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# A framework for the implementation of dynamic capabilities in successfully diversified conglomerates

**Alwin Röttcher**

**Student number: 12347290**

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## Abstract

Currently an overwhelming number of businesses have adopted diversification strategies and are exhibiting great success and have a prominent footprint on the global market. On the contrary, there is divergent scholarly thinking on the diversification-performance link and a wide-spread condemnation for the adoption of diversification strategies. As a result, managers of successful diversified companies are running far ahead their scholarly counterparts.

Priori constructs, developed through an extensive and wide ranging literature review, focused the theory building power of the inductive case study research methodology employed. Through the lens of the emerging dynamic capabilities theory, four of the most highly successful diversified conglomerates over an extended period, were selected through the extreme case variant method, and were investigated in a longitudinal study from 1997 to 2013, to realise some of the key insights to their success.

The outcomes of the research provided a rich explanation of how all five elements of dynamic capabilities are implemented in response to the increasingly dynamic environment within an entrepreneurial approach to sustain competitive advantage. The understanding of dynamic capabilities was extended through the emergence of two new themes, people and supportive structures. The findings gleaned are encapsulated within a simple framework that business practitioners can implement. In addition, the findings bring together a vast body of knowledge and provide a meaningful contribution in response to the lack empirical findings in business practice.

## Keywords

Strategy, dynamic capabilities, diversified conglomerates, corporate culture, firm success




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## Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

__________________________ 11th November 2013

Alwin Röttcher Date




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# 1. Introduction to research problem

## 1.1 Problem description

Strategic management theory aims to identify universal principles that can explain what is in evidence in business practice. Business can then use these insights to guide future decisions of the firm towards achieving success or a competitive advantage (Porter, 1991; Drucker, 1998; Drejer, 2004).

A strategy of diversification is one of the most fundamental strategic decisions a firm can adopt in the pursuit of business success. In practice, there are numerous examples of firms that have successfully adopted diversification strategies. General Electric and Berkshire Hathaway have successfully adopted the most extreme form of diversification: conglomerate diversification (Martin, and Sayrak, 2003), and have achieved 10-year average total shareholder returns (TSR's) which significantly exceed the world benchmark TSR's by 14% and 12% respectively (Kaye, and Yuwono, 2003).

In the USA, in the period from 1990 to 1996, diversified firms owned approximately 60% of publicly traded assets and employed nearly 50% of the workforce (Martin et al., 2003). In addition, diversified firms have become the most predominant form of organisation in the world, in both developed and emerging economies (Nippa, Pidun, and Rubner, 2011), making it an exceptionally relevant topic of study.

Despite business's overwhelming adoption of diversification strategies and their apparent success, "The message has gone out that diversification is bad and focus is good" (Kenny, 2012, p. 12).

There is a gap in the body of knowledge relating not only to the inconsistent understanding of the links between corporate diversification and corporate performance, but also how successfully diversified corporates have implemented their diversification strategies. Untiedt, Nippa and Pidun (2012) note that there has been almost no empirical research done on the practices of diversified corporates for the last two decades. Nippa et al. (2011) state that "It is clearly necessary to conduct empirical studies that analyse how managers of multi-business firms manage their corporate portfolios" (Nippa et al., 2011, p. 63).




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## 1.2 Problem background and timeline

### The beginnings and growth of diversification

From the early 1950's three inwardly focused paradigms began to define strategic management thinking and promote corporate diversification, namely: Firm growth (the benefits of economies of scale); hierarchical co-ordination (the firm's ability to allocate resources more efficiently than the open market) and lastly, the universal principles of management (the common management principles to manage differentiated business).

There was a rapid growth in the number of firms adopting a strategy of diversification making it a prominent form of business strategy. From 1950 to 1974 alone, the percentage of fortune 500 US industrial companies, with at least 25% of their revenue attributable to diversified activities, had grown from 30,1% to 63% (Rummelt, 1974).

Ansoff (1957) was the first of many strategy scholars who sought to research diversification as a corporate strategy and by the late 1970's, extensive literature and research in the area of diversification strategies had been undertaken. The research was aimed primarily at the diversification-performance link associated with this strategy in an effort to provide management practitioners with the necessary information and tools to select and execute the most appropriate business strategy for business success (Pidun, Rubner, Krühler, Untiedt, The Boston Consulting Group, and Nippa, 2011; Wan, Hoskisson, Short, and Yiu, 2011). The most progressive and extreme form of diversification strategy pursued was 'unrelated' or 'conglomerate' diversification (Rumelt, 1982).

### Era of decline of diversification

During the early 1980's debt crisis, the diversification trend was marred by a slew of failed diversified conglomerates (Martin et al., 2003) and strategic management thinking began to shift towards "theory-based beliefs in the superiority of markets (invisible hand) over corporations (visible hand)" (Nippa et al., 2011, p. 52). The dominance of this economic paradigm resulted in a diminishing scholarly interest in corporate diversification (Nippa et al., 2011).

The initial views, that the adoption of unrelated diversification strategies was a sign of a healthy and progressive organisation (Ansoff, 1957) had shifted radically to one of condemnation. Teece, Rumelt, Dosi, and Winter (1994) state that they view conglomerate diversification in a negative light, and refer to firms pursuing this form of




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unrelated diversification strategy as “organizational mutations”. They note that a conglomerate’s only conceivable benefit, is in an instance where external capital market failure is experienced and temporal benefits are gained through internal capital allocations. This proposition notes that the “conglomerate form may have a secure niche in the long term institutional ecology of capitalism” (Teece et al., 1994, p.26), a notion strongly supported by financial theory.

**A disjuncture between practice and theory**

Despite the failures of the 1980’s, diversified firms have rebounded and, as noted previously, continue to play a major role in the world economy with increasing numbers of diversified firms emerging vis-à-vis specialized firms.

The same cannot be said for the academic theory however. Firms have continued to adopt diversified strategies while the overwhelming scholarly thinking suggests that diversified corporations are associated with the destruction of shareholder value (Nippa et al., 2011), a notion which is supported by a plethora of research demonstrating that diversified firms are penalised with significant trade discounts relative to a portfolios of comparable individual focused firms (Chen and Chen, 2011).

With the high prevalence and significant impact of diversified firms, as well as evidence of highly successful diversified conglomerates, it is therefore important to understand the critical success factors of these firms (Martin et al., 2003).

## 1.3 Research motivation

**The study of corporate diversification has not reached a state of maturity**

Maturity in a field of study is achieved when empirical studies undertaken to verify the theories put forward have consistent findings or lead to a general consensus on the key relationships (Palich, Cardinal, & Miller, 2000). Diversification theories have been tested rigorously over an extended period. The studies undertaken (which by and large aim to assess whether corporate diversification adds to or destroys shareholder value) have typically been conducted by assessing large volumes of comparative stock market performance data and generally have findings that are contradictory (Palich et al., 2000; Benito-Osorio, Guerras-Martín, & Zuñiga-Vicente, 2012).




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Two such notable and recent studies were undertaken: one by Akbulut and Matsusaka (2010), and another by Chen et al. (2011). Akbulut et al. (2010), through their study of 4764 mergers over an extended 57 year period, found that "returns are significantly positive for diversifying mergers throughout the period" (Akbulut et al., 2010, p. 231). While Chen et al. (2011), in their study of 1274 corporate asset purchases over a period of 19 years, found that "diversity-increasing firms are associated with significant reductions in their values" (Chen et al., 2011, p. 912).

Martin et al. (2003) suggests that the inconsistencies in studies undertaken are largely attributable to inconsistencies in measurement and classification of diversification. Further, he highlights the difficulties in accurately assessing and quantifying the effects of diversification on corporate value. Nippa et al. (2011), further conclude that there is no consistent empirical research findings that either support or disprove value creation associated with corporate diversification, a view shared by many researchers over an extensive period of time, such as: Rumelt (1982); Ramanujam, and Varadarajan (1989); Palich et al. (2000); Martin et al. (2003); Drejer (2004); Hauschild et al. (2011); Benito-Osorio et al. (2012); Untiedt et al. (2012) and Kor et al. (2013).

**Academic's call for qualitative case study research**

Of the vast number of studies and the research conducted, there are only a few case studies that directly examine how diversification strategies are implemented (Ramanujam et al., 1989). Further, these studies have revealed a weak link between theory and strategic management practice (Drejer, 2004).

This dilemma is best encapsulated by a quote from Richard Whittington, where he states in his article entitled Alfred Chandler, founder of strategy: Lost tradition and new inspiration "The case-study approach of strategy and structure … is nearly absent … in its first twenty years, the Strategic Management Journal published just fifteen case-based articles. In marginalising detailed case research, the discipline is in danger of detaching itself from practice and reducing strategy to the manipulation of abstract statistical variables" (2008, p. 274)

Their call for empirical research on how managers manage successfully diversified conglomerates as the basis for understanding the variation in diversification strategy performance, is shared by many other researchers e.g. Rumelt (1982), Ramanujam et al. (1989), Martin et al. (2003), Drejer (2004), Nippa et al. (2011), Kor, and Mesko




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(2013). Barney, Wright and Ketchen (2001) go further and call for research that can draw on a multitude of areas of study, through qualitative case study methodologies, in a hope to bring the multiple disciplines together.

**Business' call for tools for the implementation of diversification strategies**

Drucker (1998) and Drejer (2004) suggest that, in the context of change, a new management paradigm is required. Our assumptions of the economy are no longer valid, and disparity is growing between theory and business practice.

A study of successfully diversified firms conducted by Pidun et al. (2011) verified that top management of these firms find corporate portfolio management tools and techniques to be very pertinent and important in business. However, Nippa et al. (2011), in their appraisal of four decades of academic research on corporate portfolio management tools, found that amidst the scholarly debate on diversification, there has been an astounding "lack of conceptual approaches, theory-based advancements, and developments of specific theories" (Nippa et al., 2011, p. 62) to support business in the successful implementation of diversification strategies.

## 1.4 Scope and limitations of this research

This research responds to the calls of both business practitioners and academics, to provide both qualitative case study evidence and to develop a framework for business to use in the implementation of diversification strategies respectively.

In the context of change, the theoretical lens selected for the research was the emerging dynamic capabilities theory.

The aim of the research was to identify the dynamic capabilities that are evident in successfully diversified conglomerates, which would specifically address both the motives for and against the implementation of diversification strategies. It is anticipated that the dynamic capabilities identified could possibly represent the antecedents of their success. Then, as the research title suggests, the evidence found would be used to develop, "A framework for the implementation of dynamic capabilities in successfully diversified conglomerates"




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Although this research study falls within the field of strategy, it draws on numerous adjacent fields of study to provide a more holistic understanding of the problem. The literature reviewed was structured taking into account the proposed research methodology. Due to the ambitious task undertaken and the vast body of extant literature to review in a limited time frame, several mechanisms and constructs were employed to guide or limit the extents of the literature reviewed and the research undertaken. As a result, there may be relevant elements of research that have not been incorporated in this research.

Due to the unrelated nature of conglomerate firms, it is hoped that, by developing a framework for the implementation of dynamic capabilities, principles of management would be found. These may lend themselves to abstraction and generalisation towards new 'general principles of management' that could be applied across any firm to enhance performance.

The focus of the research was dynamic capabilities as a means of understanding the success of diversified conglomerates. Although the understanding of the motives for diversification is important to this research, this was limited to a basic understanding of the key theoretical debates for and against diversification. There was no attempt made to synthesise, contrast or resolve any of the vast and contradictory research in this field of study.

The important principles of strategy and strategic thinking are only briefly described, purely as a means of positioning and contextualizing the themes of diversification strategy and dynamic capabilities.

The research was limited to the identification of dynamic capabilities evident in successfully diversified conglomerates. There was no attempt to identify a causal link between the dynamic capabilities identified and the firm's success. Further, the testing of the dynamic capabilities framework developed falls outside the scope of this research.

It is acknowledged that some on the dynamic capabilities identified may not be mutually exclusive i.e. it may include dynamic capabilities that are evident in single / focused firms or even unsuccessful conglomerates.




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The research is limited to the study of a small extreme categorisation of successfully diversified conglomerates. Although the sample is relatively small (with only four successfully diversified conglomerates in the study), the extreme nature of the sample implies a relatively homogeneous sample which is suitable for analysis. The research acknowledges that the research sample may not be a fully representative sample.




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# 2. Literature review

## 2.1 Strategic management theory

### 2.1.1 Strategy defined

Porter (1991) outlines the three essential conditions which early strategy literature identified, to explain the success of firms, namely:

1. Goals: The firm needs to develop a set of goals and functional policies in relation to its market positioning selected. The goals and functional policies are aimed to align functional, divisional and individual actions towards the common goal of the organisation, and facilitate the identification of actions that are not permitted (Porter, 1991).

2. Alignment: The consistent set of goals and functional policies need to align the strengths and weaknesses of the firm with the opportunities and threats identified within the environment i.e. an alignment of the firm's capabilities with the environment. The emphasis of this process is a constant re-assessment and re-alignment between the environment and the firm i.e. a dynamic rather than a static process (Porter, 1991).

3. Distinctive capabilities: The firm is required to develop and exploit its own set of unique strengths which provide it with a competitive advantage (Porter, 1991).

### 2.1.2 The ongoing debate in strategic management thinking

**Outwardly focused theory**

Since the 1980's, strategic thinking has been largely influenced by the outwardly focused Porterian positioning theory (Barney, 1991; Teece, Pisano, and Shuen, 1997). The theory aims to access the external environment to identify opportunities within industries where appropriate positioning of the firm could be exploited to gain competitive advantage. The assessment of the external environment is based on five industry forces, namely: threat of new entrants; bargaining power of buyers; threat of substitute products or services; bargaining power of suppliers; and rivalry among existing competitors (Porter, 1991, p. 101).




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In the last two decades however, the external environment within which firms operate has rapidly evolved and could be characterised by: hyper-competition; rapid technological change or discontinuities; globalisation; and the emergence of a knowledge economy (Prahalad, and Hamel, 1994; Drucker, 1998; Drejer, 2004). The increasingly dynamic environment has called into question the prevailing universal principles of strategic management theory, which are now in a constant state of flux and thus renders traditional management practices ineffective. As such, the Porterian view has been criticised as being too static in nature (Teece, 2007). Scholars have called for a shift in the strategic management thinking paradigm (Prahalad et al., 1994; Drucker, 1998). In response, scholars have sought to create new theories and frameworks which are more inwardly focused, as a more stable source of competitive advantage.

**Inwardly focused theory**

The foremost of these inwardly focused theories was the resource-based view (Porter, 1991; Barney et al., 2001; Wan et al., 2011). Barney (1991) in his seminal work on the resource-based view (RBV), focused on the more stable internal resources of the firm, which he postulated (in direct contrast to the Porterian view) were heterogeneous and idiosyncratic to firms. He postulated that resources which meet the valuable, rare, imperfectly imitable and non-substitutable (VRIN) test were a source of sustainable competitive advantage.

The resource-based view offers a powerful tool for the analysis of business performance and it has been extensively researched in both the field of strategy and adjacent fields of study (Wan, et al. 2011). One of promising areas of study identified for the application of the resource-based view is diversification strategy and specifically un-related conglomerate diversification (Ng, 2007)

**Criticisms of the resource-based view**

The resource-based view is very inwardly focused, emphasizing primarily the efficiency of the resources making up the firm (Teece et al., 1997, p.513). Porter (1991), raises concern that if the definition of resources is extended too broadly (to justify all possible sources of competitive advantage, such as scale or degree of integration) the credibility of the resource-based view could be called into question. Porter (1991), also suggests that the inwardly focused nature of the resource-based view lacks attention to the




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environment in which the business operates and, as such, fails in a dynamic market condition.

Probably of most significance however, is the argument that Porter (1991) and Eisenhardt et al. (2000) present. They postulate that the resource-based view is tautological as it states that firms become successful as a result of their resources which meet the VRIN test, and then, that these firms should maintain these resources to remain successful (Porter, 1991; Eisenhardt et al., 2000). The resource-based view has therefore left a number of questions unanswered in relation to how the initial resources that meet the VRIN test are created, and how these are adapted to meet the needs of the ever-changing environment.

**Birth of dynamic capabilities**

In response, Teece et al. (1994) has put forward the dynamic capabilities framework which, amongst other goals, aims to answer the unanswered questions of the resource-based view, i.e. how VRIN resources are created and then adapted to dynamic markets. In addition, Teece (2007) states that the RBV and the Porterian views are both inherently static in nature which is one of his key contributions with dynamic capabilities. Teece (2007) has further criticised the Porterian view of ignoring many of the vital elements of competitive advantage, such as the endogenous factors of innovation and learning; or path dependencies, which dynamic capabilities addresses.

## 2.2 Diversification strategy

### 2.2.1 Introduction and definitions of diversification strategy

Since the seminal work of Ansoff (1957), Chandler (1962) and Rumelt (1974), on diversification, there has been a plethora of research on diversification strategies undertaken, which has become a central theme in strategic management research (Ramanujam et al., 1989).

A diversification strategy is a corporate strategy primarily focused on growth (Ansoff, 1957), and which seeks to obtain sustainable competitive advantage (Porter, 1996). Over time, the way in which diversification strategies have been conceptualised and measured has varied significantly. These originated primarily from the way in which the




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various schools of thought have portrayed their respective interests in diversification (Ramanujam et al., 1989).

Ansoff (1957), in his work on strategies for diversification, described diversification in terms of not only “product”, but also “market” growth. As such, he defined diversification as a growth strategy aimed at developing both new products and new markets, emphasizing the firm’s complete departure from its existing core “product market strategy”.

Ramanujam, et al., conceptualised diversification more broadly as “the entry of a firm or business unit into new lines of activity, either by process of internal development or acquisition, which entail changes in its administrative structure, systems, and other management processes.” (1989, p. 525). This definition not only describes diversification in terms of a company’s departure from its existing products or activities, but also as a departure from its existing dynamic capabilities.

Without detracting from the importance of the debate in this area, for the purpose of this empirical research, a narrower definition was required (Ramanujam, et al., 1989). As the title of this research suggests, the focus of the research is on discovering dynamic capabilities evident in successful firms that have adopted an extreme form of diversification. The definition therefore needed to facilitate the selection of appropriate firms for analysis in order to discover, amongst others, the “administrative structure, systems, and other management processes” (Ramanujam, et al., 1989, p. 525) evident.

The definition adopted for this research, as suggested above, required focus on two elements of diversification, namely: business success; and an extreme level of diversification. An appropriate measure of business success/performance is total shareholder return which is a financial measure (Kaye et al., 2003). The most extreme form of diversification is conglomerate diversification (Rumelt, 1982). As such, Rumlelt’s (1982) financial classification of the seven levels of diversification was used to define the form of diversification applicable to this research, as follows:

Conglomerate diversification is a diversification strategy which pursues a series of unrelated businesses, which results in less than 70% of its revenues being attributable to its core business or business group (Rumelt, 1982). This definition does not




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presuppose that an outcome of a diversification strategy is a change in the company's "administrative structure, systems, and other management processes" (Ramanujam, et al., 1989, p. 525).

There are two levels of strategy within a diversified business. One is at the business unit level (Business unit strategy) and the other is at the corporate level (Corporate strategy), (Prahalad, & Bettis, 1986; Porter, 1996; Andrews, 1997). "Corporate strategy is what makes the corporate whole add up to more than the sum of its business unit parts." (Porter, 1996, p. 285). The focus of corporate strategy is to define the businesses in which the company will partake and how the resources will be focused to create and sustain competitive advantage (Porter, 1996; Andrews, 1997; Ambrosini and Bowman, 2009A). Porter (1996) states that an important premise of corporate strategy is that competition occurs at the business unit level and therefore the role of the corporate centre is to support the success of each business unit.

### 2.2.2 Motives for and against diversification

Corporate diversification and its impact on firm success is an extensively researched area of study (Martin et al., 2003). However, there is a distinct lack of consensus on the applicable theory to explain the diversification-performance linkage (Palich et al., 2000; Nippa et al., 2011). There are three main categories of theoretical models that aim to explain the impact of diversification on firm success. Despite relying on many common theoretical underpinnings, these models all represent a contradictory view of the diversification–performance linkage. The three models provide a valuable insight into the key motives for and against diversification within the context of their respective theoretical lens, as outlined below:

**Value enhancing models:**

These models suggest a direct positive relationship between diversification and corporate performance which is grounded in, amongst others, market power theory, transaction cost economics theory, parenting advantage, and portfolio theory (Nippa et al., 2011). Other supporting theories include the traditional financial theory of corporate diversification, which links the irregular, but offsetting cash flows of diversified firms towards improved financial stability, superior internal capital funding and increased debt capacity (Martin et al., 2003).




