The effectiveness of strategic management intervention in developing profitable high growth African businesses

Kaija, Godfrey
University of Johannesburg
Nieuwenhuizen, Cecile
University of Johannesburg
C. Nieuwenhuizen, University of Johannesburg, PO Box 524, Auckland Park, Gauteng, South Africa, 2006, +27115594369.
cecilen@uj.ac.za

ABSTRACT

The objective of the research was to determine how the the strategic management intervention of the African Management Services Company (AMSCO) has contributed to improved profitability, growth and sustainability of businesses in African countries. Businesses ranging from very small to multinational subsidiaries that were involved in a three year AMSCO intervention were selected to participate in the study. Self-administered questionnaires as well financial and other records and documents of 55 participating businesses resulted in the findings that the intervention, especially with the placement of the AMSCO managers, was instrumental in successfully transferring business and management skills to local employees within these enterprises and organisations. During and after the intervention the profitability, growth, sustainability, employment numbers and retention of the majority of the businesses increased and training became a norm.

1. BACKGROUND

The failure, limited - and often no growth of many African businesses have been cause of concern and the focus of various studies aiming to identify the reasons (Akugri, Daniel, Bagah, & Wulifan 2015). Among the many reasons for slow growth and failure have been the lack of skills, training and assistance including strategic management interventions within these businesses. In many countries national policies have been centred on improvement, as in example South Africa that has set for itself targets to eradicate poverty and inequality in order to foster economic growth of 5.4%, reduce the lack of employment by a rate of 6% and has identified business education, training and innovation as a vehicle to achieve these goals in its National Development Plan (National Planning Commission Republic of South Africa., 2011). Businesses in Africa are often managed informally, by instinct, unstructured, irregular and with limited or no strategic management while the skills and abilities or lack thereof of the business owner determined its success or failure. In many cases documentation to guide the business forward and to plan for succession are unavailable (Abdille, 2013).
Studies such as those conducted by the World Bank, proved that the workplace is where most adults learn and that businesses that are led by educated managers who took time to train their employees perform better in all aspects of business achievement. Therefore, the extent and quality of training in these businesses have far reaching implications on their performance (Stone, 2012). Various support institutions to assist businesses in financial and non-financial matters, including advisory services, training, mentorship and other interventions exist in South Africa (Schachtebeck, Groenewald & Nieuwenhuizen, 2017) and other countries such as Uganda (Mayanjy, 2016), Namibia (Mukata, 2017) and Zimbabwe (Mandengenda, 2017).
A case of strategic management intervention aimed at addressing the management skills shortage among African businesses are the efforts of the United Nation's Development Programme (UNDP) and the consequent creation of the African Management Services Company (AMSCO). A pioneer of capacity and skills development in the African business sector, the primary objective is to assist African businesses to become globally competitive, profitable, sustainable and grow through provision of training and placement of qualified and experienced professionals to work with businesses. AMSCO was set up to achieve this mandate by providing qualified, experienced, hands-on, professional management and related services to

selected businesses and commercially operated public enterprises, with the aim of strengthening management teams while developing local management capacity. The ultimate goal is to leave in place sustainable locally managed businesses integrated into the international business community. The relationships with African businesses are developed and maintained through AMSCO's managers who are the representatives in the businesses and form the crucial link between AMSCO clients and all its stakeholders (AMSCO, 2016).

Importance and Value of the Study

In order for AMSCO to realise its mandate of assisting African businesses to compete, grow, become sustainable and profitable, an evaluation of the effectiveness of the intervention were done. Many businesses in Africa fail not because of a lack of financial support but due to limited skills that are much needed on the continent. Previous research findings indicate that limited research had been done to determine the success of strategic intervention of the business environment in a southern African context (Cant & Wiid 2013).

Problem Statement

Businesses are critical for most of the growth in economies across Sub Saharan Africa and SMEs account for up to 90% of all businesses in these countries. In various research carried out in southern African, it is estimated that only 1% of new businesses will transition to a successful established profitable business (Fatoki 2014). The problem is that the value and contribution of strategic management interventions in transitioning businesses into profitable and sustainable businesses are often not determined (Akugri *et al,* 2015).

