The development of leadership competencies index: The economic value added (EVA) approach

by

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DECLARATION

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I, **Meiya G Nthoesane**, declare that 'The development of leadership competencies index: The economic value added (EVA) approach' is my own work and that all the sources I have used or quoted have been indicated and acknowledged by citation and by means of complete reference list. Any publication that is as a result of this work has been included in this document.

Meiya G Nthoesane

Date

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ABSTRACT

Researchers posit that the primary objective of a business enterprise is to create shareholder value, and Economic Value Added (EVA) has been found to be the best available financial metric for measuring value. It is argued that EVA differs from other metrics in the sense that it incorporates both the enterprise profits and the capital costs for such profits. The study intended to establish attributes and competencies that are relevant, key and can bear the relationship with the EVA. In order to achieve this, the following questions were posed, namely; what key attributes and competencies an executive needs to possess for the purpose of organisational value creation?; and what is the measure to be utilised that includes these competencies to ensure organisational value creation and leadership development? The study aim was to propose and develop a diagnostic Value Creating Competencies Index, which is based on the components of or influenced by EVA.

The success of the study was based on three pillars, firstly, EVA as a superior financial measure. To support this, literature that supported that EVA is adopted as a superior financial measure compared to other accounting based measures was reviewed and critiqued. The second element of the study was the focus on CEOs as critical and important drivers of value in organisations. However, the available literature was not able to provide a convincing argument to focus ‘all’ the attention on CEOs at the expense of other executives and the organisation at large. To determine whether CEOs can be given this attention and prominence, we conducted an additional study that assessed the share price movement on the public announcement of CEOs on companies listed on JSE. The findings of this study showed significant movement of share price and volume traded, and on the strength of this observation we concluded that CEOs can be used in this study as drivers of value. The third element was to look at competencies and competency modelling as a conduit that links value creation (EVA) and creators of value (CEOs). The literature on competencies was consulted and that of modelling, looking at the advantages and disadvantages of competency modelling.

The study adopted a pragmatic paradigm and mixed methods approach. A qualitative dominant approach was followed. The study population consisted of Chief Executive Officers of the companies listed on the JSE top 40, who have had same position for a minimum of five years. Two CEOs could successfully be reached and interviewed. Data were collected through interviews, observations and documents analysis of the selected CEOs and their respective companies. Data were analysed qualitatively using the Atlas-ti software package, and then followed by a quantitative approach that was conducted using a Delphi approach. Two samples were utilised for this purpose. The first sample was a census of top 50 companies on Executive Search Review (United States headquartered companies that deals with CEO recruitments), the second sample was a random sample taken from JSE listed companies.

Qualitative results were presented and discussed and the competencies were identified and linked to actual performance in respective organisations. In addition, identified competencies were confirmed by linking to the relevant quotations from the interviews and or analysed documents. Based on the qualitative results a competency model, *Octastellatus* CEO Competency model was developed and presented. From the competency model, the competency index Sustainable Economic Value Competency Index (SEVCI) was constructed and presented. The index has four clusters, namely; the core competencies, enabling competencies, differentiating competencies and competitive competencies. The index measure is presented as the sum of weighted averages of the four clusters. It is believed that this research work have made a significant and unique contribution by providing a quantitatively validated CEO competency model and corresponding competency index for assessing potential ability to create economic value. In an area that previously had a disconnection between ability to create value and actual value creation is now a known area and it is represented by SEVCI.

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CHAPTER 1: INTRODUCTION AND OVERVIEW

1.1. Introduction

How can shareholders consistently expect executives to create value and wealth for their companies, compensate executives based on value creation, without ensuring that such value creating qualities and competencies are innate to executives? In recent years maximising shareholder value has become the widely accepted corporate paradigm. Studies by Stern, Stewart and Chew (1991) and Stewart (1991 and 1994) pioneered the development of Economic Value Added (EVA), and assert that EVA stands well out of the crowd as the single best measure of value creation for a company on a continuous basis. Subsequent to this, many studies have reported about different uses and adoptions of EVA and Sharma and Kumar (2010) compiled these studies in their work.

It is worth noting that these previous studies acknowledge the link between economic value creation and management performance. Some studies further recognise how this performance by firm executives is linked to their (executives') compensation. However, these studies are **unable** to establish a link between EVA and executives' development process (and personal capabilities). The study therefore was intending to answer the following business questions:

- What competencies and attributes are needed to ensure that executives will be able to create shareholder value?
- How do executives create this value in their respective organisations?

In addition, the study was executed with the intention of developing a leadership competencies index that can be utilised for both selection and development of business leaders.

1.2. Background

Economic Value Added (EVA)

Researchers such as Burksaitiene (2009), Yao, Sutton and Chan (2009), and Young and O'Byrne (2000) posit that the primary objective of a business enterprise is to create shareholder value, and EVA has been found to be the best available financial metric for measuring value. Most importantly, EVA differs from other metrics in the sense that it incorporates both the enterprise profits and the capital costs for such profits.

EVA is defined as the difference of profits and cost of invested capital; and is calculated as:

$$EVA = NOPAT - IC*WACC \qquad \text{Equation 1}$$

Where,

NOPAT = net operating profit after tax

IC = total capital invested

WACC = weighted average cost of capital

In the calculation of NOPAT, all non-operating items like interest and dividends on securities invested outside the business and non-operating expenses are not considered. The total capital invested is the sum of all shareholders' funds and loans. In determining WACC, cost of debt is taken as after tax cost and cost of equity is determined on the basis of capital asset pricing model (CAPM), and is given by the following formula:

$$K_e = R_f + \beta_i\,(R_m - R_f) \qquad \text{Equation 2}$$

Where,

R_f = risk free return

β_i = the measure of systematic risk of a security, the tendency of a security's returns to respond to swings in the broad market

R_m = expected market rate of return

The relevance and importance of EVA is that it focuses on both the profits and the cost of generating such profits; this is affirmed by Sharma and Kumar (2010). This makes EVA an integral business measure that can be used both internally and externally to measure performance because it is consistent with the organisational goal of creating value for shareholders.

Applications of EVA

Since its inception, extensive research has been conducted on EVA. Its uses can be broadly classified into the following themes as outlined by Sharma and Kumar (2010):

- EVA and stock returns - this focuses attention on EVA and firm performance as reflected by the share price performance and comparison with other accounting measures (Kryzanowski, Mohsni, Tortella and Brusco, 2003). However, the weakness in this approach is that there is an unstated perception that only listed companies do utilise or should utilise EVA.
- EVA-MVA relationship – includes the relationship and linkages between EVA and Market Value Added (MVA), and how these measures are used as valuable performance measures (Lee and Kim, 2009; Man and Vasile, 2009).
- Concept, criticism and implementation – Sharma and Kumar(2010) argue that this aspect covers the literature on EVA as a financial management system, strategy, implementation, limitations and misconceptions, and examples are found in De Villiers (1997), Saeedi and Akbari (2010), Satish and Rau (2009) and Yao *et al*. (2009).
- Value-based management - (Young and O'Byrne, 2000).
- Discounting approaches – the relationship with net present value (NPV), inflation adjustment and residual income are some of issues covered in this theme (Burksaitiene, 2009; de Villiers, 1997; Saeedi and Akbari, 2010).
- Managerial behaviour and performance management – the studies will include literature on managerial performance and compensation using EVA, the argument is that when managers are evaluated on EVA, they have stronger incentive to improve operational and capital efficiency (Bostan, *et al*., 2010;

Desai and Ferri, 2006; Murphy, 2007; Rodgers, 2007; Young, 2010, 1997).

The logic of using EVA in the latter theme (*managerial behaviour and performance management)* has been argued on the basis that when executives' compensation and performance are linked to EVA, they then start thinking and acting like owners of the company. Clearly, this will be beneficial for the long-term profitability and sustainability of an organisation. Extensive work has been done by Desai and Ferri (2006), Murphy (2007) and Rodgers (2007) in illustrating the nature of EVA and how it can be utilised as both a performance indicator and a tool for executive compensation. However, these studies fail to provide a link between this performance and the competencies and attributes required during the recruitment and selection phase of these executives, which is the argument being put forward in this research work.

Importance of competencies and attributes

For a performance measure to be effective, its components need to be linked to the competencies and attributes that were identified and were required during the selection process on an executive. The Anova Communications Group (2008) asserts that 'personality testing' and 'abilities testing' contribute to a cumulative 38% and 54%, respectively of job performance predictors. In addition, studies by Robie, Brown and Bly (2008) and Tyler and Newcombe (2006) confirm that personality traits assessment is related to managerial and work performance. Furthermore, Wise (1975) found that there is a positive relationship between personal attributes and job performance. Similarly, Glass (1985) argues that personal attributes are considered as key in assessing the possible success (which in the context of a company is equivalent to performance) in presidential candidates. Hemingway and Maclagan (2004) highlight that personal values play a role in how managers implement organisation's policy. Finally, Lieb (2003) affirms that attributes do play a key role when recruiters are searching for appropriate executives.

Heffernan and Flood (2000) conclude that organisations that adopt certain competencies become superior performers. This supports the argument of assessing and developing competencies for value creation. Therefore, it is essential to conduct competency assessment right at the selection phase of an executive so as to ensure a proper alignment of these competencies and the desired performance. Edgar and Lockwood (2011:61) assert that “competencies have been seen as capabilities held by people within a firm that, when applied to create products and services, make critical contribution to corporate competitiveness”. Several researchers highlights that competency assessment improves productivity (O'Leary, 2010); improves profitability and project performance (West and Crawford, 2010); assists in identifying and predicting performance and competency; is pivotal in identifying predictors of achievement and performance (McPhee and Kerr, 1985); is a valuable means in predicting leadership and responding to future leadership requirement, argues (Brownell, 2005); it ensures that set organisational outcomes are met (Laffan, 2009); and it is instrumental in identifying ‘focused’ executives (Kanaga, 2007).

Rationale for competency testing models

Research supports the view that competency models add value to both individuals and organisations (Hollenbeck, McCall Jr. and Silzer, 2006; Burke, 2001; Militello and Matthew 2010). Competency models are helpful for the individual in that they (a) summarise the experience and insight of seasoned leaders; (b) specify a range of useful leader behaviour; (c) provide a tool that individuals can use for their ***self-development;*** and (d) outline a leader framework that can be used to help select, develop, and understand leadership effectiveness. Furthermore, organisations have also benefited from utilising competency models. For instance, competencies help organisations by openly communicating which leader behaviours are important; help to discriminate the performance of individuals, link leader behaviour to strategic direction and goals of the organisation, and provide an integrative model of leadership that is relevant across many positions and situations. In using these competency models approach, this study also took note of the fact that some of the assumptions used can be problematic. Hollenbeck, *et al.* (2006) acknowledge this view and list the following assumptions as problematic with leadership competency models:

- Models assume that a single set of characteristics adequately describes effective leaders, and consequently those characteristics predict behaviour which in turn predicts effectiveness;
- Each of these characteristics is independent of the others and of the context, therefore having more of this characteristics makes a person a better leader;
- Because senior management usually '*blesses*' competencies and sometimes even helps generate them, they are the most effective way to think about the leader behaviour; and
- When human resources (HR) systems are based on competencies, these systems works better.

1.3. Research problem and question

The study intended to establish attributes and competencies that are relevant, key and can bear the relationship with the EVA. This study will argue based on available research that EVA is regarded as the concrete measure of economic profit and shareholder value. Extracting from this, various applications of EVA have been studied and this study focused on the usage of EVA to measure managerial performance and compensation. It was observed from the current literature and empirical studies that the **usage or influence of EVA as a tool for recruitment and selection of executives has not been developed yet**.

This approach is suggested because the available literature and research on EVA focus attentions on the comparison between EVA and stock returns; the relationship between EVA and MVA; further exploration on EVA as a financial management system tool; EVA to promote value-based management; relationship of EVA and other discount measures and EVA as a managerial behaviour and performance management tool.

It has also been highlighted that competencies and attributes can be utilised as proxy measure to predict future performance. It is on this backdrop that the study intends pursuing these questions:

- **What key attributes and competencies an executive needs to possess for the purpose of organisational value creation?**
- **What is the measure to be utilised that includes these competencies to ensure organisational value creation and leadership development?**

1.4. Research aims and objectives

The study aimed to propose and develop a diagnostic **Value Creating Competencies Index**, which is based on the components of or influenced by EVA. The study intended to realise this aim by achieving the following objectives:

- Identifying the key competences that can be linked to EVA;
- Provide a categorisation of these value creating competences;
- Distinguish the relationship(s) of these competencies with the EVA components; and
- Construct the weights for the identified competencies.

1.5. Relevance and significance of the study

Given that in practice EVA has been a widely adopted method of measuring value creation, this study intended looking at value creation right from the beginning. The study intended to suggest a proactive approach towards value creation, by proposing that organisations hire executives with value creating competencies and attributes. The envisaged index served as a tool to assess leadership competitiveness in organisations and as a benchmark for developing value creating leadership. The significance of such an index was to add to already existing benefits of EVA, but most importantly will be the ability to quantify leadership competencies in organisations. The study does accept the importance of concepts like triple bottom line; it is not intended to focus attention on environmental and social aspects of this form of reporting. The study was able to identify competencies and attributes for business leaders that are critical for shareholder value creation and can be linked to EVA. Once identified, these competencies were weighted and an index was developed that can be utilised to diagnose leader development status with regard to shareholder value creation. The same index can also be used periodically in organisations, to assess leadership and to compare with company's EVA.

1.6. Scope and limitations

- The study focused on the EVA as measure of value creation and also on profit making organisation because EVA as a measure is relevant to these organisations.
- Other value creating measures were introduced as a justification as to why the EVA was being recommended as a measure of shareholder value.
- For the purpose of sampling, only those companies listed on Johannesburg Stock Exchange were considered and only the executive members of companies were considered.
- Only those companies that have been listed for the minimum period of 10 years were considered.
- It was expected and observed that the greatest limitation of this study was the availability of executives as this is usually a biggest obstacle. Similarly, the development of this index does not in any way imply that it will be the only thing that will determine the value creating ability of executives in organisations, but it is a step towards understanding how value can be created in organisations.

1.7. Methodology

The study adopted mixed methods research approach in attempting to address the proposition that **there are personal competencies that can be identified and be measured from business leaders that are innate in enabling executives to create value for their shareholders**. The collection of data for this approach was by means of in-depth personal interviews involving Chief Executive Officers (CEOs), and purposive sample method was followed.

The data were analysed through a process of inductive coding, theme formation and categorisation of data. The qualitative phase of the study followed an unstructured interviews and content analysis, from which the research tool (survey) was developed from qualitative approach and was piloted to ensure that all aspects of validity and reliability are being met before commencing the quantitative phase of the study.

1.8. Chapters Outline

This report is arranged in the following order: Chapter One presents the overview and introduction to the study; Chapter Two discusses and critique the literature; Chapter Three discusses the research methods utilised, Chapter Four presents and discusses the findings, Chapter Five discusses draw conclusions, presents recommendations and highlights future research prospects.

Chapter 1 Introduction and Overview

This chapter focuses on the conception of EVA and its applications in a business environment, as well as the limitations of EVA application and how this links to the utilisation of competency assessment tools. The chapter further highlights the critical research elements of problem statement, purpose and importance of the study, research question, working proposition, research design and summary of chapters.

Chapter 2 Literature review

The chapter commenced by providing a basis in which the study is grounded, and this is formed by a **trio** of:

- EVA as a financial measure;
- CEOs as critical and important drivers of value in organisations; and finally
- Competency modelling as a conduit that links value creation (EVA) and

creators of value (CEOs).

Comprehensive literature was conducted covering aspects of EVA, namely; applications; why is the EVA an acceptable measure of value and limitations. Similarly, the study also looked at competencies and why they are regarded as important in ensuring improved performance in organisations. The study then focuses on competency assessment and their roles in business process development. This was concluded by looking at the limitations of competency assessments. In order to justify CEOs as unit of analysis, an event study research was conducted to justify the attention on CEOs. The study is more inclined towards the recruitment and development of business leaders for value creation in their respective companies. Therefore, this necessitated a review of leadership theories with the aim of bridging the gap between finance and leadership disciplines.

Chapter 3 Research methodology

This chapter presents and covers what was done in technical terms and may also explain why certain methods were utilised. Key sections of this chapter covered research design, population and sampling designs, data collection methods, research procedures, data analysis methods and dissemination. Statistical analysis methods are discussed in this section. In addition, ethical considerations are discussed in this section. The chapter further elaborates on how the index was formulated.

Chapter 4 Presentation and discussion of qualitative results

The chapter presents and discusses the results of the study in detail. The chapter further reports on competencies found to be related to EVA and the validity of the competency model.

Chapter 5 Presentation and discussion of quantitative results

The chapter presents and discusses the results emanating from the survey questionnaire in detail and presents the findings of the Sustainable Economic Value Competencies Index (SEVCI).

Chapter 6 Conclusions and recommendations

The chapter gives a summary of the study and findings on whether the competencies index tool is a relevant and viable tool to be incorporated in business processes while assessing and selecting executives. It also provides recommendation as a foundation for future research in this area.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

This study is based on three elements, namely:

- **EVA** as a superior financial measure;
- **CEOs** as critical and important drivers of value in organisations; and finally
- **Competency modelling** as a conduit that links value creation (EVA) and creators of value (CEOs).

These three elements are considered in an attempt to answer the question that runs through this study, namely, **how can shareholders consistently expect executives to create value and wealth for their organisations and compensate executives based on value creation, without ensuring that such value creating qualities and competencies are innate to executives**? In recent years maximising shareholder value has become a widely accepted corporate paradigm. Studies by Stern, et *al.* (1991), Stewart (1991) and Stewart (1994) pioneered the development of EVA, a financial measurement for real economic value. These studies assert that EVA stands well out of the crowd as the single best measure of value creation for an organisation on a continuous basis; this notion is also supported by Ward and Price (2008). Subsequent to the establishment of EVA, many studies have reported the different uses and adoptions of EVA, and studies are reflected by the work of Sharma and Kumar (2010). It is worth noting that these previous studies acknowledge the link between economic value creation and executives' performance, and further recognise how the executives' performance is linked to their compensation.

Noble as they sound, these studies have limitations with regard to the role of competencies in the executives' development process and value creation. The most fundamental flaw lies in the fact that there seems to be no strategic link between EVA as a performance measure and the capability of executives to create value in organisations. This study aims to bring to light the notion that one cannot measure what was never assessed. As a result, the study further aims to bring to surface the notion that there needs to be an exploration as to why is there a disjuncture between executives' performance and executives' competency with regard to the utilisation of EVA metric. The argument in this study is that there should be competencies that are inherent towards developing shareholder value.

2.2 Measures of value

Researchers including Burksaitiene (2009), Goldberg (1999), Morard and Balu (2009), Yao, Sutton and Chan (2009), and Young and O'Byrne (2000) posit that the primary objective of a business enterprise is to create value for both shareholders and the society. This observation is in tangent with that of Friedman (1970) who emphatically states that the only business of business is business. In this context, we could simply extrapolate that the business of leadership is to drive profits for their organisations, supporting the argument that the primary objective of an enterprise is to drive shareholder value. This positioning puts sole focus on shareholders and this has sometimes led to attitudes like 'maximising profits at all costs'. Unfortunately, this approach to both business and leadership has proven destructive; leading to Horwitz and Grayson (2010) reorienting the business of business to be "sustainable business". The latter observation does not abdicate the role of business leaders from creating value for their shareholders, rather extends their responsibility to creating sustainable economic value for all the involved stakeholders (shareholders, employees, suppliers, authorities, communities, competitors, environment, etc.).

It is accepted in this study that EVA is accepted as the superior measure of economic value in organisations. However, the concept of shareholder value is not a new one as it has been reported as early as in the late 19th century by scholars like Marshall (Nam, Kwon, Kim and Lee, 2009). As a result, there are many ways in which firm value can be measured, and these measures of value highlight that firm value can be measured by determining the excess returns

between firm's operating profits and the capital invested to generate such profit within a specified reporting period. In practice, varying value measures have been utilised to measure shareholders' value, and these include, but not limited to:

- ***Net Income (NI)*** – this is an accounting-based measure and consists of cash flows from operations (CFO) plus accruals and deferrals (ACCRUALS) (Goldberg, 1999).

NI = CFO + ACRRUALS **Equation 3**

- ***Return on Investment (ROI)*** – this is the measure that was developed to help manage a vertically integrated entity, it is a performance measure used to evaluate the efficiency of an investment or a number of investments. The intent of the measure is to evaluate the firm success by comparing its operating income to its invested capital (Brewer, Chandra and Hock, 1999). However, the key limitation of ROI is that if executives are compensated based on this measure, they will turn to make investment decisions biased towards themselves at the expense of the overall firm's best interest. Because the sole aim will be to have high ROI even if the investment proves to be futile in the long run. It is denoted by the equation below.

$$\mathrm{ROI} = \frac{\text{Operating Income}}{\text{Investment}}$$ **Equation 4**

- ***Residual Income (RI)*** – residual income is defined as the net operating income (net income plus after tax cost of debt, NOI) less the cost of all the capital employed in the business. This cost of capital is the opportunity cost of investing capital in a particular firm instead of alternative investments of the same risk magnitude and profile. The short-fall of RI lies in the fact that it is based on historical information and is based on accounting standards. Furthermore, the residual income approach cannot be used to compare the performance of firms with divisions of different sizes.

$$\mathrm{RI} = \mathrm{NOI} - k_e \times \mathrm{CAPITAL}$$ **Equation 5**

- ***Return on Net Assets (RONA)*** – is the indication of the ability of the firm to generate profits relative to the amount of capital employed (Desai and Ferri, 2006). However, even though RONA reflects the amount of capital used to generate profits, this measure does not incorporate the rate required by investors providing such capital. This relationship is reflected in the figure 2.1 below, in a hypothetical ABC (Pty) Ltd. And then there is economic value added.

RONA = Net Income/ (Fixed Assets + Net Working capital) **Equation 6**

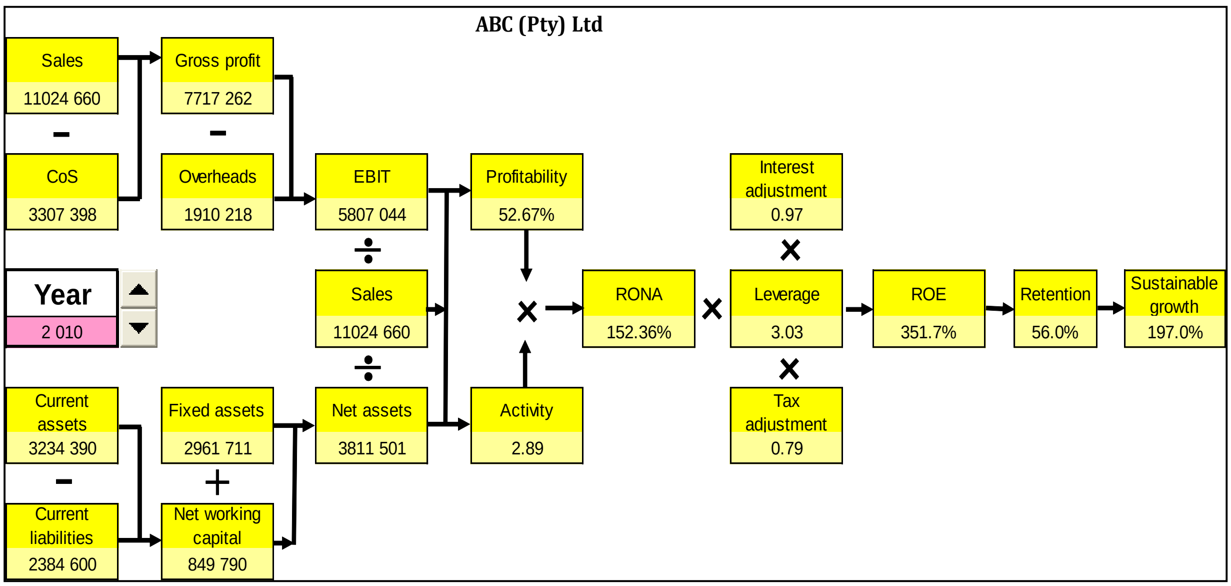

Figure 2.1: RONA relationship of a firm, Source: Author

- ***Economic Value Added (EVA)*** – EVA is the variant of residual income measure. The proponents of EVA argue that by making **market related adjustments** (Worthington and West, 2001) to the financial statements makes it (EVA) to be a superior and more convincing measure of value, than its predecessor residual income, *albeit*, being argued that these adjustments are difficult to understand and are costly. EVA is the cash generated from the operations during the specified accounting period less the amount needed to replenish capital less the opportunity cost of holding the capital used by the business during that period (Goldberg, 1999).

This study accepts EVA as the convincing measure of shareholder value in that as a performance measure, it pays attention to both the internal company processes that drive efficiency to produce profits. Equally important, the study acknowledges that EVA puts the emphasis on minimising the cost associated with financing the capital that will produce the said profits. Furthermore, EVA encapsulates most of the value drivers identified by Fiordelisi and Molyneux (2010), these authors concluded that there are factors that are significant drivers of economic profits and shareholder value. They include:

- *income diversification;*
- *cost and revenue efficiency;*
- *financial leverage;*
- *firm assets size; and a*
- *decrease in market risk exposure*.

This relationship is reflected in the figure 2.2 below.

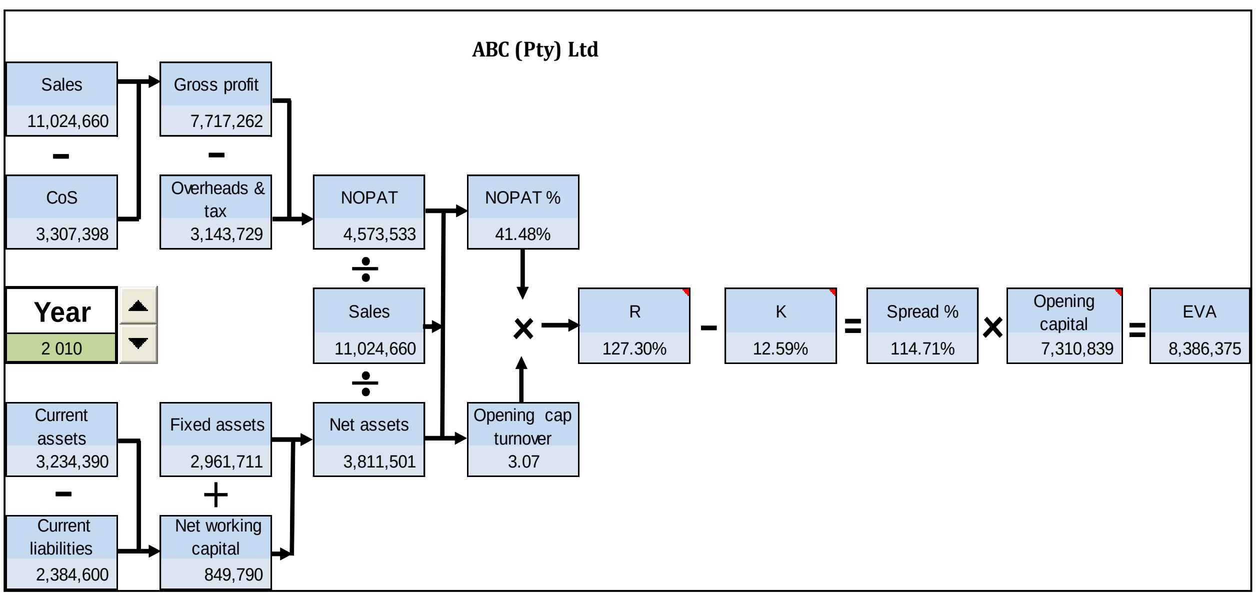

Figure 2.2: EVA relationship of a firm, Source: Author

2.3 Economic Value Added (EVA)

In support of EVA, many studies and researchers declare that EVA is the best available financial metric for measuring value (Brewer, Chandra and Hock, 1999; Fatemi, Desai, and Katz, 2003; Fiordelisi, Stefano and Monferrà, 2009; Fiordelisi and Molyneux, 2010; Kryzanowski and Mohsni, 2010; Lee and Kim, 2009; Nam *et al*., 2009; Stern, Stewart and Chew, 1991; Yao *et al*., 2009; Young and O'Byrne, 2000; Young, 2010). The argument put forward is that EVA differs from other metrics because it incorporates both the enterprise profits and the capital costs for such profits. In addition to supporting EVA as measure of reflecting company's value created, Tian, Zhang and Rensel (2014:20) report that it is even more necessary for managers to pay special attention to enhancing the "efficiency of the usage of "equity" (Tian, Song, Li and Zhang, 2012:26) capital in order to increase value creation to shareholders." This observation is inevitably placing special attention to managing the cost of capital of EVA, the very distinguishing feature of EVA as compared to other accounting-based measures. Furthermore, the utilisation of EVA ensures that executives do not underutilise the available capital that could have earned a return in excess of a firm's cost of capital. Madhavi and Prasad (2015:19) emphatically argue that EVA "gives us the true profitability of the firm," which is the intended object of the company's shareholders.

The fundamental feature of EVA is that it incorporates the charge for the utilisation of both debt capital and equity capital. It differs with accounting earnings in that the latter only deduct the after tax cost of debt. Consequently, this fundamentally distorts the real economic profits because the cost of equity capital is not included. However, if the enterprise was to be fully financed with debt, the argument of accounting earnings could hold but it is known that this form of financing is not desirable because the company will be over leveraged and much needed value will be eroded. EVA is defined as the difference of after-tax operating profits and cost of invested capital and is calculated as:

$$EVA = NOPAT - C_{inv} * WACC$$ **Equation 7**

When expanding both the NOPAT and WACC, then

$$= \quad [EBIT \times (1-T_c)] - [C_{inv} \times [\%equity*K_e + \%prefs^{1}*K_{prf} + \%debt*K_d*(1-T_c)]]$$

Equation 8

Based on the work of Fama and French (1996), Mordant and Muller (2003) and Ward and Muller (2010), the cost of equity capital can further be expanded as shown below and detailed later. To incorporate the interpretation of equity risk and debt risks by Ganea (2015), the formula for EVA can be represented by

$$\boldsymbol{f(EVA) = [(Rev - OpEx) * (1 - T\_c\ ] - \{[T\_e + T\_d\ ] * [S_p * (\alpha_{i,t} + \beta j, 1SGNt + \beta j, 2SGRt + \beta j, 3SVNt + \beta j, 4SVRt + \beta j, 5MGNt + \beta j, 6MGRt + \beta j, 7MVNt + \beta j, 8MVRt + \beta j, 9LGNt + \beta j, 10LGRt + \beta j, 11LVNt + \beta j, 12LVRt + \varepsilon jt) + G_i * K_d * (1 - T_c)]\}}$$

Equation 9

Where,

Rev	= *revenue generated from all sales*
O_pE_x	= operating expenses
NOPAT	= *net operating profit after tax*
C_{inv}	= *total capital invested*
WACC	= *weighted average cost of capital*
EBIT	= *earnings before interest and tax*
T_c	= *tax rate*
T_e	= *total equity capital from investors*
T_d	= *total interest bearing debt capital from creditors and lenders*
K_e	= *cost of equity capital*
K_d	= *cost of debt capital*
S_p	= *solvency ratio, a ratio of equity/total capital invested* (Ganea, 2015:103)

[1] Preference share are regarded as negligible and therefore will be omitted in the calculation.

G_i = *indebtedness, a ratio of borrowed capital to total capital invested* (Ganea, 2015:103)

In the calculation of NOPAT, all non-operating items like interest and dividends on securities invested outside the business and non-operating expenses are not considered. The total capital invested is the sum of all shareholders' funds and loans. In determining WACC, the cost of debt is taken as after tax cost. With respect to cost of equity, Fama and French (1992) argue that CAPM with its emphasis on the single-factor beta model provides little explanation for the cross-section of expected returns. And in their subsequent work, Fama and French (1996) argue that the expected return on a portfolio in excess of the risk-free rate $[E(R_j) – R_f]$ is better explained by its sensitivity to the following three factors:

- The excess return on a broad market portfolio $(R_m – R_f)$;
- The difference between the return on a portfolio of small stocks and the return on a portfolio of large stocks (SMB, small minus big); and
- The difference between the return on a portfolio of high book-to-market stocks and the return on a portfolio of low book-to-market stocks (HML, high minus low), such that when this model is used, the anomalies largely disappear.

Based on this observation, Mordant and Muller (2003) with the study done on JSE listed companies, recognise the concentration of resource securities on the JSE. Therefore, they included the resource factor as another element that contributes to the expected returns which is not accounted for by the simple CAPM model. In addition, the size effect is further broken down into large, medium and small market capitalisation securities. As a result, this approach was adapted (Ward and Muller) and 12 factor-mimicking portfolios can be constructed, as compared with the eight factor-mimicking portfolios used by Mordant and Muller (2003), thus representing all possible combinations of the three market effects, as shown in table 2.1.

Table 2.1: Factor-mimicking control portfolios, Source: Adapted from Mordant and Muller (2003:21)

	Large		Medium		Small	
	Value	**Growth**	**Value**	**Growth**	**Value**	**Growth**
Resources	LVR	LGR	MVR	MGR	SVR	SGR
Non-resources	LVN	LGN	MVN	MGN	SVN	SGN

Key:	LVR	=	Large, Value, Resources
	LVN	=	Large, Value, Non-resources
	LGR	=	Large, Growth, Resources
	LGN	=	Large, Growth, Non-resources
	MVR	=	Medium, Value, Resources
	MVN	=	Medium, Value, Non-resources
	MGR	=	Medium, Growth, Resources
	MGN	=	Medium, Growth, Non-resources
	SVR	=	Small, Value, Resources
	SVN	=	Small, Value, Non-resources
	SGR	=	Small, Growth, Resources
	SGN	=	Small, Growth, Non-resources

The construction and classification of the above-mentioned effects can be determined as follows:

- A company's size is measured by its market capitalisation. All the companies listed on the JSE are ranked in descending order of market capitalisation and the 40 shares with the largest market capitalisation constituted the large capitalisation portfolio. This replicated the JSE's ALSI40 Index. Shares with a market capitalisation that fell into the category 41st to 100th constituted the medium capitalisation portfolio. The remaining shares made up the small capitalisation portfolio (Mordant & Muller, 2003:31);
- A company is classified as a growth or value investment by using the price-to-book value ratios of all companies listed on the JSE. The price-to-book value ratios can be calculated from the credible market database, like the McGregor BFANet database and ranked, after which the median price-to-book value ratio can be determined. All companies

with price-to-book ratios above the median will be classified as growth investments and the remainder as value investments (Mordant and Muller, 2003); and

- The broad JSE sector groupings can be used as criteria to decide whether a stock is a resource share or not. All mining and non-mining resources shares are classified as resources while the rest of the market is classified as non-resources (Mordant and Muller, 2003:31).

Sharma and Kumar (2010) acknowledge the relevance and importance of EVA and the fact that EVA focuses on both the profits and the cost of generating such profits. This supposedly makes EVA an integral business measure that is used both internally and externally to measure performance both of the firm and that of executives because it is consistent with the organisational goal of creating value for shareholders. Similarly, Hamilton, Rahman and Lee (2009) contend that EVA adopters display less negative performance than non-adopters.

Contrary to the widely accepted view by many scholars that EVA is directly linked to firm value creation, a study by Nappi-Choulet, Missonier-Piera and Cancel (2009) conclude that there is a negative association between firm performance and EVA. The study above is probably trying to bring a new thinking as to how we conceptualise and accept the notion of positive relationship between value creation and EVA. However, it highlighted what can be regarded as fundamental limitation while measuring a proxy for performance. The proxy utilised was based on accounting standards which were reported at historical costs. These lacked the market-related adjustments that EVA implements to justify its claim of real economic profits. Sloof and Van Praag (2015: 74) argue that EVA is a “distorted performance measure that elicits the gaming response.” These authors report that over-reliance on EVA may lead to managers engaging in earnings management and short-termism in an attempt to artificially boost current EVA at the expense of future EVA. Visaltanachoti, Luo and Yi (2008) theorise that EVA shows no superior power to other accounting measures, and further argue that EBIT is highly associated and better explains company returns. While the finding is not incorrect, it is worrisome to omit that EBIT is component of EVA. Therefore, to compare EBIT to EVA is quite odd. Secondly, neither accounting adjustments to EVA nor impact of cost of capital invested in creating earnings is acknowledged as a possible distortion in this study.

In addition, Mittal, Sinha and Singh (2008) in a study that used code of ethics and Corporate Social Responsibility (CSR) as a proxy for company performance found no convincing relationship with EVA. Palliam (2006:204) found that "EVA users are not necessarily superior to non-EVA users." Furthermore, Ismail (2006) reports that accounting measures like net operating profit after tax and net income outperform EVA in explaining stock return. However, this argument attracts the same criticism as that presented for Visaltanachoti *et al.* (2008) above. El Mir and Seboui (2008) found no superiority of EVA over other measures especially when compared to what they called Created Shareholder Value (CSV). Even more, Kim (2006) also found that EVA has a very little explanatory power in measuring shareholder value. However, the study was repeated later by Lee and Kim (2009) concluded that indeed EVA is a superior measure of firm performance and value. The current study by Gupta and Sikarwar (2016: 436) reports that "EVA has more relevant and incremental information content than accounting measures for analysing shareholder value creation. These results confirm that EVA is a better performance measure than traditional accounting measures". In addition, Steward (2014) concludes that when shareholders and directors reward for EVA, in essence they are giving executives a practical way to win with the incentive to increase EVA as a carrot. The pitfalls of EVA are noted and like all other models and metrics, it is taken that EVA "cannot be **THE** only solution." Therefore, this study accepts that EVA does provide a superior measure of shareholder value creation, and accordingly, the ability to create value should form fundamental competency for executives' appointment.

2.3.1 Applications of EVA

Since its inception, prolific research has been conducted on EVA, and its uses can be broadly classified into the following seven themes as outlined in the figure 2.3 below.

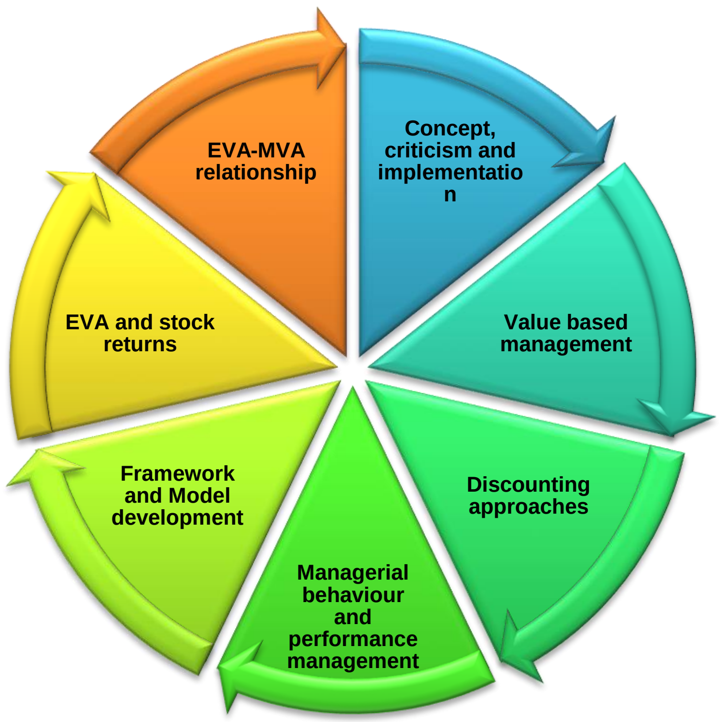

Figure 2.3: Applications of EVA, Source: Author

- **EVA and stock returns** - this focuses on EVA and firm performance in comparison with other accounting measures, in particular the predicting power of EVA to positive stock performance as measured by price performance (Saji, 2014; Cendrowski, 2013; Kryzanowski and Mohsni, 2010; Yao, Sutton and, Chan, 2009; Fiordelisi, Stefano and Monferrà, 2009; Tortella and Brusco, 2003). Hasani and Fathi (2012) also report a positive correlation between EVA and stock market value.
- **EVA-MVA relationship** – includes the relationship and linkages between EVA and Market Value Added (MVA), and how these measures are used as valuable performance measures (Fiordelisi and Molyneux 2010; Lee and Kim 2009a; Man and Vasile 2009; Stewart, 2014). For

example, Kim, Ahn and Yun (2004) found a strong positive correlation between EVA and MVA during the contraction period of a business cycle.

- **Concept, criticism and implementation** – Sharma and Kumar (2010) argue that this aspect covers the literature on EVA as a financial management system, strategy, implementation, limitations and misconceptions, and examples are found in several studies such as Yao, Sutton and Chan (2009); Satish and Rau (2009); Saeedi and Akbari (2010); de Villiers (1997). In addition, Ehrbar (1999) and Rompho (2009) report that EVA is an ideal tool that companies can consider for optimal capital budgeting and strategic planning. Even though EVA cannot determine strategy, the author reports that it is however "a best analytical framework in which to evaluate alternatives" (Ehrbar, 1999:24).
- **Value based management** – these studies include for example using EVA as a proxy for justifying pricing of operating costs; other unobservable decisions and company-specific policies for improving economic results (Austin, 2005; Young and O'Byrne, 2000; Nam, et al. 2009; Altendorfer and Jodlbauer,2011). While Foshee (2000) asserts that EVA guides management decision making and guides corporations' finance decision for enhancing value in organisations. This is what Stern (2004) refers to as maximising market value added.
- **Discounting approaches** – it is also used as a corporate valuation and a reporting tool. Mathematically, it can be derived that the value of a company can be expressed as the sum of the operating invested capital and the present value of future expected EVAs (Shrieves and Wahowicz, 2001). In addition, the relationship with Net Present Value (NPV), inflation adjustment and residual income are some of issues covered in this theme (Burksaitiene, 2009; Saeedi and Akbari, 2010; De Villiers, 1997).
- **Managerial behaviour and performance management** – the studies will include literature on managerial performance and compensation

using EVA. The argument is that when managers are evaluated on EVA, they have stronger incentive to improve operational and capital efficiency (Desai and Ferri 2006; Young 2010; Mittal, Sinha and Singh 2008; Ghani, Tezel, Ragan and Stagliano, 2005; Rodgers, 2007; Bostan *et al*. 2010; Young, 1997; Murphy, 2007). Poornima, Narayan and Reddy (2015) report that EVA is also being used as the tool for performance management. Similarly, Bahri, St-Pierre and Sakka (2011:603) assert that "EVA can be a useful tool for performance management of SME when used in conjunction with a list of business practices." These practices include sales management, manufacturing management, financial management, production equipment management and working capital management practices. Similarly, Hamilton *et al.* (2009) claim that EVA is used for both aligning executive incentives and improving organisational performance.

- **Frameworks and models development**: could it be argued that the new wave of research in EVA is about model development around the fundamentals of EVA? Shad and Lai (2015) present the conceptual framework that develops the enterprise risk management performance measure through economic value added. Arguably, this will probably pave the way for future research in EVA as this study also aims to develop a competency index framework through the economic value added.

2.3.2 Economic Value Added (EVA) as a measure of executive performance

The logic of using EVA in the latter theme has been argued on the basis that when executives' compensation and performance are linked to EVA, they then start thinking and acting like owners of the company (Goldberg, 1999). Performance and compensation plans' objective is to encourage executives to take decisions that will add value to the company. Most importantly, EVA motivates executives to act in the best interest of the firm, because if they add value to the company, such ***act*** will be rewarded and reflect in their bonuses. Accordingly, the EVA system punishes mediocre performance. If executives make decisions that destroy value, then in the same manner bonuses are lost. Goldberg (1999) further identifies the benefits of EVA compensation and bonus plan over conventional plans as follows:

- Executives are rewarded for continuous improvement rather than just level of EVA;
- No need to reset or re-negotiate the plan;
- Bonuses are tied to performance measurement that is highly correlated to shareholder value;
- Executives win (or are penalised) when shareholders win (lose), further noted by Copeland and Dolgoff (2006); and
- Compensation plan drives budget; budget does not drive bonus plan.

Clearly, the system of this form is beneficial for the long-term profitability and sustainability of an organisation. Extensive work has been done by Desai and Ferri (2006), Rodgers (2007) and Murphy (2007) in illustrating the nature of EVA and how it can be utilised as both a performance indicator and a tool for executive compensation. In addition, EVA has been widely promoted and preferred as a performance measure and as a tool for assessing CEOs' performance (Ghani *et al*. 2005; Coles *et al.* 2001). EVA aims to create a connection and harmony between the decisions of both shareholders and executives. This is done in the form of creating synergy and alignment between investment decisions and performance measure by executives and shareholders, respectively, (Goldberg, 1999).

The theory and studies that put EVA at the centre of managerial performance assessment and as a tool for executives' compensation presents a **fundamental flaw** to the theory and concept of leadership and leadership performance in organisation. The uniformity in which the EVA measure is applied to measure leaders' performance presupposes that there is one universal approach to leadership and leaders behaviour. Even if this is not the assumption, these researchers have been very silent on the role of leadership in driving organisational performance. In practice, companies perform differently, irrespective of performance measures that are put in place, which puts forward the argument that something bigger than performance measures should be driving organisational performance.

The **second most fundamental flaw lies in the fact that it seems to be no strategic link between EVA as a performance measure and the capability of executives to create value** in organisations.

This study argues that one cannot assess what was never measured.

The underlying ***fundamental assumption*** (even though not clearly articulated) of using EVA as a performance measure and a tool for compensation is that executives do possess the competencies and capabilities essential to create shareholder value, hence measured by EVA.

Clearly, this assumption lacks substance because until the ability to create value can actually be assessed or be estimated. Executives that are assessed based on EVA for their performance are not fairly treated. It is for this reason that this study aims to bridge this gap (see figure 2.4) by identifying those competencies that could at least be used as a proxy for creating shareholder value, and propose a ***value creating index*** that is influenced by EVA components. Only then, it can be justified that executives' performance be measured by EVA, and that EVA be utilised as a compensation tool.

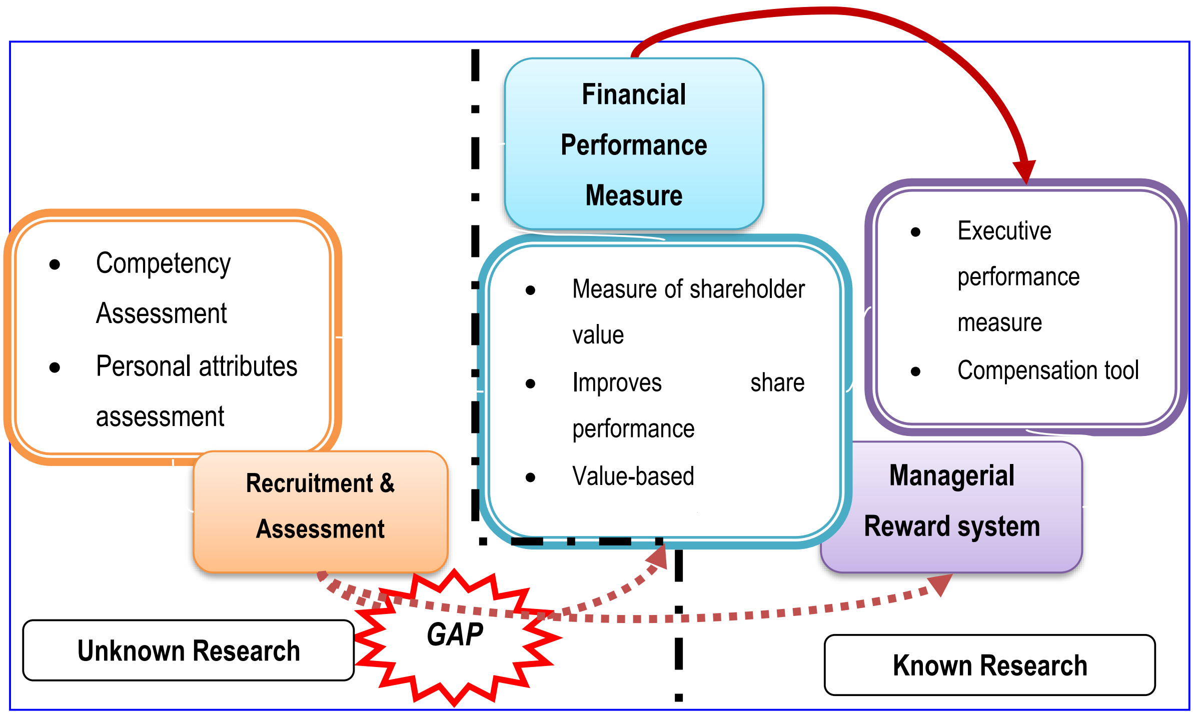

Figure 2.4: EVA Applications Model, Source: Author

2.4 How competencies creates economic value

2.4.1 Competencies characteristics

There has been much confusion in literature regarding, the terms *competency*, *competence* and to a certain extent *competent*. This study differentiates as follows:

- **Competencies** should not be seen as a job or a task, rather as *that which enables people* to perform the work; as a class of attributes that can be used to characterise individuals and their behaviours (Mitchelmore and Rowley, 2010); and as a capability or ability (Boyatzis, 2008). Schramm (2016) and Ennis (2008) define competencies as the capability of applying or utilising knowledge, skills, abilities, self-image, mind-set, way of thinking, behaviours personal physiognomies, when used in a specified role to successfully perform to achieve a desired role. While Spencer (2003) defines competencies as reliably measurable, relatively enduring attributes that cause and predict criterion level of performance.

- **Competences** on the other hand involve the *evaluation of performance in a specific domain or activity*.
- And linking the two is an act of being **competent**.

This relationship in the context of EVA and executive performance can be illustrated in the EVA application model in Figure 2.5. This illustration provides clarity as far as how these related terms are distinguished in this study. Furthermore, Hersey, Blanchard and Johnson (2001), Mitchelmore and Rowley (2010) and Sudsakorn and Fredric (2009) assert that competencies can be described in terms of *personal traits, skills, knowledge and experience* of the executive that leads to superior managerial performance. Within this context, an executive who can portray a certain class of competencies that are regarded as value-creating should be *competent* in creating economic value for the organisation. This *competence* is measured by EVA informed performance measurement instruments.

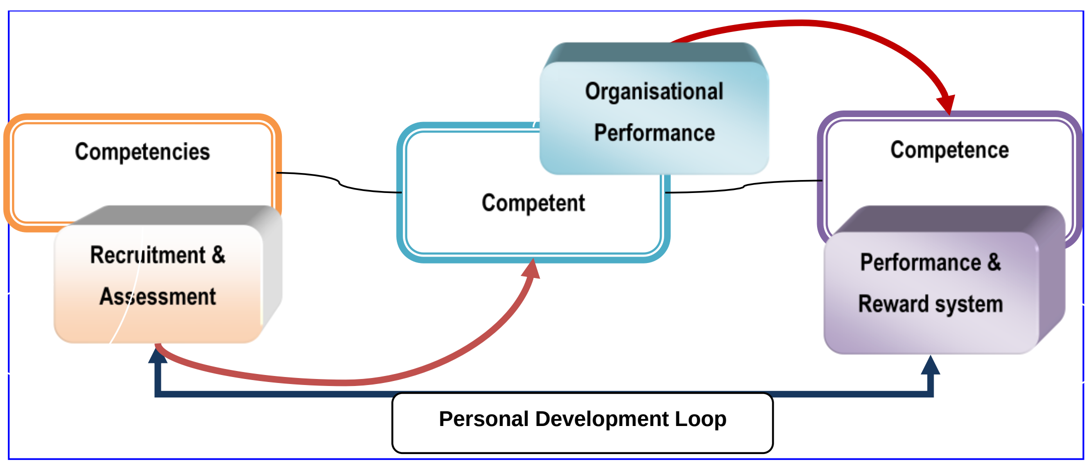

Figure 2.5: Competency-Competent-Competence relationship in EVA Application Model, (Author)

Studies have shown that there is a relationship between the competencies and organisation's superior performance (Bertoncelj, Kovač and Bertoncel, 2009; Dreyfus, 2008; Kagaari and Munene 2007; Qiao and Wang, 2009; Resnick, Ugaz and Burford, 2010; Sudsakorn and Fredric, 2009). Hence it is conceptualised here that there should be competencies that should be related to creating shareholder value. This renders support to the view that certain competencies will lead to superior performance than others. Hence, to create value, one needs to have an understanding of which competencies are important in an attempt to achieve this superior performance. Boyatzis (2008) identified three critical steps in constructing competencies of superior importance. These are the *action* (that is a set of alternative behaviours); the *intent* – which calls for measurement methods that allowed for assessment of both the presence of the behaviour and the inference of the intent; and finally *measurability*, the ability to measure these competencies. Accordingly, this assertion is compatible with the conception that competencies can be essential in ensuring the creation of economic value in organisations, in three simple ways:

- **Action** – this is defined as set of behaviours; refers to the skills and knowledge and experiences that an executive should possess;
- **Intent** – the underlying intent which is the ability to create shareholder value; and
- **Measurability** – by developing a measuring tool or an index that can measure these competencies in executives.

Research highlights that one of the interesting distinctiveness of competencies is that they can be *developed* in adulthood (Boyatzis, 2008). This is critical in that it provides a platform for continuous leadership development which is an essential factor in developing leaders for creating value for their organisations. This is also illustrated in **personal development loop** in Figure 2.5 above. Furthermore, Greaver (1999) asserts that competencies are a source of an organisation's future competitive advantage and critical ingredients of organisation's core competencies; a much needed contributor to sustainability, profitability and value.

2.4.2 Importance of competencies and attributes

For a performance measure to be effective, its components need to be linked to the competencies and attributes that were identified and were required during the selection process of an executive. This is important because authors like Wise (1975) found that there is a positive relationship between personal attributes and job performance. Similarly, Glass (1985) asserts that personal competencies are considered as key in assessing the possible success (which in the context of a company can be equivalent to performance) in presidential candidates. In contrast,Hemingway and Maclagan (2004) highlight that personal values play a meaningful role in how managers implement organisation's policies to achieve the creation of value. Finally, Lieb (2003) affirms that competencies do play a key role when recruiters are searching for appropriate executives. King and Zeithaml (2001) also suggest that competencies are associated with higher firm performance, especially if these competencies are inimitable because this results in competitive advantage of a firm.

