phenomenon has not yet been sufficiently approached from an organisation behavioural and psychological point of view.

Adopting Adam Smith's metaphor of the "invisible hand", Bibeault (1992) maintained that the key to successful corporate revival is the "visible hand" of management. But how is this transformation achieved? How do the leaders achieve control in these chaotic situations? How do they mobilise the organisation to change its ways? How do they move from being bureaucratic to becoming efficient, from being domestic to becoming international, from being production-focused to becoming customer-focused, from being mechanistic to being organic and from being segmentalist to becoming integrative? These are the questions to which the study of corporate recovery and turnaround addresses itself.

One way of approaching the phenomenon of corporate recovery is to state that it can be reduced to the improvement of profitability. Profitability can further be reduced to decreasing costs and/or increasing revenues. Decreasing costs in turn involves reducing costs or increasing productivity. Increasing revenue, on the other hand, involves improving pricing and marketing and better product-mixing. These are the essentials of turnaround management and can be achieved by changing management, restructuring, divestiture, professionalising systems and a host of other managerial behaviours.

Social phenomena exist in the objective world, and there are some lawful and reasonably stable relationships found among them. Given the assumption of social regularities, it is the task of the behavioural scientist to express them as accurately as possible, in all their variety, as they manifest in their complete range and in the conditions under which they occur. No social phenomenon is totally idiosyncratic, and no social pattern is totally unconditional (Miles & Huberman,1994).

It is the purpose of this thesis to establish whether a relationship exists between the behavioural competencies, personality and managerial styles of successful corporate recovery executives, their structuring of managerial processes and intervention strategies, and the financial success of the business organisations they manage. These relationships must be described in terms of the conditions under which they occur and the extent to which they lead to successful recovery.

For the purposes of this thesis, the premise that decline is largely caused internally (Baden-Fuller & Stopford, 1994; Bibeault,1982; Kharbanda & Stallworthy,1985; and Slatter,1984), due to the fact that management has mismanaged or failed to react to human and organisational crises, is accepted. Does it follow then that management in general, but the chief executive in particular, followed managerial strategies which were inadequate to deal with the situation? Does it also follow that management in general, but the chief executive in particular did not structure organisational processes effectively? Does it follow that the managerial competencies, cognitive capacity and personality characteristics of management in general, but the chief executive in particular, have a co-producer relationship with the crisis situation?

The above statements are the research questions and the rationale behind this thesis. It will be argued and evidence will be mustered to the effect that corporate decline, and subsequent successful recovery, are highly dependent on the competencies of the chief executive officer (CEO), the intervention strategies chosen and the structuring of key organisational and managerial processes.

It can be debated as to which academic field the study of corporate recovery belongs. Ackoff (1981) alleged that the general systems theory of organisations had its origin during and after World War II where the important problems arising in large complex military, government and corporate organisations forced scientists out of their laboratories and from their functionally classified subject matter into the "real world". These scientists found that the problems they faced could not be disassembled into ones that fitted neatly into any one discipline. This led to the progressive development of inter-disciplinary co-operation and integration.

Systems theory, according to Ackoff (1981), advocates a synthesis and integration of various disciplines and concepts in order to understand organisational realities. To this effect, he stated that, the deterministic cause-effect relationships of the Mechanistic Age, were attempts to isolate a single cause to explain the totality of an effect. However, in the Systems Age, with systems thinking, there can be many co-producers of a product, without one producer explaining the total existence of an effect.

In this way, this thesis is an attempt at defining the behavioural co-producers of organisation decline and recovery within the organisational system. As such, the emphasis will be on the behavioural and psychological aspects of corporate recovery. However, in the review of the literature the economic, business economic and technical co-producers will be reviewed, so as to put the behavioural aspects in the perspective of the total phenomenon of corporate recovery.

CHAPTER 2

CORPORATE COLLAPSE AND RECOVERY

INTRODUCTION

The study of turnaround management can be classified into various fields and approaches.

Khandwalla (1992) suggested that there are two such fields of study. The first would incorporate researchers who study specific turnaround cases. They delve into the kind of management actions that were utilised to recover the company from financial crisis. These studies provide rich insights into what management actually does, and their motives behind doing so. The second approach would include researchers who study secondary data across a large number of turnaround cases. These researchers gather and analyse quantifiable data, such as advertising expenditure, sales from core and new products, research and development costs as a percentage of total costs, and so on. The advantage of this second approach is the objectivity of the data, whilst the advantage of the first approach is the richness of the data.

Pant (1991) classified the empirical research on corporate turnaround into three categories:

- ☐ Studies of management <u>strategies</u> leading to turnaround (this corresponds to Khandwalla's case studies).
- ☐ Studies of organisational <u>process</u> in response to crisis (which Khandwalla included with the case study approach).
- ☐ Studies of the <u>economic attributes</u> of turnaround firms (this corresponds to Khandwalla's quantifiable data).

The various approaches to the research of corporate recovery and turnaround are classified in Table 2.1. This classification was derived from a review of the research methodologies followed in the major studies in this field. Table 2.2. presents a classification of 22 major studies according to the method of investigation.

Table 2.1. Approaches to the study of corporate recovery and turnaround

Method of investigation	Study of primary data (qualitative)	Study of secondary data (quantitative)
Indirect sourcing through financial press and statistical data banks	Recovery strategies and management actions	Company financial economic and market characteristics
Direct first-hand study through interviews with executives (case-study method)	Recovery strategies and management actions	

As an example of using indirect sourcing of secondary data, the study of Pant (1991) is briefly reviewed. In his study of the economic attributes of turnaround firms, he introduced the structure/conduct/performance framework as a theoretical model for the study of corporate recovery. The structure/conduct/performance framework maintains that performance is a function of the conduct or actions of a business in areas such as pricing policies, product line and advertising strategies, research and development commitments, and so forth. Conduct is a function of the structure of the firm and the markets in which it operates. Structural characteristics include issues such as the size of the company, number of competitors, barriers to entry to the markets, and amount of product line diversification. Pant (1991) argued that these structural characteristics shape the relationship of the company to other players in the market, its suppliers and buyers. These structural characteristics would then allow some companies to be in a better position to implement successful recovery strategies. This was an indirect study using quantitative, secondary data.

Table 2.2: Classification of 21 major studies according method of investigation

Researcher	Method of sourcing	Data used
Baden-Fuller & Stopford (1994)	Direct	Primary
Bibeault (1982)	Direct	Primary
Ford (1980)	Direct	Primary
Goldston (1992)	Direct	Primary
Gopinath (1991)	Indirect	Secondary
Hambrick and Schecter (1983)	Indirect	Secondary
Hedberg, Nystrom and Starbuck (1976)	Direct	Primary
Hedge (1982)	Direct	Primary
Hofer (1980)	Direct	Primary
Khandwalla (1992)	Indirect	Primary
Kharbanda and Stallworthy (1987)	Indirect	Primary
Mukherji (1989)	Direct	Primary
Nelson and Clutterbuck (1988)	Indirect	Primary
O'Neill (1986,March)	Direct	Primary
O'Neill (1986)		Secondary
Pant (1991)	Indirect	Secondary
Potts and Behr (1987)	Direct	Primary
Ramanujam (cited in Pant,1991)	Indirect	Secondary
Schendel and Patton (1976)	Indirect	Secondary
Schendel, Patton and Riggs (1976)	Indirect	Primary
Slatter (1984)	Direct/indirect	Primary
Whetten (1980)	Direct	Primary

As an example of indirect sourcing methods in the study of primary data, Khandwalla (1992) is sited. He reviewed 65 turnaround cases across the world and focused on the management actions taken to turn them around, using as sources business publications, reports and press releases of what actually happened. In this way he isolated 27 turnaround elements.

In a study which does not fit into this classification, Berger, Dertouzos, Lester, Solow and Thurow (1989) studied the causes of differences in industrial performance between Japanese and US companies. This kind of process research is valuable in studying turnaround issues, but a review of this kind of macro economic studies is not within the scope of this study.

From Table 2.2, it seems that the qualitative case-study method (Direct sourcing of primary data) seems to be the preferred method in the study of corporate recovery. It attempts to determine the psychological architecture of the company or the particular management context which leads to recovery. However, most of these case studies, in isolating the management actions that led to recovery, often used indirect sources such as the financial press rather than direct sourcing of first-hand accounts given by the executive teams of these companies.

DEFINITION OF CORPORATE DECLINE AND RECOVERY

DEFINITION OF DECLINE

Corporate decline can be measured in various ways, with the most common yardstick being declining profitability.

Khandwalla (1992), Slatter (1984) and Heany (1985), all contended that agreement has yet to be reached on what constitutes corporate decline, or on the definition of businesses in profit trouble. The relative view holds that decline is a situation where the key financial indices are in decline, such as a lower rate of return on sales and assets relative to past performance, or relative to industry and economic trends. The absolute view holds that a decline situation is where the business is actually in the red and in a loss-making situation.

Four different views on the definition of corporate decline seems to emerge from a review of the major studies listed in Table 2.2.

The first view incorporates generalised statements of corporate decline, such as that of Kharbanda and Stallworthy (1987) who simply stated that a crisis is a situation where the company will become insolvent if no steps were taken to recover it.

Slatter (1984), although giving a more specific definition as reviewed further on, also gave a fairly general definition that an organisation is in crisis when it will fail if corrective action is not taken. He defined a "crisis" as a situation that threatens the high priority goals of the organisation (its survival), restricts the amount of time available for response and surprises decision-makers by its occurrence and it therefore results in stress (Slatter,1984).

Another view of corporate decline is from a marketshare perspective. Both Goldston (1993) and O'Shaughnessy (1986) stated that a business is in financial crisis when there is a decline in sales and a resultant loss in marketshare.

A third perspective on corporate decline defines crisis as an unacceptable return on investment (ROI). Bibeault (1982), Hambrick and Schecter (1983), Heany (1985) and Ramanujam (cited in Pant ,1991) defined organisational failure from an economic perspective, where the rate of return on capital invested is significantly and continually unacceptable. Bibeault defined such an unacceptable state where ROI is lower than the rates of similar investments, whilst Hambrick and Schecter defined it as a pre-tax return on investment of below 10% for two consecutive years, a position also taken by Heany. Ramanujam defined crisis as a ROI of below 5% over a period of 3-4 years, whilst Heany viewed a crisis where ROI is at a low level indicating lack-lustre performance, without specifying any level or term. This reinforces the notion that a company does not necessarily have to be making losses to be classified as being in decline, but only needs to perform below the expectations of its stakeholders.

The fourth and by far the most popular notion is the view of corporate decline as a crisis of profitability and income. The most specific definition came from Slatter (1984), who defined a decline situation as one where "real profit" before tax measured at constant prices (eliminating inflation) declined for three or more consecutive years, culminating in a loss situation and a cash crisis.

Not all researchers defined corporate crisis as an actual loss situation. Baden-Fuller and Stopford (1994), Bibeault (1982), Goldston (1993), Nelson and Clutterbuck (1988), O'Neill (1986,March), O'Shaughnessy (1986), Schendel and Patton (1975), Schendel, Patton and Riggs (1976) all viewed corporate decline as a deterioration in profit or nett income. Schendel and Patton viewed corporate crisis as nett income lower than gross national product, whilst Nelson and Clutterbuck quoted strategist W.S. Howe as stating that crisis can be defined as an 80% drop in such earnings. All the other quoted studies simply viewed crisis as a decline in nett income with no qualification, other than Schendel et al., who specified a four year consecutive decline, Bibeault who specified several years, of which one or two can be at a loss making situation, and O'Neill who specified three consecutive years of decline. Only Bibeault and Khandwalla used operating at a loss situation as a criterion for the selection of the companies which they investigated.

Kharbanda and Stallworthy (1987) hold the view that the definition of crisis and turnaround that makes reference only to a state where the organisation has a cash crisis is restrictive. They argued that Bibeault (1982) in his statistic that a quarter of all US companies first quoted on the stock exchange needed a turnaround within a 10 year period, used only a narrow definition of cash crisis, whilst Slatter (1984) used a broader definition and included organisations which, whilst not yet displaying a cash crisis, were in decline according to other indices.

Baden-Fuller and Stopford (1994) and Stopford and Baden-Fuler (1990), introduced the concept of maturity, describing large corporations in mature industries, who have experienced poor financial. Whilst they did not link crisis to a specified financial indicator, namely profitability, they did not specify the quantum of profit that would constitute a crisis.

Slatter's (1984) definition of decline is wider than those of other authors because a firm in decline, according to his definition, need not yet be experiencing a cash crisis. His definition also includes businesses which are not making any losses but are stagnant, with under-utilised assets and ineffective management. These stagnant companies can survive in this state for a number of years, but a crisis situation will eventually develop if they do not take steps to adapt. He indicated that profitability alone is not a sufficient measure of the existence of a crisis. A very profitable firm that has grown too fast may also be in crisis due to a cash-flow problem. Also he contended that reporting a loss in one single year does not necessarily indicate a case requiring turnaround. Slatter, however, urged a differentiation between companies which merely survive but never achieve adequate returns on capital employed, and those which achieve a sustainable recovery.

In contrast to the above, Argenti (1977) encourages one in the prediction of failure and success to look beyond the figures in annual reports at the management of the business. He has developed a system for assessing the viability of a company, based on the causes of decline that he determined. Of the 17 factors in his system, only two have to do with financial ratios and indices. The other 15 relate to management and business issues. Bibeault (1982) agreed that a business organisation can be a failure from a managerial point of view before it is declared an economic failure and long before it is declared a legal failure.

Certain types of early warning signals exist through which stakeholders can pick up the impending decline. Bibeault (1982) listed, firstly, the mathematical forecasting signals, among which he cited the Edward Altman Z-score formula, Gambler's Ruin

Predictions of bankruptcy and the auditors' "going concern" opinion, as well as adverse trend signals, which include decline in profit margins, market share and other financial ratios. Secondly, he listed adverse behavioural signals, and cited -- unconvincingly -- bad communication and low morale as behavioural indicators of decline.

The work of Altman, Avery, Eisenbeis and Sinkey (1981) and Altman (1983) give a detailed review of these important mathematical forecasting techniques, which are, however not within the scope of the present study.

In the light of these various views, for the purposes of the present study, corporate decline will be viewed as a declining or deteriorating performance on a basket of indicators. These include growth in turnover (to indicate revenue trend and marketshare position), profit growth year on year (to indicate profitability trends), return on sales (nett profit as a percentage of revenue to indicate internal efficiency and productivity) and return on assets (return on assets to indicate asset efficiency). This definition could include negative returns on sales, in other words, a loss situation or cash crisis.

DEFINITION OF RECOVERY

Again, there is no absolute definition of recovery and in most cases a recovery is defined as the opposite trend in the same indices which define decline.

In a general sense, corporate turnaround or recovery can be described as the phase in the life of a business where a specific set of intervention strategies and actions bring about its financial recovery from a declining trend or an actual loss situation. Slatter (1984) defined sustainable recovery as the achievement of a viable and defensible business strategy supported by an adequate organisational and control structure. However, a sustainable recovery also refers to a sustainable competitive advantage.

A more specific definition of a turnaround situation, according to Slatter (1984), is when, after such a decline, the organisation increased its profit in four of six successive years. The turnaround is regarded as complete when profitability reaches a level comparable to its industry counterparts.

Baden-Fuller and Stopford (1994), Stopford and Baden-Fuller (1990) chose the term "rejuvenation" which they described as moving from imminent disaster to sustained profitability at a level above the competitors.

SYMPTOMS OF CORPORATE DECLINE

It is often difficult to differentiate between the symptoms of corporate decline and its causes. Symptoms are typically issues that are more easily observable, even by outsiders, and entail more than only financial predictors. In traditional non-systems thinking, causes on the other hand, describe the events which lead to the manifestation of the symptoms.

The symptoms of corporate decline should be considered along with the definition of decline, because the criteria according to which decline is defined are often based on the symptoms.

Slatter (1984) identified the following symptoms of decline:

- ❑ Decreasing profitability.
- ❑ Decreasing sales volumes at constant prices.
- ❑ Increase in debt.
- ❑ Decrease in liquidity.
- ❑ Restricted dividend policy.
- ❑ Unacceptable accounting practices.
- ❑ Top management fear.
- ❑ Management turnover.
- ❑ Declining market share.
- ❑ No planning or strategic thinking.

Goldston (1992) identified 11 symptoms of decline. He maintained that while few businesses will exhibit all 11, many symptoms unfortunately go unnoticed because when looked at in isolation, they do not seem to be spectacular. He listed:

- The company is losing money from an operating profit point of view.
- Market share has declined steadily or precipitously over a 12 to 24 month period.
- High quality managers are departing from the firm with a degree of regularity.
- Company pride is greatly diminished and individual initiative is at a low level - no new ideas.
- The company facilities appear to be run down. Overall cleanliness and quality standards diminish.
- The company has a hard time generating cash.
- On-hand inventory exceeds the normal three- to four- month supply level and does not reflect the mix of the product line at retail level.
- Expense reductions have resulted in a marked decrease in research and development, new product development, advertising and promotional expenditure.
- In the case of a consumer product, the item is no longer a "brand of choice".
- New products/items appear to be cannibalising existing items from both a retailer and consumer purchase point of view.
- Manufacturing facilities are operating at less than 60 % cent of capacity.

Slatter (1984) and Goldston (1992) seem to agree on a number of the symptoms, notably decreasing profitability, declining market-share, management turnover and decreasing liquidity.

CAUSES OF CORPORATE DECLINE

INTRODUCTION

Why do business organisations find themselves in crisis? The purpose of this section is to discuss the co-producers of corporate decline described in the literature, and to analyse them. It should be noted that the deterministic thinking in this literature concerns causality, rather than co-production.

It remains difficult to develop a clear system according to which "causes" of corporate decline can be categorised, due to the fact that they are, in most cases, very interrelated co-producers of the state of corporate crisis. Bibeault (1982), Heany (1985), Khandwalla (1983), Khandwalla (1992), Kharbanda and Stallworthy (1986, 1987) are all in agreement that there are internal and external "causes" of corporate decline. However, they all strongly feel that internal factors are much stronger co-producers of corporate crisis than are external factors.

To illustrate this, Khandwalla (1992) found that an average of just over four factors were responsible for the decline in the cases he studied, of which 1,3 were external and 2,9 internal factors. Of the ten most frequently reported causes of decline in Khandwalla's study, eight relate to internal causes, whilst only two relate to external causes.

Based on the cases of decline and recovery they have studied, Kharbanda and Stallworthy (1986, 1987) were convinced that corporate failure comes from bad management and not from external causes. They argued that, while some companies struggle and others indeed fail, there are always those organisations that prosper, despite declining markets and adverse economic conditions, because their management teams know how to manage under those circumstances.

Bibeault (1982) was emphatic that the seeds of future financial crisis are sown by the failure to cope with current people and organisational problems. The seeds of failure are internal and locked into the historical developments as the organisation moves through the natural life cycles of a business. He maintained that 70% of the time the causes of decline are internal, although in some cases triggered by external factors, and only in approximately 10% of the cases is it external only. A breakdown of his findings are presented in Table 2.3.

Baden-Fuller and Stopford (1994) stated that the firms they studied failed due to organisational factors; their structures and systems became ossified, making them incapable of responding adequately to a changing environment. They called this "bureaucratic stagnation".

In claiming that there are internal and external causes of profit problems, Heany (1985) argued that these problems are often created through the conception and implementation of flawed strategies and tactics.

Table 2.3 : Principal reasons of decline according to Bibeault

Sheer bad luck	1%
External factors beyond management's control	8%
Balance of internal and external factors	24%
Internal problems triggered by external factors	15%
Internally generated problems within management's control	52%
	100%

Source: Bibeault (1982, p.25) N=85 companies

These could include adopting aggressive market-share gaining strategies, ambitious mechanisation and automation programmes, product innovation consuming a lot of capital in research and development programmes, penetrating new markets for which the management team has little experience or expertise, and frequent changes in strategic direction. These managers treat strategies as something that can be turned on and off at will. They may be driving for short-term earnings at one point and then at a later date they may try to regain the market share that they have lost as a result of their fixation with short-term profits. Heany (1985) called this strategic oscillation. On the other hand he considered that profit trouble could also be traced to the environment in which the business operate.

The external causes identified by Bibeault (1982), Khandwalla (1992) and Slatter (1984) included:

- ❑ increased competitive pressure.
- ❑ recession or decrease in demand.
- ❑ adverse price movements.
- ❑ industrial relations policy.
- ❑ changes in government policy.
- ❑ excess capacity in the industry.
- ❑ political interference and constraints.
- ❑ hostile behaviour of financial institutions.
- ❑ poor law and order.
- ❑ infrastructural problems.

Internal causes identified included:

- deficient general and functional management.
- bad technological, locational, strategic choices.
- internal conflict and politics.
- poor work ethic.
- corrupt management.
- growth mania.
- excessive conservatism.
- bureaucratic management.
- excessive authoritarianism.
- poor control or co-ordination.
- bad industrial relations management.
- under-capitalisation.

CO-PRODUCERS OF DECLINE

In Table 2.4 five studies which supplied a comprehensive list of all co-producers of corporate decline, spanning the last two decades are compared. It is interesting to note the similarity of findings from Argenti, and Schendel et al. in 1976 to Khandwalla in 1992.

Accepting Ackoff's (1981) systems view, it is argued that the complex issue of corporate crisis is co-produced through the interaction of a number of internal and external factors. The co-producers of decline most often identified in the major studies reviewed, as listed in Table 2.4, will now be discussed in order of the frequency with which they are mentioned.

Incompetent Management

The ability of the management team, expressed as their competence to run the business, has a distinct impact on the health of the organisation.

Incompetent management is undoubtedly the principal co-producer of corporate decline, as the following review of the literature will indicate.

Table 2.4 : Co-producers of corporate decline

Argenti (1976)	Khandwalla (1992)	Schendel, Patton & Riggs (1976)	Sigoloff (1981)	Slatter (1984)
Accounting information Manipulation of accounts	Poor financial management		Lack of control	Lack of financial control
Management	Weak management Poor operations management Bad technological choices	Management problems	Peter principle Management without guts Interpersonal conflicts at decision-making level	Inadequate management
Firm - unresponsive to change	Poor marketing management	Increased competitive pressure Lower revenues	Change in technology Hostage to current product-markets	Competition
	Too costly inputs	Higher costs	Development of locational disadvantages	High cost structure relative to competitors
		Demand declines	Change in market place	Changes in market demand
Normal business retards economic cycle	Adverse controlling behaviour			Adverse movement in commodity markets (including interest rates)
		Marketing problems	Poor distribution Dependence on single customer	Operational and marketing problems
Big projects				Big projects
				Acquisitions
Gearing			Increasing cost of debt Limited financial resources	Financial policy
Rapid expansion	Ill-advised growth		Sales growth faster than working capital	Overtrading
	Bad industrial relations	Strikes		

Argenti (1976), Bibeault (1982), Gopinath (1991), Khandwalla (1981, 1983, 1992), Kotter (1988), Schendel et al. (1976), Sigolof (1981) and Slatter (1984) all indicate managerial incompetence to be associated with corporate decline.

Organisational and people crises are decisive in testing the capabilities of a management team and determining decline or survival (Bibeault, 1982). Declining companies do not cope with the internal challenges created by change. The reason for this Bibeault (1982, p. 17) maintained, is that:

> Businessmen learn the dimensions and character of financial crisis in an organization largely because these problems are reducible to familiar, finite terms. But understanding the non-financial situation is more difficult because it is seldom finite and often a matter of subjective judgement.

Bibeault (1982) defined incompetent management as recurring patterns of non-constructive conduct by management.

Carnall (1990), in reference to incompetent management, described the sequence of decline: Top management responds to crisis by setting up short-term control pressures, and they bring about ad hoc changes to the organisational structures. This undermines the development of a clear strategy. Carnall (1990) and Kotter (1988) argued that top management finds it difficult to face the underlying issues of strategy and performance. They avoid issues of unacceptable performance wherever possible, and as such the real fundamentals of the business are avoided. This is usually because people feel the need to protect the feelings of certain senior managers. The culture becomes more autocratic, more centralised, and more functional and risk averse. As things deteriorate, Slatter (1984) found that the more capable managers, aware of the problems but frustrated in their attempts to address them, move to greener pastures. This results in a further impetus to decline, until the business has been drained of any resourcefulness, left with only those managers on board who may even be the reason for the decline in the first place.

Incompetent management can include issues such as inadequate skill (managerial competence), management change problems, lack of integration, lack of performance management, bad strategic choices, bureaucratic management, and narrow vision.

Lack of managerial skill and competence: Bibeault (1982) argued that when all business factors are positive and there is no turbulence in the markets or economy, companies can continue to do well despite incompetence. However, when the external and internal environment become turbulent, incompetence shows up quickly. Slatter (1984) argued that the personal characteristics and inadequate management skills of the CEO and his key executives play a major role in co-producing decline.

Incompetence as defined by Gopinath (1991) is a lack of expertise to operate the business, and assimilate its growth. Incompetent or weak management is referred to by Kandwalla (1992) as an inability to cope, an inability to manage new technology or staff. Khandwalla (1992) further included under incompetent management a lack of professionalism in:

- marketing management (inappropriate pricing, wrong marketing strategy and practices, and poor product mix).
- operations management (poor planning of operations, poor plant maintenance, poor renovation, poor inventory control, poor quality control, low productivity, and poor purchasing).
- personnel and industrial relations management.

Bibeault (1982) mentioned the issue of "one-person rule" as a problem in terms of bad management. The rise of many of today's big American corporations was due to one individual, a determined entrepreneur such as Carnegie, Rockefeller, Walt Disney, and Thomas Watson. This factor is, however, often the seed of corporate collapse when this individual becomes too dominant. Lack of management depth, according to Bibeault, is often the result of such autocratic entrepreneurs. Autocratic leaders do not normally tolerate strong people who challenge them, and therefore they do not develop a strong management team around them. Slatter (1984) also mentioned the presence of a strong autocratic manager to be associated with a lack of management depth.

Another aspect of incompetent management, according to Bibeault (1982), is displacement activity: Executives tend to keep themselves busy with what they find comfortable and pleasant and then do not have time for the things they should be doing. Executive discipline implies doing things when they have to be done.

Non-participative boards of directors do not co-produce decline, but Bibeault (1982) argued that they can prevent it, by taking an active role in the design of corporate strategy and sanctioning key strategic decisions.

Management change problems: An incompetent top executive team is often the result of management change decisions that were not well handled. Bibeault (1982), Kotter (1988) and Slatter (1984) were all in agreement that management change problems contributed to a situation of bad management, and corporate decline.

Due to a lack of succession planning and management development, changes in the management team are often disorderly and disruptive.

Kotter (1988) asserted that incompetent management teams were often the result of internal promotions of a poor quality. This is often the case where there is a reluctance to recruit from outside the organisation, when current incumbents at lower levels in the organisation, who may not yet be ready, are promoted to senior positions. Some of these managers move through the hierarchy so quickly that they do not have to live with their mistakes. They are promoted or transferred before they have to face their mistakes and also do not learn the interpersonal skills needed to do so. As a result they find facing up to problem issues difficult and then deal with them inadequately and in a volatile, emotional way. Furthermore, there is a tendency to promote managers who needed little training, and who will obey orders. Little attempt is made management development is made.

Another aspect of management change problems was mentioned by Bibeault (1982) who stated that in many cases organisations in decline are managed by an unbalanced management team, in that all the board members came from one discipline, for instance engineering or marketing.

Lack of integration: Kotter (1989) argued that during organisational crisis, little understanding or trust exists between the various functions of the organisation. As a result of this, co-operation and co-ordination is usually poor because senior managers do not have the credibility or skills needed to build trust.

Lack of performance management: Bibeault (1982), Khandwalla (1992), and Slatter (1984), referred to lack of operating controls and a weak financial function as being associated with corporate decline.

Although much is said later about lack of financial discipline, the reference here is to management's lack of focus on the management of performance in all its forms, from financial through to the performance of plant, equipment and people.

Bad strategic choices: Bad strategic choices have been identified by a number of researchers as a co-producer of corporate crisis and decline. Several forms deserve attention:

- ❑ Over-expansion: Bibeault (1982) believed this to be the number one mistake of bad management. It could include over-diversification and sales mania. The reason why over-expansion is a problem is that in 70% of the cases Bibeault (1982) surveyed, the expansion exceeded management resources.
- ❑ Excessive leverage: This happens when a company expands at a faster rate than the internally generated cash flow can support. Bibeault (1982)

argued that borrowings to finance this expansion, lead to a high interest burden.

- ❑ Insufficient or excessive costly inputs: According to Khandwalla, (1992) insufficient resourcing, as well as the opposite, over resourcing, often result in a high cost structure which is associated with decline.
- ❑ Bad technological and related choices: Khandwalla (1992) cited issues such as wrong technology, wrong plant scale, excess capacity and wrong location.
- ❑ Ill-advised growth: Mistaken diversification or expansion, poor acquisitions, and the inability to manage these have been indicated by Khandwala (1992).

Bureaucratic management: A number of researchers have referred to bureaucratic management as a factor in corporate decline, notably Baden-Fuller and Stopford (1994), Gopinath (1991), Gouillart and Kelly (1995), Hammer and Champy (1993), Khandwalla (1992), and Slatter (1984). Bureaurocracy however, is a complicated issue, in that Jaques (1990) came out in strong support of the hierarchy, the strongest and most prevalent artifact of bureaucracy, and Hammer and Champy (1993) stated that in the absence of other organising principles, it is the only workable method currently in existence. However, despite Jaques' (1990) support, the overwhelming view of most influencial writers is that the bureaucracy has had its usefull life, and needs to be retired. More is said about this debate in Chapter 3.

As a co-producer of decline, it includes issues such as:

- ❑ Bureaucratic management: Bibeault (1982) was of the opinion that organisations can decline due to rigid, cumbersome, communication and decision-making processes.
- ❑ Filters of information: Gopinath (1991) commented that too many levels of management serve as filters which prevent critical information getting to the bottom of the organisation.

- ☐ Centralised organisation structure: Kotter (1988) associated a bureaucratic and centralised organisational structure, which does not meet the needs of staff and customers, with declining organisations.

Narrow vision: A number of researchers referred to narrowness of vision in the management team as a co-producing factor in decline.

Bibeault (1982), mentioned narrow vision in reference to the habit of many organisations in promoting people to the next level of management because of their successful performance in a narrow functional area. Kotter (1988) supported the view of Bibeault when he also argued that most senior staff and managers are very narrow in their focus and are credible only in their own functional departments. These managers, Kotter contended, are better at operations management and tactical decision-making, than strategic and general management.

Bibeault (1982) also referred to the inability of the management teams of declining organisations to keep pace with changes in the market place. Although accelerated change does not threaten a well-run company, Bibeault (1982) found that failure to keep pace with change accounted for 25% of internal co-producer effect in decline.

Inadequate financial control

Many studies indicated financial and management control to be a serious co-producer of decline notably, Argenti (1976), Bibeault (1982), Khandwalla (1992), Kharbanda and Stallworthy (1986, 1987), Sigolof (1981), Schendel et al. (1976), and Slatter (1984).

After poor management, Slatter (1984) believed poor financial control to be the second most prevalent co-producer of decline. He identified four common problems:

- ☐ Poorly designed management accounting systems.
- ☐ Poorly used management accounting information.

- ☐ Organisational structure hinders effective control.
- ☐ Methods of overhead allocation distorts costs.

Khandwalla (1992) defined poor financial management as high-cost financing, mismanagement of funds, poor evaluation of funding requirements, poor portfolio management and lack of control.

Without clear financial control, consisting of sound income, cost and cash-flow forecasts, effective costing and cost tracking systems and budgetary control, business organisations do not have information on which strategic decisions can be based. Management, without adequate financial information, cannot pin-point high revenue/high profit customers or products, or determine those customers, products or departments draining cash flow and profits.

Competition

Argenti (1976), Heany (1985), Khandwalla (1981, 1992), O'Shaughnessy (1986), Schendel Et Al. (1976), Sigolof (1981), and Slatter (1984) all identified increased competition as co-producers of decline. However, both Slatter (1984) and Bibeault (1982) argued that, although competition is one of the producers of decline, it is not nearly as important as internal management and financial control issues.

According to Slatter (1984) every product on the market has a life cycle. After an initial start-up period and given that it is successful, it enters the growth phase, then moves through to the maturity phase and finally it goes into decline, as fewer people buy it due to other more advanced products on the market. Product life-cycles vary according to the type of product, its usage and the kind of consumer, yet all products sooner or later become obsolete. This can be due to new technology, substitute products or changes in consumer preferences.

Two kinds of competition can be distinguished, namely product and price competition.

Product competition: A business organisation can often be caught off-side when a competitor introduces a far superior product, or when new technology changes the face of consumer needs entirely. This could lead to a substantial drop in revenue resulting in crisis and, in time, decline.

Heany (1985) classified technology as a major external producer of profit trouble. He contended that no barriers to entry in any industry could be high enough to block the shock waves of a technological breakthrough by a competitor. Heany (1985) argued that a corporate habit of settling for undifferentiated products rather than striving to develop products and services with a quality edge in a specific niche market, contribute to a situation of decline. This he maintained could have serious consequences for long-term profitability.

Price competition: Slatter (1984) reasoned that price competition is probably one of the most common producer of decline in the manufacturing industry in Britain and other Western countries.

Porter (1980) postulated that price competition increases as an industry matures and business organisations with high cost structures may then find themselves in trouble.

Although most of these researchers expanded on competition as a producer of corporate decline, it is not within the scope of this thesis to give a more detailed review of the topic.

High cost structure

Most researchers referred to high cost structure as a co-producer of corporate decline, notably Argenti (1976), Bibeault (1982), Khandwalla (1992), Schendel Et Al. (1976), Sigolof (1981), and Slatter (1984). A high cost structure results in generating less profit and borrowing power, and in not being as able as the more profitable competitor to develop new products and to defend market position.

Slatter (1984) mentioned five sources of cost disadvantage, resulting in the organisation having to charge more than its competitors:

- ❑ relative cost disadvantage due to inability to take advantage of economies of scale.
- ❑ absolute cost disadvantage due to competitor controlling strategic production factors that are not available to all.
- ❑ disadvantage due to diversification.
- ❑ cost disadvantage due to management style and organisation structure.
- ❑ operating inefficiency due to lack of investment and poor management.

The operating efficiency of a business organisation is difficult to measure or to cost, yet it is vital in determining profitability. Operating efficiency of a business organisation is affected by the following factors:

- ❑ organisation structure.
- ❑ layers of management.
- ❑ lines of communication.
- ❑ labour productivity.
- ❑ production planning.
- ❑ maintenance.
- ❑ layout of offices and plant.
- ❑ allocation of capital expenditure.
- ❑ allocation of operating expenditure.
- ❑ allocation of product development expenditure .
- ❑ allocation of manpower to various functions such as sales, production, maintenance, etc.
- ❑ sales and order practices.
- ❑ contractual obligations.
- ❑ policies and procedures.

Changes in market demand

According to Slatter (1984), another factor in corporate decline is the change in demand for the business's products on the market. Although, fewer researchers agree on this issue, O'Shaughnessy (1986), Schendel et al. (1976),and Sigolof (1981) also mentioned it.

Slatter (1984) identified two types of market demand decline, namely secular decline and cyclical decline. Secular decline refers to decline in the need for certain industries or product classes within industries, whereas cyclical decline refers to a decline linked to a declining business cycle. Secular decline takes place when fundamental shifts in economic patterns, social and cultural norms and in political situations occur.

O'Shaughnessy (1986) maintained that the external producers of a financial crisis within a business are often the result of an overall decline in the industry in which the business is active. Economic slow-down, increasing competition, social change, and technological change are all possible external co-producers of decline.

Adverse movements in commodity prices

Adverse movements in world-wide commodity prices, such as those of sugar, oil, property, etc. can also contribute to corporate decline. In the studies reviewed however, only Slatter (1984) mentioned this factor.

Lack of marketing effort

Slatter (1984) gave the best review of this dimension of decline. It follows that without a marketing effort the business organisation will gradually become unknown and their products and services will not remain the first choice of the consumer. The vast majority of business organisations in decline are characterised by an all-round complacency, not only among management, but also among employees at all levels, and particularly those involved in the marketing effort. The underlying problem in the lack of marketing drive is usually management. This state of affairs is characterised by:

- a poorly motivated sales force.
- non-aggressive management.
- wasted advertising.
- lack of targeted key customers.
- lack of targeted key products.
- poor after-sales service.
- poor or total lack of marketing research.
- outdated promotional material.
- weak or non-existent new product development.

Big projects

Of the research reviewed, only Argenti (1976) and Slatter (1984) mentioned big projects as a possible contributor to corporate decline. Big projects are defined as one-off capital and revenue projects.

Slatter (1984) stated that projects which go wrong because costs were underestimated and revenue over-estimated, can force a business organisation into insolvency. There are, according to Slatter, five reasons why "big" projects, can cause corporate decline:

- underestimating capital requirement.
- start-up difficulties.
- capacity expansion.
- market entry costs.

Acquisitions

Only Slatter (1984) mentioned acquisitions as a co-producer of decline. During the past two or three decades, acquisitions have become a major avenue for increasing market share or diversifying into other industries. Acquisitions are therefore seen as a growth or diversification strategy. Slatter contended that the incidence of acquisitions as a co-producer of corporate decline varies according to the type of acquisition. Acquisitions can cause decline under the following circumstances (Slatter 1984):

- ❑ acquiring a loser, a firm with weak competitive advantage.
- ❑ paying too high a purchase price.
- ❑ poor post-acquisition management.

Slatter (1984) was of the opinion that poor post-acquisition management is the single most significant of the three. Acquisitions are most successful when they are reintegrated into the existing business. When the acquisition is managed as a separate entity the new owners either do not exercise enough control or, if they try, are met with resistance by the acquired company's management. The political struggle that ensues takes management's eye off the ball and the crisis sets in.

Financial policy

Argenti (1976) mentioned financial gearing, Sigolof (1981) talked about increasing cost of debt, and Slatter (1984) identified financial policy, as issues to be associated with corporate decline.

According to Slatter, there are at least three types of financial policies that can cause failure:

- ❑ a high debt/equity ratio (high gearing).
- ❑ a conservative financial policy.
- ❑ the use of inappropriate financing sources.

As far as a conservative financial policy is concerned, the lack of re-investment in plant and equipment, a high dividend payout, as well as high liquidity and low gearing can also lead to decline (Slatter, 1984).

Overtrading

Argenti (1976) referred to rapid expansion, Khandwalla (1992) talked about ill-advised growth, Sigolof (1981) defined the problem as sales growth faster than growth in working capital, and Slatter (1984) mentioned overtrading. All of these terms, however, refer to overtrading in one way or another.

When a firm's sales grow at a faster rate than it is able to finance from internally generated cash flow and borrowings, it becomes more vulnerable to other factors that could contribute to decline. Margins are reduced to grow market share with no concurrent increase in profitability.

FREQUENCY OF CO-PRODUCING FACTORS

It still remains to be determined how often the above factors lead to decline and whether some are more important than others in the deceleration of profit growth.

Schendel et al. (1976) did one of the first studies to analyse the frequency with which factors co-produce decline. Their study, however, was based only on publicly available information.

Slatter (1984) attempted to determine the frequency with which the principal co-producers of decline occur in corporate decline cases and presented the data shown in Table 2.5.

In Table 2.6, Khandwalla's (1992) findings are given in descending order of frequency, as a percentage of 65 corporate recovery cases.

The information in Table 2.5 and 2.6 seems to suggest that inadequate top management, lack of financial control and various operating inefficiencies explain the decline of business organisations.

Table 2.5: Frequency (in proportions) with which co-producers influenced decline in 40 UK recovery situations

Casual Factor	**Total Sample**	**Successfully Recovered**	**Failed to Recover**
(Sample Size)	(40)	(30)	(10)
Lack of financial control	0.75	0.73	0.80
Inadequate management:			
Chief Executive	0.73	0.67	0.90
Other	0.12	0.07	0.30
Competition:			
Price competition	0.40	0.20	1.00
Product competition	0.18	0.17	0.20
High cost structure:			
Operating efficiency	0.35	0.36	0.40
High overheads	0.30	0.20	0.50
Scale effects	0.28	0.17	0.70
Changes in market demand:			
Cyclical	0.33	0.40	0.30
Secular	0.18	0.17	0.20
Pattern of demand	0.07	0.06	0.10
Adverse movement in commodity market	0.30	0.30	0.30
Lack of marketing effort	0.22	0.17	0.40
Financial policy	0.20	0.20	0.20
Big projects:			
Capital	0.17	0.20	0.10
Revenue	0.15	0.20	0.10
Acquisitions	0.15	0.13	0.20
Overtrading	--	--	--

Source: Slatter (1984, p.53)

Table 2.6: Producers of decline as proportion of 65 recovery cases.

Co-producer	**Proportion**
Adverse market environment: competition, stagnation, recession, market turbulence	0.57
Incompetent and weak management: inefficiency, poor control/co-ordination, lack of professionalism	0.42
Poor marketing management	0.38
Poor operations management	0.35
Adverse governmental or controlling body behaviour: government restrictions, policy changes, political interference, taxation, etc.	0.34
Insufficient or excessively costly inputs	0.31
Poor personnel and industrial relations management	0.29
Bad technology and related causes	0.22
Ill-advised growth	0.22
Poor financial management	0.2
Conservatism: complacency, risk avoidance, rigidity, slow response to markets/technology	0.18
Miscellaneous, external causes such as natural calamities	0.09
Poor project management	0.09
Bureaucratic management	0.08
Authoritarian management	0.08
Discord at the top	0.08
Industrial unrest	0.06
Inappropriate staff and culture	0.06
Obsessive management (growth mania, etc)	0.06
Poor management of external stakeholders	0.06

Source: Khandwalla (1992)

STAGES OF DECLINE

Not many researchers defined stages of decline, and the views of Kotter (1988) and Slatter (1984) will be discussed.

Kotter (1988) identified three stages of corporate crisis:

Stage 1: The firm is in a strong position with little competition. It develops systems, management practices and a culture which depend on a few capable leaders. The management style is a combination of autocratic, directive and paternalistic.

Stage 2: The firm grows and becomes more complex. Competition increases and new technology emerges. The firm now needs strong and capable leadership but does not have enough people with these skills, since many people with good leadership potential left because of the frustrations created in Stage 1. However, the firm's performance does not deteriorate dramatically. It remains well placed in its established markets. It "lives" off its reputation.

Stage 3: Declining performance leads to a focus on short-term results. Internal tensions lead to conflict which cannot be handled constructively. Senior managers seem incapable of facing these tensions. Functional rather than corporate policies prevail. The firm lacks a co-ordinated strategy. This, in turn, undermines efforts to improve the quality of management.

Slatter (1984) identified four stages in the development of corporate crisis and decline:

Stage 1: Crisis denial - At the initial stages of crisis development, the management team is not even aware of the impending crisis, often due to lack of adequate control systems and poor management information. The crisis is thus denied because the signals are overlooked.

Stage 2: Hidden crisis - The signs of the crisis have now become visible but the management team rationalises the symptoms and finds some lesser justification for them. This means that they assume that there is no need for action and that they can continue along familiar paths.

Stage 3: Disintegration of organisation begins - As the crisis deepens, structures and processes start to disintegrate. Management at last realises that a crisis exists and takes some action but not enough given the requirements. Inflexibility is rampant, decision-making groups become smaller, autocracy increases, secrecy grows, there is greater reliance on fewer people who support the prevailing wisdom, and opposing thinkers are ostracised.

Stage 4: Organisational collapse - Despite the management team sending out messages on how everything is under control, the organisation eventually collapses. It becomes evident to all stakeholders that the management is not in control. The process of disintegration involves a decrease in the number of decisions being made, a decline in commitment to organisational goals and managers becoming more self-reliant. Power struggles, ensue, more centralisation takes place and the average level of competence drops as the more capable employees leave the company. Dramatic action is now needed if recovery is to be achieved.

Kotter's (1988) three phases are more descriptive of the phases of organisational development, and according to his definition, crisis seems to be entirely embedded in leadership by a few capable persons and a general lack of management skills during growth and expansion. Slatter's (1984) is a more realistic description of crisis, irrespective of co-producers of the crisis. It is therefore more applicable to all forms of organisational crisis. It is further interesting to note how behavioural in nature both descriptions are.

RECOVERY INTERVENTIONS

REVIEW OF DIFFERENT PERSPECTIVES

Heany (1985) asserted that the paths out of profit trouble are long and poorly marked and strewn with disappointment. It is therefore very difficult to find successful chief executive officers who would reach out for an opportunity to turn a company around, as this could also destroy their careers.

When an organisation is in trouble, it does not automatically follow that it has to be recovered. The first issue therefore to address is whether it is worthwhile or not to recover the business.

Heany (1985) commented that when an organisation is in profit trouble, there are two important options to consider. The first would be to redefine the current concept of the business and the second to dispose of the business or of its assets. He argued that these options should definitely be considered where there is a low return on investment and few other strategic strengths upon which to build. This critical question of whether to recover or not would depend, according to Heany, on among other things, the following factors:

- ❑ the current strategic position of the business.
- ❑ the synergistic fit with the corporation's long-term goals.
- ❑ the quality of the current management team running that particular operation.
- ❑ the state of plant and equipment and other assets.
- ❑ the impact of the exit decision on corporate profitability and dividend.
- ❑ the pay-off should the capital and management time needed to effect a turnaround be diverted and be invested in other businesses in the portfolio.
- ❑ the social and political ramifications of the exit decision.

Heany (1985) alleged that a few years ago a decision by a blue chip company to abandon a line of business that was not profitable would have made headlines. The normal practice would have been to endure the losses and hope for a profit turnaround in the near future. The suggestion of disinvestment was tantamount to conceding defeat. Today, however, corporate executives are prepared to consider what is called an "exit strategy". Examples are decisions by General Electric, Xerox and RCA to exit from the computer industry in the early 1970s. This shattered the idea that once a corporation had entered a market it had to remain in that market for ever.

However, when the decision is taken to recover, the question becomes one of how to go about doing it. How are business organisations turned around and what strategies are used? Much of the literature on turnaround management tends to elevate one particular factor in turnaround as the key element to success. This, however, could be dangerous since the interaction of various dimensions could be critical in determining success.

In a further statistical processing of his results Khandwalla (1992) came to the conclusion that the number of factors, or elements of activities involved in corporate recovery are so numerous that it would be difficult to change the organisation system by focusing on only one or two elements. Many elements in the organisation need to be altered to bring about significant change.

A few major studies have been done into the management actions taken to turn ailing businesses around. These mainly involved the case-study method. Not all of these were comprehensive and most had one or two methodological problems.

The studies by Bibeault (1982), Hambrick and Schecter (1983), Hofer (1980), O'Neill (1986), Potts and Behr (1987), Schendel and Patton (1976), Schendel et al. (1976), and Slatter (1984), used national samples.

The studies by Baden-Fuller and Stopford (1994), Hedge (1982) and Kharbanda and Stallworthy (1987), although multinational, did not define turnaround as return to profitability but rather as an improvement in the company's financial condition.

Very few of these studies used primary data gathered through personal investigations of these companies, by means of interviews and other formal diagnostic processes. Hambrick and Schecter (1983), O'Neill (1986, 1986 March) and Schendel et al. (1976), in particular looked only at secondary data. Neither did any of the above studies used correlational techniques or factor analysis.

RECOVERY STRATEGIES

Of the major studies on corporate recovery reviewed, 14 seem to have followed a similar research methodology, in that they studied primary information, some directly and others indirectly sourced (see Table 2.2) and their findings are therefor comparable. All 14 concluded specific intervention strategies or management actions that could be implemented to recover an organisation in crisis. Although a simple classification is difficult and dangerous, in Table 2.7, the intervention strategies proposed by Baden-Fuller and Stopford (1994), Bibeault (1982), Hedge (1982), Hofer (1980), Khandwalla (1992), Kharbanda and Stallworthy (1987), Mukherji (1989) O'Neill (1986), O'Shaughnessy (1986), Potts and Behr (1987), Schendel et al. (1976), Stuart and Chadwich (1987), Smart and Vertinski (1984) and Slatter (1984) are compared. Only the more recent and influential of these, will be discussed in more detail.

Table 2.7: Convergence and divergence of 14 major studies regarding intervention strategies in turnaround.

Strategy	Baden-Fuller & Stopford (1994)	Bibeault (1992)	Hedge (1982)	Hofer (1980)	Khandwalla (1992) Top 13 of 20 elements
Change of management	Change of chief executive officer	Change in management		Change in top management	Change in top management
Financial control/ discipline		Financial controls	Cost control		Management controls
Organisation design/ development	Changed patterns and beliefs Motivate staff Organisational change	Improved processes	Structural changes Human resource policy changes	Changes in functional emphasis	Restructuring. Motivation/ incentives. Organisation integration
Business redefinition	Simplification then expansion	Establish viable core business	Diversification	Change in business	Diversification. Product-line-restructuring
Improved marketing			Marketing	Focus on marketing	Market related actions
Divestiture/ asset reduction			Divestiture	Asset reduction	Divestiture
Cost reduction			Cost reduction	Cost cutting	Cost reduction. Retrenchments
Investment in plant/ equipment					Plant modernisation
Technological changes	New technology		Technological changes		Innovation. New product development
Growth strategy				Increasing revenue	
Strategy development					
Debt restructuring		Financing	Financing		
Other: unclassified					Garnering stakeholder support

Table 2.7: Convergence and divergence of 14 major studies regarding intervention strategies in turnaround (continued).

Strategy	Kharbanda & Stalworthy (1987)	Mukherji (1989)	O'Neill (1986)	O'Shaughnessy (1986)	Potts & Behr (1987)
Change of management	Leadership		Change in management	Change of management	
Financial control/ discipline			Financial control		
Organisation design/ development	Decentralisation. People management Coping with change	Culture managemnt Organisation design and change. Management development	Restructuring	Organisational changes	Anticipate change. Visioning.
Business redefinition			Business redefinition		
Improved marketing					Exploit corporate strength
Divestiture/ asset reduction					
Cost reduction			Cost cutting		
Investment in plant/ equipment					
Technological changes			New manufacturing methods	Technological changes	technological changes
Growth strategy			Growth strategies		
Strategy development	Diagnosing. Planning	Diagnosing. Problem solving	Planning	Strategy development	Balance immediate and distant future
Debt restructuring					
Other: unclassified					Search for alliances

Table 2.7: Convergence and divergence of 14 major studies regarding intervention strategies in turnaround (continued).

Strategy	Schendell, Patton & Riggs (1976)	Stuart & Chadwich (1987)	Smart & Vertinski (1984)	Slatter (1984)
Change of management	Management change	Leadership innovation		Change of management
Financial control/ discipline				Financial control
Organisation design/ development	Organisation changes	Decentralisation. Integrate functions/ reduce barriers. Informal communication and decisions. People not systems.		Organisation changes
Business redefinition	Product diversification		Eliminate marginally profitable products	Product market focus
Improved marketing	Marketing programme changes	Strong client focus	Aggressive marketing strategy	Improved marketing
Divestiture/ asset reduction	Divestiture			Asset reduction
Cost reduction	Cost reduction		Cut operating budget. Reduce staff levels	Cost reduction
Investment in plant/ equipment	Investment in plant and facilities		Capital expenditure on plant and equipment	Investment
Technological changes	Efficiency increases			
Growth strategy				Growth via acquisition
Strategy development				
Debt restructuring				Debt restructioning
Other: unclassified	Vertical integration		Enlist support of unions	

Bibeault (1982) identified three key turnaround elements, according to which recovery actions can be classified:

- ❑ Improving management processes: It follows that if management is the major co-producer of decline in 70% of cases, improved management and management processes should be the fundamental recovery strategy.
- ❑ A viable core business: Next to management and management process, Bibeault stated that the competitive aspects of the business are the most important determining factor in recovery.
- ❑ Financial resource issues: Adequate bridging finance has to be secured. This involves sound relationships with bankers and parent companies, and the role of creditors in assisting in recovery must not be underestimated.

In one of the few truly international studies, Khandwalla (1992) studied 65 turnaround cases. What makes his study remarkable is the fact that he studied cases from the USA, Canada, Europe, Africa, India and the Far East. He found 27 categories of management actions engaged in during the turnaround phase. Table 2.8. sets out his 27 categories and the correlation of these elements with the criterion of "rate of profit improvement". Khandwalla found a correlation coefficient of 0,44 ($\underline{p}$< 0,01) between the rate of profit improvement and a company's total score on the 27 actions. His findings, therefore, indicated that the 27 turnaround elements as a system were associated with improvement in profitability. The more of these elements that were utilised, the higher the rate of profit improvement. The positive correlations in Table 2.8. indicate those management elements which accelerated the rate of profit growth, whilst the negative correlations indicate those elements which slowed down or decelerate the rate of profit growth.

Table 2.9. offers another perspective on Khandwalla's findings. For each element the percentage of the 42 turnaround cases which initiated action under this element is indicated. As an example, change in top management was an action that 93% of the companies engaged in.

Table 2.8 : Khandwalla's 27 categories of management action during 40 complete turnarounds, indicating the correlation with rate of profit growth

Management actions	r
Attempts to increase efficiency, quality, productivity other than through plant modernisation, etc and training	0.49
Garnering stakeholders' support	0.45
Formal diagnostic activities	0.42
Professionalisation of manufacturing management, personnel management, planning, etc	0.42
Incentives, motivation, grievance-redressal	0.39
Better organisational integration, participative management, emphasis on core values	0.38
Significant retrenchment	-0.36
Diversification, product-line rationalisation, expansion, etc	-0.33
Initiation of managerial meetings, problem-solving task forces	0.32
Management control-enhancing actions	0.30
Borrowings, raising equity finance, etc	0.28
Public articulation by management of corporate mission, goal, etc	0.23
Credibility-building actions of management	0.22
Marketing related actions	0.21
Divestiture and liquidation of fixed assets and long-term liabilities	-0.19
Fresh induction of managers, technical staff, etc	0.17
Plant modernisation, etc for greater efficiency, quality, productivity	0.16
Increased training of managers and staff	0.15
Miscellaneous actions	0.14
Example-setting by top managers	0.11
Innovations, new product development, etc	-0.11
Changes to top management	0.11
Management communicating with staff, lower level managers, etc.	0.11
Restructuring (decentralisation, fixing accountability, structural changes, etc)	0.03
Liquidation of current assets and liabilities	0.01
Cost-reduction actions other than retrenchment	0.00
Disciplining	0.00

Source: Extracted from Khandwalla (1992, p53-54)

Table 2.9 : Proportions of 42 cases engaged in Khandwalla's 27 categories of management actions during successful turnarounds

Management actions	Proportion
Diversification, product-line rationalisation, expansion, etc	1.00
Change in top management	0.93
Marketing related actions	0.81
Restructuring (decentralisation, fixing accountability, structural changes, etc)	0.69
Cost-reduction measures other than retrenchment	0.64
Plant modernisation, etc for greater efficiency, quality, productivity	0.60
Management control-enhancing actions	0.57
Innovation new product development, etc	0.57
Significant retrenchment	0.52
Divestiture and liquidation of fixed assets and long-term liabilities	0.45
Garnering stakeholders' support	0.45
Incentives, motivation, grievance redressal	0.45
Better organisation integration, participative management, emphasis on core values	0.45
Disciplining	0.43
Borrowing, raising equity finance, etc	0.40
Formal diagnostic activities	0.40
Fresh induction of managers, technical staff, etc	0.38
Management communicating with staff, lower level managers, etc	0.38
Attempts to increase efficiency, quality, productivity other than through plant modernisation	0.35
Public articulation by management of mission, goals, etc	0.33
Professionalisation of manufacturing management, personnel management, planning, etc	0.29
Credibility-building actions of management	0.28
Liquidation of current assets and liabilities	0.26
Initiation of managerial meetings, problem-solving task	0.26
forces	0.26
Increased training of managers and staff	0.21
Example-setting by top managers	0.14
Miscellaneous	

Source: Extracted from Khandwalla (1992, pp55-56)

Comparing the results presented in Tables 2.8 and 2.9, it becomes evident that an element with a high correlation with profit growth may not necessarily also be a widely used element. An example of this is the first element, attempts to increase efficiency in Table 2.8 with a coefficient of 0.49, but in Table 2.8 only 38% of the 42 complete turnaround cases used this as an action to recover. Conversely, diversification and product line rationalisation has a correlation coefficient of -0.33, thus a decelerating factor, yet all the turnaround cases used it as part of a recovery strategy.

Khandwalla (1992) further argued that some of these elements are basic to turnarounds ("foundational strategies") in that they are present in all turnarounds, whilst others are optional ("strategic choices") dependent on the needs of a unique situation. In Table 2.10 the foundational elements used in almost all recovery cases, are given, along with those elements that are a strategic choice given the unique requirements of the situation.

Table 2.10: Foundational and strategic choice elements

Foundational Elements

Diversification, product-line rationalisation, expansion, etc.
Change in top management.
Market related actions.
Restructuring (decentralisation, fixing accountability, structural changes, etc.)
Cost-reduction measures other than retrenchments.
Plant modernisation, etc. for greater efficiency, quality and productivity

Strategic Decision Elements

Incentives, motivation, grievance redressal.
Garnering stakeholder support.
Initiation of management meetings, problem-solving task forces.
Increased training of managers and staff.
Formal diagnostic activities.
Significant retrenchments.
Better organisational integration, participative management, emphasis on core values.

Source: Extracted from Khandwalla (1992, p. 62)

The significant finding here, which is borne out by other research, is that turnaround management does not consist of one or two or three ad hoc intervention actions in isolation, but should rather be seen as a program of action comprising several elements, orchestrated and integrated to achieve success.

Supporting the above statement, Baden-Fuller and Stopford (1994) in their study of the rejuvenation of mature businesses during the 1980's proposed their "crescendo" model of rejuvenation. This four-stage renewal process or crescendo, indicated the importance of a gradual progression of recovery activities until sustained profitability is achieved. Their four-staged rejuvenation process progresses as follows:

- Galvanize: This involves creating a top team dedicated to renewal, according to them an often overlooked aspect of rejuvenation. They claimed that rejuvenation is not fixing up a few problematic activities or functions, but changing every part of the organisation and the way its various functions, territories and groups interact. The CEO cannot achieve this task on his/her own and therefore needs to build a top team that can assist. However, creating this top team does not only involve new members, but galvinizing and synchronizing the team in terms of urgency, perception of the real problems, and understanding of future actions required.
- Simplify: Baden-Fuller and Stopford (1994) used the analogy of an over-grown garden where the rubble must be cleared from the trees and shrubs. Cutting out activities, removing outdated control systems, simplifying the business and concentrating scarce resources on a smaller agenda.
- Build: This overlapping next stage implies building new advantages for later deployment. Starting with small experiments by individuals, those with positive results will grow to become corporate entrepreneurship including total functions and even across functions until they have transformed the business. This is also a phase of new learning.

- Leverage: As the organisation grows in competitive strength, it can now expand into new markets new products and new parts of the value chain. These authors proposed that leverage of capabilities can be achieved through acquisition, alliances or internal moves that can extend its new-found advantages to a much wider sphere of activitites.

Baden-Fuller and Stopford (1994) emphasized the fact that in order to rejuvinate, an organisation has to move progressively through all four phases.

O'Neill (1986) compared nine companies which achieved a turnaround with four companies which failed. The management actions that he isolated are also shown in Table 2.7., but in Table 2.11 the strategies used by these organisations are listed.

From O'Neill's (1986) research on another 13 cases, he concluded that:

- growth strategies are less used by companies which are highly diversified.
- in unsuccessful turnarounds there is less attention to restructuring strategies.
- unsuccessful turnarounds are newcomers to planning.
- the competitive position affects turnaround success.
- product life cycle and general market conditions have an impact on turnaround.
- both industry type and organisational type affect the choice of turnaround strategy.
- a change in the pattern of competition requires intensive turnaround efforts.
- the cause of the decline is an important determinant of the turnaround strategy.
- a turnaround represents a new strategic era.

Table 2.11: Strategies used by 13 cases, 9 successful recoveries and 4 un-successful recoveries.

Strategies	Successful	Un-successful
New CEO from inside	5	3
New CEO from outside	4	1
New definition of business	5	1
New top management team	3	3
Morale building	2	0
Cost cutting	5	1
Financial and expense control	2	1
Replacing losing subsidiaries	2	3
Inventory write-offs	2	0
Production promotion	2	0
Entering new product areas	2	0
Acquisitions	2	1
Change in organisational structure	5	1
New manufacturing methods	5	2
New facilities and products	0	2
Planning	0	2
Cut markets	0	2
Add markets	0	2

Source: Adapted from O'Neill (1986, p.81)

O'Shaughnessy (1986) argued that for a decisive, successful turnaround a firm must satisfy four criteria, namely: organisation, technology, strategy and input. He pointed out that this thesis was not new, in that it was simply a modified expression of a model advocated by the military historian, Michael Howard. According to this thesis, a firm must achieve a market dominance in one or more of these four dimensions whilst not neglecting any of the others. According to O'Shaughnessy (1986), the firm's decline was probably the result of the neglect of one or more of these dimensions. Such corporate decline may, for example, be due to the strategic errors of a complacent management team lacking in self-criticism. In his view, the strategic dimension of the turnaround is essentially a conservation or a consolidation of a competitive thrust around which a sustainable business can be built. This thrust would obviously include competitive advantages which are unique and critical and which would ensure success in the particular chosen market.

Efficiency and operating orientated strategies, he argued, will be utilised in businesses with operating problems. These companies, which are in the majority of cases mature businesses, will seek to follow strategies such as retrenchment, economies of scale and other productivity improving ventures, rather than entrepreneurial initiatives. Operating initiatives, according to Hambrick and Scheckter (1983), involve an element of strategic revolution which includes aspects such as asset reduction, cost cutting, product market focusing and higher capacity utilisation.

The study of Hambrick and Scheckter (1983) utilised the method of indirect sourcing of secondary data, such as company financial and marketing information. Rather than studying the specific management actions taken to recover an organisation, they were interested in the interaction of certain indices with each other and how these changed from before, during and after the recovery. In their study of 54 US businesses, they looked at:

- ❑ new products.
- ❑ marketing.
- ❑ price.
- ❑ productivity
- ❑ receivables
- ❑ new plant and equipment.
- ❑ R & D.
- ❑ product quality.
- ❑ market share.
- ❑ direct costs.
- ❑ inventories.
- ❑ capacity utilisation.

They described three <u>Gestalts</u>, or combinations of strategies, in response to poor performance. Six of the companies they studied followed a combination strategy of asset and cost surgery. Nineteen companies followed a selective product/market pruning strategy, whilst 28 companies exhibited no clear <u>Gestalt,</u> a state of affairs which they described as "piecemeal productivity".

Two studies with noteworthy findings, but which do not fit into the classification of Table 2.7 have been done by Goldston (1992), and Heany (1985).

Goldston (1992), using the case study method, prescribes the following ten steps to corporate recovery:

- ❑ "stop the bleeding".
- ❑ adopt a cash management policy.
- ❑ accumulate data.
- ❑ determine who will play in the team.
- ❑ assess manufacturing capabilities.
- ❑ create the "play-book": a master plan.
- ❑ set realistic goals.
- ❑ create an idea-generating process.
- ❑ show demonstrable progress..

Heany (1985) determined that the favourite remedies for turning companies around were focusing on this months' profit, improving throughput and "cutting out the fat":

- ❑ Focus on this month's profit: This first cluster of turnaround actions pertains to the immediate profitability of the business. An explicit timetable in this regard becomes critical. It involves communicating to people the urgency of restoring profitability. All programmes which would only bear fruit in the future, as well as capital projects, are deferred, curtailed, or eliminated and high inventory levels are reduced.
- ❑ Improve throughput: The emphasis here is on building sales volumes. This involves aggressive marketing programmes to attract new customers. It could further involve price concessions and generous credit terms to customers.
- ❑ "Cut out the fat": The action here is to go through the budget and to cut out all the frills and fat. One of the most popular concepts here would be to get more output from fewer people. Actions would therefore include the

reduction of the headcount and curtailing other costs, such as business class travel, staying in expensive hotels and expense accounts.

GENERIC INTERVENTION STRATEGIES: CONVERGENCE AND DIVERGENCE OF RESEARCH STUDIES

A review of these studies indicates that turnaround management involves a set of specific management actions or intervention strategies. Some of the actions identified were confirmed through successive studies, and the regularity with which certain actions appeared increased the validity of these findings.

Baden-Fuller and Stopford (1994), Hofer (1980), Khandwalla (1992), O'Neill (1986), Schendel et al. (1976), and Slatter (1984), Stopford and Baden-Fuller (1990), all maintained that a successful corporate recovery strategy consists of a number of generic turnaround actions and elements and the more of these are engaged in, the more successful the recovery would generally be.

The points of convergence and divergence in the results of the 14 studies cited in Table 2.7 will now be discussed. This must be read with due consideration of the fact that comparisons between the results of the various research studies are problematic, due to differences in the definition of turnaround, the samples studied, the method of research used and the method of data reduction.

The following seem to be generic intervention strategies identified by most influential researchers.

Organisational design, development and change

Thirteen of the 14 studies listed in Table 2.7 reported organisational changes in terms of improved processes, organisational design (structural changes and decentralisation), changes in organisational context (schemas and patterns) and beliefs, human resource policies, changes in functional emphasis, incentives and motivation, organisational integration, culture management, change management, anticipating change, visioning, informal communication and decision-making, and focusing on people rather than systems.

Heany (1985) asserted that the conventional remedial action programmes employed by most turnaround executives are not particularly successful because they reflect a very narrow base of personal experience. They do not sufficiently focus on organisational change, but only include cost reduction, increasing revenue and product-market refocusing.

Organisational change is not merely an issue of changing the organisational structure, but involves:

- creating a vision.
- establishing a set of values.
- cultural change.
- considerable relearning.
- changes in organisational context and schemas.
- changes in organisational design (decentralise, flatten structure)
- changes in decision-making processes.
- changes in communication structures.
- changes in budgeting and capital expenditure processes.
- changes in performance management.
- changes in financial control.
- changes in business process and patterns of activity.
- incentives.
- motivation.
- better organisational integration .
- participative management.
- credibility building.
- training.
- meetings, committees, task-forces.

Bibeault (1982) stated that of all the turnaround executives he surveyed, 71 per cent mentioned management processes and motivation as the key factor in recovery, with competitive resource issues mentioned in 17% of cases and financial resource issues in only 12% of cases. Bibeault mentioned the following as elements of improved management process (arranged in the order of frequency with which mentioned as important):

❑ Instituting tight controls	21%
❑ changing attitudes	20%
❑ understanding the business better	17%
❑ absolute control of management	15%
❑ visible leadership	13%
❑ strong financial executive	7%
❑ more active board	6%
❑ other	1%
❑ total	100%

Reasons for organisational change: According to Bibeault (1982), Hedge (1982), Hofer (1980), Khandwalla (1983, 1992), O'Neill (1986, 1986 March), Schendel et al. (1976), and Slatter (1984), a company in financial crisis is characterised by a disintegration of its organisation. Baden-Fuller and Stopford (1994) referred to bureaucratic stagnation in the case of mature businesses. The structures and systems became ossified rendering them incapable of responding to change. The negative behavioural characteristics that have developed need to be changed. A change in organisational process, values and culture is therefore, a very necessary prerequisite to success.

One of the reasons why organisational change and development are important aspects of a recovery strategy is that, as soon as the organisation is too large for the new chief executive officer's mindset, behaviour and values to impact on all the members of the company, the turnaround process slows down. Organisation development actions are then needed to perpetuate this impact. Slatter (1984) maintained that team building in particular becomes important. He, however, felt that organisational change should not be contemplated as a short-term strategy except under special conditions. These special conditions would be in the case where it is required to facilitate divestiture, or to gain management control, such as widening the span of control at the top end of the organisation.

O'Shaughnessy (1986) wrote that whenever profits have been depressed for a number of years, the general managers of such a business have entrenched themselves in a particular paradigm of management and they are only prepared to take incremental steps in terms of change. However, they have to challenge their organisational context, reinvent their processes and work practices, and examine their own paradigms and beliefs (Baden-Fuller & Stopford ,1994; Boon, 1994; Goss, Pascal & Athos, 1993; Kotter, 1995).

Baden-Fuller and Stopford (1994) concluded that real progress can only be achieved by making people perform differently inside the organisation. Their research concluded that rejuvination was generated from within.

Restructuring: Kharbanda and Stallworthy (1987) noted that in most of the cases they reviewed, the organisational structure was almost always changed, moving away from centralisation to decentralisation. In commenting on decentralisation, O'Shaughnessy (1986) argued that internal growth problems could result from a failure to graduate from a centralised functional structure to a decentralised product division structure.

In addition to decentralisation, and often to facilitate it, there is a tendency for recovery organisations to flatten their structures, through the elimination of layers of management. Whitney (1986) found that most turnaround practitioners flatten their organisation, removing as many as three to four layers of management. This is done, not only to reduce cost, but mostly to create a more hands-on approach, to streamline information flow and decision-making, and to improve co-ordination and mobility of resources.

However, Whitney (1986) found that during the crisis stage the turnaround leader will start to change processes but not yet the structure. He may create a kind of chaos by subverting the chain of command and bridging communication channels. According to Whitney, this controlled chaos can be effective for a long period of time, but ultimately the structure has to be realigned to capture and maintain the vitality of crisis management, whilst ending the corrosive stress of disorder. Ford (1980) also found a lag in the adaptation of an organisation's structure to adjust to decline, as opposed to the quick adjustment in times of growth. A very interesting note by Whitney is that long-range business plans, can often harm even healthy companies. He stated that these plans often ossify the company's structure and management processes and are unsuited to a volatile environment.

Along with flattening the structure, Slatter (1984) wrote that most of the recovery companies that he reviewed, not only implemented wider spans of management, but also cut out or reduced non-productive head office staff functions. He argued that head office specialists in staff functions, such as planning, manpower, training, marketing, and public relations, are seldom worth their cost and at best, only second-guess operational executives, rather than really adding value. Slatter's view is supported by Kharbanda and Stallworthy (1987), who contended that the centre of an organisation should have very little administration and should only approve policy and give guidance.

Baden-Fuller and Stopford (1994) advocated building an entrepreneurial culture, and also mentioned business process reengineering and reballancing the way departments interrelate, by radically altering existing organisational structures. A more expanded view of organisational transformation can be found in the next chapter.

Culture of empowerment and entrepreneurship: Once a company realises that the human capital within the organisation is its most valuable asset, systems and processes must be designed to maximise the productivity and value of these assets.

Baden-Fuller and Stopford (1994), as well as Goldston (1992) stated that the most valuable asset in successfully run companies is the ability of its people at all levels to use their knowledge, creativity and experience to generate ideas. They argued that a process or system should be created to maximise the generation of ideas.

The process should be clearly understood by all and rewards should be attached to the ideas.

Goldston (1992) further contended that a "venture team" environment must be created, whereby traditional interdepartmental barriers are broken and a crossflow of ideas, critique and information is facilitated. His argument is supported by the ideas of Baden-Fuller and Stopford (1994) and of Kharbanda and Stallworthy (1987), who also concluded that the development of the "intrapreneurial" spirit is essential to turnaround. They contended that "intrapreneurs" are inventors, creators, innovators within existing organisations.

O'Shaughnessy (1986) stated that organisational change could involve examining bureaucratic cultures which maintain redundant functions and red tape, where the organisational structure actually contributes to high costs and lack of control.

Kharbanda and Stallworthy (1987) and Slatter (1984) were in agreement, that many successful turnaround situations are characterised by decentralisation of decision-making power, whilst at the same time maintaining strong central financial control. In most turnaround cases the new chief executive officers delegated substantially and set clear targets for people to achieve. Khandwalla (1992) also found that the high dominance, surgical recovery approach is less effective than an organisational integrative approach.

In their study of rejuvenated organisations, in contrast to mature, stagnant organisations, Baden-Fuller and Stopford (1994) defined certain attributes or capabilities, discernible in organisation that have achieved the status of what they termed "corporate entrepreneurship". The distinguishing features they concluded were teamwork in all parts of the organisation, aspirations to achieve more than the immediate task, experiments to expore what is feasible, building capabilities to learn and adapt and, finally, recognising and resolving dilemmas.

❑ Teamwork in all parts of the organisation. A key feature of the entrepreneurial agenda, Baden-Fuller and Stopford found, was teamwork. It requires assembling people with different skills and perceptions to resolve problems and identiify opportunities and threats. They stated that a startling feature of rejuvenated organisations was the frequency with which effective team work was used across functional boundaries, territorial units, layers in the hierarchy and even organisational boundaries.

❑ Aspiration to achieve more than the immediate task. A key feature of transformed organisations was reaching out for a better solution. Stagnant organisations are again characterised by an "it cannot be done" attitude. Often top management set a climate of "determination" - that new approaches or aspirations are useless and they dwell on finding excuses for poor or indifferent performance, rather than on ways to overcome obstacles. They believe that external factors drive their organisations and that failure is somebody else's fault. The managers of rejuvenated organisations, on the other hand believe that success is a consquence of their own actions, and that they can influence the industry. They further believe that setbacks are the consquence of their own decisions.

❑ Experiments to explore what is feasible. In their observation of a willingness to experiment as a characteristic of rejuvenated organisations, Baden-Fuller and Stopford explained that stagnating organisations need to perform experiments and learn from them if they are to rejuvenate.

Mature businesses see decision-making as a linear process. Top management believes that it is their role to assemble data that were collected from below, decide what is to be done, produce a plan and tell the rest of the organisation what to do. In contrast, in rejuvenated organisations, top management believes that it is its role to encourage others to experiment. Plans are never fixed but subject to change and progress proceeds as a series of experiments, and attempts to solve problems. Feedback leading to adjustment and a new round of experimentation is crucial.

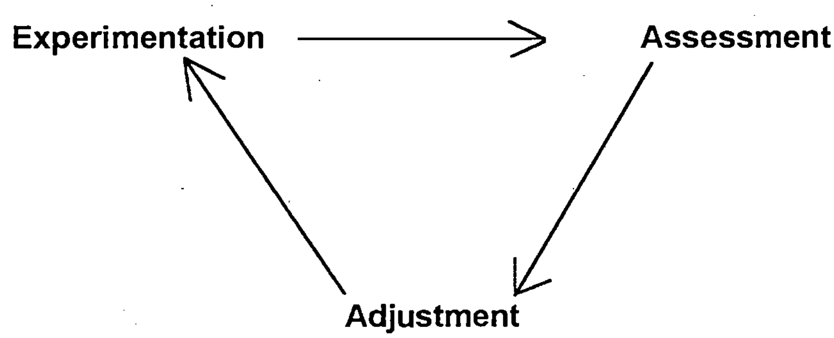
Figure 2.1 indicates the differences in the approaches to decision-making followed in stagnant and entrepreneurial organisations.

Figure 2.1: Contrasting decision-making in mature and entrepreneurial organisations.

Decision-making in a mature organisation - a linear process:

Data collection -----> Planning ----> Action
Data collection -----> Planning ----> Action
Data collection -----> Planning ----> Action

Decision-making in an entrepreneurial organisation:



Adapted from Baden-Fuller and Stopford (1994, p. 123).

At the earlier stages, experimentation was small in scale and limited to work within a single team or function. The purpose was to explore possibilities without incurring risk for the business as a whole. This was called corporate venturing and as the experimentation led to improved performance, the new ideas, concepts and processes were expanded.

☐ Building capabilities to learn and adapt. Mature organisations, Baden-Fuller and Stopford observed, usually reacted negatively and supressed the results of those experiments which challenged deep-seated beliefs and tended to discard information that may lead to a change in behaviour. The entrepreneurial, rejuvenated organisations, however, focussed on commanding and deploying an ever expanding base of knowledge, in order to learn from experiments; through careful collection of data and experiences and feedback they gradually built new capabilities. These researchers believed that investment in new systems, data bases and new knowledge is a vital component of acquiring new skills.

- Recognising and resolving dilemmas. Mature organisations believed that they had to make choices between issues such as quality or low cost, economies of scale or flexibility, wide or narrow product range and centralisation or decentralisation. They saw only the one option or the other. Rejuvenated, entrepreneurial organisations, on the other hand, managed to resolve these dilemmas, without choosing the one choice or the other. They tended to think in terms of "both/and" propositions.

Change of management

There is wide agreement regarding change of management, in that ten of the 14 studies found it to be necessary to effect a turnaround. These ten studies all argued that most firms in crisis also suffer from bad management, which further reinforced the need for a new top management team. Existing management is seldom capable of taking the drastic action that recovery requires. Due to the fact that poor management is one of the most important co-producers of decline, new management seems to be the solution.

Reasons for change of management: Dramatic action is necessary to recover an organisation from a loss situation to a sustainable recovered position where financial performance compares well with or exceeds that of its competitors in the same market. Ideally a company should embark on a recovery programme before a crisis develops or before it becomes too severe (Baden-Fuller & Stopford, 1994). Slatter (1984) maintained, however, that a crisis is often necessary to initiate change and create conditions for unlearning. Virtual corporate collapse due to a crisis is often a necessary catalytic event for the changing of recipes or paradigms.

Organisations have to unlearn what they do and know, before new behaviour patterns can be programmed and internalised. Slatter (1984) stressed the importance of unlearning in order to improve managerial judgement in decision-making. In making decisions, managers draw on their own patterns of beliefs that have developed through their experience over the years.

An industry's pattern of beliefs was called a "recipe" by Grinyer and Spender (1979a). Baden-Fuller and Stopford (1994) also referred to this, stating that the general belief was that when organisations chose strategies not in line with their industry recipe they may fail. Baden-Fuller and Stopford (1994), however, found that often organisations rejuvenated themselves by creating a new organisational "context" quite different from their competitors operating within a given industry "recipe". The creation of such a new context, they found was associated with sustained rejuvenation. Lorenz (1994) cited Pascale as maintaining that underlying successsful organistional transformation is the organisation "context".

The concept of organisational "context" or "schema" has been refered to by a number of writers, notably Lorenz (1994), Goss, Pascale and Athos (1993), Ranson, Hining and Greenwood (1980), and Poole, Gioia and Gray (1989). Khandwalla (1992) referred to "contextual perceptions" and Slatter (1984) spoke of "paradigms". An organisational "context" or "schema" can be defined as:

- ☐ A generalised shared framework for organisational understanding (Poole et al., 1989; Ranson et al., 1980).
- ☐ Underlying assumptions and invisible premises on which decisions are based (Lorenz, 1994); the sum of all the conclusions that members of an organistion have reached.
- ☐ The product of members' experience and interpretations of the past (Goss et al., 1993) which determine current behaviour and culture.

The purpose or importance of organisational "context" or "schema" is that it helps members to make sense of events and actions, guides comprehension and enables them to map the experiences of the organisational world. By accepting institutionalised schemas, an organisation member acquires, Poole et al. (1989) stated, trustworthy formulas for obtaining desireable consequences when handling situations and solving problems.

A cognitive redefinition of the organisational "context" or "schema" needs to take place for transformation and recovery to begin (Poole et al., 1989; Lorenz, 1994; Goss et al., 1993; Baden-Fuller & Stopford, 1994). This often requires a change of management, promoting and employing an executive team who hold the correct context.

A company's commitment to particular "recipes" or "context", has been reinforced over time by its past successes and a management team may adhere to these even after they have become obsolete. Slatter (1984) asserted that the change in this respect, required for a recovery, can only be achieved by a new management.

The problem with the incumbent management is often that they do not see the problem. A key question to ask in turnaround research is who actually triggered the turnaround stage. Grinyer, Mayers and McKiernan (1988) found that the lack of recognition of the problem was associated only with failed attempts at recovery; in most cases the stimulus for action came from external influences.

Gopinath (1991) also found that in only five of the 22 cases he studied was the board of directors of the parent company among the first to recognise the failure and to institute action. In one case the external auditors alerted the shareholders to the impending crisis. In five other cases banks and creditors triggered the turnaround phase. In three cases the stockholders triggered it and in the remaining cases recovery was initiated by other sources, such as trade unions and the press. No clear trend, however, emerged as to who would be most likely to realise that the organisation is in trouble and to initiate the turnaround. What is clear is that it is hardly ever the incumbent management. Gopinath concluded that the incumbent management of a declining organisation is frequently the last to admit that there is a crisis. He stated that the longer the incumbent management takes to admit the severity of the problem and initiate action, the greater the likelihood of the turnaround strategy slipping into the control of external agents.

This is not the only reason why a change of management is required. Finkin (1985) contended that managers who are more accustomed to "normal" business conditions usually lack an adequate understanding of the special techniques and competencies required to accomplish a turnaround; as a consequence many such efforts fail. Slatter (1984) noted that where the existing management attempted to recover the company, they used too few intervention strategies, and those they did use were not adequately implemented.

Managerial perceptions and beliefs are critical in recovery and rejuvenation. Baden-Fuller and Stopford (1994) indicated that managerial choice is more important than the structure of the industry in which an organisation functions. Rumelt (1991) concluded that the choice or structure of the industry explained only 8.3% of a business unit's profitability. He stated that 46.4% was determined by choice of strategy and the balance by random factors. To rejuvenate, Baden-Fuler and Stopford (1994) argued, managers must learn to think and act differently. Managers of stagnating firms, they maintained, perceived the external environment differently from those who successfully rejuventated. The managers of stagnating companies saw themselves as prisoners of their external environment, with little influence over these factors. The managers of rejuvenated companies believed that there was potential for change, new ways of operating and new strategic possibilities. Managers of stagnant companies believed that profitability is achieved by giving less value to customers and staff, whilst managers of the rejuvenated companies believed that profitability is achieved by giving better service and adding more value to customers and staff.

Baden-Fuller and Stopford (1994) reasoned that the management of stagnant organisations, or those facing imminent disaster, are paralysed, and cannot perform the crucial role of broking between an external environment of competitor innovation and influence, on the one hand, and the stubborn resistance to change in the internal environment of the company, on the other hand. The management teams of successfully rejuvenated organisations were more successful at this broking role, leading a continuous renewal of resources and capabilities internally, which impacted in the form of continuous strategic innovations in the external environment.

Furthermore, Baden-Fuller and Stopford (1994) found that the managers of a control group of less successful competitors of the rejuvenated organistions believed that external factors in the industry influenced or limited the level of a firm's profits. The successful rejuvenator, however, believed that internal innovation determined a firm's profits, which in turn determined industry profits.

The differences in attitude towards growth and competitiveness between dynamic rejuvenated organisations and mature, crisis organisations were also significant. Baden-Fuller and Stopford (1994) noticed a downward spiral in the mature, crisis organisations: growth by merger and internal expansion - leading to - reinforced old ways of thinking - leading to - declined competitiveness - leading to - lost position. The rejuvenated, dynamic organisations, however, had an upward spiral with the following pattern: internal change and value-add - leading to - mergers and internal growth - leading to - more change - leading to greater value-add - leading to - number one position.