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**Value destroying models:**

These models suggest a direct negative relationship between diversification and corporate performance which is grounded in, amongst others, economic theory which suggests that external market efficiency is better than what internalised allocations can achieve (Nippa et al., 2011). Other cited problems include agency theory, which essentially questions the alignment of management's actions in relation to the firm's best interests (Martin et al., 2003).

**Inverted-U models:**

These models suggest that an increasing amount of diversification offers value creation only to a point, and thereafter further diversification destroys value. These models suggest a trade-off between the benefits of diversification (such as parenting advantages), and costs of diversification (such as increased transaction costs and costs of bureaucracy) (Nippa et al., 2011).

Table 1 below, outlines the generic models for the diversification-performance linkage as described above.




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**Generic Models and Empirical Evidence of the Diversification-Performance Link***

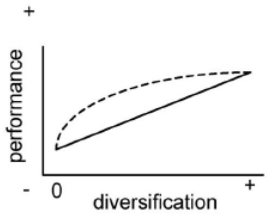
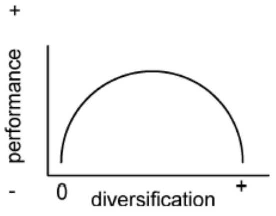
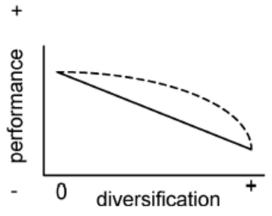
| Value-Enhancing Models | Inverted-U Models | Value-Destroying Models |
|---|---|---|
|   |   |   |
| THEORETICAL RATIONALE | | |
| • Market power advantages such as cross-subsidization<br>• Economies of scale and scope regarding multiple-use resources<br>• Capital market advantages and more efficient allocation<br>• Corporate diversification reduces risk, or volatility in rates of return | • Synergies and parenting advantage can be exploited to only a certain degree of diversification<br>• Competitive advantages restricted to related diversification<br>• The less related the diversification the more costs outlast benefits | • Internal power struggles increase influence costs<br>• Inefficient internal capital markets<br>• Inappropriate expansion due to agency problems |
| EMPIRICAL EVIDENCE | | |
| *Profitability increase* | *∩-Shape run of profitability* | *Profitability decrease* |
| • Schoar (2002)<br>• Mathur, Singh, and Gleason (2004) | • Rumelt (1974, 1982)<br>• Itami, Kagono, Yoshihara, and Sakuma (1982)<br>• Grant, Jammine, and Thomas (1988)<br>• Hoskisson and Hitt (1990)<br>• Palich and colleagues (2000)‡<br>• Singh and colleagues (2010) | • Berger and Ofek (1995)<br>• Rajan and colleagues (2000)<br>• Maksimovic and Phillips (2002) |
| *Diversification premium* | *Contingent market value* | *Diversification discount* |
| • Jandik and Makhija (2005)<br>• Yan (2006)[1]<br>• David and colleagues (2010) | • Wernerfelt and Montgomery (1988)<br>• Palich and colleagues (2000)‡<br>• Villalonga (2004) | • Lang and Stulz (1994)<br>• Berger and Ofek (1995)<br>• Servaes (1996)<br>• Denis, Denis, and Yost (2002)<br>• Best, Hodges, and Lin (2004) |

**Table 1 – Generic models and empirical evidence of the diversification-performance link**

**(Source: Nippa et al., 2011, p. 54)**

The above findings and additional emergent themes are briefly described below. Items captured within the 'Diversification: Pros and cons priori construct' (see figure 1) are italicised.

*Mergers and acquisitions (M&A):* Reed, and Luffman (1986) note that diversification strategies may be embarked upon as a means of growth, and that M&A present an opportunity for firms to develop their resource base, adapt to changing market needs and to capitalise on under-priced acquisitions.

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*Capital allocations:* Diversification may be a suitable alternative when internal capital allocation can be done more efficiently and more cost effectively than using the open market. This is likely to occur in the event of market failure, where high transaction costs are created through asset specificity problems or asymmetrical information in the market (Williamson, 1974 as cited by Hoskisson, and Hitt, 1990). This is contrary to economic theory which suggests that the market is perfect and therefore no value can be created through diversification within the firm (Ramanujam et al., 1989).

Emerging markets are seen to have under developed institutions and financial markets. As a result, market imperfections are more prevalent and enhance the opportunity for diversification value-add through internal capital allocations (Purkayastha, Manolova, and Edelman, 2012).

Financial theory provides a rationale for corporate diversification as follows:

- *Coinsurance Effect:* By combining imperfect cash flows from unrelated businesses, the variability of cash flow is reduced and, in turn, the firm's debt capacity is increased (Martin et al., 2003).
- *Asymmetrical information:* Management has the opportunity to exploit their superior information for the allocation of funds towards more profitable ventures, which, due to lack of information, may be mispriced by the market. This phenomenon is also referred to as "winner picking" (Martin et al., 2003).

Andrews (1951), as cited by Goold, and Luchs (1993), identifies the development of specialised management skill sets (developed through practice) in the management of diversified corporates as a self-reinforcing incentive for further diversification.

*Lack of focus:* Goold, Campbell, and Alexander (1994), have undertaken extensive research in the field of corporate parenting advantage and have coined the phrase "10% versus 100% paradox".  This is where management within the corporate parents are required to split their time available between multiple diversified businesses, rendering "10%" of their time available versus the dedicated management of the various strategic business units (SBU's) which can allocate (100%) of their time to the specific requirements of the business.




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*Appointment of appropriate senior managers:* Goold et al. (1994), highlights one of the most significant ways in which a corporate parent can add value to their various strategic business units is through the on-going monitoring, identification and appointment of appropriate senior managers with appropriate qualities to ensure success at the strategic business unit level.

*Financial Controls:* Goold et al. (1994), further identify tight budgetary control and performance measures as well as good capital investment decisions as precursors for corporate parenting advantage.

*Bureaucracy:* Bureaucracy arises out of increased complexity resulting in the following problems:

- The inertia and *bureaucratic environment inhibits innovation* as a result of the systems introduced to control the extreme diversity of the conglomerate (Drucker, 1959).
- Increased controls to manage the diversity results in costly *corporate overhead* structures (Porter, 1996).

In addition, Porter (1996) notes three essential tests that any diversification strategy should pass to avoid failure, namely:

- The attractiveness test: *Acquisitions in unattractive industries* could compromise earnings potential.
- Cost of entry test: *High purchase costs* in M&A can erode all future earnings.
- The better-off test: There must be a value-add through the relationship between Parent and the Strategic Business Unit (SBU).




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### 2.2.3 Diversification: Pros and cons priori construct

| | Description | Author |
|---|---|---|
| ***Pros:*** | | |
| Market power | Cross-subsidisation between markets | Nippa et al., 2011 |
| Economies of scale and scope | Multi-use of resources | Nippa et al., 2011 |
| Capital allocations | Internal capital allocations can be better than the open market. Ability to exploit inferior open markets (e.g. emerging markets) | Palich et al., 2000; Martin et al., 2003; Porter, 1996; Hoskisson et al., 1990 |
| Parenting advantage | Value-add to the business unit from the corporate parent. | Goold et al., 1994; Porter, 1996; Nippa et al., 2011 |
| Risk reduction | Offsetting cash flows & Cross-subsidisation between business revenues | Nippa et al., 2011 |
| Coinsurance effect | Asymmetrical cash flows allow increased debt capacity | Martin et al., 2003 |
| Competition at business unit level | Selection of appropriate business managers @ SBU level | Goold et al., 1994; Porter, 1996 |
| M&A | Resource augmentation & Market alignment | Reed et al., 1986 |
| M&A | M&A as means of firm growth | Reed et al., 1986 |
| M&A | Arbitrage opportunities | Reed et al., 1986 |
| ***Cons:*** | | |
| Agency Problems | Alignment between management & firm's interests | Nippa et al., 2011 |
| Bureaucracy | Bureaucratic environment inhibits innovation | Drucker, 1959; Mintzburg, 1994 |
| Corporate Overhead | Increased costs associated with hierarchical co-ordination & bureaucracy | Nippa et al., 2011; Porter, 1996 |
| Competition at business unit level | Competitive advantages are reduced as focus diminishes. The 10% vs. 100% Paradox | Goold et al., 1994; Porter, 1996 |
| Budget & Performance Measures | Lack of budget & performance measures | Goold et al., 1994; |
| M&A | High purchase costs erode all future profits | Porter, 1996 |
| M&A | Acquisitions in unattractive industries | Porter, 1996 |
| Lack of focus | The 10% vs. 100% Paradox | Goold et al., 1994 |

**Figure 1 - Diversification: Pros and cons priori construct**




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## 2.3 Origins of dynamic capabilities

Teece (2007, p. 1320) stresses that "the ambition of the dynamic capabilities framework is nothing less than to explain the sources of enterprise-level competitive advantage over time," and that "dynamic capabilities lies at the core of enterprise success (and failure)."

Teece et al. (1994) describe the dynamic capabilities approach as a descendant of the highly entrepreneurial Schumpeterian theory. Schumpeterian theory distinguishes itself from other economic theories by viewing economic growth as an entrepreneurial process whereby entrepreneurs, independently of the market, develop innovations which, when brought to the market, are a source of market power.

The framework for dynamic capabilities retains a rich entrepreneurial heritage that differentiates itself from Schumpeter's work in that it emphasizes and focusses on organizational processes in relation to the market (Teece et al., 1994). This assertion of the origins of dynamic capabilities is often challenged in the literature, where dynamic capabilities are rather seen as primarily an extension of the resourced-based view, with elements of organizational theory (Eisenhardt et al., 2000; Ambrosini, Bowman, and Colier, 2009B; Ambrosini et al., 2009A).

When seen in this light, dynamic capabilities supplement the shortcomings of the resource-based view thinking, with specific reference to:

- Dynamic markets and the rapidly changing environment in which businesses operate (Eisenhardt et al., 2000)
- Market power and positioning (Porter, 1991)
- The learning / entrepreneurial capability (Teece et al., 1997; Barney et al., 2001)
- The importance of people and culture (Barney et al., 2001; Bowman, and Ambrosini, 2003)

Still, others claim the origins of dynamic capabilities to be rooted in evolutionary economics, with specific reference to its emphasis of routines and path dependencies (Helfat, and Peteraf, 2009).




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Dynamic capabilities addresses issues "rooted in behavioural theory, including organizational growth, routines and processes, organizational learning and managerial decision-making" (Helfat et al. 2009; p.92). As such, Eisenhardt et al. (2000) use an organizational and empirical lens to analyse and postulate on dynamic capabilities. This suggests that people, and the sociological aspects of the organisation, form a central role in the understanding of dynamic capabilities. Wright, Dunford, and Snell (2001) go further and propose dynamic capabilities as a plausible link between strategy literature and human resource management literature, in recognising people as an integral element of firm success.

Dynamic capabilities, as a field of study, is still in its infancy stage, with much of the research been focussed on foundational issues, including the refinement of the definition itself. (Helfat et al., 2009). However, it is promising to note the significant interest that this new field of study has garnered (Wang, and Ahmed, 2007). In fact, there has been a tremendous growth in the dynamic capabilities literature since the original seminal work of Teece, et al. (1994). In the 10 years following the formal published article by Teece et al., 1997, in excess of 1500 articles have used the dynamic capabilities concept, according to the ABI/INFORM database (Barreto, 2010).

## 2.4 Dynamic capabilities: Current debates & definition

### 2.4.1 Areas of contention in the dynamic capabilities framework

Dynamic capabilities is seen to have two separate seminal authors, namely: Teece et al. (1997) and Eisenhardt et al. (2000), who have conceptualised a few of the fundamental principles of dynamic capabilities, albeit quite differently. Both authors garnish support from two distinct scholarly support bases (Peteraf, Stefano, and Verona, 2013).

Below is an outline of the main differences in their views:

- The outcomes of dynamic capabilities are viewed as firm performance by Teece et al. (1997), while the outcomes are merely perceived as processes by Eisenhardt et al. (2000).




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- Teece et al. (1997), conceptualises dynamic capabilities as idiosyncratic factors which give rise to sustainable competitive advantage, while Eisenhardt et al. (2000) expresses them as commonalities between firms or “best practices”, with some level of “idiosyncratic details” and therefore, are not seen to pass the VRIN test. Eisenhardt et al. (2000), expand their argument and state that the resource configurations that the dynamic capabilities create, may however, be a source of sustainable competitive advantage. Peteraf et al. (2013) suggest that the gap between the views on this critical issue may be surmountable, and cite Eisenhardt et al’s. (2000) reference to “idiosyncratic details”, as a plausible justification that simple common “best practice” may still pass the VRIN test.

- Teece et al. (1997) suggests that dynamic capabilities are applicable to rapidly changing environments, while Eisenhardt et al. (2000) believe they are applicable to both dynamic and stable external environments, but reach a boundary condition in high velocity dynamic environments.

Of further concern is, despite Teece et al. (1994) claiming a heritage of entrepreneurship and innovation, rooted in Schumpeterian economic theory, they do not seem to have adequately recognised the role of individuals in the development of such entrepreneurial energy (Mintzburg 1994). More specifically, Teece et al. (1994) favours process over people rather than people over process. This is in contrast to Mintzburg (1994), who sees entrepreneurship as a process resident in people, inspired through culture and unrestricted by bureaucracy.

Peteraf et al. (2013) find that there is more support in the academic literature for Eisenhardt’ s work, and suggest that this may be due to its broader interest from various scholarly fields. This broader interest forms a nexus point for the interest in this field, including organisation theory, science and behaviour. None of these are represented by those tied to Teece’s work.

### 2.4.2 Dynamic capabilities defined

Teece et al. (1994) in their seminal work on the dynamic capabilities of a firm, postulate that “the competitive advantage of firms stems from dynamic capabilities rooted in high




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performance routines operating inside the firm, imbedded in the firm's processes and conditioned history. Because of imperfect factor markets, or more precisely the non-tradability of 'soft' assets like values, culture, and organizational experience, these capabilities generally cannot be bought; they must be built. This may take years - possibly decades." (Teece et al., 1994, p.21). Teece et al. (1997) adds that a capability that is difficult to imitate or replicate is defined as a distinctive competence and that dynamic capabilities are those capabilities which enable new products and processes to be created in response to a dynamic market.

For the purpose of this research, competencies and capabilities are seen as synonymous and used interchangeably.

There is no one commonly accepted definition of dynamic capabilities (Barreto, 2010; Helfat et al., 2009). Below is a list of the two seminal author's definitions of dynamic capabilities as well as some of the more recent definitions identified in the extant literature:

"The firm's processes that use resources—specifically the processes to integrate, reconfigure, gain, and release resources—to match and even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die." *Eisenhardt & Martin (2000, p. 1107).*

"The subset of the competences / capabilities which allow the firm to create new products and processes and respond to changing market circumstances" Teece et al. *(1994, p. 6).*

"The firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" Teece et al. *(1997, p. 616).*

"A firm's behavioural orientation constantly to integrate, reconfigure, renew and recreate its resources and capabilities and, most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage." *Wang et al. (2007, p. 35).*

**Towards a usable definition:**




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Teece differentiates dynamic capabilities from “operational capabilities” and suggests that by contrast, dynamic capabilities “relate to high-level activities that link to management's ability to sense and then seize opportunities, navigate threats, and combine and reconfigure specialized and cospecialized assets to meet changing customer needs, and to sustain and amplify evolutionary fitness, thereby building long-run value for investors” (2007, p. 1344)

Eisenhardt et al. (2000, p. 1107) refers to “organisational and strategic routines”, “best practice” and “dynamic capabilities” synonymously. He then outlines a few identifiable processes of dynamic capabilities as follows: Strategic decision making; reconfiguration and integration of resources within firms (including intangible resources, such as knowledge based resources); resource allocation routines (such as capital and production assets); as well as “co-evolving” routines by which managers align synergetic collaborations amongst the firm. The emphasis of Eisenhardt’s definition relates to the processes of people towards the goals of the company. This is a clear separation of the processes of people from the general term resources or resource configurations.

Whittington (2008, p. 270) cites the work of Mintzberg and Waters (1985, p.257) in their expansion of the conventional idea of purely deliberate strategy and has argued that, in addition, consideration should be given to emergent strategy, defined as “a pattern in a stream of decisions” or patterns of behaviour that have accumulated over time (Whittington, 2008).

Teece et al. (1997, p. 518) define managerial and organisational processes as “the way things are done” or “routines” or the “patterns of current practice and learning” which essentially comprise three roles, namely: “Coordination/integration”, “learning” and “reconfiguration”.

For the purpose of this research, the balanced definition, synthesised by Ambrosini et al. (2009A) is adopted to define dynamic capabilities as follows: “These definitions reflect that dynamic capabilities are organizational processes in the most general sense and that their role is to change the firm's resource base… dynamic capabilities are built rather than bought in the market (Makadok 2001), are path dependent (Zollo and Winter 2002) and are embedded in the firm (Eisenhardt and Martin 2000)”. In addition, they add that the term ‘dynamic’ refers to the change or the renewal of the




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resource base. Ambrosini et al. (2009A, p. 34). The use of this definition allowed for more latitude for the emergent themes in the research phase and specifically allowed for the more focussed role of people in dynamic capabilities.

## 2.5 Core elements of dynamic capabilities

Despite the various debates within the dynamic capabilities literature, the primary elements that were originally conceptualised by Teece et al. (1994) to constitute the dynamic capabilities framework, are still relevant today. Below is an explanation of these core elements, as well as reference to some of the more contentious areas.

### 2.5.1 Integration

Integration involves the co-ordination and / or integration of activities inside the firm, as well as those external activities which impact the firm, towards the goals of the firm. The concept of integration is characterised by special organisational routines, practices and processes imbedded within the organisation (Teece et al., 1994). The routines, practices and processes, as described by Teece et al. (1994) are specific and targeted, as they aim to create a precise congruence between processes, incentivisation and the ultimate actions taken. Teece et al. (1994) distinguish their concept of integration from the "practices" and "routines" synonymous with corporate culture, which they argue are too loose or vague by comparison, and are more appropriate as a *de facto* governance system to guide human/employee behaviour.

### 2.5.2 Learning

Learning entails the seizing of new production opportunities and enhancing existing production methods through task repetition and experimentation (Teece et al., 1994), and is cited as the one of the most important factors of dynamic capabilities, clearly reinforcing its Schumpeterian roots (Teece et al., 1994; Teece, 2007).

Teece et al. (1994), in their seminal work, described the learning process as having two key characteristics. The first is learning at the level of the individual employee and emphasises the need for common codes of communication and co-ordinated




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procedures to enhance joint contributions towards collective problem solving. There is a distinct recognition that the learning process is a social one. Further, the learning process will culminate in a new organisational logic, constituting new routines or individual behaviours.

The second characteristic is learning at an organisational level, where the concept of inter-organisational learning is introduced, whereby lessons learnt can be transferred between organisations through collaborations or partnerships (Teece et al., 1994). The view of learning or knowledge creating routines is expanded on by Eisenhardt et al. (2000) to incorporate the process of mergers and acquisitions. Here, new resources are brought into the firm as a source of knowledge and learning. Cisco Systems is cited as a company which has been successful at utilising this form of learning and knowledge creation. Hitt, Hoskisson, and Ireland (1990), support this argument and theorise that diversified firms use acquisitions as a substitute for innovation.

In the seminal work of Teece et al. (1994), the focus on the learning process was primarily on the organisational level and the learning process as a collective. Teece (2007) expands his view of the learning process from his original seminal work, where he introduces the concept of entrepreneurship and places far more emphasis on the abilities of individuals in the entrepreneurial knowledge creation process. However, Teece (2007) still asserts that the sensing and shaping of opportunities and threats, through entrepreneurial initiatives, should not be left to a few individuals with the cognitive abilities to perform this task. They should rather be indoctrinated within the organisational processes that monitor customer needs and competitor activity. The systemisation of entrepreneurship as proposed by Teece (2007) is met with a cautionary of the formalisation edge, as postulated by Mintzberg (1994), whereby the over systemisation of the entrepreneurial process can inhibit the thinking process as opposed to supporting it.

### 2.5.3 Reconfiguration and Transformation

Reconfiguration and transformation is focussed around the firm’s abilities to sense changes in the external dynamic market and the associated ability to reconfigure the firm’s asset structure / position to align with these changes. Emphasis is placed on the




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willingness to change and the speed of reconfiguration and transformation, in relation to competitors (Teece et al., 1997).