Research Objectives

The aim of this study was to determine the contribution of AMSCO’s strategic management intervention in business development, profitability and growth of African businesses.

2. LITERATURE REVIEW

African businesses are increasingly being recognised as productive drivers of economic growth and development for their respective countries. It is for instance estimated that Small and Medium Enterprises (SMEs) account for 70% of Ghana’s GDP and 92% of its businesses, 91% of formal businesses in South Africa and 70% of the manufacturing sector in Nigeria (Frimpong, 2016). There has been a noticeable increase in the widespread emergence of businesses, especially SMEs in Sub-Saharan Africa. Most countries in Sub-Saharan Africa have high aspirations and positive attitudes towards entrepreneurship, exhibit low levels of fear for failure and perceive many opportunities of starting up businesses. South Africa is the exception, where the contribution of SMEs to Gross Domestic Product (GDP) at 45% is low compared to other African countries (Kelley, Singer and Herrington, 2016). SMEs not only contribute significantly to the economy but also serve as a motivation for economic diversification through their development of new and unsaturated sectors of the economy. Innovative and technology-based businesses can provide an interesting platform for expanding outside of domestic borders, and entering intra-regional and international markets. In view of the increasing emergence of SMEs across sub-Saharan Africa and the significant potential that they hold, it is important to look at what kind of support businesses receive and their development, success and potential across the African continent (Gatt, 2013).

Business development has been identified as a crucial contributor to economic development. With the rate of unemployment ranging from 25% - 45% in most developing countries, self-employment and SME development has been identified by donor agencies as important to reach the poor. Their reasoning is that without a strong private business sector, businesses in developing countries will find it challenging to enter international trading systems. Unfortunately, although many donor agencies have been involved in business development projects in Africa since the early 1980s, little is known about their success or failure (Akugri *et al*, 2015: 14).

The lack or shortage of skills have been identified by many researchers as major contributors to business failures. Equipping entrepreneurs with the necessary or required skills in order to successfully bring about

employment, create more jobs, internationalise and stimulate wealth, remain a serious challenge in Africa (Bosch 2009:23).
According to Teran, Rodríguez, Bucci & Rorres-Gastelú (2008), competitiveness of businesses is determined by the level of development of their human capital, with large businesses generally recognising this as a strategic factor that must be present in their planning. Businesses realise increasingly the need of employing specialised people, with the skills to develop innovative solutions that give them a competitive edge and enable their continued survival.

Managerial Intervention Approaches and Strategies

It is in light of the above reasons that management intervention has been deemed necessary in bridging various gaps. Fatoki (2014) argues that when a business is established and grow entrepreneurs reach an "executive limit" at which point their limitations to manage a business often become detrimental to the business. In such cases, businesses that do not replace the entrepreneur with a professional manager are more apt to fail. This "executive limit" concept is consistent with the internal causes of failure. He further mentions that management or leadership mistakes are some of the causes of failure of businesses in general and especially SMEs. Some of the leadership mistakes that lead to business failures are due to a lack of structured managerial principles. Factors like underestimating business time requirements, family pressure on time and funds, lack of market awareness, lack of financial responsibility and lack of a clear focus give credence to the need of managerial interventions to ensure sustainability and growth.
Managers require basic skills to establish organisational goals and determine appropriate strategies to achieve these goals. The success of businesses in today's turbulent markets depends largely on their ability to engage in environmental scanning activities in order to understand trends in the environment (Temtime, 2010: 263). The processing, gathering and analysis of inter-operating environmental data requires managerial competence and expertise. The focus of most businesses is on operational activities and they do not engage in actual strategic planning. Some prepare business plans only for external validation by banks and creditors rather than for coordinating organisational activities (Temtime, 2008:37). Owner-managers often spend too much time fire-fighting rather that leading the business. As the environment of the business is dynamic rather than static, turbulent rather than stable, and requires managerial agility and capability, African businesses and especially SMEs should be assisted to think and act strategically (Pansiri & Temtime, 2008: 252).

Some of the Management Interventions Carried out by AMSCO.

