THE DEVELOPMENT AND TRANSFER OF CORE COMPETENCIES IN MULTINATIONAL CORPORATIONS

A study of three South African originated multinational corporations, compared and contrasted with a leading United States multinational

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"Good managers, Mr. Drucker said, were the last century's heroes."

Barnaby J. Feder. *The New York Times Obituaries*. November 12, 2005:A13

> It has been a century of unprecedented disaster and cataclysms: two world wars, a Stalin, a Hitler, a Mao, and scores of lesser but no less murderous villains. Indeed we packed into every decade as much "history" as one usually finds in a century; and little of it was benign. Yet most of this world, and especially the developed world, somehow managed not only to recover from the catastrophes again and again but to regain direction and momentum – economic, social, even political. *The main reason was that ordinary people, people running the everyday concerns of everyday businesses and institutions, took responsibility and kept on building for tomorrow while all around them the world came crashing down* (the italics are mine). Thus tomorrow is being shaped today.

Peter F. Drucker. *The Frontiers of Management.* 1986:x.

ABSTRACT

The thesis studies the development and transfer of core competencies in multinational corporations. It aims to advance the general body of knowledge relating to core competencies, to have practical applicability for management practitioners and academics, to explain how three companies from South Africa became global leaders in their fields and to examine the lessons they learned about international business.

Three South African originated multinationals and a US multinational company were studied. The basic methodology is a case study. The methods of research were personal interviews, telephone interviews, written questionnaires, documents, archival records and direct observations. Value chains were used to evaluate the effectiveness of methods of development and transfer and the success of transfer of core competencies.

It is concluded that different and multiple methods are needed to develop and transfer core competencies. The effectiveness of methods varies by company and value chain location. There is a significant high degree of correlation between the ratings of success in transferring core competencies and the effectiveness of the methods used to transfer them. This gives substantial credibility to the information provided by the companies and highlights the importance of selecting appropriate methods.

There are some variances between the research results and established literature on the development and transfer of core competencies. There are notable differences between the companies from South Africa and the US multinational on the effectiveness of methods used to develop and transfer core competencies. There are also areas where all the companies are in accord.

"Roadmaps" covering the effectiveness of methods for developing and transferring core competencies in different locations in a value chain are presented. Practical examples of the companies' actions relating to acquisitions and post-acquisition integration, their experiences in different countries, challenges they face, the methods used to assess transfer, avoid pitfalls and improve transfer, and other issues are also provided.

The success of the multinationals from South Africa is explained by a combination of history, competitive factor conditions, management practices, attributes and leadership. The conclusions of the thesis are followed by recommendations on how to improve the management, development and transfer of core competencies.

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Professor Philip Court, Head of the Department of Management and Dr Clive Smith of the Department of Education at Rhodes University became my thesis supervisors when I transferred from the DBA programme at BSL to become a PhD candidate at Rhodes. They were both challenging and supportive of my efforts. Chapters submitted for review or questions raised were generally taken care of within days. Professor Court was particularly helpful with the overall presentation and layout. Dr Smith played a similar role in the research design and methodology relating to the case study method. I am most appreciative of their time and efforts.

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Lecturing on Strategic Management to post-graduate students at Rhodes University from 2001 to 2006 was beneficial to sections of the thesis. I introduced assignment papers on the South African environment and South African clusters and companies into the course from the beginning. The initial aims of this were to bring practical situations into the classroom and help prepare students for job searches and interviews. I registered for a doctorate in June 2002 and consequently benefited from the assignment papers and the opportunities to discuss some of the issues with students. I am most grateful to "my" students. Their relevant contributions are cited or acknowledged where appropriate.

The invitation for me to convene an executive education programme, Managing a Turnaround, at the Wits Business School from 2002 to 2006, provided a further opportunity to learn about the South African companies. Tony Phillips, of Barloworld, (four times), André Parker and Maya Makanjee from SABMiller Africa and Asia and Dr John Job of Sappi made presentations. My thanks to Professor Mtuli Ncube, Acting Director of Wits Business School and Director Executive Education; Mark Peters, previously Director Executive Education; Frans van Heerden, my partner in convening the programme; and Debbie Sachs, the programme manager.

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1. INTRODUCTION

1.1 Development of Idea and Motivation for Study

The idea for this thesis originated when I started teaching *Strategic Management* to honours students (post-graduate) at Rhodes University in Grahamstown, South Africa in 2001. The textbook for the course was Hitt, Ireland and Hoskisson's (2001) *Strategic Management: Competitiveness and Globalization.* One of the 13 chapters is "The Internal Environment: Resources, Capabilities and Core Competencies".

New to the academic profession from the business sector, I formed the impression that certain of the literature on strategy (and core competencies) often concentrates on *what* should be done while failing to adequately describe *why* it should be done and *how* it should, has been or can be done. Following from this is the issue of *which* methods are more likely to be effective under different circumstances.

Around this time I became very interested in the success of some of South Africa's larger companies as they were transformed from regional companies into multinational corporations. I used a number of these companies as case examples in class assignments in 2002 and 2003. When I decided to study for a doctorate, the concept of core competencies and the practical application of the *how* and *why* of the success of these South African multinational companies became the foundation on which to develop ideas for the dissertation.

The preliminary reading of the literature led me to redefine and focus my initial ideas on the methods used to develop and transfer core competencies. I found very little in the literature that deals with the practical specifics of how to develop and transfer core competencies in multinational corporations and the circumstances in which they are likely to be effective. For example, what does, or should, a South African firm do to follow Porter's (1990) observation that a global firm employs advantage from its home base to penetrate foreign markets and is also able to seek locational advantages to reinforce the home advantage and offset home disadvantage in other countries? For 'advantage' read core competencies.

This is, to the best of my knowledge, the first doctoral thesis that covers South African multinational corporations (Nexus 2006). Information about theses relating to South African multinational companies is available in Appendix 1.1.

1.2 Aims and Scope

The thesis examines the development and transfer of core competencies by three South African multinational corporations, each a global leader in its field. A leading multinational in the United States of America is included in the research for comparison and contrast, especially with regard to core competencies, their development, transfer and related issues.

The thesis has four overall aims or objectives:

1. To advance the general body of knowledge relating to the development and transfer of core competencies
2. To have practical applicability for both management practitioners and academics
3. To explain how three corporations, originating in South Africa, with limited international experience, became global leaders in their fields within a decade
4. To examine the lessons learned by the corporations and glean advice from these for other corporations contemplating or implementing international expansion.

The fourth aim was added when it became apparent that this would not only contribute to the other three aims but also provide valuable insight and practical experiences on its own. Certain of the lessons and advice do, in any event, relate to core competencies

The key literature review, case studies and other research are directed toward achieving the above aims. Some answers to questions will meet all four of them, others two or three, while some will relate to only one aim. The questions were refined after the literature review and define the scope and field of reference for the thesis. To be of practical applicability, the thesis deals with the basic issues of how core competencies are developed and transferred and the effectiveness of the various methods used for doing so.

How core competencies are chosen or evolve and the success rates of the transfer of different core competencies in different fields are important. The competitiveness of multinational companies depends largely on their ability to develop and transfer core competencies. The companies will improve their ability to manage these processes if they understand how core competencies are selected and evolved. Knowing the success rates of transfer of core competencies in different fields will assist the companies in deciding which core competencies can be transferred effectively.

The problems and issues confronted during transfer, how success of transfer can be assessed and measured, and how pitfalls can be avoided and transfer improved are all considered. The practical problems encountered in both the development and transfer of core competencies and how these are resolved are also examined. Culture and its influence on the development and transfer of core competencies is also of great significance. The lessons learned in going global and the advice for others emanating from these is essential to achieve the fourth aim to glean advice for other corporations.

The knowledge generated by the thesis must enable practitioners to manage more effectively, and academics to improve their teaching or research, if the thesis is to have practical applicability. Advancing the general body of knowledge relating to core competencies (transfer and development) requires practical or theoretical information not previously available. This comes from the case studies and questionnaires sections of the thesis.

Explaining the success of the companies requires a review of strategies and backgrounds of the corporations, specifically country of origin and how this influences competitiveness. Strategy, mergers and acquisitions and post-merger and acquisition integration are added to the field of reference. The lessons learned from going global are based, predominantly, on interviews with either the CEOs or senior executives of the companies together with practical examples obtained from other sources.

Core competencies are in any event not an end in themselves. They are an inherent part of the strategies that companies use to achieve their objectives. Strategies do not always exist around core competencies. Kaplan and Norton (2004) point out that strategies can exist around many doctrines, for example, shareholder or stockholder value, process management and innovation. All successful companies have core competencies, but the ways in which they are articulated and utilized strategically vary widely.

The scope or field of reference focuses on the development and transfer of core competencies. It extends to the related areas of strategies, international business culture, learning and knowledge management, mergers and acquisitions and post-merger and acquisition integration. The focus is reflected in the emphasis given to the different areas in the literature review and research.

1.3 Research Design and Methodology

The paradigm adopted is post-positivism. I endeavour to bring to the thesis the perspective of a CEO combined with that of a teacher. The basic methodology of the thesis is that of a case study. Surveys, the study of documents and statistical analysis support and complement the basic methodology. The case study as a research strategy constitutes an all-encompassing method, covering the logic of design, data collection techniques and specific approaches to data analyses (Yin 2003).

The literature review covers nine areas. These are strategy, international business, learning and knowledge management, culture, core competencies, mergers and acquisitions, post-merger and acquisition integration, the development of core competencies and the transfer of core competencies. A framework for the thesis and the questions to be asked in the research are derived from this review.

The overall concept is to cover the development and transfer of core competencies by multinational corporations by focusing on the methods of development and transfer. Core competencies are assigned to value chain locations or activities to which they are related so that they can be assessed, compared and analysed.

The key concepts and topics in the research and analysis are core competencies, value chain activities, methods of developing core competencies and methods of transferring core competencies. The rates of success of transferring core competencies and the effectiveness of the methods are also covered. The units of measurement are corporations (or companies), the rating of success in transferring core competencies, the effectiveness of methods used to develop core competencies and the effectiveness of methods used to transfer core competencies.

The methods of gathering data comprised personal interviews, telephone interviews, written questionnaires, documents, archival records and direct observations. The returned qualitative questionnaires were analysed in terms of consistency with quantitative aspects and compared with other companies. The qualitative questionnaires were used to expand on the quantitative data and provide richer data. The analysis of both sets of data led to further questions and responses. Descriptive and statistical procedures were applied to the quantitative data where appropriate.

The findings show the degrees or ratings of success in transferring core competencies, the effectiveness of various methods used to develop and transfer different core competencies and the relationship between the effectiveness of methods used and the degrees of success in transferring core competencies. Value chain activities related to the core competencies are used to analyse and evaluate the findings.

The personal interviews covered background information, South Africa as a "home" or originating base, perceived reasons for success, the practical issues confronted in developing and transferring core competencies, how these were resolved and lessons learned in "going global". Interviews were also used for clarification or follow-up questions.

1.4 Presentation and Style

The research for the thesis was largely undertaken between October 2002 and July 2004 with further related research in 2005. My general cut-off guideline for information was 31 December 2005. For example, the annual accounts of two of the companies for their financial years ending December 2005 and March 2006 were not available at that time. These accounts are therefore shown in the Appendices together with other current information on aspects such as the leading companies in 2006. Appendix 11.1 summarises pertinent post-31 December 2005 information. If however, I learned of information in 2006 which had been available before 31 December 2005, then I have generally included it in the thesis.

While I did not actively pursue research (except for follow-up and clarification) after 31 December 2005, I did take advantage of any relevant information that became known to me. Certain information such as company financial results and new editions of the books reviewed has been updated since 2004. Other information has been left as it was at the time of research or collection so that readers will be aware of the information used at the time of the initial research.

Subchapters (example: 1.2) in the thesis are referred to as sections, with the next level down (example 1.2.1) referred to as subsections. Tables and figures names use the number of the chapter in which they are contained as a prefix. For example, the fourth table in Chapter 2 is Table 2.4.

The thesis aims to find a balance between the use of active and passive voices (Mouton 2001). The literature review section is predominantly in the third person or passive voice unless I give my personal opinion. The guidelines followed regarding tense are that one should normally use the present tense when referring to previously published work, and both present and past tense when referring to present results (Day 1995, cited by Saunders, Lewis and Thornhill 2000).

Mouton's (2001) *How to Succeed in Your Master's & Doctoral Studies* and *The Chicago Manual of Style* (2003) were consulted. The Harvard Method of referencing is followed as a guideline. Under this method personal communications are not included in the List of References. Days and months as well as years are therefore included when citing the dates of interviews and personal communications in text citations of interviews and other personal communications. Full details are given when an interview or personal communication is cited for the first time in a chapter. For example, the initial citation of "(A.J. Phillips, personal interview, Sandton, 22 October 2002)" is subsequently cited as "(A.J. Phillips, 22 October 2002)". Titles of persons are not provided in the text references, as they are available in Subsection 4.6.1 and Appendix 4.2 Data Collection and Field Work Record. When more than two authors for a publication are quoted for the first time in a chapter, All the names are stated "(Hitt, Ireland and Hoskinson 2005)" when a publication with more than two authors is quoted for the first time in a chapter. Abbreviations "(Hitt et al. 2005)" are used subsequently.

One of the South African companies, SABMiller, is technically and legally a United Kingdom company. I refer to it as a South African company to avoid having to continually use the phrase "South African-originated". The legal distinction should however be kept in mind.

The terms *company, corporation* and *firm* are regarded as interchangeable, as are the terms *competence* and *competency*. Wolverine World Wide, Wolverine and WWW (only used in tables or figures) are also interchangeable, as are United States of America, the United States, America, US and the USA. SA Breweries, SAB and The South African Breweries are used to designate the same company. SA Breweries became SABMiller in 2002 when the former company acquired Miller Brewing in the United States. The full names of the companies include Limited, plc or Inc, but these terms are not generally used in the text. London refers to London, England, and the Grand Rapids and Rockford cited are in Michigan.

The annual reports of SABMiller, Sappi and Wolverine World Wide are in US dollars, while those of Barloworld are in South African rands. Information and results for the companies will normally be reported in these currencies, but the US dollar equivalent of Barloworld information will be referred to at times to provide a perspective.

1.5 Definitions and Concepts

This section sets out the definitions covering the key concepts and terms used in the thesis. While this may pre-empt Chapter 3, Literature Review and Theoretical Framework, it does introduce the definitions at the outset.

A *core competence* is a bundle of skills and technologies that enable a company to provide a particular benefit to customers (Hamel and Prahalad 1996:219). As articulated by Prahalad and Hamel (1990), a core competence has three traits: "it makes a contribution to perceived customer benefits, it is difficult for competitors to imitate, and it can be leveraged to a wide variety of markets" (Mascarenhas, Baveja and Jamil 1998:1). Hitt, Ireland and Hoskisson (2005:20) state that core competencies are resources and capabilities that serve as a source of competitive advantage for a firm over its rivals. A core competence is something that a company does well relative to other internal activities and a distinctive competence is something the company does well relative to competitors according to Thompson and Strickland (2003: 122).

While all the above definitions of core competence are considered valid, the definition by Hamel and Prahalad (1996) and the three traits emphasised by Mascarenhas et al. (1998) will be followed for purposes of this thesis. Hamel and Prahalad are widely regarded as the originators of the core competence concept though I am sure that the majority of management practitioners are more conversant and at ease with the Thompson and Strickland (2003) definition.

Develop means to grow, or cause to grow, and become larger or more advanced. (Collins 2004:391).

To *transfer* is to change or go, or cause to change, from one thing, person or point to another (Collins 1987:1064). In this case, it refers to a core competency transferring, or being transferred, from one unit to another, but especially from a parent company to foreign subsidiaries.

The *multinational corporation* (MNC) has substantial direct investment in foreign countries and actively manages those operations and regards them as integral parts of the company, both strategically and organisationally (Bartlett and Ghoshal 2000:2). Other definitions which are pertinent to the study follow.

Strategy is the creation of a unique and valuable position, involving a different set of activities. The essence of strategic positioning is to choose activities that are different to rivals' (Porter 1998:55). "The word strategy is derived from Greek *strategia* – meaning *generalship* – which itself is compounded from two words meaning *army* and *to lead.* Your company strategy, therefore, defines how you will win" (Pietersen 2000:40). A strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage (Hitt et al. 2005:7).

Strategic mission is the statement of a firm's unique purpose and the scope of its operations in product and market terms, while *strategic intent* is the leveraging of a firm's resources, capabilities and core competencies to accomplish the firm's goals in the competitive environment (Hitt et al. 2005:21-22).

A *capability* is the capacity for a set of resources to integratively perform a task or activity *Resources* are inputs into a firm's production process, such as capital equipment, skills of individual employees, patterns, finance and talented managers (Hitt et al. 2005:19).

Competitive advantage is the ability of a firm to outperform its rivals (Hitt, Ireland and Hoskisson 2001:5).

Culture, in a broad sense, refers to the learned and shared assumptions of a group that produce predictable behaviour and decisions (Pietersen 2002:148).

Organisational culture refers to the complex set of ideologies, symbols and core values that are shared throughout the firm and that influence how the firm conducts business (Hitt et al. 2005:27).

Value chain - "Every firm is a collection of activities that are performed to design, market, deliver and support its product. All these activities can be represented using a value chain. A firm's value chain, and the way it performs individual activities, are a reflection of its history, its strategy, its approach to implementing its strategy and the underlying economies of the activities themselves" (Porter 1985:36).

An industry's *key success factors (KSF)* concern the product attributes, competencies, competitive capabilities, and market achievements with the greatest direct bearing on company profitability (Thompson and Strickland 2003:96).

Knowledge is information that is laden with experience, judgement, intuition and values (Hitt, et al. 2001:110). *Knowledge management* is the management of a firm's intellectual capital (Lajoux 1998:271).

Intellectual capital is the full spectrum of a company's intangibles, including, for example, its databases, software, manuals, trademarks, organisational structure and the expertise and abilities of its employees (Lajoux, 1998:271). *Intellectual capital* is the sum of everything that everybody in the company knows (Hitt et al. 2003:74).

The major concept in the thesis, apart from those included in the definitions, is that of Porter's Diamond. Porter (1990:67) uses his "diamond" framework, or model, to analyse the competitive advantage, or competitiveness, of nations. He believes that nations succeed where country circumstances support the pursuit of the proper strategy for a particular industry or segment. What works well in the country must lead to competitive advantage in the industry. Porter's Diamond examines four broad attributes of a nation that individually and as a system, together with *government* and *chance* form the playing field that each nation establishes and operates for its industries, namely factor conditions, demand conditions, related and supporting industries and firm strategy, structure and rivalry

Certain of the definitions will be repeated in the chapters examining either them or related issues. Porter's Diamond is first discussed in Chapter 2.

1.6 Abbreviations

Important abbreviations used in the thesis follow:

CEO	Chief Executive Officer
CFROI	Cash flow return on investment
EBITA	Earnings before interest, tax and amortization.
GDP	Gross domestic product
HRM	Human resource management
IMD	Institute of Management Development
KPI	Key performance indicator
M&A	Mergers and acquisitions
MNC	Multinational corporation
NPV	Net present value
R & D	Research and development
ROE	Return on equity
RONA	Return on net assets
VBM	Value based management
WACC	Weighted average cost of capital
WCY	World Competitiveness Yearbook

Sentences describing methods and other aspects in the research are sometimes shortened so that they fit into tables. Abbreviations are also used for companies in these instances.

1.7 Context

One of the first "lessons" communicated to me when I began teaching in 2001 was that managers are primarily interested in results whereas academics are mainly interested in process (P. Court, personal communication, circa February 2001). With this lesson in mind I mention two articles to set a context for this thesis.

Bennis and O'Toole, in an article in the *Harvard Business Review* of May 2005 ("How Business Schools Lost Their Way") claim that business schools are too focused on "scientific research" – and do not give enough attention to context and unquantifiable issues – the "stuff of management". Judgements are made with messy incomplete data, they write, so that statistical and methodological wizardry blind rather than illuminate.

London, in the *Financial Times* of 11 January 2005, writes that managers are often not even aware of the decision process that they are using, let alone its consequences. Important management decisions are often the result of ad hoc, on-the-fly initiatives. More generally, he adds, managers are reluctant to integrate either proven management thinking or a fact-based approach into practice.

My intention is not to enter the debate on business school education or whether managers generally make effective decisions. I believe that theory has a crucial role to play in business education. (Where would we be if everything had to be learned by experience?) I also believe that the majority of management decisions are generally effective over time. If not, would there be any creation of value or economic growth? It is not the lack of theory or knowledge, but rather the constraints of time, the demands of other priorities and conflicting constituencies that often limit the resources that practitioners apply to any given management issue. There are, therefore, gaps between theory and practice. This should be kept in mind as the thesis moves from the literature review and theory to the practical experiences of the corporations being studied.

1.8 Outline of the Thesis

Chapter 1, as seen above, covers the motivation and development of the idea for the thesis, its aims, scope and definitions and outlines the research design and methodology.

The framework or road map to be followed in the thesis is shown in Figure 1.1. The framework was largely derived from the literature review in Chapter 3 and is

presented here to set out what I intend to do in the thesis. The issues or areas that will receive the most attention are shown in bold script. The chronology of the framework has similarities to the table of contents. Chapter 3, "Literature Review", and Chapter 4, "Research, Design and Methodology", are in the right-hand side of Figure 1.1 and consequently disrupt the north-to-south and west-to-east flow of the chapters.
The chapters designated in the framework list the headings of their respective sections (sometimes abbreviated) with the exception of Chapter 1 where the aims of the thesis are shown instead. The numbers of the section headings in Figure 1.1 will not coincide with the section numbers in the text because of the introductions, summaries and conclusions. The "World" as depicted in Figure 1.1 is not covered explicitly as in a separate chapter in the study. The world factors listed in the framework are covered in the literature review and implicitly in many parts of the thesis.

While there are overlaps, Chapters 2 through 6 are generally *data gathering* and Chapters 7 through 10 are generally concerned with *data analysis*. Chapters 7 and 8 address the first two aims of the thesis relating to practical applicability and advancing the general body of knowledge relating to core competencies. Chapters 9 and 10 focus on the aims of explaining the global success of the South African companies and the lessons learned by all four corporations in going global. These chapters also contribute to the aims of advancing the body of knowledge and being of practical value and applicability.

Chapter 2 examines South Africa in terms of history, politics, economics and culture. AIDS, affirmative action, black economic empowerment, land reform, crime, NEPAD, and Zimbabwe are also discussed. A section of the chapter uses Porter's Diamond and Sach's "differential diagnosis" (economic geography and geopolitical considerations) to evaluate South Africa in terms of the determinants of competitiveness. Another section examines the rankings of South Africa in regard to various aspects of competitiveness by the Institute of Management Development's World Competitiveness Yearbook. A further purpose of this chapter is to search for the factors and events that influenced the development of core competencies and competitive advantage for the resident multinational corporations.