Decentralised organisational structures with autonomous strategic business units are able to adjust and recalibrate / reconfigure to the changing demands of the dynamic market at a quicker pace and at lower costs (Teece et al., 1997).

The reconfiguration and transformation of asset structures includes resource allocation routines aimed at the allocation of scarce resources including, amongst others, capital, manufacturing assets and knowledge-based assets (Eisenhardt et al., 2000).

### 2.5.4 Positions

Positions are separate from the organisational processes described above. Dynamic capabilities use the concept of positions to describe the specialised assets within the firm that define its strategic posture (Teece et al., 1994; Teece, 2007). Emphasis is placed on leveraging these assets as a source of competitive advantage (Bowman et al., 2003; Teece, 2007). These strategic assets are grouped within the following categories:

*Technological assets:* The know-how or established knowledge of the firm (Teece et al., 1994; Teece, 2007)

*Complementary assets:* Primarily related to the production assets. They enable the use of technological assets to generate a product (Teece et al., 1994; Teece, 2007).

*Financial assets:* The firm’s ability to access cash and / or debt. Specific reference is made to the strength of a company’s balance sheet where capital-raising from external markets, may be impeded by imperfect information (Teece et al., 1994; Teece, 2007).

*Reputational assets:* Reputational assets are the company’s brand. They shape the external environment’s view of the organisation and their associated responses, including customers, suppliers, shareholders, and competitors (Teece et al., 1994; Teece, 2007).

*Institutional assets:* The varying geography in which companies operate often result in firms being placed within varying national regulatory systems and / or institutional




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environments, which can either restrict or enhance firm performance / opportunities (Teece, 2007).

*Market Assets:* Product market position defines a firm's position within the external environment. Teece et al. (1997) play down the importance of market assets due to dynamic markets, and favour instead the inwardly focused competencies and capabilities within the firm (Teece et al., 1994; Teece, 2007).

*Organisational boundaries:* The degree to which a company has undertaken vertical, horizontal and lateral integration imposes significant implications on the firm's ability to co-ordinate technological and complementary assets under their control. Organisational boundaries also determine the extent and nature of what is likely to be more effectively co-ordinated internally rather than within the open market. A typical example of an asset that can be better co-ordinated internally as a result of an integrated business structure is intellectual capital (Teece et al., 1994; Teece, 2007).

*Locational assets*: Geographical positioning can render advantages to the firm (Teece et al., 1994)

*Structural Assets*: Structural assets are defined as the formal and informal structures of the organisation. Organisational structures are seen to be the primary determinate of the organisation's ability to innovate and co-evolve competencies and capabilities (Teece et al., 1994; Teece, 2007). Despite the denoted importance of structural assets by Teece et al. (1994), there was very little detail available within the dynamic capabilities literature to explain the organisational structures and their impact on innovating and co-evolving competencies and capabilities. This led to the development of a separate theme, namely: Supportive structures. This theme is expounded later in this research report.

### 2.5.5 Paths

Dynamic capabilities posits, in direct contrast to micro-economic theory, that the future behaviour of a firm is constrained by its historic investments and inherent routines previously adopted. This notion suggests that changes in a firm's evolutionary path are more long term than micro-economic theory would otherwise suggest, thereby limiting the firm's strategic alternatives (Teece et al., 1994; Teece, 2007).




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Eisenhardt et al. (2000) identifies the primary source of a firm's competitive advantage as not primarily determined by the dynamic capabilities themselves, but rather the resource configurations that they generate. These configurations represent a congruence of recourses towards value creation, which is developed through, amongst others, investment over time. When change is imposed and the balance is upset, the congruence of resource configurations and associated value creation is compromised, a process that requires further time and investment to realign (Teece, 2007).

The concept of path dependencies is extended to incorporate technological opportunities, which describe the environment within which the organisation operates. More specifically, how fast or slow technological change is making current technology obsolete. This presents a view for determining the future relative attractiveness of specific market opportunities and guidance on the relative commitment to R&D activity required to exploit these future opportunities (Teece, 2007).

## 2.6 The softer side of dynamic capabilities: Towards an integrated view

Barney et al. (2001) recognise the shortcomings of the Resource-based View in the understanding of the contributions of people within the organisation, and call for further research into the behaviours of employees. Their specific interest is in understanding corporate culture and the sense of organisational citizenship, which motivates people to go beyond the scope of their standard responsibilities. Within the field of human resource management, this concept is referred to as discretionary effort, which attracts much interest in this field and specifically in relation to firm performance (Becker, and Huselid, 1998; McClean, and Collins, 2011).

Wright et al., (2001) identify dynamic capabilities as a plausible link between strategy literature and human resource management literature as they recognise people as an integral element of firm success.

Although the dynamic capabilities framework specifically recognises the critical importance of the softer side of management (in securing commitment and loyalty of employees towards the goals of the organisation) through the use of culture, commitment and leadership, it has not yet evolved to integrate these processes within the dynamic capabilities framework. (Teece, 2007). What follows is an extension of the




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existing themes of dynamic capabilities. There will be a strong focus on the softer, people side of dynamic capabilities, as opposed to the harder more systematic processes currently portrayed in the preceding section of this report.

### 2.6.1 Organisational culture

Although there is not one consistent and agreeable definition of organizational culture, a widely recognized definition is stated as: “a complex set of values, beliefs, assumptions, and symbols that define the way in which a firm conducts its business”. (Barney, 1986, p. 657). Organisational culture, as a means for institutions to co-ordinate and influence the actions of individuals, was initially explained by regulative processes (formal regulations) and normative processes (the awareness of what one is supposed to do) (Selznick, 1996). The new institutional theory introduces cognitive influence as a means of further understanding organisational culture. It adds the dimension of people’s perceptions and evaluations of patterns, and behaviours within an organisation with which they can identify. This is a self-perpetuating process which essentially develops the patterns and routines that will be adopted going forward (Selznick, 1996).

### 2.6.2 Culture and entrepreneurship

In the same vein as Teece (2007), Barney et al. (2001) also recognise entrepreneurship as an important field of study to further understand the sources of a sustainable competitive advantage. They go on to stress the need to analyse and understand habitual entrepreneurial behaviour as a means of understanding the development of new resource configurations that create temporary advantages.

Drucker (1959) highlights the importance of entrepreneurship in value creation. Boehm-bawerk’s Law underpins this assertion by stating that only through taking greater risk, can the economic performance of the company can be enhanced. Entrepreneurial Performance is therefore enhanced by making risk-taking decisions in a rational way.

In contrast to Teece’s (2007) systematic view of the entrepreneurial development process, Drucker (1959) suggests that entrepreneurial knowledge and the understanding thereof does not reside in the traditional disciplines of accounting or




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economics, or even the physical or life sciences, but rather “it pertains to the specific institution, the enterprise, which is a social institution existing in contemplation of human values.” (Drucker, 1959, p. 248). The entrepreneurial process is spawned by the voluntary decisions and actions of people within the organisation. The role of the organisation is to encourage and harness these individual efforts in the direction of the strategic thinking of the organisation (Drucker, 1959).

Similarly, Mintzberg et al. (1985), in their seminal work, argue that strategy need not only be deliberate, but may also be emergent, where strategies may emerge and be realised in the absence of specific intentions. The concept is useful in considering an entrepreneurial strategy, where space is left for the adaption and modification of the strategic outcomes. The vision for the company only provides a general sense of direction within which individuals can navigate their own individual contributions. Mintzberg et al. (1985) argue against Chandler’s (1962) work, where strategy formulation was separated from strategy implementation. They argue that this separation discourages the contributions of individuals in terms of entrepreneurial flexibility. They qualify that, when individuals are allowed to contribute to the strategy, it is necessary to align their contributions towards a “collective organisation”, which exhibits common patterns of behaviour. They suggest that an ideological strategy has the ability to create a sense of identity and unity amongst the people of the organisation, which can then focus their efforts consistently. This strategy is often institutionalised through the efforts of a charismatic organisational leader (Mintzberg et al., 1985). Ideological strategies are controlled through normative processes of indoctrination and / or socialisation, akin to organisational culture (Mintzberg et al., 1985).

Mintzberg (1994) extends his ideas on emergent strategies and suggests that “sometimes strategies must be left as broad visions, not precisely articulated, to adapt to changing environment.” (Mintzberg 1994, p.112). Over formalisation or systemisation can inhibit the human element of the thinking process. The formalisation edge is the point at which systems no longer facilitate or support thinking, but rather inhibit it (Mintzberg, 1994).

Martins, and Terblanch (2003, p. 70), in the figure below, provide an illustration of the influence of organisational culture on creativity and innovation within an organization.




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This encapsulates many of the emergent topics of entrepreneurship discussed in this research report.

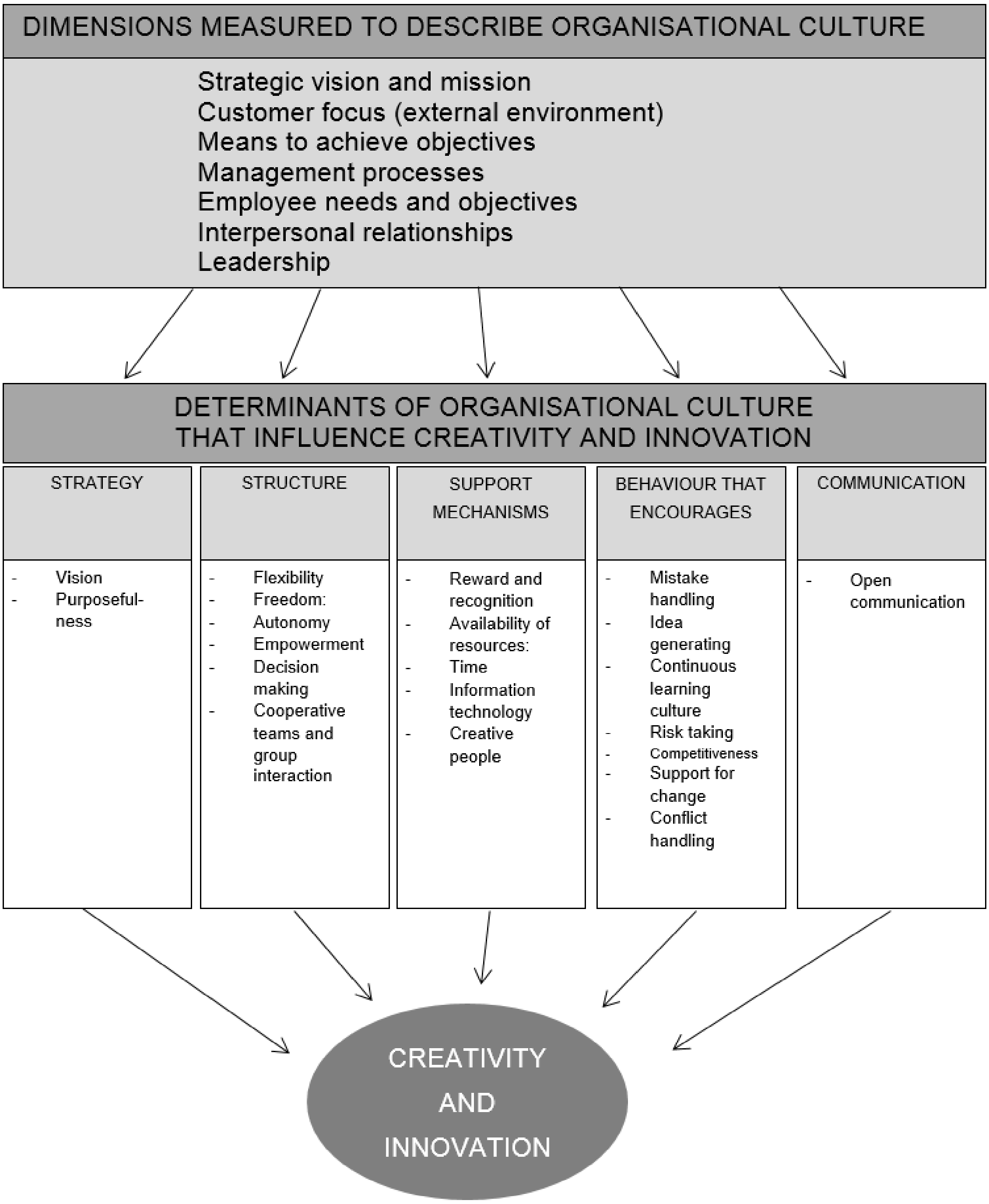


**Figure 2 - Model of the influence of organisational culture on creativity and innovation**

**Source: Martins et al. (2003, p. 70)**




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### 2.6.3 Capturing the potential of people: A Supportive Structure

Chandler (1962) put forward his thesis that organisational structure follows strategy. He also identified that a diversification strategy requires a multidivisional structure or, more specifically, an "M-form" organisational structure, with decentralised business units operating with a fair degree of autonomy.

Emergent strategy supports the idea of a decentralised-type organisational structure, where autonomous business units are able to make value adding decisions through their superior understanding of their immediate business environment. The business units and their decisions are guided by the deliberate strategies of the overarching organisation (Mintzberg et al., 1985). Teece et al. (1997) also support the use of decentralised organisational structures with high degrees of autonomy within their strategic business units, which they suggest have the added advantage of being closer to the market, and less lightly to miss market or technological developments.

Porter (1991) suggests that strategy should be used to reinforce a consistent message to employees, through functional policies and consistent internal goals. This serves to eliminate ambiguity in functions and to restrict the actions and choices of employees towards the focussed objectives of the firm. Empowering individuals to contribute to the strategy within this defined framework not only rules out unwanted behaviour and agency problems, but also encourages a significant contribution from individuals towards firm success. (Porter, 1991).

A theme that has been introduced through the "new institutionalism theory" is the idea of incoherence, or the creation of a post bureaucratic organisation which is loosely controlled. This enables the firm to be highly responsive and encourages initiative from individuals at all levels of the organisation. This theme is of particular relevance to a diversified conglomerate where "diversity, flexibility, and autonomy are called for" (Selznick, 1996, p.275).

Henry Mintzberg in his 1994 article 'The fall and rise of strategic planning" argues that strategic planning is a calculating management style rather than a committing style, the latter being one that promotes the commitment and engagement of people in a journey with an ensuing enthusiasm that develops in the process. Mintzberg (1994) cites psychologist, Philip Selznick (1957) in his article entitled "Leadership in Administration: A Sociological Interpretation" and paraphrases him as follows: "strategies take on value




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only as committed people infused them with energy” (Mintzberg, 1994, p.109). Wright et al. (2001) go further and say that “competitive advantage can only be achieved if the members of the human capital pool individually and collectively choose to engage in behaviour that benefits the firm” (Wright et al., 2001, p. 705). To energise people and maximize their potential (at the middle management level and lower levels of the hierarchy) they require a supportive stance of top management (Mintzberg, 1994). Organisations that adopt a supportive culture that also values the worth of employees, are inclined to maximize the productivity of their people (Barney, 1986). Barney (1986) concludes that a firm’s organisational culture may be a source of sustained competitive advantage.

In addition to the above insights, Selznick (1948) provides some clarity on the specific processes and routines that provide stability to autonomous, decentralised business units. In his seminal work on the foundations of the theory of organisation, he postulates the structural–functional approach, whereby the social systems of an organisation require a set of basic needs to maintain their integrity and the ongoing continuity of the system, as follows:

- The security of the organisation as a whole in relation to social forces in its environment: the system requires a sense of security from possible outside influencing factors (Selznick, 1948).
- The stability of the lines of authority and communication: the system requires a continuity of leadership that is able to engage the people within the system, at all levels of the organisation (Selznick, 1948).
- The stability of informal relations within the organisation: the interplay between people and sub groups within the organisation create a cognitive understanding of the life / ways of the organisation at an informal level. These informal relations reinforce the formal authority within the organisation and enhances communication. Any movement to change the informal relations and structures will be resisted by the system (Selznick, 1948).
- The continuity of policy and the sources of its determination: the system favours stability and predictability in the actions taken by the organisation which serves as a source of legitimacy (Selznick, 1948).




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- A homogeneity of outlook with respect to the meaning and role of the organisation: the organisation requires that all people within it are oriented around the same outlook for the organisation and share a common understanding of the character of it (Selznick, 1948).

- Healthy organisations will have the ability to align new members towards the established company character or will actively rid the company of those who do not share the same outlook (Selznick, 1948).

## 2.7 Conclusion

The construct below entitled, “Consolidated pros and cons diversification priori construct” provides a synthesis of the literature reviewed and matches the motives for and against diversification with the corresponding themes of dynamic capabilities identified. This serves as a construct to not only bring the vast body of knowledge together, but also to test the relevance of the qualitative data identified, in the research that follows.




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### 2.7.1 Consolidated pros and cons diversification priori construct

| | Description | Author | Corresponding Dynamic Capability: Theme Identified | |
|---|---|---|---|---|
| ***Pros:*** | | | | |
| Market power | Cross-subsidisation between markets | Nippa et al., 2011 | Reconfiguration and transformation: Capital allocations between business units | Teece et al., 1997 |
| Risk Reduction | Offsetting cash flows & Cross-subsidisation between business revenues | Nippa et al., 2011 | Reconfiguration and transformation: Capital allocations between business units | Teece et al., 1997 |
| Economies of scale and scope | Multi-use of resources | Nippa et al., 2011 | Position: Leverage of available resources<br>Paths: Positions formed as consequence of past investment decisions | Teece et al., 1997 |
| Capital Allocations | Internal Capital allocations can be better than the open market. Ability to exploit inferior open markets (e.g. emerging markets) | Palich et al., 2000; Martin et al., 2003; Porter, 1996 | Position: Financial Assets (Access to cheaper capital) | Teece et al., 1997 |
| Coinsurance Effect | Asymmetrical Cash flows allow increased debt capacity | Martin et al., 2003 | Position: Financial Assets (Access to more capital) | Teece et al., 1997 |
| Parenting Advantage | Value add to the business unit from the corporate parent. | Goold et al., 1994; Porter, 1996; Nippa et al., 2011 | Position: Leverage of existing assets for value add (Reputation, financial assets, etc.) | Teece et al., 1997; 2007 |
| Competition at Business unit level | Selection of appropriate business managers @ SBU level | Goold et al., 1994; Porter, 1996 | People: Selection of the right people<br>Supportive Structure: Decentralised and autonomous organisational structure to empower people | Mintzburg,1994; Selznick, 1996 |




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| | | | | |
|---|---|---|---|---|
| M&A | Resource augmentation & Market alignment | Reed et al., 1986 | Reconfiguration and transformation: Alignment outcome | Teece et al., 1997 |
| M&A | M&A as means of firm growth | Reed et al., 1986 | Reconfiguration and transformation: Growth outcome | Teece et al., 1997 |
| M&A | Arbitrage opportunities | Reed et al., 1986 | Reconfiguration and transformation: Value creation outcome | Teece, 2007 |
| ***Cons:*** | | | | |
| Agency Problems | Alignment between management & firm's interests | Nippa et al., 2011 | Integration: Organisational Culture, Incentivisation, Ownership / Share options<br>Supportive structure: Decentralised and autonomous organisational structure to empower people | Teece et al., 1997; Mintzburg,1994; Selznick, 1996 |
| Bureaucracy | bureaucratic environment inhibits innovation | Drucker, 1959 | Learning & innovation: Entrepreneurial organisational culture<br>Supportive structure: Decentralised and autonomous organisational structure to empower people | Teece et al., 1997; Mintzburg,1994; Selznick, 1996 |
| Corporate Overhead | Increased costs associated with hierarchical coordination & bureaucracy | Nippa et al., 2011; Porter, 1996 | Supportive Structure: Decentralised and autonomous Business units to empower people | Mintzburg,1994; Selznick, 1996 |
| Competition at Business unit level | Competitive advantages are reduced as focus diminishes. The 10% vs. 100% Paradox | Goold et al., 1994; Porter, 1996 | People: Selection of the right people<br>Supportive Structure: Decentralised and autonomous organisational structure to empower people | Mintzburg,1994; Selznick, 1996 |
| Lack of focus | The 10% vs. 100% Paradox | Goold et al., 1994 | People: Selection of the right people & empower people | Mintzburg,1994; Selznick, 1996 |




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| | | | | |
|---|---|---|---|---|
| | | | Supportive Structure: Decentralised and autonomous organisational structure to empower people | Mintzburg,1994; Selznick, 1996 |
| Budget & Performance Measures | Lack of budget & performance measures | Goold et al., 1994; | Integration. Targets, measurement, reporting incentivisation, ownership / share options | Teece et al., 1997 |
| M&A | High purchase costs erode all future profits | Porter, 1996 | Reconfiguration and transformation : M&A | Teece et al., 1997 |
| M&A | Acquisitions in unattractive industries | Porter, 1996 | Paths & Learning: Entrepreneurship and Sensing opportunities | Teece, 2007 |

**Figure 3 - Consolidated pros and cons diversification priori construct**




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# 3. Research objectives

## 3.1 Research questions

### 3.1.1 Question 1:

**How are dynamic capabilities implemented in successfully diversified conglomerates?**

#### *3.1.1.1 Sub Question 1:*

**What dynamic capabilities are in evidence at successfully diversified conglomerates?**

#### *3.1.1.2 Sub Question 2:*

**Are the dynamic capabilities in evidence common between successfully diversified conglomerates over time?**

## 3.2 Research objectives

In response to the problems raised in chapter one, this research has focused on the following research objectives:

### 3.2.1 Fill the gap in the existing body of knowledge

The objective of this research was to complement the existing literature while seeking to create some unity of understanding of the relatively new body of knowledge of dynamic capabilities.