New chief executive officer: Slatter (1984) found that inadequate management, particularly at the CEO level, along with poor financial control, could be the two most important causes of decline, especially in the manufacturing industry. O'Shaughenessy (1986) agreed with him about poor management.

In his study of 22 recovery cases, Gopinath (1991) found that in all, except two, a new CEO was appointed. In seven of these cases, the new CEO was an insider and in 20 others, outsiders were appointed. Among the 22 companies, there were 27 management changes because in some cases there was more than one change in the CEO position.

The appointment of a new CEO is also a symbolic act of a new beginning. Grinyer and Spender (1979a) suggested that the new recipe brought in by a new CEO with a proven track record is always the safest, because not much time is available for re-learning. Slatter (1984) was of the opinion that this new person with a proven track record is also in a better position to motivate a demoralised workforce.

Of the six cases of organisational rejuvenation Stopford and Baden-Fuller (1990) studied, the process was triggered in four cases, by new CEOs appointed to cure the financial crises of these organisations, and in the other two cases by new technology.

When it comes to the question of whether the new CEO needs industry experience related to the business in crisis, Slatter's (1984) view was that many of these generic recovery strategies do not require an in-depth knowledge of the industry. An in-depth knowledge and understanding of management is probably more valuable. He argued that a new CEO, well-experienced in the industry but with no experience of recovery, is probably at a disadvantage to the CEO with recovery experience but no experience of the industry. Industry experience seems to be less important in a group of companies, or in one operating company with diversified activities.

New executive team: The extent of change required at management levels below the CEO, elicited contradictory opinions from turnaround experts.

Starbuck, Greve and Hedberg (1978) believed in an indiscriminate replacement of entire groups of managers, even if the newcomers were no more competent than their predecessors. This strategy is evidently to get rid of the old management thinking, due to the risk that an incumbent management team may continue to work according to old inefficient paradigms. This view accorded with O'Shaughnessy's

(1986), who also argued that there may be a need for a new top management, since the old management may be wedded to solutions which have failed but which they continue to apply and support because they had made a public commitment to them.

At the opposite extreme is the belief of Slatter (1984), that the new turnaround CEO should work with the existing management as far as possible. He cited that, although this process usually takes longer, some turnaround managers chose to re-educate the existing management. A similar view was put forward by Kharbanda and Stallworthy (1986); in the cases they have reviewed, some of the new CEOs replaced virtually all the old senior executives, but most them allowed the existing team to carry on under their new leadership.

Business redefinition

Nine of the 14 studies reported as one of the intervention strategies a redefinition and change in the nature of the business, such as establishing a viable core business, diversification, product line rationalisation, and product-market focus. According to Heany (1985), business redefinition is, however, a radical and complex attack on deep-seated profit problems.

The reason for business redefinition was well described by O'Shaughnessy (1986), when he stated that often the strengths which are essential to the survival and success of a business, had become blunted and ceased to contain any critical quality.

The following aspects have been mentioned as part of a process to redefine the business:

- ☐ addition or deletion of products (Baden-Fuller & Stopford, 1994; Schendel et al.,1976; Slatter,1984).
- ☐ addition or deletion of customers (Slatter,1984).
- ☐ changes in sales mix by focusing on specific markets and customers (Baden-Fuller & Stopford, 1994; O'Shaughnessy,1986; Slatter,1984).

- ❑ complete withdrawal from a market segment (Slatter,1984).
- ❑ entry into a new market segment (Schendel et al.,1976; Slatter,1984).
- ❑ reduction in the breadth and the variety of models in the production line (Heany,1985).
- ❑ improvement in design discipline (Heany,1985).
- ❑ refocusing advanced engineering products (Heany,1985).
- ❑ consolidation of production in one plant (Heany,1985).
- ❑ pruning educational or technical services that are not valued by key customers (Heany,1985).
- ❑ Choice of scale of operation (Baden-Fuller & Stopford, 1994).
- ❑ Choice of channels of distribution (Baden-Fuller & Stopford, 1994).

Bibeault (1982) suggested that business redefinition often involves a return to basics, a return to the core business and developing competitive strategies to differentiate the business from the competitors. Successfully recovered organisations stay close to their market niches during stabilisation and use their marketing ability opportunistically. Strategies to solidify market niche positions are essential. It becomes necessary to define the boundaries of the currently served market and to consider the exclusion of customers that are:

- ❑ too costly to serve because their requirements are too specialised.
- ❑ located too far from the business geographically.
- ❑ require an excessive amount of nurturing.
- ❑ have quality standards which cannot readily be met.

Sales people can then identify and focus on profitable customers and profitable orders.

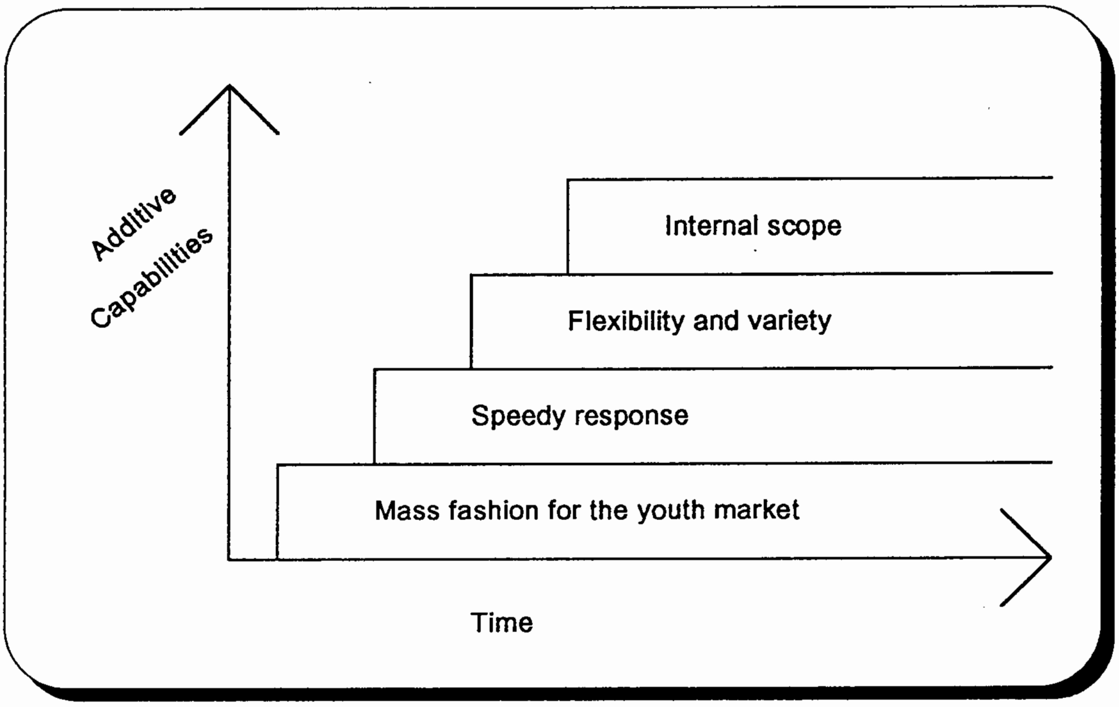
Heany (1985) asserted that after the business has been redefined, and it has a new role within the chosen segment of the market, another dramatic change that is required, is in its functional policies and the behavioural patterns of its people. The business now has to become aggressive in the niche it has chosen. Heany felt strongly that, in turning companies around, it is not sufficient to develop a radical business strategy; it is also necessary to adopt radical functional programmes and to challenge current policies and work practices. He maintained that there is simply no time for half-hearted and incremental moves. What Heany is advocating here is that powerful efforts at organisational change should follow business redefinition.

As part of the organisational change process, Baden-Fuller and Stopforth (1994) saw the building of new capabilities. They introduced the expression "strategic staircase of capabilities", which included an incremental building of new competencies, new capabilities and new resources over time. They believed that building new capabilities, is not the work of a moment, but can take three to five years, hence the concept of a staircase. The building of one capability enables the organisation to challenge and resolve the next dilemma which becomes the second capability enabling them to adress yet again the next problem. Renewal, they believed, can flow from the successive creation of a new capability, much like building and climbing a staircase. Although organisations may at the outset have limited resources, the successful rejuvenators became leaders by combining their resources in new ways and building new competencies from within. Figures 2.2 and 2.3, from the work of these authors, illustrate a typical strategic staircase of capabilities for Benneton and Toyota, two of the organisations which they studied. The successive acquisition of an additive capability allows the business to win its competitlve battles, also creating value for all stakeholders.

Concerning the issue of business redefinition or product-market-refocussing, Baden-Fuller and Stopford (1994) further introduced the concept of "creative scope". Creative scope, they defined as the choice of scale of operations, range of products and services, geographical markets served, and channels of distribution. Rejuvenators, they held, first grew their competitive advantages on a smaller and restricted scope, one that they could defend more easily against competitors; once this was successful they moved to broadening their scope.

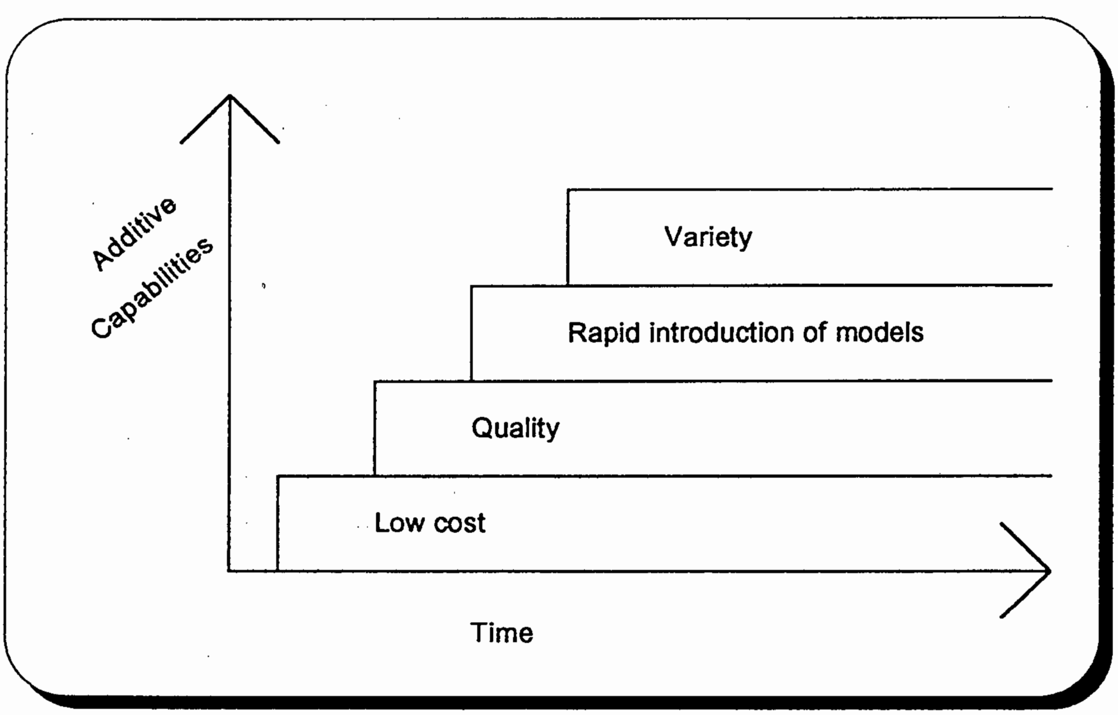
Creativity regarding the scope of the business requires careful consideration of four factors: tastes of customers and consumers; technological trends and opportunities; competitors' behaviour and blind spots; and current capabilites and resources.

Figure 2.2: Benetton's strategic staircase.



Source: Baden-Fuller and Stopford (1994, p. 52).

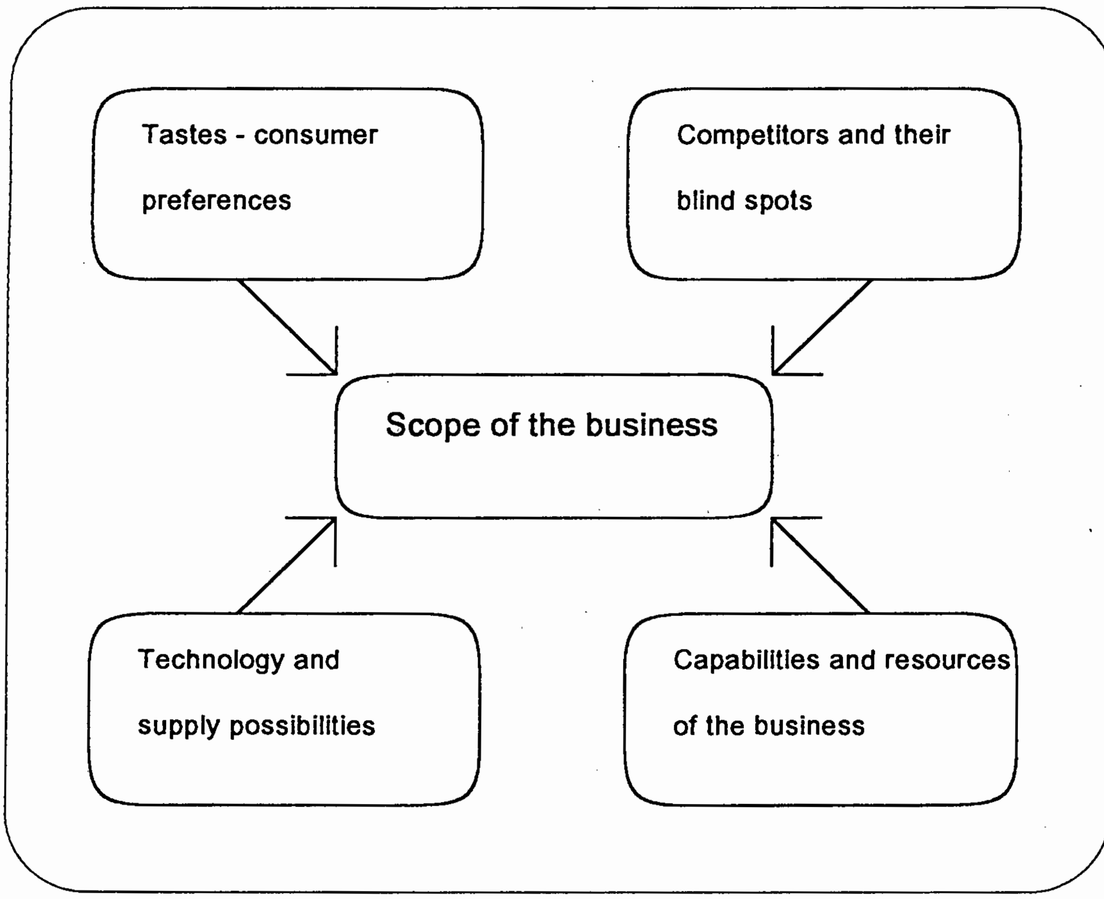
Figure 2.3: Toyota's strategic staircase.



Source: Baden-Fuller and Stopford (1994, p. 52).

Figure 2.4 presents this concept and the four influences on the ultimate scope that is chosen.

Figure 2.4: Forces affecting the scope of the organisation.



Source: Baden-Fuller and Stopford (1994, p. 85).

The redefinition of the business must be seen in the context of the four recovery stages that Baden-Fuller and Stopford (1994) proposed, as discussed in an earlier section. These recovery stages indicate that one single stance regarding the redefinition of the business cannot be adopted. In moving from stage one of their rejuvenation process, namely "galvanising the top team" to the second stage "simplification" and then to the third stage "broadening capabilities" implies a continuous process of redefinition until recovery or rejuvenation is achieved.

The focus will initially be on cutting out services, products, tasks and operations, to concentrate on core issues and on defensible strategies and patterns that have been developed, whereafter the organisation will start broadening its scope again, but trading on solidly acquired new capabilities.

Improved marketing/revenue increase

Eight of the 14 studies cited in Table 2.7 indicated management activity focused on marketing, such as improved and more aggressive marketing strategies, changes in the marketing programme, exploitation of corporate strength and stronger client focus. Underlying improved marketing is the need to increase revenue.

Slatter (1984) found that companies characterised by poor management rarely had a well developed marketing plan, and sales force management was often weak. Sales targets, call patterns, leadership and control were virtually non-existent.

Hofer (1980) contended that where a firm is very close to break- even point, simply cutting costs could remedy the problem; however, those who operate well below their break-even point must be ambitious and concentrate on income and revenue generation as a strategy. Where markets are declining, the task is then to identify new markets.

Schendel and Patton (1976) found that during the turnaround phase, turnaround companies had greater increases in sales and were lower in their ratios of, cost of goods sold to sales, compared to non-turnaround companies. They concluded that turnaround companies are better able to generate sales and to operate more efficiently than non-turnaround companies.

The most common elements of improved and more aggressive marketing during turnaround seems to be:

- ☐ improved selling (O'Shaughnessy,1986; Slatter,1984).
- ☐ increased advertising (O'Shaughnessy,1986).
- ☐ improved pricing (O'Shaughnessy,1986; Slatter,1984;Schendel & Patton, 1976)

- ❑ lower prices (O'Shaughnessy,1986).
- ❑ product market refocusing (O'Shaughnessy,1986).
- ❑ product introduction and re-introduction (O'Shaughnessy,1986; Schendel et al.,1976).
- ❑ product changes (Schendel et al,1976).

Cost reduction

Seven of the 14 studies reported cost-reduction activities as part of a turnaround strategy. This could involve cutting operating budgets and reducing staff levels.

According to Slatter (1984), the aim of cost reduction as a strategic tool is to improve the organisation's cost position relative to its competitor's, and as an operational tool to improve productivity.

Cost reduction as a turnaround strategy seems to be very controversial. Not all writers agree on its feasibility, with most viewing it as a poor substitute when turnaround managers' creativity fails them.

Khandwalla (1992) and Slatter (1984), whilst mentioning it as a strategy, also cautioned against its harmful effects when it involves massive retrenchments. Goldston (1992) was more outspoken, when he contended that the cost-cutting strategies of many so-called "turnaround artists" can best be described as "stripping measures", because they often sacrifice the quality of the product or operation of the business. Although sometimes required in specific cases, these strategies are often the result of over-zealous turnaround teams searching for a quick fix to a very complex problem. Whetten (1980) added to this argument when he described the tendency of managers in troubled companies to become reactive, unable to see the real problem, doing more of the same and adopting a short-term financial focus.

An interesting finding is Khandwalla's (1992), who indicated that retrenchment, diversification and liquidation of fixed assets, and technological innovations can be decelerators that actually slow down the process of recovery.

Technological changes

Seven of the studies listed in Table 2.7 indicated technological change as part of an overall recovery strategy. This included innovation and new product development, new manufacturing methods, and increased efficiency.

Divestiture/Asset reduction

Only 5 of the 14 studies cited in Table 2.7 reported some form of divestiture to be required during turnaround. Slatter (1984) rated divestiture in 6th position in terms of importance in his list of ten intervention strategies.

Organisations in profit trouble experience problems with cash and with the ongoing funding of their operations. Parent companies, stockholders, banks and creditors are reluctant to fund the organisation any further, given the increased risk of such a venture. Asset reduction and divestiture then allow for the generation of cash. Divestment of subsidiaries, operating divisions with low returns, and under-utilised assets, such as warehouses, are then considered.

Strategy development

Five of the 14 studies mentioned some form of strategy development, when reference is made to diagnosing, planning, problem-solving, and balancing the immediate future with the long-term future.

Financial control

It is interesting to note that although lack of financial discipline was cited earlier on as a major co-producer to corporate crisis, only five of 14 researchers saw it as part of an overall recovery strategy.

Whitney (1986) and Welsch (1993) stated that nothing is more important to a successful turnaround than cash. Cash management becomes critical, in the form of cash flow projections, control of capital and operating expenditure, management of accounts receivable, inventory, and accounts payable.

Investment

Only four of the studies listed in Table 2.7, made reference to investment in plant and equipment as an intervention strategy, which includes aspects such as modernisation of existing plant facilities and increases in efficiencies. This differs from technological changes, in that investment here refers to investment in current technology, rather than in new technology.

Slatter (1984) also put this strategy only in the nineth position, out of ten in order of prevalence in the recoveries he reviewed.

Growth strategies

Only three of the 14 studies listed in Table 2.7 made reference to growth strategies, or acquisitions with the aim of increasing revenue. It can therefore be assumed that in some cases this element may be feasible, yet not generally critical and also not prevalent in recovery situations.

Slatter (1984) found growth via acquisition a surprising recovery strategy because acquisitions are often one of the causes of decline. He argued that acquisitions are most commonly used to turn around stagnant organisations and to boost financial performance.

Debt restructuring

Of the 14 studies, only Bibeault (1982), Hedge (1982) and Slatter (1984) reported significant debt-restructuring or raising of additional finance as a strategy. Organisations in crisis are often over-geared and must reduce their debt/equity ratio. Slatter felt that this could be achieved by restructuring debt, agreements between the business and its creditors, and converting interest and debt into negotiable financial instruments.

There were however issues referred to by only one study but which were still noteworthy. Khandwalla (1992) referred to garnering stakeholder support, and Mukherji (1989) to credibility building. Potts and Behr (1987) identified the search for alliances, and Schendel et al., (1976) talked about vertical integration. Other than referring to these, they will not be discussed in any more detail, as they do not form a pattern and are not supported by any of the other studies.

TYPES OF TURNAROUND

A number of different types of turnaround have been identified by various researchers. Table 2.12 provides a classification, indicating convergence and divergence of the different views. Slatter's (1984) classification of non-recoverable turnarounds will also be discussed below.

In the ensuing discussion of these different types of recovery approaches, it should be noted that none of them are pure in the sense that they cover entirely different intervention strategies to the exclusion of others; rather, that amongst the wide range of strategies used in recovery approaches, there is a specific and unique focus. The real differences in the various approaches then lies in the fact that some elements of the overall recovery strategy receive far more attention than others.

Table 2.12: Turnaround types.

Management process turnaround

- Non surgical transformational (Khandwalla,1992)
- Strategic turnaround (Hofer,1980)
- Management process turnaround (Bibeault,1982)

Surgical reconstruction turnaround

- Surgical/reconstructive (Khandwalla,1992)
- Surgical/productivity and innovation (Khandwalla,1992)
- Asset/cost surgery turnaround (Hambrick & Schecter,1983)
- Piecemeal productivity turnaround (Hambrick & Schecter,1983)
- Operating turnaround (Hofer,1980)
- Operational turnaround (Goldston,1992)

Marketing innovation turnaround

- Non-surgical innovation orientated (Khandwalla,1992)
- Product/market pruning (Hambrick & Schecter,1983)
- Marketing turnaround (Goldston,1992)
- Product breakthrough turnaround (Bibeault,1982)

External agent turnaround

- Economic/business cycle turnaround (Bibeault,1982)
- Competitor environment turnaround (Bibeault,1982)
- Government- related turnaround (Bibeault,1982)

Unclassified

- Financial turnaround (Goldston,1992)

MANAGEMENT PROCESS TURNAROUND

The management process turnaround, a term borrowed from Bibeault (1982), would primarily involve issues such as changes in strategy and direction (Hofer,1980), restructuring of management processes and the culture of the organisation (Bibeault, 1982), organisation redesign (Bibeault,1982; Khandwalla,1992), changes in top management, motivation of staff, and enhanced management control (Khandwalla,1992). It could, however, also include aspects such as diversification

(Hofer,1980; Khandwalla,1992), marketing related actions, increased efficiency and productivity (Khandwalla,1992).

SURGICAL RECONSTRUCTIVE TURNAROUND

The surgical reconstruction turnaround, a term borrowed from Khandwalla (1992), focuses primarily on asset and cost surgery (Hambrick & Schecker,1983; Hofer,1980; Khandwalla,1992) significant retrenchments and divestiture (Khandwalla,1992), improvements in production capacity and increases in productivity/efficiencies (Goldston,1992; Hambrick & Schecter,1983) and increases in revenue (Hofer,1980). Other aspects that also receive attention here are diversification, changes in top management, restructuring, incentives and motivation, innovation and product development (Khandwalla,1992).

MARKETING INNOVATION TURNAROUND

The marketing innovation turnaround focuses on aspects such as product-market refocusing (Hambrick & Schecter,1983), the reassessment of existing products along with the total image of the company, leveraging assets to create growth (Goldston,1992), innovation, and other marketing related actions (Khandwalla,1992) and new product development and breakthrough (Bibeault,1982; Khandwalla,1992). Diversification and changes in top management are also seen by Khandwalla to belong to this approach.

EXTERNAL AGENT TURNAROUND

The external agent turnaround would include all turnaround situations where the recovery resulted more from favourable changes in the external environment than from internal changes. Bibeault (1982) identified the economic/business cycle turnaround, which involves improvements in economic conditions, the competitive environment turnaround, which includes competitive price increases, and

Government-related turnarounds, which involve changes in government procurement policies, a major shift in regulations or direct government assistance.

UNCLASSIFIED

Goldston (1992) identified the financial turnaround which would primarily involve debt restructuring, financing and to a lesser extent cost control, and other such measures. No support for this approach could be found in the work of the other researchers and as a result this approach will be left as unclassified.

Slatter (1984) proposed a slightly different perspective when he identified four types of recovery situations falling into two classes:

Non-recoverable turnarounds

- ☐ No-hopers: Despite attempts at recovery they fail. These businesses are characterised by decline in their core business, indivisible assets, such as one plant, high fixed costs and a fast decline in demand.
- ☐ Short term survivors: Recovery returns them to profitability but they eventually go insolvent due to an inability to develop a sustainable competitive advantage.

Recoverable turnarounds

- ☐ Mere survival: Recovery attempts are partially successful but due to industry characteristics and limited resources, the company remains at low levels of returns.
- ☐ Sustainable recovery: This means successful implementation of recovery strategies enabling the organisation to achieve above average financial performance in the long term. This is difficult to achieve, particularly where the business has a weak product-market position in its core business.

WHICH RECOVERY APPROACHES ARE THE MOST SUCCESSFUL?

The above review of the literature indicated the various approaches that may be followed in the recovery of a business organisation. The question now remains as to which approach is preferable. A contingency view would suggest that the most preferable approach would probably be the one that is more in line with the nature of the particular crisis. Indeed, Khandwalla (1992) believed that there cannot be one mode of turnaround for all kinds of corporate sicknesses. He tried to establish which co-producer would trigger which category of turnaround management. His 20 "causes" (or co-producers) were correlated with the 27 turnaround elements in 42 cases of complete recovery. Only one co-producer was related to a number of turnaround elements or activities.

With the exception of adverse market conditions, the rest of the 18 co-producers of decline did not correlate significantly with the 27 turnaround elements which suggests that the design of a turnaround strategy is not influenced by the nature of the co-producers of decline (Khandwalla,1992).

Khandwalla (1992) further classified his 65 cases into four categories. He then studied the rate of profit improvement from turnaround types, notably non-surgical transformational, non-surgical innovative, surgical reconstructive and surgical productivity and innovative (see table 2.12). He determined the effect of each of the four turnaround approaches by measuring the profit growth (return on sales from year to year) from the moment the new CEO took over, (beginning of recovery actions) until the business reached break-even point. The time it took to recover ranged from less than one year to four years for both types of non-surgical turnarounds and from less than one year to eight years for surgical turnarounds. The average number of years it took was just over one year for non-surgical turnarounds and just under two years for surgical turnarounds. For complete recovery, that is at least 4% profit on sales which often takes longer than just break even, the surgical turnarounds' average was four years, whilst for the non-surgical turnarounds the average was two years.

The management process turnaround seems to be the most successful. This is supported by Khandwalla (1992) when he concluded that the best results are obtained by non-surgical turnarounds with significant participation of internal and external stakeholders. This involves strengthening the organisation through management processes and systems and through corporate integration. This however is in addition to the core turnaround activities such as change of management, changes in product portfolio, aggressive marketing and restructuring for greater accountability. Slatter (1984) also concluded that the most successful recovery situations, resorted to significant organisational change in terms of structure and processes. Failed recovery situations made little or no attempt at organisational change. Further support for this conclusion comes from Bibeault (1982) who stated that in his survey of 81 turnaround executives, the management process turnaround was cited as the most prevalent, and successful (68 % of cases), and viewed as the only "real" turnaround (See Table 2.13).

As far as the universal applicability of turnaround approaches are concerned, different views exist with Slatter (1984) on the one hand concluding that the recovery strategies used in the UK did not differ significantly from those used in other countries, especially the USA, and at the other end Bibeault (1982), maintaining that there can be no turnaround format because there exist various types of turnarounds, each with its own formula.

Concerning the type of recovery approach to follow for a particular company or for companies in a particular country or economic system, the research suggests sufficient universality of successful intervention strategies across all these variables.

At a sufficient level of abstraction, recovering a business organisation from crisis to profitability demands certain fundamental actions, generic to all situations with merely adjustments to be made in line with the unique requirements of the situation.

Table 2.13: Incidence of turnaround types in Bibeault's survey of 81 turnaround executives.

Turnaround Type	Percentage
Management process turnaround	68
Economic/business cycle turnaround	16
Competitive environment turnaround	5
Product breakthrough turnaround	4
Government related turnaround	4
Other	3
TOTAL	100

Source: Adapted from Bibeault (1982, p.85)

PHASES OF TURNAROUND

Some of the studies that have been reviewed, proposed certain stages of corporate recovery. An integration of these various views lead to the formulation of five phases of recovery, as presented in Table 2.14. It must be remembered that forcing the myriad of actions it takes to recover a business into five phases is to deny the complexity of the issue. Not all the phases of the various researchers correspond exactly, nor do the phases have a distinct beginning and end; there is a large degree of overlap, and some phases can at times run concurrently.

CRITICAL PHASE

Only Gopinath (1991) made a case for a "critical stage" as a distinct phase in the recovery process falling between the decline and the beginning of the recovery. He contended that often during this stage certain initial actions are taken that may be

Table 2.14 : Phases of recovery.

Critical Phase

- Critical phase (Gopinath,1991)

Evaluation Phase

- Evaluation phase (Bibeault,1982)
- Analyses phase (Slatter,1984)
- Start phase (Finkin,1985)
- Initial stage (Nelson & Clutterbuck,1986)
- Galvinize top team (Baden-Fuller & Stopford, 1994)

Emergency Phase

- Emergency phase (Bibeault,1982)
- Emergency phase (Slatter,1984)
- Awakening phase (Finkin,1985)
- Medium term phase (Nelson & Clutterbuck,1986)
- Early phase (Khandwalla,1992)
- Simplify (Baden-Fuller & Stopford, 1994)

Strategic change Phase

- Stabilisation phase (Bibeault,1982)
- Strategic change phase (Slatter,1984)
- Streamlining stage (Finkin,1985)
- Medium term phase (Nelson & Clutterbuck,1986)
- Middle phase (Khandwalla,1992)
- Build new capabilities (Baden-Fuller & Stopford, 1994)

Growth Phase

- Return to normal growth phase (Bibeault,1982)
- Growth phase (Slatter,1984)
- Expansion stage (Nelson & Clutterbuck,1986)
- Final phase (Khandwalla,1992)
- Leverage (Baden-Fuller & Stopford, 1994)

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contrary to the longer-term strategy of the company but necessary for its survival. The objective here is not yet turnaround. The critical stage is neither short-term nor long-term, but rather immediate term. In the immediate term, the focus is not on revival, but on halting the failure. Hoffman (1989) also commented on the existence of this phase to halt the decline. Also belonging to this phase would be Heany's (1985) consideration of whether the business should be recovered, sold or closed down.

Gopinath (1991) asserted that the need to distinguish this stage from the others arises from the nature of the decisions and the way they are taken, which may be contradictory to long term strategy. This phase begins with the recognition of the need to turn the company around and ends when the actions taken have stemmed the collapse and prepared the company for turnaround.

EVALUATION PHASE

The evaluation phase have been identified by a number of researchers, and involves creating a top team dedicated to transformation (Baden-Fuller & Stopford, 1994), identifying problems (Bibeault,1982; Slatter,1984), formulating solutions and action plans (Bibeault, 1982; Slatter, 1984) and the communication of these strategies (Bibeault,1982). Nelson and Clutterbuck (1988) declared that this initial stage, as they called it, comprises a mixture of assessment and action. Analysing company problems is the key element in this phase and immediate survival the objective. Baden-Fuller and Stopford (1994) stressed the importance of galvanizing the top team, synchronising their understanding in terms of the problem, the urgency of the matter, the underlying co-producers of the problem and the action required to fix the business. Bibeault (1982) further identified the management change phase, and listed it right at the beginning as the first phase of recovery. However, it becomes evident as more literature is reviewed, that the establishment of a new executive team straddles a number of these phases.

EMERGENCY PHASE

The emergency phase involves doing what is necessary to survive (Bibeault, 1982; Slatter,1984), and to gain management control (Finkin, 1985). The aim here is to first stop the outflow of cash in the form of purchases, accounts payable, appointment of staff, salary increases and interest payments (Bibeault, 1982).

Then begins the surgery to unnecessary resources, such as manpower (Bibeault,1982; Slatter,1984), cash generation activities such as the selling of assets and loss-making operations (Bibeault, 1982), reducing inventories, and cutting out unprofitable product lines (Bibeault, 1982; Slatter,1984). Slatter also mentioned increased prices, and improved marketing, both aimed at improving cash flow and curtailing losses.

Baden-Fuller and Stopford (1994) advocated reducing the complexity of the business in terms of the number of products/services it offers, the number of markets it serves and the number of operations it undertakes. Their phase of simplification also included cutting out internal complexity, such as elaborate control systems, too many layers of hierarchy and tortuous procedures. Most rejuvenators, they found, focused in the initial stages on only three dimensions: the product-market-scope, information control systems, and prioritising tasks for key managers. They also mentioned the formulation of a vision at this stage.

STRATEGIC CHANGE PHASE

Bibeault (1982) asserted that having eliminated obvious losses and expenses, the next step is to achieve acceptable returns on sales, assets and funds invested. The emphasis here is not on survival any more but on performance in the longer term. Four issues become important: firstly, profitability (Bibeault,1982; Slatter,1984); secondly, operating efficiencies (Bibeault,1982; Finkin,1985; Slatter,1984), thirdly, creating a platform for future growth (Baden-Fuller & Stopford, 1994; Bibeault, 1982; Nelson & Clutterbuck,1988) and, fourthly, organisation development activities, such as building a new executive team (Baden-Fuller & Stopford, 1994; Finkin,1985; Nelson & Clutterbuck,1988), organisation development, institutionalisation of the new culture and the motivation and upgrading of staff (Baden-Fuller & Stopford, 1994; Finkin,1985; Slatter,1984)

Slatter's (1984) strategic change phase also included product-market refocusing. According to Nelson and Clutterbuck (1988), the new team will now "zero-base" the business and start asking questions such as, "What business are we in? What business should we be in? what products should we sell? What products do our customers want?". Baden-Fuller and Stopford's (1994) stage of building new capabilities includes building a staircase of strategic capabilities and defining the scope of the business.

GROWTH PHASE

Once profitability has been restored, financial control has been gained and a healthy operation has been established, the organisation can begin to look at leveraging its capabilities (Baden-Fuller & Stopford, 1994), long-term expansion and growth (Nelson & Clutterbuck,1988) through new product development and market development (Bibeault,1982), as well as expansion and acquisitions (Baden-Fuller & Stopford, 1994; Bibeault,1982; Slatter,1984). Baden-Fuller and Stopford (1994) proposed that as the organisation grows in competitive strength, it can now again expand into new markets, new services and new aspects of the value chain.

The work of Khandwalla (1992) is noteworthy in this regard. He calculated the utilisation of management actions for each of the three phases as a percentage of the number of the 42 cases that used them. Khandwalla's (1992) information is presented in Table 2.15, only for the most significant of his 27 elements.

Table 2.15: Utilisation of turnaround elements in three phases of recovery

	Early Phase	Middle Phase	Final Phase
1 Management changes	59	8	6
2 Diagnostic activities	29	6	5
3 Management control	43	24	10
4 Liquidation of assets	19	10	6
5 Significant retrenchments	48	31	7
6 Cost-reduction activities	45	29	12
7 Garnering stakeholder support	33	17	8
8 Restructuring	29	33	12
9 Increased training	5	17	12
10 Incentives and motivation	14	31	12
11 Organisation integration	19	33	10
12 Modernisation of production	14	41	24
13 Professionalisation of management	5	19	12
14 Divestiture	17	24	12
15 Marketing related changes	40	62	50
16 Diversification	36	71	74
17 Innovation: new products	17	33	36

Source: Adapted from Khandwalla (1992)

It is interesting to note that management and human resource issues tend to be addressed during the early and middle phases. On the other hand, most marketing related activities belong to the final phase. Another observation is that it is seldom that a turnaround element is employed to the same extent in more than one phase.

In a more detailed analysis, Khandwalla (1992) attempted to determine whether companies which turned around faster (more than 4 percentage points annual profit improvement) used different approaches to those which turned around more slowly (less than 4 percentage points annual profit improvement). Table 2.16 indicates the eight significant differences between companies which achieved a faster turnaround and those whose progress was slower; only the elements where statistically significant differences at the 95% confidence level were found, are shown.

Table 2.16: Frequency of utilisation of turnaround elements in different turnaround phases for fast and slow recovery samples

Elements	Initial Phase		Middle Phase		Final Phase	
	Fast %	Slow %	Fast %	Slow %	Fast %	Slow %
1 Formal diagnostic activities	67*	10*	11	0	0	0
2 Garnering stakeholder support	56*	25*	28	5	6	10
3 Marketing related activities	61*	15*	78	50	39	50
4 Management control	61*	30*	33	15	6	5
5 Incentives and motivation	28	5	50*	10*	17	5
6 Organisation integration	17	20	50*	21*	6	10
7 Efficiency and productivity	22	0	44*	10*	11	0
8 Diversification and expansion	44	30	72	65	61*	90*

Note: * indicates significant differences at 95% level.

Source: Adapted from Khandwala (1992, pp. 216-219)

In the initial phase the group with rapid improvements outscored the group with a slower gain on 20 of the 27 elements. Decisive emphasis in the earlier phases on four of the 27 elements, namely formal diagnostic activities, garnering stakeholder support, marketing-related activities and management control enhancing activities, can win the day in turnaround management and certainly accelerate the turnaround process.

In the middle phase the group with rapid improvements outscored the group with slower gain in 22 of the 27 elements. However, significant emphasis on incentives and motivation, organisational integration and participative management, efficiency and productivity seems to accelerate the process of recovery.

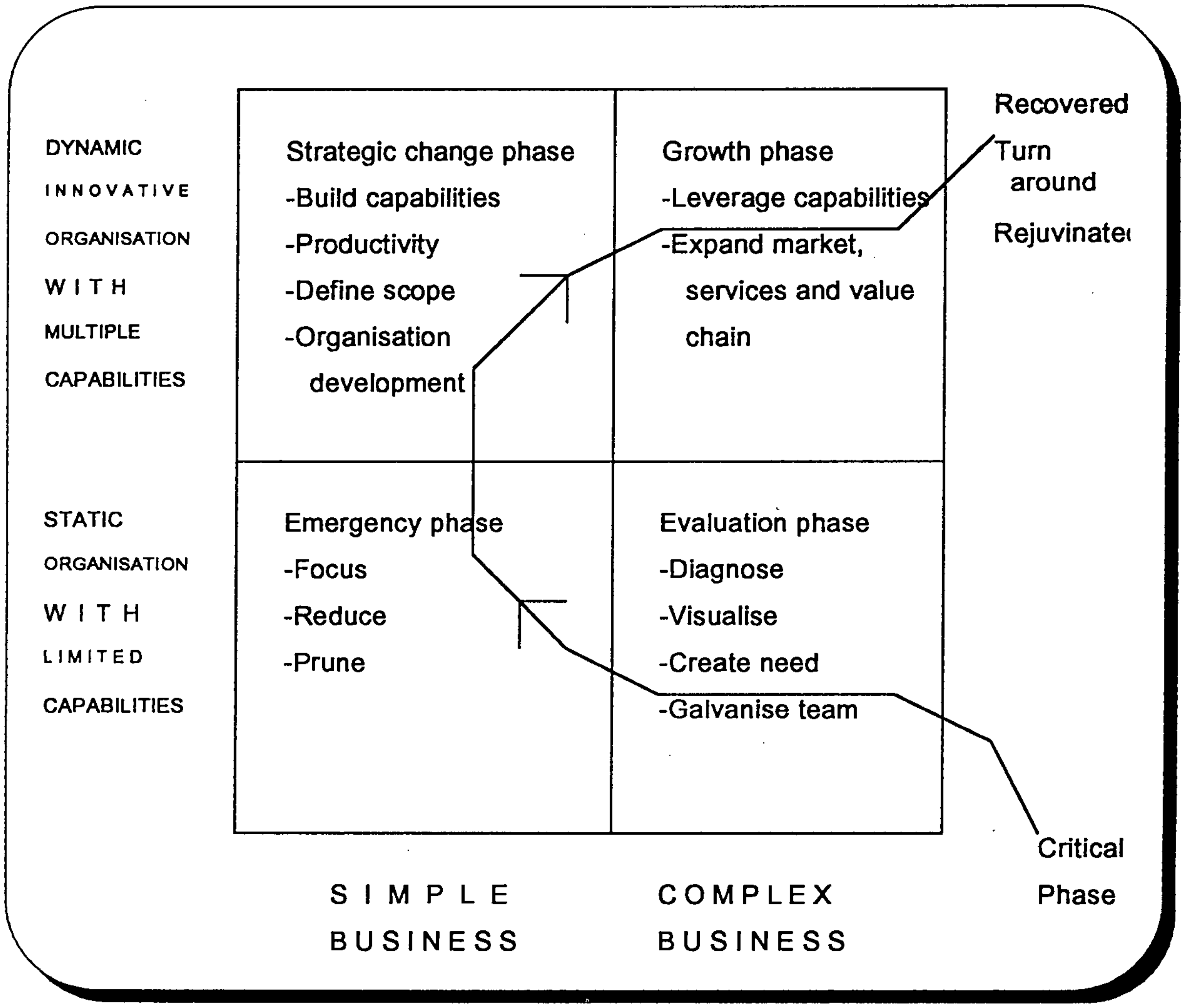
In the final phase the group with rapid improvements outscored the group with slower gain in 15 of the 27 elements. The negative relationship on product diversification and expansion indicates that this element of activity must be approached with caution.

The significance of these findings of Khandwalla (1992) is two fold. Firstly, in indicating that corporate recovery does not consist of a conglomeration of intervention strategies that must be implemented indiscriminately and at all cost, but rather a knowledgeable and tactical sequencing of strategies in order to achieve maximum effect. Secondly, most of the elements contained in Table 2.16, belong to the management process turnaround, which further reinforces the conclusions in the previous section that this is indeed the more preferable of the different approaches. According to Khandwalla the role of the turnaround executive or change agent is in facilitating the birth and growth of new systems, not in parenting them. If these new systems are to survive, they need to evolve, like folklore as the property of the collectivity and its people through consensus processes.

Adapting the very useful model Baden-Fuller and Stopford (1994) developed, by incorporating the concept from other influential writers, an integrated view is achieved of the various phases of corporate recovery. Figure 2.5 explains this five-phase recovery process.

The importance and necessity of having to manage the organisation through all these phases of recovery is emphasised by Baden-Fuller and Stopforth (1994), Khandwalla (1992) and Nelson and Clutterbuck (1988). Nelson and Clutterbuck (1988) cited the Swedish national controlling body, Statsforetag (responsible for taking over companies the state wishes to preserve from bankruptcy), as stating that a business has to go through all the phases of recovery.

Figure 2.5: A five-phase recovery process



Adapted from Baden-Fuller and Stopford (1994)

Very often a company going through a crisis responds well to the initial stage of recovery and returns to profitability but does not reassess its business and fails to implement strategies to prevent future crisis. In the next down turn of the economic cycle they then face another crisis with even fewer reserves than they had the first time round.

Baden-Fuller and Stopford (1994) concluded that securing effective change is laborious, and they found many examples of organisations that tried to short cut the process short and failed because they did not alter beliefs or failed to give people the skills and tools to do the task better. A few of the cases Baden-Fuller and

Stopford (1994) studied which achieved industry leadership through their rejuvenation process, took as long as a decade. There were no quick fixes.

VARIABLES OF DEPTH OF CRISIS AND SIZE OF ORGANISATION

DEPTHS AND DURATION OF CRISIS

Not all organisations in crisis experience the same depth or extent of losses, nor the same duration of crisis. The question is whether organisations with a deeper loss situation, experienced for a longer period of time, will choose different intervention strategies to recover than those with smaller losses experienced for a shorter time period.

Hofer (1980) suggested that a company in crisis, operating close to its break-even point, will anchor its turnaround strategy in cost reduction. Slatter (1984) supported this argument. However where the company operates well below its break-even point, asset reduction will also be required. Where the loss situation is not that critical, cost reduction can be combined with a revenue-increasing strategy.

In their study of 53 successful turnarounds in the USA, Hambrick and Schecter (1983) argued that capacity utilisation (high capacity utilisation, according to them, is associated with marginal loss, whilst low capacity utilisation is associated with significant losses) would influence the choice of intervention strategies. In low capacity-utilisation (high loss) situations divestiture and asset reduction are required, whilst in high capacity utilisation situations (low losses) cost cutting will do. These findings supported the views of Hofer (1980) and Slatter (1984).

In this context, Khandwalla (1992) selected two samples from the 65 cases he studied. The first, a significant-loss sample, included 18 companies whose maximum loss-to-sales ratio during sickness was in excess of 10%. The marginal-loss sample included 22 companies whose maximum loss-to-sales ratio during their crisis was below 9%. The average for the significant-loss situation sample was 26% whilst the average for the marginal-loss situation sample was only 4%. Companies with a deep crisis situation made more significant use than those in marginal loss situations of the turnaround elements of incentives and motivation (72% vs 23%), formal diagnostic activities (67% vs 18%), garnering stakeholder support (72% vs 27%) increasing efficiencies (61% vs 18%), increased training of managers and staff (44% vs 14%) and initiation of managerial meetings, participative problem-solving and task forces (44% vs 14%).

An important criticism that can be levelled at these findings of Khandwalla (1992) is that the samples were contaminated by other variables. They included a mixture of both western and non-Western economic system companies, as well as a mixture of private and public companies. He gave no indication in this analysis of how many of the 18 companies in the significant loss situation or of the 22 companies in the less significant loss situation were public, private, Western or non-Western. The findings on the strategies of companies in deeper profit trouble were so similar to those of non-Western companies that it would not be surprising if most of those 18 companies whose loss-to-sales ratio was worst did not consist mostly of state-owned companies.

SIZE

Pheffer (1982) asserted that company size had a significant influence on the functioning of organisations. As organisations grow larger, their structures become deeper, operations become more formalised and standardised, other functions are discharged in a more professional way through "staff" functions and more controls and rules are introduced. However, Pheffer indicated that the negatives of this state of affairs are that it leads to distortions in communication, inter-departmental conflict, and feelings of dissatisfaction due to lack of discretion. It could be argued that turnaround management could therefore be more difficult and handled in a different way in larger organisations than in smaller organisations.

In Pant's (1991) study of the economic and structural characteristics of organisations, he concluded that only three variables indicated significant differences between successful and failed turnarounds, and these were size, research and development expenditure as a percentage of sales, and operating profit margin in relation to advertising and sales. Successful turnaround companies tend to be smaller than those who failed to recover. He concluded that smaller organisations are in a better position to bring about the necessary organisational and strategic changes that lead to improved financial performance.

TURNAROUND ETHICS

Not much is said in the literature on the issue of turnaround ethics. Khandwalla (1992) is the only researcher reviewed which commented on this aspect. He maintained that most of the turnarounds in the West are marked by mass retrenchments and plant closures. The cost of this to society is seldom calculated.

Khandwalla (1992) cited the following companies, as having had massive cuts in staff numbers:

❑ Chrysler	1982	160 000	reduced to	80 000 =	80 000
❑ Fiat	1983	135 000	reduced to	81 000 =	54 000
❑ General Motors	1984	750 000	reduced to	383 000 =	367 000
❑ IRI	1982-1986	530 000	reduced to	470 000=	60 000
❑ British Steel	1980's	265 000	reduced to	213 000 =	52 000
❑ Olivetti	1984	61 000	reduced to	47 000 =	14 000
❑ ICI	1985	90 000	reduced to	58 600 =	31 400

These are only a few examples of the more dramatic reductions in headcount. Untold numbers of companies followed the same route, with similar proportions of cuts in staff numbers.

The business magazines elevate these turnaround managers to a position of hero-worship, often discounting the methods that were used to achieve success. The ethics of their actions are seldom questioned.

The costs of retrenchments as part of turnaround, according to Khandwalla (1992), include: reduction in standard of living of thousands of families, demoralisation of communities, unemployment compensation, retaining costs, loss of skills and experience to the organisation, loss of commitment of those staff members who stay and reduction of national manufacturing capacities.

Khandwalla (1992 p. 76) called it "the deification of a culture of casual violence against humans for commercial reasons". He argued that the fascinating phenomenon of organisational violence against the organisation's own members requires careful multi-disciplinary study. How right and just is it for managers to deprive others of a livelihood, where the decline and crisis is often the result of management's bad strategies and planning, or reckless growth policies and bad financial discipline? The question is whether the turnaround manager is justified in resorting to massive (more than 10% cut) staff reductions, due to lack of knowledge or experience of other options open to the company.

Khandwalla's (1992) findings indicate that the human cost of recovery tend to be higher in the private sector corporations than in government sector organisations. Potts and Behr (1987) argued for alternative approaches to the surgical turnaround often instituted by managers at the head of large organisations in the West. It is argued that there are more humane alternatives such as the management systems turnaround that is development and people orientated.

CHAPTER 3

ORGANISATIONAL TRANSFORMATION

INTRODUCTION

In the review of the literature on, and surrounding the phenomenon of corporate crisis and recovery, the researcher concluded a three-dimensional view. The first dimension, summarised in Chapter 2, concerns literature with a direct relevance to corporate crisis, such as the stages of decline, the nature of the crisis, the stages of recovery and the nature of recovery interventions.

Dimension two, the subject matter of this chapter, concerns literature that surrounds corporate crisis and recovery, in that it does not directly describe the phenomenon, or even refer to it in specific terms, but it does have a more indirect impact on the topic. This literature mostly includes issues such as the development of managerial thought, the phases of organisational growth, structure and design of organisations, the information based organisation and corporate culture.

Corporate recovery has to be seen in the perspective of the development of managerial thinking of both the past and the future. As we move from the scientific school of managerial thought, the pillar of the mechanical age, to the information age (Drucker, 1989; Hammer & Champy, 1993), or communications age (Gouillart & Kelly, 1995), the turbulence created by this transition certainly impacts on some aspects of corporate decline, and the intervention strategies and management practices that are effective in recovering the ailing organisation.

The phases of organisational growth and how the transition from one phase to the next creates a crisis in the life of the organisation that may lead to decline, and how the nature of the next phase could indicate the intervention strategies required for recovery, are yet other interfaces to be explored.

Another interface is the evolutionary development of organisation design since the 1850s, but particularly the new design concepts subsequent to the emergence of the traditional hierarchical structure. This has implications both as a co-producer of decline and for influencing recovery strategy.

Also discussed, is the emerging "information-based organisation", viewed by many authors, but in particular Drucker (1989) and Handy (1993) as the organisation design of the future.

Finally, of relevance to corporate recovery, are the issues of corporate values and culture. These have implications both as possible co-producers of decline and for the management of the recovery process.

The third dimension, also covered in this chapter, concerns literature that refers to the process of organisation transformation in a broader sense than only from crisis to recovery and includes issues such as the scope of organisational transformation, a critical review of transformation and finally the stages of transformation.

Whilst all these interfaces are the subject matter of this chapter, it is not an attempt at a full and comprehensive review of these topics but merely a synopsis of sufficient dimension to indicate their relevance to the issue of corporate recovery.

Discussions of these various interfaces will now follow.

EVOLUTION AND PHASES OF MANAGERIAL THOUGHT

INTRODUCTION

As stated in Chapter 1, Drucker (1989) held that by 1850 the phenomenon of management was unknown and that 80 years ago, on the threshold of World War I, a few thinkers were just becoming aware of it.

Since then there has been a proliferation of management science techniques. Gruber and Miles (1974) already in 1974 predicted the changes in the way organisations are to be managed in the future. However, the unprecedented changes in the external environment such as global competition, the oil crisis in the 1970s and the depression/inflation era in the United States, wrecked stable markets and whole industries (Drucker, 1989; Huey, 1994; Lee, 1980) and exacerbated this vast change process.

Stewart (1993) postulated that, in an historical convergence, four business revolutions are upon us. He believed the changes around us are not mere trends but the convergence of four large unruly forces, namely the change in management, the spread of computer networks, the globalisation of markets, and the information economy.

The MIT Sloan School of Management's "Management in the 1990s Research Programme" identified four factors of change, with which organisations must contend with (Scott-Morton, 1991). These are social, political, technical and economic.

In terms of a systems perspective (Ackoff, 1981; Lee, 1980), the introduction of any new element, or change in an existing element will affect all the other elements in the system. Due to the interdependence of the elements within the system, the re-ordering process brought about by change in one or more elements, sets off a chain reaction impacting on all the other elements. Such was the process of change that started in the early 1970s.

POLITICAL AND SOCIAL CHANGES

There is a world-wide move to break down national trade barriers, as governments abolish protective legislation, which together with developments in information technology (IT), ushered the global economy. The changing regulatory roles of governments also resulted in a new competitive climate and new set of rules for competition (Scott-Morton, 1991).

On the social front, the heightened expectations of people in Western Europe and North America put pressure on quality of work life and quality of the environment. Hammer and Champy (1993) also commented on these heightened expectations, in that the providers of production capacity no longer have the power they used to have as this has shifted to the consumer. In a world of over-capacity the consumer has a wider choice, and demands to be treated individually. They expect products and services that are configured to their needs such as delivery schedules, payment terms, working hours and operational plans (Scott-Morton, 1991).

CHANGES IN MANAGERIAL THOUGHT

Drucker asserted that nothing changes society so much as the principles around which work is organised. During the period 800 - 1650 work was organised around the horse as this was the major catalyst to economic activity. From 1650 work was organised around ships and horse-drawn carriages, whilst from 1750, with the advent of the steam engine, work became more and more organised around the machine. This influenced work habits, management practices and social behaviour. Today, in the information age, work is progressively organised around information. This will again have major implications for management practices, organisation design and other facets of organisational behaviour.

Drucker (1989) defined three, overlapping phases in the development of managerial thought.

Phase one was from 1850 when Karl Marx wrote Das Kapital to the First World War. According to Hammer and Champy (1993) this evolutionary step in the development of today's business organisation was pioneered by Henry Ford. Ford further developed Adam Smith's concepts of dividing work into tiny, repeatable tasks. Ford reduced each worker's task to installing a single part to assemble an automobile in the prescribed manner (Hammer & Champy, 1993). However, in making the tasks simplr, Ford made the process of co-ordinating the people and combining their efforts into a finished end product more complex. It was to be this coordinative and control complexity that gave <u>Gestalt</u> to the bureaucratic organisation.

Phase two was from the First World War to the Second World War, characterised by the beginnings of employing large groups of knowledgeable people in organisations. In the 1820s Americans began to build railroads, and these companies, Hammer and Champy (1993) stated, invented the modern bureaucracy, which at that time was a major innovation.

Phase three already started during the 1930s and was characterised by the decentralisation concept of Alfred Sloan, and the questioning of the mechanically based structures of organisations. Neither Henry Ford, nor Durant, the founder of General Motors, ever learnt how to create sprawling, geographically diverse organisations. It was Durant's successor, Alfred Sloan who created smaller decentralised divisions that managers could run from small corporate headquarters simply by monitoring production and financial figures. According to Hammer and Champy (1993), Sloan applied Adam Smith's principles of divisions of labour to management, in the same way Ford had applied it to production.

Hammer and Champy (1993) also conceded that the final evolutionary step in the development of organisation as we know it today, came in the USA between World War II and the 1960s. During this period, through elaborate planning exercises, managers determined the businesses in which they wanted to be, the capital to allocate to each and the returns they expected. Large head offices developed with corporate controllers, planners, auditors and other staff or supportive/controlling functions (Hammer & Champy, 1993). This organisational model, Hammer and Champy (1993) contended then spread rapidly from the USA to Europe and Japan during this period. In the 1950s and 1960s the main operational concern of businesses was capacity to provide a consumer, deprived of material goods first by the Depression of the 1930s and then the ravishes of World War II. The pyramidal organisational structure was well suited to this environment of high growth, requiring mainly production, control and planning. For more than 100 years managers structured companies to meet the expanding demand for mass production of products and services (Hammer & Champy, 1993).

Hammer and Champy (1993), went even further back than Drucker (1989) when they stated that most companies today, no matter in which industry, or how sophisticated, can trace their work styles and organisational roots back to the prototypical pin factory that Adam Smith described in The Wealth of Nation published in 1776. The structure, management and performance of business has been shaped by this set of principles laid down 200 years ago by Adam Smith in this watershed publication. Smith recognised that the technology of the industrial revolution had created unprecedented opportunities for manufacturers to increase worker productivity and thus reduce the cost of goods.

Adam Smith's industrial model rests on the basic premise that workers are relatively uneducated and are not well trained. This premise then requires work to be broken down into its smallest elements which can be easily understood and performed. People will be most effective when they have one simple task to understand and perform (Hammer & Champy, 1993; Regan, 1994). Many of our current job designs, workflows control mechanisms and organisational structures, developed for a different and previous age are geared at efficiency and control (Hammer, 1990). Business disaggregated work into narrowly defined tasks, reaggregated the people performing those tasks into functional departments and appointed managers to supervise the process (Hammer, 1990). Today's airlines, steel mills, accounting firms and computer chip companies, Hammer and Champy (1993) maintained, have been built around Smith's central idea of the division or specialisation of labour and the consequent fragmentation of work. The larger the organisation, the more specialised the worker and the more separate steps into which work is fragmented.

However, Hammer and Champy argued, simple tasks require complex processes to knit them together and as organisations grew in size this became an increasing inconvenient, inefficient and costly exercise. Hammer and Champy (1993) concluded, in the post-industrial age, corporations will be founded and built around the principle of reunifying those tasks into coherent business processes.

Venkatraman (1991) believed that developing IT capabilities signals a major departure from the capabilities offered by the Industrial Revolution. He expanded on this, also stating that current business processes were designed, on the basis of a set of principles of organisation developed to exploit the capabilities of the Industrial Revolution. Management concepts, such as centralisation versus decentralisation, span of control, line versus staff, balancing authority versus responsibility, as well as mechanisms for co-ordination and control, were derived from these principles. Although Venkatraman (1991) argued that these principles are valid even today, the development of IT could significantly alter these, rendering some modes of organisation relatively ineffective.

Stewart (1993) stated, as one of the revolutions upon us, the changes in management and managerial thought. To this effect, however, a growing consensus is developing that despite their virtues, it has become time to retire these principles as pressure mounts on organisations to become more effective, and as new principles for organisation emerge (Gouillart & Kelly, 1995; Hall et al., 1993; Hammer & Champy, 1993; Regan, 1994; Venkatraman, 1991).

EFFECTS OF INFORMATION TECHNOLOGY ON MANAGERIAL THOUGHT

Drucker (1989), Hammer and Champy (1993), Handy (1993), Scott-Morton (1991), Stewart (1993) and Venkatraman (1991) all elaborated on the impact of IT on business processes; the development of IT could significantly alter these, rendering some modes of organisation relatively ineffective. Scott-Morton (1991) elaborated not only on the effects information technology will have, but also on the effects of technological changes in materials, biosciences and bio-engineering. Stewart (1993) saw this development as what he called, the second revolution, as it effects lifestyles and the way organisations are designed.

It could be argued that the effect of IT is just beginning to be felt. Stewart (1993) believed that we cannot yet conceptualise how IT will change our society, in the same way that, when Gottlieb Daimler and Ransom Olds believed they had invented an improvement on the horse, they could not have imagined that the automobile would fill the countryside with suburbs, which created jobs in building houses and parkades, making lawnmowers and delivering pizzas. According to Stewart, the spread of computer networks involves the linking up of computers with each other. Already in the USA, two in every five computers are linked, but mainly intra-company (the linkage of computers to each other within a company). The revolution begins when these networks within companies start linking to other companies. The potential of this information-sharing is as yet unimaginable.

The real effect of the information economy will relate to how it will alter the economics of familiar goods and sources. Just as the industrial revolution did not kill agriculture, so the information revolution will not kill production. It will simply change the nature of production. At first it will be about doing old jobs more cheaply, then in future it will be about doing different things.

Boon (1994) asserted that the need for enterprise transformation has been brought about in large part by the evolving role of technology. Both he and Drucker (1989), expanded on the paradigm shift from new technology on old methods in the '80s to new technology on new methods. To date we have used computers to do faster what we have always done. We have only started to utilise computers to do things differently. As we move from data to information, decision processes, structures and the way we work, all begin to transform. To convert data into information, however, requires specialised knowledge.

The information age within which the "knowledge-based" (Drucker, 1989), "intellectual" (Handy, 1993) or "communications" organisation (Gouillart & Kelly, 1995) will function is characterised by the fact that:

- ❑ information is transnational and has no fatherland or boundaries.

- to date people were moved to work (around machines) but now information can be moved to people at home, in satellite offices, etc.
- it creates transnational committees who talk to each other but who do not necessarily see each other.

Additionally, the customer will become empowered and can move around within the information system of its supplier, entering orders, checking on supplies, controlling quality.

GLOBALISATION

Globalisation, like IT, vastly extends a company's reach.

Stewart (1993), in describing what he called the third revolution, held that globalisation and the spread of computer networks have major implications for how work gets organised. Regarding globalisation, he wrote that a nation's economy should be viewed as a portfolio of businesses whose futures are less and less linked to each other, but increasingly linked to similar businesses in other national economies.

The implication of the globalisation of markets is that the manager's focus cannot only be on factors within one economic system, as defined by the geographical borders of his/her country and controlled by the decisions and policies of his/her government. The focus has to move to the development of transnational economic systems that can form part of more than one geographically defined system, behaving quite differently to other systems within his/her geographically defined system.

The traditional focus of managing a business through the various business cycles has changed to the more macro-issue of keeping it afloat in a global world.

This changing economical paradigm and changing regulatory rules of governments, influences the nature of competition. Both Hammer and Champy (1993) and Scott-Morton (1991) contended that increasing global trade will lead to intensified competition, resulting in shifting benchmarks for quality and service. In the past, the company that could get to the market with an acceptable product, at a cheaper price, got the sale. The nature of competition changed, in that national barriers are falling, niche players upset long held industry recipes, and technology had an impact not envisaged. The change process accelerated through the rapidity of technological advances and product life cycles have become shorter. Change has become pervasive and persistent.

INTELLECTUAL CAPITAL

According to Stewart (1993), the fourth revolution, the information-age economy, is characterised by intellectual capital deployed to create competitive advantage. Intellectual capital will become as vital as the familiar monetary capital still is today.

Handy (1993) reiterated the accepted notion that by the turn of the century, 70% or more of work will require brain skills, not manual skills, and as that happens, the often punted cliché that our staff are our greatest asset will become a hard financial reality. This is supported by the fact that already today many businesses have a market value three to four times the worth of their fixed assets. Handy commented that to call this gap "goodwill" is to trivialise it. That gap is the market's estimate of the intellectual property in the business: not only patent rights, brands, assets, but mostly the skills, knowledge and experience of its people. Handy considered that the emerging importance of intellectual property, in a broad sense, is going to change many business practices beyond recognition.

As business practices change with the emerging information age, could it be that the co-producers of decline will change as well, or that chosen strategies for recovery have to be reconsidered? Welsch (1993) stressed that in future, shareholders cannot really be owners any more, but increasingly become only investors in other people's brains. Similarly loyalty will be, firstly, to one's own knowledge and career, then to one's profession, then only to the company. The effects of the emerging information age on the world of organisation is discussed later on in this chapter.

THE NEED FOR A NEW PARADIGM

Hammer and Champy (1993) asked why so many companies are bloated, clumsy, rigid, sluggish, non-competitive, uncreative, inefficient and disdainful of customer needs, and losing money. They were of the opinion that advanced technologies, the disappearance of national markets and the altered expectations of customers have combined to make the hitherto goals, methods and organising principles of the classic American corporation obsolete. Companies have to unlearn, they argued, many of the principles and techniques that brought them success for so long. The fads of the 20th Century, argued Hammer and Champy (1993), such as management by objectives, diversification, Theory Z, zero-based budgeting, decentralisation, quality circles, portfolio management, one-minute managing and many others had not reversed the deterioration of American corporations. They have simply distracted them from doing the real task at hand, namely reengineering their businesses and processes.

The usual methods of boosting performance, namely process rationalisation and customisation, have not yielded the dramatic results that companies expected. Speeding up existing processes, Hammer (1990) stated, will also not address their fundamental deficiencies.

However, Hammer (1990) and Hammer and Champy (1993) noted, in most of today's businesses, nobody is in charge of the process and sometimes not even aware of it. Companies today, they contended, consist of functional silos, vertical structures built on narrow pieces of the process. The person checking a customer's credit is part of the credit department, whilst inventory picking is performed by the warehouse, and the shipping of the product falls under distribution. These tasks are therefore performed by three functional departments, but nobody with ultimate focus on the process.

Kanter (1986) too, referred to this kind of fragmentation as the great inhibitor of creativity. She believed that in segmented organisations, units work in isolation. She noted that little lateral communication occurs, relationships are restrictive and people are indifferent to the efforts and achievements of other units. Innovative businesses,on the other hand, seized opportunities that new technology offers to integrate functions, allowing for more creativity.

According to Hammer and Champy (1993), the classical structures that specialise work and fragment processes perpetuate themselves because they have built-in mechanisms to stifle innovation and creativity. Any new idea in these functional structures has to be approved by successive layers of managers until someone high up enough in the hierarchy gives final approval for implementation. Only one person needs to say "no", and the idea is killed. This explains the unresponsive nature of business to changes in the external environment. These authors, as well as Regan (1995), commented that existing organisation design principles embody the assumption that conditions will only vary within narrow predictable limits. By removing management from the operations, and fragmenting activities, no one person will see the total picture or recognise significant change, let alone act on it. Companies have organised work as a sequence of separate tasks and employed complex mechanisms to track its progress. As the coordinative complexity increased, organisational structures ballooned at middle management level, particularly at head offices - the price of fragmenting work into simple repetitive steps, hierarchically organised.

Hammer and Champy also refer to this as "bureaucratic paralysis". However, they maintain that bureaucracy is not the problem - it has been the solution for the last 200 years. Trying to get by without bureaucracy will result in chaos. It is the glue that holds together fragmented processes. To do without bureaucracy requires first to reengineer the process.

Many influential writers expanded on the need for a new paradigm. Drucker (1989), saw the paradigm as being the "information-based organisation", whilst Handy (1993), saw it as the "intellectual organisation". Hammer and Champy (1993) saw it as "business process reengineering". Venkatraman (1991) believed that IT will increasingly serve as the catalyst for a new organisational principle. Gouillart and Kelly (1995) took a holistic view of change and saw greater connectivity, and the communication organisation as the emerging paradigm. All these concepts, however, have a great deal of commonality, and the "information-based organisation" as the new paradigm, including most of the above concepts will be discussed in more detail in a later section.

The limitations of the principles of the "mechanical age" that have guided the organisation and management of organisations for so long have reached a point of inefficiency that is leading to its gradual implosion (Gouillart & Kelly, 1995). This fact is critical to consider as co-producer of corporate decline, and these new paradigms will have to form part of any recovery strategy.

As a concluding comment, the question can be asked whether managers can forget and walk away from the business hierarchy of the past 200 years and develop new structures and paradigms. To what extent will people in charge allow their authority or their assumptions of the future to be radically challenged?

PHASES IN ORGANISATIONAL GROWTH

The relevance of the theory of organisational growth to corporate crisis and recovery lies in the critical issues in each stage of development, management's appropriate or inappropriate responses to these and the turbulent transition from one phase to the next.

Lievegoed (1991) defined growth as a kind of change that brings about a quantitative increase in size or weight within one and the same system. When applied to organic systems, growth can be called development, that is, where the very structure of the system changes as it moves from one state to the next. He contended that when a system grows quantitatively, it reaches a point where its increased size can no longer be held together by its original structure. Further growth then leads to disintegration of the system (biological death) or to a restructuring of the organism so that a new structure can control the increase in mass. This, however, always leads to increased differentiation and greater complexity.

All the influential writers agree that the transition from one stage to the next poses the greatest threat to survival, in that each evolutionary period creates its own revolution and management's way of dealing with the crisis will determine whether the organisation will fail or move on to the next stage.

Drucker (1974) identified three stages of corporate growth, namely small sized, fair sized and big business. Lippitt and Schmidt (1967) and Lippitt (1982) referred to birth, youth and maturity. During the first stage, birth, the key issues are creation and survival. During the second stage, youth, the key issues become stability and reputation. During the third, maturation, the key issues are uniqueness and contribution.

McWaters (1983) identified four stages of corporate growth, namely formation, differentiation, integration and nucleation. These stages are based on the premise of synergistic release: particle formation led to the creation of the atom, atomic molecules resulted in organelles, combinations of organelles produced cells. Thus at each new union a force is released that seeks out the next evolutionary stage of union.

Land (1985) identified three stages of corporate growth. Underlying them is the premise that all systems tend to become more integrated through the incorporation of increasing diversity. Land called his first growth stage "accretive", which means "inclusion through sameness". The second, "replicative", refers to growth through influencing other people and things to take on the form of the initiator, which implies inclusion through similarity. The third stage " mutualistic", involves reciprocal interaction, and refers to inclusion of differentness and give-and-take. Land's three phases share elements with Wilken's (1981) stages of evolution from self-centred enterprise, to dispassionate bureaucracy, to genuine association.

Lievegoed (1991) also identified three phases of development, namely the pioneer phase, differentiation and integration.

Table 3.1 summarises the classifications of the authors introduced above. It becomes clear that, except for McWaters, all the other researchers agree on three phases of organisational growth.

Table 3.1: A comparison of the stages of organisational growth

Theorist	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 4**
Drucker	Small sized	Fair sized	Big sized	
Land	Accretive	Replicative	Mutualistic	
Lievegoed	Pioneering	Differentiated	Integrated	
Lipitt	Birth	Youth	Maturity	
McWaters	Formation	Differentiation	Integration	Nucleation
Wilkens	Self-centred	Bureaucracy	Association	

PHASE OF FORMATION

This phase refers to the formation (McWaters, 1983) or birth (Lippitt, 1982) of the organisation. It is characterised by creativity, which is required to pioneer a new business concept or product (Lievegoed, 1991).

According to Lievegoed (1991), the pioneer phase is characterised by the following elements:

- ☐ primary interest in economic and technical performance,
- ☐ leadership is autocratic,
- ☐ communication is direct,
- ☐ organisation around persons,
- ☐ working style is one of improvisation,
- ☐ the work-force is one big family,
- ☐ the market is defined by the known customer.

An organisation can continue to survive profitably in the pioneer phase for as long as:

- ☐ the pioneer personally knows all his/her staff,
- ☐ the pioneer personally knows all his/her customers,
- ☐ the production processes remain simple,
- ☐ technological and market stability remain.

According to Lievegoed, the first crisis which such an organisation faces is the key issue of survival. This involves the translation of a business idea and concept into concrete products and services. Having survived this initial challenge, the pioneer phase can continue for as long as this closed system of which the pioneer, his/her staff and customers are part, remains unchallenged by technological inventions and shifts in market structures. The pioneer, operating in a geographical area with known staff, customers and products, survives as he/she improvises within the worlds he/she knows. The moment macro-evolutionary change occurs (Kanter et al., 1992) and the external world starts to move, this closed system's survival is threatened.

As the entrepreneurial organisation grows, it has to start changing its structure and processes in order to cope. The turbulence and crisis this creates is, according to Nelson and Clutterbuck (1988), the most severe crisis of all the stages of organisational growth - the transition from the entrepreneurial to the professional operation. During the entrepreneurial phase, the founder and his/her personality are central to all activity, whilst in the professionally run operation team-work becomes very critical and more important than the charisma of one person. A different type of leader is required, a consolidator who can bring together all the disparate elements of the business, previously based on intuition and gut-feel, and base them on planning, controls and systems.

At this early stage the company's founders, who are usually technical entrepreneurs, are absorbed in making and selling a product and are usually evasive of management tasks. The onset of crisis is when these creative founding entrepreneurs are chained down by unwanted management responsibilities, and a crisis of leadership develops. Capable business management is required and those companies who recruit and appoint good managers and establish professional business management, survive and move on to the next stage (Bibeault, 1982) of the fair-sized company (Drucker, 1974).

PHASE OF DIFFERENTIATION

According to Lievegoed (1991), the second stage, that of differentiation, is the historical answer to an over-ripe entrepreneurial business. This stage relies heavily on the concepts of classical management which emerged from the scientific management thoughts of Taylor in the USA and Fayol in France. During this stage, the principles of mechanisation, standardisation to achieve control, predictability and planning, specialisation, and co-ordination, all help to transform the very structure of the business to deal with its growth. This process is described by Wilkens (1981) as becoming more bureaucratic and systemised, and also contains the aspect of replicating those products and processes which work well to spur growth (Land, 1985).

During this second stage the organisation has to develop efficiency and strength, but management can inappropriately over-extend the replicative aspect (Land, 1985), or be too inflexible and force the organisation back to the survival stage

(Lievegoed, 1991). Furthermore, where uniqueness, adaptability and differentiation are key issues (McWaters, 1983), the organisation has to take full advantage of its unique capability and should provide growth opportunities for staff. However, management may fail to discover its uniqueness and spread its efforts inappropriately, thus inhibiting growth (Lievegoed, 1991).

The very solution to the first crisis, namely structures, systems and policies, are often the seeds for the second crisis (Bibeault, 1982). When such consolidation succeeds too well, the need for systemisation, order and procedures at the transition from the entrepreneurial to the professional phase gets taken too far and stifles ingenuity and creativity (Nelson & Clutterbuck, 1986). Employees and customers start feeling restricted by a centralised, hierarchical structure with rigid policies and control mechanisms which slow down communications and decision-making and this leads to the next crisis (Bibeault, 1982). The organisation becomes increasingly rigid in structure and thinking, and conservatism becomes the underlying principle of decision-making. In extreme cases this leads to a centralised bureaucracy with a large head office issuing orders, whilst top management is removed from the realities of the operating circumstances.

In commenting on this crisis, Lievegoed stated that, whilst in the pioneer phase customers were given what they wanted, they now have to adapt their wishes to what is offered. Whilst in the pioneer phase the employee had the job designed around his/her needs and interests, s/he now has to fit into a system.

This organisational crisis can lead to the decline and ultimate extinction of this social system, unless the organisation manages the transition to the integrated phase.

PHASE OF INTEGRATION

According to Lievegoed (1991), integration is an entirely new concept of organisation. This phase enables each member of the organisation willingly to act intelligently in the interests of the whole.

During the integrative stage the communication problems of a long line of command and lost contact with the customer have to be resolved. All the different processes will be surveyed, steered, controlled and integrated into one great flexible adaptable network (Lievegoed, 1991; McWaters, 1983)

Consultation structures, such as task forces and problem orientated committees, will be required to assist individuals to act intelligently, in accordance with the objectives of the totality. Co-entrepreneuring, integrating all activities with the total objective, will have to be achieved.

Lievegoed concluded that if the first phase of entrepreneurial initiative of the pioneer is the thesis and the second phase of scientific management is the antithesis, then the third phase of integration is the synthesis; a combination of the positive elements of the first and second phases to create a mature (Lippitt, 1982), mutualistic (Land, 1985) social subsystem.

Regarding structures, the pioneer phase was shallow, the differentiation phase deep and now the integrative phase requires what Lievegoed called the "clover-leaf organisation", what Charan (1991) called "network structures" and what Mills (1991) called "cluster organisation".

Lievegoed defined the concepts of "evolution" and "involution'. Social evolution of the organisation leads from simple to more complex structures with emerging differentiated sub-structures. He argued that this process is irreversible. Involution, on the other hand, leads to increasing entropy, the dissolution of structures and chaos. He maintained that in social systems, such as business organisations, involution, the decline of the company, can run parallel with the evolution of new structures and concepts. There is some parallel with what Peters (1988) referred to as managed chaos, or thriving on chaos.

The phases of organisational growth, and their associated crisis, have an implication for organisational transformation and recovery. Bibeault (1982) asserted that managers experience problems in moving from one phase to another. The reasons for this, he contended are that organisation development is poorly planned and that there is a lack of understanding of the different problems and underlying dynamics of every phase.

As far as the recovery process is concerned, the regeneration of a business organisation in decline involves the parallel processes of involution and evolution. This process has to be understood and properly managed by the turnaround manager.

PHASES OF STRUCTURAL DEVELOPMENT

The phases of structural development that evolved through time are intertwined with the development of management thought, phases of organisational growth and organisation transformation. The wider social, cultural and political environment and socio-economic system influence organisational behaviour and thus the design of the organisation (Deal & Kennedy, 1982; Hofstede, 1980). Structure is in particular influenced by the market environment, for example by factors such as competition, cyclical ups and downs and technological change (Van de Ven & Joyce, 1981).

Organisational design is a key issue as a possible co-producer of corporate decline, but probably more so in terms of recovery, given the frequency with which structures are changed as part of a corporate recovery strategy.

Welsch (1993) believed that a key aspect of corporate recovery is to make every person more valuable. This is achieved through role definition and restructuring. The flattening of the organisation structure through the elimination of layers of management played a key role in his turnaround of General Electric. Furthermore, he removed all head office staff functions and the hierarchies that went with them.

Drucker (1982) stated that the best structure will not guarantee performance, but the wrong structure is a guarantee for non-performance. Structure is a means of attaining the objectives and goals of an organisation. It then makes sense that structure follows strategy. However structure does not evolve intuitively - it must be designed as a deliberate exercise.

Various writers cited a number of different types of organisation design (Beer et al., 1990; Carnall, 1990; Drucker, 1982; Mills, 1991).

Drucker (1982) identified five different evolving structural phases, namely, hierarchical, federal decentralisation, simulated decentralisation, systems and team structures.

Carnall (1990) identified six types of management structures:

- ☐ the simple entrepreneurial structure.
- ☐ the functional structure.
- ☐ the product structure.
- ☐ the divisional structure.
- ☐ the matrix structure.
- ☐ the federal structure.

Mills (1991) identified four organisational design concepts, namely, the mob, hierarchy, matrix and cluster.

A brief description of the major structural types or phases of structural development will now follow.

ENTREPRENEURIAL STRUCTURE

The entrepreneurial structure is mentioned by many writers in some form or another, mostly linked to the first phase of organisational development (Carnall, 1980; Drucker, 1982; Mc Waters, 1983; Land, 1985; Lievegoed 1991). It revolves around the personality of the entrepreneur. The entrepreneur, being a fairly dominant and forceful individual, makes all the decisions, undertakes much of the work and therefore little or no identifiable departmental structures exist (Carnall, 1990).

Pressure for change is brought to bear upon the entrepreneurial firm largely as a result of growth and geographical dispersion, and the need for greater capital investment in the business and for systems.

FUNCTIONAL STRUCTURE

Growth of the entrepreneurial firm often leads to the creation of the functional structure. The functional structure is based on the premise that activities are grouped into departments based on functionality and similarity. In this way all activities concerned with personnel belong in the personnel department, those concerned with marketing in the marking department, etc. Co-ordination is achieved through a board of directors or an executive committee.

The terms "functional structure" and/or "hierarchical structure" are used inter-changeably by many writers.

The hierarchical structure, according to Drucker (1982), is largely based on the work of Taylor and Fayol and is the most traditional of all structures, yet still the most prevalent. Carnall (1990) mentioned the following three advantages of this kind of structure:

- ❑ It provides for the development of particular expertise such as engineering, technology, finance and human resources.

- ☐ It provides career paths for professional staff within their functional departments.
- ☐ It provides for the effective utilisation of people across the various departments.

The command and control concept of Beer et al. (1990) corresponds with the hierarchical structure with clearly defined prescriptive structures and systems to control the environment, and with little room for discretion. These authors described this structure as rigid and bureaucratic. They maintained that the command and control design concept emerged during World War Two and became entrenched during the 1950s and 60s.

The product, and the divisional structure discussed next, are simply derivatives and more sophisticated forms of the hierarchical structure.

PRODUCT STRUCTURE

The fundamental characteristic of the product structure is that activities are structured around a range of products, services or markets. Where the functional structure provides a good basis for achieving internal efficiency or functional co-ordination, it does not provide a basis for organisation around client needs, market segments, services or products (Carnall, 1990).

In the product structure every product range or market segment will have its own specialists from the various functional departments looking after their own disciplines, organised on a strategic business unit basis. The product structure, according to Carnall (1990), has the following two advantages:

- ☐ The product groups are better equipped to respond to market demands or changes in products or services. Furthermore, they do not need to compete for resources with other functional departments.

- ❑ The work of the various specialists becomes directly related to the market and adds value to customer service. In this structure it is possible for people to grow closer to the customer.

DIVISIONAL STRUCTURE

Further growth normally creates pressure on senior management who run the risk of getting bogged down in day-to-day detail.

The divisional structure implies breaking the organisation into autonomous units, called divisions, with each division serving a particular product, market or geographical area. According to Carnall, each division will have its own divisional chief executive, executive committee or board and is otherwise structured on a functional basis.

Carnall mentioned the following four advantages of a divisional structure:

- ❑ Cost and profit issues are delegated down to divisional managers. The group chief executive therefore has more time for strategic issues.
- ❑ The group executives will, therefore, concern themselves with overall financial planning, strategic planning, business development and management development.
- ❑ Each division can respond freely to the demands of its external environment.
- ❑ This structure allows accountability to be decentralised, striking a balance between control, on the one hand, and market autonomy, on the other.

MATRIX STRUCTURE

The matrix structure achieves a combination of market and functional focus in organisational work and gives each equal importance (Carnall, 1990). Matrix structures seem to work best in project work, such as is found on large construction, aerospace or computer development projects.

Carnall (1990) stated that the matrix structure has the following three advantages:

- ❑ Allows for effective deployment of scarce skills across the variable life cycles of specific products and projects.
- ❑ Specialists and operational personnel can develop cohesive and effective teams working on specific objectives on a key project.
- ❑ It provides for the career development of specialist staff.
- ❑ It provides for the flexible use of specialist staff, in the effective deployment of specialist skills when needed but adaptability over time so that these resources can very easily be switched to another project.

According to Mills (1991), the matrix structure was only accepted reluctantly and labelled as such after experimentation and gradual development during the 1960s. It has not proved to be successful enough to have become a prevalent design concept.