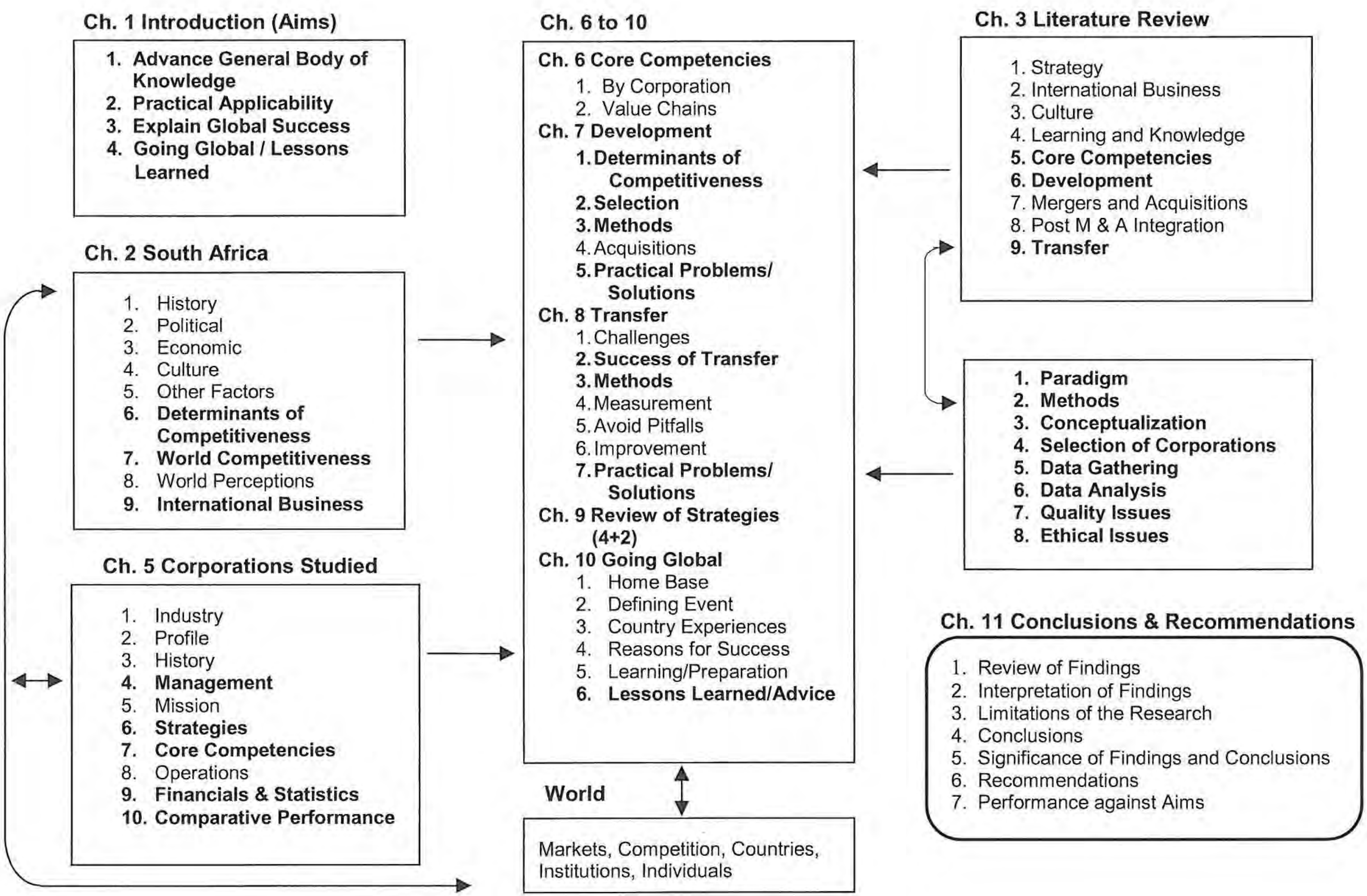
The literature review and theoretical framework are contained in Chapter 3. It begins by explaining how I decided on the areas to be included in the literature review. Nine subjects are covered, each as a section of the chapter – strategy, international business, culture and international business, learning and knowledge management, definition and nature of core competencies, development of core competencies, mergers and acquisitions, post-merger and acquisition integration and transfer of core competencies. While each has a bearing on the thesis, I will concentrate on the three core competency sections. Each section ends with a summary and conclusion as to the relevance the literature discussed bears to the thesis. Chapter 3 ends with a theoretical framework for the thesis. This framework is later used to analyse and review the findings in the final five chapters.

Chapter 4 "Research Design and Methodology" documents the design and methodology followed. Its sections cover paradigm, methods, conceptualisation, selection of multinational corporations, data gathering, data analysis, quality issues and ethical issues. The methodology is a case study that is supported and complemented by surveys and statistical analysis. The multinational corporations selected for the study are: Barloworld, SABMiller, Sappi and Wolverine World Wide. Two of the SABMiller regions or divisions, SABMiller Africa and Asia and SABMiller Europe, rather than the entire group, are used in parts of the thesis.

The research questions are derived largely from the literature review, interviews with company representatives and personal experience. Personal interviews, telephone interviews, questionnaires with qualitative and quantitative questions, follow-up interviews, documentation, archival records and direct observation are the bases for the research.

Chapter 5 reviews the three South African corporations and Wolverine World Wide under the headings of: Industry and Key Success Factors, Profile, History, Management, Mission, Strategy, Core Competencies, Operations, Financials and Statistics and Performance versus Peer Groups. Management, strategy, core competencies and performance versus peer groups receive the most emphasis. The last-mentioned is a key to the credibility of the companies' performances and their positions on core competencies.

Figure 1.1 Theoretical Framework of the Thesis



In Chapter 6 the core competencies of each corporation are shown in tabular form, together with the value chain activities related to each core competency. The core competencies are analysed in terms of their value chain activities or location. In cases where more than one value chain activity is involved in a core competency, the predominant or driving activity is used to allocate the core competency to a value chain location. A table shows the location of core competencies by means of value chain activities for the four corporations.

Having established the core competencies for each corporation, I discuss their development in Chapter 7. This chapter begins with the application of Porter's Diamond specifically to the South African corporations (as opposed to the country of South Africa in Chapter 2) to explain the factors and events leading to the development of competitive advantage and core competencies. The next section describes the ways in which the corporations select or evolve core competencies. The methods of development considered most effective by each corporation are tabulated, and comparisons are made between the companies, and between the South African companies and the American company, Wolverine World Wide. The most effective methods for the corporations as a group for different locations in the value chain are presented. The chapter describes how the corporations have used acquisitions to develop core competencies and it concludes with and examination of the practical problems and solutions experienced in developing core competencies.

The development of core competencies treated, the thesis moves on in Chapter 8 to their transfer. The chapter begins with a discussion of the challenges involved. The ratings of success in transferring core competencies are shown for each of the corporations by value chain location. Statistical analysis techniques are applied to show the relationship between the corporations' rankings of the importance of the core competencies and the ratings of success in transferring them and, secondly, the relationship between the rankings of performance and the ratings of success in transferring core competencies.

The effectiveness of the methods of transfer is then examined by corporation, value chain and individual activities in the value chain. The result is a rating of the effectiveness of the different methods for various parts of the value chain. The differences between the South African corporations and Wolverine World Wide are examined. Statistical analysis shows the relationship between the ratings of the effectiveness of the methods used and the ratings of success in transferring the core competencies. This chapter also concludes with a discussion on practical problems and solutions.

Chapter 9 continues the analysis of the corporations by reviewing the strategies against the model formulated by Nohria, Joyce and Roberson (2003). The model maintains that companies must excel at four primary practices – strategy, execution, culture and structure – and any two of four secondary practices – talent, leadership, innovation and mergers and partnerships – if they are to be successful. This chapter reviews the four companies under the headings of: Strategy, Execution, Culture, Structure and Talent, Leadership, Innovation, Mergers and Partnerships, and Post-Merger Integration. Special attention is paid to strategy, leadership, mergers and partnerships and post-merger and acquisition integration because of the importance of these in the strategies of the corporations. Relevant works from the literature review are used to complement Nohria et al. (2003) in examining the practices. Triangulation, that is, the use of multiple sources of evidence, is applied by examining media and share analysts' reports on the corporations studied. Direct observation is used as well.

Chapter 10, "Going Global" examines the international experiences of the three South African companies (and Wolverine, to a lesser extent), the lessons that they learned and their advice to other companies contemplating or implementing international expansion programmes. The sections include assessments of the suitability of South Africa as a home base by the chief executives of the South African multinational companies and the events or times that "define" the corporations' transformation from local to global players. The chapter describes how culture influences operations and hence the development and transfer of core competencies in different countries. The reasons for the companies' successes are examined. A separate section covers what the companies do to learn and to prepare their staff for the challenges of international business.

I present my conclusions and recommendations in Chapter 11. This chapter begins with a review of the findings and salient points which are then compared to the literature review framework. The findings include "road maps" to the methods that the companies found more likely to be effective in developing and transferring core competencies located in different parts of the value chain. The conclusions and their significance are discussed, followed by recommendations. The chapter and thesis conclude with an examination of performance against the four aims set out in the Introduction.

1.9 Summary and Conclusion

The literature review did not uncover any significant material relating to the practical specifics of the development and transfer of core competencies of multinational corporations, the various methods used and the different circumstances under which they are likely to be effective.

The thesis aims to advance the general body of knowledge and to have practical applicability relating to core competencies. It also seeks to explain how three corporations originating in South Africa became global leaders in their fields within a decade and to translate the lessons they learned in going global into advice for other corporations.

The scope or field of reference focuses on the development and transfer of core competencies in multinational corporations. Three South African and one American multinational corporation are examined. The scope extends to the related areas of strategy, international business, culture, learning and knowledge management, mergers and acquisitions and post-merger and acquisition integration.

This study covers the country-specific factors that lead to the development of competitive advantage and core competencies, how the corporations select and evolve core competencies and the methods they use to develop and use core competencies. The effectiveness of the methods is investigated.

The paradigm adopted is post-positivism with the perspective of a CEO combined with that of a teacher. The research design and methodology is that of a case study, supported and complemented by a survey and statistical analysis. Information was obtained through personal interviews, telephone interviews, written questionnaires with qualitative and quantitative questions, follow-up interviews, documentation, archival records and direct observation.

As the three multinationals originated in South Africa, the history, politics, economics and culture of that country are reviewed. Porter's Five Forces model is used to investigate the determinants of competitiveness in South Africa.

The companies studied are examined in terms of the industry that they compete in, their profile and history, management, mission, strategies, core competencies and operations and financial results. Their performance is compared with that of peer groups or appropriate stock market performances. Management, strategies and core competencies are the three factors receiving the most attention.

As shown by the model, global markets, competition, countries, institutions and individuals all influence the country of South Africa and the companies originating there.

The study of core competencies focuses on their nature and definition, development and transfer. Study of the development covers the determinants of competitiveness, how core competencies are selected and the methods used to develop them. The practical problems encountered in development and the ways in which these are resolved are also studied.

In examining the transfer of core competencies, the factors to be covered include country, challenges, degree of success in transferring, methods of transfer, measurement, how to avoid pitfalls, how to improve transfer and the role of acquisitions in the transfer of core competencies. The practical problems encountered and how they are resolved are again examined.

A separate chapter is devoted to "going global". This details the lessons learned by the companies and the resulting advice or guidelines for companies contemplating international expansion.

Chapter 2, "South Africa", is presented next to contextualise the thesis.

2. SOUTH AFRICA

2.1 Introduction

The purpose of this chapter is to provide a context for the thesis, while at the same time searching for answers to the questions raised in the Introduction. It highlights the factors and events that are believed to have influenced, or continue to influence, national competitiveness, and hence the development of competitive advantages or core competencies, and the achievements of the three South African multinational companies.

The following five sections deal with the country's history, politics, the nature and direction of its economy, sociocultural aspects and other factors. The issue of national competitiveness is dealt with in the next three sections. Firstly, Porter's "Diamond" is used to examine the determinants of competitiveness. Secondly, Sachs's differential diagnosis concepts are the bases for investigating factors not covered by Porter. Thirdly, the Institute of Management Development (IMD) *World Competitiveness Reports*, the World Economic Forum's *Global Competitive Report* and the *Economist* show South Africa's rankings in terms of specific criteria.

The final two sections of the chapter deal with world perceptions of risk, corruption and economic freedom in South Africa and the country's history of international business. The following quotations provide images of the South Africa that is examined herein.

> South Africa is a Belgium within an India . . . A dual economy with a high-skill, capital-intensive modern sector alongside a mass of unskilled people scratching a living from subsistence farming, casual employment and self-employment (Lamont 2002:77).

> Diversity is a key feature of South Africa, where 11 languages are recognised as official, where community leaders include rabbis and chieftains, rugby players and returned exiles, where traditional healers ply their trade around the

corner from stockbrokers and where housing ranges from mud huts to palatial homes with swimming pools (BBC News 2003a).

2.2 History

The area of modern-day South Africa is believed by some to be one of the cradles of human evolution. *Homo habilis*, the earliest known toolmaker, lived in South Africa some 2.3 million years ago. The original inhabitants of contemporary South Africa were the hunter-gatherer San and the Khoikho pastoralists. They were subsequently absorbed, or forced, into the most marginal areas by more technologically advanced migrants to the region. The ancestors of the vast majority of modern black South Africans, are thought to have begun arriving in the area about AD 100 with a new wave of migration from the north approximately a thousand years later. (Microsoft Encarta 2001e).

European interest in South Africa began with the Portuguese in the 1400s. In 1486, the Portuguese explorer Bartholomew Diaz rounded the Cape. In 1497, his fellow countryman Vasco da Gama pioneered the Cape sea route to the Far East. To put these two exploits into an historical perspective, Columbus reached America in 1492 (Sparks 2003). A group under the leadership of Jan van Riebeek was sent by the Dutch East India Company in 1652 with the purpose of setting up a halfway station to the East on the site of what is now Cape Town. Former company servants were allowed to become "Free Burghers" and set up farms outside the settlement. They developed their own distinctive language and culture and came to be known as "Boers" (Afrikaaners, the literal interpretation is "farmers") (Microsoft Encarta 2001e). Xhosa people and the Boers met in the Eastern Cape for the first time in 1702. The white settlers had spread 800 kilometres (497 miles) east of Cape Town (Sparks 2003).

In the early 19th century competition for trade and land led to conflict between the African clans, known as *mfecane*. The wars eventually engulfed much of southern Africa. Entire tribes disappeared during the fighting and centralisation resulted in the creation of powerful African nations, notably the Zulus, led by King Shaka, but also the Swazi and Xhosa (Microsoft Encata 2001e).

During the Napoleonic Wars in Europe France occupied the Netherlands and British forces occupied the Cape region in both 1795 and 1806. In 1814 the United Kingdom purchased the Cape Colony from the Dutch. After 1820, thousands of British settlers arrived in South Africa. English became the official language in 1822 and slavery was abolished in 1833. These measures were resented by the Boers and some 10,000 of them moved northward in what is known as the Great Trek, in the period 1836 to 1838. They defeated the Zulus in battle, but the British subsequently occupied the area now known as Kwa-Zulu Natal and established a colony there in 1843. The *voortrekkers* (forerunners) left the area and established the Orange Free State and Transvaal republics in the interior. Around the same time the British encroached on Xhosa lands along the Eastern Cape frontier, causing several bloody wars (Microsoft Encarta 2001e).

In 1868, the British annexed Basutoland, and in 1871, Griqualand West, which included the Kimberley diamond fields. In 1877, the Nguni territory was annexed, and in 1879, following the Zulu wars, Zululand was taken over. Venda in the north held out the longest, but its defeat, in 1898, saw the completion of the annexation of the African kingdoms. Meanwhile, in the east, the British colony of Natal had been granted representative self-government in 1896, and in 1872, Cape Colony gained self-government and control over all areas except economic and foreign affairs (Microsoft Encarta 2001e).

Diamonds had first been discovered in 1867, and the discovery of the world's largest gold deposits in the Transvaal Republic in 1886 coincided with the German occupation of South West Africa (now Namibia). The mining industry was financed largely by British interests and thousands of British miners and fortune seekers entered the Transvaal Republic. They sought certain rights that the republic was not prepared to extend to them. After compromise discussions failed, financier Cecil Rhodes, prime minister of the Cape Colony in 1895, encouraged the *uitlanders* (foreigners) to revolt, supported by a small invasion force under the command of Leander Star Jameson. The Jameson Raid was a failure, and, although Rhodes was absolved of any involvement in it, he was forced to resign as the prime minister (Microsoft Encarta 2001e).

Relations between the Cape Colony, Britain and the two Boer republics worsened, and the Afrikaners declared war on Britain in 1899. The British Empire was represented by approximately 500,000 troops against some 87,000 Afrikaners and volunteers. After some initial success by the Boer forces, British forces occupied major centres by mid-1900. The Boers, however, continued to wage a guerrilla war that was countered by Britain's scorched-earth policies, which included the destruction of farms and the internment of the civilian population in concentration camps. Some 25,000 Afrikaner women and children died of disease and malnutrition in the camps: 14,000 Africans died in separate camps. The Boers surrendered in 1902 (Microsoft Encarta 2001e).

Between the start of the diamond rush to Kimberley in 1870 and the end of the South African wars in 1902, the economy was transformed from an economic backwater, dependent on agricultural products like wool and wine, to a major supplier of precious minerals. South Africa underwent rapid urbanisation and industrialisation. Notwithstanding the influx of Europeans to work in the mines, there were still labour shortages (Microsoft Encarta 2001e).

The Union of South Africa was founded in 1910 with the merging of the conquered Boer republics of the Transvaal and Orange Free State with the British colonies of the Cape and Natal. The former Boer army commander, Louis Botha, became the first prime minister (Microsoft Encarta 2001e).

The Native National Congress, later renamed the African National Congress (ANC), was formed in 1912. In 1913, the Land Act was introduced, which restricted black land ownership and land use to 13 percent of the country. The pattern of labour recruitment, remuneration and accommodation that characterised the South African mining industry for more than a century was established at this time in the gold fields. Black labourers, mainly migrants from elsewhere in South Africa (but also from neighbouring states) were limited to unskilled jobs, paid low wages and housed in single-sex compounds (Microsoft Encarta 2001e).

At the outset of World War I in 1914, the South African prime minister, Botha, pledged Britain full support. In 1915, he crushed an insurrection by extremist

Afrikaner elements and led the South African forces that conquered German South West Africa. In 1920, the territory became a League of Nations mandate under South Africa's supervision. There was a coalition governing South Africa in 1939 when Britain declared war against Germany. This act split the coalition and then-prime minister James Hertzog, who tried to keep South Africa neutral, was replaced as prime minister by Jan Christian Smuts. South Africa declared war on Germany, but, because of pro-German sentiment among some Afrikaners, conscription was not introduced (Microsoft Encarta 2001e).

The National Party came to power in 1948 and introduced the policy of apartheid. Discrimination against non-whites had been inherent from the early days of European settlement. Apartheid was designed to separate the races economically, politically, socially and geographically. The population was consequently classified by race and the Group Areas Act was passed in 1950. The Communist Party was banned. The ANC responded with a campaign of civil disobedience led by Nelson Mandela. Seventy black demonstrators were killed at Sharpeville in 1960 and the ANC was banned. South Africa was declared a republic and left the British Commonwealth in 1961. International pressure against the apartheid government began in the 1960s and South Africa was excluded from the Olympic Games (BBC News 2003b).

Nelson Mandela headed the ANC's new military wing, which launched a sabotage campaign. He was captured and sentenced to life imprisonment in 1964 (BBC News 2003b). In 1976, major clashes with the police occurred when some 10,000 schoolchildren in Soweto, near Johannesburg, protested at the enforced use of Afrikaans in their schools. Hundreds of children were killed, shocking international opinion and reinforcing the growth of the sanctions movement. In the mid-1980s, the United States and the European Community (now the European Union) imposed sanctions against South Africa (Microsoft Encarta 2001e).

The period 1984 to 1989 saw widespread revolts in the black townships and several states of emergency were declared. In 1989, F.W. de Klerk replaced P.W. Botha as president. Public facilities were desegregated and many ANC activists were freed. In 1990, the ANC was un-banned and Mandela released after 27 years in prison. Namibia became independent (BBC News 2003b).

Multiparty talks commenced in 1991. De Klerk repealed the remaining apartheid laws and most international sanctions were lifted. There was major fighting between the ANC and the Zulu Inkatha movement. Agreement on an interim constitution was reached in 1993. The ANC won the first nonracial elections in 1994, and Mandela became president. A government of national unity was formed, British Commonwealth membership was restored and the remaining sanctions were lifted. South Africa took its seat in the UN General Assembly after a 20-year absence (BBC News 2003b).

Mandela (1994) writes that apartheid created a deep and lasting wound that would take many years, if not generations, to heal. He saw his mission as one of preaching reconciliation and of engendering trust and confidence. In 1996, the Truth and Reconciliation Commission, chaired by Archbishop Desmond Tutu, began hearings on human rights crimes committed by the former government and liberation movements during the apartheid era. It released its report in 1998, branding apartheid a crime against humanity (BBC News 2003b).

In the 1999 general election, the ANC received 66 percent of the vote. It formed a coalition with a minority party, which held one seat, and so achieved a two-thirds majority in parliament. Thabo Mbeki succeeded Nelson Mandela as president. The ANC increased the majority to 69.7 percent in the 2004 elections. The Democratic Alliance polled the next highest percentage of 12.4, followed by the Inkatha Freedom Party with 7 percent (South African Web 2005a). Eighteen other political parties contested the election.

On June 14 2005 President Mbeki informed parliament that he had decided to dismiss his deputy and potential successor, Jacob Zuma, whose future had been under a cloud since his personal financial advisor, Shaabir Shaik, was sentenced earlier that month to a 15 year prison sentence for corruption and fraud (*Economist* 2005a). Zuma was formally charged with rape on 6 December 2005. A 31 year old woman whose family has close ties with Mr. Zuma, accused him in November of having raped her at his home (*Economist* 2005f).

2.3 Political

South Africa became a constitutional democracy in 1994. The country is ruled by a president and cabinet appointed by the majority party. Parliament, which is elected every five years, has two chambers consisting of a 400-member National Assembly and a 90-member Senate. Seats in the National Assembly are awarded on the basis of percentage of the total vote achieved by particular political parties. Each of the nine provincial assemblies chooses 10 senators (Microsoft Encarta 2001d).

The major political parties are the African National Congress, founded in 1912, the Inkatha Freedom Party, founded in 1975, the Communist Party, which was established in 1921, the Freedom Front and the Democratic Alliance, which was formed in 1989. (Microsoft Encarta 2001d).

The highest court is known as the Constitutional Court. It has a president and 10 judges selected by the cabinet from a list compiled by an independent nominating commission. It determines the constitutionality of all laws. The legal system is based on Roman-Dutch law and the constitution that came into effect 4 February 1997 (Dyer and Morphew 2005).

Trade union representation is now an accepted fact of industrial practice. Almost all sectors of the economy, including the public service, have representative unions that engage employers over issues affecting their workforce. The Congress of South African Trade Unions (COSATU) is the biggest of the country's three main labour federations, with a combined membership of 1.8 million workers grouped into 19 affiliated trade unions (Dyer and Morphew 2005).

2.4 Economy

To place the South African economy in perspective, we will first view it 'in a nutshell' and compare it to the world and sub-Saharan Africa as outlined in Table 2.1. The South African exchange rates can cause distortions to the dollar value of gross domestic product and other factors compared to other countries. The South Africa figures below relate to 2005 estimates, the world figures to 2002 and the sub-Saharan to 2001.

Table 2.1 South Africa in a Nutshell

	South Africa[1]	**World**[2]	**Sub-Saharan Africa**[3]
Population	44.8 million	6.2 billion	591 million
GDP	$237.3 billion	$32,300 billion	$310 billion
GDP per capita	$5,070	$5, 200	$525
Exports	$33 billion	$8,195 billion	$90 billion
Imports	$30.2 billion	$7,590 billion	$96 billion
Manufactured exports as share of total merchandise exports	55%	79%	39%
Infant mortality rate (number of deaths per 1 000 live births)	54	56	107

Notes: [1] *Financial Times* website, Special Survey on South Africa, 2005
[2] *The Economist World in Figures* 2005
[3] United Nations Human Development Report (2001), cited by Roux (2002:164).

Source: Adapted from United Nations Development Report (2001), cited by Roux (2002:164), *Financial Times* (2005) and *Economist* (2005g).