### 3.2.2 Provide qualitative empirical evidence of dynamic capabilities implemented in successfully diversified conglomerates

By avoiding the pitfalls of the existing quantitative empirical studies undertaken, the objective of this research was to answer the call for new, rich qualitative empirical data about how managers of multi-business firms manage their corporate portfolios.




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### 3.2.3 Develop a framework to explain how dynamic capabilities are implemented in successfully diversified conglomerates

The primary aim of this research was to identify common dynamic capabilities evident in successfully diversified conglomerates (Eisenhardt, and Martin, 2000) in an attempt to illuminate the true underlying reasons for their successful implementation of diversification strategies and to translate these findings into a framework that can bridge the gap in the existing research.




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# 4. Research methodology

## 4.1 Approach

The research was approached from a pragmatic position, fundamentally driven by the need to answer the research questions albeit limited by the means available (Saunders, and Lewis, 2012).

## 4.2 Research Methodology

The inconsistencies and difficulties experienced by previous researchers having used quantitative methods and their inability to explain the success of diversified conglomerates led to a qualitative inductive approach being adopted, that facilitated the development of the framework as proposed in the research objectives (Martin et al., 2003). A qualitative research methodology was adopted to facilitate answering the "how" component of the research question, as this research methodology is more adept to investigating the complex interplay between the vast array of variables likely to be encountered. This research methodology was also appropriate because the body of knowledge has not yet reached a state of maturity and requires further exploration (Palich, et al., 2000).

The business environment has become increasingly dynamic. In the context of change, new theories are sought that can withstand the test of time. (Prahalad et al., 1994; Drucker, 1998; Drejer, 2004). Porter (1991) stresses the importance of further empirical research through detailed longitudinal case studies over long periods of time, as a means to extend research in a manner that would provide adequate confidence in the findings. Longitudinal case study research on a series of successfully diversified conglomerates, was therefore conducted.

The qualitative data analysis method used adopted a mixed methods approach incorporating both the case study analysis method (Eisenhardt, 1989) and the phenomenological method (Merriam, 2002). The primary data collection analysis methodology was the case study analysis method which facilitated the rigger and case comparison techniques to facilitate theory development. This was supplemented by the phenomenological approach to facilitate the identification of the less tangible phenomena experienced by each of the firm's management personnel, in the context of




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their subjective perceptions of their success (Merriam, 2002). The phenomenology approach also places emphasis on building theory off existing theoretical literature, while building the level of abstraction to a more generalizable set of universal principles. Goulding (2005), an express objective of the research.

## 4.3 Population and Sampling

### 4.3.1 Population

The population consists of all successfully diversified conglomerates. The emphasis of success was placed on the long term performance, as such, for the purpose of this study, success refers to the attainment of above average Total Shareholder Returns (TSR's) for a sustained period of at least 10 years, relative to the world average TSR benchmark.

### 4.3.2 Unit of analysis

The unit of analysis is a single conglomerate. This is an all-encompassing holistic view of the conglomerate, as opposed to any sub set of the same.

### 4.3.3 Sample

There is no complete list available representing the research population, as such, a non-probability sampling technique was required.

When developing theory from case studies, Eisenhardt (1989) asserts that appropriate case selection is of great significance and proposes that a purposive theoretical sampling technique is used, based on the extreme case variant. The polar typology of the sample selection process emphasises the identification of firms most lightly to exhibit and replicate the emergent theory, making the processes of interest more 'transparently observable' (Eisenhardt, 1989).

In keeping with the research objectives, the sample selection process was required to select those conglomerates most likely to give relevant and typical explanations of their success as diversified conglomerates (Saunders et al., 2012). There was no intention




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for the research to get a balanced view across a spectrum of the representative conglomerates, but rather to get an extreme view of the outliers. As such the proposed non-probability sampling technique used was the purposive theoretical sampling technique, using the extreme case variant to select highly successful diversified conglomerates (Saunders et al., 2012).

In addition to the relatively homogeneous nature of the population, the extreme case variant sampling technique provided a means of selecting a highly polarised sample, representing some of the best performing conglomerates, therefore necessitating only a small sample group to be selected (Eisenhardt, 1989; Saunders et al., 2012). As little as two firms could be considered an appropriate sample size when using purposive sampling (Saunders et al., 2012).

The sample size selected was four firms, which allowed a reasonable spread, to obtain trends or themes between firms, as well as being a small enough to allow for detailed analysis of each firm, for rich and meaningful data within the time frame of the research. The sample was selected from a list of top performing conglomerates identified in the research conducted by Kaye et al. (2003), see Appendix A. The research ranked the conglomerates by their average 10 year TSR's relative to the world average TSR's benchmark. Of the 88 conglomerates identified in the final study, four of the top eight conglomerates were purposively selected for the sample.

Using the abovementioned sampling technique, this research aims to avoid the errors obtained in many of the quantitative empirical studies previously undertaken. The previous studies utilised purposive "random" sampling, which incorporated classification errors and resulted in inconsistencies in survey results despite using samples in excess of 1000 units (Martin et al., 2003).

Noting the above, the following criteria was used for the final sample selection:

- The firms were required to have active management functions at the corporate centre i.e. purely investment focused diversified conglomerates were excluded.
- The firms were required to be successful over an extended 10 year period, thereby emphasising their ability to adapt in the context of a dynamic environment. In addition, the timeframe proposed will help eliminate any




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distortions associated with economic cycles and more specifically the 2008 global financial crisis.

- The firms were required to be diversified conglomerates
- The firms in the sample were required to be highly successful relative to the world 10 year average TSR benchmark.
- An element of convenience sampling was used to select conglomerates with better availability of secondary data and prior knowledge of the firms by the researcher.

## 4.4 Secondary data

Secondary data was used as a means to overcome the difficulties of gaining access to the managers within the requisite sample group who would have the insights pertaining to the research questions.

Data was collected from publicly available sources such as, journals, case studies, published interviews, company websites, news releases, press articles, company communiques and financial reports (Saunders et al., 2012). A complete list of the material utilised in analysis can be found in Appendix B.

Some of the benefits realised in this research from using secondary data, as identified by Saunders et al. (2012), include:

- Much of the data is available in the public domain. Due to the research methodology adopted and the specific cases selected that relevant cases be selected to ensure the validity of the data and research findings, there was very little possibility of gaining access to collect primary data from the specific sample of firms selected.
- The data collection method was unobtrusive. Eisenhardt (1989), also notes that factor will have the effect of eliminating any bias that may have otherwise been created during a primary data survey or interview process.
- The data provided a good contextual background
- The data was open to public scrutiny and was therefore found to be of a high standard. It was the experience of the researcher that the annual reports of the




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firms examined provided high quality data which provided good insights into the company strategies and workings.

Some of the problems encountered as a result of using secondary data, as identified by Saunders et al. (2012), include:

- The data didn't always meet the researcher's needs fully. It was found for example, that many interview transcripts were highly topical and provided little insight into the research objectives. This problem was also evident in the case studies examined, in that although they provided good contextualisation, the focus was too specific to the learning objectives for which they were intended.
- A thorough data collection methodology was not available, despite the measures taken to avoid this problem.

## 4.5 Research process

### 4.5.1 Phase one: Topic and case familiarisation

After an initial conceptualisation of the research problem, twelve months of high level exploratory research was conducted on three of the four diversified conglomerates in the sample, namely: The Bidvest Group, Berkshire Hathaway Incorporated and The General Electric Company, using multiple data collection methods. The focus of the exploratory research was to gain a deeper level of understanding of each of the companies in question (Eisenhardt, 1989).

By analysing the companies using 'within–case analysis', the researcher was able to become familiar with each of the companies as separate entities, prior to any generalization between companies or patterns being identified through the research process. (Eisenhardt, 1989).

The research conducted utilized predominantly secondary data collected through desktop research. The secondary data was collected from publicly available sources such as, journals, case studies, published interviews, company websites, news releases, press articles, company communiques and financial reports (Saunders et al., 2012).




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In qualitative research, the researcher is the primary instrument for data collection and analysis. As such, numerous opportunities were taken to extend the researcher's knowledge and understanding using both nonverbal and verbal communication (Merriam, 2002). Data was collected in the form of unstructured discussions with professionals in the field and attendance of selected courses to obtain a better understanding of the companies.

In one instance, company insights were gained through the attendance of a conference, where the CEO of the Bidvest Group, Mr. Brian Joffe, gave a presentation on the company's history and achievements.

During the research period, field notes were compiled, noting specific highlights and impressions, while formulating additional questions to probe the ongoing research as it evolved, in order to gain a better understanding (Eisenhardt, 1989).

As important themes and connections between ideas emerged, diagrams were used to help reflect these linkages and to further focus the ongoing research (Thomas, 2006). This process helped identify the two emergent themes within the dynamic capabilities framework that was developed in phase two, namely: People and supportive structures.

### 4.5.2 Phase two: Development of priori constructs

Eisenhardt (1989), posits that a vital component of theory building is the enfolding of extant literature within the emergent concepts to test for either support or inconsistencies. "A key to this process is to consider a broad range of literature" (Eisenhardt, 1989, p. 544). This approach was adopted through undertaking an extensive literature review.

Emphasis was placed on the development of priori constructs required for phase three by focusing particularly on the juxtaposition of conflicting literature. This process enabled the researcher to achieve better insights into the emergent theory, as well as enhance the generalizability of the research. (Eisenhardt, 1989). The output of the literature review was two constructs aimed to guide data collection and analysis and to frame the main inductive component of the research (Thomas, 2006).




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Hoskisson et al. (1990), conducted an extensive review and critique of firm performance and diversification and concluded that by and large, the research on diversification gave little or no recognition of the reasons for diversification. This gap in the research was addressed by the first construct which was developed by analysing the literature for both reasons for and against diversification (see fig 1). The rational for this process was that to be successful, successfully diversified conglomerates would potentially be exploiting the advantages of diversification, while simultaneously, addressing and / or mitigating the associated problems.

The second construct was an extension of the fist and incorporated the allocation of the evolving dynamic capabilities theory against each of the respective diversification pros and cons previously identified. The output was the "consolidated pros and cons diversification priori construct" (see fig 3).

The evolving dynamic capabilities theory was then utilised as the theoretical lens with which the data would be analysed. This was felt to be the most appropriate theoretical lens in the context of the dynamic environment (Drucker, 1998 and Drejer, 2004, Teece, 2007).

### 4.5.3 Phase three: Data collection and analysis

The priori constructs developed were used as a guide in the research of successfully diversified conglomerates to establish if these, or any other themes, were evident in practice. The constructs particularly enhanced the completeness of the data collection process, while simultaneously facilitating the assessment of the relevance of the data collected and analysed (Eisenhardt, 1989). It should be noted, however, that the priori constructs did not preclude the emergence of new themes during the data collection and analysis phases of the research.

Approximately three months were spent on the data collection and analysis phases, which were run as concurrent processes. The overlapping of data analysis and data collection facilitated the inductive theory building nature of the research design, by allowing new learnings and emerging themes to shape the on-going data collection process (Eisenhardt, 1989). As emergent themes transpired, these were related back to existing theory for support and further understanding of the findings. One again, as




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important themes and connections between ideas emerged, diagrams were used to help reflect these linkages and further focus the ongoing research (Thomas, 2006).

‘Within-case analysis’ was enhanced through longitudinal data collection and analysis. The data collected was chronologically sequenced to facilitate analysis of the large volume of data (Eisenhardt, 1989).

A systematic process was followed to develop a chain of evidence flowing from the initial explicit citations of evidence found, to the ‘within-case analysis’ and then to the final step of ‘cross-case’ searching tactics (Yin, 1981).

By utilising both within-case longitudinal analysis and cross-case searching tactics, the accuracy and reliability of the findings were enhanced, while simultaneously improving the fit between the data and the emergent theory (Eisenhardt, 1989).

The findings were recorded by company under each of the respective themes with direct quotations from the raw data, together with the researcher’s brief description of the finding (Williams, and Iruita, 1998).

The findings were then compared with the literature reviewed for both supporting and conflicting findings. Eisenhardt (1989) notes that through comparing the findings with conflicting literature the theoretical level of the research is enhanced as well as the validity of the findings. Further, the parameters of the priori constructs developed are better defined. By comparing the findings with supporting literature, the generalizability of the findings improves while both the construct definition and the theoretical level are enhanced (Eisenhardt, 1989).

Finally, a framework was developed from the most important themes identified which describe how the interactions between the various themes occurred (Thomas, 2006)

## 4.6 Assumptions

It is assumed that all documents used as sources of company data are a true reflection of the various company’s intent and experiences.

It is assumed that the views expressed by the various senior management of the company, are shared by the company’s which they represent.




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## 4.7 Research Limitations

The following list represents the research limitations identified, based on both the literature reviewed and the evidence found:

- Due to the use of secondary data, there was no opportunity to probe the emergent theory with individuals within the organization (Eisenhardt, 1989).
- The case study research approach builds from the bottom up seeking generalization of theory. The process tends to realize only minor adaptions / idiosyncratic phenomena and, as such, is unlikely to develop grand theories (Eisenhardt, 1989)
- The testing of the framework of dynamic capabilities for successful diversification falls outside the scope of this research.
- The research was limited to four case studies only. This may not have been a fully representative sample.
- Although the focus of the research was on dynamic capabilities of successfully diversified conglomerates specific to the sample identified. It is acknowledged that some on the dynamic capabilities identified may not be mutually exclusive i.e. they may include dynamic capabilities that are common to single / focused firms or even failed conglomerates as well.
- It was not the intention of the research to explore the dynamic capabilities that have specifically led to failure of diversified conglomerates.
- There is a wealth of research exploring the effects of the varying degrees of firm relatedness (within the context of diversification) on firm performance (Rumelt, 1982). This research did not aim address the effects of firm relatedness on the findings.
- There is a wealth of research exploring the effects of the varying degrees of geographical spread / multinational expansion on the firms' diversification – performance linkage (Hennart, 2011; Contractor, 2012). This is a major area of potential benefit for conglomerate performance, relating to amongst others: Economies of scale; economies of scope; accessing foreign knowledge; tax optimisation between tax regimes; risk reduction from geographic spread; etc.




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(Contractor, 2012). This research does not specifically address the effects of multinational expansion on the findings.

- There is a wealth of research exploring the effects of the varying degrees of economic maturity of the geographies in which firms operate on conglomerate performance i.e. Developed vs. Emerging Market contexts (Purkayastha et al., 2012). This research does not address the effects of economic maturity of the country of operation on the findings.




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# 5. Results

## 5.1 Introduction

The purpose of this chapter was to document the evidence in response to the sub questions posed, namely: “What dynamic capabilities are in evidence at successfully diversified conglomerates?” and “Are the dynamic capabilities in evidence common between successfully diversified conglomerates over time?”.

The evidence found will be used within the following chapter, where the findings will be analysed and interpreted in response to the main research question: “How are dynamic capabilities implemented in successfully diversified conglomerates?”

A brief description of each of the conglomerate firms in the sample is provided to contextualise the findings recorded.

## 5.2 Description of sample

### 5.2.1 The Bidvest Group Limited.

Bidvest was founded by Brian Joffe in 1988, who remained the CEO of the growing organization since its inception. Bidvest was founded in South Africa and remains a South African based company with a growing international reach (The Bidvest group limited, 2013).

Currently Bidvest employs over 105 000 employees worldwide, has a market capitalization of R84.6 billion, an annual revenue of R133.5 billion and an EBIT of 7.1 billion Rand (the Bidvest group limited., 2012).

Current activities include food service and food ingredients; freight management; outsourced soft services; automotive retailing and fleet management as well as industrial and commercial products (The Bidvest group limited., 2013)




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### 5.2.2 Berkshire Hathaway INC.

Berkshire Hathaway was established in 1967 as a reverse listing of the textile company, Berkshire Hathaway which soon became a holding company for Warren Buffet’s investment Holdings.

Currently Berkshire Hathaway employs 288 462 employees worldwide. Berkshire Hathaway currently achieves a 14,4% annual total shareholder return, compared with the 16% achieved by the S&P 500, slightly off the S&P 500 benchmark to which they compare themselves. However, their comparable cumulative TSR over the last 5 years (since the global financial crisis) is more favourable, where they achieved a 48,9% total shareholder return, compared with the S&P 500 which remained flat at 16% (Berkshire Hathaway Inc., 2012)

Current activities include insurance and reinsurance, freight rail transportation, utilities and energy, finance, manufacturing, services and retailing.

### 5.2.3 General Electric Company

The General Electric Company (GE) was founded in 1892 by Thomas Edison in the United States of America (USA), this makes GE the oldest company in the sample group. The current CEO, Jeffrey R. Immelt, was appointed on the 7$^{th}$ September 2001, just days before the 9/11 terrorist attacks in the USA. He replaced the well renowned CEO, Jack Welsh, after his 20 year tenure as CEO.

Currently GE employees over 300 000 employees in over 140 countries, making it the largest employer in the sample. GE currently achieves a 21% total shareholder return, significantly higher than the 16% achieved by the S&P 500 (General Electric company. 2012).

Current activities include consumer and business appliances, aviation, electronics, power generation and components, energy management, healthcare, home improvement, housewares, industrial solutions, lighting, mining, oil & gas, power & water, power conversion, software and transportation (General Electric company. 2012).




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### 5.2.4 Wesfarmers Limited

Wesfarmers limited was founded in 1914 as the Westralian Farmers Co-operative. The company is based in Australia but has a growing international footprint. The current CEO is Richard Goyder, who was appointed in July 2005 making him the CEO with the shortest tenure in the sample group, of eight years. He replaced Michael Chaney, who was CEO for 13 years. (Wesfarmers., 2013 B)

As of 2013, Wesfarmers Limited employed 200 000 employees worldwide. Their 10 year average total shareholder return is 13.3% and significantly out-performs the comparable market return of 9,9%. Wesfarmers currently has an annual revenue of AUS$58 billion and an EBIT value of AUS$3,5 billion. (Wesfarmers limited. 2013, May)

Wesfarmers currently participate in the following activities supermarkets, department stores, home improvement and office supplies, coal mining, insurance, chemicals, energy and fertilizers and industrial and safety products. (Wesfarmers Limited., 2013 B)

## 5.3 Sub Question 1:

***What dynamic capabilities are in evidence at successfully diversified conglomerates?***

As described in the 'Phase three - Research Process' of the research methodology section of this report, each finding was recorded by company under each of the respective themes identified with direct quotations from the raw data, together with the researcher's brief description of the finding (Williams, and Iruita, 1998).