To this end, it is becoming clear that the role of executives' competencies in organisation's value creation cannot be overlooked. In support of this assertion, Heffernan and Flood (2000) illustrate that **organisations that adopt certain competencies become more superior performers than their counterparts,** a position further supported by King and Zeithaml (2001) that some notable key competencies are associated with higher firm performance. Therefore, it is essential to conduct competency assessment right at the selection phase (or internally as an *executive development assessment tool*) of an executive, so as to ensure a proper alignment of these competencies and the desired performance. The value of competencies is captured by scholars like O'Leary (2010) and West and Crawford (2010) who argue that competency assessment improves productivity, profitability and project performance. In addition, McPhee and Kerr (1985) affirm that these assessments assist in identifying and predicting performance and are pivotal in identifying predictors of achievement and future performance. A further support is from Laffan (2009), Brownell (2005) and Kanaga (2007) who affirm that competencies recognition and assessment is a valuable means in predicting leadership and responding to future leadership requirement. In addition, it is instrumental in identifying 'focused' executives.

McAdam and Baile (2002:993) advise that the use of competencies and competency models "can be used to monitor and control the characteristics essential to the future success of the organisation" in a forward looking manner rather than traditional measures that are historical. Moreover, the "vey act of monitoring and measuring a particular competency is likely to foster improvement" (Thompson, 1998:219). In support of the definition of competencies adopted in this study, Rhee (2008) highlights that competencies can be developed in adults. This observation supports the conceptualisation of developmental loop presented in this study. Little (2010) suggests that using competencies can be beneficial for organisations in many ways including 1) selection, coaching and development of key workforce and 2) creating a framework to attract, develop and retain top talent. This assertion by Little (2010) further strengthens the argument in this study of investigating competencies critical for value creation.

2.4.3 Categories of competencies

DeFillippi and Arthur (1994) suggest that three career competencies exists, namely; *knowing-why* competencies; *knowing-how* competencies and *knowing-whom* competencies. These are explained in details below:

- *Know-why* competencies – aims to answer the question 'Why?' as it relates to career motivation, personal meaning and identification. These provide executives with the drive, a sense of purpose and identification with the world of work, and they relate to career clarity, confidence and insight (Cappellen and Janssens, 2008). Authors further sub-categorise this into the following:
    - Work-life balance;
    - Professional identification;
    - The centre of decision making;
    - Career progression; and
    - A search for challenge.

These competencies provide meaning to course and should be those competencies that add value even to executives' career lives.

- *Know-how* competencies – refers to career relevant skills and job-related knowledge competencies and are reflected in individuals job description

(DeFillippi and Arthur, 1994), which contribute to both the organisation's and the individual's knowledge base (Cappellen and Janssens, 2008). In addition, the latter sub-categorise this competency class as:

  - Operational/ work (Sudsakorn and Fredric, 2009) skills; and
  - General business understanding.

This is important in that it provides the operational and technical ability on how to create value. It brings together all elements of being able to create value from income generation, to efficiency, to risk managing and decision making.

- *Know-whom* competencies - reflect career relevant networks, and refer to how people contribute to inter-firm communication (DeFillippi and Arthur, 1994). In addition, Cappellen and Janssens (2008) highlight that these competencies no longer refer to business networks only, but increasingly reflect communities of practice located outside organisational boundaries and sub-categorise them into:
  - Professional networks; and
  - Personal networks

It may appear that most of the emphasis should be placed on the know-how competencies. Because they are concerned with '*action'*, the ability to '*do'* and this should be core to this debate. However, it is not to totally exclude other competencies, because the act of creating economic value can also be derived from the *knowing-why* and *knowing-whom* competencies. Chandler and Jansen (1992) expanded the concept of *know-how* competencies by linking this to three executive roles, namely; *entrepreneurial, managerial and technical* that executives must competently enact in order to achieve success in the organisations. The conceptualisation of competencies theory decomposition is illustrated in figure 2.6.

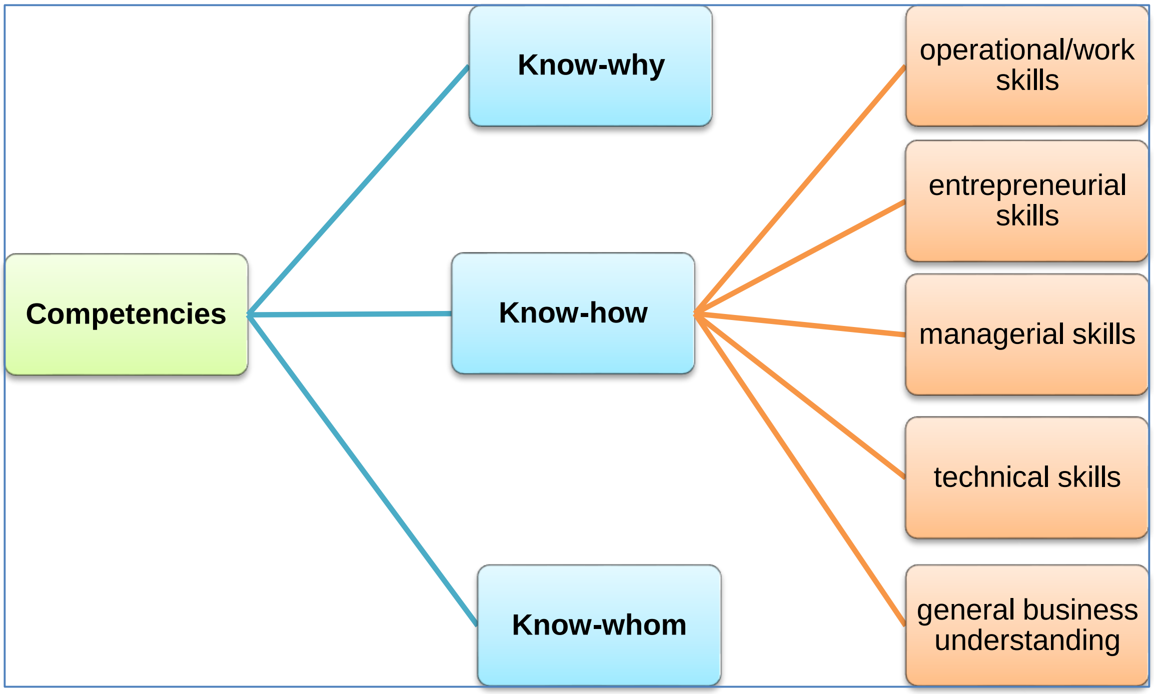

Figure 2.6: Decomposition of competencies theory, Source: Author

Boyatzis and Richard (2008) assert that there are three competency clusters that differentiate outstanding performance from average performance in organisations around the world, namely; ***cognitive competencies, emotional intelligence competencies and social intelligence competencies***.

2.4.4 Cognitive and intellectual competencies

Cognitive competencies draw mostly on the head (Ngambi, 2011). They emphasise cognitive and intellectual abilities in order to ensure that situations and alternatives in an organisation are analysed and interpreted smartly and that the best choices are undertaken. The business leader who possesses cognitive intelligence displays the competencies:

- Analytical and forward thinking;
- Logical reasoning;
- Reading and forecasting the future; and
- Analysing and prioritising.

Developing these competencies require leaders to be strategic in their reasoning, have intellect and knowledge. In this manner, an executive is able to ensure that the organisation survives in this competitive and turbulent business world. These competencies should enable a business leader to outpace and outmanoeuvre his/her competitors with precision in order to survive and thrive in the aim of creating a sustainable value for the stakeholders. Cognitive and intellectual competencies require specific skills, including cognitive intelligence (IQ), thinking abilities, business sense and innovating abilities.

Intelligence (IQ)

Critical, analytical and abstract thinking are some of the tools and enablers of gaining intelligence. This ability to think enables one to look objectively at circumstances through multiple dimensions of perception and imagination so as to understand situations and solve complex problems. Critical thinking involves determining the meaning and significance of what is observed or expressed, or, concerning a given inference or argument. An ability to display this competency should enable executives to critically weigh the decisions they make, and how such decisions will impact on the ability to create value in their respective organisations. Analytical thinking on the other hand should enable executives to analyse, investigate and interpret complex data, scenarios and situations that are favourable for organisation's value creation. As a process, analytical thinking follows a systemic and scientific approach to problem solving. Furthermore, it equips a leader to move towards sustainability. This approach includes processes such as problem identification; hypothesis or proposition formulation; collecting evidence to support the stated claim; and analysis of the information in order to find the preferred solution by suggesting different possible scenarios. Abstract thinking, as the other aspect of intelligence, should equip executives with the ability to understand their own thinking processes and paradigms. This enables a leader to comprehend and to develop a broader range of solutions to problems.

Business sense

Okeke (2009) defines business sense as the application of wisdom to today's business or, put simply, common sense in business. Every business leader need to have a detailed understanding of business and industries. Without this knowledge, it will be difficult for leaders to build their organisation into the future and to ensure that there is value created for the shareholders and other stakeholders. Business sense transcends the understanding of facts and figures. It is an intelligent utilisation of concepts, grounded in fundamentals, business principles and basics. The ability to display business sense should allow any business leader to respond to the needs communicated by customers and other stakeholders, thus be able to create value for all those involved. However, Okeke (2009) highlights that business sense is not a competency that can be taught but it is acquired through real life experiences, insightful observation, and through experiential learning. Business sense encapsulates common sense, building credibility, crafting a compelling vision, creating focus, and establishing value-adding relationships.

There are three sub-clustered that can be believed to underpin cognitive competencies, and these are, the ability to:

- think strategically.
- think innovation and creativity.
- think decisively.

At the core of these competencies is the ability to ***think*** analytically, reflectively and purposefully. Scholars like Skaržauskienė (2008) have argued that the act of thinking is the prime function of every leader (business or not) in his/her daily activities and that thinking is critical in improving the quality of organisational results, because this can be directly linked to the value created by an organisation.

Thinking strategically

Strategy as a subject and a concept is enormous and conceptualisations and definitions of strategy are numerous. However, in this study strategic thinking as a leadership competency necessary for creating value is to be understood as the ability to direct the organisation towards the attainment of its long-term goals through the crafting and implementation of competitive ideas in a chosen organisational setting, with limited resources. The strategic thinking ability of a leader should be about (Ngambi, 2011):

- identifying the long-term destination of the organisation in line with the country's and continent's goals.
- identifying markets where the organisation should be competing to add value.
- developing ideas and activities to ensure competitiveness in those markets that foster sustainable future growth and sustainable development.
- developing winning and surpassing strategies to outpace the competition in an ethical manner.
- identifying and developing those limited resources to sustain the organisation and maintain competitive advantage, for example by leveraging the skills of women (which research reveals to be appropriate for 21st century needs).
- adhering to the principles and values of the organisation.

Strategic thinking competency is an ability to have a big-picture mentality, focus, and the ability to execute chosen strategies and plans with courage. This is one of the cornerstones of winning cognitive competencies of any leader in any organisation. Value creation can never happen in a vacuum or by accident, it needs to be planned, and therefore you need executives that can do exactly that.

- Khalifa's (2008) four E's of strategy partly provide a linkage between strategy and / or strategic thinking with organisation's value creation. These include:

Exerting and leveraging organisational capabilities

- This represents the utilisation of real capacity for value proposition and value creation. Current competencies, capabilities and resources can be used and leveraged in servicing existing and/or new customers or citizens. This creates a platform from which to assess gaps in the current capabilities that the organisation will need to fulfil in order to remain competitive in the future.

Exploiting current market opportunities

- This corresponds with realised opportunity for customer value. When leveraging organisational capabilities, leaders need to provide optimum service in their current market, either through product or process development. This calls for a process that focuses resources and capabilities on ensuring that internal strengths are put in place to minimise market threats.
- As organisations move into the 21st century, it is important for leaders to engage in **Extending and renewing organisational capabilities** and continuous competitive assessment. This process will expose those competencies to proactive leaders and capabilities that need renewal and replacement.

Exploring new market opportunities

- In the 21st century, leaders will have to leave their comfort zones if their organisations are to remain relevant and competitive. This suggests opportunities for value proposition and value creation. Nowadays, loyalty from customers is not guaranteed and it is essential that responsible and visionary leaders invest in exploring new markets. The four E's are illustrated in figure 2.7.

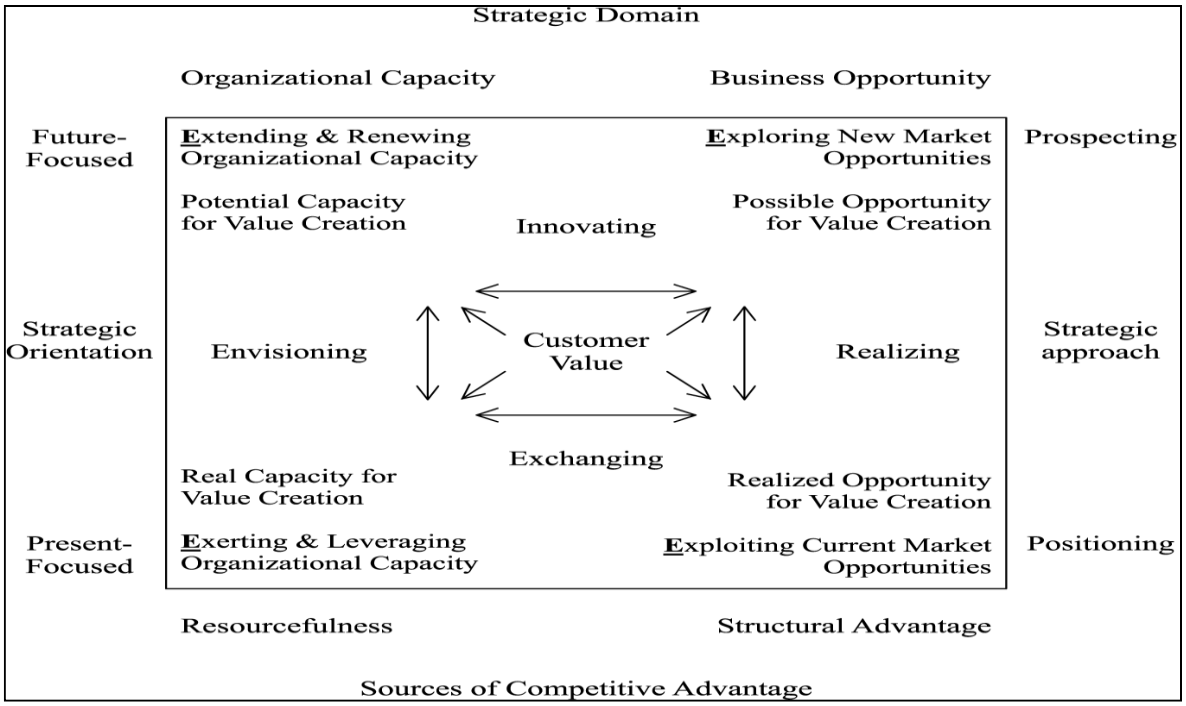

Figure 2.7: Strategy frame and its dynamics, Source: Khalifa, 2008:905

These four Es provide a critical and valuable roadmap on how strategy can create a sustained competitive advantage in an organisation, and hence be a source of shareholder value. The challenge with this framework will be how do business leaders actually follow this proposed Es in making sure that they are able to create value in their organisations. This is the question that will be answered by this study.

Thinking innovation and creativity

One of the essential competencies of a leader is the ability to innovate and be creative. An innovative and creative leader serves as a liaison between the external environment and the internal organisational processes critical for organisational decision making for sustained competitiveness and real value creation. This leadership can make sense of information and translates it into knowledge propositions that deliver value for the organisation.

As has been said, one of the fundamental competencies of successful leader is the ability to innovate and create a new and desired future. This ability has its origins in dissatisfaction with the status quo. Many organisations fail to thrive because of the inability of their leaders to challenge the status quo. As a result, these leaders fall into the trap of complacency because they bask for too long in the glory of past success.

The ability to innovate and originate new ideologies within an organisation should form part of the core competencies of an executive because it is in mental and cognitive processes that new ideas and strategies are formulated and conceptualised. Figure 2.8 illustrates the five conceptual phases of how an executive with cognitive competencies can move the organisation from its current state to the desired future with enhanced value.

- **Phase 1**. The business leader is dissatisfied with the current state of the organisation and makes a conscious decision to use the cognitive and mental process to diagnose areas of dissatisfaction in the organisation. However, mediocrity, complacency and inability to innovate can make leaders linger in this state, thus denying the organisation an opportunity to grow and exploit other ventures and avenues. Many organisations stagnate or simply perish due to the failure of their leaders to diagnose areas of stagnation.
- **Phase 2**. An executive has the ability to spot the window of opportunity but lacks the much needed capability to think creatively and innovatively in order to seize this opportunity. Many executives in organisations are stuck in this phase where they have a vivid idea of what the future could be but are unable to realise and manifest it.
- **Phase 3**. In this stage, leaders have the ability to be creative and bring about innovation, a much needed competency in ensuring that the organisation maintains its competitive edge. However, some innovations do

not take organisations to new heights but simply maintain current advantage. If an innovation does more than keeping the organisation in its current state, if it allows the organisation to sustainably create value then this innovation should allow organisation to move to the next phase.

- **Phase 4**. This is when the organisation's cognitive leadership can develop new strategies and innovations as a result of finding the window of opportunity and taking advantage of it.
- **Phase 5**. Many leaders never move beyond Phase 4; said differently, they never make innovation a habit. Leaders need to realise that once the desired future has been attained and becomes the 'new' current state, the process should start again. Inability to realise this reality leads to complacency, and other negative effects.

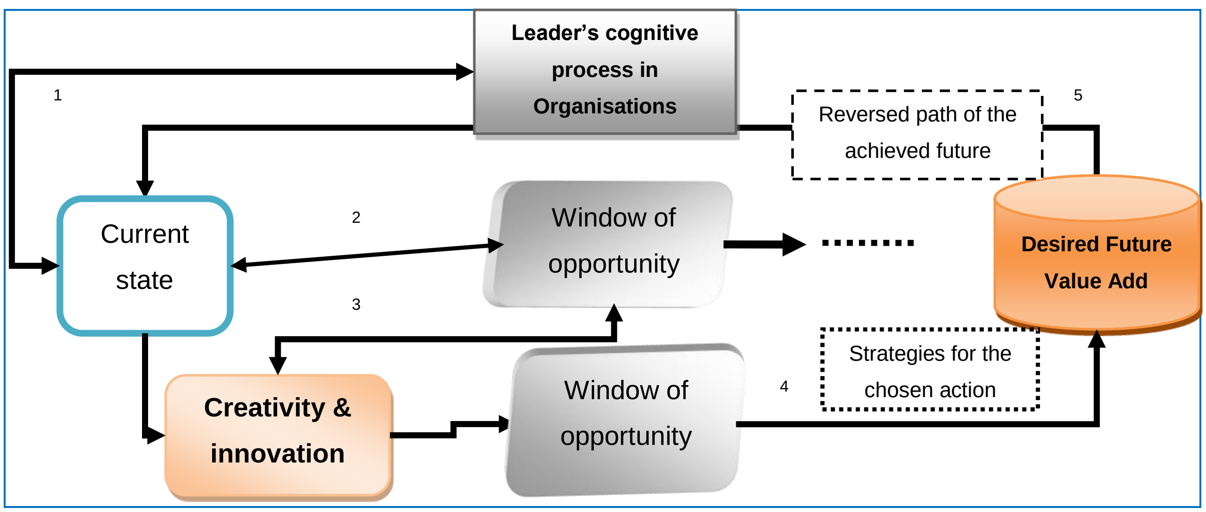

Figure 2.8: Creative and Innovative process of cognitive leadership (Adapted from Ngambi, 2011)

Decision making as a cognitive competency

Decision making as a competency requisite for problem solving and executing leadership responsibilities is described by Wang and Chiew (2010) as:

- **The ability to rely on facts** – an executive needs evidence that is supported by scientific methods and known solutions. Leaders rely heavily on logic and an analytical approach to their responsibilities; executives gather enough facts and evidence in order to avoid making any mistakes and deprive the organisation of its opportunity to grow and create value.

- **Heuristics** – the leader's learning to decision making and problem solving involves using a tested and known methods derived over time from experience. Although this approach may avoid re-inventing the wheel, it could prove catastrophic if the underlying assumption is that present and future problems will manifest in the same fashion as the previous ones did. For example, looking at the global financial crisis of 2008 that eroded most of global wealth and assuming that future crisis might follow the same trend, might be futile to organisations. This experience should provide enough evidence to ensure those future leaders' behaviour is properly guarded not repeat the same mistakes, but in no way should it totally serve as yardstick on how tackle future challenges. Given this, caution needs to be exercised because the assumption that some previous noble approach will suffice to solve current problems in an environment that has since become extremely complex, might not hold true. Barthélemy, Bisdorff and Coppin (2002) justify the use of heuristics as a competency by providing the following principles on which leaders can base their actions:
    - parsimony – the leader uses a small amount of information;
    - reliability – the processed information is relevant enough to justify, both personally and socially the decision taken; and
    - decidability – the processed information may change from one decision to another, allowing for flexibility and adaptability
- **Hill climbing** – a logical and step-by-step approach to problem solving, making any move that approaches closer to the goal.
- **Analysis and synthesis** – a leader will deconstruct a problem or a situation into known categories and find particular solutions, utilising systematic searches and well-defined solutions. This can be linked to the discussion on IQ in the previous section.

2.4.5 People management or behavioural competencies

This cluster of competencies enables a leader to display high levels of connectedness with the people through emotional intelligence, spiritual and cultural intelligence, integrity and trust. The challenge with these competencies is how we can be able to quantify or measure them.

2.4.5.1 Emotional Intelligence (EQ)

The notion that emotions are for the bedroom and not the boardroom, has been dented by the work of Goleman (1995, 1998) and Mayer and Salovey (1993) on the role of emotional intelligence in leadership and organisational success. It has been established through various empirical studies that even though one's cognitive intelligence (IQ) would enable one to lead and be visionary, it is one's emotional intelligence that is the key to effectiveness and sustainability in leadership. Furthermore, various studies reveal that even though one might be hired for one's IQ, the ability to display high levels of emotional intelligence is the key to promotion (Goleman, 1995) or sustaining ones' career.

Emotional intelligence has its origins in the concept of 'social intelligence', which is the ability to understand and relate to people (Thorndike, 1920), a skill every executive needs to possess if he/ she is to be able to build sustainable organisations. Emotional intelligence places emphasis on four aspects of human interaction (Humphrey, 2002), namely; the ability:

- to perceive one's own emotions.
- to perceive others' emotions.
- to manage own emotions.
- to manage others' emotions.

According to Murray (1998), the cognitive capabilities that one obtains through the education system will get one in the door of the organisation and, accordingly, expose one to the possibility of greatness. However, it is the emotional capabilities that will help one to reach greater heights once hired and to reach their full potential. Goleman (1995) identifies five components of emotional intelligence that leaders need to possess. These are summarised in table 2.2 below.

Table 2.2: Five components of emotional intelligence, Source: Goleman (1998: 95)

	Definition	Hallmarks
Self-awareness	the ability to recognise and understand your moods, emotions, and drives, as well as their effect on others	self-confidence realistic self-assessment self-deprecating sense of humour
Self-regulation	the ability to control or redirect disruptive impulses and moods the propensity to suspend judgment – thinking before acting	trustworthiness and integrity ease with ambiguity openness to change
Motivation	a passion for work for reasons that go beyond money or status a propensity to pursue goals with energy and persistence	strong drive to achieve optimism, even in the face of failure organisational commitment
Empathy	the ability to understand the emotional make-up of other people skill in treating people according to their emotional reactions	expertise in building and retaining talent cross-cultural sensitivity service to clients and customers
Social skill	proficiency in managing relationships and building networks ability to find common ground and build rapport	effectiveness in leading change persuasiveness expertise in building and leading teams

According to Goleman (1995, 1998), emotionally intelligent leaders know themselves and believe in their own and others' potential because they are self-aware. They recognise that their feelings affect themselves, other people and job performance. They control their feelings and impulses because their self-regulating thermostat is always working. They are leaders who are reasonable and are able to create an environment of trust and fairness.

Cooper and Sawaf (1997) advance four pillars of emotional intelligence, namely; emotional literacy, emotional fitness, emotional depth and emotional alchemy to illustrate how emotional intelligence can lead to the lasting relationships central to heart leadership. A detailed explanation of the four pillars is outlined below as follows:

- **Emotional literacy** involves knowing and understanding one's own emotions. It is quite common to see leaders, managers and workers express outbursts of anger in public places without considering the effect of such emotions.
- **Emotional fitness** involves trustworthiness, toughness and flexibility. Studies done in South Africa on trust by Bennet (2002) and Gibson and Macdonald (2001) reveal a lack of trust among South Africans and low tolerance of diversity, thus indicating a lack of emotional fitness in conflict situations, especially between labour and management.
- **Emotional depth** involves emotional growth and intensity. Organisations and governments across the globe appear mostly to be emotionally shallow. One of the manifestations of emotional shallowness is disregard for the will of people.
- **Emotional alchemy** involves using emotions to discover creative opportunities. Creativity in organisations is hampered by the mistrust, among other things, that is prevalent between followers and leaders.

We have seen from the studies cited above that the status quo has changed with the many global changes that demand the inclusion of emotional skills in successful leadership.

2.4.5.2 Spiritual intelligence in leadership

Spiritual intelligence (SQ) is another crucial competency of leadership. It implies an understanding of existential questions and insight into multiple levels of consciousness as well as the awareness of spirit as the basis of being or the creative life force of evolution (Vaughan, 2002). Spiritual intelligence appears to connect the personal to the transpersonal and the self to spirit. Spiritual intelligence depends on the ability to see things from more than one perspective and to recognize the relationships between perceptions, beliefs, behaviour and actions (see figure 2.9).

Practical application of SQ

Cognitive intelligence as a competency manages facts and information using logic and critical analysis to make organisational decisions. Emotional intelligence, on the other hand, is vital to comprehend and manage one's own and others' emotions. In contrast, spiritual intelligence is a competency crucial in the leader-follower relationship (George, 2006) in order to:

- discover and use the inner resources from which come the capacity to care and the power to tolerate others.
- develop a clear and stable sense of identity as an individual, accepting who one is in the context of shifting workplace relationships.
- be able to discern the real meaning of events, situations and circumstances, and to make work meaningful and enjoyable.
- identify and align personal values with a clear sense of purpose, commitment and passion.
- understand where and how each of the above is disrupted by personal ego, self-centredness and selfish ambition.

Spiritual intelligence enables leaders to engage with their followers more deeply by virtue of understanding the complexity of individual reactions to events and situations. This relationship is illustrated in Figure 2.9.

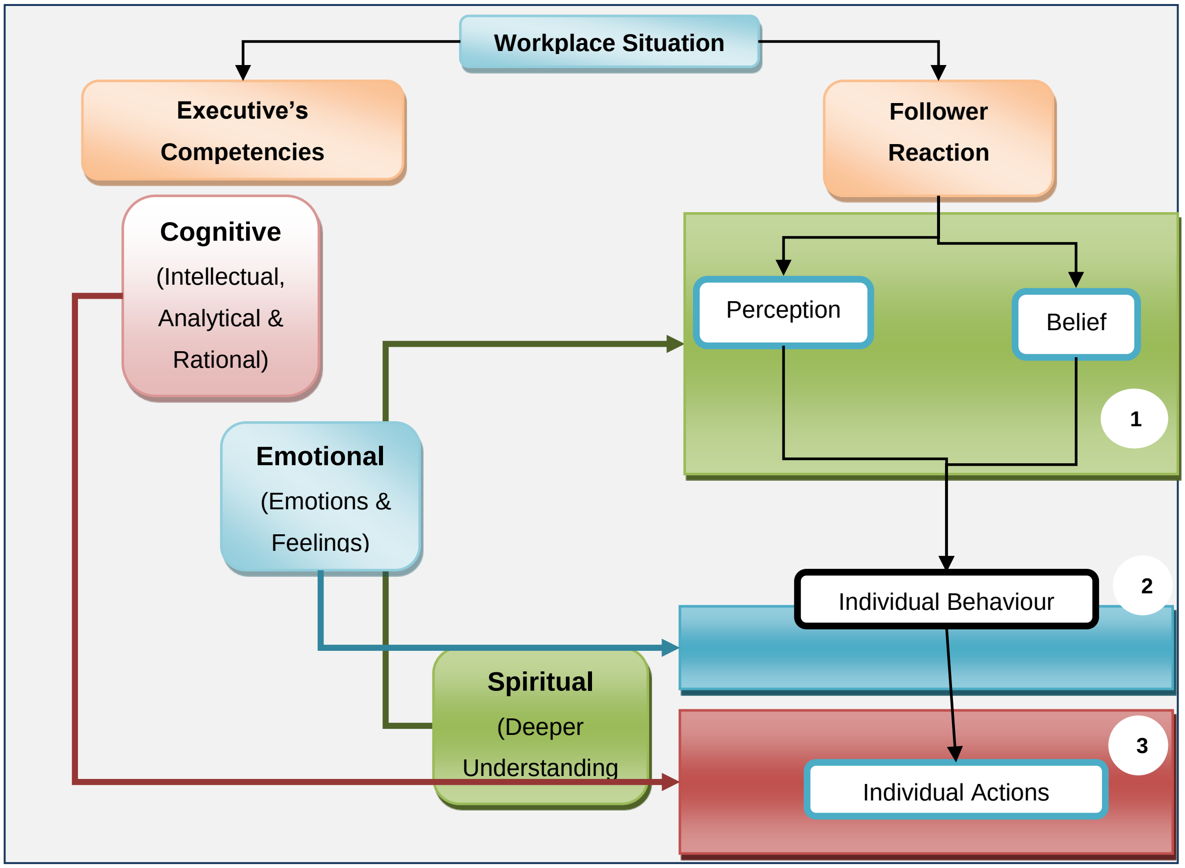

Figure: 2.9: Application of spiritual Intelligence in workplace situations.

Spiritual intelligence as a competency transcends intelligence and emotions. It enables a leader to make decisions with a deeper understanding of those he/she leads. An executive who relies only on cognitive abilities misses out on understanding what influences the actions of those whom he/she leads, be he /she might be interested in the logical and rational meanings. In addition, an emotionally aware leader will be more mindful of the emotional influences that can explain a particular behaviour of an employee. This leader will at least take note of the impact and importance of followers' feelings and behaviour to his/her decisions. Conversely, a spiritually intelligent leader will, however, go deeper and try to comprehend what exactly drives the behaviour of people. A spiritually intelligent leader understands that people's behaviour is determined by past experiences, leading to certain perceptions about situations, and that behaviour is also driven by individual belief systems. In short, spiritually aware leaders know that people do not just act; there is a deeper system that drives the actions.

Marques (2006) reports that spirituality as a competency in the workplace is the practice of interconnectedness and trust among those involved in a work process, engendered by individual goodwill and leading to the collective creation of a motivational culture epitomised by reciprocity and solidarity. Such interconnectedness results in enhanced overall individual performance, which is ultimately translated into sustained organisational performance and value creation. Spiritually aware leaders place emphasis on **values** and interventions that

- bring advancement to themselves and those they lead.
- cultivate a sense of unity through a family or community approach.
- are authentic, i.e., display the same values in all circumstances or domains of life.
- focus on acknowledging and rewarding excellence in others; and create bonding and openness.

In support to the notion and emphasis on value, studies have also shown that values do enhance organisational performance and do create organisational value. Values are defined by Fisher and Lovell (2003) as core ideas about how people should live and the ends they should seek; core beliefs are the underlying thoughts that stimulate human behaviour (Russell, 2001). Values differentiate good from great leaders. According to Massey (1979), personal values are influenced by family, friends, religion, education, the media, geographic roots, technology, and current events. This list reveals that values, unlike principles, are relative and situational.

Values affect the moral reasoning of leaders by influencing their judgement of ethical and unethical behaviour (Russell, 2001). England and Lee (1974) and Ofori and Sokro (2010) concluded that:

- there is a reasonably strong relationship between leaders' levels of success and their personal values.
- value patterns are predictive of leaders' success and could be used in

selection and placement decisions.

- more successful managers appear to favour pragmatic, dynamic, achievement-oriented values whereas the less successful ones prefer more static and passive values. This further suggests that values and the application thereof change with context. In living their core values, firms often integrated these into their company's vision and mission statement, communicated them to organisational members, and ensured that behaviours of members are value congruent. England and Lee (1974:411) identified seven ways in which values affect leaders:
    - Value systems influence leaders' perceptions of situations and problems or challenges faced;
    - Leaders' values influence the solutions that they generate to problems;
    - Value systems play a role in interpersonal relationships;
    - Values influence the perceptions of individuals and organisational successes and achievements;
    - Value systems provide a basis for differentiating between ethical and unethical behaviour; and
    - Value systems influence the extent to which leaders accept or reject organisational pressures and goals.

In support of the notion that personal values are also fundamental in creating organisational value, Albion (2006) provides a four-step process of creating organisational value from values, as follows:

- Decide what your top personal values are - writing down what you value;
- Determine how these values are of value to your organisation - outline how this stated value inventory can add value to your organisation;
- Using the same process, expand your list to include your passions, skills and competencies - alongside your values write down your passions and skills and articulate how these will or can create value for your organisation;
- Combine these lists of values, passions and skills into values-to-value

strategies - this combined list can be a powerful tool for a leader in developing strategies for value creation, which can then be prioritised for implementation. One can improve on this by identifying or committing to time lines for implementing these strategies.

As indicated above, this introduces a value system, and this value-system is related to organisational value and success.

2.4.5.3 Integrity as a competency

Creating value in organisations demands of leaders to have high moral standards of leaders. Warren (2008) offers six tips for leading with integrity as follows:

- Leaders must embrace and maintain steadfast ethical standards;
- Leaders must strive to empower the people in their organisations in as many ways as possible or provide a self-empowering environment;
- Panic and over-reacting are not the key to success: leaders must steer the organisation by establishing a future-forward game plan where people are proactive and stable;
- Leaders must discard the four sedatives of corporate lethargy: over-thinking, second-guessing, group thinking and mediocrity;
- Leaders must recognise the ruts, habits and traditions that are holding them back and wholly embrace new and progressive leadership initiatives;
- Leaders need to be honest with themselves and learn to say ‘I am sorry’ with dignity when they make mistakes. Not being overly judgmental enables leaders to grow, excel and gather more wisdom (McLyman, 2005).

Integrity as a competency gives credibility to leadership, and credibility and trust are the pillars of leadership. Having integrity involves leading consistently by example, impartially and independently, and with sound judgment at all times. Heineman (2007) asserts that organisational exigencies and expectations can exert more pressure on executives, causing leaders to act without integrity in order to achieve expected results. However, leaders need to refrain from such behaviours. Therefore, integrity actually promotes high and sustainable performance.

Doohan (2007) concludes that those who possess and display integrity in their leadership are assets to their respective organisations because they have a sense of direction, excellence and commitment; are creators and stewards of core values; stand tall for the values of the organisations, and defend them; reaffirm, regenerate and renew organisations; have clarity of mind and are people of breadth, never restricting their leadership; and are constantly maintain open communications and foster trust. When leaders have integrity they create an environment of trust among themselves. They earn trust from their followers and, most importantly, their organisations.

2.4.5.4 Trust in leadership

Trust as a competency is at a premium in today's leadership debate, given how leaders have betrayed their organisation as evidenced for example by the recent global economic meltdown. Jobs lost due to corporate scandals and downsizing have all taken their toll on loyalty and trust. As a result, it is imperative that leaders possess trust.

Lost trust is a serious issue because trust is the glue that holds the organisation together, the lubricant that allows organisations to run smoothly (Doohan, 2007) and attain its goals in creating wealth for its shareholders. When trust breaks down, people resist change, even when it is crucial for the survival of the organisation. Communication becomes closed and self-serving (Strategic Leadership Development International, n/d). In light of this, great leaders need to possess trust in order to create trust in the mind of followers and other stakeholders. Trustworthy leaders respect and are sensitive to people from different cultures. They can be trusted by people from all walks of life. They are the leaders who possess cultural intelligence.

2.4.5.5 Cultural Intelligence

Templer, Tay and Chandrasekar (2006) define cultural intelligence as a person's ability to handle effectively and constructively situations characterised by cultural diversity. In addition, Thomas (2006) defines it as an ability to interact effectively with people who are culturally different and to be skilled and flexible about understanding a culture, as well as learning more about it and gradually shaping one's thinking to be more sympathetic and fine tuning one's behaviour when interacting with those from a different culture.

Being a leader who is culturally intelligent and advocating for cultural intelligence has the following benefits:

- Cohesiveness – colleagues who have an open-minded approach to each other's culture and beliefs tend to be more respectful of one another and have empathy towards each other;
- Competitive advantage – especially for multinational companies. It is easier for a company to move key personnel between countries without risking the loss of clients and business when its employees are culturally intelligent. An organisation is liked and valued when it is viewed as culturally sensitive and friendly;
- Better decision-making processes – Earley and Ang (2003) state that culturally intelligent decision makers know their own motivation and goals when making decisions and understand that the methods of those from other cultures might be different from theirs. They are mindful of the ethical components of business decisions in the context of the underlying culture;
- Reduced work and cultural conflicts – Carnevale and Stone (1994) observed that people naturally bring their culture to the workplace and as the workforce grows more diverse, tensions over cultural issues arise. These cultural differences can arise over religious beliefs, language, professional background, lifestyle, etc. Therefore, it is essential to have a culturally intelligent workforce that is mindful of differences and adapts appropriate behaviours.
- Effective teams and team management – culturally diverse teams tend to provide a wider range of ideas and viewpoints, which directly or indirectly

improves productivity and enhances reputation and the attainment of organisational goals. A culturally intelligent team manager will maximise the benefits of diversity and minimise diversity costs.

Leaders who possess cultural intelligence channel their ego needs away from themselves and into the larger goal of building great organisations. These leaders are aware that leadership exists largely in the minds of followers (Earley and Ang, 2003), and followers often have different cultures. The leader understands that some adaptation of his/her style may be required, but does not need to mimic the leadership of other cultures unthinkingly.

2.4.6 Task competencies

Task competencies indicate what an executive should know and be able to implement strategies in order to be able to create shareholder value and have the potential for success, in other words all your knowledge, skills, and insights. These competencies need to be able to drive all the aspects of shareholder value.

2.4.7 Integrating competencies

Integration refers to the objective to take a holistic perspective and optimize certain competencies such as cost efficiency, organisational agility and effectiveness, operational risk, customer (internal) experience, etc. across multiple functional groups with an objective of creating shareholders value. Dealing with the different personality types and work ethics of employees can be challenging. Integrating competencies aims to attend to one of the shortcomings of competency models (discussed later) identifying a list of solo competencies without integrating them.

2.5 Competency modelling and assessments: assumptions and shortcomings

In the earlier sections, it has been stated that executives' competencies have been shown to be related to superior organisational performance; then, this raises a critical question that relates to whether competency models and assessments utilisation has any value. Different studies have shown and argued that competency models and competency testing are some of the valuable tools in organisations when selecting executives. This is shown in reports like the one by The Anova Communications Group (2008) that indicates that 'personality testing' and 'abilities testing', contribute to a cumulative 38% and 54% of job performance predictors respectively. Studies by Robie, *et al*. (2008) and Tyler and Newcombe (2006) confirm that personality traits assessment is related to high level managerial and work performance.

Furthermore, Hollenbeck, McCall Jr. and Silzer (2006:402) highlight that "competency models have been helpful to both individuals and organisations in developing leadership skills." Researchers have also identified ways in which competency models assist individuals and organisations in building competitive executives and profitable organisations. They seem to believe that competency models assist individuals in by:

- summarising and leveraging the experiences and insights of executives.
- providing and specifying clear guidance on the behaviours of that seasoned incumbents think are related to effectiveness and efficiency.
- providing an educational tool to be utilised for executive's self-development.
- serving as a partial backup for that hit or miss approach on that they provide an integrative model of leadership that is relevant across many positions and leadership situations.

Rothwell and Lindholm (1999) caution that when developing competency models, it is necessary to target one occupational group or job category to ensure quality requirements are extracted. This is the approach that was followed in this study. Once this has been developed, it can lead to gaining and sustaining competitive advantage (Intagliata, Ulrich and Smallwood, 2000). Wade (n/d) arguing from a point of view of Neuro-Linguistic Programming postulates that by modelling competencies is a way of duplicate talent for top performers and this in a long-run can produce organisation-wide measureable financial results and "creates a conduit to influence day-to-day employee performance along strategic lines" (Sanchez and Levine, 2009:61).

Like any other model, competency models aim to contribute in finding **<u>'a'</u>** desired and not **<u>'the'</u>** desired future. Accordingly, it is also accepted that competency models do have their own shortcomings. Hollenbeck *et al*. (2006) indicate that one of the fundamental flaws and area that needs more attention about competency models is that they seem to focus attention on identifying an inventory of competencies that executives' possess, without looking at how these **<u>competencies interact</u>** with each other to create a desired superior performance. This argument brings to forth the fact that the list of competencies is becoming too long, and may be it is the time to escalate the competency models discussions to higher levels of human function, and that is paying more attention to synthesis and interaction of these competencies. In this study, it will be aimed to address this shortcoming.

The second shortcoming of competency models to the possibility that, those executives who really excel in their organisations can rarely identify what makes them successful (Gayeski, Golden, Andrade and Mason, 2007). As a result, what is supposedly being regarded as the requisite competencies for greatness and superior performance might be a fallacy. Conversely, these executives might not want to share their secrets to success because these competencies are their source of competitive advantage.

Patching (2011) highlights that competency models present what can be referred to as a 'one size fits all approach', a third shortcoming that is also observed by Martin and Pope (2008). In addition, he seems to believe that organisations use competency models to achieve the same positive results, by focusing attention on the *blueprints* of other leaders and therefore this cannot be regarded as being leadership. This approach, he contends, is about **<u>following</u>** and there is nothing interesting about following because leaders are supposed to "stand out from the crowd rather than following others" (Patching, 2011:160).

Finally, the fourth shortcoming is reported by Martin and Pope (2008:81) who observe that many competency models are “not sufficiently clear or dynamic for the effective use in constantly changing organisations.” These authors believe that there is a tendency to use competency models inflexibly in many organisations, and this can lead to the hindrance in finding and selecting talented executives. Maybe competency models especially within the context of business executives should be used and be interpreted within the context of leader’s style of leadership, which effectively backs the argument to look at theories of leadership.

2.6 Leadership Theory

The discussions thus far have focused on organisation’s value creation, competencies and competency assessments. However, it is the researcher’s view that all these have a common denominator, that is, leadership. The success and/or failure of any organisation are determined mainly by the nature of leadership in that organisation. Organisational processes and systems are designed and implemented successfully or badly under the watchful eye of leadership. The theory and discussions about value creating competencies of executives cannot be complete if it is done at the exclusion of leadership theory. If we accept the notion that no two individuals can be same, or a more corporate undertone, ‘no two business executives can be the same’, then we also open ourselves to the notion that no two leaders can lead the same. The organisational results, objectives, goals and individual aspiration can be similar, but these leaders can never be the same. Leadership theory, or as is chosen by an individual leadership style, is an important factor in addressing one of the shortcomings of competency models; the ‘one size fits all’ shortcoming. Preferred leadership style of an executive provides a context while doing competency assessment.

2.6.1 The introduction and meaning of leadership

The concept of leadership is somewhat difficult to understand because it possesses many dimensions and accordingly has had many definitions. Despite the fact that many times leadership is viewed as a position and a *role* entrusted in an individual, leadership should be able to go beyond this narrow description to include *function* and the *process*. This conceptualisation brings to forth the notion that leadership means different things to different people and as a result, explains why there are so many definitions.

Maxwell (1998), for example, defines leadership as influence - nothing more, nothing less. This definition moves away from defining leadership as a position of the leader, to looking at the capabilities or competencies of the leader to influence others including those who would consider themselves followers, and those outside that circle. Bennis' (2009) definition of leadership is focused much more on the individual capability of the leader. He defines leadership as a function of knowing oneself, having a vision that is well communicated, building trust among colleagues, and taking effective action to realise your own leadership potential in propelling the organisation into greater heights. McShane and Von Glinow (2007) on the other hand define leadership as a process of influencing, motivating, and enabling others to contribute toward the effectiveness of and success of the organisations of which they are members. Ngambi (2010) defines leadership as the process of influencing others commitment towards realizing their full potential in achieving value adding shared vision with passion and integrity.

Leadership requires competencies that display *effectiveness*, which is doing the right thing. In the context of this study, this implies the ability to create shareholder value. Leadership also needs to display management qualities of *efficiency*, which is doing things right, and again in the context of this study means engaging in those activities that will bring about shareholder value. This brings to the forth the realisations that leadership and management are complementary. They form two sides of the same coin. Effective leadership without the grip on management principles can risk wasting company resource and destroying shareholder wealth and value. Likewise, an efficient manager with no sense of leadership fundamentals will simply miss out on an organisation's future prospects while the competition thrives.

Many authors including Bennis (1989), Nienaber and Roodt (2008), Darling and Nurmi (2009) and Robinson (1989) have explored and presented empirical evidence on leadership and management and presented models that highlight the competencies inherent in both leadership and management. In this study, it is conceptualised that rather than arguing a clear distinction between management and leadership, there is rather a continuum approach, whereby at some point an individual is acting equally as a leader and manager. This is displayed in Figure 2.10 below.

Leadership-Management Continuum (LMC)	
Leadership	**Management**
Developing and guiding others	Directing and dictating others
Collaboration	Competition
Connecting and using networks	Rely on power and hierarchy
Flexible and diversity sensitive	Rigid and prefer sameness
Risk taking and accountable	Risk aversion and cautious
Team member	Individualistic
Self-managing	Being managed
People as assets	People as liabilities and expenses

Figure 2.10: Leadership-Management Continuum, Source: Author

Figure 2.10 illustrates that there is a continuum between leadership and management and no one individual is arguably a pure leader or a pure manager. It is this notion that gives rise to varying perspectives of leadership as will be discussed in the next section.

2.6.2 Perspectives of leadership theory

The scrutiny of the leadership literature brings to surface a forever evolving theory and a sequence of varying conceptualisations; from the 'Great Man' theory to 'Servant' leadership. These theories have evolved from focusing on the personal characteristics of an individual to the way successful executives behave, and the latest theories began to incorporate the behaviour and role of followers and the role of environmental situations in theories of leadership. Table 2.3 provides a summary of these leadership theories.

Table 2.3: Leadership Theories

Great Man Theories	This theory is grounded in the notion that leaders are born and not made, the theory posits that leaders were born with some extraordinary capabilities, and by extension competencies.
Trait Theories	This theory indicates that there must be some special qualities and characteristics that are associated with leaders. This list of traits and qualities is never ending and it includes varying personal attributes and competencies. It is also proper at this point to indicate that this study is in no way trying to promote and /or is arguing for this theory of leadership.
Behaviourist Theories	The theory brings to the forth the argument that leadership is more important than the qualities they possess. The proposition is that particular behavioural patterns can be clustered together to characterise a specified leadership style.

Situational Leadership	This theory argues for the fluidity and dynamic nature of leadership. The realisation is that situations will call for a specific kind of style of leadership. The argument is that a leader can or should have more than one leadership style.
Contingency Theory	The theory is not too different from the previous one; it however aims to predict those variables that best predict the most suitable leadership style to fit the particular situation.
Transactional Theory	The theory's focus on leadership is that of 'give-and-take' relationship, where the leader 'transacts' rewards in return for follower dedication, loyalty or dependability. This theory concedes that there is a conscious and / or subconscious contract between the leader and his/her followers.
Transformational Theory	The fundamental idea in this theory is change and the commitment of leadership in ensuring the implementation of organisational transformation, through transforming individuals in the organisation.
Servant Leadership Theory	The theory argues that leaders' primary desire is to serve others, and out of this passion leadership become a natural progression.

Source: Author

These theories present a broad perspective of leadership. This should be able to set a common ground as more focus and attention is given to individual leader and the competencies he/she possess, and how these competencies interact in order to create a lasting shareholder value.

2.6.3 Leadership Trait Theory

This approach to leadership assumed that a finite number of individual traits could be established for a leader. The trait approach arose from the 'Great Man' theory as a way of discovering the key qualities of successful leaders. It was believed that through this approach, people with such traits could then be recruited, selected, and installed into leadership positions.

Varying scholars and researchers have subsequently identified a basket of traits and competencies that are characteristic of an effective leader. However, the problem with the trait theory lies in the fact that almost as many traits as studies undertaken were identified. As a result, no conclusive list of traits and competencies could be identified. It also became evident that some leaders might have possessed certain traits but the lack of them did not necessarily mean that the person was not a leader. In addition, there were some traits that frequently appeared including: technical skill, friendliness, task motivation, application to task, group task supportiveness, social skill, emotional intelligence, business knowledge, general charisma, physical characteristics, personality and intelligence (McShane and Von Glinow, 2007; Bolden, Gosling, Marturano and Dennison, 2003; Ivancevich, Konopaske, and Matteson, 2008). The table below lists the main leadership traits and skills identified by Bolden *et al.* (2003) and Hersey *et al.* (2001). Given the much attention to leaders is not prudent to assume that this is still a 'sub-conscious' dominant approach in leadership, that should still be considered in business to date. For instance, looking at the trait of self-confidence, it is expected of leadership to be on top of the game and 'trash the competition', even though the leadership theory evolution suggests that this approach to leadership is no more supported, it is the view of the researcher that in practice it is still much in use. The same applies with behaviourist theory.

Table 2.4: Leadership Skills and Traits

Traits	Skills
- Adaptable to situations **- Alert to social environment** **- Ambitious and achievement-orientated** **- Assertive**	- Clever (intelligent) - Conceptually skilled - Creative - Diplomatic and tactful - Fluent in speaking

- Cooperative **- Decisive** **- Dependable** **- Dominant (desire to influence others)** **- Energetic (high activity level)** **- Persistent** **- Self-confident** **- Tolerant of stress** **- Willing to assume responsibility**	- Knowledgeable about group task - Organised (administrative ability) - Persuasive - Socially skilled

One of the problems with this approach to leadership is what Hollenbeck *et* al. (2006) presented as a fundamental flaw in that attention is based on an inventory of traits without attention to how these traits interact with each other in making a leader better than peers.

2.6.4 Leadership Behaviourist Theory

As it has been indicated before, the results of the trait and competency studies were inconclusive. This then made researchers to investigate the answer to the question: What behaviours make leaders more effective? The same question might hold relevant today: What behaviours make executive sharpened to create value in their respective organisations? The results of these researches identified two distinct styles or patterns of leadership, referred to as *task-oriented* and *people-oriented* leadership. McGregor's work influenced all the behavioural theories, which emphasise focusing on human relationships, along with output and performance (Bolden *et al.* 2003).

2.6.4.1 McGregor's Theory X and Theory Y Managers

According to McGregor, the traditional organisation is based on certain assumptions about human nature and human motivation, the philosophy he described as Theory X and Theory Y. Theory X presupposes that people in general prefer to be coerced, dislikes responsibility and wants safety after all.

Given this, a leader who accepts McGregor's Theory X attempts to structure, controls, and closely supervise the employees (Hersey *et al*. 2001). In contrast, these authors also note that Theory Y organisations have unified teams whose aims and objectives match those of their respective organisations. The Theory presumes that people can be self-directed and creative at work only if they are properly and adequately motivated. Therefore, those leaders who accept Theory Y are more supportive, engaged and facilitating. Table 2.5 summarises these two sets of contrasting assumptions:

Table 2.5: Assumptions about McGregor's Theory X and Theory Y

Theory X	Theory Y
Work is inherently distasteful to most people. **Most people are not ambitious, have little desire for responsibility, and prefer to be directed.** **Most people possess little capacity for creativity in solving organisational problems.** **Motivation occurs only at the physiological and security levels.** **Most people must be closely controlled and often coerced to achieve organisational objectives.**	Work is as natural as play, if the conditions are favourable. Self-control is often indispensable in achieving organisational goals. The capacity for creativity in solving organisational problems is widely distributed in the population. Motivation occurs at the social, esteem, and self-actualisation levels, as well as at the physiological levels. People can be self-directed and creative at work if properly motivated.

Source: Adapted from Hersey *et al*. 2001

It can therefore be seen that a leader holding Theory X assumptions would most likely prefer an autocratic style, whereas the one holding Theory Y assumptions would mostly prefer a more participative style.

2.6.4.2 Blake and Mouton's Managerial Grid

The Managerial Grid focuses more attention on the *task-oriented* and *people-oriented* leadership as identified earlier on, as well as combinations of concerns between the two extremes. A grid plots the concern for production on the horizontal axis and concern for people on the vertical axis and plots five basic leadership styles. The first number refers to a leader's job or task orientation; the second, to people or orientation, as shown in Figure 2.11.