FEDERAL STRUCTURE

According to Carnall (1990), the federal structure is simply a decentralised version of the divisional structure. It implies the establishment of strategic business units for each product, or market and controls them from the centre without unnecessary intervention in divisional activities.

According to Drucker (1982), the federal-decentralised structure evolved from Alfred Sloan's restructuring of General Motors in the 1930s. It is a hierarchical structure decentralised in a federal concept. In a way, it is the formation of a federation of cloned businesses with hierarchical structures. Many large conglomerates today are structured in this way. Handy (1993, 1995) also described this form of organisational structure.

Carnall identified the following advantages of the federal structure:

- ❑ Accountability is clear and defined at unit level.

- ☐ Resources are not expended at divisional level.
- ☐ The group can achieve growth or divestment quickly to suit corporate strategies.

Drucker further identified the "simulated decentralised structure", which is an adaptation of the federal decentralisation for units which do not have their own markets and which cannot function as strategic business units. In this case, so-called "autonomous business units" will sell to each other in a vertically integrated line, at transfer prices, not open market prices.

As another derivative of the federal structure, Drucker identified the "systems structure" which is a combination of the federal structure with elements of the team and network structure. It is an extension of the team structure but instead of the team having individuals as members, the team has organisations as members. It uses all the other design principles and is effective when a variety of people and organisations with a diversity of skills, values and cultures have to be integrated.

NEW CONCEPTS IN ORGANISATION DESIGN

Miles and Snow (1992) contended that historically, new organisational forms develop to correct the shortcomings of the forms currently in use. As environmental changes accumulate, and current forms become progressively less effective in meeting the demands placed on them, managers start to experiment with new concepts until they arrive at a better way of arranging and co-ordinating resources.

A number of influential writers (Baden-Fuller & Stopford, 1994; Beer et al., 1990; Byrne, Brandt & Post, 1993, Charan, 1991; Drucker, 1989; Gouillart & Kelly, 1995; Hammer & Champy, 1993; Huey, 1994; Miles & Snow, 1992; Mills, 1991) commented on the increasing inefficiency of current organisation design principles in the face of the emerging information age, and advocated various alternatives.

In explaining the implications of the information society for organisation design, Drucker (1989) stated that during the mechanical age the emphasis in the business world was that organisations to became bigger and more powerful. In the information age, however, the right size is the essential question and the big challenge. Size follows function. The right size for an organisation is whatever handles best and most effectively the information needed for the task or function. During the mechanical age, the organisation was held together by the command and control principle, whilst in the information age it will be held together by the optimisation of information systems.

Huey (1994) noted that in the era of mass production companies could succeed by merely doing more of what they already did. The hierarchy run by a layer of middle managers was sufficient for this. As technology rendered middle management obsolete, an unaffordable luxury, organisations flattened their structures, pushing traditional management tasks down to the emerging knowledge worker and upper management suddenly faced the task of real leadership issues.

Miles and Snow (1992) also recognised the winds of change, stating that businesses are in the midst of an organisational revolution, and that through the 1980s organisations across the world responded to an increasingly competitive global business environment by moving away from centrally co-ordinated, multi-level hierarchies, towards a variety of flexible structures such as networks.

As early as the 1960s, Lawrence and Lorsch (1967) identified the need for organisations operating in complex, dynamic environments to utilise more co-ordinative, integrative processes than those in simpler, more stable environments.

The "virtual organisation" of Byrne et al. (1993) and Davidow and Malone (1992), the "task-driven organisation" of Beer et al. (1990), Charan's (1991) "network structure", Drucker's (1982) "team design" concept, Hammer and Champy's (1993) "reengineered organisation", and Mills' (1991) "cluster organisation" are all based on the same principles, namely the organisation or clustering of people, not according to the similarity of task or function as the hierarchical structure does, but according to process, projects, customer needs or key competencies. The network organisation, cluster organisation, task-driven organisation and virtual organisation will now be discussed.

Network organisation

Charan (1991) asserted that in a world of increasing global competition and unrelenting change, many companies have been good at developing strategies but have been weak at implementing them. In the search for solutions to this a relatively new term, "networks", entered the vocabulary of corporate renewal.

According to Charan, company networks are designed to build the central competitive advantage of the 1990s,namely, superior execution in a volatile environment. Charan maintained that no traditional structure, regardless of how delayered or decluttered, can muster the speed, flexibility and focus that success requires today. A network reshapes how, and by whom, essential business decisions are made. It integrates decisions horizontally at the lowest managerial levels with superior speed. It further requires and elicits intense and sustained focus on the fundamentals of the business.

A network, according to Charan, is a recognised group of managers drawn from across the company's functions, business units and levels to focus on specific corporate issues and to shape and deliver on corporate strategy. Networks affect traditional patterns of relationships and change behaviour. Miles and Snow (1992) defined networks as clusters of firms or specialist units co-ordinated by market mechanisms rather than chains of commands.

Cluster organisation

Mills (1991) identified the cluster organisation, argued that it is the newest form of human organisation, and that it is a variation on certain basic assumptions common both to the hierarchy and the matrix concept. He asserted that the cluster is a phenomenon of the Western world which emerging in Europe and the USA, and is not a Japanese concept although it has limited and superficial similarity to quality circles.

In expanding on the reasons for the emergence of this design concept, Mills stated that organisations with minimal hierarchies, self-supervising workers and computer programmers displacing middle managers, may seem to be figments of the imagination at this stage. Yet many companies are already delayering and downsizing towards a cluster concept as a result of powerful trends in technology, society and economics.

Mills defined a cluster as a group of people drawn from different disciplines who work together on a semi-permanent basis. The cluster handles its own administrative tasks and functions, thus divorcing itself from an extensive managerial hierarchy. The cluster develops its own expertise, expresses its own client orientation, makes decisions at the point of action and accepts accountability for its own results.

The cluster organisation, according to Mills, is made up of a number of such clusters, with a very small residual hierarchy which administers the business as a whole. A cluster organisation will typically consist of core-teams, change teams, alliance teams, and project teams, which will then respond directly to what the client requires.

Task-driven organisation

Beer et al. (1990) asserted that the new emerging environment requires a flexible, adaptive organisation, different patterns of work, different decision-making processes, focus on the customer, quick translation of information into product, service, quality and cost improvement. In this organisation, they argued, the task, rather than the function, is the basis for organising work, and this task-driven organisation is then the answer to a call for greater flexibility in an emerging transnational economy.

It thus becomes evident that the terms network organisation, cluster organisation and task-driven organisation describe essentially the same concept of design, namely organising around key task and issues rather than around functions.

Virtual organisation

Byrne et al. (1993), in support of the search for new structural solutions, cited that in today's world of fast-moving, global markets and fierce competition, the windows of opportunity are often very brief, and big organisations with complex structures find it difficult to adapt quickly to new market demands.

The emergence of the virtual organisation, according to Byrne et al. (1993), is a result of:

- ❑ the rapid pace of technological change which means that nobody can afford to develop and finance it on their own;
- ❑ the development of a communications super-highway which permits widely dispersed units of different companies to be in touch with each other and to locate suppliers, designers, and manufacturers through an information clearing house.

Byrne et al. (1993) and Davidow and Malone (1992) essentially defined the concept of the virtual organisation as a temporary network of independent companies -

suppliers, customers and competitors - linked by information technology to share skills, cost and access to each other's markets. It has no central office, no organisational chart, no hierarchy and no vertical integration.

The term "virtual" has its origins in the early days of the information industry when the term "virtual memory" described a way of making a computer act as if it had more storage space than it actually had (Byrne et al., 1993). Extending this logic to organisations, the virtual organisation will behave as though it has a capacity to perform, which it does not actually have, but which reflects in its performance and output.

The virtual organisation is based on the concept that it will only contribute what it regards as its "core competencies" or "key capabilities". A core competency is something it does better than anyone else. In this way the organisation will strip itself to its essence, shedding all functions that are not core competencies. It will then mix and match what it does best with the best of its suppliers, customers and competitors (Byrne et al., 1993).

Key attributes of the virtual organisation are aspects such as "partnering" and gaining production mass without the overhead costs. But the virtual organisation is more than strategic alliances and more than outsourcing agreements.

Byrne et al. (1993) contended that today's joint ventures, strategic alliances and outsourcing are only the first trickle of what will eventually become the virtual organisation. They asserted that in 20 years from now, an explosion of entrepreneurial industries will take place, which will form the real virtual organisations.

ORGANISATIONAL CULTURE AND CONTEXT

INTRODUCTION

Slatter (1984) argued that the study of organisational culture is important because some cultures are more susceptible to crisis than others. It becomes clear that organisational culture contributes to the susceptibility to decline, and it follows then that changing organisational culture becomes fundamental in the recovery of organisations in crisis.

He argued that organisations with autocratic cultures, those ruled by one-man power rather than on a consensus basis, as well as firms with a bureaucratic-type culture, driven by procedures and rules, are more susceptible to crisis than other organisations. The reason, Slatter (1984) argued, is that in an autocratic environment the quality of decision-making depends entirely on the capabilities of one person, the autocratic chief executive, and the probability of error in decision-making is not reduced by consultation with others. Bureaucratic cultures, driven by excessive rules are also susceptible to decline due to their inability to adapt quickly. Change is slow and takes place only through the change in systems, and this delayed response to crisis can mean corporate failure.

A number of researchers referred to the necessity to alter or change the:

- ❑ "culture" (Deal & Kennedy, 1982; Kharbanda & Stallworthy, 1985,1986; Luthans, 1985; Schein, 1985; Slatter, 1984), or
- ❑ "interpretive schemes" (Poole, Gioia & Gray, 1989; Ranson, Hining & Greenwood, 1980 ; Smircich ,1983), or
- ❑ "context" (Goss et al., 1993 ; Lorenz, 1994),

if organisational transformation is to be successful.

Goss et al. (1993) emphatically asserted that unless the context of an organisation is challenged and changed, all actions at improvement will at best produce episodic change.

DEFINITION OF ORGANISATIONAL CULTURE AND CONTEXT

A synthesis of the various definitions of culture and context would read as follows:

Culture or context consists of prevailing patterns (Luthans, 1985; Schein, 1985; Slatter, 1984) of:

- ❑ underlying assumptions (Lorenz, 1994),
- ❑ activities and behaviour (Luthans, 1992),
- ❑ knowledge (Luthans, 1992),
- ❑ norms and standards (Deal & Kennedy, 1982),
- ❑ beliefs and values (Kharbanda & Stallworthy, 1985, 1986; Slatter, 1984),
- ❑ ethics and code of conduct (Deal & Kennedy, 1982),

acquired or transmitted (Luthans, 1992; Schein, 1985) by a particular group on which its decisions and actions are based (Lorenz, 1994), and according to which experience is interpreted (Ronson et al., 1980), and behaviour governed (Goss et al., 1993; Luthans, 1992; Schein, 1985).

The culture or context of an organisation consists of the sum of all the conclusions that members of the organisation have reached - the product of their experience and their interpretations of the past, and a generalised frame work for organisational understanding (Goss et al, 1993).

IMPORTANCE OF CULTURE AND CONTEXT

These interpretive schemes are important because they enable the members of an organisation to map their experiences of the organisational world (Ronson et al. 1980), influence decisions (Lorenz, 1994), and determine behaviour and culture (Goss et al. 1993).

Luthans (1992) stressed the importance of culture in that it dictates what people learn and how they behave. According to him, culture influences what a person will learn, and is the context within which everything else takes place. Culture determines attributes such as independence, aggression, competition, and co-operation. Culture defines the range of experiences and situations a person is likely to be exposed to, the values and behaviours to be reinforced.

In their attempt to isolate the characteristics that distinguish successful from less successful organisations, Ball and Asbury (1989), Deal and Kennedy (1982), Donaldson and Lorsch (1983), Kanter (1983), Peters and Waterman (1982), and Uttal (1983), all suggested that most companies with an outstanding financial track record have very powerful corporate cultures. Thomas Watson (cited in Kharbanda & Stallworthy, 1987,p.18), who built IBM to the giant business organisation it once was, stated:

> Consider any great organisation, one that has lasted over the years and I think you will find that it owed its resilience not to its form of organisation or administrative skill, but to the power of what we call beliefs and the appeal these beliefs have to provide. This is then my thesis: I firmly believe that any organisation, in order to survive and achieve success, must have a sound set of beliefs upon which it premises all its policies and actions. Next, I believe that the most important single factor in the corporate success is faithful adherence to these beliefs..... And finally, I believe that if an organisation is to meet the challenges of a changing world, it must be prepared to change everything about itself, except those beliefs as it moves through corporate life.

Organisational processes are influential co-producers of organisation culture, since they govern organisational behaviour and the nature and employment of resources.

They define structures, roles and responsibilities. They structure decision-making and information flow. They determine authority relationships, the identity and image of the organisation and the culture.

Given that organisations are basically systems of shared knowledge and meaning composed of repertories of schemes, comprehension and action are guided through them. By accepting institutionalised schemes an organisation member acquires trust worthy formulas for obtaining desirable consequences when handling situations and interpreting the organisational world. Organisations can therefore be characterised by the schemes its members routinely use (Poole et at 1989). When these schemes are altered, the foundation on which people construct their understanding of the world, and their actions are altered too.

ELEMENTS OF CULTURE

What is the nature of organisational culture and what determines organisational culture? It seems to consist of the following elements:

- ❑ Learned: it is acquired (Luthans, 1992; Deal & Kennedy, 1982)
- ❑ Shared: it is shared by groups of people and is not individualistic of nature (Luthans, 1992; Deal & Kennedy, 1982).
- ❑ Trans-generational: it is cumulative in nature and passed from one generation to the next (Luthans, 1992).
- ❑ Symbolic: it is represented through symbols (Luthans, 1992; Deal & Kennedy, 1982).
- ❑ Patterned: it is organised and integrated (Luthans, 1992; Deal & Kennedy, 1982).
- ❑ Adaptive: it is based on the human capacity to adapt (Luthans, 1992)

Deal and Kennedy (1982), having researched over 80 American organisations, indicated that corporate culture will be determined by:

- ❑ Business environment: the realities of the supra-system within which the organisation have to survive, such as customers, technologies, products and competition, influence the required culture. Successful organisations are characterised by a distinct and clear approach to their markets, their clients, their stakeholders, and other elements of the environment.

- Values: the basic concepts and beliefs which define success in concrete terms. Successful organisations are characterised by values which are shared by all the members of the organisation.
- Heroes: they personify the culture and provide role models.
- Rites and rituals: the routines of day-to-day life, the systems and procedures which people will have to follow.
- Cultural network: informal means of communication carrying the values and rituals.

It could be concluded, that a strong culture is one where there are clear guidelines as to how to deal with the various situations that managers and other employees are faced with. In strong cultures people have a clear idea where the company is going, and a clear understanding of corporate objectives, corporate policies and values and the strategic decisions which govern behaviour.

There is however, also a downside to a powerful culture is that when the organisation is successful, it remembers the mix of resources used and the behaviour patterns that were followed and translates these into policies and standard operating procedures. In putting too much emphasis on this culture and deciding what to do next on the basis of whether it supports the culture rather than on the basis of external environmental demands, the organisation could become more susceptible to crisis.

THE INFORMATION-BASED ORGANISATION

INTRODUCTION

What is the new paradigm for organisation design? What will the organisation of the 21st century look like? What is the relevance of this for organisational recovery and turnaround? It is the purpose of this section to shed some light on these questions.

Discussing the issues of change and the new realities within which organisations have to succeed, Drucker (1989) stated that the greatest shift, greater by far than the changes in politics, government or economics, is the shift to the knowledge society in all developed, non-communist countries.

According to Drucker (1989), as soon as an organisation takes the first tentative steps from data to information, its management structure, the way it does its work and its decision processes, all begin to be transformed.

The production-based organisation and structure was already questioned in the 1930s by the likes of Thomas Watson, founder of IBM, Robert Wood of Sears Roebuck, and Elton Mayo at Harvard Business School (Drucker, 1990).

The need is for a solution to the bureaucracy. It is no longer necessary, or desirable, to organise work around Adam Smith's division of labour, but it has become imperative to organise around process. Trying to tinker with the individual fragmented pieces of work and improving quality and performance there will not work. A process view will have to be taken (Hall et al. 1993; Hammer & Champy, 1993; Regan, 1994; Venkatraman, 1991).

The first revolution that Stewart (1993) mentioned, the management revolution, involves a basic shift in the organisation of work. Stewart maintained that initially this revolution was confined to a few trend-setting companies like General Electric, Motorola, IBM, etc., but more and more smaller organisations are now participating in, as he calls it, "the dismantling of Taylorism".

Hammer and Champy (1993) postulated that business will have to re-invent themselves, not merely fixing their problems, and this approach they called "business process reengineering". The answer lies, they contented, in the way these companies do their work and why they do it that way. Reengineering, Hammer and Champy reasoned, started a process of a new organisational context, in that process redesign has fundamental implications for other parts of the organisational system. The methods and techniques of organisational transformation, which include reengineering, aim to move the business organisation from its previous shape, anchored firmly in the premises of the production era, into a future state, anchored in the premises of the information age.

CHARACTERISTICS

Hammer and Champy's description of the "reengineered organisation" has much in common with what Drucker (1989) described as the "information-based organisation", and what Handy (1993) described as the "knowledge-based organisation". This "information-based organisation", as it emerges and evolves from successive waves of transformation, will progressively exhibit the following characteristics:

- ❑ half the levels of management of today (Drucker, 1989; Huey, 1994; Mills, 1991).
- ❑ a third of the number of managers they currently employ (Drucker, 1989).
- ❑ specialists directing their own performance, focusing more on customer needs, based on feedback, more from colleagues and customers than from their bosses (Drucker, 1989; Hammer & Champy, 1993; Miles & Snow, 1992; Mills, 1991).
- ❑ workers who once followed the orders, now make decisions and exercise choices (Charan, 1991; Hammer & Champy, 1993; Mills, 1991).
- ❑ activity structured more around goals (Drucker, 1989), process (Hammer & Champy, 1993), and task (Beer et al., 1990), than job descriptions.
- ❑ its knowledge base (Drucker, 1989; Handy, 1993).
- ❑ cluster or network structures consisting of task forces and teams, rather than jobs and functions (Charan, 1991; Drucker, 1989; Miles & Snow, 1993; Mills, 1991).

- ☐ functional departments lose their reasons for being, and hardly any staff functions required (Drucker, 1989; Hammer & Champy, 1993; Mills, 1991).
- ☐ autonomous business units (Drucker, 1989).
- ☐ assembly line work disappears (Hammer & Champy, 1993).
- ☐ managers stop behaving like supervisors and start behaving like coaches (Hammer & Champy, 1993).
- ☐ attitudes and values change in response to new incentives (Hammer & Champy, 1993).

Expanding on this shift, Drucker (1989), stated that:

- ☐ The social centre of gravity has shifted to the knowledge worker. All developed countries are becoming post-industrial and knowledge societies.
- ☐ The shift to knowledge and education as a passport to good jobs and careers means a shift in a society where business was the main avenue of advancement, to a society where business is only one of the available opportunities.
- ☐ A shift is taking place from the blue-collar workers in manufacturing to knowledge workers with different values and expectations. The blue-collar worker is becoming the counter-culture rather than the mainstream.
- ☐ Another emerging counter-culture is the third sector of non-profit, non-governmental institutions.
- ☐ Management has emerged as both central social function and as new and distinctive liberal art.
- ☐ Knowledge has become the capital of the developed economy.

He commented that the large majority of knowledge workers will still work for business organisations, but their relationship with these organisations will have changed. They will be employees, but at the same time the real capitalists through their pension funds. They are specialists and, although their own field will be quite narrow, in this field they are superior to their employer, no matter how low they are in the hierarchy. The knowledge workers will be colleagues and associates rather than subordinates.

Handy (1993) stated that it is ironic that just when capitalism has so clearly triumphed over communism, we see Karl Marx's great dream come true in a way he would never have envisaged: in perhaps a decade from now, the workers will truly own the means of production, because these means will be in their own heads and at their own finger tips.

Information, according to Drucker (1989), requires knowledge and knowledge, by definition, is specialised. The "information-based organisation" requires far more specialists than the older command and control structure. It then becomes immediately clear that there are both too many layers of management and too many managers. As the organisation moves away from being production-based to becoming knowledge-based, whole layers of management are found to neither make decisions, nor lead. This could explain the intervention strategy of *organisation re-design*, reported in Chapter 2, where recovery CEOs de-layered, and reduced the headcount of their businesses.

The "information-based organisation" will use many of the design principles of the "virtual organisation" as put forward by Byrne et al. (1993), Davidow and Malone (1992), and Huey (1994). A virtual organisation consists of fungible modules built around information networks, flexible work-forces, outsourcing and webs of strategic partnerships; it enables individuals to think of themselves as self-contained small businesses. Virtual leadership, according to Huey (1994), is keeping everyone focused as old structures and old hierarchies crumble. According to Stewart (1993), the term "reconfigurable" organisation design is the order of the day. Organisations want to reconfigure their design and structure, not annually, but monthly and even weekly.

Baden-Fuller and Stopford (1994) proposed the notion of "strategic centres" and "webs of partners" as solutions to hierarchy and bureaucracy. In these concepts organisations are bound together by information systems and a common purpose to achieve a necessary output. Organisations in the network would share their operational details, but not their revenues and profits, as divisions in large organisations do.

Although Venkatraman (1991) believed that a new set of principles has not yet been developed, and proposed that our current methods of organisation be investigated in the light of IT development, Drucker (1989), Byrne et al. (1993), Davidow and Malone (1992), Gouillart and Kelly (1995), Hammer and Champy (1993), Huey (1994) and others, however, have put forward new and different organising principles.

Key to this transformation is the redesign of current business and management processes. Every aspect of the organisation changes when structured around process and information technology. Hammer and Champy (1993) noted the following kinds of changes:

Work units change from functional departments to process teams

Hammer (1990), Hammer and Champy (1993) concluded that companies are putting together again, what Adam Smith and Henry Ford broke into tiny pieces.

Organisations need to be reorganised to concentrate on core activities, cut out unnecessary levels of supervision and recognise that formal hierarchies are irrelevant. To do this, cross-functional teams are required to think across the entire organisation.

Baden-Fuller and Stopford (1994), who identified five key characteristics of the "entrepreneurial organisation" as they call it, also stressed the prevalence of team work in all parts of the organisation.

Looking at the work that a number of functional units perform, the work each person performs is not changed, but the sequencing may be rearranged, and they will now do it together instead of separately. A group of workers that were artificially separated are now put back together again into what can be called a "process team". A "process team", therefore, is a unit of people that naturally falls together to complete a whole piece of work - a process. Process teams do not contain representatives from all the functional departments, but replace the old departmental structure (Hammer & Champy, 1993).

Hammer and Champy identified three different kinds of process teams:

- Case teams: case teams work well for handling recurring work. They process similar customer requests day after day. As a result of this the members are permanently grouped together in order to process the work.
- Virtual teams: virtual teams work well for development type work - a process with a shorter life span, where the members stay together in the team for as long as the episode of the task lasts. Virtual team members are not permanent members of the team as is the case with case teams, but come together to work on specific projects, whilst belonging to other teams at the same time. Virtual teams are therefore, the solution to episodic tasks.
- Case worker: where the process can be handled by a single person.

Jobs change-from simple tasks to multi-dimensional work

Process team workers are all jointly responsible for the output of the process, from beginning to end. In sharing this joint responsibility for the total process, their focus shifts from individual tasks to multi-dimensional tasks.

They have to use a broader range of skills and have to think about a bigger picture. The lines between case-workers in a case team are more blurred than in functional teams. Each member will have to be familiar with the requirements of the total process and will perform several of the steps in the process (Hammer and Champy, 1993). Baden-Fuller and Stopford (1994) noted that these team members would aspired to achieve more than the immediate task.

People's roles change from controlled to empowered

In task- oriented companies, people are employed to perform a task according to set rules. In a reengineered company, people are employed to make their own rules. Process team workers are required and permitted to think, act, use judgement and make decisions in the interest of the total process. Such teams are self-directing (Hammer and Champy, 1993). In a reengineered business, activities are more interrelated and decisions can no longer be made by functional managers. Decision making moves into the process, and team members experiment with and explore new ways of doing work (Baden-Fuller & Stopford, 1994; Champy, 1994; Charan, 1991; and Mills, 1991).

Job preparation changes from training to education

Training, according to Hammer and Champy (1993), teaches workers how to perform a particular job or how to handle a specific situation; education, on the other hand, enables a worker to discern for him/herself what the right thing is. Training increases skill and competence, showing a person how to do something, whilst education increases insight and understanding, indicating why something needs to be done. Baden-Fuller and Stopford (1994) also commented that one of the characteristics of organisations that succeeded in rejuvenating themselves, was the ability to build capabilities, to learn and adapt.

Focus for performance management and rewards changes from activity to results

In most organisations people are paid for being there - not for performing. Typically a worker in a production plant is paid per hour, not according to the pieces produced. Clerical workers are paid overtime when work after hours is required, not according to output. The reason is that in functional hierarchical structures an individual's work has no quantifiable value. Where work is fragmented, companies are forced to focus on, and pay for the efficiency with which a narrowly defined task is being performed. However, increased efficiency in narrowly defined tasks does not always translate into improved output of the total process (Hammer & Champy, 1993). Reengineered processes, Hammer and Champy (1993) contended, do away with paying for efficiency, paying for being there, or paying for seniority, experience and other such input factors or points systems. Rewards are based on contribution and performance of the final output of the total process and all case team workers share in this reward. Basic salaries remain relatively flat over time, with extra-ordinary performance rewarded in the form of bonuses.

Advancement criteria change from performance to ability

Hammer and Champy (1993) postulated that the reward for performance is a bonus, not advancement to a new job. Advancement, they argued is the function of ability and not performance.

Values change from protective to productive

Hammer and Champy (1993) believed that an organisation's management system, which includes the ways in which people are paid and the measures by which their performance is evaluated, are the primary shapers of employees' values and beliefs. As reward systems change to reward contribution and output of a process, so will employees start believing that they work for their customers and not their bosses. Some organisations, such as Xerox corporation, according to Hammer and Champy (1993) make a major portion of a manager's bonus dependent on a measure of customer satisfaction.

Organisational structures change from hierarchical to flat

As work is organised around processes, performed by self-directing case teams, where supervising, control and reconciliation are reduced and the decision process interwoven with the task process, fewer of the middle managers who previously performed these tasks are required (Drucker, 1989; Huey, 1991; Mills, 1991). Many companies are attempting to flatten their organisations and through the redesign of functional processes change from a departmentalised to a process-focused culture (Marchand, 1995). For instance, many manufacturing companies are restructuring their supply chains to design, manufacture, distribute and sell their products faster and in more flexible ways.

Managers change from supervisors to coaches

According to Hammer and Champy (1993), as teams become more self-directed and self-managed, the supervisory requirement decreases. However, through reengineering, processes become more simple, but once simple jobs became more complex. Case workers now need help and advice, not control and supervision.

Executives change from score keepers to leaders

Flatter organisations move senior executives closer to the customers and the people performing the tasks. As they get more involved in the day- to- day efficiencies of the process, they will start to lead again, rather than just counting outcome of the process (Hammer & Champy, 1993). As workers add more customer value, they become increasingly self-directed and the role of management changes from controlling to empowering staff with information, training, authority and accountability (Champy, 1994). Management, according to Champy (1994) will need new tools to help them manage, such as performance measures, incentives, hiring and training systems and others. Compensation will be based on performance rather than position. The role changes from watching financial numbers to measuring performance of critical processes, such as "What percentage of customers are we retaining? How fast are we filling orders? How many prospects are converted into customers?"

Having discussed the issues of development of managerial thought, phases of organisational growth, structure and design of organisations, and culture, as well as the information-based organisation, the focus now moves to the process issues of transformation. Dimension three covers these process issues, such as the scope of transformation, the stages of transformation and includes a critical review of transformation efforts to date.

SCOPE OF ORGANISATIONAL TRANSFORMATION

INTRODUCTION

It is virtually impossible to divorce the concept of organisational transformation and change from the study of corporate decline and recovery, particularly given the fact that 13 of the 14 studies reviewed in Table 2.7 indicated that organisational change and development, which included cultural change, was an essential element of an overall recovery strategy. Of the four types of turnarounds mentioned in Table 2.12, the management process turnaround seems to be the most successful, as judged by the influential literature reviewed in Chapter 2. The management process turnaround involves essentially the restructuring of organisational process, which requires transformation management, and in turn has a profound influence on organisational culture.

In view of the fact that this thesis is primarily concerned with corporate decline and recovery, it is not within its scope to give an extensive review of organisational culture and organisational transformation, other than to indicate their relevance and importance. Only the issues of direct relevance will be noted.

What is the scope of organisational transformation and what is normally included under this term ?

According to Kotter (1995), change efforts went under many banners, such as total quality management (TQM), reengineering, right-sizing, restructuring, cultural change and turnaround. In all cases however, the basic goal was the same: to create fundamental changes in how the business is conducted, in order to cope with a new, more challenging market environment. Hammer and Champy (1993) commented on the proliferation of business change programs, such as reengineering, TQM, TQS (Total Quality Service), cultural change, reinvention, strategic alignment, "right-sizing", joint ventures, innovation, empowerment and other banners for transformation.

This proliferation could well be, in part, the result of authors and consultants attempting to differentiate their approach or philosophy in the market-place. For example, the terms reengineering, reinvention, redesign, reconfiguration, restructuring, rejuvenation and organisation transformation are often used by a number of authors, (notably Baden-Fuller & Stopford, 1994; Gouillart & Kelly, 1995; Hall et al, 1993; Hammer, 1990; Hammer & Champy, 1993; Kotter, 1995; Lorenz, 1994; Regan, 1994; Venkatraman, 1991), all essentially including the same concepts.

In the light of this proliferation, it was considered necessary to define the scope of organisational transformation, and to integrate the various thought processes into a conceptual model.

A CONCEPTUAL FRAMEWORK

In an analysis of reengineering projects in 100 companies, of which 20 were in detail, Hall et al. (1993) identified two factors which seem to correspond with the successful or unsuccessful outcome of transformation efforts, namely *breadth* and *depth* of intervention. In terms of *breadth* or level of intervention, a process can be as narrowly defined as a single function or as broadly defined as the entire business system. Some companies redesigned the narrowest processes, such as a single activity within a single function. Middle-of-the-road projects reengineered inter-functional and cross functional processes, such as a new product development process. The broadest approach was taken by companies who redesigned one or more processes that comprised most of the critical activities of the business.

In terms of the *depth* of transformation initiatives, a process redesign needs to include as many drivers of behaviour as possible. Hall et al. (1993) implied with *depth* (or drivers), the extent to which the transformation effort reach down into the organisation, in terms of the redesign of roles and responsibilities, measurements and incentives, organisational structure, information technology, shared values, and skills. The more of these six key elements that are involved, the more *depth* in terms of intervention is achieved. Hammer and Champy (1993), would call these *management processes* as opposed to *business processes.*

The concept of *depth*, is supported by Regan (1994), who contended that reengineering included business tasks, job design, organisational structure, measurement and management systems, values and beliefs.

Hall et al. (1993) and Marchand (1995) distinguished between four levels of transformation, whilst Venkatraman (1991), approaching business reconfiguration from an IT point of view proposed a hierarchy of five levels of transformation. Venkatraman's (1991) five levels were based on the results of the MIT Sloan School of Management's "organisation of the 1990s" research program. He postulated that these five levels were not conceptualised as stages of evolution, but distinct levels of business reconfiguration with an explicit focus on the role of IT.

Table 3.2 indicates the scope of organisational transformation, integrating the thoughts of Beckhard and Harris (1987), Burke (1982), Champy (1994), Hall et al. (1993), Hammer and Champy (1993), Marchand (1995), Regan (1994), Scott-Morton (1991), Stopford and Baden-Fuller (1990) and Venkatraman (1991). This table introduces five levels of change in organisations.

Table 3. 2: The Scope of Organisational Change

Elements of change / Depth of intervention / Management process / Levels of transformation / Breadth of intervention	JOB DESIGN, ROLES AND RESPONSIBILI-TIES	MANAGEMENT SYSTEMS (eg. measurement & incentives)	ORGANISATIONAL STRUCTURE	INFORMATION TECHNOLOGY	SKILLS AND BEHAVIOUR	VALUES
STRATEGIC ARCHITECTURE Raison d'etre (Beckhard & Harris, 1987), Third order change (Burke, 1982), Entire business (Hall et al, 1993), Business redesign (Marchand, 1995), Business scope redefinition (Venkatraman, 1991)	(Champy,1994; Hall et al.,1993; Hammer & Champy, 1993; McKensie & Walton, 1991; Regan, 1994; Scott-Morton, 1991)	(Champy, 1994; Hall et al., 1993; Hammer & Champy, 1993; Regan, 1994; Scott-Morton, 1991)	(Beckhard & Harris, 1987; Hall et al.,1993; Regan, 1994; Scott Morton, 1991; Stopford & Baden-Fuller, 1990)	(Beckhard & Harris, 1987; Hall et al.,1993; Scott Morton,1991; Stopford & Baden-Fuller, 1990)	(Beckhard & Harris, 1987; Hall et al.,1993; Hammer & Champy, 1993; Regan, 1994; Scott Morton,1991; Stopford & Baden-Fuller, 1990)	(Beckhard & Harris, 1987; Hall et al.,1993; Hammer & Champy, 1993; Regan, 1994; ScottMorton,1991; Stopford & Baden-Fuller, 1990)
ORGANISATION DESIGN Shape and structure (Beckhard & Harris, 1987), Second order change (Burke, 1982), Business network redesign (Venkatraman, 1991)						
BUSINESS PROCESS REENGINEERING (Inter-functional) The way business is done (Beckhard & Harris, 1987), Second order change (Burke, 1982), Inter-functional (Hall et al, 1993) Cross functional (Marchand, 1995), Business process redesign (Venkatraman, 1991).						
BUSINESS PROCESS REENGINEERING (Intra-functional) First order change (Burke, 1982), Intra-functional (Hall et al, 1993) Functional improvement (Marchand, 1995), Internal integration (Venkatraman, 1991)						
BUSINESS PROCESS IMPROVEMENT First order change (Burke, 1982), Single function (Hall et al, 1993) Task improvement (Marchand, 1995), Localized exploitation (Venkatraman, 1991)						

☐ **Level 1 Intervention: Process improvement.**

This is the "first order change" (Burke, 1982), which occurs when a subsystem of the total organisational system is targeted for intervention, such as only the materials handling department, or the sales department. The focus is localised exploitation (Venkatraman, 1991): concerned with the utilisation of IT within one specific business function (Hall et al., 1993) such as operations, manufacturing or marketing. The potential impact would be high savings in narrow areas of business. The major objectives would be to improve business processes, effecting task efficiency and productivity (Marchand, 1995), and reducing costs (Venkatraman, 1991). Management implications would be to identify firm specific areas for exploitation.

Marchand (1995) viewed the first and most elementary level of intervention, namely specific task improvements, as probably the oldest form of process redesign. Task oriented process improvement interventions would include TQM , TQS, ISO 9000 (International Standards Organisation), and other initiatives such as JIT (Just In Time). Burke (1982) argued that the effect of an intervention at this level, with no further intervention in other sub-systems, may be very short-lived.

☐ **Level 2 Intervention: Business process redesign (intra- functional)**

Level 2 intervention would include intra-functional design (Hall et al., 1993) which embraces the redesign of business processes in an entire department (Marchand, 1995). As an example, Marchand cited Ford's benchmarking of accounts payable and subsequent reengineering of Ford's accounts payable activities. This, he argued, is a classic example of radically rethinking a business process in a functional area. The focus is internal integration (Venkatraman, 1991). Two types of integration exist, both of which are a logical extension to level one. Firstly, technical integration of different systems and applications using a common IT platform. Secondly, organisational integration of different roles and responsibilities to exploit technical integration capabilities.

The potential impact is efficiency and effectiveness. The major objectives would be to elevate IT as strategic resource. Management implications would be to articulate the logic for integration (Venkatraman, 1991). Both levels one and two are viewed by Venkatraman (1991) as evolutionary, leading only to incremental changes in existing organisational processes. Burke's (1982) "first order change" would also include both Levels 1 and 2.

❑ **Level 3 Intervention: Business process redesign (inter- functional)**

The terms reengineering and re-invention are often used inter-changeably (Goss et al.; Hammer & Champy, 1993; Lorenz, 1991; Regan, 1994) to describe the rethinking and redesign of business processes to achieve dramatic improvements in critical measures of performance, such as costs, quality, service and speed.

A review of this literature indicated that the word "reengineering" is often overstated by some writers, in terms of its role in organisation transformation. When organisation transformation is defined as the transformation of the organisation across all levels, as defined by Venkatraman 1991 in terms of *breadth*, and across all six elements identified by Hall et at. (1993) in terms of *depth*, then reengineering covers only certain aspects of transformation (See Table 3.2).

The focus at Level 3, according to Venkatraman (1991), is the reconfiguration of business process, using IT as a central lever. Hammer and Champy (1993), Champy (1994), Marchand (1995) and Regan (1994) differ from Venkatraman (1991), in that they did not view IT as the central lever of reengineering, but rather as an enabler. The potential impact is in creating differential capabilities in the marketplace through a reengineered process, often with IT as lever or enabler. Management implications would be to align departmental or functional strategy with IT. Intervention at Level 3 would include the redesign of cross-functional (Marchand, 1995) or inter-functional (Hall et al, 1993) processes , with the aim of moving from a departmentalised to a process-focused culture. Burke's "Second order change" will fall into this category in that it implies an intervention beyond one sub-system or process, including a category or particular set of sub-systems. Burke (1982) and Beckhard and Harris (1987) saw this level of transformation as defining the way business is done.

In support of Levels 1, 2 and 3 transformation, Bevilacqua and Thornhill (1992) commented that in trying to deal with crisis, many organisations were throwing technology at ineffective, inefficient business processes, yet this did not improve overall business performance. The approach of the last two decades have been, they argued, to tinker with the support structures and systems in organisations. Revising support systems has been the time honoured response to the need for change. The nett effect of the old paradigm was that companies never addressed the core issues behind the steady erosion of their competitiveness; namely, the need to have effective business processes of world class status.

☐ **Level 4 Intervention: Organisational architecture**

The focus is on the shape and structure of the organisation (Beckhard & Harris, 1987), and business network redesign. The concern is with the reconfiguration of the scope and tasks of the business network involved in the creation and delivery of products and services. The potential impact is in the opportunities for creatively exploiting capabilities. This strategic issue is not limited to business tasks within one organisation, but includes business tasks outside the formal boundaries of the focal organisation and the major objectives would be the consequent redesign of a "virtual business network", where the organisation occupies a central position. This implies electronic integration across key business partners. Management implications would be to articulate the logic of organisational redesign and network redesign. This level of intervention would include the redesign of the organisation in terms their customer interface configuration and the customer delivery cycle, i. e. how they offer the product or service to customers in the chosen market place, and the redesign of organisational structure (which was discussed in more detail in an earlier section). Neither Hall et al. (1993) nor Marchand (1995) identified a level of intervention to correspond with Venkatraman (1991).

☐ Level 5 Intervention: Strategic architecture

The focus is business scope redefinition: concerned with the raison d'être of the organisation (Beckhard & Harris, 1987; Venkatraman, 1991), including the entire business (Hall et al., 1993), and intervention into the total organisational system (Burke, 1982). This "third level" of change (Burke, 1982) will have the potential impact of altering the business scope, both reactively and proactively. The major objectives would be to redefine the scope of the business in terms of its vision and mission, identify new business, potential threats, incorporating required enlargement or shifting of business scope. Management implications would be to identify the new scope. This level of intervention would include redesigning the company and its business in terms of redefinition of core capabilities and product-market positioning (Marchand, 1995). Marchand cited Siemens, Xerox and Daimler-Benz as examples of having to reinvent their core businesses, having to launch new products and services, changing their cultures, and redefining their customer relationships, reducing their workforces and introducing new pricing structures.

This level of transformation would include the strategic planning process of the organisation and its relationship with other organisations and systems in the ecological environment they share. Organisations must understand the importance of their role in the total system. For business to survive, it has to contribute to the social fabric of society (Drucker, 1989).

Stalk, Evans and Shulman (1992) stated that as globalisation expands and product life cycles speed up, competition becomes a "war of movement" and successful competitors move quickly in and out of products, markets and even industries. The essence of strategic planning is changing from the structure of a company's products and markets to the dynamics of its behaviour, a process akin to moving away from a chess game into interactive video. The fundamental goal is to develop a hard-to-imitate organisational capability to distinguish the organisation from its competitors. These authors introduced "capabilities-based competition" as a new conception of corporate strategy. They contended that in industry after industry established competitors are being overtaken by more dynamic rivals. This is an indication that hitherto acceptable practices of strategic planning are becoming progressively impotent in the face of these new challenges. They believe that the capabilities-based concept will be the model for strategic planning in the 1990s and beyond.

Capabilities-based competition, according to Stalk et al. (1992), is characterised by four basic principles:

- The building blocks of corporate strategy are not products or markets but business processes.
- Transforming the organisation's key processes into strategic capabilities that consistently provide superior value.
- Organisations create these capabilities by making strategic investments in support infrastructure that links together and transcends traditional strategic business unit functions.
- Due to its cross-functional nature, the champion of the capabilities-based strategy is the CEO.

Capabilities-based companies grow by transferring their essential business processes, first to new geographical areas and then to new businesses.

Stalk et al.(1992) concluded that competing on the basis of capabilities affords the opportunity to gain the benefits of both focus and diversity. By concentrating on a strategic capability but applying it to a diversity of regions, products and businesses, the organisation becomes a "capabilities predator", coming from nowhere, a non-participant, entering certain markets and becoming a major player or even market leader.

Hamel and Prahalad (1990, 1994) referred to this concept as the "core competence" of the organisation and they also see it as the central building block of corporate strategy. Using the same term, Quin (1992) defined a "core competency" as several mutually reinforcing skills that, when properly linked, others cannot imitate or surpass. Quin further maintained that, except in rare cases, products cannot any longer, afford competitive advantage. He was of the opinion that the future of strategic planning will involve focusing on core intellectual and service competencies. His concept of a "core competency" is creating value for the customer through knowledge-based services.

Baden-Fuller and Stopford (1994) supported the "resourcer based theories" of strategic thinking which advocated the mobilisation of the internal resources of the organisation. As described in the previous chapter, they introduced the concept of a staircase of capabilities that permit organisations to resolve increasingly difficult dilemmas and achieve sustained renewal and competitive advantage. Rejuvenators, they pointed out, became leaders by combining their resources in new ways and building new competencies from within.

Itami (1987) used the concept of "invisible assets" , required for competitive advantage. He saw invisible assets as comprising technology, customer loyalty, brand names, distribution networks, corporate culture and management skills. Physical, financial and human assets are only essential for the business to survive, but the invisible assets create the real competitive advantage. According to Itami, these invisible assets create competitive advantage for three reasons: they are very difficult and time-consuming to create, have multiple applications, and evolve through being applied or used. As an example, developing a corporate culture is time-consuming and costly; it cannot be bought as in the case of other assets. Similarly, a company's reputation with customers takes years to build. Itami further argued that people are the accumulators of invisible assets.

Already in the early 1980s, Peters and Waterman (1982) made reference to the importance of focusing on the core business, when they advocated "sticking to the knitting". Others called it "back to basics", all implying focusing on the core business, increasing profit there and divesting elsewhere.

The issue of capabilities based competition as a different concept of strategic planning has a very strong bearing on one of the most often used corporate recovery strategies, namely business redefinition. It indicates the direction and process to be followed in redefining the market position and direction of an organisation in the process of recovery. As a co-producer of decline, the implication could be that some organisations go into decline as result of losing the sharpness of their competitive edge, as they expand and diversify into allied products and businesses, neglecting sufficient time and capital investment in their core capabilities.

An important decision in the process of organisational transformation is where to start with the change intervention, or where to focus the initial attention. Beckhard and Harris (1987) proposed that any of the following sub-systems can be considered as an entry point:

- ❑ top management as the top of the system.
- ❑ systems ready and open to change.
- ❑ "hurting" systems, those in trouble.
- ❑ new teams or systems.
- ❑ supporting sub-systems.
- ❑ temporary project systems, such as <u>ad hoc</u> project teams.

Considering the literature reviewed in Chapter 2, it becomes clear that in corporate recovery, the first entry point into the organisational system is the top management team, from where further interventions are initiated in most other sub-systems. The need for the appointment of a new CEO to manage this change, and for the use of external resources such as consultants to assist in its facilitation, are underscored by Beckhard and Harris (1987) when they stated that it is most difficult for an organisation to change itself. Some intervention from outside is required, because, according to them, the regular structures in the organisation will not be adequate for managing the change. It is often necessary to create temporary systems to effect this change. This could explain the propensity for successfully recovered companies to have formed task forces and project teams to achieve changes in systems and processes.

Corporate turnaround and recovery then, seems to involve the total organisational system, and would, therefore, include all levels of transformation, and all depth levers, and is in this sense much more than reengineering.

CRITICAL REVIEW OF TRANSFORMATION

As mentioned earlier, Kotter (1995) concluded that change and transformation efforts went under many different banners. In the review of the successes and failures of transformation, commentary would include any form of transformation, whatever it was labelled as.

Kotter (1995) commented that over the last decade, considering more than 100 companies trying to remake themselves into better competitors, a few of these change efforts were very successful, a few utter failures and most others somewhere in between.

Hall et al. (1993) stated that for all too many companies reengineering has been not only a great success, but simultaneously a great failure. They concluded that after months and even years of reengineering and careful redesign, these companies achieved dramatic improvements in individual processes at the same time as noting overall decline of results. They argued that these paradoxical outcomes are almost commonplace. They cited examples of an insurance company cutting claims-process time by 44%, yet its profits declined. The management claimed a 20% cost reduction, 50% process time reduction, 25% quality improvement, yet business unit costs increased and profits declined at the same time.

These authors found that only 6 of the 20 companies they analysed in detail achieved an average of 18% reduction in business unit costs. They concluded, that despite differences in industry, geographical region, and competitive situation, these six companies had striking similarities in how they approached their reengineering projects. Only those projects that were sufficiently broad and sufficiently deep produced long lasting bottom-line results.

Marchand (1995) reported that surveys of executives of <u>Fortune</u> 1000 companies indicated dissatisfaction with their reengineering results. Hammer and Champy (1993), based on what they called an unscientific estimate, argued that 50 to 70 percent of organisations that undertook reengineering did not achieve the extent of results that they envisaged. .

Regan reported that 50% to 70% of reengineering projects fall short of achieving organisational goals. Reengineering is frought with disappointments and failures (Hammer & Champy, 1993; Regan, 1994), and although business process reengineering has become a common term in the vocabulary of many corporate managers, Regan (1994) concluded that for others, managers and employees the term took on a hollow ring as it echoes down the halls of corporate enterprise. She argued that for thousands of workers now numbering as unemployed, reengineering is synonymous with lay-off policies.

Regan (1994) agreed with Hammer that there is a critical need for reengineering, but that, if a better understanding of the dynamics of implementation is not developed, reengineering may be doomed and go down in management history as the fad of the 1990s. Regan (1994) contended that where reengineering failed, it was not so much as a result of the idea or the technology, but with poor management of change.

As they emerged from the various studies, the reasons for failed transformation efforts are multi- dimensional, and are summarised as follows:

Not following the process

Kotter (1995) asserted that the most general lesson that can be learnt from the more successful cases was that the change process went through a series of phases, that required a considerable length of time. Skipping some of these steps, he argued, only created the illusion of speed but never produced satisfying results. A second lesson, Kotter stated, was that critical mistakes in any of these phases can have a devastatingly negative impact, slowing momentum and negating hard won gains.

The problem may be that many organisations are transforming and reengineering without understanding the dynamics of the process. Marchand (1995) and Regan (1994) maintained that when change fails, it is more likely to be because it was not properly implemented, than because it was not a good idea. The dynamics of the change process must be as carefully managed as the technical implementation, and the extent of impact that reengineering of business processes will have on organisation processes must be adequately assessed.

Not output/results focused

Schaffer and Thomson (1992) launched a strong criticism of what they termed "activity-centered change programmes". They stated that the improvement programmes of many companies have as much impact on operational and financial results as a ceremonial rain dance on the weather. These change activities sound good, look good, allow managers to feel good, parade under the banners of "total quality", "continuous improvement" and others, but achieve little. They contended that underlying all these programmes is the flawed logic that confuses ends with means, process with outcomes. Companies erroneously believe that if they carry out enough of the "right" improvement activities, performance improvement will result.

Schaffer and Thomson cited the example of one of the largest US financial institutions who committed themselves to a "total quality" programme to improve operational performance and win customer loyalty. At the end of two years of a costly effort, they summarised the results; "Forty eight teams are up and running and morale is positive". They did not report any bottom line performance improvements because there were none. They quoted another corporation, summarising their results as follows: " We accomplished 50% of our training goals and 50% of our participation goals, but only 5 % of our results goals".

Schaffer and Thomson (1993) continued to cite a 1991 survey, of more than 300 US electronics companies, which concluded that of 73% of these companies that embarked on quality programmes, 63% failed to improve quality defects by more than 10%. Schaffer and Thomson (1992) suggested that these examples illustrate a tragedy in the making. Companies will continue to spend vast resources on a variety of activities, only to watch cynicism grow in the ranks. They believed that many of these "activity-centred" programmes are implemented in organisations because so many institutions and consultants promote them, and this gave them an aura of popularity and legitimacy.

Baden-Fuller and Stopford (1994) warned about the risks of undertaking cultural programmes without specific action aimed at critical organisational problems. They argued that a cultural change programme can take the organisation's attention away from immediate action that is required, besides, a new culture can only be reflected in new actions, which in turn will reinforce beliefs. The need is to focus on the real problems of the organisation and to define output criteria, which is what the expected outcome of the change imperative should be.

Incremental change

Goss et al. (1993) noted that Kodak, IBM, American Express and General Motors had recently fired their CEOs, dispite the fact that they all were capable, promised turnarounds, and spearheaded downsizing, delayering and reengineering programmes. Most of these efforts were successful in lowered costs or increased productivity. Yet despite this, these authors argued, the competitive vitality of these companies continued to ebb away until their boards were compelled to act.

What went wrong? Goss et al. (1993), Lorenz (1994) and Stopford and Baden-Fuller (1990), all postulated that such incremental change is not enough for most companies today. What these CEOs did not realise was that they had to reinvent their companies, not just improve them. Executives prefer to take the easier route of incremental change, which involves searching for improvement techniques, rather than the harder route of reinventing who they are.

According to Marchand (1995), many companies are engaged in process improvements rather than reengineering, which are not leading the business to build key competencies to sustain its influence with customers and competitors. Conducting process changes in improving the steps of an existing process and calling it "reengineering" is one way of not achieving dramatic results. Hall et al. (1993), Hammer and Champy (1993), and Regan (1994), were all in agreement that that reengineering is not automating existing processes but transforming them.

To support this, Marchand cited the examples of IBM and Digital both of whom had launched repeated waves of internal initiatives to change business processes, yet not sufficient to avoid forced down-sizing and restructuring.

Concerning the nature of change, Barczak et al. (1987) differentiated large scale change from adaptive, incremental change which occurs over a long period of time. Adaptive responses, they argued, will ensure the continuity of the system but will not ensure effectiveness. Large scale change, however, counters the movement towards inefficiency and involves an overall reorganisation of the parts into new harmonious or symmetrical relationships.

In relation to large scale change, Stopford and Baden-Fuller (1990), in a study of six British manufacturers that have recovered from imminent disaster to create sustained and profitable growth, argued that rejuvenation was achieved by making a series of "holistic" changes in structure, systems, process and strategy which affected the entire organisation. Many CEOs are groping about for a more fundamental shift in their organisations' capabilities and employ strategies that address symptoms. However, to address the underlying conditions, they do not need to improve themselves, but need to reinvent themselves. Stopford and Baden-Fuller found that in successful rejuvenation cases, the beliefs of the CEO provided the leap and critically affected how challenges were formulated and understood. Their beliefs were characterised by a logic which rejects incrementalism.

Goss et al. (1993) criticised senior executives, describing their unwillingness to think rigorously and patiently about themselves and their ideas. They are often, Goss et al. continued, perched like a threatened aristocracy, aloof, entitled and sensing doom. Their flurries of restructuring or downsizing are like the desperate attempts of uncomprehending heirs who try to slow the decline of the family estate. The responsible thing to do, many of them argue, is to bring things back on track , which means putting it back into the box of a comfortable context.

Venkatraman (1991) recognised that revolutionary changes in the design of organisational processes are necessary to best exploit the emerging technological capabilities. He argued that at the time of writing, no single company had yet completely transformed its business processes, and a few leading edge organisations, initiating radical business process redesign, are only now emerging.

The logic of redesign appears to be intertwined with the strategic thrusts in the market place.

Not focusing on business processes

Often companies commission task forces to address key issues in the organisation such as lack of communication, empowerment, customer service. These teams, according to Hammer and Champy (1993), fail to address the business process underlying these consequences of process failure: to fix them the process will have to be fixed first. The winners in reengineering, according to them, moved beyond ideas and design to implementation. Regan (1994) also commented on a common pitfall of merely moving boxes around on the organisational chart, without changing the way work gets done.

Not changing management processes

Champy (1994) differentiated between a business or operational process and a management process. He argued that since 1990 many companies reengineered their business processes, but not their management processes. He expanded that little change was brought about to reengineer managerial roles, managerial styles and management systems. Baden-Fuller and Stopford (1994) also stressed that to reengineer business process alone is not enough. Along similar lines, Stopford and Baden-Fuller (1990) concluded that, for rejuvenation to be sustainable, changes to structure, strategy, systems, technology and individual behaviour are required.

When reengineering is undertaken, everything associated with the process must be re-fashioned. Failing to change associated processes, such as jobs and structures, management and measuring systems, values and beliefs, will prevent dramatic improvements in process output.

Quick fixes

Lorenz (1994) cited Richard Pascale as saying that executives are quick to embrace the concept of change, until they discover how conflict-ridden and wrenching the shift can be. They expect quick returns at little investment of time and effort.

The work of Baden-Fuller and Stopford (1994) provided an example of such behaviour. In a critical review of process reengineering and TQM, they found that in many of the cases which they have studied, organisations embraced these concepts as quick-fix solutions. In their quest for speed, they failed to stress the need to teach the organisation the skill to ensure the process is continued, or did not build the proper foundations for lasting success. Genasci (1993) cited a recent report claiming that some companies which have reengineering as a means to downsize and reduce expenses are now finding that it is costing then more to fix the problems these strategies created. Genasci (1993) cited Michael Hammer as stating that much of the downsizing of the last decade have been an enormous waste of time, energy and money.

Scott-Morton (1991) proposed that there must be an investment in new skills, and psychological ownership of the change process, as well as a safety net under the employee when risks are taken. A sense of empowerment, a feeling that they can make a difference should be created.

Baden-Fuller and Stopford (1994) advocated that effective change must avoid going directly from old to new methods, but that considerable time and effort ought to be spent coaching and changing the organistion, its culture and beliefs, and its actions. These authors cited Thomas Davenport, who studied IT-lead process-reengineering, as saying that he knew of no large organisation that has fully implemented a large process innovation in less than two years. Whitely (1991) contended that it takes three to five years to bring about attitudinal and behavioural changes. Marchand (1995) even put a five to seven year time span on achieving significant gains at the highest levels of transformation.

Running conflicting programmes

Furthermore, executives do not always evaluate the link that new transformation initiatives will have with other change management programmes currently running in their organisations. For instance, Marchand (1995) commented that the bottom-up culture established by several years of TQM in an organisation will be in conflict with the top- down initiatives of reengineering.

Lack of breadth and depth

In their analysis of reengineering projects, Hall et al. (1993) demonstrated how difficult these redesigns are to plan and implement and how often they fail to produce real business unit impact. The two factors which seem to correspond with successful or unsuccessful outcome, namely *breadth* and *depth*, are critical in translating short-term, narrow focus process improvements into long term profits. They concluded that many reengineering efforts fail because of insufficient process *breadth* and *depth*. Companies that manipulated all six depth levers to bring about behavioural change showed the most dramatic process cost reductions.

Marchand (1995) held a contray view to Hall et al. (1993), in that he concluded that to date reengineering is perceived to be inversely related to scope. As companies progress from Level 1 through to Level 5, the risks and complexity associated with reengineering increases significantly and so the failures. It is relatively easy to measure the gains achieved from task and functional reengineering, such as efficiency and productivity. However, the gains from cross-functional and business redesign levels, such as increased marketshare, higher profitability and customer responsiveness are more difficult to measure.

Giving up after the first success, before major breakthroughs.

According to Hammer and Champy (1993), there are two extreme cases here. Some companies abandon their reengineering efforts at the first sign of a problem, whilst at the other extreme, some abandon their efforts at the first sign of improvement. They believed that the early results they obtained is a just reward and that there are no more forthcoming. Regan (1994) also commented on companies who abandon transformation efforts at the first sign of trouble. The problem with implementation, Regan (1994) continued, is compounded by typical short term thinking. Managers, shining with early success are assigned to new priorities before changes really took place, or someone else comes in with new agendas and starts to make changes with little understanding of the changes in progress.

THE PROCESS OF CHANGE

New turnaround managers face an enormously complex change problem. They have been appointed by the respective stakeholders to recover ailing business organisations, and this can only be achieved through massive organisational change (Bibeault, 1982; Hedge, 1982; Khandwalla, 1992; O'Neill, 1986; Slatter, 1984).

Major change creates highly complex management problems and effective performance can only be sustained in the long term if people learn from the change process. Carnall (1990) argued that significant organisational change requires that existing ways of thinking and defining key corporate issues be changed. This implies a disruption of existing thinking and, of course, policies, strategies and procedures and a re-direction of the organisation's energies. However, people are entrenched in their ideas, attitudes and positions, and organisational crisis often follows years of distrust, departmental in-fighting and conflict. This cannot be changed overnight and a defined process of change needs to be followed to be successful.

Carnall (1990) contended that change in organisations is rarely, if ever, neat. It never has a clear starting point or a clear end and the trends and the pressures are ongoing as strategies are forged. The degree of change and the nature of discussions are all at different levels in the different departments and divisions of the organisation. Organisational change is, therefore, viewed more as a process than an event. The energy for change must be greater than the perceived cost of making the change, both economically and psychologically.

Change is complex, because if it is to occur, each individual in the organisation must think, feel and act differently. Duck (1993) visualised it as 25 000 people having a conversion experience and ending up at a predetermined place at approximately the same time.

An uneducated and unenlightened transformation initiative, for instance, can steamroll right across these psychodynamics, only to bring untold harm to the culture of an organisation as it grinds to a failing halt. A culture must be created which embraces change and innovation.

Regan (1994) emphasised that successful change strategies usually require the intervention of an outside change agent, who brings objectivity, understands the organisational dynamics and provides methodology. Regan proposed that companies who embark on reengineering use the services of a knowledgeable change agent, who could provide the methodology and strategies for reengeneering and change management. The change agent will work with management to develop an implementation plan and focus on the people dynamics of the change process. S/he will work with all stakeholders to identify needs and concerns, help prepare people for change and implement the intervention strategies required for change. Regan asserted that assigning a change agent is key to the success of the project, because:

- ☐ Managing the project requires almost a full-time effort.
- ☐ Managing the project requires almost a full-time effort.
- ☐ Operating managers have to maintain day-to-day business operations during a period of major change and they usually do not have the time to manage the implementation process as well.
- ☐ The role of change agent requires different skills to what operational management offers.
- ☐ The intervention of an outside change agent keeps the focus on the vision and the strategies to get there.

A number of change models were investigated, and those with a similar conceptual framework are summarised in Table 3.3, and incorporated into an integrated eight-step strategy. These steps will be discussed briefly.

Figure 3.3: An integration of six change models

Steps in change process	Psychological Management			Process Management		
	Carnall (1992)	Lewin (Regan, 1994)	Barczak et al. (1987)	Kotter (1995)	Boon (1994)	Goss et al. (1993)
1. Create urgency	Denial	Unfreeze	Pattern breaking	Urgency	Urgency	Urgency
2. Develop critical mass	Defence			Coalition		Critical mass
3. Create a vision			Visioning	Vision/communicate vision	Vision	Harness contention
4. Define capabilities					Define capabilities	Organisational audit
5. Define behaviour/ org context	Discarding			Empowerment	Redefine behaviour	Engineer organisational breakdown
6. Change and experiment		Change	Experimenting			
7. Consolidate improvements	Adaptation			Consolidate improvements	Create management systems	
8. Institutionalise new systems, behaviour	Internalisation	Refreeze	Bonding and attunement	Institutionalise	Build new IT architecture	

1. Creating urgency

The need for urgency to change was emphasised by Boon (1994), Goss et al. (1993), and Kotter (1995).

Kotter (1995) stressed that the market and competitive realities must be examined, problems must be identifying, crises discussed and opportunities identified. Goss et al. (1993) mused, that there is an unspoken code of silence in most corporations that conceal the full extent of their competitive weakness. However, the most life-threatening problems must be confronted.

Most successful change efforts begin with management taking a hard look at the company's competitive situation, market position, technological trends and financial performance. This step is essential to get co-operation started, but Kotter thought that 50% of companies fail at this step.

The reasons could be that management underestimated how hard it is to drive people out of comfort zones, or that a paralysed senior management is made up of too many managers and not enough leaders. This involves denial of the need to change, and the required pattern breaking (Barczak, Smith & Wilemon, 1987) or unfreezing of current behaviours and thought processes. Step 1 of the renewal process cannot be successful until enough real leaders are either promoted or hired into top level positions. Transformation, Kotter (1995) argued, began well where a new CEO, who saw the need for change was appointed, or where change concerned only a division, a new divisional head was appointed.

Carnall (1990), in defining his first phase of denial, stated that when the need for change in an organisation is first raised, it is usually met with a denial of the existence of such a need. People feel that they have always been doing things this way, that they are still making a profit, are still part of a winning team and that tried "these new things" before, which did not work. Faced with the possibility of change, people suddenly find value in their present circumstances, however much they might have complained about these circumstances in the past. Strangely enough, this stage is often characterised by increased self-esteem as people start thinking about all the positives of their current situation and the strengths of their current methods.

These leaders need to start with a psychological process of pattern breaking (Barczak et al., 1987; Stopford & Baden-Fuller, 1990). In order to move beyond old operational patterns, dysfunctional ways of doing things need to be "unlearned". This releasing process enables new patterns to emerge. This corresponds well with Lewin's (Beckhard & Harris, 1987; Burke, 1982; Regan, 1993; Schein, 1988) first step of unfreezing current work methods and paradigms. Unfreezing involves creating the motivation and readiness for change. The system and the role players within the system must feel pain and disequilibrium, motivating them to seek and accept help. A certain amount of unlearning has to take place before new behaviours, perceptions and attitudes can develop.

In terms of Lewin's model, three conditions must be met for unlearning to happen. Firstly, in the past, the management team expected a certain outcome given their actions, such as profitability but it did not result. This serves as the required disconfirmation of their expected outcome or lack of confirmation of this outcome. Disconfirmation usually has to come from outside the team or system. Secondly, the disconfirming information must create guilt or anxiety to induce motivation to change, and information is only anxiety-producing when it connects with issues that the system or team cares about. The third condition involves creating psychological safety. The system or group receiving the disconfirming and anxiety producing information can only accept it if it does not involve personal humiliation and loss of self-esteem. When disconfirming information is received to indicate non-performance, then for that team or person to accept the information, requires that they continue to feel worthwhile.

2. Developing critical mass

Goss et al. (1993) and Kotter (1995) stated that the next step is to assemble a critical mass of key stakeholders or a powerful guiding coalition that wishes to alter the context in which the organisation is embedded. This involves assembling a group with enough power to lead the change effort, encouraging people to work together as a team, because change will never be successful when left only to the top eight or ten executives.

Kotter (1995) argued that not creating a powerful enough guiding coalition can cause failure. In successful transformation cases major renewal often started with only one or two people, but the leadership coalition grew over time. However, when some minimum critical mass was not achieved early on, the initiatives died and not much happened. Kotter (1995) stated that in successful transformations the successful guiding team may have consisted of only three to five people during the first year of the renewal efforts, but in large organisations needed to grow to a range of 20 to 50 before progress could be made.

The problem with assembling a critical mass comes from feelings of defence (Carnall, 1990). Despite the earlier denials, the realities of change are felt as new, concrete plans and programmes are implemented. Structures are changed, people start reporting to different managers, and they realise they have to come to terms with the new way of doing things. This often leads to feelings of frustration and dissatisfaction and people then engage in defensive behaviour patterns. They start defending their own jobs, their own territories and the old methods and ways of doing business.

3. Creating a vision

The creation of a vision to direct the change process has been stressed by a number of writers (Barczak et al., 1987; Boon, 1994; Goss et al., 1993; Kotter, 1995) as critical to success, serving as an organising principle around which an organisation can reform after it has broken previous patterns.

In every successful transformation, Kotter (1995) identified the development of a clear picture of the future that was relatively easy to communicate, and which appealed to customers, staff and other stakeholders. A vision, Kotter defined as something which helps clarify the direction in which the organisation needs to move. In commenting on a vision, Baden-Fuller and Stopford (1994) stated that it has to meet three basic tests to be effective. First, the message must be capable of lifting morale; second, it has to be sufficiently simple to communicate and to be understood effectively; and thirdly, it has to frame or specify clear and measurable goals for improvement.

This vision usually emerged over a 12-month period in ever increasing stages of definition, eventually incorporating a strategy of how to achieve it. According to Kotter (1995), without a binding vision, transformation efforts easily dissolved into a list of confusing and incompatible projects.

Goss et al. (1993) also stressed the importance of a declaration from the leader in creating a new possibility for the future. When well stated, it is visually imaginable (e.g. putting a man on the moon) or exceptionally simple (becoming the world's favourite airline). This declaration, Goss et al. (1993) argued, becomes the "magnetic North" - the focal point. As an example, Haagen-Dazs International (ice-creams) shifted its context of "beating the competition, being the best" toward a new context of "celebrating the experience of being alive".

Although Kotter (1995) identified it as another step, communicating the vision is included in this review as part of visioning. Kotter (1995) believed this included using every vehicle possible to communicate the new vision and strategy. He mentioned that organisations often under-communicate the vision by a factor of ten. Most often an organisation developed a good vision statement and then held a single meeting or sent it out in a single communication. Having used about

0.0001% of the yearly inter-company communications, management was startled that it had no impact. Or, Kotter (1995) expanded, executives' behaviour contradict the vision statement. Hundreds and even thousands of people need to be committed for transformation to work. Kotter observed, that those executives who communicated well, incorporated the transformation message into their daily activities. In routine discussions on business issues, performance reviews, staff issues, the message was woven into the day to day issues in order to redirect them.

Duck's (1993) view is in line with Kotter's (1995), in that the change message must be clear, consistent and endlessly repeated. People need to hear the message over and over again to believe in it.

4. Defining capabilities

Boon (1994) mentioned, as a step in transformation, the need to redefine the capabilities that are absolutely critical to carry out new processes. Business processes need to be redefined and aligned with desired results. All methods, but particularly those that add most value to desired external outcome and internal values, must be examined. As new processes are developed, organisations find that they lack the skill to perform these processes. This is often dealt with by getting staff to learn new skills, bringing in new people with the skill or acquiring other organisations that posses those capabilities.

Goss et al. (1993) stressed the importance of doing an organisational audit. In revealing and confronting the company's true competitive situation, during the *creating urgency phase,* an understanding must now be created of where "here" is , where "there" is and how to get from "here" to "there". They proposed a diagnosis that generates a complete picture of how the organisation really works. Assumptions that are being made about staff, customers and competitors must be examined, and recreated.

Stage 2 of Lewin's model, changing through cognitive restructuring, arguably begins here. This involves helping the system or team to see things, judge things, feel things and react to things differently, based on a new point of view. The effect of unfreezing is to open up the team or system to receive new information and new concepts to help them to see their problem in new ways, or to "cognitively restructure" it. Lewin identified two ways in which this is achieved, namely identification or scanning. One way we learn to see things in a different way is to identify with a role model or mentor and to start seeing things from his/her point of view. This is why Kotter (1995) emphasised bringing new leaders into the organisation or promoting them from within. When there is no readily available role model, the learner is likely to scan the environment for new information relevant to his/her situation. As part of their scanning, the team or system can be encouraged to read widely, attend seminars or use consultants to supply new information.

5. Defining behaviour and organisational context

Boon (1994) identified the next phase in the change process as redefining the behaviours, values and relationships essential to creating a new work environment. According to Boon (1994), organisations behave differently only when people behave differently. Measures of performance and reward systems must also be aligned to reinforce the new behaviours and values.

Goss et al. (1993) felt that harnessing contention could be important in defining new values and patterns of behaviour. They commented that almost all significant norm-breaking opinions and behaviours in social systems are synonymous with conflict. Many organisations unfortunately suppress contention and managers do not like being confronted because their context says they should be in charge. However, whereas control kills invention, learning and commitment, conflict jump-starts the creative process. The law of requisite variety (an obscure law of cybernetics), according to Goss et al., postulates that any system must encourage and incorporate variety internally if it is to cope with variety externally.

People only believe in a new direction because they actually see behaviour, action and results that lead them to conclude that the programme works. It is, therefore, imperative that top executives change their behaviour. They should ask themselves: "If we were to manage the way we say we want to manage, how would we act? How would we attack our problems? What kind of conversations will we have? How would we measure and compensate behaviour?"

6. Changing and experimenting

This step involves change and experimentation with new systems, new procedures, new work flows and patterns. Barczak et al. (1987) stated that experimentation is necessary in order to generate new perspectives, new concepts of strategy, structure and process. This includes the search for new information, learning new skills and acquiring new behavioural patterns.

Carnall (1990) commented that as people start accepting the reality of realising that no protestations of theirs will change anything, they enter the stage of discarding. The previous stages focused powerfully on the past and now, for the first time, people start letting go of the past and embrace the future. He stated, that he was not sure exactly how people move from the stage of defence to the stage of discarding. He felt that the discarding process may well be impelled by an urging sense that the present anxieties and fears are just too much to bear and that perhaps the future is not as threatening as it initially seemed.

People start discarding old ways of doing things and they start finding satisfaction and novelty in their new operating processes and work habits. Individuals now start identifying with the changes and talking openly and in a constructive way about them. At this point they start solving problems, taking the initiative and demonstrating some degree of leadership. This adaptation begins with the realisation that the new realities are here and that courage is required to start tackling them. This process is an important one where people re-establish their own identity and self-esteem as they start succeeding in the use of new methods and systems. As discarding involves experimentation and risk, it requires time for individuals to recreate their own sense of identity and self-esteem as they grow into the new situation.

Kotter (1995) felt that it becomes necessary now to empower others to act on the vision. The focus is on changing systems and structures that seriously undermine the vision, encouraging risk taking, non-traditional ideas, activities and actions. As the transformation initiatives progress, more and more people are involved. Employees are encouraged to innovate and experiment with new ideas and concepts within the broad parameters of the overall vision. However, communication and experimentation alone are not enough, since the change process also requires the removal of obstacles. Obstacles, Kotter (1995) explained, can be the organisational structure, or performance appraisal systems, but most often a senior executive that paid lip service to change during the earlier phases, but now finds it difficult to allow work methods, structures or systems to be changed. He emphasised that early on in the process, organisations do not yet have enough momentum, power or commitment to change such obstacles, but unless the major ones are dealt with, change invariably comes to a standstill.

In a controversial proposal, Goss et al. (1993) advocated the engineering of organisational breakdown. They argued that reinvention, is a rocky path and there will be many breakdowns, systems that threaten to fall apart, missed deadlines, and conflicts that seem impossible to mend. These breakdowns could be utilised as opportunities for the organisation and its members to take a hard look at themselves and to perpetuate organisational change.

7. Consolidating improvements

Kotter (1995) identified the next step in the change process as consolidating improvements whilst still producing more change.. The increased credibility achieved, through successes as the process unfolds, can be utilised to change systems, structures and policies that do not yet fit the vision. This typically involves hiring, promoting and developing employees who can implement the vision, reinvigorating the process with new projects, themes and change agents.

Often organisations declare victory too soon. Despite the fact that short wins are required to keep the transformation momentum, Kotter argued that after the first signs of performance enhancement, some executives blow the whistle and declare victory. He stated that until changes sink deeply into a company's culture, a process that can take five to ten years, new approaches are fragile and subject to regression.

According to Carnall (1990), this is still a phase of adaptation. New systems, procedures, structures and policies do not work effectively the first time round. As people start trying the new systems, they find that these do not work perfectly, and in the process of re-learning to work according to these new systems they also further sophisticate and adapt them. As a result, a sense of identity with this new situation starts to develop. Everybody learns as the new systems are tried out and are implemented. Tremendous amounts of energy are required now as people not only have to cope with the change process and re-learn new behaviour but also have to further sophisticate the new concepts and systems. This is often a source of tremendous frustration, and can easily be misread as resistance to change rather than the natural consequence of trying and not quite making it. Training and support are critical in this stage.

8. Institutionalise new systems and behaviour

Typically, Kotter (1995) explained, the initiators at the first sign of progress go overboard and declare the battle has been won. The resistors join in, spotting the opportunity that it is now time to stop the change process. After the celebration, these resistors indicate that the war is over and the troops must be sent home. However, the leaders of successful change efforts, use the credibility afforded them by the short-term gains to tackle even bigger problems, and they go after systems and structures that are not yet consistent with the transformation vision and that have not been confronted before. They realise that transformation does not take months, but years.

New approaches must now be institutionalised. This involves articulating the connections between new behaviour and corporate success. Not anchoring changes in the corporation's culture could lead to superficial change with no long-lasting impact. Change only sticks when it becomes "the way we do things here" and "when it seeps into the bloodstream of the company" (Kotter, 1995). New behaviours need to be rooted in social norms and shared values, to prevent their degradation when the pressure of change is removed. Kotter mentioned two factors that are important in anchoring the changes in the corporate culture. The first, he argued, is a conscious attempt to show people how the new behaviour, new approaches and new attitudes have helped performance. This connection is important to make and it must be made by management and not left to people's own deductive reasoning process. Secondly, it is critical to assure that the next generation of top management does personify the new approach. The requirements for promotion in the organisation must change, because one bad succession decision at the top can undermine a decade of hard work.

Carnall (1990) saw this as a stage of internalisation. By this stage those involved have created the new systems, processes and organisation, have implemented them and have acquired the new behaviour to operate them. New relationships between processes and people have been formed, and these are now being incorporated into the understanding and the experience of the new work situation. People start making sense of what has happened, their new behaviour becomes part of their normal behaviour and the visionary situation becomes the customary situation. Carnall contended that the engine for rebuilding performance is the self-esteem of the people involved. Once the change has been fully internalised one can say that change has been achieved. It is interesting to note, however, that not all people go through these phases at the same pace; certain departments and divisions go through them at different speeds and might be at different points on the change continuum.

Part of this phase of institutionalising the change would include Boon's (1994) concept of building of a new information and technology architecture to provide people with the facts and knowledge they need to analyse and make decisions.

Stage 3 of Lewin's model, refreezing, relates to this phase of institutionalisation. It involves integrating and consolidating the newly acquired behaviour and perceptions into the total personality and self-concept, as well as into significant relationships. Unless this happens, the change experience will be short-lived and of no long-term consequence. The refreezing phase ends when the new behaviours are incorporated into the organisational norms, routines and work styles.

Barczak et al. (1987) argued that bonding, attunement and alignment among the members of the organisation now become important. This alignment is achieved when members transcend traditional role requirements and cultivate a greater sense of community, trust, respect and shared values. These changed systems and structures will redefine how the organisation deploys people to do their work and how their work is measured and rewarded.

Although these eight steps were presented in a chronological order, they must rather be understood as overlapping phases that may run concurrently, and not always in this particular order. Boon (1994) emphasised, that to transform, all these steps must be addressed, yet not necessarily in the same order. The ordering of these steps will depend on the needs of transformation in individual organisations.

CONCLUDING COMMENTS

Considering the issue of corporate crisis and recovery, the appointment of a new CEO is an attempt to bring into the organisation a change agent with different views on how to run the business. The primary role of this change agent is then to reverse the fortunes of the company, and this can be achieved through a number of recovery interventions, almost all of which involve significant organisational change.

This new change agent will start with a process of unfreezing, and in individual cases where this does not work, the incumbent managers may be replaced with individuals from outside who already hold the correct cognitive map, as judged by this new change agent. Often the new change agent may bring consultants as additional change agents into specific sub-systems of the organisation, to continue the process of unfreezing through disconfirming information, providing role models, offering fresh information and developing conceptual models of how to change.

The vision, mission, values, communication processes, decision-making processes and business processes are all changed, and the slowly returning profitability of the company seems to build self-esteem again, until these new patterns of behaviour are internalised and integrated into the members of the organisational system's self perception and relationships.

The prevalence of inter-functional or inter-disciplinary teams as a dynamic through which change is achieved has been stressed by a number of researchers (Baden-Fuller & Stopford, 1994; Charan, 1991; Duck, 1993; Gouillart & Kelly, 1995; Hall et al. 1993; Hammer & Champy, 1993; Mills, 1991; Regan, 1994).

Regan (1994) contended that the most effective strategies for change, usually focused on work groups. Various other inter-disciplinary and inter-functional teams were in evidence during successful transformation efforts. The reason for the success of teamwork may be that for most people, a job provides more than a livelihood. People identify with their jobs, they derive gratification from their jobs and their jobs define a role for them within the work process and social structure. They see themselves as part of a larger whole. Although individual commitment is important, it is exercised within an organisational context. This organisational context provides support and gives meaning to people. It emphasises common interest and goals, the sharing of information, promoting teamwork and provided avenues for resolving conflict. The work group context can help to direct worker's energies toward common goals and agendas and can empower them to bring about change.

Baden-Fuller and Stopford (1994) believed that mobilising the internal resources of an organisation is the route to renewal. Ability to compete, they stated, did not require huge resources but rather effective combinations and capacity to create from within. This ability, they argued, is embodied in the skill base of employees, the hidden routines, the systems and culture of the business. They gave an overview of the scope of organisational rejuvenation and transformation by indicating the levels of activities in the different stages of rejuvenation. Figure 3.1 gives an indication of how innovation and creativity operate and influence change in the organisation.

Figure 3.1: Levels of activity in different stages of rejuvenation.

The whole organisation			OO
Teams across functions		OOO	OOOO
Individuals and small groups	oo oo	ooo ooo	0000 0000 0000
	Galvanize and start new initiatives	Build and break the frame	Leverage and maintain momentum

Note: o Little projects by individuals and small teams, **O** Bigger projects across functions, **O** Large projects which are firm wide,

Source: Baden-Fuller and Stopford, (1994), p. 18

They observed that organisational rejuvenation and transformation invariably started with individuals experimenting with ideas within little projects. As these experiments rendered solid results, they invariably expanded to break current patterns of activities within and across functions and as they picked up momentum, they became capabilities that could be leveraged to sustain momentum throughout the whole organisation. This is a very similar process to that described by Kanter (1983, 1989).

Concerning the failure of organisational transformation, Kotter (1995) concluded that over the past 20 years transformation efforts failed because the urgency level was not intense enough, or the guiding coalition was not powerful enough, or the vision was not clear enough, yet it was the premature victory celebrations that killed the momentum. Of 12 change projects studied under the reengineering banner, most organisations declared victory too early (after two to three years) and a further two years later there were no traces left of the reengineering advances that were made. The powerful forces associated with tradition can take over when change efforts are not sustained.

In conclusion, the relevance of these macro-evolutionary changes (Kanter, Stein & Jick, 1992) to the issue of corporate recovery is two-fold. Firstly, business organisations may start to go into decline, or may ultimately fail, because of their inability to adjust to these external pressures in the environment. Given that an organisation is in itself a system within a larger supra-system (Ackoff, 1981), the changes in this supra-system necessitate a re-ordering process within its subsystems. Secondly, in terms of the two most important recovery strategies, namely *change of management*, and *organisational change*, there is a requirement that the new recovery executives to be installed in crisis companies have a good understanding of these external realities, the scope of organisational transformation and the process thereof. It also sheds light on the leadership styles required to conceptualise, and concretise them in terms of changes in organisational strategy, structure and process. It indicates the direction of change required in terms of organisation design and organisational process. It is also interesting to note that the recovery interventions most researchers cited, as discussed in Chapter 2, incorporated many of these concepts.

Whilst Chapter 2 summarised the literature concerning corporate crises and recovery, Chapter 3 reviewed the literature that surrounds this phenomenon. Chapter 3 aimed at giving the reader a sufficient dimension of a very wide variety of issues that do have a bearing on corporate recovery, elucidating both possible co-producers of corporate decline and possible intervention strategies. It is against the background created by these two chapters, and Chapter 4, a review of the competencies of successful corporate recovery executives, that the research methodology for the present research project, and the results and conclusions described in the further chapters can be viewed.

CHAPTER 4

COMPETENCIES OF THE CORPORATE RECOVERY EXECUTIVE

INTRODUCTION

The purpose of this chapter is to investigate the managerial competencies required for effective organisational change, transition and turnaround.

In crisis situations, the quality of decision-making and successful implementation of new strategies, become more critical, than under normal business-as-usual conditions (Slatter,1984). Khandwalla (1992) argued that the reason for this is the compressed time span within which fundamental, strategic decisions, which could lead to the total extinction of the organisation, have to be made and implemented. This is further compounded by the fact that, unlike under healthy conditions, the recovery executive has to start off a low base in terms of the public image of the business, customer satisfaction, staff morale, negative culture, managerial competence, and limited and stretched financial resources.

Holsti (1978) stated that the threat of a corporate crisis leads to stress which in turn impairs span of attention, time perspective and flexibility. As a result of this managers selectively filter information, become too reliant on past experiences, lose their tolerance for ambiguity, start to stereotype and focus only on short-term values. This process then leads to inadequate fact-finding and analysis, an inability to evaluate alternatives and their consequences or to decide on a final choice of strategy. Slatter (1984) also contended that where poor management is a co-producer of decline, case studies clearly indicated that the capacity of managers to cope with the growing crisis was be severely impaired.

Organisational change therefore needs a special kind of leadership, due to the fact that current processes, policies and procedures are disrupted and found to be inadequate, and new systems have to be developed to cope with the changing demands of the environment. Leadership is a key factor, in that organisational recovery has to take into consideration the complex issues of business redefinition, changes in organisational process and culture, organisational politics and assisting people within the organisation, to cope with the change and the resultant pressures and anxieties.

The managerial competencies, personality, managerial style and management practices of the individual managers within the management team will determine their response to the crisis, and co-produce either corporate recovery or further decline.

Of particular importance are the competencies and characteristics of the corporate recovery executive who is driving the turnaround from the position of CEO. The CEO influences the criteria according to which all new managers are hired, incumbent managers dismissed, as well as the value system and culture to be established. These are all influenced from the reference point of their own competencies, personality characteristics, and personal values.

