

**ANALYSIS OF THE IMPLEMENTATION OF CORPORATE LEVEL STRATEGY IN A  
SOUTH AFRICAN FURNITURE RETAILER**

Research proposal submitted in partial fulfilment of the requirements for the degree of

**MASTER OF BUSINESS ADMINISTRATION**

in the

**RHODES BUSINESS SCHOOL**

By

**THEMBINKOSI SYDNEY NKATSHA**

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## DECLARATION

I, Thembinkosi Sydney Nkatsha, hereby declare that this thesis is my own original work, that all references and sources have been accurately reported and acknowledged, and that this document has not previously, in its entirety or part, been submitted to any University in order to obtain an academic qualification.



*Thembinkosi Sydney Nkatsha*

November 2012

## **INTEGRATIVE SUMMARY**

This study is situated in the complex field of change management, and strategy execution. The study focuses on the corporate level restructuring of Ellerine Holdings Limited (EHL), subsequent to its acquisition by the micro lending financial institution African Bank Investments Limited (ABIL). The interest of the researcher was aroused by the uniqueness of the relationship. This was the first of its kind in a South African context, where a banker owned a furniture retailer. The restructuring was undertaken shortly after the acquisition.

This research paper adopted a case study approach, in describing the restructuring initiative that took place in EHL, focusing on the period between January 2008 and the end of 2010/ 11 financial year on the 30<sup>th</sup> of September 2011. The case captures the significant phases of the restructuring including a background of (1) the protagonist, Toni Fourie (Chief Executive Officer), (2) EHL as the researched company, (3) the industry it operates in, and (4) the case content. Brief teaching notes have been provided to explain the teaching value of the case and to assist with its delivery in the classroom. Attention is drawn to a presentation by the protagonist in November 2011, named 'A CEO Insight' where he gave an overview and insights of the road travelled in restructuring Ellerine Holdings Limited, and more importantly highlights the following about the purpose and nature of the restructuring of the organisation.

- A plan to change the way the industry works.
- The creation of a profitable, stand-alone retail business through:
  - The sale of two companies, the closure of two companies and consolidating from thirteen to six brands.
  - Separating financial services from retail.
  - Moving the financial services component to African Bank, also a subsidiary of ABIL.
  - Redesigning the credit model.
  - Completion of twelve system changes.
- Over R600million reduction in cost
- A place where people want to work.

The restructuring outlined above represents a major shake-up in many aspects of the corporation. The main challenge for Toni Fourie and his team was: how best could they restructure EHL to extract synergies between their two subsidiaries Ellerine Holdings Limited & African Bank to increase shareholders' value at Group level. The case seeks to describe this in detail. The overarching strategy underpinning the restructuring of the researched corporation is premised on the price volume elasticity equation, by reducing the cost of credit, thereby driving pricing down within the brands, and facilitating more people having access to affordable credit

The case study of the restructuring is presented in Section 1. A review of relevant literature on strategy implementation is presented in Section 2, focusing on restructuring. Successful implementation of strategies only takes place with structures that are developed by organisations to support the achievement of their strategic objectives. Organisational architecture and design have a critical role to play in the execution of organisational strategies. Nadler and Tushman (1978) emphasise the importance of congruence in the organisational design, for the organisation to not only deliver superior results but to sustain them over a period of time. Research by Okumus (2005) seems to tell us that the lack of credible framework to implement strategy, has contributed the high failure rate of strategy initiatives. Although this is a strategy implementation case, it also touches on aspects of leadership - mainly the architectural role - and the role, or influence of strategic leadership, in restructuring the corporation.

The results of this research paper were achieved by following a specific research methodology. The aim of the research was to analyse the restructuring of the researched company at corporate level, having the following objectives in mind;

- ❑ Understanding the strategy.
- ❑ Analysing the design decisions in the light of the strategy chosen by the top management of Ellerine Holdings Limited.
- ❑ Analysing what monitoring and control measures had been designed to facilitate the corporate restructuring.

Data was collected through documentation of the corporation that was made available to the researcher on request, as well as those that are in the public domain, and an interview with the CEO of the researched company. The interview was conducted after analysing the documentation (Hakim, 2000). The Methodology is detailed in Section 3.

The researcher hopes that the case study will contribute to learning about business leadership and strategic management. The case should develop an understanding of the complexities related to strategy execution at corporate level, particularly the restructuring aspect of it.

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## 1 SECTION ONE: CASE STUDY

### ELLERINE HOLDINGS LIMITED: RESTRUCTURING

*“The changing face of credit and furniture retailing” Clayton 2008.*

#### 1.1 Case Summary

In November 2011, the CEO<sup>1</sup> of Ellerine Holdings Limited (EHL) presented ‘A CEO Insight’, giving an overview and insights of the road travelled since the acquisition of the organisation by African Bank Investment Limited (ABIL) in 2007, and his appointment as CEO early in 2008. His presentation touched on a number of aspects, namely: the current environment (challenges and opportunities); the CEO’s dilemma – paradoxes; what kept the organisation awake; personal experiences; and lessons learnt about the restructuring initiative. Now that the restructuring phase was drawing to an end, Toni had to consider how to stabilise the organisation, and for how long before entering the growth phase.

At the time of his taking control as CEO, he had embarked on a strategic journey of restructuring the organisation, with a conceptual model in mind, namely;

- CONSOLIDATE / RESTRUCTURE.
- STABILISE.
- GROW.

#### 1.2 Background

##### 1.2.1 Toni Fourie

Toni Fourie<sup>2</sup> is an astute businessman with extensive experience in strategic leadership in the retail industry. His experience can be traced back to his early days when he joined the Edcon Group as an Executive Management Trainee in 1981, shortly after finishing his two years national service.

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<sup>1</sup> Chief Executive Officer

<sup>2</sup> The researcher of the study, who tried to be formal at the interview by calling him “Mr. Fourie” was quickly reminded that any further usage of “Mister” may lead to him ending the interview, as he preferred to interact with everyone, including his employees, on a first name basis (Hence the use of his first name ‘Toni’ throughout this study).

For ten years he worked and fulfilled various functions for Hyperama & Truworth's. His over twenty years of experience in retail, saw him occupy senior positions in a number of major retailers in South Africa. As a young executive, he was instrumental in a number of strategic initiatives to turn a business around.

He spent a number of years at the Massmart Group where he was Chief Executive of Massdiscounter, responsible for the turnaround of Dion, as well as the purchase and integration of Game into the Group. His expertise was again called upon to salvage the Connections Group Holding (Pty) Limited in 1999, when their share price had collapsed from R7.90 to 11cents in a matter of weeks (Fourie, 2012), where he became Group CEO. He was tasked with pioneering

"I am a change catalyst. If your company is stable and you need a caretaker, I am not your man. I like fixing, sorting, getting it right." **Toni Fourie**

their turnaround strategy, and was instrumental in the birth of the retail giant, Incredible Connection. Four years later he was appointed as a Managing Director responsible for strategy, innovation and business optimisation at ABIL. This involved integrating five businesses into one, and the development and implementation of their growth strategy. Interestingly, the

Connections Group Holding (Pty) Limited was taken over by Grattan Kirk who has subsequently moved to the helm of EHL's main competitor, the JD Group as their CEO. Toni's mandate at ABIL enabled him to reposition the African Bank distribution footprint, branding and customer service proposition as well as to assume responsibility for the integration of African Bank and Specialised Lending Services, which were both subsidiaries of African Bank Investment Limited (HGR<sup>3</sup>, 2008). One supposes that the challenges of the portfolio presented above made him an obvious choice to take over the newly acquired subsidiary of ABIL in 2008. "His natural ability to quickly identify the real issues entangled among the bigger and complex apparent complexities have stood Fourie in good stead in his business career" (HGR, 2008). He is passionate about business, life, and family, and madly so about South Africa. He never forgets his roots. Toni was born in Bloemfontein and raised in Johannesburg "on the other side of the railway line" (Fourie; 2008). He reckoned that a humble upbringing has taught him how to keep his feet on the ground.

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<sup>3</sup> Home Goods Retailer

## 1.2.2 Ellerine Holdings Limited



Ellerine Holdings Limited was founded by Eric Ellerine in 1950 at the age of 16, with one trading outlet: Eric's Furnishers, in Germiston Gauteng with £108 saved from his Bar mitzvah money (Financial Mail, 2000). The organisation was listed on the JSE Securities Exchange in 1972, until the acquisition by African Bank Investment Limited as its wholly-owned subsidiary in 2008, when it was delisted.

The organisation operates in the retail and appliances sector in South Africa, with footprints in the neighbouring SADC countries like: Botswana, Namibia, Lesoto, Swaziland and Zambia. The merger with Relyant Group in 2005, culminated in a larger organisation which traded in 13 brands, 17 management structures, and 4 Head Offices, with almost 1298 outlets and 17,198 employees spread throughout Southern Africa. The organisation also owned Rainbow Loans, which was used for unsecured cash loans; Early Bird Services for repairing faulty electrical appliances; Relyant Insurance & Assurance Company Limited, for the insurance wing of the

“We have been in the affirmative mould for many years” **Henry Mmatli** (FM, 2000)

business; and owned properties throughout the country. For its entire existence of 58 years at the time of acquisition, Ellerine Holdings Limited only had one person of colour who had managed to become a director in sales, functioning at an operational, rather than a strategic level. This was despite attestations that the organisation was in the forefront of what was then referred to as ‘affirmative action’.

Over the years, the performance of EHL had been regarded as being sound, and had received ratings from several publications as being amongst the top 100 retailers in the country. Despite this performance, the company was not leading in the furniture retail market space (Exhibit A).

The organisation had further improved its 2006 financial year profit before tax by 10.9% (EHL; 2007) from R1,266million to R1,404million in 2007 with the following ratios: current from 2.8 to 2.6; gearing from 16% to 23% and net asset value per share from 4127cents to 4487cents (Exhibit B and C).

ABIL gained control of EHL on the 7th January 2008, upon which the ABIL Group would consolidate EHL balance sheet into its financial statements and align these with the holding company's accounting policies. EHL strategic intent prior to acquisition by ABIL, was "to provide and deliver home lifestyle products across the entire market spectrum, that genuinely meet and exceed customers' aspirations, while continuously seeking to capitalise on strategic opportunities for market growth, and to maximise wealth creation for all their stakeholders" (EHL, 2006; 3). They envisaged driving these strategic objectives from a hierarchical organisation structure as depicted in Exhibit D below, utilising the 13 brands as a strong footprint throughout Southern Africa.

### **1.2.3 Industry & Economy**

The key players in the furniture retail trading space are: Ellerrine Holding Limited, JD Group, Lewis, Massmart and the Shoprite Group. These key players primarily serve the low to middle income markets. The merger of Ellerrine Holdings Limited with the Relyant Group was preceded by the JD Group acquiring Profurn in 2002, and resulted in the dominance of the industry by these two furniture retailers. It was as a result of this very dominance, that the proposed merger between EHL and JD Group was prohibited by the Competitions Tribunal in the year 2000. JD Group, with its controlling shareholders being Steinhoff, has diversified into a number of unrelated businesses, namely; Timber City, Pennypinchers, and Unitrans Auto. Although they have an indirect relationship with Capitec Bank through Steinhoff shareholding, Grattan Kirk and his team's strategy does not seem to have any intention, to further develop business relations with Capitec Bank in the near future (Moneyweb, 2012).

The industry has gone through a number of significant challenges and changes in the environment it operates in today. Firstly, the introduction of the National Credit Act<sup>4</sup> in mid 2007, with its main focus on the clients' levels of indebtedness, had profound effects on how this industry was to operate into the future. The introduction of this Act was mainly informed by the high prevalence of debt-ridden South African consumers. It is also noteworthy that the window

**JD Group**

- 9 Chains in Southern Africa & 1 in Poland.
- Credit Sales 38.2% of Total Sales.
- Bad Debts: 8.2% of Gross Receivables up from 5.6%.

**Lewis**

- 4 Brands: Lewis, Best Electric, Lifestyle Living, Best Bedding
- Highly focused "One Brand" strategy.
- 70% of Sales on Credit.
- Bad Debt: 4.2% of Gross Receivables down from 4.55%.

**Shoprite**

- 3 Brands: House & Home, OK Furnishers, OK Power Express
- Little differentiation relative to competitors.
- 32% of Sales on Credit.

**Massmart**

- 3 Brands: Makro, Game, Dion Wired
- Low Price, Low Margin, High Volume Strategy
- 4.82% of Discounter Sales on Credit

period leading up to the start of the Act was characterised by overzealous credit lending by credit lenders throughout the country. Despite having to deal with changes in its internal operational environment, there was also a challenge from the clients' perspective who did not clearly understand the Act, thereby becoming suspicious with the new ways of doing business. The South African government had also introduced the Consumer Protection Act<sup>5</sup>, to create an enabling environment for consumers to shop with a peace of mind. This meant more care had to be taken in transacting with clients, to mitigate against the possibility of financial losses as a result of non-compliance with these pieces of legislation. The clients have become more sophisticated as a result of increasing levels of education within the target markets, as well as increased awareness campaigns driven by government through the Department of Trade and Industry in the media and languages clearly understood by the clients.

**Figure 1: Furniture Retail Analysis – Main Competitors (Source: Adapted from EHL)**

<sup>4</sup> Act No 34 of 2005

<sup>5</sup> Act No. 68 of 2008

The world economy started to experience new challenges in 2008, through the global credit crunch. South Africa was not immune to this financial stress, which crippled numerous businesses throughout the globe, affected consumer spending, and impacted negatively on overall economic performance. The resultant recession made consumers tighten their belts and only spend on necessities, and this posed new challenges for retailers, whose commodities are not a necessity for most consumers. The continued rise on fuel, food prices and electricity put pressure on the household balance sheet, thereby reducing the demand on durable goods (Exhibits E, F and G). Over and above the decrease in consumers' disposable income, the poor performance of the global economy also culminated in job losses in many sectors, due to organisations restructuring their operations to cut down on costs, or closing down. This recessionary situation which was characterised by high interest rates and rising food prices impacted negatively on the consumers' disposable income. On the other hand, the South African economy has not been growing at a sufficient rate to create new jobs. These are the complexities that furniture retailers had to contend with on a daily basis during the period of restructuring EHL. EHL and the JD Group (whose brands include Joshua Doore and Morkels) had been hit the hardest by the downturn in the listed furniture sector, while Lewis had managed to minimise the effects of the recession, largely due to its single brand strategy (Fin 24.com; 2009).

### **1.3 Restructuring EHL: Awakening the Giant**

The year 2007 saw ABIL diversifying into an unrelated business, by acquiring the entire issued share capital of Ellerine Holdings Limited (other than the excluded shares), but only took management control on the 8th of January 2008. Previous diversification of ABIL was in related businesses, when they acquired the personal loan books of Saambou & Boland Banks. This invariably implied that ABIL had to ensure that the newly acquired subsidiary was aligned to the holding company's strategic imperatives to make sense of the diversification.

The restructuring of EHL was to be underpinned by overarching managerial economics strategic choices, namely:

- ❑ Price Volume Elasticity.