The gross domestic product per capita is below the world average, but several times that of the rest of sub-Saharan Africa. It is well below those of the Western industrialised nations where GDP per capita extends from the early US$ 20 thousands and is closer to a country like Brazil. Exports and imports are in the range of 20 to 25 percent of GDP (Roux 2002).

A map of South Africa together with information on area, population and railway and roads is shown in Figure 2.1.

Figure 2.1 Map of South Africa

Area:
1,221,038 sq km (470,693 square miles)

Coastline:
2,960 kilometres (1,840 miles)

Population:
44.8 million (October 2001 census)

Metropolitan area populations ('000):
Pretoria 1,080
Cape Peninsula 2,185
Johannesburg/Randburg 1,916
Durban/Pinetown 1,137

Railways and roads:
25,555 kilometres (15,879 miles) of track 534,131 kilometres (331, 894 miles) of road

Source: *Financial Times* Special Report on South Africa (2004:3).

Further details on the economy are shown in Table 2.2. Expenditure on Gross Domestic Product and Table 2.3, National Accounts: Ratios of Selected Data. Gross fixed capital formation to GDP has varied between 14.5 percent and 17.1 percent for the period 1994 to 2004, culminating in 16.5 percent in 2004. This component needs to consistently exceed 20 percent of GDP to achieve higher economic growth rates and absorb the growth in the labour force (SA Reserve Bank 2005a). Barclays Bank of the United Kingdom acquired the South African ABSA Bank in 2005. The foreign direct investment (FDI) of R33 billion or US$5.5 billion – the largest such investment in South Africa's history – is expected to improve the country's creditworthiness and will hopefully send a signal to foreign investors that the country's growth prospects have improved while investment risks have declined (Bisseker 2005).

Table 2.2 Expenditure on Gross Domestic Product 1997-2004

South African Reserve Bank

R millions

		1997	1998	1999	2000	2001	2002	2003	2004
At current prices									
Final consumption expenditure	(6620J)	563 306	609 536	664 223	748 150	826 080	934 719	1 025 369	1 138 674
Final consumption expenditure by household[1]	(6007J)	431 403	470 164	514 271	580 802	639 800	722 091	786 316	869 738
Final consumption expenditure by general government[2]	(6008J)	131 903	139 371	149 952	137 348	186 280	212 628	239 053	268 936
Individual consumption expenditure	(6005J)	62 068	65 111	66 830	72 753	81 657	95 744	109 349	124 011
Collective consumption expenditure	(6006J)	69 835	75 260	83 122	94 595	104 623	116 844	129 704	144 925
Gross capital formation	(6108J)	114 096	126 227	133 288	146 743	155 980	187 642	214 881	424 907
Gross fixed capital formation	(6009J)	113 221	126 913	125 754	139 647	153 525	175 592	200 290	226 118
Chang in inventories[3]	(6010J)	875	-686	7 534	7 096	2 455	12 050	14 591	16 789
Residual item	(6011J)	387	-1 820	-4 935	1	-1 710	-669	-10 857	-264
Gross domestic expenditure	**(6012J)**	**677 789**	**733 943**	**792 576**	**894 894**	**980 350**	**1 121 692**	**1 229 393**	**1 381 317**
Exports of goods and services	(6013J)	168 659	190 453	206 144	257 011	305 584	382 269	346 975	365 188
Exports of goods (f.o.b.)	(6608J)	143 796	160 763	174 319	222 061	265 832	333 251	290 544	311 762
Exports of services	(6609J)	24 863	29 690	31 825	34 950	39 752	49 018	56 431	53 426
Less imports of goods and services	(6014J)	160 718	181 972	185 037	229 757	265 927	339 016	324 900	372 029
Imports of goods (f.o.b.)	(6610J)	133 061	150 705	149 854	189 411	221 235	283 004	264 954	311 930
Imports of services	(6611J)	27 657	31 267	35 183	40 346	44 692	56 012	59 946	60 099
Expenditure on gross domestic product	**(6006J)**	**685 730**	**742 424**	**813 683**	**833 148**	**1 020 077**	**1 164 945**	**1 251 468**	**1 374 476**
At constant 2000 prices									
Final consumption expenditure	(6620Y)	704 366	710 079	720 309	748 150	773 663	800 288	833 084	855 799
Final consumption expenditure by households[1]	(6007Y)	538 807	548 196	557 722	580 802	601 090	620 159	641 485	680 341
Final consumption expenditure by general government[2]	(6008Y)	165 559	161 833	162 587	167 348	172 573	180 129	191 599	205 458
Individual consumption expenditure	(6605Y)	77 906	73 349	71 533	72 753	76 184	80 221	86 764	93 774
Collective consumption expenditure	(6606Y)	87 654	88 534	91 064	94 595	96 389	99 908	104 835	111 684
Gross capital formation	(6180Y)	139 208	143 290	140 654	146 743	145 859	156 674	172 518	190 097
Gross fixed capital formation	(6009Y)	138 338	144 931	133 923	139 647	144 548	149 892	163 366	178 644
Chang in inventories[3]	(6010Y)	870	-1 641	6 731	7 096	1 311	6 782	9 152	11 433
Residual item	(6011Y)	26 308	15 287	5 233	1	-3 436	2 763	4 612	-2 168
Gross domestic expenditure	**(6012Y)**	**869 833**	**868 656**	**866 196**	**894 894**	**916 086**	**959 725**	**1 010 214**	**1 073 728**
Exports of goods and services	(6013Y)	226 961	234 329	237 284	257 011	261 541	262 920	260 498	268 129
Exports of goods (f.o.b.)	(6608Y)	197 015	200 877	203 627	222 061	223 830	220 794	215 092	225 855
Exports of services	(6609Y)	29 946	33 452	33 657	34 950	37 711	42 126	45 406	42 274
Less imports of goods and services	(6014Y)	233 319	238 017	218 155	299 757	230 254	241 543	262 063	295 770
Imports of goods (f.o.b.)	(6610Y)	191 225	1693 556	175 585	189 411	189 466	200 991	211 591	246 889
Imports of services	(6611Y)	42 094	44 461	42 530	40 346	40 808	40 552	50 472	48 881
Expenditure on gross domestic product	**(6006Y)**	**860 516**	**864 968**	**885 365**	**922 148**	**947 373**	**981 102**	**1 008 649**	**1 046 087**

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1. Including non-profit institutions serving households.
2. Current expenditure of salaries and wages and on goods and other services of a non-capital nature by the service departments (not business enterprises) of general government. General government includes central government, provincial governments and local governments.
3. After inventory valuation adjustment.

Source: South African Reserve Bank (2005a :115).

Table 2.3 National Accounts: Ratios of Selected Data 1990-2004

Key Information **South African Reserve Bank**

National accounts
Ratios of selected data
At current prices

Period	Final consumption expenditure by households to GDP[1] (6280J)	Final consumption expenditure by general government to GDP[1] (6281J)	Gross fixed capital formation to GDP[1] (6282J)	Public sector expenditure[3] to GDP[1] (6283J)	Industrial and commercial inventories to GDP[4] (6284J)	Compensation of employees to GDP[2] (6285J)	Gross savings to GDP[1] (6286J)	Saving to disposable income of households (6287J)	Household debit to disposable income of households (6525J)
1990	61.0	19.7	19.1	25.7	17.7	57.2	19.1	2.6	54.3
1991	61.6	19.8	17.2	25.7	16.7	57.1	18.6	2.7	55.0
1992	62.9	20.2	15.7	25.5	16.0	57.5	16.3	5.3	52.2
1993	61.8	20.1	14.7	24.4	14.5	56.6	16.4	4.5	53.2
1994	61.8	20.0	15.2	23.8	14.9	55.9	16.9	2.8	55.5
1995	62.6	18.3	15.9	22.6	16.0	55.8	16.5	1.8	58.3
1996	62.2	19.1	16.3	23.6	16.4	55.4	16.1	1.8	61.3
1997	62.9	19.2	16.5	24.0	15.9	55.3	15.1	1.7	61.4
1998	63.3	18.8	17.1	24.8	14.7	56.3	15.2	1.5	60.2
1999	63.2	18.4	15.5	23.1	14.3	56.0	15.9	1.3	57.1
2000	63.0	18.1	15.1	22.3	15.0	53.9	15.8	1.2	53.3
2001	62.7	18.3	15.1	22.2	15.0	52.1	15.4	0.9	52.6
2002	62.0	18.3	15.1	22.2	15.6	49.7	16.8	0.7	50.3
2003	62.8	19.1	16.0	24.0	15.8	51.2	15.7	1.3	51.7
2004	63.3	19.6	16.5	24.5	15.6	51.5	14.4	0.9	55.9

Source: South African Reserve Bank (2005a:155).

Gold accounted for roughly 12 percent of exports in 2004, while the total value of the exports of all minerals and metals exceeded a third of all exports. The largest manufactured-export category was motorcars, accounting for 5.4 percent of the total. Other leading exports are stainless steel, motor vehicle parts and accessories, wood pulp, oils and chemicals and wine (South African Department of Trade and Industry 2005a).

The 2004 figures show the United Kingdom as the largest importer of South African goods, with 10.8 percent of the total. It was followed by the United States (NAFTA) with 10.2 percent, Japan with 9.7 percent and Germany with 7.5 percent. China was the 12th largest export destination with Zimbabwe in 13th place. Other important markets are the Netherlands, Belgium, Italy, Switzerland and Australia (South African Department of Trade and Industry 2005a).

Petroleum oils and related products form the largest import category with 12.4 percent of the 2004 total. Original equipment components for motor vehicle and manufacture is the second, with 8.5 percent, followed by motor cars and "other" at 5.4 percent, and aircraft at 3.2 percent. Other significant imports are data processing machinery, parts and accessories, and electronic products (South African Department of Trade and Industry 2005a).

Germany is the leading source of imports. It accounted for 14.8 percent of the 2004 total. There are BMW, Daimler-Chrysler and Volkswagen factories in South Africa. Second was the United States with 7.7 percent; followed by the United Kingdom, Japan and China. Other important countries for imports are Saudi Arabia, Iran, Australia, Switzerland, India and Zimbabwe (South African Department of Trade and Industry 2005a).

The changing structure of the South African economy is illustrated in Table 2.4. The share of the primary sectors of total GDP declined from 29.7 percent in 1960 to 10.3 percent in 2000. Mining's contribution declined from 22.5 percent to 6.0 percent during this period. The secondary sector, with manufacturing as the major component, increased its contribution from 24.2 percent to 26.2 percent over the same period. The tertiary sector increased from 46.0 percent to 63.5 percent. The largest percentage increases were in the categories of transport, storage and communication, financial and business services and community social and personal services (including general government).

Table 2.4 Structure of the South African Economy 1960 - 2000

	% of total GDP				
Sector	**1960**	**1970**	**1980**	**1990**	**2000**
Primary sector	**29.7**	**23.6**	**16.8**	**15.0**	**10.3**
-agriculture	7.2	4.8	5.1	5.3	4.3
-mining	22.5	18.8	11.7	9.7	6.0
Secondary sector	**24.2**	**31.5**	**36.5**	**33.3**	**26.2**
-manufacturing	18.8	24.4	28.9	25.5	19.8
-electricity, gas & water	2.1	2.3	3.2	4.3	3.6
-construction	3.3	4.9	4.4	3.5	2.8
Tertiary sector	**46.0**	**44.9**	**46.7**	**51.7**	**63.5**
-wholesale & retail trade, catering & accommodation	12.2	13.9	14.0	15.0	13.9
-transport, storage & communication	5.9	6.1	7.5	7.4	11.0
-financial & business services	12.7	12.7	12.8	14.5	19.0
-community, social & personal services (incl. general government)	15.2	12.2	12.4	14.8	19.6

Source: South African Reserve Bank, cited by Roux (2002:56).

Tourism now accounts for almost 7 percent of GDP on a value-added basis. Prior to 1986 the number of arrivals and departures remained steady at around 500,000. There was a gradual increase in the number of foreign travellers from 1986 to 1990 and this accelerated from 1990 to 1993. After 1993 the pace of increase continued, and in 2002 the number of foreign travellers visiting South Africa was 6,547,916. Overseas travellers accounted for 1,558,325 of the total visitors (Statistics South Africa 2004).

South Africa's economic performance from 1980 to 1993 and from 1994 to 2004 is shown in Table 2.5.

Table 2.5 South Africa's Performance 1984-1993 vs. 1994-2004

Performance Indicator	1984-1993	1994-2004
Economic growth	1% a year	3% a year
Investment	-2.9% a year	4.7% a year
Inflation	Average14.3%	Average <6%
Deficit	Up to 9.3% in 1993	Down to around 3%
Financial account	Net outflows R46.1 bn	Net inflows R169.6 bn
Foreign investment	Boycott	Unprecedented ratings and upgrades
Government expenditure	Deficit to GDP 10.4% highest	Deficit to GDP 2.6% 2004
Dollar exchange rate	-6.6% a year	-4.9% a year
Taxation Value Added Tax	10% introduced 1991	14%
Corporate	50%	29% Secondary dividends 12.5 %
Individual marginal rate	50% to 1987	40%

Source: Cadogan, South African Revenue Services (2005).

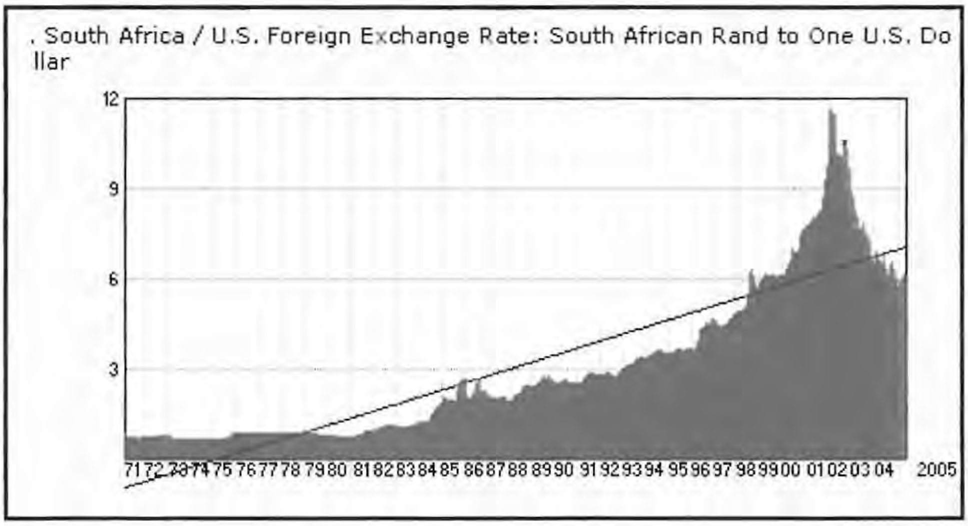
The effects of isolation and economic sanctions are apparent in the period 1980 to 1993. The improvements since the first democratic elections are reflected in the 1994 to 2004 period.

Despite the substantial improvements since the new dispensation in South Africa, growth has lagged behind most of the other emerging markets. South Africa has sometimes ranked in the lowest quartile of the 25 emerging countries tracked by the *Economist* (*Economist* 2004b). The country is planning to lift economic growth to more than 6 percent from the current 4 percent and is looking to raise investment by 10 percent a year to help reduce unemployment (Mutikani 2005).

The economy experienced significant turbulence over the period 1994 to 2004, notably in foreign exchange rates, interest rates and the rates of inflation. The rand exchange rates against the US dollar are shown in Figure 2.2. The rand ended 1994 at 3.56 to the dollar, deteriorated steadily to 7.64 in 2000, spiked to 11.68 in 2001, declined to 8.95 in 2002, 6.54 in 2003 and 6.52 to the dollar at the end of 2004. The prime interest rate varied from 16.25 percent in 1994 to a high of 25.5 percent in 1998, followed by a gradual decline to 11 percent in 2004 and 10.5 percent in 2005. Inflation averaged 14.3 percent, with a high of 18.8 percent, from 1984 to 1993 and has averaged below six percent since then (South African Reserve Bank 2005b, Cadogan 2005).

While no country is immune to sudden currency fluctuations (Drucker 1999), it should be noted that the aforementioned oscillations are far more marked than those of South Africa's main trading partners such as the United Kingdom, the USA, Germany, Japan, China and Saudi Arabia.

Figure 2.2 South Africa / US Foreign Exchange Rate South African Rand to One US Dollar.



Source: Department of Trade and Industry (2005b).

2.5 Culture

The sociocultural aspects of a country concern a society's attitudes and cultural values. Attitudes and values often drive demographic, economic, political/legal and technological conditions and changes (Hitt, Ireland and Hoskisson 2005). The historical segregation of racial and ethnic groups has resulted in distinct cultural developments. Within the white population, English and European cultures have re-emerged as dominant influences, especially with the erosion of the apartheid system and the end of the isolation that it caused. Among blacks, urban and rural cultures continue to differ. Urban black culture is multiethnic and increasingly draws on international influences, such as those of African Americans. In rural areas, black cultural activities tend to emphasise the traditions of particular ethnic groups (Microsoft Encarta 2001b). It is my sense that culture is moving beyond this and is forming an African, or South African, identity or consciousness in certain aspects.

Religion influences attitudes and values, and, once again, South Africa's diversity comes to the fore. About 68 percent of the people of South Africa are Christians, mainly Protestants. Some black South Africans follow independent churches that combine elements of Christianity and traditional African religions. A significant minority of blacks (20 percent) also follow traditional beliefs. Hindus and Muslims each make up somewhat over 1 percent of the total. There is also a significant Jewish community (Microsoft Encarta 2001b).

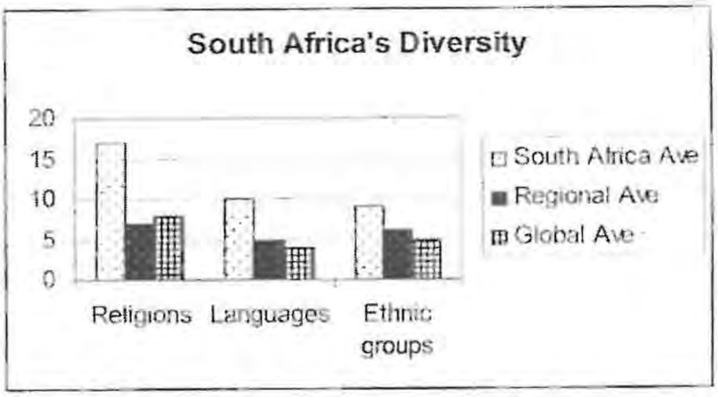
The diversity of religions, languages and ethnic groups in South Africa is depicted in Table 2.6 and illustrated graphically in Figure 2.4. The country has seventeen religions compared to an average of seven in the region and eight globally, eleven languages compared to an average of five regionally and four globally and seven ethnic groups compared to a regional average of six and a global average of five.
The percentage accounted for by the largest groups in each of the three categories is generally less than half of that for the regional and global equivalents.

Table 2.6 Key Ethnic Drivers in South Africa

Key Drivers		South Africa	Reg. Avg.	Global Ave.
Religions	# Present	17	7	8
"	% Largest Group	34	65	69
Languages	# Present	10	5	4
"	% Largest Group	25	55	74
"	Number Official	13	2	1
Ethnic Groups	# Present	9	6	5
"	% Largest Group	24	55	70
Other Drivers	Population (k): 2000	46215	14848	26529
"	GDP/per capita ($PPP)	6800	2054	7416

Source: *South Africa Economic Studies* (2000) cited by Rohman and Viljoen (2005:7).

Figure 2.3 South Africa's Diversity



Source: *South Africa Economic Studies* (2000) cited by Rohman and Viljoen (2005:7).

Hofstede (1991) in his study of the impact of culture on management, placed South Africa in his Anglo country cluster together with the USA, Australia, New Zealand, Canada, the Netherlands and Norway. South Africa's ratings on power distance, masculinity and uncertainty avoidance are very close to those of the United States and Great Britain. South Africa, however, ranks only 16th in individualism, while the United States ranks first, and Great Britain third, of the 53 countries in Hofstede's study (Hofstede 1991). One would expect these rankings to be different today (and even more so in the future) because of the transformation of South African society. Hofstede used only white males in his study. A criticism of his work, which he later acknowledged, was that he had not taken sufficient account of multi-ethnicities in many societies (C.O.Smith, personal communication, 3 December 2005).

Table 2.7 Hofstede's Rankings

Country	Power Distance	Individualism	Masculinity	Uncertainty Avoidance
Australia	41	2	16	37
Brazil	14	26-7	27	21-2
Germany	42-4	15	9-10	29
Great Britain	42-4	3	9-10	47-8
Japan	33	22-3	1	7
South Africa	36-7	16	13-14	39-40
Singapore	13	39-41	28	53
United States	38	1	15	43
RANK: 1 = Highest	53 is the lowest.			

Source: G. Hofstede (1991), cited by Schneider and Barsoux (1997). In: Bartlett and Ghoshal (2000:194-195).

South Africa is often described as a "sports mad" country, where sport is "the national religion" (South African Web 2005, cited by Rohrman and Viljoen 2005). Soccer, rugby and cricket are the leading sports. Team sports are encouraged, if not compulsory at schools. South Africa hosted the Rugby World Cup in 1995 and the Cricket World Cup in 2003. Both events were well managed by general accounts. The Soccer World Cup will be held in South Africa in 2010. Racially segregated sport was one of the most divisive issues during the apartheid era. Democracy has brought the potential for sport to unite the country, as demonstrated when South Africa won the Rugby World Cup in 2005.

2.6 Other Factors

An analysis of South Africa would not be complete without including the issues or factors of AIDS, affirmative action, black economic empowerment, land reform, crime and NEPAD. These issues have all had an impact on South Africa and the corporations operating inside the country and are likely to do so for some time to come. Companies need to have developed, or to develop, new capabilities and competencies to deal with these issues. Some of these factors influence a company's ability to develop and transfer capabilities and competencies. Each of the six factors is outlined below.

2.6.1 AIDS

The United Nations' 2004 report, *AIDS Epidemic Update*, states that while sub-Saharan Africa has 10 percent of the world's population, it accounts for 60 percent of all people living with AIDS. The report shows that southern Africa is one of the worst affected regions. Some of the prevalent rates of HIV/AIDS are: Swaziland with 39 percent, Botswana with 37 percent, Lesotho with 29 percent, Zimbabwe with 25 percent, South Africa with 22 percent and Zambia with 16 percent (Pile 2004).

South Africa had the world's highest number of people living with HIV an estimated 5.3 million people, 2.9 million of them women, at the end of 2003 according to the United Nations report. It states that there is no sign yet of a decline in the epidemic. Analysis of death registrations shows a rise in the total number of adult deaths in the past six years – an increase of more than 40 percent – and 150 percent for women aged 40 to 49 years, once population growth and possible improvements in death registrations are taken into account.

2.6.2 Affirmative Action

The Employment Equity Act (1998) has the purpose of promoting equal opportunity and fair treatment in employment through the elimination of unfair discrimination and implementing affirmative action measures to redress the disadvantages in employment experienced by designated groups, to ensure equitable representation in all occupational categories and levels in the workplace (South African Department of Labour 2005).

An employer must prepare and implement a plan to achieve employment equity, which must have objectives for each year of the plan, include affirmative action measures, have numerical goals and a timetable for each year, have internal monitoring, evaluation and internal dispute resolution procedures and mechanisms and identify persons to monitor and implement the plan. An employer with 150 employees or more must submit yearly reports; those with fewer than 150, every two years. The act has provisions for monitoring, enforcement and legal proceedings (South African Department of Labour 2005).

