



**Rhodes Business School**

*Leadership for Sustainability*

**A TEACHING CASE STUDY ON THE EFFECT OF GROWTH ON ORGANISATIONAL LEADERSHIP AND CULTURE AT HARDWARE WAREHOUSE AS THE ORGANISATION GREW FROM ONE STORE TO 18 STORES.**

A half-thesis submitted in partial fulfillment of the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

in the

RHODES BUSINESS SCHOOL

By

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June 2013

## **INTEGRATIVE SUMMARY**

### **Case Study Research Background**

Business organisations throughout the world usually start with a big vision, a big strategy and very ambitious long-term goals. As these business organisations start growing, there seem to be shifts in leadership strategy and culture which seek to manage these continuously growing organisations. Louw from Louw and Venter (2006: 7) argues that “managing an organisation in the 21<sup>st</sup> century’s competitive landscape is a very complex task which impacts on organisational leadership, organisational strategies and organisational architecture”. She highlights the increasingly competitive business practices, the inclination towards strategic flexibility in order to accommodate change and the emergence of networked organisations in the global arena as some of the reasons for the heightened complexity of managing organisations in today’s world (Louw and Venter, 2006).

### **Objective of the Case Study**

The main objective of this research study was to write up a teaching case study, based on Greiner’s (1998) model of organisational development, outlining what effect the growth of Hardware Warehouse had on the leadership and culture of the organisation. The study is a teaching case study in the form of “a descriptive case focusing on presenting a description of past events and decisions” (Cappel and Schwager, 2002: 289).

### **Key Concepts of the Case Study**

The key concepts the research emphasised include: decisions involved in leadership structure and management practices, development and growth of the organisation, cultural practices, as well as any leadership and cultural challenges that arose during the time in context.

## **Structure of the Teaching Case Study**

This teaching case study is divided into four parts: the case study, the literature review, methodology, and the teaching note.

### **The Case Study**

This section details the story of Hardware Warehouse, a listed building materials retailer founded in King William's Town 16 years ago. Based on Greiner's (1998) model of organisational development, the case study seeks to uncover how the growth of Hardware Warehouse has impacted on the leadership and culture of the organisation. It describes the growth of the organisation from its origins until the present, as seen by its founder and current executive chairman, Mr Ivan Senar.

### **Literature Review**

The literature related to organisational leadership, organisational culture, organisational growth and organisational development was critically explored in order to uncover the aspects involved in each concept, so as to give a description of the effect of growth on leadership and culture at Hardware Warehouse, based on Greiner's (1998) model of organisational development.

### **Methodology**

An interview was conducted with the founder and current executive chairman of Hardware Warehouse, Mr Ivan Senar, and the case study therefore describes his view of the organisation's growth and development, based on Greiner's (1998) model of organisational development. A discussion detailing a comparison between Greiner's (1998) model of organisational development and Hardware Warehouse's phases of growth is given in the integrative summary, and only Hardware Warehouse's phases of growth are detailed in the case study itself, as the case study is for teaching purposes. A Human Resources Role-Assessment Survey as recommended by Ulrich (1997) was used to measure the current role of human resources management at Hardware Warehouse, which is used to identify the

current cultural dynamics in the organisation as influenced by human resources management, and how they have evolved over time as the organisation has grown.

### **Teaching Note**

A teaching note was drafted as a suggested guide to assist in the teaching and facilitation of the case study, taking into consideration the objectives of the case, what the students are expected to take out of the case, student assessment and assessment criteria.

### **Findings**

Applying Greiner's (1998) phases of growth at Hardware Warehouse to describe the effect of the organisation's growth on the organisation's leadership and culture, the case study showed the following:

Greiner (1998) identifies a phenomenon that emerges as organisations age and grow, which is characterised by a prolonged period of growth where organisations enjoy between four and eight years of continuous growth without a major economic setback or severe internal disruption. He terms these periods "stages of evolution" as they are characterised by quiet periods with only modest adjustments necessary for maintaining growth under the same overall pattern of management (Greiner, 1998).

Ivan Senar, the organisation's founder, identifies a list of factors that contributed to setting up favourable conditions for the successful start of the organisation. These include the favourable economic conditions that existed at the time, the demutualisation of both Old Mutual and Sanlam, which enabled liquidity in the area, as well as low interest rates, among others. He believes these are some of the factors that contributed to favourable conditions in the first eight years of operation, and therefore provided a period of evolution for the organisation.

Greiner (1998: 56) argues that there is evidence from numerous case histories of organisational development revealing "periods of substantial turbulence interspersed between smoother periods of evolution". Greiner (1998) calls the times of turbulence

in organisational development the stages of revolution, as they exhibit a serious upheaval of management practices, where traditional management practices that were appropriate for a smaller organisation and earlier time no longer work and therefore are brought under scrutiny.

In the early years of the organisation Ivan Senar would spend a lot of time with the branch managers, ensuring the necessary communication in the organisation. Later that communication became less possible as the organisation grew and a regional management structure had to be created in order to fulfil this role. Greiner (1998: 6) argues that directive leadership becomes necessary as the organisation's "founders find themselves burdened with unwanted management responsibilities" and therefore a functional organisational structure to institute direction is needed. This reflects the phase of organisational growth as described by Greiner (1998) in which directive leadership is used to manage the organisation, where the leader assumes most of the responsibility for instituting direction and the lower level managers are treated more as functional specialists than autonomous decision-making managers.

Initially, Hardware Warehouse was not capacitating its employees sufficiently and therefore did not have certain structures in place to prepare them for the business demands going forward. As a result, the organisation found itself trying to play catch-up during certain growth periods as its employees were not ready to meet the growth demands. Ivan Senar goes on to say that later, as the head office was created and more skilled individuals were brought into the organisation, more decision-making was delegated to the regional managers who dealt with the operational side of the business. Greiner (1998) identifies a period where directive leadership is put under scrutiny as it becomes challenged by a need for more autonomy in order to move the organisation to the next stage of growth. He argues that delegation therefore becomes the solution to demands for greater autonomy, and an organisation experiencing a demand for autonomy cannot revert back to a centralised directive form of management as a solution (Greiner, 1998).

When Hardware Warehouse became a public listed organisation on the Alternative Exchange of the Johannesburg Stock Exchange in September 2007, many changes had to be effected. Ivan Senar believes the listing was a strategic move to give effect

to organisational growth. He argues that it was a good way to motivate staff with share ownership, so that they could appreciate the business and see it as a place in which they wanted to remain involved. He believes the listing provided a platform for the business to be able to access skills and retain the skills within the business. He says, importantly, the listing provided a platform for the organisation to be able to raise capital to grow the business whenever the need arose.

The listing stage of Hardware Warehouse can be seen as having formed the coordination stage of Greiner's model where he argues that the "coordination phase is characterised by the use of formal systems for achieving greater coordination by the top-level executives, taking responsibility for the initiation and administration of these new systems" (Greiner, 1998: 62). He lists measures that take place during the coordination phase, including: "formal planning procedures are established and intensively reviewed; numerous staff members are hired and located at the headquarters to initiate company-wide programmes of control and review for line managers; stock options and company-wide profit sharing are used to encourage employees to identify with the organisation as a whole" (Greiner, 1998: 62). He goes on to argue that the "systems prompt the field managers to look beyond the needs of their local units, and they learn to justify their actions more carefully to a watchdog audience at the headquarters" (Greiner, 1998: 62).

According to Hardware Warehouse CEO Shaun Miller, the listing of the company contributed to the need to implement several measures to comply with the strict demands, procedures and requirements of the JSE listing (Hardware Warehouse, 2011). "We have various committees that meet regularly to ensure that we adhere to all the corporate governance requirements of the JSE" (Shaun Miller quoted in *The Gathering Force*; Hardware Warehouse, 2011: 10). This highlights the red tape that resulted from formal systems that were put in place at Hardware Warehouse in an effort to achieve greater coordination, as brought about by the JSE listing. Greiner (1998) argues that a lack of confidence gradually builds between headquarters and the field as the managers increasingly resent direction from those who are not familiar with the conditions under which they work and complain about uncooperative and uninformed line managers. They complain about the bureaucratic system that

has evolved where procedures take precedence over problem solving and innovation, and therefore a red tape crisis is in full swing (Greiner, 1998).

Greiner (1998) goes on to argue that the organisation becomes too complex to be managed through formal and rigid systems, giving rise to a need for a strong interpersonal collaboration phase in an attempt to overcome the red tape crisis. Collaboration emphasises spontaneity in the management action through teams and the skillful confrontation of interpersonal differences, where social control and self-discipline replace formal controls (Greiner 1998: 62). He argues that as part of the collaboration phase, formal control systems are simplified, and combined single multipurpose systems and educational programmes are designed and used to train managers in behavioural skills to achieve better team work and conflict resolution. Economic rewards are aimed more at rewarding team performance than individual achievement and innovation is encouraged throughout the organisation (Greiner, 1998).

Regarding the growth phase which Hardware Warehouse is in currently, Ivan Senar believes the organisation has already overcome the red tape crisis and therefore is currently going through the collaboration phase. He believes that as the business grew bigger, he managed to surround himself with a lot of skilled individuals, many of whom had gained skills from different industries, which has allowed sharing of alternative and new ideas.

Throughout the years since Hardware Warehouse's inception, a set of shared mental assumptions, interpretations and actions that guide and define appropriate behaviour in various situations (Ravasi and Schultz, 2006), as influenced by the growth of the organisation, has developed. These mental assumptions, interpretations and actions form what is now the culture of Hardware Warehouse today. These include a reporting structure that has developed from the original model, where the founders directly managed a few employees in King William's Town, to the current structure that represents more than 566 employees in three provinces of South Africa. The organisation grooms a number of its senior management staff members from the lower levels of the organisation, and it looks for potential affirmative action candidates each time a senior position becomes available. The organisation recruits

staff members from the communities in which it operates, as it believes this contributes to the company's ability to deal effectively with its customers, and creates a sales force that is able to communicate with customers in their local language.

Over the years of Hardware Warehouse's growth, a high level of involvement of human resources management in activities such as assistance of employees to meet their personal and family needs is evident, as shown by the Human Resources Role-Assessment Survey. The organisation is planning a massive expansion drive, which includes branches in more provinces in South Africa, as well as expansion into other countries in the SADC region, and it will be interesting to note what effect this will have on the leadership and culture of the organisation.

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# TABLE OF CONTENTS

INTEGRATIVE SUMMARY .....	ii
Background to Case Study .....	ii
Objectives of the Case Study .....	ii
Key Concepts .....	ii
Structure of the Teaching Case Study .....	iii
The Case Study .....	iii
Literature Review .....	iii
Methodology .....	iii
Teaching Note .....	iv
Findings .....	iv
References .....	ix
ACKNOWLEDGEMENTS .....	x
LIST OF FIGURES .....	xv
LIST OF TABLES .....	xvi

## SECTION ONE: CASE STUDY

1.1 Introduction .....	1
1.2 Research Background .....	1
1.3 The Company Researched .....	2
1.4 The Building Materials Industry .....	3
1.4.1 Building and Construction Industry .....	4
1.4.2 Long-term Outlook: Investment in Buildings .....	5
1.5 The Growth of Hardware Warehouse .....	7
1.6 Competitive Advantage .....	10
1.7 Hardware Warehouse's Phases of Growth .....	12
1.8 Leadership at Hardware Warehouse .....	14
1.9 The Company Culture .....	15
1.10 The Company Going Forward .....	16
1.11 Teaching Note .....	18
1.12 Reference List .....	20

## **SECTION TWO: LITERATURE REVIEW**

2.1 Introduction .....	22
2.2 Organisational Growth .....	23
2.3 Organisational Development .....	24
2.4 Organisational Leadership .....	29
2.4.1 Definition of Leadership .....	29
2.4.2 The Role of Leadership .....	31
2.5 Leadership Concepts .....	32
2.5.1 Strategic Leadership .....	32
2.5.2 Transactional Leadership .....	33
2.5.3 Transformational Leadership .....	34
2.5.4 Greiner's view of Organisational Leadership .....	35
2.6 Organisational Culture .....	36
2.6.1 The Relationship between Human Resources Management and Organisational Culture .....	38
2.7 Summary .....	39
2.8 Reference List .....	41

SECTION THREE: METHODOLOGY

3.1 Introduction .....	46
3.2 Research Aim and Objectives .....	46
3.3 Research Paradigm .....	46
3.4 Data Collection Methods .....	48
3.5 Data Analysis .....	49
3.6 Ethical Considerations .....	50
3.7 Reference List .....	51
APPENDIX A .....	52

## ACKNOWLEDGEMENTS

The following individuals made a great contribution to the successful completion of this study and therefore deserve to be acknowledged:

- My lovely wife Nthabi, for her unwavering support and love.
- Ivan Senar, for his precious time, support and opening up about the company.
- Kevin Rafferty, my supervisor, for his guidance, patience and dedication.
- The 2010 MBA Class for a vibrant and challenging learning environment.
- My work colleagues for their encouragement and support.
- To God Almighty: All honour and glory belongs to You.