- Cutting down on costs.
- Bringing the price of credit down.
- Making the retail wing of the business profitable.

It was envisaged that the overarching strategy choices referred to above, if executed correctly as planned, would assist the organisation EHL to achieve its 4 – 5 years strategic objectives, namely:

- Double the sales.
- Achieve an after-tax return on sales of 10% in the Retail division.
- Achieve a return on assets of 10% on the Financial Services division.
- Establish six dominant brands of scale.
- Achieve productivity increase of 15-20% year-on-year on space, people and stock.
- Separate the Retail and Credit business models.
- Create a new organisational model:
  - Small standardised, centralised centres of excellence.
  - Six highly differentiated critical mass chains.
  - A single efficient Supply Chain and Logistics network.

#### **1.4 Executing the strategy**

Toni Fourie (2012) believes that “reasonable strategy well executed will in all likelihood deliver better results than a great strategy poorly executed”. This is encapsulated in the detailed situational / SWOT<sup>6</sup> analysis of available data, to understand where the business was, where it wanted to go to, and how it would get there, and this incorporated some PESTLEGH<sup>7</sup> considerations.

The outcome identified significant challenges in key strategic areas, namely; **positioning, performance and the business model.**

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<sup>6</sup> Strengths, Weaknesses, Opportunities, Threats

<sup>7</sup> Political, Economical, Social, Technological, Legal, Environmental, Governance & Historical

In taking over EHL in 2008, Toni Fourie and his team were confronted with a different environment from when they transacted the acquisition of the company, namely;

“The furniture industry is a hell of a big industry but it has constrained itself because of its high pricing and if we could bring the pricing down it would stimulate demand and you would see this rapid growth and a thirty billion rand industry could become a forty and fifty billion rand industry and that is the awakening the giant.” **TONI FOURIE**

- ❑ The world economy was faced with a different set of challenges in the form of global credit crunch which induced recessionary tendencies in the world economy, the effect of which had a direct impact on the South African economy as a global player.
- ❑ The performance of the debtors' book had retrogressed quicker than anticipated.
- ❑ Rising interest rates, food and fuel prices.
- ❑ The National Credit Act had changed the landscape in furniture retail. However it has to be stated that although the NCA was promulgated into law in

2005, it only became effective from the 1<sup>st</sup> of July 2007.

This situation had profound effects on the execution of the strategies developed to take the organisation forward post acquisition. Accordingly, Toni reckoned that the business was in deep trouble even before the 2008 world economic collapse, and that at the point of taking over the EHL business, sequencing the strategy became more critical.

#### 1.4.1 Organisation design



The design of Ellerine Holdings Limited as identified to be characterised, in the main by an excessive organisation design with inefficient and complex structures.

This necessitated management to design the organisation in a manner that would accelerate the achievement of the newly adopted strategic objectives.

#### **1.4.1.1 Structure**

A decision had to be made about a suitable organisational structure that would execute the chosen strategy of EHL. The inherited structure was hierarchical, and deemed to be undesirable for the chosen strategy. Toni opted for a flatter organisational structure (Exhibit H) with wider spans of control. The Group's (EHL) four Divisional management structures that supported the 13 brands were disbanded, and seventeen executive teams were taken out of the structure. This did not only reduce the fixed cost, but ensured effective communication necessary to execute the chosen strategy successfully, and also increased the span of control, which entailed empowering people to make decisions about aspects of the jobs that they are responsible for. A high level of authority was decentralised to the brands for them to deliver on their unique customer value propositions, and only those functions of the business that do not impact directly on customer touch points have been centralised to create synergy at Group level (e.g. IT, logistics, and the real estate portfolio).

#### **1.4.1.2 Retail**

The retail section of EHL, which is simply the activity of buying and selling of furniture at a profit, was generating a -8.2% return on sales. Separating the financial service portion of the business created a better opportunity to attend to fixing the retail side of the business, with regards to store presentation (look and feel), merchandising, curbing down on expenses, fixing the margins and so forth. In order to optimise the retail section, marketing and merchandise had to be reconfigured to drive the organisation's strategic objectives.

A new merchandised structure was developed with specialised buying teams focusing on categories. Amongst the decisions taken to rejuvenate merchandising was the development of analytical tools to assist with decision making. This was done through extensive research of the environment the business operated in, hiring of skilled business analysts and the rationalisation of the IT to support the strategic objectives of the corporation.

From a marketing perspective, decisions around ‘positioning’, which is covered in this study, had profound effects on the marketing portfolio, as the organisation had, from research conducted as well as internal database analysis, identified and defined segments per market position with specific demographics, psychographic needs and behaviour. Toni Fourie reckoned that the reliance of the organisation on the good performance of the financial service resulted in previous management turning a blind eye to basic retail fundamentals, and needed strategic interventions as detailed in sections 1.4.2 and 1.4.3.

#### 1.4.1.3 Credit and collections

Other than the challenges faced by Toni Fourie and his executive team, relating to the poor performance of the debtors book, the EHL model of granting credit and collecting its book was found to be inefficient and unsustainable, and that the new relationship with African Bank and its expertise in the related field, presented enormous opportunities for the EHL model to be reconfigured. Coupled with this, was the reality that the organisation’s retail section of the business was yielding negative returns on equity and being cross-subsidised by its financial services, which was generating as much as just over one third of its profitability. This was found to be incompatible with the new management strategic objectives. Due to the poor performance of the EHL debtors’ book, which was much worse than previously anticipated, ABIL announced a R450million cut to the organisation’s net asset value in May 2008 (Citizen, 2008). Based on this, a decision was taken to migrate these two functions to African Bank with the understanding that, through its expertise and being well resourced in credit, the bank would be able to change



what the owners perceives as inefficient capital management from a “14% ROE<sup>8</sup> to a 40% because, they could get better credit, they could do better collections and they could gear the balance sheet more effectively” (Toni Fourie, 2011; 9).

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<sup>8</sup> Return on Equity

After successfully migrating the financial services wing to African Bank, EHL launched a project, which was named 'BE INSYNC', to extract synergy between the credit product on offer, their staff, and most importantly, their clients by leveraging on the bank's resources.

### 1.4.2 Positioning

Thirteen brands and Rainbow Loans were positioned to service the organisation's target market, which is predominantly lower to middle income groups, mainly from the previously disadvantaged section of the South African society. The post acquisition analysis conducted, identified this as being excessive and undifferentiated, amounting to what one may refer to as 'confused positioning'. The strategy developed by new management in dealing with the positioning challenges was based on data extracted from marketing / perceptual mapping rather than simply based on Living Standards Measures (LSM) as they were of the view that:

"Too many brands positioned, competing against each other, not only against the competitors but trying to compete against themselves. .... Bears & Lubners; Furniture City & FurnCity and the whole four chains in that lower income market. It just didn't make any sense." **TONI FOURIE**

- Market maps use a range of dimensions with which to consider the market.
- The use of LSMs was not appropriate to drive improvements in positioning of brands and targeting of customer segments.
- Combining "objective" dimensions together with more descriptive, "subjective" dimensions and research to produce representative portraits of consumers gives important insights to aid brand positioning choices.
- The current portfolio of brands may need to be re-positioned accordingly, and any need for new brands can be determined.

The group then decided to rationalise its brand portfolio into six designated brands, each with its own differentiating CVP<sup>9</sup> as depicted in Exhibit I, to service its target market that it has been positioned for. The CVP is encapsulated in the Group's positioning statement in Exhibit J.

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<sup>9</sup> Customer Value Proposition

The brands were henceforth named Market Position one to six, in relation to the market segments their CVPs were developed for. The group developed a store for each of the six brands with a new look and feel, in order to allow them to better penetrate the markets they were catered for, as store presentation is one key aspect of positioning.

### **1.4.3 Performance**

#### **1.4.3.1 Retail variables**

Although EHL was profitably sound, Toni Fourie and his executive team were of the view that the company was lagging behind its main competitors in some financial performance areas or retail variables, namely: sales per store; sales per m<sup>2</sup>; sales per employee; stock turns; cost base structure<sup>10</sup> ; credit and collections (Exhibit K). Strategic decisions had to be made to create an enabling environment for the organisation to attend to the lagging behind on these variables.

Positioning the organisation with highly focused and dominant brands, coupled with the drive to reduce the cost of credit, would create a strong competitive advantage, thereby placing Ellerine Holdings Limited as a furniture retailer of choice in the highly competitive furniture industry. This would partly contribute to addressing some of the variables highlighted above. However, in order to fully realise or bear any fruits in tackling the performance issues, critical decisions relating to reducing the cost base structure of the organisation were made.

#### **1.4.3.2 Cost Base (Reduction)**

##### **1.4.3.2.1 Brands**

As alluded to earlier in the study, positioning the EHL with six brands, not only addressed a positioning challenge, but also had profound effects in the organisation's performance variables, specifically enabling the organisation to save from the massive cost base related to operating 13 brands. The decision had a direct impact on people (mainly employees) and property.

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<sup>10</sup> Operating & debtors

#### **1.4.3.2.2 Property**

The organisation had to contend with the challenge of having too many outlets, some of which were too large and too expensive to run, partly contributing to the lagging behind the competitors referred to earlier. Toni estimated the group to have roughly 20% too much store space. (Citizen, 2008), resulting in decisions being taken to downsize its property portfolio through various interventions like: closing poor performing stores, reciting to smaller sized stores, and even leveraging on the synergy with African Bank by allocating a portion of trading space within EHL stores for them to set up their operation. A decision was taken to trade off three formats, (i) 450m<sup>2</sup> -650m<sup>2</sup>, (ii) 600m<sup>2</sup> – 700m<sup>2</sup>, and (iii) 700m<sup>2</sup> - 1000m<sup>2</sup> & 1000m<sup>2</sup> -2000m<sup>2</sup>, located in CBD's in the lower end target market and in key regional malls and value formats in primary conurbations or regional malls in secondary conurbations in the middle and upper end target markets. Properties owned by EHL, that were non-core to the business strategy, were disposed of, which included the selling of Early Bird Services and Rainbow Loans. Three Head offices, one based in Durban and the two based in Johannesburg, had to be consolidated under one roof, based in Sandton, Johannesburg.

#### **1.4.3.2.3 Human Resources**

The new business model was such that, reducing the number of people employed became inevitable. Amongst other things: rationalising from 13 to six brands; taking out four management layers between the store manager and the CEO; migrating the financial services to African Bank; the closing down of 110 poor performing stores; the optimisation of the supply chain network; and so forth, had a direct impact on the human resources of EHL. In dealing with all these sensitive matters, the organisation had to contend with retaining talent, while reducing its work force through retrenchments and natural attrition, the latter being what Toni referred to as the most difficult part of the changes in implementing the brand optimisation plan over an eight-week period from August 2008. From a human resources perspective, the organisation was found to have:

- Leadership skills challenges.
- Executive skills challenges (Business, Financial, Strategic).

- ❑ A shortage of key Technical / Functional skills (i.e. Analytical, Supply Chain & Logistics, Merchandise).
- ❑ Lots of experience.
- ❑ A succession paucity.
- ❑ A Lack of skills diversity.

Toni highlighted some of the challenges he faced when he took over in 2008, from an equity point of view. The 13 brands were all headed by white males, in a country where almost three quarters of the society is non-white, compounded by the fact that the organisation's client base is predominantly from those three quarters of society. Toni's restructuring has seen the

“So we will have very quickly transformed into a younger generation and a different generation.” **Toni Fourie**

appointment of a person of colour, Sedick Arendse to as an Operations Director Designate, “which will put a young guy into the hot seat and he will become the Operations Director”, (Fourie, 2012; 45). The recent appointments have seen females (Susan Mawer<sup>11</sup>) and people from previously disadvantaged background, occupying strategic positions. Notably with these appointments are the high academic qualifications of the incumbents, which Toni takes seriously.

#### 1.4.3.2.3.1 Job design

While the preceding section dealt with people from a cost point of view, the human resources portfolio of the organisation had to change its shape, particularly on job design. Two job design variables namely; job enlargement and enrichment, were impacted directly by the new direction the organisation was embarking on. The advent of restructuring and flattening the structure of the organisation, which started in 2008, resulted in a number of operational positions which were viewed as critical in the past, becoming redundant, with a number of employees being retrenched as a result thereof.

This meant that the functions that used to be done by the retrenched employees had to be built into the job descriptions of the remaining employees, thus enlarging their responsibilities.

<sup>11</sup> Managing Executive (Equivalent to Managing Director)

The disbanding of the hierarchical supportive structure to operational management resulted in an increased span of control for those remaining in the redesigned job portfolios.

To enrich the employees jobs and increase motivation levels, the organisation through its Human Resources department, had to create opportunities for employees to gain more control in their jobs, make more decisions themselves and solve problems on their own, thereby increasing job depth. The reward system was redesigned to take away annual bonuses, which were paid to all employees irrespective of performance, and replaced with a system that basically rewarded good performance based on strategic imperatives or objectives to be met. Most tedious human resources functions that were operated manually have been automated, with continued improvements every day (e.g. signing in and out for duty is done with biometric devices, applying for leave of absence on line).

#### **1.4.3.2.4 Supply Chain**

The supply chain was identified for revitalisation even before the acquisition, as it was found to be inefficient. Suppliers used to deliver to the almost 1200 outlets, and these outlets each had their own vehicles to deliver goods to their clients. The 1<sup>st</sup> of April 2011, saw the Supply Chain Centre (SCC) on the Thuthuka project go-live, through which the distribution was to be executed.

##### **1.4.3.2.4.1 Distribution**



Management of EHL acknowledged logistics distribution functions as a specialised field needing highly skilled personnel to manage it optimally; hence it was outsourced through a tender process to Barloworld Logistics, who are specialists in the field. Ellerine

Holding Holdings has laid up a capital investment of billions of Rands to ensure the success of this project.

Managing this portfolio efficiently and effectively will have benefits for the organisation (increased revenue/profitability), which can be passed on to their customers in terms of competitive prices. Through this project the following milestones have been achieved so far:

- Consolidation of all Warehouses country-wide to super Warehouses / Distribution Centres based in: Johannesburg; Durban; Cape Town and Port Elizabeth, supported by a network of Cross Docks (X-Dock) around the country.
- Suppliers are delivering to distribution centres instead of the almost 1100 trading units and customers are serviced from these distribution centres or through the cross docks linked to them.
- Reduced the fleet by almost 1800 vehicles.

As already stated, suppliers now deliver to one central point (i.e. the Distribution Centres), for them in turn to deliver to the stores and clients within their jurisdiction. As a result, trucks from the Distribution Centres now run over long distances - often more than two hundred kilometres a day - servicing clients and stores with their orders.

#### **1.4.3.2.4.2 Procurement**

The group has deployed various merchandise strategies to enhance its product offerings, which resulted in the merchandise model being reconfigured, and the introduction of dedicated buyers and planners. These strategies included:

- Importing programme
- Strategic Relationships
- Brand and range exclusivity
- Standardisation of all merchandise and procurement processes
- Fixing the stockturns
- Implementing appropriate merchandise management system
- Reducing the cost of goods

EHL sources its inventory from local and global suppliers. Consolidating the distribution has empowered the buyers to negotiate reduced prices with suppliers, due to centralised deliveries and economies of scale related to large orders.