2.6.3 Black Economic Empowerment

Black economic empowerment (BEE) is a government strategy to redress the imbalances in South African society created by apartheid. It is an integral part of South Africa's transformation process, encouraging the redistribution of wealth and opportunities to previously disadvantaged communities and individuals including blacks, women and people with disabilities (South Africa Information 2005). The socioeconomic strategies envisaged include: increasing black ownership and management of businesses; facilitating community and worker ownership of "enterprises and productive assets"; skills development; issues around equal representation in the workplace; preferential procurement and investment in businesses that are owned by black people.

Empowerment charters have been developed for sectors such as mining, information technology and financial services and they are underway in other industries. The Department of Trade and Industry says that its black economic empowerment programme is working and that it is on schedule to achieving a target of 25 percent BEE ownership in South African companies by 2014 (South Africa Information 2005).

2.6.4 Land Reform

In May 2005, the Constitutional Court made it clear that land grabs would not be tolerated. And yet, the *Economist* (2005b) reports, however orderly land reform has been, there is growing black frustration with the slow pace of reform. Land reform has been a priority of the ANC since coming to power in 1994. The authorities are now buying claimed land and giving it back to the original owners while planning to redistribute 30 percent of the white-owned commercial farmland (22 million hectares) to black buyers by 2014 on a willing-buyer and willing-seller basis.

2.6.5 Crime

South Africa ranks third in the world in both murder and serious assault (per 100,000 people) and has the eighth largest prison population (*Economist* 2005a). The murder rate is about nine times that of the United States and twenty-seven times that of the United Kingdom. With a reputation of having one of the world's highest crime rates, South Africa did report a decrease in most types of violent and property-related crime in 2003 (South Africa Information 2005). Rape remains a serious problem, with 55,000 cases reported, one of the highest rates in the world. Aggravated robbery, drug-related crime and illegal possession of firearms increased.

This was the first time in 10 years that the annual number of murders in South Africa dropped below 20,000. Yet, compared with most of the developed world, the country is still very violent and criminal. According to Altbeker, a researcher at South Africa's Institute for Security Studies, fear of crime is higher in mixed societies than it is in homogenous ones (*Economist* 2005a).

2.6.6 NEPAD

The New Partnership for Africa's Development (NEPAD) is a vision and strategic plan for Africa's renewal (NEPAD 2005). It arises from a mandate given to five states, including South Africa, by the Organisation of African Unity to develop an integrated socioeconomic development framework for Africa.

The prime objectives are to eradicate poverty, to place African countries on a path of sustainable development, to facilitate Africa's integration into the global economy and to accelerate the empowerment of women. NEPAD plans to mobilise resources by improving management, improving Africa's share in global trade, attracting foreign investment and increasing capital flows through debt reduction and aid. A steering committee oversees project and programme development and the NEPAD Secretariat co-ordinates the implementation of projects and programmes approved

NEPAD looks to the eight richest nations (G8) and others to help fund the organisation. The implicit arrangement is that NEPAD and the African Union will uphold human rights and democracy, fight corruption and promote good governance in exchange for aid and assistance (*Economist* 2004d).

2.6.7 Zimbabwe

Zimbabwe's gross domestic product has shrunk by a third since inflation has been running at an estimated 254 percent per year and about a quarter of Zimbabwe's 12 million-plus population are thought to have emigrated. The recent drive to "clear out" the cities by removing informal businesses and destroying houses, said to have been built without permission, has left at least 700,000 more people destitute (*Economist* 2005e). Further developments in Zimbabwe will impact South Africa directly and indirectly via world perceptions of Africa.

2.7 Determinants of Competitiveness

Although the works of Porter (1990) are reviewed in Chapter 3, to begin the analysis required in the thesis, his "diamond" system is used in this section to highlight certain factors in South Africa that determine the country's competitiveness and national advantage. The determinants of factor conditions, demand, related and supporting industries and firm strategy, structure and rivalry interact in Porter's model to determine national competitiveness or advantage. Chance and government play important roles as well. National advantage, or competitiveness, includes core competencies developed by corporations operating in the country while the factors promulgated by Porter influence the development of core competencies.

2.7.1 Factor Conditions

Natural Resources

South Africa's total land area is about 1,200,000 square kilometres, or 470,693 square miles, which makes it nearly five times bigger than the United Kingdom and more than twice as large as France (Roux 2002). The coastline is 2960 kilometres (1,840 miles) with few indentations. There are few natural harbours, East London and Knysna being the exceptions. The coastal plain is fertile and generally narrow, varying from 130 kilometres (8 miles) to 30 kilometres (19 miles). (Microsoft Encarta 2001a).

Porter (1990) states that location, relative to other nations that are suppliers or markets, affects transportation costs and the ease of cultural and business exchange. The time zone of a nation, relative to other nations, may also be significant in a world of almost instant global communications (Porter 1990). South Africa's time zone is one or two hours ahead of Greenwich Mean Time depending on the season.

Sparks (2003:306) points out that "South Africa is at the bottom of the world's most marginalized continent – far from the economic hubs of North America, Europe and Japan and that "Africa has this terrible reputation of being the 'hopeless continent' in a world where few are disposed to differentiate between its 54 countries. South Africa gets lumped in with the rest – tarred with the brush of Afro-pessimism." He refers to an interview with Jeffrey Sachs where the economist said that South Africa's chances would be invariably better if it were located where Morocco is (Sparks 2003).

The climate is temperate subtropical with considerable regional variations caused by differences in wind systems and ocean currents. The Western Cape has a Mediterranean climate. It is generally dry, droughts are relatively common and water for agriculture and industry is at a premium. Sixty-seven percent of the country receives less than 27 inches of rain a year. This, together with infertile soil, restricts the areas for suitable crop raising. Rivers are highly seasonal in flow and many are dry for much of the year. They are therefore of little use for navigation or hydro-electrical power or irrigation. There are 200 species of mammals, including lion, elephant, hippopotamus and rhinoceros. There is a long history of wildlife conservation (Microsoft Encarta 2001a).

South Africa has great mineral wealth. It is the world's leading producer of gold, platinum metals, chromium ore and manganese and aluminium silicates. It has 5 percent of the world's coal reserves, and, although it only ranks fifth in diamond production, it is the world's largest buyer and marketer of diamonds through the De

Beers Company. Please see Table 2.8 that shows production and estimated reserves of the various minerals.

Table 2.8 South Africa's Mineral Production and Reserve Figures

Commodity	2003 Production		Estimated Reserves	
	Metric	Global Position	Metric	Percentage of World Reserves
Gold	373 t	1	36 000 t	41%
Platinum Group	266 t	1	72 000 t	88%
Diamonds	12.8Mct	5	**	**
Chromium ore	7.4 Mt	1	5 500 Mt	76%
Manganese	3.6 Mt	1	4 000 Mt	80%
Titanium	1.2 Mt	2	244 Mt	30%
Aluminium	183 000 t	1	51 Mt	37%
Coal	239 Mt	6	33 814 Mt	5%

** Sensitive data, not released.

Source: Adapted from Council for Geoscience (2003), cited by Angelosante and Griffiths (2003) and Department of Minerals and Energy (2005).

Coal provides 79 percent of the total primary energy supply, crude oil 10.0 percent, renewable sources 6 percent, nuclear power 3.0 percent, gas 2.0 percent and hydroelectric power less than 1.0 percent (South African Department of Minerals and Energy 2005).

There are 8 million hectares (21 million acres) of forested land; of which 1.3 million hectares (3.1 million acres) are commercial forest. Pine, eucalyptus and wattle are the leading timber species (Microsoft Encarta 2001a).

Human Resources

The population was 44.8 million in October 2001. Black Africans made up 79 percent of this figure, Coloureds (people of mixed ancestry) 8.9 per cent, Indians and Asians 2.5 percent and Whites 9.6 percent (Statistics South Africa 2001).

Of the total population 8.4 percent had education beyond high school – 5.2 percent, 4.9 percent, 14.9 percent and 29.8 percent for the above race groups respectively.

Among Black Africans, 22.3 percent have had no schooling at all (Statistics South Africa 2001).

English is the most universal language and has become the world standard for business transactions, the language of technology and electronic commerce. Eighty percent of all internet exchanges are conducted in English (Ohmae 1999). Despite the fact that English is recognised as the language of commerce and science, only 8.2 percent of South Africans spoke it at home in 2001. IsiZulu, with 23.8 percent, and IsiXhosa with 17.6 percent, were the most commonly spoken home languages (Statistics South Africa 2001).

Estimates of unemployment vary from 29.5 to 41.6 percent. Black Africans are at the higher end of unemployment estimates, with 43.3 percent for males and 57.8 percent for females. The corresponding figures for Whites were 6.1 percent for males and 6.3 percent for females (Statistics South Africa 2001).

Income distribution varies considerably according to race, gender and location. While there is great inequality of income among races, it also exists within race groups. Median incomes in the rural areas are about half of those earned in urban areas. The poverty rate among Black, female-headed households is 60 percent and 30 percent for those headed by Black men (IDASA 2001, cited by Bentley, Cocks, Guambe and Rangeiro 2001).

About half of South Africa's black population live below the poverty line. South Africa (0.593) and Brazil (0.61) have two of the highest Gini coefficients in the world. (Sierra Leone and Central African Republic actually have higher coefficients.) The Gini coefficient is a measure of income inequality where 0 equals absolute equality and 1 equals absolute inequality (CIA 2002).

Sparks (2003:220) points out that apartheid's legacy of poor education for the majority of the population, together with the job laws favouring Whites, truncated the skills base of the working class. "Education was not only segregated, but hopelessly unequal. White public education was equal to the best in the developed world, while Black education was poorer than many in the Third World."

Capital Resources

South Africa had the 16th largest stock market capitalisation in the world in 2002 (*Economist* 2005g). Its current investment ratio is still below that of most emerging market economies (South African Reserve Bank 2004). Section 2.4 shows the relative weakness of the country's savings and fixed capital formation.

South Africa's real cost of capital, at 8.6 percent, is the highest of 24 countries monitored by the Holt Group, which measures the aggregate cash flow return on investment for all publicly quoted companies valued at over 100 million US dollars. South Africa's businesses' Cash Flow Return on Investment (CFROI) is about 9 percent against the 8.6 percent cost of capital. Equivalent figures for the US are 10.5 percent and 5.5 percent (Schneider 2002).

Physical Infrastructure

The railway systems in South Africa link all main centres. There are 25,555 kilometres (15,879 miles) of track, ranking the system 10th in the world although it ranks 25th in area. There are 534,131 kilometres (331,894 miles) of road (Microsoft Encarta 2001c).

Postal, telegraph and telephone services are operated by two public companies – the South African Post Office and Telkom SA. These were formerly government departments but have been partially privatised. Telkom is now listed on the Johannesburg Securities Exchange. The national airline is South African Airways. Several other smaller carriers and foreign airlines serve the country both domestically and internationally (Microsoft Encarta 2001c). Sunter (1994) claims that South Africa has the best infrastructure of any developing country in the world. Its modern network of roads, railways, bridges, electricity, telecommunications, airports and harbours is unrivalled.

Information Infrastructure

South Africa is the 23rd largest country in terms of information technology (IT) investment, fourth largest in network PCs, 23rd in worldwide telecommunication spending and 18th in terms of internet hosts (World Information Technology Alliance 1999, cited by Sparks 2003). It ranks 44th of the 44 countries listed in the information and communication technology (ICT) index, a measure of usage that includes per capita measures of telephone lines, Internet usage, personal computers and mobile phone users (*Economist* 2005g).

Scientific and Technological Infrastructure

South Africa's level of investment in research and development (R&D) as a percentage of GDP across all technology sectors amounted to 0.7 percent in 2001. The OECD average across public and private sectors exceeds 2.15 percent, with countries such as Sweden (3.6 percent), Finland (3.4 percent), Japan (3.0 percent) and South Korea (2.9 percent) spending far more. The US figure is 2.8 percent (*Economist* 2004e). The South African government concluded that the current level of expenditure on research and development is significantly lower than it should be to ensure national competitiveness in the years to come. It decided in 2002 to double this investment over the following three years (South African Department of Science and Technology 2004).

The country does not feature in the 44 countries ranked in the Innovation Index, a measure of human resource skills, market incentive structures and interaction between business and scientific sectors, compiled by *The Economist World in Figures* (2005).

While the South African averages and rankings appear noncompetitive, there are areas in which technology is demonstrated to be highly competitive internationally. In the early part of the 20th century technology was influenced by the importance of the mining sector. The key technology missions after 1950 were the need for military dominance in the subcontinent and energy self-sufficiency (South African Department of Science and Technology 2004).

The world's only coal-based synthetic-fuels manufacturing facility was begun in 1950 and the first auto fuel produced in 1955. The Fischer Tropsech technology was specially developed by Sasol to manufacture synthetic gas from low-grade coal. This was converted into a wide range of petrochemicals (Sasol 2004).

According to De Klerk (1998:66) South Africa had become a major exporter of sophisticated arms. "It had developed the G5 and G6 artillery systems, which were generally regarded as the best in world. It had also produced a whole range of excellent armoured vehicles, a sophisticated attack helicopter and its own modified version of the Mirage fighter." As De Klerk later revealed in 1993, South Africa had also acquired its own nuclear capability and, at the end of the 1980s, was about to test a medium-range missile system which would soon have enabled it to launch its own satellites. The South African unique uranium enrichment process contributed to the nuclear project. Six atomic bombs were dismantled and destroyed in 1989.

Sunter (1987:88) regards South Africa as having a medium-to low-tech environment. He does not believe that the country has an education system that could support a broad enough high-tech environment to underpin a sophisticated "first world" economy and to provide the major impetus for growth in manufactured exports. Medicine, he feels, is an exception. Sunter stresses the county's ability to manage large projects such as Sasol, Escom (Electricity Supply Commission) and new mines. "It is part of the tradition of the mining industry to have superb project management skills." The industry is a world leader in deep-mining expertise. Gold is mined below 3,000 metres (10,000 feet) in certain areas.

2.7.2 Demand Conditions

General market demand has increased with the growth of the economy, but more so in the years from 1994 to 2004 when economic growth was 3 percent compared to the 1 percent average from 1984 to 1993. A feature of the South African market over time has been the prevalence of multicultural, diverse and small markets, a challenge to marketers and advertisers, especially during periods of slow growth because of competition. While industries were protected from imports during isolation there was generally some competition internally because of the structure of the economy. The structure is explained in Section 2.7.4.

2.7.3 Related and Supporting Industries

Porter (1998) describes a cluster as a geographic concentration of interconnected companies, specialised suppliers, service providers, firms in related industries and associated institutions (examples: universities, technical colleges and industry associations) in a particular industry that compete but also cooperate. The whole is greater than the parts.

The original growth of industry in South Africa was facilitated by the mining industry, around which engineering and manufacturing organisations were established to form clusters. Each of the three South African multinational companies studied are parts of a "cluster" and are covered in Chapter 7.

2.7.4 Firm Strategy, Structure and Rivalry

The isolation of South Africa, sanctions and rigid exchange controls made it very difficult for South African firms to expand internationally in the 1980s (*Economist* 1998). Since they could not easily operate abroad, the leading companies in the country therefore grew sideways through diversification. The Anglo American Corporation, the country's largest company, diversified into motor vehicles, aluminium wheels, newspapers, vineyards, fruit juices and many other enterprises unrelated to its core expertise, mining. The South African Breweries diversified into retailing, food, furniture, footwear, textiles and other areas. Barlow Rand, the predecessor to Barloworld, expanded from a capital equipment base into food, sugar, electronics, appliances and mining. In the early 1980s, the Anglo American Corporation accounted for more than half the market capitalisation of the Johannesburg Stock Exchange with six other conglomerates controlling a further 30 percent of the total. See Table 2.9.

Table 2.9 Who Controls the JSE

(JSE control-by % of market capitalization)

Group	2004	2003	2000	1996	1994	1983
Anglo American	18,7	22,3	23,6	27,5	43,3	52,5
Sanlam	2,7	3,8	13,2	11,4	10,5	9,4
Old Mutual	4,5	6,9	11,0	10,2	9,7	0,6
Rembrandt	7,9	8,1	11,0	10,6	13,0	2,1
Company directors	5,8	6,1	8,9	10,0	7,0	9,1
Standard Bank/Liberty	4,7	4,3	5,2	11,1	7,2	1,1
Black groups*	6,3	4,7	5,7	6,3	-	-
Foreign groups	18,5	17,9	3,9	4,1	2,2	5,4
Absa	2,2	-	-	-	-	-
Institutions/other	10,3	11,2	6,7	0,8	0,9	18,1
RMB/Firstrand	4,9	4,4	2,9	1,7	0,5	-
Sasol	4,2	3,7	2,2	2,1	1,7	-
Investec/Fedsure	0,8	0,7	1,9	1,1	0,4	-
Anglovaal	-	-	-	3,0	3,6	1,7
Bidvest	1,2	1,0	1,0	-	-	-
SABMiller	5,1	3,5	2,8	-	-	-
State	2,2	1,5	-	-	-	-

*Includes all companies that have significant black influence

Source: McGregor (2004:34).

The isolation experienced by South Africa in the 1980s affected the general level of knowledge, expertise and technology but certain companies ensured that they stayed up-to-date with technology and other aspects of world industry (E.A.G. Mackay, personal interview, London, 27 November 2001).

In the new circumstances most of the companies have restructured and sold their non-core businesses. During the last two decades many acquisitions and divestments have taken place so that top management in South Africa, generally, has learned a great deal about acquisitions. Managers also experienced, in many cases, the adverse results of investing outside their core competencies.

2.7.5 Government

The effect of the apartheid policy on corporations was the creation of a siege economy where the companies had very few opportunities outside the country and where their operations inside were curtailed by laws. The establishment of democracy and subsequent steps taken by the government to get South Africa back into the world arena (reduction of protection, WTO, trade agreements) have resulted in worldwide opportunities and, often, more competition at home (Sparks 2003 and Sappi Annual Report 2001).

Sparks (2003) notes that the ANC underwent an astonishing turnabout in the formulation of its economic policy. It moved from a left-wing socialist position that envisaged large-scale nationalisation to a position where it embraced free market orthodoxy that involves large-scale privatisation. It was only in February 1992, at the World Economic Forum in Davos, in the Swiss Alps, that Mandela finally turned against nationalisation. There had been many conferences and much consulting with businesses in SA and elsewhere before arriving at this position (Sparks 2003).

Lamont (2002) commends South Africa for the quality of its domestic institutions (that is a free press, an independent judiciary, churches, trade unions, nongovernmental organisations and a well-developed and socially engaged business community), and its choices of economic policies toward tariff reductions, capital flows, the transfer of knowledge, low inflation, affordable budget deficits, secure property rights and efficient and non-corrupt governance. State assets, government departments and parastatal organisations have been restructured. Certain of these restructurings have been successful, especially that of the South African Revenue Service (Cadogan 2005). Table 2.5 above reflects the improvements in taxation rates.

Wikipedia (2005) supports Lamont's views. It states that the government of South Africa demonstrated its commitment to open markets, privatisation, and a favourable investment climate with its release of the crucial Growth, Employment and Redistribution (GEAR) strategy to cover the period 1996 to 2000. The strategy had mixed success. It brought greater financial discipline and macroeconomic stability but failed to deliver in key areas.

South Africa is also credited for great progress in dismantling its old economic system, which was based on import substitutions, high tariffs and subsidies, anticompetitive behaviour, and extensive government intervention in the economy (wikipedia 2005). The new leadership has moved to reduce the government's role in the economy and to promote private-sector investment and competition. It has significantly reduced tariffs and exports subsidies, loosened exchange controls, and improved enforcement of intellectual-property laws. A new competition law was passed and became effective in 1999.

2.7.6 Chance

The negotiations that led to the establishment of democracy in South Africa are often regarded as being facilitated by the fall of communism. Andrew and Mitrokhin (2005) state that the Soviet one-party state and the South African apartheid system began to crumble away at almost the same time. Gorbachev's unwillingness to devote more time and money to the struggle in South Africa helped to turn the ANC towards negotiations, while the end of the Cold War pushed the South African government in the same direction.

South Africa succeeded in reaching a political accommodation, which many other less diverse countries, faced with similar situations, had failed to do throughout history. This is sometimes held to be because of the presence of extraordinary individuals – such as Nelson Mandela, F.W. de Klerk and Archbishop Desmond Tutu – a view that I support. Andrew and Mitrokhin emphasise Mandela's immense moral authority and capacity for uniting the South African people which he had "amazingly" preserved during more than 27 years in prison.

2.8 Differential Diagnosis

Sachs (2005) utilises a differential diagnosis of seven categories to analyse countries. These are: poverty trap; economic policy framework; fiscal framework and fiscal trap; physical geography; governance patterns and failures; cultural barriers and geopolitics. I find physical geography and geopolitics the most useful for this thesis when taken in conjunction with Porter's Diamond. Physical geography, history and geopolitics explain the country's emergence as the most industrialised country on the African continent despite the apartheid era.

South Africa is a member of the United Nations, the Commonwealth of Nations (which it left during the apartheid years), the African Union and the Southern African

Development Community (SADC). There are mixed feeling among business people and politicians in southern Africa about the country's dominant role in the region. South Africa has encouraged peaceful resolution of conflicts in Angola, the Democratic Republic of Congo (DRC), Mozambique, Rwanda and Burundi and, most recently, Zimbabwe. However, the *Economist* (2004c), claims that South Africa's continuing failure to facilitate a resolution of the political and economic crisis in Zimbabwe has cost it dearly in terms of the credibility of its foreign policies as well as its efforts to attract foreign direct investment because of concerns about the ANC's commitment to property rights.

2.9 World Competitiveness

The *World Competitiveness Report Yearbook* (WCY) reports on the competitiveness of nations, ranking and analysing how a nation's environment sustains the competitiveness of enterprises. It uses 321 different criteria, grouped into four competitiveness factors: economic performance, government efficiency, business efficiency and infrastructure (Institute of Management Development [IMD] 2003).

The format used in the World Competitiveness Report has varied in the past. The 2005 yearbook ranks South Africa 46th out of 60 countries listed. This is shown in Figure 2.4. In contrast the 2003 yearbook ranks South Africa 18th of 30 in overall competitiveness of the countries with populations greater than 20 million. The USA is in the first position in 2005, followed by Hong Kong and Singapore. Argentina, Indonesia and Venezuela occupy the bottom positions. In the 2003 rankings South Africa ranks 21st in infrastructure, 23rd in economic performance, 15th in government efficiency, but 10th in business efficiency. Furthermore, in a management practices subsection of business efficiency, South Africa rates 9th, ahead of countries such as France, Italy, Japan and the United Kingdom. Appendices 2.1 and 2.2 provide more information on these aspects.

The 2001 yearbook lists the strongest and weakest criteria of 49 different countries. It regards South Africa's greatest strengths as cheap electricity and investment in telecommunications, ranked first and second respectively of the 49 countries surveyed. South Africa ranks second of the 49 countries in the cost-of-living index, third in both effective income tax rate and employers' social security contribution rate. The weaknesses include human development, brain drain (well-educated people emigrating abroad), personal security, harassment and violence, equal opportunity and unemployment. The weaknesses mentioned here rank from 47th to 49th of the countries listed. More details on the strengths and weaknesses are available in Appendices 2.3 and 2.4.

The Global Competitiveness Report is produced by the World Economic Forum, an independent international organisation committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas. The growth competitiveness index identifies three "pillars" in the evolution of growth in a country: the quality of the macroeconomic environment; the state of the country's public institutions and the level of its technological readiness. The index uses a combination of hard data, such as budget deficits, the level of internet access in schools and survey data, taking the "temperature" in areas such as judicial independence, the prevalence of institutionalised corruption and the extent of inefficient government intervention in the economy (World Economic Forum 2005).