### 5.3.1 Theme one: People

**Bidvest (South Africa)**

*Capturing the potential of people at the level of the individual* "The vitality of each individual generates the life force of the whole. Our passion and energy translates into action. Our expression is unique. We are proudly Bidvest." (The Bidvest Group Limited, 2011, p. i)




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*Success through collective effort* “We succeed because we harness the contribution of all our people.” (The Bidvest Group Limited, 2012, p. 27)

*Getting the best out of people is key* “You realise value by turning a good business into a great business, but, more fundamentally than that, you do so by turning good people into great people. The Bidvest model is a way of doing that.” (Wright, 2010. p. 484)

*People are paramount* “The people were key, not the money.” (Wright, 2010. p. 485)

*Centrality of people to business success* “We believe in empowering people… most importantly, we understand that people create wealth, and that companies only report it.” (The Bidvest Group Limited, 2007, p. iii)

*Commitment to motivating employees* “we have seemingly got right… a motivated employee base and a skilled employee base and we spent a lot of money in getting that right.” (Hogg, 2012)

*Recognising and investing in people’s dreams* “In a big business environment we run our company with the determination and commitment evident in a small business heart.” (The Bidvest Group Limited, 2009, p. 1)

*Empowering people to achieve better results* “Even more impressively, he doesn’t personally turn these companies around; he empowers and supports those owners and managers who achieved scant success until Bidvest came along.” (Wright, 2010. p. 473)

*A deeper level of employee engagement* “’Vest’… means to confer power. That was what we [Bidvest corporate centre] did. We empowered local managers and former owners to realise the dreams they always had for their businesses” (Wright, 2010. p. 481)

*Energy of people that perpetuates growth cycles* “Our people bring energy and enthusiasm… a vision and a commitment that extend beyond the performance of any one-year and involve an investment in building the next cycle of growth.” (The Bidvest Group Limited, 2002, p. 25)




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**Berkshire Hathaway (USA)**

*Selection of the right business unit managers* “The primary job of a Board of Directors is to see that the *right people* [emphasis added] are running the business and to be sure that the next generation of leaders is identified and ready to take over tomorrow. I have been on 19 corporate boards, and Berkshire’s directors are at the top of the list in the time and diligence they have devoted to succession planning.” (Berkshire Hathaway Inc., 2011, p. 3)

*Commitment of people to the company* “…these men have outstanding investment skills and a *deep commitment to Berkshire* [emphasis added].” (Berkshire Hathaway Inc., 2011, p. 3)

*The central role of people and their commitment* “For good reason, I regularly extol the accomplishments of our operating managers. They are truly All-Stars, who run their businesses as if they were the only asset owned by their families.” (Berkshire Hathaway Inc., 2012, p. 24)

*Harnessing the potential of people* “Our [Berkshire Hathaway] system does work. It works because it unleashes human potential… Never bet against what a human is going to accomplish if they’re operating in the right soil. And we have the right soil.” (Tamraz, 2013)

*Committed staff* “I [Warren Buffett] love working with our managers. They are high-grade, talented and loyal. And, frankly, I find their business behaviour to be more rational and owner-oriented than that prevailing at many public companies” (Berkshire Hathaway Inc., 2000, p. 12)

**General Electric (USA)**

*Getting the most out of people* ‘‘We found ourselves in the early 1980s with corporate and business staffs that were viewed – and viewed themselves – as monitors, checkers, kibitzers, and approvers. We changed that view and that mission to the point where staff now sees itself as facilitator, adviser, and partner of operations, with a growing sense of satisfaction and cooperation on both sides.’’ (Slater, 1999, p. 118)




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*Leaders envisioning people and giving them latitude to perform* “Leaders talk to their employees… filling them with vision, getting them to perform at levels the employees themselves didn’t think possible. Then (and to Welch this is a critical ingredient) they simply get out of the way” (Slater, 1999, p. 29)

*Seeking ways to engage people* ‘‘We [have] to find a way to combine the power, resources, and reach of a big company with the hunger, the agility, the spirit, and the fire of a small one,’’ (Slater, 1999, p. 117).

*People create growth* “Every day, more than 300,000 people are making growth happen at GE.” (General Electric Company, 2004, p. 12)

*People create innovation* “It’s the vision and diligence of GE people watching markets, anticipating customers’ needs, and imagining the future as better, more convenient, more valuable… GE people will bring it home.” (General Electric Company, 2004, p. 32)

*Unleashing the freedom of people generates enthusiasm in the workplace* “Getting employees excited about their work—that is key to being a great business leader. The way to engender enthusiasm, says Welch, is to allow employees far more freedom and far more responsibility” (Slater, 1999, p. 35)

*Inspiring people through culture* “It starts with a culture—the foundation for any successful enterprise—a culture that inspires our people to improve every day.” (General Electric Company, 2012, p. 3)

*Transforming power of people* “The current crisis offers the challenge of our lifetime. *I’ve* [CEO: Jeffrey Immelt] told our leaders at GE that if they are frightened by this concept, they shouldn’t be here. But if they’re *energized* [emphasis added], and desire to play a part in transforming the Company for the future, then this is going to be a thrilling time to be a part of GE.” (General Electric Company, 2008, p. 8)

*Good management produces superior results* “good management results in superior financial results.” (General Electric Company, 2007, p. 4)




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**Wesfarmers (Australia)**

*Superior People Resources* “Superior People Resources: Ability to attract, motivate & retain great people” (Wesfarmers Limited, 2013 May, p. 5)

*People are the most important element* “At Wesfarmers, we are fortunate to have a great portfolio of assets, a very strong balance sheet and, *most importantly* [emphasis added], a team of talented and enthusiastic employees.” (Wesfarmers Limited, 2012, p. 10)

*People are the most important asset* “Our people are our most important asset. We are proud to have them as representatives of the Wesfarmers team” (Wesfarmers Limited, 2012, p. 1)

*People create the competitive advantage* “We only have two competitive advantages: our people and our culture. People is what is it all about” (ceoforum.com.au., n.d.)

*Commitment of people leads to excellent performance* “the important role played by all employees in the achievement of the 2003/04 result. Their skill, *loyalty and commitment represents one of the major strengths of the Wesfarmers group* [emphasis added]… I thank them for their dedication and excellent performance.” (Wesfarmers Limited, 2004, p. 5)

### 5.3.2 Theme two: Supportive structure

**Bidvest (South Africa)**

*A supportive approach to business unit objectives* “*The team* [the corporate centre] extends support to the management of Group operations in the pursuit of their respective business objectives.” (The Bidvest Group Limited, 1997, p. 36)

*An established principle of empowering people* “We believe that… every individual warrants respect and everyone deserves a chance to grow. We empower people and teams out of principle, not out of policy considerations. (The Bidvest Group Limited, 2011, p. 26)




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*Supportive structures after acquisitions* “Instead, the Bidvest method is to leave the current management structures in place and pump in self-belief, capital and group support” (Wright, 2010, p. 473)

*Decentralised and supportive structure to achieve results* “The Bidvest Group. Its philosophy of decentralised management, incentivisation and a sense of personal ownership has proved once again that empowered people achieve great things.” (The Bidvest Group Limited, 2004)

*Support to business units through resource allocation* “The vision was to empower current owners by giving them access to capital and other resources so the targeted company could realise its potential.” (Wright, 2010, p. 481)

*Structures to support innovation* “Bureaucracy stifles entrepreneurs and is banned at Bidvest” (Wright, 2010, p. 490)

*Results achieved through relinquishing control* “We empower our employees with the training, the authority and the responsibility and they respond by delivering the results.” (The Bidvest Group Limited, 2002, p. 23)

**Berkshire Hathaway (USA)**

*Supportive role* “Charlie and I [Warren Buffet] mainly attend to capital allocation and *the care and feeding of our key managers* [emphasis added].” (Berkshire Hathaway Inc., 2000, p. 66; 2012, p. 101)

*Structures that support and honour staff* “We have not, however, given thought to selling operations that would command very fancy prices nor have we dumped our laggards, though we focus hard on curing the problems that cause them to lag.” (Berkshire Hathaway Inc., 2000, p. 63; 2012, p. 99)

*Supporting and encouraging managers* “So I’ve taken the easy route, just sitting back and working through great managers who run their own shows. My only tasks are to cheer them on, sculpt and harden our corporate culture, and make major capital-allocation decisions.” (Berkshire Hathaway Inc., 2006, p. 3)




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*Competition at business unit level – Capital allocation at the corporate centre* "… our operating managers continue to run their businesses in splendid fashion, which allows me to spend my time allocating capital rather than supervising them. (I wouldn't be good at that anyway.)" (Berkshire Hathaway Inc., 2000, p. 3)

**General Electric (USA)**

*Structures to support the growth of people* "We recruit hard-working, self-motivated people, and support their growth in an environment that allows them to reach their full potentials." (General Electric Company, 2007, p. 34)

*Competition at business unit level* "establishing a system in which division managers acted like small business owners... GE stripped away layers of management that clogged the organization and laid bare the divisions and business units, directly exposing them to competitive pressures." (Kenny, 2012. p. 15)

**Wesfarmers (Australia)**

*Supportive approach* "The best thing we [Wesfarmers corporate centre] can do is provide the resources, the support, and the freedom to our outstanding business leaders to set and implement the growth agenda that creates value and rewards our shareholders." (Wesfarmers Limited, 2012, p. 12)

*Structures and processes that support innovation* "Appropriate corporate governance processes with sufficient flexibility to support entrepreneurial initiative" (Wesfarmers Limited, 2013, p. 5)

### 5.3.3 Theme three: Learning & innovation

**Bidvest (South Africa)**

*Entrepreneurial response to dynamic environments* "The Bidvest world is a dynamic one. The power of many people and many businesses operating within a variety of




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industries and geographies underpins the decentralised entrepreneurial mindset of the Group and creates exciting opportunities." (The Bidvest Group Limited, 2011, p. i)

*Innovation in response to change* "Management needs to be innovative in maintaining their trading positions." (The Bidvest Group Limited, 2008, p. 42)

*Ongoing innovation* "Bidvest Bank maintains high pace of product innovation" (The Bidvest Group Limited, 2008, p. 78)

*Investment in innovation* "Our biodiesel generation programme… received wide recognition, including the Innovation Award at the Motor Transport Awards." (The Bidvest Group Limited, 2008, p. 92)

*Learning and development* "Bidvest has now established its Bidvest Academy for management development to sustain its culture and produce future leaders for its businesses" (Kenny, 2009, p. 105)

*Product innovation in response to reduced demand* "The past year witnessed a decline in consumer expenditure… sales were bolstered by the introduction of innovative products and concepts which together with improved operational efficiencies enhanced profitability" (The Bidvest Group Limited, 1997, p. 34)

**Berkshire Hathaway (USA)**

*Learning as a source of competition* "I benefitted enormously from the intellectual generosity of Ben Graham, the greatest teacher in the history of finance, and I believe it appropriate to pass along what I learned from him, even if that creates new and able investment competitors for Berkshire" (Berkshire Hathaway Inc., 2000, p. 63; 2012, p. 100)

**General Electric (USA)**

*Investment into innovation* "GE invests in innovation at every point in the economic cycle to build market share and expand margins, open up new markets and deepen relationships with customers." (General Electric Company, 2003, p. 13)




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*Innovation to sustain competitive advantage* “Drive Innovation - Lead with technology and content innovation” (General Electric Company, 2008, p. 6)

*Culture of innovation* “We have built broad technical capability that can deliver big systems and foster innovation… putting GE in the top 10 for innovation. GE engineers and scientists from around the world collaborate and demonstrate a real culture of execution” (General Electric Company, 2012, p. 12)

*Knowledge sharing* “… the sharing of best practices, all with the goal of making customers more profitable.” (General Electric Company, 2003, p. 17)

*Corporate level learning* “We are using ideas from every GE business to grow in Asia” (General Electric Company, 2003, p. 35)

**Wesfarmers (Australia)**

*Competitive advantage through innovation* “…to win the battle against our competitors, we have to be prepared to be bold by innovating and being creative” (Wesfarmers Limited, 2012, p. 11)

*Learning and improvement is paramount* “Every day brings with it the opportunity for… improvement of practices and results; and above all, the opportunity to learn and improve.” (Wesfarmers Limited, 2013, p. i)

*Achieve goals through innovation* “aims to achieve satisfactory shareholder returns by being the first choice of every customer through the provision of innovative industrial distribution solutions” (Wesfarmers Limited, 2004, p. 25)

*Learning and knowledge sharing* “Wesfarmers places a strong emphasis on the ongoing training and career enhancement of its people… A biennial ‘Best Practice Conference’ has been held since 1993… aimed at broadening the knowledge base and experience of the several hundred attendees.” (Wesfarmers Limited, 2004, p. 48)

*Culture of innovation* “by fostering a culture of innovation aimed at finding new products and processes, developing new markets and entering new businesses – a culture that allows people to see change as an opportunity rather than a threat.” (Wesfarmers Limited, 2003, p. 8)




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### 5.3.4 Theme four: Positions

**Bidvest (South Africa)**

*Leveraging the reputational asset of brand* "… renewed growth of the Bidvest brand as businesses within Bidvest South Africa successfully leveraged the Group connection. Internationally, growth of brand Bidvest continued; sometimes in the face of mounting uncertainty." (The Bidvest Group Limited, 2011, p. 26)

*Positioned to seize M&A opportunities* "…the money's there for the right kind of deals" (Hogg, 2013)

*Access to capital through financial assets* "…our capacity to borrow is probably four times what we've currently got." (Hogg, 2013)

*Leveraging market position* "using the capacity of its South African growth engine to develop local operations and drive international expansion" (The Bidvest Group Limited, 2002, p. 1)

*Complementary assets provide cost advantage* "well placed to produce yet another inflation beating sales and profit performance in the year ahead" (The Bidvest Group Limited, 1997, p. 22)

**Berkshire Hathaway (USA)**

*Levering access to knowledge* "Charlie and I are exposed to a much wider range of possibilities for investing these funds than any of our managers could find in his or her own industry." (Berkshire Hathaway Inc., 2000, p. 66; 2012, p. 101)

*Cash reserves as financial assets* "But we still have plenty of cash and are generating more at a good clip." (Berkshire Hathaway Inc., 2012, p. 4)

*Competitive advantage through depth of capital resources* "LBO operators became less aggressive in their bidding when businesses came up for sale last year. Because we




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analyse purchases on an all-equity basis, our evaluations did not change, which means we became considerably more competitive." (Berkshire Hathaway Inc., 2000, p. 7)

*Access to cheap capital* "In an insurance operation, float arises because premiums are received before losses are paid, an interval that sometimes extends over many years. During that time, the insurer invests the money. This pleasant activity…" (Berkshire Hathaway Inc., 2000, p. 8)

*Lever internal capital position to exploit market failure* "Really juicy results from negotiated deals can be anticipated only when capital markets are severely constrained and the whole business world is pessimistic." (Berkshire Hathaway Inc., 2000, p. 14)

**General Electric (USA)**

*Leveraging existing learnings and expertise* "Today GE is building new platforms in industries and markets with above-GDP growth that provide *opportunities to apply GE technology and management expertise to accelerate that growth* [emphasis added]." (General Electric Company, 2003, p. 31)

*Levering technological assets as a source of market power* "Our wind turbines are literally being made out of other GE businesses: power electronics and controls from Consumer & Industrial, gearboxes from Rail, knowledge of materials and aero design from Transportation, and systems integration from Global Research." (General Electric Company, 2003, p. 35)

*Leveraging access to more capital availability* "We have retained a "Triple-A"-rated balance sheet and generate substantial cash flow, so we can invest while others pull back." (General Electric Company, 2007, p. 2)

*Leveraging scale to maintain market position* "… we have invested ahead of our competition. We believe that investing in technology and globalization is key to gaining market share… We make these investments with the full benefit of GE's scale" (General Electric Company, 2012, p. 5)

*Leveraging superior productivity and innovation and maintain this position* "…we have positioned GE to lead in the big productivity drivers of this era… The levers of




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productivity are constantly changing… For more than a century, GE has been a leader in productivity and innovation." (General Electric Company, 2012, p. 7)

*Leveraging key capabilities* "…leverage our key capabilities: brand, technology, content development, globalization, people, and financial strength." (General Electric Company, 2007, p. 4)

*Levering all strengths* "Leverage Strengths - Use GE's size, expertise, financial capability, and brand." (General Electric Company, 2008, p. 6)

**Wesfarmers (Australia)**

*Creating and leveraging market position* "A Portfolio of Quality Businesses Positioned for future growth (e.g. In fast-growth sectors/industries or with unexploited competitive opportunities)." (Wesfarmers Limited, 2013 May, p. 5)

*Leveraging the corporate reputation and brand* "A Most-Admired Company Superior reputation among customers, employees, suppliers & the community." (Wesfarmers Limited, 2013 May, p. 5)

*Access to cheap capital* "Robust Financial Capacity: Access to competitively priced debt & equity". (Wesfarmers Limited, 2013 May, p. 5)

*Access to more and cheaper capital* "Continuing improvements to balance sheet efficiency & funding diversity" (Wesfarmers Limited, 2011 August, p. 11)

*Maintaining a favourable financial asset position to support opportunistic behaviour* "Maintenance of a strong balance sheet to enable the Group to act opportunistically" (Wesfarmers Limited, 2013, p. 5)

*Financial assets: Capital allocations* "The company remains in a strong financial position... Operating cash flow was more than adequate to finance the group's replacement and expansion expenditure…" (Wesfarmers Limited, 2003, p. 7)

*Positioning of financial and human resources to seize opportunities* "In order to achieve that successfully [seizing opportunities] the corporate centre must be well resourced,




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both financially and with people who are able to evaluate and execute investment opportunities." (Wesfarmers Limited, 2003, p. 9)

*Positioning of financial and human resources to achieve goals* "The strength of Wesfarmers' balance sheet, its financial disciplines and the calibre of its employees at all levels will assist in this being achieved" (Wesfarmers Limited, 2002, p. 9)

### 5.3.5 Theme five: Paths

**Bidvest (South Africa)**

*Benefits from past decisions* "During the financial crisis, Bidvest faced some challenges just as every other business did, but the decentralised, entrepreneurial model proved itself yet again." (Wright, 2010, p. 491)

*Direction that is strategic* "The Group's head office is … providing strategic direction" (The Bidvest Group Limited, 1997, p. 36)

*Benefits of past investment* "The infrastructure has been laid for further innovative growth in the way that we provide our service…" (The Bidvest Group Limited, 1997, p. 13)

**Berkshire Hathaway (USA)**

*Historic M&A deals benefiting future transactions* "we now enjoy a major and growing advantage in making acquisitions in that we are often the buyer of choice for the seller" (Berkshire Hathaway Inc., 2000, p. 7)

*Historic M&A deals benefiting future transactions* "A few months later, Berkshire again became 'the buyer of choice' in a deal brought to us by…" (Berkshire Hathaway Inc., 2006, p. 6)




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**General Electric (USA)**

*Developing capabilities over time* "Strategy is not set through one act or one deal. Rather, we build it sequentially through making decisions and enhancing capability." (General Electric Company, 2012, p. 4)

*The importance of today's decisions on future outcomes* "The challenge GE and its researchers face every day is to understand the dynamics of industries, make the right bets on future technologies…" (General Electric Company, 2003, p. 13)

*Identification of trends and investing appropriately today for the future* "GE is different because we invest in the future and deliver today... our investments in six strategic themes that could propel our growth for decades" (General Electric Company, 2007, p. 2)

*Utilising past strengths to lead into the future* "Our strategy borrows our key strengths from the past and makes them relevant to a new era of global business:" (General Electric Company, 2008, p. 6)

**Wesfarmers (Australia)**

*Continued selective investment towards strategic imperatives* "Continued investment in land & buildings… Increased refurbishments to strengthen retail networks" (Wesfarmers Limited, 2011 August, p. 59)

*Strength from past decisions* "Record levels of revenue and profit were achieved again this year…. in a climate of economic uncertainty and volatility in world financial markets and is a strong endorsement of the policy of diversification that has been pursued by the company over the last two decades." (Wesfarmers Limited, 2002, p. 6)




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### 5.3.6 Theme six: Integration

**Bidvest (South Africa)**

*Values as a means of integration* "Successful businesses are not only driven by managers and workers, but values. What you believe shapes what you do and how you do it. We display our values by living them" (The Bidvest Group Limited, 2011, p. 26)

*Overall focus / direction is critical* "I [Brian Joffe] see my role… having a say in how the business is structured, how it defines itself and its point of focus. After that, it's up to the individual managers… They exercise operational control, but overall focus is critical." (Wright, 2010. p. 483)

*Role of culture in the unifying of efforts* "Despite its size, Bidvest is a highly entrepreneurial, decentralised and incentivised Group with a *culture* [emphasis added] of transparency, accountability, integrity, excellence and innovation. Its 67 000 employees around the world are dedicated to simplifying their customers' lives." (The Bidvest Group Limited, 2002, p. 1)

*Teamwork and common culture* "Bidvest's culture has been embraced in our operations throughout the world... Teamwork is critical and reinforced at every level of the organisation." (The Bidvest Group Limited, 2002, p. 23)

*Diverse but integrated* "Bidvest is a diverse company bound together by common values, systems, initiatives and financial practices." (The Bidvest Group Limited, 2002, p. 25)