The planners' ultimate responsibility is to ensure that, through the distribution centres, working hand-in-glove with Barloworld, the trading units have adequate inventory to service their customer demands. This is an important aspect of supply chain management, as planning, or a lack thereof, impacts directly on the organisation's performance. The key objectives are to reduce inventory holding and the overall supply chain cost, so as to benefit the client and ultimately increase business competitiveness in the market place, thereby enhancing overall performance.

#### **1.4.4 IT Platform**

The IT platform, which previously was predominantly outsourced, had to be upgraded, injected with skilled personnel to support the strategic initiatives the organisation had embarked on, as well as taking advantage of synergies with the bank. The IT platform was insourced and redesigned. Despite the migration of the EHL debtors ledger to African Bank, the outsourcing of the logistics distribution functions to Barloworld Logistics, the stores had to be able to service their clients at all times, which made it necessary for the IT to be designed such that the stores could access the required information from these institutions to improve their operations as well the service to the clients was improved.

#### **1.4.5 Monitoring**

As in any change initiative, monitoring progress or lack thereof, is of paramount importance as it helps management with timeous interventions to avoid unintended consequences, pick up warning signs, and managing emergent strategies correctly. Therefore the use of monitoring tools or frameworks has profound significance in strategy execution. In the case of EHL the restructuring process is monitored from the CEO's office using strategy mapping. Strategic imperatives are highlighted with different colours in terms of: what was achieved on time or ahead of schedule; what was achieved, but later than scheduled; and what was not done at all.

“We are moving from a phase of reduce, consolidate and restructure ... into a new phase of stabilise, grow and build.”  
Fourie (Bizcommunity.com  
28.10.2009)

The EHL strategy is designed and monitored on the following evolving imperatives:

- 2008 – 2011      => Restructuring
- 2012 – 2014      => Stabilising
- 2014 onward      => Growing

#### 1.4.6 Consequences / Results of the Restructuring

Four years into the restructuring of the organisation, one can look back and reflect on the journey travelled so far. EHL has:

- Been positioned as a stand-alone retail business, supported by brands that are positioned with their own unique CVP to extract value at Group level. The new positioning is intended to enable the organisation to meet the evolving segments of the South African market.
- Restructured the Merchandise platform to support the positioning strategy.
- Reduced the cost base by almost R600 million through a number of initiatives, significant ones being:
  - ✓ Reducing its employees from almost 18 000 to 10 000;
  - ✓ Reducing from 1 000 000m<sup>2</sup> to 700 000m<sup>2</sup> in property utilisation;
  - ✓ Reconfigured its distribution and logistics networks by introducing warehouses in major cities supported by smaller cross docks in smaller towns, and closing down some of the poor performing stores.
- Migrated the financial services portion of the EHL business to African Bank, who is expected to gear it to 40 – 50%.
- Changed the credit granting and collections model.
- Flattened organizational structure with increased span of control.
- Addressed diversity. It is an organisation on the journey of recognising the contribution and the demographics of the society it is doing business with, reflecting this on the composition of its senior strategic management.

#### **1.4.7 Challenges and lessons learnt in restructuring EHL**

Like any change, the stepping of EHL into a new direction has not been without its challenges and Toni is the first person to acknowledge this, although he states unequivocally, that at no point did he have sleepless nights or even doubted the path that they had picked in restructuring EHL. What needed his undivided attention was the execution of the strategy, and this related to judgement calls he had to make continuously, in getting the balance right between “doing it right and doing it fast”. Coupled with this, were the questions of how much change the organisation could take, both in quantity and speed of implementation. That is, how hard can one push people at an individual level and at what pace can they cope with change?

Because the strategy had to be executed with agility, a number of assumptions in the formulation process were flawed, which impacted the strategy execution negatively, namely: (a) an attempt to horseshoe or force the African Bank financial services model into EHL simply assuming that if it works at African Bank, it should work in a retail business; (b) making decisions based on the assumption that because AB was really good at unsecured lending, this could be applied in furniture retail, which was not necessarily true. As a result, the price of the insurance product was halved based on the flawed assumptions that customers had no interest in insurance products, resulting in a huge loss of income to the organisation. The assumption was also not true, as most customers serviced by EHL did not have their own household insurances, and therefore needed the service to protect their interests.

#### **1.5 Conclusion**

Essentially Toni’s plan was to cut costs, make credit cheaper and push Ellerrine Holdings Limited products to a wider audience, through cost leadership. This was intended to be achieved through the price volume elasticity equation, which is a function of numerator management. The net effect of this strategy is growing the business by increasing its market share, thereby increased shareholders’ value. In order to realise the strategy, a number of decisions, as depicted in the case, had to be taken to bring the corporation’s productivity and efficiencies in line with other players in the furniture retailing space, mainly addressing the poor return on equity and poor asset utilisation.

The organisation enters the second of the three-stage restructuring journey, namely the stabilising phase, with some work in progress in the form of supply chain optimisation, transforming the human resources portfolio, and so forth. Implementing the changes over a longer period of time may have affected the employees' morale and probably would have also affected their productivity, as they had to catch up with new ideas and innovations before settling on ones they may have been trying to bed down. Now that the restructuring is almost concluded, one may imagine that Toni has to gear up for stabilising the corporation, more importantly the 'what', 'how' and perhaps the 'time period' necessary to stabilise the corporation before getting into the third phase.

The third phase of growing the organisation may test Toni's restructuring of EHL in terms of whether or not the corporation has gained the market share to lead the industry. A lot has been achieved in restructuring the organisation. However the same may have to be evaluated against the four to five years strategic objectives (See Section 1.3 of the study).

## **1.6 Teaching Notes**

### **1.6.1 Case Purpose / Objectives**

The case is pitched at the level of second year MBA students, who would have developed analytical skills and knowledge to be able to engage with issues related to strategic management, particularly executing a corporate level restructuring strategy within an organisation. The case should develop their skills in strategic management, particularly enhancing their understanding of the complexities related to strategy execution at a corporate level.

### **1.6.2 Background**

- Ellerine Holdings Limited was founded in 1950 by Eric Ellerine
- Listed on the JSE Securities Exchange for 37 years up to 2008.
- Highly profitable furniture retailers, whose biggest portion of profitability came from financial service.
- More than two third of its business is done on credit terms.
- Currently is a subsidiary of African Bank Investments Limited.
- Undergone restructuring from 2008.
- Led by Toni Fourie as the CEO.
- One of the leading furniture retailers in Southern Africa, including Namibia, Lesotho, Swaziland, Zambia and Botswana.

### **1.6.3 Teaching Suggestions**

**A.**

The lecturer will use an interactive/open discussion approach with participants, to ensure the participants' understanding of literature relating to:

- Corporate level strategies.
- Strategy implementation.
- Organisational restructuring.
- Architectural role of strategic leadership.

## B.

The participants would then be presented with the case to read. Some questions have been presented on the concluding section of the case. The lecturer may wish to apply some frameworks to understand and evaluate the case. A number of frameworks may be relevant, but not limited to:

- Okumus Strategy implementation Framework.
- Gibson's integrated Strategy Framework of Organisational Design and Structure.
- Ansoff Matrix.
- Higgin's 8's.
- Joyce *et al.* 4 + 2 Formula.
- Kaplan and Norton's Balanced Scorecard.
- Porter's Five Force Framework for Industry Analysis.

## C.

There is substantial body of knowledge that substantiates the importance of strategy execution to in delivering superior performance on organisational objectives, and the complexities related to it. One may trace the origin knowledge about strategy and structure from Chandler's (1962) seminal research in business administration, and its relevance to business and scholars. The literature which forms the basis of this teaching case study focuses on Okumus Strategy implementation Framework (Okumus, 2005). Depending on the participants' level of interpretation of the case, other literature frameworks may be used to analyse it.

### **Suggested Reading**

Feurer, R. and Chaharbaghi, K., 1995. Strategy Development: Past, Present and Future. *Management Decision*. Volume 33, No. 6: 11 – 21.

Franken, A., Edwards, C. and Lambert, R., 2009. Executing Strategic Change: Understanding the Critical Management Elements that Lead to Success. *Management Review*. Volume 51, No. 3: 49 – 73.

Heugens, P. M. A. R. and Schenk, H., 2004. Commentary: Rethinking Corporate Restructuring. *Journal of Public Affairs*. Volume 4, No. 1: 87 – 101.

Higgins, J.M., 2005. The Eight 'S' of Successful Strategy Execution, *Journal of Change Management*. Volume 5, No. 1: 3-13.

Louw, L., and Venter, P. 2006. *Strategic Management: Winning in the Southern African Workplace*. Cape Town: Oxford University Press.

Okumus, F., 2003. A Framework to Implement Strategies in Organizations. *Management Decision*. Volume 41, No. 9: 871- 882.

Proctor, T., 2001. Corporate Restructuring: The Pitfalls of the Changing Industry Structure. *Management Decision*. Volume 39, No. 3: 197 – 204.

#### **1.6.4 Possible Questions**

To stimulate debate and learning, the following questions may be posed:

- In hindsight, how would you recommend that Toni should have handled the restructuring? What did he do well? What can be improved? Where are these shortcomings and what can be done about them?
- Is the growth path that has been adopted sustainable? Is Toni's growth path through low cost leadership likely to deliver market dominance and improve the corporation's overall performance? If not, what alternatives should the corporation consider to grow the business, particularly in what appears to be a saturated furniture retail market?
- In the light of the extensive restructuring that the corporation has gone through, what recommendations would you make to Toni to stabilise it, and over what time period?

#### **1.6.5 Additional Information for the Lecturer**

Below are some of the results declared for the 2010 / 11 financial year ended on 30 September 2011:

- Headline earnings increasing by 46% to R190 million for the year to 30 September 2011 (Pro forma 2010: R130 million).

- ❑ Return on sales was 4,0%, relative to 2,9% in the comparable period, and return on equity was 6,9% (2010: 4,8%).
- ❑ The economic loss incurred after including a charge for goodwill reduced to R211 million (2010: R273 million).
- ❑ Merchandise sales grew by 5% to R4,7 billion (2010: R4,5 billion), while comparable sales per square metre increased by 7% relative to last year.
- ❑ Sales per square metre increasing by 7% and sales per employee growing by 22%.
- ❑ Gross margin increased from 44,0% in 2010 to 44,2% for 2011 financial year.
- ❑ Total operating costs before value share recoveries increased by 4%, which bearing the upfront costs in terms of changes to the logistics and distribution network, which also included accelerating the voluntary retrenchment of staff impacted by the changes.
- ❑ Total sales and credit merchandise sales grew 13% to R3,0 billion (2010: R2,7 billion)
- ❑ The retail negative return on sales has since improved to a 7.3% at 2012 half year end and Toni predicted it to settle at 6% by year end.

## **2 SECTION TWO: LITERATURE REVIEW**

### **2.1 Introduction**

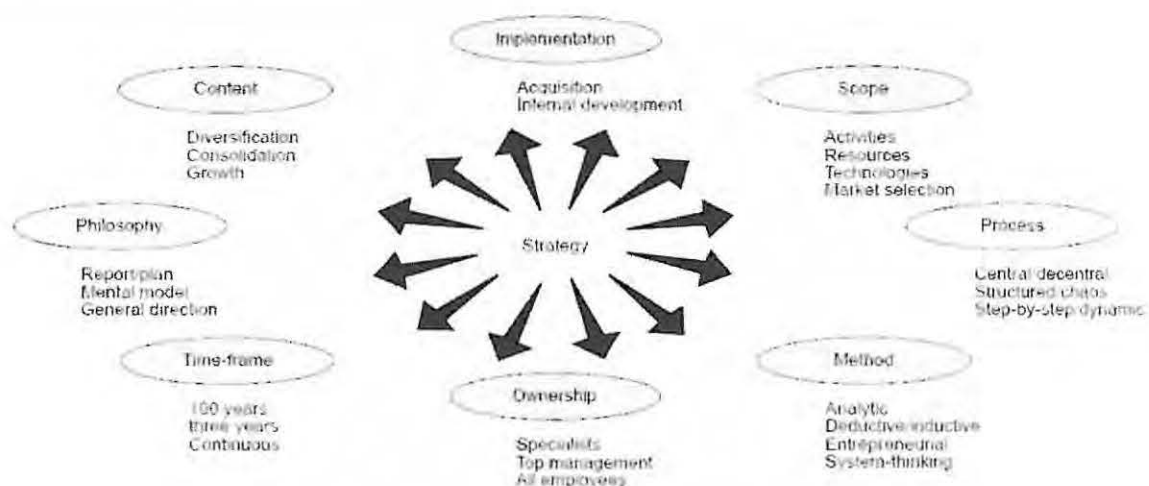
This research is situated in the field of change management, with particular focus on strategy implementation. Empirical work conducted on 'strategy' has revealed a seventy percent failure rate of organisational strategic initiatives (Franken *et al.*, 2009) largely, attributed to poor implementation of the chosen strategies. Although, no standard model exists that guides successful strategic implementation (Beaudan., 2002), it is critically important for scholars and practising managers to develop a framework to operationalise strategy and its implementation (Rossouw. 2003), so as to ensure successful implementation of the chosen strategy (Okumus., 2003). The challenge facing organisations in today's dynamic and competitive environment is that their success depends on the extent to which they develop, implement, monitor and evaluate their business strategies (Temtine, 2000:1).

### **2.2 Defining Strategy**

The study of strategy may be very complex and challenging, hence it is critically important to not only clearly understand its definition(s) when focusing on strategic level changes (Hughes, 2010; 90), but to be able to operationalise it (Babbie, 2011: 117). Literature available on strategy development is vast and growing at an accelerated rate (Feurer *et al.*, 1995:11). Strategy appears to be quite a complex subject, so much so that writers like Hughes (2010: 90), state that "while there are commonalities in strategic concerns, there is no consensus about the meaning of strategy", this view is entrenched by Okumus (2003: 871) who states that "although there are models and frameworks for researchers and practicing managers in the areas of strategic analysis and formulation, there are no agreed-upon and dominant frameworks on strategy implementation".

The word 'strategy' is derived from the Greek word 'strategos' meaning 'general' and is derived from 'stratos' (the arm) and 'agein' (to lead), (Louw, 2010: 12). Strategy was therefore associated with a plan of leading the army (Heracleous, 2003:3) for over-powering the enemy (Rossouw, 2003; 3).

There may be various reasons for engaging in wars, but the ultimate is for the one side to overpower its opponents in order to win the war. In the military context, strategy is concerned with drafting the plan of war, shaping individual campaigns and within these deciding on the individual engagement (Mintzberg, 1987: 11). This postulation of strategy as the art of war brings about a number of dimensions in the business world. The different strategic dimensions are depicted in Figure 1 herein.