The Forum's 2005 growth competitiveness ranking has South Africa 42nd out of 104 countries ranked. Finland is ranked first, followed by the United States of America and Sweden. Guyana, Kyrgyz Republic and Chad are ranked in the three bottom positions. The rankings are shown in Appendix 2.5. In a separate business competitiveness report the Forum ranks South Africa 25th out of 123 countries. The business ranking is based on company operations and strategy, together with the quality of the national business environment. This can be seen in Appendix 2.6.

Both the IMD and the World Economic Forum therefore, rate South Africa's business competitiveness, or companies, significantly higher than they do the country as a whole.

Figure 2.4 The World Competitiveness Scoreboard 2005.

(1) USA	(31) China Mainland
(2) Hong Kong	(32) Catalonia
(3) Singapore	(33) Ile-de-France
(4) Iceland	(35) Scotland
(5) Canada	(36) Czech Republic
(6) Finland	(37) Hungary
(7) Denmark	(38) Spain
(8) Switzerland	(39) India
(9) Australia	(40) Slovak Republic
(10) Luxembourg	(41) Lombardy
(11) Taiwan	(42) Maharashtra
(12) Ireland	(43) Sao Paulo
(13) Netherlands	(44) Jordan
(14) Sweden	(45) Portugal
(15) Norway	(46) South Africa
(16) New Zealand	(47) Colombia
(17) Austria	(48) Turkey
(18) Bavaria	(49) Philippines
(19) Chile	(50) Greece
(20) Zhejiang	(51) Brazil
(21) Japan	(52) Slovenia
(22) United Kingdom	(53) Italy
(23) Germany	(54) Russia
(24) Belgium	(55) Romania
(25) Israel	(56) Mexico
(26) Estonia	(57) Poland
(27) Thailand	(58) Argentina
(28) Malaysia	(59) Indonesia
(29) Korea	(60) Venezuela
(30) France	

Source: Adapted from IMD World Competitiveness Yearbook 2005.

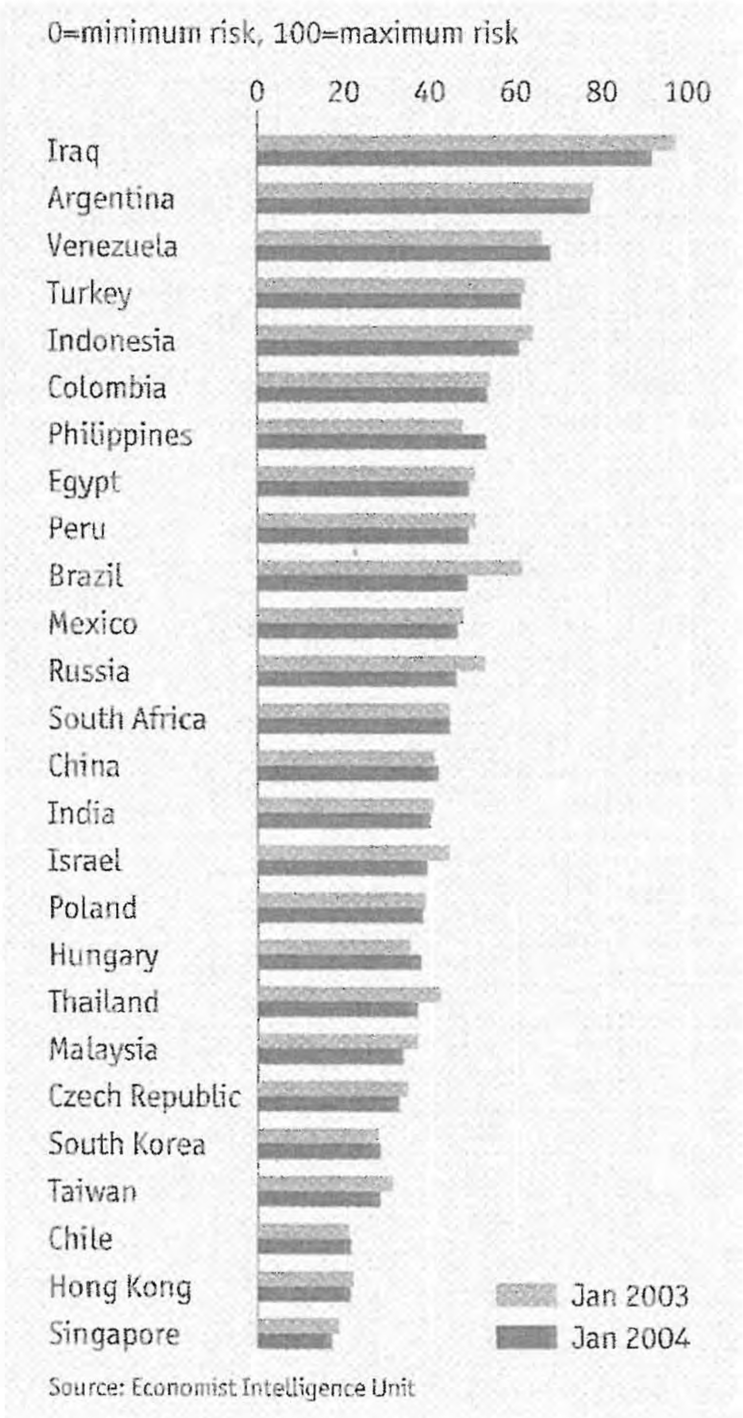
2.10 World Perceptions

Figure 2.5 depicts the *Economist* emerging country-risks rankings. The country-risk ratings take account of 77 indicators of political stability and other measures of credit quality. South Africa ranked 14th of the 26 emerging market countries evaluated, rated slightly less risky than Russia but more risky than China and India. Singapore has the least risk followed by Hong Kong and Chile. Iraq and Zimbabwe are judged to be the most risky countries.

Transparency International ranked South Africa joint 44th (with Kuwait and Lithuania) of 146 countries included in its 2004 Corruptions Perceptions Index. The Index is a poll of polls, reflecting the perceptions of business people and country analysts both resident and non-resident. Finland, New Zealand, Denmark and Singapore head the list as the countries perceived to be least corrupt with Nigeria, Bangladesh and Haiti perceived as the most corrupt (Transparency International 2005).

The Fraser Institute, a Canadian think-tank, produces the Economic Freedom of the World Index. Economic freedom is the extent to which one can pursue economic activity without interference from government. Economic freedom is built upon personal choice; voluntary exchange; the right to keep what one earns; and the security of property rights. The Index is constructed under the leadership of the Fraser Institute and Professor Milton Friedman. The 2004 rankings have South Africa in 53rd place out of the 130 countries ranked. Hong Kong and Singapore are in the first two positions with the United States, New Zealand and Switzerland in joint third position. The lowest rankings include China 95th, Russia 102nd, Venezuela 126th and Zimbabwe 130th. (The Fraser Institute 2006).

Figure 2.5 Country Risk



Source: *Economist* (2004a:98).

2.11 International Business

South Africa does not have a history of multinational businesses – unlike say, Switzerland, Sweden and Holland which, despite being relatively small countries, spawned major multinational companies such as Nestlé, Roche, Volvo, Ericsson, Royal Dutch Shell and Philips. There are exceptions to South Africa's lack of an international business history. The Anglo American Corporation, South Africa's largest company, was the single largest foreign investor in the United States in 1981 when it became the largest shareholder in the US giant Phibro-Salomon Brothers through its subsidiary Minerals and Resources Company. It also created and became the controlling shareholder in Charter Consolidated in London in 1965 (Pallister, Stewart and Lepper, 1987).

The Ruperts, a South African family, built up a substantial share of the world's cigarette market. Dr Anton Rupert began manufacturing cigarettes in his garage in Johannesburg in the 1940s. His company, Rembrandt, was incorporated in 1948 and in the 1950s expanded abroad through the establishment of various international partnerships. Rembrandt was listed on the JSE Securities Exchange in South Africa, in 1956. In 1972, the overseas tobacco interests of Rembrandt were consolidated in Rothmans International, which was listed on the London Stock Exchange. The local and overseas interests of Rembrandt were separated in 1988 with the founding of Compagnie Financieré Richemont AG (known as Richemont), a Swiss-listed luxury goods group which then also acquired the shares in Rothmans International (Remgro 2004).

In 1995 Rembrandt and Richemont consolidated their respective tobacco interests in Rothmans International, at the time the world's fourth largest cigarette manufacturer, which was then delisted. These interests were merged with those of British American Tobacco plc (BAT), the world's second largest cigarette producer, in 1999. The Rembrandt name was subsequently changed to Remgro. Remgro and Richemont today have a combined effective 30 percent share holding in BAT (Remgro 2004). Richemont is now one of the world's leading luxury goods groups, with particular strengths in terms of jewellery, luxury watches and writing instruments. Brands include Cartier, Van Cleef and Arpels, Piagnet, Dunhill, Montblanc, Purdey, Chloe and Shanghai Tang (Richemont 2004).

In addition to the historic examples of Anglo American and the Ruperts there are the more recent examples, mostly over the last decade, of companies such as Barloworld, Dimension Data, The Old Mutual, The South African Breweries, Sappi and Sasol that have all established some global presence. Over and above these companies there are many individual instances of South African management and leadership capabilities being exported worldwide.

After developing substantial South African businesses, Sol Kerzner and Donald Gordon created offshore empires. Mark Shuttleworth's sale of Thawte Consulting turned him into a US-dollar billionaire. Brian Gilbertson is perhaps South Africa's best-known business export. From the early nineties he completed the work of Derek Keyes in unbundling Gencor, creating a number of separately listed companies. Gilbertson then fused the remaining companies into Billiton and listed this in London. He subsequently merged it with the Australian firm BHP creating BHP Billiton. Gilbertson resigned from this company in to pursue other interests in 2003 (Whitfield 2004). He was ranked 41st of the world's most respected business leaders in the 2005 *Financial Times Special Report on the World's Most Respected Companies.* To put this ranking into perspective Bill Gates was ranked first and Donald Trump 43rd.

There are numerous other examples of South Africans succeeding in international business. These include Peter Joubert, as Chief Executive of British Oxygen, David Lewis, as head of Holiday Inn Europe, and Alastair Morton, who was the chairman of the Channel Tunnel (with some controversy). Among the better-known exports are Brian Clark, previous Telkom CE and now CEO of Vodaphone Pacific, Kevin Benson, who runs the company that owns the Greyhound bus service in the US and who was previously CFO of Rennies, and Meyer Feldberg, dean of the Columbia Business School, formerly head of the Graduate School of Business at Cape Town University (Whitfield 2004). Willie Pietersen, also from South Africa, is a professor at the Columbia School of Business and previously headed several prominent multibillion-dollar businesses in the United Kingdom and the United States (Pietersen

2003). Thus, South Africa has produced management talent that has proved to be world-class.

2.12 Summary and Conclusion

A democratic government with Nelson Mandela as president was elected in 1994 – following 46 years of apartheid – and a turbulent history over three centuries. Two elections have been held since then and the economy, while not yet achieving the growth rates of leading emerging market countries, has performed vastly better than it did in the decade prior to the introduction of democracy. The real cost of capital and the levels of investment have been constraints on growth.

The new democratic dispensation has opened up global opportunities for South African companies and improved many facets in the home market. Competition in South Africa has increased, and companies must engage issues such as affirmative action, black economic empowerment, crime, NEPAD and AIDS.

History, the location and the coastline, together with the rich mineral resources, led to South Africa becoming the most industrialised country on the African continent. South Africa is possibly the most diverse country on earth when the different ethnic groups, languages, religions, wealth, income and education levels are considered. It is a country with vast extremes and disparities.

The extremes and disparities should caution against judging the country on averages or aggregates when considering whether the country is capable of producing world-class multinational companies. An example of the extremes is South Africa coming both first and forty-ninth in different categories out of the 49 countries rated by the International Institute of Management in 2001. Despite an overall mediocre technological grading, there are categories in which South Africa is a world leader. The Institute for Management Development and the World Economic Forum both rank the business sector, or companies, considerably higher than they do South Africa as an entity. A persuasive statistic is in management practices, where South Africa was rated ahead of countries such as France, Italy, Japan and the United Kingdom.

While the education overall is considered to be poor, certain sections of the population received, and are receiving world-class education.

The size of the South African economy (in relation to its major trading partners) together with the country's diversity, has meant relatively small and differentiated market segments in many industries. I contend that this has provided managers with opportunities to learn how to be profitable in small markets by targeting segments, controlling costs and managing with limited resources. The 1980s and 1990s were periods of great change and uncertainty, challenging companies and their managements to learn how to cope in those conditions. The divestment by foreign companies, the acquisitions by domestic companies and the subsequent restructuring have taught many managers about mergers and acquisitions and the consequences of investing outside their core competency.

The international achievements of the Anglo American Corporation, Rembrandt and Richemont prior to 1994 do not imply that other South African companies can be successful internationally. The success would clearly depend upon the capabilities of the companies concerned. The Anglo American Corporation, Rembrandt and Richemont, however, did demonstrate that it could be done.

3. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

3. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

3.1 Introduction

Mouton (2001) notes that every research project should begin with a review of the existing literature. Saunders, Lewis and Thornhill (2000) state further that the objectives of a literature review are to become aware of the current state of knowledge in the subject and to form the foundation upon which the research is built.

The original intention of the literature review was to concentrate on strategy, international business, culture and core competencies. After the initial meetings with representatives of the companies and reviewing their background materials, it became clear how important acquisitions and post-acquisition integration are to their strategies and performance. The significance of knowledge and learning also became apparent. Literature reviews in these areas were then added to the original list. The section on core competencies was subsequently divided into three sections, dealing with their definition and nature, development and transfer.

The literature review therefore comprises, and is conducted in, the following sequence:
Strategy, International Business, Culture, Learning and Knowledge, Definition and Nature of Core Competencies, Development of Core Competencies, Mergers and Acquisitions, Post-Merger and Acquisition Integration and Transfer of Core Competencies. The review moves from general or broad sections, which provide background information and theory, to the more specific sections, while attempting to keep the four aims of the thesis in mind throughout the process.

Each of the nine sections has a summary and a conclusion relating to the literature reviewed. The summaries are in the form of figures showing brief descriptions and/or key words for each author. These summaries enable an area to be reviewed speedily – almost by glancing at a page – and are also useful when comparing the results of the case research with established or expert views. The literature summaries and conclusions are used to set out a framework or model for the thesis. The framework forms the basis for the questions to the companies being studied, and it is used later to review the results of the study.

The nine sections and the summary and conclusion each start at the top of a new page and are treated as chapters because of the length of the "Literature Review and Framework" chapter. Diagrams are used where I consider them to be unique or where they assist in explaining the concepts discussed in the review. The sequences in which the works in the different sections of the chapter are reviewed take into account chronology, the importance of the particular work to the topic being reviewed, the school of thought or theory and the theme or construct.

3.2 History and Overview of Strategy

The definition of strategy by Pietersen is repeated here to introduce this section. "Strategy is derived from Greek *strategia* – meaning *generalship*, which itself is compounded from two words meaning *army* and *to lead*. Your company strategy, therefore, defines how you will win" (Pietersen 2000:40). Operational effectiveness means performing similar activities better than rivals perform them. In contrast, strategic positioning means performing activities *different* from one's rivals or performing similar activities in *different ways*. Strategy therefore, is the creation of a unique and valuable position, involving a different set of activities (Porter 1998).

This section covers the evolution of strategy from a Chinese general in 500 BC to a *Harvard Business Review* article in 2003 and outlines the works of the leading strategic thinkers and practitioners. The various stages of evolution are summarised by Underwood (2002) as follows:

1. Prior to 1960. Basic financial planning (budgeting), which is still used as part of strategy today.
2. Early 1960s. Forecasting (extrapolation) introduced as long-range planning.
3. 1960s and 1970s. External-oriented planning (scenarios, war gaming).
4. 1980s. Strategic management (including Porter's work as well as Ansoff's).
5. 1990s. Complex system strategy. This is divided into "emergence", which is based on Darwin and ecological management, and "strategic balance", which is based on complex dynamic systems (i.e. Ansoff).

A brief history of strategy is outlined before conducting an overview and a review of the leading researchers, writers and practitioners of strategy.

3.2.1 Outline History

Ghemawat (2001) states that the early history of business strategic thinking was affected in many ways by military concepts and considerations. He points out that the adoption of strategic terminology to a business context had to await the Second Industrial Revolution, which began in the second half of the nineteenth century but really took off only in the twentieth century. Indeed, Crainer (1998) states that while management has been a fundamental activity throughout history, the recognition and study of management as a discipline and profession is a thoroughly modern phenomenon. Only in the twentieth century has management come of age, gaining respectability and credence. The First Industrial Revolution, Ghemawat continues, spanned the mid-1700s and failed to induce much in the way of strategic thinking or behaviour. Virtually all companies lacked the power to influence market outcomes to any significant extent most businesses tended to remain small. The chaotic markets of this era led economists such as Adam Smith to describe market forces as an "invisible hand" that remained largely beyond the control of individual firms.

The Second Industrial Revolution, which began in the last half of the nineteenth century in the United States of America, saw the emergence of strategy as a way to shape market forces and affect the competitive environment. The construction of key railroads made it possible to build mass markets for the first time. By the late nineteenth century, a new type of firm began to emerge in the United States and Europe: the large vertically integrated company that invested heavily in manufacturing and marketing, and in hierarchies to coordinate these functions. In some capital-intensive industries, Adam Smith's "invisible hand" came to be supplemented by what Alfred D. Chandler, Jnr, a famous historian, termed the "visible hand" of professional managers (Ghemawat 2001).

The need for explicit strategic thinking was first articulated at the large companies mentioned in the previous paragraph (Ghemawat 2001). For example, Alfred Sloan, the chief executive of General Motors from 1923 to 1946, devised a successful strategy based on the perceived strengths and weaknesses of his company's critical competitor (Ford). In the 1930s, Chester Barnard, a senior executive with New Jersey Bell, argued that managers should pay especially close attention to strategic factors that depend on personal or organisational action.

The Second Industrial Revolution saw the founding of many elite business schools in the United States, beginning with the Wharton School in 1881. The Harvard Business School, founded in 1908, was amongst the first to promote the idea that managers should be trained to think strategically rather than just act as functional administrators, although strategy itself was not explicitly invoked until the 1960s. The structured study of management in Europe is even younger. France's INSEAD offered an MBA for the first time in 1959. It was not until 1965 that the UK's first two public business schools (Manchester and London) were opened (Crainer 1998).

Sociology seems to have been the academic field that, with its construct of distinctive competence, had the most influence on the early concepts of strategy in business, mostly by professors at business schools. Consulting firms helped disseminate academic insights and developed a set of tools to aid top managers in monitoring the strategies of the business units under them. Although disillusionment with specific tools quickly emerged, this line of work framed the agenda for future research and development in the field of strategy (Ghemawat 2001).

Ghemawat (2001) goes on to trace how World War II stimulated strategic thinking by sharpening the problem of allocating scarce resources across the entire economy. New operations research techniques were devised that paved the way for the use of quantitative analysis in formal strategic planning. The learning curve was discovered in the military aircraft industry in the 1920s and 1930s and the "learning curve concept" became an increasingly important tool for planning. Wartime experiences also encouraged the use of formal strategic thinking to guide management decisions. Interservice competition in the US military after World War II is said to have motivated the US Navy to become highly self-conscious about its distinctive competence.

Peter Drucker in *The Practice of Management* (1954) provided the key rationale for business strategy: that is by using formal planning a company could exert some positive control over market forces (Ghemawatt 2001). Underwood's (2002) external-oriented planning in the 1960s and 1970s includes combining a company's distinctive competencies with the opportunities and threats it faces in the environment (Andrews 1971) and strategy following structure (Chandler 1962). Numerous leading works on '"strategic management" were published in the 1980s and 1990s. The works of Porter, and Hamel and Prahalad were prominent in these decades. While there were important publications dealing with complex systems strategy in the 1990s and early 2000s, such as Brown and Eisenhardt's (1998) *Competing on the Edge* and

Dudik's (2000) *Strategic Renaissance,* none of the four corporations studied uses these concepts to any significant degree.

3.2.2 Overview

A summary of the leading strategic thinkers and practitioners in an approximate chronological order is given in Table 3.1. It is a comprehensive, but not exhaustive, list.

Table 3.1 Strategic Thinkers and Practitioners

Name	Dates	Concepts and Ideas	Major Works
Sun Tzu	+/- 500BC	Strategy and competitive tactics	*The Art of War* +/- 500BC
Niccolo Machiavelli	1469-1527	Power and leadership. Statecraft	*The Prince* 1514
Adam Smith	1723-1790	Free markets. Absolute advantage.	*The Wealth of Nations* 1776
David Ricardo	1772-1823	Comparative advantage.	*On the Principles of Political Economy and Taxation* 1817
Napoleon Bonaparte	1769-1821	Execution	
Carl von Clausewitz	1780-1831	Military strategy	*On War* 1832
Henry Ford	1863-1947	Mass production	*My Life and Work* 1923
Joseph Schumpeter	1883-1950	Innovation	*Capitalism, Socialism and Democracy* 1942
Alfred Sloan	1875-1966	Divisionalised organisation	*My Years with General Motors* 1963
US Navy		Distinctive competence	
Peter Drucker	1909-2005	Professional management From MBO to knowledge management	*The Practice of Management* 1954 *Managing for Results 1964* *The Age of Discontinuity* 1969 *The Essential Peter Drucker* 2003
Edith Penrose	1914-1996	Unique capabilities or "resources"	*The Theory of the Growth of the Firm* 1959
Kenneth Andrews	1916	SWOT. Industry notes with cases	*The Concept of Corporate Strategy* 1971
Theodore Levitt	1925-	Marketing. Globalisation	*Innovation in Marketing* 1962
Alfred Chandler	1918-	Strategy and structure	*Strategy and Structure* 1962
Igor Ansoff	1918- 2002	Strategic management. Gap analysis Synergy	*Corporate Strategy* 1965

Table 3.1 (continued)

Bruce Henderson McKinsey Company	1915-1992 1926 -	Experience curve. Growth/Share matrix Strategic business units. Consulting.	
Richard Pascale and Anthony Athos	1938- 1934 -	Seven "S" framework	*The Art of Japanese Management* 1981
Michael Porter	1947-	Five forces framework Generic strategies National competitiveness Value chain	*Competitive Strategy* 1980 *Competitive Advantage* 1985 *The Competitive Advantage of Nations* 1990 *On Competition* 1996
Tom Peters and Robert Waterman	1942- 1936-	Excellence. Customer service	*In Search of Excellence* 1982
Kenechi Ohmae	1943-	Key success factors Globalisation. Strategic triangle	*The Mind of the Strategist* 1975/1982 *The Borderless World* 1990
Geert Hofstede	1928-	Cultural management	*Culture's Consequences: International Differences in Work Related Values* 1984 *Software of the Mind 1990*
Rosabeth Moss Kanter	1943-	Empowerment. Post-entrepreneurial firm	*The Change Masters* 1983 *When Elephants Learn to Dance* 1989 *Confidence 2004*
Christopher Bartlett and Sumantra Ghoshal	1943 - 1948-2004	Globalisation. Corporate structure International management	*Managing Across Borders* 1989 *Transnational Management* 2000
Peter Senge Peter Schwartz	1947- 1946 -	The learning organisation Scenario planning	*The Fifth Discipline* 1990 *The Art of the Long View* 1992
Fons Trompenaars	1952-	Globalisation. Cultural issues	*Riding the Waves of Culture* 1993

Table 3.1 (continued)

James Champy and Michael Hammer	1942- 1948-	Identify and improve key processes	*Reengineering the Corporation* 1993
Henry Minzberg	1939-	Strategy as craft	*The Rise and Fall of Strategic Planning* 1994
Henry Minzberg, Bruce Ahlstrand and Joseph Lampel	1939-	Review of ten approaches to strategic management	*Strategic Safari* 1998
Gary Hamel and C.K. Prahalad	1954- 1941 -	Strategic intent. Core competencies Strategic architecture. Industry foresight	*The Core Competence of the Corporation 1990* *Competing for the Future* 1994
Gary Hamel	1954-	Radical innovation	*Leading the Revolution* 2000
Jim Collins	1958-	Seven attributes of great companies Level 5 Leadership. Hedgehog concept	*Good to Great 2001*
Adam Brandenburger		Added value/Value net	*Co-Option* (with Barry Nalebuff) 1996
Shona L Brown and Kathleen M Eisenhardt	1966 -	Complex adaptive systems Hybrid approach	*Competing on the Edge* 1998
Evan Dudik		Complex systems approach	*Strategic Renaissance* 2000
Nitin Nohria	1962 -	Mastery of business basics	*What Really Works, Harvard Business Review* July 2003
William Joyce and Bruce Roberson			

Source: Crainer (1997), Crainer (1998), Ghemawat (2001), Mintzberg, Ahlstrand and Lampel (1998), Underwood (2002) and certain of the works listed.
Note: Missing birthdates were sought, but unsuccessfully.