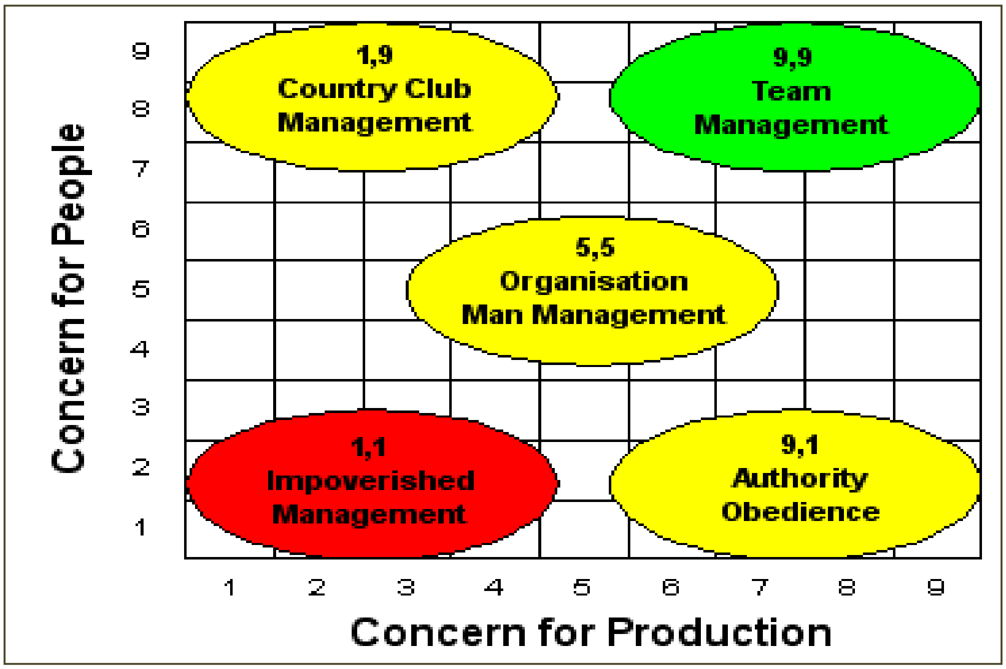

Figure 2.11: The Blake Mouton Managerial Grid (Bolden *et al*. 2003)

Blake and Mouton Grid propose that "Team Management (9, 9)" - a high concern for both employees and production - is the most effective type of leadership behaviour. The next theory is the situational theory.

2.6.5 Leadership Situational Theory

Hersey *et al*. (2001) highlight that situational leadership is based on the "interplay among (1) the amount of guidance and direction (task behaviour) a leader gives; (2) the amount of socio-emotional support (relationship behaviour) a leader provides; and (3) the readiness level of that followers exhibit in performing a specific task, function, or objective". According to situational leadership, there is no prescribed or best way to influence or lead people. The choice of leadership style to be adopted dependents on the readiness level of the people or the group the leader is attempting to lead.

A. ***Task behaviour***: is defined as the extent to which the leader engages in spelling out the duties and responsibilities of an individual or a group. This behaviour include telling people the things to do, the manner and the process of doing, the time and place of doing, and the person responsible to do.

B. ***Relationship behaviour***: the extent to which the leader engages in a two-way or multi-way communication. The inherent behaviours include listening, facilitating, and supportive behaviours (Bolden, *et al.* 2003).

Task and relationship behaviour can thus be plotted against each other in a two-dimensional graph, and the four quadrants can be utilised to identify four basic leadership styles. It is critical to note that no one style is effective in all situations; each is effective based on the situation at hand. The four leadership styles are:

- *Style 1 (S1):* above average amount of task behaviour and below average amount of relationship behaviour. The leader defines the roles needed to be done and tells the employees /followers what, where, how, and when to do the task. It is also referred to as the *telling style.*
- *Style 2 (S2):* above average amount of task behaviour and above average amount of relationship behaviour. The leader provides followers with structural instructions, but also supportive. It is also referred to as the *selling style.*
- *Style 3 (S3):* above average amount of relationship behaviour and below average amount of task behaviour. The leader and followers share in decision making about how best to complete a high quality job. It is also referred to as a *participating style.*
- *Style 4(S4):* below average amount of task behaviour and below average amount of relationship behaviour. It is also referred to as a *delegating style,* where the leader provides little specific, close direction or personal support to followers. This relationship is shown in Figure 2.12 below.

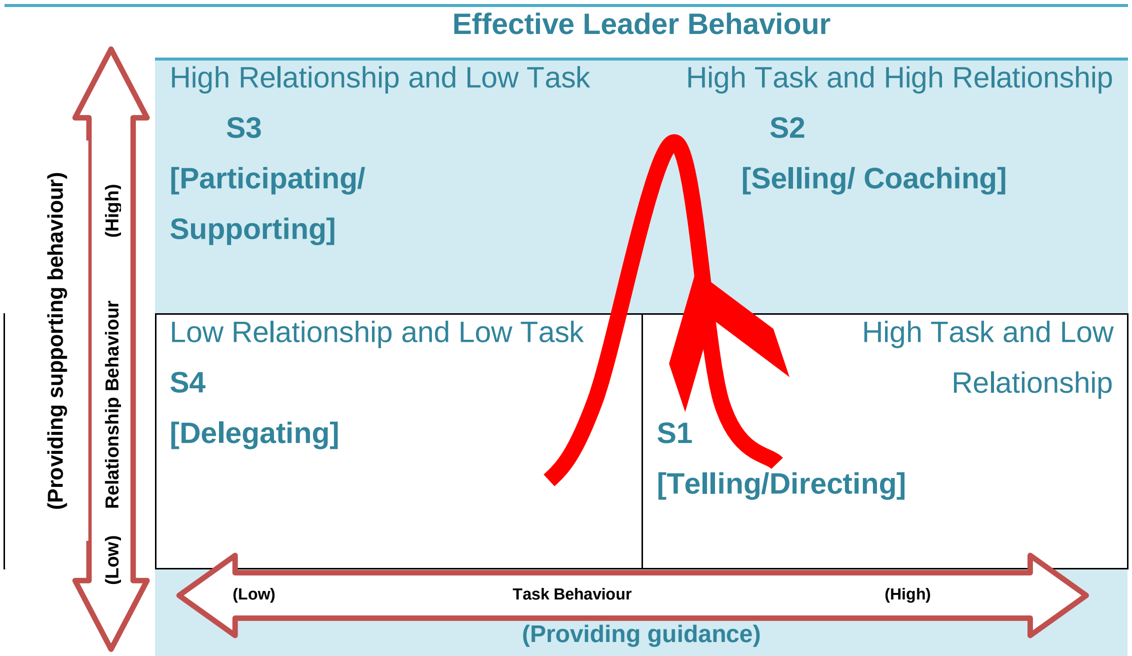

Figure 2.12: The Hersey-Blanchard Situational Leadership Model

C. ***Readiness of the followers or group:*** one of the defining factors of leadership is followership. Readiness in the situational leadership is defined as the context to which a follower demonstrates the ability and the willingness to accomplish a specific task (Hersey *et al*. 2001). Depending on the complexity of the task at hand, people are usually at different levels of readiness. The two major components of readiness are *ability* and *willingness.*

Ability includes both the *tacit* (talent) and *explicit* (learned) knowledge required to successfully perform a mental or physical task. An individual's ability is generally stable over time. Tacit knowledge is a practical know-how that individuals develop through experience and observation over time. It can also be linked to the natural aptitude, ability for individuals to learn and perform some tasks quickly and better. Individuals with tacit knowledge develop *practical intelligence* (Ivancevich, *et al*. 2008) and tend to:

- capitalise on their own strengths and develop their weaknesses.
- realise they are not good at everything.
- learn from their experiences and use these experiences to develop wisdom.
- have a strong will to succeed at all times.

Mental ability is also regarded as key in establishing high-performing individuals. It is often referred to as intelligence and can include categories such as verbal fluency and comprehension, inductive and deductive learning, associative memory, and spatial orientation. Explicit knowledge or learned capabilities refer to skills and knowledge that an individual actually acquire. Abilities of individuals are driven by individuals' motivation to learn and perform.

Conversely*, willingness* is the extent to which an individual has the confidence, commitment, and motivation to accomplish a specific task. These components are described as follows:

- *Confidence* is demonstrated assurance in the ability to perform a task;
- *Commitment* is demonstrated duty to perform a task;
- *Motivation* is demonstrated desire to perform a task; and
- As in task and relationship behaviour, the continuum of follower readiness can be determined based on follower ability and willingness, and can be divided into the following four levels:
    - *Readiness level 1 (R1):* Unable and unwilling, the follower also lacks commitment and motivation; or unable and insecure; the follower lacks confidence.
    - *Readiness level 2 (R2):* Unable but willing, the follower lacks ability but is motivated and making an effort; or unable but confident; the follower has confidence as long as the leader provides guidance.
    - *Readiness level 3 (R3):* Able but unwilling, the follower has the ability but not willing to use it; or able but insecure; the follower is insecure or apprehensive about doing the task alone; and
    - *Readiness level 4 (R4):* Able and willing, the follower has both the ability and commitment; or able and confident; the follower can

perform and has the confidence of performing the task. The continuum of follower readiness is illustrated in Figure 2.13.

High	Moderate		Low
R4	**R3**	**R2**	**R1**
Able and Willing or Confident	Able but Unwilling or Insecure	Unable but Willing or Confident	Unable and Unwilling or Insecure

Figure 2.13: Continuum of Follower Readiness

This model has further been developed to include the behavioural patterns of followers in each readiness level. This concept will not be discussed in this study but detailed in Hersey *et al*. (2001). The strength of the situational theory lies in its ability to have interplay between leaders and followers, in practice the leaning towards this theory should enable the development of both leaders and followers in a manner that should create sustainability and value in organisations, by understanding the leader behaviour and the followers' readiness. Similarly, the lack of this understanding, is arguably contributory to value destruction, or at least inability to create value in organisations. The contingency leadership theory is what followed from the situational leadership and it is discussed below.

2.6.6 Leadership Contingency Theories

This perspective of leadership is the same as the preceding one in the sense that it is based on the notion that most appropriate leadership style depends on the situation. This theory or approach demands of leaders to be agile and develop an instinct of knowing when do circumstances require a different leadership approach. The dominant theories contributing towards this school of thought include the following:

2.6.6.1 Fiedler's Contingency Model

Fiedler's contingency theory postulates that the performance of individuals is dependent on the interaction between leadership style and situational favourableness. Therefore, the leader’s approach to the situation is dependent on the factors that impinge on the situation. Leadership style is measured by *Least-Preferred Co-worker Scale (LPC)* which measures the degree of positive or negative feelings held by a person towards the other person with whom he or she least prefers to work. Low scores are indicative of a task–oriented leadership style and high scores are associated with relationship-oriented style (Ivancevich *et al*. 2008).

Fiedler identified and proposed three factors that determine the extent to which a leader’s environment is favourable. They are as follows:

- **Leader member relations**: the degree of mutual respect and trust between a leader and followers;
- **Task structure**: the extent to which the task is structured or unstructured; and
- **Position power**: the power inherent in the leadership position, usually greater authority equals greater position power.

These three factors determine the favourableness of the situation for the leader, varying degrees of favourableness and the corresponding leadership style are illustrated in Figure 2.14.

Situational Characteristics								
Situation	**I**	**II**	**III**	**IV**	**V**	**VI**	**VII**	**VIII**
Leader-member relation	Good	Good	Good	Good	Poor	Poor	Poor	Poor
Task Structure	High	High	Low	Low	High	High	Low	Low
Power Position	Strong	Weak	Strong	Weak	Strong	Weak	Strong	Weak
Optimal Leadership styles	Task-Oriented			Relationship-Oriented				Task-Oriented
Very unfavourable situation								Very unfavourable situation

Figure 2.14: Summary of Fiedler's Situation Variables and Their Corresponding Leadership Styles (Ivancevich *et al.* 2008)

Fiedler argues, for example, that a permissive, more lenient (relationship oriented) style is best when the situation is moderately favourable or moderately unfavourable. Thus, if a leader is moderately liked and possesses some power, and the job for subordinates is somewhat vague, the leadership style needed to obtain optimum results is relationship-oriented. The other contingency model is the Vroom-Jago model.

2.6.6.2 Vroom-Jago Leadership Model

This is the leadership approach that specifies which leadership decision-making process and procedures will be most efficient in each of numerous varying situations. In order to understand the model, special attention needs to be given to the three elements that are critical components of the model:

- Specification of the criteria by which ***decision effectiveness*** is judged;

- A framework for describing specific ***leader behaviours or styles***, two of the proposed leadership styles are autocratic (AI and AII); two are consultative (CI and CII); and one is oriented toward joint decisions (decisions made by the leader and the group, GII); and
- Key ***diagnostic variables*** that describe important aspects of the leadership situation.

Decision effectiveness

Decision quality and follower commitment are the two criteria to consider in selecting an appropriate decision-making process. The former refers to the extent to which the decision will impact task performance and the latter refers to how important it is that the followers be committed to or agree to the decision in order that it may be effectively executed.

Decision effectiveness

The Vroom-Jago model makes distinction to those that either affects an individual or those that affect a group. This distinction is summarised in Table 2.6.

Table 2.6: Vroom-Jago Decision Styles

Individual Level	Group Level
AI. You solve the problem or make the decision yourself, using the information available to you at that time.	**AI.** You solve the problem or make the decision yourself, using the information available to you at that time.
AII. You obtain any necessary information from the subordinates, and then decide on the solution to the problem yourself. The role played by the subordinates is one of providing specific information that you request.	**AII.** You obtain any necessary information from the subordinates, and then decide on the solution to the problem yourself. The role played by the subordinates is one of providing specific information that you request.
CI. You share the problem with the relevant subordinate, getting ideas and suggestions. Then you make the decision, which might not reflect your preferred decision.	**CI**. You share the problem with the relevant subordinate individually, getting their ideas and suggestions, without bringing them together. Then you make the decision, which might or might not reflect your subordinates' influence.

GI. You share the problem with one of your subordinates, and together you analyse the problem and arrive at a mutually satisfactory solution in an atmosphere of free and open exchange of information and ideas.	**CII.** You share the problem with subordinates in a meeting, getting their ideas and suggestions and then you decide the decision which might or might not reflect your subordinates' influence.
DI. You delegate the problem to one of your subordinates, providing any relevant information that you possess, but giving the responsibility for solving the problem alone. Any solution the person reaches receives your support.	**GII.** You share the problem with subordinates as a group. You generate and evaluate alternatives jointly to reach a consensus. You do not influence the group to adopt your solution, and you are willing to accept and implement any solution that has the support of the group.

Source: (Ivancevich *et al*. 2008)

Decision procedure

The model recommends that leaders perform a situational diagnosis to determine the appropriate decision-making style. To accomplish this, a series of questions can be asked like:

- How important is the technical quality of the decision?
- How important is follower commitment to the decision?
- Is there sufficient information to make high quality decision?
- Is the problem well structured?
- If you were to make the decision yourself, is it reasonably certain that your subordinates will commit to the decision?
- Do subordinates share the organisational goals to be attained in solving this problem?
- Is conflict among subordinates over preferred solution likely?
- Do subordinates have sufficient information to make a high-quality decision?

The other contingency model following the decision –making one is the leadership continuum model.

2.6.6.3 Tannenbaum and Schmidt's Leadership Continuum

The early works on leadership behaviour and styles tended to be more prescriptive, arguing that a leader is either ‘A’ or ‘B’ style. However, in reality and in practice, such a clear cut presentation is illusive. Given, this shortcoming of many preceding leadership theories, Tannenbaum and Schmidt (1973) proposed the notion that leadership behaviour varies along a continuum and that as one moves away from the autocratic extreme, the amount of subordinate participation and involvement in decision taking increases. These authors also suggested that the kind of leadership represented by the absolute extreme of the continuum will be rarely encountered in dynamic organisations.

The extremes of autocratic and democratic styles or task-oriented and relationship-oriented styles are usually described rarely appear in practice, because in practice the behaviour of many, perhaps most, leaders in business and other organisations will be somewhere between the noted extremes.

2.6.6.4 Path-Goal Leadership Model

McShane and Von Glinow (2007) highlight that even though several contingency theories of leadership have been proposed, the path-goal theory has withstood scientific critique better than others. This theory of leadership is based on the expectancy theory of motivation and it relates to numerous leadership styles to specific follower and situational contingencies. The theory states that successful and effective leaders enhance the performance-to-outcome expectancy and the valence of those outcomes by ensuring that employees who perform their jobs well have a higher degree of need fulfilment than employees who perform poorly.

Mawhinney and Ford (1977) further highlights that the theory is concerned with expectations and utilities, or what employees thinks prior to behaving. The path-goal theory of leadership sets forth the following basic propositions (House, 1971; Schriesheim and Von Glinow, 1977):

- The motivation functions of a leader are to increase the net positive valence associated with work-goal attainment, increase the net positive valence associated with the path-behaviour-to work-goal attainment, and increase the employees' path instrumentality with respect to work-goal attainment for personal outcomes and the behaviour required for work-goal attainment;

- In increasing the path instrumentality by clarifying path-goal relationships, the leader's behaviour will have positive motivational effects to the extent that it reduces role ambiguity or makes possible the exercise of externally imposed controls;
- Where path-goal relationships are apparent due to the routine of the tasks, attempts by the leaders to clarify path-goal relationships will result in increased externally imposed controls and will be seen by subordinates as redundant; and
- Leader behaviour directed at need satisfaction of employees will result in increased performance to the extent that such satisfaction increases the net positive valence associated with goal-directed effort.

Figure 2.15 below illustrates the four leadership styles under the path–goal model and accompanying contingency factors

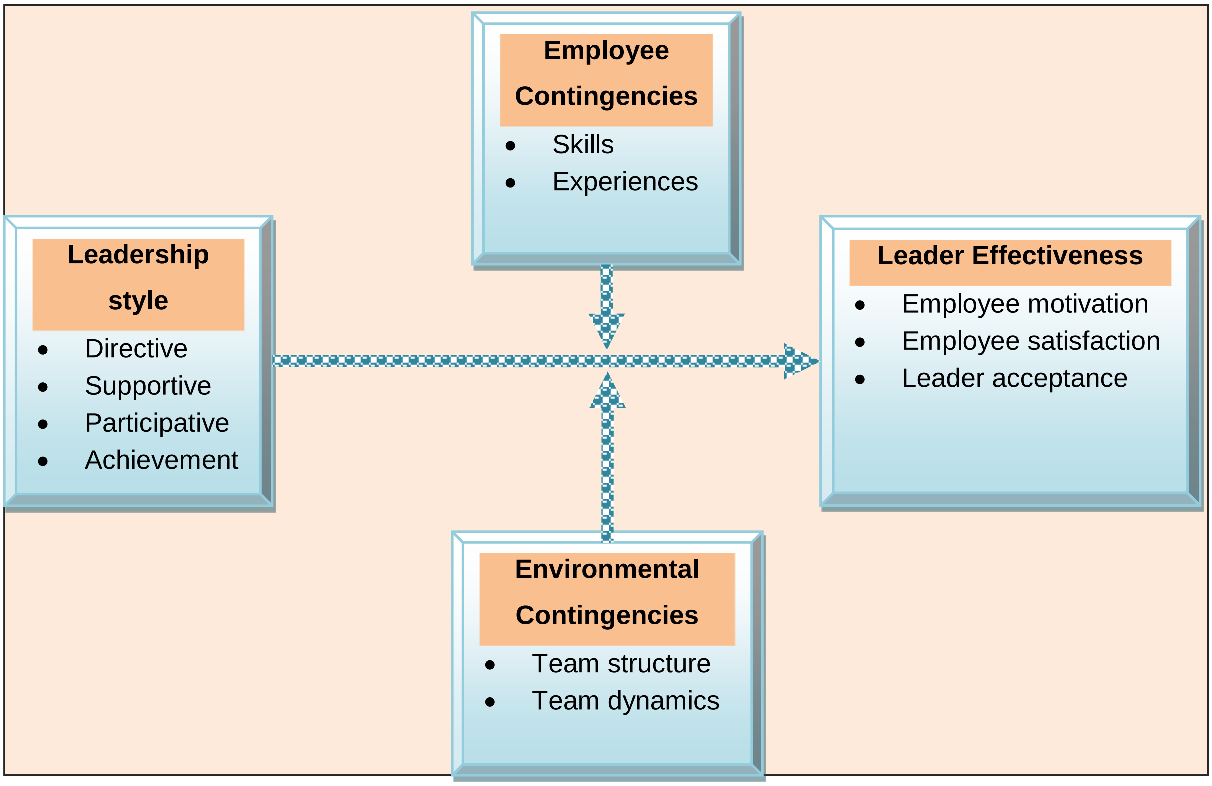

Figure 2.15: Path-goal Leadership Theory (McShane and Von Glinow, 2007)

The path-goal theory contends that effective leaders have the capacity to select the most appropriate and optimal behavioural style for a particular situation, and might select more than one style at a time. For example, they might be both directive and achievement-oriented in a specific situation. The common thread that run through these leadership approaches, is the relationship between leaders, followers and the environment, these approach seem to suggest that any alteration any of the three elements will lead to a certain expectation of leadership. In addition, the same relationship is observed (even though explicit) in the transactional and transformational approaches. What seem to be lacking though is how this relationship can be harnessed to ensure optimum company/organisational results and objectives. The next leadership theory entails the transactional and transformation theories.

2.6.7 Transactional and Transformational Leadership

Whittington *et al.* (2009) indicate that transactional leadership occurs when, a leader exchange something of economic, political, or psychological value with the followers. Authors further emphasise that these exchanges are based on the leader identifying performance requirements and clarifying the conditions under which rewards are available for meeting these requirements. Even though this is a mutually beneficial exchange, they, however, not necessarily develop an enduring relationship. This notion is supported by Washington (2007) who indicates that transactional leaders work to induce compliant behaviour by not only using rewards but also sanctions and formal authority and power. Research by Ismail *et al.* (2010) identifies the following as some of features of transactional leadership:

- Leader makes clear expectations;
- Leader takes action before problems are chronic;
- Leader communicates the standards to carry out work;
- Leader works out agreements with the subordinates; and
- Leader monitors performance and keeps track of mistakes.

Kezar and Eckel (2008) highlight that transactional leadership encompasses power and exchange theory, political theory and bureaucratic theories of leadership. Whittington *et al*. (2009), Kezar and Eckel (2008) and Zagoršek, Dimovski and Škerlavaj (2009) identified the following three behavioural constructs to operationalise the concept of transactional leadership:

- *Contingent rewards* – when a leader takes an effort to provide the followers with material and psychological rewards contingent on the attainment of contractual obligations;
- *Active management-by-exception* – when a leader is observant and ensures that followers meet the predetermined objectives and standards, often through a system of checks and balances;
- *Passive management-by-exception* – the leader intervenes only when there have been deviations from the expected outcomes, of the set standards; and

- Transactional leadership is more of action-oriented, result-driven approach to leadership; it is about efficient *management*; it focuses less attention to intangibles like relationships building and inspiring the followers, features more associated with transformational leadership.

Conversely, transformational leadership is a process in which leaders raise their followers' level of morality and motivation (Kezar and Eckel, 2008). Burns (1978) define transforming leadership as "*a relationship of mutual stimulation and elevation that converts followers into leaders and may convert leaders into moral agents; it occurs when one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality…*"

Bass and Avolio (1994) added strength to Burn's (1978) notion of transformational leadership, espousing five main factors – charisma/idealised influence, inspirational motivation, intellectual stimulation, individualised consideration and idealised attributes. These behaviours are displayed in details in Table 2.7 below:

Table 2.7: Bass and Avolio Transformational Leadership Styles and Behaviours

Transformational Style	Leader Behaviour
Charisma/idealised influence: living one's ideals	Talk about their most important values and beliefs Specify the importance of having a strong sense of purpose Consider the moral and ethical consequences of decisions Champion exciting new possibilities Talk about the importance of trusting each other
Inspirational motivation: inspiring others	Talk optimistically about the future Talk enthusiastically about what needs to be accomplished Articulate a compelling shared vision of the future Express confidence that goals will be achieved Provide an exciting image of what is essential to consider Take a stand on controversial issues
Intellectual stimulation: stimulating others	Re-examine critical assumptions to question whether they are appropriate Seek differing perspectives when solving problems Get others to look at problems from many different angles Suggest new ways of looking at how to complete assignments Encourage non-traditional thinking to deal with traditional problems Encourage rethinking those ideas which have never been questioned before
individualised consideration: coaching and developing others	Spend time teaching and coaching Treat others as individuals rather than just as members of the group Consider individuals as having different needs, abilities and aspirations from others Help others to develop their strengths Listen attentively to others' concerns Promote self-development
idealised attributes: respect, trust and faith	Instil pride in others for being associated with them Go beyond their self-interest for the good of the group Act in ways that build others' respect Display a sense of power and competence Make personal sacrifices for others' benefit Reassure others that obstacles will be overcome

Source: (Bolden *et al*. 2003)

Transformational leadership is about effective *leadership* and is driven by four key elements identified by McShane and Von Glinow (2007), namely:

- Creating a strategic vision;
- Communicating the vision;
- Modelling the vision; and
- Building commitment towards the vision.

Inherent in transformational leadership is the ability to instil pride in the mind of followers by providing continuous mentorship and coaching. Transformational leadership set high standards and encourages followers to perform and maintain high moral and ethical standards while performing. Individuals like the Nobel Laureate Nelson Mandela have been labelled by many scholars as the epitome of the 20th century transformational leaders. Transformational leadership is helpful in that it works at changing the mind-set of individuals and propels them to greater heights. Servant leadership, which is discussed next, can be regarded as inherent in transformational leadership in that it aims at serving others as opposed to leading.

2.6.8 Servant Leadership

The concept of servant leadership emphasises the leader's obligation to serve those who are followers - leadership therefore arises out of a need to serve rather than to lead. Greenleaf (1970) describes servant leadership as follows:

> *"The servant-leader is servant first… It begins with the natural feeling that one wants to serve, to serve first. Then conscious choice brings one to aspire to lead. He or she is sharply different from the person who is leader first, perhaps because of the need to assuage an unusual power drive or to acquire material possessions. For such, it will be a later choice to serve – after leadership is established. The leader-first and the servant-first are two extreme types. Between them there are shadings and blends that are part of the infinite variety of human nature.*

> *The difference manifest itself in the care taken by the servant-first to make sure that other people's highest priority needs are being served. The best test, and difficult to administer, is: do those served grow as persons; do they, while being served, become healthier, wiser, freer, more autonomous, more likely themselves to become servants? And, what is the effect on the least privileged in society; will they benefit, or, at least, will they not be further deprived?"*

Washington (2007) and Russell and Stone (2002) emphasise that servant leaders are motivated by the desire and the urge to lead, and that they sincerely believe that they are no better than the organisational members they lead. Furthermore, Spears (1996) highlights that servant leadership is concerned with community leadership; the concept of leadership that Ngambi (1999) concluded that it portrays some distinct behaviour, like the following:

- The leader listens and takes lead from the troops encouraging members to participate in decision-making and being able to adapt;
- The leader handles disappointments creatively and maintains peace in adversity without denying the vision;
- The leader inspires confidence, secures co-operation and wins the respect of others by being faithful; and
- The leader maintains discipline without making a show of authority.

Servant leadership appear to be different from other forms of leadership, and for this Russell and Stone (2002) identified attributes associated with servant leadership; these are displayed in table 2.8. This approach should by far be the most relevant in the context of this study, if the duty of the leader is to serve, it will the duty expected of executives will to serve by creating value, not only for the shareholder but for all the other stakeholders. the approach should propel leaders to put personal interest away and commit to the unwavering objective serving through vale creation. The question can thus be posed, are there any servant leaders, who in the context of this study are committed to sustainable value creation.

Table 2.8: Servant Leadership Attributes

Functional attributes	**Accompanying attributes**
Vision	Communication
Honesty	Credibility
Integrity	Competence
Trust	Stewardship
Service	Visibility
Modelling	Influence
Pioneering	Persuasion
Appreciation of others	Listening
Empowerment	Encouragement
	Teaching
	Delegation

Source: (Russell and Stone 2002)

Thus far, the literature presented here argued for the following:

- EVA as a superior measure of economic value in organisations;
- Justification for utilisation of competency approach and competency modelling; and finally
- Acknowledged the role of leadership theories in explaining leaders/executives behaviour.

Unfortunately, **available literature is unable to justify** the choice of CEOs as a proxy for leadership that can create value in organisations. This observation gives rise to the question: Can CEOs alone be the subject of executive value creation analysis? Put differently, **do CEOs matter in organisations?** In order to provide answers to the question and given that literature was unable to answer this question, the researcher conducted an additional research about the market reaction to CEOs appointments on companies listed on the JSE. The reason for this additional research[2] was to justify studying CEOs in this study, given that the EVA and competency modelling justification has been provided for by the existing literature.

2.7 The role of CEO in moving financial markets

2.7.1 Introduction

In corporate South Africa (SA), CEOs are entrusted with creating wealth and value for their shareholders. Shareholder value might mean various things to various shareholders. For example, it can mean consistent increase in revenues; it can mean increase in market capitalisation; and for others it can mean increased profits and dividends. It is argued in this work that at least for listed companies, share price performance reflects one of the ways of creating and determining shareholders' wealth and value. It should stand to reason that CEOs-related activities are or should reflect to respective companies' share price movements. Across the globe, stock markets react to various corporate announcements; for example:

- announcements of earnings;
- announcements mergers and acquisitions;
- announcements of corporate unbundling;
- announcements of directors' dealings; and so goes the list

Given the important nature of CEOs in companies, announcements of CEOs appointments (similarly, dismissals, or resignations) is one of the significant announcements stock markets should react to. In efficient market announcements that are carrying vital (price sensitive) information (good/bad) result in the upward or downward movement in the share price. With this in mind, it is both prudent and critical to establish whether *CEOs-related* corporate actions or activities provide for vital information? More specifically, is the appointment of a

[2] This research was later published with Journal of Economics and International Finance, annexed on this report.

CEO in any company important enough to elicit a market reaction to such news?

Actions of CEOs or actions regarding CEOs are of interest to many and varying stakeholders. For example, CEOs' **compensation** is of much importance and interest to shareholders and law-makers alike. In South Africa specifically, the compensation of CEO is both topical and controversial. For instance, Masondo and Roberts (2011) report on how South Africa's Minister of Finance has articulated his (Minister of Finance) discomfort with escalating salaries of South African business executives. Ashton (2010), for example, criticises the alarming increase in salaries of South Africa's CEOs despite declining economic activity and the financial crisis at the time. This interesting observation suggests that CEOs actions are vital and should prompt the market reaction.

Various studies have been conducted to establish the market reaction to dismissals and or appointments of CEOs with conflicting results. In the South African context, no literature has been found that relates to assessing the information content of appointing CEOs. This observation indirectly supports the notion of lack of work done on CEOs in the South African context. Based on this observation, the study is aimed at assessing the market reaction to the announcement of the appointment of CEOs of companies listed on the JSE.

2.7.2 Literature review on CEO appointments

The literature on the appointment announcements of CEOs provides inconclusive results in that some researchers report that there is no information content associated (that is, no upward or downward share price movement is observed) with the announcement. In contrast, others report a negative market reaction, and the remainder of the literature reports a positive reaction to the announcements. Lubatkin, Chung, Rogers and Owers (1989) concluded that CEOs **succession announcements** convey negative information to investors. This finding suggests two things:

- Either companies and their shareholders do not invest resources in the

leadership pipeline for developing leaders or tomorrow or
- Companies and shareholders become ‘comfortable’ with a certain style of leadership and are therefore not ‘change-ready’.

However, in events where an *outsider* is appointed, a favourable reaction is observed in particular for those firms that are financially healthy. The results of this study confirm the contradictory nature of the subject.

Martin, Nishikawa and Williams (2009) compared the appointment of male and female CEOs, possibly with the intention to establish whether the market reaction to female CEOs is any different to male CEO appointments. The results of their study showed that abnormal returns are not significantly different within these groups. However, the window period for this study is arguably too short (three days). These authors further reported that changes in risk for female appointments were found to be low and the perception is that female CEOs are risk averse. This observation presupposes that in high risk firms the appointment of female CEOs should be perceived as a possibility to reduce the firm’s risk and therefore an appointment announcement might positively move the market. However, this assumption will have to be tested empirically. Interestingly, Lucey and Carron (2011) concur with the findings of Martin *et al.* (2009), in that there is a market effect when executives are appointed based on their gender.

- In **Singapore**, Kang, Ding and Charoenwong (2009) support this standpoint by reporting that investors generally respond positively to the appointment of women executives.
- In **Tunisia**, Lassoued and Attia (2013) studied both the share price and the volume traded post-CEO announcement and reported that there has been significant negative market reaction when volume traded approach is utilised. In addition, this study reports the negative reaction for both internal and outsider succession. This is in contradiction to Lubatkin *et al.’*s (1989) findings regarding an outsider appointment. However, there are concerning observation regarding this study, namely; the dual role of CEO

(as both CEO and chairman) is mentioned and this has a potential skewing of results and secondly, the window period is also relatively short (12-days).

- Van Doorn (2011) in a **Dutch** study concludes that the appointment of CEOs and CFOs (chief financial officers) leads to a positive market reaction, *albeit* not significantly different from zero.
- In **United States of America**, Elsaid, Wallace and Davidson III (2011) report that stock market reacts positively to the hiring of an outsider who is an exCEO. On the contrary, Li (2012) on studies done on both the Nasdaq and New York Stock Exchange (NYSE) found that CEO changes announcements have no impact on the market and stock prices. This further brings the contradicting findings in this area of study to the surface.
- The **Pakistani** study conducted by Urooj, Zafar and Khattak (n/d) using firms listed on Karachi Stocks Exchange also found that there is no movement on stock return. However, the sample used in this study is very small (10 CEO given the size of the exchange, and no clear inclusion criteria was outlined in the study) and this brings about questions regarding external validity in this study.
- In **Indonesia**, Setiawan, Hananto and Kee (2011) show that there is no market reaction post-CEO announcement. The results of this study are based on the volume analysis and it will have been interesting to concurrently conduct the returns and observe if the results will come to the same conclusion. Charitou, Patis and Vlittis (2010) found that the announcement of outside CEO elicit a positive market reaction. Bonnier and Bruner (1989) report a positive reaction on CEO announcement of distressed firms, and more especially if the CEO is an outsider. However, the study does not report on either internal CEO or firms that are not distressed. In agreement, Ang, Lauterbach and Vu (2003) report a positive reaction to CEO appointment. However, this is reported to be true only for '*better-quality'* CEO. Warner, Watts and Wruck (1988) reports that no stock reaction is detected around management change.
- In a **South Africa**, a study conducted by Bhana (2003) did a reverse study,

whereby he studied the market reaction on the *dismissals* of CEOs. The study concludes that the market reacts favourably where the replacement of a dismissed executive is an outsider. The concerning observation for this study is the weak control of confounding announcements. The study seems to suggest that both dismissal of the *incumbent* and appointment of the *successor* where announced on the same day.

Other researchers like Vafeas and Vlittis (2009) conducted the study on chief marketing officers' appointment and conclude that there is a positive market reaction especially when an executive does possess a prior marketing experience. These results add to the discussion the human capital element and experience of executives, preceding the appointment. It was reported earlier in this article that Ang *et al.* (1988) referred to better quality CEO. These authors were referring to those CEOs who receive a pay premium *ex-ante.* Underscoring this observation is the assumption that CEOs are not the same in terms of what they bring to the firm. This is interpreted in the context of Vafeas and Vlittis (2009) in that we can safely assume that a CEO with no prior job and/or industry experience will either have no effect to market upon their appointment announce or the market will react negatively. Yermack (2006) affirms this argument by concluding that share prices are sensitive to variables such as executive's occupation and professional qualification. However, the validity of these observations (human capital and experience) is beyond the scope of this study but supports the argument in the overall study that suggests that there should be some competencies that are necessary for shareholders' sustainable value creation in organisations.

The primary aim of the study was to explore whether there are any significant abnormal (positive or negative) returns around the public announcement of appointment of CEOs. Given the inconclusive and mainly conflicting findings on the subject across the globe, the null hypothesis theorises that cumulative average abnormal returns (CAAR) due to CEO appointments' announcements are not significantly different from zero.

$$H_{01}: CAAR_t = 0$$ **Equation 10**

The alternate hypothesis states that the CAAR on CEO appointments' announcements is significantly different from zero.

$$H_1: CAAR_t \neq 0$$ **Equation 11**

In addition, to test the trading volume before and after the public announcement of CEOs' appointments.

$$H_{02}: CAVTR_t = 0$$ **Equation 12**

The alternate hypothesis states that the CAVC on CEO appointments' announcements is significantly different from zero.

$$H_2: CAVTR_t \neq 0$$ **Equation 13**

Where $CAAR_t$ is the cumulative average abnormal return during the post-transaction period or event window and $CAVC_t$ is the cumulative average volume change during the event window.

2.7.3 Methodology- Event studies

An event study methodology was implemented in this study to test the stated hypotheses. An event study defines a technique of empirical financial research that permits a researcher to assess the financial impact (positive or negative) of a particular '**unanticipated'** event (MacKinlay, 1997; McWilliams and Siegel, 1997) on a company's share price. The event of interest for this study is the public announcement of CEOs appointments. It is regarded as a powerful financial tool in efficient market hypothesis research. To this effect many researchers globally have successfully utilised this tool; for example, though not exhaustive, Aharony and Swary (1980), Bowman (1983), Cox and Weirich (2002), Dey and Radhakrishna (2008), and Laidroo (2008). In South Africa, researchers like Bhana (1995/1996, 2005, 2007a), Mushidzi and Ward (2004) and Ward and Muller (2010) successfully utilised the tool to assess the information content of announced corporate events. In addition, Das, Pattanayak and Pathak (2008:64) argue that an event study "assesses the significance of the economic event" on the market value of a firm.

Pioneering work by Bowman (1983) and Brown and Warner (1985) provide a framework of how to conduct an event study, and the approach in this study adopted this framework in conducting the research.

2.7.3.1 Methodology – Sampling

To conduct the study, the population of interest was all the companies listed on the JSE, which publically announced CEO appointments in the 10 year period between the 1st January 2000 to 31st December 2010. The target population was extracted from the McGregor BFA database of CEO appointments' announcements released by JSE Security Exchange News Services (SENS).

A population of 300 public announcements was extracted. Thereafter, a purposeful and judgmental sampling method was utilised to focus only on those announcements that were referring ***only*** to the appointment of CEOs. In order to be included in the target sample, the extracted sample of CEO appointments' announcements had to adhere to *all* of the inclusion criteria set. The inclusion criteria included the following:

- The announcement should include only the appointment of a CEO;
- No confounding announcement (these include chairman, other directors and the resignation of an outgoing CEO, where it applied, management change, restructuring (whether financial, operational or otherwise));
- The share information should be available for 12 months before announcement and three to five years after the announcement and actively trading in that period;
- The announcement should have been released by SENS; and finally
- The CEO should have stayed in the company for a minimum of three years to the maximum of five years since announcement and thereafter successful placement.

The sample contained **38 relevant** public announcements.

2.7.3.2 Methodology – Technical analysis

The approach adopted in this was the single index model that uses the market index (JSE) as a proxy for the systematic factor (Bodie, Kane and Marcus, 2005). In this study, the method of calculating the security-specific expected returns was the single factor model, namely; Capital Asset Pricing Model (CAPM). The model places more emphasis on the covariance between the market returns and the firm returns, the beta. Beta measures the volatility of the excess returns on those individual securities relative to that of the market as a whole (Hitchner, 2006).

It is acknowledged that the use of the CAPM to calculate the securities' returns has been critiqued by researchers like Drew, Naughton and Veeraragavan (2005), Fama and French (1992, 1996), Graham and Uliana (2001), Lee and Upneja (2008), Robins, Sandler and Durand (1999) and Van Rensburg (2001). These researchers contend that a single factor beta model provides little, if any, reasonable explanation for the cross-section of expected security returns, given the multiplicity of factors that explain security returns.

Notwithstanding these arguments against the model, many researchers still find the model both practical and reliable. Empirical evidence reports that the model still explains about 61% of the cross-section of returns (Drew *et al*., 2005). For instance, Selim (2008) argues that the inclusion of risk-free rate in CAPM displays the essence of Islamic financing (no interest payment) and therefore supports the usage of the model in returns calculation. Galagedera (2007) claims that CAPM still holds if the normality of returns can be achieved, because then, the mean and the variance are sufficient to describe the return distribution. Guan, Hansen, Leikam and Shaw (2007), in support of using beta, provide evidence that as measurement error (over or under-stated) in beta is reduced, the role of beta in explaining the securities' returns increases. Ingram and Margetis (2010) provide empirical evidence showing that CAPM delivers an acceptable method of estimating the market–priced risk of firms. So, it is believed that enough evidence has been provided to support the usage of CAPM. Like all other models is not the best, but evidence suggests that it is still a valid and reliable tool to use when measuring securities' returns.

The most widely accepted form of CAPM is based on the following:

$$E(R)_{jt} = R_{ft} + \beta_j (R_{mt} - R_{ft}) \qquad t = -11, +60 \qquad \text{Equation 14}$$

Where:

$$\beta_j = \frac{Cov(R_j, R_{mt})}{Var(R_{mt})} \qquad \text{Equation 15}$$

In the above formulation

$E(R)_{jt}$ = the expected return for security *j* on month *t.*

R_{mt} = the market return, on month *t.*

R_{ft} = risk-free rate in period *t.* Government bonds, R157 (2015)[3] and R153 (2010) were utilised in this study.

$Cov(R_j, R_{mt})$ = is the covariance or correlation coefficient between the returns of an individual security and the returns on the market.

$Var(R_{mt})$ = is the variance of returns on the market.

β_j = is the relative risk of a specific security in relation to the risk of the market.

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[3] R157 and R153 are comparable, they are both referred to as Vanilla Bonds by the South African Reserve Bank, with the coupon rate of 13.5% and 13%, respectively. The maturity dates are provided in the parenthesis.

2.7.3.3 Method of data collection

Share data were extracted from McGregor BFA-Net using McGregor RAID Station. The data required included the monthly closing prices for all shares listed on the JSE which announced earnings within a 10 year period from 1st January 2000 to 31st December 2010. The closing price data for at least 12 trading months before the interested CEO appointment announcement, this is needed to ensure that no prior similar announcement was done and to compute the abnormal returns a year before the announcement. CEO appointment announcements were extracted from the SENS during the month in which companies published this announcement is what constituted t_o. A SENS announcement platform was also reviewed to ascertain any related confounding events, as discussed earlier, which could have occurred within the event window.

2.7.3.4 Data analysis

The impact on the security's monthly closing price was measured over a period of 12 trading months prior (*ex-ante*) to the announcement month, and 60 trading months after (*post ante*) the announcement month (referred to as *t-12 …. t+60*, *the event window*). The monthly share price return for each security in each portfolio was calculated using *log-returns*. Strong (1992) argues that logarithmic returns are preferred because they are theoretically better when linking together sub-period returns to form returns over a long time, and is given by:

$$R_{jt} = \log(P_{jt} / P_{jt-1}) \qquad \text{Equation 16}$$

Where:

R_{jt} = the share price return for security *j* for month *t*; and

P_{jt} = the share price of security *j* at the end of month *t*.

Beta coefficients were calculated for each share in the sample by regressing the market's monthly share price return over the six years of the event window against the monthly returns of each of the 38 companies for the same period. After calculating the beta coefficients for each security, the expected return for each security for each month in the event window was calculated. This was done by using CAPM.

Once the expected return for security ***j*** in period ***t*** is calculated, the abnormal return for each selection for each month in the event window was calculated. Abnormal returns were calculated for each security over the 72-month event period, t = -12 to +60 trading months, and any significant differences found between actual returns and expected market returns were attributed to the information content of CEO appointment announcement. The abnormal return is simply the actual return of security $_j$ in the same period less the calculated expected return:

$$AR_{jt} = R_{jt} - E(R_{jt})$$

Equation 17

Where:

AR_{jt} = the abnormal return of security $_j$ in period $_t$

$E(R_{jt})$ = the expected share price return of security $_j$ in period $_t$ as constructed by returns-generating model

R_{jt} = actual return of security $_j$ in period $_t$

These above abnormal returns are summed and averaged cross-sectional on month *t* as follows:

$$AAR_t = \sum_{j=1}^{N} AR_{jt} / N$$

Equation 18

Where N is the number of CEO appointment announcements in the sample at month$_t$. The cumulative average abnormal returns (CAAR) for *T* months are calculated by:

$$CAAR = \sum_{t=-12}^{+60} AAR_t$$ Equation 19

Bamber (1987) presented an approach to use while using trading volume for event study. However, this approach was modified for this study. The author uses the abnormal trading volume formulated as:

$$AV = V_{jt} - \overline{V}_j$$ Equation 20

In this study, the approach was to look at the *return* on volume traded, and is formulated as follows:

$$AVTRt = \sum_{j=1}^{N} Vjt - \overline{Vj} / N$$ Equation 21

The cumulative average volume traded returns (CAVTR) for *T* months are calculated by:

$$CAVTR = \sum_{t=-12}^{+60} AVTR_t$$ Equation 22

The **statistical analysis** used to test the significance of the AAR, under the null hypothesis that they are equal to zero, the procedure by Brown and Warner, 1985) was followed. It follows a *t*-distribution and is formulated as:

$$t_{AAR} = \frac{AAR_{jt}}{\sigma(AAR)/\sqrt{n}}$$ Equation 23

The statistical significance of the cumulative abnormal returns is given by:

$$t_{CAAR} = \frac{CAAR_{jt}}{\sigma(AAR)\, d^{0.5}}$$ Equation 24

Where $\sigma(AAR)$ is the estimated standard deviation, *d* stands for the total number of months for which AAR are cumulated. The significance level was set at a 1% margin of error to determine whether the CAAR differed statistically significantly from zero, (H_0: $CAAR_t = 0$). In the same approach, the statistical significance for the volume traded was conducted.

2.7.4 Findings and discussions

We begin by presenting the performance of the market for the period April 1999 to June 2013, the period during which all the announcements took place (see Figure 2.16). It is observed that in general terms the market had a positive performance (Bull market). In the same period, government bonds R157 and R153 were generally yielding negative performance, and finally, it was also observed that the market was relatively highly volatile as reflected by the South African Volatility Index (SAVI). Arguably, these observations seem to suggest that investors would have been better of investing in the market than interest yielding financial products.

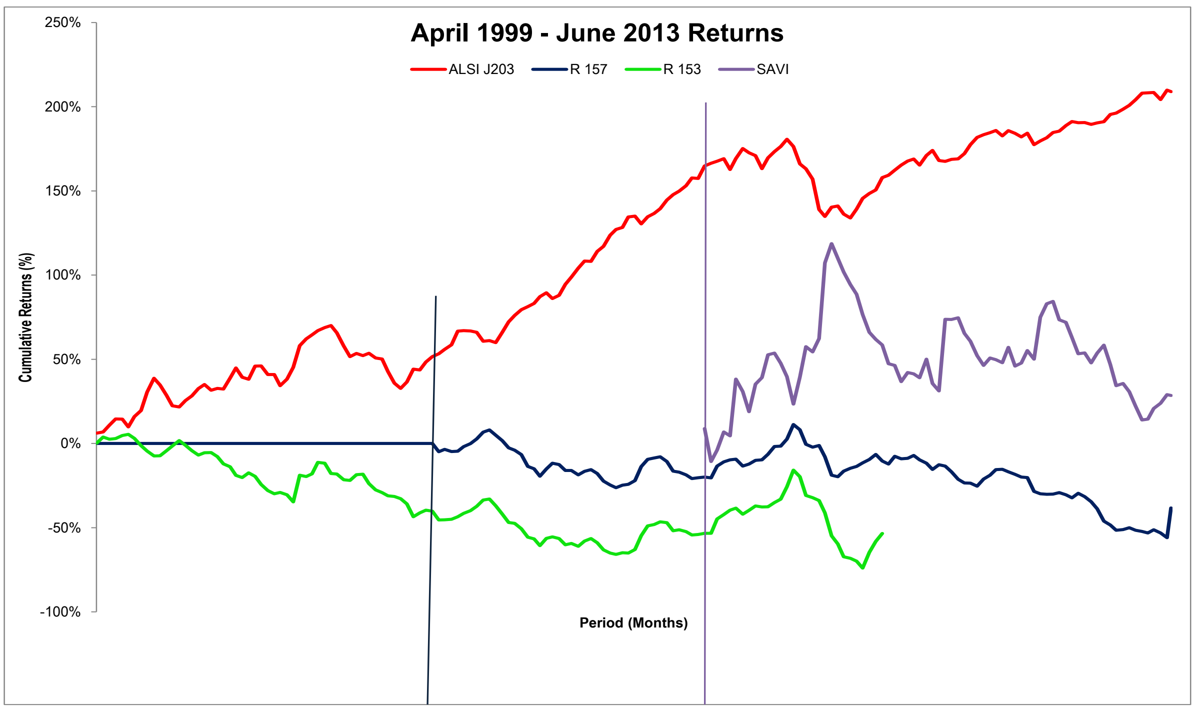

Figure 2.16: Market performance, Government bonds performance and Volatility Index 1999-2013, Source: Author

The results of this study show that in general there is a significant negative cumulative average abnormal return (Figure 2.17) and also highly volatile.

Empirical evidence supports the hypothesis that investors react unfavourably to announcements of appointments of CEO on JSE listed compnies. *Albeit* a slightly upward performance on month t_{-1}, this observation can be explained by many possibilities, even though this is beyond the scope of this study. It is possible that the market expected the announcement of either internal or external candidate, possibly a better-quality CEO, and the expectation was not met. As coined by Ang *et al.* (2003), appointment announcement was expected and similarly, the market expectation was not met. The results of this study are in line with the findings reported by Lassoued and Attia (2013). The interesting observation is that of the reports regarding market reaction to CEO announcements, evidence from stock markets in Asia (Kang *et al*., 2009), Europe (Charitou *et al*, 2010; van Doorn, 2011 and Vafeas and Vlittis, 2009) and America (Lubatkin *et al*., 1989) concluded that there is positive market reaction surrounding the announcement. This study and that of Lassoued and Attia (2013) are coincidentally listed on African stock markets, namely; Johannesburg and Tunis, respectively. However, this might as well be by chance. Therefore, studies in other African stock markets will have to be conducted to ascertain if there is any emerging trend on how investors react to the announcement of CEOs.

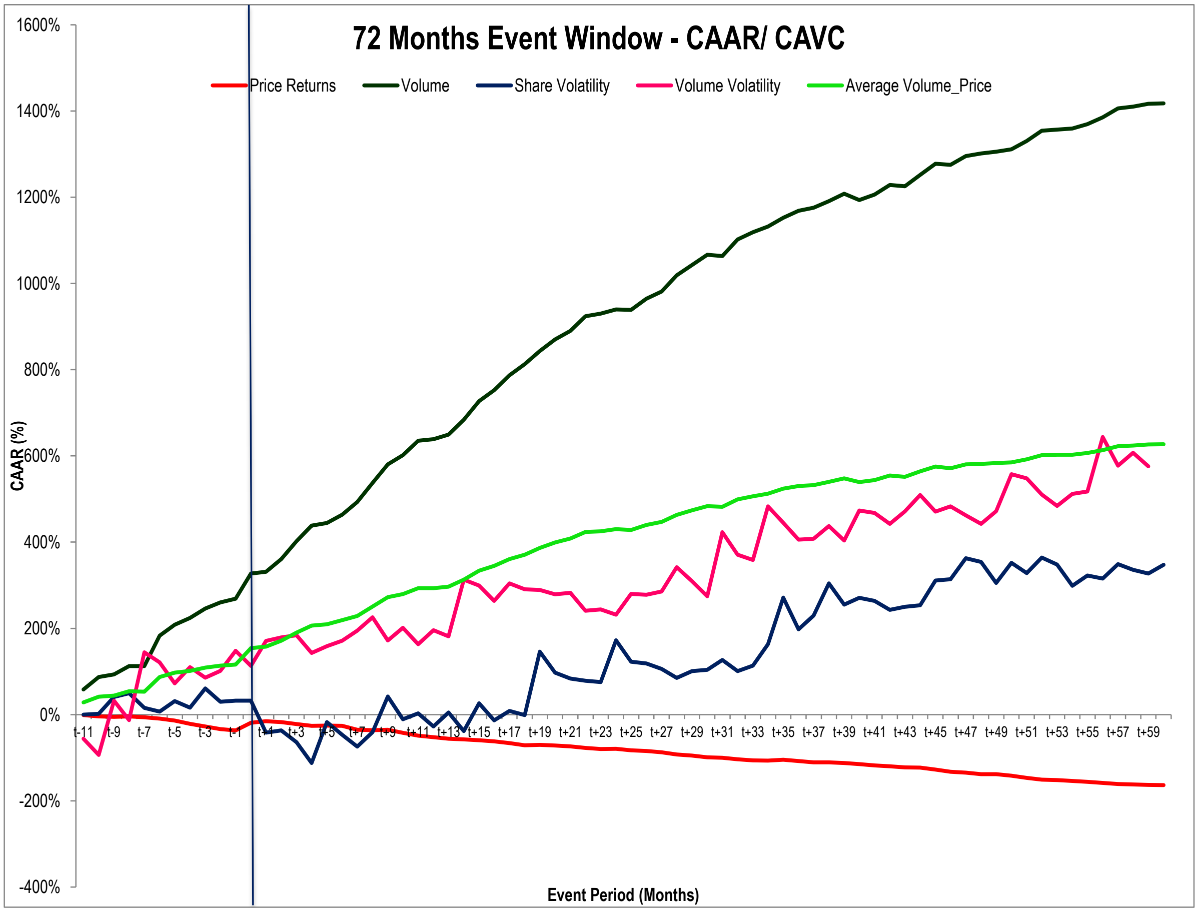

Figure 2.17: Share price and volume traded performance over a 72-month event window, Source: Author

Table 2.9 shows that throughout the 72-months event period, only nine performance results could be found to be statistically significant at 1% significant level. These periods are significant for all the event periods that showed a positive reaction to CEO announcements. Given this observation, it is safe to argue that the AAR suggests that investors react positive to CEO announcements. These periods are event months t_{-8}; t_0; t_{+1}; t_{+5}; t_{+9}; t_{+19}; t_{+24}; t_{+35} and t_{+49}. When observing CAAR, it has been reported earlier that there is generally a negative cumulative evidence, the same periods as AAR show a statistically significant negative performance at 1% significant level, with the exception of t_0 that shows the 10% significant level. It is important to note that the cumulative negative effect of non-significant result contribute the negative performance of those periods that show statistically significant performance. The announcement month (t_0) is the only period with considerable and significant positive returns of 17.4%. This shows the enthusiasm in the market based on the announcement. What is also observed here is that once the returns are on the down-slide, they do not seem to recover quickly and much of invested capital can be eroded.