*Active culture alignment towards group objectives* "the introduction of a culture change programme aimed at heightening productivity by recognising and rewarding all efforts that contribute to it." (The Bidvest Group Limited, 1997, p. 23)

*M&A integration* "… key to a successful acquisition is the communication that a company provides in the initial stages, post acquisition… all the things that go with helping people make sense of how they are going to be working under the new arrangement." (Kenny, 2009, p. 129)




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**Berkshire Hathaway (USA)**

*Integration through Integrity* “Charlie and I [Warren Buffet] are not big fans of résumés. Instead, we focus on brains, passion and *integrity* [emphasis added].” (Berkshire Hathaway Inc., 2007, p. 13)

*The importance of integrity and cultural fit* “…our new investment managers, have proved to be smart, models of *integrity* [emphasis added], helpful to Berkshire in many ways beyond portfolio management, and a perfect *cultural fit* [emphasis added].” (Berkshire Hathaway Inc., 2012, p. 5)

*Business unit managers aligned with shareholders* “I believe *their* [the business unit operational managers] mindset to be as shareholder-oriented as can be found in the universe of large publicly-owned companies.” (Berkshire Hathaway Inc., 2012, p. 24)

*Alignment of business unit objectives through ownership* “Berkshire purchased 80% of ISCAR for $4 billion. The remaining 20% stays in the hands of the Wertheimer family, making it our valued partner” (Berkshire Hathaway Inc., 2006, p. 5)

**General Electric (USA)**

*Conglomerates can have common cultures and management systems that enable synergetic advantages across business units* “I went to business school learning how companies like GE couldn't exist. We run a multibusiness company with common cultures, with common management where the whole is always greater than the sum of its parts. Culture counts.” (Shepard, 2002)

*Performance of team over individuals* “… we are a ‘We Company’. We know that strong teams with great people outperform individuals. That is why GE Works.” (General Electric Company, 2012, p. 3)

*Active collaboration initiatives* “We drive cross-company initiatives to generate organic growth and improve margins.” (General Electric Company, 2012, p. 12)

*Unity of effort* “… the answer is to operate worldwide as one global team.” (General Electric Company, 2003, p. 26)




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*A common core evident in separate business units* “We are 11 separate businesses…. But the things we share - a consistent, tested operating system, common values and a depth of leadership - are the very core of our combined company. They are what make us GE.” (General Electric Company, 2003, p. 34)

*Recognition of unity and its strength* “In Europe, the Middle East and Africa, we are exploring new markets on the basis of ‘one GE’ – common initiatives, processes and values – with great results in terms of growth, far beyond what the businesses can achieve working on their own” (General Electric Company, 2003, p. 35)

*Processes as a source of competitive advantage* “We believe that our process skills create a competitive advantage.” (General Electric Company, 2007, p. 4)

*Integrating innovation* “Our ability to transfer core technologies from one business to another — a breakthrough in imaging helps not only Healthcare but also our security and inspections businesses — is a real competitive advantage.” (General Electric Company, 2004, p. 41)

**Wesfarmers (Australia)**

*Strong culture and systems* “Strong Corporate Infrastructure: Systems, processes & culture to support innovation, disciplined execution & sustainable operations”. (Wesfarmers Limited, 2013 May, p. 5)

*Metrics to focus business units* “Focus on return on capital through earnings growth & capital efficiency improvements” (Wesfarmers Limited, 2011 August, p. 9)

*Financial focus* “Wesfarmers has achieved this outcome by continuing to focus on the very simple but effective objective of providing a satisfactory return to shareholders… The portfolio of businesses which make up the group has been, and will continue to be managed, with this strong financial focus.” (Wesfarmers Limited, 2004, p. 5)

*Alignment with shareholder objectives, despite market commentator criticism* “We are not in business to build empires and if no attractive investments emerge within a reasonable time frame, it is better to return money to shareholders... This point does not seem to be well appreciated by many market observers” (Wesfarmers Limited, 2004, p. 11)




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*Alignment with shareholders: employee share options* “90 per cent of eligible employees accepted invitations during the year to apply for shares in Wesfarmers Limited through the employee share plan.” (Wesfarmers Limited, 2004, p. 11)

*Alignment with shareholder objectives* “It has been gratifying to see at all levels and in all businesses across the company, a strong focus on the company’s principle aim of delivering superior shareholder returns whilst maintaining the highest standards of integrity and honesty.” (Wesfarmers Limited, 2004, p. 13)

*Productivity enhancement through strong corporate culture* “All business divisions aim to foster a culture which promotes strong working relationships at all levels so that productivity is enhanced and a healthy working environment exists.” (Wesfarmers Limited, 2004, p. 49)

*A culture of stretch targets to enhance efficiency* “One of the key success factors in improving the efficiency of our businesses has been the development of a strong "best practice" performance culture throughout the group. This culture is based on the presumption that there is no reason we cannot be *the best in the world at everything we do* [emphasis added].” (Wesfarmers Limited, 2002, p. 9)

### 5.3.7 Theme seven: Reconfiguration & transformation

**Bidvest (South Africa)**

*Sensing changes in the environment* “Leaders anticipate market shifts. Followers fall victim to market shifts.” Joffe, B. (2013).

*Stay close to change, to seize opportunities* “Change happens every day in every industry, every niche. Small businesses that are close to these developments can often react quickly to change and create value in new ways” (Wright, 2010. p. 490)

*Identifying, evaluating and capitalizing on opportunities* “*It* [Bidvest corporate centre] identifies and evaluates new investment opportunities and acts upon those which meet the Group’s demanding investment criteria.” (The Bidvest Group Limited, 1997, p. 36)




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*Reconfiguration of business units to focus on group objectives* "Sustained growth demands broad, robust structures and in 2011 Bidvest responded by expanding its South African operations into 10 focused divisions while re-emphasising its commitment to decentralised operations driven by highly entrepreneurial teams." (The Bidvest Group Limited, 2011, p. 26)

*Focused and selective M&A* "…making acquisitions. I don't want to call it a science but one doesn't want to rush it. You have to buy by doing the right deals at the right price at the right time." (Hogg, 2013)

*Capital allocations between businesses to fuel new growth* "using the capacity of its South African growth engine to develop local operations and drive international expansion" (The Bidvest Group Limited, 2002, p. 1)

*Value creation through M&A* "The Group's objective is to enhance shareholder wealth through… selective acquisitions…" (The Bidvest Group Limited, 2002, p. 1)

**Berkshire Hathaway (USA)**

*Capital redistribution and utilizing cheap money* "Our insurance operations shot the lights out last year. While giving Berkshire $73 billion of free money to invest," (Berkshire Hathaway Inc., 2012, p. 4)

*Sensing M&A opportunities* "The second disappointment in 2012 was my inability to make a major acquisition. I [Warren Buffet] pursued a couple of *elephants* [Large acquisitions], but came up empty-handed… So it's back to work; Charlie and I have again donned our safari outfits and resumed our search for *elephants* [Large acquisitions]." (Berkshire Hathaway Inc., 2012, pp. 3-4)

*Capital allocations from cash positive businesses to fuel M&A growth* "We continue, however, to need *"elephants"* [Large acquisitions] in order for us to use Berkshire's flood of incoming cash." (Berkshire Hathaway Inc., 2006, p. 6)

*Offsetting cash flows between businesses* "we purchased several companies whose earnings will almost certainly decline… The declines make no difference to us… We don't care about the bumps; what matters are the overall results." (Berkshire Hathaway Inc., 2000, p. 7)




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*Long term view on M&A* “But the decisions of other people are sometimes affected by the near-term outlook, which can both spur sellers and temper the enthusiasm of purchasers who might otherwise compete with us.” (Berkshire Hathaway Inc., 2000, p. 7)

*M&A Experience: Sensing deeper insights into potential M&A candidates* “We find it meaningful when an owner cares about whom he sells to. We like to do business with someone who loves his company... When this emotional attachment exists, it signals that important qualities will likely be found within the business…” (Berkshire Hathaway Inc., 2000, p. 7)

*Change in investment processes* “In our early years we put most of our retained earnings and insurance float into investments in marketable securities… Over the years, however, we have focused more and more on the acquisition of operating businesses.” (Berkshire Hathaway Inc., 2006, p. 4)

**General Electric (USA)**

*Access to capital to seize opportunities* “Being part of GE gives NBC the financial means to do things…“ (General Electric Company, 2003, p. 35)

*Opportunistic reconfiguration and M&A for growth and value creation* “… we can “retool” our strategies to capture new opportunities for profitable growth… We have aggressively reshaped GE over the past few years….Over the same time period we acquired $80 billion of new businesses.” (General Electric Company, 2007, p. 4)

*Reconfiguration of business unit leaders* “We have developed and repositioned our leaders to capitalize on growth-market opportunities.” (General Electric Company, 2012, p. 7)

*Sense opportunities and allocate resources* “My [Jack Welsh] job is to put the best people on the biggest opportunities, and the best allocation of dollars in the right places. That’s about it. Transfer ideas and allocate resources and get out of the way.” (Slater, 1999, p. 31)

*Disciplined and focused capital allocations between businesses* “we are committed to allocating capital in a balanced and disciplined way… GE will generate $100 billion for




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allocation over the next few years, including cash from existing operations…" (General Electric Company, 2012, p. 5)

*Focused M&A to create value and develop capabilities* "We will continue to execute on focused acquisitions, a capital-efficient way to grow the Company. We will keep our focus on acquiring specific capabilities where GE can add substantial value." (General Electric Company, 2012, p. 5)

*Constant transformation to seize opportunities* "Over time, we have been able to transform the GE portfolio to meet new opportunities." (General Electric Company, 2008, p. 3).

**Wesfarmers (Australia)**

*Sensing and capitalizing on M&A opportunities as a source of value creation* "Value Adding Transactions: Ability to recognise & acquire undervalued assets. Skill to turn around & grow those assets. Discipline to exit when value has been created for shareholders." (Wesfarmers Limited, 2013 May, p. 5)

*Rigorous M&A processes* "Rigorous due diligence and integration processes post acquisition" (Wesfarmers Limited, 2013, p. 5)

*Focused M&A used for value creation* "Each year many opportunities are considered but only a small number prove economically attractive. (Wesfarmers Limited, 2004, p. 11)

*Continual seeking of M&A opportunities* "The continuing challenge for any listed company remains the identification of, and investment in, profitable growth opportunities." (Wesfarmers Limited, 2004, p. 10)

*Ongoing sensing of opportunities* "Wesfarmers has differentiated itself by maintaining a substantial business development unit. This is a group of business analysts… evaluate new opportunities both on behalf of operating divisions and in relation to businesses in which Wesfarmers is not currently involved." (Wesfarmers Limited, 2004, p. 11)




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*Capital allocations between business units* "…These lost profits were replaced and overall profit growth achieved through a healthy increase in earnings from the Bunnings…" (Wesfarmers Limited, 2003, p. 8)

*Seeking new income sources* "Any belief that existing profit streams will continue forever is misguided…. Profitable growth opportunities must be found not only to add to last year's earnings increase, but also to fill the profit holes that will inevitably appear." (Wesfarmers Limited, 2003, p. 8)

## 5.4 Sub Question 2:

***Are the dynamic capabilities in evidence common between successfully diversified conglomerates over time?***

The evidence found was divided into two periods, the most current 5 years (post the 2008 global financial crisis) and the preceding 15 years, from 1993 to 2007. Each data point referenced was then captured in the below table, as illustrated by an "X". The table provides a graphical representation of the evidence referenced, per company, per theme and per period. A numerical count and totals is also shown. The table shows that all themes are common to all firms in the sample and that all themes are common to all firms over time with the exception of:

- Berkshire Hathaway Inc. showed no evidence of the paths theme in the last 5 years.
- Wesfarmers Limited showed no evidence of the supportive culture theme in the preceding 15 years.




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| | Theme 1 People | Theme 2 Supportive Structure | Theme 3 Integration | Theme 4 Learning & innovation | Theme 5 Reconfiguration processes & transformation | Theme 6 Position | Theme 7 Paths |
|---|---|---|---|---|---|---|---|
| Bidvest (South Africa) | | | | | | | |
| Count - last 5 years (post 2008) | XXXXXXXX 8 | XXXX 4 | XXX 3 | XXXXX 5 | XXXX 4 | XXX 3 | X 1 |
| Count - preceding 15 years (1993 - 2007) | XX 2 | XX 2 | XXXX 4 | X 1 | XXX 3 | XX 2 | XX 2 |
| | 10 | 6 | 7 | 6 | 7 | 5 | 3 |
| Berkshire Hathaway (USA) | | | | | | | |
| Count - last 5 years (post 2008) | XXXX 4 | XX 2 | XX 2 | X 1 | XX 2 | XX 2 | 0 |
| Count - preceding 10 years (1998 - 2007) | X 1 | XXXX 4 | XX 2 | X 1 | XXXXX 5 | XXXX 4 | XX 2 |
| | 5 | 6 | 4 | 2 | 7 | 6 | 2 |
| General Electric (USA) | | | | | | | |
| Count - last 5 years (post 2008) | XX 2 | X 1 | XX 2 | XX 2 | XXXX 4 | XXX 3 | XX 2 |
| Count - preceding 10 years (1998 - 2007) | XXXXXXX 7 | X 1 | XXXXXX 6 | XXX 3 | XXX 3 | XXXX 4 | XX 2 |
| | 9 | 2 | 8 | 5 | 7 | 7 | 4 |
| Wesfarmers (Australia) | | | | | | | |
| Count - last 5 years (post 2008) | XXX 3 | XX 2 | XX 2 | XX 2 | XX 2 | XXXXX 5 | X 1 |
| Count - preceding 10 years (1998 - 2007) | XX 2 | 0 | XXXXXX 6 | XXX 3 | XXXXX 5 | XXX 3 | X 1 |
| | 5 | 2 | 8 | 5 | 7 | 8 | 2 |
| Total Counts: | | | | | | | |
| Count - last 5 years (post 2008) | 17 | 9 | 9 | 10 | 12 | 13 | 4 |
| Count - preceding 10 years (1998 - 2007) | 12 | 7 | 18 | 8 | 16 | 13 | 7 |
| Total | 29 | 16 | 27 | 18 | 28 | 26 | 11 |

**Table 2 - Commonality of dynamic capabilities in sample**

# 6. Discussion of results

The purpose of this chapter is to answer the primary question of this research, namely: “How are dynamic capabilities implemented in successfully diversified conglomerates?”

This question is answered by discussing and interpreting the evidence found in response to sub-questions one and two and is organised by the themes identified. The process was guided by the ‘Consolidated pros and cons diversification priori construct’ (figure 3) developed in the literature review (chapter 2) and the associated literature reviewed.

The question “How?” directs the interpretation of the findings towards understanding not only the dynamic capabilities in evidence but also toward understanding the interplay between the dynamic capabilities in evidence. This provides a more holistic understanding of how dynamic capabilities are implemented in successfully diversified conglomerates.

The output of this process has been the development of a descriptive framework, which explains the interplay between the dynamic capabilities in evidence and contributes to filling the gap in the existing body of knowledge of dynamic capabilities. The framework developed - the dynamic capabilities framework - is illustrated in figure 4.

The seven themes discussed have been reordered to provide a more logical flow of the evolution of dynamic capabilities within the business. This reordering also better explains the natural progression of dynamic capabilities within the organisation as identified and allows for a better understanding of the sequential interplay between the dynamic capabilities in evidence.

Each of the seven themes are concluded with an explanatory note describing how the framework has been constructed from the preceding chapters’ insights in relation to the respective theme.




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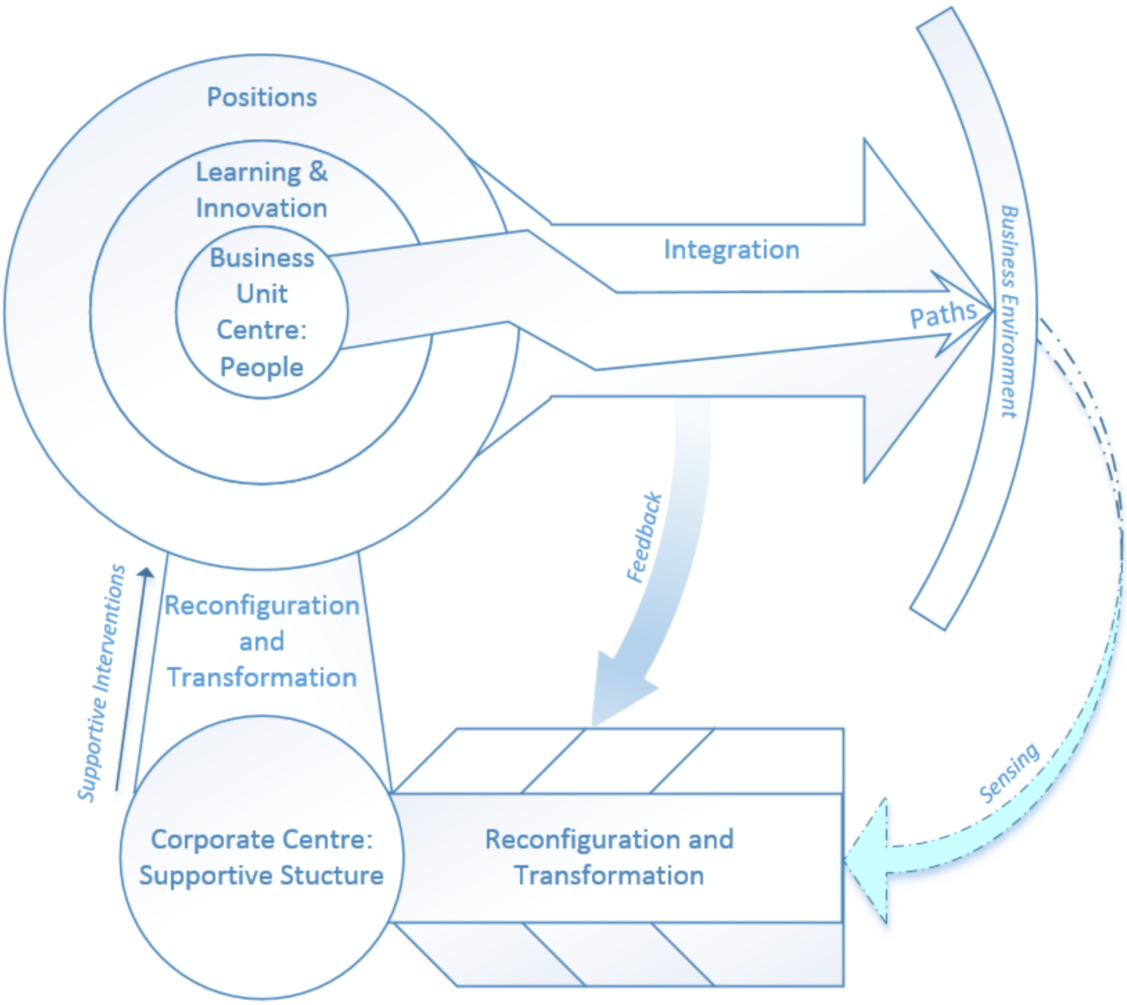


**Figure 4 - Dynamic capabilities framework**

Although the seven themes identified represent different facets of the dynamic capabilities framework, it should be noted that both the findings and the literature review, suggest significant overlaps between these themes. The overlapping of these themes assists with understanding the interaction between them and supports a more holistic view of the implementation of the dynamic capabilities.




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## 6.1 Research Question 1

**How are dynamic capabilities implemented in successfully diversified conglomerates?**

### 6.1.1 Theme one: People

The weight of evidence supporting the role of people and their management to enhance business performance was substantial. The evidence uncovered was not only common to all organisations in the sample but it was found to be a consistent theme over an extended period of time in each organisation. The harnessing of people's potential was found to be a central theme in each of the organisations and core in the attainment of company objectives. The evidence further suggested that people are the driver of learning and entrepreneurial activity, as well as many other business drivers, such as growth, wealth creation, sensing market shifts and productivity. People are seen not only to create business drivers but to augment them as well.

Each of the companies in the sample had a large number of employees. The company with the least number of employees was The Bidvest Group, with 105 000 employees, whilst General Electric Company was the largest with over 300 000 employees. Despite the large number of employees, all the companies referred to engagement with their people at the level of the individual, and all acknowledged the added value that each individual brings to the organization as a whole. The Bidvest Group Limited states that: "the vitality of each individual generates the life force of the whole. Our passion and energy translates into action." (2011, p. I).