Each person or institution on the list in Table 3.1 has made a meaningful contribution to the evolution of the theory and/or practice of strategy. The question of who made the greatest contributions would depend on personal judgement and the criteria used. It appears that on the basis of academic and practitioner acceptance, Adam Smith, Igor Ansoff, Peter Drucker, Henry Minzberg, Michael Porter and Gary Hamel would have widespread support as leading "strategists".

Peter Drucker, generally considered more of a "prophet" and generalist, has made valuable contributions to the field of strategy. Tom Peters and Robert Waterman wrote the best-selling business book of all time, *In Search of Excellence*. I consider the work of Kenneth Andrews to be underrated: SWOT analysis is widely used in practice, in one form or another. I also favour the article "What Really Works" by Nohria, Joyce and Roberson in the July 2003 issue of the Harvard Business Review.

An outline of the major contributions of the leading strategists (researchers, writers and practitioners) is presented in the following section. The selections were based on my personal business and academic experience, including the review of literature for this thesis. The outlines are not in chronological order, but by school of thought or theme.

The military concepts include those of Sun Tzu, Napoleon Bonaparte, Carl von Clausewitz and the US Navy and are covered first. These are followed by the "economists" Smith, Ricardo, Schumpeter and Penrose. The "strategic managers" include Andrews, Ansoff, Hamel and Prahalad, Mintzberg, Nohria, Joyce and Roberson and Porter. Japanese management thinking is represented by Pascale and Athos, and Ohmae; the learning and cultural contributors are Hofstede, Senge and Trompenaars; while Henderson, Peters and Waterman, Champy and Hammer, and Collins form the management consultant component. Bartlett and Ghoshal are the "international business thinkers", although Ohmae could be included here as well. Drucker, in my judgment, qualifies for several of the above categories.

Diagrams are used where I consider them to be unique or where they assist in explaining the concepts discussed in the review.

3.2.3 Review

Sun Tzu (circa 500 BC) is credited with very early concepts and competitive tactics (Crainer 1998). "Sun Tzu's central idea is that battles are won by the organisation or person who, first, has the greatest competitive advantage and who, second, makes the fewest mistakes. Competitive advantage can be provided by many factors including superior manpower, superior position, superior execution and innovation. Competitive advantage is not the determining factor in success. It is people who fight and win battles. And the most important person in the battle is the general" (Krause 1996:2).

"The art of war is simple; everything is a matter of execution" is attributed to Napoleon Bonaparte (circa 1800, cited by Huffman 2001:13). This quotation is included to emphasise the importance of delivery or execution. Von Clausewitz (1832:128), renowned for *On War,* states that "war is merely a continuation of politics by other means" and that "tactics involve the use of armed forces in the engagement, strategy is the use of engagements for the object of war". His treatise was considered realistic in that it describes the complex and uncertain manner in which real-world events unfold, taking into account both the frailties of human nature and the complexity of the physical and psychological world (Von Clausewitz 1832, on book jacket).

The US Navy (circa 1946) is said to have originated the term *distinctive competence* when it attempted to distinguish between the army as a "man-power organisation" and the navy as a finely adjusted system of technical and engineering skills – a "machine centred organisation" (Ghemawat 2001).

Machiavelli (1514) is famous for *The Prince,* the treatise on statecraft, power and leadership. "A man who wants to act virtuously in every way necessarily comes to grief among so many who are not virtuous" (Machiavelli 1514:48). "It is far better to be feared than loved if you cannot be both" (Machiavelli 1514:52).

Smith (1776) wrote the *Wealth of Nations,* a free market economics treatise. He created the notion of absolute advantage in which a nation exports an item if it is the world's lowest cost producer. Ricardo refined the notion of absolute advantage to that of comparative advantage, recognising that market forces will allocate a nation's resources to those industries where it is relatively most productive (Porter 1990). This means that a nation might still import a good where it could be the lowest cost producer if it is even more productive in producing other goods.

Schumpeter (1950) brought the entrepreneur into prominence and economic thought by introducing his notion of *creative destruction* (Mintzberg, Ahlstrand and Lampel 1998). For Schumpeter (1950) the entrepreneur is not necessarily somebody who puts up the initial capital, or invents the new product, but the person with the business idea. Ideas are elusive, but in the minds of entrepreneurs they become powerful as well as profitable. He credited entrepreneurs for employing existing means of production differently, more appropriately and more advantageously. The key for Schumpeter (1947, cited by Mintzberg et al. 1998) is "new combinations", including "the doing of things that are really being done in a new way".

Penrose (1959) is sometimes regarded as the originator of the resourced-based theory of strategy (Mintzberg et al. 1998). She postulated that firms derive their advantages from market imperfections. She believes that markets are poor in valuating products, technologies and ideas that are novel. Uniqueness thus provides the basis for corporate development: in creating unique products, firms also develop unique capabilities or "resources". They invest more in research and development, learn about their customers and create extensive production and marketing capabilities.

Mintzberg et al. (1998) regard Wernerfelt (1984) as the first in strategy to develop Penrose's insight. He argued that looking at firms in terms of their resources leads to different immediate insights than the traditional product perspective. One can identify types of resources that can lead to high profits, and strategy for a bigger firm involves striking a balance between the exploitation of the existing resources and the development of new ones. Wernerfelt later claimed (1995, cited by Mintzberg et al. 1998) that his ideas did not really take hold until 1990, when Prahalad and Hamel popularised their ideas about dynamic capabilities.

Barney (1991, cited by Mintzberg et al. 1998) developed the resource-based view into a full-fledged theory. He provided a summary of the key concepts by outlining the notion of resources – the building block of the entire perspective – which embraced physical capital resources, human capital resources and organisational capital resources. The firm is thus a bundle of resources, both tangible and intangible.

Drucker (1954, 1964, 1969, 1986, 1995, 2003 etc) is widely regarded as the major management and business thinker of the twentieth century. He is credited with management concepts en masse, from management by objectives to managing knowledge workers (Crainer 1998). He coined phrases such as "privatisation" and "management by objectives". Drucker himself regarded his 1964 book, *Managing for Results,* as "the first book ever on what we now call strategy" (Drucker 1993, cited by Crainer 1998:49). Some of his works were the forerunners of modern concepts such as the balanced scorecard, core competencies, portfolio analysis, product matrices, value chains and activity-based costing (Harvey 2004).

Among Drucker's contributions to strategic thinking is his view that results are obtained by exploiting opportunities, not by solving problems (Drucker 1964). Resources should be allocated accordingly and concentration of resources is crucial. He also spells out the importance of setting priorities: "Opportunities are nearly always more plentiful than the means to realise them. There have to be priority decisions or nothing would get done" (Drucker 1964:162). He also predicted the emergence of knowledge as the new capital and as the central resource of an economy, and of the people of knowledge, that is the managers of institutions, as the new power centre and leading group (Drucker 1969).

Andrews (1971) combines the elements of a company's "strengths" and "weaknesses" – its distinctive competences – with the "opportunities" and "threats" (or risks) that it faces in its environment, to produce the SWOT framework (Ghemawat 2002). A company should consider all combinations to determine the best match of opportunity and resources and consequent choice of products and markets. The environmental conditions and trends include economic, technical, physical, political, social, community, national and global. Distinctive competencies include capabilities in finance, management and organisation, and the reputation and history of a company. A diagram in Appendix 3.1 depicts Andrew's Strategic Framework.

Ansoff (1964) is regarded as "truly the godfather of corporate strategy" (Hamel 1997, cited in Crainer 1997:13). Some sources regard his book *Corporate Strategy* (1964) as the first text to concentrate entirely on strategy. His concepts include strategic management, gap analysis, synergy (2+2 =5) and the product-mission matrix. The matrix, as shown in Figure 3.1, illustrates the risk involved in strategic decisions becoming ever greater as a firm strays from its core of existing products/customers. This is especially relevant to the thesis. As the companies originating in South Africa expand internationally, they certainly move away from their existing products to some extent and customers. The issue of turbulence underlies much of Ansoff's work (Crainer 1997).

Figure 3.1. Ansoff's Product/Mission Matrix

	Present Product	New Product
Present Mission	Market penetration	Product development
New Mission	Market development	Diversification

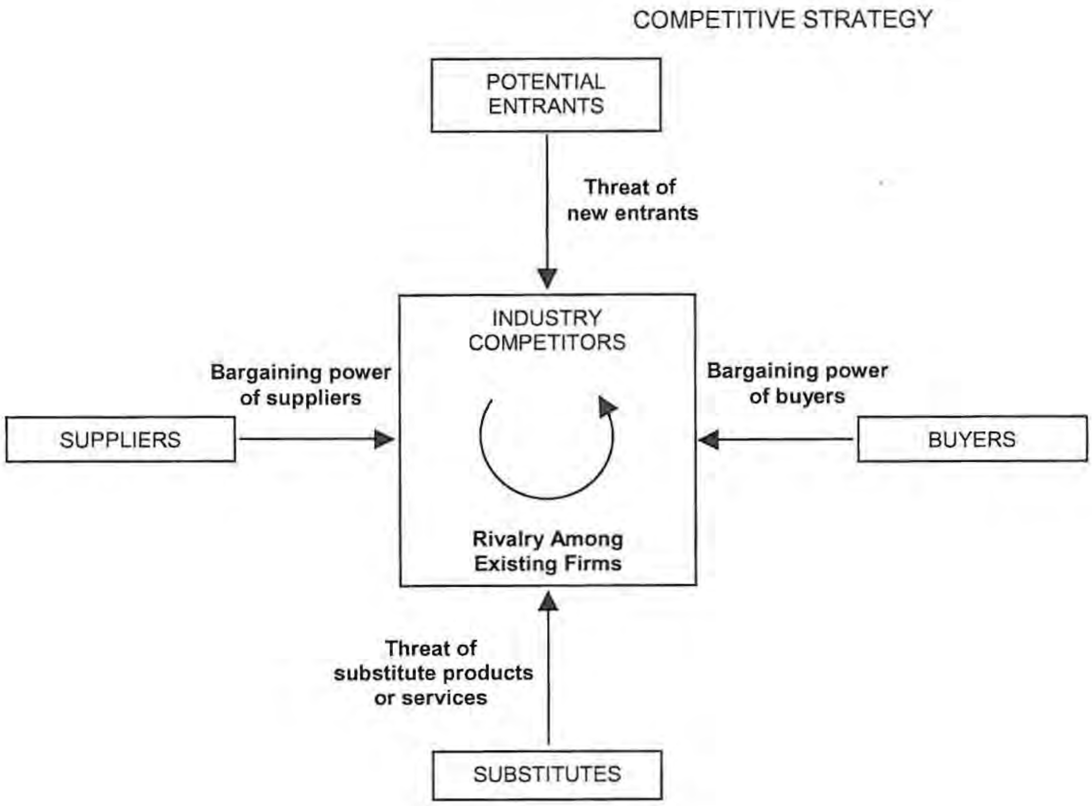
Source: Adapted from Ansoff (1964,cited by Ghemawat 2001:8).

Ansoff believed that the level of complexity and rate of environmental change in the environment were generally determined by different factors that make up the marketing and the innovation environment. He also believed that it was possible to effectively predict the levels of each of these factors in the future. When combined, the two broad areas of the future market became what he called "environmental turbulence". He developed a number of approaches for studying the future and determining which view was most accurate. These are synthesised into a broader model of marketing or innovation turbulence, in a final index on a scale of 1 through 5. A level 1 environment, for example, is predictable, simple and slow-changing, a level 3 environment will be fast, predictable and competitive while a level 4.5 environment will involve overwhelming competition, high levels of uncertainty and major changes in the value chain (Underwood 2002).

Research has shown that managers who proactively anticipate change are significantly more successful than those who reactively respond to change after the fact; additionally, organisations that understand the level of turbulence perform significantly better than those that do not (Freidank 1994, Lewis 1989, cited by Underwood 2002). According to Lewis (1989, cited by Underwood 2002) experts outside of a company may have a much more accurate understanding of an industry's turbulence than do a company's internal managers, thus validating the need for Delphi Panels (developed at Rand Corporation when Ansoff worked there). Delphi Panels involve the use of six experts in predicting future events or states. The analysis includes internal managers' views of the future, perceptions revealed in literature and industry experts' views.

Porter (1980, 1985, 1990, 1998), certainly one of the few leading strategic thinkers, is known for the Five Forces framework, generic strategies, national competitiveness and the value chain. The Five Forces framework seeks to relate the average profitability of participants in an industry to five competitive forces. These are the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the rivalry among the existing competitors. A diagrammatic representation appears in Figure 3.2.

Figure 3.2 Porter's Five Forces Model



Source: Adapted from Porter (1980:4).

In coping with the five competitive forces, Porter (1980, 1985) proposes three generic strategic approaches: cost leadership, differentiation and focus, as depicted in Figure 3.3.

Figure 3.3 Porter's Generic Strategies

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	**1. Cost Leadership**	**2. Differentiation**
	Narrow Target	**3A. Cost Focus**	**3B. Differentiation Focus**

Source: Adapted from Porter (1985:12).

Porter (1990) believes that a nation achieves international success in a particular industry because of the four broad attributes of factor conditions, related and supporting industries, firm strategy and structure, and rivalry. He views productivity as the prime determinant in the long run of a nation's standard of living.

Porter (1985) was also a pioneer of the value chain concept.

> Every firm is a collection of activities that are performed to design, produce, market, deliver and support its product. All these activities can be represented using a value chain. A firm's value chain, and the way it performs individual activities, are a reflection of its history, its strategy, its approach to implementing its strategy, and the underlying economics of the activities themselves . . . Differences among competitive value chains are a key source of competitive advantage. A firm's value chain in an industry may vary somewhat for different items in its product line, or different buyers, geographic areas, or distribution channels. The value chains of such subset of a firm are closely related, however, and can only be understood in the context of the business unit chain (Porter 1985:36).

The value chain concept is shown in greater detail in Section 3.7, The Development of Core Competencies where it is depicted graphically in Figure 3.18.

Hamel and Prahalad (1990, 1996) Hamel (2000) propose rethinking the corporation in terms of core competencies, rather than divisions or strategic business units. A core competency is a bundle of skills and technologies that enables a corporation to provide a particular benefit to customers.

Hamel has created a new vocabulary for strategy that includes strategic intent, strategic architecture and industry foresight (rather than vision) (Crainer 1998). Strategic architecture is basically a high-level blueprint for the deployment of new functionalities, the acquisition of new competencies or the migration of existing competencies, and the reconfiguring of the interface with customers.

Strategic intent is similar to an animating dream. Strategic architecture is the brain of an organisation; strategic intent is the heart. It is the distilled essence of a firm's strategic architecture that provides a sense of direction, discovery and destiny. It should give a particular point of view about the long-term market or competitive position that it hopes to build over the coming decade or so. Industry foresight (as opposed to vision) is to build the best possible assumption base about the future and thereby develop the prescience needed to proactively shape industry evolution (Hamel and Prahalad 1996).

Hamel and Prahalad (1996) prefer the word *foresight* to *vision,* as vision connotes a dream or an apparition. Industry foresight, on the other hand, is based on deep insights into the trends in technology, demographics, regulation, and lifestyles that can be harnessed to rewrite industry rules and create new competitive space. They give the example of Japanese motor companies realising decades ago that new and formidable weapons would be needed to beat US car companies in their home market. The new weapons they set about developing were quality, cycle time, and flexibility. The authors attribute many of IBM's (International Business Machines) operational failures in the early '90s to foresight problems in the '80s.

Mintzberg (1994) is a long-time critic of formulae, arguing that strategy cannot be planned. Planning, he states, is concerned with analysis; strategy making with synthesis. Mintzberg's research found that only 10 percent of the results projected in most companies' formal strategic planning processes ever came to fruition (Mintzberg 1994, cited by Pietersen 2002). The other 90 percent fall by the wayside, vanishing into the limbo of "unrealised strategy". The source of the other 90 percent of what companies do is what he calls emergent strategy. This describes the series of ad hoc initiatives, reactions, decisions and choices that managers make in response to daily pressures without any overarching strategic concept.

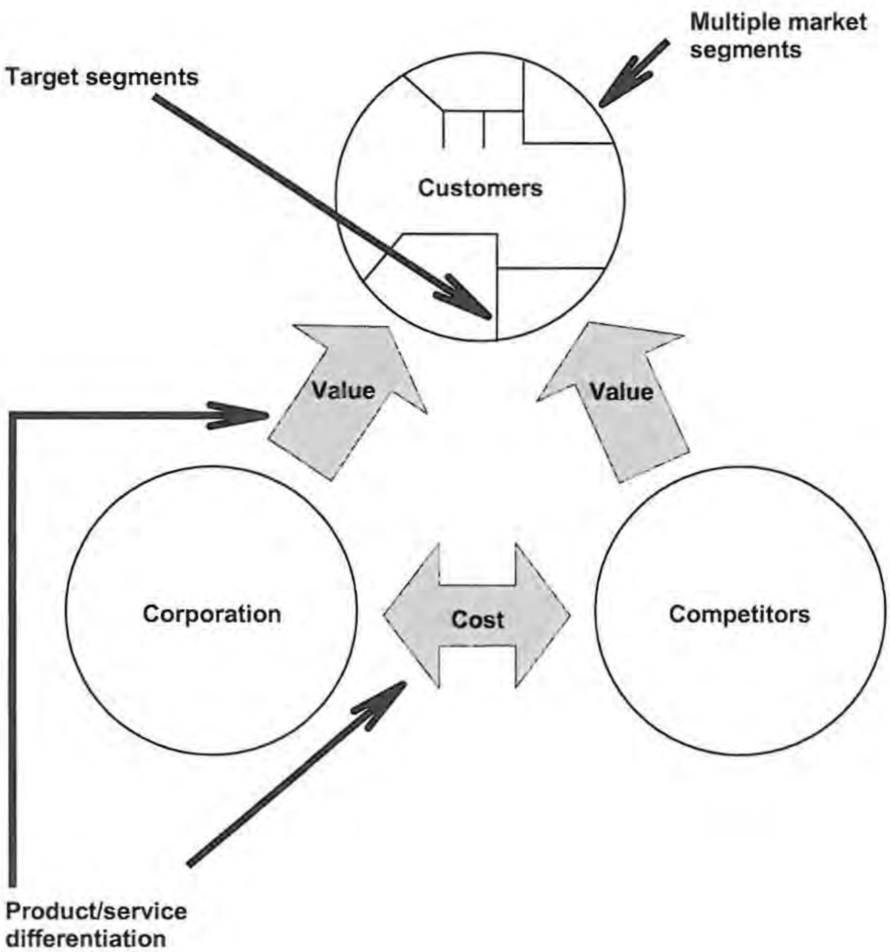
Strategy-making, as presented by Mintzberg, is derived from synthesis, informal and visionary rather than programmed and formalised, and is reliant on divergent thinking, intuition and using the subconscious (Crainer 1997). It is irregular, unexpected, ad hoc, instinctive and based on managers being adaptive information manipulators and opportunists rather than aloof conductors. It takes place in times of instability characterised by discontinuous change. Strategy is the result of an approach that takes in broad perspectives and is, therefore, visionary and involves a variety of actors capable of experimenting and then integrating.

Nohria, Joyce and Roberson (2003) promulgate the philosophy that mastery of business basics is crucial to sustain superior performance. A company must excel at four primary management practices – strategy, execution, culture and structure – and any two of four secondary practices – talent, leadership, innovation and mergers and partnerships. The key to the 4 + 2 formula is not which technique is chosen within each practice, but how well and consistently a company sticks with it.

Pascale and Athos (1981, cited by Crainer 1997) introduced the Seven "S" framework (strategy, structure, skills, staff, shared values, systems and style). They conclude that Japanese management succeeded in the late 1970s and the early 1980s largely because of the attention that they gave to the soft S's – style, shared values, skills and staff. In contrast, the West remained preoccupied with the hard S's – strategy, structure and systems. The authors identify the concept of vision as one of the key components of Japanese management. Crainer (1997) opines that the general trend of Western managerial thinking since *The Art of Japanese Management* has been directed toward the soft S's.

Ohmae (1982, 1990) is best known for certain aspects of strategy, the strategic triangle, key factors for success, globalisation and Japanese business thinking (Crainer 1997). "In the construction of any business strategy, three main players must be taken into account: the corporation itself, the customer and the competition. Each of these strategic three Cs is a living entity with its own interests and objectives … the strategic triangle" (Ohmae 1982:91). Figure 3.4 illustrates the strategic triangle.

Figure 3.4 The Strategic Three C's



Source: Adapted from Ohmae (1982:92).

If management allocates the company's resources in exactly the same way as its competitors do, then there will be no change in its relative position according to Ohmae (1982). The idea is to identify the key factors for success (KFS) in the industry or business concerned and then to focus resources into an area where the company sees an opportunity to gain the most significant advantage over its competitors. Ohmae notes that the key factors for success of different industries lie in different functions, distribution channels and so forth. The strategist needs to scrutinize the whole vertical (value) chain of business systems involved, from raw materials to servicing after the products are sold. Key factors for success concern the product attributes, competencies, competitive capabilities and market achievements with the greatest direct bearing on company profitability in a particular industry (Thompson and Strickland 2003).

Ohmae (1982) argues that perfect strategies are not necessary because it is performance relative to competitors that counts. He recommends four basic strategies: readjusting allocation of resources, building on relative superiority, aggressive initiatives (change rules of the game, upset status quo) and utilising degrees of freedom (innovation). Ohmae (1998, cited by Crainer 1998) writes that the essence of business strategy is offering better value to customers than the competition, in a most cost-effective and sustainable way. "But today, thousands of competitors from every corner of the world are able to serve customers well. To develop effective strategy, we as leaders have to understand what's happening in the rest of the world, and reshape our organisations to respond accordingly" (Ohmae 1998, cited by Crainer 1998:171).

Globalisation is being driven by the emerging power of customers, the dispersion of technology and new media, and the importance of fixed costs (Ohmae 1999). Companies have to incur (and somehow cover) immense fixed costs in order to compete in global markets. In a fixed-cost environment managers need to maximise marginal contribution to fixed cost, by boosting sales. This new logic forces managers to amortise fixed costs over a much larger market base and this drives them toward globalisation.