Table 2.9: 72-month event period share performance results and statistical analysis

Event Month	AAR	t-statistics (2-tailed)	CAAR	t-statistics (2-tailed)	SD
			0		
t_{-11}	-1.4%	42.98	-1%	6.97	0.143
t_{-10}	-3.1%	42.21	-5%	6.97	0.146
t_{-9}	-0.8%	30.33	-5%	19.47	0.203
t_{-8}	0.8%	27.97***	-4%	-12.11***	0.220
t_{-7}	-1.8%	42.48	-6%	10.61	0.145
t_{-6}	-2.9%	46.41	-9%	9.72	0.133
t_{-5}	-4.8%	37.26	-14%	6.66	0.165
t_{-4}	-7.4%	43.93	-21%	7.30	0.140
t_{-3}	-6.3%	30.39	-28%	7.18	0.203
t_{-2}	-5.9%	43.94	-34%	12.85	0.140
t_{-1}	-3.0%	42.91	-37%	25.31	0.144
t_{0}	17.4%	4.55***	-19%	-0.24*	1.352
t_{+1}	3.6%	17.70***	-16%	-3.41***	0.348
t_{+2}	-2.0%	16.79	-18%	6.52	0.367

t_{+3}	-4.3%	23.24	-22%	4.95	0.265
t_{+4}	-4.0%	44.69	-26%	11.70	0.138
t_{+5}	0.3%	22.94***	-26%	-88.69***	0.269
t_{+6}	-0.4%	32.61	-26%	85.75	0.189
t_{+7}	-9.0%	44.64	-35%	6.44	0.138
t_{+8}	-1.0%	33.54	-36%	44.10	0.184
t_{+9}	0.7%	18.31***	-35%	-32.48***	0.337
t_{+10}	-7.2%	38.81	-42%	7.97	0.159
t_{+11}	-6.4%	34.16	-49%	8.84	0.180
t_{+12}	-3.4%	49.24	-52%	25.05	0.125
t_{+13}	-3.7%	37.09	-56%	18.35	0.166
t_{+14}	-1.8%	65.72	-58%	66.98	0.094
t_{+15}	-1.9%	39.91	-60%	39.77	0.154
t_{+16}	-2.7%	65.95	-62%	47.12	0.093
t_{+17}	-3.7%	54.26	-66%	28.92	0.114
t_{+18}	-5.2%	60.01	-71%	24.36	0.103
t_{+19}	1.2%	24.28***	-70%	-42.06***	0.254
t_{+20}	-1.7%	46.95	-72%	57.51	0.131
t_{+21}	-2.1%	54.68	-74%	53.41	0.113
t_{+22}	-3.3%	57.46	-77%	37.34	0.107
t_{+23}	-2.7%	59.25	-80%	48.16	

					0.104
t_{+24}	0.5%	30.07***	-79%	-132.45***	0.205
t_{+25}	-3.4%	59.75	-83%	38.79	0.103
t_{+26}	-1.6%	62.26	-84%	84.09	0.099
t_{+27}	-3.1%	71.59	-88%	51.86	0.086
t_{+28}	-4.9%	90.42	-92%	44.06	0.068
t_{+29}	-2.9%	78.16	-95%	64.25	0.079
t_{+30}	-3.7%	75.55	-99%	50.46	0.082
t_{+31}	-1.1%	61.66	-100%	137.34	0.100
t_{+32}	-3.8%	83.36	-104%	56.30	0.074
t_{+33}	-2.2%	73.66	-106%	85.27	0.084
t_{+34}	-0.7%	49.28	-107%	186.33	0.125
t_{+35}	2.3%	23.69***	-105%	-26.05***	0.260
t_{+36}	-3.5%	89.75	-108%	65.47	0.069
t_{+37}	-2.9%	67.90	-111%	59.75	0.091
t_{+38}	-0.1%	38.95	-111%	966.05	0.158
t_{+39}	-1.5%	76.01	-113%	131.94	0.081
t_{+40}	-2.4%	65.79	-115%	70.96	0.094
t_{+41}	-3.2%	71.03	-118%	58.69	0.087
t_{+42}	-1.8%	89.16	-120%	134.54	0.069
t_{+43}	-2.8%	83.53	-123%	79.16	0.074

t_{+44}	-0.5%	80.48	-123%	398.29	0.077
t_{+45}	-4.2%	51.13	-128%	33.11	0.121
t_{+46}	-5.4%	49.70	-133%	25.94	0.124
t_{+47}	-1.9%	33.46	-135%	49.58	0.184
t_{+48}	-3.5%	36.49	-138%	29.97	0.169
t_{+49}	0.0%	71.21***	-138%	-100745.22***	0.087
t_{+50}	-3.2%	48.50	-142%	44.03	0.127
t_{+51}	-5.4%	63.92	-147%	35.33	0.096
t_{+52}	-3.8%	46.90	-151%	37.70	0.131
t_{+53}	-1.1%	56.14	-152%	153.87	0.110
t_{+54}	-2.3%	110.95	-154%	150.81	0.056
t_{+55}	-1.7%	89.30	-156%	162.19	0.069
t_{+56}	-2.9%	96.52	-159%	105.11	0.064
t_{+57}	-2.3%	72.17	-161%	98.18	0.085
t_{+58}	-1.0%	83.04	-162%	272.06	0.074
t_{+59}	-1.3%	90.87	-163%	217.16	0.068
t_{+60}	-0.2%	75.49	-164%	961.66	0.082

Notes: The table presents the test statistics (one sample *t-test)*, column 3 are the test results for the AAR, and column 5 for the CAAR test results. *, **, and *** denote statistical significance at the 10%, 5% and 1% level (two-tailed test), respectively, for the 72-month event period. Column 6 shows the standard deviation

Regarding the volume traded, the general trend is the significant positive reaction for both the average volume traded and the cumulative effect, thereof. This study finding corroborates with that of Kang *et al*., (2009), Charitou *et al*, (2010), van Doorn (2011), Vafeas and Vlittis (2009) and Lubatkin *et al*. (1989). Furthermore, it coincides with the study of Setiawan *et* al. (2011), but contradicts that of Lassoued and Attia (2013). Both studies used volume approach to measure the market reaction to CEO announcements (see Table 2.10).

Table 2.10: 72-month event period volume performance results and statistical analysis

Event Month	AVTR	t-statistics (2-tailed)	CAVTR	t-statistics (2-tailed)2	SD
t_{-11}	0.58	1.71	0.58	1.00	2.035
t_{-10}	0.29	1.97	0.87	2.11	0.890
t_{-9}	0.06	0.66	0.93	8.73***	0.558
t_{-8}	0.19	0.91	1.12	2.94***	1.261
t_{-7}	0.00	0.00	1.12	-1082.35	0.689
t_{-6}	0.71	2.40***	1.83	1.06	1.773
t_{-5}	0.25	1.12	2.08	3.12***	1.355
t_{-4}	0.16	1.35	2.24	5.04***	0.697
t_{-3}	0.22	1.37	2.46	3.76***	0.957
t_{-2}	0.14	1.17	2.60	5.84***	0.725
t_{-1}	0.09	0.64	2.69	9.03***	0.840
t_{0}	0.58	2.83***	3.27	1.63	1.232
t_{+1}	0.04	0.30	3.31	22.89***	0.798
t_{+2}	0.30	1.41	3.61	3.26***	1.263
t_{+3}	0.42	1.84	4.02	2.49***	1.361
t_{+4}	0.36	1.51	4.38	3.04***	1.432
t_{+5}	0.06	0.45	4.45	17.14***	0.847
t_{+6}	0.19	1.16	4.64	5.77***	0.980
t_{+7}	0.29	1.59	4.93	3.86***	1.104
t_{+8}	0.44	1.95	5.37	2.71***	1.362
t_{+9}	0.43	1.45	5.80	2.94***	1.784
t_{+10}	0.21	1.55	6.02	6.01***	0.826
t_{+11}	0.34	1.89	6.35	3.93***	1.067

t_{+12}	0.04	0.32	6.39	36.65***	0.662
t_{+13}	0.11	0.73	6.50	12.13***	0.877
t_{+14}	0.34	2.75***	6.84	3.89***	0.752
t_{+15}	0.43	1.49	7.27	3.25***	1.740
t_{+16}	0.25	1.02	7.53	5.61***	1.497
t_{+17}	0.34	2.12	7.87	4.26***	0.970
t_{+18}	0.26	1.13	8.13	5.76***	1.363
t_{+19}	0.31	1.58	8.44	4.91***	1.174
t_{+20}	0.26	1.37	8.70	5.81***	1.160
t_{+21}	0.20	1.16	8.90	7.70***	1.040
t_{+22}	0.34	1.89	9.24	4.66***	1.077
t_{+23}	0.06	0.56	9.30	26.63***	0.629
t_{+24}	0.10	0.90	9.40	16.15***	0.648
t_{+25}	-0.01	-0.08	9.39	-212.94	0.570
t_{+26}	0.25	1.81	9.64	6.14***	0.843
t_{+27}	0.17	1.23	9.82	9.22***	0.828
t_{+28}	0.38	2.54***	10.19	4.27***	0.891
t_{+29}	0.24	1.02	10.43	6.87***	1.395
t_{+30}	0.24	1.50	10.66	7.00***	0.940
t_{+31}	-0.03	-0.26	10.64	-60.73	0.608
t_{+32}	0.38	1.53	11.02	4.32***	1.512
t_{+33}	0.17	1.40	11.19	9.88***	0.723
t_{+34}	0.13	1.23	11.32	12.86***	0.636
t_{+35}	0.21	0.86	11.53	8.19***	1.426
t_{+36}	0.16	1.08	11.69	10.56***	0.885
t_{+37}	0.07	0.80	11.76	23.32***	0.539
t_{+38}	0.15	1.65	11.91	11.16***	0.550
t_{+39}	0.17	1.46	12.08	9.76***	0.711
t_{+40}	-0.15	-1.86	11.94	-11.24	0.475
t_{+41}	0.13	0.93	12.06	13.21***	0.805
t_{+42}	0.23	1.79	12.29	7.38***	0.759
t_{+43}	-0.03	-0.34	12.26	-51.55	0.565
t_{+44}	0.27	2.19	12.52	6.28***	0.729
t_{+45}	0.26	1.54	12.78	6.56***	1.006
t_{+46}	-0.03	-0.25	12.75	-65.47	0.618

t_{+47}	0.20	1.76	12.96	8.26***	0.695
t_{+48}	0.06	0.63	13.02	28.94***	0.550
t_{+49}	0.04	0.57	13.06	39.98***	0.441
t_{+50}	0.05	0.57	13.11	30.63***	0.572
t_{+51}	0.20	1.11	13.31	8.57***	1.062
t_{+52}	0.24	1.48	13.54	7.18***	0.956
t_{+53}	0.03	0.27	13.57	62.29***	0.598
t_{+54}	0.02	0.34	13.60	67.46***	0.441
t_{+55}	0.10	1.07	13.70	16.55***	0.564
t_{+56}	0.16	1.59	13.85	10.63***	0.596
t_{+57}	0.21	0.92	14.06	8.18***	1.349
t_{+58}	0.04	0.56	14.10	39.94***	0.450
t_{+59}	0.06	0.65	14.17	26.35***	0.586
t_{+60}	0.01	0.18	14.18	138.91***	0.400

Notes: The table presents the test statistics (one sample *t-test)*, column 3 are the test results for the AVTR, and column 5 for the CAVTR test results. *, **, and *** denote statistical significance at the 10%, 5% and 1% level (two-tailed test), respectively, for the 72-month event period. Column 6 shows the standard deviation

2.7.5 Conclusion and recommendations

This study was undertaken to assess the market reaction to the announcement of CEOs. This should consequently translates to whether value has been added or lost to the shareholders, as measured by the share price movements and the willingness of investors to buy the shares on firms in question when CEO appointments of public companies are publicly announced. To achieve this objective, the share price movement and volume traded approach were utilised. It has been proven in this study that the null hypothesis which stated that “CAAR are not significantly different from zero is invalid”, and therefore in line with the findings. Therefore, the null hypothesis is rejected in favour of the alternate hypothesis. Empirical evidence demonstrates that there is substantial negative share price reaction to CEOs appointment announcements on the JSE stock market. Similarly, it is concluded that when volume traded is used, the hypothesis that states that CAVTR are not significantly different from zero is also invalid, and therefore rejected in favour of the positive reaction. To sum up, the announcement of CEO appointment creates expectation to the market, meaning the market reacts to the information of their announcement. To this end, it has been proven that CEO-related activities are price sensitive. Therefore, CEOs can be used as a unit of analysis to complete the trio of EVA as a true measure of value; CEOs are target executives entrusted with the responsibility to create value and competency modelling as a tool that joins CEO and EVA, because “at the heart of effective organisations are their managers” (Flanders, Carlson and Klauss, 1983:199).

2.14 Competencies of chief executive officers

Previous studies affirm that executives’ competencies have been shown to be related to superior organisational performance. Accordingly, other studies have shown and argued that competency models and competency testing are some of the valuable tools available to organisations when selecting executives. Reports like the one of The Anova Communications Group (2008) asserts that ‘personality testing’ and ‘abilities testing’, contribute to a cumulative 38% and 54% respectively, of job performance predictors. While studies by Robie, *et al.* (2008) and Tyler and Newcombe (2006) confirm that personality traits assessment is related to managerial and work performance. Derven’s (2008:70) empirical studies concluded that “organisations that use leadership competency model are three to four times more effective, and sometimes as much as six times more effective, than companies that do not use models. […] also found that competency models help leaders to lead their teams by supporting employees to reach their maximum potential”.

These observations put to front the idea that there should be competencies that are inherent to creating organisation’s real economic value. Zuckerman Consulting Group (n/d) suggests that there are 20 core competencies of a CEO. These competencies are presented in no order of priority of any specific category. This approach is the same as that of Maidique, Atamanik and Perez (2014) who postulate that there are six critical competencies of a CEO. The later argument is based on study conducted on 442 comments and 178 individual ideas. However, it is not clear as to the role these research subjects were playing in their respective organisations. Russel Reynolds Associates (n/d) in the study conducted in North America and Europe comprising 134 CEOs out of more than 3700 respondents concluded that there are nine attributes that differentiates CEO. These attributes are argued to place into three categories. Hurd and Buschbom (2010), in a study that was focused on non-profit organisations (YMCA), developed a competency framework that consists of six general competency categories and 70 specific competencies. In a similar study of Public Park and Recreational Agencies CEOs, Hurd and McLean (2004) concluded that a framework for CEOs competencies consists of three levels of specificity, including six general competency categories 20 primary competencies and 72 specific competencies.

The work by Council on Foundations Inc. (2006:3) on CEOs competencies reports that in the case of private foundations there are two types of competencies, namely; “core competencies those that cover the essential professional skills and knowledge that any CEO, regardless of field, needs to master […] and functional competencies *that* represent the level of personal and professional development necessary for individuals to perform the functions well”. The closest competency model research conducted in South Africa is the one that looked at the competencies of global central bankers by Brits and Veldsman (2014). The study investigated a relatively specialised group of individuals but it is equally relevant in the context of CEOs competencies. The results of this work (from 30 central banks) concluded that there are four areas of speciality and 18 categories of competencies that are critical for central bankers.

At this moment, based on the literature presented on the competencies of CEOs, a question can be asked: ‘Does the literature indicate which competencies are aligned with CEOs ability to create value in their organisation?’ This information is not obvious, maybe because none of the research work and practical work consulted ever focused attention to looking at CEOs’ capabilities in relation to value creation in their respective organisation. However, implicit work[4] on both CEOs competencies and EVA literature seems to suggest that at the least, there are four broad areas of competencies that underscore the creation of real economic value in any organisation, and they are revenue optimisation; minimisation of operational costs (or managerial efficiency); cheap cost of capital (including risk management) and profit optimisation. However simplistic it looks, this conception supports the argument by Fiordelisi and Molyneux (2010) who identified the drivers of economic profits and shareholder value as *income diversification, cost and revenue efficiency, financial leverage, firm assets size and a decrease in market risk exposure*. Moreover, this conception also displays the need for strategic and technical competencies in creating value, effectively agreeing with the assertion of Chandler and Jansen (1992) who provide a linkage between the know-how competencies and three executive roles, namely; *entrepreneurial, managerial and technical.* To this end, further research in bridging the gap between executive performance and executive value creation abilities needs consideration. In this way the expectation of executives to create economic value will receive necessary justification.

2.14.1 Evaluation criteria for assessing CEO Competency models

Brits and Veldsman (2014) provide a comprehensive guideline and criteria for assessing competency models, instead of looking at existing CEO competencies/competency models. Existing models will be assessed based on of the framework adapted from the work of Brits and Veldsman (2014:4) as shown in Figure 2.18 below.

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[4] Huang and Liu (2010) report that insider directors, a CEO being one of them increase positive EVA in organisations and Hutchinson and Russell (2013) report that CEO's human capital is associated with increasing firm performance.

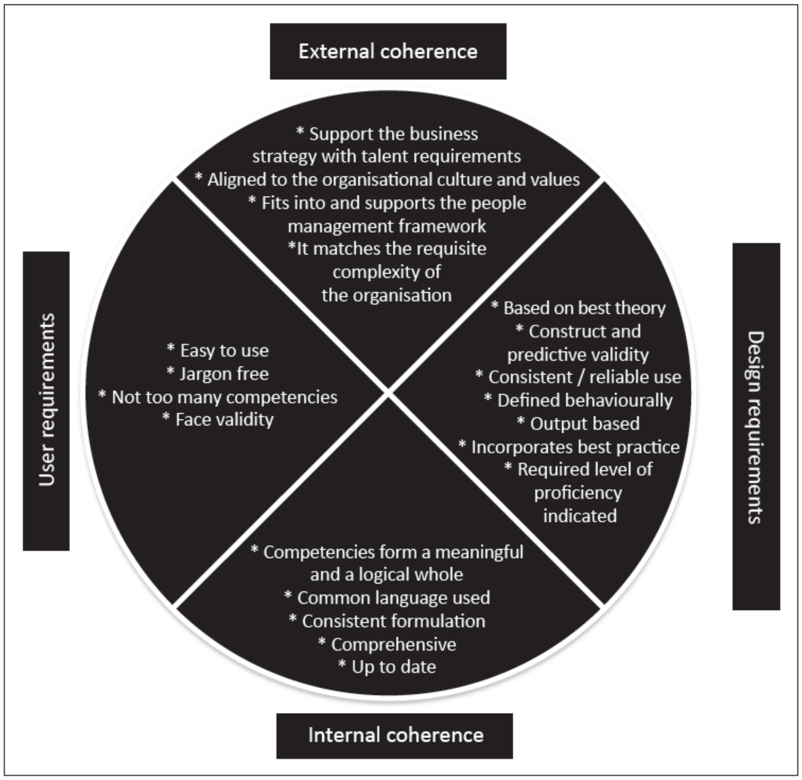


Figure 2.18: Evaluation criteria for assessing a competency model, Source: Brits and Veldsman (2014:4)

Against this assessment criterion, this study adapted the criteria to develop the CEO competency assessment criteria. Each criterion is assessed as being poor (1); weak (2); good (3); excellent (4) or outstanding (5), where:

- poor: refers to very low level of alignment with construct in question.
- weak: there is some level of alignment and the construct is satisfied *albeit* no too convincingly.
- good: in line with the minimum acceptability as compared to other models in the construct in question.
- excellent: the construct in question can be reflected both in theory and empirically, highly convincing.
- outstanding: Best argument displayed, level of setting the path and pioneering in the construct in question.

Detailed analysis is presented under convergent and discriminant validity in the findings section to avoid subject duplication (see section **5.2.3)**.

2.15 Conclusion

This chapter focused on three elements of the study, firstly **EVA as a superior financial measure.** To support this, literature that supported that EVA was reviewed and critiqued and also adopted as a superior financial measure compared to other accounting-based measures. Similarly, literature that negates this assertion was also consulted and reviewed. The chapter also focused various uses of EVA and highlighted shortfalls, especially the shortfall of EVA not being utilised as a development and/or recruitment tool for hiring executives. This shortcoming forms the basis of this study.

The second element of the study is the focus on **CEOs as critical and important drivers of value in organisations.** However, the available literature was not able to provide a convincing argument to focus 'all' the attention on CEOs at the expense of other executives and the organisations at large. To determine if CEOs can be given this attention and prominence, we conducted an additional study that assessed the share price movement on the public announcement of CEOs on companies listed on JSE. This was conducted to indirectly answer the question that says '*do CEOs matter?*' The findings of this study showed significant movement of share price and volume traded, and on the strength of this observation we concluded that CEOs can be used in this study as drivers of value. The literature on leadership was then visited given the leadership role that CEOs play in their respective firms.

The final elopement of this study was to look at **competencies and competency modelling as a conduit that links value creation (EVA) and creators of value (CEOs).** The literature on competencies was consulted and that of modelling, looking at the advantages and disadvantages of modelling. We concluded by looking at various CEO competency models and assessed them against the evaluation assessment framework.

CHAPTER 3: METHODOLOGY

3.2 Introduction

The study purpose is to explore the attributes and competencies that business executives (CEOs) possess that enable them to create real economic value for their respective organisations. The study is informed by the observation that even though EVA is extensively utilised to measure executive performance and is also used as a compensation tool for the remuneration of business executives, it seems not to be utilised in the recruitment and selection measures of these executives. In addition, seems not to be utilised during the executives' skills gap analysis which should be a precursor to executive development. The previous chapter presented the literature of economic value added, competencies (and how competencies can be related to creating economic value in organisations and the results of a research that argues that the appointments of CEOs have an impact (negative or positive) to the share price and volume traded on the stock exchange.

In order to seek answers to the research questions in this study, a mixed method approach was followed, specifically a **Qualitative Dominant Sequential Exploratory Design**. The first phase of the study was qualitative with the aim of finding out firstly what attributes and competencies do CEOs possess and secondly how do they use these competencies to create economic value. The quantitative phase was focused on developing the index based on the attributes and competencies identified during the qualitative phase.

The population of interest was the top 50 companies listed on the JSE, which have had the same CEO for the period of five consecutive years or more. This was followed by calculating the companies' EVA over a period not exceeding 10 years, then workout the cumulative EVA (CEVA).

Data were collected by field interviews, observations and analysis of companies' documents (these included annual reports, internet interviews with business analysts and other relevant related documents). Primary data and secondary data from company reports were managed and organised using a data analysis software called '***Atlas ti'***. Once this phase was concluded, then the **fourth step** of the approach outlined by Lucia and Lepsinger (1999: 67-112) on how to develop the competency model from scratch was followed. Lucia and Lepsinger (1999) and Spencer (2003) provide steps to follow while developing the competency model from the scratch, namely:

- Step 1: Develop a performance criteria;
- Step 2: Analyse criterion sample;
- Step 3: Determining the data collection methodology;
- Step 4: Collecting data, conducting interviews and focus groups, Edgar and Lockwood (2011) further support this approach, by reporting that to discover competencies analysis of corporate documents and interviews of corporate personnel is necessary;
- Step 5: Performing job observations;
- Step 6: Analyse data;
- Step 7: Develop an interim competency model; and
- Step 8: Validate competency model.

Participants were given an informed consent and were made aware that the participation is voluntary and that their privacy and confidentiality will be ensured at all times **(see Appendix A)**. The study is located in the **pragmatic paradigm** with the focus mainly on what and how the research ***could best be done***. Subsequent sections detail the rationale for following the stated methodology in conducting the study. Figure 3.1 provides the road map of this chapter.

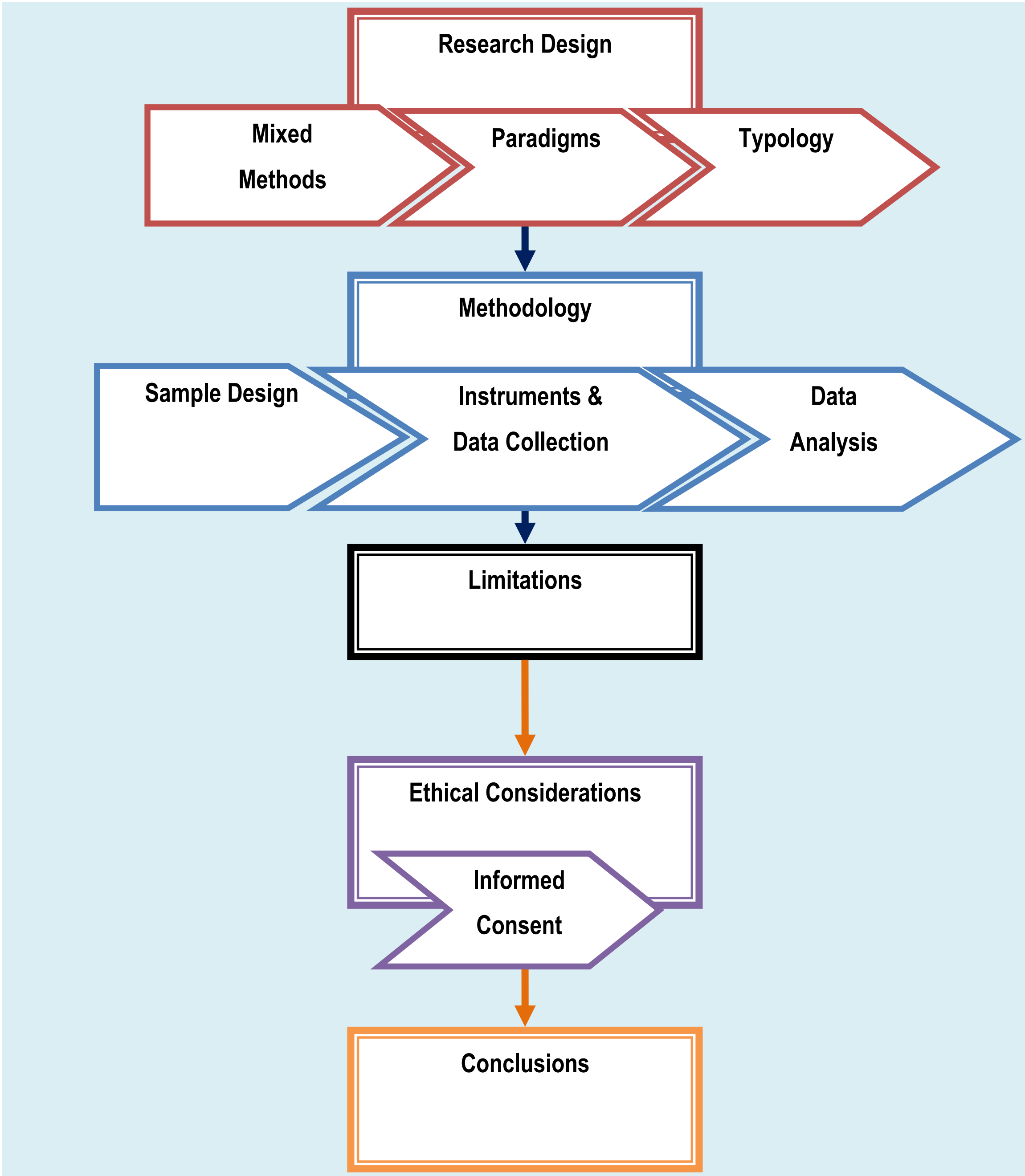


Figure 3.1: Roadmap for the study methodology chapter

3.3 Research Design

Doyle Brady and Byrne (2009) argue that the first question a researcher asks when deciding on methodology is to ascertain which approach will best suit the research question, and by extension which approach is best suited to achieving the purpose of the study. A mixed methods design was used to conduct this study and obtain data from CEOs who for the purpose of this study shall be referred to as executives. Creswell and Plano Clark (2007:5) define mixed methods as:

"… a research design with philosophical assumptions as well as methods of inquiry. As a methodology, it involves philosophical assumptions that guide the direction of the collection and analysis and the mixture of qualitative and quantitative approaches in many phases of the research process. As a method, it focuses on collecting, analysing, and mixing both quantitative and qualitative data in a single study […]. Its central premise is that the use of quantitative and qualitative approaches, in combination, provides a better understanding of [the] research problem than either approach alone".

3.4 Mixed Methods

Mixed methods approach aims to provide the researcher with an approach that can better explain and /or answer the research question(s). This method allows the researcher to optimise the benefits of both the positivist quantitative method and the post-positivist/constructivist qualitative approach. Bryman (2007) asserts that mixed methods researcher analyse and interpret research in such a way that the two components are mutually illuminating, particularly when these two approaches are integrated. In addition, Jogulu and Pansiri (2011:698) assert that by employing mixed methodology in management and business research is beneficial because of the gained exposure to "multiple data types and variations in data analysis techniques".

Given that the literature and previous studies fail to provide evidence of variables or competencies responsible for economic value creation, within the context of EVA, then developing an index needs to be preceded by the identification of those variables or competencies. Mixed methods research has become the best and comprehensive approach for this study. The rationale for conducting mixed methods research designs identified by Greene, Caracelli and Graham (1989) and Bryman (2006) further supports this design as a best choice for answering the research question in this study. These include, though not limited to (also acknowledged by Doyle, *et al*., 2009):

- **Triangulation**- mixed methods design allows for greater validity in this study by seeking substantiation between qualitative and quantitative data.
- **Complementary/completeness** – using the combination of research approaches provided a more complete and comprehensive picture of this study phenomenon.
- **Offsetting weaknesses and providing stronger inferences** – utilising mixed methods allowed for the limitations of each (qualitative and quantitative) to be minimised while leveraging on their strengths thereby providing stronger and more accurate inferences.
- **Answering different research questions** – this approach helped in answering the questions that could not been possible to answer with either, and provided for "a greater repertoire of tools to meet the aims and objectives" (Doyle, *et al.*, 2009: 178) of this study.
- **Explanations of findings** – mixed methods approach assisted in having a deeper understanding with regard to the link between value creation and competencies/variables. These identified variables became a necessary framework for the development of an index. Without relying on literature for determining the components of the index, results attained from a qualitative approach provided these answers.
- **Hypothesis development and testing** – a qualitative phase of the study assist in developing hypotheses to be tested in a follow-up studies.
- **Instrument development and testing** – a qualitative study assisted in generating items for inclusion in a survey questionnaire used in a quantitative phase to develop an index.

This study followed what Mason (2006) call 'qualitatively driven' approach to mixed methods since this approach offers vast potential for generating new ways of understanding the complexities and context and enhancing the capacities for social explanation and generalisation. Mason (2006) further provides reasons why mixed methods are better placed to answer research questions in social science research, thus transcending the complexities of this research. She believes that mixed methods:

- encourages researchers to think out of the box – for exploring new dimensions of experience in social life, and intersection between these.
- enhances our capacity for theorising beyond macro and micro.
- enhances and extends the logic of qualitative explanation – a qualitative logic works by seeking to comprehend the distinctive dynamics; this involves exploring as fully as possible the situational contours and context, while the quantitative logic charts and sometimes aims to predict wide patterns and changes in social phenomenon.

Using mixed methods approach was also found to increase audience (Bryman, 2007) from differing ontological and epistemological inclinations. This helped in building bridges by "*marry-ing an objectivist with a constructivist*" (Bryman, 2007:16). However, like any other methods, mixed methods design has its strengths and its weaknesses. Johnson and Onwuegbuzie (2004) highlight these in Table 3.1 below.

Table 3.1: Strengths and weaknesses of mixed research, (Johnson and Onwuegbuzie, 2004: 21)

Strengths	Weaknesses
Words, pictures, and narratives can be used to add meaning to numbers. **Numbers can be used to add precision to words, pictures, and narratives.** **Can provide quantitative and qualitative research strengths.** **Researcher can generate and test a grounded theory.** **Can answer a broader and more complex range of research questions because the researcher is not limited to a single method or approach.** **A researcher can use the strengths of an additional method to overcome the weaknesses in another by using both in a research study.** **Can provide stronger evidence for a conclusion through convergence and corroboration of findings.** **Can add insights and understanding that might be missed when only a single method is used.** **Can be used to increase the generalisability of the results.** **Qualitative and quantitative research used together produce more complete knowledge necessary to inform theory and practice.**	Can be difficult for a single researcher to carry out both qualitative and quantitative research, especially if two or more approaches are expected to be used concurrently; it may require a research team. Researcher has to learn about multiple methods and approaches and understand how to mix them appropriately. Methodological purists contend that one should always work within either qualitative or a quantitative paradigm. More expensive. More time consuming. Some of the details of mixed research remain to be worked out fully by research methodologists (e.g., problems of paradigm mixing, how to qualitatively analyse quantitative data, how to interpret conflicting results).

3.5 Mixed Methods Research - Pragmatic Paradigm

The notion of paradigm refers to a set of ontological (nature of reality), epistemological (the nature of knowledge) and methodological (how do we obtain the knowledge) assumptions. These are assumptions made about the nature of social reality and the manner in which we can move towards this reality. In addition, Harrits (2011:152) highlights that research paradigm also refers to "a common research practice, existing within a research community, and carrying with it shared identity as well as a specific a specific problem or set of problems that are regarded as particularly significant in relation to the advancement of knowledge".

Scholars like Morgan (2007) and Johnson, Onwuegbuzie and Turner (2007) suggest that the pragmatism presents a suitable research paradigm within which mixed methods research can be founded. Without entering into the paradigm wars debate, and also ensuring that the study views are not misquoted or misrepresented, the researcher acknowledges that there is a great value in the distinctions between deductive and inductive, objectivity and subjectivity, and generalisability and context approaches. However, this study finds comfort in the pragmatic paradigm, by the virtue of what the study aims to achieve. Morgan (2007) argues that pragmatic approach is to rely on abduction, inter-subjectivity and transferability (see Table 3.2).

Table 3.2: A Pragmatic alternative to the key issues in Social Science Research Methodologies (Morgan, 2007:71)

	Qualitative Approach	**Quantitative Approach**	**Pragmatic Approach**
Connection of theory and data	Induction	Deduction	Abduction
Relationship to research process	Subjectivity	Objectivity	Inter-subjectivity
Inference from data	Context	Generality	Transferability

- ***Abduction*** – abductive reasoning move back and forth between induction and deduction (Morgan, 2007), converting qualitative observations into possible propositions or theories, and then assessing this propositions through action. The goal in the pragmatic paradigm is to search for useful connection points between qualitative and quantitative reasoning.

- ***Inter-subjectivity*** – this implies that the researcher has to "work back and forth between various frames of reference" (Morgan, 2007:71). This aspect represents the emphasis to be placed on the process of communication and shared meaning. Morgan (2007) further indicates that inter-subjectivity represent the response to issues of incommensurability, in that there is no problem with the assertion that there is a single 'real world', and that all individuals have their own interpretation of that world. This approach specifically addresses the concern that studies of similar nature have been conducted before, and failed to establish the relationship between individuals (and their competencies) with the creation of value.
- ***Transferability*** – the extent to which we can take things that we learn (including those we do not learn) with one type of method in one particular setting and make the most appropriate use of that knowledge in other circumstances.

In closing the paradigm discussion, Johnson and Onwuegbuzie (2004) present the characteristics of pragmatism, accordingly, the researcher believe that this approach was best suited to better answer the research questions (see Table 3.3).

Table 3.3: Characteristics of Pragmatism (Johnson and Onwuegbuzie, 2004:18)

	22 Characteristics of Pragmatism
i.	The project of pragmatism has been to find a middle ground between philosophical dogmatisms and scepticism and to find a workable solution (sometimes including outright rejection) to many longstanding philosophical dualisms about which agreement has not been historically forthcoming.
ii.	Rejects traditional dualisms (e.g., rationalism vs. empiricism, realism vs. antirealism, free will vs. determinism, Platonic appearance vs. reality, facts vs. values, subjectivism vs. objectivism) and generally prefers more moderate and common-sense versions of philosophical dualisms based on how well they work in solving problems.
iii.	Recognizes the existence and importance of the natural or physical world as well as the emergent social, socio-economical and psychological world that includes language, culture, human institutions, and subjective thoughts.
iv.	Places high regard for the reality of and influence of the inner world of human experience in action.
v.	Knowledge is viewed as being both constructed and based on the reality of the world we experience and live in.
vi.	Replaces the historically popular epistemic distinction between subject and external object with the naturalistic and process oriented organism-environment transaction.
vii.	Endorses fallibilism (current beliefs and research conclusions are rarely, if ever, viewed as perfect, certain, or absolute).
viii.	Justification comes in the form of what Dewey called "warranted assertability."
xii.	Human inquiry (i.e., what we do in our day-to-day lives as we interact with our environments) is viewed as being analogous to experimental and scientific inquiry. We all try out things to see what works, what solves problems, and what helps us to survive. We obtain warranted evidence that provides us with answers that are ultimately tentative (i.e., inquiry provides the best answers we can currently muster), but, in the long run, use of this "scientific" or evolutionary or practical epistemology moves us toward larger Truths.
xiii.	Endorses a strong and practical empiricism as the path to determine what works.
xiv.	Views current truth, meaning, and knowledge as tentative and as changing over time. What we obtain on a daily basis in research should be viewed as provisional truths.
xv.	Capital "T" Truth (i.e., absolute Truth) is what will be the "final opinion" perhaps at the end of history. Lowercase "t" truths (i.e., the instrumental and provisional truths that we obtain and live by in the meantime) are given through experience and experimenting.
xvi.	Instrumental truths are a matter of degree (i.e., some estimates are more true than others). Instrumental truth is not "stagnant," and, therefore, James (1995: 1907) states that we must "be ready tomorrow to call it falsehood."
xvii.	Prefers action to philosophizing (pragmatism is, in a sense, an anti-philosophy).
xviii.	Takes an explicitly value-oriented approach to research that is derived from cultural values; specifically endorses shared values

ix. Reasoning should not form a chain which is no stronger than its weakest link, but a cable whose fibres may be ever so slender, provided they are sufficiently numerous and intimately connected x. Theories are viewed instrumentally (they become true and they are true to different degrees based on how well they currently work; workability is judged especially on the criteria of predictability and applicability). xi. Endorses eclecticism and pluralism (e.g., different, even conflicting, theories and perspectives can be useful; observation, experience, and experiments are all useful ways to gain an understanding of people and the world).	such as democracy, freedom, equality, and progress. xix. Endorses practical theory (theory that informs effective practice; praxis). xx. Organisms are constantly adapting to new situations and environments. Our thinking follows a dynamic homeostatic process of belief, doubt, inquiry, modified belief, new doubt, new inquiry, . . . , in an infinite loop, where the person or researcher (and research community) constantly tries to improve upon past understandings in a way that fits and works in the world in which he or she operates. The present is always a new starting point. xxi. Generally rejects reductionism (e.g., reducing culture, thoughts, and beliefs to nothing more than neurobiological processes). xxii. Offers the "pragmatic method" for solving traditional philosophical dualisms as well as for making methodological choices.

3.6 Typology of mixed methods approach in this study

Bryman (2006) argues that the dimensions out of which the typologies are constructed draw attention to the different aspects of a multi-strategy research. In conducting the typology for this study, the researcher followed the approach preceded by various scholars (Creswell, 2003; Creswell *et al*., 2003; Morgan, 1998; Morse, 1991 and Tashakkori and Teddlie, 1998) in order to the construct the four pillars that were used to develop a typological framework for this study (see Figure 3.2). These four pillars of typology of mixed methodology research are as follows:

- Prioritising the approach (qualitative or quantitative first);
- Timing of data collection;
- Level of integration – at what point of research do these methods come

together; and

- Purpose – what is the purpose of this integration.

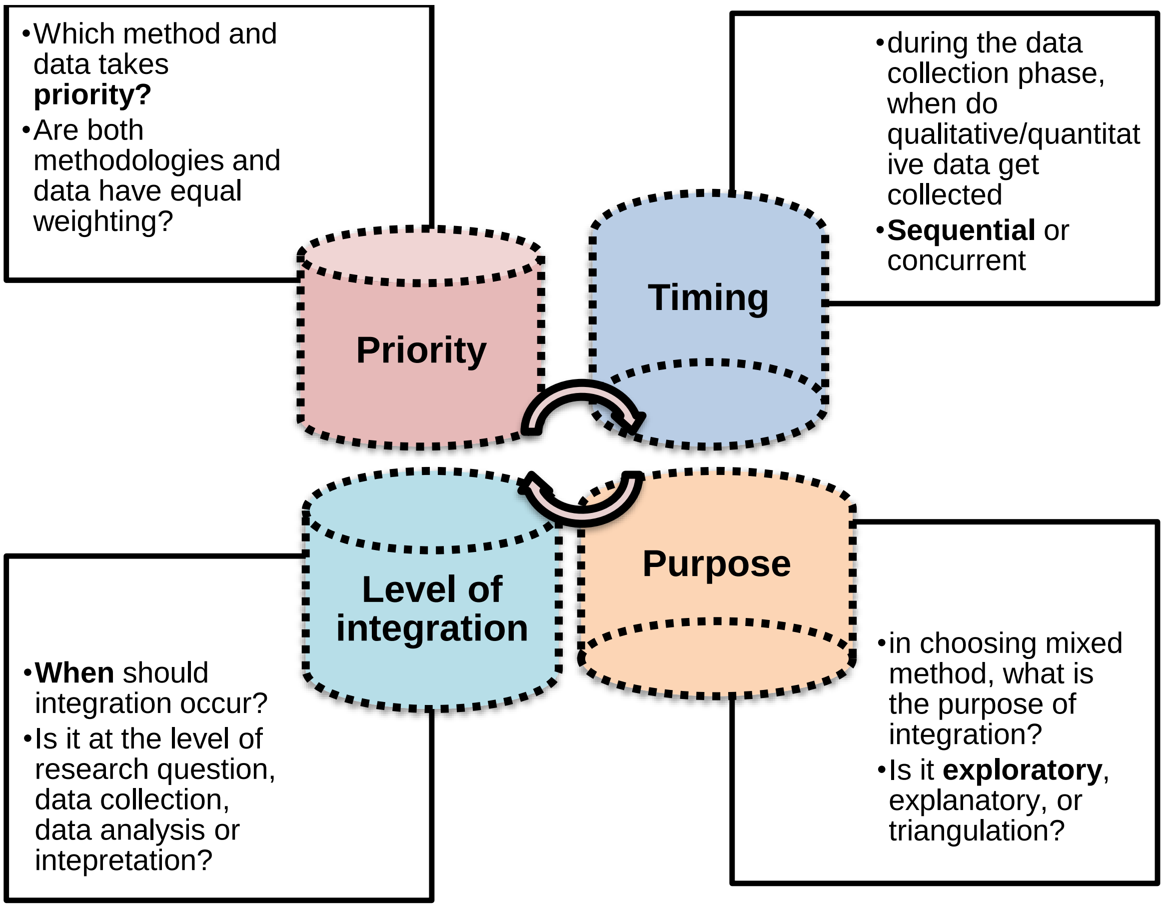


Figure 3.2: The Framework for developing the study typology, Source: Author

In answering these questions in Figure 3.3, the decision tree for mixed methods (Creswell *et al.,* 2003; Creswell and Plano Clark, 2007) and the typology for mixed methods (Creswell and Plano Clark, 2007). The researcher constructed the following typology (this is also represented graphically in Figure 3.3):

- The study was of a nature where qualitative methods were dominating. This approach according to Johnson *et al.* (2007) is the type of a mixed research in which one relies on a qualitative, constructivist-poststructuralist-critical view of the research process, while recognising the addition of quantitative data. This approach was necessary in allowing the researcher to go deeper in identifying those variables/competencies that executives have in order to be able to create value in organisation, secondly unearthed the complexities related to how these executives actually create value in their respective organisations.

- The second decision had to do with whether data is collected concurrently or sequentially, that is the timing. Given the lack of previous data on finding out those competencies responsible for creating Economic Value in organisation, this dictated that data be collected sequentially.
- The purpose of this study was exploratory in nature and used for developing an instrument, 'Instrument Development Model' (Doyle *et al.,* 2009:181).
- With regard to data integration, this occurred at the data interpretation level by "connecting the data" (Doyle *et al.,* 2009:180) linking the qualitative findings to the quantitative approach.

In conclusion, the design that underpinned this study can be referred to as Qualitatively Dominant, Sequential Exploratory Design (QD-SED).

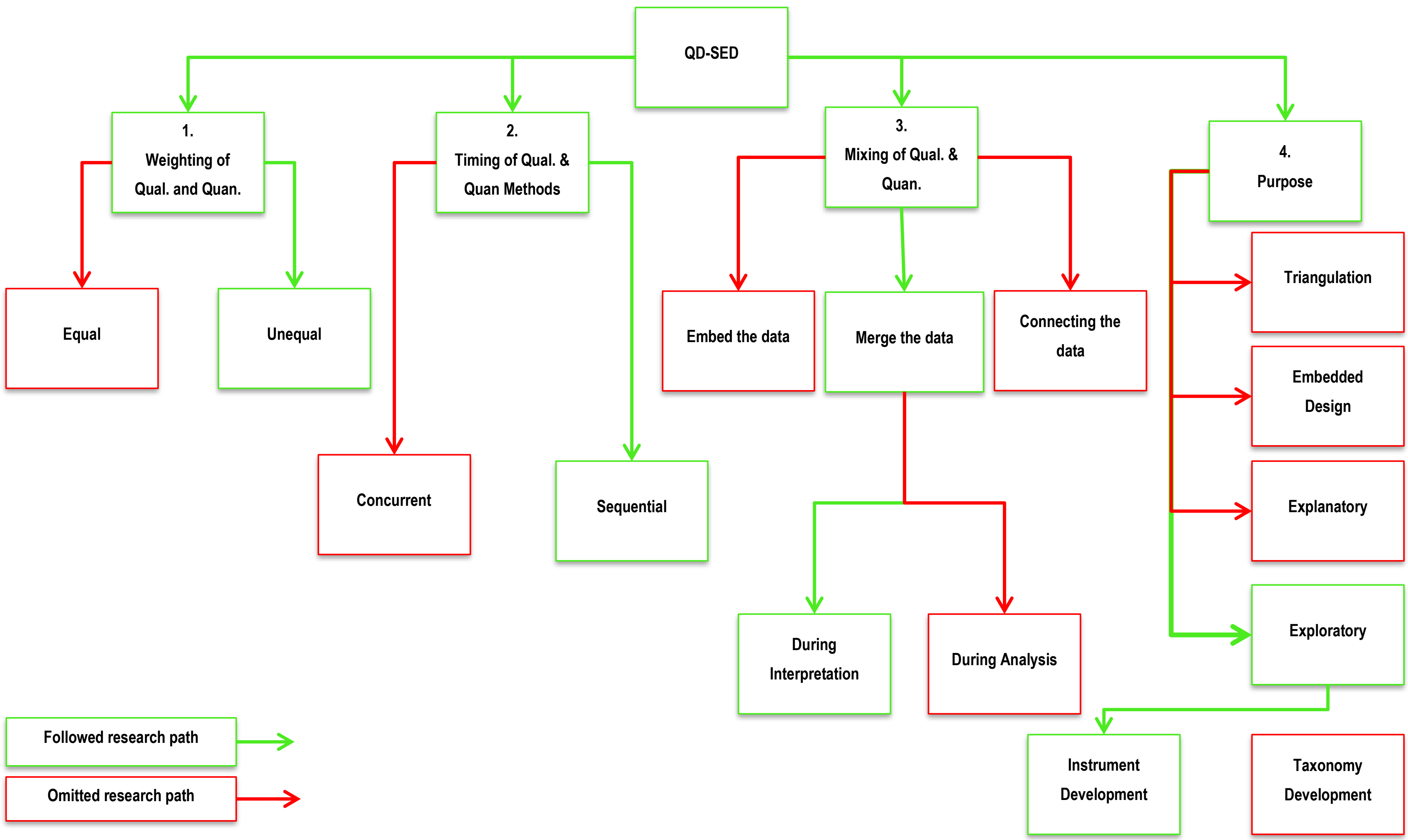


Figure 3.1: Graphical representation of the study design- QD-SED (Adapted from Creswell *et al.*, 2003 and Creswell and Plano Clark, 2007)

3.7 Methodology

This section presents the process and criteria for selecting the sample, the instrument (s) utilised to collect data and the manner in which data were analysed.

3.7.1 Sampling design

Relevant population – it has been discussed before that the study will be mainly qualitative then followed by a quantitative approach. This study accepts EVA as the superior measure of real economic value, based on this acceptance (also detailed in Chapter 2) attempted to identify companies that are listed on the JSE that are using EVA with no success. Then the alternative approach was to create a population based on the following criteria (40-5-10):

- The company should be on the **top 40** companies listed on the JSE;
- The company should have had the same chief executive officer for a period of **five years**; and
- Then calculated the company EVA over a **period of 10 years**, and the company should have created economic value (that is positive EVA), cumulative EVA (CEVA).

Study sample – Teddlie and Yu (2007:88) assert that “there is no widely accepted typology of mixed methods sampling strategies”, and the literature related to the sampling strategies of mixed methods is still in infancy, meaning that this created a challenge in sampling for this study. Based on the pragmatic approach and the study design, the sample needed to be in the following ways:

- Be in line with the study design; and
- Be able to answer the research question.

Sequential mixed methods sampling (SMMS) approach was undertaken in this study. The example of a SMMS procedure followed in the study QUAL-QUAN whereby the methodology and results from the first strand (QUAL) is employed in the second strand (QUAN). The strand approach is discussed in detail in Kemper, Stringfield and Teddlie (2003). Table 3.4 and Figure 3.4 provide the guidelines for mixed methods sampling and the actions taken to satisfy these guidelines in this study sampling process (Teddlie and Yu, 2007).

Unit of Analysis – in this study the unit of analysis was the companies' CEOs. The focus of this study was to identify the attributes that CEOs have and are critical for creating economic value in their organisations to also find out how they create this value.

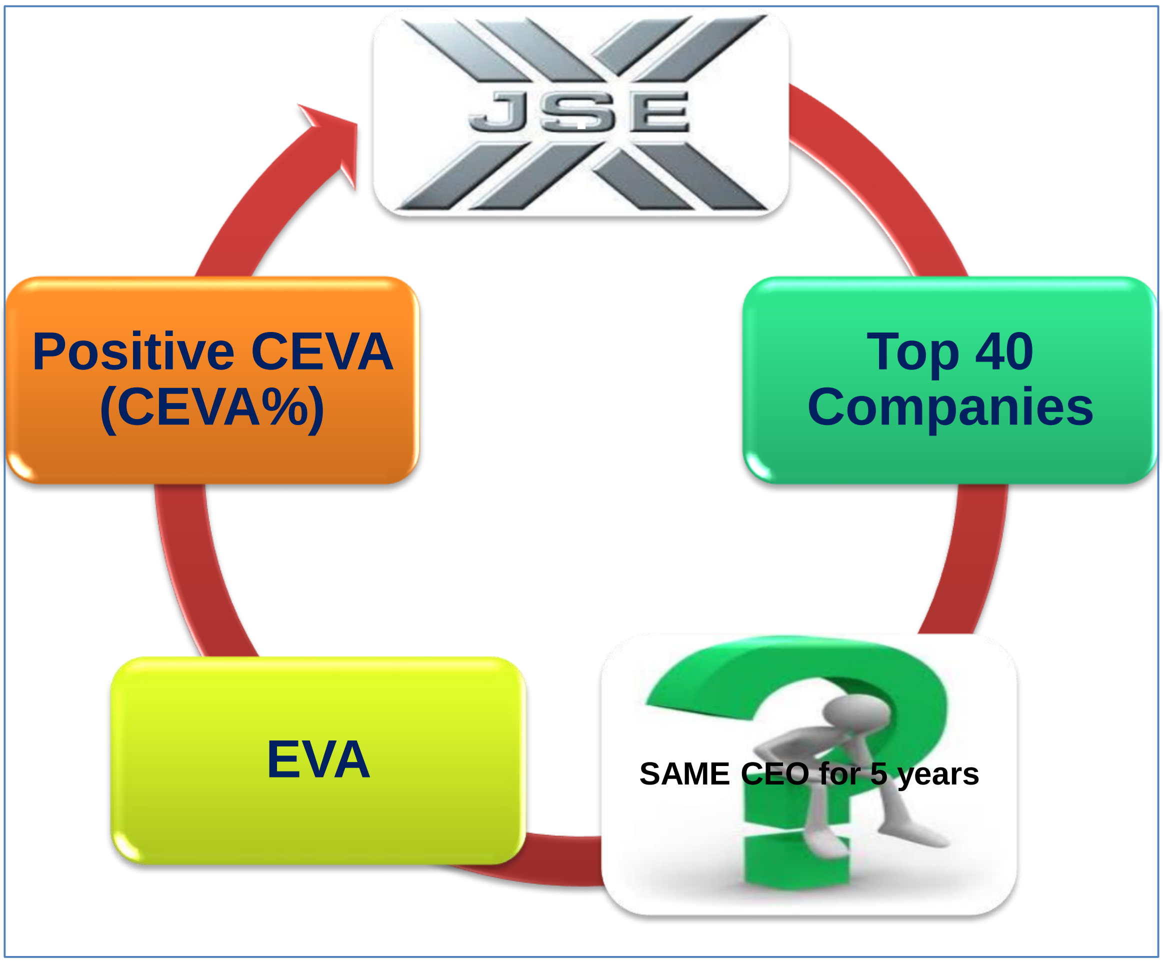


Figure 3.4: Study Sampling Approach

Table 3.4: Study sampling guidelines and sampling actions

Guidelines	Sampling
The sampling strategy should stem logically from the research question(s).	The purposive sampling was utilised. Executives were chosen on the basis that their respective organisations have created a relatively high EVA, and they have been with the organisation for five years or longer as CEO. Sampling was conducted in as practical as possible.
The sampling strategy should generate thorough QUAL and QUAN databases on the research questions under study (representativeness/saturation trade-off).	The sampling was conducted to ensure that sufficiently focused sample is attained to allow researchers to actually gather the data necessary to answer the research questions? What attributes do executive possess in order to create value How do executives create economic value in organisations Ensured that the purposive sampling techniques utilised in the study generate ‘‘saturated’’ information on the QUAL research questions stated above.
The sampling strategy should allow the researchers to draw clear inferences from both the QUAL and QUAN data.	From the QUAL design perspective, sampling was conducted to ensure that there will be the credibility of the inferences. From the QUAN design perspective; this guideline refers to the internal validity of the inferences.
The sampling strategy must be ethical.	Even though this covered in details in later sections, during the sampling the following were taken into consideration: Issues related to informed consent to participate in the study. Whether participants can actually give informed consent to participate. The potential benefits and risks to the participants. The need for absolute assurances that any promised confidentiality can be maintained. The right to withdraw from the study at any time.
The sampling strategy should be feasible and efficient.	The sampling was conducted within the limits of time and money to complete the sampling strategy Accessibility to all of the data sources.