CONCEPTS OF MANAGERIAL PERSONALITY AND COMPETENCE

Spangenberg (1990) expressed the need for a clear model or framework of managerial competence and its assessment. This stems from the very complex nature of managerial work, its interrelationship with the personality characteristics of the manager and managerial effectiveness. According to Spangenberg, the assessment of managerial personality, behaviour and skill is complicated by the vast differences in tasks and roles at various organisational levels, the differences in competencies required at these various organisational levels and the very complex nature of managerial skill or competencies.

Regarding the differences in managerial tasks, roles and competencies, our understanding has been greatly enhanced by the work of Drucker (1974, 1982), Hickson, Butler, Cray, Mallony and Wilson (1986), Jaques and Clement (1994), Kanter (1989), Kotter (1988), and Mintzberg (1975,1980). These will not be reviewed here and the reader is referred to the above mentioned works for their detailed exposition.

Burke (1982) viewed Kurt Lewin, whom he described as "the theorist among all theorists" in the behavioural sciences, as having had a pervasive impact on the science of organisation development and change, in that much of what we know today is based on Lewin's thinking. He quoted Lewin as stating already in the early 1950s that behaviour is a function of a person's personality, primarily in terms of motivation or needs, and the situation or environment within which the person is acting. The environment is represented as a field of forces that affect the person. Thus a person's behaviour at any given time can be predicted if that person's needs are known and if the intensity and valence of the forces impinging on the person from the environment can be determined.

An important implication of Lewin's theory, for management and organisational changes, is that if one attempts to change the behaviour or attitude of an individual without attempting to change the same attitude or behaviour in the group to which that person belongs, then the individual will become a deviate and come under pressure to get back into line or be rejected. The major leverage point for change therefore, is at the group level, by either modifying group norms or standards, or bringing in from the outside sufficient numbers of new executives with similar norms and values to create a critical mass to effect cultural change.

Boyatzis (1982) viewed a job competency as an underlying characteristic of a person. It may be a motive, trait, skill, an element of self-image or social role, or a body of knowledge that the person uses. Job competencies are underlying characteristics, and as such can be viewed as generic. This means that the competency may express itself in many forms of behaviour, across a wide variety of situations. According to Boyatzis, competencies reflect a person's abilities, and precede or lead to effective behaviour. They determine what a person can do and not what the person will do.

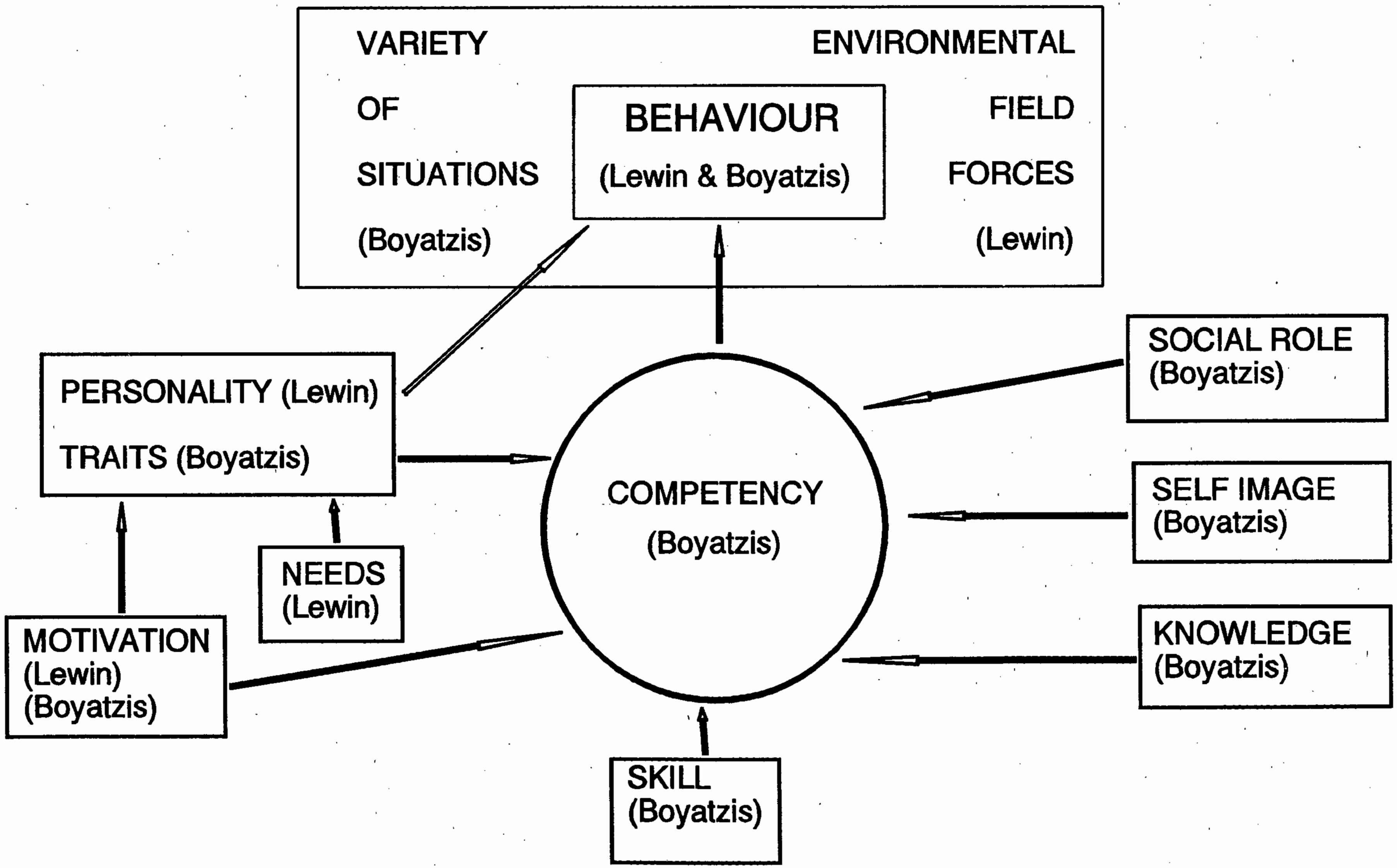
Boyatzis (1982) referred to type and level of competence. Type refers to behaviour, such as initiative, analysis, etc. The types of behaviour can exist at one of three psychological levels, namely, unconscious (e.g. motives) conscious (e.g. self-image or social role level, or behavioural (e.g skill). Spangenberg (1990) drew heavily on Boyatzis when he stated that a competency is more than just a skill or knowledge, and is a cause of effective performance.

A motive was defined by Boyatzis (1982) as a recurring concern for a goal or condition, which drives or selects behaviour of an individual. An example of a motive would be the need for power. A trait is defined as a characteristic way of responding to a set of stimuli, for instance "initiative". Self-image is defined as a person's perception of him/herself, whilst social role refers to a person's perception of acceptable social norms. Skill is defined by Boyatzis (1982) as the ability to demonstrate a system and sequence of behaviour that is functionally related to attaining a performance goal.

Behaviour is then a response to a stimulus and, in organisational terms, a response to a specific business or work situation or problem. Managers are constantly faced with situations and problems to which an appropriate response is required. This response can be categorised as managerial behaviour, in that the stimulus elicits a specific group of responses, all focused on achieving a business result. Thornton and Byham (1982) defined the concept of management, in terms of managerial assessment, as a set of observable behaviours, clustered into a number of categories or dimensions.

Figure 4.1 is an attempt at a schematic integration of the concepts of Lewin and Boyatzis, which will serve to organise the literature on the characteristics of successful recovery executives and the findings on a survey of these characteristics

FIGURE 4.1: MANAGERIAL COMPETENCE: A SYNTHESIS OF LEWIN AND BOYATZIS



in Chapter 9. The central theme in Figure 4.1 is the concept of competencies, which only Boyatzis identified, its influence on behaviour, and its preceding co-producers of personality traits and needs, skills, knowledge, self-image and social role.

In terms of the environmental field forces, or variety of situations, it becomes clear that the task of a CEO of an organisation, and particularly a recovery CEO induces on the incumbent its unique environmental forces and variety of situations.

The work of Jaques and Clement (1994) is particularly relevant in this regard. Jaques and Clement (1994) argued that leadership is particular to required role and circumstance. Cognitive complexity is central to their theory, and is defined as a function of the number of variables operating in a situation, the ambiguity of these variables, the rate at which they change, and the extent to which they are interwoven so as to necessitate their unravelling in order to see them. Executives therefore need to exhibit the cognitive capacity to deal with the requisite complexity of the system they have to manage.

The level of work a manager has to deal with can be measured in terms of the time span of discretion. The longer the time span of a role, that is the maximum amount of time available to complete a task, the greater is its felt level, scope, responsibility and complexity. Jaques and Clement defined seven time spans, namely 3 months, 1 year, 2 years, 5 years, 10 years, 20 years and 50 years. These time spans correspond to the seven layers of management they believe a large organisation should have. For each upward shift in the stratum of task complexity, an upward shift in cognitive complexity is required of the requisite managerial leader.

Four orders of complexity, or worlds of complexity, were identified. The first order world is the world of the child and adolescent. The second, the verbal and numerical order, is the everyday world of business discourse through which we discuss work and which involves a myriad of concrete first order things and actions. The third order complexity consists of the conceptual work of senior management.

This third order world consists of a vast number of essentially ambiguous and constantly changing concepts that are inextricably tangled together. When these issues are put together, they form concepts such as balance sheets, global eco-systems, third-world development and so forth. Jaques and Clement stated that the fourth world of highest complexity transcends the business world, though it includes it. This world consists of truly universal ideas, and the language of handling the issues of whole societies, social movements, ideologies and philosophies.

With the maturation of cognitive capacity, the executive can grow to deal with increasing levels of complexity with a longer time span of discretion. Jaques and Clement (1994) argued that it is the potential of the executive reflected in cognitive complexity which determines managerial capability at any given time in a given role, and this capability can increase as the manager progresses from youth to adulthood, mid-life and maturity.

TURNAROUND MANAGEMENT: REQUIREMENTS

In order to understand the competencies, characteristics, and values of the recovery executive, it is helpful to first review the requirements of such a position.

Turnaround leadership involves the integration of the diverse and sometimes conflicting ideas of individuals, the internal and external requirements of the organisation and its resources into a strategic business plan for the future. Carnall (1990) asserted that managing change effectively involves the competency to create a new synthesis of people, resources, ideas, opportunities and demands. Vision is essential and creativity paramount. However, systematic plans to provide for the logistics of resources are also crucial.

One of the first and probably the most important requirement is for the new CEO to create a vision of the new nature and direction of the business. Considering that business redefinition was identified as one of the intervention strategies needed to recover a business organisation, then it follows that some visionary statement must be made by the CEO regarding the new nature and direction of the organisation. Carnall (1990), Nelson and Clutterbuck (1986), and Welsch (1993) are all in agreement as to the need for a clear vision. It then follows that the CEO mandated to turn a business organisation around must clearly demonstrate competence in creating such a vision.

Carnall (1990) contended that an explicit vision or strategy is important, in that it allows for the co-ordination of activity, indicates direction, and reduces anxiety in a period of uncertainty. It also results in better planning, rather than merely reacting to changing circumstances. It allows the members of the organisation to innovate, create, experiment, learn and achieve.

Given that organisational change were viewed by most commentators in this field as probably the most important intervention strategy in recovering a business, it is not surprising that many researchers supported the notion of having to create a new culture. It is required of the CEO to create an entrepreneurial culture (Potts & Behr,1987) which encourages members to explore new ways of doing things, to experiment with new ideas, and to find new solutions to the current problems being experienced (Carnall,1990), a culture of innovative professionalism (Khandwalla,1992). Carnall (1990) argued that an enabling, empowered culture with an open attitude to change need to be established; in order to achieve this the successful organisation-change leaders, need to continuously work with the values and the philosophy of the organisation.

Potts and Behr (1987) stated that a partnership between management members needs to be created. According to Carnell (1990) this can be achieved through the involvement of employees at all levels in the analysis and understanding of the problems that the company is facing.

Corporate recovery further has an organisational design requirement in that the CEO has to structure people within project teams and task groups in order to pursue the new initiatives of the organisation (Carnall,1990), and to show the team a clear convincing route to the company's objectives (Kharbanda & Stallworthy,1987). According to Carnell (1990), this could also involve the re-training of individuals to deal effectively with their newly defined positions.

Carnall (1990) also stressed the requirement for the CEO to deal with the political aspects of the organisation. Support must be mobilised, coalitions built and supported, opposition factions identified and considered. This includes influencing groups of people who are opposing the changes, building coalitions to support and supply the resources needed to implement the change (Carnell,1990), gaining support, team building, obtaining commitment, and sharing information. Khandwalla (1992) also commented on the need to mobilise stakeholders, and the resources of the business.

A further requirement mentioned by Kharbanda and Stallworthy (1987) and by Potts and Behr (1987) is the ability to promote technological change and harness new technology for new product development and improved productivity.

CHARACTERISTICS OF TURNAROUND MANAGERS

Slatter (1984) found that the turnaround manager needs characteristics that are different from those required to run a healthy company. The particular personality, behaviour and values of the turnaround executive are crucial in order to reverse the fortunes of a business.

A number of writers have commented on the required personal characteristics of the successful corporate recovery executive, notably Carnall (1990), Bibeault (1982), Khandwalla (1992), Kharbanda and Stallworthy (1987), Nelson and Clutterbuck (1986), Potts and Behr (1987), Slatter (1984), and Welsch (1993).

COMPETENCIES

Having defined the requirement for successful corporate recovery, the question is now what competencies the CEO should have to handle these situations effectively. A checklist of competencies could include:

- ☐ the ability for visionary leadership (Potts & Behr,1987).
- ☐ convincing negotiation and communication skills (Bibeault,1982; Nelson & Clutterbuck,1988; Kharbanda & Stallworthy,1987) .
- ☐ entrepreneurial skill (Bibeault,1982).
- ☐ analytical and decision-making skills (Bibeault,1982).
- ☐ ability to prioritise (Bibeault,1982).
- ☐ ability to anticipate environmental changes (Potts & Behr,1987)
- ☐ ability to achieve results through others (Kharbanda & Stallworthy,1987; Welsch,1993).
- ☐ counselling and mentoring skills (Kharbanda & Stallworthy,1987).

In reviewing the requirements for recovery, as discussed earlier on, it becomes apparent that in addition to the list of competencies above, the following competencies must also be requirements:

- ☐ strategic planning competencies.
- ☐ organisational change competencies.
- ☐ organisational competencies.
- ☐ competencies in understanding and utilising new technologies.

The problem with the abovementioned lists is that they represent competencies that are probably required by any CEO, and do not give a specific direction as to the uniqueness of the recovery CEO. The literature reviewed does not seem to give any more definitive information in this regard, which could indicate the need for more research in this field.

PERSONALITY CHARACTERISTICS

Although it is difficult to divorce personality traits from competencies, as according to Boyatzis (1982), a personality trait is a co-producer of a competency, such an attempt would lead to a listing of the following traits that a recovery CEO need to posses:

- ❑ initiative and enthusiasm (Bibeault,1982; Nelson & Clutterbuck,1988).
- ❑ determination and decisiveness (Bibeault,1982; Nelson & Clutterbuck,1988).
- ❑ creativity (Bibeault,1982).
- ❑ self-awareness (Bibeault,1982).
- ❑ objective orientation (Bibeault,1982).
- ❑ impatience to get things done (Bibeault,1982).
- ❑ flexibility (Bibeault,1982).

In terms of social roles and self-image the recovery CEO must furthermore be a:

- ❑ completor (Bibeault,1982).
- ❑ delegator (Nelson & Clutterbuck,1988).
- ❑ initiator (Nelson & Clutterbuck,1988).
- ❑ mentor and counsellor (Kharbanda & Stallworthy,1987).

VALUES AND BELIEFS

In addition to specific competencies and traits, the turnaround CEO further needs to possess certain values, particularly:

- ❑ social responsibility (Bibeault,1982).
- ❑ a boundaryless attitude towards every constituency: race, gender, workers, management, etc. (Welsch,1993).
- ❑ a belief that people are the key to everything (Welsch,1993).
- ❑ an external focus (Welsch,1993).
- ❑ a relish for the customer (Welsch,1993).

EXPERIENCE

Very little has been said about the experience of the recovery executive, other than having to have a broad business experience (Bibeault,1982) and a track record of having managed change (Nelson & Clutterbuck, 1988). As mentioned in Chapter 2, Slatter (1984) argued that an in depth understanding of management is probably more important than industry experience.

This is revealing, when considering the fact that most successful turnarounds were achieved by new CEOs. Khandwalla (1992) determined that 90% of the successful recoveries were achieved by new CEOs. Slatter (1984) found that 27 of 30 turnaround cases he studied were achieved by new CEOs. These CEOs must have built up some specific experience which justified their being chosen and appointed. This, too, could be an area for further research.

Slatter (1984) motivated why the kind of turnaround executive he visualised can only be successful in the initial stages of the recovery and why different skills are required later to build the organisation for the long term. He maintained that the turnaround executive can be good as a hatchet man but is not familiar with the industry recipes necessary to obtain growth in existing and new market areas. Slatter asked the question whether the hatchet man who implemented cost reduction and asset reduction strategies is the right person to build the organisation in the later stages. His view is only valid where recovery is viewed as a "hatchet" exercise.

The limitations of Slatter's presentation are that most of the recoveries which he studied took place in the 1970s and were only Western, surgical-type recoveries. Later studies, notably Kharbanda and Stallworthy (1987), and Khandwalla (1992) suggested that the turnaround manager could be a less dominant, integrative leader, achieving the results through a capable management team rather than only through his own volition. When Khandwalla's (1992) notion of a non-surgical recovery and Bibeault's (1984) view of an organisation process led recovery are considered, Slatter's logic fails. Slatter (1984) did admit that there were many examples where the new CEO managed the company through all the phases of recovery.

Change of leadership at the top is a co-producer, not a determinant of successful recovery. Much more is required and much depends on the personality, skills and tactics of the turnaround executive (Khandwalla, 1992).

Kharbanda and Stallworthy (1987) pointed out that some turnaround managers seem to make a profession of it, moving from one turnaround case to another. Examples are Sir John Cuckney, Umeo Oyama, Sir Michael Edwardes and Ian MacGregor. Kharbanda and Stallworthy noted that turnaround management as a profession is a very new phenomenon in the business world, born from a crisis to meet a specific urgent need.

CHAPTER 5

RESEARCH METHODOLOGY

INTRODUCTION

The purpose of this chapter is to describe the research methodology that was followed during this study. However, before this can be done, cognisance will be taken of the research problems experienced in the field of the social and business sciences, and the most prevalent research methodologies followed in the study of corporate recovery and turnaround.

As one example of the natural sciences, zoology has systematically described insects, amphibia, birds and mammals, after the examination of specimens possessing the specific characteristics of the type model, and has developed sub-divisions, right down to species and sub-species. Lievegoed (1991) pointed out that unlike what was done in the natural sciences, social structures and systems in the economic sphere have, to date, not been sufficiently described and systematised by the social sciences.

According to Miles and Huberman (1994), the task of the social researcher is to express the social phenomena as precisely as possible, attending to their range and generality and to the local and historical contingencies under which they occur. Social phenomena, like natural phenomena, do exist, stand in relation to each other and appear or occur with regularity.

However, in the world of social scientific research, research design is more of a problem than in the world of the natural sciences. In experimental research, often used in the physical sciences, the researcher has control over the administration of independent variables, in order to see their competent effect on the dependent variables. In the social environment where social and economic phenomena operate, the researcher does not have the same control over conditions and variables, and as such have to observe these phenomena as they occur in their natural environment. The situation is somewhat similar to the study of ecology in the biological sciences, where systematic observation is essential.

According to Kerlinger (1986, p. 348) most social scientific research is based on *non-experimental research*, which he defined as follows:

> Non-experimental research is systematic, empirical enquiry in which the scientist does not have direct control of independent variables because their manifestations have already occurred, or because they are inherently not manipulable. Inferences about relations among variables are made without direct intervention, from concommitant variation of independent and dependent variables.

Since direct control is not possible, the researcher can use neither experimental manipulation nor random assignment of cases. Kerlinger argued that although it is possible to draw samples at random in *non-experimental* research, it is impossible to assign subjects to groups at random or to assign treatments to groups as in experimental research.

Kerlinger (1986) argued that despite the weaknesses of the inability to manipulate independent variables, the lack of power to randomise and the risk of improper interpretation of cause and effect, *non-experimental research* has to be used in the fields of psychology, sociology, education and business because their research problems do not lend themselves to experimental research. However, Bannister, Burman, Parker, Taylor and Tindall (1994) and Miles and Huberman (1994) were not convinced that these were indeed weaknesses, when viewed from a quantitative paradigm.

Kerlinger (1986) divided *non-experimental social scientific* research into four categories: Firstly, the laboratory experiment which is a research study where the variance of all or nearly all of the possible influential independent variables not pertinent to the immediate problem of the investigation are kept at a minimum. This is done by isolating the research in a physical situation apart from the routine of ordinary living and by manipulating one or more independent variables under vigorously specified, operationalised and controlled conditions. However, very view psychological, social, and hardly any economical phenomena can be studied in this way.

Secondly, the field experiment: a research study in a realistic situation in which one or more independent variables are manipulated by the experimenter under conditions controlled as carefully as the situation will permit.

Thirdly, the field study: a *non-experimental* scientific enquiry aimed at discovering the relations and interactions among sociological, psychological and educational variables in real social structures. According to Kerlinger (1986), any scientific study that systematically pursues relations, tests hypotheses, is *non-experimental* and that is done in life situations, like communities, schools, factories, organisations and institutions will be considered as field studies.

Fourthly, survey research: a study of small and large populations or universes, by selecting and studying samples chosen from these populations, in order to discover the relative incidence, distribution, and interrelationships of psychological and/or sociological variables.

For many years scientific progress has been made in the social sciences through the application of a quantitative research methodology, due to the obvious advantages of verification and statistical manipulation of the data. As a result of this, acceptable conventions have been developed to aid the researcher. However, according to Bannister et al. (1994), and Miles and Huberman (1994), more and more researchers have shifted to a more qualitative paradigm, due to certain phenomena that cannot be studied in any other way than through qualitative methods.

Qualitative methods have emerged only recently as an array of alternatives to the mainstream qualitative methods. According to Bannister et al. (1994), and Miles and Huberman (1994), the expansion of qualitative investigation has been significantly advanced by the reformulation of their methodologies by "hard-nosed" quantitative researchers who have now shifted substantially towards context-embedded qualitative enquiry.

Organisation dynamics, one of many social phenomena, involves the study of how organisations change over time, how events across these time spans are linked and the processes and phases by which organisations move from one state to another (Khandwalla, 1992). These phenomena are often difficult to quantify, and quantitative methods have resulted in the study of only those phenomena that could be readily quantified, neglecting many other phenomena where only a qualitative approach could work. Qualitative research, however, recognises a complex and dynamic world, the researchers active involvement with the participants and that multiple realities exist (Banister et al.,1994).

There exists, as a subset of organisation dynamics the phenomena of corporate recovery and turnaround. This field of research concerns itself with the actions which co-produce corporate decline and the strategies that prove to be successful in recovering them.

The limitations of the research designs that have been used to date in the study of corporate recovery, have been expounded upon by Khandwalla (1992), O'Neill (1987), Pant (1991) and Winn (1993).

Pant (1991) claimed that studies which attempted to identify management actions leading to turnaround have been confronted by two limitations: Firstly, he criticised their qualitative nature, that they omitted any form of statistical evaluation and testing for significance of differences. Secondly, by only studying publicly available information, it is difficult to infer what actions were actually taken by management to restore profitability. In a further exposition of the limitations of research design, O'Neill (1987) criticised earlier studies of corporate turnaround for relying mostly on anecdotal and case data. He mentioned, however, that the more recent work in this field studied the topic more directly, by comparing successful and unsuccessful turnaround cases. These studies attempted to isolate the factors which co-produce corporate decline and recovery.

Winn (1993) criticised the research on corporate recovery and turnaround on the grounds that few researchers have examined the appropriateness of the performance measures they used to define decline and turnaround, which resulted in overlapping research populations and inconclusive results. She proposed selecting decline and recovery situations for research according to the same criteria and on the basis of the similar nature and severity of the crisis.

Khandwalla (1992) urged that the main problem in identifying the determinants of organisation performance is one of antecedence. When a company performs well and possesses a certain feature, one cannot assume that this feature necessarily causes good performance. The reverse may well have been the case in that it may be good performance that led to the presence of the feature, or that good performance created the conditions under which this feature could successfully exist. Kerlinger (1986) stated that this is a dangerous logic in science, and is known as <u>post hoc, ergo propter hoc</u>: after this, therefore caused by this.

Khandwalla (1992) also pointed out that unfortunately, much of organisational research has been cross-sectional or synchronic rather than longitudinal and diachronic, due to the difficulty of tracking corporate events over a period of time. He suggested that more longitudinal and diachronic studies are needed, to understand better the patterns of cause and effect or stimulus-response relationships in organisations.

What appears to have been longitudinal studies, were not necessarily such. Khandwalla (1992), in criticism of the work of Peters and Waterman (1982), pointed out that in their study of 40 companies that had consistently performed well over a

20-year period, they never provided evidence of any mentioned factor that were indeed present during even only one of the 20 years.

Attempts at longitudinal studies have been made. Chandler (1962) studied the past records of organisations, the minutes, annual reports and correspondence in an attempt to sequence events over time. Mintzberg, Raisinghani and Theoret (1976) analysed cases of decision-making in organisations to try and sequence events. From these studies models emerged on how organisational structures change over time, how transitions are handled, how culture changes over the organisational life cycle, how strategies are developed and how organisations grow over time (Conner & Lake,1988; Hickson et al.,1986; Miller & Friesen,1984).

Khandwalla (1992) was of the opinion that the turnaround situation offers an opportunity to study social phenomena without many of the research limitations, in that within the compressed time span of a turnaround, cause-effect relationships, as he called it, or rather producer-product relationships (Ackoff,1981) are easier to observe. Vigorous action usually precedes the improvement in performance, and in a turnaround situation improvements in results are usually very noticeable. Random factors can therefor be ruled out, and it is easier in the study of turnaround to isolate the co-producers of organisational success.

In order to improve on the research design on corporate recovery to date, the following six requirements need to be met:

1. "Experimental" and control groups should be used to prove clearly that actions taken and conditions created in recovered situations were different to non-recovered situations. This would also exclude random factors, which may have been assumed to be associated with recovery success, but which may also be present in the non-recovery, or decline cases (O'Neill,1987).

2. Producer-product relationships should be established through the use of longitudinal rather than cross-sectional studies (Khandwalla,1992).

3. The data on observed events, processes, actions and strategies should, as far as possible, be reduced to a quantifiable form, so as to allow for the testing of the significance of differences (Pant,1991).

4. Rather than only studying publicly available information or impersonal secondary data, such as statistics on research expenditure, advertising expenditure, assets in relation to turnover and so forth, the actual management actions taken to recover the organisation should be studied and examined on a first-hand, personal basis (Pant,1991).

5. The companies selected to form part of the sample should be selected on the basis of the same criterion, e.g. lack of profitability, return on assets, or any other criterion, and should be included on the basis of the similar nature and severity of the problem (Winn,1993).

6. Observations should be associated with a criterion of organisational or business success (Khandwalla,1992).

The above mentioned limitations seem to summarise the state of scientific design of research studies reviewed for the present study. In the following sections of this chapter, the research questions addressed by this study and the method with which they will be researched will be explained, as well as how an attempt was made to circumvent the above mentioned limitations.

RESEARCH QUESTIONS

The following research questions were posed:

- What are the personality constructs, preferred managerial style and values of the successful turnaround manager?
- What are the behavioural competencies and cognitive capacity of the successful turnaround manager?

- ☐ How does the successful turnaround manager structure management and organisational processes to co-produce the turnaround?
- ☐ Which major initiatives are taken and intervention strategies chosen to recover the business organisation?
- ☐ What is the effect of the personality, style, values and behaviour of the successful turnaround manager on the way in which he/she structures management and organisation processes and the actual recovery success?

DEFINITION OF TERMS

For the sake of clarity, terms that will recur in the report on empirical research, will be defined below.

Chief Executive Officer (CEO):
The Executive Chairman, Deputy Chairman, Managing Director, Executive Director or General Manager who assumes chief executive responsibility for the business organisation and its performance.

Top Executive Team:
Those executives who report directly to the CEO, which would generally include positions such as Financial Director, Marketing Director, Operations Director, Manufacturing Director and so forth.

Business Enterprise:
An organisation registered as either a public or private company with the Registrar of Companies under the South African Companies Act, Act 61 of 1973, which defines it as an enterprise for profit. The terms "business", "business organisation" and "company" will be used interchangeably.

Financial/Economic Performance:

The extent of revenue, revenue growth, profit, profit growth, return on sales and return on assets.

Inadequate Financial/Economic Performance:

The final conclusion, based on the above-mentioned basket of indicators, that the business under-performs in terms of shareholders' expectations, the inflation rate and industry performance, or that it is actually in decline in comparison with its own previous performance.

Adequate Financial/Economic Performance:

The final conclusion, based on the above-mentioned basket of indicators, that financial/economic performance is progressively increasing from a low base in comparison to previous performance, inflation, industry indicators and other organisations.

Corporate Recovery:

A condition in which the business has been successfully restored to adequate financial performance after an experience of inadequate financial performance. This improved economic performance needs to have been progressive and sustained for at least two to three consecutive years.

Failure to Recover:

A condition in which the business is experiencing inadequate financial/economic performance over a number of years, based on the basket of indicators, and the executive team had been unsuccessful in recovering the business. This inadequate performance needs to have existed for two to three years. One unacceptable financial year does not justify the classification of being in decline, unless this single year represents a major loss situation.

RESEARCH DESIGN

According to Kerlinger (1986), research design has two basic purposes, namely, to provide answers to research questions and to control variance. The method of research must therefor be chosen, given the circumstances, to eliminate as much variance as possible and to observe as purely and as uncontaminated as possible the variables under review. The phenomena under study, and the universe within which they occur influences the choice of methodology.

The present study can be classified as a *non-experimental* field study, where a qualitative case method was followed to investigate two groups of business organisations, namely an investigation and comparison group. The investigation group consisted of companies who had been successfully recovered, whilst the comparison group consisted of companies in decline, or with stagnant, inadequate levels of financial performance. The dependent variables were profit growth, turnover growth, return on sales and return on assets. The independent variables were behavioural competencies, cognitive capacity, and personality of the CEO, the choice of intervention strategies and manifestation of organisational processes.

Due to the nature of the phenomena being studied, and limitations of sample size, the best research methodology for this study seemed to be a qualitative research design. There were not a sufficient number of successful corporate turnaround executives in South Africa or corporate turnaround examples to ensure the validity of quantitative statistical methods.

The reasons for classifying the current study as a *non-experimental field study* are as follows:

- It was non-experimental in that both independent and dependent variables had already taken effect and executed their producer-product relationships.
- It was aimed at discovering the relationships between the economic performance of a company (independent variables) and social and

psychological phenomena such as behaviour, competence, personality, choice of actions and processes governing behaviour (dependent variables).

- It took place in the real social structures of a community, namely the business world.
- No independent variables were manipulated. They already existed and were simply recorded and noted *ex post facto*.

According to Kerlinger (1986), the strength of the field study is its realism, significance and relevance to the problems of human existence, strength of variables and its heuristic quality. The variables are larger and richer than in the case of laboratory experiments and the heuristic quality lies in the richness of discovery potential. In advocating the qualitative research approaches which, of necessity, tend to be used during a field study, Bannister et al. (1994) stated that it is inductive of nature and theory generating in iluminating the nature and quality of people's experiences. The developing theory is thus primarily grounded in personal experiences and theory emerges rather than being simply a reflection of the researchers "a priori" framework. The qualitative researcher will rather focus on the context and integrity of the material and may use quantitative data, but not build the account entirely from this. They argued that one cannot only work off quantitative data, because the object of study is mediated by people's experiences and the observations of the researcher.

The most serious weakness of the field study, according to Kerlinger, is its *non-experimental* nature. This weakens statements of relations. The fact that two variables have been observed as having existed or taken place at the same time, or the one shortly after the other, says nothing about their product-producer relationship, which is the obvious strength of laboratory experiments. This is an issue of the validity of the qualitative, case-study, approach: How do we know that the turnaround actions that were taken did indeed effect the turnaround? Khandwalla (1992) suggested that the contribution of various management actions to turnaround could be assessed by comparing the actions of successful recovery situations with the actions of declining companies. Where the manifestation of certain actions or initiatives of successful recoveries indeed significantly exceeded those of the control group, those turnarounds actions did contribute to, or co-produced the recovery.

Khandwalla (1992) suggested that a second way of addressing the validity issue is to relate the manifestation of certain actions of recovered and declining companies to a criterion of performance such as profitability. A strong relationship between the criterion and the particular category of management action would then indicate that this particular aspect is associated with financial success. As far as cause-effect (producer-product) relationships are concerned, Khandwalla pointed out that the compressed nature of the turnaround situation allows a longitudinal observation of four to six years to determine these relationships.

This problem was handled in the current study by using an investigation group and a comparison group, and by relating the observed variables to a criterion of financial and economic success.

This concern with validity holds only if viewed from a traditional quantitative stance. In terms of qualitative research, Bannister et al. (1994) expanded on the concept of "ecological validity". Ecological validity is achieved by making the research to fit the real world, which is necessary if the findings are to be extrapolated to a wider population than the sample used and if the findings are to be generalised beyond the particular situation contructed by the researcher. To increase ecological validity, the researcher must ensure that as many variables as are present in the "real world" are present in the research setting. In the present study, "ecological validity" almost automatically existed in that the study of recovery of the selected business organisations took place in their natural settings, where as many aspects as could be recognised, concerning the management actions taken to recover them, were present.. The qualitative researcher will overcome the above limitation, by describing and recording carefully the meaning that is produced during the course of the research and how the research setting impacted on these. The concern is therefore more "specificity" than "replicability". Ecological validity is sustained when the particular meanings of the research setting are explored.

Another problem is the lack of precision in the measurement of variables due to the greater complexity of the real life situation. It is also more difficult to eliminate sources of error and contamination by other variables not being studied. In this regard a system was developed according to which management actions and organisational processes were classified and quantified. Furthermore, the observations of management actions and organisational process were related to a criterion of economic or financial performance.

Miles and Huberman, (1994) noted that a qualitative research design will have the following characteristics:.

- Data appear in words rather than in numbers and are collected through observations, interviews, extracts from documents or self-report questionnaires and are processed before they are used.
- Analysis consists of three concurrent processes, namely:
  - Data reduction: selecting, focusing, simplifying, abstracting and transforming the "raw" data.
  - Data display: the organised assembly of information that permits the drawing of conclusions and the taking of action. Matrices, graphs, networks and charts can be used to facilitate the display.
  - Drawing of conclusions and verification: noting patterns, themes and clustering.
- Qualitative data analysis is an iterative process and therefore, data reduction, data display and the drawing of conclusions and verification take place at the same time and are being continuously reinforced and sophisticated by each other.

Bannister et. al. (1994) stated that qualitative research is part of a debate, not a fixed truth. Normally, it is the illuminative representation of the meaning of a problem or issue, and an attempt to capture the sense that lies within, and it accepts the fact that there will always be a gap between the things we want to understand and or accounts of what they are. Prediction and control, unlike in quantitative research, is not relevant.

Earlier on in this chapter, six requirements were stated as necessary to improve the research design of studies that were undertaken in the field of corporate recovery. The design of the present study will now be considered in relation to these six issues. The design of this study met the first requirement, which was to use two groups in order to prove clearly that actions taken and conditions created in recovered situations were different to non-recovered situations. The second requirement, was that producer-product relationships should be established through the use of longitudinal rather than cross-sectional studies (Khandwalla,1992); in the present study the management actions that were taken to recover the organisations reviewed, were monitored over a period of three to five years.

The third requirement stated that the data on observed events, processes, actions and strategies should, as far as possible, be reduced to a quantifiable form, so as to allow for the testing of the significance of differences (Pant,1991). In the present study a system was developed according to which management actions and organisation processes were classified and quantified.

As far as the fourth requirement is concerned, Pant (1992) urged that rather than only studying publicly available information or impersonal secondary data, the actual management actions taken to recover the organisation should be studied and examined on a first-hand, personal basis. In this regard, during the present study the CEOs of the organisations in both the investigation group and the comparison group were personally interviewed, where first hand accounts of management actions taken, were gleaned.

The fifth requirement was that the companies selected to form part of the sample should be selected on the basis of the same criterion, e.g. lack of profitability, return on assets etc., and should be included on the basis of the similar nature and severity of the problem (Winn,1993). In the present study this requirement was more difficult to meet due to the limited number of recovery and decline organisations that were willing to participate. All cases reviewed were indeed compared on the same criteria, as Winn urged, namely revenue growth, profit growth, return on sales and return on assets.

The sixth requirement was that observations should be associated with a criterion of organisational or business success (Khandwalla,1992). The previous paragraph has already highlighted that this was done, in that the observations of management actions and organisational processes were related with a criterion of economic or financial performance.

In conclusion, although the field study, of all types of studies, is the closest to real life and therefore has no element of artificiality, it still has its own weaknesses. Nevertheless, Lievegoed (1991) commented that discoveries by observation are as fundamental as those made by experiment; both are important.

CRITERION SCORE

Kerlinger (1986) commented that the researcher's most obvious concern is to maximise the experimental variance. The aim of this study was therefore to select business organisations for the investigation group that showed dependent variables (for example, financial performance) that were considerably better than those of the declining or stagnant organisations in the comparison group. It is in maximising the experimental variance that differences, if any, in the independent variables, namely, executive competencies, cognitive capacity, personality, intervention strategies and organisational processes can be most easily observed.

If differences on the independent variable are not significant and substantial, there is little chance of separating its effect from the total variance of the dependent variables, other than what is due to chance. The variance of a relationship must be given the chance to show itself, separate from the total variance, which is a composite of variances due to a number of other factors and chance.

Unlike in most research studies, the two groups of companies were selected, on the basis of the dependent variable of financial performance, rather than the independent variable of managerial competence and intervention strategies. The reason for this was that, although financial results were deemed dependent on managerial competence and choice of intervention strategies, it was more feasable to select one group of high performing companies to investigate and to compare them with a comparison group of low performing companies. The dependent variable, namely, the financial performance of the business organisations studied, was the criterion according to which the companies were classified as successfully recovered companies (investigation group) or declining companies (comparison group).

As noted in Chapter 2, where the concepts of decline and recovery were discussed, the profitability of a business organisation is of paramount importance. It is the most frequently used financial index of decline or recovery.

In an illuminating article on the performance measures of corporate decline and turnaround, Winn (1993) cited 16 turnaround studies. Seven of these used some measure of profitability to define decline and recovery, three used return on investment, three used return on assets, one used market share, one used Altman's z-score (Slatter,1984) and one did not define a criterion measure. Fourteen of these studies used only one criterion, such as profitability; one used two criteria, such as profitability and return on investment, and one (Grinyer et al.,1988) used more than two criteria, namely, return on assets, return on equity, sales, and labour productivity.

In commenting on the fact that not all recovery cases are of the same severity and can therefore not be measured in the same way, Winn (1993) proposed the following typology for classification and measurement:

- ☐ <u>Imminent Bankruptcy</u>: This is a crisis turnaround situation in that the business is in danger of insolvency if immediate radical action is not taken. The window of opportunity is only three months to one year. These organisations could show signs of recovery within two years. Typical measurement criteria include profitability (cash in-flows minus short term obligations).
- ☐ <u>Declining Profitability</u>: This is a cash-flow turnaround, where immediate action may be needed before long-term strategies are implemented. These organisations could show signs of recovery in about four years from trough to peak. Typical measurement criteria include profitability but where profits are already positive, declining margins will indicate the crisis.
- ☐ <u>Substandard Performance</u>: This constitutes a turnaround from mediocrity. There are marginal performance problems. Inadequate performers need not have declined from previous profitability and are not classified as recoveries when there were marked improvements from previous performance. Typical measurement criteria include return on investment, return on assets and profit returns in relation to industry.
- ☐ <u>Declining Market Share</u>: The market share turnaround indicates a decline in market share but does not necessarily go hand-in-hand with a loss situation. Turnarounds in market share are associated with a four-year period. Typical measurement criteria include declining sales/revenues in relation to the market.
- ☐ <u>Inadequate Asset Productivity</u> : Asset productivity turnarounds are characterised by inefficient asset utilisation, which can be recovered from a two- to six- year period. Typical measurement criteria include return on investment and return on assets.

Winn's (1993) classification, adapted and enriched with additional information, is presented in Table 5.1. The five types of crisis situations are given, with a brief description of the nature of the problem, the criteria for measurement and the expected duration of the recovery.

Table 5.1 : Five categories of classifying corporate crisis

Type	Imminent Bankruptcy	Declining Profitability	Substandard Performance	Declining Market Share	Inadequate Asset Productivity
Nature of problem	Company in severe loss-making situation for one to five years	Still profitable but declining profitability over 2 to 5 years	Profitable, but ROS and levels of profit below competitors	Profitable, could have good ROS. ROA but declining market share	Profitable but low ROA and ROI
Criteria for measurement	Profits (current short-term liability exceeds revenue)	Profits (current revenue higher than liabilities, declining margins)	ROI, ROA, profit in relation to industry	Decline in sales relative to market	ROI, ROA
Duration of Recovery	1-2 years	3-5 years	4-5 years	3-4 years	3-5 years

Notes:

ROS - Return on Sales
ROA - Return on Assets
ROI - Return on Investments

In his study of 65 recovery cases, Khandwalla (1992) used two criterion scores. The first was profitability, where a break-even position, preceded by bad losses, indicated a successful recovery. The second was rate of profit growth, calculated by taking the maximum loss as a percentage of sales and subtracting this from the profit as percentage of sales during the first year after break-even in which the business again made a profit (e.g. 5% loss in 1982, break-even in 1984, and earned 4% on sales in 1985. The gain from -5% to zero, plus 4% from zero = 9%, divided by 3 years = 3% rate of gain).

The reason Khandwalla insisted that earnings on sales be used as a criterion is because these figures are readily available in most cases and are adequately reported. On the other hand, a criterion such as earnings per share or return on equity would be difficult, as this information is not always readily available, particularly for private companies or operating divisions of larger groups of companies.

At the end of the day, the most basic and fundamental measure of the success of a business organisation is whether its revenue exceeds its costs. Once this basic and often crude condition has been met, more sophisticated measures of economic success come into play.

The Financial Analysis Services (FAS) of Intelligent Network (I-Net), a division of the stockbroking firm Ivor Jones, monitors approximately 217 different financial variables or indices of each listed company on the Johannesburg Stock Exchange. Of these, 65 refer to income and expense items, 39 to turnover, and 6 to assets which equals approximately 30% of all indices monitored. This is an indication of the fundamental importance of these factors. The other 70% refers to variables such as the balance sheet, cash flow, net asset values and market capitalisation.

Stern and Hahn (1992), in one of the most popular annual surveys of corporate performance, rank companies by measure of *size* according to revenue or turnover, assets and *market capitalisation,* which is the market value of ordinary shares or the value of debt and equity.

Stern and Hahn asked this critical question: "What is the appropriate measure of corporate performance?" They argued that the real measure is *Market Value Added* (MVA), defined as the difference between the market value of the firm, both debt and equity, and the total capital contributed by investors to generate that market value. Stern and Hahn suggested that other performance measures, including return on ordinary equity, return on assets and shareholders' returns, do not take into account the effect of firm size and do not measure the currency (Dollars, Pounds, Rands) amount of shareholders' value creation.

An example of this is that if two firms, one large and one small, have the same shareholders' returns, the larger firm adds more value because the same return is earned on a larger capital base. Stern and Hahn asserted that MVA is a superior measure of value creation, since it takes size into account.

When decline or recovery are at stake, the focus is more on the internal efficiency of the business organisation in terms of its own relationship between revenue and costs than on the size of the capital base and the actual quantum of profits delivered. MVA is therefore discounted as a criterion score in this study.

Another more recent measurement is *Economic Value Added* (EVA) (Stern & Hahn 1992; Steward,1991). EVA is the total capital, multiplied by the rate of return on capital, minus a required rate of return on capital commensurate with risk. Stern and Hahn (1992) indicated that MVA and EVA are related; firms at the bottom of the MVA stakes or ranking are there because their EVA is negative.

McFarlane (1992) also expounded the virtues of a more cash-related measurement and concluded that all four issues are important, namely, the balance sheet, income statements, cash-flow statements and cash value-added statements.

McFarlane (1992) also expounded the virtues of a more cash-related measurement and concluded that all four issues are important, namely, the balance sheet, income statements, cash-flow statements and cash value-added statements.

For companies listed on the Johannesburg Stock Exchange the information required to calculate MVA, EVA, cash-flow statements and cash value-added statements is readily available. However, for private companies this is not the case and in the present study the researcher was limited to financial performance indices that were more readily available on a consistent basis over a number of years across all cases studied.

A basket of four factors was chosen as the criteria according to which the business organisations in this study were classified into investigation and comparison groups, or recovered companies versus declining companies:

- ☐ Year-on-year revenue or turnover growth .
- ☐ Year-on-year profit growth (Profit = operating profit before interest and tax)
- ☐ Return on sales : Profit as percentage of turnover.
- ☐ Return on assets: Profit as percentage of total assets.

SAMPLING OF COMPANIES

Kerlinger (1986) identified two basic types of sampling, namely probability and non-probability sampling. In probability or random sampling, each individual has an equal chance of being included in the sample. In non-probability sampling, however, there is no way of eliminating the probability that an individual will be included in the sample. Non-probability sampling includes quota sampling, purposive sampling and accidental sampling. Kerlinger (1986) stated that in much of our research we deal with non-probability sampling. Often people or events are included in samples because they are conveniently there at the time of research. These samples are, however, biased and therefor have an impact on the statistical inference.

In relation to the present research, the dependent variable, namely corporate recovery or decline in terms of historical financial performance, could not be manipulated. It was *ex post facto*; it had already happened. As a result of this, random allocation was impossible. Companies were assigned to the two groups deliberately, or in what Kerlinger called "purposive sampling", characterised by deliberation and judgement in assigning cases to the investigation or comparison group.

Nine companies which met the criteria for corporate recovery and seven companies which failed in recovery were successfully approached for this study.

Since not all CEOs could find the time required by the investigation, not all companies approached agreed to participate. The first nine turnaround companies which agreed were studied, along with the first seven companies which were experiencing inadequate economic/financial performance. The selection of companies was thus classified as purposive sampling.

Companies were matched according to economic sector, as far as access and availability allowed. Companies were chosen in order to achieve a spread across various economic sectors, to enable generalisation of findings across as many economic sectors or industries as possible.

Table 5.2. indicates the industry representation, as well as the relative sizes of the companies in terms of total sales/revenue for 1990. Code names are indicated in order to preserve the anonymity of the participating companies No attempt was made to match companies according to size, other than to exclude companies with a turnover of less than R100 million per year and employing less than 500 people.

Except for two of the 16 cases, all the companies studied were operating companies rather than groups of companies. The reason for choosing operating companies (although in some cases part of a group) is that their financial/economic performance could be measured clearly, due to the fact that they were autonomous business units and their results were not contaminated by the performance of other companies. In the case of a group company, its performance can improve favourably, based on excellent performance of one or two operating companies, despite the presence of other declining operating companies in the group.

In the case of the two groups of companies included in the group of successfully recovered companies it was ensured that all operating companies and divisions were in fact contributing to overall financial/economic performance.

All 16 companies studied were registered public or private companies in terms of the South African Company Law.

Table 5.2: Comparison of companies studied in terms of industry and sales.

Industry and sector	Code name	Sales 1990	Recovery/decline
Manufacture/ Textile	Texrec	344 900	Recovery
Manufacture/Engineering	Englo	88 336	Decline
Manufacture/Chemical	Chemrec	110 634	Recovery
Manufacture/Chemical	Chemlo	380 787	Decline
Manufacture/Sugar	Sugrec	207 114	Recovery
Retail/Furniture	Furnrec	249 299	Recovery
Retail/Furniture	Furnlo	169 970	Decline
Retail/Other	Merchrec	2 707 700	Recovery
Retail/Other	Merchlo	413 200	Decline
Retail/Other	Buslo	54 059	Decline
Services/Freight	Freightrec	79 213	Recovery
Services/Freight	Freightlo	63 057	Decline
Services/Transport/Freight	Transrec	188 908	Recovery
Services/Travel	Travrec	59 227	Recovery
Financial/Banking	Finrec	1 940 000	Recovery
Financial/Banking	Finlo	Not available	Decline

Note: Sales indicated as (000).

PROCEDURE OF INVESTIGATION

In all except three of the 16 business organisations studied, the CEO was approached, the intention of the study explained and participation in the project was requested. The willingness of the CEO to participate and make approximately 12 hours of his time available largely dictated the sample used. In the remaining three cases, the CEOs in charge of these companies were not available, as all three had already departed, two of whom had been dismissed as a result of the bad financial performance. These CEOs were not pursued for participation, due to their unwillingness to participate. In these cases at least two of the directors were approached for participation. The investigation into each case consisted of three phases.

PHASE ONE: MANAGERIAL ASSESSMENT

The first, the assessment phase, consisted of an assessment of the CEOs behavioural competencies, cognitive capacity and personality, preferred roles, and values. The managerial competencies and cognitive capacity were assessed using internationally accepted assessment centre practices. The personality, managerial roles, and values were assessed using the South African Managerial Construct Scale.

Sampling

As explained above, in three of the corporate decline cases the CEOs were not available for the assessment. In one of the corporate recovery cases the CEO indicated that he would participate in the project, except for the managerial assessment. Of the 16 cases studied therefore, only 12 managerial assessment profiles were available.

declining organisations, was it possible to assess the incumbent CEOs, it was decided not to use their managerial assessment information as a comparison group. This sample would have been too small.

The assessment information of the four CEOs who managed declining organisations was therefore ignored. A comparison group was created by using the information of twelve CEOs who managed companies that were neither considered as recovered nor as declining. These were the total number of CEOs, who met the above criteria of neither managing a company in a recovery or decline phase, and whose profiles were available at the time of the present study.

Assessment procedure

Each of the 20 CEOs was assessed individually during a four and a half hour managerial assessment procedure administered by an organisational psychologist registered with the Professional Board for Psychology, which is part of the South African Medical and Dental Council. This was followed by a 2-hour feedback session on the results which took place at a later date to allow time for interpretation. Confirmation as to face validity was obtained by asking the CEOs extent of agreement with the findings. Without exception, they tended to agree as to the accuracy of the findings.

The assessment procedure consisted of three simulated managerial situations which each candidate had to handle, and the filling out of the South African Managerial Construct Scale (SAMCS), which is discussed in Chapter 6.

Each CEO was observed across a range of behavioural competencies, which were recorded as they worked their way through these three situations. These observations were then interpreted according to generally accepted assessment centre practices. The interpretation of the behaviour entailed a quantification according to a standard system. Observational information was translated into raw scores. The raw score for each behavioural competency and each trait on the according to a standard system. Observational information was translated into raw scores. The raw score for each behavioural competency and each trait on the SAMCS was then compared with a data bank of in excess of 3 000 South African managers, across most industries and levels in business organisations. These comparisons resulted in profiles giving the percentile rank for each competency for each candidate.

In this way, for each CEO, the degree of competence in dealing with each managerial situation was expressed as a percentile rank, which indicated his/her relative competence compared to the data bank of approximately 3 000 South African managers. The data bank is a sample of a population of managers, "successfully employed" by business organisations in South Africa. The sample covers all levels of management across all corporate functions across all industrial sectors except mining. The term "successfully employed" refers to the fact that the managers in the data bank were, at the time of assessment, employed in a managerial position in a business organisation. Managers who were dismissed, or who were assessed as part of an application to another managerial position in another company, were removed from the sample in order to protect its purity.

In addition to the observation of behaviour and the filling out of the SAMCS, the thought processes underlying their handling of these situations, or their cognitive capacity was evaluated according to the *stratified systems* theory of Jacques and Clement (1994) and in similar fashion quantified and compared with the data bank of managers.

Description of managerial situations assessed

During the managerial assessment procedure, each participant was subjected to assessment centre exercises, which served as simulations of the executive role and task. They measure developed competence in dealing with the following managerial situations:

- ❑ problem analysis.

- ❑ general management.
- ❑ staff management.

For each situation a specific simulation was developed by the researcher. These case studies or managerial exercises, evolved over a period of approximately fifteen years and had been administered to approximately three thousand Southern African managers at the time of the present study. During this time their sophistication increased as they became more realistic in their reflection of the true nature of managerial work, and a data bank of observations on how managers respond to these situations had been built up.

The first exercise, problem-analysis and decision-making, requires the ability to think conceptually about a problem, the intellectual ability and creativity to formulate questions about the problem (analytical ability), the ability to gather information and reason with the facts (reasoning power) to come to a logical conclusion as to what action will solve the problem (anticipation). A particular problem was sketched to the person being assessed, such as to advise whether a particular company needs to replace their production machinery or not. The manager then had limited time to prepare questions to be put to an independent resource person and a set time in which to ask the prepared questions or any other questions which may come to mind during the probing. Following the set period for probing, the manager was required to reduce the information to a conclusion and to make a recommendation.

The second managerial problem was an in-basket exercise which assessed the ability for general management. It assessed the ability to initiate action (initiative), understanding of the problem (managerial understanding), judgement in terms of the consequences of the actions (consequences), the ability to delegate (delegation), to give clear decisive direction and leadership (decisiveness) to subordinates and, lastly, the ability to make sound arrangements (arrangements). The in-basket situation described a particular company, appointed the assessee as a regional manager, and presented him/her with 15 issues that a general manager normally has to deal with on a day-to-day basis. These included staff problems, customer complaints, cash flow problems, profitability issues, purchasing choices, operational concerns and strategic choices, such as to import or to produce locally.

The third management situation required the motivating of a subordinate (motivation), leadership in terms of setting objectives, giving guidelines and performance standards (direction), and the adaptability to incorporate this subordinate's ideas into joint problem-solving (flexibility). In this exercise a particular situation was described, where the manager had to discuss with an employee unacceptable work habits, a customer complaint about bad service, and a feasibility study to be done. In a role play situation, the assessee then had to act as the manager, whilst the assessor acted as the subordinate staff member.

Description of stratified systems theory

Underlying the behaviour observed in handling the simulated management situations, is a thought process which Jaques and Clement (1994) referred to as "cognitive capacity". The thought process underlying each behavioural manifestation was then classified according to which of the seven strata it supports and in a similar fashion as the competencies classified in terms of a raw score, then translated to a percentile score.

Jacques and Clement (1994) identified the following seven stratified systems of cognitive complexity in problem solving and decision-making that pertain to the business organisation.

Stratum one: the reasoning process of simple assertion within the cognitive world of symbols. Stratum one workers do motor-visual work. They manipulate tools (motor) and co-ordinate this movement with visual capabilities (visual) to perform a task. An example is an hotel manager telling a waitress: "Joanne, the guests on the patio would like some tea". Simple assertion infers that there is no reasoning process involved and the symbol world infers that no concepts are involved, only the symbol of "tea" and "guests". Stratum one people are concerned with doing a particular job.

<u>Stratum two</u>: the reasoning process of accumulation within the cognitive world of symbols. Stratum two workers do elementary problem-solving. They accumulate related facts, figures or incidents to form an impression of a developing trend or problem. Based on this, they correct the actions of Stratum one workers and thus programme and schedule Stratum one work. An example is: "Before you serve tea, would you please ask John to fix the electrical supply - it tripped again". Stratum two people are concerned with scheduling, programming and problem-solving.

<u>Stratum three</u>: the reasoning process of serial processing within the cognitive world of symbols. It involves the first stratum of real operational management. Stratum three workers go beyond just accumulating data to solve problems and predict future events. They have to manage a series of sequential tasks over a longer period of time. An example is the manager of one hotel in an hotel chain who has to manage the upgrading of that hotel. The reason that the Stratum one person cannot serve tea, and Stratum two has to programme repair activities can only be fixed when the Stratum three person manages the project of upgrading the hotel's facilities. Stratum three managers are concerned with managing a particular function within given parameters, such as policies, budgets, structures and strategies.

<u>Stratum four</u>: the reasoning process of parallel processing within the cognitive world of symbols. Stratum four involves elements of strategic thinking and managing a number of series in parallel. An example is the operations director of the hotel chain who manages the series (sequential tasks or steps) of upgrading five hotels, in addition to a management development programme and a pricing structure exercise. Stratum four managers are concerned with formulating policy, strategy, and budgets within which stratum three managers can manage the operation. They typically have to manage a number (parallel processing) of projects (serial processing) at the same time and to see the inter-relationship between them.

Stratum five: the reasoning process of simple assertion in the cognitive world of concepts. Unlike Stratum one to four workers who deal with the symbol world such as clients, serve, price, lunch time, food, drill, tea, etc., Stratum five managers start to deal with concepts such as asset management, cash flow, market strategy, decentralisation. Stratum five people are concerned with the survival of the total business organisation as an economic and social entity and have to make quick responses (assertion), often intuitively, concerning concepts such as pricing, and strategy. Their role is to integrate the various functions and symbols into a whole or a business concept that can survive in the market place against the competitors. An example of such a position is the CEO of a chain of hotels.

Stratum six: the reasoning process of accumulative processing in the cognitive world of concepts. Stratum six managers accumulate information about their environment, a largely conceptual environment of, for instance per capita earnings, inflation, gross domestic products, empowerment, government policy, fiscal and monetary policy. The accumulation of this information leads to the definition of emerging trends and problems, which in turn leads to actions to insulate their businesses from these, and to create a synergistically integrated group of companies. They are concerned with resource allocation amongst businesses. An example of such a position is the CEO of a group of companies, or chairman of several companies. S/he may decide to shift all future capital investments to stimulate growth and expansion in the groups' agricultural businesses, such as sugar and citrus, due to greater export possibilities and higher profit margins. This may be at the expense of the groups' business which manufactures motor car components, as with the scrapping of import duties, these products will become increasingly less competitive. Stratum six managers call into being businesses, merge them, acquire them and liquidate them.

Stratum seven: the reasoning process of serial processing in the cognitive realm of concepts. Stratum seven managers, according to Jacques and Clement, the highest stratum within the business world, function at a level higher than the chairman of the boards of a group of companies. These are the doyens of industry and commerce who at a very high conceptual level, through serial processing, plan and guide total industries and markets over decades. An example would be Anton Rupert with his influence in the tobacco industry worldwide, Harry Oppenheimer with his influence on diamond manufacturing and marketing world-wide, or Bill Gates of Microsoft who shapes the software industry.

Personality

All participants were next asked to answer the 276 items of the South African Managerial Construct Scale (SAMCS) which is discussed at length in Chapter 6.

Statistical procedures

The Mann-Whitney U-test, was used to test for statistically significant differences between the two groups. It is important to mention that in all cases raw scores rather than percentiles scores were used in statistical procedures. The results of this phase of the investigation will be discussed in Chapter 9.

PHASE TWO: INTERVENTION STRATEGIES

The second phase, the survey of intervention strategies, consisted of an in-depth interview with the CEO in 13 of the 16 cases and with at least two of the directors of three corporate decline cases. During the in-depth interview with the recovery participants, they were asked to detail all the intervention strategies they had engaged in. These were major initiatives that they and their top executive teams undertook during the recovery phase, following their appointment to direct the company away from liquidation to survival and adequate financial performance. These initiatives included key decisions taken, major strategies adopted, and specific management actions taken to recover the business. In the case of declining companies the participants were asked to detail all major initiatives, key decisions and management actions taken since the company started going into decline. For two to four years. All of these initiatives were carefully noted including how they were done, why, and their effects.

For each case studied, all discrete actions were noted. A discrete action was considered to be a specific action or activity that was recognisable and observable as unique and autonomous and which could stand alone, distinguished as separate from other activities. They were activities directed at changing existing processes, structures or systems, over and above the normal day-to-day issues of running a business.

The number of these discrete actions varied from case to case depending on the length of the period under review and the number of management actions initiated by the top executive team.

These activities were then qualitatively clustered into categories of management actions. Miles and Huberman (1994) stated that the researcher attempts to make sense of the phenomena under observation by grouping and then conceptualising objects/actions/events that have similar patterns or characteristics. What things are like each other and/or different from each other? These categories or classes used by the analyst may, according to Miles and Huberman pre-exist or emerge from the data, or from an interaction of theory and data. This form of clustering, Miles and Huberman argued, can also be seen as a process of moving to higher levels of abstraction, and is largely an intuitive process of subsuming particulars into general concepts.

Following Miles and Huberman's (1994) logic, the activities or actions across all 16 cases were first categorised according to similarity of their nature, aim and purpose. The process of judging a management action as belonging to a certain category, or of creating a category from the various management tasks, was largely an intuitive one. This does not, however, mean that it was entirely arbitrary or subjective and without substance. The formation of a category or the allocation of a management task to a category was guided by the findings of other studies, certain subjective and without substance. The formation of a category or the allocation of a management task to a category was guided by the findings of other studies, certain well-known management concepts and a content analysis of the protocols of this study.

Having defined the emerged categories of management actions, each case was then analysed in terms of these categories. The specific actions per case were allocated to these categories and the frequency of action per case per category calculated.

The companies which had been successfully recovered, were next compared with those in decline in terms of their respective choices of intervention actions and initiatives, operationalised as the proportion of management time spent or attention given to each cluster of intervention strategy. The results of these comparisons will be discussed in Chapter 7. Where the scores of the successful recoveries exceeded those of the control group significantly, it was interpreted that those turnaround actions had contributed to the recovery.

PHASE THREE: ORGANISATIONAL PROCESSES

The third phase, the survey of organisational processes, which was also part of the in-depth interview conducted during Phase 2, involved asking the participants specific questions about a range of critical organisational processes. This process began with the identification of variables that prior research suggested might be relevant to the study, and which the literature (as summarised in Chapters 2 and 3), indicated. Eleven critical organisational processes were identified, that govern the behaviour of the organisation and its employees and determine its culture. For each process, specific criteria as indicated by the literature, were determined. These were incorporated into a structured interview format, and the participants were probed as to the extent to which the processes in their respective organisations, met these criteria. Their answers were recorded and then reflected in a 3-point scale:

1 = no manifestation of process: no evidence of the process or particular sub-set could be found, and certainly less than in most of the 16 cases studied.

2 = moderate manifestation: some form of process existed, but in a relatively unsophisticated form, and in line with the state of this process in most other cases.

3 = strong manifestation: many actions, policies and processes existed to give gestalt to the process and a high degree of sophistication existed in comparison with all 16 cases in both samples studied.

Having gathered the data across all 16 cases on these organisational processes, it became clear to the researcher that in some organisations there were no trace, or manifestation of certain issues. For example, some organisations did not bother to formulate a mission statement. This organisational behaviour would be classified as "no manifestation" and 1 point would have been awarded. In another case the manifestation of a process, for example "scanning the external environment", was evident in terms of market research, but it was not much different to what most of the other organisations in both samples did. Such a case would be rated as "moderate manifestation" and awarded 2 points. Where however the manifestation of a process exceeded what most of the cases in both samples did, it would be classified as a "strong manifestation", and 3 points would have been awarded. An example would be in the case off "organisation design", where a particular organisation restructured along very modern "network" or "cluster" design principles, whilst most other cases in both samples were still very much structured along functional, hierarchical lines. A classification of "strong manifestation" would indicate rarity and a degree of sophistication, given the other cases, and the influential management literature.

In the comparison of organisational processes across various companies, the researcher chose a less sensitive scale, such as a 3-point scale. A 4-, or 5-point scale, would have required a much finer differentiation in the manifestation of processes. It was much easier, and probably more reliable, to use three categories, and the interview data lent itself more to a 3 point scale.

This information was also carefully recorded, with the participants having to cite evidence of the existence of such a process in the form of critical incidents, policies and procedures, with supporting documentation.

CLASSIFICATION OF COMPANIES INTO TWO SAMPLES

In this section the financial performance of the 16 companies that were studied will be discussed, so as to conclude which belonged to the investigation group of successful recoveries and which could be classified as belonging to the comparison group of declining or stagnant companies. As an introduction, tables and graphs indicating the performance of all 16 companies as well as industry information will be presented. This will then be followed by a discussion of each case, presenting all key financial indices in one table and graph per case.

The companies will be identified by pseudonyms consisting of two symbols. The first refers to the industry. For example Engineering will be ENG, Furniture will become FURN and Banking will become FIN, for finance. The second refers to Recovery which becomes REC, or Low Performance which becomes LO. In this way the recovered bank will be called FINREC and the declining chemical firm will be referred to as CHEMLO.

The 16 business organisations studied and classified as recovery or decline cases according to Winn's (1993) classification as set out in Table 5.1, were so classified as a result of the evaluation of four financial factors. In terms of Winn's classification, nine cases can be classified as "imminent bankruptcy", six as "declining profitability" and 1 as "substandard performance". Fifteen of the 16 cases studied were within two of the most severe of Winn's five classes of corporate crisis. These results are shown in Table 5.3. The scale that was used will be described below.

PROFIT AND TURNOVER GROWTH:

Profit growth (Progro) is the year-on-year growth of profit as a percentage of the previous year's profit, transformed to a score of 100 in Year 1 of the review period and adjusted for inflation.

Turnover growth (Turngro) is the year-on-year growth of turnover as a percentage of the previous year's turnover, transformed to a score of 100 in Year 1 of the review period and adjusted for inflation.

Inflation figures were obtained from Intelligent Network. These transformations were done to compare all revenue and profit figures across all 16 cases to a level of 100 in year 1. As an illustration, TRAVREC's figures will be used. In 1988 their revenue was R 42.065 million. If this is expressed as 100, it means 1 point equals R 420 650. In 1989 their revenue had increased to R51.357 million. However, with an inflation rate of 15.3 % for that year, the absolute value of the amount had been eroded to only a proportion of 0.847 of the original amount, which is R 43.499 million. (R 51.357 * 0.849 = R 43.499) If divided by the original factor of R 420 650 a score of 103.4 is obtained. In this way it can be seen that TRAVREC was, in terms of their revenue, 3.4 points better off after that one year of operation . It now becomes easier to compare across cases and years (inflation periods), the extent of wealth accrual or erosion that took place. Based on these results the following scale was used to evaluate each case:

4 = Exceptional progressive growth from year to year, out-stripping inflation and other companies in the sample.

3 = Positive growth above inflation and in comparison with other companies in the sample, but not as straight and progressive a line as for Score 4.

2 = No clear indication of a trend. Some years low, others a slight improvement.

1 = Declining trend, despite some good years.

0 = Undisputed decline in curve or trend, ending in either a real loss in profit or real negative growth in regards turnover.

Table 5.3 : Financial performance of sixteen companies on four factors on a scale of 0-4

Name	Total Score	ROS	ROA	Progro Std	Trngro Std
Sugrec	13	4	3	4	2
Chemrec	15	4	4	4	3
Furnrec	11	4	3	4	0
Travrec	14	4	4	4	2
Texrec	16	4	4	4	4
Merchrec	14	4	3	3	4
Transrec	13	3	4	4	2
Finrec	11	2	3	3	3
Freightrec	15	3	4	4	4
Englo	7	2	2	2	1
Chemlo	6	3	3	0	0
Merchlo	6	1	2	1	2
Freightlo	3	0	0	0	3
Finlo	3	0,5	1	1	0,5
Furnlo	2	1	1	0	0
Buslo	1	0	0	0	1

Progro = Profit Growth
Trngro = Turnover Growth

RETURN ON SALES AND RETURN ON ASSETS:

Return on Sales (ROS) is the actual operating profit for the year, divided by the actual turnover for the year, expressed as a percentage.

Return on Assets (ROA) is the operating profit, divided by actual total assets for the year, also expressed as a percentage.

The following scale was used to evaluate ROS and ROA in each case:

4 = Exceptional, straight line growth in ROS or ROA from year to year to a level well above the industry norm.

3 = Positive growth, not as dramatic as in Score 4 but still above industry norm - or no significant growth, but returns are well above industry norms.

2 = No trend in terms of decline or growth and very much in line with industry norms.

1 = Returns show no clear trend but are below industry norms.

0 = Declining or negative returns below industry norms.

In Figures 5.1, 5.2, and 5.3 the profitability from year to year is graphically presented. To ease comparison the profit figures were inflation adjusted and expressed as a score of 100, in Year 1 of their review period. The standard score of 100 was not linked to one specific year for all cases, but rather to Year one - the year preceding the year the when the new CEO took over the reigns as recovery executive. In the case of declining companies, the score of 100 was fixed as the year when the decline began, according to the financial indicators.

Figure 5.1 clearly illustrates the superior profit performance of the five highest performing companies. These five companies clearly added value for their shareholders, even after inflation was taken into account. The actual figures for these cases will be found in the tables following each case.

FIGURE 5.1: PROFIT GROWTH AS STANDARD SCORE OF 100 IN YEAR ONE : CASES 1 - 5

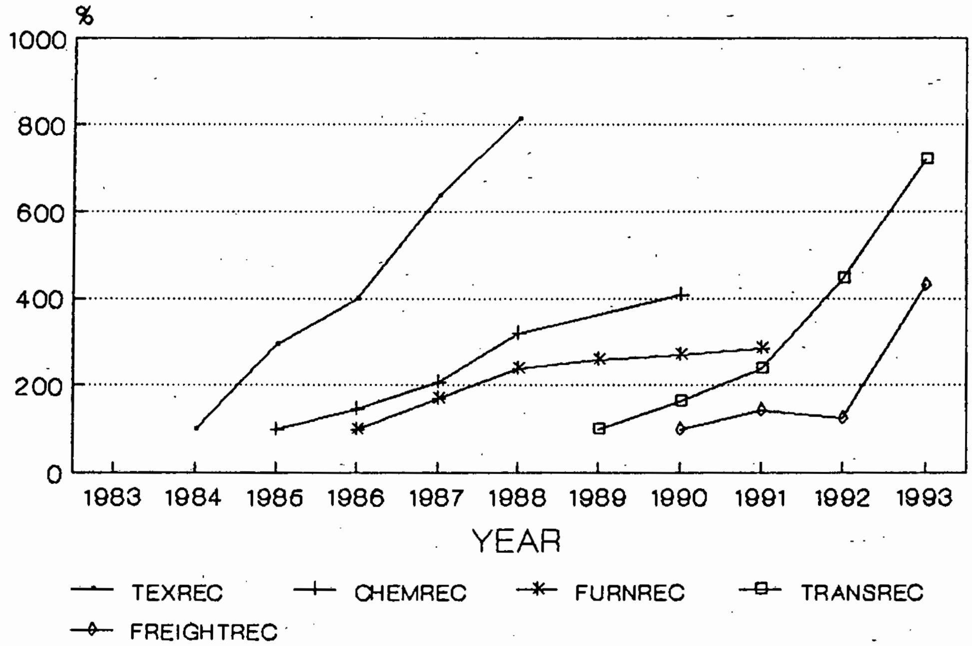


FIGURE 5.2: PROFIT GROWTH AS STANDARD SCORE OF 100 IN YEAR ONE : CASES 6 - 9

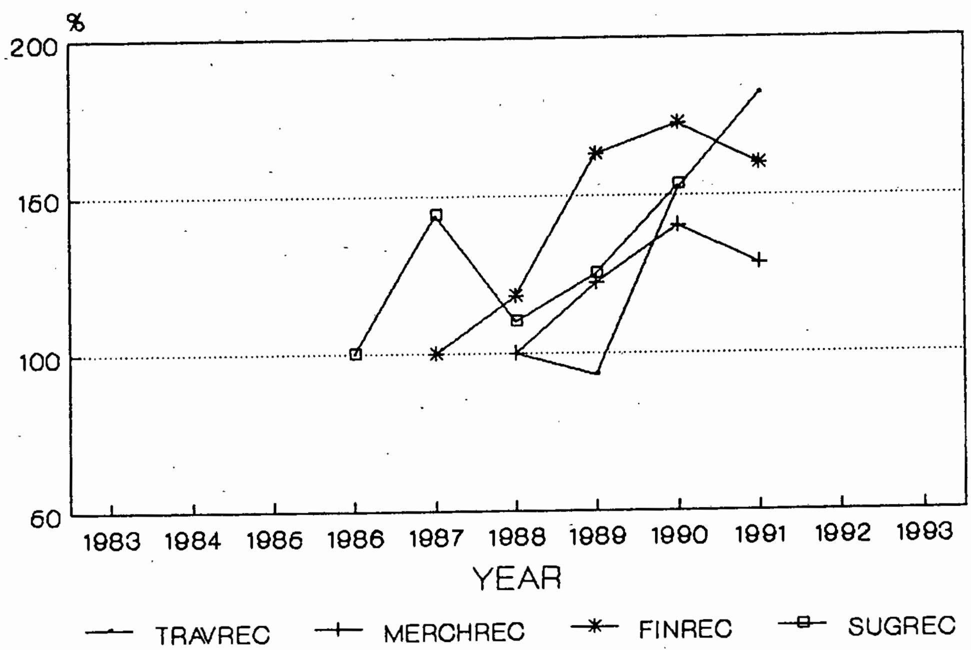


Figure 5.2 illustrates the performance of the next four companies which, although not as dramatic as the first five, was still exceptional. It will be noticed in the case of FINREC and MERCHREC, for example, that profit figures started to decline, but in absolute terms were still so much higher than the base of 100 when these CEOs took over, that they were nevertheless considered exceptional.

Figure 5.3 illustrates the profit performance of the remaining seven companies. It will be noted that in comparison with the first five companies and even the next four, these CEOs and their top management teams were not as successful in creating wealth for their shareholders. ENGLO held its own against inflation, CHEMLO started to decline and the others clearly underperformed.

Figure 5.4 illustrates the respective return on sales for the same five high-performing companies of Figure 5.1. The cases of TEXREC, CHEMREC and FURNREC are clearly successful. In the case of ROS, whilst a growth pattern is a definite turnaround or recovery case, a constant or stable graph at a point above the industry level is still an excellent performance. Unlike profit, a growth pattern in ROS is not required in order to be classified as successful. TRANSREC is such a case. Reference must be made to Figure 5.7 which indicates industry performance. A business can be classified as having adequate financial performance, when there is no growth pattern in ROS or ROA, yet it remains above industry levels achieved.

Figure 5.5 sets out the same information for the next four companies. In this graph it can be seen that, although a company could have very good profit improvements in actual terms, the profit as a percentage of turnover or total sales might still be unacceptable and in comparison with industry norms, below par. This is the case for TRANSREC.

FIGURE 5.3: PROFIT GROWTH AS STANDARD SCORE OF 100 IN YEAR ONE : CASES 10 - 16

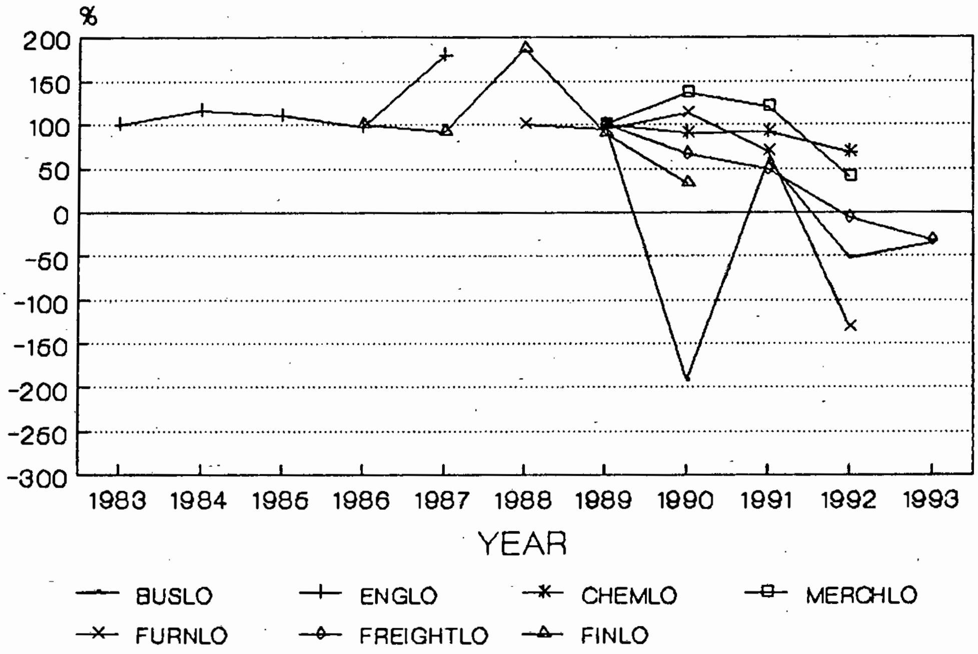


FIGURE 5.4: RETURN ON SALES CASES 1 - 5

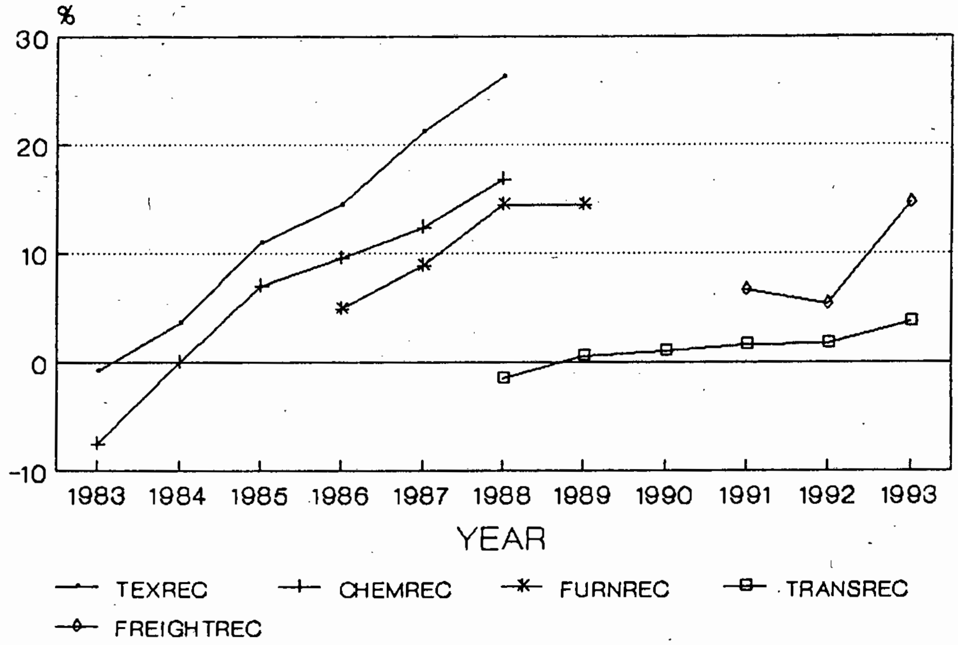


FIGURE 5.5: RETURN ON SALES
CASES 6 - 9

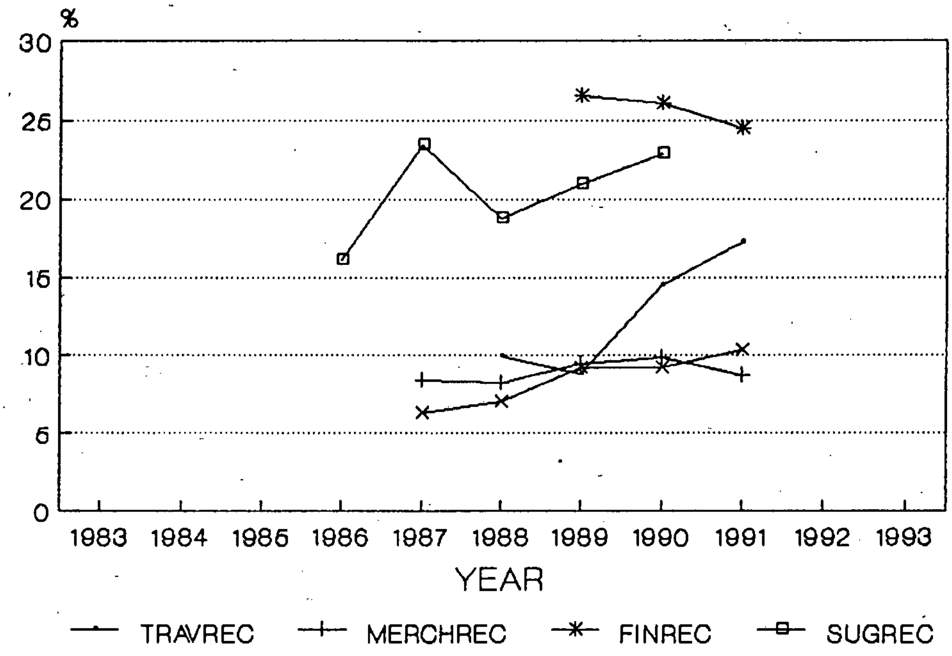


FIGURE 5.6: RETURN ON SALE
CASES 10 - 16

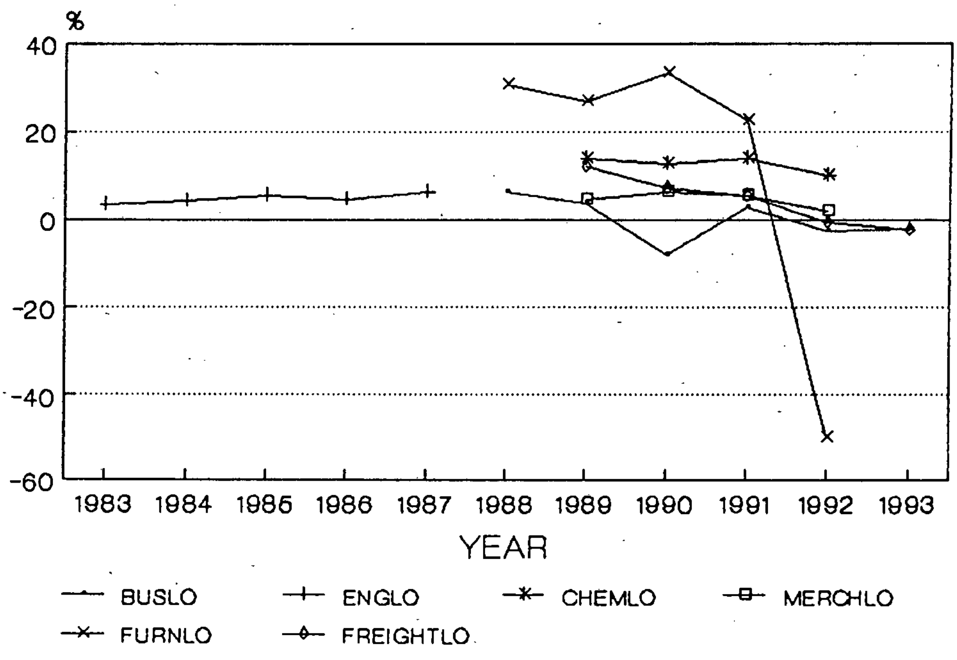


Figure 5.6 sets out the same information for the remaining seven of the 16 cases. In this graph declining rates of return, also below industry norms, can be observed.