Although the dynamic capabilities literature reviewed did not specifically incorporate or integrate the role of people within the organisation as one of the five core elements identified, it did however, recognise the importance of people (Teece, 2007). The literature reviewed beyond the existing body of knowledge on dynamic capabilities however, was highly supportive of the evidence found (Drucker, 1959; Barney, 1991; Mintzburg, 1994; Becker et al., 1998; Wright et al., 2001; McClean et al., 2011).




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*Framework explanatory note:*

Due to the centrality of people as the key driver of business unit performance and their ability to augment the learnings and positions of the business unit, people were placed at the centre of the dynamic capabilities framework developed (see figure 4).

### 6.1.2 Theme two: Supportive structure

The evidence found, stressed the importance of supporting the people within the organisation and empowering them to reach their full potential. The evidence also supported the notion of a decentralized, “M-form” type organisational structure and a level autonomy to the business units. Both aspects were recurring themes evident in the literature reviewed (Barney, 1986; Mintzburg, 1994; Selznick, 1996; Wright et al., 2001). These aspects also reflect an extensive overlap with the findings of theme one (people), and specifically highlight the environment where both the potential and the discretionary effort of people is realised (Becker et al., 1998; Wright et al., 2001; McClean et al., 2011).

The evidence, however, went further and suggested a more decisive approach to reducing bureaucracy and promoting autonomy at the individual business unit level. The evidence suggested that a significant amount of latitude is given to the business units, fostering the lead for all operational issues to emanate at business unit level. In this context the corporate centre only participates at a macro level, in a supportive role enabling the business units to achieve their objectives. The evidence reinforced the findings of theme one, in that, through the creation of a supportive structure, people are empowered to innovate where flexibility and latitude is promoted.

The supportive structure theme is stressed repeatedly between each of the sample firms as a significant element of their business strategy and structure, a theme that was also found to be consistent over an extended period of time.

In addition, the evidence suggested that the distinction between the business unit level processes and the corporate centre level processes, provides better focus for the organisation. Business units are able to focus on their specific requirements, within their specific industry, while the corporate centre focuses more outwardly, on the external business environment and where future investment would be best allocated.




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These, and other differentiations in the role of the corporate centre, vis-à-vis the business unit, are described in more detail under each of the respective themes that follow.

The body of knowledge on dynamic capabilities recognises one of the 'strategic assets' within the 'positions' element of dynamic capabilities as 'structural assets'. These structural assets were defined as the organizational structures, both informal and formal that ultimately determine the organization's ability to innovate and coevolve competencies and capabilities (Teece, 2007). As noted within the literature review section, the dynamic capabilities literature did not specifically recognise the theme of a supportive structure as a means of harnessing the potential of people and their discretionary effort, nor did it recognise the significance of its role in enhancing the entrepreneurial performance of the business.

Instead Teece (2007) suggested a rather systematic, top down approach to the entrepreneurial development process, with a cautionary to over-dependence on individuals. The literature reviewed beyond the existing body of knowledge on dynamic capabilities however was in stark contrast to the views of Teece (2007) and offered a far higher level of congruence with the findings (Mintzburg, 1994; Selznick, 1996; Wright et al., 2001).

Due to the significance of a supportive structure and the fundamental disparities found in its make up, it was felt that it warranted independent examination and was included as an emergent theme in its own right in the dynamic capabilities framework developed (see figure 4). This finding suggests that the current literature on dynamic capabilities, despite its roots in the highly entrepreneurial Schumpeterian theory, may inappropriately identify the processes required to enhance the performance and specifically the entrepreneurial performance of a business.

*Framework explanatory note:*

From the findings, the nature of the interplay between the corporate centre and each of their business units, could be likened to the reciprocal of the traditional hierarchical organizational structure. As such, the dynamic capabilities framework developed (see figure 4) positions the corporate centre below the business unit, thereby illustrating the




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non-authoritarian and non-bureaucratic, supportive structure that elevates the business unit's functioning.

#### 6.1.3 Theme three: Learning and innovation

The theme of learning and innovation was in evidence in all the sample firms over an extended period. All firms recognised the learning and innovation theme as a source of competitive advantage and promoted the idea of knowledge sharing. Three of the four companies took the concept further and described the innovation process as a business response to the dynamic environment and a means of, not only obtaining, but maintaining competitive advantage in the context of change. These companies promoted structures and processes to facilitate learning and innovation within the organization often through the use of supportive structures as described in theme two. There was significant evidence overlap between theme two (supportive structures) and the learning and innovation theme. It was also found that innovation was promoted through on-going investment, a concept that links to the theme of paths (as described in more detail under the paths theme of this chapter).

One of the firms in the sample, Berkshire Hathaway, which started out primarily as an investment holding firm, showed less evidence of learning and innovation as a key driver. The CEO of Berkshire Hathaway, Warren Buffet, was the oldest of the CEO's in the sample group at the age of 82 which may explain, in part, his self-declared technophobia, and the lack of evidence found in support of innovation in his writings. It should be noted however, that in all the material reviewed on Berkshire Hathaway and specifically Warren Buffet's letters to the Shareholders, there was found to be a far more informative / teaching style of writing. His letters allude to educating the readers about lessons learned and progress made within the organization. Despite Berkshire Hathaway's aversion to technology, recognition of learning as a source of competitive advantage is evident.

The literature is in strong support of the evidence found, and reinforces the central theme of learning and innovation as a dynamic capability and specifically as means of developing new capabilities within a changing environment. The evidence further justifies the roots of dynamic capabilities in Schumpeterian theory (Teece et al., 1997).




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The traditional dynamic capabilities theory, however, purports a far more systemised view of the innovation process than that found in the evidence. The literature reviewed beyond the existing body of knowledge on dynamic capabilities by Drucker (1959) and Mintzburg et al. (1985) was found to promote the philosophy of emergent innovation through people. Further, Mintzburg (1994) posits the notion of the formalization edge, a point at which systems no longer facilitate the thinking process but rather inhibit it. Both are concepts are in more direct support of the evidence found. This difference in the implementation of dynamic capabilities represents a substantial deviation from the traditional approach of the dynamic capabilities theory.

*Framework explanatory note:*

The evidence reflected overwhelming consistency with theme one (people), in that learning is done through people, as well as with theme two (supportive structures), in that the support structures enable the learning and innovations to be realised. These three themes discussed thus far, namely people; supportive structures; and learning and innovation, were found to work in unison towards achieving competitive advantage and adapting positions to maintain this competitive advantage, in the context of change.

For this reason, the theme of learning and innovation was placed around people within the dynamic capabilities framework and at the interface of positions with which they augment (See Fig 4).

### 6.1.4 Theme four: Positions

The theme of positions, defined as the existing assets of the organization, and more specifically the firm's ability to leverage these assets for competitive advantage, was found in evidence within all organizations within the sample over an extended period of time.

At the broadest level, there was a distinct overlap between positions and paths, as the evidence suggested that existing positions were established out of past decisions, providing a source of competitive advantage for the future. All companies displayed adept utilisation of existing positions as a source of competitive advantage.




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The evidence suggested that the companies are not only aware of their position and the potential to leverage these positions to their advantage but also showed a deliberate intent to develop these positions over time through learning and innovation. Of the firms in the sample, General Electric was found to be one of the strongest advocates on positioning and was quoted as saying "…we have positioned GE to lead in the big productivity drivers of this era… The leavers of productivity are constantly changing… For more than a century, GE has been a leader in productivity and innovation." (General Electric Company, 2012, p. 7).

This statement not only explains how firms lever their present positions for competitive advantage but describes the interplay with the paths that the business has adopted, for its future positioning. Further, the statement describes the interplay of positions with learning and innovation, as the firms' process through which positions evolve in the face of a dynamic environment.

**Positions at business unit level:**

The positions described at the business unit level are primarily technological assets (know-how) and complementary assets, which are augmented to provide competitive advantage within the specific industry. These then form the internal capabilities of the business unit and are the most immediate source of a firm's competitive advantage within its direct context.

*Framework explanatory note (Positions at business unit level):*

Positions are augmented by people through learning and innovation, towards the strategic direction of the business. As a result, positions are illustrated within the dynamic capabilities framework at the periphery of the strategic business unit (see figure 4).

**Positions at corporate centre level:**

The corporate centre was found to function as a repository for learning and innovation as well as for the surplus assets generated from the various business units, providing a central position for the reallocation of the same. The development of a strong position, for re-allocation of assets, interplays strongly with the corporate centre's role in the reconfiguration and transformation of the business (as described in more detail under the reconfiguration and transformation theme of this chapter). The significance of this




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finding is that the corporate centre does not leverage its own position directly. The corporate level positions, are only levered through the allocation of ‘assets’ to the business unit level, where competition occurs (Porter, 1996)

The use of financial assets at the corporate level was by far the most predominant use of positions in evidence. The focus was found to be primarily on the ability of the firm to obtain cheaper capital and to have access to more capital. In addition, the evidence suggested that financial assets were used as a powerful tool for the positioning of the company to exercise their opportunistic and entrepreneurial behaviour, in terms of M&A.

In the context of M&A, technological assets (know-how) and organizational boundaries, were in evidence, as firms used their cross-business experience and past knowledge and learnings to enhance their investment decisions. This provided them with a broader range of capital investment possibilities than what might have otherwise been achievable through the more narrowly focused business unit.

Financial assets were also found to be used as a source of market power and competitive advantage, specifically in the event of market failure. When market failure precluded the efficient access to capital from the open market, (such as in an economic down-turn or in the case of new business development), the firms would use internal sources of capital allocation to obtain a competitive advantage over those firms relying on funding from the open market.

To a lesser extent, there was also evidence of the use of technological assets, (know-how), and reputational assets. Technological assets were seen as a source of market power by using technologies and know-how developed within one business unit, for application in another, while reputational assets were primarily evident in the form of leveraging the corporate brand across business units.

The literature is, for the most part, supportive of the evidence of positions, particularly of the types in use and the emphasis on levering these for competitive advantage (Teece et al., 1997; Eisenhardt et al., 2000; Bowman et al., 2003). The debate in the literature, whether either dynamic capabilities themselves are the source of sustainable competitive advantage (Teece et al., 1997) or if the resource configurations (assets) which the dynamic capabilities create are the source of sustainable competitive




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advantage (Eisenhardt et al., 2000), has no strong support in either direction from the evidence found. The literature by Peteraf et al. (2013) does however suggest a more middle-ground view, which is more in line with the findings, whereby the “idiosyncratic details” in a firms’ implementation, which may have otherwise been perceived as “common practices”, is what enables these firms to leverage sustainable competitive advantage.

*Framework explanatory note (Positions at corporate centre level):*

Due to the indirect use of positions at corporate centre level, where the function was found to be primarily a repository for the collection and the later reallocation of assets, there was no specific illustration of positions at the corporate level within the dynamic capabilities framework developed (see figure 4). This concept promotes the idea that competition only occurs at the business unit level (Porter, 1996), and that the benefits of the corporate level positions, can only be levered after the allocation of ‘assets’ through the reconfiguration and transformation processes, as discussed later in this chapter.

#### 6.1.5 Theme five: Paths

Although all firms within the sample showed evidence of paths as a dynamic capabilities theme, the findings were fairly limited and in the case of Berkshire Hathaway there was no current evidence found of the paths theme. It should be noted, however, that when taking into account, the large overlap between paths and positions, the recognition of paths can be identified in all firms over an extended period of time.

All firms in the sample recognised the importance of past decisions in the development of their current positions and, more importantly, the competitive advantage which they now enjoyed from acting on those past decisions.

A finding that was of interest was that GE was the company within the sample that showed the most evidence in support of the importance of paths and its influence on their future performance. GE was established in 1914 and as such is the company with the longest history (path). This reinforces the idea of the long-term approach to the development of paths.




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Although the evidence of paths was less evident in Berkshire Hathaway, the evidence found again reinforced the fundamental idea of paths, namely: Paths are developed over the long term and cannot simply be bought overnight. This theme was demonstrated through Berkshire Hathaway's long term and ongoing display of integrity and honesty in their M&A deals, which has positioned them over time as the "buyer of choice" (Berkshire Hathaway inc., 2007, p. 6).

The evidence also reflected some commonality in the paths which the sample firms most consistently recognised as influencing their current competitive advantage. These are outlined as follows:

- Decisions on organizational structure and specifically the diversification of business interests.
- Investments in technological assets and complementary assets, primarily as a source of efficiency advantages.
- The development of specialist knowledge, through consistent behaviour over time, such as the ongoing engagement in M&A activities.

The evidence found on the theme of paths was supported by the literature reviewed, however the theme of paths in evidence, transcended the literature's purely retrospective thinking of paths. Teece (2007) in his conceptualization of paths, suggests that a firm's future strategic alternatives are limited by the evolutionary paths which the firm had adopted.

The evidence found expanded this view and suggested a more forward thinking approach in which the firms aimed to understand and sense the dynamics of the business environment. Emphasis was placed on predicting the direction in which current investment should be made, to develop the firm along the evolutionary path desired. This concept is very closely aligned with the reconfiguration and transformation theme that follows.

*Framework explanatory note:*

The aim of paths as a theme, was found to provide long term direction for the organisation within the context of the dynamic business environment, towards which each business unit can evolve and establish competitive advantage.




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As such, the framework for dynamic capabilities (see figure 4), has paths illustrated as an arrow head, positioned at the interface of the external business environment. This reflects the role of paths, as setting the direction of the business unit within the context of the perceived future external business environment. The external business environment is illustrated as a much larger, open ended sphere, in which the firm operates (see figure 4).

### 6.1.6 Theme six: Integration

Integration was one of the more common themes evident in the sample of firms. This was not surprising as integration was the most appropriate mitigation process like to address the two strong reasons why diversified conglomerates fail, as raised in the literature, namely: Agency problems preventing alignment of shareholder objectives (Martin et al., 2003) and secondly, the negatives associated with the high costs of controlling the alignment of large diversified conglomerates through the use of rigid and bureaucratic processes (Nippa et al., 2011).

Strong evidence of the integration theme, was not only found in all organisations in the sample, but was also found to be a common theme over an extended period of time in all organisations. The evidence suggested that alignment with, and focus on the companies' selected paths, was an absolute imperative. This notion was evident at all levels of the organization, from overall business units down to individual teams requiring collaboration and team work, focused towards company objectives.

Despite the evidence being largely in support of Teece's original conceptualisation of the integration process as a means of creating congruence between activities as well as coordination of activities towards the common goals of the organisation (Teece et al., 1994), the evidence did however fundamentally differ from Teece's work in terms of his specific exclusion of corporate culture, as an integration process. Teece advances that culture is too loose or vague a concept to adequately define its precise nature in the integration processes which he has contemplated within his seminal work (Teece et al., 1994).

There was overwhelming support in the evidence of the use of culture as a means of loose integration. Through the use of culture, business units were given the latitude




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they required to drive business unit specific decisions and strategies as they saw fit within their direct local context, while remaining aligned with the overarching direction and path of the organization as a whole.

This evidence, although not supported by Teece's original conceptualization of dynamic capabilities, is supported by the human behaviourist's and specifically by the new institutionalism theory (Mintzburg, 1994; Selznick 1996). In fact, the literature extends the concept of culture by promoting the idea of incoherence of the post bureaucratic organization, which is loosely controlled and represents a further mechanism for the supportive structure of people. A virtuous cycle is created, whereby the discretionary effort of people is unlocked and performance is enhanced (Wright et al., 2001).

From the evidence found, many of the entrepreneurial principles of dynamic capabilities, as contemplated in the seminal work of Teece et al. (1994) are universally adopted by the sample of successfully diversified conglomerates. What is most insightful, is that it would appear that the approach to the integration theme specifically requires a softer, more loosely controlled and supportive approach, that energizes the people within the organization to participate above and beyond expectations. This is a fundamental principle that seems to have been neglected in the original conceptualization of dynamic capabilities by Teece et al. (1994).

The evidence also suggests a number of other elements which are used in conjunction with culture to facilitate integration. All of which, support the notion of a loosely controlled organisation with high degrees of latitude in the short term as briefly described below:

- The use of values and integrity to ensure overarching outputs are honourable.
- Long term focused goals and objectives, driven through incentivisation.
- The use of financial targets and performance measures which are aligned with shareholder objectives and incentivized through employee remuneration.
- A common mechanism used to facilitate a natural alignment of incentives and shareholder financial objectives was the use of share options.

Another interesting insight from the evidence was the extended period of tenure of each of the CEO's within the sample organisations. The shortest tenures of the current




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CEO's were found in GE and Wesfarmers, with 13 and 8 years respectively. Both current CEO's have replaced CEO's with tenures of 20 years and 13 years respectively. If CEO tenure is used as a measure of the predictability in organizational policy and this insight is used in conjunction with the evidence of consistent informal cultures along with the stable performance of the organization, a strong correlation to Selznick's (1948) insights into the processes and routines that provide stability to autonomous, decentralized business units is evident. This theme is common to all the diversified companies within the sample and may provide further insights into the uniquely inherent stability of these successfully diversified conglomerates in relation to their unsuccessful counterparts.

*Framework explanatory note:*

The integration theme was found to provide all levels of the organisation with loose boundaries through which they are integrated into the long term goals and paths selected by the corporate centre. The loose controls or incoherence (Selznick, 1996) empowers all members of the organisation to make short term decisions and encourages initiative, while remaining focused and integrated towards the same long term company objectives. As such, the integration theme is illustrated as a broad arrow from the business unit directed toward the future business environment and terminating in the paths selected by the corporate centre. The integration arrow contains the crooked paths arrow illustrating the incoherence of paths towards the long term goals while remaining within the integration and alignment of the company objectives (see figure 4).

### 6.1.7 Theme seven: Reconfiguration and transformation

From the literature reviewed with regards to diversified conglomerates and their expansion into unrelated businesses through mergers and acquisitions, it was not surprising to find the large amount of evidence in support of this theme. All companies in the sample group displayed extensive evidence of reconfiguration and transformation through an extended period of time. The theme was always accompanied by an opportunistic approach for the sensing of opportunities within the external environment. The ability to sense long term market shifts and to act accordingly to these insights was also observed.




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External information on the business environment was exploited by the corporate centre, primarily for directing the merger and acquisition processes of the business as well as the capital allocations between businesses, as described further below:

- All firms within the sample showed a particular interest to engage in M&A activity. The interest was however found to be tempered with a sense of patience; waiting for the right opportunities at the right price. All firms showed a deep sense of understanding of the factors and price points at which acquisitions would realize value accretion.
- Because of the extensive experience of the companies in question, rigorous M&A processes were in evidence, which guided the selection and execution process.
- Beyond value creation, M&A processes were found to be an external source of learning and innovation for the organization, through acquiring firms with specific capabilities required by the organization.

The evidence suggests that reconfiguration and transformation processes are primarily focused on capital allocations in the form of redistribution of surplus funds from the various business units, as well as the allocation and reorganization of management structures within business units. As described below:

- Capital allocations were found to be used as a form of market power, by diverting funds from successful / high cash generating businesses, to less profitable businesses (and sometimes non profitable businesses) which showed long term earnings potential.
- The cross subsidization of cash flows between businesses was also used to subsidize businesses or to retain temporarily poor performing businesses.
- The evidence showed the use of capital allocations to exploit internal inter-business knowledge, through “winner picking” and thereby bypassing market failures and realizing arbitrage opportunities.
- In evidence, within two of the organizations, was the corporate centres role in the identification of human resource allocations and reconfiguration requirements, as well as reconfiguration of business unit structures to promote the maximization of opportunities and the realization of business objectives.




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Evidence was also found of the use of the decentralized organizational structure as a means of having smaller business units that are able to adapt and capitalize on market opportunities more swiftly than otherwise possible.

The literature review of dynamic capabilities showed broad support of all reconfiguration and transformation in evidence. (Teece et al., 1997; Eisenhardt et al., 2000). The specific processes that were in evidence were also anticipated from the body of knowledge reviewed on diversification (Nippa et al., 2011; Reid et al., 1986) but were not specifically evident in the dynamic capabilities body of knowledge. This evidence could be seen to extend the understanding of the implementation of dynamic capabilities within organizations

*Framework explanatory note:*

From the findings, the reconfiguration and transformation theme was found to be a role primarily excised by the corporate centre. The corporate centre gathers information via feedback from the various business units and their respective processes within the framework whilst, simultaneously, sensing the business environment for opportunities and threats due to market shifts. In dynamic capabilities framework developed (see figure 4), the 'sensing' role of the reconfiguration and transformation process is illustrated as an arrow from the external business environment into the reconfiguration and transformation processes. The arrow is dotted which represents the uncertain nature of the sensory role feeding the reconfiguration and transformation process.