The sample that was targeted for this study is[5]:

1. **Co-Y (Financial services)** – Mr Y-CEO (in the end the interview was secured and conducted, at Co-Y Head Office, Johannesburg)
2. **Co-X (Pharmaceuticals)** – Mr X-CEO (in the end the interview was secured and conducted, at Co-X Head Office, Durban)
3. **Co-RH (Financial services)** – Mr PC (the CEO reported unwillingness to participate and was dropped)
4. **Co-S (Financial services)** – Mr JM (the CEO reported unwillingness to participate and was dropped)
5. **Co-St** – Mr MJ (a telephonic interview was offered as an alternative, however, considering methodological concerns like *verifiability and credibility of data*, it was felt safe not to continue with interview.
6. **Co-Se (consumer goods)** – Mr JB (endless attempts to establish contact and secure an interview were fruitless, and in the end the company was dropped)
7. **Co-Sm (Financial services)** – Mr JV (endless attempts to establish contact and secure an interview were fruitless, and in the end the company was dropped)
8. **Co-Ae (Resources)** – Mr CJ (endless attempts to establish contact and secure an interview were fruitless, and in the end the company was dropped)
9. **Co-Eo (Resources)** – Mr SA (endless attempts to establish contact and secure an interview was fruitless, and in the end the company was dropped).

In the end, two CEOs were interviewed, and the researcher accepts the small size of the sample. The next section focuses on how data were collected in this study.

[5] The identities of these companies are changed for confidentiality, but are available for confirmation

3.7.2 Data collection methods

Three methods of collecting data were utilised in this study, namely; interviews, document/artefact analysis and survey (quantitative portion). The flow of research tasks is outlined in Figure 3.5 below.

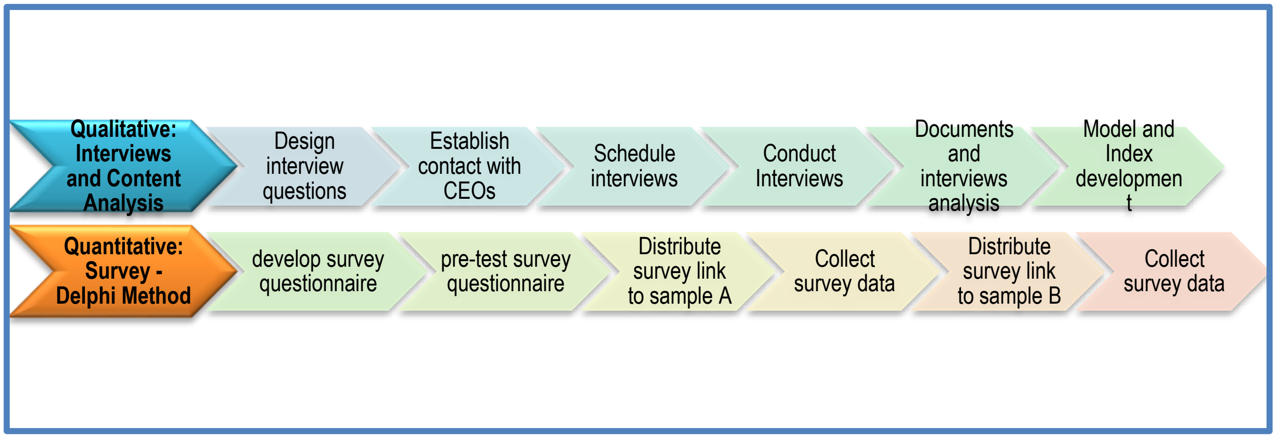


Figure 3.5: Data collection methods

- **Content analysis** – companies' annual reports were analysed, media interviews with financial analysts were also analysed and articles available on print media, specifically, Financial Mail Magazine and Forbes Africa Magazine.
- **Interviews** – in conducting interviews which were open-ended and semi-structured, the researcher followed the guideline provide by Harvey (2011) on how to conduct interviews on the elite. This included the following:
    - Building the rapport with the CEOs, from the first moment of establishing contact;
    - Being very transparent with regard to who the researcher is, where the researcher works, and the nature of research in a jargon free manner;
    - Articulating the expected length of an interview, interviews lasted for about 90 minutes;
    - Explaining how the data will be used and where and how the results will be disseminated; and
    - Leedy and Ormrod (2005) highlight that interviews can yield a great deal of useful information if utilised appropriately, and they can reveal more with

regard to facts; people beliefs and perspectives about the facts; present and past behaviours; standards for behaviours and conscious reasons for action.

It is accepted that although interviews can provide critical primary data, there are some limitations and disadvantages in conducting interviews. For example, conducting enough interviews to collect sufficient data can be time consuming (this was one of the challenges of this study) and access to research 'subjects' can be daunting (this was also found to be the challenge in this study).

3.7.3 Data analysis

The graphical representation of the data analysis stages is provided in Figure 3.6 below.

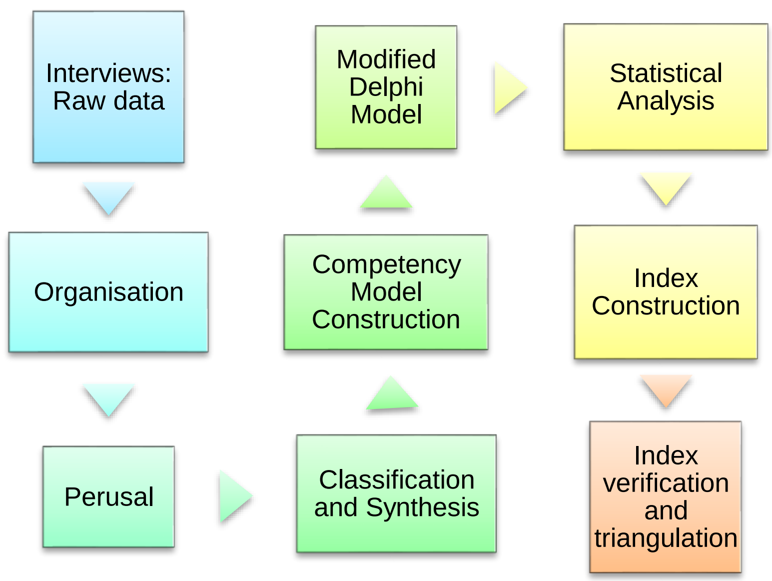


Figure 3.6: Study Data Analysis Pathway

Raw data was organised through filing, creating a computer database (using Atlas-ti software package) and breaking the large units of data into small and manageable ones. Audiotapes were transcribed. Then the overall 'feel' of the data was established. The preliminary interpretations of what data were presenting were written down. The data were then classified, grouping the data into categories and themes in order to find meaning. In classifying the data, four stages were followed, namely; reading and annotating the data:

Reading *- this included*

- Shifting Sequence: Change the order of cases;
- Shifting Focus: Focused on key words and phrases to gain a varying perspectives;
- Transposition: Asking what if questions – assumptions implicit in situation and dialogue and the reaction to it; and
- Free Association: Helps to set one free of fixed assumptions and allowed for a critical response to data

Annotating – this comprised recording initial ideas about the data, aiming to be as creative as possible.

Tagging data - this involved selecting bits of data that satisfy the study' curiosity and support the purpose of study. Considered whether to serially (proceed through each manuscript) or in parallel (comparing responses), at what level of level of abstraction, whether labels come from data or from outside?

Grouping tagged data - organised the data and placed in categories; considered the number, types and levels of categories to develop; ascertained if whether the categories are mutually exclusive; if whether each category was supported by tagged data; established if whether tagged unit be assigned to more than one unit.

Once the data were classified, the next phase was to make the synthesis and make connections, and offer the proposed theory. The method described by Ryan, Spencer and Bernhard (2012:90) in identifying the competencies, that is, interviews were "systematically coded using thematic analysis to identify the presence of competencies, competencies identified were then adapted into a behaviourally-based questionnaire used in a follow-up validation study".

3.7.4 Delphi Method

The Delphi method (modified) was chosen for the quantitative phase of the study. The method is based on "structural surveys and makes use of intuitive available information of participants" (Cuhls, n/d: 96), who are mainly experts in the field of interest. Wechsler, cited in Cuhls (n/d: 96) state that "Delphi is a survey which is steered by monitor group, comprises several rounds of a group of experts, who are anonymous among each other and for whose subjective-intuitive prognoses a consensus is aimed at." Furthermore, Cuhls highlights that there is not **ONE** Delphi methodology, but diverse applications. In short, Delphi:

- is an expert survey in two or more rounds.
- same experts assess the same matter once more – influenced by the opinions of the other experts.
- are judgement processes with unsure aspects – the researcher involved in Delphi studies only given estimations.
- participants are involved on the basis of their knowledge and experience, and are expected to assess in a competent way.

Eto (2003) reports that Delphi is mainly used when long-term issues have to be assessed because it has the methodological power to identify statements that are relevant for the future. In addition, it reduces tacit and complex knowledge to a single statement and makes it possible to judge upon. Delphi is also advantageous in the sense that it is possible to conduct a Delphi without bringing the respondents together physically (Linstone and Turoff, 2002).

In the context of this study, the Delphi method was modified in the following manner:

- Instead of the sample group start with **round one** and identify the attributes and competencies for value creation. This was achieved through the interviews conducted during the qualitative approach of the study.
- The sample (Executive Search Companies, Sample A) received the survey with identified competencies, their participation was to rate the identified competencies given the scale measurement provided.

- Once this was done, the results were sent back to the participants for the purpose of ranking and clustering.

Given the small sample during the qualitative approach, it was decided that the second sample (from JSE, Sample B) be identified to also receive the survey questionnaire responded to by the Sample A. This was done for purposes of triangulation.

The quantitative data collected using a survey was constructed from qualitative data, ten categories of competencies were developed and a Likert scale utilised. The measurement of competencies on the scale were ranging from 1 to 5, namely extreme importance (5.00); significant importance (4.00); moderate importance (3.00); useful but not essential (2.00) and no importance (1.00). The relevant percentages were then calculated from the survey respondents, to calculate the competencies' means the average of the product of relevant percentage and performance indicator (Likert scale) was taken. Every study has limitations. Accordingly, the next section highlights some of the limitations of this study.

3.8 Limitations

In the conduct of this study the researcher had to take cognisance of the following possible limitations:

- **Sample size** – out of possible nine CEOs only two were interviewed, meaning the sample is arguably too small to draw from a variety of competencies. However, this was mitigated by implementing a Delphi for two independent samples.
- **The Hawthorne Effect -** It is the process where human subjects in a study change or adjust their behaviour simply because they are being studied. One of the ways the researcher undertook to minimise this potential limitation to credible results was by collecting data using more than one method.

- **Time –** to create value in organisation takes time, and a prolonged longitudinal study (over years) will have provided much richer information.
- **Methodological limitations –** a variety of limitations or criticisms for using the mixed methods have been highlighted by many scholars and they include the following:
  - Researchers do not always integrate the findings and that quantitative and qualitative components are treated as separate domains (Bryman, 2007; Bazeley, 2009);
  - It is a timely and costly research method (Doyle *et al*, 2009);
  - The trade of means that the more emphasis is placed on the saturation of the QUAL sample, the less emphasis there is that can be placed on the representativeness of the QUAN sample (Teddlie and Yu, 2007); and
  - Ontological and epistemological divide (Bryman, 2007; Creswell, 2011 and Doyle *et al*, 2009).

3.9 Ethical considerations

The nature of this research is such that humans will be used as subjects, which then calls for the need to have a closer look at ethical implications of the study. The ethical issues that need attention fall into the following categories:

- **Protection from harm** – this researcher took every necessary precaution to ensure that subjects are not exposed to any physical and psychological danger, especially with regard to exposing companies' sensitive information. The researcher ensured that participants are not subjected to unusual stress or embarrassment of any nature;
- **Informed consent** –participants were briefed of the nature of the study to be conducted and were given the choice of either participating or not participating in the study. In addition, they were informed that should they decide to participant in the study, they have the right to withdraw from the study at any time and that participation is strictly voluntary. In order to

achieve this goal, an informed consent was developed and given to the participants (see Annexure A).

- **Right to privacy and confidentiality** – the report results of this study was communicated (verbally or written) in such a way that others should not become of the identity of the participant, unless the participant has granted the permission in writing. The nature and quality of participants remains strictly confidential. The participants were all given pseudonym to ensure anonymity of all the participants.
- **Honesty with professional colleagues** – the results of this research are reported in a complete and honest fashion, without misrepresenting what the researcher has done or intentionally misleading others about the nature of the findings. Under no circumstance was data fabricated to promote and/or support a particular conclusion. The use of other people's work and ideas has been fully acknowledged.

3.10 Conclusion

In this chapter, the researcher has provided an account for the methods used in this study. The study took a view of a pragmatic paradigm and an approach of mixed methods. A qualitative dominant approach was followed. The study population was the companies listed on the JSE top forty, who have had same CEO for a minimum of five years. Data were collected through interviews, observations and documents analysis of the selected CEOs and their respective companies. Data were analysed qualitatively using the Atlas-ti software package, and then followed by a conjoint analysis. In conducting this study, an informed consent was signed by the researcher and the participants.

CHAPTER 4: QUALITATIVE FINDINGS

4.1 Introduction

This chapter presents the results of **interviews** with Co-X CEO and Co-Y CEO (additional conversations were provided for Co-X from the divisional heads of Latin America (LATAM), Australia, Asia, Chair of Remuneration Committee and the Chairlady of the board). In addition, **documents analysis** (the financial statements over the period of 10 years) and other industry analysts' interviews with the respective CEOs. The identity of companies is protected as per the non-disclosure agreement during the interviews; as a result, every measure has been taken to honour this agreement. Even though it is accepted that the interviews of only two CEOs presents a methodological challenge, it however, presents a base from which future studies can work on. The implementation of Delphi in this study is to further improve the effectiveness of this research. Interestingly, the two CEOs who were interviewed happened to be leading in their respective industries, to this end, the study should be able to find some invaluable information that can be utilised by the industry.

The findings report to the perceived competencies required for the purpose of creating value in organisations. The first portion of finding presents the qualitative results that led to the development of the competencies index, verbatim accounts and direct quotes from the various interviews and strategic documents are included so as to better reflect and capture their meanings.

As we start to unpack the suggested competencies displayed by executives in creating lasting value in their organisation, it is probably a good time to reflect and ask if whether these competencies exist or better will executives willingly 'share' what is arguably their competitive advantage. In support of this reflection, Gayeski *et al. (*2007:15) report that "some master performers may not want to reveal what they feel are secrets to their success, and a large body of research support the notion that experts can rarely identify what makes them so successful."

This word of caution will act as a watch-dog as we unpack what is regarded as competencies that enabled executives to create value for their organisations.

So what should we be expecting to hear from executives, are there ways of creating value in organisations or is it just a number game? The research by Ray (2007) and Tsuji (2006) try to answer this concern by suggesting that there are four ways to increase shareholder value under EVA system and thus we can at the least expect executives to be able to drive the process that includes the following ways:

- **Operate** - improve the returns earned on existing capital invested;
- **Build** - invest as long as the returns exceed cost of funds;
- **Harvest** - divest capital when returns fail to cover cost of capital;
- **Optimize** - reduce cost capital by creating one optimum capital structure; and
- **Cash flow** – generate positive cash-flow for the organisation.

Co-X is a pharmaceutical company while Co-Y is a financial services company. Both companies satisfied the inclusion criteria as stipulated earlier under the sampling section of this report.

Companies' performance

Both companies displayed impressive market performance during the period 1990 to 2013. During this period, both companies had the same CEO. As for Co-X, a **dominant player** in its industry, from period 1990 to 2007 the company was almost the reflection of the industry. As the industry grew and role players increased, the company share price performance remained above both the industry and the market. Similarly, for Co-Y a **small player** in its industry, its share price performance has consistently been above both the market and the industry. , from the share price performance point of view, it will appear that both CEOs have been able to create shareholders value for their respective companies (see Figure 4.1 and 4.2). This observation is congruent with the findings and reports of Yao, Sutton and Chan (2009); Fiordelisi *et al.* (2009); Kryzanowski and Mohsni (2010); Tortella and Brusco (2003) that state direct relationship between EVA and stock returns as compared with other accounting measures. Our findings also resonate with Foshee (2000) who reports a positive relationship between share price performance and EVA. However, Garvey and Milbourn (2000) caution about heavy reliance on price performance because it is a well-known phenomenon that prices can provide a noisy measure of managerial value-added.

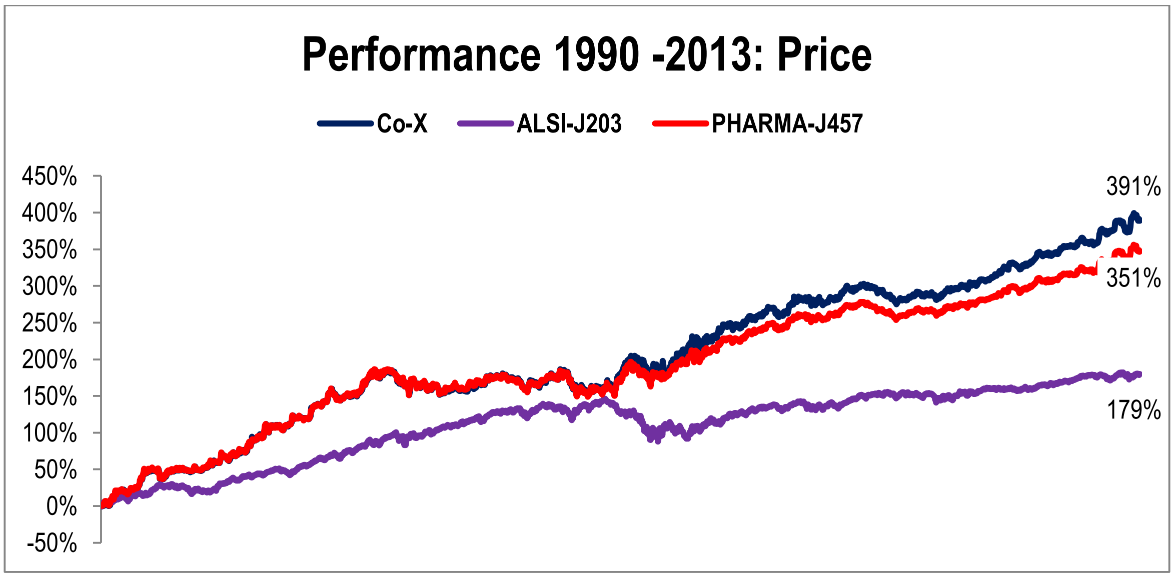


Figure 4.1: Co-X share performance vs. the market and industry (1990-2013)

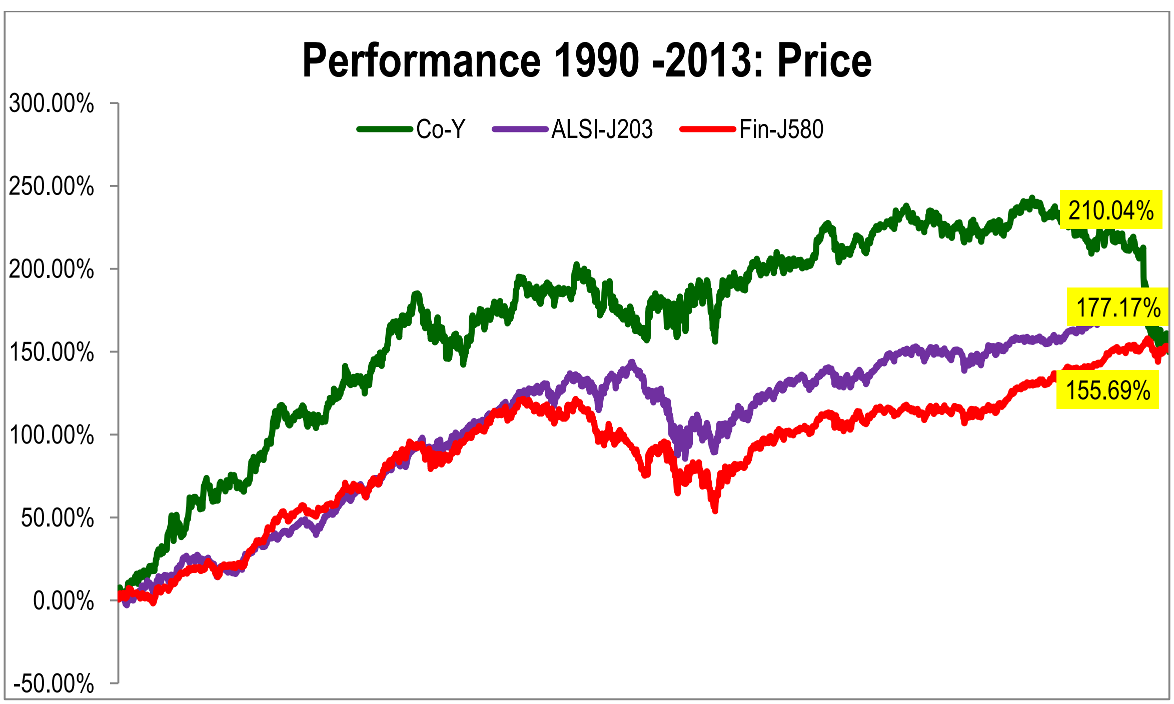


Figure 4.2: Co-Y share performance vs. the market and industry (1990-2013)

4.2 Financial Excellence

It was observed that most of the responses highlighted financial literacy and excellence as the critical and fundamental competency required for creating value in organisations. The aspects that were reported under this capability are the following:

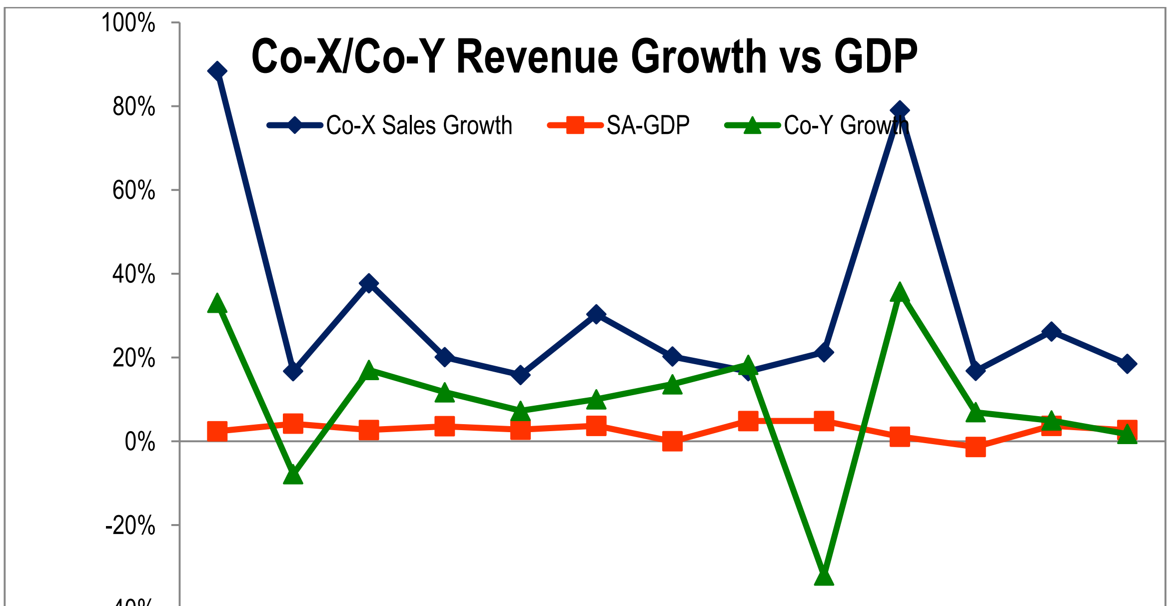
- Revenue growth and revenue performance strategies;
- Product/service pricing strategy;
- Business growth strategies;
- Cost of capital and capital structure management strategies;
- Costs management strategies; and
- Operational efficiency strategies.

These findings are supported by Pohlen and Goldsby (2003) who reported the following regarding value drivers:

- sales growth has a positive effect on EVA;
- lowering expenses and improving productivity have a positive effect on EVA;
- asset management (for example, reduce receivables, improve capital utilisation and improve capital investment) has a positive effect on EVA.

4.2.1 Revenue Growth Strategy and Revenue Performance

These capabilities were the most frequently observed and found in responding to how both companies' CEOs create lasting and sustained value for shareholders and other stakeholders. Based on the analysis of reports and interviews, growing revenue appears to be the **<u>cornerstone</u>** of creating value. Given this, we can link this response to the actual performance of companies regarding revenue growth. It can be observed how aggressive both organisations placed emphasis on growing revenue (see Figure 4.3). With the exception of 2001 and 2008, both leaders grew their respective companies at rates above the country's gross domestic product (GDP). Arguably, for the two years when Co-Y grew below GDP correspond to the period of global recessions sparked by United States bombing of World Trade Centre and financial markets crisis, respectively. This finding is in line with the argument by Fiordelisi and Molyneux (2010) who identified the drivers of economic profits and shareholder value as among others *revenue efficiency*. In addition, O'Byrne and Young (2010) reported revenue is regarded in the shareholder value creation.



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Co-X Sales Growth	88%	17%	38%	20%	16%	30%	20%	17%	21%	79%	17%	26%	18%
SA-GDP	2%	4%	3%	4%	3%	4%	0%	5%	5%	1%	-1%	4%	3%
Co-Y Growth	33%	-8%	17%	12%	7%	10%	14%	18%	-32%	36%	7%	5%	2%

Figure 4.3: Co-X and Co-Y Revenue growth and RSA GDP growth

Some of the accounts for this revenue growth are accounted for various reports; for example:

- It is reported that *"… revenue from antiretrovirals ("ARVs") increased by 66%..."* (Co-X, 2006 Annual Report). This is the reporting against the tender that Co-X was awarded by the South African government. The strategy for Co-X was to maximise the opportunities in the ARVs segment of the business simply because once the tender is awarded the company is tasked with the responsibility to supply ARV volumes; hence an 'easy' driver of revenue growth. To support this observation, here are quotes from the 2006 annual report assertion by the CEO: "*Co-X's ARV offering continues to expand by product and territory providing scope for further strong growth in this life-sustaining treatment category"*.

- Other sources of improved revenue include establishing strategic alliances (through deal making in the case of Co-X) with other pharmaceutical companies, because this approach opens markets. In his interview with the Pharmaboardroom (2012), the CEO confirms this by reporting that "… *many generic companies are entering into agreements with multinationals* [these multinationals usually have patents and are looking for entry to new markets: own emphasis]. *The positive thing about branded generics* [from multinationals] *is that it does tend to generate sustainable income".* The company also engages with medical practitioners and pharmacists to enhance script conversion rate. As a result, about 20% of dispensed script is for Co-X. The CEO confirms this by reporting that "… *one-in-five of every script dispensed at a pharmacy is a Co-X script*".
- In the case of Co-Y that operates in the financial industry, the drivers for increasing revenue include lowering the cost of credit to consumers. The CEO states that "… Co-Y's strategic intent is to double the size of its advances portfolio over the next four years, by continuing to bring credit pricing down […] and growing our active client base" (Co-Y Annual Report, 2008).
- "Co-Y's strategic intent is to double the size of its advances portfolio over the next four years, by continuing to bring credit pricing down, optimising weighted average cost of capital and operating costs, growing active client base and maximising the value proposition to our clients" (Co-Y Annual Report, 2008).

The other observed approach to increasing revenue growth is the positioning strategy. Positioning strategy refers to markets where the company choses to operate. The strategy will be dealt in details later. The Co-X generates some of its revenue outside of South Africa. More than half of Co-X revenue is generated outside South Africa. During an interview, the CEO confirms this by stating that *"… more than half of Co-X's turnover is generated outside of South Africa. We expect that less than 40% of our 2012 sales will be generated in South Africa"*. It is also necessary to note that even though Co-X operates in the drugs generics space which could arguably be regarded as mass production in the company's pursuit of improved revenue, they customise their country entry strategy. This is noted in the following quote by the CEO who said: "*when we initially entered the Australian market in 2002, we identified limited opportunity in the generics sector and focused on being a niche player. Over the past decade, we have built up a very competitive branded product portfolio and Co-X is now ranked as the leading pharmaceutical company in Australia with one in every seven scripts dispensed being for a Co-X product*". This accounts for 14% conversion rate in Australia as compared to the earlier reported 20% conversion rate in South Africa. In contrast, Co-Y generates all its revenue in the South African markets.

Revenue optimisation as a strategy is also supported by pricing and volume. In the pharmaceutical industry and South Africa in particular, price is regulated by the government. This leaves volume as the area where pharmaceutical leaders can manoeuvre. In the case for Co-X, volume is driven both organically and by acquisitions. As far as organic growth is concerned, Co-X pipeline products are critical in achieving this goal. This can be viewed in this comment by the CEO during our interview: *"… price is often dictated by in our industry and generally governments around the world dictate the price. There are a couple of things around volume and how we drive volume, firstly organically and secondly by acquisition opportunities. Organically … we build existing products or in our businesses we have pipelines products …*"

The organic growth is quantified in the following extract: *"… finished dosage form ("FDF") revenue increased 21% through organic growth supported by recent product launches" (*Co-X, 2006 Annual Report). To further indicate the commitment to improving revenue performance, below are some of the reported numbers (Co-X, 2006 and 2007 Annual Reports):

- "Co-X's international operations increased revenue by 31% and EBIDTA by 51%;
- Co-X Australia Pty Ltd recorded revenue of R259 million, an increase of 24%, while improving EBIDTA by 36% to R37 million;
- Both Pharmaceutical and Consumer Divisions showed robust growth with the Consumer Division benefiting from new product additions;
- Co-X Resources Ltd, the United Kingdom-based intellectual property and sourcing company, produced another positive performance, raising EBITA by 32% to R29 million; and
- Astrix, which specialises in ARV APIs, increased its contribution to gross revenue from R67 million in its first six months of trade to R80 million. The largest portion of this increase was attributable to trade with Co-X".

Bahri, St-Pierre and Sakka (2011) affirm that sales management practices impact the EVA generated by the firm through NOPAT, particularly the revenue portion.
Closely related to revenue strategy is the pricing strategy. In addition, our findings are supported by Sullivan, Peterson and Krishnan (2012) who empirically found and reported a positive relationship between firm's value creation and revenue performance, through various means including new clients' leads and clients' retention.

4.2.2 Product/service pricing strategy

Austin (2005) reported that EVA has been successfully used as a proxy for pricing and other operational decisions in the aviation industry. So beyond the price being critical in revenue determination, it has been found justified by EVA, meaning that pricing abilities cannot be omitted while looking at the determinants of value creation.

It has been reported earlier that in the pharmaceutical industry, in most cases the price is determined and regulated by the authorities. In order to implement the winning and value creating pricing strategy, the following three are found to be fundamental:

- Offer a **responsible pricing** to customers: "[…] *in the very first years of the tenders, we could have priced our product 5% or 10% below that of the originator and still win the tender, considering we were the only generic company providing ARVs in South Africa. But we chose to be very responsible in our pricing in order to ensure that as many patients as possible could have access to ARV treatment"* [through many role players: own emphasis].
- Offer **competitive pricing**: *"[…] there are many companies in the ARV market in South Africa […] still by far the largest supplier of ARVs to the government through their tendering process, and despite having 10 Indian competitors, we are still price competitive"*.
- Optimise the **volume-price mix** for optimal revenue: "*when we look at revenue, we look at pricing, volume and also the mix […] there needs to be balanced approach*" (interview with Co-X, CEO, Nthoesane, 2012).

4.2.3 Business Growth Strategy

Both leaders reported growing the business as very important to ensure long-lasting value to shareholders. The shared growth strategy pursued by these leaders is that of **strategic acquisitions**. Co-Y CEO reports that to grow the business, attention is given to the following:

- Growing active client base;

- **Re-investing surplus** capital to shareholders to grow the business further (Hogg, 2007), "… *R2bn of surplus capital in Co-E (a furniture retail company) that you've identified. That means you could probably get that to sweat a lot harder*?";
- **Diversifying income** revenue by increasing presence in retail, "… *part of our strategy over the next four years is to broaden our footprint into the retail world generally in South Africa*" (Hogg, 2007);
    - "… acquisition of Co-E [...] afforded us a substantial increase in the absolute level of our debtors book as well as physical infrastructure and 'client reach'" Co-Y Annual Report (2008);
- Grow the **business organically** by increasing number of branches and acquiring struggling lenders. The CEO reported that part of strategy included buying of "… the unsecured personal loans book from Co-S) (Hogg, 2008).

Co-X CEO is lauded by the business community, the industry and his peers for his ability to deliver acquisition deals. The CEO highlights that this approach is **risky** but deliver results on many fronts. This strategy (acquisitions) enables Co-X to access other companies' products. As the CEO reports during the interview with Pharma Entrepreneur that; *"… deal-making is key - for collecting government funds, but also for landing the rights to other companies' products".* For example,

- *"In August [2008], Co-X obtained the rights to sell 25 other GSK drugs, including antibiotics and herpes and epilepsy treatments*";
- *"In late November [2008], the company picked up 20% of the South African government's $667 million contract to produce life-prolonging drugs to treat HIV"* (Hogg, 2009). This arguably explains the spike in revenue growth in 2009.

Pursuing various acquisition deals represents the company's intended global strategy. This "*strategy is in line with the broad corporate strategy*" (Nthoesane, 2012). This is an indication that this approach is a planned and focused activity of the organisation. The CEO reported that "*the bevy of deals has sent Co-X's stock price hurtling to stratospheric heights*" (Nthoesane, 2012). In order to test this assertion, the researcher studied **21 deals** during the period January 2003 to August 2013. A 26-window period was chosen to observe the Co-X share price after the announcement of acquisition deals. Figure 4.4 presents the results of this analysis.

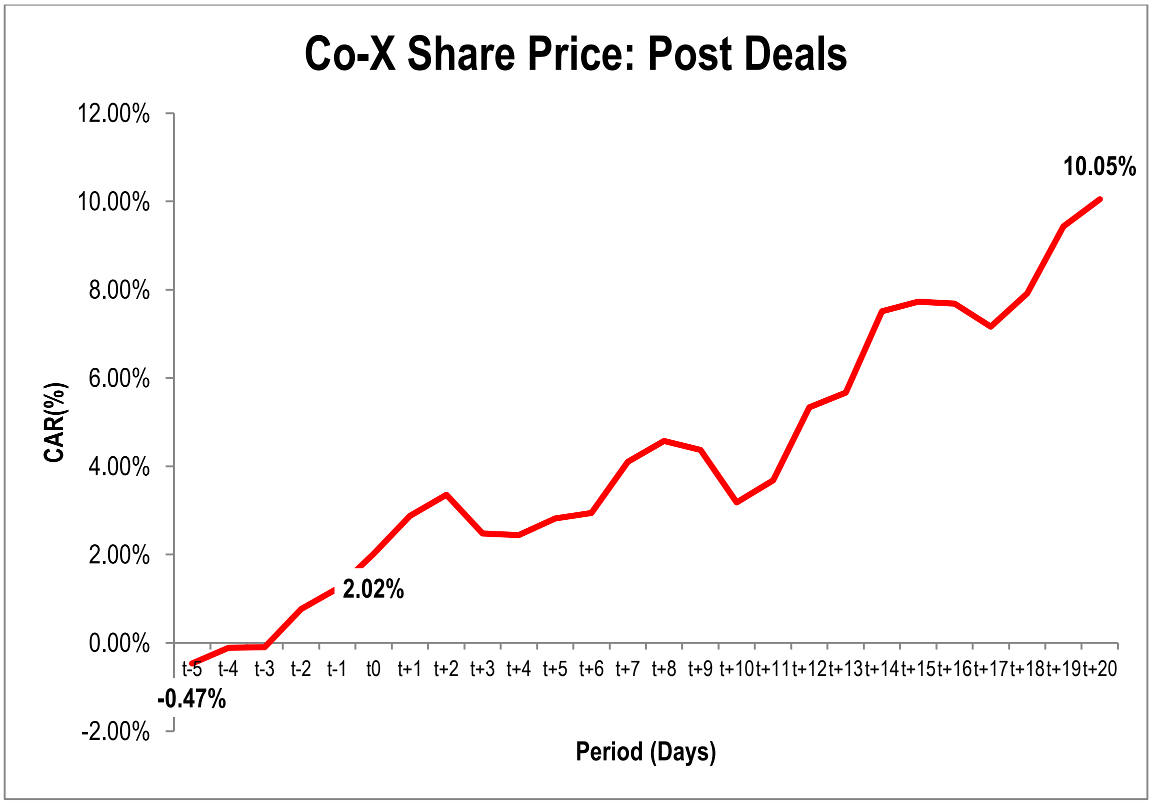


Figure 4.4: Co-X CARs Mergers and Acquisitions Deals

The results indicate that five days (t_{-5}) prior the deals announcement, the Co-X share price had the cumulative average return of **-0.47%** on the announcement day (t_0) the share cumulative average return had improved to **2.02%**. The upward trend continues and on the 20th day after the announcement (t_{+20}), the CAR was 10.05%. This observation seems to confirm that Co-X deals have propelled the share price to "*stratospheric"* heights. It was further reported and noted that some of the windfalls from successful deal making include the following:

- Improved revenue – generation of sustainable income;

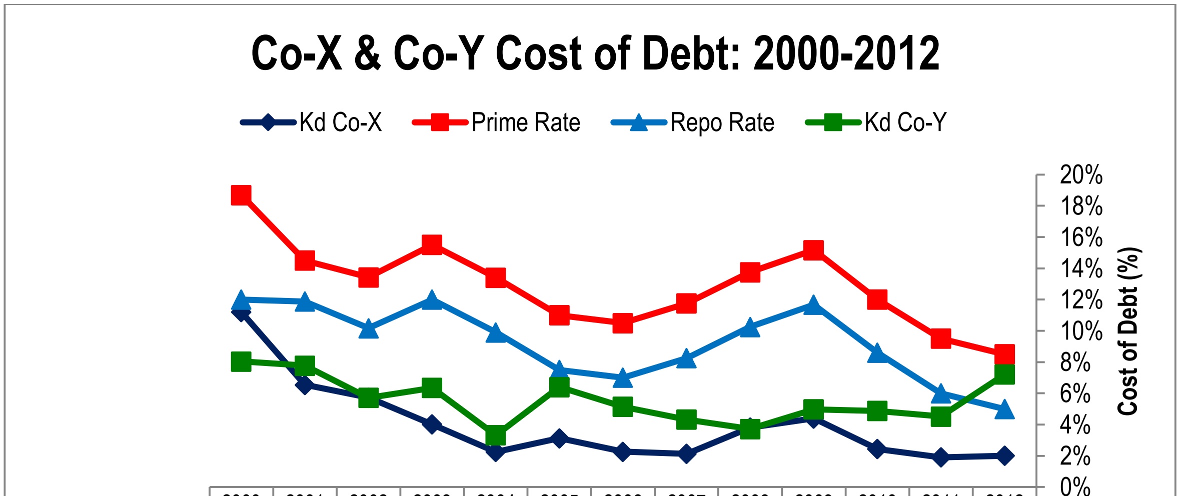
- Access to other companies' products, especially access to generic markets;
- Access to government's funds (at least in the South African context);
- Broadening base in emerging markets, particularly Latin America, Asia Pacific and the rest of sub-Sahara Africa;
- Improving the company's profitability;
- Grow strategic partnerships;
- Building a team of global experts within Co-X;
- Lower cost of capital; and
- Promotes access to capital.

In addition, within the context of Co-X, deals are critical because the company **engages with global giants** in the pharmaceutical industry. Notably, this was reported by the CEO because it is during this time (engaging with global giants) that the "… 10% time when the CEO is absolutely important …" Even though the details of the deal will be workout by the team, the **initiation of the deals** weighs heavily on the shoulders of the CEO. This is found from the discussion with the CEO when he reports that: *"Because in acquisition we deal with multi-nationals, we deal with CEOs globally. This is a heavyweight battlefield … this is where I'm needed when there are opportunities and threats and to drive global original strategies. However, the impact of not being involved [that is, the 10%] can lead to catastrophic outcomes…"* (Nthoesane, 2012).

Similarly, the CEO is much needed in driving **central licensing**, deliver the plan and strategy. However, it is necessary to report that in order to realise the benefits of a successful deal, there needs to be a strong team that will drive and deliver the deal to the benefits of the shareholders. The team accounts for the 90% towards the successful conclusion of the deal. The other critical area in creating real value is lowering cost of capital.

4.2.4 Cost of capital and capital management strategy

Managing cost of capital is one of the critical aspects of creating value in organisations. The literature on EVA has indicated that real economic profits and value are created when companies realise excess surplus after accounting for the cost of capital. This argument was found to be supported by CEOs of both companies. CEOs reported that it is their responsibilities to ensure that the cost of capital if hugely minimised. Firstly, Figure 4.5 provides evidence to how these leaders have managed to maintained low after tax cost of debt as compared to the prime rate consistently during the period stated. This is very important for Co-Y given that it needs to have low cost to enable it to provide cheap cost of debt to its customers.

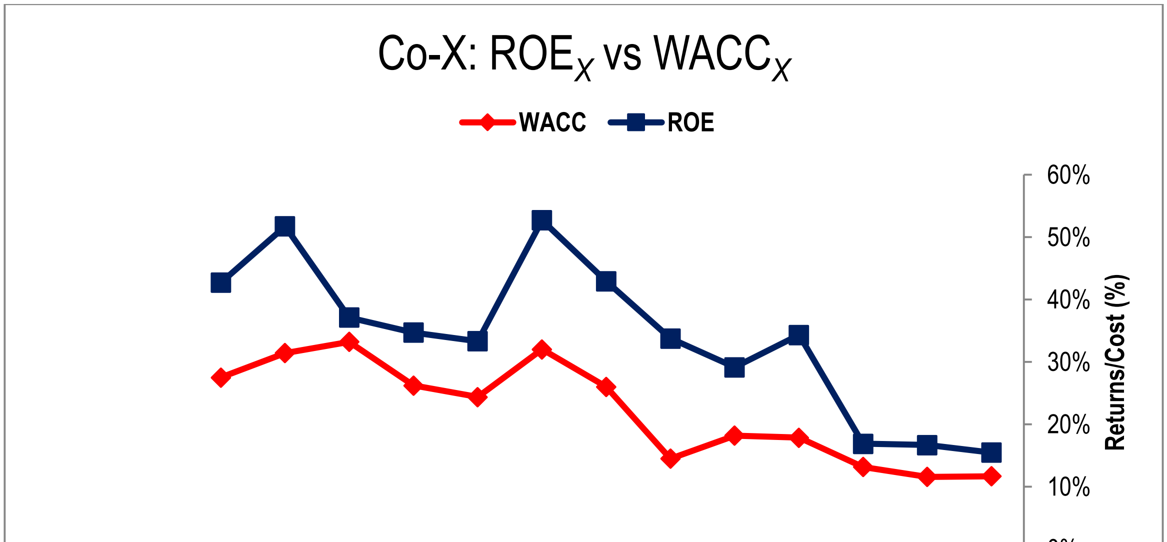


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Kd Co-X	11%	7%	6%	4%	2%	3%	2%	2%	4%	4%	2%	2%	2%
Prime Rate	18.69%	14.50%	13.42%	15.50%	13.40%	11.00%	10.50%	11.75%	13.75%	15.17%	12.00%	9.50%	8.50%
Repo Rate	12.00%	11.88%	10.17%	12.00%	9.90%	7.50%	7.00%	8.25%	10.25%	11.67%	8.60%	6.00%	5.00%
Kd Co-Y	0.08034	0.07775	0.0571	0.06348	0.03315	0.06402	0.05143	0.04317	0.03716	0.04972	0.0487	0.04516	0.07207

Period (Years)

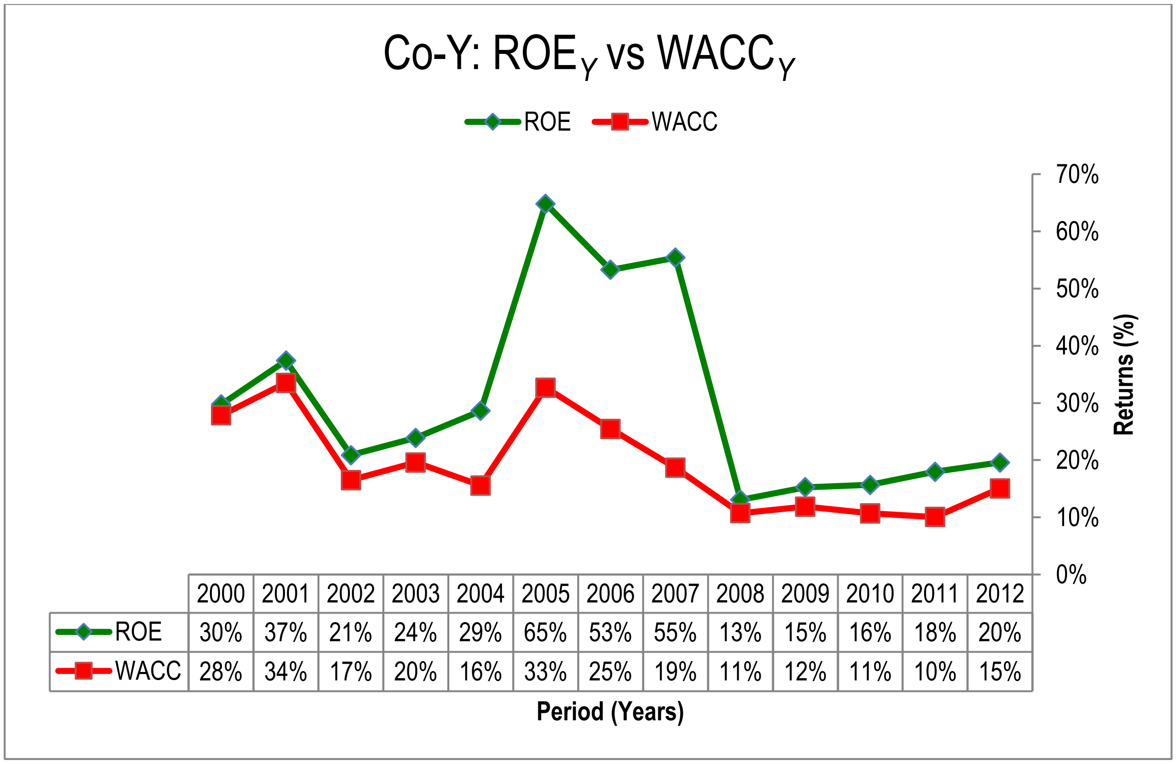
Figure 4.5: Co-X & Co-Y Cost of Debt

In addition, the researcher further looked at the minimum expectation by shareholders and investors, namely; return on invested equity (ROE) against the WACC. Figures 4.6 and 4.7 show historic performance for Co-X and Co-Y, respectively. It is observed that both executives reported of lowering cost of capital which is confirmed by these performances. This finding of including ROE in creating value is contrary to the findings of De Wet and Du Toit (2007:64) who found that "the relationship between shareholder returns and ROE was almost non-existent (r^2 of 0,009), with Spreads (r^2 of 0,038) only slightly better, but hardly significant." This work by de Wet and du Toit is interesting because it was conducted in the South African context. Therefore, it is arguably comparable to these our findings and further strengthen the argument that EVA is a superior measure of shareholder value.



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
WACC	28%	31%	33%	26%	24%	32%	26%	14%	18%	18%	13%	12%	12%
ROE	43%	52%	37%	35%	33%	53%	43%	34%	29%	34%	17%	17%	15%

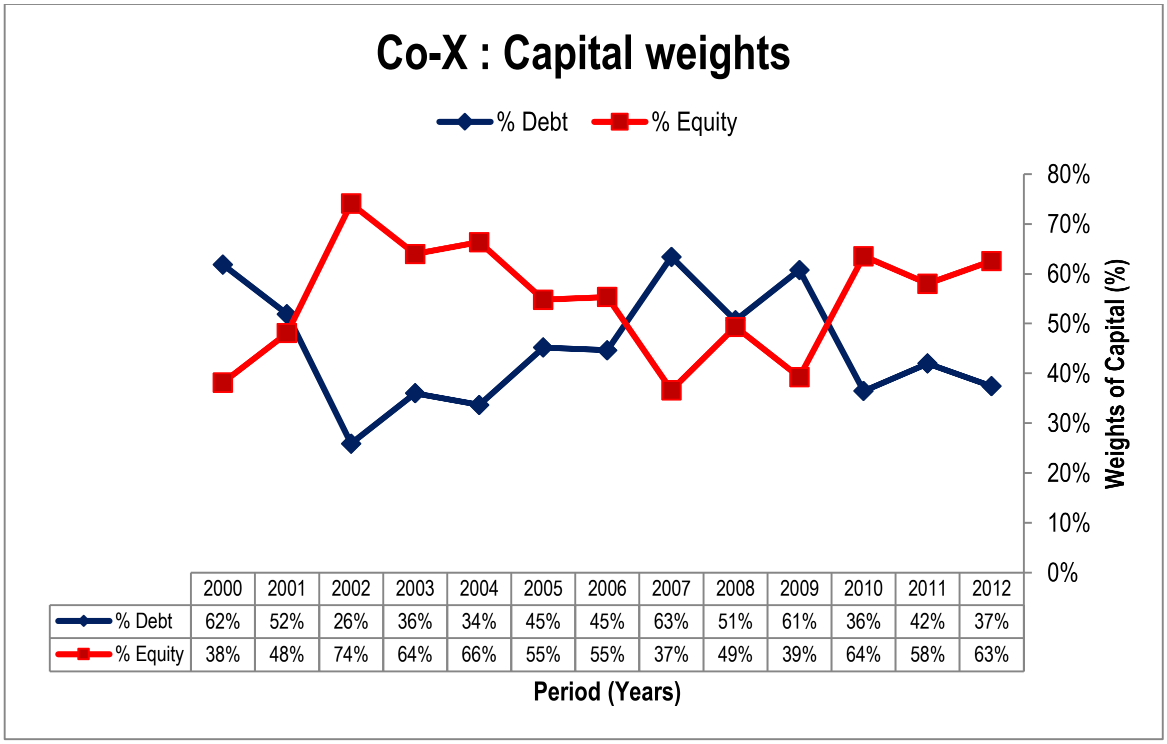
Figure 4.6: Co-X WACC vs. ROE



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ROE	30%	37%	21%	24%	29%	65%	53%	55%	13%	15%	16%	18%	20%
WACC	28%	34%	17%	20%	16%	33%	25%	19%	11%	12%	11%	10%	15%

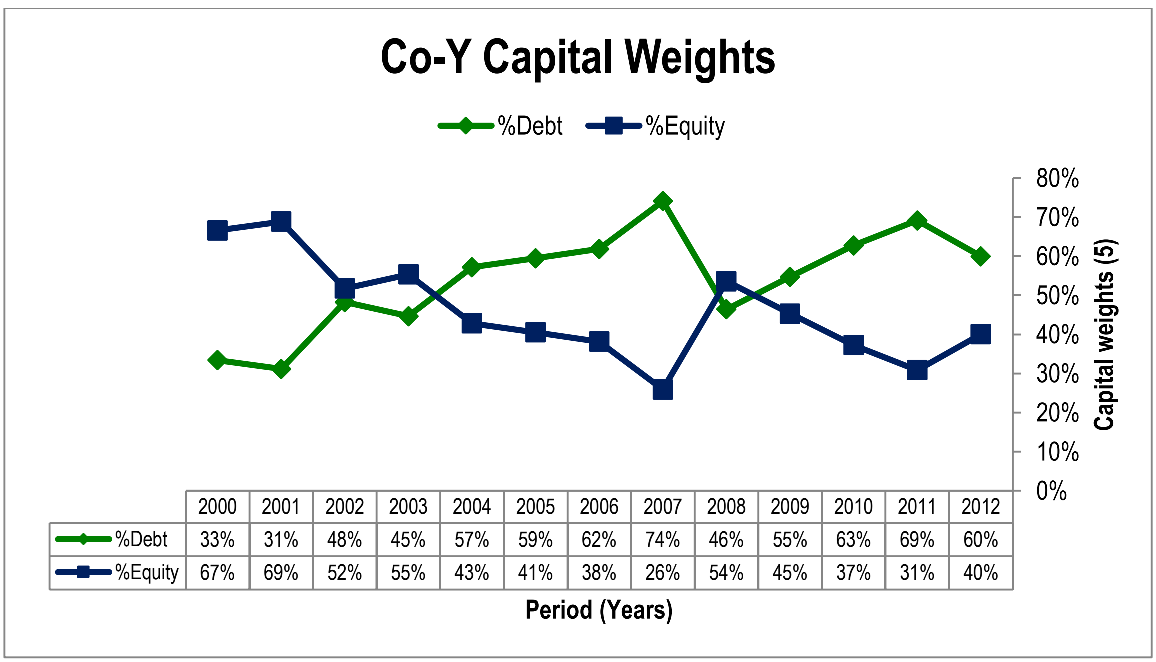
Figure 4.7: Co-Y WACC vs. ROE

As far as capital structure is concerned, CEOs reported that the company needs to maintain an ‘optimum’ capital structure and be **responsive** to market fundamentals. Co-X predominantly maintained high equity component hence minimising its **financial risk exposure**. On the contrary, Co-Y predominantly maintained a higher debt component in its capital structure.