<b>LIST OF FIGURES</b>		
<b>Figure Names</b>	<b>Figure Numbers</b>	<b>Page numbers</b>
Materials Distribution Sector	1.1	3
Renovations Building Plans Approved	1.2	5
Investment in Buildings: Constant 2005	1.3	6
HW Group Asset Value per share in cents	1.4	8
HW Revenue from continuing operations (000)	1.5	9
HW Profit/(Loss) from continuing operations (000)	1.6	9
HW Headline and Diluted earnings/ (losses) per share in cents	1.7	10
Five Phases of Organisational Growth	2.1	23
A Model of How Companies Grow	2.2	26
Five Stage Organisational Life Cycle Model	2.3	27
Leadership Characteristics	2.4	30
Five Phases of Organisational Growth	3.1	47

<b>LIST OF TABLES</b>		
<b>Table Names</b>	<b>Table numbers</b>	<b>Page numbers</b>
SQM Approved: Renovations and Additions for Private Sector only	1.1	4
Investment in Buildings: Rm Constant 2005 prices	1.2	6
Growth Figures from 2008 to 2012	1.3	8

# **1. SECTION ONE: CASE STUDY**

## **1.1 Introduction**

This section provides a case study of Hardware Warehouse, a building materials retailer listed on the Johannesburg Stock Exchange. Hardware Warehouse operates 18 warehouse-style stores in three provinces of South Africa, namely, the Eastern Cape, KwaZulu-Natal and Mpumalanga, with its head office in East London. The case study covers areas including the background of Hardware Warehouse, the building materials and building and construction industries, the growth of the organisation, its competitive advantage, leadership and company culture.

The study is a teaching case study and therefore a teaching note to guide the facilitation of the case study has been added as part of this section. The teaching note covers aspects including the expected outcomes, teaching suggestions, assessment and assessment criteria.

## **1.2 Research Background**

The inception of many organisations throughout the world is usually characterised by a great strategy and a big vision. Hamel and Prahalad (1998: 148) argue that “the most leading global organisations started with ambitions that were far bigger than their resources and capabilities”. Greiner (1998) believes that five key dimensions emerge during organisational development: an organisation’s age and size, stages of evolution and revolution, and the growth rate of an organisation’s industry. However, as organisations grow in size, there seems to be a shift in leadership strategy and organisational culture, which seeks to manage the continuously growing organisation. This study seeks to write up a teaching case study on the effect of organisational growth on organisational leadership and culture at Hardware Warehouse, a building materials retail brand listed on the Johannesburg Stock Exchange, as it grew from one store to 18 stores in three provinces of South Africa, using Greiner’s model “Evolution and Revolution as Organisations Grow” (1998).

### 1.3 The Company Researched

“Next stop ... Africa” is the headline on the first page of The Gathering Force, an insert from the Succeed magazine congratulating Hardware Warehouse, a low-cost building materials retailer which started in King William’s Town in the Eastern Cape, South Africa, on its 15<sup>th</sup> anniversary in 2011. Hardware Warehouse has grown to be the building materials retailer of choice for many people living in the rural and peri-urban areas with operations in three provinces, namely, the Eastern Cape, KwaZulu-Natal and Mpumalanga. Ivan Senar, the organisation’s executive chairman, credits Hardware Warehouse’s success to the “company’s commitment to always providing excellent quality products at the lowest possible prices and the company’s sound risk management practices and business model” (Senar, 2012), which he says has allowed the organisation to weather the economic storm of recent years.

Hardware Warehouse has significant expansion plans. It aims to open new stores in at least six of the South Africa’s nine provinces, as well as starting branches in Lesotho and other neighbouring countries. The organisation aims to take advantage of the growing middle class and the current lack of housing infrastructure in Africa, and believes that the combination of these two factors will lead to an increasing demand for housing, and therefore an increase in the demand for building materials.

Hardware Warehouse was started in King William’s Town in 1996. Ivan Senar, the current executive chairman of the organisation, and a partner started the company as a furniture retail store also selling building materials. These two businesses were later separated, leading to the formation of Hardware Warehouse. King William’s Town is a small town but, due to the existence of many smaller surrounding areas, it became a central business hub for shoppers from these areas, and the businesses therefore benefited from their strategic position.

Ivan Senar believes that Hardware Warehouse benefited greatly from the big market gap that existed in King William’s Town at the time the business was started. He believes the good economic climate during the initial stages of the business contributed to the successful start-up of the organisation. He argues that the demutualisation of both Old Mutual and Sanlam contributed to a great deal of

increased liquidity for customers in the area as demutualisation made members' assets liquid and it was easier for them to sell their shares. He believes these factors, together with others such as the proximity to Bhisho, the seat of the Eastern Cape provincial legislature, led to a high level of cash-flow in the area's economic system, which benefited both the furniture and building materials businesses.

#### 1.4 The Building Materials Industry

The Construction Industry Development Board Report (2007) estimated the building and construction sectors amounted to about R158.6-billion per annum, and the building and construction materials market to about R95-billion per annum, with about 60% of this sold directly to end-users and 40% via the distribution or merchant network (See Figure 1.1 below). The report pointed out that R17-billion, or 18% of the total R95-billion building and construction materials market, was made up of the additions, alterations and home improvement market, which includes unrecorded home improvements (CIDB, 2007).

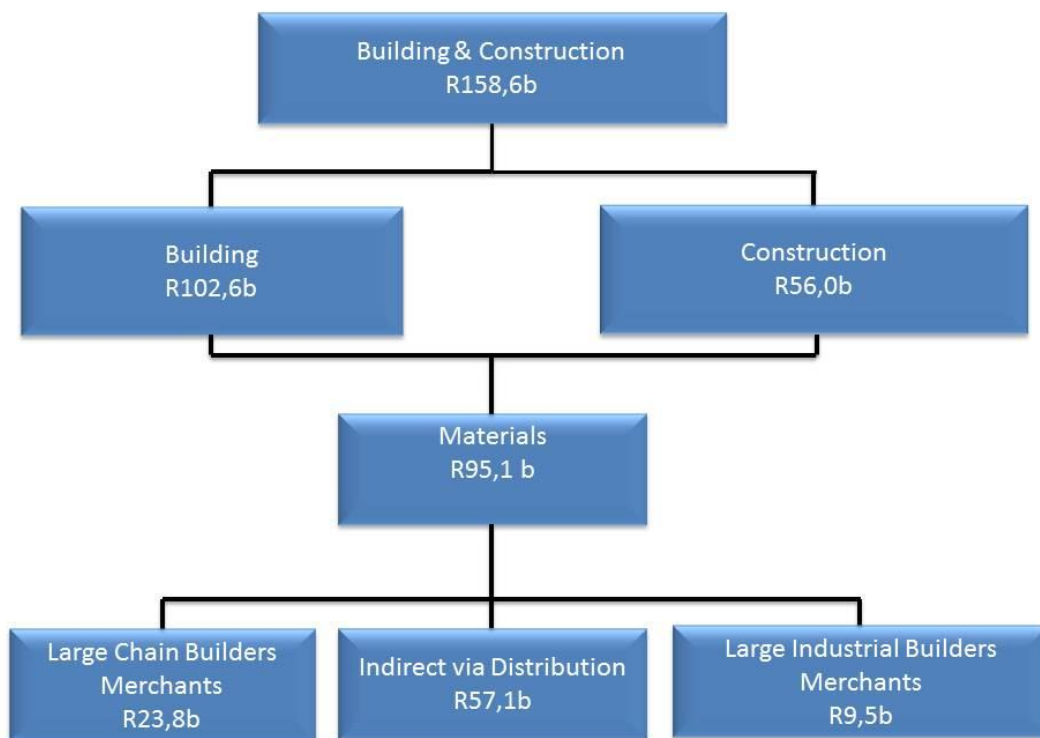


Figure 1.1 : Materials Distribution Sector (CIDB, 2007:32)

### 1.4.1 Building and Construction Industry

According to the Industry Insight (2012), during late 2010 and most of 2011 the renovations market was a major segment in the building sector and it weakened throughout 2011 with the number of square metres in building plans for both residential and non-residential sectors reporting high annual contraction rates. There was a steady decline in total square metres approved in renovations and additions for both residential and non-residential markets between 2007 and 2012, with only 2010 showing an increase (See Table 1.1 below).

Square Metres Approved				% Annual Change		
Year	Residential	Non-residential	Total	Residential	Non-residential	Total
2007	5,123,325	1,421,398	6,544,723	-3.1	0.7	-2.6
2008	4,081,631	1,830,398	5,912,029	-20.3	28.8	-9.7
2009	3,317,831	1,664,577	4,982,398	-18.7	-9.1	-15.7
2010	3,442,503	2,049,542	5,492,045	3.8	23.1	10.2
2011	3,159,916	1,042,099	4,202,105	-8.1	-24.4	-13.2
2012Q1	737,989	193,969	931.589	-1.6	-9.7	-3.4

**Table 1.1: SQM Approved: Renovations and Additions for Private Sector only (Industry Insight, 2012:49)**

Renovations building plans approved for both residential and non-residential sectors (figure 1.2 below) show a dramatic decrease towards the end of 2012 to the beginning of 2013 (Industry Insight, 2012: 49).

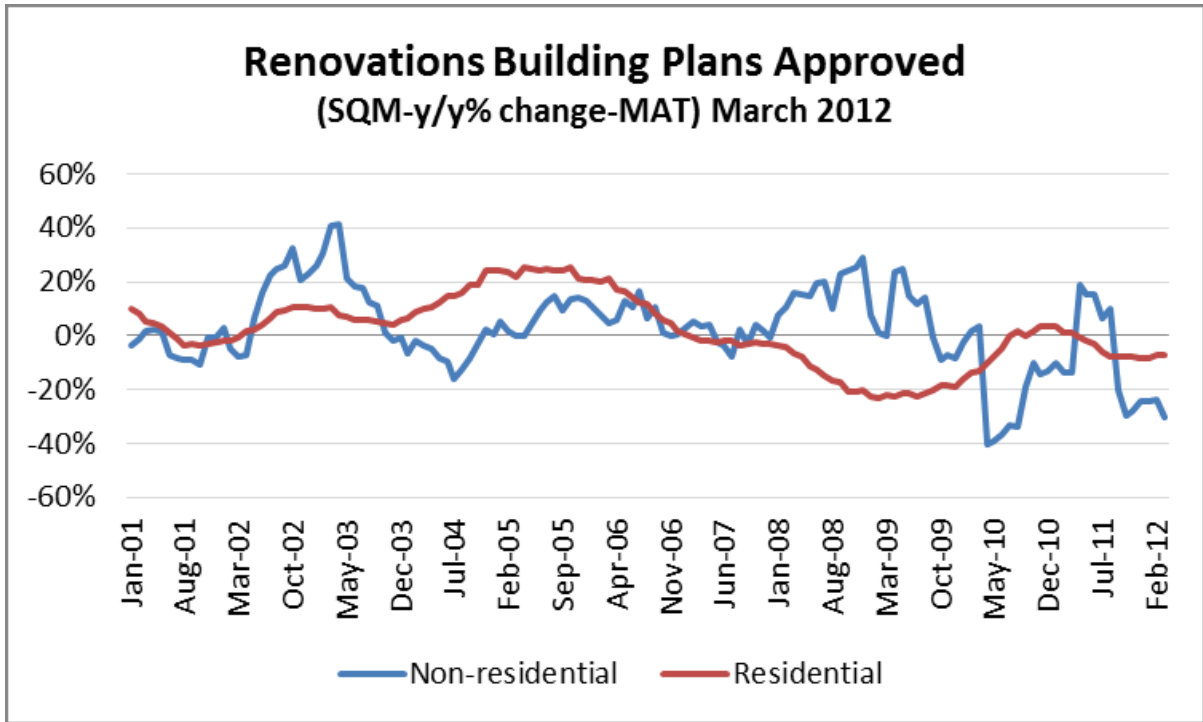


Figure 1.2: Renovations Building Plans Approved (Industry Insight, 2012:49)