**Figure 2: Dimensions of Strategy (Source: Feurer *et al*, 1995)**

Thompson, Strickland and Gamble (2005:3) define strategy as a game plan indicating the choices that managers need to make about how to attract and meet customers' needs; how to compete successfully; how to grow the organisation; how to manage each organisation's architecture; how to develop needed dynamic capabilities and how to achieve performance targets by implementing strategy successfully. This definition embraces strategy as a game. The definition centres around key words like 'game', 'choices' and 'plan', in achieving specific results. Games are played with all good intentions to win, be it against an opponent or for entertainment, wherein specific plans have to be developed to deliver the required results, to win. The approach of defining strategy as a 'game' may also deliver the point to management that they do not only need to formulate plans, but the need to execute the plans is as critical in order to win the game.

This analogy is also supported by Johnson and Scholes' (2002:10) definition, which presents strategy as a 'choice' made by management on a direction and scope they wish to take in the long term, to achieve the required outcomes to meet stakeholder's expectations. From this, one gets the sense of planning in the form of 'direction and scope' in making strategic decisions. In meeting stakeholder expectations, direction and scope have to match the organisational resources to its changing environment with regards to its markets and clients. It is on this basis that scholars, leaders and managers of organisations have to clearly integrate strategic frameworks, theories, models and definitions, so that they are seen as mutually supportive, thereby developing a holistic approach to strategy development (Feurer, 1995).

The nature of strategy may be explained in terms of Mintzberg's (1987) 5Ps (plan, ploy, position, pattern, perspective). This further depicts strategy as an integrated approach to achieve specific outcomes or results. As a plan, strategy provides direction and the course of action(s) to be taken. As a ploy it is used as a specific manoeuvre to outwit competitors. As a position strategy focuses on an outside-in viewpoint in meeting customer needs in competitive markets. As a pattern strategy is concerned with consistent behaviour over a period of time. Lastly, as a perspective it is concerned with the organisation's ways of doing things, often referred to as interpretive view (Heracleous, 2003) or as experience (Johnson and Scholes, 2002).

Chandler's (1962) seminal research covers the origin of strategy and structure in business administration, as well as its relevance to business and scholars. He asserts that before 1850, very few American businesses needed the services of a full-time administrator or a clearly defined administrative structure, due to their small size, and that most were family affairs, in comparison with many of today's businesses, which are big and complex. According to Chandler (1962: 14) structure follows strategy. Henceforth he made reference to 'new structure for the strategy'. The two imperatives (strategy and structure) have evolved over time and have developed such that they are interdependent, in that strategy relates to managerial decisions and actions to help an organisation achieve its goals, while using organisational structure as a formal system of tasks and job reporting relationships that determine how employees use resources to achieve organisational goals (George and Jones, 2008).

Accordingly, Okumus (2003) also advocates coherence among the implementation factors, if the strategy is to be successfully implemented. He identified strategy and structure amongst those factors that are necessary for successful strategy implementation in organisations. Strategy and structure are also epitomised in Higgin's (2005) 8S's framework as components of aligning strategy execution within an organisation. Implementation of strategy may not be carried out unless there are structures within an organisation to do so. Hence Bartlett and Ghoshal (1995: 79) assert that structure follows strategy and systems support structures.

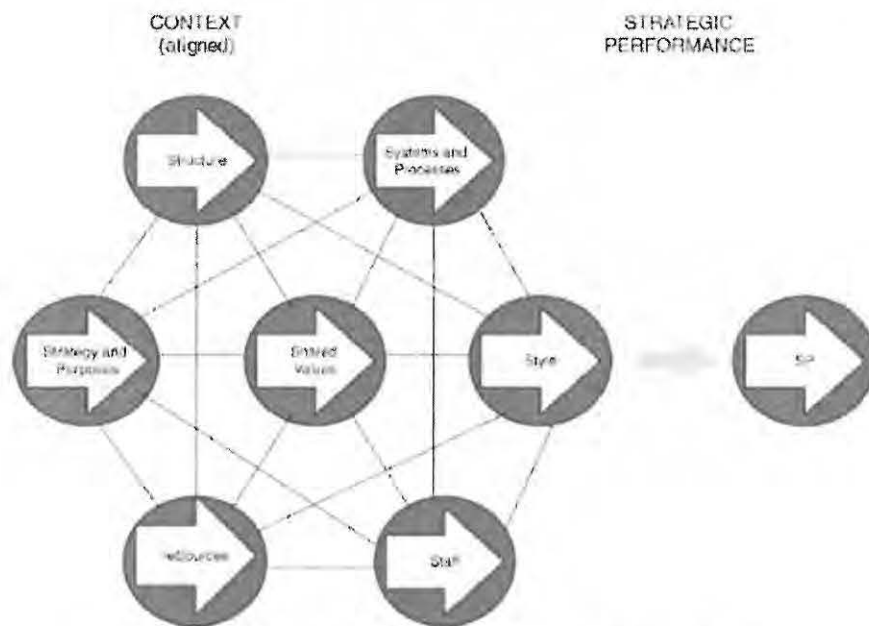
## **2.3 Organisational Architecture, Design and Structure**

### **2.3.1 Organisational Architecture**

Organisational architecture draws together key dimensions of the organisation, such as: organisational structure, leadership, organisational culture, policies and strategies to guide strategy formulation; alignment and implementation (Louw *et al.*, 2006). It is a blue print that serves as an indispensable tool, allowing leaders to align core aspects of the organisation with their strategy, to attain more effective implementation (Lee *et al.*, 2004). Aligning key organisational competencies is encapsulated as being critical in effective and efficient strategy implementation, which the organisational architecture seeks to fulfil. This implies that managers of organisations have a challenge to ensure that organisational capabilities are aligned towards a common goal guided by the organisation's strategic intent. Sauer and Willcocks (2004: 3) research encapsulated harmonised alignment between strategy and organisational architecture in an IT (Information Technology) company, where the aim of alignment is to ensure that the application of the IT matches the strategic needs of the business. The importance of alignment as a key component of organisational architecture is clearly demonstrated by Higgins 8S's (2005) as depicted in Figure 3, where emphasis is on aligning the 8S's in order to achieve the organisation's strategic objectives. Higgins (2005) had used the McKinsey framework to develop his own 8S's framework. He replaced 'skills' from McKinsey's framework with 'reSources' and added an eighth S, namely Strategic Performance.

This gives the sense that organisational architecture may be defined as 'the underlying model of the organisation's way of doing business (Ulrich, 1998). The characteristics of a sound organisational architecture are (Louw *et al.*, 2006):

- ❑ If it is to be useful, enterprise architecture must be explicitly stated in a document. This adds impetus to dynamic strategic management as everyone works on one single document;
- ❑ In order for the strategic benefit to arise, an organisation's architecture must be agreed upon and communicated to as many people as possible within the organisation to avoid them working at cross-purposes;
- ❑ It must contain specific reference to the key strategic drivers of the organisation; and
- ❑ It must relate each pillar of the organisation to the organisation itself, thereby creating a blueprint which is unique and specific to that organisation.



**Figure 3: Dimensions of Strategy (Source: Higgins: 2005)**

A number of frameworks exist in the field of organisational architecture, such as: Ulrich (1998); Jay's (2002); Veasey (2001); Wolfenden and Welch (2000); Lee *et al.* (2004). The basic components of the organisational architecture framework are summarised in Table 2 below.

**Table 1: Components of different organisational architectures (Source: Louw *et al.*: 2006)**

Ulrich	McKinsey 7-S	Jay Galbraith Star Framework	Veasy	Wolfenden & Welch (	Lee <i>et al</i>
Share mindset	Strategy	Strategy	Processes	Customer segmentation	Culture
Competence	Style	Structure	Organisation	Customer life-cycle interaction (total cycle of value-adding outcomes experience)	Structure / systems
Consequences	Skills	Rewards	Technology	Activities (all activities including the life cycle interactions a defines)	Knowledge, skills & abilities
Governance (structure, communication systems & policies)	Shared values	Processes	Competencies	Roles	Technology
Capacity for change	Structure	People	Culture	Co-ordination activities	Processes
Leadership	Systems		Stakeholders and capabilities	Business rules (underlying organisational culture)	Internal & external stakeholder capabilities
	Staff			Business processes	

### 2.3.2 Organisational design

Embedded in architecture is the concept of organisational design, which Louw and Venter (2006: 396) refer to as ‘the shape of the organisation’, alternatively referred to by Greenwood and Miller (2010: 78), as ‘organisational form’. Although there is vast literature on organisation design, it still remains quite a complex subject to comprehend (Greenwood *et al.*, 2010: 81), particularly when considering the increasingly complex nature of organisations. Organisational design is a process by which managers make choices regarding managerial decisions and actions, and that result in an organisation structure (Gibson *et al.*, 2000). The decisions focus on the individual job (division of labour), departments or group of jobs (departmentalisation and span of control), and lastly, consider the issue of delegation of authority throughout the structure as depicted in Figure 4 below. These four managerial decisions are interrelated and interdependent, although each has certain specific challenges that can be considered apart from the other.

The generally accepted view of organisational design that has evolved is that the structure of an organisation should match or fit characteristics of certain variables both inside and outside of the organisation (Nadler and Tushman, 1978). Design drives the way strategies are formulated and determine whether and how they can be implemented (Greenwood *et al.*, 2010: 79). Organisational structure, as covered in Section 2.2.4 below, is a key component of organisational design. By implication, organisational design decisions are used to create an organisational structure that can deliver the organisational strategic objectives. This embraces the theme and objectives of this study.

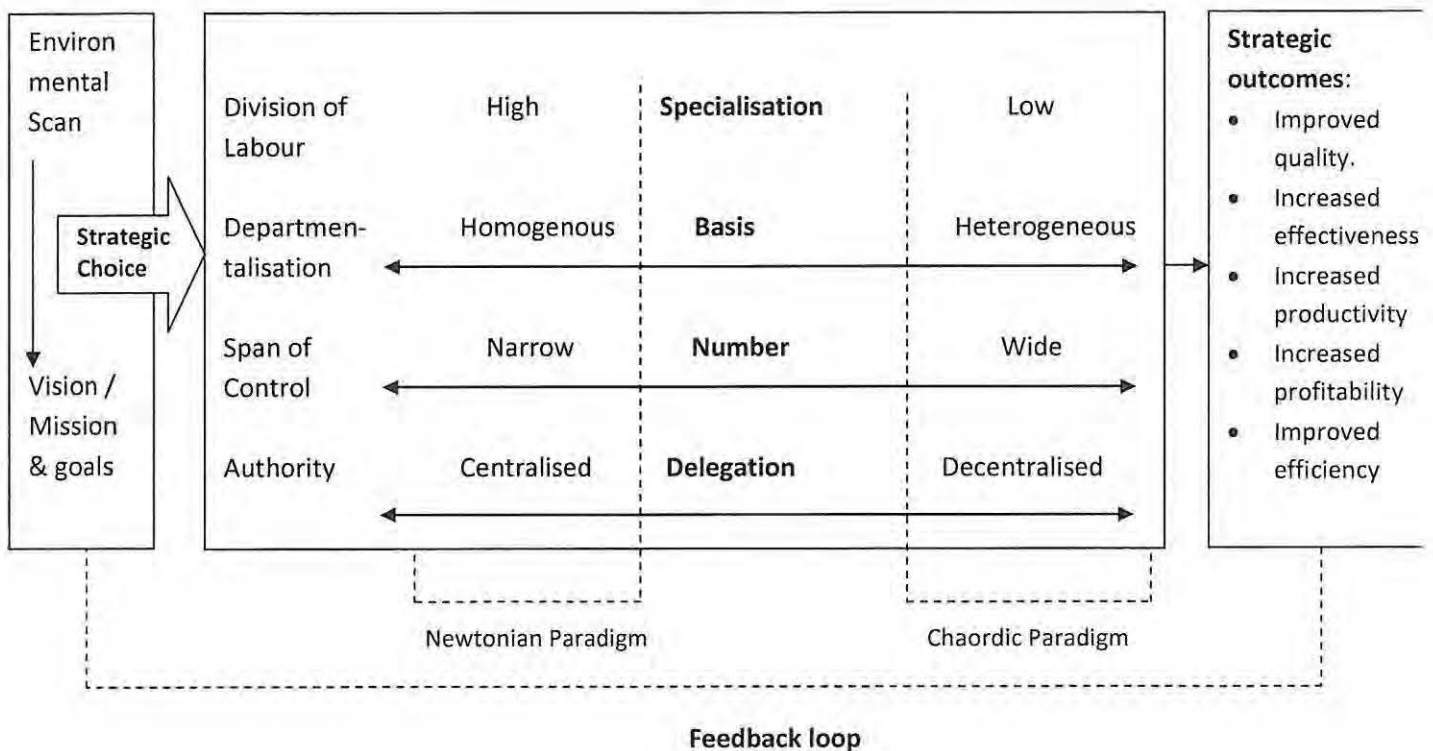


Figure 4: Integrated strategic framework of organizational design and structure (Source: Adapted from Gibson *et al.*, 1997)

### 2.3.3 Organisational Structure

Studies on organisational structure can be traced back to Leavitt and Whisler's (1985) seminal paper, on impact of organisational structure on strategy implementation in an IT company. Their focus was on centralisation and standardisation, neglecting other dimensions of organisational structure, such as: span of control; degree of horizontal integration; and the number of hierarchical layers. Organisations are viewed as open social systems, which need to deal with areas of uncertainty (Burke, 2003: 133). Due to the fact that organisations have to develop processing mechanisms to deal with uncertainties, they can also be viewed as information processing systems in order to facilitate the effective collection, processing and distribution of information capacities for effective information processing" (Burke, 2003: 133). Organisations world-wide, big or small have their own structures based on their strategic imperatives and these structures should match or fit characteristics of certain variables, both inside and outside of the organisational systems, as already alluded to in the preceding section (Nadler and Tushman, 1978). It must be emphasised however, that the choice of a structure directly impacts the choice of a strategy, and vice versa (Stonich, 1982:63). Stonich (1982) further explains that the first step in making a decision about structure is to understand what the selected strategy requires of an organisation. Hankinson (1999: 402) defines organisational structure as - "a framework within which brands are managed successfully or otherwise"; complementing Covin and Slevin's (1990) definition of organisation structure as - "the arrangement of workflow, communication, and authority relationships within an organisation". Both these definitions aim to depict the role played by organisational structure in the implementation of strategy. It can be argued that organisational structure serves to provide a sense of purpose and direction (Louw *et al.*, 2006: 406). Gibson (2000) identified three dimensions that are of use in research and practise to describe structure, namely: formalisation, centralisation and complexity.

**Formalisation** is the extent to which expectations regarding the means and the ends of the work are specified, written and enforced, such that there are rules and procedures that prescribe what each individual should be doing within an organisation (Gibson, 2000). **Centralisation** takes into account the location of decision-making authority in the hierarchy of the organisation, particularly the delegation of authority among the jobs in the organisation (Gibson, 2000).