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
% Debt	62%	52%	26%	36%	34%	45%	45%	63%	51%	61%	36%	42%	37%
% Equity	38%	48%	74%	64%	66%	55%	55%	37%	49%	39%	64%	58%	63%

Figure 4.8: Co-X Capital Structure



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
%Debt	33%	31%	48%	45%	57%	59%	62%	74%	46%	55%	63%	69%	60%
%Equity	67%	69%	52%	55%	43%	41%	38%	26%	54%	45%	37%	31%	40%

Figure 4.9: Co-Y Capital Structure

Co-X CEO stated that one of the enablers of maintaining low cost of capital is the ability to constantly deliver successful deals. *"The [access to] money becomes* *cheap, so we ensure that we deliver these interesting valuable results and at the same time manage to keep cheap cost of capital"* (Nthoesane, 2012)**.**

In the context of Co-X, the Co-X asserts that successful deal making 'enables' the company to source out cheap capital. However, it is not only about sourcing cheap capital but most importantly, "**<u>access to capital</u>**". This assertion is captured in the following quote: *"… looking at Co-X what I do is I check at operating profit and see how the business function, not worrying about creditors and debtors because I know they are functioning well. Cost of capital is not just cost of capital; it is also access to capital; that is, a proof of <u>good track records</u> of history. The past can often determine things like access to capital […]. When we are doing good deal with someone and prices go up, people [***industry***] say they know how* **[what they are doing]** *to do deals*". Managing cost of capital is as important as managing all other costs.

Co-Y also focuses much needed attention on how they manage the capital. Y-CEO reported "…*we found that one's got to look at the <u>right mix between capital and debt</u>, and holding on to extra capital is an expensive exercise. So we would rather return surplus capital to shareholders and, if we need equity at any point in time as the business grows, then we'll ask shareholders for that equity, and I'm sure they'll be very happy to support it, provided the business makes sense. So I think the switching of equity for debt is in the customers' interest, and therefore in all shareholders' interest a sensible way to go"*. In addition, "*balance-sheet management is absolutely essential for a business to remain competitive, particularly, […] capital equity is the most expensive form of raw material of your money that you've got. And if you're funding debtors with a high amount of equity, then you're not competitive from a cost-of-capital perspective. So certainly we would look to bring that cost of capital down by returning surplus capital to shareholders."*

The findings around capital management are supported by Merton (2005) who claims that executives have absolute control over the capital raised, especially equity capital because they (executives) have no contractual obligation to pay it back. Therefore, it becomes critical to ensure that executives manage capital in a manner that creates and not erodes value in organisations. For example, our findings suggest that to create value in organisations, equity capital should be managed above the WACC, while the cost of debt capital should be kept at the minimum below the prime rate.

4.2.5 Costs Management Strategy

Some of the strategies and approaches reported to be necessary in managing costs in order to create value in organisations include the following:

- **Fix the manufacturing cost to ensure some level of predictability**, Co-X does this by conducting its manufacturing in South Africa, "… *we <u>manufacture domestically</u>, […] costs are fixed in the local currency (ZAR) and the price is sold in the local currency. Our legislated environment dictates that we comply with Single Exit Pricing (SEP) which is set by the government and which is obviously also in local currency*" (Nthoesane, 2012). This finding is supported by Bahri, *et al.* (2011) who report that manufacturing practices have an impact (positive/negative) on the EVA of the firm, through NOPAT, in particular the operating expenses.
- **Leverage the economies of scale**, "… *opinion on global pharmaceutical manufacturing is that scale defines you. It is how much volume you put through a particular site that will make a difference to your costs.*" (**Nthoesane, 2012)**.
- **Where necessary mechanise operations**, "… *our advantage is to be able to mechanise and to be able to have predictable volumes through one site […] with labour being expensive, you have to think twice about how you employ, whether you add machines or not for instance. Often, the advantage of machinery is that you can turn the machine up a little higher*

to double the output, whereas you need to employ twice as many people for the same result " (Nthoesane, 2012).

- **Benchmark with real competitors and establish your competitive advantage**,
  - "… *in a generics industry, you compete directly with companies in the likes of India. You do not benchmark yourself against Germany or the UK, you benchmark yourself against Asia. While the Indians work very quickly and find solutions, the advantage we had is that we have predictable volumes and we also have branded products that give us some volumes and, in addition, we manufacture for third parties. This all contributes towards reducing costs of goods*". (Pharmaboardroom, 2012).
  - "*So if you look at our absolute costs per thousand tablets that we make we are not dissimilar to the most cost-efficient manufacturers in the world. We are obviously substantially cheaper than multinationals but you would not see a huge difference between our conversion cost base and say, the people that we trade with in India."*
- **Decentralise and devolve key and functions,**
  - "*decentralising and devolving key functions to regional teams, is designed to lower the bank's* ***cost base*** *by approximately 20% and improve the responsiveness of the business to client needs. The effect of these […] translates directly into immediate and long-term bottom line performance*" (Co-Y Press release, 2001).
  - Additionally, CEO further reported that "… *since we have up-skilled our business, and devolved greater management control to the regions, we have the opportunity to significantly reduce costs at the centre whilst increasing service levels and advances growth*" (Co-Y Annual Report, 2012).
- **Manage the cost-to-income ratio,** this is highlighted below

- “*CEO said that the cost-to-income ratio of the company had risen substantially and this is a cause for concern since it will lead up to increase expenditure base” Co-Y Press release (2001).*
- *“Co-Y has reduced its cost to income ratio from 36% in 2003 to 18% in 2012. Its cost to advances ratio more than halved over the same period, to 6,2%”* (Co-Y Annual Report,2012)

The final strategy under financial excellence is the operational efficiency.

4.2.6 Operational efficiency strategy

Improving efficiency in both companies is reportedly necessary to improving profitability and cash from operations. In particular, if operations are optimised then the company is able to generate healthy earning (in this cases as measured by EBIT). Figures 4.10 and 4.11 are a proof to support the reported investment in improving operational efficiency.

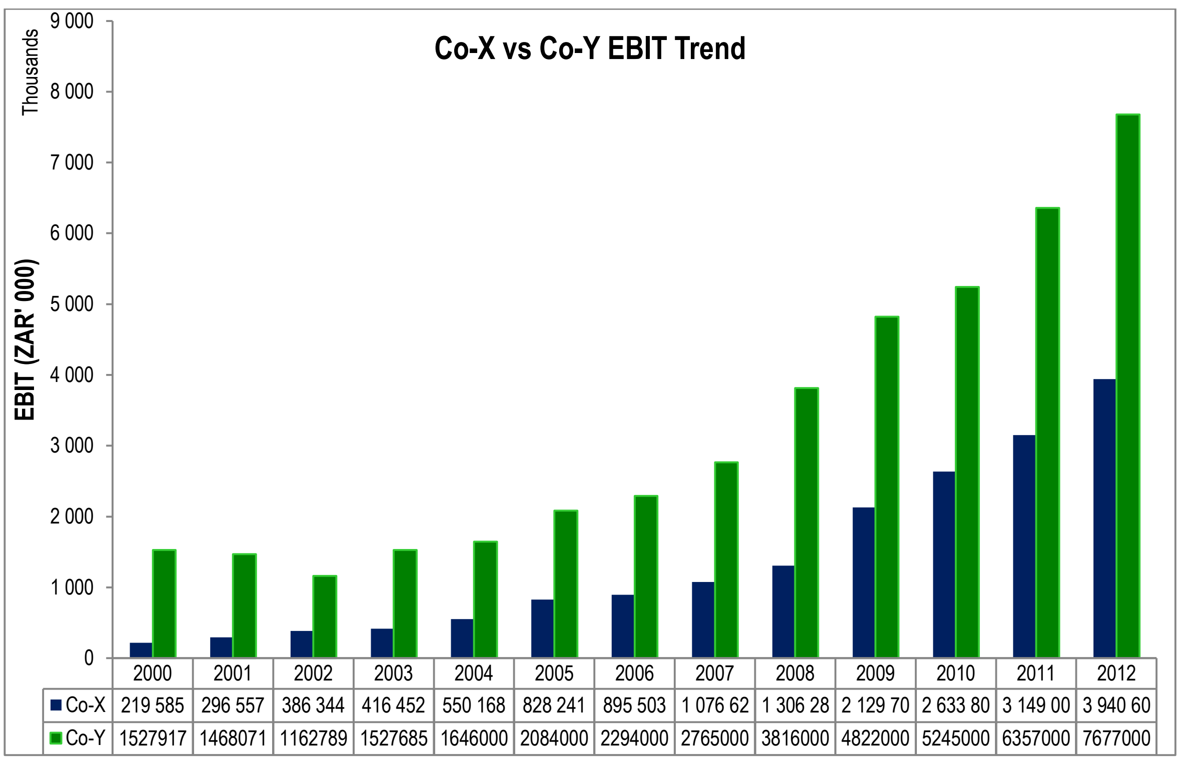
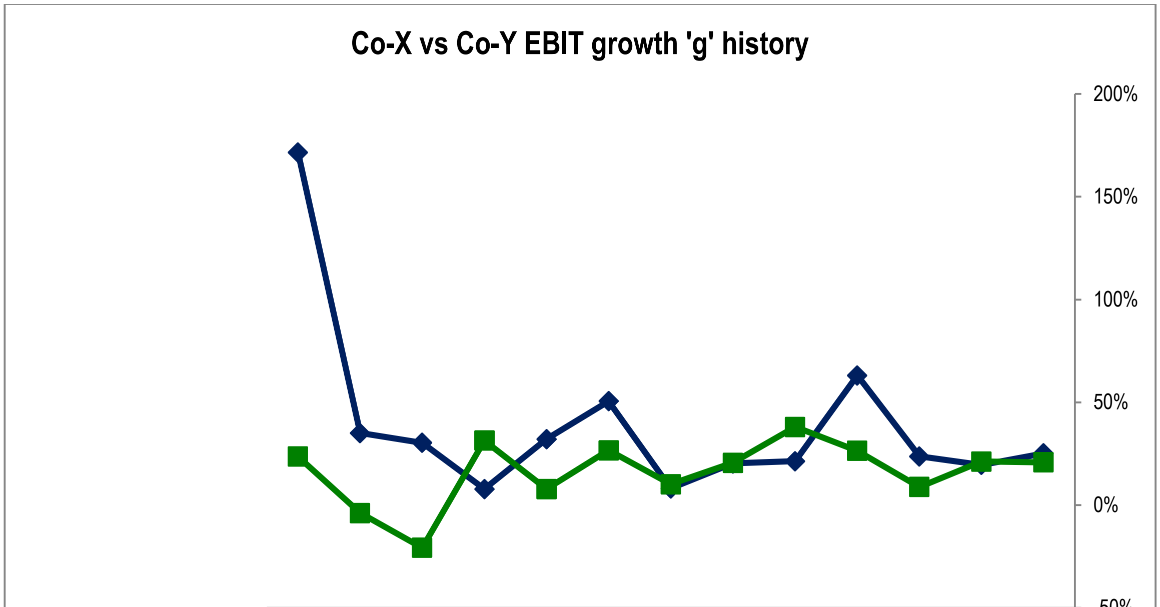


Figure 4.10: Co-X and Co-Y EBIT trend



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Co-X EBIT Growth	172%	35%	30%	8%	32%	51%	8%	20%	21%	63%	24%	20%	25%
Co-Y EBIT Growth	24%	-4%	-21%	31%	8%	27%	10%	21%	38%	26%	9%	21%	21%

Figure 4.11: Co-X and Co-Y EBIT growth

In addition, Co-X reported that it generally receives all its income before paying off its creditors. This can in part ensure positive cash flow and liquidity. This is necessary for Co-X because prices in the pharmaceutical industry are highly regulated. So, the company needs to have efficient processes. This efficiency in operations is obtained through the following:

- Improving production output, "… *high production output has been maintained as stock levels have been raised to ensure optimum service*" (Co-X 2009 Annual Report) and *"… bringing credit pricing down […] and operating costs…"* (Co-Y 2008 Annual Report);
- Prolong the period of paying debtors "… *debtors' days have been extended, impacted by longer settlement terms on the growing export book. The value of creditors decreased, influenced by buying patterns, mix and cut-off…*" (Co-X 2006 Report). This is further affirmed by Co-Y CEO, where he indicated that the company has a very unique funding model, "… *we are one of the few banks in the world where the duration of the liabilities*

exceeds the duration of our assets. In other words, our cash comes back at us quicker from the loan book than it does in terms of repaying our funders..." (Co-Y interview with SAfm);

- Building capacity utilisation, "… *growing capacity utilisation in the oral solid dose ("OSD") production facility will lead to enhanced production efficiencies" (*Co-X 2006 Report);
- Maintaining state of the art manufacturing plants, "… *foresight in increasing capacity through … efficient manufacturing facilities … has compensated for increased exchange rates*…" (Pharmaboardroom, 2012);
- Leveraging on macro-economic conditions and human capital, "… *the advantage that South Africa has is that we have high volumes as well as a good skill base. The cost of electricity has increased, but it is still relatively cheap. There is also a huge difference in the cost of labour between Europe and South Africa. […] advantage is to be able to mechanise and to be able to have predictable volumes …"* (Pharmaboardroom, 2012);
- Putting a plan in place no matter how simplistic that sounds, "… *X-CEO to give advice to […] have a plan … and control expenses*" (Groenewald, 2011).

The findings are supported by Stewart (2014) and Tsuji (2006) who reported that it is cash flow that shows the strongest linkage with the levels of corporate value creation. In a study that used MVA as a proxy for value added, De Wet (2005) reported stronger relationships between MVA and cash flow from operations. They further concur that this is important for value creation and executive need to display this capability. In addition, Erasmus (2008) supports that cash generation as represented by EBIT is necessary for value creation. Furthermore, the findings are in line with that of Hejna (2004) who reports on the five strategies for achieving operational efficiency.

4.3 Planning and vision creating strategy

The CEOs contended that creating lasting and sustainable value in organisations is neither an event nor a matter of luck. As far as vision and strategy creation are concerned, it is something that the CEO should invest mental resources in planning for it. As Co-X CEO suggested, as a company *"… you (as CEO) develop with the team various possible scenarios and you plan for the long-term...*" For instance, various areas that need attention as far as planning is concerned are as follows:

- Planning for increasing operational capacity, "… ***foresight*** *in increasing capacity through […] manufacturing facilities has stood (the company) in good competitive position …*" This finding is supported by Maidique, Atamanik and Perez (2014: 33) who argue that being a '*visionator'* is critical in choosing the path of organisation future success.
- Plan for <u>taking advantage of new opportunities</u> and <u>assess risks</u> and possibilities:
  - "*We are a very opportunistic group. If there is a good opportunity in the US or France, we will look at it* ***and if it's right for our business****, we'll consider it as a business venture. Right now we are exploring the prospect of setting up our own operations in countries such as France and Germany*", stated Co-X CEO.
  - *"We are delivering something different to customers. We are prepared to take the risk and nothing else to make sure that we are relevant to our customers, because if you cannot earn the returns, you will be like the big banks. We […] deliver to customers that other banks were not willing to cater"*, stated Co-Y CEO.
  - "*Generally, as a rule we acquire organisation in two areas; we acquire in difficult markets, like Russia and Brazil where there*

is a perception of corruption and bureaucracy", stated Co-X CEO.

- *"There is untapped creativity or innovation in the country* (South Africa) *and Co-Y took a risk that nobody was willing to take …,"* stated Co-Y CEO.

- Do not rely on 'one master plan', "*Part of our success has been that we had 10 plans; we don't rely on one plan; we had 10 different plans and if three work out for us we will be successful,*" stated Co-X CEO.
- Plan with the team because they are critical for implementation of the plans, *"You need the involvement of the team and other competitors, because you cannot run the company alone. You got to have a simple plan because where there is no plan there* (equally) *is no action"*, stated Co-X CEO.

The above observations suggest a link between vision, planning, opportunities seeking and risk taking in the pursuit of creating value in organisations.

Business support excellence fundamentals

The next set of capabilities is reported to be critical in supporting business operations and processes in creating value in organisations, namely:

- People acquisition;
- People development;
- Client and customer centeredness; and
- Stakeholder management.

4.3.1 People acquisition

It is accepted that CEOs by themselves cannot create any value in their respective organisations; hence, it is vital for the organisation to bring on board capable and competent team that will help the CEO to drive value creation in the organisation. This section highlights some of the reported approaches in 'getting the right people' on board. Y-CEO reports that there are three things that are important in joining the team and they are as follows:

- '*Compatible value system'*: People are recruited to Co-Y based on the assessment and there is a close-fit between the value system of the person and that of the organisation, an assessment to check if they will fit to the culture of the "… *organisation that worries about customers. [Co-Y] built a culture that eat, breath and sleeps [… customer service] and customers are more important than us*" (Nthoesane, 2012).
- '*Potential superior performance*': The company never "…*recruit people based on EVA* …" (Nthoesane, 2012), but effort is placed on identifying "*top talent*" and individuals that demonstrate potential.
- '*Respect for the team*': In line with the reported value system, the company has a unique culture of '*equal-ness*', in the company "…*we are all equal at Co-Y, having a title doesn't make one superior than others, whereas in big banks the executives separate themselves from juniors, […] teams like Manchester United … have been successful over the years, simply because when you are a player and behave like you're bigger than the team, they release you to other teams…"* (Co-Y Annual Report, 2010).This assertion also places emphasis on shared and equal responsibility in the success of the company.

4.3.2 People development

Once people are on board, it then becomes necessary to ensure that their skills set is enhanced and broadened in order to ensure superior performance. Developing people is achieved through various means including following:

- Recognise <u>*talent, create opportunities for internal advancement*</u>, (Co-Y Annual Report, 2012). This is in line with the findings of Dai, Tang and De Meuse (2011:377) that reports that "organisations should develop their leaders […], companies require candidates who can be counted on to hold the top job;"
- Provide a <u>*safe and challenging work*</u> environment, fair and equitable reward,

ample opportunity to develop and grow, and a community of like-minded people who want to make a difference to the society in which we live (Co-Y Annual Report, 2010);

- Broaden skills set and *transfer skills* between various business units, (Co-Y Annual report, 2008), create value amongst team members, (Co-X deputy CEO) and create a platform for "team empowerment" (Co-X Head of Latin America);
- Ability to "identify" (Co-X Board Chair), "pick-up" (Co-X Head of Asia Pacific) and "motivate and enthuse" (Co-X Chair of remuneration committee) the team; and
- Strategic delegation – this is the phenomenon were both responsibility and authority are delegated to ensure that there is ownership and accountability across everyone involved in building the organisation. This approach is highlighted in the following statements:
    - As with any business, Co-Y constantly looks at the efficiency and effectiveness of our various business units. In so doing, Co-Y is turning the traditional corporate organisational model on its head and decentralising into leaner and meaner bottom line-focused business units.
    - Important strategic functions, including credit and risk management, will continue to be managed from the Co-Y central office. However, the devolved regional structures will become more directly accountable for client service, product marketing, and profitability. The move involves decentralising and devolving key functions to regional teams (Y-CEO);
    - X-CEO stressed that in the company they "… *have an incredibly strong team in Australia, very ably led by strategic executives who understand the business [and the industry] and who are key to our growth into Asia Pacific*" (Nthoesane, 2012).
    - "*If you cannot successfully manage structures make sure you have someone that can*!";

- "… *when the business gets larger you have to learn to let go and you have to learn and understand structures*" (Groenewald, 2011);
- "*I hardly interfere in day to day work […] when I have new ideas, I ask my team what they think*" (Nthoesane, 2012); and
- "*You must have a team that is competitive and check if the plan in place is successful, this includes the availability of funds. My team is innovative that's the reason we are delivering the product to the market*".

The best way to explain these findings in the literature context is probably to link them to the argument by Porter, Lorsch and Nohria (2004). These researchers highlight that CEOs of the 21st century will be riddled with many surprises such as

- "you can't run the company solo (it takes a team of talented people";
- "giving orders is very costly (this will lead to deficit in social capital)";
- "it is hard to know what is really going on" (amount and complexity of information against limited time);
- "doing things through other people" (Buell, 2015:22); and
- "you are not the boss" (in the 21st century everyone is always reporting to someone).

These observations support the reported strategy of delegating and empowering if you are to get things done. Buell (2015:22) argues this to be "doing things through other people", an act of "effective delegation" (Jena and Sahoo, 2012: 27). However, Merton (2005) cautions on the dangers of delegation, in that this can expose the company to high risks especially if it is done without understanding and authority.

- Succession management and planning - even though CEOs did not dwell on this aspect of people development, it is found to be critical for organisational sustainability and business continuity. It was reported once by Y-CEO that "…*good progress was made on succession for key seats in Co-Y*…). It is the researcher's opinion that this aspect is important and cannot be left out as it will ensure retained and enhanced institutional memory and ease of transition in instances where leadership change is necessitated. Dai *et al*. (2011) support the notion of succession system and leadership pipeline as they report that by identifying crucial leadership competencies and matching these to right development processes, organisations are better placed to reduce the time needed to prepare an incumbent for executive role.

CEOs and their executive teams are of the opinion that highly developed team will be able to, among other responsibilities, provide a superior service to clients and customers.

4.3.3 Client and customer centeredness

It is necessary for the company to put the interests of clients at the heart of every process that the company develops. The consistent narrative of the CEOs is that without clients and customers there is no need for business existence and that businesses exists to solve societal problems and in the process create value for their respective shareholders. This actualisation is noted in the following statements:

- Business need to provide and "*promise affordable, responsible and hassle* [processes] *to customers and develop products that meet customers' every need*", (Co-Y Annual Report, 2010);
- Streamline processes and delegate responsibility in order to ensure that *"… the decision-making process* [is] *closer to clients, […] this also entail moving some of the best people into the regional structure* [or business units] *so that* [company] *can focus on delivering a better product to clients in a shorter space of time…*" (Y-CEO Press release, 2001);
- Y-CEO stresses the need to understand the market and specifically target market and client, because this will allow the company to continually "*deliver a proper service to people…",* (Hogg, 2010). In return the company will be rewarded either in loyalty and profits and this build long-lasting and sustainable value in organisations.

- "*Offer and deliver superior value proposition*" to the customers (Co-Y Annual report, 2012) because this is what makes the company different from others; for example, Co-Y cleansed the credit records of more than 400 000 of its customers and played an active role in the rehabilitation of about 78 000 customers by 2010.

In addition to looking after customers, the CEO should also ensure that all relevant stakeholders are both identified and managed.

4.3.4 Stakeholder management

Executives reported a necessity to commit one's energy in attending to the needs of various stakeholders of the company. Albeit not exhaustive, below are some of the assertions to this commitment:

- Stakeholder engagement, companies and their respective executive need to invest resources in dealing with all the stakeholders through engagement so as to have a clarity regarding the needs of the stakeholders. For instance, Y-CEO reported in their quest to build the company they "…*went around the country,* [himself personally included] *and spoke to all 4000 people in our business, in the Co-Y business and similar exercises undertaken by CEO of acquired Co-E, over a four-month period, in engaging the hearts and minds of people and also listening to people about the things that we do that we need to fix*…" This assertion partly indicates how Co-Y engaged clients in understanding better what the client needs and what their expectations are.
- Some of the notable stakeholders are the regulators. A smooth business dictates that executives ensure that their respective organisations abide by all relevant legislations and regulations. In addition, especially in high risk organisations like banks, this important stakeholder cannot be left unattended. Hence, Y-CEO states that in the industry "…*regulators will intensify, therefore one needs to understand* [this critical] *stakeholders and spend time with them..*." In the context of this study, it seems to appear that

even the pharmaceutical industry receives a considerable amount of regulators' involvement as reported by X-CEO that "…*our legislated environment dictates that we comply with Single Exit Pricing (SEP) which is set by the government…"* These assertions confirm that in managing the stakeholders, government and regulators cannot be omitted.

Managing stakeholders is about, among other things, building valuable relationships. This resonates with Grönroos (1997) who argues that relationship marketing (and arguably building in the context of this study) satisfies the long-term value needs of customers. In a work reported by Gauss and Fairley (2009), it is reported that the CEO lacked of strong relationship with key stakeholders led to all sort of operational and strategic problems in an organisation.

4.4 Competitiveness enhancing strategies

The following set of reported strategies are generally grouped under the theme 'competitiveness enhancing' because it is conceptualised that when considered together and integrated, they enable the company to perform at the minimum at par with its competitors:

- Location and positioning strategy; and
- Market development and pioneering strategy.

4.4.1 Location and Positioning Strategy

The location and positioning strategy refers to the geographical location where the company chooses to operate. In the case of Co-X, it was reported that 'where' the company establishes its operations is very critical and key to its success, given the huge scale of global competition. The company's main focus is to operate in South Africa, even though no clear reasons were stated but it is possible that the ARV government tender might be contributing factor to this strategy. The other reason could be the fact that in South Africa there is reportedly high (20%) conversion rate of scripts as compared to the 14% elsewhere in the world and by global industry standards. This proposition is supported by the CEO's assertion in reporting the results in 2006.

"Co-X's ARV offering continues to expand by product and territory providing scope for further strong growth in this life-sustaining treatment category" (Co-X 2006 Annual Report).

In addition, Co-X further supplies branded and generic drugs in **150 countries and has 18 manufacturing facilities on six continents**. As far as South Africa is concerned, the Co-X-CEO reported that the company maintained a *market leader* position, despite increasing competition due to new entrants, among other things. However, this leadership status comes at a high price of competitiveness and understanding country politics, as noted in the quote by the CEO below:

"South African pharmaceutical companies however need to comply with ***stringent regulatory protocols*** *which give consumers significant comfort relative to generic products. This is one of the few countries in which two local companies are ranked first and second in terms of* ***market share by value and where multinationals do not dominate*** *this position*" (Pharmaboardroom, 2012).

This further suggests that in order to deliver sustained value for your shareholders and other stakeholders, it is necessary to constantly pursue and retain market leadership position. The presence of Co-X in different markets demands of the CEO and his team to constantly remain innovative and creative by providing a <u>wide range of products</u>. This seems to suggest that a product that is successful in region A will not necessarily be successful in region B. This approach to business is confirmed in the extract below.

"… different markets require different products. You simply cannot sustain yourself in many of the emerging markets - and I can really talk about emerging

markets as that is where we have most of our strength …" (Pharmaboardroom, 2012).

Co-X moves its operations to many regions for various reasons, including the earlier stated broad approach of moving to risky geographical locations. This enhances their competitive positioning, as reported by the CEO that "... *we are also looking at some very interesting opportunities in Latin America. We have really focused on broadening our base in emerging markets, particularly Latin America, Asia Pacific and the rest of sub-Saharan Africa. We have opened an office now in the Philippines, with Thailand likely to follow shortly and business opportunities being investigated in a few other countries in Asia such as China, Indonesia and Japan".* (Pharmaboardroom, 2012).

Co-X moves to these locations for the following, among other things:

- Business integration and pursuance of global market leader position, as can be reflect in the next quote: "… *Co-X accepted to be a global leader in generic pharmaceuticals*" (Ventures Africa, 2012), the similar sentiment of market leadership position is reported by Y-CEO in that the company strived to sustain the "leading position of unsecured lending" (Co-Y Annual Report, 2012);
- Advance acquisition strategy, for example, the Sigma acquisition in Co-X's Asia Pacific expansion strategy;
- Competitive positioning, one of the sources of competitive advantage and a first mover advantage;
- Expand opportunities elsewhere since, no growth prospects in South Africa, as indicated in the next quote: "… *we are a large company in South Africa, so in the South African environment, we have limited opportunities, to acquire generic competitors, because of our market share - and even if we grew at these rates for the next five years we might be bigger than the market …*"; **(**Hogg, 2009).

- Even though not explicitly stated, it might appear that Co-X does move to some of these risky places to '**<u>prove a succession</u>**' point. To prove this observation, the quotes below seems to suggest this:

    - *"At the outset, when we first entered this market sector, we knew that South Africa would not be a gamble but that we would get the volumes. We have done that, and we have added manufacturing capacity and capability for our offshore businesses*" (Pharmaboardroom, 2012).
    - *"Co-X has been ranked number one in South Africa for a few years already. We are also number one in sub-Saharan Africa, number one in Australia, and we have a growing presence in Latin America and Asia. […] leadership positions that cut across the Latin America geographies - and that is really Brazil, Mexico and Venezuela. Those are the three big ones in pharmaceutical terms, along with Argentina …."* (Pharmaboardroom, 2012).

    - *"I think the advantages that we have created for ourselves in creating a platform across these **difficult markets** mean that we have become a very easy one-stop shop for multinationals. They [*multinationals*] do not like fluidity. Their markets are rigid. They do not like to make plans in different markets and have to make a decision. But we make those decisions. We have grown from nothing …"* (Pharmaboardroom, 2012).

The role of location as strategic in value creation is supported by Merchant (2014:155) who asserts that "location both compensates for modest resources and facilitates value creation for companies that conventional wisdom would urge against". The findings are supported by Ambe and Sartorius (2002) who conceptualised that positioning is critical as one of the contributors that link competitiveness to performance.

Once the company is optimally positioned, the next thing to do is to take a first mover advantage, innovate and pioneer developments in the industry.

4.4.2 Market Development and Pioneering Strategy

In order to create value for the shareholders companies and their respective leaders should be brave and create industries or collapse known industry norms. In the case of Co-X, make generics '**fashionable**' make them to be at the same footing with branded medicines, while in the case of Co-Y changing what was previously a fringe market to become main stream business. So, the lessons to be learned include the following:

- **Create and shape the industry**, "… *that line has become blurred. If you go back not long ago - 13-15 years ago - there were very definite lines: it was either branded or generic*". In addition, "X-CEO is not just interested in obvious opportunities, but has a significant agenda to all of his business decisions. A committed supporter of South African growth and development, he has played an active role in shaping the generic drugs market" (Venture Africa, 2012);
- **Be customer centric and solve client problems,** Y-CEO emphasised that "…we are delivering something different to customers. We are prepared to take the risk and nothing else to make sure that we are relevant to our customers, because if you cannot earn the returns, you will be like the big banks. We wanted to deliver to customers that other banks were not willing to cater...", this notion is supported by X-CEO by stating that a CEO need to support *his/her* negotiation skills with real problems that need real and practical solutions, *"I personally met with some major multinationals and showed them videos of HIV/AIDS patients and explained to them that these people could not afford to pay a hundred dollars a day for an ARV treatment. The multinationals were of course worried about their patents, but I convinced them to give us voluntary licenses for ARVs*";
- **Look for synergies, opportunities and advantages** when developing new markets, Co-X-CEO observed that "*in sub-Saharan Africa they've got*

distribution networks and really well-trained people". This coupled with entrepreneurship mind-set lead to sustained value in organisation, as observed by Co-Y-CEO that "*innovation [and spotting of business opportunities] really comes from hungry entrepreneurs, who actually are trying to establish themselves. Most destructive innovations destruct the market and business [new] models do not come from big institutions; they mainly come from places you are not aware of. As an example, just like we [Co-Y] did with the big banks*" (Hogg, 2009);

- **Be a pioneer**, move to markets where conventional wisdom dictates otherwise, "*When everyone had given up on manufacture in South Africa; when the consensus view was that you cannot manufacture in South Africa - 20 to 30 manufacturing plants had closed in South Africa - I said it could work! No one believed that we could do it! When we were the first company in the world to have a product registered, an anti-retroviral registered through the FDA that gave me the greatest thrill! It also gave the people in Co-X the greatest thrill, because there was a belief now that we could win*" (Groenewald, 2011). This is consistent with the observation of Co-Y-CEO who said, "*We dedicated ourselves to taking risk on people where no one else was prepared to. From 1999 to 2010, the group engaged with over 5 million customers and had cumulative sales of R57 billion"* (Co-Y Annual Report, 2010) and are "… leading the position of the unsecured lending industry" (Co-Y AR, 2012).
- **Invest relentlessly in quality**, "*Co-X is particularly renowned for its work in producing quality, affordable anti-retroviral treatments (ARTs), and has won global acclaim for securing multiple licenses from multi-national companies for the production of ARTs. The company is one of only three to be promoted by the Clinton Foundation as capable of producing quality ART drugs in the quantity and at the price needed to play a real role in HIV/AIDS battle*" (Venture Africa, 2012). In addition, the Co- X-CEO stressed that, "*Although we did not have the scientific expertise like the research-based multinationals do - some pharma companies have more PhDs than we have in the country! -, but we*

*were the very **first company in the world** to receive US FDA accreditation for the manufacture of selected generic ARVs* (Pharmaboardroom, 2012).

- **Breakdown the conventional business** and industry rules, Co-Y-CEO alluded their success to the fact that they went to uncharted business territory and this resulted in everyone in the industry following as reported here. “The change for this business is that what previously used to be fringe and avoided market has now become main stream and it is a good thing because we have done our job, which is way par with any industry. We have proved that this is an attractive place to make returns. In order for us to do what we did to be sustainable, we have taken a fringe market and changed it to mainstream. In the case of Co-X, the CEO had a vision of how the business landscape will change and leveraged his first mover advantage in changing the ‘face’ of the company, as he stated: “*before BBBEE[6] was implemented, I brought the trade unions as shareholders into Co-X. The shares went into our trade unions through our workers’ pension funds, meaning that all the workers on the floor benefitted from the increase in the Co-X share price. This is probably one of the things I am most happy about. I have not seen any other manufacturing team in the world producing in as much complexity and in the volume that we do*” (Pharmaboardroom, 2012).
- Dare to be the leader by **delivering results** consistently, “*Co-X has been ranked number one in South Africa for a few years already. We are also number one in sub-Saharan Africa, number one in Australia, and we have a growing presence in Latin America and Asia. I would like to see us in leadership positions that cut across the Latin America geographies - and that is really Brazil, Mexico and Venezuela. Those are the three big ones in pharmaceutical terms, along with Argentina perhaps*” (Nthoesane, 2012).
- Invest in **product innovation**, by always being in the forefront of product innovation, the company ensures investment in future returns and market development by ensuring that customers accrue value from your operations.

[6] Broad-based black economic empowerment

For example, Y-CEO stated that the company's "*introduction of a variety of mobile and indirect channels has also led to a substantial improvement in convenience to customers and in attracting new customers*" and "*a number of products were developed and launched which have added significantly to new business volumes and broadened our appeal*." These new products included Payment Break, Interest Buster, Loan Consolidator and Cash loans in the Retail unit".

4.5 Other value creating supporting strategies

4.5.1 Branding and marketing strategy

The following assertions highlight the critical nature of branding as an important strategy not to be neglected:

- "*Often quality would be the deciding factor between the two. However once that quality merged then it became harder to differentiate. Big pharma companies spend in fact more money on sales and marketing than they spend on research. So branding is a very key factor in our industry"* (Pharmaboardroom, 2012).
- "*In the South African market, it is very hard to get acceptance around generics and generic substitution. We have done a very strong job around marketing"* (Nthoesane, 2012)*.*
- *"In some countries where there is limited regulatory support, your only trust can come from the brand name of the product and through positive brand integrity, consumers will be predisposed towards the company and the credibility of its products*".
- "*In some countries where there is limited regulatory support, your only trust can come from the brand name of the product and through positive brand integrity, consumers will be predisposed towards the company and the credibility of its products"* (Pharmaboardroom, 2012).
- "*In the South African market, it is very hard to get acceptance around generics and generic substitution. We have done a very strong job around marketing*."

These findings are in line with those of Grönroos (1997) who reports that demands that the firm resources and activities in order to satisfy the long-term value needs of stakeholders. This observation supports the thinking that branding and marketing are essential for value add and value creation. These findings are also supported by Zinkin (2006:163) who makes an interesting revelation that the "main drivers of EVA are directly affected by marketing rather than finance and accounting decision." This includes brand building and adverting.

4.5.2 Risk taking and risk management

It is reported that taking risks in business (Littlefield, 2004) is critical for both setting new goals and pioneering the establishment of new industries. This was also found to the case with executives in this study, for instance:

- X-CEO reported that:
  - "*During the 90s, many manufacturing facilities closed down in South Africa. [We] made the choice to develop South Africa as the main manufacturing hub for our operations*".
  - "*We are a very opportunistic group. If there is a good opportunity […] we will look at it and if it's right for our business, we'll consider it as a business venture*" (Pharmaboardroom, 2012).
  - "*I think the advantages that we have created […] across these difficult markets means that we have become a very easy one-stop shop for multinationals. They do not like fluidity*" (Venture Africa, 2012
  - "Co-X Chairman Archie Aaron has said of X-CEO that: *"[he] is the sort of individual who is prepared to take calculated business risks*" (Nthoesane, 2012).
  - " … as a rule we acquire […] in difficult markets."
- Similarly, Co-Y-CEO emphasised risk taking activities by saying that:
  - "… *the group provided credit to more than 2 million customers […] more than 85% of applications now receive an offer within seven minutes, while over 70% of repeat customers receive an offer within five minutes …*" (Co-Y AR, 2012).

- “Acquisition of Co-E […] retail business […] of home lifestyle products. While these activities fall outside of our traditional core business […] to reposition the business for substantial future profitability and growth” (Co-Y AR, 2013).
- “… over a long period of time, we were able to deliver something to the society, where other business were not willing to go” (Nthoesane, 2012).
- “…we are prepared to take the risk and nothing else to make sure that we are relevant to our customers […], you […] earn the returns”, additionally, “ … there is untapped creativity or innovation in the country and Co-Y took a risk that nobody was willing to take and this has opened a can of worms…” (Nthoesane, 2012; Hogg, 2010).
- “…we dedicated ourselves to taking risk on people where no one else was prepared to …” (Co-Y AR, 2010). However, “It is only when the chosen risks have relevance and add value to customers, that business is entitled to extract value for itself on a sustainable basis” (Co-Y AR, 2008).

Risk taking as a competency necessary for sustainability and value creation is also supported by Merton (2005:86) who asserts that there are “those risks associated with positive net present value activities in which the company has a comparative advantage., He further argues that if companies can rid themselves of passive and non-value adding risk, companies are then able to invest the equity capital to finance value adding assets and increase the net worth above their competitors. In addition, Krause and Tse (2016:56) "provide support for theoretical propositions in the literature that risk management increases firm value and returns, while reducing return and cash flow volatility […] *and* address concerns regarding the endogeneity of risk management practices relative to corporate financial decisions”. D’Intino, Boyles, Neck and Hall (2008) support the findings by empirically arguing that repetitively making risky decisions Boeing maintained market leadership as an innovative firm for over nine decades.

4.5.3 Industry focused and business model differentiation strategy

A leader who really wants to create value is a focused leader, is not the one who is ‘everything to everyone.’ In addition, it is very critical in business to continually differentiate your value proposition to your customers:

- Co-X-CEO emphasised that for sustainability in the long-term executives of both big and small companies need to pay special attention to understanding the business and the details of the business, as is reflected in the following assertion, “… *my advice to someone starting their own business would be that they should pay attention to details and make sure that they really understand their business. Most businesses fail in the beginning […],* however *if you understand the details you have more chance of making the right decisions and business is really about making the right decisions*”.
- “*When asked whether he is planning to change sector, or even retire early – given his outstanding successes to date – Co-X-CEO insists his fate is to remain within the pharmaceutical sector*” (Ventures Africa, 2012).
- As far as Co-Y is concerned, simplicity drives value and profits and differentiating yourself from others in many value-adding ways. For example, the CEO reports that:
    - “…*we promise affordable, responsible and hassle free credit to our customers we develop products to meet customers’ every credit need*” (Co-Y AR, 2010).
    - “…*we're not dependent on the economy, we're helping build the economy and that's our job. From that will come value to our customers and then our staff and then our shareholders. Not the other way around”* (Hogg, 2010).
    - In order to remain relevant to the client, it is important to understand the psyche of the client and be able to deliver to the client at the time of need. This results in potential profits for the company and in the long-term value is created. This is shown in the argument by Y-CEO when he

reports that "*buying a box of cigarettes from Co-M*[7] *and buying a loose draw from a lady on the street is different in a sense that you will be paying more on the street than at Co-M, but because the lady can give you what you need at that time and Co-M cannot […], you are bound to buy from the street"* (Nthoesane, 2012).

- "… Co-Y's strategy and core competence revolve around the underwriting of unsecured credit, primarily focusing on and levering its appetite for credit risk. All other financial risks are mitigated as much as possible, through hedging strategies…" (Co-Y AR, 2012).
- "…if you want to be relevant you have to do two things, one is you either giving someone things that no one else is offering or two, you are so efficient that you are giving customers cheap products in the market …"

4.5.4 Personal Motivation Strategy

The question that probably arises is that can personal motivation be regarded as strategic in any organisation, most especially at the executive level. The answer lies in the work of Littlefield (2004) that looked at the profile of 21st century leader. The first reported element is the motivation to excel, as a sub-category of competitive drive. Thus, personal motivation is not a nice to have but strategic in the sense that it promotes competitive drive. Madden (2015) argues that top performing executives possess personal drive, reflected as resilience and determination. Competencies that support this strategy are reflected on the index (see Table 19).

- "*Create symbols that enhance feelings of positivity! At Co-X they have a SA and Co-X flag outside every building*" (Groenewald, 2011).
- In addition, in the Co-X head office, on the staircase to the CEO's office an artefact of predecessor Co-Ln is hung, probably as an all-time reminder if what the company stands for[8].

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[7] Co-M is one of the largest wholesalers in South Africa

[8] The artifact picture is omitted to protect the identity of the company

- "*The biggest problem and risk is looking at your track records. When you have done well in a business, you have to sit on an edge. You don't celebrate success immediately, and you need to be consistent. If you start thinking you are fantastic and brilliant then you forget what has gotten you where you are. You forget that you were hungry when you started and hunger drove you to be where you are*" (Nthoesane, 2012).

The findings are further supported by Phelan, Eustace and Rush (1997) who theorise that personal motivation and energy as reflected by determination to achieve results are critical components of a competency model for successful leaders, who produce superior performance (McCredie and Shackleton, 2000). Okeke (2009) and Buell (2015) support this finding of decisiveness and results riving as a competency for ensuring firm performance. Furthermore, this result finds resonance with the theory of motivation by Schriesheim and Von Glinow, (1977). These researchers assert that the motivation purposes of a leader are to increase the net positive valence associated with work-goal attainment, increase the net positive valence associated with the path-behaviour-to work-goal attainment, and increase the employees' path instrumentality with respect to work-goal attainment for personal outcomes and the behaviour required for work-goal attainment. Madden (2015) supports the finding of a drive competency by arguing that top performing executives should possess drive, a function of determination, resilience and intensity to ensure their ability to expand the scope of the firm and enhance position in the marketplace.

4.6 Co-X attributes and competencies from other executives

The following competencies were reported by selected Co-X Group Executives, namely; Head of Latin America Operations; Head of Asia Pacific Operations, Chairperson of Remunerations Committee, Chairperson of Audit and Risk Committee, Deputy CEO and Chairperson of the Board. The executives were requested to mention (if any) competencies that they believe the CEO (X-CEO) have that enables him to create sustained value at Co-X. No other executive from Co-Y was available to provide this additional information.

Identified Competencies and Attributes	Supporting quotation(s) a source material	Literature
Consultative	"*When we first bought a business called South African Druggists which had facilities, […] before I met the manager, I asked to see the trade unions…*" (Pharmaboardroom, 2012). "*There are certain types of people who are quite good at putting everyone's ideas together but not the technicality of it. You got to have technical people around to get what you want*" (Nthoesane, 2012).	Schramm (2016) reported that lack of consultation accounted for 16% of competencies that executives (in the top ten of such competencies) need. Therefore, it sounds important to incorporate this competency in assessing executives for future and sustainable business.
Decision making	"*Most businesses fail in the beginning. […] business is really about making right decisions* (Pharmaboardroom, 2012).	This competency is what Buell (2015) report as one of the exceptional, making effective decisions based on optimal mix of ethics, values, goals, facts, alternatives and judgment. It can also be seen how this competency links up with

Identified Competencies and Attributes	Supporting quotation(s) a source material	Literature
		various other competencies critical for executives.
Energetic	"*Energy! Energy! Energy*!" "*Notice the words fanatic, burning, passion, indescribable hunger? Somehow you have to have this or you will wobble at the first bump or curve in your road to success! This is a guarantee*." (Groenewald, 2011). "*He is happy and organised, I believe. Of course he is not perfect, but he has simply learned to apply the law of movement very successfully! The law of movement states that "all movement in life is governed by the integration of motivation, direction and structure". If you want to excel in life learn to implement the law of movement successfully!"*	McCall and Hollenbeck (2002), in their work of finding out the 21st century global leader, report resilience, resourcefulness, optimism and being energetic as necessary, coupled with value-added technical and business skills. Buell (2015) suggests that not only the leader should be energetic but he/she should energise the team too.

Identified Competencies and Attributes	Supporting quotation(s) a source material	Literature
Flexibility	"*He added that no plan can be cast in stone so one must be flexible*" (Pharmaboardroom, 2012). "*On-going focus was placed on re-engineering the business in order to deliver better value to customers*" (Co-Y AR, 2008).	This is in accordance with what Buell (2015) refers to as cultivating adaptability, the ability to see the essence of issues, problems and business opportunities. Madden (2015) refers to this as agility of leaders to adapt to changing business world. This is also supported by Bennet (2002) and Bueno and Tubbs (2004)
Goal Oriented	"*When we bought Sigma, we were told that the company made an EBIDTA profit of $75 million and we set ourselves a target to double that within a couple of years*" (Pharmaboardroom, 2012).	Executives that obsess with creating value for their organisations are committed to consistently delivering results and attaining the agreed upon vision and objective. This is supported by Buell (2015). Ray (2007:42) emphasises that improving value in organisations especially as measured by EVA should not be a surprise issue. It should planned for, as the author states "that success

Identified Competencies and Attributes	Supporting quotation(s) a source material	Literature
		of the EVA […] starts at the top CEO [..] *makes* clear that value creation through EVA improvement is a primary financial goal" in the organisation.
Innovation	"*Co-Y became the first bank in Africa to issue a Swiss bond*" (Co-Y AR 2012).	This competency is supported and confirmed by Buell (2015) and Madden (2015) as being the ability to see broadly outside the typical and are constantly open to creative ways thinking of new ideas and ways of doing things. This is also affirmed by Murthy and Abeysekera (2007:95) who alert companies that "the key factor for success is innovation and creativity".
Mentoring and Coaching	"*In their beginning stages great leaders are never satisfied with what they themselves accomplish, so they keep raising their own bar; lifting their own standards; expecting more*	This is confirmed by Buell (2015) and Lambert III (2015) in that leaders invest time to understand the aspirations of others and jointly develop mentoring

Identified Competencies and Attributes	Supporting quotation(s) a source material	Literature
	from themselves. Then they start projecting this attitude on others around them. The focus shifts from themselves to others" (Groenewald, 2011).	plans with them. In contrast, Madden (2015) reports that is an environment where current leaders invest in future leaders.
Negotiation	"*I personally met with some major multinationals […] were of course worried about their patents, but I convinced them to give us voluntary licenses for ARVs*" (Pharmaboardroom, 2012).	This assertion is supported by Gauss and Fairley (2009) and Bourgault, Charih, Maltais and Rouillard (2006) who claim that negotiating ability is crucial for CEOs and executives in order to ensure attainment of strategic goals.
Openness	"*I always have a view you just tell it like it is, give the number out, give what you think is the situation out there, and then let the market have the facts at its fingertips and deal with it"* (Co-Y AR, 2008)	Dragoni, Oh, Vankatwyk and Tesluk (2011) and Bourgault *et al.* (2006) found a direct and positive relationship between openness attribute to strategic thinking competency. This suggests that a CEO who shares this attribute is equally likely to show strong ability to think strategically. This is further

Identified Competencies and Attributes	Supporting quotation(s) a source material	Literature
		supported by Bueno and Tubbs (2004).
Patriotism	"*If you are an entrepreneur you have to be passionate about what you do. If you feel passionate then you automatically feel that you are making a contribution - whether it is to your country, to people's lives, or to the people around you - it makes a difference*" (Pharmaboardroom, 2012). "*At Co-X they have a SA and Co-X flag outside every building*" (Groenewald, 2011). X-CEO believes in supporting local South African communities and initiatives, and abides by the motto which says: "*It can be done and it can be done in South Africa*" (Venture Africa, 2012).	Though not much of the literature is found to support or negate this competency, Puncheva-Michelotti and Michelotti (2014) postulate that corporate patriotism is important to stakeholders' perceptions of corporate reputations. The participants indicated that there are four main determinants of corporate patriotism, namely, 1. Domestic production of goods and services; 2. Investment of profits in the domestic economy; 3. Job creation; and 4. Education-related contributions. Based on this it appears that at least for Co-X all these determinants are put in place. However, it is not stated if this does have any relation to value creation,

Identified Competencies and Attributes	Supporting quotation(s) a source material	Literature
		but maybe the indirect management of reputational risk can accrue value to shareholders.
Persuasion	"*Although we did not have the scientific expertise like the research-based multinationals do - some pharma companies have more PhDs than we have in the country! -, but we were the very first company in the world to receive US FDA accreditation for the manufacture of selected generic ARVs*" (Hogg, 2009).	In business, one is always 'selling' something, being a product, service or even an idea. The power of persuasion is the ability to let 'your' idea supersedes others. Heames and Harvey (2006) endorse this view by saying that the art of persuasion is paramount in getting others to accept executives' perception. In addition, both written and oral persuasion skills are critical when dealing in human relations. This is also in line with work by Maidique, Atamanik and Perez (2014).
Scenario planning	"*We are also looking at some very interesting opportunities in Latin America. We have really*	Hirsch, Burggraf and Daheim (2013) theorise that if scenarios are

Identified Competencies and Attributes	Supporting quotation(s) a source material	Literature
	focused on broadening our base in emerging markets, particularly Latin America, Asia Pacific and the rest of sub-Sahara Africa. We have opened an office now in the Philippines, with Thailand likely to follow shortly and business opportunities being investigated in a few other countries in Asia such as China, Indonesia and Japan". Pharmaboardroom, 2012 "*With labour being expensive, you have to think twice about how you employ, whether you add machines or not […] you need to employ twice as many people for the same result*". "*Part of our success has been that we had 10 plans; we don't rely on one plan; we had 10 different plans and if three work out for us we will be successful*." Groenewald, 2011	quantified this can increase the impact foresight thinking has on corporate strategic planning. This clearly should have a positive impact on decision making capability. The approach is supported by Kennedy and Avila (2013) when they suggest that "best view of the future requires … quantitative modelling (to support relatively near-term, tactical decision making) and scenario planning (tool to develop insights about the longer-term).
Strategic Management	"*Wherever we go, we ensure that we fully understand the*	This competency finding is supported by Madden

Identified Competencies and Attributes	Supporting quotation(s) a source material	Literature
	market, we work it out and then we commit to doing well" (Ventures Africa, 2012). "*X-CEO's excellent business acumen and strategic management was not to be suppressed*" (Nthoesane, 2012). "*Perception and reality are critical. Managing perception is a key issue of reality and it becomes a natural thing*".	(2015) who states that executives need to possess strategic orientation to achieve the set organisational goals.
Visionary	"*Dominance is defined as the largest advance base, customer base and distribution presence in our target market*" (Co-Y AR, 2012).	Littlefield (2004:49) argues that the 21st century leader needs to be able to see beyond his/her followers and then "mobilise people towards a vision." The same is observed by Maidique *et al.* (2014)
Work-life Balance	"*There are always issues and always problems. But I think on a personal level I have balance in my life. I would not leave Durban to go to New York for*	McCall and Hollenbeck (2002) report that a stable personal life is critical for 21st century global leader, arguably due to the burden

Identified Competencies and Attributes	Supporting quotation(s) a source material	Literature
	the prospect that we could do so much better as a Group in New York, because I am not going to affect my kids. I am not prepared to disrupt my family - I would rather give it all up for them" (Pharmaboardroom), 2012	of stress that is based on many families of the 21^{st} centuries also known as 'dual-earners.' If this balance is not maintained, there is a possible danger of executive burnout and subsequent decline in productivity, and this can lead to value erosion in the long-term.

4.7 Conclusion

In this chapter, the qualitative results were presented and discussed. In addition, the competencies were identified and linked to actual performance in organisations. Furthermore, identified competencies were confirmed by linking to the relevant quotations from the interviews and or analysed documents.

CHAPTER 5: QUANTITATIVE FINDINGS

5.1 Development of CEO competency model

The analysis of qualitative data together with the critique of literature led to the development of the competency model, referred to as ***Octastellatus*** (Latin for eight-starred) **CEO competency model (OC²M)** presented in Figure 5.1, or *Octastellatus* model, this was later used as the quantitative data for the index development.

Figure 5.1:: *Octastellatus* CEO Competency Model

The model accepts that at the centre of creating positive economic value is the CEO's ability to display financial knowledge and skills to executive favourable financial decisions referred to as financial intelligence. Most of the literature that deals with EVA stops at this point of realisation. The model then differs by expanding on this notion by incorporating other eight equally critical components to creating value in organisations, namely; leadership agility, business excellence, African intelligence, people centred-ness, organisational capabilities, personal drives, ethics governance and competitive competencies. The details of these components of the model are presented in Tables 5.1 – 5.9.

It is noteworthy to observe that this formulation of competencies is in agreement with the one stated by Morrison (2000), who suggests that properly constructed classification of competencies scheme should have the following five features:

- ***Mutually exclusive characteristics*** – being that the taxa (features) that makes up the leadership model should be mutually exclusive, to achieve every effort was taken to ensure that no competency can appear in more than one characteristics;
- ***Internal homogeneous characteristic*** – meaning that competencies associated with a specific leadership characteristic need to be more similar to each other than they are to competencies that support other characteristics. One can observe by going through the components that competencies are grouped according to this feature;
- ***Collective exhaustive characteristic*** – every known characteristic must be included. To achieve this every effort was done to ensure that every competency found from the results of the qualitative inquiry is included in the index construction.
- ***Stable characteristics*** – this means that competencies do not move from characteristic to the other, given the method of interrogating these competencies and utilising two independent samples, it is safe to suggest that this feature has been satisfied.

- ***Relevant naming of characteristics*** – names that succinctly communicate the single dominant theme. In order to achieve this, nine components have been named through consensus based on the Delphi method.