The overall mandate of AMSCO is to build capacity in private companies operating on the African continent through provision of management services and facilitation of training activities. This is achieved through among other services, assisting African businesses to access specific skills and to assist in improving managerial and technical capacity where those skills are limited through strategic management interventions. The expectation is that expatriates should work with and train the local employees ensuring that the enterprise is not only assisted to grow but also that skills are transferred to the benefit of the host country.
When AMSCO intervenes in a business, it provides hands-on, experienced, middle - to top level managers to selected companies on three to five year contracts. Their key aims include assisting companies to:

- Install management systems
- Improve operational and financial performance
- Transfer capacity to local managers

AMSCO provides technical and administrative backup support to these managers and monitors their progress to ensure that the targets of the client businesses' are met.
Globally businesses, especially SMEs play an important role in empowering their communities and ensuring economic growth. Businesses are the driving force for most innovations and contribute to the growth of national economies through the provision of jobs, exports and investments. In addition, businesses help to absorb a significant part of the unemployed labour force thus reducing social problems associated with high crime rates, government expenditure on security related issues as well as costs of legal services (Akugri *et al*, 2015).

3. RESEARCH METHODOLOGY

The population of this study were 247 enterprises that have had AMSCO strategic management interventions within the southern African region during the period 2008 - 2011. The assisted enterprises were distributed across seven southern African countries namely South Africa (81); Angola (26); Zambia (67); Malawi (12); Botswana (16), Namibia (20); and Mozambique (25).

In the first stage of data collection a self-administered questionnaire, developed by the researcher were distributed to a purposive sample of 100 businesses that completed a three-year intervention process by AMSCO. For the second stage information on the 55 enterprises that completed the questionnaire were retrieved from company records such as reports, financial statements, employment records, industry documentation, the AMSCO Manager's quarterly reports and relevant databases. Comprehensive and adequate information and records were retrieved for 45 businesses. The questionnaires, reports, statements and documents were analysed to determine the performance of the enterprises supported by AMSCO prior to, during and after the strategic management interventions. Through this process the impact of the strategic interventions on the businesses were determined.

4. FINDINGS

The results of the survey and analysis of the business records were combined to determine the profile of the businesses and demographics of the owners

Business profile

Sixty-five percent of the businesses were SMEs and 35% large businesses. The revenue of the businesses ranged between $5 286 and $424 670 000 per annum on commencement of the intervention. The number of employees ranged between 4 and 2513 in the first year indicating the range from very small to large businesses involved in the AMSCO intervention programme.

The businesses included in the study were from sectors including finance, agriculture, tourism, retail, pharmaceutical and manufacturing with nine businesses in tourism and hospitality ranging from large multinational hotel groups, resorts, lodges, a start-up hotel group and game parks; eight investment funds and related businesses; seven agricultural businesses including fresh produce, forestry and aqua culture; five businesses in finance including micro financing and support, financial services and a fledgling bank; three insurance companies; two retail companies including a group of large established retail stores expanding to Africa and a business operating in industrial and consumer products; two pharmaceutical companies; two manufacturing companies specialising in plastic and rubber and one of each of commodity trading; export and trading; media and communication; transport; development; professional services; education and property.

The business structures were 45% fully locally owned; 25% joint venture with minority foreign ownership; 22% joint venture with majority foreign ownership; 4% multinational subsidiary, 4% did not report.

At 75% the majority of the business owners and managers of the participating companies were male, 70% were aged between 36 and 55 and 85% have Bachelor degrees or post graduate qualifications.

Business performance results

To determine the profitability and growth of the businesses their financial performance, employment information and business practices were evaluated before and after the intervention.

Financial Performance

Results from the survey regarding revenue performance pre- and post AMSCO intervention on respective statements were as follows:

31% respondents agreed that revenue increased before the intervention in comparison to 84% after the intervention

22% agreed that cash flow was positive before the intervention as opposed to the 69% after the intervention

55% agreed that a lot of waste in resources was incurred while generating revenue before the intervention in comparison to the 22% after the intervention and

24% agreed that management was able to plan ahead based on the revenue before the intervention as opposed to the 82% after the intervention.