Gibson identified three challenges associated with centralisation, namely: (a) people at the same level can have different decision-making authority, (b) not all decisions are of equal importance in organisations, authority on routine operating decisions may be delegated (decentralisation) while strategic decisions are retained at the highest level of management (centralisation), and (c) people may not perceive what they really have, even though it is included in their job descriptions. **Complexity** encompasses the number of different job titles, occupational groupings, units or departments and the authority levels in an organisation. It is critically important for scholars and practising managers to understand the relationships amongst the four managerial decisions and the three dimensions of organisational structure, which is depicted in Table 3 below. It must be noted that the relationships are symmetrical, in that the causes of low formalisation, complexity and centralisation are the opposite of those in the table (Gibson, 2000). When managers induce major changes in an organisation that re-organises these elements, the phenomenon may be referred to as ‘organisational re-structuring’.

**Table 2: Relationship between Organisational dimensions and Organisational decisions (Source: Gibson *et al.*, 2000)**

High formalisation	High specialisation
	Functional departments
	Wide span of control
	Delegated authority
High centralisation	High specialisation
	Functional departments
	Delegated authority
	Wide span of control
High complexity	High specialisation
	Territorial, customer and product departments
	Narrow span of control
	Delegated authority

## 2.4 Corporate Level Strategy

Corporate level strategies are concerned with organisational composition boundaries and strategies for discharging the organisation's mission (Louw *et al.*, 2006). The organisation's mission can be accomplished by adopting any corporate level strategy, namely;

- Growth strategies;
- Co-operative strategies;
- Corporate restructuring.
- Turnaround strategies; and
- Divestiture or exit strategies.

### 2.4.1 Growth strategies

Growth strategies entail decisions around market penetration, market development, consolidation and diversification as depicted in Figure 5 below (Johnson *et al.*, 2008).

- Market penetration is where an organisation focuses on a single product in a single market and gains a market share (Thompson, 2001). This is likely to exacerbate industry rivalry as the competitors may defend their share, which in turn may involve price wars or expensive market battles (Johnson *et al.*, 2008). This may trigger *consolidation* where the organisation focuses defensively on their current market with current products; hence it occupies the same box in the Ansoff Matrix in Figure 5 below.
- Product development is where organisations deliver modified or new products to existing to existing markets (Johnson *et al.*, 2008). Johnson *et al.* (2008) argue that this can be an expensive activity for reasons related to new strategic capabilities and project management risks.
- Market development is where organisations explore new markets whose needs can be met by current products (Louw *et al.*, 2006). It may take three forms, namely; new segments, new users and new geographies (Johnson *et al.*, 2008).
- Diversification is an external growth strategy that takes the organisation away from both its existing markets and its existing products (Johnson *et al.*, 2008), which may also include adding new businesses to its current table (Louw *et al.*, 2006). There are two types of diversification, namely; related or concentric and unrelated or conglomerate diversifications.

George and Jones (2008, 320) define **related diversification** as “the strategy of entering a new business or industry to create a competitive advantage in one or more of the organisation’s divisions or businesses”. Related diversification is underpinned by vertical and horizontal integrations. *Vertical integration* is in turn underpinned by either backward integration or forward integration. Vertical integration is concerned with developments into activities concerned with the inputs into the company’s current business, whereas forward integration is concerned with the outputs of the organisation (Johnson *et al.*, 2008). *Horizontal integration* is concerned with development into activities which are complementary or adjacent to current activities (Johnson *et al.*, 2008). **Unrelated diversification** is “when an organisation enters a new industry or buying a company in a new industry that is not related in any way to an organisation’s current businesses or industries” (George and Jones, 2008, 322). There are reasons to diversification, namely; spreading risk across a range of businesses, responding to market decline, increasing market power, stretching corporate parenting capabilities into markets and products, efficiency gains (synergies, economies of scope and scale) sharing and even leveraging competencies (Louw *et al.*, 2006).

### Ansoff Matrix

	Existing Products	New Products
Existing Markets	<b>Market Penetration</b> CONSOLIDATION	<b>Product Development</b>
New Markets	<b>Market Development</b>	<b>Diversification</b>

Figure 5: Ansoff Matrix (Source: Adapted from Ansoff, 1988)

#### **2.4.2 Co-operative strategies**

Co-operative strategies relate to situations where organisations join hands with rivals for mutual benefit (Louw *et al.*, 2006). Outsourcing of short-term contracts, joint ventures, strategic alliances or licence agreements are some of the considerations of co-operative strategies.

#### **2.4.3 Turnaround strategies**

Turnaround strategies relate to organisations or business units that have potential, but suffered a set-back in recent times (Louw *et al.*, 2006). Thompson and Strickland (2005) emphasise that attention centres on restoring productivity, quality and competitiveness. The strategy may be broken down in two phases, namely; retrenchments that involves (a) cost-cutting (b) reducing non-core assets and recovery which involves (a) bringing in entrepreneurial new blood in the form of turn-around strategy (b) revenue growth for recovery (Louw *et al.*, 2006).

#### **2.4.4 Divestiture or exit strategies**

Divestiture or exit strategies relate to market withdrawal when the organisation's survival is at stake and prospects for the future existence of the organisation are envisaged.

#### **2.4.5 Corporate Restructuring**

Corporate restructuring can be defined as a major change in the composition of the organisation's assets, as a result of a major change in its corporate strategy (Hitt and Hoskisson, 1990). Corporate level strategy seeks to define the organisation's operating terrain and how it should create value in component units (Hill & Jones, 2004). Restructuring an organisation may take different forms, depending on the firm's strategic imperatives. One form is corporate restructuring, which in the context of this study, is a form of rationalisation. In business terms, rationalisation is a process or an act of making an organisation more efficient by re-organising it, so as to eliminate waste of labour, time and / - or materials (Szilagyi, 2008), and which involves restructuring different levels of the organisation (corporate, business and functional). Corporate restructuring is therefore characterised by "a major change in the composition of a firm's assets" (Hoskisson and Turk, 1990; 465).

Restructuring an organisation at corporate level involves changes to the businesses in the corporate portfolio with the aim of enhancing shareholders wealth (Rigwema, 2006). There are various corporate level strategies that are used in order to achieve the objectives of corporate restructuring in an organisation, and which are intended to increase the value of its goods and services so that many customers may buy them (George and Jones, 2008: 318) namely: concentration on a single industry; vertical integration; diversification and international expansion. Concentration on a single industry is more concerned about re-investing a company's profits to strengthen its competitive position in its current industry (George and Jones, 2008). This may involve re-branding, which is defined as "the practice of building anew a name representative of a differentiated position in the mind frame of stakeholders and a distinctive identity from competitors" (Muzellec *et al.*, 2003: 32), with good intentions to create a competitive advantage over its competitors in the market space (Louw, 2006). Covin and Slevin (1990) identified structure as "the arrangement of workflow, communication and authority relationships within an organisation". Reconfiguring or restructuring an organisation at corporate level may imply adopting some of these elements. Both restructuring and rationalisation involve reconfiguration of the organisation and are embedded within the field of change management. Heugen and Schenk (2004) identify three distinct components of corporate restructuring, namely: organisational restructuring; portfolio restructuring and financial restructuring. The factors that affect the need for corporate restructuring are mainly: the crash of the stock price; the urgent need to address the excessive bank debt within an allotted time frame; and the need to trim the bloated corporate staff (Colley *et al.*, 2002). Empirical work conducted by Beard and Des (1981) with its main research question to address the degree to which variation in a firm's corporate level strategy and in its business level strategy explains the variation in its profit performance, established that variation in profitability among firms can be explained only partially by variation in the industry or industries in which they compete. The results found that both corporate level and business level strategy are both important in explaining the firms' variations in profitability.

#### 2.4.5.1 Organisational restructuring

This is when significant changes to the structural properties of the organisation with the purpose of improving organisation's effectiveness and efficiency, is taking place (Bowman and Singh, 1993). Organisational restructuring may sometimes be a product of portfolio and financial restructuring, as significant changes in the strategic scope and capital structure of the organisation need to be accompanied by corresponding changes in its authority and decision-making hierarchies (Prechel, 1994). Restructuring organisations may take different shapes depending on the firm's strategic imperatives. To this end, Thompson and Wright (1995:690) classified corporate restructuring transactions into four distinct categories namely:

❑ *Mergers and acquisitions:*

Various benefits are derived from this by restructuring companies, being: (a) efficiencies reaped from economies of scale (Bain, 1959), scope (Chandler, 1990) and integration (Williamson, 1975) and (b) gaining financial synergies stemming from internal risk diversification and coinsurance (Lubatkin, 1983).

❑ *Downsizing and downscoping:*

Downsizing relates to conscious decisions taken by an organisation, to reduce their labour force, in an attempt to improve the efficiency and effectiveness in delivering on their strategic objectives (Budros, 1999), and it is critical to differentiate it from organisational decline. On the contrasting side, downscoping is a term that was used to describe programmes of strategic divestiture, which is more associated with sales of organisations' assets and management buy-outs of divisions and spin-offs (Hoskisson *et al.*, 1994). These strategies may be tactically used to move some assets of the organisation to high value usage.

❑ *Ownership transactions:*

These transactions may be explained in the form of: (a) public offering and (b) buyouts. The former offers its equity to be traded in general public in order to gain access to a source of financial alternative to the bank and venture capitalists (Martens, 2004). Some benefits may be derived from this phenomenon in the form of tax benefits from depreciation and interest reductions, re-investing excessive cash flow on purchasing asset, that will deliver returns higher than cost of capital (Williamson, 1988).

□ *Internationalisation and divisionalisation:*

Internationalisation relates to restructuring an organisation such that it can compete successfully in the international arena (Welch, 1988), whereas departmentalisation relates to managerial response to overload in decision-making at the top of big organisations (Chandler, 1990).

#### **2.4.5.2 Portfolio restructuring**

This involves reconfiguration of the organisation's main line(s) of business through acquisitions and divestitures (Bowman and Sing, 1990). It further embodies management's choices between diversification to utilise any excess resources or capabilities that the organisation has in place and down-scoping through programmes of strategic divestiture (Hitt and Hoskisson, 1994; Penrose, 1959). Business level restructuring is concerned with how the organisation competes and attains competitive advantage through the products or services developed for markets, and the creation of value for customers (Louw and Venter, 2006). The company being researched in this study makes a good case study due to the fact that its restructuring is as a result of it being acquired by a new holding company almost four years ago.

#### **2.4.5.3 Financial Restructuring**

Financial restructuring is concerned more with altering capital and ownership structure of the organisation (Heugens, 2004: 88). It has been established that financial restructuring is very appropriate when the organisation's debt-equity ratio is insufficient for it to obtain optimal leverage (Heugens, 2004).

### **2.5 Strategy Implementation (Execution).**

Strategy implementation can be described as the action that moves the organisation along its choice of route towards its goals – the fulfilment of its mission, the achievement of its vision (MacLennan, 2011). There is growing cognisance that no single strategy process or single strategic capability will lead to sustainable competitive advantage.

Research has established that strategy formulation can no longer be separated from strategy implementation because of the speed which is necessary to exploit opportunities in the competitive environment (Feurer, 1995), such that Bhide (1994) points out that “too much analysis is harmful... by the time the opportunity is investigated fully, it may no longer exist” and thereby suggests the following guidelines:

- Screen the opportunities quickly and eliminate unpromising ventures.
- Analyse ideas parsimoniously.
- Integrate actions and analysis, do not wait for all the answers and be ready to change course.

Much focus has been placed on strategy formulation in comparison to execution. Alexander (1985) ascribes the apathy to investigate strategic implementation to a variety reasons like:

- Higher complexity in the process of strategy implementation.
- Greater likelihood of failures in implementing strategies.
- Strategy implementation being considered to be less glamorous than formulation.
- Practical difficulties in research involving middle-level managers.

In dealing with these issues, MacLennan (2011) adopted what he called the 5C’s of strategy execution, namely: Causality; Criticality; Compatibility; Continuity and Clarity. **Causality** is vital in that successful strategy execution relies on undertaking activities that will cause organisation’s overall objectives to be met, giving rise to cause and effect thinking which links ideas to action. **Criticality** relates to critical activities that are necessary to deliver the intended strategy. It must be borne in mind that some organisations undertake huge numbers of complex activities, hence the importance of criticality. **Compatibility** is about ensuring that the critical activities that organisations are compatible with their overall strategic objectives. **Continuity** relates to organisations not only meeting their overall strategic objectives, but also their ability to continually sustain them as they evolve. In this regards MacLennan (2011) makes particular reference to ‘baton changes’ that must go smoothly if organisations are to achieve their overall objectives. **Clarity** is about ensuring that individuals’ understanding of the organisations’ overall objectives, how they are to be achieved via critical activities, how organisational design and systems support their delivery, and their own role in making the strategy happen (MacLennan, 2011).

However one has to contend with the 70% failure rate of strategies (Franken *et al.*, 2009), attributed to poor implementation in order to appreciate the importance and the value of successful strategy implementation. There is an abundance of frameworks and models on strategy formulations like: SWOT<sup>12</sup> analysis, PEST<sup>13</sup>, Porter's generic strategies, strategic planning, and so forth. The same cannot be said on implementation frameworks and models, hence it has been critical, to achieve the objectives of this research, to delve more in-depth on implementation frameworks.

### 2.5.1 Implementation Framework

Lewin's (1947) assertion that "there is nothing so practical as a good theory" has been embraced by Hitt's (1995) statement that "there is nothing so practical as a good framework". Implementation frameworks can be used as catalogues to select information relevant to the topic required. They can be used as planning tools and checklists for evaluating strategy implementation. Due to the complexity of tasks and processes to be followed by managers during strategy implementation, it is critically important for organisations to ensure that their deliberate strategies do not result in disjointed and conflicting action on the part of their manager. Implementation frameworks would serve as beacons and roadmaps to guide managers at various levels within an organisation (Kazmi, 2008: 1565). A number of frameworks are available to choose from, some of which have been covered in Section 2.3.1 of this study. Although there is a newer implementation framework developed by Kazmi (2008: 1572) for the Indian context, the study herein adopts the Okumus Strategy implementation Framework (2003: 876) as depicted in Figure 6 below, read in connection with Joyce's *et al.* (2003) 4 + 2 business formula, to understand execution of strategy for superior results in its broader context. This framework is a valuable source of research to assist managers to make informed judgements about the strategy implementation process, rather than merely adopting ready-made solutions. In his research, Okumus (2003) creates a typology to provide a categorisation of frameworks in three groups namely:

- A simple approach to listing and describing the implementation factors.

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<sup>12</sup> Strengths, Weaknesses, Opportunities and Threats.

<sup>13</sup> Political, Environmental, Social and Technological.

- ❑ Models that suggest sequential, rational implementation processes that might be difficult to adopt in complex situations.
- ❑ Frameworks that lay emphasis on context and process ignoring elaboration of issues, such as relative importance of implementation factors, their specific roles and their impact on the overall implementation process.