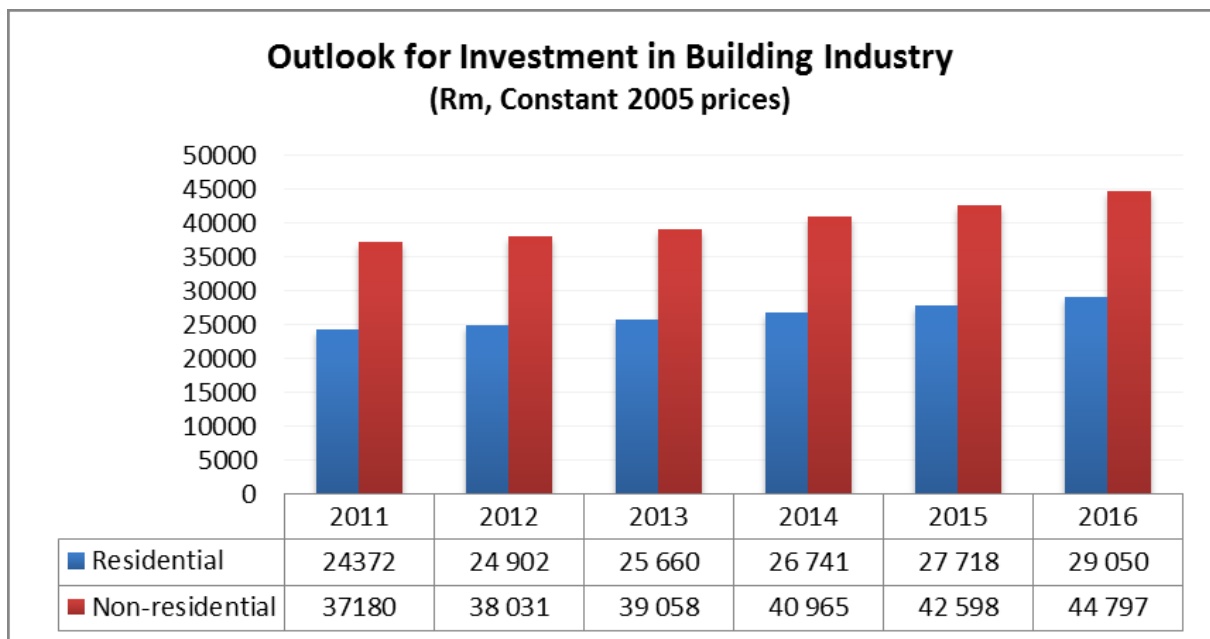
### 1.4.2 Long-term outlook: Investment in buildings

Industry Insight (2012) predicts an increase in investment for residential buildings between 2012 and 2016 by an average of about 3.9%. Investment in non-residential buildings on the other hand is expected to grow by an average of 3.8% between 2012 and 2016 (Industry Insight 2012). (See table 1.2 below).

	2011	2012	2013	2014	2015	2016
<b>Residential buildings</b>	24372	24902	25660	26741	27718	29050
<b>% change</b>	-3.1	2.2	3	4.2	3.7	4.8
<b>Non-residential</b>	37180	38031	39058	40965	42598	44797
<b>% change</b>	-6.5	2.3	2.7	4.9	4	5.2
<b>Total investment in buildings</b>	61552	62933	64718	67706	70316	73847
<b>% change</b>	-3.9	2.2	2.8	4.6	3.9	5

**Table 1.2 : Investment in buildings: Rm, Constant 2005 prices (Industry Insight, 2012:54)**

Figure 1.3 below shows the investment in both residential and non-residential buildings in South Africa up to 2016.



## Figure 1.3: Investment in Buildings: Constant 2005 (Industry Insight, 2012:54)

### 1.5 The Growth of Hardware Warehouse

Hardware Warehouse started as a cash discounter of furniture with one store in King William's Town in 1996, a partnership with a seed capital of R40 000. The company soon identified the need to supply building materials for its customers to accompany their furniture purchases that they would take to the rural areas where they lived. As the building materials business grew, the two partners saw it necessary to separate the two businesses, furniture and building materials, to take into consideration the specialisation requirements for these two product ranges.

Later, as the two partners decided to go their separate ways, Ivan Senar went with the building materials business, while his former partner took over the furniture business. This separation signalled the end of the partnership, and resulted in the birth of Hardware Warehouse as it is today. Even after separation the two businesses continued to share the synergies of the furniture and building materials, as after the building or extension of a house there is often a need for new furniture. Hardware Warehouse later opened stores in many Eastern Cape towns, including Butterworth, Ngcobo, Mthatha, Lusikisiki and Queenstown, among others. This later included a move to grow outside of the Eastern Cape province to include KwaZulu-Natal, where Mtubatuba became the first store to open outside the Eastern Cape.

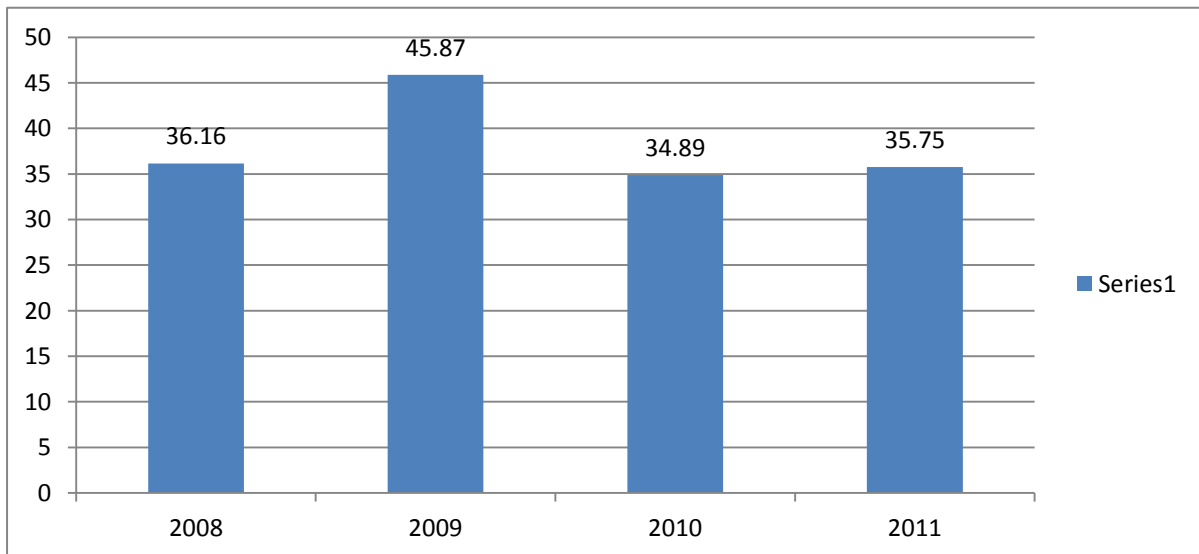
Currently Hardware Warehouse operates 18 stores in three provinces, namely the Eastern Cape, KwaZulu-Natal and Mpumalanga, with the aim of opening between five and six stores in both Mpumalanga and KwaZulu-Natal. The organisation has transformed from a collection of rural trading stores into a branded group of stores, and expects to eventually start operations in all nine provinces as well as Lesotho and other neighbouring countries (Hardware Warehouse, 2011a).

Since listing in 2007, the company has seen significant growth in revenue, assets, profits and headline earnings. This is despite operating under very challenging conditions with operations in only three of South Africa's provinces, and a branch distribution of far less than most of its competitors. Table 1.3 and Figures 1.4 to 1.7 below show Hardware Warehouse's financial performance from 2008 to 2012.

Year	Revenue (000)	% change in revenue	Group net assets in cents	Profits (000)	% change in profits	Headline earnings per share in cents
2008	220504	0	36.16	15280	0	15.49
2009	317067	43.8	45.87	14309	-0.06	11.85
2010	310444	-0.02	34.89	6967	-51.3	-11.41
2011	354177	14.1	35.75	10158	45.8	4.78

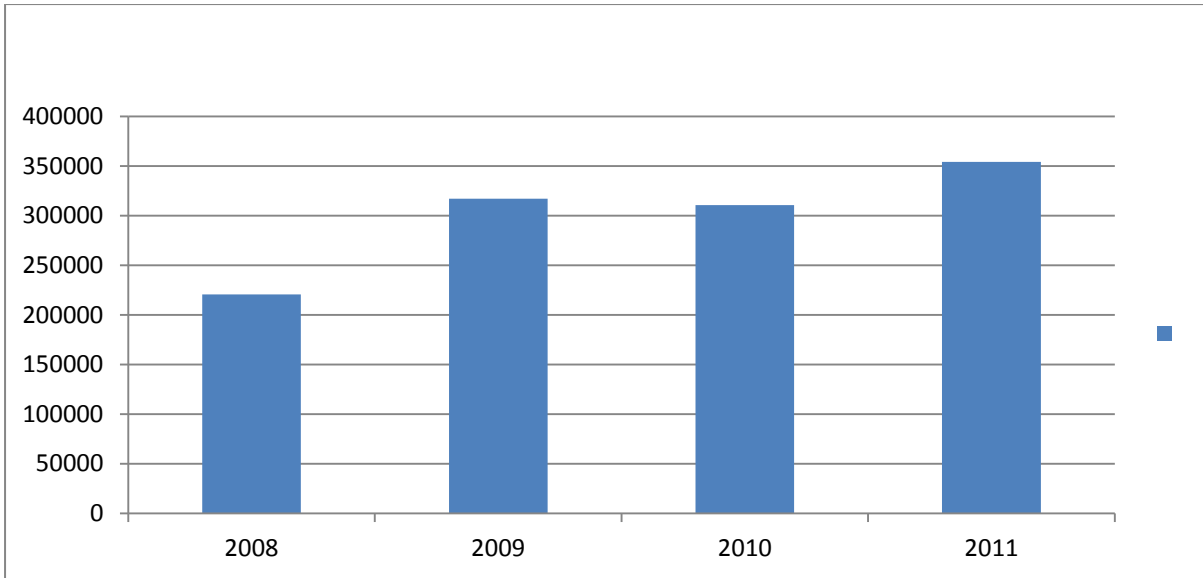
**Table 1. 3: Growth figures from 2008 to 2012 (Hardware Warehouse, 2011b).**

Revenue shows an average increase of more than 14% between 2008 and 2011, with the average profitability in the same period showing a loss of about 1.5% (see Table 1.3 above).



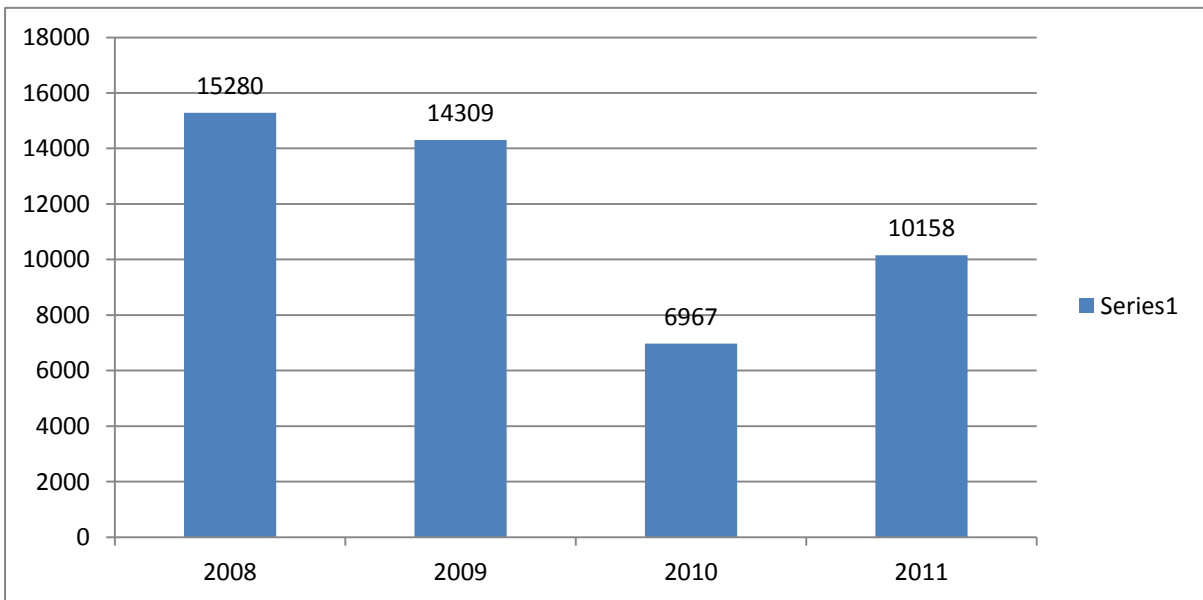
**Figure 1.4: Group Asset Value per share in cents (Hardware Warehouse, 2011b).**

Group assets show decent growth since the company was listed, with the year 2009 recording the highest asset growth in the last four years (See Figure 1.4 above).