Figure 5.7 illustrates the return on sales for a sample of the various industries, whilst Figure 5.8. illustrates return on assets. These figures were compiled from the information in Tables 5.4 - 5.11 and must be used in conjunction with the tables and graphs which follow, and which indicate each individual company's financial performance.

Before proceeding, an explanatory note on Tables 5.4 to 5.11, the various industry financial performance indices, is essential. To obtain consistent industry information over eight years from the Intelligent Network data bank, a sample of companies from the total economic sector had to be drawn. The reason for this was twofold. Firstly, the Intelligent Network data bank contained a wealth of information to manipulate and reduce to interpretable data. Companies in the sectors were therefore selected so as to correspond well to the cases studied, in that those chosen to form part of the sample were direct competitors or had similar characteristics. Secondly, even for these matches, data were not consistently available across all indices and across all years. In each table the number of companies whose data was included is indicated. For example, in Table 5.4, the chemical industry, six companies were drawn from the data bank.

The implication of this sampling is that actual turnover figures and profit figures are really meaningless, but return on sales and return on asset information is meaningful and can be used on a comparative basis.

FIGURE 5.7: RETURN ON SALES
FOR EIGHT INDUSTRIES

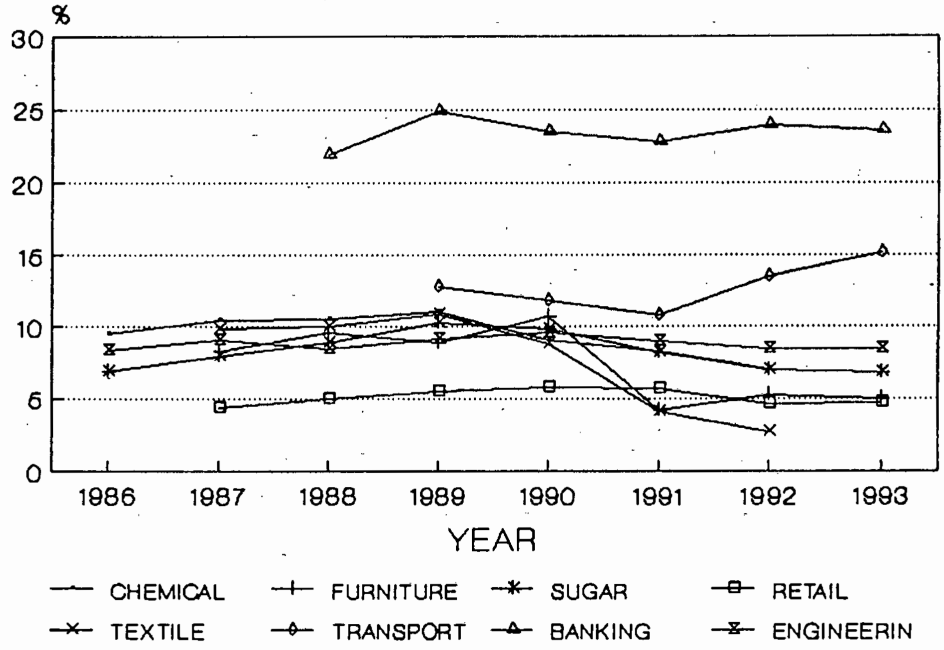


FIGURE 5.8: RETURN ON ASSETS
FOR EIGHT INDUSTRIES

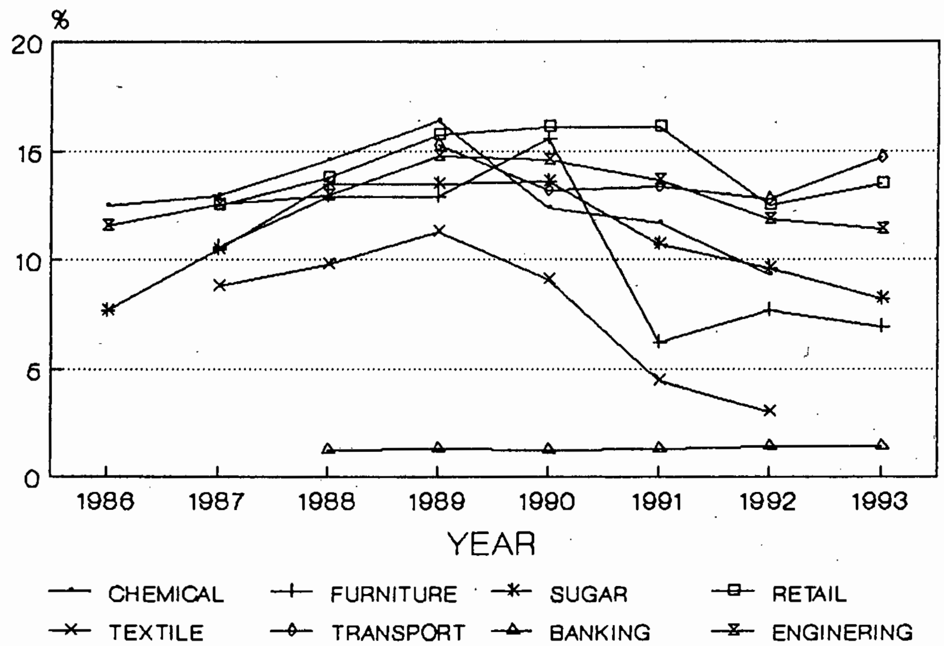


Table 5.4 : Turnover, profits, return on sales and return on assets for the Chemical Industry (based on six major companies)

	1992	1991	1990	1989	1988	1987	1986
Revenue	15 406 189	14 699 919	11 247 781	7 914 115	6 872 450	5 454 169	4 969 233
Operating Profit	1 100 466	1 226 051	1 028 518	879 288	726 122	575 389	472 667
Return on Sales	7,14	8,34	9,14	11,11	10,56	10,54	9,51
Total Assets	11 854 688	10 491 885	8 265 502	5 370 254	4 967 308	4 423 286	3 767 119
Return on Assets	9,28	11,68	12,4	16,37	14,61	13,00	12,54

Source: I-Net FAS Data

Table 5.5 : Turnover, profits, return on sales and return on assets for the Furniture Industry (based on eight major companies)

	1993	1992	1991	1990	1989	1988	1987
Revenue	5 037 700	4 612 455	4 640 812	4 539 751	3 536 954	3 004 062	2 159 151
Operating Profit	250 800	241 501	193 562	484 599	314 911	288 272	178 790
Return on Sales	4,97	5,23	4,17	10,67	8,90	9,59	8,28
Total Assets	3 615 600	3 125 161	3 107 247	3 110 989	2 432 040	2 235 895	1 693 462
Return on Assets	6,94	7,73	6,23	15,58	12,95	12,89	10,56

Source: I-Net FAS Data

Table 5.6 : Turnover, profits, return on sales and return on assets for the Sugar Industry (based on all sugar producers)

	1993	1992	1991	1990	1989	1988	1987	1986
Revenue	3 916 000	4 012 309	3 833 842	3 740 192	3 183 942	2 643 161	2 196 784	1 862 765
Operating Profit	267 400	281 744	315 570	372 130	326 667	236 636	173 841	130 012
Return on Sales	6,83	7,02	8,23	9,95	10,26	8,95	7,91	6,98
Total Assets	3 275 900	2 947 549	2 940 540	2 732 637	2 424 848	1 754 757	1 653 957	1 684 986
Return on Assets	8,16	9,56	10,73	13,62	13,47	13,47	10,51	7,72

Source: I-Net FAS Data

Table 5.7 : Turnover, profits, return on sales and return on assets for the Retail Industry (based on ten major companies)

	1993	1992	1991	1990	1989	1988	1987
Revenue	3 243 200	26 494 300	2 211 700	17 274 800	14 784 800	11 069 419	9 259 065
Operating Profit	2 509 000	1 214 200	1 200 200	995 300	816 500	553 541	412 947
Return on Sales	4,65	4,58	5,68	5,76	5,52	5,00	4,46
Total Assets	11 199 400	9 736 400	7 473 800	6 174 900	5 158 300	4 006 663	3 316 262
Return on Assets	13,47	12,47	16,06	16,12	15,83	13,82	12,45

Source: I-Net FAS Data

Table 5.8 : Turnover, profits, return on sales and return on assets for the Textile Industry (based on eleven companies)

	1992	1991	1990	1989	1988	1987
Revenue	4 342 700	4 601 400	4 771 000	4 304 500	3 493 200	2 906 500
Operating Profit	119 500	190 900	419 400	469 900	347 700	286 800
Return on Sales	2,75	4,13	8,79	10,92	9,95	9,87
Total Assets	3 993 500	4 243 400	4 597 900	4 168 900	3 547 300	3 263 800
Return on Assets	2,99	4,48	9,12	11,27	9,80	8,79

Source: I-Net FAS Data

Table 5.9 : Turnover, profits, return on sales and return on assets for the Transport Industry (based on five major companies)

	1993	1992	1991	1990	1989
Revenue	1 880 000	1 614 000	1 318 000	1 139 000	943 000
Operating Profit	286 000	218 000	142 000	136 000	121 000
Return on Sales	15,21	13,51	10,77	11,94	12,83
Total Assets	1 944 000	1 707 000	1 056 000	1 030 000	789 000
Return on Assets	14,71	12,77	13,45	13,20	15,34

Source: I-Net FAS Data

Table 5.10 : Turnover, profits, return on sales and return on assets for the Banking Industry (based on five major banks)

	1993	1992	1991	1990	1989	1988
Revenue	16 714 000	13 629 000	11 898 000	9 064 000	6 640 000	5 674 000
Operating Profit	3 948 000	3 263 000	2 718 000	2 129 000	1 656 000	1 244 000
Return on Sales	23,62	23,94	22,84	23,49	24,94	21,92
Total Assets	276 083 986	231 418 481	209 076 923	183 534 483	129 325 000	100 322 581
Return on Assets	1,43	1,42	1,30	1,16	1,28	1,24

Source: I-Net FAS Data

Table 5.11 : Turnover, profits, return on sales and return on assets for the Engineering Industry (based on eight major companies)

	1993	1992	1991	1990	1989	1988	1987	1986
Revenue	6 225 068	6 481 474	6 274 883	5 993 682	5 621 603	4 431 873	3 527 358	3 162 963
Operating Profit	528 617	549 334	561 804	573 941	516 659	374 523	320 491	265 396
Return on Sales	8,49	8,48	9,00	9,58	9,19	8,45	9,09	8,39
Total Assets	4 641 370	4 607 633	4 102 468	3 921 930	3 494 555	2 884 242	2 546 177	2 294 660
Return on Assets	11,39	11,92	13,69	14,63	14,78	12,99	12,59	11,57

Source: I-Net FAS Data

DESCRIPTION OF INDIVIDUAL COMPANIES

A discussion of each case studied, along with the key financial performance indicators, will now follow.

CASE ONE: TEXREC

Nature of business: Textile producer. Produces cloth for use in apparel, curtaining and upholstery.

Status: Listed operating company on the Johannesburg Stock Exchange. Part of a large industrial group in South Africa and classified as operating in the textile industry.

General Comments: TEXREC was turning in losses and a new CEO was brought in to turn the company around and to recover it. The new CEO took up this position in October 1983 and is still the CEO at the time of writing.

Period of review: 1983 - 1988 (6 years).

Classification: Recovery. Winn (1993) classification: Imminent bankruptcy.

Points in Table 5.3: 16

The information in Table 5.12 is graphically presented in Figure 5.9. Unlike the case in Figures 5.1, 5.2 and 5.3, profit growth and turnover growth are not expressed as a score of 100 but as a score of zero in Year 1. The reason for this was to facilitate accommodating all four statistics on one graph. A further note is required in that when profit or turnover growth exceeded 250 points above the base year, the actual growth was not recorded but expressed as 250. The reason for this is to keep the scale within 250 points in order to be able to discriminate visually between ROS and ROA from year to year.

From Figure 5.9, TEXREC is awarded the following points:

❑ *Profit Growth: 4 points.* Clearly exceptional growth. This statistic could only be calculated from 1984 rather than 1983, because in 1983 a loss was recorded and to have used that as a base would have given a distorted picture.

FIGURE 5.9: TEXREC
FINANCIAL STATISTICS

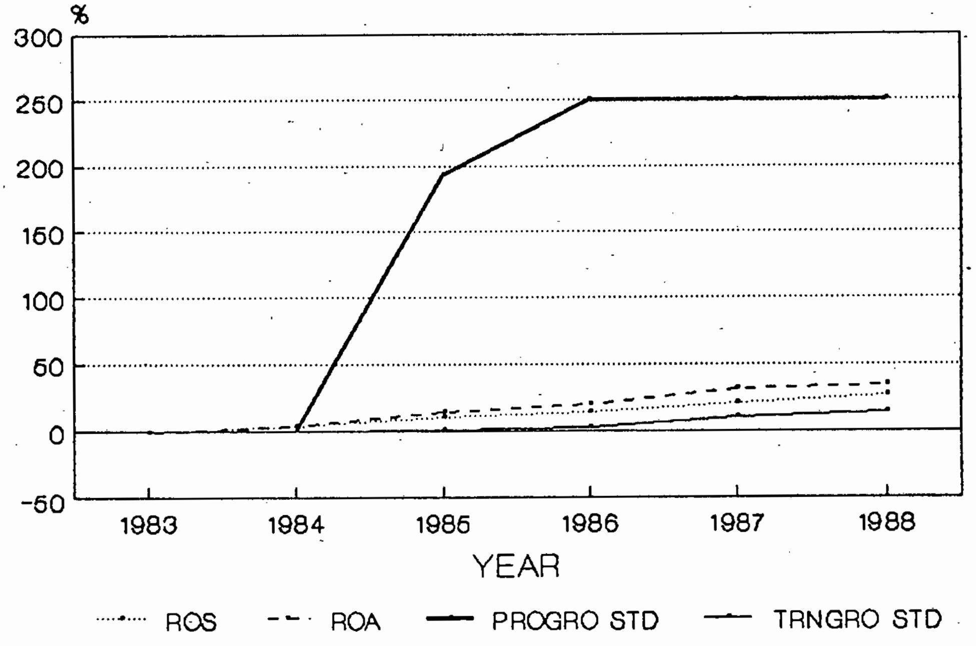


Table 5.12 : Texrec/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1983	85 000	-700	-0,8	95 400	-0,7		
1984	108 300	4 000	3,6	93 700	4,25	0	0
1985	132 200	14 400	10,9	99 100	14,5	193	0,6
1986	166 500	23 958	14,4	117 800	20,3	250	2,5
1987	209 500	44 600	21,2	140 300	31,8	250	10,1
1988	248 200	65 490	26,3	188 500	34,7	250	13,9

Source: I-Net FAS data

- ☐ *Turnover Growth: 4 points.* Although not as spectacular, still outstrips inflation.
- ☐ *ROS: 4 points.* Exceptional straight line growth and better than industry.
- ☐ *ROA: 4 points.* Exceptional straight line growth and better than industry.

CASE TWO: CHEMREC

Nature of business: Specialist manufacturer of rubber and PVC moulded and extruded products for the agriculture, building, footwear, mining and motor industries.

Status: Operating company listed on Johannesburg Stock Exchange and part of a larger group of companies. Classified as a chemical firm in the Johannesburg Stock Exchange economic sector index.

General comments: CHEMREC was turning in losses and a new CEO was brought in to turn the company around and to recover it. The new CEO took up this position in March 1983 and was still the CEO at the time of writing.

Period of review: 1983-1988 (6 years).

Classification: Recovery. Winn (1993) classification: Imminent bankruptcy.

Points in Table 5.3: 15

From Figure 5.10, CHEMREC is awarded the following points:

- ☐ *Profit Growth: 4 points.* Exceptional growth.
- ☐ *Turnover Growth: 3 points.* Positive growth, only outstripping inflation from the third year onwards.
- ☐ *ROS: 4 points.* Exceptional straight line growth above industry norm.
- ☐ *ROA: 4 points.* Exceptional straight line growth above industry norm.

CASE THREE: FREIGHTREC

Nature of business: Freight management including forwarding, clearing, shipping agency, projects and logistics covering operations in South Africa and other major African countries such as Namibia, Mozambique, Zimbabwe, Zambia and Malawi.

FIGURE 5.10: CHEMREC
FINANCIAL STATISTICS

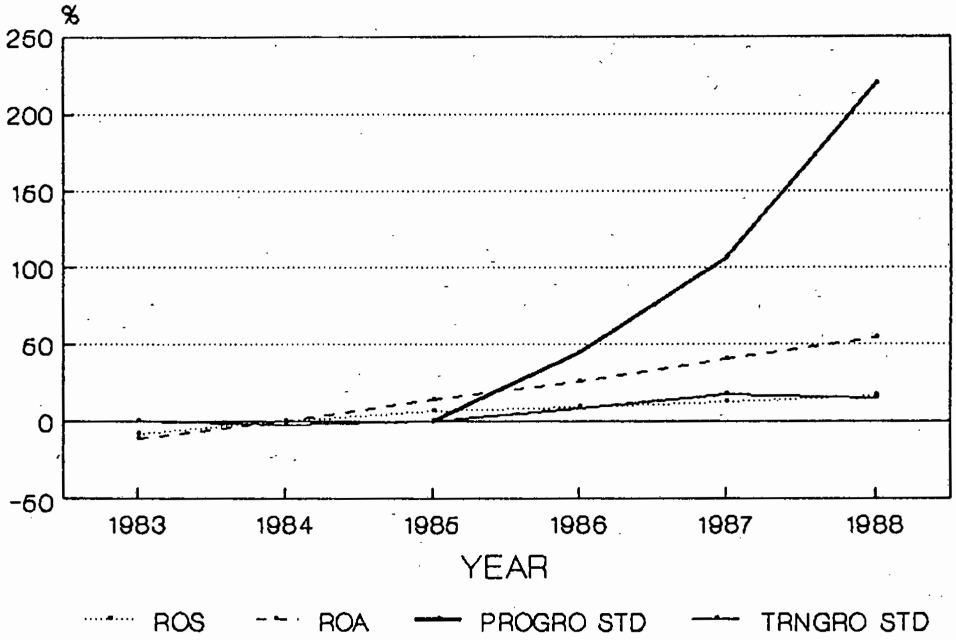


Table 5.13 : Chemrec/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1983	16 900	-1 300	-7,6	11 500	-11,3		0
1984	19 100	-0	0	11 200	0		-1,9
1985	24 000	2 700	7	11 700	14,5	0	0,4
1986	31 600	3 000	9,5	11 700	25,6	44,7	8,3
1987	40 300	5 000	12,4	12 400	40,3	105,6	17,7
1988	53 100	8 900	16,8	16 500	53,9	219,9	15,3

Source: Annual financial statements

Status: Operating company, unlisted, as part of one of the largest industrial groups in South Africa. The group is listed on the Johannesburg Stock Exchange. Classified under transport under I-Net FAS economic sectors.
General comments: FREIGHTREC was experiencing losses and the shareholders appointed a new CEO, with the purpose of recovering the company.
Period of review: 1990-1994 (5 years).
Classification: Recovery. Winn (1993) classification: Imminent bankruptcy.
Points on Table 5.3: 15

From Figure 5.11, FREIGHTREC is awarded the following points:
- ❑ *Profit Growth: 4 points.* Growth consistently above inflation with exceptional growth from 1992 to 1993.
- ❑ *Turnover Growth: 4 points.* Although not as exceptional as profit growth, a steady climb and above inflation.
- ❑ *ROS: 3 points.* First two years no great improvement with a sharp growth in the next year but still not better than the industry. Figure 5.4 illustrated this better than Figure 5.11.
- ❑ *ROA: 4 points*. From a low base of 8.1 to 29.7% two years later, considerably better than the industry performance.

CASE FOUR: TRAVREC
Nature of business: One of the largest travel companies in South Africa.
Status: Not listed but an operating company of one of the largest listed industrial groups on the Johannesburg Stock Exchange. Travel for the purposes of industrial sector comparisons was classified under "Transport" on the I-Net FAS data bank.
General comments: TRAVREC was making a profit, but was not seen as a major player in the group due to inadequate performance. The CEO at that stage resigned and a new CEO took up position in January 1989; he managed the company as CEO for three years whereafter he was promoted to the position of Chairman.

FIGURE 5.11: FREIGHTREC
FINANCIAL STATISTICS

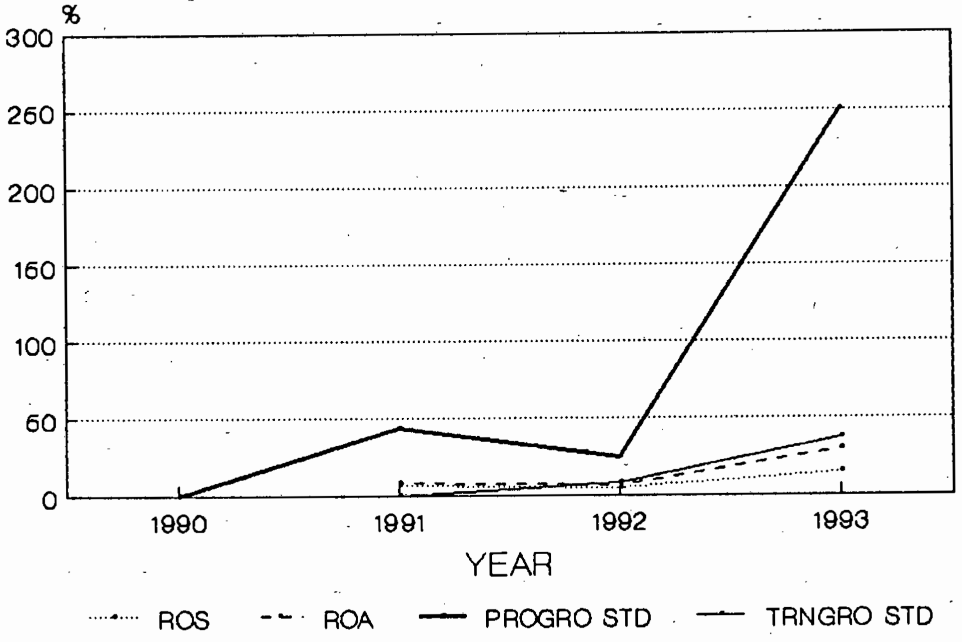


Table 5.14 : Freightrec/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1990							0
1991	79 213	5 280	6,7	64 944	8,1	43,3	0
1992	95 122	5 099	5,4	70 402	7,2	24,5	8,5
1993	132 952	19 500	14,7	65 692	29,7	250,0	37,4
1994							

Source: Annual financial statements

Period of review: 1988-1991 (4 years).

Classification: Recovery: Winn (1993) classification: Declining profitability.

Points in Table 5.3: 14

From Figure 5.12, TRAVREC is awarded the following points:

❑ *Profit Growth: 4 points.* Exceptional profit growth from base year, clearly indicating a recovery.

❑ *Turnover Growth: 2 points.* No clear indication of a trend, but holds its own against inflation.

❑ *ROS: 4 points.* Outstripped the industry in a significant way.

❑ *ROA: 4 points.* Exceptional returns on asset in comparison with the industry and significant growth year on year.

CASE FIVE: MERCHREC

Nature of business: Retailing a wide range of products such as clothing, food, liquor, household appliances, etc.

Status: One of the largest retail groups listed on the Johannesburg Stock Exchange. Classified under Retail for industry comparisons.

General comments: As a result of lack-lustre performance, a new CEO was appointed to turn the group around. He took up his new position in July 1988, and was still managing the group at the time of this study.

Period of review: 1987 - 1991 (5 years).

Classification: Recovery. Winn (1993) classification: Declining profitability.

Points in Table 5.3: 14

From Figure 5.13, MERCHREC is awarded the following points:

❑ *Profit Growth: 3 points.* Exceptional growth from the base year, outstripping inflation at a considerable rate, but a decline in the fourth year brings the score down from 4 to 3.

❑ *Turnover Growth: 4 points.* Consistent straight-line improvement over all four years.

FIGURE 5.12: TRAVREC
FINANCIAL STATISTICS

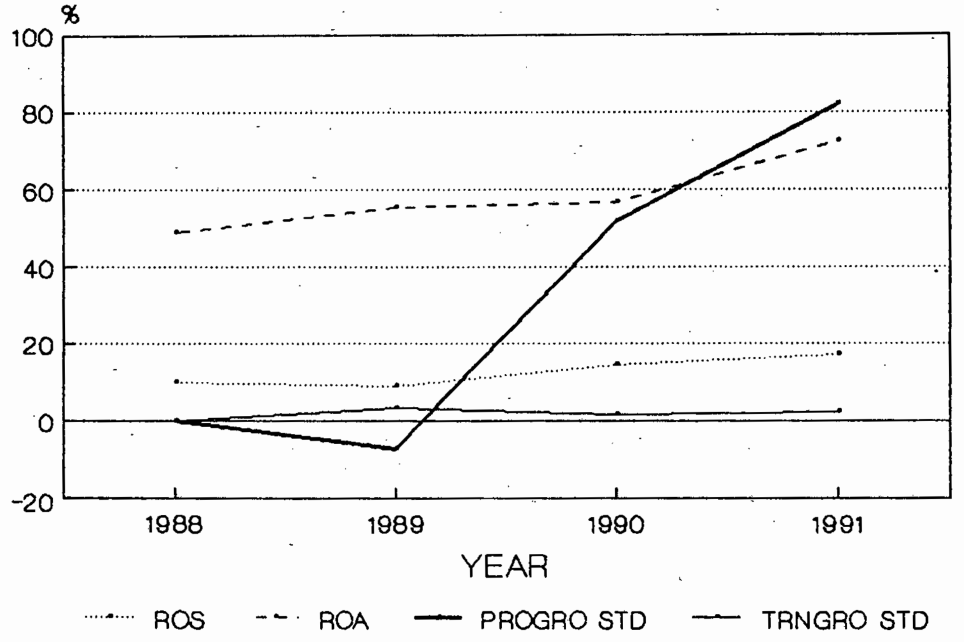


Table 5.15 : Travrec/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1988	42 065	4 174	9,9	8 543	48,8	0	0
1989	51 357	4 537	8,8	8 171	55,5	-0,7	3,4
1990	59 227	8 564	14,5	15 070	56,8	51,7	1,7
1991	71 300	12 275	17,2	16 157	72,4	81,87	2,5

Source: Annual financial statements

FIGURE 5.13: MERCHREC
FINANCIAL STATISTICS

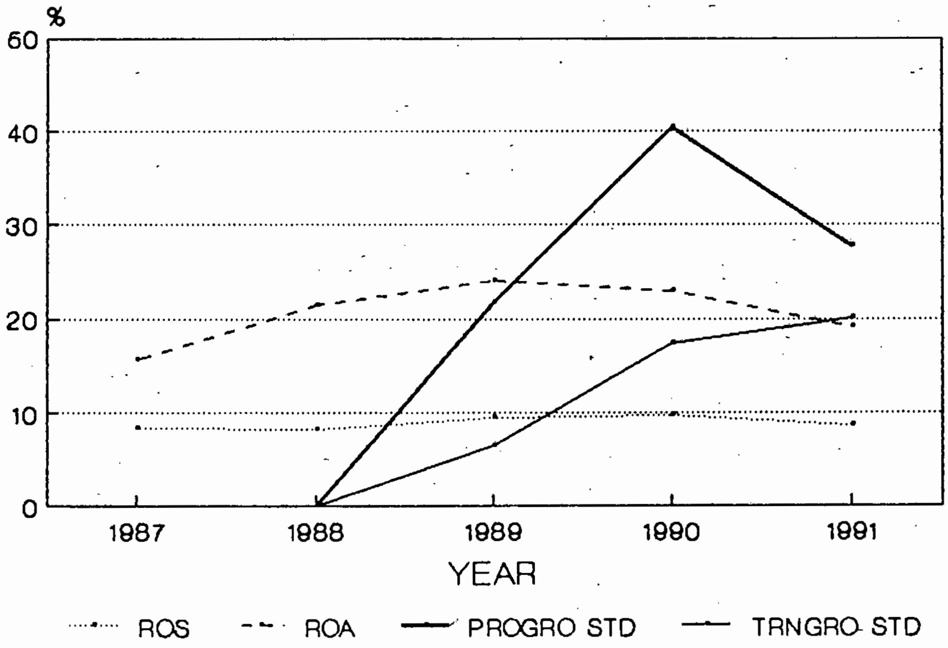


Table 5.16 : Merchrec/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1987	1 110 391	92 685	8.4	593 129	15.6		
1988	1 667 600	137 300	8.2	657 300	21.5	0	0
1989	2 095 700	197 400	9.4	830 200	24.1	21.8	6.4
1990	2 707 700	266 700	9.8	1 161 600	22.9	40.4	17.4
1991	3 303 200	289 300	8.7	1 510 500	19.1	27.7	20.1

Source: I-Net FAS Data

❑ *ROS: 4 points.* Although no major increases year-on-year, significantly higher than industry averages.

❑ *ROA: 3 points.* Although much higher than industry averages the slight decline in Year 4 reduces the score from 4 to 3.

CASE SIX: TRANSREC

Nature of business: Freight management company, specialising in clearing, forwarding, shipping agency and projects.

Status: A privately owned company classified for comparison purposes in the economic sector transport.

General comments: TRANSREC was experiencing considerable losses. The then CEO was dismissed and a new CEO appointed who took up this position in September 1988, and was later promoted to a more senior group position.

Period of review: 1988 - 1993 (6 years).

Classification: Recovery. Winn (1993) classification: Imminent bankruptcy

Points in Table 5.3: 13

From Figure 5.14, TRANSREC is awarded the following points:

❑ *Profit Growth: 4 points.* Exceptional straight-line increase with 1992 and 1993 well above 250 points, but for graphing purposes limited to the maximum of the scale.

❑ *Turnover Growth: 2 points.* For three years below inflation. They then break through to increase at a rate greater than inflation.

❑ *ROS: 3 points.* A return that grows annually and compares well with the industry norm.

❑ *ROA: 4 points.* Clear consistent growth year on year and well above industry norm.

CASE SEVEN: SUGREC

Nature of business: Sugar cane cultivation and milling to a final sugar product packaged for the retail market.

Status: Private company as part of one of the largest industrial groups listed on the Johannesburg Stock Exchange. For comparison purposes classified in the sugar

FIGURE 5.14: TRANSREC
FINANCIAL STATISTICS

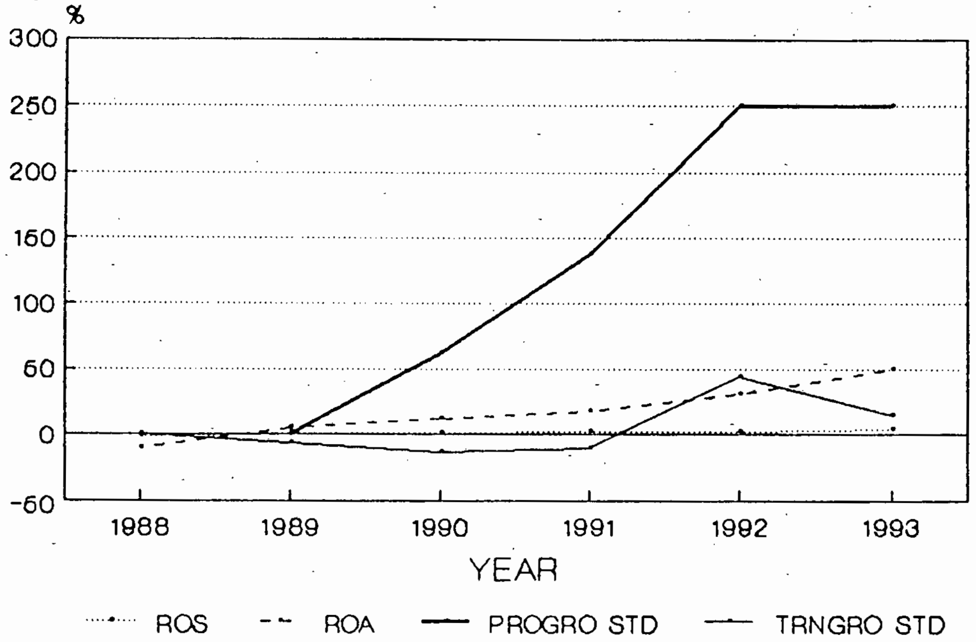


Table 5.17 : Transrec/Financial Statistics

Year	Revenue	Operating Profit	* ROS	Total Assets	ROA	Progro Std	Trngro Std
1988	122 717	-1 856	-1.50	17 823	-10.40		
1989	153 004	974	0.62	18 808	5.17	0	-6.5
1990	188 908	2 053	1.09	18 423	11.10	62.3	-13.3
1991	260 230	4 063	1.56	24 064	16.90	137.9	-10.5
1992	557 890	10 244	1.83	33 335	30.70	250.0	43.7
1993	591 613	22 086	3.70	44 151	50.00	250.0	14.3

Source: Annual financial statements

industry sector of the Johannesburg Stock Exchange categories.

General comments: SUGREC's financial performance was lack-lustre and when the previous CEO retired, a new CEO was appointed with the aim of recovering the company from its low levels of financial performance. He took up this position in December 1986, and was still managing the company at the time of this study.

Period of review: 1986 - 1990 (5 years)

Classification: Recovery. Winn (1993) classification: Substandard performance.

Points in Table 5.3: 12

From Figure 5.15, SUGREC is awarded the following points:

❑ *Profit Growth: 4 points*. Outstanding growth year-on-year, well above inflation.

❑ *Turnover Growth: 2 points*. For three years below inflation, then in 1990 better than inflation.

❑ *ROS: 4 points*. Well above the industry norm, a consistently excellent return on sales.

❑ *ROA: 3 points*. Well above the industry norm, but reduced from four to three points, due to slight decline in last two years of review period.

CASE EIGHT: FURNREC

Nature of business: Furniture retail company with stores across South Africa.

Status: Part of one of the largest furniture groups, listed on the Johannesburg Stock Exchange.

General comments: After experiencing losses a new CEO was appointed in 1985, for the purpose of recovering the company and to restore it to profitability.

Period of review: 1986 - 1990 (5 years).

Classification: Recovery. Winn (1993) classification: Imminent bankruptcy.

Points in Table 5.3: 11

From Figure 5.16, FURNREC is awarded the following points:

❑ *Profit Growth: 4 points*. Exceptional profit growth well above inflation from the base year 1986.

❑ *Turnover Growth: 0 points*. Below inflation and declining.

FIGURE 5.15: SUGREC
FINANCIAL STATISTICS

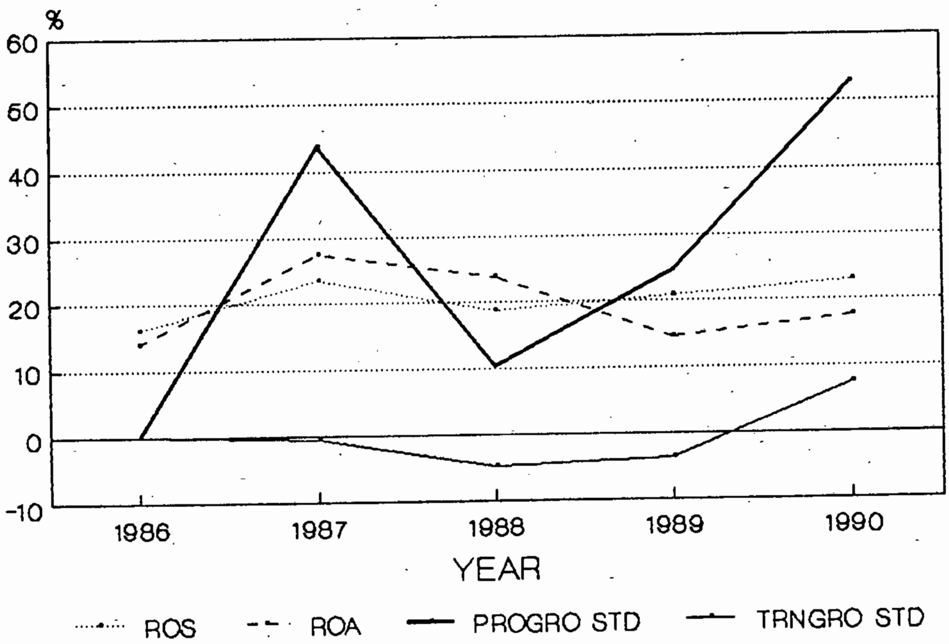


Table 5.18 : Sugrec/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1986	103 925	16 753	16,10	119 418	14,0	0	0
1987	121 171	28 314	23,40	102 954	27,5	43,7	-0,6
1988	132 997	24 942	18,80	104 805	23,8	10,4	-1,7
1989	158 503	33 245	20,96	228 184	14,6	24,7	-3,7
1990	207 114	47 576	22,90	271 301	17,5	52,7	7,4

Source: Annual financial statements

❑ *ROS: 4 points.* ROS and ROA moved so closely together that they are hardly distinguishable on the graph - they are essentially represented by the same line. ROS showed a steady improvement well above the industry norms.

❑ *ROA: 3 points.* Although a steady improvement year-on-year was recorded, this performance was not significantly better than industry performance as indicated in Figure 5.8.

CASE NINE: FINREC

Nature of business: Banking offering cheque accounts, home loans, investments, mobile asset financing and merchant banking services.

Status: One of the largest banking groups in South Africa, listed on the Johannesburg Stock Exchange.

General comments: The previous CEO was dismissed as a result of the group's dismal performance and a new CEO was appointed in February 1987.

Period of review: 1987 - 1991 (5 years).

Classification: Recovery. Winn (1993) classification: Imminent bankruptcy.

Points in Table 5.3: 11

From Figure 5.17, FINREC is awarded the following points:

❑ *Profit Growth: 3 points.* Considerable improvement year-on-year, above inflation as compared with the base year, but the slight decline in Year 5 reduces its score from 4 to 3.

❑ *Turnover Growth: 3 points.* Figures on I-Net FAS were only available as from 1989 which indicated good improvement but not enough for 4 points.

❑ *ROS: 2 points.* In line with the banking sector, with a slight decline - no clear trend.

❑ *ROA: 3 points.* In line with the banking industry norm, with some growth and some decline.

FIGURE 5.16: FURNREC
FINANCIAL STATISTICS

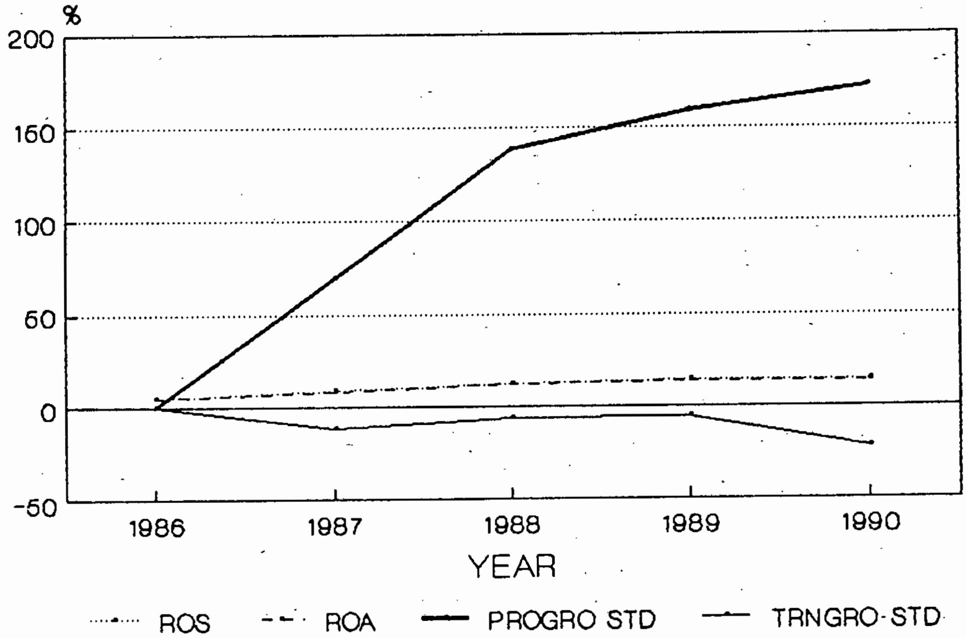


Table 5.19 : Furnrec/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1986	144 703	7 113	4,9	145 700	4,9	0	0
1987	188 580	14 103	8,9	169 852	8,3	69,4	-11,3
1988	182 128	22 693	12,5	186 449	12,2	138,2	-5,8
1989	203 271	29 221	14,4	215 061	13,5	159,0	-5,5
1990	249 399	35 862	14,4	260 143	13,8	171,7	-21,7

Source: Annual financial statements

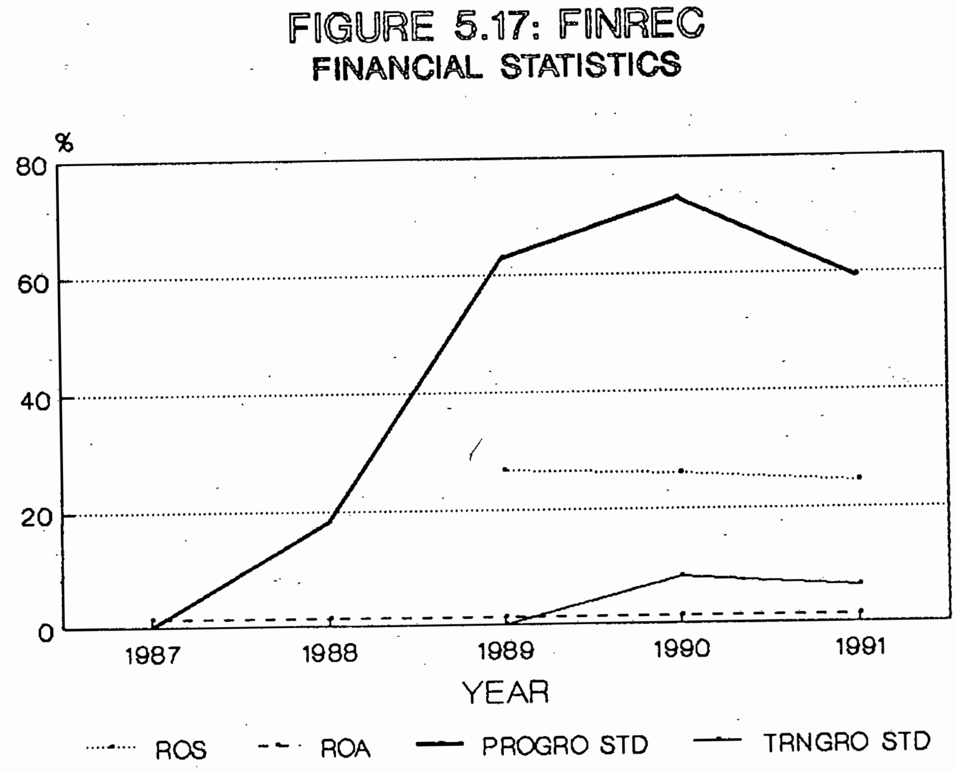


Table 5.20 : Finrec/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1987		184 700		14 304 600	1,30	0	
1988		250 200		16 827 300	1,50	18,3	
1989	1 532 300	407 300	26,6	29 731 000	1,40	63,0	0
1990	1 940 000	506 000	26,1	38 080 000	1,49	72,9	8,1
1991	2 276 000	557 000	24,5	41 605 000	1,30	59,5	6,5

Source: I-Net FAS Data

CASE TEN: ENGLO

Nature of business: Light engineering firm manufacturing highly safety-sensitive automotive products for 65% of South African motor vehicle manufacturers.

Status: Private company with major shareholding from the Industrial Development Corporation of South Africa and a leading Merchant Bank.

General comments: A new CEO was appointed in March 1983 as part of a normal executive rotation programme of a multinational American company with operations in many countries of the world.

Period of review: 1983 - 1987 (5 years).

Classification: Decline. Winn (1993) classification: Declining profitability.

Points in Table 5.3: 7

From Figure 5.18, ENGLO is awarded the following points:

- ❑. *Profit Growth: 2 points.* No clear indication of a trend, with performance under inflation in Year 3 and a decline from year 2.
- ❑ *Turnover Growth: 1 point.* Declining trend which should be a zero score, but credit for improvements in Year four.
- ❑ *ROS: 2 points.* Although no figures in respect of ROS for the engineering industry are available on I-Net FAS, the level of return on sales hovers around 5%, whilst the industry in 1986 onwards returned closer to 10%. Apart from the level of return being low, a minor trend of growth is observed.
- ❑ *ROA: 2 points.* Some growth year-on-year, yet well below industry level from 1986 onwards.

CASE ELEVEN: CHEMLO

Nature of business: Manufactures chemicals for use in the agricultural sector.

Status: Limited public company on the Johannesburg Stock Exchange in the economic sector of chemicals.

General comments: New CEO appointed in January 1991 through a restructuring exercise rather than a need for recovery or turnaround.

FIGURE 5.18: ENGLO
FINANCIAL STATISTICS

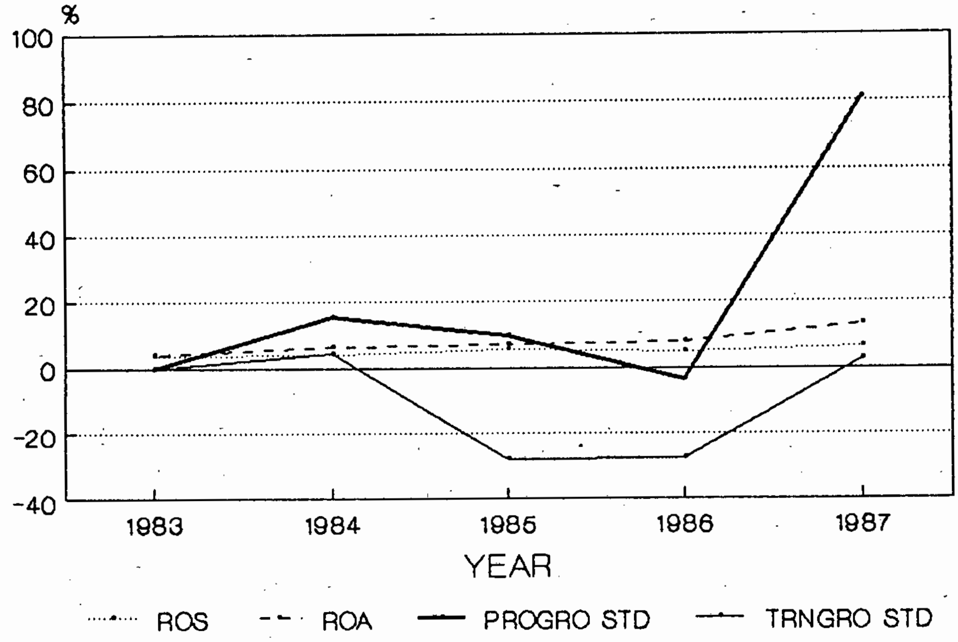


Table 5.21 : Englo/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1983	25 543	904	3,5	21 747	4,1	0	0
1984	30 745	1 291	4,2	20 822	6,2	15,7	4,5
1985	26 031	1 413	5,4	19 244	7,3	9,9	-27,9
1986	31 848	1 518	4,7	19 157	3,9	-3,5	-27,8
1987	52 844	3 340	6,3	24 939	13,3	80,7	2,5

Source: I-Net FAS Data

Period of review: 1989-1992 (4 years). Due to the fact that the new CEO was an internal promotion from the position of Manufacturing Director, the period 1989 to 1990 was also reviewed.

Classification: Decline. Winn (1993) classification: Declining profitability.

Points in Table 5.3: 6

From Figure 5.19, CHEMLO is awarded the following points:

- ❑ *Profit Growth: 0 points*. Constant decline and growth does not even keep track with inflation. A gradual destruction of shareholders' wealth.
- ❑ *Turnover Growth: 0 points*. Also a constant decline not keeping track with inflation.
- ❑ *ROS: 3 points*. Slight declining trend, but well above the industry norm as compared with the information in Figure 5.7.
- ❑ *ROA: 3 points*. Slight declining trend, but well above the industry norm.

CASE TWELVE: MERCHLO

Nature of business: Mass merchandiser of a wide variety of consumer goods on a retail basis through a network of stores throughout South Africa.

Status: Operating company of a larger group of retail companies listed on the Johannesburg Stock Exchange. Compared with Retail Sector.

General comments: The CEO who was interviewed was promoted to this position in February 1989 as a normal executive progression when the then CEO resigned. He was previously was the CEO of a smaller operating company within the same group.

Period of review: 1989 - 1992 (4 years).

Classification: Decline. Winn (1993) classification: Declining profitability.

Points of Table 5.3: 6

From Figure 5.20, MERCHLO is awarded the following points:

- ❑ *Profit Growth: 1 point*. Declining profit levels to well below the inflation rate.
- ❑ *Turnover Growth: 2 points*. No clear trend and it hovers on the standard score of zero.

FIGURE 5.19: CHEMLO
FINANCIAL STATISTICS

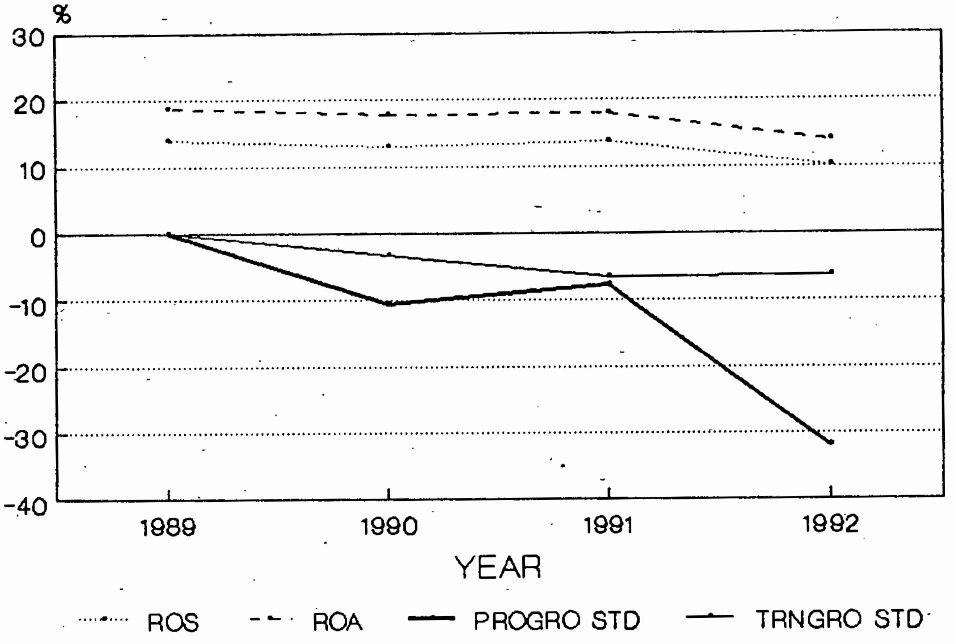


Table 5.22 : Chemlo/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1989	336 200	46 868	13,9	250 255	18,7	0	0
1990	380 787	49 216	12,9	277 151	17,8	-10,5	-3,3
1991	438 435	60 475	13,8	337 329	17,9	-7,6	-6,6
1992	487 065	49 357	10,1	354 847	13,9	-31,9	-6,3

Source: I-Net FAS Data

FIGURE 5.20: MERCHLO
FINANCIAL STATISTICS

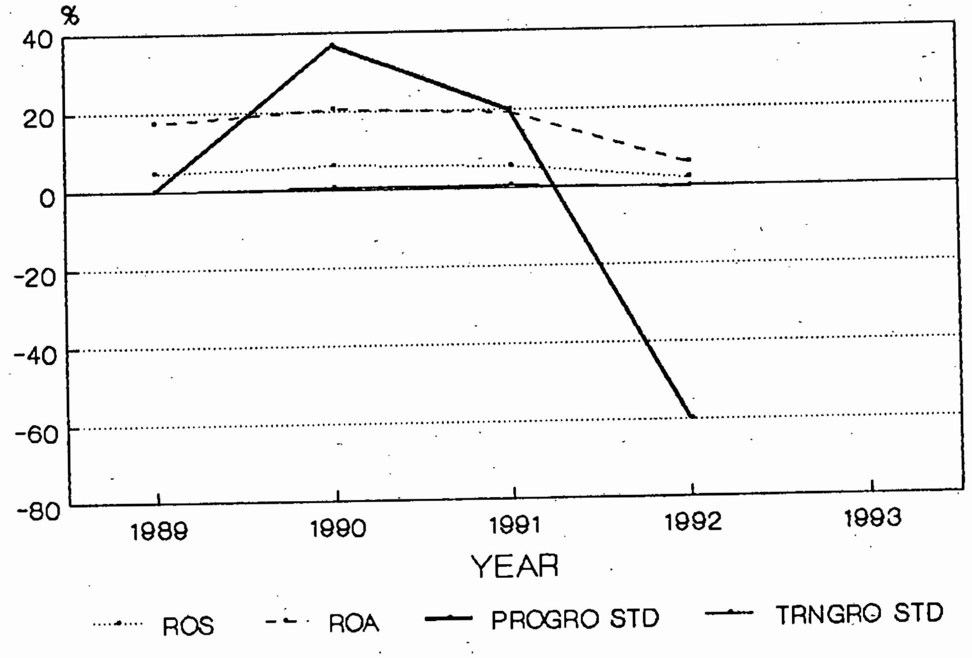


Table 5.23 : Merchlo/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1989	350 700	16 300	4,6	94 767	17,2	0	0
1990	413 200	26 100	0,3	126 699	20,6	36,7	0,6
1991	493 200	27 200	5,5	140 932	19,3	19,9	0,7
1992	531 200	10 100	1,9	168 333	6,0	-60,0	-0,2

Source: Annual financial statements

- *ROS: 1 point*. Declining to below industry norm.
- *ROA: 2 points*. Although slightly above the industry average, a significant decline in year three.

CASE THIRTEEN: FREIGHTLO

Nature of business: Express parcel delivery anywhere in the world. Links up with other international express overnight delivery companies.

Status: Operating company, part of one of the largest industrial groups in South Africa, listed on the Johannesburg Stock Exchange. For comparison purposes categorised under the industrial sector of transport.

General comments: In this case four directors of the company were interviewed as the CEO was dismissed from his position due to losses made in two consecutive financial years.

Period of review: 1989 - 1993 (5 years). The year 1989 was chosen as a base year, due to the fact that this year was the beginning of the declining trend.

Classification: Decline. Winn (1993) classification: Imminent bankruptcy.

Points in Table 5.3: 3

From Figure 5.21, FREIGHTLO is awarded the following points:

- *Profit Growth: 0 points*. Steady, dramatic, decline.
- *Turnover Growth: 3 points*. Consistent, although undramatic improvement of turnover year-on-year.
- *ROS: 0 points*. Declining to an actual negative return in 1993 and well below industry norm.
- *ROA: 0 points*. Declining to an actual negative return in 1993 and well below industry norm.

CASE FOURTEEN: FURNLO

Nature of business: Retailer selling furniture through a network of stores throughout South Africa.

Status: Operating company, member of a larger group of retail companies listed on the Johannesburg Stock Exchange.

FIGURE 5.21: FREIGHTLO
FINANCIAL STATISTICS

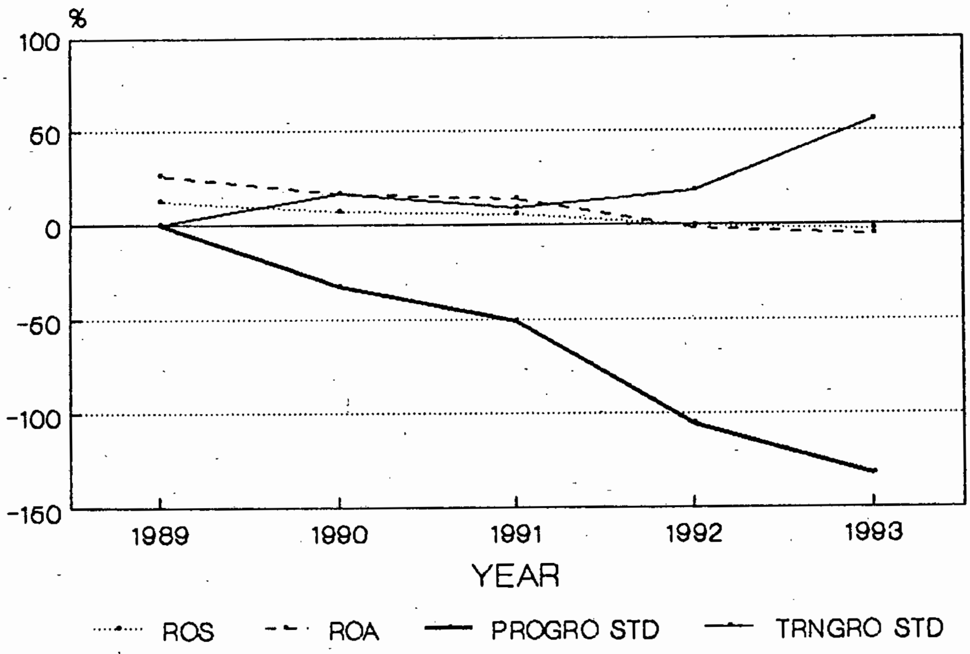


Table 5.24 : Freightlo/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1989	46 311	5 702	12,3	21 746	26,2	0	0
1990	63 057	4 528	7,2	26 988	16,8	-32,6	16,4
1991	70 456	3 920	5,6	27 946	14,0	-51,1	9,0
1992	84 152	-592	-0,7	35 083	-1,6	-105,7	17,7
1993	122 791	-3 064	-2,5	60 772	-5,0	-131,9	55,4

Source: Annual financial statements

General comments: In this case two directors of the company were interviewed due to the fact that the CEO had been dismissed as a result of the loss situation of the business. He vacated this position in July 1992.

Period of review: 1988 - 1992 (5 years).

Classification: Decline. Winn (1993) classification: Imminent bankruptcy.

Points in Table 5.3: 2

From Figure 5.22, FURNLO is awarded the following points:

❑ *Profit Growth: 0 points*. Consistent dramatic decline to the point of financial losses.

❑ *Turnover Growth: 0 points*. Performed under inflation and in decline.

❑ *ROS: 1 point*. Declining and although well above industry norms for three years, a dramatic decline in Years 4 and 5.

❑ *ROA: 1 point*. Declining and although well above industry norms for two years, a dramatic decline in Years 4 and 5.

CASE FIFTEEN: FINLO

Nature of business: Merchant banking, rendering a service to companies in terms of loans, share issues, listings, mergers, acquisitions and capital restructuring.

Status: Listed on the Johannesburg Stock Exchange and taken over by a larger banking group in 1990, after which it was delisted.

General comments: In this case, two directors were interviewed as the CEO was not available for comment.

Period of review: 1986 - 1990 (5 years)

Classification: Decline. Winn (1993) classification: Imminent bankruptcy.

Points in Table 5.3: 3

From Figure 5.23, FINLO is awarded the following points:

❑ *Profit Growth: 1 point*. Declining and below inflation in two of the four years.

❑ *Turnover Growth: 1 point*. Information not available, and one point based on profit growth and ROA.

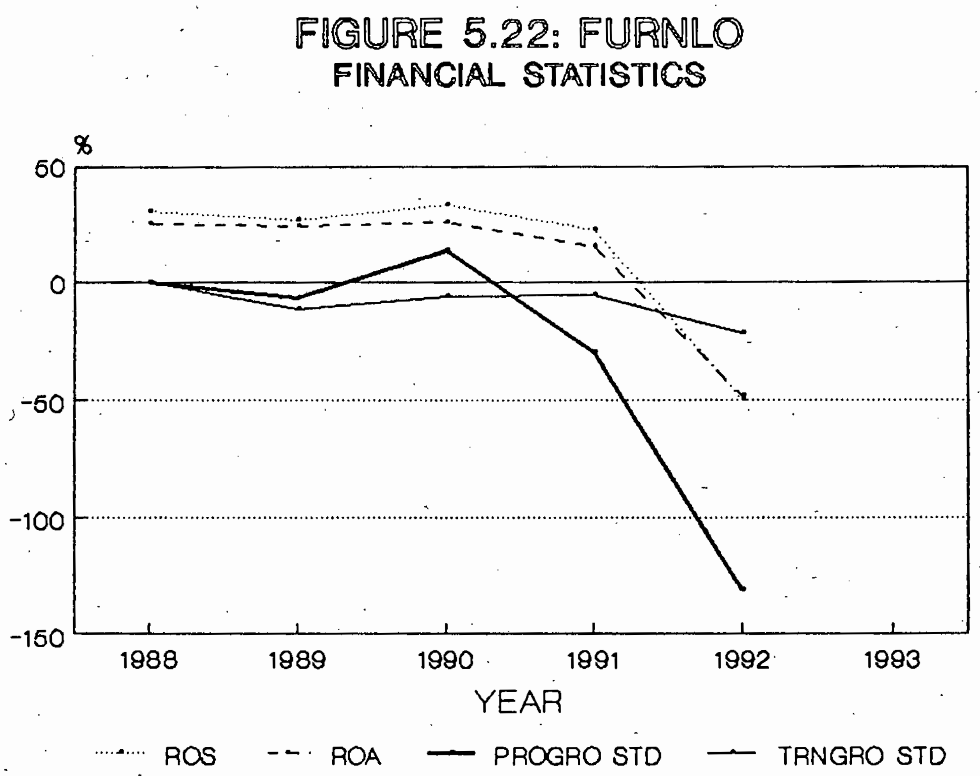


Table 5.25 : Furnlo/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1988	117 769	36 230	30,8	142 637	25,4	0	0
1989	149 155	48 119	26,9	199 664	24,1	-6,2	7
1990	169 970	57 011	33,5	218 433	26,1	13,8	-4
1991	184 294	42 001	22,8	272 733	15,4	-29,7	-5
1992	173 614	-86 945	-50,1	181 122	-48,4	-231,0	-9

Source: Annual financial statements

FIGURE 5.23: FINLO
FINANCIAL STATISTICS

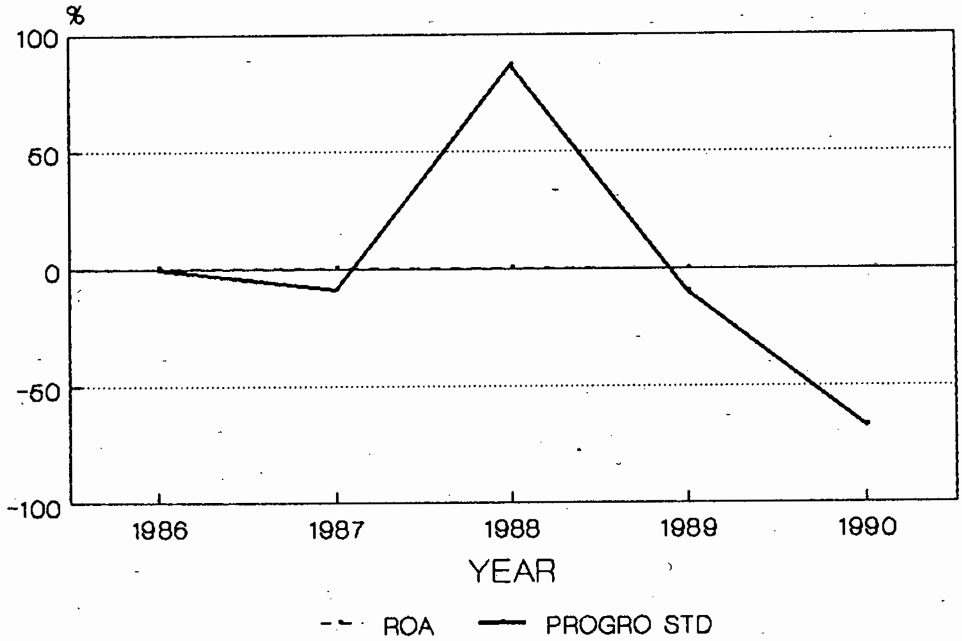


Table 5.26 : Finlo/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1986	n/a	1 414		346 062	0,4	0	
1987	n/a	1 500		299 359	0,5	-8,7	
1988	n/a	3 500		498 384	0,7	86,5	
1989	n/a	2 000		812 261	0,2	-9,9	
1990	n/a	852		n/a		-67,3	

Source: Annual financial statements

FIGURE 5.24: BUSLO
FINANCIAL STATISTICS

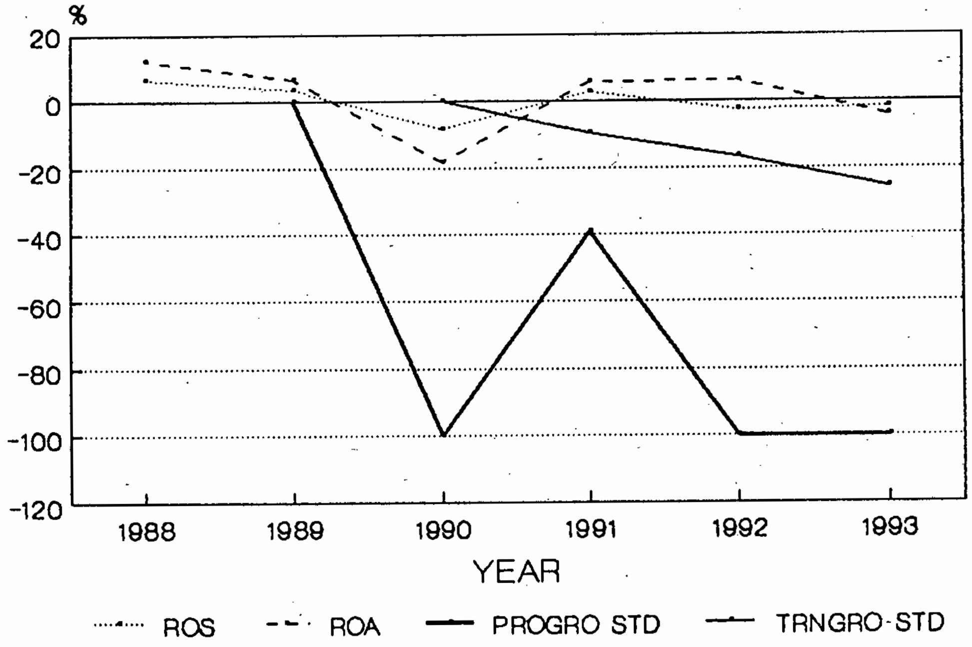


Table 5.27 : Buslo/Financial Statistics

Year	Revenue	Operating Profit	ROS	Total Assets	ROA	Progro Std	Trngro Std
1988	49 375	3 324	6,73	26 729	12,4		
1989	54 335	1 969	3,62	30 366	6,41	0	0
1990	54 059	-4 490	-8,23	24 278	-18,3	-100	0
1991	58 491	1 667	2,85	28 088	5,9	-40	-9
1992	59 510	-1 625	-2,73	26 884	6,04	-100	-18
1993	58 550	-1 185	-2,02	27 633	-4,28	-100	-25

Source: Annual financial statements

- ❑ *ROS: 1 point.* Information not available. Based on profit growth and ROA awarded 1 point.
- ❑ *ROA: 0 points.* No growth and well below industry norm.

CASE SIXTEEN: BUSLO

Nature of business: Markets business machines such as photocopiers and printing machines to businesses.

Status: Privately owned American subsidiary registered in South Africa.

General comments: The CEO and three directors were interviewed.

Period of review: 1988 to 1993 (6 years).

Classification: Decline. Winn (1993) classification: Declining profitability.

Points in Table 5.3: 1

From Figure 5.24, BUSLO is awarded the following points:

- ❑ *Profit growth: 0 points.* Decline in profit growth year-on-year, resulting in negative growth.
- ❑ *Turnover growth: 1 point.* Decline in turnover growth with a slight increase in 1994.
- ❑ *ROS: 0 points.* Negative returns.
- ❑ *ROA: 0 points.* Negative returns.

CONCLUSIONS

Chapter 5 described the research methodology used during this study. It further gave a description of all the organisations reviewed, as well as their classification into the two groups, namely the investigation and comparison groups. Chapter 6 will continue the description of the research methodology, when the South African Managerial Scale is described.

CHAPTER 6

SOUTH AFRICAN MANAGERIAL CONSTRUCT SCALE

In this chapter the development and the nature of the South African Managerial Construct scale[1] will be discussed. This instrument was developed by the researcher over the last ten years, and is not publicly available.

ORIGIN OF SCALE

The researcher, through practical experience in assessing managers, has found a need for a personality test complying with the following requirements:

- ❑ a test developed specifically for South African managers, anchored in the South African business culture, as reflected in its content validity;
- ❑ items that have been developed and designed to have face validity for the respondents;
- ❑ a test that measures constructs that have been empirically derived through a process of inductive reasoning, and not theoretically through a process of deductive reasoning;
- ❑ a test that measures constructs that show a high degree of concurrent and predictive validity for managerial performance and success.
- ❑ a test standardised mainly on South African managers, indicating relative strengths of traits in a South African context;
- ❑ norms that would be fluid, updated with each additional manager being assessed, adjusting to changes in construct organisation within the population group.

Most personality tests readily available to the practitioner in South Africa fail on one or more of the above-mentioned criteria. Many personality tests being used in South Africa have either been imported in their totality from the USA, UK or Europe,

1. Footnote: For research purposes, the SAMCS can be obtained from the researcher at Box 786925, Sandton, South Africa.

with no validation in South Africa, or at best, they were validated in South Africa, but the constructs assessed and the item design still remain derivatives of a foreign, undifferentiated population. Furthermore, few personality tests have been designed specifically for managers, and their norms are based on either the general population, university students or school children.

The content and construct validation, as well as the standardisation, of most personality tests are sadly lacking when work has to be done in the managerial arena. Very few dimensions on well- known and widely used personality tests correlate significantly with specific indices of managerial success. For instance, in a study by the researcher, only three dimensions of the Structured Objective Rorscharch Test, and six of the 16 Personality Factor Questionnaire, showed significant correlation coefficients with a criterion score of rate of career advancement (Bronkhorst,1988).

As a result of the need for a valid and reliable measurement of the South African managerial personality, the researcher set out to develop such a personality scale.

DESCRIPTION

The South African Managerial Construct Scale (SAMCS) was developed by Bronkhorst (1988), based on research done since 1977 (Bronkhorst,1977). The questionnaire consists of 276 paired statements covering three sections, namely, personality needs, preferred roles and values. The respondent is required to select the statement from each pair which s/he feels describes him/her best.

All three sections are based on Kelly's (1963) construct theory and Murray's (1938) need theory. Kelly proposed that every person has some fundamental personal constructs which s/he uses to interpret his/her world, and these constructs are difficult and traumatic to change. Murray (1938) also used constructs, but in association with needs. He defined a need as a construct which stands for a force which organises perception, apperception, intellect, cognition and action in such a way as to transform an existing, unsatisfying situation in a certain direction. These needs may be weak or intense, momentary or enduring, but usually persist and give rise to a certain course of overt behaviour which, if successful, will change the initiating circumstances.

In the measurement of personality, it is often important to compare a score on some measure, for instance dominance, with scores earned by the same individual on other constructs. Such scoring is called ipsative (from Latin: ipse = self) (Cattell,1944; Kerlinger,1986). As an example, it may not be enough to know that a manager being considered for a demanding sales position has a strong need for challenge; it may be more important to know how strong his need for challenge is in comparison with his own other needs. His need for challenge may be high compared to that of others (normative) but it could, e.g., be his own third lowest need in comparison with 12 other needs (ipsative).

An ipsative, rather than a normative format was chosen for the SAMCS, and therefore, the statement in a pair that is rejected by the testee is as important in the interpretation as the statement that was chosen.

Normative measures are the usual measures obtained from psychological tests. They can vary independently, are unaffected by other measures in the scale, and in their interpretation are compared with the mean and standard deviation of the scale. Ipsative measures, however, are systematically affected by other measures and for the interpretation of a scale value, reference is made to the same mean and standard deviation across all dimensions (Kerlinger, 1986).

An ipsative measure, therefore, would result in the respondents rank-ordering their personality needs from one (being the strongest need) to, say, 13 (being the weakest need). This tells us about the internal organisation of needs, but does not tell us the relative strength of need number one in comparison with other individuals, which a normative scale would do. Ipsative measures have built-in restraints. Each individual, in answering the questionnaire, gets a rank-ordered indication of the strengths of all the needs included. One need must be number one, and another has to be in the lowest position; all constructs must be ranked, with no more than one in the same position. Furthermore, the mean and the standard deviation will be exactly the same for each construct in the questionnaire. In a normative measurement, where the respondent can assign from, say, one to five points per statement in indicating the strength of the description, every one of the scales in the questionnaire will have a different mean and standard deviation.

According to Kerlinger (1986), the important limitation of the ipsative procedure is that the usual statistics are not applicable, since such statistics depend on assumptions that ipsative procedures systematically violate. Ipsative procedures produce spurious negative correlations between items. For example, in a paired-comparison instrument, the selection of one member of a pair automatically excludes the selection of the other member. This leads to a lack of independence and a negative correlation among items. Analysis of correlations, such as in factor analysis, can be seriously distorted.

Already in the 1960s, Guion (1965) stated that the ipsative approach seems promising. In a study which he cited it had been demonstrated that if scored ipsatively, the Gordon Personal Profile could be valid when normative scores showed no validity. In another study cited by him, normative scoring in a group of sales applicants produced rather stereotyped role responses, such as a high score

on sociability; with an ipsative scoring procedure, however, sociability correlated negatively with the performance criteria.

The most serious technical drawback of ipsative procedures is the equivalence of the measures being compared. If, for instance, an individual gets a raw score of 10 for one dimension on the SAMCS, and a score of 10 for a second dimension, does this imply that these two constructs have an equal strength? Are they equivalent? If the maximum score that could be obtained is 15, does this mean that both constructs with a score of 10 have a degree of strength that will greatly direct overt behaviour?

For this reason, ipsative scores are often translated to standard scores to make a normative comparison with other individuals. With a normative comparison one may now find, continuing the above example, that the raw score of 10 on one construct has a percentile rank of 30, and that this construct in comparison with others is not so strong a determinant of behaviour; however, the second construct, also with a raw score of 10, may have a percentile rank of 75, which in comparison with others, is a strong determinant. This is called normative-ipsative scoring; however, the normative element could seriously reduce the potential effectiveness of ipsative logic.

The SAMCS uses a normative-ipsative approach and computes the raw score on 13 personality constructs, 8 preferred roles, and 9 values. There are two equivalent forms. The 13 personality dimensions are measured by 65 items in each form; 28 items in each form measure the 8 preferred role dimensions, and 45 items in each form measure the nine value dimensions. Each form thus contains 138 items. Raw scores are translated to percentile scores to express the strength of a construct in comparison with a standardisation sample of South African managers.

DEVELOPMENT

CHOICE OF DIMENSIONS

The dimensions chosen for the SAMCS were arrived at in a very practical, empirical way, rather than theoretically.

A validation study was done by the researcher in which 200 senior managers from different organisations were assessed through the Structured Objective Rorschach Test (SORT) (Louw, 1987), the 16 Personality Factor Questionnaire (16 PF) (Cattell, Eber & Tatsouka, 1970), the Edwards (1953) Personal Preference

Schedule (EPPS) and Repertory Grid interviews (Stewart, 1981). The scores on all dimensions were correlated with the criterion score, an index of career advancement.

Career advancement as a criterion score was used by Bass and Burger (1979) in drawing international comparisons in managerial assessment. They combined three variables, namely, organisation level attained, age, and organisational size, to provide a measure of managerial career success. Rate of advancement was seen as speed of advancement in the attainment of authority, responsibility, and decision-making influence within the organisation over a period of time. The greater the authority, responsibility and decision-making influence achieved (job level), the

Table 6.1: Personality traits and constructs which correlated significantly with rate of advancement as criterion for 200 managers.

Test	**Trait**	**r**	**p**
Repertory Grid	Work orientation	0.24	0.01
	Need for challenge	0.52	0.01
	Need for growth	0.23	0.05
	Need for people	- 0.41	0.01
	Need for control	0.34	0.01
	Need for interaction	0.35	0.01
16PF	C: Ego Strength	0.26	0.01
	E: Dominance	0.67	0.01
	F: Surgency	0.40	0.01
	H: Venturesome	0.22	0.05
	O: Untroubled adeq	0.25	0.01
	Q1: Radicalism	0.21	0.05
SORT	Compulsivity	- 0.30	0.01
	Range of interest	0.31	0.01
	Co-operation	- 0.39	0.01

shorter the time it took to get there (age) and the larger the organisation (size of organisation), the more rapid the manager's rate of advancement or career velocity.

From the repertory grid interviews a clustering exercise of the protocols resulted in the isolation of 12 constructs, but only six of these (shown in Table 6.2) correlated significantly with rate of advancement.

A brief description of the six 16PF factors that were found to correlate significantly with rate of managerial advancement (see Table 6.2) follows:

- ❑ Factor C: Lower Ego Strength-vs-Higher Ego Strength: emotionally stable, mature, faces reality and calm.
- ❑ Factor E: Submissiveness-vs-Dominance: as assertive, aggressive, competitive and stubborn.
- ❑ Factor F: Desurgency-vs-Surgency: happy-go-lucky, impulsive, lively and enthusiastic.
- ❑ Factor H: Threctia-vs-Parmia: venturesome, socially bold, uninhibited and spontaneous.
- ❑ Factor O: Untroubled Adequacy-vs-Guilt Proneness: self-assured, confident, secure and self-satisfied.
- ❑ Factor Q1: Conservatism of temperament-vs-Radicalism: experimenting, liberal, and likes innovation.

The SORT was compiled by Stone (cited by Louw,1987) based on the Rorschach technique described by Klopfer, Ainsworth, Klopfer and Holt (1954), to assess certain personality tendencies of individuals. The three SORT tendencies found to have correlated significantly with rate of managerial advancement were described as follows (Louw,1987):

- ❑ Compulsivity: Needless repetition, excessive exactness and unreal conformity.
- ❑ Range of Interest: May range from narrow to expansive.

❑ Co-operation: Willingness to take part in group activities, and responsiveness in human relations.

CONSTRUCTION OF SAMCS

Based on these findings, the researcher developed Section A of the SAMCS by selecting 13 of these personality traits and constructs, and developing 10 items per construct, combining the 130 items into 65 pairs of an ipsative instrument.

Section B, on preferred roles, was developed at a later stage, after a study of managerial roles had been made. Based on the work of Mintzberg (1980), the researcher's own research on managerial behaviour, and various other models, such as Blake and Mouton (1964,1981) Belbin (1981) and Hersey and Blanchard (1988), eight managerial roles were isolated. In a similar way to the personality constructs, items were developed for each role and the 112 items were paired into a 56-item ipsative questionnaire.

Section C, on managerial values, was developed in response to a consulting need. Consulting duties often deal with managerial performance problems. In interviews with managers, valuable information was gained about their beliefs regarding certain vital issues in management that were not being provided by the personality measures that were used. A questionnaire was eventually developed to measure of managerial beliefs and values concerning important management issues. The actual beliefs that were measured were derived empirically from these interviews, based on their importance in explaining a lack of adequate performance. Items were developed for each of the values, and the 90 items were combined into 45 paired statements. This section of the SAMCS was not developed on an *ipsative* basis, as the two statements in the pair represented opposite poles of the same construct.

DESCRIPTION OF CONSTRUCTS

Personality

- ☐ Need for Achievement: The need to follow through and persist until something is achieved. This dimension is represented by statements such as: "I always do more than is required" and "I really enjoy doing a job well".
- ☐ Need for Challenge: The need to accept more responsibility and willingness to function under pressure. This dimension is represented by statements such as: "I like to stretch myself to the limit of my capabilities" and "I like to tackle new projects".
- ☐ Need for Self-development: The need to grow and improve oneself. This dimension is represented by statements such as: " I like to engage in activities that would grow me" and "I like to improve my skills and knowledge".
- ☐ Need for Social Extension: The need for contact with others. This dimension is represented by statements such as: "I like to be with people, such as at a dinner party" and "I am friendly and find it easy to strike up a conversation with strangers".
- ☐ Need for Affiliation: The need to be part of a team or group. This dimension is represented by statements such as: "Relationships are important to me" and "People are more important than the achievement of a goal".
- ☐ Need for Variation/Diversity: The need to get involved in many different activities and issues. This dimension is represented by statements such as: "I like to know what is happening in the world" and "I am interested in many different things and therefore talk to all sorts of people about different topics".
- ☐ Need for Change: The need to change the status quo, and to experiment. This dimension is represented by statements such as: "I like to apply new methods and solutions to problems" and "I can be very critical of traditional ways of doing things and like to change them".
- ☐ Need for Control/Influence: The need to influence people and events. This dimension is represented by statements such as: "I often jump in and take

charge of situations that are the responsibility of others" and "I like to be in charge of people and projects".

- ❑ Need for Assertion/Dominance: The need to assert oneself and to dominate an interactive situation. This dimension is represented by statements such as: "In negotiations or discussions I have no problem stating my views clearly" and "I would not hesitate to voice my disagreement when others suggest something I cannot go accord with".
- ❑ Need for Structure: The need to work according to clearly stipulated efficient routines, and to give structure/ definition to situations. This dimension is represented by statements such as: "I dislike deviating from plans and try to stick to them" and "I feel that discipline and systematic thought is a prerequisite to success".
- ❑ Need for Surgency: The need to be lively and enthusiastic. This dimension is represented by statements such as: "I always see the positive side of things" and "I usually feel light hearted and enthusiastic".
- ❑ Need for Goal Direction: The need to operate according to goals and objectives. This dimension is represented by statements such as: "I like to set goals for myself and to work toward them" and "It is always clear in my mind what I want to do next".
- ❑ Need for Composure: The need to stay on top of things, calm and composed. This dimension is represented by statements such as: "I seldom lose my temper" and "I always feel confident that I can do what my job requires".

Managerial Roles

The questionnaire measures the following preferred managerial roles:

- ❑ Creator: Preference for the search for original, creative solutions to problems. This role is represented by statements such as: "I like to get involved in problems and situations that stretch my imagination" and "I can contribute something new and original".