The research by Okumus (2003) brings some key points regarding strategy implementation. Firstly, the one key reason why strategy execution fails is because practising executives and managers do not have practically and theoretically sound models to guide their actions during implementation. Secondly, that the framework / model he developed does not suggest an implementation model that is linear and prescriptive, nor views strategy formulation and implementation as different phases. He argues that strategy implementation is far too complex to be explained by prescriptive linear model. The comprehensive framework he developed from his research summarises implementation factors into four categories:

1) *Strategic content*

This focuses mainly on aspects of developing strategies within organisations

2) *Strategic context*

a) External:

This factor refers to a degree of uncertainty and changes in the task and general environments of the organisation.

b) Internal:

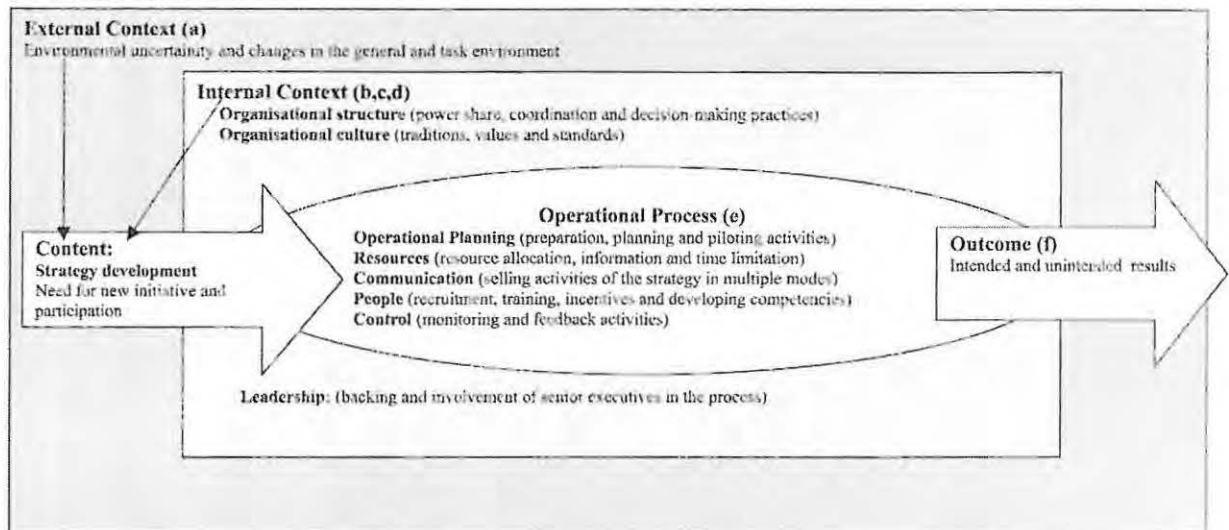
Refers to configuration of organisational structure, culture and leadership.

3) *Operational process*

This aspect looks at operational planning, resources allocation, people, communication and control.

4) *Outcome*

This aspect deals with mainly the results of the implementation process. The balanced scorecard, which forms part of this study in Section 2.5.3, is one tool that is suitable for measuring strategic implementation achievements, as it focuses on rounded organisational performance, taking into account the long-term vision and strategy of the organisation.



**Figure 6: Strategy implementation framework (Source: Okumus., 2003: 876)**

Joyce *et al.* (2003) conducted a research that carefully examined over 200 well established management practises as they were employed over a ten year period by 160 companies, to find out ‘what really works’ that truly produces superior results. The research did not only established primary and secondary practises that had a profound impact in the ability of the organisation to produce superior results but developed a list of behaviours that supported excellence in each practise. The 4 + 2 formula for business success emerged from this research, which means that organisations seeking superior performance have to excel in four primary practises and any two of the secondary practise.

**Table 3: The 4 + 2 Formula (Source: Joyce *et al.*, 2003)**

PRIMARY MANAGEMENT PRACTICES	SECONDARY MANAGEMENT PRACTICES
<p><b>Strategy:</b> Build your strategy on deep knowledge of your target customers and company's capabilities. Clearly and consistently communicate that strategy to employees, customers, and shareholders. Refine your strategy only in response to marketplace changes—new technologies or government regulations.</p>	<p><b>Talent:</b> Achieve deep bench strength. It's cheaper and more reliable to <i>develop</i> stars than to buy them. Create top-of-the-line training programs to retain skilled managers. Give them challenging, intriguing jobs.</p>
<p><b>Execution:</b> Streamline operational processes essential to consistently meeting—not exceeding— customer expectations. Eliminate waste to increase productivity 6% to 7% annually.</p>	<p><b>Leadership:</b> Successful companies' leaders are committed to the business. They reach out to front lines, forging connections with people at all levels. They seize opportunities before competitors do and tackle problems early. Also, such companies' board members have a financial stake in the firm's success <i>and</i> a solid understanding of the industry.</p>
<p><b>Culture:</b> Hold managers and employees, individuals and teams to unyielding performance expectations. Link pay to specific goals—and raise the bar every year. Withhold rewards when targets are missed. State company values clearly and forcefully.</p>	<p><b>Innovation:</b> Lead your industry with breakthrough innovations — even if that means cannibalizing existing products. Use new technologies to enhance all operations, not just product-development processes.</p>
<p><b>Structure:</b> Create a fast, flexible, and flat structure that reduces bureaucracy and simplifies work. Shatter departmental boundaries that prevent information sharing and cooperation. Look to middle managers' and employees' dedication and inventiveness— not executives' brilliance — for your company's future.</p>	<p><b>Mergers and partnerships:</b> Enter only new businesses that leverage existing customer relationships and complement your core strengths. Forge partnerships that best use both companies' talents. Develop a systematic way of identifying, screening, and closing such deals.</p>

### 2.5.2 Architectural Role of Strategic Leadership

Up to this point the review of the literature focused on strategy and its implementation as though organisations exist in isolation, which is obviously not true. Although the main focus of this research is on strategy execution, it is as important to touch on the architectural role of leadership. Research conducted by Graetz (2000) at three corporations in Australia - Pilkington, Ford Plastics and Ericsson, revealed the need for strong personal leadership from the top, that provides a clear overarching vision and focus, seems particularly critical as organisations discard their traditional, hierarchical organisational structures in favour of leaner, flatter boundaryless forms comprising smaller, autonomous, networking units. Senge's (1990:174) empirical work on mental model argues that many of the good best ideas never get put into practice "because they conflict with deeply held internal images of how the world works, images that limit us to familiar ways of thinking and acting". This presupposes that there are limitations to leadership hence it needs to be developed on an ongoing basis.

Mathura's (2009) research emphasised the influence strategic leadership had on the researched organisation, and therefore this study only focuses on the architectural role of strategic leadership in an organisation. This approach may add value to the researched company and any other organisation seeking to pursue the same approach, as successful strategic implementation depends on strategic leadership as the key driver of strategy implementation and a sound organisational architecture (Louw *et al*, 2006). Strategic leaders need to have a combination of behaviours and capabilities and be able to apply the right behaviours at the right time. The best strategy implementation may not deliver the required results unless it is communicated in a manner that is understandable to the implementers. Graetz (2000) emphasised that this communication needs to be articulated even at grass root level.

### 2.5.3 Balanced Scorecard

Reference was made earlier in the study to the four implementation factors of Okumus (2003), the last one being outcomes. It denotes that in order to reflect comprehensively on success and or failures of strategic implementation, there must be a tool that must be used as a yardstick for measurement. The balanced scorecard, as depicted in Figure 7 below, is an appropriate framework for measuring strategic implementation achievements, as it translates an organisation's vision and strategy into a coherent set of performance measures (Kaplan and Norton, 1996: 24). The balanced scorecard has been linked to strategy implementation in recent years (Epstein and Manzoni, 1998).

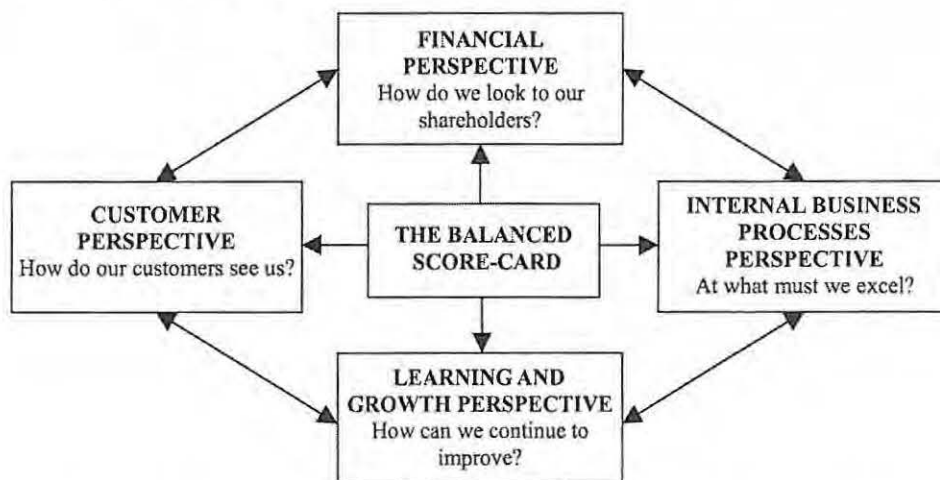


Figure 7: The balance scorecard (Source: Kaplan and Norton, 1996)

## **2.6 Conclusion**

This section has clearly demonstrated the complexities involved in strategy and its implementation, and the need for strategic leadership as drivers and architectures. Although there is vast literature about model and frameworks on the strategy formulation, strategy implementation models and frameworks are not in abundance, and as explicit as the former.

To make the situation more complex is the possibility of conflicting ideologies regarding strategy and structure in the post-modern era when some authors like Bartlett and Ghoshal (1994 & 1995), are putting emphasis on the changing roles of top management from: strategy to purpose; structure to processes and system to people. However, this chapter has clearly demonstrated the need for some kind of strong mechanism to be put in place for an organisation to deliver excellent results, in order to prosper in the highly competitive world, the mechanism in this case being the strategy. Against the background of high failure rate of change management, which is highly attributed to poor strategy implementation, the chapter has clearly embraced the need for organisation structures, as tools for strategy implementation.

Having expressed the complexities around the phenomenon of strategy and its implementation, it is critically important for management to continuously advance their knowledge on this subject as strategy is an evolving phenomenon. This chapter adds value to the researcher and the researched company with regards to the research question, and in achieving the objective of this research.

### **3 SECTION THREE: RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This section seeks to describe the methodology followed by the researcher, to achieve the aims and objectives of the study, which incorporates: describing methods, techniques and procedures used in undertaking this research as an overarching plan for the collection, measurement and analysis of data. This is encapsulated in Patton's (2002) assertion that students writing a dissertation will be expected to follow a very formal and explicit analytical procedure with careful attention to methodological rigour. It has to be emphasised at the outset that the unit of analysis for the study is placed on the restructuring of the researched company.

#### **3.2 Research Aims and Objectives**

The aim of the research is to analyse Corporate Level Strategy Implementation, with regards to the restructuring that took place in the researched company, focusing on the period running from January 2008 to September 2011. The objectives of the study henceforth are:

- Understanding the strategy.
- Analysing the design decisions in the light of the strategy chosen by the top management of Ellerine Holdings Limited regarding:
  - Reporting decisions;
  - Closure of trading outlets;
  - Rebranding and merging business units and stores;
  - Synergy with the holding company; and
  - Competitive position.
- Analysing what monitoring control measures were designed to facilitate the corporate restructuring.

### **3.3 Research Paradigm**

A paradigm is the fundamental model or frame of reference that is used to organise observations and reasoning (Babbie, 2011), and it represents a worldview that defines it for its holders, the nature of the world; the individual placed in it; and the range of possible relationships to that world and its parts (Guba and Lincoln, 1994). This study is embedded ‘strategy execution’ and the researcher’s approach is informed by the worldview of the concept, with a basic set of beliefs or assumptions that guided his inquiries, namely: the nature of the reality; the relationship of the researcher to what is being researched; the role of values in the study; and the process of the research (Fouche *et al.*, 2002). This research follows a qualitative approach, which can adopt various theoretical stances and methods. This study adopts a post-positivist paradigm, which is informed by the ontology of critical realism (Guba & Lincoln, 1994), with an objectivist epistemology (Cohen, Marion and Morrison, 2000; Guba and Lincoln, 1994).

### **3.4 Research Method (Case Study)**

The research method adopts a descriptive case study approach. Yin (2003, 13) defines a case study as:

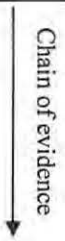
..... an empirical inquiry that

- investigates contemporary phenomenon within its real-life context; especially when
- the boundaries between the phenomenon and the context are not clearly evident.

A case study can explore many themes and subjects, but from a much more focused range of people, organisations or contexts (Gray, 2009). Formal social organisations can also be units of analysis in social research (Babbie, 2011). Included in formal social organisations, are corporations. Stake (2000) further asserts that a case study can prove to be invaluable in adding to the understanding; extending experience(s); and increasing conviction about a subject, hence the case study approach is appropriate for this study. It is noteworthy that case studies can benefit from the prior development of a theoretical position, to help direct the data collection and analysis process (Gray, 2004), which calls for the researcher to be fully prepared for the case study process.

Writing the case study report was simplified by adopting Patton’s (1990) Three Steps of Case Study Construction illustrated in Table 5 below, which enabled the researcher to conceptually link the case study report back to the case study records and raw data through a chain of evidence. The researcher obtained consent from management of Ellerine Holdings Limited, through the office of the Chief Strategy Officer Dr Louis Carstens, to use relevant organisational data for the purpose of this study, as well as securing an interview with the CEO, Toni Fourie.

**Table 4: The Process of Case Study Construction (Source: Gray, 2004)**

Stage	Process	
Step 1	Assemble raw case data. (Consists of all the information collected about an organisation, person(s) or event.)	
Step 2 (Optional)	Construct case record.	
Step 3	Write case study narratives.	

### 3.5 Data Collection

Case studies may involve the use of one or more data collection techniques such as: observations; interviews (structured, semi-structured or open interviews); questionnaires and documents analysis, depending on the research design (Gray, 2009). As the study adopts a case study method, the use of multiple sources of evidence supports Gray’s (2009) assertion that multiple sources of evidence may help in addressing the issue of construct validity, because the multiple sources of evidence should provide multiple measures of the same construct. Multiple sources of data also contribute to the construction of ‘thick descriptions’ upon which qualitative research depends. Yin (2003) also identified six main sources of case study data that are not mutually exclusive, namely: documentation; interviews; archival record; direct observations; participant observations; and physical artefacts. He also alluded to the reality that these sources are not mutually exclusive, with a good case study tending to use multiple sources of evidence.

This informs the choices made by the researcher in this study, to collect data from research participants through interviews and the collection of documents (i.e. strategic intent, minutes of meetings and communication on strategic issues, etc), that related to the strategic decisions made in the researched company for the researched period.

### **3.5.1 Population & Sampling**

Although the population for the study consisted of the Chief Operating Officer, the Chief Strategy Officer and Chief Executive Officer and documented data, the researcher adopted a purposive non-probability sampling approach in arranging an interview with the latter, while documents were sampled using a purposive sampling approach. Qualitative research deals with small samples of people, cases or phenomena nested in particular contexts, and often adopt purposive sampling to identify information-rich cases which can be studied in-depth (Patton, 2002). Furthermore Patton (2002) makes a point that there are no rules for sample size in qualitative inquiry, as the sample size depends on a number of things, namely: what you want to know; the purpose of the inquiry; what is at stake; what will be useful; what will have credibility; and what can be done with the available time and resources.