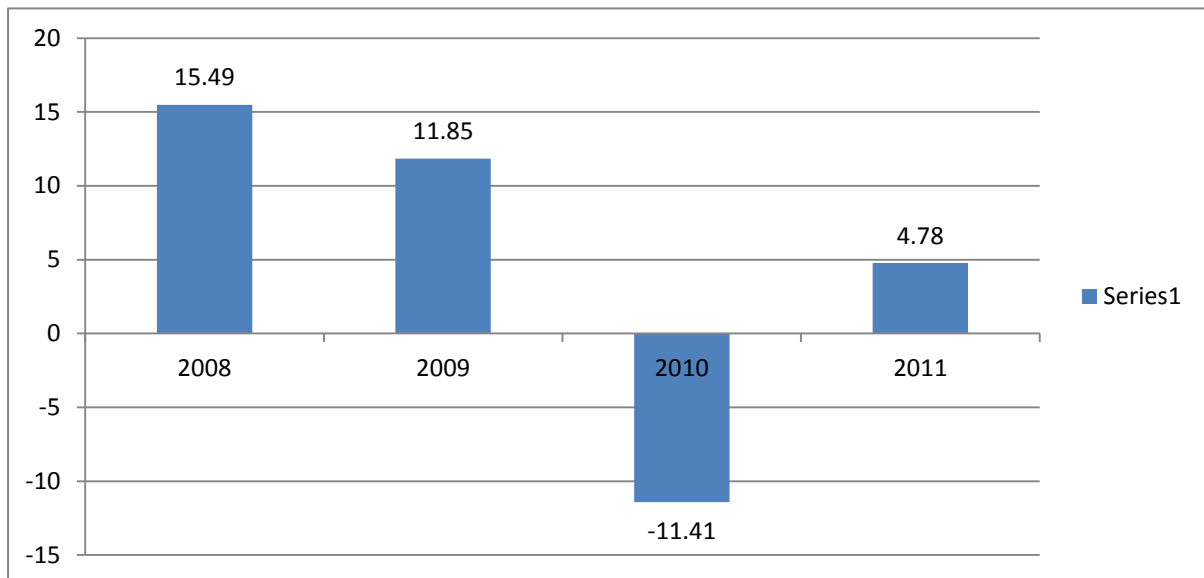
**Figure 1.5: Revenue from continuing operations (000) (Hardware Warehouse, 2011b).**

Revenue from continuing operations shows steady growth between the years 2008 and 2011, with 2011 showing the highest growth since the company was listed (see Figure 1.5 above).



**Figure 1.6: Profit/(Loss) from continuing operations (000) (Hardware Warehouse, 2011b).**

Profit from continuing operations shows a steady decline since 2008, with the year 2010 recording the lowest profit (see Figure 1.6 above).



**Figure 1.7: Headline and diluted headline earnings/ (loss) per share in cents (Hardware Warehouse, 2011b).**

Headline and diluted headline earnings/(loss) per share in cents also show a steady decrease since 2008, with the year 2010 recording a loss of 11.41 cents (see Figure 1.7 above).

## 1.6 Competitive Advantage

According to the CIDB (2007) study, “The Building and Construction Materials Sector, Challenges and Opportunities”, the building materials distribution sector in South Africa is made up of between 8 000 and 10 000 hardware distributors throughout the country. The study states that “because of the increasing importance of the residential market in the total building industry mix, the distribution of building materials has undergone structural change to cope with the increasing fragmentation of the market” (CIDB, 2007: 32). As a result of the increase in the residential market,

the building materials have to be available at the right time, place and price in order to adequately serve the market (CIDB, 2007).

The building materials distribution sector is made up of large distribution chains like Cashbuild, Build It, Massbuild, among others, as well as other smaller independent retailers with stores of less than 500 square metres in size. The smaller independent retailers make their turnover in the home improvement market, with 80% of their business being cash and their products mainly locally produced (CIDB, 2007).

Hardware Warehouse operates in the home building sector of the construction industry which is expected to experience significant future growth, with the recovering economy bringing additional income into the rural areas and an increase in household spend on renovations and construction activity (Hardware Warehouse, 2011a). The organisation has a diverse customer base including DIY individuals, rural buying groups, small builders, small to medium contractors and local government projects, with home builders in the lower to medium income groups forming the largest part of the organisation's customer base.

The essence of Hardware Warehouse's competitiveness is centred on a few retail basic principles, including attention to detail, sound processes and comprehensive and consistent execution that is delivered into the market place through its value proposition (Hardware Warehouse, 2011a: 15). The management's passion in driving the basics of the business, such as exceptional customer service, good prices, always in stock of the chosen range of products, and the organisation's delivery guarantee, is at the centre of the organisation's success.

According to Shaun Miller, Hardware Warehouse's CEO, the organisation is very close to its customers and constantly monitors their ever-changing needs (Hardware Warehouse, 2011a). He goes on to say that "50 per cent of the organisation's customer base is made up of black women in rural areas, and therefore the organisation understands that they are dealing with valued customers who do not always have a grasp of the technical aspects related to building and construction" (Hardware Warehouse, 2011a: 9).

Hardware Warehouse's management team is not only conscious of the organisation's long-term aspirations, but drives key performance indicators such as margins, expenses, and stock holding levels, among others, in order to help achieve its objectives. According to Garreth Sunderland, Hardware Warehouse's operations manager, "it is entrenched in the way that we approach our work and why we embrace the importance of empowerment, staff satisfaction and productivity; we pride ourselves on the ability to employ the right individuals that make a difference" (Hardware Warehouse, 2011a: 15). He says that it is within this framework that the organisation is able to empower individuals to make a difference in the processes that they are involved in and manage, while allowing for discretionary decision-making, and he regards the organisation's employees as the core component of the business in that their skills sets and commitment to the organisation's vision have consistently added value to the business.

The company regularly conducts formal research in order to identify its market demographics and the stages of its socio-economic growth, which results in the organisation being able to understand how best to serve its market and to know its own boundaries with respect to the segment of the building materials retail space in which it operates (Hardware Warehouse, 2011a: 15).

### **1.7 Hardware Warehouse's phases of growth**

Hardware Warehouse's inception corresponded with a time when South Africa was experiencing good times in terms of economic growth. The founder of the organisation identifies a list of factors that contributed in forming the favourable conditions for the successful start-up of the organisation. He argues that the organisation was formed shortly after the demutualisation of both Old Mutual and Sanlam. This demutualisation led to a tremendous amount of cash generated in the economy in the area. This enabled liquidity in the system and contributed a lot to the organisation's sales.

Secondly, when the organisation started, a lot of its customers were not as adversely affected by the rise in interest rates. According to Ivan Senar, this is because a lot of individuals were not financially geared with the banks. Since this was a period

slightly prior to the advent of 'loan sharks', a lot of people were not as heavily indebted and therefore there was a lot of cash going around. When the 'loan sharking' started, it contributed in generating a lot of cash in the market and therefore an added ability for the individuals to make cash purchases. He believes these are some of the factors that contributed to favourable conditions in the first eight years of the organisation's operations, and therefore provided a period of evolution for the organisation.

Initially Ivan Senar would spend a lot of time with the branch managers, ensuring that a structure was in place in terms of communicating direction and requirements, as well as feedback from his observations, but later that communication became less possible as the organisation grew and a regional management had to be created in order to fulfil this role. With the creation of that extra band of management, a structure applicable to that band of management also had to be created.

According to Ivan Senar, initially Hardware Warehouse was not capacitating its employees sufficiently and therefore did not have certain structures in place to prepare them for the business demands going forward. As a result the organisation found itself trying to play catch-up during certain growth periods as the employees were not ready to meet the growth demands. During those times he, as the founder, would assess things from only his set of skills. As he later had to take on more skilled staff, he received a lot of different input from them, which was very important for the organisation. Later the head office was created and more skilled individuals were brought into the organisation. More decision-making was delegated to the regional managers who dealt with the operational side of the business.

Hardware Warehouse became a public listed organisation on the Alternative Exchange of the Johannesburg Stock Exchange in September 2007. This, according to Ivan Senar, was a strategic move to give effect to organisational growth. Among other reasons for the listing, he mentions that it was a good way to allocate a piece of the pie to motivate management and to make them appreciate the business and see it as a place in which they wanted to remain involved. The listing provided a platform for the business to be able to access skills and retain the skills within the business. He says it was important to list as this provided a platform for the organisation to be able raise capital to grow the business whenever the need arose.

He says the listing gave the organisation a higher profile with regard to mergers and acquisitions that it may wish to undertake, as he believes it is easier to sell a listed company than an unlisted one.

According to Shaun Miller, the listing of the company contributed to the need to implement a lot of measures to comply with the strict demands, procedures and requirements of the JSE. Quoted in *The Gathering Force*, Shaun Miller says: “We have various committees that meet regularly to ensure that we adhere to all the corporate governance requirements of the JSE” (Hardware Warehouse, 2011a: 10).

Regarding the growth phase which Hardware Warehouse is in currently, Ivan Senar believes the organisation has already overcome the red tape crisis and therefore is currently going through the collaboration phase. He believes that, as the business grew bigger, he managed to surround himself with a lot of skilled individuals, many of whom had gained skills from different industries, which has allowed sharing of alternative and new ideas.

### **1.8 Leadership at Hardware Warehouse**

Initially Hardware Warehouse operated with a very simple leadership structure. Its leadership structure consisted of Ivan Senar at the top, with everyone else almost on the same level below him. During this stage the organisation adopted an autocratic leadership style. Ivan Senar believes that this was as a result of the fact that in the initial stages the organisation found itself with a new team. This team did not necessarily understand the business in terms of business aspirations, the business model and the requirements of the business, because there was very little time during the day to communicate these important business aspects.

The organisation started moving towards a more structured environment in order to give support to this autocratic management style. According to Ivan Senar, this was done so that employees were dealt with in a fair manner in terms of understanding what their boundaries and job descriptions were, and what needed to be done during the course of the day.

Hardware Warehouse initially adopted quite a conservative approach in terms of branch distribution. Ivan Senar believes that over the 16 years of the organisation's existence, Hardware Warehouse went through three consolidation years, which gave the organisation "time to clean house" and to look intelligently at the business for more efficient ways of operating, as well as being able to benefit from the opportunities presented by the existing customer base without going through the risk and capital expenditure involved in opening new branches.

As the organisation grew up until its JSE listing, more and more skilled individuals were brought into the organisation. Ivan Senar believes this led to a change in the leadership style. He believes having a skilled and well-trained staff around him enabled him to quickly change his initial autocratic leadership style to a more collaborative leadership style. He argues that listing also contributed a lot to the change from the initial autocratic style of leadership to a more collaborative leadership style.

### **1.9 The Company Culture**

Hardware Warehouse has come a long way from just one furniture and building materials retail store in King William's Town, with only a few employees and the founders directly managing these few employees. The organisation currently employs about 566 employees in three provinces, and according to Shaun Miller it aims to be an employer of choice, with its employment policies designed to provide equal opportunities with no tolerance for discrimination (Hardware Warehouse, 2011a). Miller says a number of senior management staff members have been groomed from the lower levels of the organisation and every time a senior position becomes available the organisation looks for potential affirmative action candidates within its staff complement to fill the position (Hardware Warehouse, 2011a). The organisation recruits staff members from the communities in which it operates, because it believes that this contributes to the company's ability to deal effectively with its customers and creates a sales force that is able to communicate with customers in their local language.

Although the organisation has grown and therefore the founders no longer directly manage branch employees, Ivan Senar says he still receives phone calls from branch employees, bypassing their line managers, who see him as the person to solve their issues. He says he believes these employees do not intentionally disregard their direct managers, but that they are still caught up in the days when the organisation was not as big, with not so many levels of management hierarchy, when it was possible for employees to take their issues directly to him to solve. He therefore finds himself having to take these issues and feed them back into the management chain and therefore make sure that they are ultimately dealt with.