- Resourcer: Preference for resourcing and gathering information and ideas. This role is represented by statements such as: "I am very open to make use of people, ideas or concepts outside my work group or company" and "I like to meet people who come from different environments or situations than my own because they have something new to offer".
- Initiator: Preference for initiating action and transforming situations. This role is represented by statements such as: "When I find that my workgroup is not making progress, I would come through strongly to take the initiative" and "I tend to press for action".
- Integrator: Preference for integrating people and tasks. This role is represented by statements such as: "I succeed in getting people to work together and agreeing on objectives to be achieved" and "I feel I am good at drawing people out when I sense they have something to contribute, and involving them in the achievement of objectives".
- Supporter: Preference for building relationships and supporting others. This role is represented by statements such as: "I like to get to know my colleagues and employees better" and "When I agree with somebody on a course of action, I work well together, irrespective of how difficult this person may be".
- Judge: Preference for analysis and contemplation. This role is represented by statements such as: "I like to analyse problems and think through all the various angles" and "I approach problems in a very logical way and do not believe in too much intuition".
- Completer: Preference for following through and focusing on a task until complete. This role is represented by statements such as: "My attention to detail and follow through prevents careless mistakes" and "I prefer to give a task my undivided attention until completed".
- Operator: Preference for operational issues and implementation. This role is represented by statements such as: "Management can rely on me to see that all important tasks are organised and structured" and "When a plan has to be implemented, I know I am good at making it work".

Values.

This part of the SAMCS measures certain values or beliefs relevant to managerial work.

- ☐ Time Perspective: Relaxed-vs-Urgent sense of time. This value is represented by statements such as: "I believe in setting a cracking pace when a project needs to be implemented-vs-I believe in setting my work pace at such a rate that I have sufficient time to analyse problems thoroughly and to plan in between".
- ☐ Output: Belief in results at cost of quality-vs-quality at cost of results. This value is represented by statements such as: "It is very important to stick to deadlines-vs-I believe things must be done properly the first time round".
- ☐ Delegation: Belief in unstructured-vs-structured delegation. This value is represented by statements such as: "People mostly work out for themselves how to do things, and they do not need so much guidance-vs-I believe in explaining to people in some detail what I expect from them".
- ☐ Expenditure: Belief in cost control-vs-expansion and expenditure. This value is represented by statements such as: "When times are tough, costs must be cut to remain within budget-vs-When times are tough, you must invest in projects to increase organisational effectiveness".
- ☐ Managerial Focus: Belief in long-term strategic issues-vs-short- term operational issues. This value is represented by statements such as: "I feel we should allocate more time to think about the future-vs-Day to day operations of a business are critical and must always receive higher priority than strategic planning".
- ☐ Communications: Belief in one-on-one communications-vs-network communications. This value is represented by statements such as: "I believe meetings are a waste of time-vs-I believe people should meet more often where problems can be discussed and solved".
- ☐ Decision-Making: Belief in making own decisions-vs-participative, consultative decisions. This value is represented by statements such as: "The problem

with involving people in decision-making is that it slows down the process and takes too much time-vs-Although group decision-making takes more time, it is still better because the decision will be more widely accepted".

- ❑ Conflict Handling: Belief in conflict avoidance-vs-confrontation and resolution. This value is represented by statements such as: "When managers hold very different views, it is not worthwhile to try and reconcile them - a company can function successfully without everybody agreeing-vs-When differences of opinion exist between two or more managers in a team, I believe in confronting them and resolving the issue".
- ❑ Method: Belief in a conventional approach to problems-vs-unconventional, radical approach. This value is represented by statements such as: "I believe it is very important to take what you have and to make the best of it, rather than to be so constantly innovative that everything is in a state of flux- vs-I believe in constant innovation so as to remain at the spearhead of things, although it makes people uncomfortable".

NORM TABLES

A histogram was constructed for each scale, and as managers are being assessed, their raw scores are added to the histogram and their percentile rank determined. In this way, the respondent becomes a member of the standardisation sample. The advantage of this system is that norm tables are automatically updated and sample size grows continuously, thereby increasing stability.

RELIABILITY

In the calculation of the reliability of the SAMCS, the parallel form method is used and a correlation of equivalence is derived. When a respondent is assessed, s/he always responds to both forms, which are bound in the same test book, giving the impression of one long questionnaire. In this way, a reliability coefficient can be calculated, not only for a group of respondents, but for a single respondent. Due to the ipsative nature of the scale, the respondent's profile on Form A can be correlated with Form B, using the Spearman rank-order coefficient and a coefficient of equivalence is obtained. The lowest coefficient so obtained was $\underline{r}$ = 0.58 and the highest $\underline{r}$ = 0.85 with an average of $\underline{r}$ = 0.82.

The coefficient of equivalence can also be obtained for a group of people, taking the group's average score on each dimension on Form A and correlating that with the average score per dimension on Form B. In a study of 100 managers the coefficients of equivalence were for Personality 0.84, for Roles 0.89 and for Values 0.95.

A further split-half reliability study was done, using the responses of a randomly selected sample of 156 managers. The reliability coefficients of all the constructs of the SAMCS are contained in Column 1 of Table 6.2. The Pearson correlation coefficient was used, and the Spearman-Brown correction formula was applied, by means of the Statgraphics Program (Statistical Graphics System, version 5.0) for Personal Computors. The two lowest split-half reliabilities were 0.67, which is still acceptable for group comparisons, although not for individual predictions. The remaining coefficients ranged up to 0.91 and were all acceptable.

VALIDITY

In order to assess the validity of the SAMCS, the responses of a random sample of 100 managers, drawn from the researcher's records, were correlated with the level of their current positions in their respective organisations in terms of the Paterson job evaluation system, their overall behavioural competence determined during assessment centre exercises, and their cognitive capacity, also assessed during the assessment centre exercises, as described in Chapter 5.

The results of this study are also contained in Table 6.2. This validity study confirmed that eight of the constructs of the SAMCS were associated with level of position (job grade), 12 were associated with the behavioural competencies shown during the assessment, and 13 were associated with cognitive capacity. This would mean that these constructs could contribute to the prediction of the level at which

Table 6.2: Reliability coefficients, and validity coefficients on three criterion scores, for all constructs of the SAMCS

Constructs	$r_{S\text{-}B}$	Position Level i.t.o. Paterson Grading	Behavioural competence	Cognitive Capacity
Personality				
Achievement	0.87	-0.04	-0.11	-0.01
Challenge	0.76	-0.01	0.12	**0.21**
Self-development	0.77	**-0.25**	-0.12	-0.15
Social extension	0.89	-0.01	0.01	-0.06
Affiliation	0.90	0.05	-0.03	-0.06
Diversity	0.77	0.04	0.04	0.08
Change	0.81	0.13	**0.31**	**0.39**
Control	0.75	**0.23**	**0.20**	**0.28**
Dominance	0.71	0.08	0.17	0.14
Structure	0.90	**-0.24**	**-0.28**	**-0.36**
Surgency	0.73	-0.18	**-0.32**	**-0.32**
Goal direction	0.67	0.16	0.13	0.05
Composure	0.82	-0.02	-0.09	-0.15
Styles				
Creator	0.83	0.04	0.13	0.11
Resourcer	0.67	0.19	**0.25**	**0.35**
Initiator	0.77	0.17	0.15	**0.27**
Integrator	0.81	0.07	0.04	0.09
Supporter	0.73	**-0.38**	**-0.45**	**-0.48**
Judge	0.83	-0.04	-0.04	-0.04
Completor	0.77	-0.10	**-0.20**	**-0.27**
Operator	0.75	0.06	0.06	0.01
Values				
Time perspective	0.91	**0.25**	**0.37**	**0.44**
Output	0.77	**-0.28**	**-0.30**	**-0.35**
Delegation	0.89	-0.08	**-0.22**	-0.17
Expenditure	0.86	0.17	**0.27**	**0.29**
Mgmt focus	0.90	**0.31**	**0.35**	**0.31**
Communication	0.87	-0.12	-0.05	-0.11
Decisions	0.84	-0.08	-0.01	-0.01
Conflict	0.86	-0.04	0.05	0.01
Method	0.80	**0.31**	**0.32**	**0.38**

For $p<.05$, $r = 0.195$; $p<.01$, $r = 0.230$; $p<.001$, $r = 0.321$

managers could function in an organisation in terms of job-grade, and to the prediction of their managerial behaviour, as well as their cognitive capacity.

FACTOR ANALYSIS

A factor analysis was performed on the 13 personality constructs, eight managerial styles, and nine values of the SAMCS, using the same sample of 100 managers.

The Statgraphics Program was again used. In terms of the criterion of retaining factors with eigenvalues greater than one, 11 factors would have been retained, which seemed excessive. The scree test indicated that four or five factors would be appropriate. Four, five and six factors were rotated, and the results were compared. A five-factor solution appeared to be most interpretable.

Table 6.3 contains the factor matrix, indicating the five factors in columns 2 to 6. For ease of interpretation, the researcher sorted the coefficients, clustering high positives together, and high negatives together (indicated by bold print). In addition to a pure statistical classification, a qualitative view was taken. In this way, constructs with a high correlation, were also grouped according to contextual similarity. A construct was classified with the factor for which it achieved the highest loading, provided that its correlation indicated a loading of more than 0.40, and it did not load on any of the other factors in excess of 0.35. By scanning horizontally, across all five factors, the highest loading for each construct can easily be ascertained. An exception to this rule was *Initiator,* which loaded with a coefficient of 0.38 on the first factor, but was retained for Factor 4, due to its very high loading of 0.71. Constructs that did not load above 0.40 on any of these factors, or loaded high on more than one, were ignored.

It was further found that some of the factors were bi-polar. For instance Factor 1, had four constructs that loaded positively with coefficients above 0.40; these were clustered together and called *Problem-solving*. However, on the same factor were two constructs that loaded negatively, and that seemed to have the same contextual meaning; these two were clustered together and called *Implementing*. Column one then indicates the bi-polar concepts in capital letters, with the constructs loading on each, grouped together.

Table 6.3: Factor analysis matrix indicating loading of constructs on each factor.

	PROBLEM SOLVING/ IMPLEMENTING	INTEGRATING	CHALLENGING/ GOAL DIRECTED	INITIATING	NOT INTERPRET-ABLE FACTOR
PROBL SOLVING					
Resourcer	**0.73**	-0.12	0.26	0.29	0.14
Change	**0.65**	-0.11	-0.11	-0.21	-0.29
Method	**0.60**	-0.19	-0.09	0.05	-0.12
Mgmt focus	**0.46**	0.32	-0.16	-0.05	-0.19
IMPLEMENTING					
Structure	**-0.76**	-0.06	-0.26	-0.16	0.07
Completor	**-0.66**	-0.09	0.16	0.31	-0.17
INTEGRATING					
Social extension	-0.01	**0.40**	0.21	0.07	0.09
Integrator	0.21	**0.64**	-0.05	0.31	-0.31
Communication	0.17	**0.63**	0.06	-0.06	0.01
Affiliation	0.19	**0.46**	0.19	-0.32	0.07
Decisions	0.18	**0.73**	-0.12	0.11	0.13
GOAL DIRECTED					
Goal direction	-0.32	-0.34	**0.49**	0.03	-0.30
Composure	-0.30	0.08	**0.43**	-0.31	-0.35
Dominance	0.09	-0.11	**0.58**	0.18	-0.31
CHALLENGING					
Operator	-0.11	-0.31	**-0.51**	-0.14	-0.21
Challenge	0.26	-0.29	**-0.48**	0.18	0.09
Conflict	-0.18	0.26	**-0.44**	-0.31	-0.05
INITIATING					
Initiator	0.38	0.15	0.29	**0.71**	0.01
Control	0.24	-0.28	0.14	**0.60**	0.22
UN-INTERPR.					
Achievement	-0.32	-0.02	-0.28	-0.03	0.54
Delegation	-0.33	0.01	0.21	0.08	0.43

The 30 constructs of the SAMCS were therefore collapsed into five factors, two of which were bi-polar, two of which contained only one concept, and one which was not interpretable. Six interpretable concepts were then identified, namely:

- ❑ Factor 1 A: *Problem-solving*: Need for change, preference for the role of resourcer, managerial focus (long term strategic, rather than short term operational), and an unconventional method of work.
- ❑ Factor 1 B: *Implementing*: Need for structure and preference for the role of completor.
- ❑ Factor 2 : *Integrating*: Need for social extension and affiliation, preference for the integrator role, communication (belief in network communication), and decision-making (belief in consultative decision-making).
- ❑ Factor 3 A: *Goal direction*: Need for goal directedness, need for composure, and need for assertion/dominance.
- ❑ Factor 3 B: *Challenging*: Need for challenge, preference for the operator style of managing, and a belief to resolve conflict rather than avoiding it.
- ❑ Factor 4: *Initiating*: Need to control, and preference for the initiator role.
- ❑ Un-interpretable Factor: Factor 5, in column 6 of Table 6.3 contained only two dimensions which loaded above 0.40, namely *achievement* and *structured delegation* . Both these dimensions, however, also loaded above 0.30 on Factor 1, and above 0.20 on Factor 3. Both were therefore discounted as too complex, with no clear emerging construct.

The various factors were correlated with three criteria, namely, position level in terms of job grade (Paterson), overall behavioural manifestation during the assessment centre, and cognitive capacity also measured during the assessment centre. These coefficients are presented in Table 6.4.

From Table 6.4 it can be concluded that *Initiating* and *Problem solving* correlated significantly, and positively with level of position in the organisation. The more senior the manager, the more will s/he respond with initiating and problem-solving behaviuor. It could also be concluded that the more senior the position, the more it requires initiating and problem-solving behaviour.

Table 6.4: Correlation between six constructs of the SAMCS and three criterion scores.

Constructs		Position level i.t.o. Paterson Grading	Behavioural Competence	Cognitive Capacity
Problem-solving	1A	**0.26**	**0.39**	**0.48**
Implementing	1B	-0.17	**-0.25**	**-0.33**
Integrating	2	0.05	0.05	0.01
Goal directing	3A	-0.15	-0.17	-0.19
Challenging	3B	-0.09	0.08	0.09
Initiating	4	**0.27**	**0.31**	**0.39**

For $p<.05$, $r = 0.195$; $p<.01$, $r = 0.230$; $p<.001$, $r = 0.321$

Considering the criteria of managerial competence and cognitive complexity, assessed during the assessment centre, the higher the competence of the manager in terms of behaviour and cognitive capacity, the more *initiating* and *problem solving* is s/he likely to be, and the less *implementing* is s/he likely to be. *Goal direction* was almost significant at the 0.05 level.

CHAPTER 7

RESEARCH FINDINGS: INTERVENTION STRATEGIES

INTRODUCTION

This chapter is the first of three chapters in which the research findings of this study will be reported. During the intervention strategies phase of the investigation the CEOs, and in three cases the Directors, of 16 companies were interviewed. During these interviews the participants were asked to detail all the intervention strategies they had used to recover their firms. These included major initiatives, management activities, or strategies adopted, which were aimed at changing the order of things, giving new direction to recovering the company. They excluded day to day operational activities and activities merely to keep things running. In the case of declining companies, participants were asked to detail these actions since they had become CEOs or since the company started going into decline, whichever was appropriate given the respective case.

The CEO was asked to note or discuss all the intervention strategies, or major initiatives, that he (they were all male) and his team undertook within a given time frame. This procedure was somewhat projective, in that it probably reveals as much about the CEOs perceptions, mindsets and views as about the actual activities engaged in. During the interview a CEO would list all initiatives, activities or tasks that he personally viewed as relevant and noteworthy. It should however be noted that there may well have been actions taken, that were not mentioned because, according to the CEO's perception, it was nothing major or interesting, yet according to the way in which the data were reduced, it could have been used and could have swayed the frequencies slightly.

The results of these interviews are presented in Appendix A where the major initiatives taken in each case, are listed in the order in which they were raised and communicated by the CEOs.

DATA REDUCTION: ELEVEN GENERIC INTERVENTION STRATEGIES

As should be apparent from the review of management actions per case in Appendix A, vague statements of intention or statements of opinion were ignored in the data reduction. Only actions that had a specific behavioural manifestation and were, as such, observable by others, were considered. Furthermore, only actions intended to recover the company, in the case of the investigation sample, and actions to prevent further decline, in the case of the comparison sample, were noted. If normal day-to-day activities and activities to sustain previous decisions or strategies were reported, they were ignored. In summary, actions initiated during the period of review were examined and classified.

Having studied all the listed management actions or major initiatives across all cases, clear categories or clusters of activities started emerging. Eleven of these clusters emerged when activities were grouped according to the intention underlying the activity, and these eleven clusters were classified as intervention strategies, each including a set of similar activities or initiatives.

Having established these 11 clusters of intervention strategies, each individual case was then analysed and all the management actions per case were allocated to the 11 strategies of recovery. Allocation of an action to a cluster was based on a qualitative evaluation of the action or its underlying intention in the context of the problems in the business.

The next step in the analysis of the data was to attach a quantitative value to each action taken by a management team. In most cases one action counted one point. Multiple occurrences of one activity, such as the appointment of four new managers, would attract four points. In the cluster "Building the executive team", each dismissal or appointment counted as one activity, whilst in "Integration", each project team or meeting also counted as one activity introduced. A major market research project in "Product-market focus" also only counted as one activity. In qualitative research when quantifying a managerial activity, it is difficult to decide what weight to attach to it vis-à-vis another activity, in terms of quality or impact.

As far as possible, one management action or initiative was allocated to one cluster or strategy. Occasionally, however, an action could contribute to two clusters, particularly where the underlying intention was twofold. For example, when a manager was appointed to head up a newly created division of strategic importance, this action would count one point towards "Building the executive team" and one point towards "Organisational design".

The 11 intervention strategies will now be discussed in the order of the frequency with which these activities manifested themselves in the companies that were successfully recovered. The reason for this sequence, rather than a sequence according to content is to reflect to the reader the real nature of this phenomenon as it occurs in its natural environment.

Building an executive team: This cluster involves activities aimed at putting together a management or executive team that can manage the company successfully. Examples are dismissing current underperforming executives, without replacement, outplacing underperforming executives from outside the company, or creating new positions into which executives are appointed from outside. This also involves coaching and monitoring activities, as well as management development programmes. The literature concerned (Bibeault 1982; Hofer 1980; Khandwalla 1992; O'Neill 1986; Schendel et al 1976; Slatter 1984) typically refers to this kind of activity as "change of management". However, this cluster includes far more than simply a change of management. It involves the building of an executive and managerial team which, over and above a change of management, requires the strengthening of the team by the appointment of new talent and competencies from outside, promotions and reorganisation, and team building.

Integration: This cluster includes any activity aimed at facilitating co-ordination and communication, breaking down hierarchical departmental barriers and shifting communication from vertical (top-down and bottom-up) to horizontal, from segmentalist to integrative. These activities involve the creation of network structures superimposed on the hierarchical structure, through the formation of a range of inter-disciplinary and inter-departmental task forces, committees or meetings. Also included are team building exercises, newsletters and other forms of communication and activities, such as creating employee representative councils, drawing up grievance procedures and networking with suppliers. Some researchers would classify these activities as part of organisational change (Schendel et al., 1976; Slatter,1984). Bibeault (1982) wrote about "improved processes". Khandwalla (1992) is one of the few researchers who identified the concept of "integration". In the present study it emerged as a distinct cluster of activities which could be a subset of organisational development but is dealt with as a fully-fledged body of activities in its own right.

Performance management: This cluster of intervention activities involves setting specific performance standards, either globally on a corporate basis or for individual executives, or both. It involves formulating certain goals and instituting systems of measurement, profit improvement programmes, job grading, performance measurement, and the development and implementation of reward systems and incentive schemes to reinforce successful behaviour. It also includes performance appraisals. None of the major studies reviewed in Chapter 2 identified the issue of performance management. This could either be due to the fact that, in the recovered companies these researchers reviewed, it did not manifest as a distinctly separate body of intervention activities, or that those researchers not approaching the phenomenon of corporate recovery from an organisation psychological perspective, did not focus their investigation on behavioural issues or processes that would govern behaviour.

Philosophy, culture and values: This cluster involve activities intended to establish a set of values and a culture governing the behaviour of all members of the organisation. These activities include a strong element of education, attitude change and setting behavioural standards, but extend as far as exposing people to different ways of thinking and to different scenarios for working and achieving. Again, as in the case of integration and performance management, most other studies would include these activities under the umbrella of "organisational change" (Slatter, 1984) or "organisation integration" (Khandwalla,1992). In this study, however, these activities clearly manifested themselves as belonging to a distinct subset of organisation development. The need to discriminate and differentiate, the hallmark of scientific research and scientific pursuit, does not permit one to yield to the temptation of broad, ill-defined and vague categorisation. In order to better understand what most other researchers call "organisation change" and what they view as one of the most important aspects of a recovery strategy, an attempt is made in this study to give a clearer, more differentiated definition of managerial activities undertaken to recover the organisation.

Cost reduction: This cluster combines activities aimed at reducing the cost structure of the company, such as reduction in headcount, sales of assets, reduction of interest rates, freeze on salaries, and so forth. Seven of the 13 studies reviewed in Table 2.7 (Chapter 2) identified the concept of cost reduction. Khandwalla (1992), however, differentiated between cost reduction through retrenchments, cost reduction through other means, and cost reduction through divestiture. The underlying intention of the three different elements which Khandwalla identified, is cost reduction and for the purposes of this study all actions related to cost reduction were classified under this one heading. In the cases reviewed for this study, retrenchment programmes were embarked upon with the purpose to reduce costs, hence its clustering with a seemingly unrelated issue such as divestiture.

Organisational design: This cluster includes activities aimed at stream- lining the organisation, such as delayering, decentralisation, re-organisation of departments, strengthening and expanding, and the addition or elimination of functions. It further includes redefinition of executive jobs, refocussing executives' time and attention, role clarification, and allocation of decision-making powers. Most other studies defined this element of a recovery strategy; Slatter (1984) classified it as "organisational change", and Khandwalla (1992), along with Hofer (1980) and O'Neill (1986), as "restructuring".

Product-market focus: This cluster includes actions aimed at repositioning the business in its market segment. It involves market research, portfolio analysis, changing product lines, market image, opening new divisions to tap into allied markets, selling of businesses which have no synergy with the core business, and buying into companies already operating in different markets. Eight of the 13 studies reviewed in Table 2.7 referred to elements of business redefinition. Khandwalla (1992) identified it as "product-line rationalisation and diversification", Slatter (1984) called it "product-market refocussing" and O'Neill (1986) referred to "business redefinition". Bibeault (1982) referred to the "establishment of a viable core business" whilst Hedge (1982) and Schendel et al. (1976) talked about "product diversification". Findings in this connection therefore strongly support prominent findings by previous researchers.

Financial discipline: This cluster includes all activities aimed at restoring discipline in financial matters. These include improving systems of authorisation and control, improved management of revenue, expenditure and cash flow, asset management, maintaining margins, and better credit control. Five of 13 major studies reviewed in Chapter 2 identified financial discipline as an element of a recovery strategy and the present findings support those studies.

Strategy development: These activities include the implementation of strategic planning processes and development of specific strategies to achieve specific aims. They differ, however, from the other clusters in that these are simply key decisions or processes, rather than specific activities. These include formulating a mission and vision, implementing strategic processes and specific strategies regarding revenues, cash flow and cost reduction. This cluster of activities was mentioned by five of the major studies reviewed in Table 2.7.

Increasing revenue: This cluster includes all activities aimed at getting more business and growing turnover figures. They are essentially of two classes: firstly, the expansion of current activities by increasing production capacities, including issues such as exports and vertical integration; and secondly, growing revenue through acquisitions and mergers, and expanding into new business activities. Eight of the 13 studies reviewed in Table 2.7 referred to this aspect. Only Hofer (1980) called it "increasing revenue". Khandwalla (1992) defined it as "innovation and product development" that boosts revenues, whilst O'Neill (1986) talked about "growth strategies" and Slatter (1984) referred to "growth via acquisition".

Restructuring and rationalising manufacturing or operational processes: This cluster involves activities such as adopting systems of quality control and safety such as National Occupational Safety Association/NOSA 5 Star Rating, South African Bureau of Standards, code:0157, Quality Standard 101 (QS101), and ISO 9000. It also includes eliminating products with short runs and high cost structures, better capacity loading, reducing the number of product lines per store, expanding production capacities, redefinition of operational processes, productivity studies, and process re-engineering. Of the 13 studies reviewed, four mentioned plant expansion and investment, while another six mentioned efficiency increases, technological changes, new manufacturing methods and plant modernisation.

RESULTS

Tables 7.1 and 7.2 contain the quantitative results of this study, respectively for the recovered companies (investigation group) and the declining companies (comparison group). In these respective tables, the actual frequency of management actions taken or initiatives instituted are presented by case for each intervention strategy. For each intervention strategy, the proportion of management action, in respect of the total number of actions taken is also presented. This was calculated by taking the frequency of each intervention strategy, and dividing it by the total number (frequency) of actions initiated. The frequency of intervention activities per case varied greatly and although this may in itself be important, the

Table 7.1 : Frequencies and proportions of activities for eleven clusters of actions across nine recovery cases

Strategy	Tex Rec	Chem Rec	Freight Rec	Trav Rec	Merch Rec	Trans Rec	Sug Rec	Furn Rec	Fin Rec	Total Group
Building Executive Team	.0	.23	.29	.09	.50	.33	.30	.19	.13	.26
	(0)	(8)	(12)	(3)	(19)	(13)	(11)	(5)	(3)	(73)
Integration	.0	.23	.21	.22	.0	.36	.27	.04	.31	.19
	(0)	(8)	(9)	(5)	(0)	(14)	(10)	(1)	(7)	(54)
Organisation Design	.0	.09	.17	.13	.18	.05	.19	.19	.04	.13
	(0)	(3)	(7)	(3)	(7)	(2)	(7)	(5)	(1)	(35)
Performance Management	.20	.09	.0	.30	.08	.0	.03	.27	.26	.11
	(3)	(3)	(0)	(7)	(3)	(0)	(1)	(7)	(6)	(30)
Philosophy, Culture & Values	.0	.03	.0	.13	.16	.03	.05	.23	.09	.08
	(0)	(1)	(0)	(3)	(6)	(1)	(2)	(6)	(2)	(21)
Financial Discipline	.27	.12	.07	.04	.03	.15	.0	.0	.0	.07
	(4)	(4)	(3)	(1)	(1)	(6)	(0)	(0)	(0)	(19)
Cost Reduction	.20	.03	.05	.0	.0	.08	.0	.08	.0	.04
	(3)	(1)	(2)	(0)	(0)	(3)	(0)	(2)	(0)	(11)
Product-Market Focus	.0	.03	.14	.0	.05	.0	.0	.0	.09	.04
	(0)	(1)	(6)	(0)	(2)	(0)	(0)	(0)	(2)	(11)
Increasing Revenue	.06	.03	.02	.09	.0	.0	.11	.0	.04	.04
	(1)	(1)	(1)	(2)	(0)	(0)	(4)	(0)	(1)	(10)
Strategy Development	.0	.06	.05	.0	.0	.0	.05	.0	.04	.02
	(0)	(2)	(2)	(0)	(0)	(0)	(2)	(0)	(1)	(7)
Restructure/Operations Process	.27	.06	.0	.0	.0	.0	.0	.0	.0	.02
	(4)	(2)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(6)
Total	15	34	42	23	38	39	37	26	23	277

Note: (a) First figure denotes proportion
(b) Figure in brackets denotes frequency of action

Table 7.2 : Frequencies and proportions of activities for eleven clusters of actions across seven declining cases, and quality adjusted for five cases

Strategy	Eng Lo	Chem Lo	Merch Lo	Freight Lo	Furn Lo	Fin Lo	Bus Lo	Total Group	Chem Lo QA	Merch Lo QA	Freight Lo QA	Furn Lo QA	Bus Lo QA	Groups QA
Building Executive	.22	.00	.29	.38	.00	.45	.21	.24	.00	.44	.23	.00	.28	.24
Team	(4)	(0)	(6)	(11)	(0)	(5)	(6)	(32)	(0)	(6)	(3)	(0)	(6)	(24)
Integration	.11	.00	.00	.00	.00	.09	.07	.04	.00	.00	.00	.00	.04	.04
	(2)	(0)	(0)	(0)	(0)	(1)	(2)	(5)	(0)	(0)	(0)	(0)	(1)	(4)
Organisation Design	.06	.00	.38	.21	.07	.00	.18	.15	.00	.07	.08	.00	.14	.07
	(1)	(0)	(8)	(6)	(1)	(0)	(5)	(21)	(0)	(1)	(1)	(0)	(3)	(7)
Performance	.06	.06	.10	.00	.14	.18	.07	.07	.00	.14	.00	.17	.04	.07
Management	(1)	(0)	(2)	(0)	(2)	(2)	(2)	(9)	(0)	(2)	(0)	(1)	(1)	(7)
Philosophy, Culture &	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
Values	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Financial Discipline	.11	.00	.00	.00	.14	.00	.04	.04	.00	.00	.00	.00	.04	.03
	(2)	(0)	(0)	(0)	(2)	(0)	(1)	(5)	(0)	(0)	(0)	(0)	(1)	(3)
Cost Reduction	.22	.07	.09	.07	.07	.00	.18	.11	.07	.14	.08	.00	.14	.11
	(4)	(1)	(2)	(2)	(1)	(0)	(5)	(15)	(1)	(2)	(1)	(0)	(3)	(11)
Product-Market Focus	.00	.14	.00	.03	.14	.09	.00	.04	.14	.00	.00	.17	.00	.07
	(0)	(2)	(0)	(1)	(2)	(1)	(0)	(6)	(2)	(0)	(0)	(1)	(0)	(7)
Increasing Revenue	.06	.71	.14	.10	.22	.18	.07	.18	.72	.21	.23	.49	.09	.23
	(1)	(10)	(3)	(3)	(3)	(2)	(2)	(24)	(10)	(3)	(3)	(3)	(2)	(23)
Strategy Development	.06	.00	.00	.03	.14	.00	.07	.04	.00	.00	.00	.00	.09	.03
	(1)	(0)	(0)	(1)	(2)	(0)	(2)	(6)	(0)	(0)	(0)	(0)	(2)	(3)
Restructure Product/	.11	.07	.00	.17	.07	.00	.11	.09	.07	.00	.38	.17	.14	.11
Operations Process	(2)	(1)	(0)	(5)	(1)	(0)	(3)	(12)	(1)	(0)	(5)	(1)	(3)	(12)
Total	18	14	21	29	14	11	28	135	14	14	13	6	22	101

Note: (a) First figure denotes proportion
(b) Figure in brackets denotes frequency of action

initial focus of analysis would be the proportion of activities per intervention strategy to the total number of activities. The first figure in each cell indicates the proportion, and the second in brackets the raw score.

Table 7.3 repeats the frequencies and proportions for recovered companies shown in the last column of Table 7.1, and those for the declining companies shown in Column 8 of Table 7.2.

Table 7.3. : Frequency and proportion of activities of recovered versus declining companies in descending order.

	Recovered			**Declining**		
Strategy	Freq-uency	Prop-ortion	Rank-order	Freq-uency	Prop-ortion	Rank-order
1 Building an executive team	73	0.26	11	32	0.24	11
2 Integration	54	0.19	10	5	0.04	9
3 Organisational design	35	0.13	9	21	0.15	10
4 Performance management	30	0.11	8	9	0.07	8
5 Philosophy, culture and values	21	0.08	7	0	0.00	7
6 Financial discipline	19	0.07	6	5	0.04	6
7 Cost reduction	11	0.04	4	15	0.11	3.5
8 Product-market focus	11	0.04	4	6	0.04	3.5
9 Increasing revenue	10	0.04	4	24	0.18	3.5
10 Strategy development	7	0.02	1.5	6	0.04	3.5
11 Restructure operational process	6	0.02	1.5	12	0.09	1

Table 7.3 also presents the rank-orders of the various strategies based on the proportion of occurrence. The differences between these rank orders highlight the relative importance of the strategies as used in the two samples. The Spearman rank-order correlation of 0.20 between them was not significant, indicating the lack of similarity in approaches. However, the proportion of activities per cluster in itself is not necessarily an indication of its importance. As an example, product-market focus in the recovered companies, accounted for a proportion of only .04 of all

activities. Very little time and effort was therefore invested in this strategy, yet it could have been critical in terms of its co-producer effect. Furthermore, as indicated earlier on, it should be borne in mind that these frequencies also reflect the CEO's view and mindset in terms of what s/he viewed as important in running the business.

Table 7.3 indicates, that in terms of the first five intervention strategies with the highest rank orders, representing 0.76 of management initiatives, the two groups differed quite substantially. Apart from building an executive team and organisational design, recovered companies spent much more time integrating, managing performance and establishing a philosophy, culture and set of values. Declining companies, on the other hand, focused much less on these and most of their efforts went into increasing revenue, reducing costs and restructuring operations.

Recovered companies spent only 0.04 of their time on cost reduction, 0.04 on increasing revenue and 0.02 on restructuring operations, representing only 0.10 in total, whilst declining companies spent 0.35 of their time on these strategies.

Recovered companies spent 0.38 of their time and effort on integration, performance management, and philosophy, culture and values, whilst declining companies spent only 0.09 of their time or effort on these. In order to test the significance of the differences between the means of the two samples in Table 7.1 and Table 7.2, the Mann-Whitney U-test was applied. The calculations were carried out on the proportions and frequencies for each case. The statistical significance for sample sizes of one group of nine cases and the other of seven cases is as follows (Mc Call,1994):

Levels of Significance	U-Score
0.01	7
0.02	9
0.05	12
0.10	15

In Tables 7.4, 7.5, 7.6 and 7.7, the U-values and their respective levels of significance for each of the 11 intervention strategies are presented. Table 7.4 gives these values for proportions, and Table 7.5 for raw scores. In Tables 7.6 and

7.7, the U-values are also given for proportions and raw scores, respectively, but for quality adjusted data.

During the data reduction, every management action or initiative was counted as one point, and allocated or clustered in a given intervention strategy. However, particularly in the case of declining companies, some of these initiatives actually had negative consequences or flew in the face of sound organisational or managerial principles, as derived from the actions of recovered companies or the literature. All major initiatives with negative consequences were therefore discounted. In Tables 7.6 and 7.7 the adjusted raw scores and proportions are given.

The raw scores included in these tables were computed by taking the actual frequency per intervention strategy, from Table 7.3 and dividing it by the number of cases per group to give the average number of actions per case.

Tables 7.4 to 7.7 indicate that as far as proportions and raw scores are concerned, the recovery companies differed significantly from the declining companies on three intervention strategies, namely "Integration", "Philosophy, culture and values" and "Increasing revenue". However, when the data is adjusted for quality, and actions with negative consequences are discounted, the proportions and raw scores change to the extent that "Organisation design" and "Restructuring Operational Process" now also indicate significant differences. The two groups therefore differed in their utilisation of five intervention strategies.

DISCUSSION

Each intervention strategy will now be discussed, comparing not only the results of the two groups of companies, but drawing comparisons across all cases.

Table 7.4: Mann-Whitney U-values indicating levels of significance for differences in proportions for two groups across eleven major intervention strategies.

Intervention Strategy	Proportions Rec	Decl	U	p
1 Building executive team	0.26	0.24	30.5	--
2 Integration	0.19	0.04	13.0	0.10
3 Organisational design	0.13	0.15	30.0	--
4 Performance management	0.11	0.07	23.0	--
5 Philosophy and values	0.08	0.00	7.0	0.01
6 Financial discipline	0.07	0.04	23.5	--
7 Cost reduction	0.04	0.11	18.0	--
8 Product market focus	0.04	0.04	25.5	--
9 Increasing revenue	0.04	0.18	7.5	0.02
10 Strategy development	0.02	0.04	24.0	--
11 Restructure operational process	0.02	0.09	16.0	--

Building the Executive Team:

Tables 7.4 to 7.7 indicate that according to the U-values, no significant differences existed between the two groups on proportions, raw scores or proportions and raw scores adjusted for quality.

The conclusion is therefore that building the executive team is not a differentiating strategy in terms of determining successful financial performance. It is a strategy recovery companies engage in because they have to solve a profit problem. Declining companies, however, also engage in these activities to virtually the same extent. A significant amount of management time and effort, probably the most, goes into building the executive team. It could well be that in terms of quality recovered companies made more right decisions than wrong, whilst declining companies made more wrong decisions than right. For instance, It could be speculated that in replacing for example a sales manager, the recovered companies

Table 7.5: Mann-Whitney U-values indicating levels of significance for differences in raw scores for two groups across eleven major intervention strategies.

Intervention Strategy	Raw scores:Averages Rec	Decl	U	p
1 Building executive team	8.1	4.6	21.0	--
2 Integration	6.0	0.7	3.0	0.01
3 Organisational design	3.9	3.0	25.0	--
4 Performance management	3.3	1.3	16.5	--
5 Philosophy and values	2.3	0.0	7.0	0.01
6 Financial discipline	2.1	0.7	20.0	--
7 Cost reduction	1.2	2.1	22.0	--
8 Product market focus	1.2	0.9	30.5	--
9 Increasing revenue	1.1	3.4	13.0	0.10
10 Strategy development	0.8	0.9	29.5	--
11 Restructure operational process	0.7	1.7	17.5	--

filled the position with somebody significantly better, whilst the declining companies did not necessarily succeed in finding a better candidate but simply a replacement.

It is further interesting to note that, although in terms of proportion of activities no significant difference exists, the recovered companies collectively had a raw score of 73 management actions for this strategy (Table 7.3), which gives 8.1 managerial changes per case (Table 7.5) whilst the declining companies with a raw score of 26 gives 3.4 managerial changes per case. From this it can be deduced that companies that were recovered were far more active in building their executive teams than declining companies, and were more inclined to correct executive performance through replacements and dismissals than declining companies. However, this difference was not significant when the Mann-Whitney U-test is applied.

Table 7.6: Mann-Whitney U-values indicating levels of significance for differences in proportions for two groups across all eleven major intervention strategies: Quality adjusted data.

Intervention Strategy	Proportions Rec	Proportions Decl	U	p
1 Building executive team	0.26	0.24	30.3	--
2 Integration	0.19	0.04	12.5	0.10
3 Organisational design	0.13	0.07	3.5	0.01
4 Performance management	0.11	0.07	23.0	--
5 Philosophy and values	0.08	0.00	7.0	0.01
6 Financial discipline	0.07	0.03	18.0	--
7 Cost reduction	0.04	0.11	21.0	--
8 Product market focus	0.04	0.07	28.0	--
9 Increasing revenue	0.04	0.23	5.5	0.01
10 Strategy development	0.02	0.03	30.0	--
11 Restructure operational process	0.02	0.11	15.0	0.10

Most of the studies reviewed in the literature in Chapter 2 indicated changes in management to be necessary.

According to Bibeault (1982), management starts receiving pressure when profitability plateaus or declines. However, when losses and huge write-offs are experienced, the pressure for new management mounts and where these losses or write-offs threaten the survival of the business, an inevitable change of management follows.

Kharbanda and Stallworthy (1987) stated that in the cases they reviewed some new CEOs replaced virtually all the incumbent senior executives, but most new CEOs kept the existing management in the belief that they would perform better under new leadership.

Table 7.7: Mann-Whitney U-values indicating levels of significance for differences in raw scores for two groups across all eleven major intervention strategies: Quality adjusted data.

Intervention Strategy	Raw scores:Averages Rec	Decl	U	p
1 Building executive team	8.7	3.4	18.0	--
2 Integration	6.0	0.6	3.0	0.01
3 Organisational design	3.9	1.0	11.0	0.05
4 Performance management	3.3	1.0	16.5	--
5 Philosophy and values	2.3	0.0	7.0	0.01
6 Financial discipline	2.1	0.4	16.5	--
7 Cost reduction	1.2	1.6	24.5	--
8 Product market focus	1.2	0.6	28.0	--
9 Increasing revenue	1.1	3.3	15.0	0.10
10 Strategy development	0.8	0.4	28.5	--
11 Restructure operational process	0.7	1.7	17.5	--

None of those studies, however, compared samples of recovered companies with samples of declining companies. The present findings support those studies in that a change of management seems to be a strategy in recovering a business organisation; but that does not preclude the possibility that many companies in decline may also show a high level of activity in this area.

Integration:

A significant difference was found between the recovered companies on all four measurements contained in Tables 7.4 to 7.7, namely proportions (0.10 level), raw scores (0.01 level), proportions:quality adjusted (0,10 level), and raw scores:quality adjusted (0.01 level).

Companies which had been successfully recovered were found to have initiated more action in terms of integrating their organisation than declining companies.

The CEOs of recovered companies actively attempted to move away from a pure hierarchical structure and breached inter-departmental and intra-company barriers through the formulation of a network of multi-disciplinary taskforces, committees and meetings. They also initiated other actions aimed at improving communications and creating a sense of shared commitment to the companies' survival.

Creating an integrative structure could be seen as an initiative or strategy of the CEOs of recovered companies in order to return these companies to successful financial performance. On the other hand, declining companies are characterised by hardly any attempt at creating integrative structures.

This result therefore indicates a significant difference in what recovered companies focused on and how they emphasised a different way in which to run and manage their organisations. This finding tends to support the very strong conclusions reached in the 13 major studies reviewed in Table 2.7, namely, that organisational change is a key element of any recovery strategy. Khandwalla (1992) was the only one that referred to integration as part of organisational change and also the only one to cite that "selling" the organisation to its stakeholders and involving them in the recovery strategy is important.

Organisational design:

Tables 7.4 to 7.7 show that, when the data was adjusted for quality, a statistically significant difference existed between the recovered companies and the declining companies regarding their emphasis and focus on organisational design. This was observed for both proportions and raw scores.

Purely on a frequency basis, not taking the good judgement or consequences of the activity into account, no significant difference existed.

However, when the quality of such actions was considered, differences appeared. Declining companies were characterised by changes in organisation design that were not well thought through, and they later had to make further changes to the same departments or divisions, to rectify the inadequacies of the first changes.

When the raw data was re-analysed and inefficient actions, that is, those actions that had to be rectified, were left out, significant differences appeared.

Twelve of the 13 studies reviewed in Table 2.7 defined the concept of organisational change and restructuring as a major, critical element of a recovery strategy. Only Smart and Vertinski (1984) did not isolate this aspect of an intervention strategy. Kharbanda and Stallworthy (1987) noted that in most of the cases they reviewed, the organisational structure had almost always been changed, moving away from centralisation to decentralisation. The present findings support those studies.

Performance Management:

With respect to the proportion of time and effort spent on managing performance, the Mann-Whitney U test did not indicate a significant difference between the two groups.

Although Tables 7.5 and 7.7 indicate that the recovery group exhibited nearly three times as many management actions regarding the management of performance, and that declining companies, on the other hand, had much less manifestation of managerial action focused on setting performance standards and rewarding staff in creative ways, the U value of 16.5 in both tables fell just outside the required 15 to be significant at the 0.10 level.

Performance management as an autonomous and separate element of a recovery strategy was not defined by most of the influential literature. Those who made some reference to performance management included it under the broader heading of organisational change. However, despite the lack of significant differences between the two groups, this investigation provides sufficient evidence of performance management, as a distinct process, to be managed by the executive team of a company in recovery.

Philosophy, Culture and Values:

Tables 7.4, 7.5, 7.6 and 7.7 indicate a significant difference, at the 0.01 level of confidence, between the recovered and declining companies on both proportions and raw scores, normal and adjusted for quality, for the U values.

The CEOs of successfully recovered companies spent more time on, and put more effort into establishing a set of values and developing a culture governing the behaviour of the members of the organisation. They also focused more on attitudinal and behavioural change than the CEOs of declining companies.

Although the CEOs of recovered companies spent significantly more time on establishing a culture than the CEOs of declining companies who hardly did anything in this regard, it accounted for a proportion of only .08 of their time and effort. Expressed in another way, it was the fifth most important strategy of the 11 strategies in terms of time and effort invested. The conclusion is therefore, that although it does not take up a major portion of the recovery team's time and effort, it is none the less critical, in that establishing a philosophy, culture and value system, proved to be one of the most significant differences between the two groups of companies.

The literature cited in Table 2.7 made no reference to the establishment of a set of values, a philosophy or a culture as a distinct element of an intervention strategy but did refer more generally to this activity and cited some manifestation of activities approximating this dimension. Bibeault (1982), under the heading of "improving management processes", mentioned changing attitudes and visible leadership, as taking up, respectively, .20 and .13 as a proportion of management actions.

Kharbanda and Stallworthy (1987) concluded that the development of the entrepreneurial spirit is essential to a turnaround.

Financial Discipline

Tables 7.4 to 7.7 indicate that no significant differences existed between the two groups of companies in this regard. Although this is not a significant difference, Tables 7.5, and 7.6 show that recovered companies employed virtually three times as many intervention actions to restore financial discipline as declining companies did. They spent .07 of their time on these strategies compared to the declining companies' proportion of .03 (adjusted for quality).

Although this finding was not statistically significant, there is other evidence to suggest that the restoration of financial discipline does play some role as a co-producer in successful turnaround. Six of the 13 studies summarised in Table 2.7 identified this element of recovery.

Cost Reduction:

No significant difference existed between the two groups on either proportions or raw scores, normal or adjusted for quality, in terms of the U values for cost reduction strategies (Tables 7.4 to 7.7). It can, however, be noted from Table 7.5 that declining companies employed cost reduction strategies, in terms of the reduction of headcount, sales of assets and other cost saving measures, nearly twice as often as successfully recovered companies.

Since these differences do not seem significant, reduction of cost, is not a determining strategy in turning a company around from lack-lustre financial performance. In fact, it was the declining companies that did more of it.

Although seven of the 13 studies reviewed in Table 2.7 indicated cost reduction to be part of an overall intervention strategy, the findings of the present study did not support them. However, three of Khandwalla's (1992) 27 elements referred to cost reduction, namely, "significant retrenchments", "divestiture/ liquidation of fixed assets" and other "cost-reduction actions". Two of these showed negative relationships between cost reduction activities and profit growth, with coefficients of -0.36, -0.19 and 0.00.

Product-Market Focus

Tables 7.4 to 7.7 indicate no significant differences between the two groups in terms of product-market focus. Contrary to other research findings, indicating that product-market refocussing is a major intervention strategy in corporate recovery, no such evidence can be found in this study. Eight of the 13 studies cited in Table 2.7 , identified product-market focus or business redefinition as an element of a recovery strategy. Slatter (1984) described it as the fourth most prevalent intervention strategy. In one of the very few studies where recovery elements were actually correlated with rate of profit growth, Khandwalla (1992) found a negative correlation of -0.33 between profit growth and diversification and product rationalisation, which forms part of this cluster of intervention strategies.

The findings of this study do support those findings in terms of the existence of this group of managerial activities and initiatives, however, the present findings find no difference between the recovery group and decline group of companies, in terms of their employment of this strategy. Business redefinition and product-market refocussing make up only a proportion of .04 of all the intervention strategies utilised by the recovered companies.

Increasing Revenue

Tables 7.4 to 7.7 indicate a strongly significant difference between recovered and declining companies in terms of increasing revenue. The Mann-Whitney U values for raw scores and proportions and for scores adjusted for quality indicated that declining companies initiate far more action in an attempt to increase revenue figures than successfully recovered organisations.

One could speculate that recovered companies had successfully generated revenues and could then relax in this regard, but this is an unlikely deduction. The period of review of recovered companies started at the lowest ebb of their financial fortunes, and included a period where lack-lustre performance, or even losses were experienced, and even at that stage they did not initiate major actions to recover revenue levels.

Eight of the 13 studies reviewed in Table 2.7 indicated marketing-related activities as an element of a recovery strategy. These may include revenue-producing activities, but not all revenue-producing activities necessarily entailed increased marketing. The two concepts are therefore only partly comparable. Khandwalla (1992) found a non-insignificant correlation between marketing-related activities and rate of profit growth.

The findings of this study, namely, that revenue-increasing activities were more prevalent amongst companies that experienced financial crisis and were used to a lesser extent by those who recovered successfully during their recovery period, are unique. This could well indicate that a preoccupation with revenue-increasing activities, whilst neglecting organisational integration, design and cultural issues could actually lead to further decline.

Strategy Development

Tables 7.4 to 7.7 indicate no significant difference between the two groups of companies in terms of strategy development. Successfully recovered organisations spent about the same amount of time on strategy development as did declining organisations. Only .02 of time was spent by the recovery group and .04 and .03 by the decline group (respectively for normal data and quality adjusted data) in the development of strategy. Five of the 13 studies reviewed in Table 2.7 identified strategy development as a unique and separate element of a recovery strategy.

Restructure Production/Operational Processes

Tables 7.4 to 7.7 indicate that only when the data was adjusted for quality did a significant difference between the two groups emerge, in terms of proportions. The declining companies initiated nearly five times as much action in terms of restructuring operational and production processes as the recovered companies. Declining companies spent a much larger proportion of their time on restructuring processes (.11) compared to recovered companies during their recovery period (.02). In terms of raw scores, declining companies initiated more than twice as many actions to restructure processes than recovered companies.

Eight of the 13 studies reviewed in Table 2.7 identified the elements of increases in efficiency, technological changes, new manufacturing methods and so forth, which in this study are collectively classified as restructuring production and operational processes. Khandwalla (1992) found non-insignificant correlation between plant modernisation and rate of profit improvement.

The findings of the present study are unique in that they revealed a negative relationship.

SUMMARY

Bennis and Nanus (1985) defined managers as people who do things right and leaders as people who do the right things. It is a simplistic assertion that still does not indicate what the right things are. What are the right things to do when confronted with the task of turning a business organisation around? What should the priorities of these recovery executives be, and what should they spend their time on? Carnell (1990) also argued that the notion of transformational leadership still does not help us understand what corporate leaders actually do to achieve transformations.

The results of the present study indicate that individual corporate recovery executives do play a role in this critical phase of organisational life that brings about a dramatic reversal in the fortunes of their organisations.

The significance of these findings lies in the recovered companies' choice of intervention strategies, the activities they engage in and the issues on which they choose to, or choose not to, spend their time. They also have significance for the differences in perceptions and views as to what is important to do and what is unimportant enough to leave.

Table 7.8 reviews the critical differences between companies with growing financial performance and those with declining financial performance, in terms of the issues these respective executive teams concerned themselves with, the time and effort they invested and their focus or emphasis.

Table 7.8: Differences in proportions of time spent on statistically significant categories only (quality adjusted).

Intervention strategy	Recovered Companies	Declining Companies
Integration	0.19	0.04
Organisational design	0.13	0.07
Philosophy and values	0.08	0.00
Total proportions/positive differences	**0.40**	**0.11**
Increasing revenue	0.04	0.23
Restructuring operational process	0.02	0.11
Total proportion/negative differences	**0.06**	**0.34**

From Table 7.8 the calculation can be made that .46 of the recovery companies' proportion of time, and priorities chosen were different from the declining companies. Therefore nearly half of the chosen intervention strategies showed a significant difference.

The results suggest that the successful corporate recovery executives tended to utilise the following intervention strategies to a larger extent than those executives who managed declining or stagnant companies:

- ❑ integrative activities.
- ❑ establishing a business philosophy and culture.
- ❑ organisational design (quality adjusted).

On the other hand, compared to CEOs of declining companies, successful recovery executives tended to de-emphasise the following elements as parts of their recovery strategy:

- ❑ increasing revenue.
- ❑ restructuring production and operational processes.

Regarding the following intervention strategies, recovered companies did not differ significantly from the declining or stagnant companies:

- ❑ building the executive team.
- ❑ performance management.
- ❑ financial discipline.
- ❑ cost reduction.
- ❑ product-market focus.
- ❑ strategy development.

Of the above six elements, it is important to note that although no statistically significant differences were found, in terms of proportion of total activities, the successfully recovered companies did show more activity in the area of building an executive team, performance management, and financial discipline, and less activity in the area of cost reduction when the frequencies of activities were considered.

CHAPTER 8

RESEARCH FINDINGS: ORGANISATIONAL PROCESS

In this chapter the second phase of the investigation will be discussed, namely the organisational processes. The results of the interviews about all 16 companies that were investigated, regarding the way they went about 11 critical management and organisation processes governing the behaviour of their employees, will be presented. Both the qualitative and quantitative aspects will be reported on.

During the second phase of the investigation the CEOs, in most cases, and Directors in other cases, were interviewed, following a structured format. The existence of key strategic systems, and the process followed to put them in place, as well as policies and processes vital to the effective functioning of an organisation, were covered.

As discussed in Chapter 5, a structured interview format was developed, which included 11 key organisational processes, derived from the literature study as summarised in Chapters 2, and 3, and the experience of the researcher in organisation development.

After all interviews were completed the raw data was analysed. Issues or aspects which did not differentiate between cases, because either all, or none of the companies exhibited or manifested this particular issue, were eliminated. For instance, with respect to reward structures, all executives received a salary, pension, medical aid and company car. In analysing the data, therefore, only issues over and above these, such as profit-sharing, share participation schemes and flexible remuneration systems, were discussed. The search was for differentiating elements within each process investigated.

The interview protocol for each company was analysed systematically in terms of the eleven organisational processes listed in Chapter 5. This analysis and scoring on a 3-point scale will now be presented. This will be followed by a discussion per process, and then by a comparison of cases within each process.

EVALUATION OF ORGANISATIONAL PROCESSES

TEXREC

Vision and mission (Total Points = 3)

Due to a crisis situation, the priorities in Texrec were to cut costs, restructure and urgently act on problems. There was no time to define a mission statement and this was a low priority. (Points = 1)

No formal process was followed to define a mission statement, and managers were not systematically involved. (Points = 1)

As no mission was developed, it could not appear in company literature. (Points =1).

Strategy and direction (Total Points = 4)

A strategic planning process emerged over time. In the initial stages the CEO knew what he wanted to achieve but did not communicate this to others. Two years after commencing the recovery process, a formal process of strategy and direction was in place. (Points = 2)

This process only involved the CEO and directors. (Points = 1)

No evidence suggested translation of this plan to departmental plans and budgets. (Points = 1)

Environmental scanning (Total Points = 5)

Information was gathered on the textile market. (Points = 2)

Most directors were involved in this exercise but it was ad hoc and not a systematic process. (Points = 1)

Based on the above information, product-market focusing was achieved yet it was not an on-going process. (Points = 2)

Organisational design (Total Points = 8)

Due to the use of computer-aided design and other new computer processes, significant changes in structure and people took place. Of the 12 positions in the top structure, four changes took place. (Points = 2)

Headcount was reduced from about 6 000 employees to about 4 300 in three years. (Points = 3)

Of the seven members in the top executive team, only one newcomer was appointed and no retrenchments or dismissals took place. (Points = 1)

The organisation design consisted of a largely functional hierarchical structure with elements of federal decentralisation in the three production plants and some structuring according to market segmentation. (Points = 2)

Role definition (Total Points = 6)

Job descriptions existed for every manager. This included a set of objectives that was reviewed annually. (Points = 3)

The job descriptions, and particularly the objectives, were derived from the overall strategic plan and objectives, in terms of what had to be achieved at the corporate level. (Points = 3)

Reward systems (Total Points = 4)

Remuneration was based on salary surveys, job grading and contribution. Salaries were adjusted only annually but the profit share added flexibility. (Points = 2)

Remuneration for the two top layers of management consisted of basic a salary, the normal fringe benefits, a company car, a share option scheme and profit sharing based on attributable earnings up to 50% of the individuals annual salary. (Points = 2)

Policies and Values (Total Points = 6)

A set of values was developed, namely, customer first, quality, and on-time delivery, but this was more a result of day-to-day management than a specific formal effort or intervention strategy. (Points = 2)

These values were made available to all staff and signs in the factory displaying these values are seen frequently. (Points = 3)

Due to Texrec being a manufacturing concern, little discretion and empowerment existed outside defined policies and procedures. (Points = 1)

Performance management (Total Points = 6)

Performance management in Texrec is based on a range of factors, including financial results but also client relations and innovation. (Points = 3)

Activities were, however, only controlled through the month end financial results. (Points = 1)

A performance appraisal system was developed and introduced covering a set of objectives and the above-mentioned issues. (Points = 2)

Communication and co-ordination (Total Points = 7)

As regards the top two layers of management, Texrec had an executive committee, a research and new product development committee. These managers also attended a weekly planning meeting involving the departments of planning, production and marketing, and daily production meetings and quality meetings. This means that they held three interdepartmental meetings. (Points = 2)

The nature of this network structure was interdisciplinary, involving specialists from various departments. (Points = 3)

The CEO met regularly with his executive on an individual basis and regularly walked the floor. (management by walking about). (Points = 2)

Decision-making (Total Points = 5)

No specific decentralisation of decision-making powers took place. The CEO stated that in the initial stages he actually centralised power to gain control over the financial situation of the company. (Points = 1)

Hardly any discretion was allowed in decisions regarding the employment of people, salary adjustments, expenditure or credit granting. (Points = 1)

Hardly any "head office" departments, that prescribed to operations and manufacturing, existed. (Points = 3)

Change and transformation (Total Points = 21)

Hardly any opportunities were created to sell the new vision of the company to the staff. (Points = 1)

Very little outside information such as market research was used to identify the need for change and a new direction. Only internally generated information was used for this purpose. (Points = 2)

The new direction of the company changed moderately from its previous position, in that it was refocussed but its nature did not change dramatically. (Points = 2)

Changes in structure were material, as discussed under organisation design. (Points = 3)

Products, product presentation and market focus have changed materially during the recovery phase. (Points = 3)

Composition of the management team did not change materially. (Points = 1)

Pricing structure has changed materially during this period. (Points = 3)

Many new avenues for increasing revenue were explored and implemented. (Points = 3)

Policies and values have changed materially. (Points = 3)

CHEMREC

Vision and Mission (Total points = 4)

A new vision and mission for Chemrec were not defined through a formal process but emerged from executive committee meetings. The mission was simply to provide a high quality product timeously, at low cost. (Points = 2)

No formal process was followed to define the mission and vision; the CEO involved his executive team, but no other managers. (Points = 1)

The mission of the company did not appear in any company documentation, such as a newsletter, could not be accessed by any employee and was not widely communicated. (Points = 1)

Strategy and direction (Total Points = 5)

The only strategic planning that took place during the turnaround phase was the development of a formal marketing plan. A comprehensive strategic planning process was introduced four years later, but can unfortunately not be credited to the turnaround phase.

The marketing plan was updated annually and did lead to formalised budgets. This plan indicated current market penetration levels for all segments of the market such as gumboots, sheeting, industrial mouldings, and uncured rubber. On a year-on-year basis the size of these markets was established, the company's share was determined, competitors' share was determined and a strategy formulated to increase market share. (Points = 2)

This marketing plan was mainly developed by the CEO and his executive committee. The executive team and those managers reporting to them went away for a week-end once a year where the CEO made a four to five hour presentation.

This presentation included their achievements during the past year and the strategies they followed to get there as well as where they should be at the end of the next year and the strategies that they should follow. This presentation was followed by an open debate for approximately one hour, whereafter the week-end was enjoyed by the executives and their wives as a gesture of appreciation. (Points = 2)

The managers received copies of the CEO's slides but the results of the strategic plan were not widely published and did not contain detailed strategies for every operating unit. (Points = 1)

Environmental scanning (Total Points = 9)

In terms of scanning the external environment, a management consulting group was utilised on a number of occasions to do market research on behalf of the company. In terms of scanning the internal environment, another group of consultants was brought in to investigate areas of profit improvement and the National Productivity Institute was brought in to investigate areas of productivity improvement. The executive committee did a SWOT analysis on an annual basis. (Points = 3)

Environmental scanning was therefore done through formal processes and involved most of the managers in the organisation. (Points = 3)

The environmental scanning resulted in increased productivity and product-market focussing. (Points = 3)

Organisational design (Total Points = 10)

As became apparent from the earlier discussion on structure, major structural changes took place. (Points = 3)

Major changes also took place in the headcount, which was reduced by 200 during the first two years, which represented nearly 25% of total headcount. (Points = 3)

Major changes also took place in the composition of the top executive team with the appointment of a new CEO, a new sales director, and the retrenchment of the general manager: inland division, representing three changes in a team of five. Other appointments lower down in the organisation resulted in more new faces in the management team. (Points = 3)

The nature of the organisational structure which evolved during the turnaround phase did not deviate significantly from the traditional functional structure. (Points = 1)

Role definition (Total Points = 6)

Top executive roles have been formally defined. One of the very first things that the new CEO did was to create job descriptions for all his executives. He also ensured that they, in turn, wrote job descriptions for all their subordinate managers and presented him with a formalised organogram of their departmental structure. (Points = 3)

Apart from formal job descriptions, the emphasis within each job was refocused on an annual basis, to accommodate current problem issues. All directors had to submit five priority objectives for themselves and for every subordinate manager reporting to them. These priority objectives had to be quantifiable as far as possible. (Points = 3)

Reward systems (Total Points = 4)

Remuneration was based on salary surveys, performance in meeting budgets, and return on assets. (Points = 2)

Profit bonuses were awarded to managers for exceeding revenue budgets, and bonuses of up to half their annual salary, were awarded to executives, based on return on assets. (Points = 2)

Policies and Values (Total Points = 4)

No specific set of values was developed except for the one value of co-operation. (Points = 1)

A set of values was therefore obviously not made available to all staff in a documented form. (Points = 1)

It does not seem that the company became significantly value driven, yet managers were empowered and were given discretion to make certain decisions. In those days executives could spend up to R5 000 without any prior approval, they could in their own discretion terminate employees' services and could employ weekly but not permanent staff, nor increase salaries. (Points = 2)

Performance management (Total Points = 9)

Performance was certainly managed over a wider base than only financial results. It also included dealing with critical problems, improving productivity and improving quality. (Points = 3)

Activities were mostly controlled through monthly financial results, reviewed at the executive committee meetings and through other systems such as expanded upon in the next paragraph. (Points = 3)

Formal performance management systems and programmes were introduced:

- ☐ exception reports through the financial pack.
- ☐ National Productivity Institute productivity standards.

- five priority objectives per executive measured on a biannual.
- basis on which salary increments were based.
- the bonus system based on financial results.
- South African Bureau of Standards code 015. (Points = 3)

Communication and co-ordination (Total Points = 5)

At the executive level of the organisation, communication and co-ordination were mostly facilitated through the monthly executive committee meetings and the new development committee meetings. There were other meetings at middle management level, such as a weekly production meeting, a monthly sales meeting and others. This communication structure is not exceptional and is very much in line with most other companies.. Only two interdepartmental or interdisciplinary meetings existed. (Points = 1)

The CEO met with his directors at least once a day on an individual basis. He followed an open door policy, with people being able to see him on short notice, and he often cut through formal communication lines to make contact with people who did not directly report to him. Not many opportunities existed for the CEO to meet formally with other staff reporting to his executives, and he largely left his executives to manage their own staff. The executive team and other managers met informally, over a beer, on a Thursday from 16h30 to 18h00 to discuss key issues. (Points = 3)

The nature of the network was very much intra-departmental, that is, departmental meetings involved only the members of these departments. (Points = 1)

Decision-making (Total Points = 7)

The new CEO stated that the previous CEO made all the decisions himself. He personally, however, followed a philosophy of management by committee. His executives were empowered and knew how far to go. He could not involve himself too much in detailed production, distribution and finance decisions, due to his marketing background, and left decision-making in these areas largely to the executives concerned. They were controlled by exception only. The organisational structure was also a decentralised one with few central departments having much control. (Points = 3)

Although these executives were given some latitude they did not have authority to hire new people, to adjust the salaries of their subordinates or to exceed budgeted expenses. (Points = 1)

During the turnaround phase there were not many head office or support functions with sufficient power to prescribe restrictive policy to operations. Operations could pursue their objectives without bureaucratic interference from the centre. (Points = 3)

Change and transformation (Total Points = 25)

The only opportunity for the new vision of the company to be sold to management and employees was the annual strategic planning meeting. (Points = 2)

Marketing research and other external information were used to identify the need for change and new direction. (Points = 3)

The direction that was created by the new CEO deviated materially from the one being pursued by the company at the time, in terms of becoming an aggressive marketing company with the aim of growing market share. (Points = 3)

The management structure of the organisation changed materially during the three to four year turnaround phase. (Points = 3)

The company's share of the sheeting market was moved from 15% in 1983 to approximately 85% in 1992, their share of the pipe seal ring market was 20% and moved to approximately 85% in 1992. Their share of the footwear component market grew from 30% to virtually 100%. These improvements were achieved, not only through aggressive marketing, but also through changes in product quality, product presentation and market focus. (Points = 3)

During the turnaround phase the composition of the management team changed materially. (Points = 3)

Their pricing structure changed, in that no profit margins were added initially, and these margins were then increased to 25%. It was very important to buy in at the best prices and to produce at low cost in order to increase sales volumes. (Points = 3)

During the turnaround phase many new avenues for reducing costs, and increasing revenue and profitability were explored and implemented. Much of this was achieved through the bonus incentive scheme, the National Productivity Institute project, a profit improvement programme, as well as the new development committee. (Points = 3)

Policies and values, however, did not change as dramatically. (Points = 2)

TRAVREC

Vision and mission (Total Points = 9)

The vision and mission were clearly defined, and were updated from time to time. (Points = 3)

A formal process was followed to establish the mission. This involved the CEO, all his directors and those executives reporting to them. This was done during a 3 day management conference. (Points = 3)

The mission of the organisation was published in a specific document and made available to all staff members in the organisation. (Points = 3)

Strategy and direction (Total Points = 7)

An annual strategic planning process was introduced by the new CEO consisting of a number of stages, culminating in the annual budget. (Points = 3).

This involved the CEO and his directors, but other managers were not always invited. Three to four days per year away from the office were spent in the development of these plans. (Points = 2)

The result was a published strategic plan with specific objectives for every operating unit, including a detailed budget for presentation to the group board. This strategic plan was, however, not available to all managers. (Points = 2)

Environmental scanning (Total Points = 7)

The annual scanning of the external environment took the form of a SWOT analysis but did not include any significant market research. (Points = 2)

The SWOT analysis as well as an identification of internal problems were arrived at through a formal process involving a large number of managers. (Points = 3)

Their focus was not only external but also defining internal strengths and weaknesses which were used as part of the strategic planning process. The link was not direct, however. (Points = 2)

Organisational design (Total Points = 8)

During the turnaround stage the organisational structure remained fairly stable with no major addition or subtraction of functions. However, a major refocusing of functions took place. The wholesale division was sold off, and the training department was restructured as a travel training institute providing training to the industry. (Points = 2)

No major reduction in headcount took place during the crisis and recovery phases. However, a limit of 1 000 staff members was set and as vacancies arose through natural attrition the posts were frozen. (Points = 2)

No major changes took place in the membership of the top management team during the turnaround phase. (Points = 1)

The nature of the structure changed from a purely traditional functional structure to that of a federal decentralised structure, with key support services being decentralised under the authority of regional managers. In addition, a team structure consisting of a network of meetings, project teams and committees, was created to facilitate horizontal communication and to co-ordinate resources, focusing them on key problems areas in the company. (Points = 3)

Role definition (Total Points = 6)

The individual roles of the top executive team were formally defined in the form of a role description, with specific mandates and annual objectives and targets. (Points = 3)

The role definition and objectives flowed naturally from the strategic planning process and evolved through a collaborative process between the CEO and his executives, and was adjusted annually. (Points = 3)

Reward system (Total Points = 4)

Remuneration was largely based on the particular grade of the position, the movement that the salary surveys indicated and the percentage dictated by the group. Within these parameters it was very difficult to base increases on real contribution. However, a share scheme was introduced whereby staff members in branches could be paid an annual bonus based on financial results. The actual pay-out in this scheme, in comparison to bonus systems run by other organisations, was insignificant. Salaries of top executives were, however, adjusted on a 6-monthly basis. (Points = 2)

Remuneration packages were not very creative and consisted mainly of a cash salary, medical aid, pension and an annual bonus, as well as some profit pay-out. (Points = 2)

Policies and values (Total Points = 9)

A clear set of values was created and this was published in a document available to all staff and frequently referred to in meetings. When the CEO joined the organisation, policy manuals did exist but he redefined the concept of policies, indicating that they were never more important than values and that they were there simply as guidelines to be ignored when customer service was at stake. (Points = 3)

These values were made available to all staff members in the form of a booklet which was launched at an annual managers' conference and referred to often during live broadcasts on national television. (Points = 3)

The company has significantly moved away from a systems/policy- driven culture to a value-driven culture. A large degree of empowerment took place, with managers being given far greater discretion regarding issues such as staff, strategy and structures. (Points = 3).

Performance management (Total Points = 9)

Activities were controlled through a monthly financial results, specific ratios during review meetings by the operations director and regional managers and progress measured at the annual strategic planning session. The CEO often held one-on-one career and personal development discussions with those executives that reported directly to him. (Points = 3)

Performance was not only managed on the basis of financial results but also on the basis of an overall assessment of aspects, such as people development, growth in market share, customer relations and innovation. (Points = 3)

Performance was managed through a formalised performance appraisal system on an annual basis for most staff but on a 6- monthly basis for top executives.
(Points = 3)

Communication and co-ordination (Total Points = 9)

A formal network of meetings, project teams and committees was created to facilitate communication and co-ordination. A large degree of integration of activities was achieved in this way. This network structure entailed approximately seven inter-departmental meetings on an on going basis. (Points = 3)

The CEO met with every executive individually at least once a week, and followed an open door policy where people could see him on short notice. Many opportunities were created for the CEO to meet with staff other than his direct reportees and he often had meetings and discussions with any staff member who wished to see him. The top team often met on a semi-formal basis to discuss business without a clear agenda. This kind of informality enhanced communications. A culture of communicating horizontally and short-circuiting the chain of command was created rather than old-fashioned vertical communication.
(Points = 3)

Committees and project teams were created to co-ordinate efforts on specific issues and to formulate policy. Many inter-disciplinary teams and structures were created to cut across departmental barriers. (Points = 3)

Decision-making (Total Points = 7)

Decentralisation of decision-making power took place during the turnaround phase, yet the company structure was characterised by many "head office" departments and was not fully decentralised. (Points = 2)

Executives and managers were empowered and were given a larger degree of discretion in decisions regarding employment of staff, termination of services, salary adjustments and expenditure. This, however, did not go as far as giving, for instance, a branch manager total power to make these decisions. (Points = 2)

The power of head office departments in prescribing to operations was curtailed and they were transformed from head office functions to support services. They had to sell their services to the network of branches. Restrictive policies were reduced and values successfully introduced to guide the greater discretion of managers. (Points = 3)

Change and transformation (Total Points = 19)

Many opportunities were created to sell the new company to the staff. This involved the three rounds of visits that the CEO paid to the branches, annual conferences, gala awards and live broadcasts on national television. (Points = 3)

Very little market research was however done, and more could have been done to resource information from the external environment to identify the need for change and transformation. (Points = 1)

The company's new direction differed somewhat from the direction that they were following prior to the appointment of the new CEO, in that they were more focused. (Points = 2)

Structures, however, did not change materially. (Points = 1)

The products, product presentation and market focus of the company changed moderately. (Points = 2)

The composition of the team of executive directors did not change significantly, yet some changes were made to the executive team below them. (Points = 2)

The pricing structure changed markedly during the turnaround phase. (Points = 3)

Some new avenues for increasing revenue were explored and implemented. (Points = 2)

The policies and values of the organisation changed dramatically during the turnaround phase. (Points = 3)

TRANSREC

Mission and vision (Total Points = 8)

The mission and vision of the company were not clearly defined at the outset but emerged during all the different meetings and discussions on the company's problems, and were later formally defined. (Points = 3)

No formal process was followed to define the mission, yet, since it emerged through the various meetings that were held, a large group of managers was involved. (Points = 2)

The mission of the organisation was printed on posters that were displayed in offices and in corridors. (Points = 3)

Strategy and direction (Total Points = 8)

A formal annual strategic planning process was introduced during the turnaround phase, consisting of departmental team briefing sessions where direction was discussed and the result presented to a divisional level which, in turn, presented the results of its deliberation to the executive committee, where the company strategy was finalised. The board then made the final decision on the strategy and budget. (Points = 3)

This process involved not only the top executive team but also other managers at lower levels in the organisation. The top management team spent approximately two days annually on the development of their strategic plan. (Points = 3)

This process resulted in a published strategic plan but did not always contain detailed strategies and action plans for every operating unit. (Points = 2)

Environmental scanning (Total Points = 7)

No formal process (such as, for instance, market research) was used to gather information on the external environment. Information was, however, gathered from banks, economists and professors of political science. They also met with their competitors to ascertain their views on the country and its economy. Specific areas in which information was required were identified and specific individuals were charged with the responsibility of contacting certain individuals, customers, competitors and institutions in order to get this information. (Points = 3)

This process was, however, not very formal and mainly involved the CEO, the finance director and finance manager. (Points = 2)

This information was used for strategic planning but it was a vague link and had no direct influence. (Points = 2)

Organisational design (Total Points = 11)

Although no major addition or subtraction of functions took place, the organisation structure changed considerably during the turnaround phase. The company was split into a northern, southern, travel and surface handling division, each with its own finance, sales and operations departments. (Points = 3)

The headcount was reduced from 620 to 550 staff members which represents an 11% variance over four years. (Points = 2)

Major changes took place in the membership of the management team, with approximately 50 managers leaving the employ of the organisation and 20 new appointments being made. (Points = 3)

The nature of the structure changed from a centralised functional structure to a decentralised federal structure, supported by a network of task forces. (Points = 3)

Role definition (Total Points = 6)

The role and focus of top executives evolved and became clearly defined through the new structure. These were formalised in terms of job descriptions and job grading. (Points = 3)

The role definition and objectives for each executive flowed from the strategic planning process. (Points = 3)

Reward system (Total Points = 2)

Remuneration was based on a job grading system, and many increments were dictated by the Government. (Points = 1)

Packages were not very creative. (Points = 1)

Policies and values (Total Score = 8)

A set of seven values was introduced, called the " Seven C's", standing for amongst other things, customer, care, communication, etc. These values along with the mission of the company were printed on posters and displayed in offices. This was the result of a formal values programme that involved a large number of managers. Bulky policy manuals were reviewed. A specific person was employed to review all policies and in discussion with the divisional heads and managers one level down, they were changed and updated. Few were, however, scrapped, largely because the holding company prescribed them. (Points = 3)

The set of values was available to all staff and were properly documented. (Points = 3)

Although the company was moving towards being more value-driven, policies still prevented total empowerment and managers were still left with less discretion in decision-making than was desired. (Points = 2)

Performance management (Total Points = 6)

Activities were mainly controlled through the monthly financial results and a network of meetings, project teams and committees. Examples were a rates committee, project management committee, grading committee, workers' committee, forwarding committee, container terminal committee, and executive committee. (Points = 2)

Performance was managed over a wider base than simply financial, but this could still be improved. (Points = 2)

Performance appraisals did exist but could be expanded to make them more effective. Financial results were monitored on a monthly basis but an overall assessment of managerial performance over a broader base than simply operational results did not take place frequently. (Points = 2)

Communication and co-ordination (Total Points = 9)

A formal network of meetings, project teams and committees were introduced to facilitate communication and co-ordination. Approximately 7 such interdepartmental or interdisciplinary teams existed. (Points = 3)

The CEO met with each executive individually on a formal weekly basis, and followed an open door policy, with people being able to see him on short notice. Many opportunities were created where the CEO and other directors met on a formal basis with staff throughout the organisation. The top team often met on informal occasions to discuss the business. In this way, horizontal communication patterns rather than vertical communication patterns were created. (Points = 3)

Task forces and project teams were created to co-ordinate efforts on special issues and projects. These facilitated an inter-disciplinary culture, integrating key skills and resources to address company problems. (Points = 3)

Decision-making (Total Points = 6)

Through the restructuring of the organisation, decentralisation of decision-making power was achieved. (Points = 3)

Despite this decentralisation, due to a largely policy-driven culture, executives were not yet empowered and able to use their own discretion in making decisions on the employment of staff, terminating services, salary increases, expenditure, determining rates and granting credit. (Points = 1)

Head office departments were never given such power in policy formulation that it restricted the decision-making powers of operations, yet policies prescribed by the holding company were seen as restrictive. Through their policy reformulation exercise, restrictive policies were reduced and a set of values was introduced to help guide the greater discretion of managers; however, policies were still restrictive. (Points = 2)

Change and transformation (Total Points = 21)

Many opportunities were created to sell the new vision of the company to its staff. (Points = 3)

External information was resourced in order to identify the need for change and a new direction, but no formal processes, such as market research, were used. (Points = 2)

The new direction of the company deviated materially from the direction it was pursuing before a new management was appointed. (Points = 3)

Structures changed materially during the turnaround phase. (Points = 3)

Although products did not change dramatically during the turnaround phase, through the restructuring of the company into divisionalised profit centres, product presentation and market focus did change moderately. (Points = 2)

The composition of the management team changed dramatically during the turnaround phase. (Points = 3)

The pricing structure changed only marginally. (Points = 2)

Few new avenues for increasing revenue were explored and implemented. (Points = 1)

Although values changed materially during the turnaround phase, in the policy review exercise, policies only changed moderately. (Points = 2)

MERCHREC

Vision and mission (Total Points = 9)

Mission and vision statements were developed and documented for the Merchrec as a group, and for each of the operating companies. (Point = 3)

A formal process was followed in developing a mission statement, the vision and a set of values. One operating company succeeded well using a participative method, while the others' initial attempts were superficial. However, they managed to succeed the third time around. (Point = 3)

The mission and vision formulated in this way were properly documented and were therefore widely communicated and accepted. It appeared in induction brochures and other documentation. (Point = 3)

Strategy and direction (Total Points = 10)

Doing SWOT analysis, all five operating companies developed an annual strategic plan from the inside out and from the outside in, by business unit. Financial computer models were used to determine "what is" and the effect of different strategies on return on assets managed. These strategies were separately presented to the CEO, who then made his contributions. This was followed by a formal presentation by each company to the Group executive team, from where a group strategy was developed. These strategies were then presented to the Board.

Budgets were developed from these strategic plans and operating results were then monitored against these. (Point = 4)

This process involved the total top executive team of all operating companies. Three to four days per annum were allocated for the strategic planning, during which the executives would go out of town to meet away from the office. (Point = 3)

This strategic planning process resulted in a published strategic plan containing detailed strategies for each operating unit that was made available to all managers in the operating companies. (Point = 3)

Environmental scanning (Total Points = 9)

Great effort was spent in ensuring an adequate scanning of the external environment and the updating of managerial thought within the Group. This involved the "Megatrends SA 2000" project, SWOT analysis during the annual strategic planning process, constant overseas travel by executives to study the best concepts and ideas in the world and continuous presentations by outside directors, consultants and visiting speakers. For example, the political consultant, Dr van Zyl Slabbert, delivered a paper at least twice year on an on-going basis. (Points = 3)

The above were formal processes involving a large number of managers. (Points = 3).