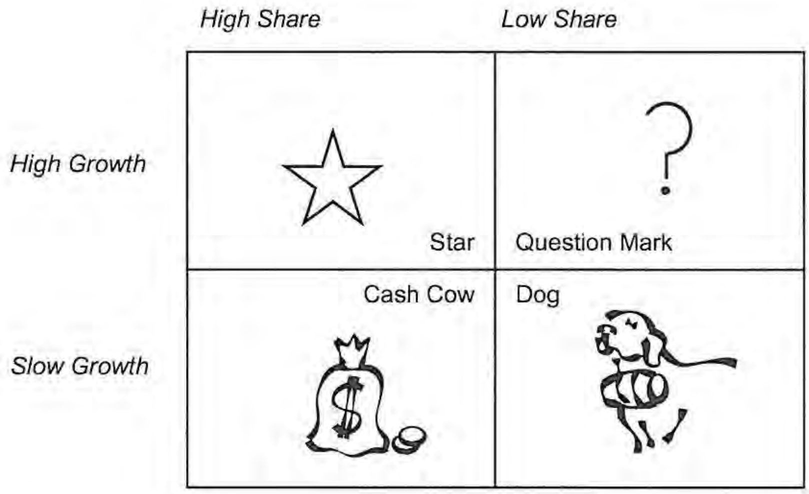
Hofstede (1984) is widely regarded as having more or less invented cultural diversity as a management subject. His research concludes that there is a structure to cultural differences between countries. Each society faces some similar problems, but solutions differ from one society to another. He identifies five basic characteristics that distinguish national cultures: power distance (acceptance that power is unequally distributed), individualism, masculinity, uncertainty avoidance (the extent to which society members feel threatened by uncertain or unknown situations) and long-term orientation.

Senge (1990) popularised the concept of the learning organisation in *The Fifth Discipline: The Art and Practice of the Learning Organisation.* He studied how firms and other organisations can develop adaptive capabilities in a world of increasing complexity and rapid change. There are five components to his learning organisation: systems thinking, personal mastery, mental models, shared vision and team learning.

Trompenaars (1993) examines the cultural imponderables faced by managers in global business. He points out that just as national cultures conflict, leading to natural incomprehension and mistrust, so do corporate cultures. The principal implication of this for business strategy is the need for a healthy respect for the "founding" beliefs of foreign cultures and the images they have chosen to create coherence. Trompenaars says that the international manager therefore needs to go beyond awareness of cultural differences. He, or she, needs to respect these differences and take advantage of diversity through reconciling cross-cultural dilemmas. (Trompenaars 1993 cited by Crainer 1997).

Henderson founded the Boston Consulting Group (BCG) in the early 1970s. He brought business models into the mainstream and was responsible for the breakthrough ideas of the experience/learning curve and the growth/share matrix (Crainer 1998). BCG's claim for the experience curve was that for each cumulative doubling of experience, total costs would decline by roughly 20 to 30 percent because of economies of scale, organisational learning and technological innovation. The growth/share matrix represents the first use of portfolio analysis. The basic strategy recommendation was to maintain a balance between "cash cows" (that is mature businesses) and "stars" while allocating some resources to feed "question marks" (potential stars). "Dogs" were to be sold off or closed. The hypothesis is that companies with higher market share and growth are more profitable (Crainer 1998). Figure 3.5 shows Henderson's matrix diagrammatically.

Figure 3.5 Henderson's Boston Consulting Group Matrix



Source: Adapted from Henderson (cited by Ghemawat 2001:11).

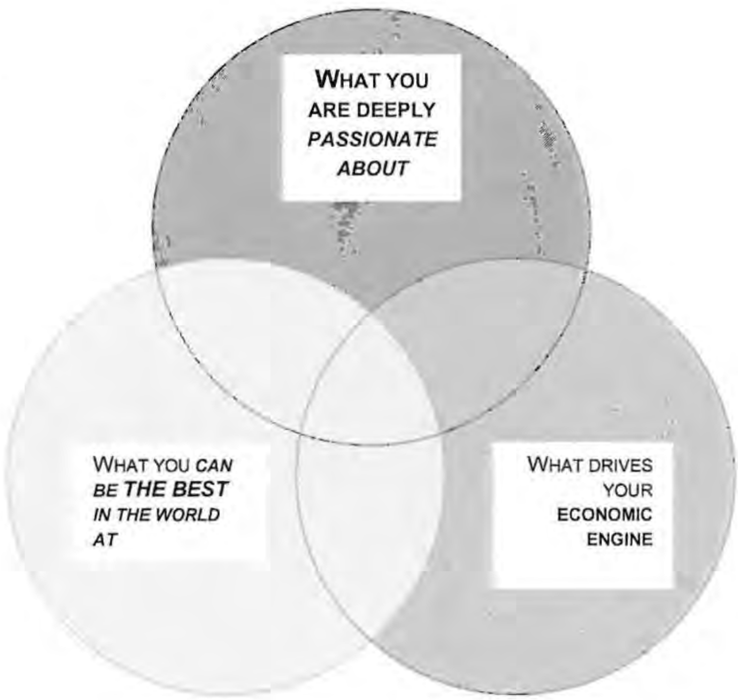
Peters and Waterman (1982) identify eight attributes that characterise "excellent, innovative" companies in their book *In Search of Excellence.* These are: a bias for action, being close to the customer, autonomy and entrepreneurship, productivity through people, hands-on/value-driven, "stick to the knitting", simple form/lean staff and simultaneous loose-tight properties (both centralised and decentralised). Their book is the best-selling popular management book of contemporary times, but many of the "excellent" companies later declined into mediocrity or even failure (Crainer 1997).

According to Crainer (1997), reengineering was *the* business idea of the first half of the 1990s. The basic idea behind reengineering is that organisations need to identify their key processes and make them as lean and efficient as possible. Peripheral processes (and, therefore, peripheral people) need to be discarded. The pioneers of this approach, Champy and Hammer (1993, cited by Crainer 1997:59), define reengineering as "the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical measures of performance such as cost, quality, service and speed". Crainer (1997) points out that execution of reengineering has often proved to be difficult. Reengineering sometimes ignores cultural evolutions that have led an organisation to do something in a certain way. The term, he says, has become a synonym for redundancy and fails on the human side of organisations.

London (2005) regards Collins's *Good to Great* as the biggest-selling and most influential management book of the new millennium. Collins (2001), like Peters and Waterman (1982), identifies attributes that distinguish "great" companies from their competitors. The great companies in his study average cumulative share returns of 6.9 times the general market in the 15 years following their transition points from good to great. The seven attributes are "first who – then what" (build a superior executive team and then figure out the path to greatness), confront the brutal facts (yet never lose faith), the hedgehog concept (simplicity within the three circles), a culture of discipline, technology accelerators and the flywheel concept. Getting a huge, heavy flywheel to turn requires quiet discipline over long periods. It is the same with companies, which explains why one off change programmes rarely succeed (London 2005).

According to Collins (2001), "Level 5" refers to a five-level hierarchy of executive capabilities, with Level 5 at the top. Level 5 leaders embody a paradoxical mix of personal humility and professional will. They are ambitious, but ambitious first and foremost for the company, not themselves. The hedgehog concept derives from an ancient Greek parable about the difference between foxes (which know many small things) and hedgehogs (which know one big thing) (London 2005). Good- to-great leaders are hedgehogs. The concept requires a deep understanding of three intersecting circles translated into a simple, crystalline concept as illustrated in Figure 3.6 below.

Figure 3.6 Three Circles of the Hedgehog Concept



Source: Adapted from Collins (2001:118).

Collins (2001) stresses that the key is to understand what your organisation can be the best in the world at and what it cannot be the best at. If a company cannot be the best in the world at its core business, then its core business cannot form the basis of the concept. The "best in the world" understanding is a much more severe standard than is a core competence. A company might have a competence but not necessarily the capacity to be truly the best in the world at that competence. Collins advises companies to get insight into the drivers of their economic engines and search for the one denominator that has the single greatest impact.

Bartlett and Ghoshal (1989, 2000) are leading thinkers in the areas of globalisation and corporate structure. They categorise corporate structure into four forms: multinational, global, international and transnational. The last mentioned has to combine local responsiveness with global efficiency and the ability to transfer know-how better, cheaper and faster.

3.2.4 Summary

A summary of the subsection in key words and short descriptions is shown in Figure 3.7, Literature Review Summary: Strategy. The works of Drucker (1954 1964, 1969, 2003), Porter (1980, 1985, 1990), Hamel and Prahalad (1990, 1996), Collins (2001), Nohria, Joyce and Roberson (2003) and Bartlett and Ghoshal (1989, 2000) are the most pertinent to the thesis.

Figure 3.7 Literature Review Summary: Strategy

1. **Sun Tzu** (+/-500 BC), **Bonaparte** (+/-1815), **Von Clausewitz** (1832), **US Navy** (1946-1950), military considerations.
2. **Smith** (1776) Absolute advantage.
3. **Ricardo** (1817) Comparative advantage.
4. **Drucker** (1964, 1969) Strategy, professional management, MBO, knowledge workers.
5. **Andrews** (1971) SWOT analysis (strengths, weaknesses, opportunities, threats).
6. **Ansoff** (1964) Strategic management, gap analysis, synergy, product-mission matrix.
7. **Porter** (1980, 1985, 1990) Five forces, generic strategies, value chain, national competitiveness.
8. **Hamel and Prahalad** (1990, 1996) Core competencies, strategic architecture.
9. **Mintzberg** (1994) Strategy as craft.
10. **Henderson** (1970) BCG Matrix
11. **Peters and Waterman** (1982) Eight attributes of excellence innovation.
12. **Champy and Hammer** (1993) Reengineering
13. **Collins** (2001) Good to great attributes. Level 5 leadership, hedgehog concept.
14. **Nohria, Joyce and Roberson** (2003) *What Really Works*. 4 +2 formula. Strategy, execution, culture, structure. Talent, leadership, innovation, mergers and partnerships.
15. **Pascale and Athos'** (1981) Seven 'S'.
16. **Ohmae** (1982, 1990) KSFs, globalisation, three Cs.
17. **Senge** (1990) Learning.
18. **Hofsteder (**1984**), Trompenaars** (1993) Culture
19. **Bartlett and Ghoshal** (1989, 2000) Globalisation, structure, international business issues.

3.2.5 Conclusion

This section outlined the history and evolution of strategy, conducted an overview of strategy and reviewed the contributions of leading strategists to the theory and practice of strategy. The ideas, issues and concepts discussed included military considerations and concepts, absolute and comparative advantages, strategic management itself, professional management, management by objectives, knowledge workers, SWOT analysis (strengths, weaknesses, opportunities and threats), synergy, the product-mission matrix, core competencies and strategic architecture, Five Forces, generic strategies, value chains, national competitiveness. Other topics covered were Japanese management philosophies, key success factors, Level 5 leadership, the hedgehog concept the learning organisation, globalisation, international business issues, cultural diversity and the cultural imponderables faced by managers in global business.

Although all of the concepts and ideas listed in the previous paragraph have some bearing on the thesis, the most relevant of these to it are: strategy, international business issues, national competitiveness, culture, learning and knowledge, value chains and core competencies. These are examined in more detail in the following sections of this literature review.

It can certainly be concluded that strategy is an evolutionary discipline or practice and that there is no one universally accepted theory of strategy. The 4 + 2 formulae - strategy, execution, culture and structure and any two of talent, leadership, innovation, mergers and partnerships - is noted as it is a valuable tool for examining the strategies of the companies in the thesis.

Figure 3.8 which illustrates a strategic paradigm (Hitt, Ireland, Hoskisson and Nixon, 1997, cited by Huffman 2001:14) is included in this conclusion because it reflects the strategic process that most corporations or academics appear to follow to one extent or another. It is a result of the works of most of the contributors listed in Table 3.1.

Figure 3.8 The Strategic Paradigm

The Strategic Paradigm

I. Situation Analysis
  A. General External Environment
    1. Political/Legal
    2. Sociocultural
    3. Technological
    4. Demographic
    5. Economic
    6. Global
  B. Industry Analysis
    1. Porter's Five Forces
  C. Competitive Environment Analysis
  D. Environmental Trends
  E. Strategic Analysis
    1. Key Success Factors
    2. Strategies
      a. Business Level
      b. Competitive Strategy
      c. Corporate Level
      d. Modes of Entry
    3. Core Competencies
      a. Resources
        i. Tangible
          - Financial
          - Physical
          - Human
          - Organizational
        ii. Intangible
          - Resources for Innovation
          - Reputation
      b. Capabilities (Value Chain)
        i. Operations
        ii. Marketing & Sales
        iii. Service
        iv. Human Resources
        v. Technology
  F. Performance Appraisal (Financial Ratios)

II. SWOT Analysis (Strength, Weakness, Opportunity, Threat)

III. Strategy Formulation and Implementation

Source: Adapted from Hitt, Ireland, Hoskisson and Nixon (1997), cited by Huffman (2001:14).

3.3 International Business

As the thesis examines core competencies in a global context, it is essential to explore the nature of international business and the influence this has on the development and transfer of competencies.

The origins of international business can be traced back to the seafaring traders who were central to the ancient civilizations built by the Greeks and the Egyptians (Barlett and Goshal 2000). The international flow of products continued through the centuries and, by the 19th century, the newly emerged capitalists of industrialised Europe began investing in the less-developed areas of the world (including the USA). Lamont (2002) catalogues foreign direct investments by corporations in the period 1870 to the present. Current issues are whether the corporate culture of parent firms should be, or could be, transplanted overseas.

Gupta and Westney (2003) list the worldwide ideological shift from the state to the market, the emergence of regional free trade zones (NAFTA), the World Trade Organisation, the globalisation of currencies and media (CNN, Time etc) and the changes in the cost and effectiveness of international communications and transportation technologies as influences on globalisation.

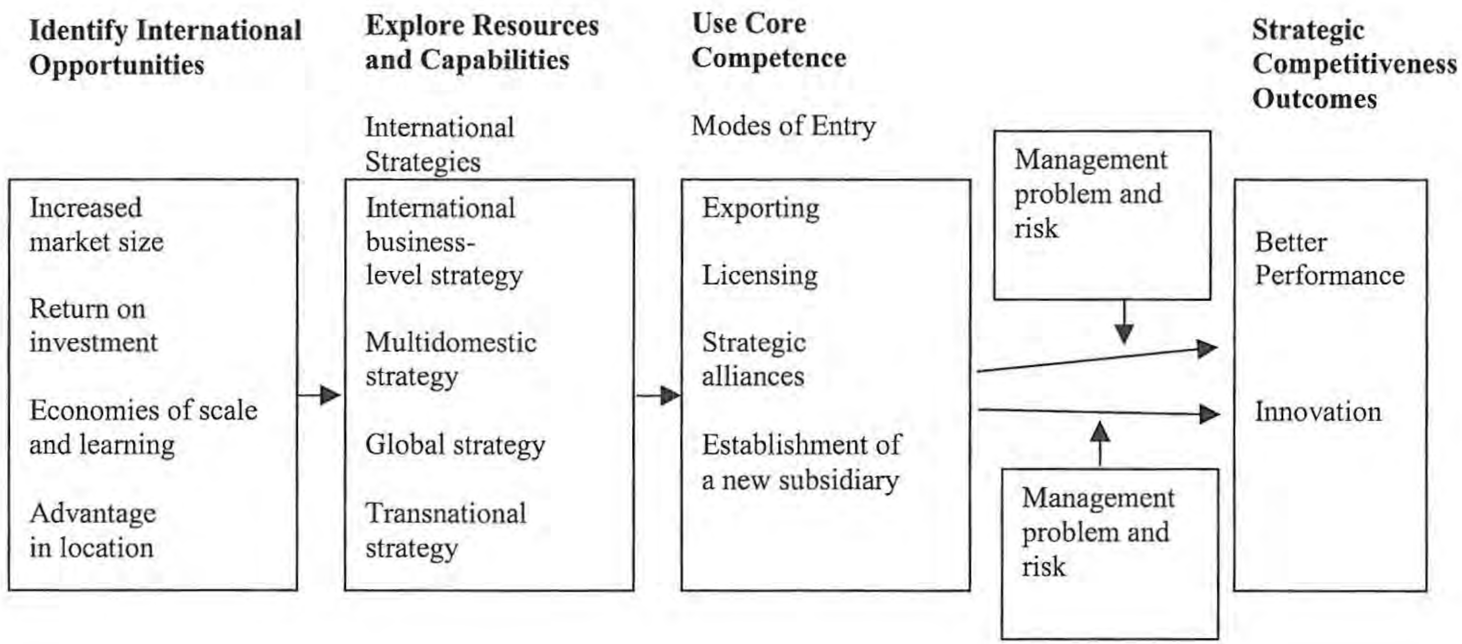
3.3.1 <u>Review</u>

The review begins with Porter (1990) because he deals with national competitiveness rather than individual companies in this Subsection. Other works that deal with international business on a strategic or holistic basis follow: Hitt, Ireland and Hoskisson (2003), Bartlett and Ghoshal (2000a, b) and Lamont (2002). Tallman and Fladmoe-Lindquist (2003) observe the multinational corporation gaining competitive advantage and creating value. The other six works reviewed include Ohmae (1991), Kogut (2003) and Govindarajan and Gupta (1998) and examine more specific issues such as value chains and the composition of global management teams.

Porter (1990) believes that a nation's competitiveness depends on the capacity of its industry to innovate and upgrade. He advances the view that a nation achieves international success in a particular industry because of four broad attributes. These are: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry. These individually and as a system shape the environment in which local firms compete and this promotes, or impedes, the creation of competitive advantage. He adds the two variables of chance and government that can influence the national system in important ways. Chance events are developments outside the control of firms, usually the nation's government. Government, Porter continues, can improve or detract from the national advantage at all levels. This is illustrated clearly by examining how government policies influence each of the determinants. The relationships between the determinants of a nation's competitiveness and Porter's Diamond are discussed in greater detail in Section 3.8 The Development of Core Competencies.

Figure 3.9 provides an overview of the opportunities and outcomes of international strategy according to Hitt, Ireland and Hoskisson (2003). It illustrates the relationships among international opportunities, the exploitation of resources and capabilities that result in strategies and modes of entry that are based on core competencies.

Figure 3.9 Opportunities and Outcomes of International Strategy



Source: Adapted from Hitt, Ireland and Hoskisson (2005:235).

The motivations for international business are increased market size, return on investment, economies of scale and learning and locational advantages. Firms can expand the size of their potential market – sometimes dramatically – by moving into international markets. Large markets may be crucial for earning a return on significant investments, such as plant and capital equipment or research and development. By expanding their markets firms may be able to enjoy economies of scale, particularly in their manufacturing operations. They may locate facilities in other countries to lower the basic cost of the goods or services they provide. These facilities may provide easier access to lower-cost labour (for example China), energy and other natural resources.

The international strategies given are international business-level strategy, multidomestic strategy, global strategy and trans-national strategy. Table 3.2 shows the different types of global market entry and the characteristics of each.

Table 3.2 Global Market Entry : Choice of Entry Mode

Type of Entry	**Characteristics**
Exporting	High cost, low control
Licensing	Low cost, little control, low returns.
Strategic alliances	Shared costs, shared resources, shared risks, problems of integration (e.g. two corporate cultures).
Acquisition	Quick access to new markets, high costs, complex negotiations, problems of merging with domestic operations.
New wholly owned subsidiary	Complex, often costly, time-consuming, high risk, maximum control, potential above-average returns.

Source: Adapted from Hitt, Ireland and Hoskisson (2003:249).

Hitt and colleagues (2003) outline the political, economic and management risks of international business. The management risks and problems arise from the complexity and diversity of international business. Greater geographic dispersion across country borders increases the cost of coordination between units and the distribution of products. Further, trade barriers, logistical costs, cultural diversity, and other differences by country (for example, access to raw materials and different employee skill levels) complicate the implementation of an international strategy and hence the development and transfer of core competencies. Political risks are risks related to instability in national governance and to war, both civil and international. Economic risks are interdependent with political risks. Foremost among these are the differences and fluctuations in the value of different currencies.

Bartlett and Ghoshal (2000a), as seen in Subsection 1.5, define a multinational corporation as having substantial direct investment in foreign countries, actively managing those operations, and regarding those operations as integral parts of the company, both strategically and operationally. The most fundamental distinction between a domestic company and a multinational corporation derives from the social, political and economic context in which each exists. The multinational corporation faces the political risk of operating in countries with different political philosophies, legal systems, and social attitudes toward private property, corporate responsibility and free enterprise. The domestic company operates in a single national environment where social and cultural norms, government regulations, customer tastes and preferences and the social and economic structures of a business tend to be fairly consistent.

Corporate strategy is very different. The multinational corporation must play a far more complex competitive game. While a purely domestic company can measure its performance in the single local currency, the multinational corporation must measure results sometimes achieved against a background of many fluctuating currencies. Finally, the multinational corporation organisation is intrinsically more complex, since it must provide for management control over its product and functional and geographic diversity. The resolution of this three-way tension is compounded by the barriers of distance and time, and differences in language and culture (Bartlett and Ghoshal 2000a).

Bartlett and Ghoshal (2000a) summarise three conditions for the existence of a multinational corporation:

1. Some foreign countries must offer certain location-specific advantages so as to provide the requisite motivation for the company to invest there.
2. The company must have some strategic competencies to counteract the disadvantages of its relative unfamiliarity with foreign markets.
3. It must also have some organisational capabilities so as to get better returns from leveraging its strategic strengths internally rather than through external market mechanisms, such as contracts or licenses.

Barlett and Ghoshal (1998) classify corporate-level strategies for multinational corporations into four types: multinational, global, international and transnational. The last mentioned is dispersed, interdependent and specialised. The types and their organisational characteristics are shown in Table 3.3 below.

Table 3.3 Organisational Characteristics of the Transnational Corporation

Organisational Characteristics	Multinational	Global	International	Transnational
Configuration of assets and capabilities	Decentralized and nationally self-sufficient	Centralized and globally scaled	Sources of core competencies centralized, others decentralized	Dispersed, interdependent, and specialized
Role of overseas operations	Sensing and exploiting local opportunities	Implementing parent company strategies	Adapting and leveraging parent company competencies	Differentiated contributions by national units to integrated worldwide operations
Development and diffusion of knowledge	Knowledge developed and retained within each unit	Knowledge developed and retained at the centre	Knowledge developed at the centre and transferred to overseas units	Knowledge developed jointly and shared worldwide

Source: Adapted from Bartlett and Ghoshal (1998:75).

Prahalad and Doz (1987) define global integration as the centralised management of geographically dispersed activities on an ongoing basis. Strategic coordination refers to the central management of resource commitments across national boundaries in their pursuit of a strategy. Local responsiveness refers to resource commitment decisions taken autonomously by a subsidiary in response to primarily local competitive or customer demands.

In *Lessons from Late Movers,* Bartlett and Ghoshal (2000b) refer to former South African president Nelson Mandela, recording his dismay when he boarded an airplane and found that the pilot was African. With shock, he realised his reaction was exactly what he had been fighting against all his life. Mandela was discussing racism, but the same involuntary reactions surface in commerce. Many customers expect products from some countries to be inferior. That perception is often shared by managers of the local companies that are striving to become global players. The authors do go on to state that companies from the fringes of the world economy can become global players. "What they need is organisational confidence, a clear strategy, a passion for learning and the leadership to bring these factors together" (Barlett and Ghoshal 2000b:35).

They caution against companies from peripheral countries falling into several traps, which they call "liabilities of origin". This would include being locked "in a prison of local standards", management being either unaware of the company's global potential or being too debilitated by self-doubt to capitalise on it. There are also occasional examples of the liability deriving from a limited exposure to global competition, leaving companies in peripheral countries overconfident in their abilities, or blind to potential danger (Bartlett and Ghoshal 2000b).