The Human Resources Role-Assessment Survey as recommended by Ulrich (1997) was used to measure the current role of human resources management, as a contributor in forming, maintaining or changing the company culture at Hardware Warehouse, by rating the quality of human resources activities on a five-point scale. The survey scoring was done by the organisation's human resources executive, Mr Vaughn Meecham, and the results showed the following, among others:

The survey showed high human resources involvement in activities including listening and responding to employees and offering assistance to help employees meet family and personal needs. Human resources scored low on being a change agent, while the score was high on shaping culture change for renewal and transformation at Hardware Warehouse. This suggests that although human resources at the organisation is involved in the shaping of the culture change for renewal and transformation, there is little involvement or contribution in being a change agent, which reflects little to no effect caused by the organisation's growth overtime. Human resources therefore is involved less in activities that make it the guardian of culture to manage transformation, which is paramount for an organisation like Hardware Warehouse with big ambitions of growth.

### **1.10 The Company Going Forward**

Hardware Warehouse has had tremendous growth since its inception, from humble beginnings in the small Eastern Cape town of King William's Town to what it is today, a low-cost building materials retailer listed on the Johannesburg Stock Exchange.

The company has gone through and overcome different obstacles along the way to becoming what Ivan Senar refers to as “a recognisable brand, with prompt service and optimal range of affordable building materials, which has secured the trust of its loyal patrons” (Hardware Warehouse, 2011a: 2).

The organisation’s conservative stance of branch distribution in only three of South Africa’s nine provinces has to be revisited if Hardware Warehouse is to realise its long-term expansion plans. If it is to gain more market share, the sooner the organisation starts on its expansion plans the better. According to Ivan Senar, the expansion plans include a short-term goal of expanding operations in KwaZulu-Natal and Mpumalanga, by opening five or six stores in each of these two provinces, as well as a long-term goal of having operations in at least six of the nine provinces in South Africa, including starting operations in Lesotho and other neighbouring countries. This means there is still a long way to go before Hardware Warehouse takes on Africa. It will, however, be very interesting to see what impact this proposed expansion will have on the leadership and culture of Hardware Warehouse.

## **1.11 TEACHING NOTE**

The intended audience of this case study includes MBA students and post-graduate students doing courses in business studies.

### **Objectives of the Case Study**

Using Larry Greiner's journal article "Evolution and Revolution as Organisations Grow", the case study seeks to describe and show the effect of Hardware Warehouse's growth on the organisation's leadership and culture.

On completion of the case study, the participant or students should be able to:

- Identify leadership and cultural dynamics that were influenced by growth at Hardware Warehouse
- Evaluate Hardware Warehouse's growth using the Five Phases of Growth as described by Greiner
- Identify the leadership and cultural dynamics in each growth phase of Hardware Warehouse.

### **Teaching suggestions**

- Each student should be supplied with a copy of Greiner's model and a copy of the case study.
- The case study should be facilitated through group discussions of about six students per group.
- Two sessions of about an hour and a half for the first session and three hours for the second session should be allocated for the facilitation of the case study.
- In the first session the facilitator should guide the students through Greiner's journal article "Evolution and Revolution as Organisations Grow" and ensure

the article is covered in sufficient detail with thorough understanding of the article by the students.

- The second session should consist of the reading of the case study followed by critical group discussions identifying aspects of Greiner's model within the case and compilation of a presentation to be presented by each group.
- The participants are expected to actively engage in the learning process, with the facilitator guiding the learning process.

### **Assessment**

- A 15-minute PowerPoint presentation is expected for each group, focusing on the elements highlighted as objectives of the case.
- All group members should participate in the presentation either through actually presenting or answering questions posed by either the facilitator or the class concerning the presentation.

### **Assessment criteria**

- Content: have the students understood both the model and the case study?
- Application: are they able to use the model and compare it with Hardware Warehouse's phases of growth detailed in the case study? [See the comprehensive discussion detailing a comparison between Greiner's (1998) model of organisational growth and Hardware Warehouse's phases of growth in the Findings section of the Integrative Summary.]
- Impact of growth: what leadership and culture dynamics as influenced by growth have the students identified?

## 1.12 REFERENCE LIST

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## **SECTION TWO: LITERATURE REVIEW**

### **2.1 INTRODUCTION**

The inception of any organisation is characterised by a great strategy and a big vision. According to Hamel and Prahalad (1998: 148) “the most leading global organisations started with ambitions that were far bigger than their resources and capabilities”. However, as organisations grow in size, there seems to be a shift in leadership strategy and organisational culture, which seeks to manage the continuously growing organisation.

Greiner (1998) argues that in their haste to build companies, managers frequently fail to ask critical developmental questions, such as: Where has our organisation been? Where is it now? And what do the answers to these questions mean for where the company is going? He goes on to argue that when confronted with problems, managers instead choose to fix their eyes on the environment and towards the future as if the market projections will provide the organisation with a new reality.

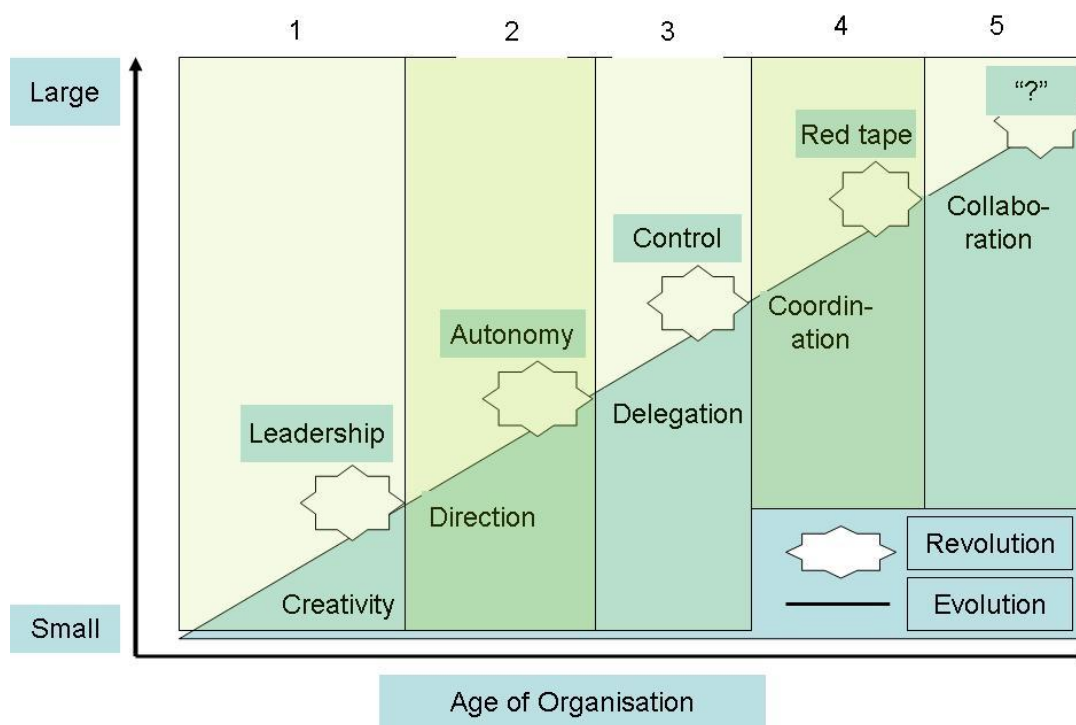
This section reviews the literature related to organisational leadership, organisational culture, organisational growth and organisational development, and critically explores these concepts in order to uncover the aspects involved in each of them, as well as to give meaning to the research topic, “Using Greiner’s (1998) model of organisational development to describe the effect of growth on organisational leadership and culture at Hardware Warehouse as the organisation grew from one to 18 stores”.

Louw, in Louw and Venter (2006), argues that managing an organisation in the 21<sup>st</sup> century’s competitive landscape is a very complex task which impacts on organisational leadership, organisational strategies and organisational architecture. She highlights the increasingly competitive business practices, the inclination towards strategic flexibility in order to accommodate change, and the emergence of networked organisations in the global arena as some of the reasons for the heightened complexity of managing organisations today (Louw and Venter, 2006).

Louw therefore concludes that it is important that managers think strategically in order to achieve sustained competitive advantage (Louw and Venter, 2006).

## **2.2 ORGANISATIONAL GROWTH**

Greiner (1998) identifies five developmental phases companies pass through as they grow. These phases include creativity, direction, delegation, coordination and collaboration (see Figure 2.1 below). “Each phase begins with a period of evolution, steady growth and stability and ends with a revolutionary period of organisational change and turmoil” (Greiner, 1998: 1). Buenstorf and Witt (2006) argue that the growth of the firm is accompanied by the expansion of its organisation, which sooner or later strains the entrepreneurial ability to coordinate activities through cognitive leadership. “The crucial bottleneck for cognitive coordination, the need for ongoing face-to-face interaction between the entrepreneur and her employees, becomes an increasingly severe constraint in the growing firm” (Buenstorf and Witt, 2006: 51). They go on to say that “instead of the original business conception that provides guidance for variable and often unforeseen situations and challenges, the leadership of the firm increasingly has to resort to specific, and typically much less flexible, behaviour guidelines” (Buenstorf and Witt, 2006: 51).



**Figure 2.1: Five Phases of Organisational Growth (Greiner, 1998:58).**

Peng and Heath (1996) describe organisational growth as primarily an expansion of organisational size measured by assets and employees, including the increase in volume of sales, profit levels, as well as generation of new economic functions or more lines of products and services. Whetten (1980: 577) argues that there are three common assumptions reflecting a bias in favour of growth, and lists these assumptions as “the greatest need of organisations as they mature is to manage growth; size is a desirable organisational characteristic, that is, the bigger the better; and thirdly, growth is synonymous with effectiveness”.

Greiner (1998) explains organisational growth in terms of the size of the organisation, which is characterised by the increase in the number of employees and the organisation’s sales volume. He further makes an argument that as organisations grow, new functions emerge and the levels in the management hierarchy multiply (Greiner, 1998). The reasons for organisational growth include boosting profitability and firm valuation, boosting executive income whenever pay is linked to organisational size, to expand sales of existent products, and that

organisational growth helps organisations to exploit core competencies, experience and knowledge, and to use its facilities more intensively (Louw in Louw and Venter, 2006). Citing Buzzell and Wiersema (1998), O’Gorman (2001) links organisational growth to the market share gain characterised by the growth rate of the served market, which includes new product activity, increase in relative product quality and increase in sales promotion.

## **2.3 ORGANISATIONAL DEVELOPMENT**

Different studies and different authors have come up with different views on the stages of organisational development or organisational life cycle. Lester et al (2008: 314) argues that while the models differ as to the number of identifiable stages and specific life cycle characteristics, “most authors agree on the basic concept that organisations at some point are born, grow and develop, and later die or renew themselves”. In his model of how organisations develop, Greiner (1998) (see figure 2.2 below) describes organisational growth through the use of problems and solutions that organisations tend to go through throughout their life cycles, and identifies five key dimensions of how organisations develop. These five dimensions are: the age of the organisation, the size of the organisation, the organisation’s stages of evolution, the organisation’s stages of revolution, and the growth rate of the organisation’s industry (Greiner, 1998).

Describing the age of the organisation Greiner (1998) argues that the passage of time contributes a lot to the institutionalisation of managerial attitudes and as these attitudes become rigid and eventually outdated, employee behaviour becomes more predictable and difficult to change.

On the size of the organisation Greiner (1998) argues that a company’s problems and solutions change markedly as the number of employees and sales volumes increase. “Problems of coordination and communication magnify, new functions emerge, levels in the management hierarchy multiply and jobs become more interrelated” (Greiner, 1998: 4).

Greiner (1998) describes stages of evolution as a phenomenon of prolonged growth and expansion without major economic setback or severe internal disruption.

He argues that stages of revolution refer to the “periods of substantial turbulence interspersed between periods of evolution”, which “exhibit a serious upheaval of management practices” (Greiner, 1998:4).

On the growth rate of the industry Greiner (1998: 5) argues that the speed at which an organisation goes through “its phases of evolution and revolution is closely related to the market environment of its industry”. He says “whereas evolutionary periods tend to be relatively short in fast growing industries, much longer evolutionary periods occur in mature and slow growing industries” (Greiner, 1998: 5).