The 'feedback' role of the reconfiguration and transformation process is illustrated as a darkening arrow (reflecting the increasing clarity) and flows from the various business units into the reconfiguration and transformation processes. It is noted that this feedback may include both information flow (Feedback on performance measures or business needs, etc.) and the flow of positions (Surplus assets e.g. surplus profits).

The reconfiguration and transformation process occurs as an output of decision making and results in an allocation process, whereby the information gathered is acted upon by utilising the resources of the conglomerate. The allocation process is represented in the dynamic capabilities framework developed (see figure 4) as 'supportive interventions' feeding up into the business unit in its supportive fashion and focus primarily on the allocation of capital, people. The outcomes of a M&A process, is either




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aimed at a specific business unit, as ‘supportive interventions’ (and would be a form of external innovation and learning), or the M&A activity would result in a new standalone independent business unit, in which case the entire framework would be replicated albeit with a common corporate centre.

It is noted that the diagram is simplified and does not reflect the fact that the allocations could be made to any of the multiple business units that make up the conglomerate.




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# 7. Conclusion

I response to the problems raised in chapter one, the primary purpose of this research was to develop a framework to explain how dynamic capabilities are implemented in successfully diversified conglomerates. In addition and pursuant to this primary objective, two additional research objectives were set, namely: To fill the gap in the existing body of knowledge and to provide qualitative empirical evidence of dynamic capabilities implemented in successfully diversified conglomerates. The main insights from these objectives are discussed below:

**Fill the gap in the existing body of knowledge**

The objective of this research was to complement the existing literature while seeking to create some unity of understanding of the relatively new body of knowledge of dynamic capabilities.

The initial research problem contemplated identified a significant gap between the current academic thinking on corporate diversification strategies and the success being realised by diversified conglomerates. The gap was found to be more extensive during the literature review phase of the report.

The inductive case study research methodology adopted, required that a vast body of literature be considered and in addition, necessitated the development of priori constructs to guide the data collection and analysis processes. The outcome of the process was significant bolstering and convergence of the existing body of knowledge.

In essence, three layers of knowledge were overlaid onto the existing diversification body of knowledge as follows:

Initially, the research identified a comprehensive list of the motives for and against diversification, which were incorporated into the 'Diversification: Pros and cons priori construct' (see figure 1). Step one overlaid the emerging dynamic capabilities theory body of knowledge. Step two overlaid a broader body of knowledge relating to amongst others: Human behaviour, human resource management theory and new institutional theory, which ultimately added the two additional themes and insights, to provide a more complete understanding of the dynamic capabilities theory. The last step overlaid the insights gained through the qualitative research undertaken onto the 'dynamic




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capabilities framework' developed, as discussed in chapter 6 of this report (see figure 4).

**Provide qualitative empirical evidence of dynamic capabilities implemented in successfully diversified conglomerates**

Through the extensive case study research undertaken, the research has provided valuable insights into four of the most highly successful diversified conglomerates in the world. The method in which the data was collected and analysed, through the development of extensive priori constructs and the use of rigorous case analysis tools, provides a high level of assurance of the quality of the data

**Develop a framework to explain how dynamic capabilities are implemented in successfully diversified conglomerates**

As noted above, the primary purpose of this research was to develop a framework to explain how dynamic capabilities are implemented in successfully diversified conglomerates. This objective was achieved and provides a valuable contribution towards the development strategy theory and gives insight for business.

## 7.1 Insights for business

The emergent themes of people and supportive structure, provide especially valuable insights for business. The harnessing of people's potential was found to be a central theme in each of the organisations and core in the attainment of company objectives.

Through analysing the case study data of successfully diversified conglomerates, there were a wealth of valuable insights gleamed that can aid business, in their implementation of diversification strategies. The foremost of these is the dynamic capabilities framework developed, as discussed in chapter 6 of this report (see figure 4). Although the insights gained through the development of this framework are too numerous to mention within this conclusion, what follows are a few key insights gained:

What was most insightful, is that successfully diversified conglomerates have often adopted an integration approach that utilises a more loosely controlled and supportive approach, whereby people within the organization are energized and encouraged to participate above and beyond expectations. A virtuous cycle is created, whereby the




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discretionary effort of people is unlocked and performance is enhanced towards the goals of the firm.

Regarding the entrepreneurial processes of business. It was found that the learning and innovation processes, arguably the most important element of dynamic capabilities, is not implemented in the precise and systemised manner conceptualised by Teece, (2007). Instead, a more fluid and enabling environment was used to encourage learning and innovation through people and supportive structures. This difference in the implementation of dynamic capabilities represents a substantial deviation from the traditional approach of the dynamic capabilities theory.

## 7.2 Future research

The dynamic capabilities framework developed represents a bold advancement in the integration of a number of adjacent fields of study into the field of strategy. It is acknowledged that although best endeavours were taken to ensure the completeness and validity of the findings, there will undoubtedly be room for improvement. It is proposed that future research is directed towards the enhancement of the dynamic capabilities framework developed, and the validation of its findings. Some possibilities include:

Verifying the validity of each of the elements that make up the framework by conducting additional research using primary data. The use of primary data will afford the researcher the opportunity to probe the emergent theory in more depth with individuals within the organization and direct the development of the evidence towards achieving more complete and potentially more valid findings.

Although the focus of the research was on dynamic capabilities of successfully diversified conglomerates. It is acknowledged that some on the dynamic capabilities identified may not be mutually exclusive i.e. they may include dynamic capabilities that are common to single / focused firms or even failed conglomerates as well. It is recommended that further research is conducted by replicating the current research design and shifting the extreme case sample selection to reflect samples of the opposite extreme, namely: Single / focused firms and / or failed conglomerates. The results would provide an opportunity for data validation and cross-case comparison.




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It is proposed that research is done on exploring the causal links between the themes identified and business success.

The research was limited to four case studies only. It was found that in some instances, the themes in evidence differed in emphasis between the firms. It is suggested that future research use a larger sample to facilitate both a better understanding of the themes as they

In addition, the following future areas of research are recommended:

There is a wealth of research exploring the effects of the varying degrees of firm relatedness (within the context of diversification) on firm performance (Rumelt, 1984). This research did not aim address the effects of firm relatedness on the findings and is an area recommended for future research.

There is a wealth of research exploring the effects of the varying degrees of geographical spread / multinational expansion on the firms' diversification – performance linkage (Hennart, 2011; Contractor, 2012). This is a major area of potential benefit for conglomerate performance, relating to amongst others: Economies of scale; economies of scope; accessing foreign knowledge; tax optimisation between tax regimes; risk reduction from geographic spread; etc. (Contractor, 2012). This research did not specifically address the effects of multinational expansion on the findings and is an area recommended for future research.

There is a wealth of research exploring the effects of the varying degrees of economic maturity of the geographies in which firms operate on conglomerate performance i.e. Developed vs. Emerging Market contexts (Purkayastha, Manolova, and Edelman, 2012). This research did not address the effects of economic maturity of the country of operation on the findings and is an area recommended for future research.

Diversified firms by their nature provide a good platform for generalisation. It was hoped that through this research opportunities would be gained for the development of new theory and general principals of management. Although this was not a specific outcome of this research, it is hoped that it may provide a platform for the realisation of these opportunities.




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## Appendix A – Conglomerate Performance

## (Kaye et al., 2003)

### Appendix: Conglomerates in Our Study

| | Company | 10-Yr TSR[1] | Country Delta[2] | Regional Delta | World Delta | 2001/2 Avg. Mkt. Cap (US$mn) | Country |
|---|---|---|---|---|---|---|---|
| **Top Quartile** | Bidvest Group | 36% | 20% | 24% | 26% | 1,402 | South Africa |
| | Onex | 30% | 15% | 14% | 20% | 2,193 | Canada |
| | ITC | 29% | 17% | 23% | 18% | 3,489 | India |
| | Fimalac | 26% | 11% | 14% | 16% | 1,205 | France |
| | Spotless Group | 25% | 11% | 15% | 15% | 590 | Australia |
| | General Electric | 24% | 8% | 9% | 14% | 374,736 | US |
| | Westfarmers | 23% | 10% | 13% | 13% | 5,659 | Australia |
| | Berkshire Hathaway 'A' | 23% | 7% | 7% | 12% | 94,838 | US |
| | Hutchison Whamp. | 22% | 7% | 17% | 12% | 37,245 | Hong Kong |
| | Champion Ents. | 22% | 6% | 6% | 12% | 460 | US |
| | Futuris Corp. | 22% | 8% | 12% | 12% | 585 | Australia |
| | Leucadia Nat. | 21% | 6% | 6% | 11% | 1,766 | US |
| | Bouygues | 21% | 6% | 10% | 11% | 10,465 | France |
| | Gcarso 'A1' | 21% | -2% | 6% | 11% | 2,780 | Mexico |
| | China Res. Entrep. | 19% | 4% | 13% | 9% | 2,227 | Hong Kong |
| | Industrivarden A | 18% | 0% | 6% | 8% | 1,865 | Sweden |
| | Lagardère | 17% | 2% | 5% | 7% | 5,921 | France |
| | Viad | 17% | 1% | 1% | 7% | 2,210 | US |
| | Orkla | 17% | 6% | 5% | 6% | 3,887 | Norway |
| | Dover | 16% | 1% | 1% | 6% | 7,382 | US |
| | Wendel Investissement | 16% | 1% | 5% | 6% | 962 | France |
| | Textron | 16% | 0% | 0% | 6% | 6,471 | US |
| **Second Quartile** | Citic Pacific | 16% | 1% | 10% | 6% | 4,862 | Hong Kong |
| | Southern | 15% | 0% | 0% | 5% | 17,355 | US |
| | Pentair | 15% | 0% | 0% | 5% | 1,906 | US |
| | Hagemeyer | 15% | -3% | 3% | 5% | 1,895 | Netherlands |
| | Sears Roebuck | 15% | -1% | -1% | 5% | 15,175 | US |
| | Ackermans | 15% | 3% | 3% | 5% | 919 | Belgium |
| | Pinnacle West Cap. | 14% | -2% | -1% | 4% | 3,577 | US |
| | Alfa 'A' | 14% | -9% | -1% | 4% | 827 | Mexico |
| | Griffon Corp. | 13% | -3% | -2% | 3% | 482 | US |
| | Barloworld | 13% | -3% | 1% | 3% | 1,277 | South Africa |
| | Wash. H Soul Pattinson | 12% | -1% | 2% | 2% | 627 | Australia |
| | 3M Co. | 12% | -3% | -3% | 2% | 44,706 | US |
| | Bolton Group | 12% | -1% | 1% | 2% | 1,403 | Luxemburg |
| | Northwestern | 12% | -4% | -3% | 2% | 535 | US |
| | Tyco Intl. | 12% | -4% | -3% | 2% | 78,760 | US |
| | Allete | 11% | -4% | -4% | 1% | 2,183 | US |
| | Unaxis Holding Ag | 11% | -5% | -1% | 1% | 1,411 | Switzerland |
| | Pirelli Spa | 10% | -2% | -1% | 0% | 3,241 | Italy |
| | Norsk Hydro | 10% | 0% | -2% | 0% | 11,560 | Norway |
| | Suez | 10% | -5% | -2% | 0% | 30,968 | France |
| | Vivendi Universal | 9% | -6% | -2% | -1% | 48,287 | France |
| | Federal Signal | 9% | -6% | -6% | -1% | 1,017 | US |
| **Third Quartile** | Wharf Hdg. | 9% | -7% | 3% | -2% | 5,386 | Hong Kong |
| | Fortune Brands | 8% | -7% | -7% | -2% | 6,465 | US |
| | Johnnic Hdg. | 8% | -7% | -3% | -2% | 789 | South Africa |
| | Swire Pacific 'A' | 8% | -7% | 3% | -2% | 4,807 | Hong Kong |
| | Brascan Finl. 'A' | 8% | -7% | -7% | -2% | 1,114 | Canada |
| | Bollore | 8% | -7% | -4% | -2% | 1,416 | France |
| | First Pacific | 8% | -7% | 2% | -2% | 496 | Hong Kong |
| | Ivg Immobilien | 7% | -4% | -4% | -3% | 1,267 | Germany |
| | Tomkins | 7% | -6% | -4% | -3% | 2,401 | UK |
| | Sime Darby | 7% | 1% | 1% | -3% | 2,926 | Malaysia |
| | CSR | 7% | -6% | -3% | -3% | 3,229 | Australia |
| | Loews | 7% | -9% | -8% | -3% | 10,791 | US |
| | Valhi | 7% | -9% | -9% | -3% | 1,430 | US |
| | Olin | 7% | -9% | -9% | -3% | 761 | US |
| | Raytheon New | 6% | -10% | -9% | -4% | 13,568 | US |
| | Ayala | 5% | -3% | -1% | -5% | 1,607 | Philippines |
| | Jardine Mtsn. (Ses) | 4% | -11% | -1% | -6% | 3,706 | Hong Kong |
| | Valora R | 4% | -12% | -7% | -6% | 726 | Switzerland |
| | Linde | 4% | -8% | -8% | -7% | 5,291 | Germany |
| | Ifil | 3% | -9% | -8% | -7% | 1,284 | Italy |
| | Italmobiliare | 3% | -9% | -8% | -7% | 730 | Italy |
| | Rank Group | 3% | -10% | -9% | -7% | 2,071 | UK |
| **Bottom Quartile** | Mitsui | 3% | 4% | 1% | -7% | 9,560 | Japan |
| | CIR | 2% | -10% | -10% | -8% | 781 | Italy |
| | Harpen | 2% | -10% | -10% | -8% | 497 | Germany |
| | Ngk Insulators | 1% | 1% | -1% | -10% | 2,742 | Japan |
| | Sumitomo | 0% | 1% | -2% | -10% | 6,109 | Japan |
| | Cycle & Carriage | 0% | -4% | -6% | -10% | 488 | Singapore |
| | Trelleborg B | 0% | -18% | -12% | -10% | 703 | Sweden |
| | Matsushita Elec. Wks. | 0% | 0% | -2% | -11% | 5,966 | Japan |
| | Ostasiatiske Kom | -1% | -14% | -12% | -11% | 466 | Denmark |
| | Itochu | -1% | 0% | -2% | -11% | 4,376 | Japan |
| | Mitsubishi | -1% | 0% | -3% | -11% | 11,472 | Japan |
| | New World Dev. | -2% | -17% | -7% | -12% | 1,872 | Hong Kong |
| | United Industrial Corp. | -3% | -7% | -9% | -13% | 558 | Singapore |
| | Samsung Corp. | -3% | -12% | -9% | -13% | 975 | Korea |
| | Guangdong Inv. | -4% | -19% | -10% | -14% | 495 | Hong Kong |
| | Kanebo | -6% | -5% | -8% | -16% | 963 | Japan |
| | Marubeni | -7% | -7% | -9% | -18% | 1,553 | Japan |
| | Ansell | -8% | -21% | -18% | -18% | 498 | Australia |
| | Hopewell Hdg. | -10% | -25% | -16% | -20% | 541 | Hong Kong |
| | mg technologies | -12% | -23% | -23% | -22% | 1,755 | Germany |
| | Kanematsu | -16% | -15% | -18% | -26% | 571 | Japan |
| | Tomen | -18% | -17% | -20% | -28% | 546 | Japan |

[1] TSRs were calculated from an average of three 10-year TSRs ending in June of 2000, 2001 and 2002.
[2] Delta refers to the difference between the company's 10-year TSR and that of the relevant benchmark.




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## Appendix B: Material utilised in analysis

| Title | Author | Year | Source |
|---|---|---|---|
| ***The Bidvest Group Limited*** | | | |
| Special Report Podcast: Brian Joffe - CEO, Bidvest | Hogg, A. (Interviewer) & Joffe, B. (Interviewee). | 2012 | Moneyweb |
| Joffe: Bidvest has war chest of over R14bn, twinkle in his eye when mentioning Natie Kirsh and Jetro | Hogg, A. (Interviewer) & Joffe, B. (Interviewee). | 2013 | BizNewz, the rational alternative |
| Leading by doing is the Bidvest way | Joffe, B | 2013 | The Bidvest Group Limited |
| Diversification Strategy: How to Grow a Business by Diversifying Successfully | Kenny, G | 2009 | Kogan Page Publishers |
| The power of decentralised management, illustrated | The Bidvest Group Limited | 2004 | The Bidvest Group Limited |
| The Bidvest Group Limited corporate website home | The Bidvest Group Limited | 2013 | The Bidvest Group Limited |
| Annual integrated report 2012 | The Bidvest Group Limited | 2012 | The Bidvest Group Limited |
| Annual integrated report 2011 | The Bidvest Group Limited | 2011 | The Bidvest Group Limited |
| Annual report 2009 | The Bidvest Group Limited | 2009 | The Bidvest Group Limited |
| Annual report 2008 | The Bidvest Group Limited | 2008 | The Bidvest Group Limited |
| Annual report 2007 | The Bidvest Group Limited | 2007 | The Bidvest Group Limited |
| 2002 Annual report | The Bidvest Group | 2002 | The Bidvest Group |




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| | | | |
|---|---|---|---|
| | Limited | | Limited |
| Annual report 1997 | The Bidvest Group Limited | 1997 | The Bidvest Group Limited |
| Entrepreneur who did it his way | Wright, L | 2010 | South Africa's Greatest Entrepreneurs, MME Media |
| ***Berkshire Hathaway Inc.*** | | | |
| Berkshire Hathaway Inc corporate website home | Berkshire Hathaway Inc. | 2013 | Berkshire Hathaway Inc. |
| 2012 Annual Report | Berkshire Hathaway Inc. | 2012 | Berkshire Hathaway Inc. |
| 2000 Annual Report | Berkshire Hathaway Inc. | 2000 | Berkshire Hathaway Inc. |
| To the Shareholders of Berkshire Hathaway Inc | Buffet, W. E. | 2011 | Berkshire Hathaway Inc. |
| To the Shareholders of Berkshire Hathaway Inc | Buffet, W. E. | 2007 | Berkshire Hathaway Inc. |
| To the Shareholders of Berkshire Hathaway Inc | Buffet, W. E. | 2006 | Berkshire Hathaway Inc. |
| Fireside chat with Warren Buffett and Cathy Baron Tamraz, CEO of Business Wire | Tamraz, C. B. (Interviewer) & Buffett, W. E. (Interviewee) | 2013 | PYMNTS.com |
| ***General Electric Company*** | | | |
| General Electric Company corporate website home | General Electric Company | 2013 | General Electric Company |
| GE 2012 Annual report | General Electric Company | 2012 | General Electric Company |
| GE 2008 Annual report | General Electric Company | 2008 | General Electric Company |




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|---|---|---|---|
| GE 2007 Annual report | General Electric Company | 2007 | General Electric Company |
| GE 2004 Annual report | General Electric Company | 2004 | General Electric Company |
| GE 2003 Annual report | General Electric Company | 2003 | General Electric Company |
| Q&A: A Talk with Jeff Immelt. | Shepard, S. B. (Interviewer) & Immelt, J. (Interviewee) | 2013 | Bloomberg Business Week |
| Jack Welch & The G.E. Way: Management Insights and Leadership Secrets of the Legendary CEO | Slater, R. | 1999 | McGraw Hill Professional |
| ***Wesfarmers Limited*** | | | |
| Uncommon sense: Wesfarmer's Michael Chaney on the bottom line | ceoforum.com.au (Interviewer) & Chaney, M. (Interviewee) | 2013 | Ceo Forum Group |
| Wesfarmers annual report 2013 | Wesfarmers Limited | 2013 | Wesfarmers Limited |
| Wesfarmers Limited corporate website home | Wesfarmers Limited | 2013 | Wesfarmers Limited |
| Wesfarmers Limited Strategy Briefing Day | Wesfarmers Limited | 2013 | Wesfarmers Limited |
| Wesfarmers annual report 2012 | Wesfarmers Limited | 2012 | Wesfarmers Limited |
| 2011 Full-year results teleconference | Wesfarmers Limited | 2011 | Wesfarmers Limited |
| Wesfarmers annual report 2004 | Wesfarmers Limited | 2004 | Wesfarmers Limited |
| Wesfarmers annual report 2003 | Wesfarmers Limited | 2003 | Wesfarmers Limited |
| Wesfarmers annual report 2002 | Wesfarmers Limited | 2002 | Wesfarmers Limited |




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