### **3.5.2 Documents**

Gray (2009) attests that documents are some of the most frequently used unobstructive measures, and include: a variety of organisational and institutional documents; state financial, political and legal records. Although in some organisations there exists a store of 'official' records such as: legal and financial documents, company reports, rules and regulations, staff handbooks and human resources records, there may also exist a wealth of 'less official grey materials' such as: emails, memoranda, minutes of meetings, team plans marketing ideas, and so forth; that are an integral part of the knowledge base and the thinking of the organisation (Gray 2009). The researcher requested and collected documents from senior management, as well as used those already at his disposal, as an employee of the researched company. In this regard the researcher worked closely with the office of the Chief Strategy Officer (Dr Louis Carstens), who provided some of the documented data used in this study.

These documents that encapsulated Toni's strategy in restructuring Ellerine Holdings Limited referred to as 'AWAKENING THE GIANT', were in the form of various presentations that he used, some to suppliers in February 2009, an analyst presentation of ABIL interim results for 6 months ended on 31 March 2012. Further data were obtained from published literature, in-house publications and memoranda communicated to employees during the restructuring process. As the study seeks to obtain insights into particular practises that existed within a particular location, context and time (Gray, 2009), has alluded in the preceding sub section to the purposive sampling of documents.

Researchers who use organisational records may often find that vital pieces of data are missing, or that they may have to contact employees to have the data interpreted or explained to them, to avoid erroneous assumptions (Hakim, 2000). This is one of the reasons that the research adopted interviews as part of the data collection process, and conducted the interviews after analysing the documentation. Although the office of the Chief Strategy Officer appeared to be quite willing to provide the researcher with the organisation's Vision and Mission statements, the same were ultimately not provided and not available in the public domain neither. While documents often provide useful background information that might help in framing interview questions and the planning of fieldwork, it is critically important to assess the quality of social research evidence such as documents (Scott, 1990). In dealing with the question of quality in the documents, the researcher adopted Scott's (1990) four criteria, namely:

1. **Authenticity:** Is the evidence genuine and of unquestionable origin?
2. **Credibility:** Is the evidence free from error and distortion?
3. **Representativeness:** Is the evidence typical of its kind, and if not, is the extent of its atypicality known?
4. **Meaning:** Is the evidence clear and comprehensive?

It is only when the answers to the four questions were affirmative that the researcher became comfortable with quality of the documented data.

### 3.5.3 Interviews

“Interviewing is a powerful way of helping people to make explicit things that have been hitherto implicit – to articulate their tacit perceptions, feelings and understandings” (Arksey and Knight, 1999: 32). The fundamental principle of qualitative interviewing is to provide a framework within which respondents can express their own understandings in their own terms (Patton, 2002). Interviewing requires in-depth preparations and conceptualisation, to ensure that the data collected does add meaningful value to the research question thereby enabling the aims and objectives of the study to be achieved. Three basic approaches can be used to collect qualitative data through open-ended interviews or any combination of these as they are not mutually exclusive, namely:

- The informal conversation interview.
- The standardised open-ended interview.
- The general interview guide approach.

The three qualitative approaches to interviewing create an enabling environment to ask open-ended questions that offer the interviewee the opportunity to respond in their own words and to express their own personal perspective (Patton, 2002). However, Patton (2002) further states that it is critically important that the words of the interviewee are captured accurately, no matter what kind of interview style is used. Qualitative inquiry aims to minimise the use of predetermined responses when gathering data (Patton, 2002). This is achieved by asking truly open-ended questions so that respondents can respond in their own words. As already alluded to, the researcher used purposive sampling of the CEO of the research company and employed more of the general interview guide approach for the interview process. This study adopted a focused interview approach as the researcher was knowledgeable of the situation, and had analysed the documented data but wished probe certain issues more in depth (Gray, 2009).

### **3.6 Data Analysis**

Unlike other methods, literature seems to reveal that there is less experience and fewer developed strategies for analysing case study data (Gray, 2009). Having said this, Yin (2003) identified three general analytical strategies that can be employed in case study evidence, namely: (1) relying on theoretical propositions; (2) setting up a framework based on rival explanation; and (3) developing case descriptions.

Yin (2003) further identified five techniques that can be practised using any of the three strategies: (i) pattern matching; (ii) explanation building; (iii) time series analysis; (iv) logic models; and (v) cross-case synthesis. This study adopts a deductive approach to qualitative data analysis. This entails developing questions derived from the theory, which the objectives and design of the case study were based on (Yin, 2003), as well as adopting more of the pattern-matching technique in analysing the data. Yin (2003) asserts that pattern-matching is relevant for descriptive case study, as long as the predicted pattern of specific variables is defined prior to data collection. Interpretation and analysis of qualitative data involves making sense out of what people have said, looking at patterns, and integrating what different people have said (Patton, 2002). The strategy and structure components the Okumus (2003) framework of strategy implementation is the focus of the research.

### **3.7 Research Rigour (Quality)**

Research rigour in case studies deals with aspects of quality of the case, which basically entails validity and reliability of the research.

#### **3.7.1 Construct Validity**

It is cited by Yin (2003) as being problematic for case study due to the difficulty in defining the constructs being investigated.

### **3.7.2 Internal Validity**

The study herein is more of a descriptive case study as opposed to a causal one, where the researcher is attempting to show whether event  $x$  led to outcome  $y$ . Internal validity also faces another challenge of inferences made from the data, when it is not possible to observe the event (Gray, 2009). Yin (2003) suggests that confidence of making inferences may be increased through: pattern-matching, explanation building, and time-series analysis.

### **3.7.3 External Validity**

This deals with the extent to which it is possible to generalise from the data to other cases, or situations beyond the study itself (Gray, 2009). Guba and Lincoln (2000) assert that generalisation inevitably alter over time. However, Yin (2003) argues that safer grounds for generalisations in case studies can be established if a study is replicated three or four times in different circumstances.

### **3.7.4 Reliability**

Reliability embodies the measure of consistency of the research where the findings and conclusions of one researcher can be replicated by another researcher doing the same case study. In this regard, the researcher has triangulated the interview conducted with the CEO with data collected from various sources, and found a high level of consistency in all the data, and henceforth is very comfortable with the reliability of the research.

## **3.8 Ethical Considerations**

As the study adopts a post-positivist paradigm, ethics is an important consideration that is taken seriously by inquirers, and is extrinsic to the inquiry process itself (Guba and Lincoln, 1994). Research that involves data gathering or contact with human or animals populations involves ethical considerations (Gray, 2009). The researcher is an employee of the researched company (Ellerine Holdings Limited) occupying the position of a Regional Manager. His study is also funded by the researched company.

The choice of the research topic is solely of the researcher's choice without any influence from the researched company (Ellerine Holdings Limited), thereby reducing the possibility of the funder influencing the research approach and the writing of the report (Remenyi, 1998: 112). The researcher has upheld all four ethical principles (Gray, 2009), namely:

- avoid harm to participants;
- ensure informed consent of participants;
- respect the privacy of participants; and
- Avoid the use of deception.

One has to be cognisance of the reality related to the sensitive nature of the study in terms of competitiveness of the researched company, as the study covers strategic imperatives of the organisation.

### **3.9 Conclusion**

This section outlines the design steps that were followed by the researcher to produce a credible piece of work relating to this study, using a qualitative research method. Qualitative research should be seen a series of iterations involving design, data collection, preliminary analysis and re-design (Gray, 2009). Strauss and Corbin's (1990) school of thought argue that this kind of research (qualitative) can be used in circumstances where relatively little is known about the phenomenon, or to gain new perspective on issues where much is already known. Although there is an abundance body of knowledge on strategy execution, previous relationships between a banker and a retailer in a Southern African context have presented challenges and complexities, hence the AB & EHL relationship may bring about some new interests and perspectives, for scholars and practising managers.

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## APPENDICES

Dear Mr. Fourie

### **RE: Research for Masters in Business Administration (2012) – Sydney Nkatsha**

I am currently a third year MBA student at Rhodes Business School in Grahamstown.

My research is situated in the field of change management, with particular focus on strategy implementation. My provisional topic is:

“AN ANALYSIS OF THE IMPLEMENTATION OF CORPORATE LEVEL STRATEGY IN A SOUTH AFRICAN FURNITURE RETAILER”.

Literature portrays the restructuring of an organisation as a daunting exercise with its own challenges. In the light of this, the aim of my research is therefore to analyse the corporate level strategy implementation (restructuring) within Ellerine Holdings Limited, covering the period from your appointment as CEO of the organisation, to the end of the 2010/11 financial year, with a view to understanding how this challenging exercise was handled. The research adopts a case study approach. Dr L. Carstens has kindly offered to assist me with the documentary data to be used for analysis.

Will you please grant me about an hour of your time to conduct an interview with yourself to explore aspects of strategy implementation referred to above. I will uphold all ethical principles related to the research and any sensitive data, namely; (a) to avoid harm to participants and the corporation; (b) to ensure informed consent of participants; (c) to respect the privacy of participants and the sensitivity of any confidential data.

I would appreciate if we can schedule the interview for July 2012 to give me time to attend my last MBA block from 11 June to 22 June 2012, and to make sufficient progress with the analysis of the documentary data, so as to ensure that the interview is more productive.

Thanking you in advance for your assistance.

Kindest regards

Sydney Nkatsha

Cell: 0722398958

Email: Sydney.Nkatsha@ellerines.co.za



**Sent:** Tuesday, May 29, 2012 9:39 AM  
**To:** Sydney Nkatsha  
**Subject:** Re: Request to interview CEO (Mr. T. Fourie)

Hi Sydney,

Can we please book this interview for Monday, 23 July at 09H00 at our office? Please let me know.

Kind Regards

Elmarie Lotz  
010 201-2017

>>> Sydney Nkatsha 5/21/2012 9:51 AM >>>  
Dear Elmarie

Our telephonic conversation of last month has reference.

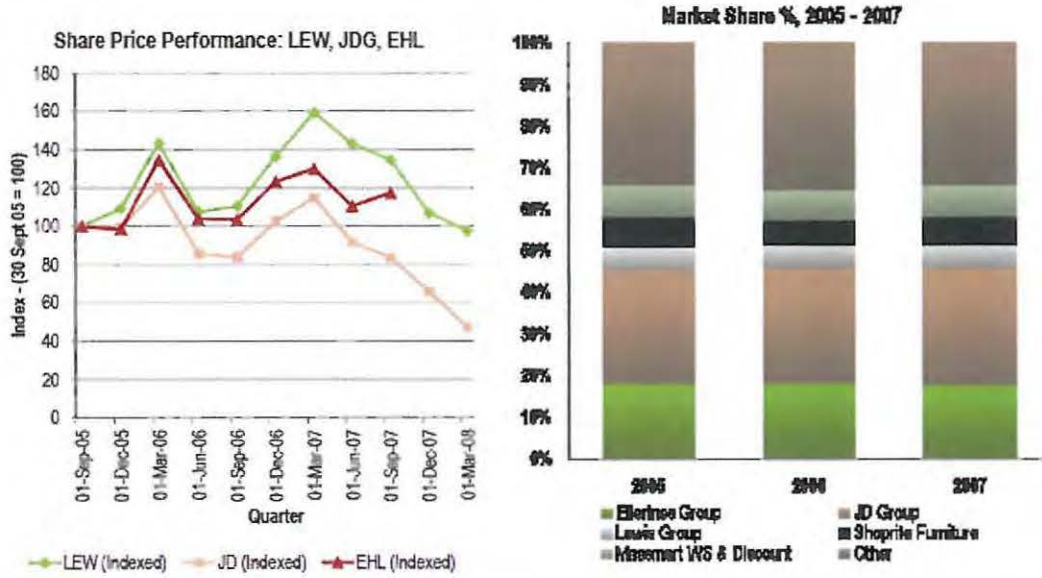
Please find attached herewith my formal request regarding the interview with our CEO.

Kindest regards  
Sydney Nkatsha  
Regional Manager  
0722398958  
[Sydney.Nkatsha@ellenres.co.za](mailto:Sydney.Nkatsha@ellenres.co.za)

## EXHIBITS

### Exhibit A: Market Share of the Major Furniture Retailers (Source: EHL Analysis)

The changes in market share are small. This validates views of a low-growth, stagnant industry. A clear first-mover opportunity exists.



Note: Value Market Share %: Merchandise Sales as a % of Total Sales of Retailers in household furniture, appliances and equipment for the Eleries fiscal year. Data therefore not as per individual companies' reporting period, but aggregated monthly from Retail Trade Sales, as per Statistics SA, against time period as per Eleries reporting period