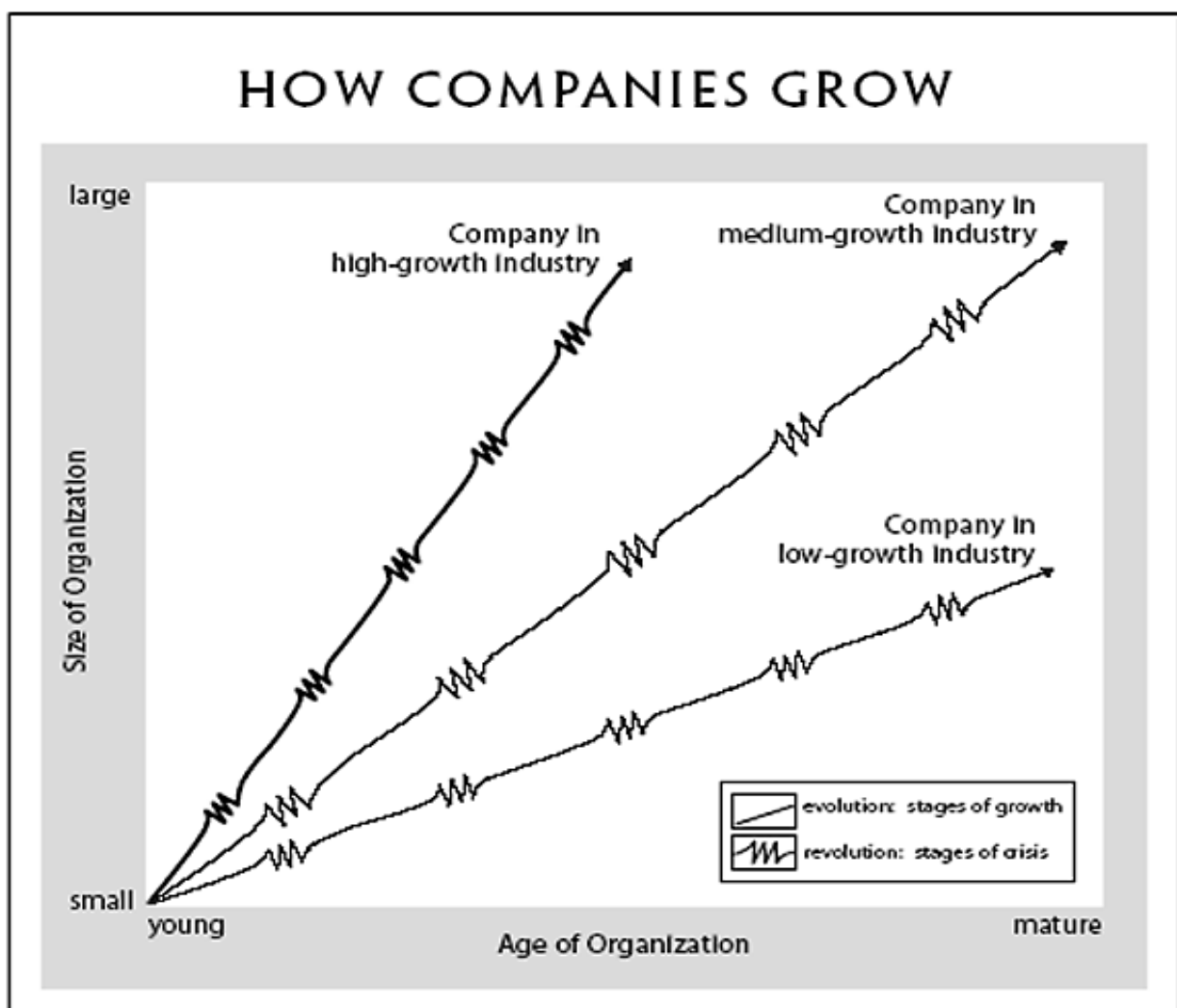
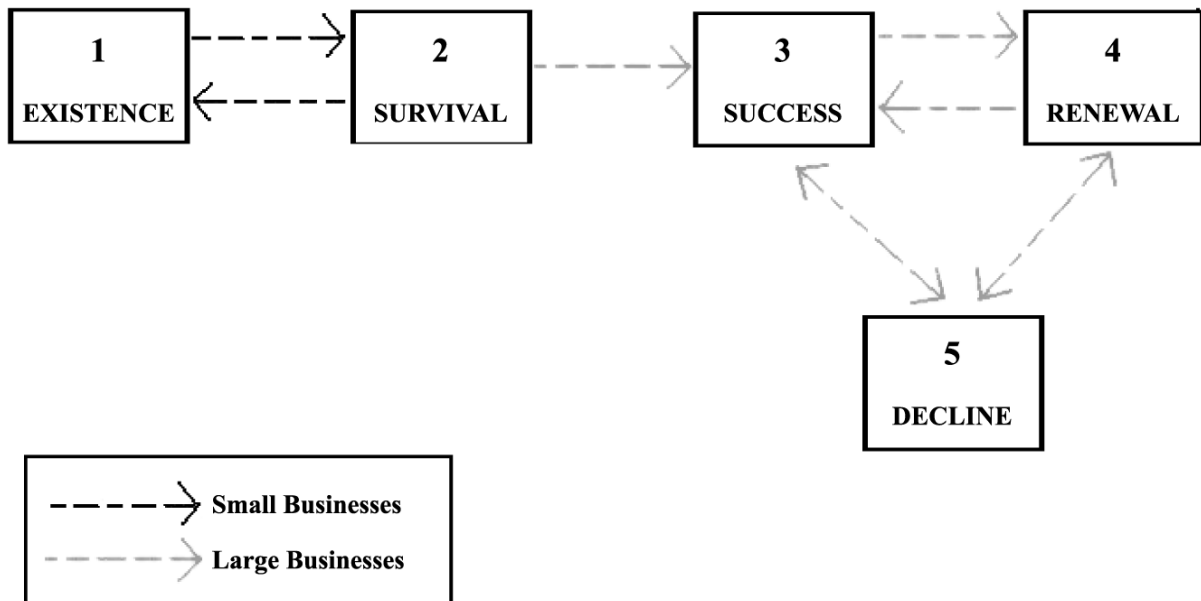


Figure 2.2: A Model of How Companies Grow (Greiner, 1998:4).

In their study “Firm size and environmental scanning pursuits across organisational life cycle stages”, Lester and Parnell (2008) identify a five-stage organisational life cycle model described through existence, survival, success, renewal, and decline (see figure 2.3 below).



**Figure 2.3: Five Stage Organisational Life Cycle Model (Lester and Parnell, 2008:542).**

**Stage one: Existence**

This stage marks the beginning of organisational development and focuses on the organisation’s viability, where a sufficient number of customers are identified in order to support the existence of the organisation (Lester et al, 2008). At this stage “decision-making and ownership are in the hands of one, or a few, and the organisational structure is very simple” (Lester and Parnell, 2008: 543).

## Stage two: Survival

According to Lester and Parnell (2008: 543), as organisations move into the survival stage “they seek to grow and develop some formalisation of structure and establish their own distinctive competencies”. The primary goal of the organisations at this stage is to generate enough revenue to continue operations and finance sufficient growth to stay competitive, and most organisations at this stage are structured in a functional manner, where decision-making is more decentralised than in the existence stage (Lester and Parnell, 2008).

## Stage three: Success

According to Lester and Parnell (2008) the success stage represents an organisational form where formalisation and control through bureaucracy are the norm, and therefore red tape becomes a common problem. “The top management team focuses on planning and strategy, leaving daily operations to middle managers” (Lester and Parnell, 2008: 543).

## Stage four: Renewal

“The renewing organisation displays a desire to return to a leaner time where collaboration and teamwork foster innovation and creativity” (Lester and Parnell, 2008: 543). They argue that decision-making at this stage is very much decentralised and although the organisation is still large and bureaucratic, “organisational members are encouraged to work within the bureaucracy without adding to it” (Lester and Parnell, 2008: 543).

## Stage five: Decline

Lester and Parnell (2008) argue that the decline stage is characterised by politics and power as organisational members become more concerned with personal goals than with organisational goals. They go on to say that demands of the renewal stage lead to a period of decline where organisational members experience a lack of profit and a loss of market share (Lester and Parnell, 2008). “Control and decision-making

tends to return to a handful of people, as the desire for power and influence in earlier stages has eroded the viability of the organisation” (Lester and Parnell, 2008: 544).

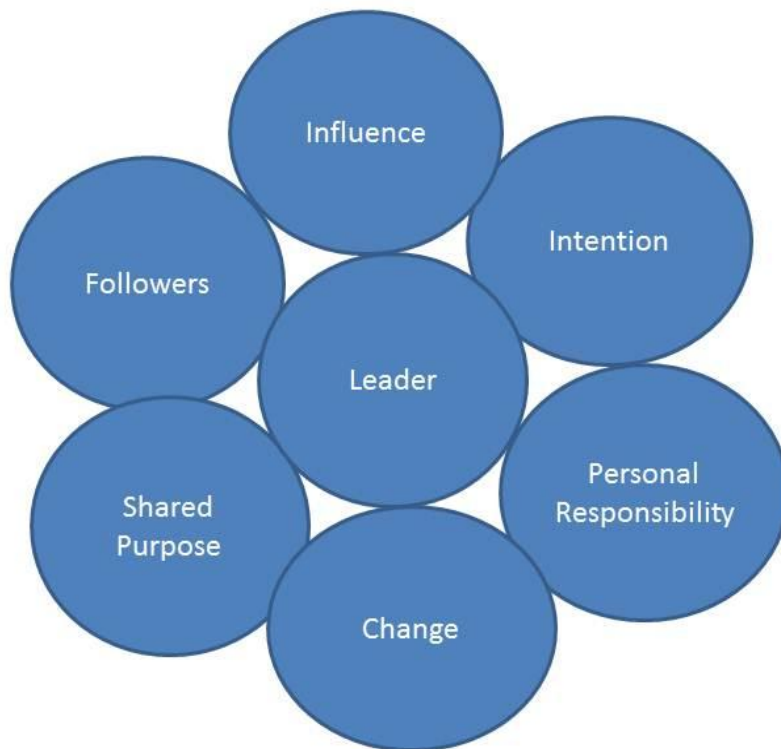
## **2.4. ORGANISATIONAL LEADERSHIP**

### **2.4.1. Definition of Leadership**

There are many definitions of leadership from different spheres and authors, but for the purposes of this study a reference was made to a collection of leadership definitions that are relevant to the study itself. Dubrin (2001) defines leadership by making a contrast between leadership and management. He argues that while management deals with planning, organising, directing and controlling, leadership deals with the interpersonal aspects of a manager’s job, including change, inspiration, motivation and influence, and also involves having a vision of what the organisation can become.

Martin and Ernst (2005: 84) define leadership “as the collective activities of organisational members to accomplish the tasks of setting direction, building commitment and creating alignment”. They go on to say that leadership includes the articulation of mission, vision, values and purposes, the creation of mutual trust and accountability, as well as the finding of common ground and areas of interrelated responsibility (Martin and Ernst, 2005). “Leadership is an influence relationship among leaders and followers who intend real changes that reflect their shared values” (Daft, 1999: 5). He goes on to say the influence means that the relationship among the people is not passive, but that it is multidirectional and non-coercive. Figure 2.1 shows leadership as seen by Daft (1999).

Leadership is the process of selecting, equipping, training and influencing one or more followers who have diverse gifts, abilities and skills, focusing the followers on the organisation’s mission and objectives, and causing them to willingly and enthusiastically expend spiritual, emotional and physical energy in a concerted, coordinated effort to achieve the organisation’s mission and objectives (Winston and Patterson, 2006).



**Figure 2.4: Leadership Characteristics (Daft, 1999:6)**

Hellriegel et al (2004) refer to leadership as involving influencing others to act towards attaining a goal. “Regardless of a particular theoretical approach, leadership has been viewed largely as a way of directing and controlling foreseeable organisational futures” (Plowman et al, 2007: 344). They argue that leaders who exercise intentional influence over people to channel and facilitate collective tasks in order to achieve organisational goals create a desired, knowable future through direction and control (Plowman, 2007).

In summarising, therefore leadership can be defined as an act of influencing and empowering others towards translating certain goals into reality. This influence is attained through a multi-dimensional interaction between leaders and followers, in a way that is non-coercive.

#### **2.4.2 The Role of Leadership.**

Jung et al (2003) argue that top managers in organisations affect employee creativity and organisational innovation in several different ways, in that they define and shape the work contexts within which employees interact to define goals, problems and solutions. “By articulating a vision that emphasises long-term over short-term business outcomes, such as growth and value rather than quarterly profit, leaders direct employees’ individual and joint efforts towards innovative work processes and outcomes” (Jung, 2003: 527).

“Leadership occurs when a leader inspires the followers to share a vision, empowering them to achieve the vision and provide the resource necessary to develop their personal potential” (Smith et al, 2004: 80). Leadership plays a role in the process of managing organisational knowledge, where leaders provide vision, motivation, system and structures at all levels of the organisation, which facilitate the conversion of knowledge into competitive advantage (Bryant, 2003).