This information was used to change the culture of the organisation, for product-market refocusing and strategic planning. (Points = 3)

Organisational design (Total Points = 12)

The organisation structure changed significantly during the turnaround phase, with the subtraction of Human Resources, Public Relations, Social Responsibility and

Public Relations, the sale of a manufacturing concern and the change of Finance and Property into profit centres. (Points = 3)

The headcount of the Merchrec Group had grown by about 2000 on 12 500 during the turnaround phase. (Points = 3)

Major changes took place in the composition of the top management team during the turnaround phase. Changes to this team are listed in Appendix A, and were quite substantial. (Points = 3)

In terms of the nature of the structure, there was a shift initially from dependence to independence and later a move towards interdependence. The structure shifted from a pure functional/hierarchical one to a decentralised federal structure, supplemented by concepts of a team structure. This team structure comprised the Board, the MD forum (consisting of the Group CEO and the CEOs of all operating companies), a group computer committee, project teams working on key problem issues of the clothing and textile industry, a committee working on group benefits, a project team working on optimising office accommodation, and a project team working on information technology. (Points = 3)

Role definition (Total Points = 6)

The CEO did not believe in job descriptions. The approach that he followed was the concept of a "covenant", whereby he detailed to his executives what their assets were, the expected outputs and the rules and values according to which they should operate. (Points = 3)

In studying the intervention strategies during this turnaround situation, it became very clear that the definition of roles of executives, its annual emphasis and the objectives set, flowed from the annual strategic planning process and the business philosophy and values that the CEO advocated. (Points = 3)

Reward system (Total Points = 5)
Remuneration was based on job grade, which is an accepted norm; however added to this were the performance bonus and share participation scheme which rewarded people not purely on seniority but also in terms of contribution. (Points = 2)

The remuneration policy was extremely creative, in that at senior levels it was based on the concept of a covenant whereby executives could state what they needed in order to meet the performance standards that were set. Included here were not only financial issues, but also personal needs. In addition to this, employees could start managing their own capital share of the pension fund. In this way the responsibility for the pension fund shifted from the company to the employees. Every employee could, at any point, draw his/her pension fund account, see how it had grown, decide to put in a greater contribution or draw off their pension fund account, for instance, to buy a house. A wide choice of medical aid options also existed. (Points = 3)

Policies and values (Total Points = 8)

All three operating divisions were required to develop a mission and vision statement but also a set of values according to which people could operate. The concept of the covenant with executives added to a values culture. The executive was asked what s/he needed to self-actualise. Initially the needs were of a very materialistic nature but in time they shifted to other matters. Policies had been reduced and trimmed to make way for a more value-driven culture. (Points = 3)

A set of values was formally documented and made available to all staff. This also formed the basis for negotiations with the trade unions. (Points = 3)

A "roadshow" was held, attended by the CEOs and directors, where the values were announced to all staff. Although much was done, the CEOs felt that the organisation was not yet truly value-driven. However, by trimming down and rationalising policies, the discretionary powers of managers were significantly increased with regard to matters such as staff, strategies and structures. (Points = 2)

Performance management (Total Points = 9)

Performance is managed and controlled through the monthly financial results and through a series of meetings on qualitative and quantitative issues. The CEO used a performance and development discussion through which he managed long-term performance. He believed that the performance of a senior executive is more than just the review of certain key objectives and to an extent compares with a covenant between himself and his executives. As regards the concept of a covenant, both parties review their relationship and both take responsibility for its maintenance. As far as possible, the responsibility for performance and performance improvement is moved to the employee who must decide what he or she is going to do about developing his or her performance. (Points = 3)

Performance is managed over a wide base, covering financial issues but also aspects such as people development, building structures and teams, and innovation. (Points = 3)

The performance and development discussions take place on a regular basis, definitely more than once a year for all top executives and could be considered as a performance management system. (Points = 3)

Communication and co-ordination (Total Points = 7)

A formal network of meetings and project teams were created, to facilitate communication and co-ordination. Between three and seven such meetings were instituted. (Points = 2)

These meetings, committees and projects were of an inter-disciplinary nature. Their purpose was to co-ordinate efforts on special issues and to formulate policy. Most of the meetings in the network structure involved members from various departments with a wide skills base. (Points = 3)

The CEO met formally once per month with every executive reporting to him. Many opportunities existed for the CEO to meet with staff other than his direct reportees. The CEO maintained that no sensitivities existed where management levels below his direct reportees came through to him to discuss a problem; if it had to be resolved at that level, people had to understand that it had to be done. The CEO often met with his CEOs and their teams. The top executive team of the group seldom met on an informal basis. This was due to geographical constraints in that the head offices of the various operating companies were located in different cities. Meetings were scheduled on an ad hoc basis. At the time of data collection vertical communication seems to be more powerful than horizontal communication. It must be remembered, however, that a group of companies was involved here and that horizontal communication between companies that operate in completely different fields is unlikely. (Points = 2)

Decision-making (Total Points = 9)

Decision-making power was sufficiently decentralised as evidenced by the following two examples. The first was where the CEO of one of the operating companies bought another company for R20 million, and having the requisite authority, did not have to consult or get the permission of the Group CEO. The second example was where one of the operating companies bought an information system for several million rand, also without the necessity for consultation with the Group CEO. (Points = 3)

Executives and managers were empowered and have a large degree of discretion in terms of key decisions, such as employment of staff, salary adjustments, expenditure and credit granting. (Points = 3)

As a result of the restructuring, Merchrec had moved away from the traditional concept of strong head office departments which prescribe to the operational divisions in terms of policy, to diverting the decision-making power back into the operating companies. Restrictive policies have been reduced and values have been introduced to help guide a greater discretion in managerial decision-making. (Points = 3)

Change and transformation (Total Points = 26)

Many opportunities were created and utilised to sell the new vision of the Group to the relevant staff members. (Points = 3)

Through the "Mega-trend 2000 Project" significant external information and processes were used to indentity the need for change and a new direction. (Points = 3)

The new direction of Merchrec deviated materially from where it used to be before the turnaround phase. (Points = 3)

During the turnaround phase the structures of the organisation changed significantly. (Points = 3)

During this phase the product-market focus of the various operating companies received much attention and they became more focused. (Points = 3)

The composition of the executive management team changed dramatically during the turnaround phase. (Points = 3)

The pricing structure of the various operating companies also changed significantly. (Points = 3)

During the turnaround phase some avenues for increasing revenue were explored and implemented. (Points = 2)

Policies and values have also changed with the respective value programmes receiving significant attention. (Points = 3)

FURNREC

Vision and mission (Total Points = 9)

The mission and vision of the company were clearly defined through the shared values programme. (Points = 3)

A formal process was followed to define the mission and the vision. Most managers were involved in the shared values programme and this programme was repeated a few years later. (Points = 3)

The mission of the organisation and its values appeared in numerous company documents and are emphasised very frequently. The mission and values were therefore accessible to all employees. (Points = 3)

Strategy and direction (Total Points = 9)

A formal, annual strategic planning process existed, comprising specific stages and resulting in the budget plan for the following year. This process entailed "future group" meetings every second month, a strategic meeting involving all directors for two to three days every six months and an annual executive conference with all middle managers. (Points = 3)

The CEO, his directors and all middle managers were involved in this process. A number of days were spent on the development of the strategy which included the "future group meetings" every second month, the two to three day-long top team meeting every six months, and the annual executive conference. (Points = 3)

The result of the strategic planning process was not only a published budget and plan for the next year, but also the creation of project teams to investigate and address key problem issues. These plans were available to all managers and were presented to them twice a year. (Points = 3)

Environmental scanning (Total Points = 10)

Specific processes and projects existed to scan environmental changes:

- ❑ annual tracking study to measure the company's progress against competitors.
- ❑ quarterly mystery shopper study.
- ❑ quarterly price-pointing study.
- ❑ monthly customer service level measurement.
- ❑ fortnightly competitive shop-outs.
- ❑ salary surveys.
- ❑ other ad hoc research. (Points = 4)

These were formal processes and not ad hoc events and thus they involved large numbers of managers. (Points = 3)

The environmental scanning did not only cover the external environment. There was considerable emphasis on the scanning of the internal environment through three SWOT analyses, one on competitors, one on staff and one on productivity. These were used to strategise and determine new objectives and plans. (Points = 3)

Organisational design (Total Points = 8)

Moderate structural changes were made during the recovery phase, except for creating two specialist positions, one for industrial relations and the other for sales promotions. For better control, a new layer of management, namely, general managers, was introduced. (Points = 2)

Some changes in headcount did take place, mainly in 1987/88. (Points = 2)

The composition of the top executive team changed drastically, largely as a result of promotions from within. (Points = 2)

The nature of the structure has moved from a traditional functional structure to incorporate elements of a decentralised federal structure. (Points = 2)

Role definition (Total Points = 6)

Top executive roles have been defined in the form of formal written job descriptions, with specific objectives and targets for every executive. (Points = 3)

The roles of top executives were refocused on an annual basis through specific objectives and targets to be achieved in the following financial year. These objectives and targets flow naturally from the strategic planning process. (Points = 3)

Reward systems (Total Points = 4)

Remuneration was based on a grading system, as well as performance in defined financial areas, and adjusted twice a year. (Points = 2)

Although remuneration was not of the flexible cafeteria-type, there were numerous bonuses, in addition to normal salary, pension and medical aid. (Points = 2)

Policies and Values (Total Points = 8)

A set of well defined values existed through the shared values programme. (Points = 3)

The values were available to all staff and appear frequently in company documentation. A specific shared values programme was undertaken. (Points = 3)

Although some empowerment exists where managers can use their own discretion in decision-making, policies were perhaps still too restrictive. In addition to the set of values, training manuals existed for every job, including policies according to which jobs are performed. These may, however, be a little too prescriptive. (Points = 2)

Performance management (Total Points = 8)

Activities were controlled through the monthly financial results, and review meetings on financial results and operations. A network of meetings, project teams and committees also existed through which activities were controlled, yet these were not as extensive as in other cases studied. (Points =2)

Performance was managed over a wide base, including financial results, values and service levels. (Points = 3)

A formal performance management system, in the form of performance appraisals and bonus systems existed. Performance was monitored on a monthly, quarterly, six- monthly and annual basis, depending on the issue to be measured. (Points = 3)

Communication and co-ordination (Total Points = 7)

A formal network of meetings existed through which information was communicated and activities co-ordinated. There were between three and five interdepartmental meetings, the balance being within departments. Monthly operations meetings took place through which key staff from all departments were integrated. In addition, there were "future group" meetings, focus groups, status meetings and various other project team meetings. (Points = 2)

Communication was still largely of an intra-departmental nature with not enough interdisciplinary integration. (Points = 2)

The CEO met on a formal monthly basis with each executive individually, and followed an open door policy with staff being able to see him at short notice. The CEO also met regularly with other staff members during store visits, and made contact with them by attending divisional meetings. (Points = 3)

Decision-making (Total Points = 4)

Although decentralisation of decision-making power had taken place during the recovery phase, the structure was still fairly centralised. (Points = 2)

Executives and managers have been empowered, but at the time of the study they did not yet have the authority to appoint their own staff, terminate the services of a subordinate, adjust their salaries or exceed budgeted expenditure, and so forth. (Points = 1)

Strong head office departments existed, which did to some extent prescribe to the operating divisions, therefore limiting their powers and latitude in decision-making. (Points = 1)

Change and transformation (Total Points = 18)

Some opportunities did exist for the mission and vision of the company to be sold to staff members, for example, the shared values programme, but more could possibly be done in this area. (Points = 2)

Market research projects were constantly undertaken to resource information to identify the need for change and new direction. (Points = 3)

Due to the fact that Furnrec was well positioned within it's market sector, the direction defined during the recovery phase, only deviated moderately from its previous position. (Points = 2)

Structures have not changed materially. (Points = 2)

Products, product presentation and market focus have changed very little. (Points = 1)

There were some changes to the composition of the management team but these where more a result of natural career progression than bringing management in from outside to achieve a change in philosophy and culture. (Points = 2)

The pricing structure of the company has changed to some extent. (Points = 2)

Not many new avenues for increasing revenue, other than the traditional business, were explored and implemented. (Points = 1)

The policies and values of the organisation have changed materially. (Points = 3)

FINREC

Vision and mission (Total Points = 8)

A formal vision and mission for the Finrec group did not exist. During an organisation development process some form of a mission statement was formulated. (Points = 2)

A formal process was followed in the form of a specific organisation and development programme which involved all the CEO of the various operating companies and the executives reporting directly to them. (Points = 3)

The mission formulated in this way was properly documented, widely communicated, was therefore accessible to all employees. (Points = 3)

Strategy and direction (Total Points = 9)

A formal annual strategic planning process was implemented in the form of a specific organisation development programme, which reiterated the necessity of strategic planning in the group. The strategic plan led to an operating plan which, in turn, formed the basis of annual budgets and programmes for practical implementation. (Points = 3)

This process involved the total top management team which included the Group CEO, the CEOs of the various operating companies and their directors.
Initially three days twice a year were spent on this process. (Points = 3)

The results of the strategic planning process were a published business plan and budget which were made available to all managers in the operating companies.
(Points = 3)

Environmental scanning (Total Points = 6)

Apart from creating a position for a Strategic Planning Manager, no specific processes were instituted to scan the external environment on an ongoing basis, such as market research, SWOT analysis or any other method. (Points = 2)

Whatever scanning of the external environment was done, was the sole responsibility of this Strategic Planning Manager and apart from him very few other executives were involved in the process. No formal processes were developed. (Points = 2)

Through the Strategic Planning Manager, this information found its way into the strategic planning process. (Points = 2)

Organisation design (Total points = 10)

During the turnaround phase significant structural changes took place in the form of the addition of two operating companies, a merchant bank and a building society and the implementation of the matrix-type structure. The purpose of the matrix structure was to attend to and co-ordinate key business issues, as well as to integrate the management team. (Point = 3)

Very little change in the headcount of the group took place during the crisis and recovery phases. (Points = 1)

During the turnaround phase, major changes took place in the composition of the top management team, in that six new executives were appointed. (Points = 3)

The nature of the structure changed from a functional hierarchical structure to one incorporating elements of a network and matrix structure. (Points = 3)

Role definition (Total Points = 6)

The roles of the top executive team were formally defined during the organisation development programme by the formulation of key result areas per individual. These key result areas were carefully designed to support the key result areas of the Group CEO, and also included specific objectives and targets to be achieved. (Points = 3)

These key result areas flowed logically from the strategic planning process and were determined in a participative manner, rather than by prescription by the Group CEO. (Points = 3)

Reward systems (Total Points = 5)

Remuneration was based on a job grading system which formed the basis of a remuneration policy. Added to this was a performance bonus system based on contribution. These performance bonuses were sufficiently significant to reward excellent contributions. (Points = 2)

Remuneration packages were creative, based on a cost-to-company figure and taking the form of a cafeteria system where the executive could have a choice in how his/her remuneration should be paid out. Share participation and profit-share schemes were also introduced. (Points = 3)

Policies and values (Total Points = 7)

No formal set of values was developed during the turnaround phase, yet credit must be given to the actions of the Group CEO in advocating his business philosophy to the various executives. (Points = 2)

The values of the Group CEO were communicated to most of the senior executives in the group on various occasions. They were, however, not specifically documented for this purpose, nor were they distributed, or incorporated into management development programmes or induction programmes. (Points = 2)

Despite the fact that very little action was instigated at group level to establish a value-driven culture, the CEOs of the various operating companies were largely empowered and were given great discretion on issues such as staff, strategy and structures. (Points = 3)

Performance management (Total Points = 9)

The activities of the group were controlled through the monthly meeting of the group executive committee, consisting of all the CEOs of the operating companies, where the financial results for the previous month were discussed. Quarterly sessions were also introduced, involving a wider base of executives from the various operating companies. The organisational development process that was followed defined the key result areas to be monitored and measured; the performance bonus system was linked to these. Individual discussions were conducted with each member of the executive team on his/her performance. (Points = 3)

The performance of executives was managed not only on the basis of financial results, but in accordance with a range of 10 to 12 key result areas, incorporating issues such as people development, marketing, client relations and others. (Points = 3)

The management of performance was achieved through a specific, formal process and this was linked to the remuneration system. Performance was managed on a frequent basis, with formal performance evaluations twice annually for all top executives. (Points = 3)

Communication and co-ordination (Total Points = 8)

As discussed earlier, a formal network of meetings and committees was created to facilitate communication and co-ordination on key business issues. This involved six interdisciplinary committees to develop policy and strategy. (Points = 3)

The nature of the network structure created interdepartmental integration through inter-company committees. (Points = 3)

The CEOs of the various operating companies met individually with the Group CEO on a formal, monthly basis. Not many opportunities were, however, created for the Group CEO to meet formally with the staff of the various operating companies. The top executive team of the group also met to discuss business and various other issues at an informal a weekly luncheon, which reverted to being a fortnightly event once communications had improved. (Points = 2)

Decision-making (Total Points = 9)

Through the organisational development programme, specific areas of accountability for decision-making were defined. This facilitated the decentralisation of decision-making power. (Points = 3)

The CEOs of the various operating companies were empowered and were given a large degree of discretion in the various areas of decision-making responsibility. Their levels of authority in decision-making did not evolve in a haphazard fashion but were the result of a controlled, deliberate process. (Points = 3)

No large head office, with departments which would prescribe to the operating divisions, was created. The committees which were formed had no decision-making powers in that they could not prescribe to the operating companies how to run their business. They could only recommend policy. (Points = 3)

Change and transformation (Total Points = 21)

Many opportunities were created and utilised to sell the new vision of the group, as well as the business and management philosophies to the total management team. (Points = 3)

Very little market research and other external information or processes were utilised to identify the need for change and a new direction. (Points = 1)

The new direction of the Finrec group and the new "non-speculative" business policy and approach deviated materially from the way the Finrec had been run before. (Points = 3)

The structure of the group and the composition of the top management team changed materially during the turnaround phase. (Points = 3)

Very little change in product-market focus or product presentation took place during the turnaround phase. (Points = 1)

The composition of the top management team changed dramatically during the turnaround phase. (Points = 3)

Changes in pricing structure were mainly limited to the operating companies to be in line with the level of service and risk. (Points = 2)

During the turnaround phase very few new avenues for increasing revenue were explored or implemented. The only significant initiative was the acquisition of a building society as an entrance to the home loan market. (Points = 3)

During the turnaround phase the policies of the business changed to some extent. (Points = 2)

SUGREC

Vision and Mission (Total points = 7)

A clear mission statement existed. (Points = 3)

It was developed through a formal organisational development process, involving mainly the top executive team. (Points = 2)

Although the mission statement is accessible to all employees, it does not appear in induction brochures or newsletters. (Points = 2)

Strategy and direction (Total points = 9)

A comprehensive strategic planning process was introduced by the new CEO. This comprised a 2-day preparation, followed by a 3-day session away from the office each year. On completion of the strategic plan, it was presented to the group. (Points = 3)

The CEO, general managers and all assistant general managers were involved in this process. (Points = 3)

The corporate strategic plan was then translated into divisional short-term long-term objectives and budgets. (Points = 3)

Environmental scanning (Total points - 9)

Consultants were appointed to report on an annual basis on the sugar market, new developing trends and market shifts. A SWOT analysis was performed for each of their six products. (Points = 3)

This was a formal process, which took place annually and preceded the strategic planning session. The CEO, general managers and assistant general managers were all involved. (Points = 3)

The information gained on the external environment was used during the following strategic planning sessions. (Points = 3)

Organisational Design (Total points = 9)

Moderate change in structure took place, by the addition of a commercial department, the transformation of the transport department into a profit centre and the expansion of the human resources and information systems functions. (Points = 2)

Very little change in headcount took place and no major headcount reduction exercise was undertaken. (Points = 1)

Major changes did, however, take place in the composition of the top executive team with the appointment of three new executives from outside the company and the promotion of two from within. (Points = 3)

The structure moved significantly from a functional hierarchical structure to incorporate strong elements of federal decentralisation and of a network or cluster organisation. (Points = 3)

Role definition (Total Points = 6)

Each member of the executive team had a job description and a specific set of objectives to achieve for the financial year. (Points = 3)

The role definition and objectives flowed naturally from the strategic planning process. (Points = 3)

Reward system (Total Points = 6)

Remuneration was based on a wide range of criteria, namely, the grading system, salary surveys, financial performance, productivity, safety, achievement of non-financial objectives and adherence to the value system of the organisation. (Points = 3)

In addition to salary, a company car and other fringe benefits, a share participation scheme and a profit share scheme were introduced for the top two levels of executives. (Points = 3)

Policies and Values (Total points =8)

A specific values programme was undertaken to establish a set of values for the company. The programme involved a large proportion of the management team. (Points = 3)

These values were made available to all staff, through their inclusion in company documentation and their incorporation in training programmes. (Points = 3)

The CEO maintained that values have become more important than policies, but there was still evidence of general managers being restricted by policies in the making of key operational decisions. (Points = 2)

Performance management (Total points = 9)

Performance in Sugrec was managed across a wide base, going far beyond financial results to include people development, client relations, productivity and the achievement of specific strategic objectives. (Points = 3)

Activities in the company were controlled through the monthly financial results, but also through a network of meetings, project teams and committees. The CEO also had frequent one on one discussions with each of his executives, on their performance. (Points = 3)

A performance appraisal system existed and all employees in the company were appraised formally, at least once per year. (Points = 3)

Communication and co-ordination (Total points = 8)

A formal network of meetings, committees and task forces were created in all departments. There were at least 10 such interdisciplinary teams to co-ordinate on strategic issues. (Points = 3)

By its nature, the network aimed at achieving interdepartmental integration, in that the majority of these meetings involved participants from various departments and skills bases. (Points = 3)

The CEO met with every member of his team individually on a fortnightly basis and also met regularly with his team on an informal basis, but did not have an open-door policy for other members of staff to see him in his office. (Points = 2)

Decision-making (Total Points = 7)

Some of the structural changes indicated a decentralisation of decision-making power, moving away from central, singular power (vested in one individual, usually a head of department) to team accountability. (Points = 3)

Managers had not been empowered to take decisions regarding employing staff, salary adjustments and credit-granting. (Points = 1)

Head office departments were been transformed from controlling, policy-making entities to pure support functions. Final decision-making power was vested in the executives in charge of the various operations. (Points = 3)

Change and transformation (Total points = 20)

Opportunities were created to sell the vision of the company to the staff but these were not comparable with the efforts of companies in some other cases studied. (Points = 2)

No market research was done, though consultants were used on a regular basis to supply such external information as was necessary to transform the company. (Points = 2)

The new direction of the company deviated materially from its previous position. (Points = 3)

Structures changed to some extent as detailed under "organisational design". (Points = 2)

Product groups have not changed but the focus between these and the emphasis put on some, have. (Points = 2)

The composition of the management team has changed materially. (Points = 3)

The pricing structure has not changed, due to the fact that this is a regulated industry where central bodies in the industry determine price structure changes. (Points = 1)

Some expansion of sugar farms and mills took place to expand the revenue base. (Points = 2)

Values and policies have changed materially. (Points = 3)

FREIGHTREC

Vision and Mission (Total Points = 9)

The mission of the group was clearly defined. (Points = 3)

This was done through a formal organisational development programme which involved a large number of managers over and above the CEO and directors. (Points = 3)

The mission statement appeared in all strategic plans, sales documentation and other company literature. (Points = 3)

Strategy and direction (Total points = 9)

A formal annual strategic planning process was followed, comprising various stages and leading to a final budget. Three to four days away from the office were spent on this annually. This was a bottom-up process, where various operating units prepared plans and budgets within broad parameters. These were then presented centrally and, on acceptance, a presentation was made to the group for final approval. (Points = 3)

This process involved the CEO, directors and the next two levels of management. (Points = 3)

The strategic plan was then broken down further into divisional and departmental plans. (Points = 3)

Environmental scanning (Total points = 9)

On an annual basis, during the strategic planning process, the management pooled their information and experiences about the market. In addition to this, two major market research surveys were undertaken by external consultants, on the freight and transportation market and customer perceptions. (Points = 3)

This was a formal process, rather than an ad hoc event. (Points = 3)

This information was used to re-strategise for the next financial year. It was also used to develop new products and scale down products and services indicated to be in decline. (Points = 3)

Organisational design (Total Points = 12)

Major changes to the structure took place, as detailed in Appendix A on intervention strategies. (Points = 3)

Headcount was reduced from 3 500 to 2 900 employees. (Points = 3)

Six of the seven top executives positions changed. Two positions were refocused, with the same incumbents, one remained unchanged and all the others were new appointments. (Points = 3)

The structure was changed, moving away from a purely functional/hierarchical structure to incorporating strong elements of a network or cluster organisation. (Points = 3)

Role definition (Total Points = 6)

Top executive team members had specific job descriptions and specific mandates and objectives to achieve. (Points = 3)

These flowed from a very elaborate and comprehensive strategic planning process, adjusted annually to cater for changes in the environment and new challenges. (Points = 3)

Reward systems (Total Points = 4)

Remuneration was based on a job-grading system and salary surveys, as well as profit growth year-on-year. (Points = 2)

In addition to basic salary, normal fringe benefits, a company car and a thirteenth cheque, the executives also shared in profits up to 33% of gross annual salary. (Points = 2)

Policies and values (Total points = 8)

A values programme was undertaken, involving a large proportion of the managers in the company. (Points = 3)

A video on these values was created and shown to all existing staff and incorporated into an induction programme for new employees. The values were also printed onto large posters which were displayed in passages and boardrooms. (Points = 3)

This organisation was moving its culture away from a policy driven culture to a more empowered culture; yet, despite this, policies still restrict operational decision-making. (Points = 2)

Performance management (Total points = 7)

Performance management was initially based, largely on financial issues, but the focus had now changed to include aspects such as management development, customer relations, market share gain and other non-financial issues. (Points = 3)

Performance was controlled through the financial results, and a network of committees and task forces on strategic issues. One on one discussions with executives took place but had not been formalised into an appraisal system. (Points = 2)

Performance appraisals were introduced but at the top end not frequently implemented. (Points = 2)

Communications and co-ordination (Total Points = 9)

An extensive network structure of meetings and committees was created with approximately 16 interdepartmental and inter-disciplinary task forces and committees, involving not only staff members from other departments or divisions or regions, but also outside consultants. (Points = 3)

The aim of the network structure was very distinctly to create integration and interdisciplinary focus on key corporate problems and strategic issues. (Points = 3)

The CEO met very regularly with his executives on an individual basis and undertook visits to the various operations virtually on a monthly basis. (Points = 3)

Decision-making (Total Points = 9)

Even before the turnaround phase, Freightrec was very decentralised. The new CEO, however, extended this in decentralising the manpower, marketing and sales functions into the regions. All that remained now at the centre was corporate finance. The balance of the finance department had been decentralised on a previous occasion. (Points = 3)

Executives in the regions had total discretion in the appointment of staff, salary adjustments, credit terms and so forth. (Points = 3)

Due to the decentralisation of central functions, no "head office" departments existed to prescribe to or limit decision-making in the operating divisions. (Points=3)

Change and transformation (Total Points = 24)

The CEO visited each region at least four times in the first year, to sell the new vision. (Points = 3)

Organisational development processes were used to develop the awareness for the need to change. (Points = 3)

The new direction of the business deviated materially from the previous one in that the company had become more focused. (Points = 3)

Structures had changed materially. (Points = 3)

Products, product presentation and product-market focus changed to some extent. (Points = 2)

The composition of the management team changed as detailed in Appendix A in discussing Freightrec's intervention strategies. (Points = 3)

Pricing policy was clarified rather than changed. (Points = 2)

Many new avenues for increasing revenue were explored. (Points = 3)

Values were established and some policies changed. (Points 2)

ENGLO

Vision and Mission (Total Points = 3)

No mission statement existed during the period of review. (Points = 1)

No process was followed to develop a mission statement. (Points = 1)

There was no evidence in company documentation, or on notice boards to support the existence of a mission statement. (Points = 1)

Strategy and direction (Total Points = 7)

A strategic planning process, prescribed by the American holding company, was followed. This started with a five-year rough operations plan, submitted to the holding company. When approved, this was amended and translated into a formal business plan, including issues such as product and volume per customer, with required resources specified. (Points = 3)

This process mainly involved the CEO and his first line executive team. Other levels of management were involved only at a later stage and this was all done in and amongst other duties. No specific period of time was put aside for a planning session. (Points = 2)

These plans were translated into detailed departmental plans and objectives. (Points = 2)

Environmental scanning (Total Points = 3)

Apart from an analysis of future customer demand and the strengths and weaknesses of competitors, which was done once, no other external information was resourced. (Points = 1)

Environmental scanning was not entrenched as a process or a habit. (Points = 1)

Ad hoc information was used in strategic planning but there was no proof of its validity or objectivity. (Points = 1)

Organisation design (Total Points = 7)

Hardly any changes took place. There were eight functional departments which had been reduced to seven. (Points = 1)

Headcount was reduced from approximately 440 to 340 employees over a few years. (Points = 2)

Five of the eight members of the top executive team were changed. (Points = 3)

The nature of the structure was very much one of a functional hierarchy. (Points = 1)

Role definition (Total Points = 6)

Each member of the top executive team had a job description and a set of objectives to achieve on an annual basis. (points = 3)

These objectives flowed from the strategic planning process. (Points =3)

Reward systems (Total Points = 4)

Remuneration was based on a job-grading system and salary surveys. (Points = 1)

Remuneration consisted of a cafeteria system whereby the executives had a choice of many options within a "cost to company" amount. Executives could, for example, choose to take a smaller proportion in terms of a company car, and invest more in the pension scheme along with many other options, based on personal needs. (Points = 3)

Policies and values (Total Points = 3).

Englo brought in more policies and procedures to regulate behaviour. These policies were largely developed and layed down by the new CEO. No recognised value system existed. (Points = 1)

No value system was communicated or made available to staff. (Points = 1)

The opposite of an empowered culture, driven by values, was created through the implementation of strict policies to create, according to the CEO, "order" in the company. (Points = 1)

Performance management (Total Points = 6)

Financial issues, such as costs, profits and margins, dominated the performance management issues. Operational objectives were also covered, but not issues such as people, productivity, industrial relations, etc. (Points = 2)

Performance was mostly controlled through the monthly financial results, through a fortnightly meeting on this and the achievement of objectives. No other mechanisms existed and no formal developmental or career discussions were held. (Points = 1)

A performance appraisal system did exist, administered annually for every manager. (Point = 3)

Communication and co-ordination (Total Points = 4)

Apart from the weekly executive committee meeting, few other such meetings existed, save for the safety committee and the new projects committee. (Points = 1)

The nature of meetings was still intra-departmental rather than integrative. (Points = 1)

The CEO met at least once a week, with each executive and his team individually and walked through the factory at least once a day. He did receive other staff members in his office on a regular basis but little informal contact existed between himself and his total staff compliment. (Points = 2)

Decision-making (Total Points = 3)

Englo was characterised by a very centralised, hierarchical structure, with little decentralised authority. (Points = 1)

Executives and managers had no discretion in the appointment of staff, salary adjustments, credit-granting and other financially related decisions. (Points = 1)

"Head office" departments held all the decision-making power, and operations had to obtain their "permission" in most decisions. (Points = 1)

Change and transformation (Total Points = 18)

No evidence existed of selling the vision of the company to the staff. (Points = 1)

Some external information from clients was gathered on an annual basis, on which budgets and forecasts were based. (Points = 2)

The company moved toward vertical integration and focused on one segment of the market. Its direction deviated materially from its old position. (Points = 3)

Structures did not change much. (Points = 2)

Product, product presentation and product-market focus changed to some extent. (Points = 2)

The composition of the management team changed moderately. (Points = 2)

Pricing structures changed materially. (Points = 3)

Some possibilities for new revenues were explored but not successfully. (Points = 1)

Policies and values changed to some extent. (Points = 2).

CHEMLO

Vision and Mission (Total Points = 4)

The CEO stated that he did not believe in mission statements. Chemlo had a general vision and direction but it was not formally defined or published. (Points = 2)

No process was followed to develop this vision but it was forged in deliberations between the CEO and chairman, with one or two other executives involved from time to time. (Points = 1)

It did not exist in writing. (points = 1)

Strategy and direction (Total Points = 7)

Some time was spent informally on defining a long-term vision. However, the only evidence of a strategic plan was the budget. Department heads had to draw up their budgets within an overall, specified framework. (Points = 2)

The process involved the CEO and directors, with the next line of managers making budget presentations and setting objectives. This, however, did not include total strategy. (Point = 2)

Departmental and divisional managers developed detailed production, sales and cost budgets. (Points = 3)

Environmental scanning (Total Points = 3)

The ad hoc experiences of the management team served the purpose of scanning the environment. No objective, valid external information was gathered through other means. (Points = 1)

No process existed. (Points = 1)

These ad hoc experiences and information were used, but due to there being no scanning process or strategic planning process, their utilisation was questioned. (Points = 1).

Organisational design (Total Points = 9)

The structure changed from essentially an operating structure to a group structure, with the creation of new positions and the recruiting of new talent from outside the organisation. (Points = 2).

Headcount reduction of 20-25% took place over a 4-year period. (Points = 3)

Four new appointments from outside were made to the top executive team of 11 executives. Another few internal promotions were also made. (Points = 2)

The structure changed from a purely functional structure to incorporate elements of federal decentralisation; however it had not yet succeeded completely in achieving a total transformation to a federal decentralised structure. (Points = 2)

Role definition (Total Points = 3)

No job descriptions existed for any manager in this organisation. They only operated according to a set of objectives with no clear indication of key result areas. (Points = 2)

Due to the fact that hardly any strategic planning processes existed, these objectives were ad hoc and to some extent prescribed by the CEO. (Points = 1)

Reward systems (Total Points = 4)

Neither a grading system nor salary surveys were used. Impressions were gathered from applicants for positions and recruitment agencies. (Points = 1)

A flexible remuneration system was developed with a cafeteria shopping list of benefits. A share participation scheme and profit-sharing, resulting in a 15th salary cheque, had been introduced. (Points = 3)

Values and policies (Total Points = 4)

No formal set of values existed. No documentation could be provided. The CEO maintained that the company put its values across in a subtle way without referring to a set of values. (Points = 1)

No values were formally made available to staff. (points = 1)

Although no set of values existed, Chemlo, due to its decentralised nature, allowed some measure of discretion and empowerment. (Points = 2)

Performance management (Total Points = 4)

Performance management was largely based on financial and production issues. There was no emphasis on people development, customer relations, marketing, team building and so forth. (Points = 1)

The financial results served as the basis for measuring performance. Little else existed over and above this. (Point = 1)

In some departments performance appraisal systems existed, but the CEO did not require executives to implement these. (Points = 2)

Communication and co-ordination (Total Points = 3)

A network of seven meetings existed; however, only two of these were inter-departmental and inter-disciplinary. (Points = 1)

The nature of the meeting structure perpetuated a segmented, hierarchical culture rather than an integrative, horizontal culture. (points = 1)

The CEO met with all his executives on a one-on-one basis but few other opportunities were created for internal contact, or contact with staff lower down the structure. (Points = 1)

Decision-making (Total Points = 6)

Some decentralisation had taken place, but central control and prescription were still evident in the form of powerful central departments and corporate policies. (Points = 2)

Executives and managers had some, but not yet total discretion in decisions with financial implications, such as appointment of staff, salary adjustments, credit terms, leases and rentals. (Points = 2)

Central departments did exist and they did prescribe to operations but a conscious effort had been made to reduce this. (Points = 2)

Change and transformation (Total Points = 17)

Some opportunities were created to sell the vision but not in line with other cases studied. (Points = 1)

No market research was done and no other external sources of information used to motivate transformation and change. (Points = 1)

The current direction of the company differed from the old in that some new markets had been penetrated. (Points = 2)

Structures had changed to some extent in that new business units were created to enter new markets. (Points = 2)

Market focus, products and product presentation changed to some extent. (Points = 2)

The composition of the management team changed to some extent. (Points = 2)

The pricing structure had changed materially. (Points = 3)

Many new avenues for increasing revenue were explored, and diversification into other markets where the same basic chemicals could be used was successfully achieved. (Points = 3)

Policies and particularly values have not changed at all. (Points = 1)

MERCHLO

Vision and mission (Total points = 5)

The mission of Merchlo was clearly defined by the CEO. (Points = 3)

No formal process was, however, followed. The mission was mainly developed by the CEO with ad hoc input from some other executives. (Points = 1)

The vision and mission of the company did not appear in company documentation and literature, could not be accessed by employees and were not widely communicated. They were, however, contained in the budget presentation to the holding company. (Points =1)

Strategy and direction (Total Points = 5)

In February of every year the directors spent three days in developing an operations strategy. However, this only involved operations planning and did not result in an overall corporate strategic plan. (Points = 2)

This process only involved the top management team and not a cross-section of all levels of management. The top management team spent three to four days per year away from the office in conference. (Points = 2)

The result of this operations planning session was a published plan containing action plans, responsibilities and deadlines. The operations plan was, however, only available to directors. (Points = 1)

Environmental scanning (Total Points = 6)

During the annual three-day operations planning session, scanning of the environment took place through presentations made to the directors by an economist, political observers and suppliers. A competitor analysis was also done, and the results of numerous market research projects were considered. (Points = 3)

Apart from the market research, a semi-formal process was followed but not all managers were involved. (Points = 1)

The information was used during the operations planning session but not quite incorporated into a corporate strategic plan. (Points = 2)

Organisational design (Total Points = 4)

Despite the changes mentioned in Appendix A, the organisational structure had remained fairly stable over the period of review. There were no major additions or subtractions of functions, or changes to a different organisation design. (Points = 1)

The number of employees as reflected by the headcount year-on-year reflected no drastic changes, except through natural, organic growth. (Points = 1)

The composition of the top management team had not changed radically, and most of the current executives had been with the organisation for many years. (Points= 1)

The company was characterised by a traditional functional or hierarchical structure, and did not avail itself of other design options. (Points = 1)

Role definition (Total Points = 5)

At lower levels in the organisation, job descriptions did exist, but the role definitions of executives had not been documented. (Points = 2)

From the operational planning session a "game" plan was documented, incorporating the new nuances in the market. From this, specific objectives were derived for every operational and support unit. This "game" plan was submitted to the group board and when they had approved it the executives began to implement. (Points = 3)

Reward system (Total Points = 3)

For about 600 staff members,, from a total staff compliment of 1 885, remuneration varied on a monthly basis, based on substantial commissions and bonuses earned. (All sales staff were on a commission basis, whilst general managers, buyers, merchandising managers and departmental managers received bonuses based on the bottom line of every store according to a set formula). For salaried staff remuneration was based on a job-grading system, and for lower levels it was negotiated with the union. For these job categories, remuneration was largely based on contribution. (Points = 2)

Apart from the creative commission and bonus system all other employees were remunerated on a very traditional basis of salary and a thirteenth cheque, whilst for senior executives no specific remuneration system existed. (Points = 1)

Policies and values (Total Points = 4)

A set of six values existed and was contained in an "oath" book the size of a briefcase, which was signed in 1991 by all employees and subsequently by every new member of staff during an induction training programme. These values were not developed through a specific process and only involved the CEO and the human resources director. (Points = 2)

These values, however, did not frequently appear in company literature and were not often referred to during meetings and presentations. They were not available to all employees on a continuous basis, and were only discussed during the induction programme . (Points = 1)

The company was not yet value-driven but rather rule-driven as managers at operating level had very little discretionary power in decision-making and largely acted within set policies and procedures. Policies were updated on a regular basis, but were quite prescriptive, leaving little discretion for decision-making. (Points= 1)

Performance management (Total Points = 3)

Performance was mostly managed through the monthly financial results, excluding a more comprehensive assessment of managerial performance on the basis of such issues as people development, building structures and teams, client relations and innovation. The performance management system therefore consisted mainly of the financial pack (budgets, profit and loss accounts) with some informal discussions with store managers on their point of sale analysis by head office executives during monthly visits. (Points = 1)

Activities were controlled only through a monthly financial results, and point of sale analysis. Regional managers met with every store manager on a monthly basis to review their profit and loss, and point of sale accounts. No network of meetings, project teams and committees existed through which initiatives beyond finances were controlled. (Points = 1)

No formal performance appraisal system existed. (Points = 1)

Communication and co-ordination (Total Points = 5)

Three totally integrated meetings involving managers from various departments existed, namely, the executive committee, the weekly operations meeting and the monthly information systems meeting. The executive committee, however, did not meet that regularly. Other internal meetings were a weekly human resources meeting, a merchandising meeting and a weekly marketing meeting. (Points = 2)

Beyond meetings concerned with day to day operational issues very few project teams, task forces, or committees existed through which resources were co-ordinated, in order to deal with innovation and progressive issues. (Points = 1)

The CEO did not meet with every executive individually on a formal basis. He did however follow an open-door policy, where his managers could see him at short notice, and he often cut through authority chains to communicate directly with staff. Opportunities did exist for the CEO to meet with staff in the stores. During regular store visits, he came into contact with most staff in the stores. He also regularly received them formally in his office. Based on the fact that only three integrative meetings existed, and the functional nature of the structure, communication occurred mostly on a vertical basis rather than a horizontally integrated basis. The top team met informally on a weekly basis to talk about the various issues at hand and to discuss problems. (Points = 2)

Decision-making (Total Points = 3)

Some measure of decentralisation of decision-making power took place when four key functions were decentralised under the two regional managers, but these were subsequently centralised again. The CEO mentioned that further decentralisation could still take place. (Points = 1)

Executives and managers, but particularly store managers, were not really empowered and had a very small degree of discretion in, for example, employment decisions, salary adjustments, expenditure, etc. (Points = 1)

Functional head office departments had specific policy-making mandates, within which the operating divisions have to perform. Head office departments were therefore prescriptive rather than consultative and supportive. Restrictive policies had not been reduced, or replaced by value-driven decision making. A significant amount of empowerment could still occur. (Points = 1)

Change and transformation (Total Points = 11)

Not many opportunities were utilised or had been created for the CEO or other directors to sell a newly created vision to all staff. (Points = 1)

In order to identify a need for change and redirection, market research programmes were used, resourcing information on trends and nuances in the external environment. (Points = 3)

The new direction and strategic plan of the company did not deviate from its previous position. Only incremental changes were made. (Points = 1)

Few structural changes had taken place during the review period. (Points = 1)

Very little change in products, product presentation or market focus had taken place during the review period. (Points = 1)

The composition of the top management team had not changed at all during the review period, except for one person. (Points = 1)

The pricing structure had not changed during the review period. (Points = 1)

Very few new avenues for increasing revenue were explored and implemented. (Points = 1)

Very little change in policies and values had taken place. (Points = 1)

FURNLO

Vision and mission (Total Points = 6)

A vision and mission statement existed in writing, and were contained in documentation supplied to directors as well as in the Annual Report. (Points = 3)

A formal process was followed in developing a mission statement, during an annual three-day conference. However, this process only involved the directors of the organisation and not a larger group of managers. (Points = 2)

The mission statement of the organisation was not published officially and not made available to the branch network. (Points = 1)

Strategy and direction (Total Points = 6)

During the review period, an annual three-day management conference was held away from the office. During this conference, on the basis of market research, new priorities were set and past successes and problems were reviewed. This led to specific actions being planned for the next year. (Points = 3)

This process involved only the managing director, directors and alternate directors. The next executive level in the organisation was not involved. (Points = 2)

The results of this strategic planning process were not made available to all executives and managers, but only to directors and a few other selected executives. (Points = 1)

Environmental scanning (Total Points = 5)

In terms of specific processes through which the external environmental factors could be scanned, specific market research was undertaken for a few years, then stopped and only resumed five years later. Internally, market statistics were accumulated by branch managers and the merchandising department. This, was however, only done on an ad hoc basis and never developed into a continuous process, except for pricing and catalogue information which was collected monthly. Information gathered on an ad hoc basis consisted mainly of foot counts per store, opposition activities per store, and comparisons of catalogues and prices. Foot count simply involved counting the number of people (feet) that entered the store over a given time span. (Points = 2)

However, formal processes were not followed, involving large numbers of managers. (Points = 1)

The information from the environment was used but the nature thereof was often operational rather than strategic. (Points = 2)

Organisational design (Total Points = 4)

Very little change took place in the way the organisation was structured during the review period. The only change was the addition of the position of Information Systems Manager reporting directly to the CEO. (Points = 1)

The headcount of Merchlo remained fairly static during the review period. (Points = 1)

Very little change took place in the composition of the top management team with the addition of only one new position, namely that of Information Systems Manager. (Points = 1)

In terms of the nature of the structure it can be classified as distinctly functional or hierarchical, with no signs of any utilisation of newer, more modern, structural alternatives. (Points = 1).

Role definition (Total Points = 4)

Job descriptions existed for all managers, but the content of these jobs did not really change during the review period. (Points = 2)

Annual objectives were formulated as a natural result of the strategic planning process and were developed collectively by the management team as opposed to being prescribed by the CEO. However, due to the fact that only directors were involved, the impact was isolated. (Points = 2).

Reward systems (Total Points = 4)

Remuneration was based on a job-grading system, salary surveys and contribution. (Points = 2)

Remuneration consisted mainly of salary, the normal fringe benefits such as medical aid, a pension fund, a car (no housing loans) and a performance bonus system based on return on gross assets. Branch managers were paid bonuses based on nett profit at branch level on a quarterly basis and regional managers on an annual basis. Up to 40% of annual salary could be received as a bonus. (Points = 2)

Policies and values (Total Points = 3)

A set of values was compiled during one of the management conferences but was not expanded on or distributed throughout the organisation. No specific values programme was undertaken. (Points = 1)

The values were not marketed throughout the organisation and little emphasis was placed on getting people to operate according to these values. (Points = 1)

The company could not be described as value driven and very little empowerment took place or discretion given to managers in terms of decision making power. (Points = 1)

Performance management (Total Points = 4)

Performance was managed over a very narrow base excluding a more comprehensive assessment of aspects such as people development, policy and strategy development, building structures and teams, client relations and innovation. (Points = 1)

Activities within the organisation were controlled through:

- ❑ a twice weekly flash report covering all aspects of sales.
- ❑ stock levels, financial charges, and debtors.
- ❑ monthly profit and loss accounts.
- ❑ monthly report on credit statistics.
- ❑ monthly report on merchandising statistics.
- ❑ reports on transport and human resources.
- ❑ internal audits.
- ❑ loss control reports.

The above indicate that, in the main, financial performance and adherence to systems were managed through reports, with very little indication of performance management taking place through a network of meetings, project teams, committees and other strategic processes. (Points = 2)

No evidence was found of a formal performance appraisal system with feedback on performance. (Points = 1)

Communication and co-ordination (Total Points = 4)

In terms of a formal network of meetings, committees and project teams to facilitate communication and co-ordination, the following existed:

- quarterly board meetings.
- monthly management meetings attended by all directors and alternate directors.
- a one-on-one meeting with the CEO after each field meeting.
- quarterly branch review meetings involving only some of the directors.
- an annual awards day when the Managing Director came into direct contact with regional managers and branch staff.

Only the monthly management meeting was, however, inter-departmental. (Points = 1)

Communication structures in the organisation were characterised as distinctly vertical rather than horizontal. No committees, project teams or meetings were created in order to co-ordinate efforts on special issues or to formulate policy. (Points = 1)

Despite the fact that contact between the CEO and his executives was regular, it always took place on an ad hoc basis and was never formally instituted. Opportunities did exist where the CEO met formally with staff other than his direct reportees. This took place during the annual awards day and roadshows where he and his directors went around visiting all the branches. He often received staff members other than his direct reportees in his office on a formal basis. The top executive team often met on informal occasions to discuss business, for example, on Fridays after work for a beer and for daily boardroom lunches. (Points = 2)

Decision-making (Total Points = 3)

The decision-making process in the organisation was very centralised and little decentralisation existed. (Points = 1)

Executives and managers had not been empowered and they had very little discretion or decision-making power. For instance, branch managers could not decide on the size of their headcount, fill vacancies, determine salary levels, award increases, approve credit, institute legal proceedings, decide on range of merchandise, or decide on price of merchandise. Even directors had to clear virtually all decisions with the CEO. (Points = 1)

Head office departments had an unhealthy degree of power in terms of prescribing to the operational network of branches how they should run their business. This was also an indication of the degree of centralised decision-making which took place. Restrictive policies had not been reduced, instead they have been increased and a system of values had not been introduced to help guide the greater discretion of managers. (Points = 1)

Change and transformation (Total Points = 11)

Very few opportunities were created to sell the vision and the direction of the organisation to staff. This mainly took the form of the CEO visiting every branch on an annual basis. (Points = 1)

In terms of market research and other external information or processes which could be used to identify the need for change of direction, formal market research was irregularly done. Internal processes continued but on an ad hoc basis. (Points = 1)

Very little change in the direction of the company was initiated and the only change of direction was the creation of another chain of stores. (Points = 1)

The organisational structure of the company did not change materially during the review period. (Points = 1)

Products, product presentation and market focus did not change materially except perhaps for the introduction of the new chain of stores. (Points = 2)

The composition of the top management team remained static during this period. (Points = 1)

The pricing structure of the business did not change during the pre-turnaround phase and remained at 51% gross profit. (Points = 1)

No new avenues for increasing revenue were explored or implemented, yet turnover was dramatically increased due to the emphasis on sales. (Points = 2)

Policies and values systems did not change at all during this period, except for an increase and tightening up of policy. (Points = 1)

FREIGHTLO

Vision and mission (Total Points 6)

During an annual strategic planning session the mission and the vision for Freightlo were developed and updated. The mission and the vision of the company were published as part of the strategic plan. (Points = 3)

A formal process was followed to define the mission and the vision and this involved a cross-section of managers, including the CEO, the directors and six general managers. (Points = 2)

The mission and the vision appeared in the annual strategic plan, and are therefore accessible to senior management but had not been widely communicated to other staff members. (Points = 1)

Strategy and direction (Total Points = 9)

A formal annual strategic planning process existed, whereby the top executive team met on an annual basis, for two to three days to re-address the mission and the direction of the company. (Points = 3)

This process normally involved the CEO, the directors and six general managers. This annual strategic planning process was not simply an ad hoc event for which time was made available in-between other pressing problems; two to three days were set aside for this at an outside venue. (Points = 3)

The result of this strategic planning process was a published strategic plan which lead to an operations and marketing plan presented to the shareholders. This strategic plan was then normally translated into detailed budgets which were available to all managers in the operating units. (Points = 3)

Environmental scanning (Total Points = 6)

Specific processes existed through which environmental changes were noted. Firstly, an outside research company did a service gaps analysis on an annual basis. Secondly, a tele-servicing department, consisting of eight employees, communicated with customers on a regular basis. In addition, the quality control department had service quality indicators to monitor service levels constantly, and ad hoc surveys were also done on customer requirements. During the review period, between six and seven surveys were done by external consultants. (Points = 3)

The above actions took place regularly and as such have been entrenched as a process. However, only a small number of employees were involved and the resultant effect of attitudinal change was therefore limited. (Points = 2)

There was no evidence to suggest that this information was used for strategic planning. The directors who were interviewed believed that this information was not considered during strategic planning. The strategic planning process also involved the analysis of external strengths and weaknesses and external opportunities and threats. (Points = 1)

Organisational design (Total Points = 4)

The organisational structure was characterised by continuous change - the addition, subtraction and re-emphasis of functions. Although this implied an enormous change and would normally be a strong manifestation of the process of organisational design, a number of the changes which took place had a negative effect. Changes in organisation design were:

- ❑ the elimination of the regional management level, which was later re-instated and then eliminated again.
- ❑ the continuous expansion of the Chief Operating Officer's responsibilities to the point of absurdity.
- ❑ the Financial Director first reporting to the Chief Operating Officer and later to the Chief Executive Officer.
- ❑ Information Systems becoming a division in its own right, reporting to the CEO.
- ❑ the development of a new sales team in operations, in competition with the existing sales team.
- ❑ the creation of an International Division. (Points = 1)

Major changes in the headcount at Freightlo took place, growing from 450 in 1989 to a peak of 1 250 early in 1993 and then dropping to approximately 1 000 in July 1993. It is questionable to what extent any culture can survive and maintain service levels and sound relationships with customers with such phenomenal growth in headcount. (Points = 1).

Massive changes took place in the composition of the top management team during the period under review:

- ❑ CEO resigned.
- ❑ Chief Operating Officer resigned.
- ❑ General Manager:Operations resigned.
- ❑ Operations Director side-lined.
- ❑ General Manager:Information resigned.
- ❑ Four regional managers retrenched.
- ❑ Six new regional managers appointed and then eliminated.
- ❑ New Financial Director.
- ❑ New General Manager:Human Resources.
- ❑ New General Manager:Hub and Line Haul.
- ❑ New Director:Logistics.
- ❑ New Director:Operations.

The appointment of new or additional management, did not seem to have followed a strategic plan, but seemed more as a result of "fire fighting" (Points = 1)

Despite the above changes the structure of Freightlo did not move away from the traditional functional and hierarchical structure to accommodate newer managerial thinking and organisation design. (Points = 1)

Role definition (Total Points = 4)

The roles of senior executives at Freightlo were always very clearly defined in terms of specific mandates and annual objectives and targets. (Points = 3)

The definition of these roles, however, did not flow democratically from the strategic planning process but was largely prescribed by the CEO. (Points = 1)

Reward systems (Total Points = 2)

Remuneration was largely based on the Paterson Grading System with limited scope for remuneration according to contribution. (Points = 1)

Remuneration packages consisted mainly of a cash salary, the normal fringe benefits such as medical aid, pension fund and a company car, with a profit share of up to 35% of basic annual salary for executive committee members only. This super profit-sharing concept was, however, terminated during the period under review, and there after, no profit-sharing or share participation scheme existed. (Points = 1)

Policy and values (Total Points = 4)

A set of values was developed but was not well-documented or widely publicised in the company, nor used as a norm for governing behaviour. Values were determined during the strategic planning process (participation in which was limited to the CEO and the Directors) but were not incorporated into a specific programme, in order to bring about a cultural shift. (Points = 2)

The organisation had a culture where everything was counted, reported on and measured through endless reporting and statistical structures. In this way, the culture tended to be autocratic,, with little latitude. Because the company was largely policy- and measurement-driven it had achieved little by way of empowering managers or granting them discretion in decision-making in terms of staff, strategy and structures. (Points = 1)

No evidence existed that the values of the company were advocated as a norm according to which behaviour could be governed. (Points = 1)

Performance management (Total Points =3)

The activities in the company were mainly controlled through the monthly financial results, and other statistically oriented reports. Most of the controlling took place during the monthly executive committee meeting. (Points = 1)

Performance during the review period had mainly been managed around financial issues, with no comprehensive assessment on the basis of aspects such as people development, building structures and teams, client relations and innovation. (Points = 1)

No formal performance management system existed. (Points = 1)

Communication and co-ordination (Total Points = 5)

Some interdepartmental and interdisciplinary meetings, project teams and committees existed to facilitate co-ordination and communication. The executive committee met on a monthly basis, and there was a board meeting every quarter. Apart from these two meetings which looked at the business from a strategic point of view and which cut across divisional boundaries, the only other meetings were departmental meetings and a few project teams, investigating issues such as pricing, costs per parcel, and proof of delivery. (Points = 2)

Very little evidence existed of true horizontal communications, and the impression gained is that communication was largely hierarchical and vertical, down the chain of command within departments and divisions, rather than across departments and divisions. Some committees and project teams were created to co-ordinate efforts on special issues or to formulate policy. (Points = 2)

The CEO did not meet with each executive on a formal weekly basis. Very few opportunities existed or were created where the CEO met with staff other than with his direct reportees and he seldom received those staff members in his office. The top management team often met on an informal basis to discuss business, such as over a drink on a Friday afternoon. (Points = 1)

Decision-making (Total Points = 3)

No decentralisation of decision-making power took place during the period under review and the company was largely run on a centralised basis. (Points = 1)

Executives and managers were never really empowered and they had very little discretion in decisions concerning employment of staff, termination of services, salary adjustments, expenditure and credit-granting. (Points = 1)

The management actions that were taken, as detailed, indicated strong centralised control, prescribing and dictating to the operations. There was no clear evidence that restrictive policies had been reduced to make way for a value-driven culture and to impart greater discretion to managers. (Points = 1)

Change and transformation (Total Points = 10)

Apart from the annual strategic planning session, few opportunities were created or utilised to sell the strategic direction of the company. (Points = 1)

Although market research was done and other external sources of information existed, these were largely ignored and did not support the strategic direction of the company. (Points = 1)

The direction of the company that was emerging at the time of the study did not deviate materially from the intended strategy of three years before, and hardly any adjustments have been made to cope with the increasing customer dissatisfaction. (Points = 1)

Over the previous three years the structure of the organisation changed, but far too radically and without an apparent plan, which necessitated a negative evaluation. (Points = 1)

During the period under review, neither product and product presentation, nor market focus changed from the initial strategic choice in 1989, in order to cope with the impending crisis. (Points = 1)

The composition of the top management team changed to such an extent and with such apparent lack of strategy that it dictated a negative evaluation. (Points = 1)

Although the pricing structure was changed since 1989, in line with the new direction at that time, it was rigidly implemented and enforced, despite forces in the environment indicating the need for change. (Points = 1)

During the period under review some new avenues for increasing revenue were explored and implemented. (Points = 2)

Corporate policies and values did not change materially during the review period. (Points = 1)

BUSLO

Vision and Mission (Total Points = 3)

A mission statement was apparently developed, but it could not be made available. (Points = 1)

No formal process was followed, although the input of a consultant was used for one day and this involved the CEO and one director. (Points = 1)

The mission was not published and did not appear in company documentation. (Points =1)

Strategy and direction (Total Points = 4)

The executive committee met once a year, did a SWOT analysis, and set corporate objectives and strategies. This was however, not done for the last of the review period. (Points = 2)

The process involved the CEO and three directors who then presented the results to the other exco members. No specific period of time was set aside to complete this. (Points = 1)

The result of this process was a published strategic plan, only made available to the exco members. (Points = 1)

Environmental scanning (Total Points = 3)

Other than the knowledge and experience of the management team, no specific mechanisms were used to gather external information on markets, competitors and suppliers. (Points = 1)

No formal environmental scanning process existed. (Points = 1)

The link between external information and the strategic planning process could not be established. (Points = 1)

Organisational design (Total Points = 8)

In the Gauteng (previously Pretoria-Witwatersrand) area, one branch was closed and two restructured into four divisions. Apart from this, no change in structure took place. (Points = 2)

Headcount was reduced by 45% over a four-year period. (Points = 3)

Of the four executive team members, one was a new appointment from outside the company and one other an internal promotion. There was therefore moderate change in the composition of the top management team. (Points = 2)

The structure was essentially a functional, hierarchical one. (Points = 1)

Role definition (Total Points = 4)

No job descriptions existed, only a set of objectives. These were, however, not set for the last year of the review period. The CEO did not believe in clearly defined responsibilities. (Points = 2)

These objectives flowed from the strategic planning process. However, due to the low level of involvement of the management team in this process, its impact was limited. (Points = 2)

Reward systems (Total Points = 2)

Salary scales and increases were dictated by USA holding company. Salary survey information was also used. (Points = 1)

Remuneration consisted of salary, plus a normal range of fringe benefits. An incentive bonus existed, but for directors only, based on the cashflow of the group on a world wide basis. This, however, has no direct link with local performance. (Points = 1)

Policies and values (Total Points = 3)

There was no evidence that a set of values had been developed. (Points = 1)

As no values were developed, nothing could be made available to staff. (Points = 1)

No evidence existed of Buslo being a value-driven company. (points = 1)

Performance management (Total Points = 4)

The issues being managed in Buslo were largely financial, such as margins, expenses, and inventories. Very little measurement of people, client relations, market growth and other non financial issues took place. (Points = 1)

Some departments had a monthly review of objectives, but these discussions did not seem to be required by the CEO, who mostly concerned himself with the financial results at month end. (Points = 2)

A performance appraisal system based on objectives was in place but was not regularly used. It was also the choice of the departmental manager as to whether he/she wanted to use it; it was not compulsory. (Points = 1)

Communication and co-ordination (Total Points = 3)

The only meetings in this company were executive committee meetings involving the four directors, and which did not take place on a regular basis, three process re-engineering team meetings and the occasional operations meeting with branches. Only the exco meeting could be considered to be truly interdepartmental. (Points = 1)

The nature of this network structure perpetuated a segmentalist, hierarchical culture. (Points = 1)

The CEO did not have formal, scheduled meetings with his executives and little informal opportunities were created to facilitate communication. (Points =1)

Decision-making (Total Points = 3)

Buslo was characterised by a strong functional, hierarchical structure with little decentralisation of decision-making power. (Points =1)

Executives and managers had little discretion in decisions with financial implications. (Points = 1)

Three head office departments existed. The manpower department determined staff levels and salaries to be paid, the credit department determined credit terms, the technical department determined technical standards and the sales department determined sales activities. Branch managers had little other discretion in the execution of their duties. (Points = 1)

Change and transformation (Total Points = 11)

No evidence existed to suggest that the vision and mission of the company was sold to the staff. (points =1)

No market research was done and no other external information gathered to support the need for change. (Points = 1)

Little direction was created by the new CEO through the strategic planning process. (Points = 1)

Structures changed marginally. (Points =2)

Product presentation and product-market focus did not change over this period. (Points = 1)

The membership of the management team changed to some extent. (Points = 2)

No changes to pricing structures took place. (Points = 1)

Few avenues for increasing revenues were successfully explored and implemented. (Points = 1)

Values and policies had not changed. (Points = 1)

FINLO

Vision and mission (Total Points = 5)

The vision and mission for Finlo were clearly defined to allow for its positioning in the financial market, which was slightly different to the position filled by other merchant banks belonging to big banking group. (Points = 3)

No formal process was followed to define the mission and it was largely done by the CEO. (Points = 1)

The mission statement did not frequently appear in company documentation except in the annual reports of the company. (Points = 1)

Strategy and direction (Total Points = 4)

No formal annual strategic planning process existed, except for a very detailed budgeting process. (Points = 2)

This involved the CEO, his general managers and their key staff. No specific time period was spent on strategic planning. (Points = 1)

The results were only a budget with no detailed strategies. (Points = 1)

Environmental scanning (Total Points = 4)

No market research, SWOT analysis or any other means of scanning the environment were employed. (Points = 1)

No formal process of environmental scanning existed except for a weekly information meeting, attended by all managers, where they reported on an individual basis the information that they had picked up in the market-place on trends and competitor activities. A specific economic scenario was sketched by the bank's economist on a weekly basis. (Points = 2)

The information gathered in this way was not linked to any strategic planning process. (Points = 1)

Organisational design (Total Points = 7)

There were some changes to the organisational structure. A human resources division, a credit department and a property investment division were formed. (Points = 2)

Very little change took place in the headcount of the company. (Points = 1)

Major changes took place in the composition of the top management team, with the resignation of key staff and the appointment of numerous executives from outside the company, notably new general managers in charge of foreign exchange dealing, money market dealing, human resources, credit and property investments. (Points = 3)

The nature of the structure was strictly functional and hierarchical. (Points = 1)

Role definition (Total Points = 3)

The roles of the top executive team were defined in terms of mandates but not in terms of job descriptions and levels of decision-making authority. (Points = 2)

The role definition did not flow logically from a strategic planning process. (Points = 1)

Reward systems (Total Points = 3)

Remuneration was based on a job grading system, salary surveys and performance appraisals. (Points = 1)

Remuneration packages were very creative. A consultant specialising in remuneration was given a mandate to develop the most creative and tax effective remuneration system for the top two to three layers of managers in the bank. In addition to an annual salary, bonuses were awarded and executives were given numerous options to participate in trading in shares, as well as a share participation scheme. Performance bonuses, however, were purely at the discretion of the CEO and executives could not calculate these in advance - no formulas existed. (Points = 2)

Policies and values (Total Points = 5)

One or two values were defined, but those were mainly the personal beliefs of the CEO. On occasion, they did appear on occasion in company literature. No specific values programme was undertaken. (Points = 1)

The company was not necessarily value-driven, yet managers were granted some discretion to make their own decisions on such matters as staff strategy and structure. Policies were created to govern decision-making in the areas of human resources, remuneration, credit and information systems but these were never restrictive and much discretion was allowed. (Points = 2)

Some of the stated values were available to all staff and were conveyed to all new employees during a formalised induction programme. (Points = 2)

Performance management (Total Points = 4)

Activities were controlled through the monthly financial results, and during review meetings. Results were not linked back to an annual strategic planning session, but a network of meetings, project teams and committee meetings did exist, through which the various activities of the company was controlled. (Points = 2)

Performance was not managed over a wide base, focusing mainly on financial results,, and the achievement of specific objectives rather than on issues such as people development, building teams, client relations and innovation. (Points = 1)

Although a performance appraisal system was introduced, this was mainly used to form an opinion of the individual and to guide salary increments. The CEO did not spend much time in individual sessions with his executives to coach them and to develop their behaviour. Performance other than financial,, was therefore only monitored on an annual basis. (Points = 1)

Communication and co-ordination (Total Points = 6)

A formal network of meetings, committees and project teams was created to facilitate communication and co-ordination. However, only the executive committee, the marketing committee and info systems committee were truly integrative. (Points = 2)

Committees and project teams were created in order to co-ordinate efforts on special issues and to formulate policy. These did create an integrative culture with many inter-departmental and interdisciplinary teams. This initiative was,, however, limited only to information systems and marketing. (Points = 2)

The CEO did not always meet individually, on a formal weekly basis, with every executive reporting to him. He did follow an open-door policy, but despite this he was often too over-committed for his executives to get an appointment with him on short notice. Opportunities were created for the CEO to meet with all staff, other than his direct reportees. This usually took place during numerous cocktail parties in the boardroom held for specific reasons, such as overseas visitors or clients. The top team did not often meet on informal occasions to discuss business. Horizontal communication rather than vertical communication existed. (Points = 2)

Decision-making (Total Points = 4)

Although decentralisation of decision making power did take place, the CEO often wanted to be involved in minute detail in certain decisions. (Points = 1)

Executives were empowered as far as operational decisions were concerned but did not have decision-making power in hiring staff, terminating employment, salary adjustments, expenditure and credit granting. (Points = 1)

Head office or central departments, such as human resources, credit and secretarial had the power to develop policies, but the heads of the various operating divisions could override these. (Points = 2)

Change and transformation (Total Points = 20)

Many opportunities were created to sell the new vision to the staff. (Points = 3)

Market research was not done, yet other external information was used to identify the need for change and a new direction. (Points = 2)

The new direction of the company deviated to some extent from the direction before the new CEO took over. (Points = 2)

The organisational structure changed to some extent. (Points = 2)

The products, product presentation and market focus changed somewhat, yet not materially. (Points = 2)

The composition of the top management team changed dramatically. (Points = 3)

The pricing structure of the bank changed somewhat, yet not dramatically. (Points = 2)

Innovative new avenues for increasing revenue were explored but not always implemented. (Points = 2)

Some new policies and values were introduced. (Points = 2)

ELEVEN ORGANISATIONAL PROCESSES

The organisational processes will each be discussed as they manifested across the 16 companies. Table 8.1 indicates the raw scores, U-values and levels of significance for each of the eleven organisation processes across all 16 cases.
In column one, for example, all sixteen cases are placed in rank order, according to the total amount of points achieved for *vision and mission.* Furnrec is in position one, with its 10 points, whilst Buslo is in position 16, with its 3 points. Based on this rank ordering, the Mann-Whitney U test was applied, to determine the significance of the differences in the scores achieved by the two samples.

Table 8.1 : Raw scores, rank order, U-values and levels of significance for 11 organisational processes

Mission Formulation		Strategy Formulation		Environment Scanning		Organisation Design		Role Definition		Reward Systems		Policies and Values		Performance Management		Communication and Coordination		Decision-making		Change and Transformation	
Score	Case	Score	Case	Score	Case	Score	Case	Score	Case	Score	Case	Score	Case	Score	Case	Score	Case	Score	Case	Score	Case
10	Furnrec	10	Merchrec	10	Furnrec	12	Merchrec	6	Texrec	6	Sugrec	9	Travrec	9	Chemrec	9	Freightrec	9	Freightrec	26	Merchrec
9	Merchrec	9	Furnrec	9	Merchrec	12	Freightrec	6	Chemrec	5	Merchrec	8	Transrec	9	Travrec	9	Travrec	9	Merchrec	25	Chemrec
9	Travrec	9	Finrec	9	Sugrec	11	Travrec	6	Travrec	5	Finrec	8	Merchrec	9	Merchrec	9	Transrec	9	Finrec	24	Freightrec
9	Finrec	9	Sugrec	9	Freightrec	10	Chemrec	6	Transrec	4	Texrec	8	Furnrec	9	Finrec	8	Finrec	7	Chemrec	21	Texrec
9	Freightrec	9	Freightlo	9	Chemrec	10	Finrec	6	Merchrec	4	Chemrec	8	Sugrec	9	Sugrec	8	Sugrec	7	Travrec	21	Transrec
8	Transrec	9	Freightrec	7	Travrec	9	Sugrec	6	Furnrec	4	Travrec	8	Freightrec	8	Furnrec	7	Texrec	7	Sugrec	21	Finrec
7	Sugrec	8	Transrec	6	Transrec	9	Chemlo	6	Finrec	4	Furnrec	7	Finrec	7	Freightrec	7	Merchrec	6	Transrec	20	Sugrec
6	Furnlo	7	Travrec	6	Merchlo	8	Texrec	6	Sugrec	4	Englo	6	Texrec	6	Texrec	7	Furnrec	6	Chemlo	20	Finlo
6	Freightlo	7	Englo	6	Finrec	8	Travrec	6	Englo	4	Chemlo	5	Finlo	6	Travrec	6	Finlo	5	Texrec	19	Travrec
5	Merchlo	7	Chemlo	6	Freightlo	8	Furnrec	6	Freightrec	4	Furnlo	4	Chemrec	6	Englo	5	Chemrec	4	Furnrec	18	Furnrec
5	Finlo	6	Furnlo	5	Texrec	8	Buslo	5	Merchlo	4	Freightrec	4	Chemlo	4	Chemlo	5	Merchlo	4	Finlo	18	Englo
4	Chemlo	5	Chemrec	5	Furnlo	7	Finlo	4	Finlo	3	Merchlo	4	Merchlo	4	Furnlo	5	Freightlo	3	Englo	17	Chemlo
4	Chemrec	5	Merchlo	4	Finlo	7	Englo	4	Freightlo	3	Finlo	4	Freightlo	4	Buslo	4	Englo	3	Merchlo	11	Merchlo
3	Texrec	4	Texrec	3	Englo	4	Merchlo	4	Buslo	2	Transrec	3	Englo	4	Finlo	4	Furnlo	3	Furnlo	11	Furnlo
3	Englo	4	Buslo	3	Chemlo	4	Furnlo	3	Chemlo	2	Freightlo	3	Furnlo	3	Merchlo	3	Chemlo	3	Freightlo	11	Buslo
3	Buslo	4	Finlo	3	Buslo	4	Freightlo	3	Finlo	2	Buslo	3	Buslo	3	Freightlo	3	Buslo	3	Buslo	10	Freightlo
U-value = 10.5 Significance: 0.05 level		U-value = 15.5 Not significant		U-value = 4.5 Significance: 0.01 level		U-value = 5.0 Significance: 0.01 level		U-value = 4.5 Significance: 0.01 level		U-value = 13.5 Significance: 0.10 level		U-value = 2.5 Significance: 0.01 level		U-value = 1.0 Significance: 0.01 level		U-value = 2.0 Significance: 0.01 level		U-value = 3.0 Significance: 0.01 level		U-value = 3 Significance: 0.01 level	

MISSION

Companies which had been successfully recovered differed significantly from companies in financial decline regarding the process of vision and mission formulation. Table 8.1 indicates the Mann-Whitney U-value of 10.5 to be significant at the 0.02 level.

Companies which had been recovered and were at the time of the study financially successful had a clearly defined mission, and followed a distinct process to develop this mission, involving a large cross-section of managers. The mission appeared frequently in company documentation and was accessible to all employees.

Companies in decline, on the other hand, sometimes had a mission statement, but it was usually developed by the CEO and some directors, not involving middle management. It seldom appeared in company literature and was not accessible to all staff.

It is interesting to note however, that neither of the recovered companies in the manufacturing sector, namely, Chemrec (4) and Texrec (3), had a strong manifestation of this process; in this respect they were not much different from Chemlo (4) and Englo (3), both also manufacturing organisations. Sugrec (7), also a manufacturing concern, fared better in this regard. The conclusion can perhaps be reached that non-manufacturing companies were better at formulating a mission and at the process behind it than manufacturing concerns.

Another interesting finding is that all four groups of companies, namely Finrec, Merchrec, Freightrec and Sugrec scored at the top end of the scale. Groups of companies, therefore, seem more likely to have sound processes in formulating a mission than operating companies.

STRATEGY FORMULATION

With respect to strategy formulation, the two samples of companies did not differ significantly in terms of the U-value. Table 8.1 indicates a Mann-Whitney U-value of 15.5, just outside the 0.10 significance level.

Companies which had been successfully recovered, were no more likely than the declining companies to follow a formal strategic planning process, or involving more managers than only the CEO and directors or general managers in this process.

It is interesting to note from Table 8.1 that both Chemrec and Texrec had relatively low scores of 5 and 4 respectively. Englo and Chemlo, also in manufacturing, both had 7 and Sugrec 9. This information gives no reason to believe that the process of formulating a mission and developing a strategy is critical in the recovery of manufacturing operations.

However, when a similar comparison is made between the groups of companies and operating companies, we find Merchrec, Finrec, Freightrec and Sugrec achieving of the highest scores, 10 for Merchrec and 9 respectively for the others.

There is therefore some reason to believe that groups of companies could have sounder strategic planning processes than operating companies and that in the recovery of a group, strategic planning may play a more significant role.

ENVIRONMENTAL SCANNING

The process of environmental scanning was different for recovered companies than for declining companies.

Table 8.1, indicating a U-value of 4.5, (0.01 level) shows the significant difference that exist between recovered companies and declining companies regarding the issue of external focus, environmental scanning and the importation of new external information into the organisation for strategic and decision-making processes.

Financially successful companies which had been turned around and recovered from low financial performance, tended to use more external sources of information, more frequently, and entrenched as a habit or process rather than as an ad hoc activity. Furthermore, they tended to involve more of their managers in this process and utilised it for real organisation change and business refocusing.

Declining companies, on the other hand, were more likely to be internally focused, not resourcing external information, and where they did resource it, it was not entrenched as a process and whatever information was gathered was not used to its fullest extent in attitudinal, cultural and business change.

Groups of companies held the first four positions on the raw score distribution, again indicating that the groups of companies were far more externally focused than operating companies.

In terms of manufacturing and non-manufacturing companies, no significant differences exited.

ORGANISATIONAL DESIGN

Table 8.1 indicates a significant difference between the two samples in terms of organisational design, with a U-value of 5.0, statistically significant the 0.01 level.

Successfully recovered companies were more likely than declining companies to have made major changes to their structure. Significant reduction in headcount took place, as well as major changes to the composition of their executive teams.

Furthermore, they made more use of modern design principles than declining companies.

Declining companies were characterised by little change to their structures, marginal reduction in headcount, less change in the composition of their executive team and less utilisation of modern design principles.

Three of the four manufacturing concerns had high scores, above the median, and three of the group companies had high scores, also above the median.

This could indicate that manufacturing concerns and group companies were more open to organisation design as an intervention strategy to increase productivity and profitability. Of the seven companies with the highest scores, only Transrec is neither a manufacturing concern nor a group.

Another way of looking at it is that, of the top scoring six companies, all of which were recovered companies, five were either in manufacturing or a group. Of the lower scoring nine companies, only two were either manufacturing concerns or a group. All the remaining seven companies were operating, non-manufacturing companies of which seven were in decline.

ROLE DEFINITION

In Table 8.1 the Mann-Whitney U-value of 4.5 is significant at the 0.01 level, indicating a significant difference in the scores of the two samples on this process. In other words, financially successful companies differed significantly from declining companies on the issue of role definition and clarification.

Recovered companies as a group were more likely than declining companies to have job descriptions and sets of objectives to guide the actions and behaviour of their executives and managers.

These job descriptions and objectives were also more likely to flow logically from the strategic planning process and each executives job definition and set of objectives tended to form a synergistic whole supporting the overall corporate direction.

Declining companies on the other hand were less likely to have job descriptions or specific objectives for executives to achieve. When they did set objectives, few processes existed to integrate these with overall corporate objectives or other divisional and departmental objectives.

Of the four manufacturing concerns, three scored six points. The fourth, Chemlo, achieved only three points. Englo (6), a declining company, manifested a strong process here along with other recovered companies. No differentiation therefore existed between manufacturing and non-manufacturing companies regarding this process.

All four group companies scored amongst the top scores, but due to the fact that they were all recovered companies, this did not allow a meaningful comparison.

REWARD SYSTEMS

A significant difference existed between recovered companies and declining companies in terms of reward systems. Table 8.1 indicates a U-value of 13.5, significant at the 0.05 level.

Recovered and financially successful companies were more likely to base remuneration on a broader base than job grading and salary scales; it also included contribution, and in some cases, non-financial performance such as innovation, creativity, people development and so forth. The nature of their reward structures was also more flexible, with a higher prevalence of profit sharing, share participation and flexible, cafeteria-type remuneration systems.

Declining companies, on the other hand, based their remuneration mostly on job grading and salary surveys. In exceptional cases only would contribution be a criterion and hardly ever non-financial indices such as product development, innovation and leadership. Their reward structures tended to comprise mainly, just salary and the normal, standard range of fringe benefits. Seldom would they include profit sharing, share participation or flexible remuneration systems.

Three of the four group companies that had been recovered filled positions one, two and three on the rank order in Table 8.1. It could be argued that group companies were more likely to manifest stronger processes regarding rewards and remuneration.

POLICIES AND VALUES

For this organisational process, Table 8.1 indicates a Mann-Whitney U-value of 3.5, significant at the 0.01 level, for the difference between the two samples.

Successfully recovered companies, that were financially successful, usually had a set of values developed through an organisational development programme. These sete of values were available to all staff and these organisations had also moved towards a more value- driven culture.

Declining companies, on the other hand, were less likely to have followed a process to develop values. The staff were not involved in formulating a set of values and these organisations were then largely still policy- and procedure-driven.

Three of the five manufacturing companies scored below the median, with a score of 4. The other two manufacturing companies, both recovered, scored above the median with six and eight respectively. This indicates that in manufacturing, as well as in service industries values seemed to be considered as important.

The four group companies, namely Transrec, Merchrec, Sugrec and Finrec, achieved the highest raw scores, indicating a strong process to establish a value-driven culture.

PERFORMANCE MANAGEMENT

A significant difference existed between the two samples regarding the issue of performance management. Table 8.1 indicates a U-value of 1.0, significant at the 0.01 level.

Financially successful companies which had been recovered were more likely to base their performance measurement on factors beyond financial indices, such as people development, team building and innovation. Performance was managed, not only through the financial month-end results, but also through various project teams and committees. They were likely to have a formal performance management system in place for each executive, extending beyond performance appraisals, to include elements of career management.

Declining companies, on the other hand tended to base performance measurement only on financial criteria, and to manage it only through the monthly financial results and were less likely to have formal performance management systems in place.

COMMUNICATION AND CO-ORDINATION

Table 8.1 indicates a significant difference between financially recovered companies and declining companies, concerning the process of communication and coordination. The U-value of 2.0 was significant at the 0.01 level.

Financially successful companies were more likely than declining companies to be managed through interdepartmental meetings and committees to facilitate co-ordination. They tended further to be characterised by a "network" structure of interdisciplinary task forces and committees, regulating matters of mutual interest. The CEOs of these companies were more likely to have more contact with staff other than their direct reportees.

Declining companies, on the other hand, were less likely to have interdepartmental meetings and less likely to have a network structure in the form of interdisciplinary task forces and committees to facilitate co-ordination and communications. They tended to be more segmentalist than integrative and communications were more vertical than horizontal.

Non-manufacturing concerns seemed to have a stronger tendency for managing through network structures than manufacturing, in that six of the eleven non-manufacturing concerns had raw scores above the median, whilst manufacturing concerns had only two of five companies above the median.

All four group companies had raw scores and rankings above the median. This could indicate that group companies may have a stronger process governing communication and co-ordination than operating companies.

DECISION MAKING

A significant difference existed between the two samples regarding decision-making. Table 8.1 indicates a U-value of 3.0, significant at the 0.01 level.

Successfully recovered companies tended to have more decentralised decision-making, allowing more discretion to executives and managers in decisions such as appointment of additional staff, salary increases, leases, credit terms and so forth. They also had less prescription from central head office departments to operations.

Declining companies, in contrast, tended to be more centralised, to allow less discretion and had stronger central head office departments dictating policies within which the operational side of the business had to function.

The four recovered group companies occupied four of the first six positions on the rank order in Table 8.1. The conclusion could be reached that group companies tended to be more decentralised in their decision-making than operating companies.

The manufacturing concerns were fairly evenly spread across the rankings and no differences seemed to exist between manufacturing and service companies on decision-making powers.

CHANGE AND TRANSFORMATION

Table 8.1 indicates a significant difference between the recovered and declining companies regarding change and transformation. The U-value of 3.0 is significant at the 0.01 level.

The management teams of successfully recovered companies initiated far more change and transformation than the declining companies regarding the:

- ☐ vision of the company.
- ☐ utilisation of external information.
- ☐ direction of the company.
- ☐ structures.
- ☐ product and product presentation.
- ☐ membership of the top executive team.
- ☐ pricing policies.
- ☐ exploring sources of revenue.
- ☐ values and policies.

Declining companies were characterised by a lesser manifestation of change in these areas. They were less inclined, or more reluctant, to bring about real material change in their organisations regarding the above mentioned aspects.

The group companies did not dominate the highest rankings, as they did in some of the previously discussed processes, although they were all above the median.

The recovered manufacturing companies were all above the median and the two declining manufacturing companies both below the median. The conclusion that can be reached is that change and transformation seems more critical in manufacturing than in service industries. This was particularly so considering that two of the recovered service companies were below the median in the rankings, yet none of the manufacturing companies were.

In conclusion, these findings seem to offer some insight into the relationship between key organisational processes and the financial performance of a business. In addition they give an indication, of how some successfully recovered business organisations went about structuring key organisational processes; and further, how the neglect of organisational process could, in the case of the declining business organisations, result in a seemingly inability to reverse their fortunes.

CHAPTER 9

RESEARCH FINDINGS: COMPETENCIES AND PERSONALITY OF SUCCESSFUL CORPORATE RECOVERY EXECUTIVES

Chapter 9 reports the results obtained from the managerial assessment phase of this investigation. The assessment findings of the eight successful corporate recovery CEOs (referred to as "Recovery CEOs") will be compared with the assessment results of a comparison group of 12 CEOs (referred to as "comparison CEOs").

Of the 20 CEOs, included in this study, nineteen were male, and one female. The average age of the recovery CEOs was 48, with a range from 40 to 58; the average age of the comparison CEOs, was 46, with a range from 38 to 58. The investigation group had an average of 6.5 years of tertiary education, whilst the comparison group had an average of 4.3 years of tertiary education (tertiary education defined as university degrees).

MANAGERIAL COMPETENCE

For the purposes of these comparisons, directional hypotheses were formulated, namely that the recovery CEOs would outscore the comparison group. Consequently, one-tailed tests of significance were performed.

The results in Table 9.1 and Figures 9.1 and 9.2 indicate that on most of the behavioural competencies, the CEOs of successfully recovered companies scored higher than the comparison group of CEOs.

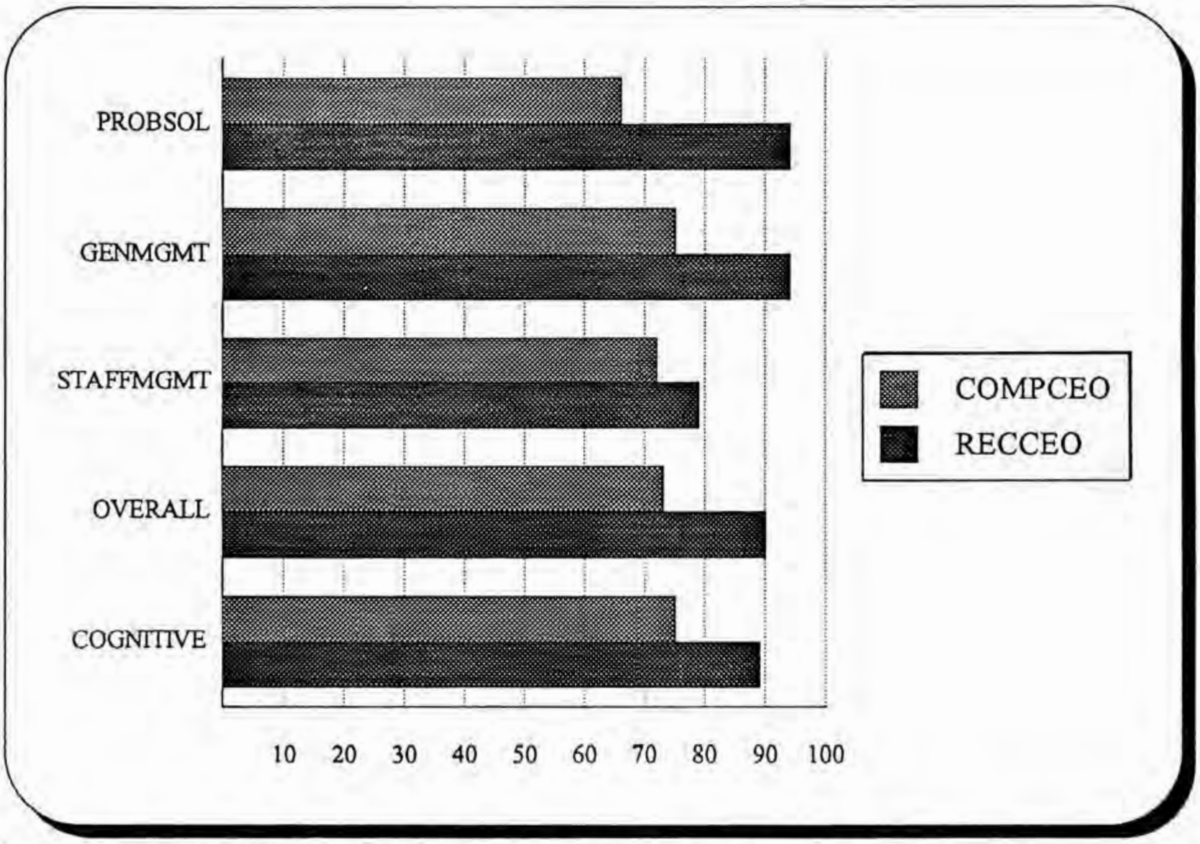
The CEOs of successfully recovered businesses demonstrated a much stronger behavioural manifestation and competence in handling the managerial situations

Table 9.1 : Group comparisons for managerial situations, behaviour and cognitive capacity.