Findings from the survey regarding profitability pre- and post AMSCO intervention on respective statements were as follows:
22% indicated that their businesses made profit before the intervention as opposed to 67% after the intervention 43% of the respondents agreed that there was an increase in the profits of the business before the intervention as opposed to 72% after the intervention and
19% of the respondents agreed that management was able to plan ahead based on the profitability before intervention and 79% agreed after intervention.

Analysis of financial records and statements
Out of all the data retrieved from AMSCO's records 74% experienced an increase in revenue after the AMSCO intervention, 57% experienced an increase in EBITDA and 62% experienced an increase in net profit.
Results from the survey regarding employment pre- and post AMSCO intervention on respective statements were as follows:
58% agreed that Employment opportunities increased in the business before and 91% after the intervention
91% agreed that the business retained many of its employees before and 100% after the intervention
56% agreed before the intervention that many employees resigned their jobs prematurely and 36% after the intervention and
60% agreed before the intervention that local employee training was done and 96% after the intervention.

There was an increase in jobs created. This has been tracked by monitoring the number of new jobs created after the intervention versus those lost in the process. Of the businesses whose data for employment numbers was available, 76% had an increase in employee numbers over the period of the intervention while employee numbers decreased in 22% of the businesses.
The net change in employee numbers over the three years varied between -30 and 4,586 with a total of 6577 jobs created and 182 job losses, a net gain of 6395 jobs. The average number of new jobs per business were 48, excluding the outlier were 4586 jobs were created.

Business practices, systems and processes
After the intervention 84% agreed that there were good business practices at their respective companies as opposed to 34% before the intervention.
At 83% most of the respondents agreed that there were good corporate governance practices after as opposed to 28% before the intervention.
In line with the above, 87% of the respondents agreed that there was an efficient means of production after the intervention as opposed to 20% before.
After the intervention 91% of the respondents agreed that there was more participation of local employees at management level as opposed to 38% before the intervention. This was identified especially within those businesses that had foreign ownership.

5. DISCUSSION OF RESULTS

According to the majority of respondents and the analysis of business records there were a marked increase in revenue, profitability, EBITDA and positive cash flow, improved planning and a reduction in resource waste after the intervention. The improved financial performance correlated positively with the development of management and employee skills.
On the negative side 21% of the enterprises experienced a decrease in revenue, 31% in EBITDA and 33% in net profit. Deeper analyses indicated that in addition to management, some businesses had other underlying problems that needed to be dealt with. These included governance issues and capitalisation challenges especially with smaller start-up enterprises faced with challenges of expansion even when the new management could see and had recommended expansion.
The survey results and analysis of records and data indicate increased employment, - employee retention and - training in the majority of businesses. However, as much as an increase in employment numbers reflected well on the results of the intervention, the decrease of employment numbers in some businesses did not diminish these achievements. It was noted that some businesses had to downscale their overheads, redundancies being a part of these, in order to restructure and perform better afterwards.

The reported improvement in business practices, corporate governance, production efficiency, locals in management and staff training after the intervention are remarkable.

6. LIMITATIONS OF THE RESEARCH

The sample was restricted to businesses that had completed their three to five year intervention with AMSCO and of sufficient management records and reports were available.
A substantial number of business owners and managers had sold or resigned from the businesses and could not be contacted.
Limited response to questionnaires and incomplete AMSCO data on some businesses.
Possible misrepresentation by managers to create a positive impression.

RECOMMENDATIONS AND MANAGERIAL IMPLICATIONS

For similar intervention models recommendations based on the results of this study are:
More funding to assist smaller enterprises in affording the required skills and training.
When hiring a skilled manager, businesses should enter an agreement at senior management levels with objectives, a plan, clear job descriptions and a monitoring system.
To improve the management and other skills of local employees and to take businesses to the next level it will be valuable if universities on the continent work closely with large - and multi-national businesses to make available management trainee opportunities for upcoming locals.
Longer intervention periods as a term of three years is often too short, especially for new and innovative businesses.
Develop and retain the best employees and ensure a sense of belonging and security, that will positively impact on the overall performance of the business.
Training should become an integral part of management strategy.
The findings show that intervention by experienced skilled management is valuable as it contributes to the success of African businesses. Management interventions assist to improve business performance and transfer required skills to staff with limited experience.

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