“The process of leading enables the followers to be innovative as well as self-directed within the scope of individual-follower assignments and allows the followers to learn from their own as well as others’ successes, mistakes and failures, in the process of completing the organisation’s objectives” (Winston and Patterson, 2006: 8). Boal and Hooijberg (2000: 516) argue that leadership activities include making strategic decisions; creating and communicating a vision of the future; developing key competencies and capabilities; developing organisational structures, processes and controls; managing multiple constituencies; selecting and developing the next generation of leaders; sustaining an effective organisational culture; and infusing ethical value systems into an organisation’s culture.

Dubrin (2001) cites what he terms the anti-leadership argument, which asserts that leadership has a smaller impact on organisational outcomes. This argument claims that there are substitutes for leadership which include factors in the work environment that provide guidance and incentives to perform, thus making the leader’s role almost superfluous. He cites factors such as closely-knit teams of highly trained individuals, intrinsic satisfaction, computer technology and professional

norms as substitutes for leadership, according to the anti-leadership argument (Dubrin, 2001).

The role of leadership therefore involves the leader inspiring followers towards the organisational vision, in a way that encourages innovation, creativity and motivation through developing key competences and capabilities from the followers. This process is done in a way that leads to achieving organisational goals and objectives.

## **2.5. LEADERSHIP CONCEPTS**

Many authors from different times and backgrounds have described leadership concepts in different ways. For the purposes of this study, reference was made to a collection of leadership concepts and authors that are relevant to the study itself.

### **2.5.1 Strategic Leadership**

“Strategic leadership is about the leadership ‘of’ entire organisations by top-level executives, as compared to leadership ‘in’ organisations, which is the responsibility of all other managers at the middle and lower levels, which focuses on operational or tactical aspects of leadership. Strategic leadership is about understanding entire organisations and the environments in which they operate” (Amos in Louw and Venter, 2010: 442). Rowe (2001: 81-82) defines strategic leadership as the “ability to influence others to voluntarily make day-to-day decisions that enhance the long-term viability of the organisation while at the same time maintaining its short-term financial stability”. Rowe (2001) continues to assert that strategic leadership enhances the wealth-creating process in entrepreneurial and established organisations and leads to above average returns.

Strategic leadership is also defined as the leader’s ability to anticipate, envision and maintain flexibility and also to empower others to create strategic change as is necessary (Hitt et al, 2007). Strategic leadership therefore defines the vision and the moral purpose and translates them into meaning (Davies, 2010). Quong and Walker

(2010) argue that being strategic is more than just strategic planning or strategic intent but also about deliberate and sustained practice.

Ireland and Hitt (2005) suggest that strategic leadership helps firms enhance performance while competing in turbulent and unpredictable environments, and that without effective strategic leadership the probability of a firm achieving superior or even satisfactory performance when confronted with challenges of global economy will be greatly reduced.

### **2.5.2 Transactional Leadership**

“Transactional leadership involves a social exchange process where the leader clarifies what the followers need to do in their part of the transaction, on successfully completing the task, to receive a reward or avoidance of punishment” (Van Eeden, 2008: 255). Loahavichien et al (2009) suggest that transactional leadership does not significantly affect infrastructure and core quality management practices. Transactional leadership therefore is “based on the reciprocal changing of the duty and reward that are controlled by the principal” (Sahin, 2004: 388).

Aarons (2006) argues that transactional leadership is based more on exchanges between the leader and follower, where the followers are rewarded for meeting certain specific goals based on specific performance criteria, and where rewards and positive reinforcement are provided or mediated by the leader. “Exhibiting transactional leadership means that followers agreed with, accepted or complied with the leader in exchange for praise, rewards and resources or the avoidance of disciplinary action, where rewards and recognition are provided contingent on followers successfully carrying out their roles and assignments” (Bass et al, 2003: 208). Transactional leadership implies closely monitoring for deviances, mistakes and errors, and then taking corrective action as quickly as possible when these occur (Bass et al, 2003). “Transactional leadership behaviours are aimed at monitoring and controlling employees through rational or economic means” (Bono and Judge, 2004: 902). According to their study, “The Relationship between Leadership and Employee Performance in a South African Pharmaceutical Company”, Hayward et

al (2003) argue there is no significant relationship between transactional leadership and employee performance.

### **2.5.3 Transformational Leadership**

Hellriegel et al (2004) argue that transformational leadership is leading by motivation and therefore transformational leaders provide great motivation by appealing to the followers' ideals and values, thereby inspiring them to think about problems in a new way. They say that followers of transformational leadership are loyal to the leaders and therefore are motivated to do far more than they thought they could do. "A transformational leader has the ability to persuade subordinates to forgo personal goals in order to achieve a common, higher-order goal" (Schwepker and Good, 2010: 301).

Transformational leadership therefore can be said to be composed of strategic leadership and visionary leadership. Hitt et al (2007: 375) define strategic leadership as "the leader's ability to anticipate, envision and maintain flexibility and to empower others to create strategic change as necessary" and Rowe (2001) argues that strategic leadership influences employees to make voluntary decisions that enhance the future viability and current financial stability of an organisation and, like visionary leadership, transformational leadership is inspirational. "Someone using a transformational style motivates and influences followers to work for collective goals by going beyond current norms and inspiring subordinates to transcend their self-interest for the sake of the organisation" (Plowman et al, 2007: 344). Bono and Judge (2004) argue that transformational leadership behaviour refers to leaders who have high standards of moral and ethical conduct, who are held in high personal regard, and who engender loyalty from followers.

Hayward et al (2003) describe transformational leadership as encouraging subordinates to adopt organisational vision as their own through inspiration. In their study Hayward et al (2003) found that there was a significant relationship between transformational leadership and performance, and supported studies suggesting the strong positive effects transformational leaders have on the effectiveness of their followers, therefore improving the performance of their employees. "Transformational

leaders are tolerant to followers' mistakes, and they involve their followers in problem solving and are open to new ideas" (Smith et al, 2004: 81).

#### **2.5.4 Greiner's View of Organisational Leadership**

Greiner (1998) defines organisational leadership through the five phases of organisational growth, in his model of how companies develop. He argues that creativity is the first phase of organisational growth where the founders of the organisation are usually technically and entrepreneurially oriented, entirely focusing on making and selling products, characterised by long working hours, which are usually rewarded by modest salaries and promise of ownership benefits (Greiner, 1998). He argues that in this phase there is not much planning as decisions are highly sensitive to market-place feedback, where the leadership acts as the customers react.

Greiner (1998) argues that as the organisation grows the very activities achieved through creativity become a problem. "Larger production runs require knowledge about the efficiencies of manufacturing, increased numbers of employees cannot be managed exclusively through informal communication and new employees are not motivated by an intense dedication to the product and the organisation" (Greiner, 1998: 6). He argues that these creativity problems result in what he terms the "crisis of leadership", where leadership is needed to lead the company through confusion and solve the managerial problems facing the organisation (Greiner, 1998). He describes the need for organisational leadership to possess the necessary knowledge and skill to introduce new business techniques, to be accepted by the founders and to be able to pull the organisation together (Greiner, 1998). According to Greiner (1998), organisational leadership therefore has to provide direction, introduce delegation, ensure coordination and facilitate collaboration in order for organisational growth to continue.

Greiner (1998) therefore describes leadership as a way to deliver the organisation out of different stages of crises, which are the crisis of lack of management, the autonomy crisis, the crisis of control as well as the red tape crisis. According to Greiner (1998) these crises are overcome through providing strong leadership in

order to facilitate creativity, provide direction, institute delegation processes, and facilitate coordination as well collaboration, so as to take the organisation forward.

## **2.6 ORGANISATIONAL CULTURE**

“The culture of a group can be defined as a pattern of shared basic assumptions learned by a group as it solved its problems of external adaptation and internal integration, which has worked well enough to be considered valid, and therefore to be taught to new members as the correct way to perceive, think and feel in relation to those problems” (Schein, 2010: 18). Schein (1992) argues that organisational cultures are created in part by leaders and that the creation and management of culture is one of the most decisive functions of leadership. Schein (1992) goes on to say that the only thing of real importance that leaders do is create and manage culture, and the unique talent of leaders is their ability to understand and work with culture. “Leadership and management style become crucial aspects for the small entrepreneurial venture and are also likely to be a significant shaping influence on organisational culture” (Jack et al, 2006: 459).

Ravasi and Schultz (2006) define organisational culture as “a set of shared mental assumptions that guide interpretation and actions in organisations by defining appropriate behaviour for various situations” (Ravasi and Schultz, 2006: 437). It is a pattern of basic assumptions that are invented and developed as the organisation learns to cope with problems of external adaptation and internal integration, and organisational studies have documented the positive effect of organisational culture on organisational performance (Jung and Takeuchi, 2010).

Katzenbach and Harshak (2011: 35) define organisational culture as “the set of deeply embedded, self-reinforcing behaviours, beliefs and mindsets that determine ‘how we do things around here’”. They go on to say that people within organisational culture share tacit understanding of the way the world works and that culture has a substantial influence on everyday actions and performance (Katzenbach and Harshak, 2011). The essence of culture is the deeply embedded, unconscious basic

assumptions which range from the tangible overt manifestations that one can see and feel to the various espoused values, norms and rules of behaviour that members of the culture use in depicting the culture to themselves and others (Schein, 1992).

Cooke and Rousseau (1988, cited in Simosi and Xenikou, 2010) identify four constructive cultural patterns. They argue that first is the humanistic orientation, which involves employee participation in decision-making with the emphasis on teamwork, employees' self-actualisation and empowerment (Simosi and Xenikou, 2010). Secondly, there is an affiliative culture pattern, where priority is given to cooperation and development of constructive interpersonal relationships and therefore members are expected to deal with one another in a friendly way and express concern for the satisfaction of their work group and team loyalty (Simosi and Xenikou, 2010). Thirdly, achievement culture orientation prioritises the pursuit of a standard of excellence and members are encouraged to set and accomplish their own goals (Simosi and Xenikou, 2010). Finally, Cooke and Rousseau (1988, cited in Simosi and Xenikou, 2010) introduce the self-actualisation orientation which emphasises creativity, task accomplishment and individual growth, and which motivates employees to gain enjoyment from their work and develop themselves, while thinking in unique and independent ways. They argue that these four orientations encourage organisational members to interact with each other, approaching their jobs in ways that will enable them to meet their higher-order satisfaction needs (Simosi and Xenikou, 2010).

“The concept of organisational culture refers to the personality of a firm, i.e. what makes the organisation unique in the eyes of insiders and outsiders” (McAfee et al, 2002: 2). Wilkins and Ouchi (1983) believe that organisational culture may be less relevant to organisational performance than is generally believed. However, they also believe that in organisations with culture as a dominant form of control, organisational performance cannot be adequately understood without a comprehension of the culture of the organisation (Wilkins and Ouchi, 1983).

### **2.6.1 The Relationship Between Human Resources Management and Organisational Culture**

McAfee et al (2002) argue that a symbiotic relationship exists between a firm's culture and its human resource management policies in that a firm's culture and its human resource policies affect each other. They argue that four human resource policy areas, including staffing, training, compensation and evaluation of employees, have significant effects on organisational culture (McAfee, 2002: 3). They go on to say that human resource aspects including extensive initial training on a wide range of topics, follow-up with continuous on-the-job training and mentoring, as well as evaluation and feedback procedures, affect organisational culture. Way and Johnson (2005: 7) describe cultural alignment as relating to "how an organisation's leadership as well as strategic human resource management engender an organisational culture that supports organisational strategies and the achievement of organisational goals and objectives".

"A human resource system which emphasises extensive training, performance-based reward and team development is necessary to create an organisational culture that is conducive to product innovation" (Lau and Ngo, 2004: 585). Lau and Ngo (2004) argue that a human resource system that emphasises training, performance-based reward and team development is critical for creating a developmental culture. In their study, "The HR System, Organisational Culture and Product Innovation", Lau and Ngo (2004: 697) found culture to have a direct effect on the development of new products and services, and they argue that "the study provides evidence that the human resource system has effects on innovation outcomes only through certain organisational processes, such as organisational culture". They go on to say that although developmental culture alone is significant in affecting new product development, it needs to be supported by an innovation-oriented human resource system (Lau and Ngo, 2004).

## 2.7 SUMMARY

The literature reviewed in this chapter sought to define leadership and leadership concepts, to show the role of leadership, to define organisational growth and development (life cycle), as well as to describe the relationship between human resource management and organisational culture. Organisations in the 20th century operate in very challenging conditions and have to successfully negotiate these challenges in order to grow, where growth is measured in an organisation's size. Unlike in earlier times where there were a lot of monopolistic organisations which operated with little or no competition, these days companies not only have to compete with organisations in their own countries, but are also faced with increasing global competition as a result of globalisation. Behaviour adaptation and leadership flexibility have become some of the most valuable attributes in leading today's organisations.