5.1.1 Leadership competencies category

Schramm (2016) reported that a lack in leadership competency accounted for about 40% of responses by the executives in the research work they conducted. In addition, the study further reported that 60% of their respondents claim that leadership as a competency is crucial now and will be in the next 10 years. The latter observation concurs with Dai *et al*. (2011) who state that organisations are faced with imminent leadership shortage in the future. These stated observations then support the view in this study to identify leadership as one of the foremost important competency categories. Moreover, Stevenson and Starkweather (2010) reported that leadership ranked high (94.8%) in the development of project management executives' critical competency index and Bourgault, Charih, Maltais and Rouillard (2006) concur that leadership is an important competency for executives.

As far as the cognitive aspect of the component is concerned, the study concurs with the findings of Dragoni *et al*. (2011) that found that executives' cognitive ability is directly and positively related to their strategic thinking ability. This finding supports the construction at least in part of the cognitive competency. Some literature reports social intelligence and cultural intelligence when discussing emotive leadership. For example, in Hopkins and Bilimoria (2008), these concepts are noted and are regarded as important. However, they were omitted in the construction of index in this research since it is not clear in the literature how the two concepts are distinct. The inclusion of emotive leadership supports the work done by Buell (2015), Goleman (1995 and 1998), Christiansen, Janovics and Siers (2010) and Mayer and Salovey (1993) regarding the critical role of emotions in leadership for organisational success. In addition, the recent work by Maidique *et* *al.* (2014) argues that self-awareness (a component of emotional intelligence) forms the core of their "heart of leadership model", which is a model that sheds light into the six competencies of a CEO. In addition, Bourgault *et al.* (2006) accept emotional intelligence as critical for executives. Table 5.2 provides the entire list of both the competency domain and the respective critical competencies. In concurrence with our finding, Pretorius (2007) and Nel (2007) assert that leadership is a critical and primary driver of sustainable business growth in high performance organisations and its impact is substantial in controlling and shaping the organisational destinies. In addition, "excellent leadership fosters top results" (Zhao, 2004:59).

Table 5.1: Leadership agility competency category

1st Component: Leadership Agility		**Sample A**	**Sample B**
Definition: Those competencies and capabilities that looks at the leaders' ability to operate holistically as a thinking; feeling and action leader			
Competency Domain	**Critical competencies (behavioural)**	**Means**	**Means**
A. Cognitive Leadership		**2.96**	**1.42**
	1. Thinking Strategically	**2.79**	**1.11**
	1.01 Ability to identify long-term strategy of the firm	2.38	1.42
	1.02 Ability to identify markets where the firm should compete	2.38	0.88
	1.03 Ability to develop winning and sustainable strategies	5.00	0.75
	1.04 Identifying and developing critical and limited resources to sustain the firm	1.42	1.42
	2. Thinking innovation and creativity	**3.13**	**1.72**
	1.05 Constant dissatisfaction with the status quo	5.00	1.88
	1.06 Constantly scanning new opportunities for the firm	2.13	1.42

	1.07 Ability to convert ideas to profitable businesses	2.28	1.88
B. Emotive Leadership		**2.45**	**2.49**
	1. High levels of emotional intelligence	**2.28**	**1.92**
	1.08 Self-awareness: ability to recognise and understand ones emotions and impact on others	1.98	1.42
	1.09 Self-regulation: propensity to suspend judgement and thinking before acting	2.45	0.88
	1.10 Motivation: passion for work for reasons beyond money and status	4.00	1.42
	1.11 Motivation: propensity to pursue goals with energy and persistence	1.33	1.42
	1.12 Empathy: ability to treat people according to their emotional reactions	2.13	5.00
	1.13 Social Skill: proficiency in managing relationships and building networks	2.13	1.42
	1.14 Social skills: ability to find common ground and build rapport	1.93	1.88
	2. High levels of spiritual intelligence	**2.62**	**3.07**
	1.15 The capacity to care and the power to tolerate others in a forgiving way	1.98	5.00
	1.16 Ability to develop clear sense of identity in the context of shifting workplace relationships	4.00	1.88
	1.17 Ability to align personal values with a clear sense of purpose, commitment and passion	2.25	4.00
	1.18 Ability to display above ego and self-centeredness, with true commitment to the true cause	2.25	1.42
C. Action Based Leadership		**2.03**	**2.09**
	1.19 Ability to differentiate strategic priorities from operational activities of the company	2.38	1.88
	1.20 Ability to defy obstacles in the pursuance of the organisational value	1.33	1.42
	1.21 Ability to bounce back in the face of challenges	2.13	1.42
	1.22 Ability to build meaningful collaborations and partnerships	4.00	1.88

	1.23 Ability to pay attention and to know the critical details of the business	1.53	1.42
	1.24 Ability to remain agile and master new business expertise in the industry	2.13	4.00
	1.25 Ability to propel others in the organisation to being their personal best	2.13	1.42
	1.26 Ability to pursue the highest standards of performance and ethics	1.42	4.00
	2.27 Ensuring continuity of company for next generation	1.20	1.42

5.1.2 Financial intelligence competencies categories

Given much reported financial value that EVA as a superior measure stands for, it is not surprising that financial competencies are found in this study and are the most reported. The identification of financial competencies concurs with Gauss and Fairley (2009) who suggest that financial acumen is critical for CEOs in order to enable them to make tough and value adding decisions in their respective organisations. Financial intelligence category is supported by Fiordelisi and Molyneux (2010) who identified the drivers of economic profits and shareholder value as income diversification, cost and revenue efficiency, financial leverage, firm assets size and a decrease in market risk exposure. In addition, Sullivan *et al.* (2012) reported a positive relationship between value creation and revenue performance. Inclusion of cost of capital in our findings and model is supported by scholars like Tian *et al.* (2014) who report empirically that efficient use and "allocation" (Wibowo and Kleiner, 2005:88) of capital (especially equity capital) increase the creation of value for shareholders. Moreover, this assertion suggests that it is possible to increase (or decrease) shareholder wealth and value by altering the capital structure. In addition, this (cost of capital) helps executives to invest capital in projects that will drive competitiveness for the next decade and beyond (Jacobs and Shivdasani, 2012). Jacobs and Shivdasani (2012) further caution that cost of capital is threefold, namely; financial capital, human capital and structural capital (the latter two forming part of intellectual capital. In general, executives need to well-tuned in analysing and comprehending financial parameters so as to be able to project trends and make sound investment decisions that will support sustainable growth and existence of their firms (Madden, 2015).

Table 5.2: Financial intelligence competency category

2nd Component: Financial intelligence		**Sample A**	**Sample B**
Definition: Those competencies and capabilities that assess the leaders' ability to optimise company's revenue; pursue innovative investments; ensure operational and financial efficiency and lower the cost of capital for the company.			
Competency Domain	**Critical competencies (behavioural)**	**Means**	**Means**
A. Revenue Optimisation		**1.39**	**2.23**
	2.01 Ability to identify customer needs, challenges, buying criteria and decision-making process	4.00	1.42
	2.02 Ability to analyse current share of customer and competitor's share of customer	1.47	1.42
	2.03 Ability to identify sales opportunities, and value propositions—new business solution	2.13	4.00
	2.04 Ability to develop competitive pricing strategy and model	1.33	2.63
	2.05 Ability to develop and grow relationships with key customers, suppliers and stakeholders	1.42	1.42
	2.06 Ability to identify the top 20% of your customers base	0.38	1.88
	2.07 Ability to diversify revenue generation without product/service dilution	1.33	1.42
	2.08 Ability to provide a price differential strategies by product/service line	0.25	1.88
	2.09 Growing the core business organically	0.25	4.00
B. Investments		**1.80**	**2.50**
	1. Deal making	**1.91**	**1.85**

	2.10 Ability to source the deals that add economic value to the company	1.88	1.42
	2.11 Ability to value deals to the price that ensures long-term company sustainability and survival	1.75	1.88
	2.12 Ability to structure complex deals simplistically with clear risk/returns balance	1.88	1.42
	2.13 Ability to pursue deals that complements the business model	1.33	1.42
	2.14 Ability to collaborate with the investors that that share similar values and principles	4.00	1.42
	2.15 Ability to navigate the new terrain if the deal is a diversification strategy	1.28	1.42
	2.16 Ability to comprehend the opportunity cost of the deal	1.25	4.00
	2. Innovation strategies	**1.69**	**3.14**
	2.17 Investment in retention selling strategies	1.33	4.00
	2.18 Investment in penetration selling through buyer penetration	2.38	4.00
	2.19 Investment in penetration selling through buyer and product/service penetration	2.25	1.42
	2.20 Investment in new market win through market development strategies	1.42	4.00
	2.21 Investment in new market win through customer development strategies	1.33	1.42
	2.22 Investment in research in development for pipeline development	1.42	4.00
C. Operational Efficiency		**1.78**	**3.00**
	2.23 Assess accounting and investment performance	1.33	1.42
	2.24 Ability to know critical numbers and ratios in the industry	2.13	4.00
	2.25 Ability to know critical numbers and ratios in the company	2.25	4.00
	2 26 Ability to match cash collection with company sales growth	1.42	4.00
	2.27 Ability to put in place contingencies for business shocks	1.42	4.00

	2.28 Ability to match business capabilities with the demands of business (business phase specific)	1.33	4.00
	2.29 Ability to provide stakeholders with current secure, consistent access to information	1.33	4.00
	2.30 Ability to drive and develop effective business processes	1.88	4.00
	2.31 Ability to diagnose and minimise unproductive product/service offerings	1.33	4.00
	2.32 Ability to isolate the main causes of waste in your business	2.13	2.38
	2.33 Ability to identify strategies to free up cash by reducing inventory.	1.25	1.88
	2.34 Continuous assessment of current operations to identify opportunities for improvement	1.88	1.88
	2.35 Consistently generating cash from operations	1.33	2.38
	2.36 Consistently delivering efficiency ratios above the industry norm	1.75	1.88
	2.37 Ability to rationalise branches/business units and optimise product/service delivery channels	1.63	1.88
	2.38 Ability and willingness to align sales resources with market opportunities	1.75	1.88
	2.39 Ability to engage and evaluate strategic sourcing opportunities	1.88	2.38
	2.40 Initiate business process improvements aligned with enabling technologies	4.00	4.00
D. Cost of Financing		**2.07**	**2.53**
	1. Risk Premium	**1.29**	**2.94**
	2.41 Ability to position the firm to be attractive to international shareholders	1.33	1.88
	2.42 Ability to ensure that the stock is consistently trading at low risk premium	1.25	4.00
	2. Liquidity Premium	**2.27**	**2.40**
	2.43 Ability to attract a large number of investors	1.75	2.00
	2.44 Ability to ensure that the company security is trading at tight bid-offer spread	0.92	1.88

	2.45 Ability build a culture of continuous information disclosure	4.00	4.00
	2.46 Ability to disclose information to all its investors	4.00	1.88
	2.47 Ability to put in place mechanisms that detect and discourages insider trading	0.81	2.38
	2.48 Ability to avoid creative accounting and complex model that confuse investors	2.13	2.28
	3. Capital Structure	**2.66**	**2.26**
	2.49 Ability to target an optimal capital structure	1.88	2.28
	2.50 Ability to promote a high pay-out ratio of the company	1.75	4.00
	2.51 Ability to pursue investment strategy of projects similar to company's risk appetite	3.00	0.88
	2.52 Ability to comprehend all the components of the company's capital cost	4.00	1.88

It is observed that competencies 2.06 (ability to identify the top 20% of your customers base), 2.07 (ability to diversify revenue generation without product/service dilution) and 2.08 (ability to provide a price differential strategies by product/service line) under revenue optimisation domain have relatively low average means between the two samples, 1.13; 1.34 and 1.06 respectively. This might suggest that they are regarded as not too critical for revenue optimisation purposes. The researcher is of the view that these competencies are important for revenue generation. For example, if the CEO pursues the diversification strategy (2.07) that is not aligned to the core business or at the least not complementary to the business, in the long-run he/she runs the risk of eroding the firm's value. As far as price differential is concerned (2.08), it allows the company to segment it market and provides an insight regarding market's contribution to the revenue pool. It enables the CEO to align resources allocation commensurate with the revenue contribution. Based on this observation, it is found necessary to retain the competencies.

Competency 2.13 (ability to pursue deals that complements the business model) has a mean average of 1.34, which is relatively low. It was reported and empirically shown earlier that Co-X pursue of deals led to the continual increase in the share price, based on the limited sample when competencies were generated. It might be necessary for future studies to expand this work to various industries. The same applies for 2.15 (ability to navigate the new terrain if the deal is a diversification strategy) and 2.21 (investment in new market win through customer development strategies) competencies.

5.1.3 General business competencies category

Mutalemwa (2015) reports on some of the stumbling blocks that prevent African businesses from participating successfully in global economy include lack of competitiveness and inter-firm linkages. This category provides some competencies that should enable executives to address these challenges. For example, competitive practices set a platform to establishing own company's competitive practice. Alldredge and Nilan (2000) assert that under their visionary cluster of competencies for competitiveness is global perspective. This is in line with our finding and inclusion of global business knowledge competencies. Camuffo, Gerli and Gubitta (2012:48) refer to this competency as "business bargaining" as critical ingredient of effective entrepreneurial leadership. Jena and Sahoo (2012) contend that understanding competitors is a critical competency for superior performance of global leaders.

Table 5.3: Business intelligence competency category

3rd Component: Business Intelligence		Sample A	Sample B
Definition: Those competencies and capabilities that promote the business and focus on competitive and leading practices and experiences.			
Competency Domain	**Critical competencies (behavioural)**	**Means**	**Means**
A. General business		**1.57**	**2.39**
	3.01 Ability to identify and link key components in strategic and business plans	1.33	4.00
	3.02 Have a fair understanding of the customer value chain throughout the organisation (know all customer touch points through the organisation)	1.25	2.38
	3.03 Keeping in touch with external trends that impact the business	2.13	2.38
	3.04 Ability to pioneer the new order in the industry trends	2.25	1.88
	3.05 Having a working knowledge of the core functions of the business	1.33	1.88
	3.06 Knowledge and adherence to self-regulated/industry standards	1.25	1.88
	3.07 Ability to exceed industry standards and become de facto benchmark organisation	1.42	2.38
B. Competitive practices		**1.70**	**2.55**
	3.08 Know the implications of the competition's activities	1.75	2.25
	3.09 Develop relationships with competitors - explore common areas of interest	1.25	2.25
	3.10 Be aware of new business practices and their impact on the way you do business with the customer	1.88	4.00
	3.11 Define licensing as it pertains to your product/service/company	1.88	1.88
	3.12 Collaborate with authorities and proactively dictate the industry rules and norms	1.75	2.38
C. Global business		**1.56**	**2.63**
	3.13 Presenting and preserving the company image to the global community	1.25	1.88

	3.14 Practical understanding of international financing/currency	1.63	4.00
	3.15 Ability to identify and develop new products and services and opportunities that are region-specific	1.63	2.38
	3.16 Select market/industry segment that you will serve	1.75	2.28

5.1.4 African intelligence competencies category

The construction and inclusion of the fourth component is supported for instance, Iwowo (2015:424) laments that "African researchers and practitioners must seek to understand that which is both indigenous and endogenous to it and consider how existing leadership theories may creatively and contextually answer for the local knowledge frameworks within which they are applied". As was noted the participants of the study, this component provides for a very 'unique and progressive' way to conceptualise Africanism in global business. It is arguably in line with the work of Mufuoa (2010) who asserts that Botho/Ubuntu as a philosophy. In our context, a competency has a potential to lay the foundation towards a theory of development (economic, social and other) in Africa. The author further states that "Ubuntu is the spirit of peace – it is the spirit of respectful win-win – meaning that if a solution doesn't work for you (competition), then it doesn't work for me either. Yet it goes beyond Western concepts of me and you to 'I evolve and grow because of you and in relation to you.' It refutes the mores of our past decade of […] 'it's about winning,' and the capitalist value of 'more is better'" (Mufuoa, 2010:284). This assertion is reflected in all the competencies that are related to what we refer to as African intelligence (Table 4.4), the concept of reflection, reliance and collectiveness in creating value in organisations.

Table 5.4: African intelligence competency category

4th Component: African Intelligence (Adapted from Ngambi, 2011)		Sample A	Sample B
Definition: Those competencies and capabilities that promote the African philosophy in attaining long-term sustainability, especially when the company is operating in one or more countries in Africa.			
Competency Domain	**Critical competencies (behavioural)**	**Means**	**Means**
A. Self -Reliance		**1.22**	**2.19**
	4.01 Ability to rely on inner strength as measured by Africans	1.00	2.38
	4.02 Practicing the principles of Ubuntu/Botho	1.75	2.28
	4.03 Ability to develop competencies that address Africa-specific challenges	1.33	1.75
	4.04 Ability to display Afrocentric judgement independent of western influence	0.81	2.38
B. Self-Reflection		**1.92**	**1.49**
	4.05 Ability to have strong sense of self-concept and self-perception	2.38	1.63
	4.06 Ability to display attitude of service to others and self-engagement	2.13	1.50
	4.07 Ability to have a strong sense of self-analysis	1.25	1.33
C. Self-Empowerment		**2.19**	**2.13**
	4.08 Showing strong sense of self-belief	2.13	2.38
	4.09 Showing strong sense of self-directing	2.13	1.88
	4.10 Showing strong sense of self-responsibility	2.25	2.38
	4.11 Showing strong sense of self-sustenance	2.25	1.88
D. Collective Wisdom		**1.67**	**1.64**
	4.12 Ability to leverage and promote diversity	1.42	1.33

	4.13 Inclination to values and principles	1.33	2.25
	4.14 Ability to effectively lead change, within self and organisational	2.25	1.33
E. African Consciousness		**1.33**	**2.13**
	4.15 Optimism towards African-ness and Africa's success	1.25	2.25
	4.16 Ability to stand up against views that disadvantages Africa's trade	1.42	1.88
	4.17 Ability to engage in African dialogue	1.33	2.25
F. African Identity		**1.25**	**1.82**
	4.18 Ability to internalise African-ness, taking pride and asserting being African while in trade negotiations	1.25	1.33
	4.19 Ability to promote the beliefs and cultures of doing business the African way	1.25	1.88
	4.20 Ability to celebrate successes of Africa and setting in motion ways to address challenges through trade	1.25	2.25
G. African Bravery		**2.35**	**3.78**
	4.21 Ability to stand up and defend the sovereignty of Africa and its states in trade negotiations	0.81	1.33
	4.22 Ability to stand up against business and political leaders that are eroding the wealth of Africa	1.25	5.00
	4.23 Ability to act and being vocal against corruption in Africa	5.00	5.00

The interesting competency to note is 4.23 (ability to act and being vocal against corruption in Africa), the only competency with a mean of 5.00 in the study. This seems to suggest that corruption (or corruption activities), if not given prominence will lead to value erosion in companies. This means there needs to be a ‘premium’ placed on selecting leaders that are not susceptible to corruption or leaders that are not corruptible. In addition, it is important for leaders to ‘act’ and root-out corrupt practices by establishing and/or enforcing mechanisms that promote moral high ground in organisations.

5.1.5 People centeredness competencies categories

Theory of leadership and various leadership approaches support this category. For instance, Blake and Mouton Grid proposes that ‘team management (9, 9)’ - a high concern for both employees and production - is the most effective type of leadership behaviour. Vroom-Jago decision styles states that as a leader you do not influence the group to adopt your solution, but rather are willing to accept and implement any solution that has the support of the group. Lastly, transformational theory of leadership states that leaders spend time teaching and coaching; treat others as individuals rather than just as members of the group; consider individuals as having different needs, abilities and aspirations from others and help others to develop their strengths. This finding is also supported by Alldredge and Nilan (2000) and Ryan *et al.* (2012), especially the developing employees and coaching. This is referred to as “people management skills” for effective entrepreneurial leadership (Camuffo *et al.,* 2012:58). Wibowo and Kleiner (2005) support our finding by reporting that building and leading teams are integral duties of CEOs. In addition, Rhee and White (2007) highlight that teams play a critical role in new venture establishments and success.

Table 5.5: People centeredness competency category

5th Component: People Centeredness		Sample A	Sample B
Definition: Those competencies and capabilities that put people at the centre of leader-company success.			
Competency Domain	**Critical competencies (behavioural)**	**Means**	**Means**
A. Organisational		**1.97**	**2.59**
	5.01 The ability to identify factors arising from the changing world of work which need to be addressed in the people strategy of the firm	1.88	1.88
	5.02 The ability to link peoples strategy with the firm's competitive strategy	1.33	2.25
	5.03 Ability to own and drive people development strategy in the organisation	1.33	1.33
	5.04 The ability to get the right people for the organisation	2.38	1.88
	5.05 Creating and maintaining desired culture and environment	2.13	1.33
	5.06 Showing respect for others	2.38	4.00
	5.07 Tolerant of diverse individuals and viewpoints	2.13	2.38
	5.08 Developing a team to achieve objectives	1.25	4.00
	5.09 Serving as a role model for others in the company	2.25	4.00
	5.10 Ability to share the wealth with those who created it	2.38	4.00
	5.11 Ability to foster continuous improvement, creativity and innovation	2.25	1.42
B. Leadership of Teams		**2.25**	**2.28**
	5.12 Discuss strategic goals, mission and vision with team members and the strategic role they play in inspiring all in the organisation	2.13	4.00
	5.13 Encourages team members to use their talents and competencies to in order to have promote a joint attainment of company goals	2.25	1.42

	5.14 Ability to provide direction when tension arises or objectives are in danger of not being attained	2.38	1.42
C. Coaching		**2.54**	**2.83**
	5.15 Helps others to explore their limitations and possibilities	1.75	1.75
	5.16 encourages others to take initiative and/or steps towards realizing their own optimal professional goals	1.88	1.75
	5.17 Provides frequent feedback to others regularly, both in terms of compliments, appreciation as well as constructive criticism	4.00	5.00
D. Developing Employees		**3.06**	**4.50**
	5.18 To be aware of the impact the people around have on ones way of thinking	4.00	5.00
	5.19 Ability to maintain contacts with decision makers and those who have direct/indirect influence on the company's success	2.13	4.00

5.1.6 Organisational capabilities

The competencies are mostly focused on the company’s day-to-day operations. This finding is supported by Hewitt and Lesser (2007) who reported that to a connection between business direction and leadership to exist, there needs to be attention paid to three things, namely, culture, capacity and capabilities. Similarly, the findings of this study corroborates with those of Alldredge and Nilan (2000:139) in what they refer to as “organisational agility.” These researchers assert that organisational agility leads to competitive advantage. They further argue that leadership competencies should be ‘customer oriented’. The same argument is presented by our competencies under this component. Ramakrishnan (2012) refers to this as ability to develop suitable organisational systems for high performance. This is what Whatley, Popa and Kliewer (2012) call collective institutional excellence. To conclude, Lokshin, Van Gils and Bauer (2009) report that customer-centric competencies improve innovative performance of the organisation.

Table 5.6: Organisational capabilities competency category

6th Component: Organisational Capabilities		Sample A	Sample B
Definition: Those competencies and abilities that focus attention of company-wide capabilities.			
Competency Domain	Critical competencies (behavioural)	Means	Means
A. Organisational Savvy		**1.99**	**2.84**
	6.01 Confronting problems as they arise	4.00	5.00
	6.02 Ability to Identify key business issues, process, and the barriers to address	4.00	5.00
	6.03 Ability to understand customer perceptions, motivations and intentions	1.88	1.42
	6.04 Ability to determine the lifetime value of customer (in terms of acquisition cost, revenue stream, cost stream and length of relationship)	1.88	4.00
	6.05 Ability to validate the understanding of customers value drivers	1.88	1.33
	6.06 Ability to link customer value drivers to company's products/services value propositions	1.88	1.42
	6.07 Ability to clarify price vs. benefits of the value proposition	1.88	1.88
	6.08 Ability to integrate customer feedback in value proposition	1.33	1.42
	6.09 Ability to communicate customer value perception to appropriate areas of the organisation	1.88	4.00
	6.10 Ability to establish and leverage strategic partnerships, alliances to create additional value	1.75	1.88
	6. 11 Ability to use results as references	1.75	4.00
	6.12 Ability to evaluate actual performance against the plan	1.88	4.00
	6.13 Ability to measure activities against results	1.88	4.00
	6.14 Ability to analyse product/service success	1.75	1.88
	6.15 Ability to identify company's market position	1.75	1.42

	6.16 Ability to know the essential selling features of the company's products and services	1.75	4.00
	6.17 Ability to identify product/service strengths	1.75	1.88
	6.18 The knowledge of company's product/service success evolution/history	1.75	4.00
	6.19 The ability to compare company's success per product/service and compare to position of competition	1.25	1.42

5.1.7 Personal motivation competencies category

It has been reported on this category earlier, refer to section 4.6.4.

Table 5.7: Personal motivators and drivers

7th Component: Personal Drivers (Ngambi, 2011)	**Sample A**	**Sample B**
Definition: The personal motivators that serves a burning light and engine to get the leader moving and focused		
7.01 Desire: Burning dissatisfaction with the status quo, and the urge to achieve greatness	4.00	4.00
7.02 Dedication: Unwavering commitment and loyalty to the dream to be achieved, and dedicating all resources for achieving this	2.13	1.88
7.03 Discipline: Be accountable for your performance, doing what needs to be done whether one feels like it or not	4.00	1.42
7.04 Diligence: Willingness and ability to work hard and do ones' best in areas of responsibility	1.88	4.00
7.05 Determination: An ability to accept that true success come from within	1.88	1.42
7.06 Decisiveness: Ability to make informed and active decisions and commit oneself to the taken position	1.42	1.88
7.07 Duty to society: Ability to invest is activities that promote livelihood to humankind	1.88	1.88
7.08 Delivering results: Ability to constantly deliver above average sustainable results	1.88	1.42

5.1.8 Ethics principles competencies categories

In the study by Schramm (2016:66) entitled “the leadership gap”, ethical practice is found to account for 17% of the lacking competencies in executives. Given the attention that is now directed to high moral leadership and ethical standards, probably as a result of corporate scandals, it is necessary to incorporate competencies that promote ethical conduct in organisations to ensure sustained organisations. Kanagasabapathi, (2007:584) supports this by reporting that *any* system should emphasise “ethical principles in all walks of life, including economics and business” because this builds trust and confidence in such organisations (Alldredge and Nilan, 2000). In addition, Brownell (2006: 328) postulates that to create ethical organisations requires ethical workforce and further notes that “when leaders demonstrate high standards of integrity and consistently do the right thing, they serve as credible role models.” Furthermore, Bourgault *et al.* (2006) state that ethical sense is one of the critical competences for executives. Therefore, it is justified to expect ethical behaviour to produce value in organisations, a phenomenon called ‘ethico-economic theory’ of companies by Choudhury (1990:27). The ethics inclusion is also supported by Eisenbeiss, Van Knippenberg and Fahrbach (2015) who empirically found that the CEO’s ethical leadership complemented by organisational ethical culture, values (Bourgault *et al*., 2006) and strong ethical programme promotes a firms’ financial performance (Lal, 2015).

The findings of inclusion of sustainability as a critical competency are supported by Bardy and Massaro (2013). The latter researchers theorise that there is a need for ‘EVA expansion’ towards Sustainable Value Added (SVA) by corporations to adopt business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting and sustaining the future, through triple bottom line (people, planet, profits). This is further affirmed by Zhao (2004) who reported that sustainability and sustainable development interventions at Siemens achieved business excellence and enhanced company’s economic value. Furthermore, a study conducted in South Africa (Wingard and Vorster, 2001:313) found that there is a positive relationship between the environmental responsibility and the financial performance (ROE, ROA, ROC and EVA) of South African JSE listed companies; that is, the higher the level of environmental responsibility of a company, the better is its financial performance." Similarly, the same relationship is reported by Gadenne, Mia, Sands, Winata and Hooi, (2012). This paradigm shift of viewing finance through the eyes of sustainability and ethics can be summed-up as what Steen, VanderVeen and Voskuil (2006) refer to as 'finance on earth as it is in heaven'. The findings are equally supported by Avery and Bergsteiner (2011) who suggest that sustainability and sustainable leadership deliver better and sustainable returns over a long-term.

Table 5.8: Ethics principles competency category

8th Component: Ethics Principles		Sample A	Sample B
Definition: Those competencies and principles that ensure that the leader is committed to high moral standards in the organisation.			
Competency Domain	**Critical competencies (behavioural)**	**Means**	**Means**
A. Sustainability		**1.48**	**1.88**
	8.01 Conducting business in a manner that meet existing needs without compromising the ability of future generations to meet their needs	0.88	1.88
	8.02 Adherence to the principles of Integrated Sustainability Reporting	0.88	1.42
	8.03 Ensuring that the company is and is seen to be a responsible corporate citizen	2.13	1.88
	8.04 Ensuring that the company protects, enhances and invests in the well-being of the economy, society and the natural environment	1.25	2.38
	8.05 Providing effective leadership based on an ethical foundation	2.25	1.88
B. Ethics governance		**1.51**	**3.19**
	8.06 Ensures the establishment of a committee that provides strategic direction and oversight of the ethics management of the company	1.33	4.00

	8.07 Ensures that structures, systems and processes are in place to ensure that all stakeholders are familiar with and adhere to the company's ethical standards	2.25	4.00
	8.08 Ensures that ethics is imbedded in the corporate culture	1.50	4.00
	8.09 Ensures that ethics performance is included in the scope of audits and reported on in the company's integrated annual report	1.42	2.38
	8.09 Ensures that ethics risk is periodically assessed in the organisation	1.33	2.38
	8.10 Ensures that the organisation has in place ethics management strategy in line with company's strategy	1.25	2.38

5.1.9 Competitive competencies category

Some of the competencies of the 10th component, specifically, forming judgment and being visionary are supported by the work of Maidique *et al.* (2014: 33). The latter researchers argue that "without good judgment a leader is unlikely to be successful […] and that leader has to be able to articulate vision and the direction" the company is heading. Brownell (2006) parallels what is reported in this study as competitive competencies as 'distinctive competencies.' She reports that these are the competencies that focus on personal characteristics critical to achieve desired results. The inclusion of political sensitivity as a competency critical for value creation is supported by Chena, Ariffb, Hassana and Mohamad (2013:1) who reported that "significant share price increases of 4% or more abnormal returns accrue to *politically* connected firms relative to unconnected firms when identical political events occur […] finding of higher value of politically connected firms is due to the expected value of preferential treatments, preference in project selections, and access to state benefits". Therefore, it will be critical for executive not to alienate themselves from politics, rather find a smart way of navigating the political terrain without compromising the independence and autonomy of the organisation. The inclusion of adaptability competencies finding is supported by Handin and Steinwedel (2006), who rather refer to it as agility. Our finding resonates with those of Camuffo *et al.* (2012) on results orientation ("achievement orientation", Ryan *et al.* 2012:90), negotiating and visioning

(Wibowo and Kleiner, 2005; Phelan *et al.*, 1997; Clark *et al.,* 2008) as critical for the success of entrepreneurial leadership in Italy. Furthermore, in support of our findings is McCredie and Shackleton (2000), specifically relating to our finding of independence. They refer to this as self-reliance, a competency they believe is critical for fostering superior performance. However, Kakabadse, Kakabadse and Davies (2007) caution that too much of leader's individualism can lead to a trio of unintended consequences namely, hedonism, power and posterity.

Table 5.1: Competitive competencies category

10th Component: Competitive Competencies (influenced by TMA competency model, 1996)		**Sample A**	**Sample B**
Definition: Ten competencies and capabilities that are believed to give the leader the edge to be on top of his/her game and peers in driving the company towards long-term value creation and sustainability.			
Competency Domain	**Critical competencies (behavioural)**	**Means**	**Means**
A. Adaptability		**1.90**	**2.93**
	10.01 Acts differently and in different cultures and adheres to culture-specific principles	1.88	5.00
	10.02 Openness to various standards, values and rules without losing a sense of identity	1.88	2.38
	10.03 Preparedness to change routine	1.88	0.88
	10.04 Ability to handle other standards and value with ease	1.75	4.00
	10.05 Ability to continue performing effectively when responsibilities suddenly changes	2.13	2.38
B. Business Orientation		**2.17**	**3.02**
	10.06 Ability to generate ideas about the firm's future and its scope of services and translating this to tangible strategies and goals	2.13	5.00
	10.07 Ability to explore positions in national and international networks that could exploited to benefit the company	1.08	2.38
	10.08 Ability to focus attention more on opportunities than challenges/problems	4.00	5.00

	10.09 Ability to observe problems in markets and utilises these to make relevant business offerings	1.75	0.88
	10.10 Ability to build network relationships and use them to broaden access to company's products and services	1.88	1.83
C. Results Oriented-ness		**1.69**	**3.01**
	10.11 Ability to make tangible agreements with all strategic people in the company on how to attain goals and objectives	1.75	5.00
	10.12 Ability to define challenging strategic objectives that have an impact on other units and the company at large	1.75	4.00
	10.13 Ability to set high performance standards yet with feasible objectives	1.88	2.38
	10.14 Ability to develop/promote systems that provides for regular monitoring of whether the set goal is still realistic and attainable	1.75	2.38
	10.15 Maintains regular communication, feedback and feedforward on proceedings that affect various units of the company	1.33	1.28
D. Customer Orientation		**1.88**	**3.55**
	10.16 Ability to develop strategic approaches to various client groups and in the future	1.88	2.38
	10.17 Ability to look into the company through the eyes of the client/client groups	1.88	4.00
	10.18 Ability to constantly pursue a win-win business environment	1.88	5.00
	10.19 Translates clients' wishes and needs into company's products and services	1.88	2.38
	10.20 Clarity of product/service offering and promise less than one delivers	1.88	4.00
E. Forming Judgment		**2.83**	**3.31**
	10.21 Ability to observe various scenarios into account regarding company's continuity	1.88	4.00
	10.22 Make strategic choices based on sound risk analysis, take uncertainties and bias into account	2.13	1.28
	10.23 Ability to balance alternatives	4.00	5.00

	10.24 Ability to base views on factual information and clearly distinguishes this from opinions	4.00	2.25
	10.25 Open about past mistakes and learn from them; practice from what is learnt	2.13	4.00
F. Independence		**3.25**	**3.33**
	10.26 Forms an independent judgment/viewpoint even when under severe pressure	2.13	4.00
	10.27 Is not easily influenced by other peoples' opinions	4.00	5.00
	10.28 Holds on to professional quality standards even if they go against the company	4.00	2.38
	10.29 Takes more risks but remain accountable and aware of their consequences	4.00	4.00
	10.30 Does not fear resistance against ones views and plans	2.13	1.28
G. Negotiating		**2.25**	**4.08**
	10.31 Ability to know during negotiations what interests and points of view of other party/company are	4.00	5.00
	10.32 Ability to decides beforehand what the limits and possible concessions will be in negotiations	1.88	4.00
	10.33 Ability to prepare negotiation talk in detail, knowing the objectives to achieve, problems to foresee and how to overcome them and finally drive the common interest	1.88	5.00
	10.34 Adequate preparedness when initiating and entering into negotiations	1.75	4.00
	10.35 Ensures that the counter party(ies) negotiate within the mutual terms	1.75	2.38
H. Organisation sensitivity		**1.03**	**3.13**
	10.36 Ability to set the company-wide strategic priorities	1.00	4.00
	10.37 Ability to assign key people and resources effectively	1.00	1.28
	10.38 Ability to draft various alternative future scenarios based on prognoses	1.06	2.38
	10.39 Ability to handle ambiguity and unclear hierarchies effectively	1.06	4.00

	10.40 Ability to think about future developments in the industry/market and their implications for the organisation	1.00	4.00
I. Political Sensitivity		**1.77**	**3.53**
	10.41 Ability to display diplomacy and tact in delicate matters	1.33	1.28
	10.42 Ability to distinguish and address decisions' consequences	2.00	4.00
	10.43 Ability to lobby and win high level people/authorities/regulators over for certain proposals	1.75	2.38
	10.44 Ability to know and pursue the right people to advocate their views for success of the organisation	1.88	5.00
	10.45 Ability to keep broadly informed of any developments that could affect the company, both positively and negatively	1.88	5.00
J. Vision		**1.89**	**2.81**
	10.46 Ability to think ahead even on the basis of limited information	2.13	4.00
	10.47 Ability to observe chances and opportunities for the company before others/competitors do and acts accordingly	2.25	2.38
	10.48 Posses entrepreneurial acumen and capabilities	2.25	4.00
	10.49 Ability to recognise national and international trends early and oversees their potential consequences for the company	1.42	2.38
	10.50 Ability to question traditional/conventional practices to foster pioneering products/services and approaches	1.42	1.28

5.2 Quality of the CEO competency model

Figure 5.2 shows the six factors considered in determining the quality of the quantitatively validated constructed competency model.

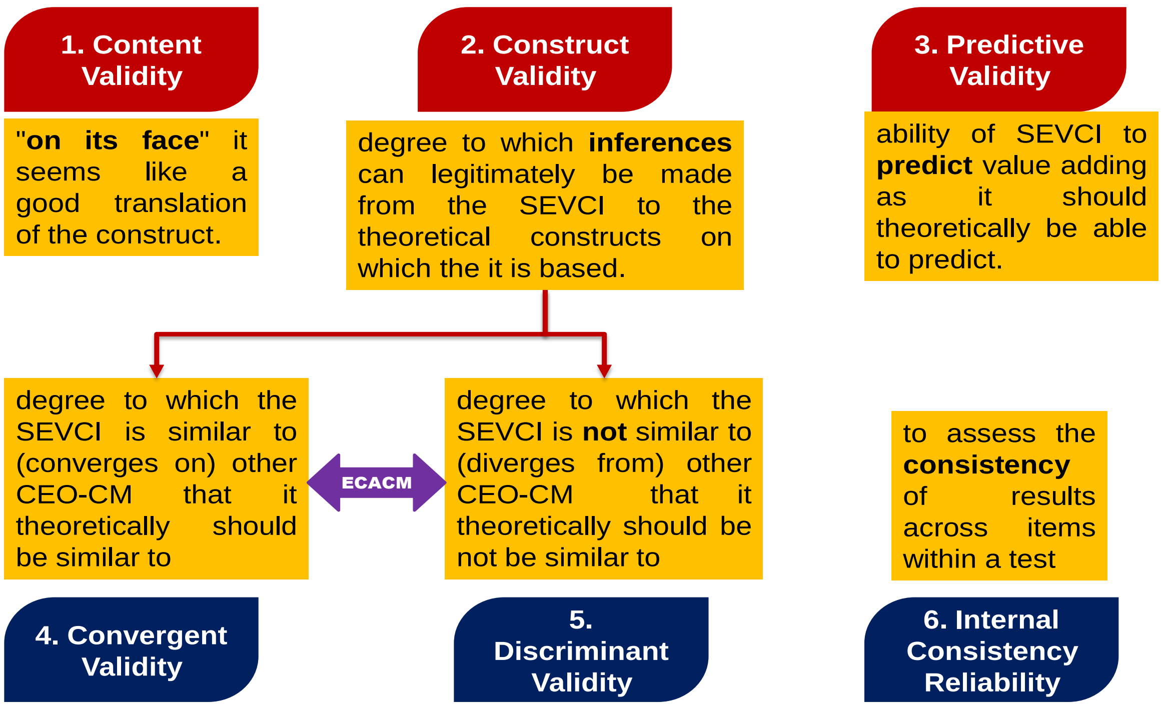

Figure 5.2: Quality of the quantitatively validated constructed competency *Octastellatus* model

5.2.1 Content validity

Content validity is defined as the extent to which a measure appears to the construct it is supposed to measure. It is a subjective assessment of the appropriateness of the measure for the desired construct. Two approaches are regarded for this validity, namely, face and sampling validity.

5.2.1.1 Face validity

This was achieved by the researcher's subjective assessment that the model measures the competences of CEOs for value creation.

5.2.1.2 Sampling validity

The extent to which a content population of situations and/or behaviours relates to the CEOs' value creating construct is adequately represented by the measure concerned. Both the sampling approach and the model construction through the questionnaire are regarded by the researcher to be suitably fit to assess the CEOs ability to create value.

5.2.2 Criterion validity

This refers to the extent to which the CEO competency model can be used to predict CEOs' score or behaviour regarding ability to create value in organisations. This is achieved by **examining** the relationship between the model and the ability to create value.

5.2.2.1 Predictive validity

This validity measures the extent to which current scores as attained by the competency model can predict the future scores of creation of positive economic value added in companies. This is arguably achieved in part through the methodological approach of the model construction. Unlike conventional approach of 'listing competencies' and then applying them, our approach looked at CEOs that have already created positive EVA, then created competencies from these executives and contrasted these competencies against **actual** company performance. Moreover, our approach verified these with independent CEOs who were not part of competencies development pool, both locally (JSE listed companies) and internationally (Executive Search Review companies). However, caution must be exercised when suggesting predictive ability of any model. Markus, Cooper-Thomas and Allpress (2005:117) caution that "there is scant evidence as yet to suggest that such *[competency]* models provide any incremental predictive validity".

5.2.3 Construct validity

This refers to the degree to which **inferences** can legitimately be made from the competency model to the theoretical constructs on which it is based. To achieve this, two considerations were made, namely, convergent and discriminant validity.

5.2.3.1 Convergent validity

The degree to which the competency model is similar to (converges on) other competency models that it theoretically should be similar to, or the extent to which the model is positively related to other measures of the same concept obtained by independent methods. This was achieved by assessing other CEO competency models by using the Evaluation Criteria for Assessing Competency Models as described by Brits and Veldsman (2014). The evaluation for our *Octastellatus* model is shown in Tables 5.10 to 5.13 below.

5.2.3.2 Discriminant validity

This refers to the degree to which the competency model is **not** similar to (diverges from) other competency models that it theoretically should be not be similar to, this was attained in the similar manner as the convergent validity. Figure 5.3 shows the evaluation framework.

Figure 5.3: Evaluation criteria for assessing competency models, Source: Brits and Veldsman (2014:4)

The evaluation regarding external coherence suggests that our model is believed to support the business strategy of creating positive economic value, for which it is designed. Even though organisations differ, our model is believed that it covers a broad spectrum of mostly generic and fundamental values in any organisation. In addition, when one looks at the people centred-ness competencies in particular, it is clear that the model strongly supports the people management framework. However, it is conceded that our research never focused on the complexity of any organisation; hence it is believed to be weak to being able to match the complexities of organisations.

Criteria	Very poor	Weak	Good	Excellent	Outstanding
External coherence	1	2	3	4	5
1. Support the business strategy.					X
2. Aligned to organisational culture and values.				X	
3. Fits into and support the people management framework.					X
4. It matches the requisite complexity of the organisation.		x			

Figure 5.4a: *Octastellatus* external coherence evaluation

As far as convergent and discriminant validities are concerned, it can be observed how it converges with YMCA CEOs model, public parks CEOs model, Egon model, KIPP model and Private foundations model. There is less convergence with the central bankers model, and accordingly it can also be observed how the model diverges from Maidique *et al*, RRA and Zuckerman. This is understandable because these present CEO competencies are not formulated in the similar fashion as the CEOs models that our model is similar to (see Figure 5.4b).

External coherence	*Octastellatus*	GCBCM	YMCA	Maidique et al	RRA	EGON	KIPP	Public Park CEO	Private Foundations	Zuckerman
Support the business strategy.	5	3	4	1	3	5	5	4	5	3
Aligned to organisational culture and values.	4	3	4	3	2	4	4	4	4	3
Fits into and support the people management framework.	5	3	2	1	2	5	5	2	3	2
It matches the requisite complexity of the organisation.	2	2	2	1	1	3	2	2	4	1

Figure 5.4b: Construct validity on external coherence

Regarding the internal coherence assessment, our model is believed to have a very high internal coherence. This is based on the thoroughness of research work and engagement of independent participants. The model is both logical and meaningful, not only common language is used but 'subject-relevant' language is also used. The model is very comprehensive, whether the model is up to date, it is argued that the model is 'up to date' to the period of development. Once it is developed, it can only be updated with time.

Criteria	Very poor	Weak	Good	Excellent	Outstanding
Internal coherence	1	2	3	4	5
1. Competencies form meaningful and logical whole.					X
2. Common language used.					X
3. Consistent formulation.					X
4. Comprehensive.					X
5. Up to date.			X		

Figure 5.5a: *Octastellatus* model internal coherence evaluation

Regarding validity (Figure 5.5b), it was expected that our model will converge with all the models, since this coherence deals with how the model is constructed. Our model converges with most with the 'clear' exception of Zuckerman where there is a divergence. All the models are weak to good with respect to the up to date criterion. This is acceptable given our interpretation of the model being up to date.

Internal coherence	*Octastellatus*	GCBCM	YMCA	Maidique et al	RRA	EGON	KIPP	Public Park CEO	Private Foundations	Zuckerman
Competencies form meaningful and logical whole.	5	5	3	4	4	4	4	3	4	2
Common language used.	5	4	5	5	4	5	5	5	4	5
Consistent formulation.	5	5	5	2	3	4	4	5	5	2
Comprehensive.	5	5	3	1	2	4	4	3	4	1
Up to date.	3	3	3	2	2	2	2	3	3	2

Figure 5.5b: Construct validity on internal coherence

The presentation on Table 5.12 deals with the model design requirements for the similar argument as the one regarding up to date, we accept that our model is based on good theory, 'best' theory in our opinion suggest that all the available theory has been consulted. However, due to the constraints of time it is not possible to consult all the theories. Secondly, the theory consulted is subject-specific. Nevertheless, this does not mean other theory of model development is not best, based on this assertion. We conclude that our model is based on good theory (the same applies for best practices). The argument on predictive validity is addressed under section 5.2.2.1. The internal consistency is discussed in detail in section 5.2.4. The competencies are defined behaviourally, which supports the notion that they can be developed and not personality driven. Given how competencies were developed, there is a 'clear' output expected from the competency in question. However, since we are unable to test if this output is achieved, we therefore consider the model to be good. The required level of proficiency for the ‘subject’ under assessment (that is, the CEO) is clearly indicated, however, the proficiency for the user of the model is not indicated, hence it is believed that the model is good.

Criteria	Very poor	Weak	Good	Excellent	Outstanding
Design requirements	1	2	3	4	5
1. Based on ‘best’ theory			X		
2. Construct and predictive validity				X	
3. Consistent and reliable use					X
4. Defined behaviourally					X
5. Output based				X	
6. Incorporates best practices			X		
7. Required level of proficiency indicated			X		

Figure 5.6a: *Octastellatus* model design requirements evaluation

Regarding validity (Figure 5.6b), there is a clear convergence with central bankers’ model, probably due to the intense nature of how these two models were developed. This also explains the divergence with other models since the development is either not known or not intensive.

Design requirements	*Octastellatus*	GCBCM	YMCA	Maidique et al	RRA	EGON	KIPP	Public Park CEO	Private Foundations	Zuckerman
Based on 'best' theory.	3	3	2	1	1	1	1	2	2	1
Construct and predictive validity.	4	5	1	1	2	4	2	1	2	1
Consistent and reliable use.	5	4	1	2	1	3	2	1	2	1
Defined behaviourally.	5	5	5	2	3	3	1	5	5	4
Output based.	4	4	3	2	2	5	2	3	3	2
Incorporates best practices.	3	4	3	2	2	2	2	3	3	1
Required level of proficiency indicated.	3	5	2	1	1	5	1	2	4	1

Figure 5.6b: Construct validity on design requirements

The final assessment criteria are about user requirements. Our model is regarded as weak for ease of use because the user needs to have at least an exposure to EVA and leadership. Apart from subject-specific literature, jargon has been avoided in the construction of the model. However, one of the weaknesses of the model is that there are too many competencies. Even though this is necessary for comprehensiveness, the model is both detailed and jargon-free. This can be argued that it is understandable. The face validity is detailed in section 5.2.1.1.

Criteria	Very poor	Weak	Good	Excellent	Outstanding
User requirements	1	2	3	4	5
1. Easy to use.		X			
2. Jargon free.				X	
3. Not too many competencies.		X			
4. Must be understandable				X	
5. Face validity.					X

Figure 5.7a: *Octastellatus* model user requirements evaluation

Finally, as will be expected, our model diverges with all other models because of its specificity regarding the outcome of the model (Figure 5.7b).

User requirements	*Octastellatus*	GCBCM	YMCA	Maidique et al	RRA	EGON	KIPP	Public Park CEO	Private Foundations	Zuckerman
Easy to use.	2	4	5	5	4	3	5	5	4	4
Jargon free.	4	4	5	5	4	5	5	5	4	4
Not too many competencies.	2	3	5	4	4	4	4	5	4	3
Must be understandable	4	5	5	5	4	4	4	5	4	3
Face validity.	5	4	2	2	2	3	4	2	4	2

Figure 5.7b: Construct validity on user requirements

5.2.4 Internal consistency reliability

Internal consistency describes the extent to which all the items in a test measure the same concept or construct and hence it is connected to the inter-relatedness of the items within the test (Tavakol and Dennick, 2011). Ritter (2010:6) states that "internal consistency coefficients estimate the degree in which scores measure the same concept." Accordingly, this was achieved by calculating a Cronbach's alpha to determine whether the measurement scale used during in the survey questionnaire can be regarded as reliable. The alpha is calculated by using the formula

$$\alpha = \frac{k \;\; x \;\; \bar{c}}{\bar{v} + (k-1)\bar{c}}$$

Where

- k refers to the number of scale items
- $\bar{c}$ refers to the average of all covariances between items
- $\bar{v}$ refers to the average variance of each item

Finally, George and Mallery (2003:231) provide the following rules of thumb for interpretation of alpha:

- ***Excellent*** the value that is **≥ 0.9**;
- ***Good*** the value that is **≥ 0.8**;
- **Acceptable** the value that is **≥ 0.7**;
- ***Questionable*** the value that is **≥ 0.6**;
- ***Poor*** the value that is **≥ 0.5**; and
- ***Unacceptable*** the value that is **≤ 0.5**.

Cronbach alpha results are displayed in Table 5.1 for the components of the model. The results show good to excellent levels of internal consistency for the questionnaire developed as a foundation to competency model. However, this excludes general business; developing employees; customer orientation; independence and organisation sensitivity all with the coefficient that is acceptable (0.7).

Table 5.10: Octastellatus model Cronbach alpha results

INTERNAL CONSISTENCY RELIABILITY: CRONBACH ALPHA		
1st Component: Leadership Agility - Those competencies and capabilities that look at the leader's ability to operate holistically as a thinking, feeling and action leader	**Cronbach Alpha**	**No. of Items**
A. Cognitive Leadership	0.85	14
B. Emotive Leadership	0.79	21
C. Action Based Leadership	0.96	11
2nd Component: Financial intelligence - Those competencies and capabilities that assess the leaders ability to optimise company's revenue; pursue innovative investments; ensure operational and financial efficiency and lowers the cost of capital for the company	**Cronbach Alpha**	**No. of Items**
A. Revenue Optimisation	0.75	16
B. Investments	0.99	10
C. Operational Efficiency	0.93	12
D. Cost of Financing	0.90	7
3rd Component: Business Intelligence - Those competencies and capabilities that promote the business and focus on competitive and leading practices and experiences	**Cronbach Alpha**	**No. of Items**
A. General business	0.70	32

B. Competitive practices	0.84	21
C. Global business	0.92	14
4th Component: African Intelligence - Those competencies and capabilities that promote the African philosophy in attaining long-term sustainability, especially when the company is operating in one or more countries in Africa	**Cronbach Alpha**	**No. of Items**
A. Self-Reliance	0.99	19
B. Self-Reflection	0.78	20
C. Self-Empowerment	0.88	13
D. Collective Wisdom	0.76	11
E. African Consciousness	0.99	17
F. African Identity	0.88	10
G. African Bravery	0.89	13
5th Component: People Centeredness - Those competencies and capabilities that put people at the centre of leader-company success	**Cronbach Alpha**	**No. of Items**
A. Organisational	0.86	28
B. Leadership of Teams	0.78	8
C. Coaching	0.99	12
D. Developing Employees	0.70	14
6th Component: Organisational Capabilities - Those competencies and abilities that focus attention of company-wide operational capabilities	**Cronbach Alpha**	**No. of Items**
Organisational Savvy	0.88	35
7th Component: Personal Drivers - The personal motivators that serve a burning light and engine to get the leader moving and focused	**Cronbach Alpha**	**No. of Items**
Personal drivers	0.90	37
8th Component: Ethics Principles - Those competencies and principles that ensure that the leader is committed to high moral standards in the organisation	**Cronbach Alpha**	**No. of Items**
A. Sustainability	0.88	10
B. Ethics governance	0.998	6

10th Component: Competitive Competencies - 10 competencies and capabilities that are believed to give the leader the edge to be on top of his/her game and peers in driving the company towards long-term value creation and sustainability	Cronbach Alpha	No. of Items
A. Adaptability	0.99	19
B. Business Orientation	0.88	13
C. Results Orientedness	0.77	11
D. Customer Orientation	0.71	17
E. Forming Judgment	0.98	12
F. Independence	0.74	10
G. Negotiating	0.90	15
H. Organisation sensitivity	0.73	15
I. Political Sensitivity	0.99	12
J. Vision	0.86	13

5.3 Statistical analysis for quantitative results

It has been reported earlier that two samples were partly utilised as a form of triangulating, to ascertain if the two samples will come to the similar findings. Sample A was mainly used to verify the index and was engaged in more than one round, while Sample B was only engaged once mainly to ‘confirm’ the results obtained from sample A. The results on descriptive statistics are provided on Table 4. 11.

Table 5.11: Descriptive statistics

	Sample A	***Sample B***
Mean	1.99	2.71
Standard Error	0.06	0.08
Median	1.88	2.38
Mode	1.88	4.00
Standard Deviation	0.89	1.27
Sample Variance	0.80	1.61
Kurtosis	1.82	-1.20
Skewness	1.43	0.50
Range	4.75	4.25
Minimum	0.25	0.75
Maximum	5	5
Sum	480.27	653.43
Count	241	241
Largest(1)	5	5
Smallest(1)	0.25	0.75
Confidence Level (99.0%)	0.15	0.21

Interpreting skewness and kurtosis

Skewness quantifies how symmetrical the distribution is, the results show that both samples data reflect a positive skewness of data with sample A being more skewed. This means that the results distribution is far from symmetrical (skewness is greater than 1.0), while Sample B distribution is close to symmetrical.