Exhibit C: 2007 Financial Results & Segmental Analysis

SEGMENTAL ANALYSIS									
Balance Sheet		DIVISIONAL					GEOGRAPHICAL		
		Retail Operations	Corporate	Risk Services	Financial Services	Total Group	USA	Foreign	Total Group
<b>INCOME STATEMENT</b>									
Sales	2007	5,681	49	1,194	1,356	8,280	2,758	522	8,280
	2006	5,340	41	1,022	1,200	7,579	2,077	500	7,579
	% y/t	6.4	19.5	16.4	12.4	9.2	33.0	4.0	9.2
Cost of sales	2007	3,384		1,184	1,350	5,924	1,521	403	5,924
	2006	3,290		1,085	1,226	5,477	1,025	409	5,477
	% y/t	3.0		9.2	30.4	8.2	48.0	11.0	8.2
Cash interest	2007	2,297	49	10		2,356	2,237	119	2,356
	2006	2,054	41	7		2,102	2,009	93	2,102
	% y/t	11.6	19.5	42.9		12.1	5.5	78.0	12.1
Cash interest %	2007	40.4	102.0	0.8		28.5	26.8	22.8	28.5
	2006	38.3	100.0	0.7		27.7	26.4	18.1	27.7
	% y/t	5.5		14.3		3.0	6.4	24.3	3.0
Gain of merchandise	2007	1,215				1,215	4,901	352	6,255
	2006	4,963				4,963	4,021	262	4,963
	% y/t	3.0				5.3	21.9	12.6	5.3
Operating profit	2007	483		392	374	1,459	1,390	63	1,459
	2006	403		409	410	1,272	1,190	80	1,272
	% y/t	22.3		7.0	18.8	11.7	7.5	21.3	11.7
Operating margin %	2007	8.5		33.0	27.6	17.6	18.0	12.1	17.6
	2006	7.5		43.8	34.4	16.8	14.8	15.9	16.8
	% y/t	1.2		23.8	19.8	0.8	1.2	13.8	0.8
Depreciation	2007	92	18		2	100	80	8	100
	2006	77	8		2	87	80	7	87
	% y/t	19.6	225.0			14.9	15.0	14.3	14.9
<b>BALANCE SHEET</b>									
Assets	2007	1,197	1,028	227	5,496	7,958	2,431	553	7,958
	2006	1,221	1,127	356	4,858	7,571	2,059	512	7,571
	% y/t	(2.0)	(9.8)	(36.4)	12.9	5.5	18.0	9.0	5.5
Liabilities	2007	(1,186)	(1,933)	(1,089)	(11,341)	(2,829)	(2,569)	(259)	(2,829)
	2006	(1,299)	(2,271)	(1,153)	(6,073)	(2,570)	(2,338)	(240)	(2,570)
	% y/t	8.3	(15.0)	(62.8)	46.5	9.8	10.3	5.3	9.8
Net assets	2007	11	(905)	138	4,145	5,169	4,866	294	5,169
	2006	(129)	(910)	200	3,985	4,995	4,729	260	4,995
	% y/t	(114.7)	(2.2)	(30.0)	4.3	3.3	5.6	12.3	3.3
Cost to acquire assets	2007	106	30	4	2	148	147	2	148
	2006	107	39			146	147	2	146
	% y/t	(0.9)	(23.1)		100.0	(1.4)	(0.7)	(0.0)	(1.4)
<b>RESOURCES</b>									
Number of outlets	2007	1,216			87	1,298	1,204	94	1,298
	2006	1,200			70	1,270	1,151	119	1,270
	% y/t	1.3			24.3	2.2	10.3	(6.7)	2.2
Number of employees	2007	10,267	444		607	11,318	10,037	1,281	11,318
	2006	10,345	431		577	11,353	10,190	1,163	11,353
	% y/t	(0.8)	3.0		5.2	(0.3)	12.7	9.3	(0.3)
Return on	2007	839,285			5,721	845,010	794,137	50,873	845,010
	2006	835,108			4,529	839,637	607,086	23,551	839,637
	% y/t	0.5			27.4	0.6	31.8	115.1	0.6
<b>PRODUCTIVITY RATIOS</b>									
Merchandise sales	2007	92.5				63.5	63.2	67.4	63.5
	2006	92.9				65.5	65.0	72.1	65.5
	% y/t	(0.4)				(2.9)	(0.8)	(10.0)	(2.9)
Revenue per outlet	2007	4,622			10,527	6,379	6,444	5,553	6,379
	2006	4,410			10,080	5,968	6,127	4,261	5,968
	% y/t	4.8			4.3	6.3	3.2	31.2	6.3
Revenue per employee	2007	351,140			2,010,964	481,451	490,020	380,118	481,451
	2006	326,425			1,951,472	430,654	447,940	322,208	430,654
	% y/t	7.5			2.6	10.3	9.4	16.6	10.3
Operating profit per	2007	30,646			580,230	84,835	86,176	46,170	84,835
	2006	24,650			795,174	73,285	75,446	51,349	73,285
	% y/t	24.3			(21.1)	15.8	10.0	10.2	15.8
Revenue per sq ft (Kands)	2007	6,709			236,856	9,799	9,894	8,571	9,799
	2006	6,354			248,420	9,027	9,226	6,919	9,027
	% y/t	5.6			(4.7)	8.6	1.2	23.0	8.6
Cost per outlet	2007	890			70	951	631	648	651
	2006	890			65	861	654	631	661
	% y/t	0.0			7.7	(1.5)	(1.2)	3.7	(1.5)
<b>TRADE RECEIVABLES</b>									
Gross receivables	2007				6,589	6,589	6,098	123	6,589
	2006				6,042	6,042	5,128	114	6,042
	% y/t				9.1	9.1	17.6	8.0	9.1
Debtors (mths)	2007				631	631	602	29	631
	2006				396	396	354	42	396
	% y/t				59.3	59.3	70.9	(31.0)	59.3
Debtors (net %)	2007				9.6	9.6	9.9	3.5	9.6
	2006				6.6	6.6	6.4	6.2	6.6
	% y/t				44.0	44.0	53.1	32.0	44.0
Average length of	2007				15.6	15.6	15.8	15.8	15.6
	2006				14.5	14.5	14.5	15.2	14.5
	% y/t				7.6	7.6	7.6	(3.3)	7.6
Areas	2007				1,078	1,078	902	116	1,078
	2006				888	888	772	116	888
	% y/t				21.4	21.4	16.0	10.4	21.4
Areas %	2007				14.7	14.7	15.3	22.7	14.7
	2006				14.7	14.7	14.0	22.4	14.7
	% y/t				0.0	0.0	4.8	3.3	0.0
Collection rate %	2007				6.4	6.4	6.4	6.3	6.4
	2006				6.9	6.9	6.9	6.6	6.9
	% y/t				(7.2)	(7.2)	(6.5)	4.5	(7.2)
Deposit rate %	2007				23.7	23.7	20.5	24.2	23.7
	2006				20.4	20.4	20.4	21.6	20.4
	% y/t				16.2	16.2	12.7	11.1	16.2

Exhibit D: EHL Previous Executive Structure (Source; EHL)

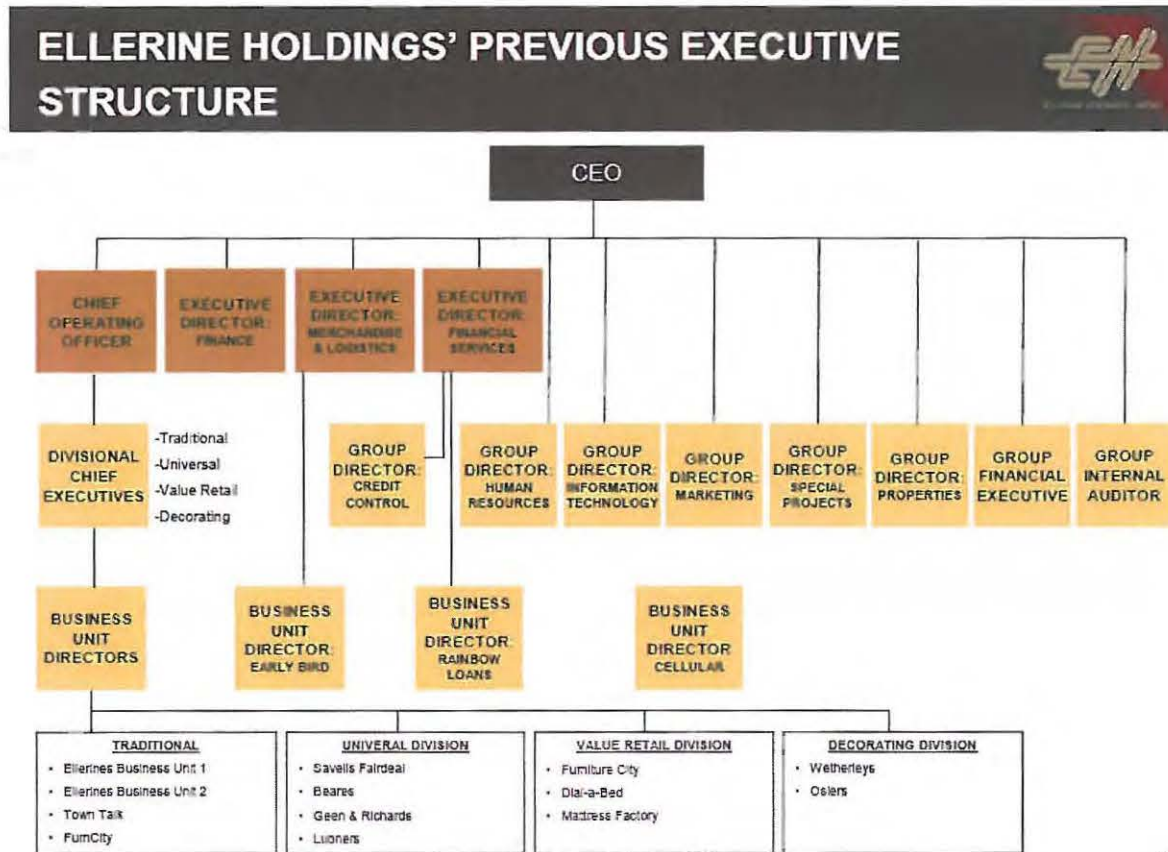


Exhibit E: South African GDP Growth (Source: Statistics South Africa; 2012)

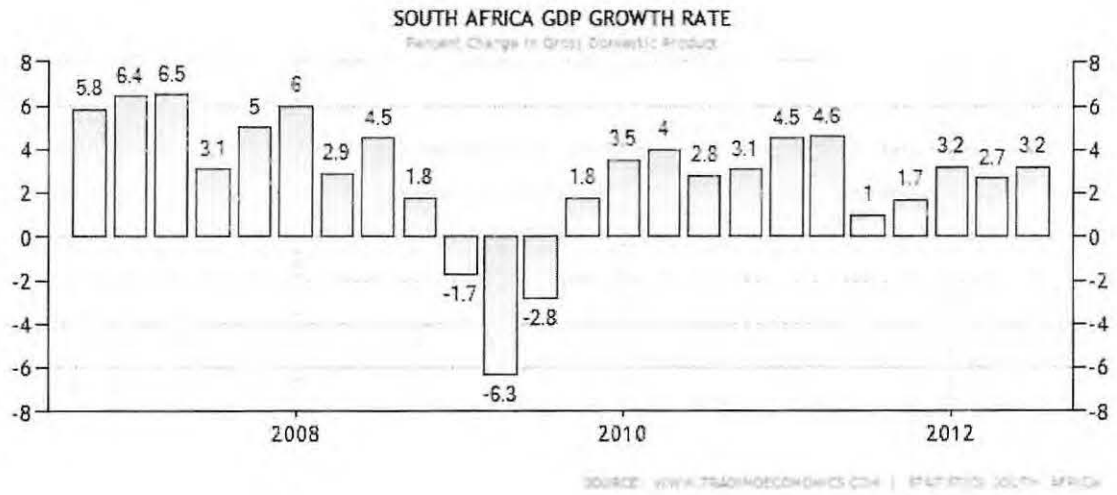


Exhibit F: Consumer Spending in South African (Source: Statistics South Africa; 2012)

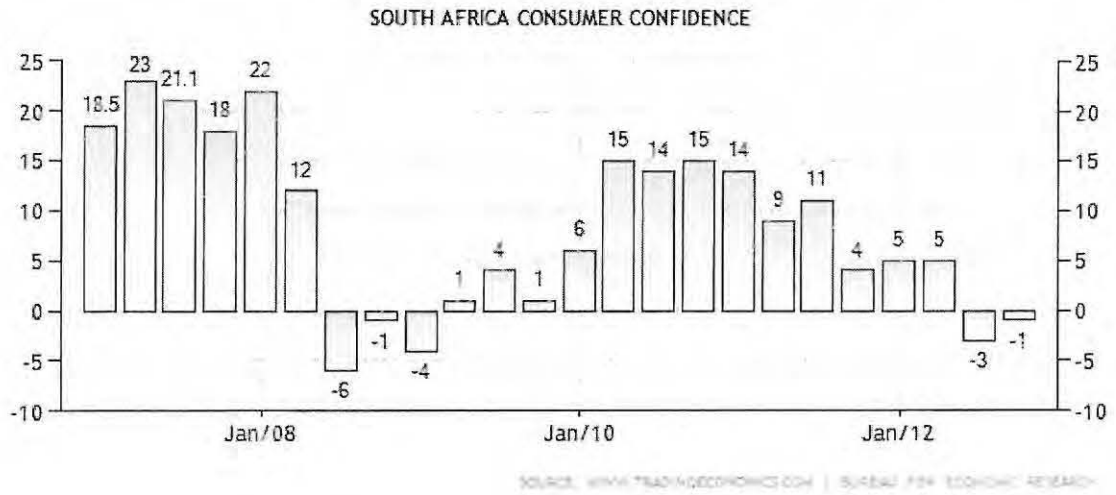
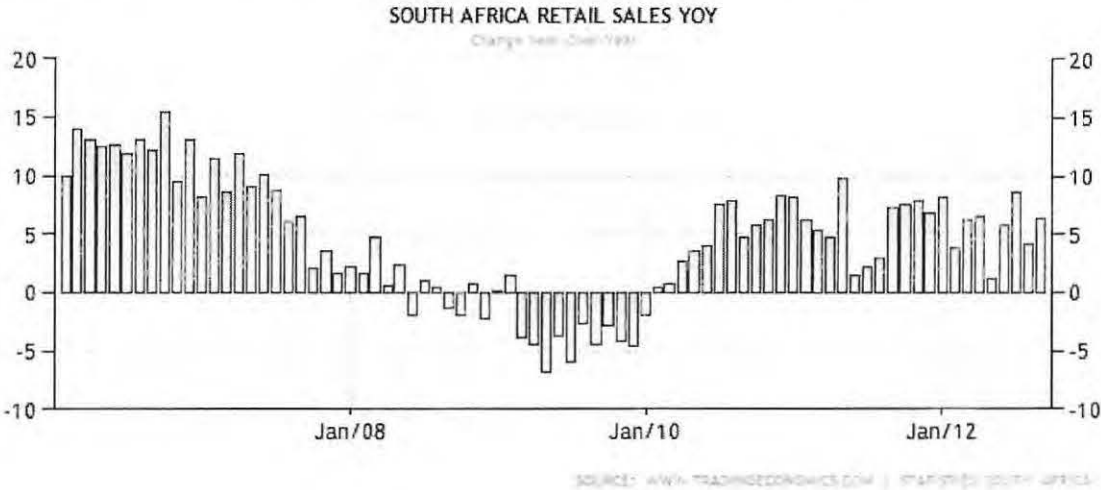


Exhibit G: South African Retail Sales YOY (Source: Statistics South Africa; 2012)



## Group structure



### Note:

- Ellerines, FunCity, Town Talk and Savells Fairdeal brands have been rationalised for all the points
- Beares and Lubners are being rationalised into one brand
- Wetherlys and Osiers are being rationalised into one brand
- Mattress Factory and Dial-a-Bed are being rationalised into one brand

**Exhibit I : New EHL Customer Value Proposition**

Our purpose is to help South Africans fulfill their dreams by helping them turn their houses into homes through the provision of quality stylish furniture and home furnishings at affordable prices, facilitated by affordable credit in well located and well presented stores.

Our choices and actions will be focused on:

- Quality
- Styling
- Affordability (cost of goods : cost of credit)
- Store presentation

**Exhibit J: New EHL Positioning Statement**

*"Ellerines is the leading, dominant retailer of furniture and home furnishings. We will trade in the lower, middle and upper income segments through dominant highly differentiated brands. Each brand will differentiate itself within its own segment and between each other by way of its operating model and value discipline."*

**Lower**

**Operational Excellence**

- Lowest price, lowest cost of credit offering through lowest cost, operational excellence and economies of scale*

**Middle**

**Operational Excellence / Product Leadership**

- Wide comprehensive categories and ranges of functional, contemporary and good value for money furniture and home furnishings*

**Upper**

**Product Leadership & Client Intimacy**

- Leadership in product (design, styling & quality) in well located well presented stores with high levels of service quality (decorating, advice, in-store salesmanship).*

# WE ARE BEING OUTPERFORMED ON A NUMBER OF RETAIL VARIABLES



Elmer's Share among Top Four Furniture Retailers 2007