Ogbonna and Harris (2000) argue that during the process of organisational formation, the founders of a company create an organisation which reflects their values and beliefs, and therefore create the cultural traits of their organisation. "However, as the organisation develops and time passes, the created culture of the organisation exerts an influence on the leadership and shapes the actions and style of the leaders" (Ogbonna and Harris, 2000: 770) They go on to say that through this dynamic, ongoing process, the leader creates organisational culture, but is also shaped by organisational culture (Ogbonna and Harris, 2000).

Different leadership concepts, including some discussed in this chapter, play a major role in guiding and influencing business and organisational leaders to understand how to deal with the different situations that arise in the running of a successful, high-growth organisation. Organisational culture therefore has to be created and maintained so as to ensure that performance is sustained. Schein (1992) refers to organisational leadership and culture as "conceptually intertwined", as culture is a result of a complex group learning process, which is partially influenced by a leader's behaviour.

The literature reviewed also highlighted the need of organisations not only to survive but also, more importantly, to thrive, as organisational success is mostly measured by growth. The literature revealed that growth is seen through an increase in an organisation's size, including its assets, revenue growth, value and number of personnel, among other factors.

Greiner (1998) on the other hand uses crises to describe organisational leadership. He argues that different stages and kinds of crises compel management to put in place certain leadership decisions. This therefore means that, according to Greiner (1998), leadership happens as a response to crisis in different phases of the growth of the organisation.

Organisations therefore have to achieve above-average returns and growth through employing relevant leadership concepts and creating a culture which will better suit that particular organisation in achieving its goals.

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## **SECTION THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This section highlights the methodology adopted in this study in order to achieve the research aim and objectives, as well as the research method used. It highlights the research paradigm used, the data collection techniques and data analysis, as well as the ethical considerations and limitations taken into account in formulating this study. This research study is mainly a qualitative study, although both qualitative and quantitative methods were used, in order to provide rich descriptions and explanations that demonstrate the flow of events (Gray, 2009).

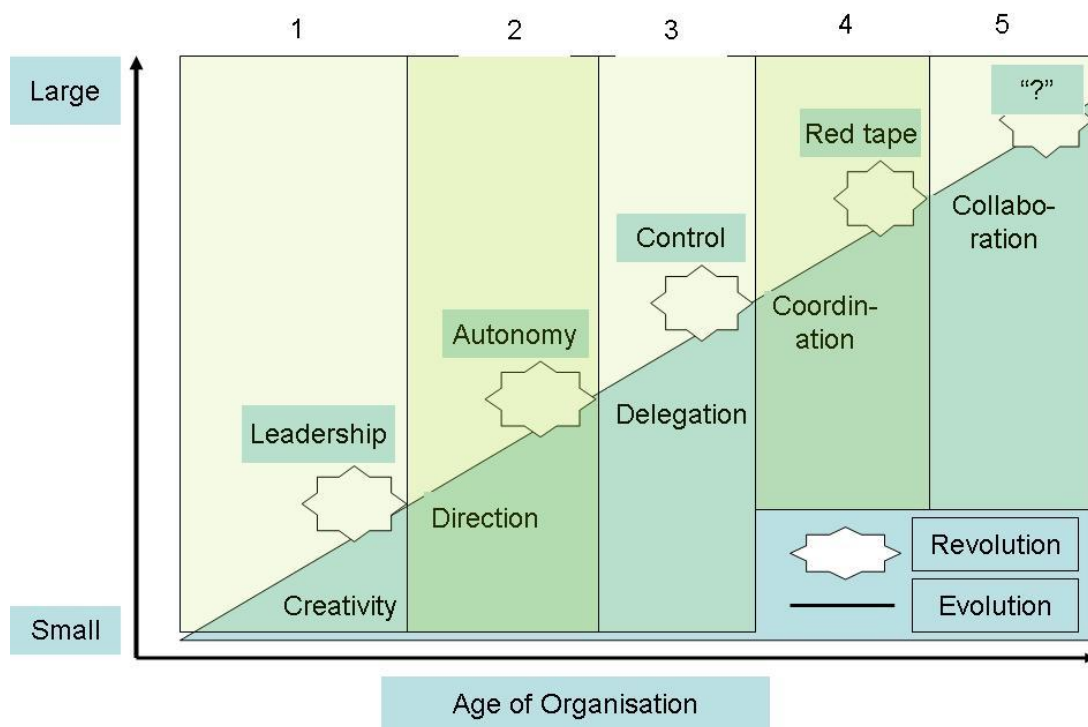
### **3.2 Research aim and objectives**

The aim of the research is to write up a case study on the effect of growth on the leadership and culture at Hardware Warehouse, using Greiner's model of organisational development. Yin (2003: 13) cited in Gray (2009: 124) defines a case study as "an empirical enquiry that investigates a contemporary phenomenon within a real-life context, especially when the boundaries between the phenomenon and context are not clearly evident". The study is a teaching case study which is in the form of "a descriptive case focusing on presenting a description of past events and decisions" (Cappel and Schwager, 2002: 289). The research study put emphasis on the following: decisions involved in leadership structure and management practices, development and growth of the organisation, cultural practices, as well as any leadership and cultural challenges that arose during the time in context.

### **3.3 Research paradigm**

The research seeks to develop a teaching case study of a single organisation. The study is narrative, descriptive and historical, and substantiation was gained by minimal interference and bias by the researcher through objective coding of accounts of participants and the suspension of the researcher's preconceptions (Gray, 2009). Babbie (2011) argues that validity refers to a measure that accurately

reflects the concept that is intended to be measured. This means that a naturalistic approach that seeks to understand the phenomena within the organisation’s context-specific setting was adopted (Gray, 2009), and therefore interview questions were structured in such a way as to achieve this objective. Open questions designed to provide full answers were drafted by the researcher and probing or follow-up questions were asked during the interview to increase the richness of responses (Gray, 2009). The interview questions were based on Greiner’s model of organisational growth, “Evolution and Revolution as Organisations Grow” (1998), as a framework (see figure 3.1 below) in order to achieve relevance and meaning to the topic being researched. Greiner’s (1998) model was used as it does not only profile organisational growth, organisational development and organisational life cycle, but also captures leadership and leadership development. It details what happens to leadership at certain stages of organisational development, meaning that as the organisation develops leadership develops as well, as shown by the five phases of organisational growth.



**Figure 3.1: Five Phases of Organisational Growth (Greiner, 1998: 58)**

The research is a qualitative study with a naturalistic approach, in which a research design requires the collection of data from representatives and a variety of sources in order to achieve substantiation, which was gained through objective coding of verbatim accounts of the participant and non-participant observations” (Gray, 2009: 167). “This means switching off of the researcher’s interpretative filters and actually noting what is being said or done and being able to respond quickly to the flow of answers and to pose new questions or issues” (Gray, 2009: 125).

A deductive theory construction was adopted, taking into account the work done by Greiner in his journal article titled “Evolution and Revolution as Organisations Grow” (1998) as a theoretical position (Gray, 2009).

### **3.4 Data Collection Methods**

The population was composed of four senior leadership personnel at Hardware Warehouse who were involved with the organisation during the period researched. A purposive sampling based on knowledge of the organisation and its population, its elements and the purpose of the study was conducted, and therefore a small subset of the larger population in which members of the subset were easily identified was studied (Babbie, 2011). Therefore two senior leaders who were with the organisation during the period researched, the organisation’s chairman and its human resources executive, were selected, taking into account their roles in the organisation during the time researched as well as the objectives of the study itself, which included organisational leadership and development, as well and their role in influencing and shaping culture at Hardware Warehouse.

Two approaches for survey data collection, that is, face-to-face interview and self-completion questionnaire, were used (Robinson, 2002). During the face-to-face interview, open questions were asked and the respondent’s answers were recorded by the researcher, while for the self-completion questionnaire the respondent himself filled in the answers on the questionnaire. The founder and current executive chairman of the organisation, Ivan Senar, was interviewed, and the organisation’s human resources executive, Vaughn Meecham, was given a Human Resources Role-Assessment Survey sheet to complete and score the role of human resources

in the organisation. This was done in order to determine human resources' role in influencing and shaping the culture of the organisation as Hardware Warehouse grew over time.

The Human Resources Role-Assessment Survey, as recommended by Ulrich (1997), was used to measure the current role of human resources management at Hardware Warehouse in order to determine its influence in the formulation of the culture of the organisation, as well as to identify the current cultural dynamics in the organisation as influenced by human resources management. A collection of documents including financial statements, business magazines, documents relating to the state of the building and construction materials industry, the state of competition and the industry prospects going forward were studied and used. The researcher was also open to a situation where a "sampling of subjects may evolve as the structure of the situation being studied becomes clearer and certain types of subjects seem more central to the understanding than others" (Babbie 2011: 179). This became part of the reason why the two directors were sampled. The sampling did not include any other subjects besides these two.

### **3.5 Data Analysis**

Both theoretical propositions and descriptive framework are used for data analysis. The objectives and questions of the study therefore were guided by theoretical underpinning, and the approach was more descriptive than analytical (Gray, 2009). The researcher used open coding, which is described as "the process of breaking down, examining, comparing, conceptualising and categorising data" (Gray 2009: 504). This included both the making of comparisons and the asking of questions, which involved asking a data-specific and consistent set of questions based on the objectives of the research. A discussion detailing a comparison between Greiner's (1998) model of organisational development and Hardware Warehouse's phases of growth is given in the Integrative Summary. The data from the Human Resources Role-Assessment Survey sheet was used to rate the quality of human resources' activities on a five-point scale, where a score below three indicated low involvement while a score above three indicated high involvement in such activities. This survey

was done in order to identify the current cultural trends at Hardware Warehouse, and how have they evolved over time.

### **3.6 Ethical considerations**

The study describes the growth of Hardware Warehouse as seen mainly by the founder and current executive chairman of the organisation, and therefore the research took note of possible bias which results from “over-reliance on accessible key informants, as well as the effects of the respondents and site on the researcher” (Schwandt, 1997: 9). “Researchers have a responsibility for reporting their findings in a way that matches the data, and which upholds the reputation of the researcher and the research community” (Gray, 2009: 542). In doing this study the researcher was careful not to try to modify the answers of the respondents and not to make claims that could not be supported. All the work of others that was used was acknowledged with correct referencing, using both in-text referencing and the reference list.

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organizational systems undertaken by HR professionals and line managers to fulfill these roles.

For line managers, these new HR roles—each encompassing its deliverable, metaphor, and action—require specific responses:

- Define the desired and feasible deliverables from HR activities.
- Operationalize, measure, and communicate the value created by HR.
- Define who has what responsibility and accountability for HR activities.

HR professionals, too, in order to meet the demands of their new roles, must learn to act in new ways and with new expectations. They must accomplish the following goals:

- Stop *sating* about being a business partner and *do* it.
- Define *business partner* in terms of value created for the business.
- Profile accurately—with the participation of their clients—the *current* and the *desired* quality of their deliverables.

For today's HR professionals to deliver value to a firm, they must fulfill multiple, not single, roles. They must specify deliverables to the firm from each of their roles, "define images that characterize these roles, and act to accomplish the deliverables pertaining to their roles. They must also recognize the paradoxical position they occupy within a firm, accepting accountability for accomplishing results while building the shared commitment needed to achieve those results.

APPENDIX

Human Resource Role-Assessment Survey

Dave Ulrich and Jill Connor

The attached survey explores different *ways* that the HR function may play within your business. Considering the HR professionals in your business entity (for example, corporate HR if you are a corporate, business unit HR if you are in a business), please rate the current quality of each of the following HR activities, using a five-point scale (1 is low; 5 is high).

HR helps the organization . . .

1. accomplish business goals
2. improve operating efficiency
3. take care of employees' personal needs
4. adapt to change

HR participates in . . .

5. the process of defining business strategies
6. delivering HR processes
7. improving employee commitment
8. shaping culture change for renewal and transformation

HR makes sure that . . .

9. HR strategies are aligned with business strategy
10. HR processes are efficiently administered
11. HR policies and programs respond to the personal needs of employees
12. HR processes and programs increase the organization's ability to change

HR effectiveness is measured by its ability to . . .

13. help make strategy happen
14. efficiently deliver HR processes
15. help employees meet personal needs
16. help an organization anticipate and adapt to future issues

HR is seen as . . .

17. a business partner
18. an administrative expert
19. a champion for employees
20. a change agent

Current Quality  
(1-5)

3 3 3 4 4 4 4 4 4 3 3 3 2 2 2 3 3 3 3 3