Situation/Behaviour	U	p
Problem Solving	**10.0**	0.005
Analysis	9.0	0.001
Anticipation	24.5	0.05
Reasoning Power	17.5	0.025
General Management	**19.0**	0.025
Initiative	21.0	0.025
Understanding	12.0	0.005
Consequences	18.0	0.025
Delegation	26.0	0.05
Arrangements	17.5	0.025
Decisiveness	27.0	---
Staff Management	**40.5**	---
Motivational Behaviour	34.0	---
Directional Behaviour	41.5	---
Organisation	40.0	---
Cognitive Capacity	**2.0**	0.001
Stratum 3	-2.0	0.001
Stratum 4	30.5	---
Stratum 5	9.0	0.001
Stratum 6	7.0	0.001
Overall Profile	**9.5**	0.005
Output	**14.5**	0.005

Note: One-tailed test

Figure 9.1: Managerial Situations : Recovery CEOs versus Comparison CEOs



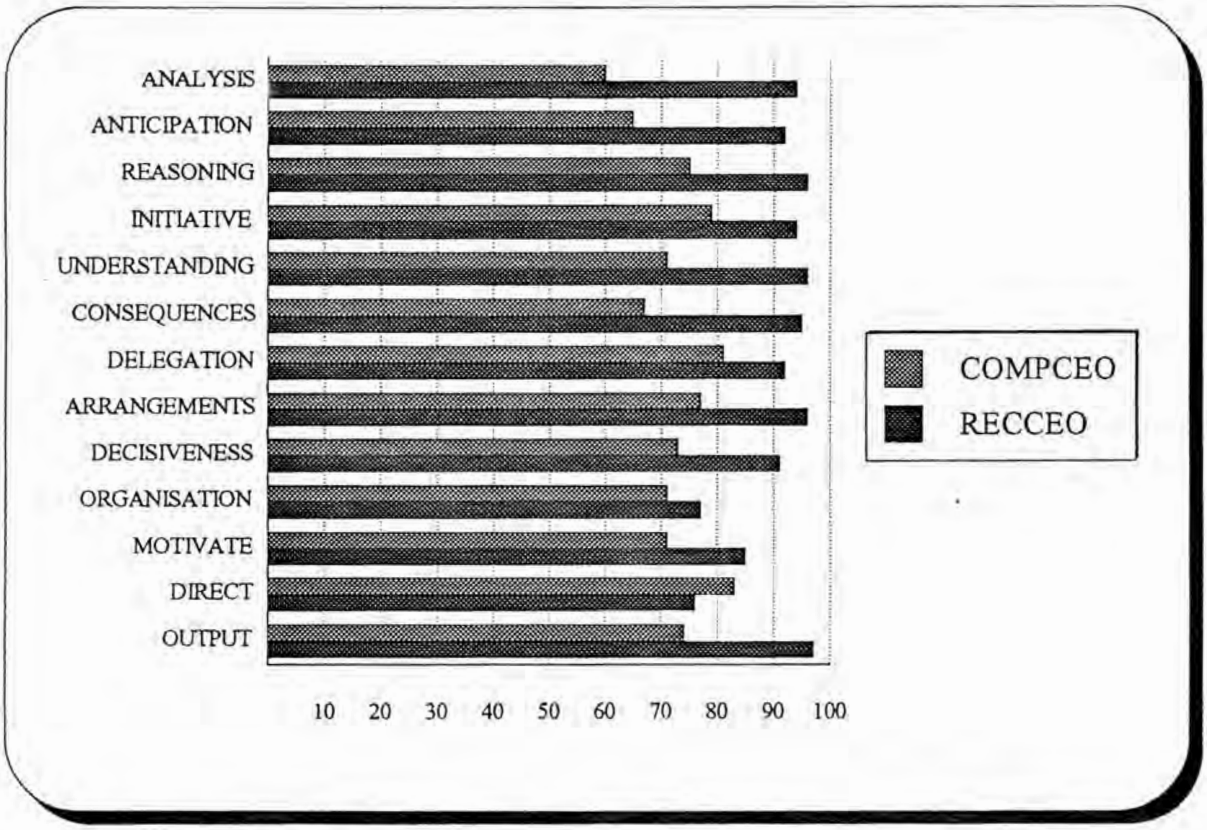
Notes on graph: PROBSOL = Problem Solving; GENMGMT = General management; STAFFMGMT = Staff management; OVERALL = Overall or average on all three situations; COGCAP = Cognitive Capacity; COMPCEO = Comparison CEOs; RECCEO = Recovery CEOs; 10 to 100 = Percentiles.

described below: (for a more comprehensive description of behavioural dimensions, the reader is referred to Chapter 5, p. 164-168).

Problem solving

The CEOs of successfully recovered organisations showed a significantly stronger ability to think conceptually about a problem, and the intelligence and creativity to formulate questions and gather information about the problem (*analysis*: $\underline{U} = 9.0$, $\underline{p} < 0.001$ level). They demonstrated a stronger ability to integrate the information and formulate conclusions and reason with the facts (*reasoning power*: U = 17.5, p< 0.025 level). They further demonstrated a superior ability to anticipate what action

Figure 9.2 : Managerial Competencies : Recovery CEOs versus Comparison CEOs



Note: COMPCEO = Comparison CEOs
RECCEO = Recovery CEOs
10-100 = Percentiles

will solve the problem (*anticipation*: U = 24.5, p < 0.05 level). The U-values of the these three behavioural competencies combined into a total for *Problem-solving* with a U-value of 10.0, significant at the 0.005 level (Table 9.1). In addition to the Mann-Whitney U- test results, Figure 9.1 shows that the recovery CEOs achieved a percentile rank of 94, whilst the comparison CEOs achieved a percentile rank of only 66. This indicates a problem-solving competence, better than 94% of the managers in the data bank, whilst the comparison groups competence measured better than only 66%.

General management

Figure 9.1 and Table 9.1 indicate that the CEOs of successfully recovered business organisations exhibited a significantly stronger ability to handle general management situations than the comparison group of CEOs ($\underline{U} = 19.0$, $\underline{p} < 0.025$).

The recovery CEOs initiated more action than the comparison CEOs in a given time period and acted with greater innovation and pro-action ($\underline{U} = 21.0$, $p < 0.025$).

The recovery CEOs had a much higher score on the dimension of understanding and analysis. They were significantly stronger in their ability and competence to understand the complexities of the issues they had to deal with and to see the implications that a particular issue can have for other issues and their inter-relationship and effect on each other. ($U = 12.0$, $\underline{p} < 0.005$).

In terms of consequences, the recovery CEOs demonstrated an ability to initiate action and propose solutions that will have more far reaching and positive consequences than the comparison CEOs. They generally exhibited better judgement than the control group in that their actions and solutions are more clearly and closely aligned with the requirements of the situation ($\underline{U} = 18.0$, $\underline{p} < 0.025$)

When combining the effect of understanding and consequences it can be said that the recovery CEOs had a clearer and crisper perception and understanding, or reading of management situations and their responses to these situations were more appropriate and in line with the requirements of the situation.

With $\underline{U} = 26.0$, < 0.05, the recovery CEOs were more inclined to utilise people effectively through delegation, decentralisation and empowerment. The comparison group of CEOs also delegated well but tended to reserve final decision making once the person they had delegated to had done investigations and feasibility studies. The recovery CEOs did not only ask people to do analysis and investigation and then to bring their recommendations to them for final approval, but they empowered people in that they made them responsible for the total process, from fact finding, through analysis and solution formulation to and including decision-making within given parameters.

Furthermore, the recovery CEOs were better able to make sound arrangements in terms of the planning and organising involved to handle these management situations ($\underline{U} = 17.5$, $\underline{p} < 0.025$).

The recovery CEOs, however, were not significantly more decisive than the control group and did not therefore indicate a stronger tendency to act decisively or to make quick decisions ($\underline{U} = 27.0$, $\underline{p}$ = not significant).

Recovery CEOs demonstrated a competence in General Management, superior to 94% of the managers in the data bank, whilst the comparison CEOs did better than 75%.

Staff management

In not one the staff management competencies, did the recovery CEOs exhibit a stronger ability.

Although Figure 9.1 indicates a percentile rank of 78 for recovery CEOs and 73 for comparison CEOs, Table 9.1 indicates that the $\underline{U}$-values for Staff Management and the competencies of motivation, direction and organisation were not significant.

Output

A very significant difference is indicated by Figure 9.2 and Table 9.1 between the two groups in terms of their output of work.

The differences in the averages of the two groups in Figure 9.2, and $\underline{U} = 14.5$, $\underline{p} < 0.005$, indicates that recovery CEOs possessed a greater capacity for achievement. They could handle more work than 97% of the managers in the data bank, and could deal with more issues in a given time than the control group of CEOs, who themselves had an output better than 74%.

Overall profile

The overall profile score indicated in Figure 9.1 consists of the average of the totalling of the scores on all the behavioural dimensions in Figure 9.2. The differences between the two groups were significant, as Table 9.1 indicates ($\underline{U} = 9.5$, $p < 0.005$). The recovery CEOs demonstrated a significantly better ability across all behavioural competencies than the comparison group of CEOs, with a percentile rank of 89 and 75 respectively.

Cognitive Capacity

Probably the most significant difference between the recovery CEOs and the comparison group lies in their levels of cognitive capacity and levels of strategic and abstract thinking (Table 9.1 indicates $\underline{U} = 2.0$, $p < 0.001$).

Recovery CEOs possessed a significantly stronger cognitive capacity to think:

- ☐ holistic rather than segmentalistic.
- ☐ futuristic rather than historical.
- ☐ conceptual rather than pedantic.
- ☐ in terms of process rather than events/incidents.

Table 9.1 further indicates that the recovery CEOs tended to function more at stratum 5 and 6 than the comparison CEOs, who tended to function more at stratum 3.

In terms of cognitive level of functioning, recovery CEOs dealt more in concepts and universals, whilst the comparison group of CEOs dealt to a lesser extent in concepts and universals and to a greater extent in symbols.

The comparison group of CEOs utilised serial and parallel processing regarding symbol issues such as price, credit terms, volumes, sales to a larger extent than the recovery CEOs.

The recovery CEOs utilised assertion and accumulative processing regarding conceptual and universal issues such as empowerment, accountability, government policy, changes in market structure, gross domestic product, per capita income and so forth. All their actions and decisions were underscored by conceptual and universal issues, tracking through accumulative processing the development of events, and through serial processing predicting the impact of these on the future.

The control group of CEOs actions and decisions were underscored to a lesser extent by conceptual and universal issues and to a greater extent by the practical implementation issues of symbols.

Figure 9.1 indicates that the comparison CEOs demonstrated a cognitive capacity greater than 75% of the managers in the data bank, and the recovery CEOs greater than 89%. A single raw score for *cognitive capacity* was achieved, by multiplying the raw scores for each stratum with a weighted score. Stratum three was multiplied by one, stratum four by two, stratum five by three, and stratum six by four.

PERSONALITY

Figure 9.3 contains the profiles for both the recovery CEOs and comparison CEOs in terms of the personality factors of the SAMCS, whilst Table 9.2 presents the U-values and levels of significance. For the purpose of calculation of the factor scores each of the constituting scales was given a unit-weight, rather than a factor-weight. Table 9.2 indicates that the successful recovery CEOs differed significantly from the comparison group of CEOs on three of the six personality constructs.

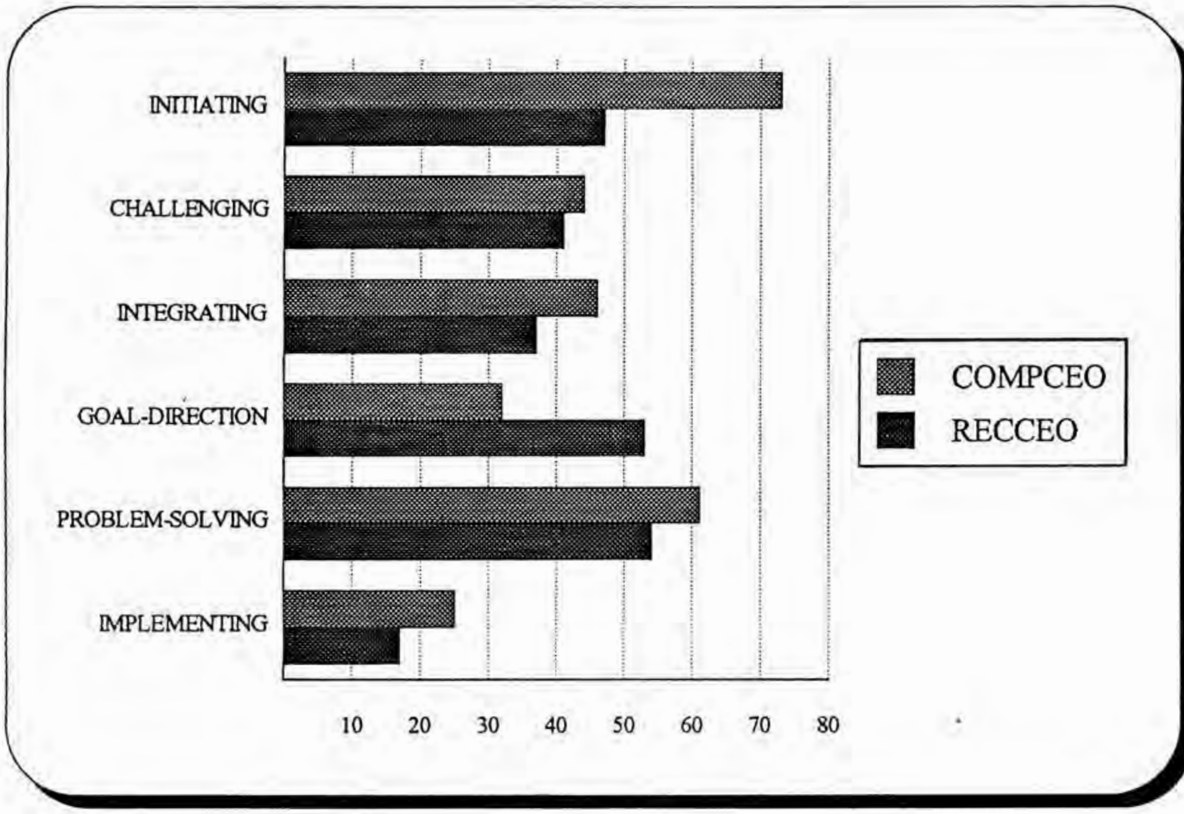
Table 9.2 : U-values and levels of significance for 6 Personality Factors.

Personality Factor	U-value	p
Initiating	-15.0	0.005
Challenging	-24.5	0.05
Integrating	43.5	--
Goal-directed	26.0	0.05
Problem-solving	-40.5	--
Implementing	-42.0	--

Note: One-tailed test.

Directional hypotheses were again formulated, namely that recovery CEOs will achieve higher scores than the comparison CEOs on all factors except *Implementing,* where they will achieve a lower score than comparison CEOs. For a more comprehensive description of the individual scales on the SAMCS, the reader is referred to Chapter 6.

Figure 9.3 : Personality Factors : Recovery CEOs versus Comparison CEOs.



Initiating

Table 9.2 indicates a significant difference between the two groups (U = -15.0, p < 0.005) on the construct of *initiating*. The difference in the percentile ranks of 73 for the comparison CEOs, and 47 for the recovery CEOs in Figure 9.3 is significant, given the raw scores on which the Mann-Whitney U test was performed.

This construct of the SAMCS consists of the need to control and influence others, and a preference for the initiating style of leadership.

Comparison CEOs demonstrated a stronger initiating style than the recovery CEOs. They exhibited a significantly stronger need to influence and control others, and to shape and change situations. Comparison CEOs were progressive and quick off the mark, initiating action and indicating direction in a more decisive manner than the recovery CEOs. They tended to press harder for action and progress, were impatient and more likely to be autocratic and confrontational.

Recovery CEOs, however, with a percentile rank of 47, also had a need to be in control and to take charge of people and events, would like to know what is going on in their businesses and would like to influence others and shape and change the direction of their organisations. However, the comparison group of CEOs demonstrated a significantly stronger need for these activities (percentile of 73).

The implication of this for corporate recovery may be that as a result of their lower need for initiating behaviour, recovery CEOs may create a climate where the managers in their teams get sufficient direction, yet not that much that they feel dis-empowered. The comparison group, however, may need to influence to such an extent that their managers feel stifled in terms of the extent to which they can initiate, innovate and give individual character to what they do. Unlike the comparison CEOs, the recovery CEOs did do not believe that one always has to convert others to one's own point of view. They believed in tolerance and, that opposing views can co-exist.

Recovery CEOs seem to keep a good balance between their own leadership intervention and the degree of latitude and empowerment they allowed their management teams to experience.

Challenging

Table 9.2, indicates a significant difference between the two groups on the construct of *challenging* ($\underline{U} = -24.5$, $\underline{p} < 0.05$). Figure 9.1 shows a percentile rank of 41, for the recovery CEOs, and 44 for the comparison CEOs. Although this difference in percentile scores seems small, when the U-values were calculated on the raw scores, it was, however significant.

The construct of *challenging* consists of the need for challenge, a preference for the role of operator, and a belief in resolving conflict with others.

Comparison CEOs, to a greater degree than recovery CEOs, were more open to accept new challenges, as presented in taking on more responsibilities, putting themselves under pressure, and generally setting high demands for themselves.

Comparison CEOs believed that differences between people have to be resolved, and exhibited little tolerance for disagreements. Their style with team members may even have been somewhat adversarial, than co-operative. In people issues, they believed in the resolution of conflict and would not avoid differences.

The implication of this for corporate recovery is interesting. A co-producer of recovery success could be the fact that the recovery CEOs were less challenging and thus more contemplative in their approach. Their lower needs for *initiating* and *challenging,* may lead to an atmosphere and culture that is less adversarial, less directional, and less controlling. This may result in people having more space for their own ideas and opinions. Such a culture would lead to the stimulation of "intrapreneurs", who feel that they have room to move, and to use their initiative in solving their own and the organisations' problems.

Integrating

The recovery CEOs achieved a percentile rank of only 37 on the construct of *integrating*, in comparison to a percentile rank of 47 for the comparison CEOs. This difference, however, was not significant when considering the raw scores. ($\underline{U}$ = 43.5, $\underline{p} < 0.05$).

This factor of the SAMCS consist of a preference for the integrator style, the need for affiliation, a need for social extension, a belief in network communication, and a belief in participative decision making.

Goal-direction.

The construct of goal direction, consists of the need to set goals and achieve them, the need for assertion/dominance, and the need for composure.

According to Table 9.2 ($\underline{U}$= 26.0, $\underline{p}$ < 0.05), a significant difference existed between the two groups in terms of their respective needs for goal direction, assertiveness, and composure. Figure 9.1, indicates a percentile rank of 53 for recovery CEOs, as opposed to a percentile rank of 32 for the comparison CEOs.

Recovery CEOs demonstrated a significantly stronger need to set goals and to work according to objectives. They were also more persistent in pursuing what they set out to achieve, and did not like to deviate from their plans and strategies.

With a need for composure, the recovery CEOs liked to feel that they were emotionally in control of situations. Recovery CEOs were more inclined to keep calm, collected and composed under emotionally stressful situations such as rejection and criticism from others. They were less inclined to feel threatened, or to loose their tempers. Comparison CEOs, on the other hand, tended to be more "touchy", and could be more inclined to loose heart and tempers when under stress. They may even have felt more threatened and insecure.

The implication of this for corporate recovery is that the new CEO, appointed to recover an ailing business in financial crisis, enters a volatile situation. The need to pursue a recovery strategy with confidence, conviction and assertion, to handle criticism from various stakeholders, is essential. Relentless pursuit of the essential objectives are required.

Problem-solving

No significant difference was found between the two groups, in terms of their preference for problem-solving behaviour (Table 9.2: U = -40.5, p = not significant),

They were therefore about equally inclined in terms of their need for change, their propensity to resource information and ideas from others and their external environment, how traditional or radical the work methods they chose.

Both groups had a stronger need for problem solving behaviour, such as resourcing, change, and unconventional methods, than most managers in the data bank. They exhibited a dissatisfaction with the status-quo, striving for uniqueness in their solutions to problems. Figure 9.3 indicates percentiles for both groups above 50.

Implementing

No difference seem to have existed between the two groups concerning the personality construct of *implementing* (U = -42.0, p = not significant). Figure 9.3 shows that the recovery CEOs achieved a percentile rank of 16, and the comparison CEOs a rank of 25.

Both groups were less inclined, than most other managers in the data bank, to prefer the managerial role of completor, and had a lower need for structure. This indicates that both groups of CEOs were less inclined to be systematic, and structured, or to get too involved in detail. Both groups could function well in an ambiguous, unstructured environment.

DISCUSSION

In summary, the recovery CEOs, in comparison with other CEOs, seemed to show a greater competence in solving problems and making decisions (fact finding, anticipation, and reasoning power), and handling general management situations (initiative, understanding, consequences, arrangements, decisiveness, and delegation).

Recovery CEOs showed a greater cognitive capacity and facility for holistic, strategic thinking at Stratum 5 and 6.

They further possessed a greater facility in terms of the volume of work that they could handle.

The recovery CEOs were more concerned with being goal directed, and less concerned with initiating, and challenging.

The finding that recovery CEOs were more competent at problem-solving and decision-making supports the views of Bibeault (1982) that analytical and decision-making skills were important in the turnaround situation.

Their stronger ability to delegate and preference for implementing and motivating is in support of the views of Kharbanda and Stallworthy (1987) and Welsch (1993), that they have to achieve results through others.

Bibeault (1982), as well as Nelson and Clutterbuck (1988), stressed the characteristics of action orientation and enthusiasm, and the significantly higher levels of action initiated and output during the general management situation confirm this view.

Whilst the above discussion focused on similarities between the present study and the reviewed literature in Chapter 4 on the competencies and personality characteristics of recovery executives, there are instances where these findings are in conflict with earlier writers. The belief of Nelson and Clutterbuck (1988) that recovery executives are initiators by nature was not confirmed by the present study, although recovery CEOs did initiate more action than the comparison group, during the general management situation.

CHAPTER 10

CONCLUSIONS

The findings of this study indicate that, in terms of the research questions put forward in Chapter 5, a relationship did exist between the successful recovery of a business organisation from declining or inadequate economic and financial performance, and:

- ☐ the managerial competence, cognitive capacity, and personality factors of the CEO.
- ☐ the management actions or major initiatives taken and the intervention strategies chosen to direct the activities of the organisation.
- ☐ the nature and structure of key managerial and organisational processes which direct the behaviour of the organisation.

These findings have, to a varying degree, shed light on:

- ☐ the personality constructs, preferred managerial styles and values of the successful corporate recovery executive.
- ☐ the behaviour patterns and thought processes of the successful corporate recovery executive.
- ☐ the major initiatives or intervention strategies used to recover an ailing business organisation, and
- ☐ how key management and organisational processes are structured to co-produce the recovery.

These findings hold important implications for a number of key issues in management.

THE UNIVERSALITY OF TURNAROUND THEORY

The major research studies on corporate turnaround indicate the universality of recovery strategies. Small or large organisations, consumer or capital/product organisations, first world or third world organisations, private or public organisations, high-tech or low-tech organisations, young or mature organisations, deeply sick or marginally sick organisations, all of these exhibit common elements in the co-producers of their decline and the strategies used to recover them.

Not only business corporations go into decline and are regenerated, but so do other collectivities, such as non-profit organisations (Khandwalla, 1992), communities and whole societies (Berting & Blockmans, 1987). Collectivities other than business organisations can also recover and regenerate themselves and seem to use very similar processes.

This study supports the findings of the most influential literature, in that a great similarity exists in all the recovered companies regarding the success of certain strategies regardless of variables such as size, duration of crisis, or nature of industry. These similarities are distinct and quite different from the similarities among the declining companies.

It is further interesting to note that the universal intervention strategies also apply equally to business organisations in different social systems. Khandwalla (1992) is one of the very few, if not the only researcher, to have drawn comparisons across different social systems.

Recovery strategies in South Africa seem to be very similar to recovery strategies used in other parts of the world. However, Khandwalla (1992) contended, that business organisations in social systems other than the purely first world, Western economies of the USA, Canada and Europe do tend to lean more toward integrative than towards surgical strategies (Khandwalla, 1992).

STRATEGIC MANAGEMENT

Influential writers in the field of strategic management and corporate policy namely, Miles and Snow (1978), Ansoff (1987), Thompson and Strickland (1989), Porter (1980) and Wheeler and Hunger (1990) over-emphasised the seeking of niches in the market, portfolio management and other market-orientated and externally focused actions and neglected the people management and process management issues as powerful strategic options. Khandwalla's (1992) findings put strategic management -vs- alternative recovery actions in perspective.

"Strategic gaming" as Khandwalla (1992) calls it, which has become glamorous since Porter's (1980) book on competitive strategy, involves a virtually entirely external focus, detailing how businesses can be picked up and dropped, acquired and merged as a favourite strategy of corporate statesmen.

Influential literature on corporate turnaround and recovery indicated the limitations of this strategy. Khandwalla (1992) found strategic elements of recovery such as diversification, product line rationalisation, expansion, etc. to correlate negatively (-0.33) with rate of gain in profitability for a sample of 42 recoveries. He concluded that at least during turnaround, "strategic gaming" does not work and in fact decelerates the turnaround effort.

What does however accelerate turnaround is the internal scanning of opportunities to motivate and mobilise the people of the collectivity (organisation), improving productivity, simplifying structures, improving management systems and improving the process and quality of decision-making (Khandwalla, 1992). The mobilisation of the internal resources of the organisation was also advocated by Baden-Fuller and Stopford (1994).

The present study supports the emerging view, as detailed in Chapters 2 and 3. Relatively, little time and effort were spent on product-market focusing as an intervention strategy in recovery and far more emphasis was put on internal factors such as organisation development: establishing a philosophy and culture, integration, organisation design and building the executive team.

BIOLOGICAL METAPHOR

The biological metaphor, which has been influencing organisation theory (Morgan, 1986; Hannah and Freeman, 1977) draws a parallel between organisations and living beings, in their birth, development, maturation and crisis. That is where the parallel ends, because all living beings must die, but all organisations need not and do not. Khandwalla (1992) argued that organisational death is a remote occurrence. The organisations which do go into liquidation annually are usually small, marginal companies, but seldom do we see the demise of sizeable, complex organisations. They change ownership or identity, they grow, they decline, they merge and acquire or are acquired, they undergo strategic and structural metamorphoses, but they seldom die. They seldom totally cease to operate.

The reason why collectivities such as business organisations seldom die, is twofold. Firstly, Khandwalla (1992) argued, that their built-in inefficiency of multiple decision-makers, problem solvers, information processors, machines, sites, sources of finance, which complexes and slows down its operation, also guarantees that the organisation will survive beyond the death of its individual members. The second aspect, which guarantees survival, is the state of diverse constituencies, all of whom have a vested interest in the continuation of the organisation.

However, whilst the structural complexity of the collectivity and the diversity of stakeholders guarantee survival and continuation from generation to generation, ironically these are also the reasons for its decline. Highly complex collectivities are often subject to sub-optimisation, inter-functional conflict, excessive centralisation or decentralisation and incapacity do adapt to internal and external demands. The conflicting interests of diverse stakeholders can also result in an organisation becoming immobilised in the crisis of directional push and pull.

> Thus, collectivities, especially organisations, continually teeter over the brink of chaos due to poor management of internal complexity and/or contextual complexity. When they do go over the hill, the means of their regeneration lies precisely in the instrumentalities of their fall - in the mobilisation and orchestration of the organisation's varied resources and in the alignment of the interests of the stakeholders for preventing the destruction of the collectivity. (Khandwalla, 1992, p.249)

CRISIS AND CHANGE MANAGEMENT

There exist in an organisation, the seeds for destruction which, given the correct environment, will lead to distinct reasons for decline. Bibeault (1982) outlined how managements' lack of response or negative response to a predictable range of organisational and human crises invariably lead to decline. They fail to see the changes in their growth cycle and do not respond to internal turmoil created by changed external factors which could be of a social, economical or legal nature. This crisis situation in an organisation's life is generally referred to as a corporate turnaround or recovery situation, due to the necessity for recovery actions to be implemented. The term corporate regeneration or reconstruction is also used.

Bibeault (1982) stated that at some point during their existence most companies face financial crises and the need to be turned around.

Business managers are usually very literate in financial terms because financial issues can be reduced to finite exactness. Non-financial issues are, however, more difficult to understand, as they are subjective and do not lend themselves to quantification. Future financial crises are often the result of an inability to cope with the present-day human and organisational problems (Bibeault, 1982).

The results of these findings shed light on these phases of decline, and recovery, as well as enhanced our understanding of these human and organisational issues, in terms of how some organisations went about this change process. The intervention strategies followed and the phases of corporate recovery, as they emerged through the literature study and this research, further add to our knowledge of how to change and transform business organisations.

LEADERSHIP DEVELOPMENT

The characteristics and competencies of the turnaround executive, as they emerged during this study, have further implications for leadership development. A strong indication emerged as to which competencies need to be developed and acquired, in order to successfully manage the processes and strategies needed to recover a business. These competencies can obviously be used to guide the selection of CEOs to manage ailing companies or those with lack-lustre performance. In addition, they can be used to identify potential up-and-coming young managers to be groomed as corporate life-savers. Our knowledge of recovery strategies, processes and phases can form part of their executive development programme.

AVENUES FOR FURTHER RESEARCH

The most obvious area for further research would be to determine the application of the various recovery strategies for the different phases of development. The extent to which the elements of a recovery strategy are similar or different for an entrepreneurial firm, a professional firm in the systems phase, or those companies that already function in the integrative phase has not yet been determined. This relationship between the micro-evolutionary change described by Kanter et al. (1992), which is the motion of parts of the organisation in relation to each other as it moves through the various growth phases, and the elements of a recovery strategy needs further investigation. Certain elements of a recovery strategy may be more or less effective or applicable, depending on the stage of organisational growth.

A second area for further investigation relates to macro-evolutionary change described by Kanter et al. (1992), namely, the movement of the organisation in relation to its macro, external environment. It is not yet clear whether differences exist in the elements of a recovery strategy among business organisations that were turned around in the 1960s, 1970s, 1980s and 1990s. Defining the post-World War II era in terms of a number of clear-cut phases of organisational development, not necessarily decades, and then comparing the recovery strategies followed during each may be critical in enhancing our understanding of this phenomenon.

A third area for further research relates to Winn's (1993) five categories of the severity of crisis. The recommendation here is twofold: firstly, a more careful selection of cases to be studied, matched on similar severity of the crisis, in order to enhance the purity and validity of findings; and secondly, a comparison of the differences in the elements of a recovery strategy, given varying degrees of corporate crisis and decline. Khandwalla (1992) went a long way into developing an understanding in this area; nonetheless, more research is needed.

The fourth area for further investigation relates to systems theory. Most of the research done to date focused on intervention strategies, or management actions undertaken to recover the organisation. The intervention strategies may have had an impact on one or more systems within the organisation. A closer focus on, and investigation into certain systems and processes, how they are managed over time, and their consequences and influence, is required.

A further requirement in the study of corporate recovery is for more longitudinal studies. Immediately after his/her success the CEO of a recovered business organisation is often hailed as a hero who saved the livelihood of many. But what happens to these organisations over time? Most studies defined a successful recovery as between three and five years of steady progress since the crisis. This is a solid period of time to prove that the business has recovered. However, the further observation of the business in terms of its financial results, its position in the market, its culture, values and other processes over a longer period of time is required. An investigation of this post-recovery or post-stabilisation phase could greatly enhance our knowledge of the phases of organisational growth and the subsequent strategies required to ensure long-term success.

LIMITATIONS OF THIS STUDY

Bannister et al. (1994) argued that knowledge is accepted as one version of reality, a representation rather than a reproduction. It is understanding in process and open to multiple interpretations. All findings are constructions, personal views of reality, open to change and reconstruction. One; therefore needs to make explicit, how one's understandings were formed. Much of this has been described in the relevant chapters on research design and interpretation of results. It now becomes necessary to review the limitations of the present study in terms of its design and methodology.

INTERPRETATION OF RESULTS

Bannister et. al. (1994) were of the opinion that there will always be a gap between the meanings that appear in a research setting and the accounts written in the report. This gap is the space for the reader to bring his/her own understanding of the issue to bear on the text. The findings of the present study have been interpreted by the researcher, mediated by his frame of reference and contextual understanding, fully aware of the fact that the reader could and would attach alternative or supportive interpretations to the same findings. The research method and findings have therefore been described, hopefully in sufficient detail to allow the reader to use the source information to come to his/her own conclusions.

RELIABILITY

Reliability normally refers to the replicability of the research findings, an issue of great importance in quantitative research. In the context of qualitative research, with the present study classified as such, Banister et al. (1994), argued that all meaning is "indexical", in that it will change as the occasion changes and as it is used in different ways. The answer is to "theorise" the findings or observations by identifying the patterns of influence on the research setting and to develop an account of how they played their part in the outcome of the study. In qualitative research the issue of reliability, in that a repetition of the research will yield the same results, is not an issue. It is possible to repeat the work, but the outcome can never be the same. The reason is, Banister et al. (1994) argued, that it is not the same work, in that it is a different researcher, different participants and a different setting. In the present instance, the researcher attempted to give an account in sufficient detail to enable other researchers to repeat the study, or at least to understand the patterns of influence on the research setting..

VALIDITY

Validity is often referred to as the extent to which the constructs measured can be correlated with other measures of the same construct (Bannister et. al., 1994). In this regard, quantitative research differs markedly from qualitative research, in that quantitative research aims in its design to control and eliminate as many variables as possible that may contaminate the observation of the phenomenon the researcher wishes to study. In qualitative research, the "ecological" validity is actually enhanced when the phenomenon under study is observed in its natural setting with as many variables exercising its influence on it as is normally the case (Banister et al., 1994). This, however weakens producer-product relationships, in that the effect of the independent variable on the dependent variable cannot be observed in a pure uncontaminated way. This also has an impact on the correctness of interpretation of the results, and their predictive validity. The way around this limitation, Bannister et al. (1994) argued, is for the research project to be described in sufficiently detail so as to enable the reader, and other researchers, to evaluate the phenomenon under study, particularly its relationship with other variables that may have effected their influence on its observation. In the present study, "ecological validity", in part, can be evaluated by the reader's understanding of how the phenomenon under study was observed, in which setting, and subject to which uncontrolled variables.

MANAGERIAL COMPETENCIES AND COGNITIVE CAPACITY

In the assessment of managerial competencies, cognitive capacity, personality and managerial styles of the CEOs studied, the assessment instruments were of the researcher's choice, but another researcher might have chosen different techniques.

- SAMCS: Not being publicly available, the validity of this instrument has only been tested in the hands of the researcher, and not yet tested or used by others. However, in research, particularly given the nature of the phenomena under study, "untested" instruments are more often than not used to shed light on hitherto unknown relationships.
- Competencies: The researcher used the assessment of managerial competencies as currently a widely accepted methodology and approach. No discussion of the construct and its desirability was offered. Not all readers may agree with this assumption.
- Cognitive capacity: Again, the researcher assumed the validity of the stratified systems theory of Jaques and Clement (1994), based on the popularity these concepts have gained in the practice of managerial assessment. However, the theoretical assumptions on which this kind of measurement is based are not without criticism. For instance, Jaques and Clement (1994), assumes that the four-level progression of the reasoning process (from assertion to accumulative, serial and then parallel) repeats itself in the exact way in all three cognitive worlds of symbols, concepts and universes. When this logic is followed, the statement is made that the CEO of a business uses an assertive reasoning process in a conceptual cognitive world (the bottom rung in the conceptual world). This is to reduce the complexity of reasoning required in a very demanding and multifaceted position, yet recognising the conceptual nature of the job.

CLASSIFICATION OF INTERVENTION STRATEGIES

In the classification of intervention strategies, each initiative was counted as one point, for the purpose of the calculation of the proportions of intervention classes that contributed to recovery. However, the impact or influence of actions could differ and no attempt was made to use a scoring system that could differentiate in terms of the degree of influence each action has had. They were simply counted as equally significant. The purpose was to simplify classification and scoring and to eliminate unnecessary subjective evaluation of the extent of impact of an action. However, future researchers could investigate the development of a system to evaluate or classify managerial initiative or action in terms of their impact on the system or subsystem of the organisation.

PARTICIPANTS' REACTION TO THE INVESTIGATION

The reaction of the CEOs and their directors during the investigation, their understanding of the aims of the research, and their reaction to the presence of the researcher need consideration. When those CEOs were interviewed, who had successfully recovered the business organisations they were managing, they were asked to cite all actions taken during the recovery and to describe the management processes in their organisations. They were aware of the fact that the researcher was doing the research for the purposes of a doctoral degree. It was on this basis that their participation was achieved. The researcher, therefore, assumed that the respondents were motivated to account a success story and that their discourse of the events leading to the recovery were a reflection of their understanding or context of how to turn around a business in crisis. It was a distillation of the key issues they believed were important in the recovery. It may well have happened that some actions that had been taken were omitted during the interview, perhaps unconsciously, because they did not deem these actions to have been important enough to have contributed to the recovery. The citing of an action as important may have told more about a CEOs philosophy that it is critical as a strategy, than about the quality of its implementation. Therefore, the conclusion could be drawn that the recital of actions taken is as much a reading of what the CEOs believed in, than a list of actions actually carried out.

Similarly, in the case of the declining organisations, where two or more directors were interviewed, they were probably inclined to cite their honest attempts to turn their companies around, therefore also expressing their beliefs about what is important to do in such a crisis.

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APPENDIX A : SUMMARY OF INTERVENTION STRATEGIES

Appendix A contains the management actions or major initiatives of each case studied, as communicated by the CEO or in some cases the Directors of these organisations, undertaken during the review period in an attempt to improve the financial fortunes of these businesses. The initiatives were noted in brief, one-sentence descriptions for ease of data reduction and comparison purposes, but that should not detract from the complexity of these actions or from the time and effort they required from the executive team who implemented them. This summary reduces to approximately two pages per case a document containing between 15 and 25 pages of notes per case. The actions are listed in the order with which they were noted during the interviews.

INTERVENTION STRATEGIES BY CASE

CASE 1: TEXREC

1. Used vertical integration to increase revenue per product, e.g. a metre of cloth sells for R5, but by adding stitching it sells for R15.
2. Personally approved every purchase order over R500 and established disciplined buying using purchasing power.
3. Closed down warehouses and branch offices in the central business district and moved all operations into the factory premises.
4. Fixed minimum prices below which sales representatives may not sell; in this way profitability per product line was restored.
5. Developed and introduced a computerised order-tracking system to monitor order numbers, customers, product type, volume, Rand-value of order, raw material costs, total costs and margins. This was called Cloth Processing Order (CPO).
6. The production department manufactured 160 types of one product. By reducing this to only 100 types per product, weaving efficiency was improved from 70% to 89%.

7. Reduced the headcount of the company from approximately 6 000 in 1983 to 4 300 in 1988. In earlier days TEXREC employed 7 500 people.

8. When any of 1 000 weaving machines gave trouble, typically it was only detected three days later in rejected products. Electronic data capture equipment was installed to measure daily efficiencies per machine in order to diagnose problems earlier.

9. Terminated any product line where sales were less than 50 000 metres per year and where margins were under 20%. This increased production from 55 million meters in 1983 to 70 million metres in 1988.

10. Floated company on the Johannesburg Stock Exchange in September 1983 to repay loan of R40 million to Industrial Development Corporation and paid dividends to overseas shareholders.

11. Gave top executive team share options at time of listing and a capital stake in the business.

12. Through a mentorship programme, developed the executive team to look at daily costs, revenues and cash flow. No more golf on Wednesdays. They had to be practical and to look for opportunities to improve performance.

13. Reduced everything to numbers: customers, suppliers, production.

14. Achieved National Occupational Safety Association (NOSA), 5 star rating in all three plants.

15. Achieved South African Bureau of Standards 0157 productivity standards.

Texrec: Notes of general interest

1. Problems the company was experiencing when the new CEO took over:
   - ❑ R45 million overdraft, R84 million turnover and R6 million loss.
   - ❑ Bad economic environment in 1982 and 1983.
   - ❑ Followed a low price strategy.
   - ❑ No entrepreneurial marketing.
   - ❑ Lack of financial discipline re costs.
   - ❑ Hardly any management information systems.

2. No retrenchments or terminations of service. The same team that made R6 million loss in 1982 made R40 million profit in 1992. The CEO was of the opinion that they had specialist knowledge but no entrepreneurial attitude and needed leadership.

CASE 2: CHEMREC

1. Developed a strategic marketing plan which included market segmentation, market share per segment and competitor activities. This indicated where CHEMREC had low market share and at the same time, high surplus capacity.
2. The CEO became personally involved in the marketing of the company and, the selling of products. He took responsibility for liaising and negotiating with the top 50 customers.
3. Reduced headcount from 860 employees to 660, in order to save costs.
4. Other cost-saving measures involved:
   - ❑ Elevating asset control and management to a far more professional level, which resulted in reduction in stock levels.
   - ❑ Reduced debtor days to 45.
   - ❑ Froze salaries for the first two years.
5. Appointed a quality control executive in 1984 to assist with low-quality problems and upgrade delivered quality to customers.
6. Appointed a human resources executive in 1988 to assist with growing complexities of industrial relations, trade union negotiations, productivity and motivation.
7. Forced works director and sales director whose disagreements resulted in open animosity between them and their departments, to either resign or sort out their differences.
8. Introduced incentive scheme with gross profit margins set as targets. When budgeted target was achieved, bonus awarded equal to 14th cheque with an incremental sliding scale up to a 16th cheque.
9. Appointed a new sales director to increase service levels and improve relationships with existing customers.
10. Asked the general manager for the inland division to leave.

11. Through restructuring, scrapped the position of general manager inland. The two managers who reported to him, namely, the Johannesburg factory manager and regional sales manager, were made to report to the works director and sales director respectively.
12. Appointed a technical manager to improve quality through product and process engineering.
13. Targeted major customers in the market segments indicated by from the strategic marketing plan and the sales team set about gaining their business.
14. Developed a mission statement: "Providing a good quality product, timeously, at competitive prices and to customer specifications." All strategies followed from this.
15. Twenty-five sophisticated injection moulding machines were under-utilised. Executive team adopted a strategy of filling capacity at marginal cost to recover overheads. High volumes were thus achieved and profit margins gradually increased over 2-year period to 25%.
16. Adopted a business philosophy of moving away from low- quality products, indifferent service and political in-fighting to high quality, customer service and co-operation.
17. Introduced a system of exception-reporting in order to control activities in all areas where costs could be saved. Only when activities exceeded set limits, e.g. 45 debtors' days, would the computer generate an exception report. Expense and profit margins were controlled in this way.
18. Set clear performance standards for all key activities of the business.
19. Engaged the National Productivity Institute (NPI) to identify areas where productivity could be improved, costs saved and profits improved.
20. Introduced a profit improvement plan in 1987. Motivated staff to identify areas where greater profits could be achieved. This exercise highlighted R10 million of possible savings.
21. Introduced the South African Bureau of Standards 0157 Quality System in 1984 to set standards for manufacturing performance.
22. Formed a development committee under the chairmanship of the marketing director to evaluate and structure all new developments such as processes and products.

23. Introduced many other meetings at lower levels to facilitate integration and co-ordination.
24. Appointed a marketing services manager.
25. Appointed a production services manager.
26. Introduced a Friday afternoon meeting where all managers got together to bounce off ideas and update themselves on the newest developments.
27. Established very close and solid relationships with the top 25 suppliers to assist in supplying good quality products at the lowest prices.

Chemrec: Notes of general interest

1. Problems being experienced when new CEO took over:

- ☐ The previous CEO prepared for expansion in sales which never materialised, resulting in expensive overheads.
- ☐ No strategic leadership from previous CEO.
- ☐ No formal marketing strategy and sales plummeted.
- ☐ No adequate cost control systems existed with huge raw material variances.
- ☐ Overstaffed.
- ☐ Customer service was unacceptable and company was losing key accounts.
- ☐ Bad image and name in the market-place due to bad quality.

2. No assets were sold.
3. The turnaround was achieved by essentially the same executive team, except for a new CEO, one dismissal and a few new appointments.
4. A strategic planning process was only introduced in 1989.

CASE 3: FREIGHTREC

1. Team building exercise was undertaken to bring together a widely dispersed and hostile team.
2. Product-market refocus. Identified core business and put more focus on this, strengthening these activities.
3. Redefined the role of the head office.
4. Decentralised the human resources function.
5. Strengthened finance by the appointment of more high powered chartered accountants at the head office and in the regions. The following appointments were made:
   - ❑ Group financial manager.
   - ❑ Financial manager in Zimbabwe.
   - ❑ Additional chartered account in Namibia.
   - ❑ Financial manager in Bulawayo.
   - ❑ General manager in Mezina.
   - ❑ New regional financial manager in Beira.
   - ❑ Financial manager in Mozambique Avis operation.
   - ❑ Financial manager in Mozambique in CAFUM operation.
   - ❑ Strong financial accountant in Logistics.
6. Appointed computer executive at head office.
7. Appointed a business development manager.
8. Transferred one of the regional executives to a "specialist ships agency" position.
9. Decentralised the marketing division and transferred the marketing director to the Northern Region.
10. Brought the logistics division, part of another group company, into FREIGHTREC to improve synergy with its operations.
11. Sold off transport operations owned in Namibia, but because transport is critical, formed a "trans-border" division specialising in transport broking and taking advantage of buying power.
12. Disinvested in Lesotho, Botswana, and Swaziland.
13. Transferred its City Deep operation to another group company.

- ☐ Cumbersome large board of directors including executives.
- ☐ Traditional freight activities running at losses.
- ☐ No stable management team. Many executive changes took place and the company had a relatively new team, with no depth of management, and little management training.
- ☐ Low levels of profitability in all regions and countries.
- ☐ Not well understood by the larger group and relationships with other group companies were not good.

CASE 4: TRAVREC

1. Within the first month the new CEO visited and personally met 1 000 staff members in 70 locations, merely to observe the operations and get a feeling for the people.
2. After a few months the CEO embarked on another round of meeting all staff with the purpose of setting specific profit standards.
3. For a third time the new CEO went visiting 70 different locations, this time to pin-point specific problems in the operations, based on the new figures the profit improvement programme generated.
4. The new CEO made a deliberate effort to present TRAVREC in a more professional way to the shareholders and the group company.
5. In terms of communication the new CEO encouraged people not to communicate according to the chain of command and set the example by making direct contact with staff, side-stepping three levels of management.
6. Introduced a profit improvement programme setting ratios for all operations, such as staff costs to total sales, staff costs to profitability and profit to sales in order to focus management's attention on the key variables.
7. After only six months in his new job, the CEO did a per-formance appraisal on every executive to determine areas where they did not yet add value to the organisation. These lasted between four and eight hours per person.
8. The new CEO spent hours talking to and coaching his executives, focusing on their personalities and behaviour in order to turn them into high-performing winners.

14. Sold share in a cold storage company to strengthen the balance sheet in Namibia and to improve gearing, paying a dividend to shareholders for the first time in 1993 since 1987.
15. Sold 20 staff homes to generate cash and improve gearing.
16. Sold wholesale tourist division in the Northern Region.
17. Sold two cargo vessels.
18. Sold two furniture factories.
19. Separated activities in Mozambique, keeping the traditional freight management activities and moved trading and vessel activities to another group company.
20. Purchased a smaller competitor company operating in South Africa, Malawi and Zimbabwe, which added 38% to the operating profit in Malawi.
21. Restructured the board. All FREIGHTREC executives were taken off the board.
22. Formed an executive committee consisting of top executives to meet quarterly.
23. Introduced planning from the bottom up, rather than from the top down thus giving all managers the opportunity to get involved in the process.
24. Created a network of five project teams and created committees to action key strategic initiatives.
25. Formulated a new mission statement.
26. Initiated an organisation development process in all three regions.
27. Working capital management was improved, including credit control. Accountability for cash flow was decentralised.
28. Instituted various networking activities to improve FREIGHTREC's relationship with other group companies. An example was that the CEO of FREIGHTREC attended the executive committee meetings of one of the other operating companies in the group with whom it had most synergy.
29. Computerised and decentralised all financial systems.

Freightrec: Notes of general interest

1. Problems being experienced when new CEO took over:

    - ☐ Not focused.

9. Set overall benchmarks according to which the company was to be run:
    - ❑ maximum headcount set at 1 000 employees.
    - ❑ branches not achieving over R100 000 gross profit margin were not worth keeping open.
    - ❑ debtors' days not to exceed 30 days.
    - ❑ positive daily cash flow.

10. The executive team had to develop a list of the key players in the company. These were defined as staff members without whom they could not do. Staff turnover was considered to be only turnover among key players. The new CEO maintained that one has to spot the winners and develop them.

11. Substantially increased the salaries of his top executive team during the first two years, beyond the level they had anticipated.

12. In terms of values and culture, put the emphasis on sorting out customer problems, rather than acting according to company policies and procedures. The focus was on being customer- driven, not systems-driven.

13. Developed a set of values and communicated them to all staff. One of the values the CEO advocated was that, "If you do things right with the customer, the numbers will follow".

14. Made deliberate attempt to create a culture within which people could experiment, fail and learn to try again. He encouraged staff to make their own decisions wherever top management failed to give them direction.

15. In terms of fees, introduced service charges, increased existing ad hoc fees and disallowed discounting to larger corporate clients. This earned an additional R750 000 in the first year and R1.24 million in the second.

16. Decentralised and pushed down decision-making powers. Managers could now make decisions without reference to higher authority, which was previously disallowed.

17. In terms of his own role, the new CEO quickly defined where he could add value and got involved with these issues. Where he felt he could not add value, he left matters to his executives; for example, airline negotiations, major hotel group deals, etc.

18. A role-clarification exercise was undertaken, to evaluate the current roles of executives and to refocus these on current and long-term key priorities.
19. The new CEO visited al the overseas banks where TRAVREC had accounts and renegotiated interest rates, which doubled the income earned from foreign bank accounts.
20. The whole sales division, which was not part of the core business and often had conflicting interests, was sold off.

Travrec: Notes of general interest

1. Problems being experienced when the new CEO took over:

- ❑ Profits were static and declining.
- ❑ Market share was declining.
- ❑ Staff levels were increasing.
- ❑ Lack of financial discipline.
- ❑ No top management leadership - no clear strategic direction.
- ❑ Roles of senior executives not clearly defined.
- ❑ No discernible culture or set of values.
- ❑ Fragmented organisation with little integration and inter- departmental co-operation.

2. This turnaround was effected by the same management team except for a new CEO.

CASE 5: MERCHREC

1. The new CEO had to refocus the attitudes of his top executive team away from a strictly analytical attitude toward a more trading and innovative attitude.
2. Developed and widely communicated key values to support the above and other issues.

3. Introduced a management philosophy according to which executives could manage their businesses. An imperative for survival and effectiveness, was the challenge of a new organisational design. The organisation must be in equilibrium with its environment, and had to achieve the most with the minimum resources.
4. In one of the operating divisions of this group the following appointments were made: A new CEO, merchandising director, human resources director, marketing director, operations manager, and all store managers were replaced.
5. In the second operating division of this group the following appointments were made: A new textiles director, marketing director, financial director, merchandising director, merchandising manager, distribution manager. The operations director was transferred to another division, and another manager promoted to this position. The human resources manager was removed.
6. In the third and fourth operating divisions, the total second line of management was replaced with appointments from outside.
7. In order to change the culture, the new CEO spent much time advocating three specific models, indicating socio-economic megatrends. The first was a stakeholder model reflecting stakeholders' changing perceptions, the second a model illustrating the ethnic and demographic spread of leadership, and the third a "Megatrends 2000" seminar where 15 speakers sketched a Rip van Winkel scenario about South Africa. Speakers included for example the Secretary-General of the ANC. The top 125 executives in the group and their shop stewards were exposed to these.
8. Each operating division was uniquely differentiated from the other operating companies in the group and from their competitors; an analysis was made of their unique risks and opportunities.
9. The marketing, financial, human resources, merchandising and operations strategies then had to be changed to focus on these opportunities.
10. Introduced an incentive scheme to pitch rewards where the effort had to be made.
11. Developed and introduced a share participation scheme.
12. Reviewed the reward system and made it more flexible, offering an executive a buffet of perks to choose from.

13. Restructured the group. Reduced head office and decentralised key functions. Group human resources, group social responsibility, group benefits and group public relations departments were disbanded and decentralised to operating companies where they could add more value.
14. Transformed the finance department into a financial services division which became a profit centre.
15. Put all property issues into a property company which also became a profit centre.
16. Sold off any company which had no synergy with the existing core business.

Merchrec: Notes of general interest

1. Problems the new CEO experienced on appointment:

- ❑ Strong centralised head office dominating the operations and taking away shopkeeping flair and innovation.
- ❑ Management team insensitive to new and changing socio-economic environment.
- ❑ The group was erring toward the mediocre middle ground and insufficiently differentiated from its competitors.

CASE 6: TRANSREC

1. Undertook a diagnosis of where the company was losing money.
2. Cancelled 30 signatories on cheque accounts. This exposed problems in terms of how money was spent and the capabilities of staff.
3. Formed a rates committee to establish some form of discipline in the rates that were quoted to customers and to ensure that these were consistently profitable.
4. Reviewed all activities in the accounts department; reviewed and allocated critical areas, such as cash book and accounts to the most capable staff members.
5. Introduced in-house training by an outside training consul-tant on credit control and credit management.

6. Formed approximately five project teams to solve cash-flow, credit and invoicing problems jointly.
7. Undertook a group-wide blitz on debtors to improve cash flow.
8. Introduced weekly meetings with rotational attendance of 40 staff members, ensuring that everyone would have a chance to attend. The purpose was to identify problems and create awareness.
9. Introduced a team briefing system, in terms of which cells of people working in the same areas met once a week to talk about problems, ideas and solutions and also to facilitate communication.
10. Introduced a meeting to discuss certain issues in the organisation, to define problems and to stimulate innovation.
11. Created multi-disciplinary task forces to address key problems which were identified in the meetings. Approximately 10 such task forces were created.
12. Introduced a company newsletter with the editorial policy that it had to be aimed at the workers.
13. Sold off a warehouse complex to generate cash and improve the balance sheet.
14. Negotiated bridging finance with banks and delayed payment with creditors in order to improve cash flow.
15. In conjunction with a large number of staff members developed a set of values to govern behaviour, these were widely communicated to all employees .
16. Dismissed approximately 50 managers and replaced them with approximately 20 new managers.
17. Of the more senior positions, the following left the employ of the company:
    - ❑ The CEO.
    - ❑ National freight executive.
    - ❑ National travel executive.
    - ❑ Financial executive.
    - ❑ Chief accountant.
    - ❑ Regional freight executive.
    - ❑ Regional accounting executive.
    - ❑ Trade finance executive.
18. Reduced headcount from 620 to 550 staff members.

19. Created decentralised operating divisions.
20. Created a new position for a human resources manager.

Transrec: Notes of general interest

1. Problems the new CEO experienced on appointment:

- ☐ Weak financial controls and no financial discipline.
- ☐ Little management information.
- ☐ Highly politicised, hostile culture.
- ☐ Weak senior executive team providing no direction or leadership.
- ☐ No integration of activities or interdepartmental co-operation.
- ☐ The business outgrew the structures, policies, procedures and systems.
- ☐ Total centralisation with large head office, procrastination and autocratic decision-making.

CASE 7: SUGREC

1. Restructured the company from a centralised business into four operating divisions.
2. Introduced new thought processes to achieve a shift in behaviour from a centralised to a more decentralised culture.
3. Made the following appointments:
   - ☐ General manager: finance, promoted from within.
   - ☐ General manager: agriculture, appointed from outside.
   - ☐ General manager: technical, appointed from outside.
   - ☐ General manager: commercial, appointed from outside.
   - ☐ General manager: human resources, appointed from outside.
4. Created a new commercial division to market agricultural products other than sugar and to manage the transport division as a profit centre.
5. Expanded the human resources function, making many new appointments and giving it a stronger power base.

6. Expanded information systems department.
7. Implemented a cyclical strategic planning process consisting of various stages to budget.
8. Developed a vision and mission statement.
9. Developed and implemented a performance management system based on the strategic plan in the form of key result areas per manager, which was reviewed and revised annually.
10. Modified the culture from a short-term, financially orientated one to a longer-term, strategic focus with a willingness to make investments. Processes became more important than the task.
11. Developed a network of meetings, project teams and committees to facilitate integration and co-operation and to focus on the key performance issues in the business. More than 10 such multi-disciplinary task forces and meetings were created at senior level.
11. Implemented a comprehensive management development programme to create a more participative management style and culture.
12. Purchased more farms to expand citrus activities.
13. Developed "new products" from the sugar mill to boost revenue levels.
14. Performed a portfolio analysis to identify highest earning products and operations and these were expanded.

Sugrec: Notes of general interest

1. Problems the new CEO encountered on appointment:

- ❑ Very centralised structure.
- ❑ Short-term planning - one-year view.
- ❑ No team work.
- ❑ Company very technical and production orientated.
- ❑ All heads of divisions near retirement.
- ❑ No management depth in terms of middle management.
- ❑ Deregulation of sugar industry in South Africa.

- ❑ No strategic direction.

CASE 8: FURNREC

1. Established the value of team work: no matter where the problem was, the team was responsible for it.
2. Introduced an incentive scheme.
3. Made the following appointments:
    - ❑ Human resources executive from outside.
    - ❑ Financial director from outside.
    - ❑ Operations director through internal promotion.
    - ❑ Divisional operations director.
4. Implemented a shared values programme which resulted in the formulation of six values.
5. Clarified executive responsibilities, with decision-making powers to use their own discretion.
6. The new CEO became personally involved in the marketing activities of the company. He personally negotiated with the advertising agency and took co-responsibility for this function.
7. Conducted climate studies to measure the results of the shared values programme and to monitor the culture of the organisation.
8. Created "praise" committees in every branch and cost centre to monitor the extent to which behaviour met the values.
9. Developed a performance measurement programme. Salary increases were linked to the performance appraisal system in terms of which all staff would be appraised twice a year and directors once a year.
10. Introduced a bonus system with a different theme each year. As an example, 22 high-performing managers and their wives attended the Olympic games in Barcelona.

11. Introduced the following awards for performance in addition to the incentive scheme and the bonus system:

- ❑ Quarterly managing director's award.
- ❑ Millionaires' club for top performing salesmen.
- ❑ Millionaires' club for credit control staff.
- ❑ Floating trophies for the best division and best general manager.

12. The new CEO installed an answering machine at his home and gave the telephone number to all staff, encouraging them to phone and record all incidents of behaviour that did not meet the six values. He would personally respond to these messages.

13. Changed the operational structure, reducing the number of branches reporting to a regional controller.

14. Created more specialist functions at regional level in order to expand and strengthen the sales and credit functions:

    - ❑ sales managers.
    - ❑ field credit managers.
    - ❑ reporting to a newly created position of general manager.

15. Created a "future group", an inter-disciplinary committee with the aim of developing strategies focusing on the long-term issues of the business.

16. Reduced headcount from 2 156 in 1986 to 1 828 in 1991.

17. Reduced the vehicle fleet by 34 vehicles or 8%.

18. Implemented training programmes for each job. A training manual per job category was developed, detailing responsibilities, how to perform them, why, the policies involved and so forth. The training budget in 1992 was R2,5 million.

Furnrec: Notes of general interest

1. Problems that the new CEO faced on appointment:

    - ❑ The executive team did not work well together
    - ❑ Cost growth outstripped sales growth.
    - ❑ Cash consumption was unacceptable.
    - ❑ Profit margins were too low.
    - ❑ Return on assets was too low.

CASE 9: FINREC

1. The new CEO created specific opportunities to advocate his management philosophy. This involved evaluating every business in terms of leadership, focus, culture, management needs, management processes and synergy of objectives.
2. Capital was made available to operating companies on a predetermined basis of an expected 5% real growth above inflation.
3. When an operating company was acquired, its culture had to be changed from bureaucratic to entrepreneurial. Services not making money had to be dropped and services offered for free had to be charged for. Profits increased from R25 million to R60 million in one financial year.
4. Formed a group executive committee consisting of the managing directors of the various operating companies, in order to facilitate integration, co-operation and group strategy development.
5. The following managerial changes were made:
   - ❑ The managing director of one of the operating companies was put on early retirement due to conflict between him and the board. He was replaced.
   - ❑ Appointed yet another new managing director for the same operating company when the replacement did not perform to expectation.
   - ❑ Appointed a new managing director for a second operating company.
6. Acquired a merchant bank as a synergistic addition to the group.
7. Acquired a building society as a synergistic addition to the group.
8. Introduced a performance bonus system through which executives could earn bonuses of up to 100% of annual remuneration, based on the operating companies' return on capital.
9. Created a network structure to integrate the group companies and initiated committees to research and formulate policy on the following:
   - ❑ marketing.
   - ❑ finance.
   - ❑ planning.
   - ❑ technology.

- ❑ human resources.
- ❑ risk and credit.

10. Developed and implemented a strategic planning process.

11. Introduced an organisation development process whereby, amongst other things, objectives were formulated for each manager and performance measured against this. This improved executive output considerably.

12. Through the organisation development programme established levels of decision-making power for each level of management with a view of decentralising power to lower levels of management.

13. Introduced a job evaluation system.

14. Developed and implemented a new creative, flexible remuneration system.

15. Introduced a share participation scheme in which the top 150 executives of the group participated. They were allocated shares to the value of between three and five times their annual remuneration.

Finrec: Notes of general interest

1. Problems the new CEO faced on appointment:

- ❑ An advance of R500 million to one industrial concern, which was considered as excessive exposure.
- ❑ Negative reputation in the financial press.
- ❑ Morale of top executive team was low.
- ❑ No strategic direction or strategic planning.
- ❑ Substantial loans to industrial concerns with little credit documentation or security.
- ❑ No policies or processes existed to motivate people.
- ❑ No specific management style or approach existed.
- ❑ Operating companies were loose standing entities and fragmented; they did not function as an integrated whole.

CASE 10: ENGLO

1. Reduced headcount by 25%
2. Dismissed and replaced the following executives:
    - ❑ Materials manager.
    - ❑ Quality manager.
    - ❑ Human resources manager.
3. Reduced stock levels by R2 million over four months, by doing stock-taking and selling excess stock back to suppliers.
4. Developed new capacity loading plan for the production plant.
5. Visited all customers personally and got their views of the company and its problems, their forecasts for the future and how they saw ENGLO as a supplier to them.
6. Based on this customer information, developed a 5-year strategic plan.
7. Based on the 5-year plan, determined that the business had over-invested in capital equipment, even beyond the five years and disposed of excess production capacity. Reduced debt burden by R2 million.
8. Developed and introduced a new pricing policy, agreed on by all customers in order to regulate increases and stabilise prices.
9. Restructured the manufacturing process. Got consultants from Germany to develop routing sheets, standard costings, cycle times and process sequences.
10. Restructured the company and cut out and retrenched two layers of managers. Through delayering forced senior executives closer to the coldface.
11. Equalised anomalies in the remuneration structure and introduced consistency and integrity. Wrote formal policies on remuneration.
12. Established worker representative councils, a public grievance procedure and a disciplinary code, none of which existed previously.
13. Sourced two production experts from Germany, one in electronics the other in mechanics, to train local staff to operate machines.
14. By fixing remuneration, disposing of assets, introducing inventory control and a new pricing structure, could re-price most products to align price and cost. Costs came down.
15. Personally approved all expenditure above R200 for the first year.

16. Followed a policy of vertical integration and started producing in-house what had previously been outsourced.

Englo: Notes of general interest

1. Problems experienced by CEO when he took over:

- ❑ No adequate management information systems.
- ❑ No clear lines of responsibility and job definition.
- ❑ Overstaffed.
- ❑ Departmental conflict.
- ❑ Bad debts.
- ❑ Lack of profitability.
- ❑ Slow product introductions.
- ❑ Production staff could not operate advanced technologies.
- ❑ Over capitalised in terms of plant and equipment and sales volumes did not materialise.

CASE 11: CHEMLO

1. Tactical moves in pricing policy and structure to make it difficult for competitors to determine CHEMLO prices to clients.
2. Changed pricing policy. Based on trust relationship with clients, obtained orders, delivered chemicals and at the end of the season finalised price based on micro and macro market conditions. Managed to get better prices this way.
3. Expanded market activities to the Cape Province and Natal through the appointment of two agents to sell CHEMLO products. Volumes increased by 20% as a result of this.
4. Started exports from South African plants to Zambia and Malawi.
5. Bought a share for R4 million in a chemical plant in Richards Bay and achieved control over the supply of a base chemical in the manufacture of fertilisers.

6. An over-capacity for nitrogen existed and nitrogen reserves not utilised in fertiliser were utilised to enter other markets, notably the industrial market. Acquired a mining explosives company through which the nitrogen could be utilised.
7. Allied to the fertiliser industry CHEMLO also formed a new company to specialise in cultivating seed for the agricultural industry.
8. Created a new trading company to handle fertiliser, maize and seed exports into Africa.
9. In 1989 acquired the seed cultivating company of another large industrial concern in order to expand the seed operation.
10. In 1991 acquired the local subsidiary of an American firm. and consolidated this into the seed operation to establish it as the second largest seed supplier in South Africa.
11. Doubled the production capacity of the Rustenburg plant.
12. Undertook productivity studies to improve plant utilisation and also introduced technological improvements.
13. Reduced fertiliser plant staff levels by 50% in total.
14. Placed greater emphasis on achieving a greater percentage of sales through agricultural co-ops.

CASE 12: MERCHLO

1. In-depth analysis of profit and loss accounts to determine opportunities to increase profits.
2. Introduced a revolving credit card to entrench top customers in continuing to shop at MERCHLO.
3. Three positions became vacant through the course of events and were not filled again, in order to reduce costs: finance manager, marketing director, deputy managing director.
4. Saved R500 000 by terminating the services of an overnight security company.
5. In order to curtail the growth of the debtors' book, centralised credit control away from the stores into head office.
6. Made the following structural changes:

- ☐ Removed administration director from the main board.
- ☐ Asked credit director to leave.
- ☐ Appointed new operations director.
- ☐ Introduced a full regional team under the operations director, consisting of two regional managers, each with own human resources, credit, administration and security executives.

7. This decentralisation of human resources, administration and security did not work well and these functions were again centralised at head office.
8. Made the human resources director responsible for marketing and appointed a new human resources manager.
9. Appointed a merchandising manager to assist the merchandising director.
10. Expanded the stores development team whose function it was to open and develop new stores.
11. Changed the commission structure so that sales people would receive higher commissions on higher margin products to facilitate the sale of more profitable commodities.
12. Introduced a "service excellence" programme in terms of which MERCHLOs' service to customers was evaluated by the customers themselves.
13. The CEO took personal responsibility for negotiations with the advertising agency.
14. Introduced scientific staff selection programmes and increased the training and development budget.

CASE 13: FREIGHTLO

1. Continued with a strategy of massive growth and expansion.
2. Implemented an extremely hi-tech operating system after the previous CEO and a director visited Federal Express in the USA.
3. Included the operation of hand-held computers to capture data into the jobs of delivery drivers.
4. Created a new position of assistant- courier, to assist courier/drivers in this new function.

5. Closed down 80 agencies across South Africa, managed by entrepreneurial franchisees and opened regional offices to support deliveries to smaller towns which now had no freight representation.
6. Dismissed the operations directors who objected to this system which actually increased delivery time per parcel from 30 seconds to 7 minutes.
7. Appointed a new financial director.
8. Appointed 150 additional staff, some to assist the courier in his new duties and others to help sort out problems in the point of sale system, which resulted from couriers not doing the data capture correctly.
9. Introduced new training programmes in data capture, customer service and product knowledge.
10. The company believed it needed more competent staff and through increased salaries and fringe benefits such as company cars attracted more qualified people, but in the process upset so many existing staff members, resulting in a 40% staff turnover for that year.
11. Commissioned a new super-plant in 1989 in Johannesburg at the cost of R20 million. Even at 1993 volumes, which were 300% higher, than 1989 it was still grossly under-utilised.
12. During 1992 the company merged with a smaller similar company and staff were told they were going to be retrenched. Although this never happened, it was never communicated to them and, due to living with this uncertainty, staff morale suffered.
13. Took a strategic decision to focus on the consumer market for greater sales volumes rather than the blue-chip corporate logistics market.
14. Conflict arose between the marketing director and the operations director, as the marketing director did not believe that this strategy would work. This resulted in the operations director appointing his own sales team of approximately 30 sales representatives, to capture the consumer market.
15. Based on an organisation and methods study indicating that the consumer market was more profitable, the pricing structure was changed to maximise margins. This however resulted in a decrease of 30 percent in turnover.
16. Marketing division did research and found that the customer

wanted to pay per consignment, rather than per parcel as the new pricing policy dictated. These research findings were not heeded.

17. The general manager: operations eliminated a complete layer of regional managers.

18. A new general manager: domestic operations was appointed and within six months the layer of regional managers was re-introduced. The six new regional managers were appointed from outside the company.

19. By early the next year the general manager: operations, was asked to leave.

20. Re-engineered the entire computer-driven operations system to coincide with and facilitate the merger. Only three months was allowed to do this and R2 million later the system virtually collapsed. The architect of the system resigned with all the plans undocumented.

21. Restructured the branch network and changed their status from profit centres to merely cost centres. They were only to handle parcels at a given cost and all their other functions such as sales, marketing, servicing, accounting, credit control and billing were removed and centralised.

22. Increased headcount by 300 people to 1 250.

CASE 14: FURNLO

1. With the object of financing a management buy-out in 1989, FURNLO adopted a policy to push sales to achieve the greatest degree of turnover and profits, to raise funds with the banks.

2. Credit policy was not adequately applied and with the above push for sales, volumes did increase but so did the debtors' book, from R220 million in 1990 to R410 million in 1992.

3. Increased sales budgets per branch and linked incentives to these in order to motivate sales people to sell more.

4. Appointed more sales people per branch.

5. Greater emphasis was put on outdoor sales than indoor sales. Outdoor sales is defined as when a sales representative visits customers, whilst indoor sales is

defined as when the sale takes place within the store. The ratio of outdoor to indoor sales was increased from approximately 40/60 to 80/20.

6. Increase product lines per stores from approximately 10 to 38 lines.
7. Increased the store network from 145 stores in October 1989 to 154 by June 1992.
8. FURNLO was clearly positioned at the bottom end of the market and in order to increase volumes another chain of 19 stores was opened by 1992, slightly differentiated in that it was positioned for the middle market.
9. As a result of bad debts, 326 extra credit controllers and debt collectors had to be employed, each with his/her own vehicle.
10. A decision was taken to reposition two of the three chains to represent an even spread through most economic sectors. During April, May and June 1992 numerous stores changed names, brand names and merchandise. A store belonging to one chain now belonged to another - staff changed as well. The customers were confused and the sales volumes dropped.
11. The credit department with 10 field credit managers, reporting directly to the credit director, which assisted branches in managing the debtors' book, was downsized to a credit director and three others.
12. The credit policy changed on numerous occasions in terms of criteria for credit granting and criteria for classification of bad debt, to be actioned. This resulted in confusion.
13. Staff were paid incentives on bottom line profit in terms of cash bonuses on a quarterly basis. This resulted in a short- term focus.

CASE 15: FINLO

1. As an independent merchant bank, formed a strategic alliance with one of the most prominent banking groups in South Africa to underwrite certain advances made to industrial concerns.
2. Made the following new appointments at executive level:
   - ❑ General manager: human resources.
   - ❑ General manager: foreign exchange.

- ❑ General manager: capital and money markets.
- ❑ Assistant general manager: information systems.
- ❑ General manager: project finance.

3. The corporate division, looking after mergers, acquisitions, listings, etc. was substantially expanded with a number of new appointments.
4. In a product-market refocus, sold off the registrar's company responsible for registering companies on the stock-exchange, but retained the administrative side of it.
5. Introduced a new flexible remuneration system with profit participation.
6. Introduced a share participation scheme but with negative consequences when share prices dropped to below loan-account values.
7. Started a project finance division.

CASE 16: BUSLO

1. Formed an executive committee existing of the managing director, three directors, seven branch managers and two other managers, which met only twice a year. Also formed three process action teams to redesign processes.
2. Instituted a strategic planning process, aided by a consultant and supported by the finance director who had such skills.
3. Linked reward system and incentive schemes into the strategic planning process by introducing management by objectives.
4. Centralised credit control and collections in the Transvaal region.
5. Further strengthened the credit control function by appointing an additional three credit controllers.
6. Improved inventory management through introduction of materials requirement planning system called "execulink" and increased stock-turn from once per year to 3.5 times per year.
7. Re-organised buying, planning and distribution into one business logistics function and appointed a competent person in materials management to handle this.
8. Changed the branch structure in the Transvaal area. Instead of three branches, created four product divisions to increase focus for sales, administration and

technical support. Reduced two branches to sales only and closed a third branch. Twelve branches were reduced to five.

9. In terms of the balance sheet and credit terms with suppliers, changed from a TT system to a letter of credit system, creating 120 days margin to pay suppliers rather than immediately when stock landed at the ports.

10. Retrenched 100 people of total staff complement of 402 in 1990 and then had two further retrenchments, shedding another 40 staff members and later again 30. At the time of this investigation, employed 230 people.

11. Reduced cost by another R100 000 per year through savings on stationery, consumables in the technical department, eliminating plants in the offices, withdrawing managers' credit cards, etc.

12. Changed the reward system for sales people. Previously sales representatives were paid commission, in addition to a R2 000 basic salary and a car allowance of R1 500, on the total sale value of a copier as well as on the monthly service charge per copy over the lease period. This was changed to commission paid on only the profit margin of the machine sale and no ongoing commission on the monthly service charges based on the number of copies made. In 1991 the company employed 45 permanent sales representatives which decreased to only 21 in 1994 as representatives resigned due to dissatisfaction with this system.

13. Introduced a total quality management programme during 1992, resulting in the re-engineering of three processes, namely, distribution, purchasing/forecasting and sales administration. Three process action teams were created to develop these new systems.

14. Put sales managers through a modular sales management training programme, whilst another programme for sales representatives was being developed.

15. Graded technical staff in terms of their skills and classi-fied them within two different chosen career paths.

16. Formed a sanctions-busting logistics supply line of products imported into South Africa.

17. Actions have now been taken to develop a finance arm to finance customer purchases. Major competitors all have a financial package to sell with the product.

18. Classified the client base according to value into platinum, gold, silver or lead clients. Sales and service strategies were adjusted accordingly to contain costs of servicing.

19. Develped a strategy to grow sales without concurrent investment. This involved a dealer concept in other African countries, where the appointed dealers have to supply their own finance, and were franchised to sell BUSLO's products. In the first 18 months, eight dealers were recruited on this bases.

20. Made the following managerial appointments:

   - ❑ Materials manager.
   - ❑ Public relations officer for government relations.
   - ❑ Finance director.
   - ❑ Sales director.
   - ❑ Technical manager.

RUNNERS' SURVEY 2007

Help improve your sport and stand a chance of winning a pair of running shoes for yourself and another pair for your club to donate to an underprivileged club mate.

Please tick where appropriate

1. How many times a week do you run/train?

☐ Once ☐ Twice/Three times ☐ Four times ☐ Five or more times

2. Do you prefer to run with a club/on your own?

☐ With a club ☐ On my own ☐ Just with friends

3. What is your best time to run?

☐ Morning ☐ Afternoon

4. In the coming year, do you intend competing in any of the following?

☐ Comrades Marathon ☐ Two Oceans ☐ Nedbank PE City Marathon ☐ Nedbank Joburg City Marathon
☐ Nedbank Cape Town City Marathon ☐ Nedbank Soweto City Marathon ☐ Nedbank Matha Series (Tshwane/Bloem/Polokwane)
☐ Nedbank SA Championship (Open) Event (PE/Dbn/S/bosch) ☐ Nedbank Outeniqua Marathon & Half (George in April)
☐ Nedbank Om-die-dammetjie (White River in September)

5. How many marathons or longer do you run in a year?

☐ None ☐ 1–3 ☐ 4–5 ☐ 6+

6. How often do you buy new shoes

☐ 0–6 months ☐ 7–12 months ☐ 1–2 years ☐ 2 years plus ☐ Sponsored ☐ Never – Hand me downs

7. Which, if any, of the following other sports do you participate in at least every 2nd month?

☐ Adventure Sports ☐ Athletics (Track and Field) ☐ Basketball/Netball ☐ Billiards/Pool/Snooker ☐ Cricket
☐ Boxing/Wrestling ☐ Cycling ☐ Dancing ☐ Fishing ☐ Golf ☐ Gymnastics ☐ Hockey
☐ Horse Riding ☐ Hunting/Shooting ☐ Martial Arts ☐ Rugby ☐ Soccer ☐ Swimming
☐ Tennis ☐ Volleyball ☐ Walking/Hiking ☐ Water Sports

8. Please indicate which, if any, of the following sports you regularly attend as a spectator at the event venue

☐ Adventure Sports ☐ Athletics (Track and Field) ☐ Basketball/Netball ☐ Billiards/Pool/Snooker ☐ Cricket
☐ Boxing/Wrestling ☐ Cycling ☐ Dancing ☐ Fishing ☐ Golf ☐ Gymnastics ☐ Hockey
☐ Horse Riding ☐ Hunting/Shooting ☐ Martial Arts ☐ Rugby ☐ Soccer ☐ Swimming
☐ Tennis ☐ Volleyball ☐ Walking/Hiking ☐ Water Sports

9. Which of the following banks do you currently bank with?

☐ ABSA ☐ FNB ☐ Nedbank ☐ Standard Bank ☐ Post Office ☐ Other

10. How likely would you be to open an account with a bank, if you knew that a percentage of the value of all of your transactions on that account would be used for road running development and to help underprivileged runners, at no extra cost to you?

☐ Very likely ☐ Fairly likely ☐ Neither likely nor unlikely ☐ Unlikely ☐ Very unlikely

11. Tick the four (4) most important race facilities that determine your participation at races.

☐ Getting there/going home ☐ History of the event ☐ Safety & Marshals ☐ Refreshment Tables
☐ Value – Fee ☐ Results ☐ Give-aways ☐ Medals ☐ Venue facilities ☐ Memorable event
☐ Scenic course ☐ Fast course

Thank your for completing the survey. All 2007 licensing forms comprehensively completed by yourself, co-ordinated by your club and captured by your province before 28 February 2007 will be considered for the draws. Only one reply per person is required. If more than one reply is received, you will automatically be excluded from the draws.

ASA
ATHLETICS SOUTH AFRICA

MAKE THINGS HAPPEN NEDBANK

2007 LICENSING FORM

ASA
ATHLETICS SOUTH AFRICA

The completeness and accuracy of this submission, helps to improve Athletics South Africa's service to you. Thank you.

[X] Athlete [ ] Coach [ ] Technical Official [ ] Track & Field [X] Cross Country [X] Road Running [ ] Race Walking

Your details (Please tick where appropriate)

Surname: MITWA

Title (Mr/Mrs/Miss/Dr etc): MR

First name: NHLANHLA WILTON B.

Initials: W N B

[ID] ID number (ID) Birth certificate (BC) Permanent residence number (PR)

660711 – 5532 – 083 Please enter the relevant number

License number (2006):

License number (2007): 65317

Province: WC

Club name (in full): UCT

Gender [ ] Female [X] Male

Date of birth 11 07 1966

Category as at 1/1/2007 [ ] Youth [ ] Junior [X] Senior [X] Vets [ ] Master [ ] GrandMaster

Residential address – Domicilium rule
3 DUNVEGAN GARDENS
HOPE Road
Rosebank
Code 7700

Postal address
P.O. BOX 304
Rondebosch
Code 7701

Tel code: Telephone number (Home):

Tel code: Telephone number (Work):

Cellphone number:

Email address: NMITWA@GMAIL.COM

Home language
[ ] Afrikaans [X] English [ ] Sotho [ ] Xhosa [X] Zulu [ ] Other *(specify)*

Occupation:

Company name or Self Employed: Student

Type of business: Student

From time to time Nedbank and/or ASA send out marketing or Nedbank Series material that may be of interest to Nedbank Series participants. Please tick if you would like to receive. Tick to receive [X]

(To be completed by Administrator) **Fees received** R

I declare that I am a bona fida athlete/coach/technical official. I confirm that all the information provided on this application is true and correct. I subject myself to the rules and regulations of Athletics South Africa, and the IAAF, and I undertake not to compete in any track meeting, road race, cross country event, race walking event, or fun run which is not sanctioned by the provincial athletics body and ASA. I indemnify ASA, the provincial body, sponsors and organisers of any race against all and any action of whatever nature which may arise out of my participation in any race, and I agree that it is my responsibility to be medically fit to compete in any event.

Date 2 March 2007 Signature

Signed by candidate

Signature of parent/guardian (where applicant is under the age of 16 years Signature

Signature of the club representative Signature Signature Removed

Signature and stamp of the province Signature

Welcome to the Athletics South Africa family

MAKE THINGS HAPPEN NEDBANK

THANK YOU NHLANHLA !

Your entry in the 2007 Old Mutual Two Oceans Half Marathon has been received and is being processed.

Your race details are as follows :

Date -> Saturday 7 April 2007
Start Time -> 06:00
Cut-off Time -> 09:00
Distance -> 21 km
Category -> Veteran Men (40-49)
Provisional Seeding -> F

Payment Reference -> 63288

You will shortly receive an e-mail that will confirm your entry and give you your race number. Alternatively you can also check your entry online vi this website in about an hour's time.

Click here to see a tax invoice for your entry.

Another Entry Close

TAX INVOICE (ENTRY CONFIRMATION)

PLEASE PRINT THIS RACE CONFIRMATION/TAX INVOICE AS YOUR RECEIPT AND PROOF OF ENTRY.
YOU WILL ALSO RECEIVE AN ENTRY CONFIRMATION IN THE POST.

REGISTRATION TIMES

GOOD HOPE CENTRE, CAPE TOWN		
Wednesday	4 April 2007	12h00-19h00
Thursday	5 April 2007	10h00-19h00
Friday	6 April 2007	09h00-19h00
UCT RUGBY FIELDS, RONDEBOSCH		
Saturday (number collection only)	7 April 2007	05h00-06h30

Name : NHLANHLA MLITWA
Race Number : 57355
Race Type : 21 km
Seeding : F

Invoice Date:	02/03/2007
Payment Ref:	63288
Date of Birth:	11/07/1966
Category:	Veteran Men (40-49)
Nationality:	South Africa
Province:	Western Province
Club:	UNIVERSITY OF CAPE TOWN
Race Date:	Saturday 7 April 2007
Start Time:	06:00
Cut-off Time:	09:00

Entry Fee (including VAT):		55.00
ChampionChip Fee:		70.00
Temporary Licence Fee:		0.00
T-Shirt Cost:		0.00
Badge Cost:		0.00
Donation:		0.00
	TOTAL	125.00

Payment confirmed : Credit Card

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