Kurtosis quantifies whether the shape of the data distribution matches the Gaussian distribution. Sample B has a flatter distribution given the negative kurtosis, while Sample A has a more peaked distribution with a positive kurtosis. We then conducted the F-test to test for equality in variability between the samples.

Table 5.12: F-Test to test for variability

F-Test Two-Sample for Variances		
	2.38	*1.42*
Mean	1.99	2.72
Variance	0.80	1.61
Observations	240	240
Df	239	239
F	0.498	
P(F<=f) two-tail	0.0000001	
F Critical one-tail	0.739	

In order to use this test, the following assumptions are observed:

- Both populations are normally distributed;
- Both samples were drawn independently from each other; and
- Within each sample, the observations are sampled randomly and independently of each other.

We tested the following null hypothesis:

- H_0: $\sigma_A - \sigma_B = 0$ (equivalently: $\sigma_A = \sigma_B$; i.e. both methods have the same variability)

Conclusion: if F < F Critical one-tail (table 5.15), we cannot reject the null hypothesis (α = 0.01). This is the case, 0.498 < 0.739. Therefore, we accept the null hypothesis, thus meaning that the variances of the two samples are equal. The next test conducted was the t-test in order to determine whether there is any difference between the means of two groups within the study. Moreover, it is necessary to report that Sample A was selected independent of Sample B. T-test assuming equal variance (F-test confirmed) was then conducted to test the following null hypothesis:

- **H_0: $\mu_A = \mu_B$**

Table 5.13: T-test results

t-Test: Two-Sample Assuming Equal Variances		
	2.375	*1.417*
Mean	1.99	2.72
Variance	0.80	1.61
Observations	240	240
Pooled Variance	1.204400286	
Hypothesized Mean Difference	0.73	
Df	478	
t Stat	-14.52823809	
P(T<=t) one-tail	0.00000000	
t Critical one-tail	2.33417438	
P(T<=t) two-tail	0.00000000	
t Critical two-tail	2.58615375	

When the sample variances are known, hypothesis testing can be done using a normal distribution. It was the found that t_{obs} = -14.5, and this is less than 2.59 (t-critical), stated differently, p-value = 0.00000000 < .01 = α. On the strength of this finding, we retain the null hypothesis as there are no basis to reject it; we are therefore 99% confident that any difference between the two groups is due to chance. The t-test is quite a robust test even when the underlying distributions are not normal provided the sample size is sufficiently large (usually over 25 or 30). The t-test can be valid even with smaller sample sizes, provided the samples have similar shape and are not too skewed. Based on this observation, we can conclude that the differences in means are due to chance and can therefore be treated as equal. There are no grounds to suggest that Sample B relatively higher reported means are material compared to those of Sample A (Table 5.13).

5.4 Sustainable economic value competencies index (SEVCI) construction: more than a competency model

5.4.1 Introduction to index construction

An index is defined by Investopedia (n/d) as a numerical (1) **measure of change** usually expressed in terms of a change from a base value. Hence, the percentage change is more important than the actual numeric value. While online business dictionary defines an index as a statistical device which (2) **summarises a collection of data** in a single base figure. This composite figure serves as a benchmark for measuring changes in quantity data over a period (month, quarter or year). Finally, Lo (2015) expressed the index functionally in that an index should provide an (3) **aggregate measure of [*expected*] performance** that abstracts from the vicissitudes of individual components and should serve as a (4) **standard** against which active managers can be compared. In constructing the competency index from the competency model, these four elements were critical and therefore incorporated in the construction process.

In order to assign competency levels for SEVCI a BIM Framework for Individual Competency Index (ICI) was adopted. ICI measures both conceptual *knowledge* (referred to as **knowledge**) and *procedural knowledge* (referred to as **skill**) which are needed by executives to perform a value creating. The ICI identifies five *competency levels* (0-4):

- **Level 0** (*none*) denotes a lack of competency;
- **Level 1** (*basic*) denotes an understanding of fundamentals and some initial practical application;
- **Level 2** (*intermediate*) denotes a solid conceptual understanding and some practical application;
- **Level 3** (*advanced*) denotes significant conceptual knowledge and practical experience in performing a competency to a consistently high standard; and
- **Level 4** (*expert*) denotes extensive knowledge, refined skill and prolonged experience in performing a defined competency at the highest standard.

The index also identifies two *competency divides*: the *learning divide* separating level 0 from level 1, and the *time/repetition divide* separating level 3 from level 4. This is shown in Figure 5.8 below.

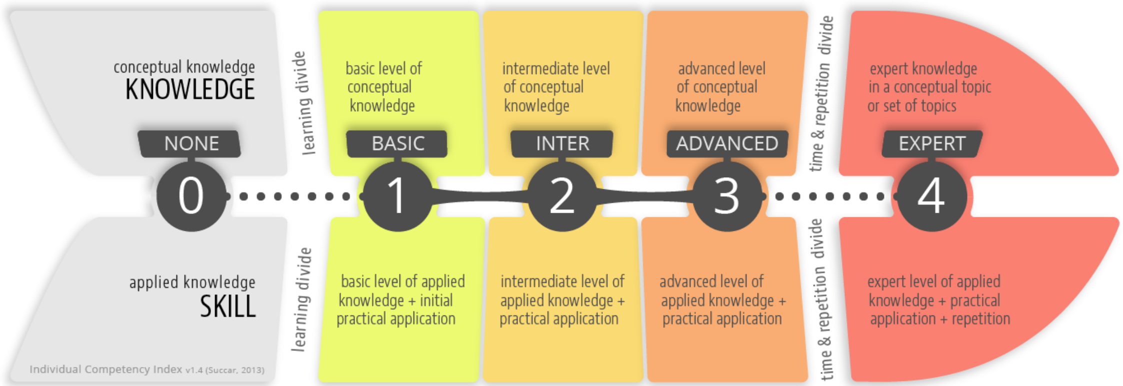

Figure 5.8: BIM Framework index calibration

The findings and the construction of the competency index in this study are also in line with that of Brownell (2006) who developed the competency framework for global leadership and provides four broad categories for competencies, namely;

- human resources competencies, that are argued to make strong contribution to organisation’s competitive advantage and value creation,
- academic programme activities that are critical to assess educational needs;
- common competencies that are regarded as the building blocks expected from many learners; and
- distinctive competencies that direct the application of common competencies.

The results from the second round of Delphi suggested that in order to develop an insightful index, it is necessary to cluster the categories of competencies identified in this study.

The **four clusters** are as follows:

- The sum of averages of first component (leadership agility), second component (financial intelligence) and fifth component (people centeredness), this is further named the **core competencies** and in the index construction is denoted by $C_{w;}$
- The second cluster is the sum of averages of third component (business intelligence), six component organisational capabilities), seventh (personal drivers) and eighth (ethics principles) components, this is collectively labelled **enabling competencies** and is denoted by C_x;
- The fourth component (African intelligence) came about as a results of assertion by CEOs (during interviews) that African businesses need to do business differently and not only rely on 'imported' Western approaches, this was later labelled **differentiating competencies** and is denoted by C_y;
- Tenth component comprise of ten capabilities that are believed to be necessary in setting one executive apart from the rest, this is named **competitive competencies** and is denoted by C_z on the index; and
- Value Adding Attributes: while attributes were also found to be necessary to possess by CEOs, a consensus was reached.

The second consensus regarding the index construction was the weighing the clusters. Given the varying importance of these competencies in the context of EVA, the above-mentioned clusters were given the range of weights as follows:

- β_1, for the cluster C_w and the range for this weight is $0.30 \leq \beta_1 \leq 0.60$;
- β_2, for the cluster C_x and the range for this weight is $0.20 \leq \beta_2 \leq 0.30$;
- $\beta_{3,}$ for the cluster C_y and the range for this weight is $0.20 \leq \beta_3 \leq 0.30$; and
- β_4 for the cluster C_z and the range for this weight is $0.10 \leq \beta_4 \leq 0.20$.

The third consensus was that competencies can be developed over time, and therefore it is regarded as necessary to incorporate the element of time while constructing the index. This is also in line with the assertion that an index should serve as a benchmark for measuring changes in quantity data **over a period**. The framework that served as a basis for the index construction is shown in Figure 5.9. The naming of our index Sustainable Economic Value Competencies Index is inspired by the work of Bardy and Massaro (2013) and Ang and Van Passel (2010) who presented work on SVA as a function of profits; cost of capital employed in economic resources; cost of capital employed in ecological resources; and cost of capital employed in social resources. This study has been able to incorporate all these elements and in addition incorporated what we can refer to as cultural cost of capital as reflected by African intelligence.

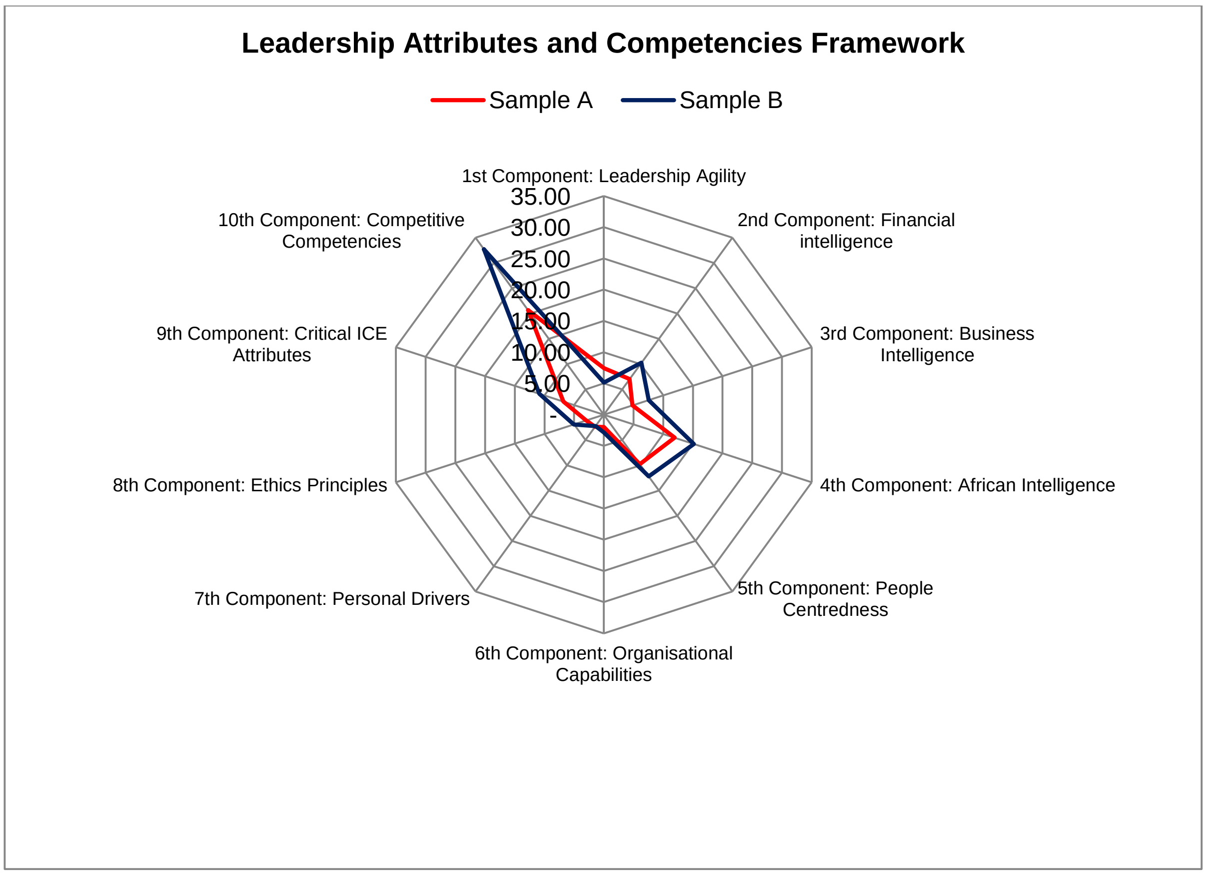

Figure 5.9: Value creating competency components

5.4.2 SEVCI Core competency presentation

Given the findings with special attention to each cluster, core competencies ($SEVCI_w$) comprising of leadership agility, financial intelligence and people centredness are shown in Figure 5.10 and Table 5.14 respectively and denoted by:

$$\beta 1 \sum_{t=0}^{n} [Cwt]$$

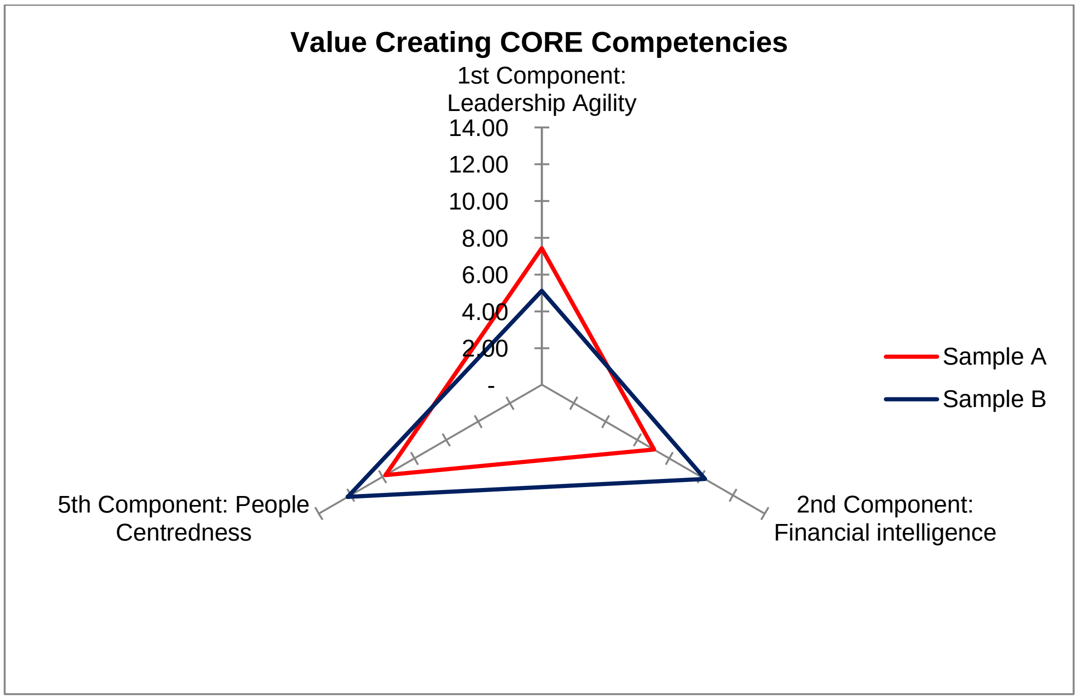

Figure 5.10: SEVCI core competencies cluster **Source: Study results**

This form of construction allows for a focused attention per cluster of interest. As indicated earlier, competencies will then be assessed on a scale from level 0 to level 4.

Table 5.14: SEVCI core competencies cluster

CORE COMPETENCIES					
1st Component: Leadership Agility – Those competencies and capabilities that look at the leader's ability to operate holistically as a thinking, feeling and action leader.					
Competency	**0**	**1**	**2**	**3**	**4**
A. Cognitive Leadership					
B. Emotive Leadership					
C. Action Based Leadership					
2nd Component: Financial intelligence – Those competencies and capabilities that assess the leader's ability to optimise company's revenue, pursue innovative investments, ensure operational and financial efficiency and lowers the cost of capital for the company					
Competency	**0**	**1**	**2**	**3**	**4**
A. Revenue Optimisation					
B. Investments					
C. Operational Efficiency					
D. Cost of Financing					
5th Component: People Centeredness – Those competencies and capabilities that put people at the centre of leader-company success					
Competency	**0**	**1**	**2**	**3**	**4**
A. Organisational					
B. Leadership of Teams					
C. Coaching					
D. Developing Employees					
Total scores					
Total average					
Weighted average					
Period of interest (t)					

5.4.3 SEVCI Enabling competency presentation

Enabling competencies (SEVCI$_x$) comprising of business intelligence, organisational capabilities, personal drivers and ethics principles components are presented in Figure 5.11 and Table 5.15 respetively and denoted by:

$$\beta 2 \sum_{t=0}^{n} [Cxt]$$

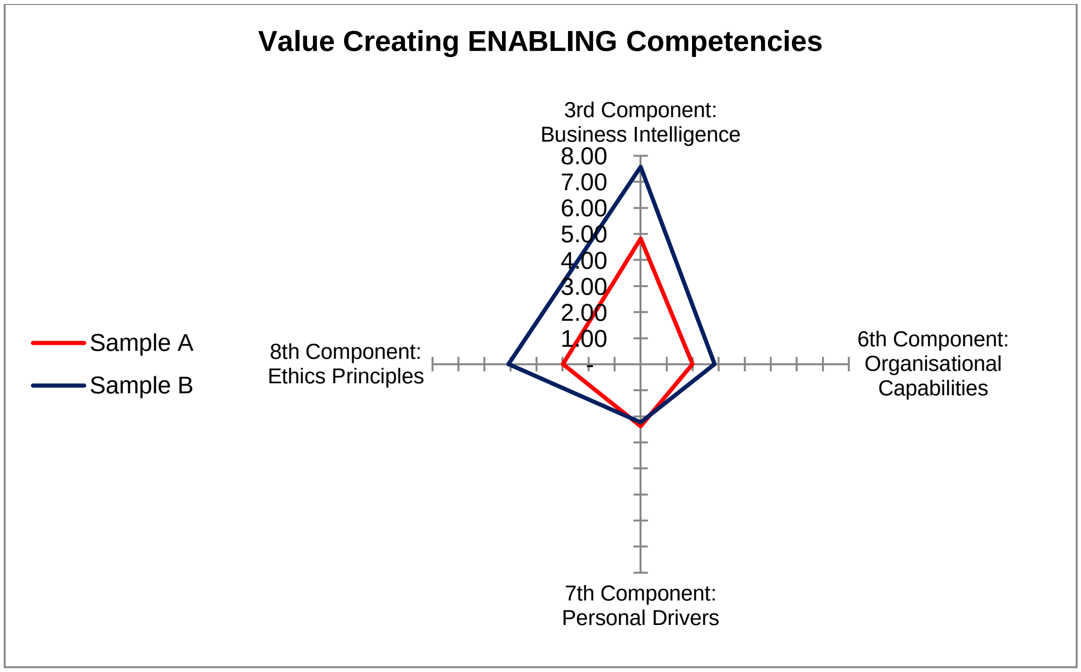

Figure 5.11: SEVCI enabling competencies cluster **Source: Study results**

Table 5.15: SEVCI enabling competencies cluster

ENABLING COMPETENCIES					
3rd Component: Business Intelligence - Those competencies and capabilities that promote the business and focus on competitive and leading practices and experiences.					
Competency	**0**	**1**	**2**	**3**	**4**
A. General business					
B. Competitive practices					
C. Global business					
6th Component: Organisational Capabilities - Those competencies and abilities that focus on company-wide operational capabilities.					
Competency	**0**	**1**	**2**	**3**	**4**
Organisational savvy					
7th Component: Personal Drivers - The personal motivators that serve a burning light and engine to get the leader moving and focused.					
Competency	**0**	**1**	**2**	**3**	**4**
Personal drivers					
8th Component: Ethics Principles - Those competencies and principles that ensure that the leader is committed to high moral standards in the organisation.					
Competency	**0**	**1**	**2**	**3**	**4**

A. Sustainability					
B. Ethics governance					
Total scores					
Total average					
Weighted average					
Period of interest (t)					

5.4.4 SEVCI Differentiating competency presentation

Differentiating competencies ($SEVCI_y$) comprising of all the elements of African intelligence a concept related to a manner of leveraging indigenous African approaches in doing business are presented in Figure 5.12 and Table 5.16 respectively and denoted by:

$$\beta 3 \sum_{t=0}^{n} [Cyt]$$

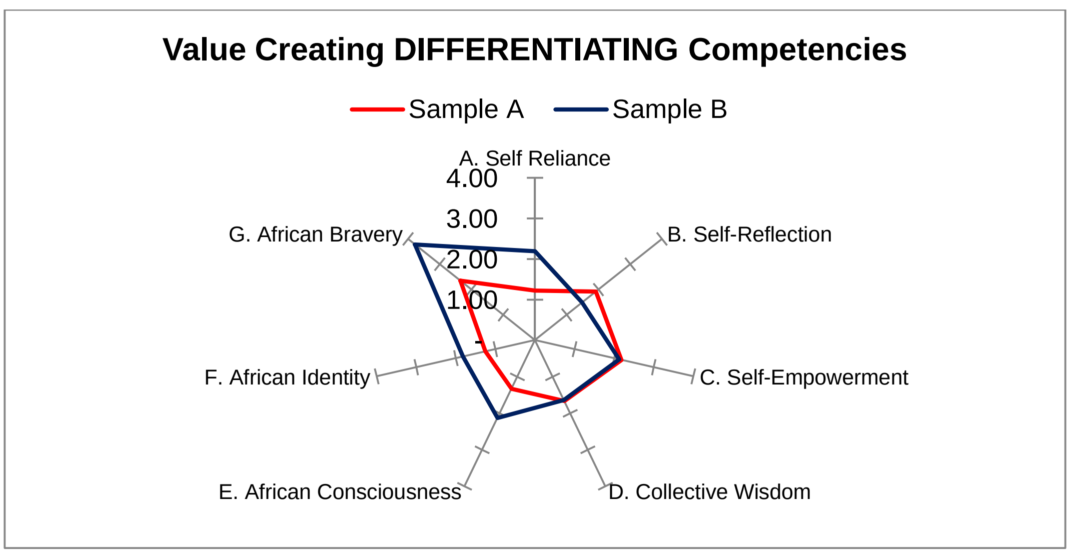

Figure 5.12: SEVCI differentiating competencies cluster **Source: study results**

Table 5.16: SEVCI differentiating competencies cluster

DIFFERENTIATING COMPETENCIES					
4th Component: African Intelligence - Those competencies and capabilities that promote the African philosophy in attaining long-term sustainability, especially when the company is operating in one or more countries in Africa.					
Competency	**0**	**1**	**2**	**3**	**4**
A. Self-Reliance					
B. Self-Reflection					
C. Self-Empowerment					
D. Collective Wisdom					
E. African Consciousness					
F. African Identity					
G. African Bravery					
Total scores					
Total average					
Weighted average					
Period of interest (t)					

5.4.5 SEVCI Competitive competency presentation

Competitive competencies ($SEVCI_z$) comprising 10 competencies are presented in Figure 5.13 and Table 5.17 respectively and denoted by:

$$\beta 4 \sum_{t=0}^{n} [Czt]$$

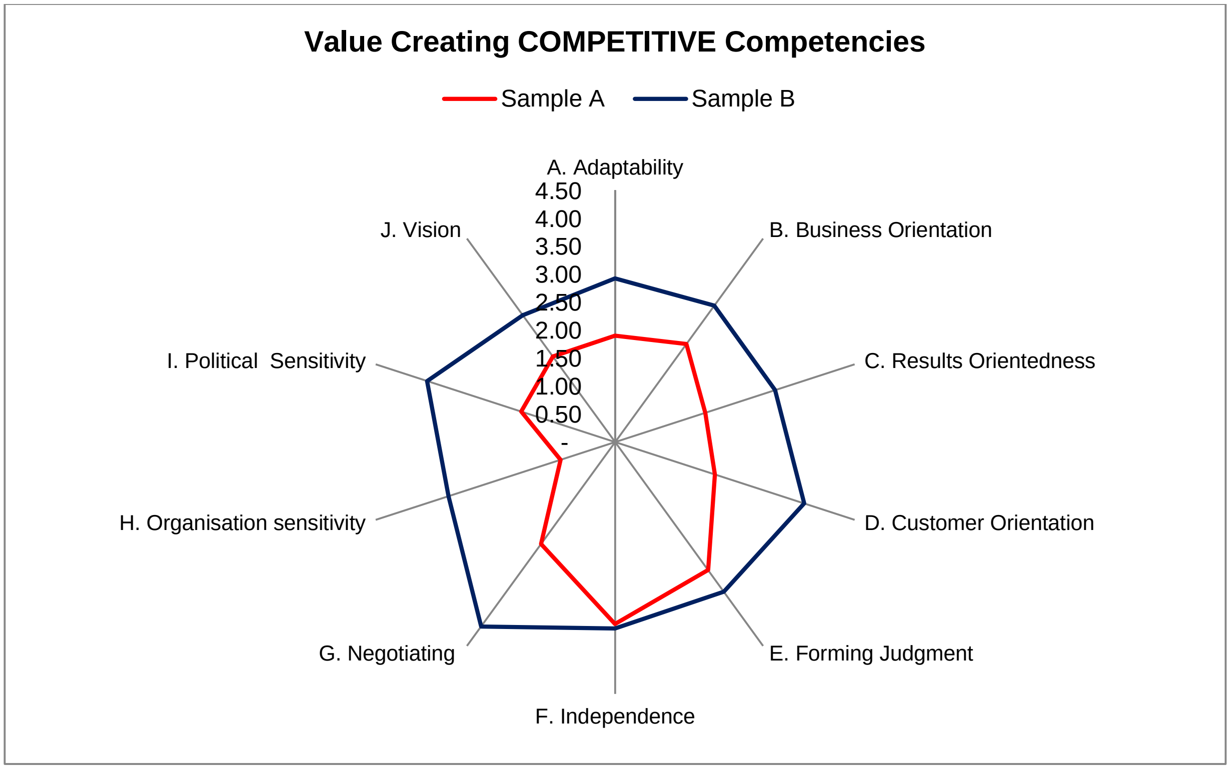

Figure 5.13: SEVCI competitive competencies cluster **Source: study results**

Table 5.17: SEVCI competitive competencies cluster

COMPETITIVE COMPETENCIES					
10th Component: Competitive Competencies - Ten (10) competencies and capabilities that are believed to give the leader the edge to be on top of his/her game and peers in driving the company towards long-term value creation and sustainability.					
Competency	**0**	**1**	**2**	**3**	**4**
A. Adaptability					
B. Business Orientation					
C. Results Oriented-ness					
D. Customer Orientation					
E. Forming Judgment					
F. Independence					
G. Negotiating					
H. Organisation sensitivity					
I. Political Sensitivity					
J. Vision					

Total scores					
Total average					
Weighted average					
Period of interest (t)					

5.4.6 Sustainable Economic Value Competencies Index (SEVCI)

In satisfying what Lo (2015) argued, that is, that an index should provide an **aggregate measure of performance,** the clusters above are aggregated and the index is presented as the sum of weighted averages of the four competency clusters shown in Figure 5.14 and mathematically presented as:

$$f(sevci) = \sum . \left[\beta 1 \sum_{t=0}^{n} [Cwt], \beta 2 \sum_{t=0}^{n} [Cxt], \beta 3 \sum_{t=0}^{n} [Cyt], \beta 4 \sum_{t=0}^{n} [Czt] \right] + \varepsilon$$

Equation 25

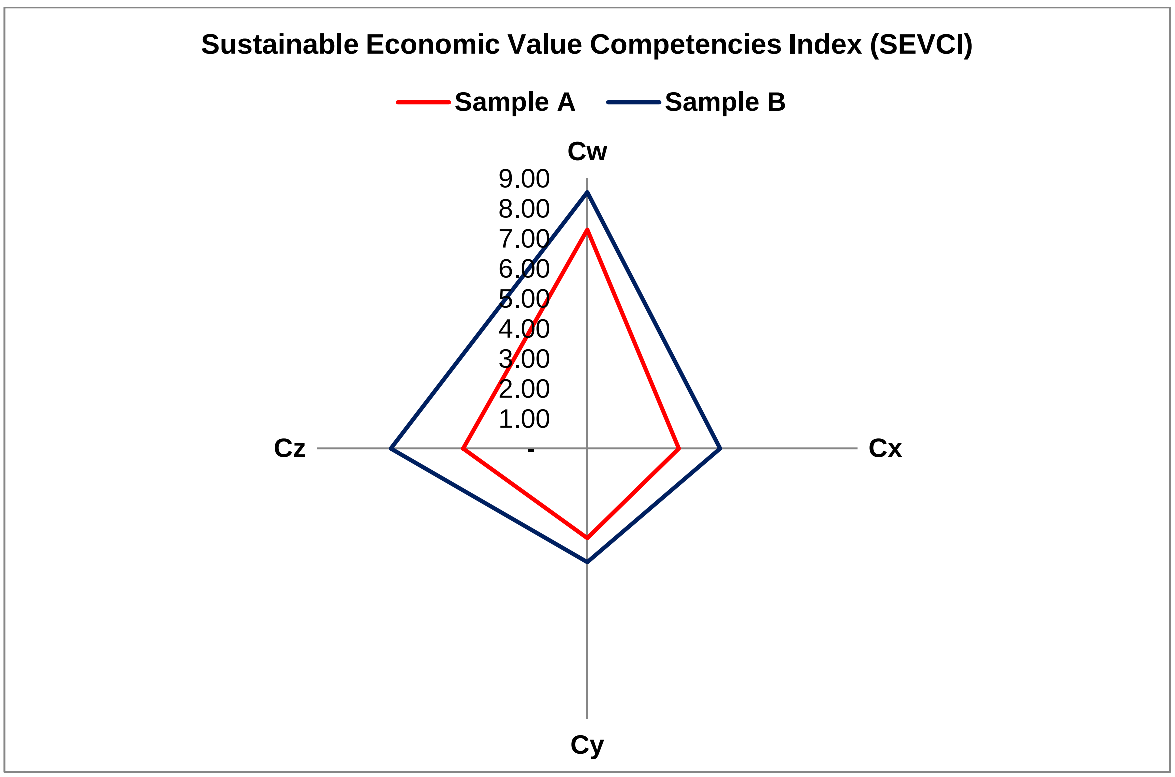

Figure 5.14: SEVCI chart Source: Study results

SEVCI highlights the fact competencies are not necessarily always equal in both value and importance. This assertion is in line with that of Ennis (2008:8) who states that "some competencies are more important or essential than other for a position." By applying the weights, this supports that view of inequality in competencies. This approach is also supported by Sengupta, Venkatesh and Sinha (2013). For example, the SEVCI construction clearly indicates that core competencies cluster is more important (heavily weighted) in the context of EVA influenced index. SEVCI construction approach is supported by Senguputa *et al*. (2013) who focused on competency identification, competency scoring and aligning competency with other strategic functions, while creating what they refer to as 'performance-linked competency model'. The model was developed in a three-phase systematic method which they argued will consequently help the organisation to sustain competitive market position. Senguputa *et al*.'s (2013) approach also shows the limitations of this study, which provides the opportunity for future research. They have shown the validation of their competency model by using data envelopment analysis (DEA), cross-efficiency DEA, and rank order centroid (ROC) methods to align individual performances and their competencies in terms of efficiency. Similarly, Ryan *et al.* (2012) report that competency models can be validated in a number of ways including:

- Concurrent validation studies – those statistical tests that determine whether competencies currently correlate with strategic and critical variables of the organisation. For example, can specific competencies be correlated with current outcome variables such as current profit levels of business units? Although this argument is very relevant, it is however, beyond the scope of this study and again presents a fertile ground for future research.
- Cross-validation or cross-cultural validation – this tests whether specific competencies that forecast success (however, this is defined, in the context of this study, it will be creation of positive EVA) and differentiate in one sample also predict success and differentiate in another sample.

5.5 Conclusion

In this chapter, the study model *Octastellatus* CEO Competency model was presented and discussed. In addition, all the components of the model were also presented. From the competency model, the competency index SEVCI was also presented. The index has four clusters, namely; the core competencies, enabling competencies, differentiating competencies and competitive competencies. The index measure is presented as the sum of weighted averages of the four clusters.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

6.1 Competencies for value creation

This study was conducted in order to address the gap in the literature that omits assessment of value creating capabilities in executives (CEOs) as measured by EVA and yet shareholders (or their representatives) expect these CEOs to be able to create economic value in organisations. In addition, CEOs were or are not only expected to create positive EVA in their companies, but are equally compensated based on the EVA created in companies. The main argument for these observations has been that EVA as a financial measure forces executives to behave and act like shareholders because they are rewarded (penalised) based on value created (eroded).

It was based on this observation that our study proposed that there should be EVA-linked competencies that can be identified and be measured from business leaders that are distinctive in enabling executives to create economic value for their shareholders. The components of EVA as a financial metric were adopted as consisting of revenue optimisation (including income diversification); operational efficiency (including cost and revenue efficiency); financial leverage; firm assets size and a decrease in market risk exposure. Based on this assertion, the study adopted the formula for EVA that expands the cost of capital on the basis of firm size, market capitalisation, whether the firm is a resource stock or non-resource stock and finally, whether the firm is a growth or a value stock.

The study presented two unique findings. The first finding was the development of the CEO competency model that we call *Octastellatus* model. The model is unique in the EVA literature in that it incorporates business elements that are traditionally not regarded as critical for EVA and finance literature. The model refutes the conventional wisdom that claims that there are hard issues (usually finance) and soft issues (people and processes related) in business, specifically when relating to financial measures like EVA. On the contrary, we conclude that value creation is a holistic process that requires competencies that are not only of finance in nature. These findings were able to achieve the objective of identifying the competencies that can be linked to EVA.

Unfortunately, like other competency model, the *Octastellatus* model displays the same weaknesses; for example, having too many competencies that are not integrated, assuming that each competency or a cluster of competencies exist in isolation. The other common weakness with competency models is that there is no linked measurement unit per competency. It is on the strength of this observation that our study developed the competency model into an index in a four-fold process that is shown in Figure 6.1. Firstly, the competencies were clustered, then given a collective name for the cluster. Then weights were allocated per the cluster and finally, it was concluded that each competency cluster can be measured over time.

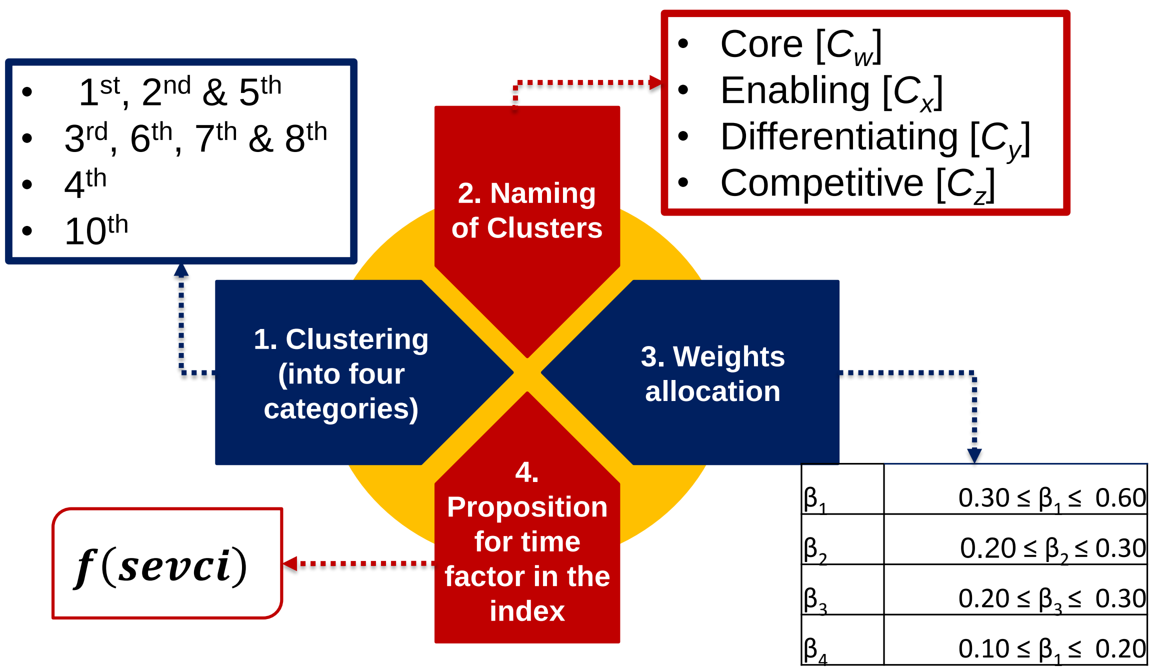

Figure 6.1 Index construction process

This approach addressed one of the criticisms of the competency models in that they seem to focus on _identifying an inventory of competencies that executives possess, without looking at how these competencies interact_ with each other to create a desired superior performance. The development of **SEVCI** addressed this shortcoming by being able to group the competency into four clusters, thus establishing related interaction between otherwise competencies that looked not related. For example, as was argued earlier, business theory for years has suggested that issues like leadership and people management are ‘soft’ issues and financial subjects are ‘hard’ issues in business management. Our study is providing a different view and probably a new thinking in that the index found that competencies that are core to value creation are financial, leadership and people-oriented competencies. Based on this observation we can conclude that the ability to create value in organisation is a function of possessing leadership competencies, ability to display high levels of financial intelligence and ability to display people-centred behaviour and attitude. Finally, leadership is not ‘soft’ anymore but a very ‘hard and core’ competency if executives are to create value.

One of the shortcomings of competency models reported in the literature is that it is possible that *executives who really excel in their organisations can rarely identify what makes them successful*. On the contrary, the executives engaged in this study were able to the most part to articulate what they regard as important in ensuring sustained value creation. In many cases, executives’ opinions were corroborated by the financial results of their respective companies and the literature. It is acknowledged that the sample in our study is very small to the point where we could argue that this was a comparative study of two companies. This weakness, we believe, was mitigated by the follow-up quantitative participants who had an opportunity to negate the identified competencies. Based on this observation, we can conclude that executives do know what make them successful, rather, they might not be willing to share their success strategies. Arguably, this is what they regard as their competitive advantage.

The third shortcoming levelled against competency models is that they assume a ‘*one size fits all approach’*. While we are not able to empirically negate this assertion, we oppose this view because competency models like the SEVCI developed in this study should be used as '**one of the tools'** in the baskets of tools while assessing executives. For example, SEVCI can be used as one of the *selection or screening* modalities during the process of executive recruitment (external use) or as one of the tools during the *executive readiness/development* (internal use) process, but it cannot be the only tool relied upon. Our study can conclude that creating value in an organisation is more than looking at the numbers. For CEOs to create a long-lasting and sustainable value, there needs to be a holistic approach to value creation, including, financial capability, leadership capability, concern for people, ethical considerations and being conscious to African way of conducting business. To achieve this, we have been able to develop an index that can be used as a tool for assessing value adding capabilities. Our findings establish a relationship between the components of EVA and competencies (see Figure 5.1) below.

6.2 Implications for theory and business

The implications for business are:

a. Availability of additional recruitment screening tool

SEVCI serves as an additional tool in the basket of selection and recruitment basket of assessment tools. While it should not be used in isolation, SEVCI specific orientation towards value creation in organisation should be welcomed as a focused measurement tool that incorporates both traditionally soft and hard issues in one measurement. This further adds value to the existing literature on the possible applications of EVA. The findings on this study do not propose any changes to the EVA measurement, rather explore other areas that both practitioners and academics can focus attention on when considering application of EVA.

b. Executive readiness and personal development assessment

Creating value in organisations is not only necessary when considering attraction strategies in organisation. SEVCI also serves as an internal tool that management can utilise for issues like succession planning and executive readiness programmes. In addition, a focused development programme can be drawn based on areas that show the need for such attention as per various clusters of the index.

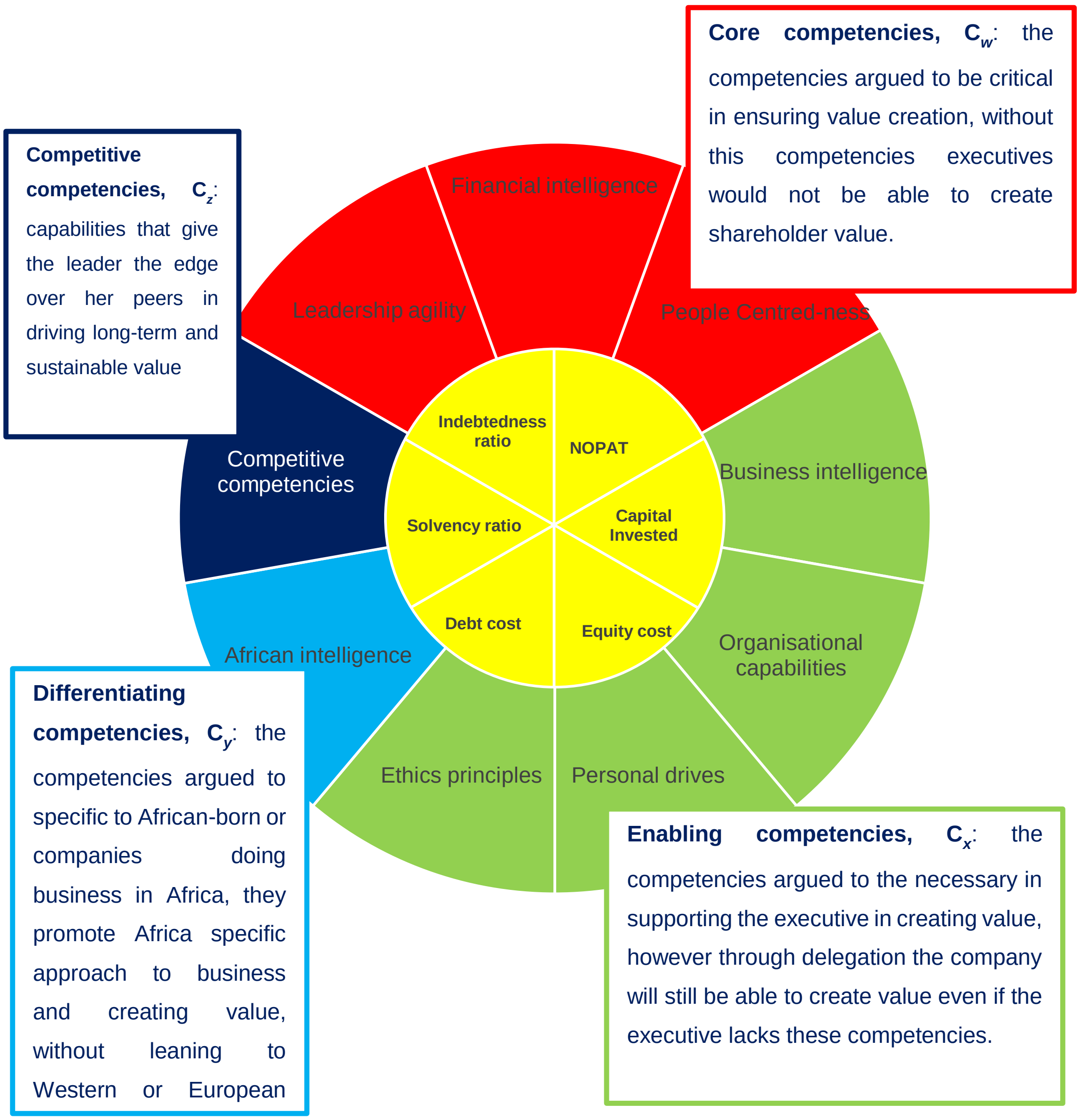

Figure 6.2: SEVCI-EVA relationship

c. *Africanisation* of theory of value creation

The African intelligence of either the model or the index infuses new thinking to the theory and conceptualisation of executive leadership and value creation. The study presents a unique ingredient to indigenous knowledge and value creation. Organisations can in particular pay attention to the role of indigenous knowledge and how this might contribute towards the creation of value in respective organisations.

6.3 Limitations and weaknesses

While conducting this study there were a number of limitations that arguably made this study 'not perfect'. Firstly, methodological limitations included access to CEOs. This is the challenge that was highlighted early in the study as a potential impediment to conducting this research. The field observation is that this problem starts with the 'gatekeepers', namely; the CEOs' office assistants. In most occasions, the conversation never progressed beyond them. Different approaches to get access to CEOs were instituted, including: telephone means like calling the company call centre, followed by calling the office of the CEO; when this failed calling the company secretary. This form of establishing contact was found to be the most 'worthless' as none of the CEOs contacted in this form were ever found. The other method that was used to gain access to CEOs is by electronic mail (e-mail). Through this method of establishing contact there were some positive responses that led to potential access to CEO. Unfortunately, some CEO preferred that the list of questions be sent to them and they will then respond to them. This approach could not be used for two reasons: firstly, no set or structured questions were available to be send and this will not allow for interaction; secondly, this will have undermined the study credibility and confirmability of results. The method that was found usable was the face-to-face meeting with the

CEO, then set the meeting for interview. Noble as it sounds, the challenge with this approach is that one does not always walk-on to CEOs. The successful encounters took place during the companies' annual results presentations. Unfortunately, one 'must' be invited to these events provided one is a member of the analysts society. The second limitation observed is that of resources, in particular time and finances. The limitations of time could not allow for investing efforts in increasing the sample size for the CEOs, robustness check and predictive ability of the index. The third limitation referred to the lack of prior research in the study area. It became impossible to compare the findings of this study to any other study. The study has laid the foundation for interesting work both in the areas of finance and leadership.

6.4 Future research

Future studies can determine firstly, the predictive ability of the index and determine the robustness of the index by using multiple assessors over a period of time. Secondly, future research work can determine what areas of EVA are impacted by these competencies and how these EVA areas are impacted. Thirdly, studies might also aim to determine if whether the weights utilised are applicable across industries, or specific industries have differing weights. The forth potential area of future studies might duplicate the study across a broad range of CEO to determine whether the same competencies will be found.

6.5 Conclusion

a. Motivation and objectives of the study

Value creation remains a cornerstone of any organisation for a sustained existence. Equally important, is the role played by executives and CEOs in particular in ensuring that organisations create value and satisfy the needs of all relevant stakeholders. The study was conducted based on the observation that some companies adopt the EVA as the compensation tool for CEOs performance, either good (reward or bonuses) or bad (penalties). It was however, worrisome to note that even those companies that have adopted EVA is a preferred measuring tool do not seem to utilise a utilise a tool during recruitment process of CEOs that is informed by EVA. It was on the strength of this observation that the study adopted the following objectives:

- Identifying the key competences that can be linked to EVA;
- Provide a categorisation of these value creating competences;
- Distinguish the relationship(s) of these competencies with the EVA components; and
- Construct the weights for the identified competencies.

The study aimed to propose and develop a screening Value Creating Competencies Index, which is based on the components of or influenced by EVA.

b. Research design

Mixed methods approach aims to provide the researcher with an approach that can better explain and /or answer the research question(s). This method allows the researcher to optimise the benefits of both the positivist quantitative method and the post-positivist/constructivist qualitative approach. The qualitative phase of the study was conducted through interviews on two CEOs, one in a leading pharmaceutical company and the other in a leading micro-lending company and by strategic documents analysis. Data collected in this phase was used to develop the survey questionnaire, that was used in quantitative phase of the study, through a Delphi approach. Two samples for the Delphi were used, sample A comprised of Top 50 Executive Search Companies' Presidents, while sample B comprised of CEOs of companies listed on JSE.

c. Research findings and their implications

The qualitative phase of the study found a range of competencies that were arguably critical for ensuring value optimisation in organisations. The different categories were:

- **Financial excellence**: competencies in this categories included, revenue growth and revenue performance strategies; product/service pricing strategy; business growth strategies; cost of capital and capital structure management strategies; costs management strategies; and operational efficiency strategies. The findings suggest to the business leaders that any CEO should at least have these competencies if the CEO is to be able to create vale in organisations.
- **Planning and vision creating capabilities**: these competencies include the ability to have a foresight as a business leader, but additionally, the ability to display vision towards people acquisition; people development; client and customer centeredness; and stakeholder management. These competencies are interesting in that they reverse the business myth that businesses have people dynamics as 'soft' issues. The findings suggest that focusing on people is a core business fundamental.
- **Competitiveness enhancing strategies**: these included the location and positioning strategy; market development and pioneering strategy; branding and marketing strategy; risk taking and risk management strategy; business model differentiation strategy and personal motivation strategy. These further supports the notion that value creation is not solely a financial issue, but more broad.

The analysis of qualitative data together with the critique of literature led to the development of the competency model, referred to as *Octastellatus* (Latin for eight-starred) CEO competency model (OC^2M). The competency model comprised of nine components/categories namely, leadership agility; financial intelligence; general business; African intelligence; people centeredness; organisational capabilities; personal motivation; ethics principles and competitive competencies. As a model, organisations can at least utilise this model together with other tools to screen executives for their probable ability to create value. Given the many challenges and weaknesses of competency models, this study attempted to address this criticism of competency model by developing a competency index.

The index developed has four clusters, namely:

- **Core competencies:** The sum of averages of first component (leadership agility), second component (financial intelligence) and fifth component (people centeredness), competencies argued to be critical in ensuring value creation, without this competencies executives would not be able to create sustainable value.

- **Enabling competencies:** The second cluster is the sum of averages of third component (business intelligence), six component organisational capabilities), seventh (personal drivers) and eighth (ethics principles) components, competencies argued to the necessary in supporting the executive in creating value, however through delegation the company will still be able to create value even if the executive lacks these competencies.
Differentiating competencies: The fourth component (African intelligence) came about as a results of assertion by CEOs (during interviews) that African businesses need to do business differently and not only rely on 'imported' Western and/or European approaches,

- **Competitive competencies:** Fourth cluster comprise of ten capabilities of ninth component that are believed to be necessary in setting one executive apart from the rest, capabilities that give the leader the edge over her peers in driving long-term and sustainable value.

It is believed that this study has made a significant and unique contribution by providing a quantitatively validated CEO competency model and corresponding competency index for assessing potential ability to create economic value. In an area that previously was a disconnection between ability to create value and actual value creation. This area in now a known area (see figure 2.4), and it is represented by SEVCI. The next steps should include testing the index in practice to ascertain its applicability and robustness.

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Annexure A: Informed Consent Document

Informed Consent Form

Graduate School of Business Leadership, University of South Africa (Unisa)

Title of Project: Doctor of Business Leadership Thesis – The development of Leadership Attributes and Competencies Index: the EVA approach.

Principal Investigator: Meiya G. Nthoesane

Promoters: Prof JW Kruger and Prof HC Ngambi

Participant's Printed Name: Mr /Ms _

The Introductory Paragraph

We invite you to take part in a research study entitled: '**The development of leadership competencies index: the EVA approach'** at *Unisa*, which seeks to understand the inherent executives competencies' in creating real economic value in their respective organisations. Taking part in this study is entirely voluntary. We urge you discuss any questions about this study with your Board and executive team and take your time to make your decision. If you decide to participate you must sign this form to show that you will like to take part.

Section 1. Purpose of the Research

You are being offered the opportunity to take part in this research study because your company was selected as one of the companies who have created real economic value (measured using Economic value Added, or EVA) to their shareholders for the past ten years. The research purpose is to understand the competencies that CEOs have in order to create value to their shareholders and how do they (CEOs) create this economic value.

Section 2. Procedures

Should you choose to take part in this study, the principal researcher will arrange for an introductory interview, where the study details will be presented to you.

Section 3. Time Duration of the Procedures and Study

If you agree to take part in this study, your involvement will last approximately from one hour to three months. The researcher will ask to see at differing times during your work, including when attending some company meetings and or functions. The length of these encounters will vary.

Section 4. Discomforts and Risks

There are no known risks associated with the research.

Section 5. Potential Benefits

Possible benefits to the participant:

You will not directly benefit from taking part in this research study, however, you will be taking part in the study that bring to surface the much need information regarding the CEOs competencies in creating economic value.

Possible benefits to others:

Section 6. Statement of Confidentiality

Privacy and confidentiality measures

Your research documents that are reviewed and analysed at _____________ will be kept in a secured area in with the principal researcher. No material will be sent to third parties.

During the publication and presentations resulting from this research, no personally identifiable information will be shared.

We will keep your participation in this research study confidential to the extent permitted by law.

Even though some of these information/records could contain information that personally identifies you, reasonable efforts will be made to keep the personal information in your research record private and confidential but absolute confidentiality cannot be guaranteed.

Section 7. Compensation for Participation

You will not receive any compensation for being in this research study.

Section 8. Research Funding

The institution and investigators are not receiving a grant/funding to support this research.

Section 9. Voluntary Participation

Taking part in this research study is voluntary. You do not have to participate in this research. If you choose to take part, you have the right to stop at any time. If you decide not to participate or if you decide to stop taking part in the research at a later date, there will be no penalty or loss of benefits to which you are otherwise entitled.

Section 10. Contact Information for Questions or Concerns

You have the right to ask any questions you may have about this research. If you have questions, complaints or concerns related to this research, contact Meiya Nthoesane, at *074 11 33 550, 012 352 4151* or on the electronic mail nthoemg@unisa.ac.za.

You are also encouraged to contact the promoters of this research:

- Prof Kruger, the professor of finance at the Unisa Graduate School of Business Leadership at krugejw@unisa.ac.za; or
- Prof Ngambi, the Vice Chancellor of Mulungushi University at hngambi@gmail.com.

Signature and Consent/Permission to be in the Research

Before making the decision regarding participation in this research you should have:

- Discussed this study with an investigator,
- Reviewed the information in this form, and
- Had the opportunity to ask any questions you may have.

Your signature below means that you have received this information, have asked the questions you currently have about the research and those questions have been answered. You will receive a copy of the signed and dated form to keep for future reference.

Participant: By signing this consent form, you indicate that you are voluntarily choosing to take part in this research.

__________________	___________	______	_________________
Signature of Participant	Date	Time	Printed Name

Person Explaining the Research: Your signature below means that you have explained the research to the participant and have answered any questions he/she has about the research.

______________________________		__________	______
Meiya G. Nthoesane			
1. Signature of Investigator	Date	Time	Printed Name

APPENDIX 2: PUBLISHED PAPERS FROM THE THESIS

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hoesane.pdf

article1399477632_Nt
hoesane and Kruger.p