Barlett and Ghoshal (2000b) stress that survival in the global marketplace depends on companies knowing how to learn. This is the central skill that allows the company to move up the value curve, as the global marketplace is information-based and knowledge-intensive. In each of the 12 emerging multinationals studied, there were leaders who drove the company relentlessly up the value curve. The leaders shared two characteristics; an unshakable belief that their company would succeed internationally and a remarkable openness to new ideas that would facilitate internationalism, even when those ideas challenged established practice and core capabilities.

Lamont (2002) believes that geographic nearness is favoured over distance between nation-states, that cultural similarities are preferable to cultural distance and that cultural distance is easier to deal with when administrative and economic distances are narrowed. He adds that a global strategy is placed under pressure when all four attributes of distance – cultural, administrative, geographic and economic – are present.

Ohmae (1998) writes that country and currency should be added to his previously published triad of corporation, competition and customer as a genuinely interlinked economy emerges. Country and currency refers to the exposure of organisations to fluctuations of exchange rates. He states that the two additional elements are now key to the formulation of any global strategy. "When a sudden fluctuation in trade policy or exchange rates can turn an otherwise brilliant strategy into a seemingly irreparable haemorrhage of cash, making arrangements to deal with such fluctuations must lie at the very heart of strategy" (Ohmae 1998:2).

Zaheer's (1995) research supports the existence of a liability of foreignness and the role of a firm's administrative heritage in providing a competitive advantage to its multinational subunits. It also highlights the difficulties firms face in copying organisational practices from other firms.

Multinational companies can gain competitive advantage in the global market by basing their strategies on building and leveraging their unique individual capabilities (Tallman and Fladmoe-Lindquist 2002). It is possible for the integrated global firm to find capabilities in foreign locations that would otherwise not be available to the company and bring them into the broader set of corporate skills. As Nohria and Ghoshal (1997, cited by Tallman and Fladmoe-Lindquist 2002) observe a key advantage of the multinational arises from its ability to create new value through the accumulation, transfer and integration of different kinds of knowledge, resources, and capabilities across its dispersed organizational units.

However, Tallman and Fladmoe-Lindquist (2002) add, leveraging capabilities developed in the home market, or in previous international experiences, is of importance to the multinational company. Even in a globalizing world market, firms move initially into foreign markets on the strength of parent competitive advantages based on capabilities from the home market.

Kogut (2003) sees the key to developing a global strategy as identifying the activities of the value chain that give the company its distinctive competitive advantage and then, using the differences in comparative advantage across locations, enhancing that advantage. Comparative advantage (location-specific advantage) influences the decision of where to source and market. Competitive advantage (firm-specific advantage) influences the decisions of what activities and technologies, along the value-added chain, a firm should concentrate its investment and managerial resources on, relative to other firms in its industry.

According to Kogut (2003) there are three generally accepted modes of international competition. One mode rests upon the dispersion of the links in the chain of comparative advantage among countries. A second rests on differences in the chain of competitive advantage among firms. The third consists of the interplay between competitive and comparative advantage along a value-added chain. These lead to three general sources for a sustainable global advantage. The first is an increase in economies of scale as a result of an increase in market size; the second, an increase in economies of scope, as a result of the increase in product lines supporting the fixed costs of logistics, control, or downstream links, of the value-added chain. The third is economies of learning, or experience, as a result of the knowledge gained regarding market opportunities or new technologies.

Govindarajan and Gupta (1998) state that a multinational management team must be able to integrate different worldviews. It should therefore include a mixture of language skills, international experience and nationalities. The obstacles to success were given as: the inability to cultivate trust among team members, hindrances to communication and geographical, language and cultural barriers.

Gupta and Govindarajan (2001) postulate that global expansion forces companies to develop at least three types of capabilities: learning about foreign markets, learning how to manage people in foreign locations, and learning how to manage foreign subsidiaries. Among the first issues the globalising company must address is how to transplant the core elements of its business model, its core practices and its core beliefs to the new subsidiary. This will be covered in more detail in Section 3.8, The Transfer of Core Competencies.

3.4.2 Summary

Figure 3.10 summarizes this section. The most relevant contributions are Porter (1990), Bartlett and Ghoshal (2000a, b), Ohmae (1991), Zaheer (1998), Kogut (2003), Govindarajan and Gupta (1998) and Gupta and Govindarajan (2001).

Figure 3.10 Literature Review Summary: International Business

1. **Porter** (1990) National competitiveness. "Porter's Diamond" Factor conditions, demand conditions, related and supporting industries, firm strategy, structure and rivalry. Chance and government.
2. **Hitt Ireland and Hoskisson** (2003) International strategy. Modes of entry. Management, political and economic risks.
3. **Bartlett and Ghoshal** (2000a) Definition, conditions. Sovereignty, currency, complexity, distance, time, language, culture. Product, functional and geographic diversity. Strategy and structure (2000b). Companies from fringes can become world players.
4. **Lamont** (2002) Global strategy. Corporate culture. Cultural, administrative, geographic and economic distance.
5. **Ohmae** (1998) Country and currency.
6. **Zaheer** (1995) The liability of foreignness.
7. **Tallman and Fladmoe-Lindquist (2002), Nohria and Ghoshal (1997)** Multinational ability to build and create new value.
8. **Kogut** (2003) Value-added chains.
9. **Prahalad and Doz** (1987) Centralisation versus local responsiveness.
10. **Govindarajan and Gupta** (1998) Global management teams. Mixture of language skills, international experience and nationalities.
11. **Gupta and Govindarajan** (2001) Learning capabilities required: foreign markets, how to manage people in foreign locations, how to manage foreign subsidiaries.

3.4.3 Conclusion

In conclusion, national competitiveness is, according to Porter (1990), determined by factor conditions, demand conditions, related and supporting industries and firm strategy, structure and rivalry, interacting with chance and government.

A multinational corporation is defined as having substantial direct investment in foreign countries, actively managing those operations and regarding the operations as integral parts of the company, both strategically and operationally. Bartlett and Ghoshal (2000a) describe how multinational corporations face the challenges of sovereignty, currency, complexity, distance, time, language and culture. This is further complicated by product, functional and geographic diversity. International business carries political, economic and management risks.

A key advantage of the multinational corporation arises from its ability to create new value through the accumulation, transfer and integration of different kinds of knowledge, resources and competencies across its global operations. Most companies move initially into global markets on the strength of a parent's competitive advantages based on capabilities and competencies in their home markets.

Foreignness does incur certain liabilities and a mixture of language skills, international experience and nationalities is recommended for global management teams. The statement that companies from fringe countries can become world players provided they show confidence, have a clear strategy, a passion for learning and appropriate leadership should be noted as it is pertinent to the companies being studied.

The key to developing a global strategy is identifying the activities of the value chain that give a company its distinctive competitive advantage then, using the difference in comparative advantage (location-specific, where to source and market), to enhance that advantage.

It is concluded that international business can be extremely complex. Culture is a critical issue and will consequently be examined in the following section.

3.4 Culture and International Business

The previous section revealed how the different works reviewed emphasise the importance of culture; it will therefore be examined further. This section outlines the work of seven authors or groups of authors on how culture relates to international business. Prominent among them are Schneider and Barsoux (1997), Hofstede (1980, 1999) and Trompenaars (1993).

3.4.1 Review

Schneider and Barsoux (1997) present the evidence for national differences and consider the impact of culture on organisational structure, systems and processes. They find distinct patterns of organisation that prevail despite pressures for convergence. They question the transferability of organisational forms across borders and the logic of universal "best practices". The works of Hofstede (1980, 1999) and Trompenaars (1993) are among those that they reviewed. Schneider and Barsoux (1997) conclude that effectively transferring management structures and processes relies on the ability to recognise the inherent assumptions and to compare them with the cultural assumptions of the potential host-country recipient. Companies should not lose sight of the impact of national culture in their search for a model of organisation that could respond best to the demands of the rapidly changing business context and the pressures for internationalisation.

Hofstede (1980, 1999) identifies four dimensions for work-related values associated with national cultures in the late 1960s continuing through the next three decades. These are power distance, uncertainty avoidance, individualism/collectivism and masculinity/femininity. Chapter 2, "South Africa", included Hofstede's rankings (Table 2.7) regarding uncertainty avoidance and power distance.

Power distance indicates the extent to which a society accepts the unequal distribution of power in institutions and organisations. Uncertainty avoidance refers to a society's discomfort with uncertainty, preferring predictability and stability. Individualism/collectivism reflects the extent to which people prefer to take care of themselves and their immediate families, remaining emotionally independent of groups and other collectivities. The masculinity/femininity dimension reveals the bias toward either "masculine" values of assertiveness, competitiveness and materialism, or toward "feminine" values of nurturing, quality of life and relationships.

Hofstede (1980, 1999) claims that management processes have changed little over time. Management processes, which are embedded in the societal culture, differ from society to society but show strong continuity within each society. Practices are more superficial and easier to change than values. He adds a fifth dimension to his original four views of countries. This is long-term/short-term orientation, which measures the extent to which a country takes a long or short-term view of life. Hofstede was criticised for not taking account of ethnic differences within societies, including South Africa, a shortfall that he later acknowledged (C.O. Smith, personal communication, 11 October 2005).

Kotkin (1993), in a study of racial and ethnic factors in international business, focuses on the development of five dispersed ethnic groups, or what he calls global tribes – the Jews, the British, the Japanese, the Chinese, and the Indians – whose impact on the world economy has been profound. He believes that despite vastly different histories, each global tribe shares quintessential characteristics that will determine success in the economy of the 21st century. These are a strong ethnic identity, with a sense of mutual dependence and emphasis on the family structure, a global network based on tribal trust that allows the group to function collectively and a passion for technology with a belief in scientific progress.

Although no longer as dominant as they once were, Kotkin (1993) continues, the British and their progeny in North America remain the most important ethnic group in the world economy, controlling by far the largest accumulation of foreign investment and most of the world's largest corporations. He states that in their conquest of the world in the 19th and early 20th centuries, the Anglo-Americans established the essential standards by which the world economy now functions. Even as the Atlantic economy fades in importance, he ventures, the technologies, ideas and methods by which it was developed will likely shape the world that is to come. As examples of leadership in the setting of basic business standards he cites American-based consulting firms – McKinsey, Bain, Booz Allen – which dominate the world of consulting, even in difficult markets such as Japan, while New York and, most particularly, London have retained their status as the global centres for business and financial services.

Trompenaars's (1993) work shows how national culture influences corporate culture. The major types of culture to him – power-oriented, role-oriented, project-oriented and fulfilment-oriented – are comparable with Hofstede's model. He attempts to dispel the notion that there is "one best way of managing and organising" and to give readers a better understanding of their own culture and cultural differences. He writes that basic to understanding other cultures is the awareness that culture is a series of rules and methods that a society has evolved to deal with the problems that it faces. He points out that just as national cultures conflict, so do corporate cultures collide. The principal implication for business strategy is a healthy respect for the "founding" beliefs of foreign cultures and the images they have chosen to create coherence. Trompenaars (1993) goes on to examine cultures in organisations and uses two dimensions in four quadrants to distinguish different corporate cultures: equality, hierarchy and orientation to the person versus orientation to the task.

Barkema, Bell and Pennings (1996) conclude that firms investing in global markets face cultural adjustment costs. This is especially so when they engage in double-layered acculturation, which is having to deal not only with a foreign culture, but also with the corporate culture of an acquisition, or joint venture, in that country. The results of their research show that expanding firms can move along a learning curve in such ventures, especially when they choose their expansion paths so that they can exploit previous experience in the same country and in other countries in the same cultural bloc. The strong learning effect from earlier entries in the same country supports the idea that "experiential" knowledge (Penrose 1959, cited by Barkema, Bell and Pennings 1996) from a country is relevant and that it enhances the success of later expansions in the same country. The beneficial effect from previous experience in other countries in the same cultural bloc, the authors observe, may be due to learning about common culture characteristics, or because entry in one country allows the firm to connect to other countries through supranational networks that more likely connect culturally similar countries than countries that are more dissimilar (Johanson and Vahlne 1990, cited by Barkema et al. 1996).

Research by Palich and Gomez-Mejia (1997, 1999) concludes that increased heterogeneous cultural environments did not cause declines in the performance returns of international firms they studied. In the aggregate, they state, culture may not be as critical a performance determinant as popular theory suggests. They conclude that global firms stand to gain more from foreign expansion if they judiciously take cultural diversity into consideration. Cultural diversity, within a multinational corporation, may bring together divergent perspectives to improve decision making, but companies should ensure that these benefits are not ameliorated by levels of diversity that reach difficult-to-manage levels.

Landes (1998:517) concludes that "if we learn anything from the history of economic development it is that culture makes all the difference". He sees culture and economic performance as linked and changes in one affect the other. He provides examples of Thailand, where the culture responded to economic growth and opportunity and Russia, where 75 years of anti-market, anti-profit schooling and insider privilege have planted and frozen anti-entrepreneurial attitudes.

3.4.2 Summary

Figure 3.11 depicts keyword summaries of the seven authors reviewed, all of which are germane to the issues being researched.

Figure 3.11 Literature Review Summary: Culture and International Business

1. **Schneider and Barsoux** (1997) *Culture and Organization.* National differences and culture
2. **Hofstede** (1980, 1999) Four dimensions (power distance, uncertainty avoidance, individual/collective, masculine/femininity). Culture profiles. Importance of culture.
3. **Kotkin** (1992) Five global tribes. British remain most dominant.
4. **Trompenaars** (1993) How national culture influences corporate culture. "Not only one best way".
5. **Barkema, Bell and Pennings** (1996) *Foreign Entry, Culture Barriers and Learning.* Double layered acculturation.
6. **Palich and Gomez-Mejia** (1997, 1999) International expansion and performance. Question benefits of greater culture diversity.
7. **Landes** (1998) *The Wealth and Poverty of Nations.* Culture and economic performance linked.

3.4.3 Conclusion

Companies should take account of the impact of national culture in their search for a model of organisation that could respond to a rapidly changing international business context. National culture influences corporate culture, and there is no one best way of doing international business.

Firms investing in global markets face cultural adjustment costs. This is especially so when they engage in double-layered acculturation, which is having to deal not only with a foreign culture, but also with the corporate culture of an acquisition, or joint venture, in that country. Five dispersed "global tribes", with the British still the most dominant in international business, are envisaged by one source. Global firms stand to gain more from foreign expansion if they judiciously take cultural diversity into consideration. There are strong views that culture and economic performance are definitely linked.

From these readings it is once again concluded that the influence of culture on international business is extremely important. Although the authors reviewed have some differences on the influence of culture, there is no doubt that it is crucial and that one ignores cultural aspects at one's peril.

3.5 Learning and Knowledge Management

Because of the importance of learning and knowledge to international business in general and to the development and transfer of core competencies in particular, this short section is devoted to these two factors. Seven works are reviewed, beginning with Senge (1990) and including Nonaka and Takeuchi (1995), Voss and Pedersen (2001) and Pietersen (2002).

3.5.1 Review

Senge (1990, cited by Crainer 1998) studies how firms and other organisations can develop adaptive capabilities in a world of increasing complexity and rapid change. He argues that vision, purpose, alignment and systems thinking are essential for organisations. The organisations that will truly excel in the future will be those that discover how to tap people's commitment, and capacity to learn at all levels in the organisation.

He defines a learning organisation (in its simplest sense) as a "group of people who are continuously enhancing their capability to create their future" (Senge 1990, cited by Crainer 1998:214). In this context, the traditional meaning of the word *learning* is much deeper than just taking information in. It is about changing individuals so that they produce results they care about and accomplish things that are important to them. Senge (1990) advocates that managers should encourage employees to be open to new ideas, communicate frankly with each other, understand thoroughly how their companies operate, form a collective vision and work together to achieve their goal (Crainer 1997).

According to Senge (1990), there are five components to a learning organisation:

1. Systems thinking. He champions systems thinking, recognising that things are interconnected, thereby introducing the idea of systems archetypes.

2. Personal mastery. This is the discipline of continually clarifying and deepening personal vision, of focusing energies, of developing patience and seeing reality

objectively. As such it is an essential cornerstone of the learning organisation, the learning organisation's spiritual foundation.

3. Mental models. This idea essentially deals with the organisation's driving and fundamental values and principles.

4. Shared vision. When there is a genuine vision (as opposed to the all-too-familiar vision statement), people excel and learn, not because they are told to, but because they want to.

5. Team learning. This involves two practices: dialogue and discussion. The former is characterised by its exploratory nature, the latter by the opposite process of narrowing down the field to the best alternative for the decisions to be made. The two are complementary, but the benefits of combining them come only from previously having separated them.

Nonaka and Takeuchi (1995, cited by Hitt, Ireland and Hoskisson 2001) have as a starting point a contrast between Western and Eastern philosophies. In the West, knowledge is formal, unambiguous, systematic and scientific. A quest for knowledge normally involves analysis and interpretation of data and information. New knowledge is documented and transferred by means of formal training. This form of knowledge is described as explicit.

In the East, knowledge is intuitive, interpretive, ambiguous, nonlinear and difficult to reduce to scientific equations. Knowledge grows from the expertise and experience of many people, whose minds are probed for insights. New knowledge is distributed and retained through experience. Nonaka and Takeuchi (1995, cited by Hitt et al. 2001) regard this form of knowledge as implicit. They see implicit and explicit knowledge not as totally separate, but as complementary entities and refer to the interaction between implicit and explicit knowledge as knowledge conversion. They suggest four methods of knowledge conversion, otherwise known as the SECI process. These are: socialisation, externalisation, combination and internalisation.
Nonaka and Takeuchi (1995, cited by Hitt et al. 2001) state that socialisation includes the methods that firms employ to help people acquire another's skills by watching and

practicing. Externalisation is the process used to convert tacit knowledge into explicit concepts. Metaphors are often used for this purpose to express complex tacit knowledge in more easily understood terms. Combination involves the study of sets of knowledge that are held by different individuals. The purpose of combination is to integrate what are often unique tacit knowledge sets to create explicit knowledge that can be shared readily across the firm. Through internalisation, people throughout the firm absorb explicit knowledge that has been created through socialisation, externalisation and combination.

Cohen and Levinthal (1990) define absorptive capacity as the ability of a firm to recognise the value of new external information, assimilate it, and apply it to commercial ends. They suggest a simple generalisation that prior knowledge permits the assimilation and exploitation of new knowledge. By having developed some absorptive capacity in a particular area, a firm may, more readily, accumulate what additional knowledge it needs in the subsequent period in order to exploit any critical external knowledge that may become available. The possession of related expertise will permit the firm to better understand and evaluate the potential of intermediate technological advances. Absorptive capacity affects the formation of expectations, permitting the firm to predict more accurately the nature and commercial potential of technological advances. The two features of absorptive capacity – cumulativeness and its effect on the formation of expectations – imply that its development is domain-specific and is path - or history-dependent.

Garvin (2000) defines a learning organisation as an organisation skilled at creating, acquiring, and transferring knowledge, and at modifying its behaviour to reflect new knowledge and insights. He envisages a learning organisation as skilled at systematic problem solving, experimentation with new approaches, learning from experience and history and best practices of others, and transferring knowledge quickly and efficiently throughout the organisation. The mechanisms to do this include written, oral and visual reports, site visits and tours, personnel rotation programmes, education and training and standardisation programmes.

Reports and tours are by far the most popular mediums. Tours are an equally popular means of transferring knowledge, especially for large, multidivisional organisations with multiple sites. Reports and tours are sometimes relatively cumbersome ways of transferring knowledge. Absorbing facts by reading them or seeing them demonstrated is one thing; experiencing them personally is quite another. For this reason personnel rotation programmes are one of the most powerful methods of transferring knowledge. The maxim "if you can't measure it you can't manage it" is as true of learning as it is of any other corporate objective (Gavin 2000).

Brinkerhoff's (1988) Six Stage model for human resources development is comprised of the stages listed below:

1) A need, problem or opportunity worth addressing
2) A human resources department capable of teaching this
3) The organisation successfully implements the design programme
4) The participants successfully exit the programme
5) They retain and use their new learning
6) The organisation benefits when participants use their learning.

He believes that analysing human resource development programmes in terms of the six stages can show whether and how programmes benefit an organisation. This also helps trace any failures to one or more of the six stages.

Voss and Pedersen (2001) postulate that knowledge from different sources has different characteristics and is therefore transferred at different costs. When management chooses a specific way of sourcing knowledge, it also implicitly chooses the characteristics of the sourced knowledge and the ease with which it can be transferred inside the multinational corporation. Their research shows that organisational choice variables, such as the level of subsidiary autonomy, the level of intra-multinational corporation trade and interdependence among the subsidiary and other multinational corporation units all have a bearing on the development of different sources of subsidiary knowledge. They conclude that multinational management can influence the development, characteristics and transfer of knowledge through choices regarding organisational control, motivation and context.

Voss and Pedersen (2001) make the following six propositions:

1. Internal knowledge is likely to be more easily transferable than external knowledge.
2. External knowledge, which tends to be of a more peripheral character in the multinational corporation knowledge structure, is likely to be less transferable than internal knowledge.
3. When brought into contact with internal knowledge, external knowledge is more likely to be transferred from subsidiaries to other multinational corporation units.
4. The development of external knowledge is improved by the degree of autonomy granted to the subsidiary.
5. The development of internal knowledge in multinational corporation subsidiaries is positively influenced by the perceived interdependencies and complementarities between the local subsidiary and other multinational corporation units.
6. Developing internal knowledge in multinational corporation subsidiaries is positively influenced by the amount of trade, and transfer of goods and services, between multinational corporation units.

Pietersen's (2002) strategic learning concept was built on the proposition that the ability to build and lead an adaptive enterprise is the only sustainable competitive advantage in today's complex marketplace. The essence of strategic learning is a process with four linked action steps: learn, focus, align and execute, which build on one another and are repeated (as the fifth step, if you will) in a continuous circle of learning and renewal. The key is to think cycle, not straight line. The challenge is to repeat the process over and over, so that the organisation continuously learns from its own actions, and from scanning the environment, and then modifies its strategies accordingly.

3.5.2 Summary

The seven works reviewed are summarised in Figure 3.12. Garvin (2000) mentions the methods of visits and personnel rotation to both develop and transfer knowledge.

Figure 3.12 Literature Review Summary: Learning and Knowledge Management

1. **Senge** (1990) *The Fifth Discipline*. Systems thinking, personal mastery, mental models, shared vision and team learning.
2. **Nonaka and Takeuchi** (1995) Socialisation, externalisation, combination internalisation.
3. **Cohen and Levinthal** (1990) Absorptive capacity. History or path dependent.
4. **Garvin** (2000) *Build a Learning Organization*. Personnel rotation, visits.
5. **Brinkerhoff** (1988) Six Stage model
6. **Voss and Pederson** (2001) MNC as knowledge structure. MNC can influence development characteristics and transfer of knowledge by control, motivation and context.
7. **Pietersen** (2002) *Reinventing Strategy*. Continuous circle of learning and renewal.

3.5.3 Conclusion

In Senge's (1990) view the learning organisation concept has the five components of systems thinking, personal mastery, mental models, shared vision and team learning. Nonaka and Takeuchi (1995, cited by Hitt et al. 2001) suggest four methods of knowledge conversion as: socialisation, externalisation, combination and internalisation.

Absorptive capacity is the ability of a firm to recognise the value of new external information, assimilate it and apply it to commercial ends. The two features of absorptive capacity (cumulativeness and expectation formation) imply that its development is specific to a domain and dependent on a path or history.

The mechanisms to learn and transfer knowledge include reports, visits and tours, personnel rotation programmes and standardisation and training programmes. Personnel rotation programmes are one of the most powerful methods of transferring knowledge (Garvin 2000). He quotes the maxim "if you can't measure it, you can't manage it" as being as true of learning as it is of any other corporate objective. This statement is revisited in other contexts later in the thesis.

The accumulation of knowledge or learning is a continuous process that multinational companies can influence by control, motivation and context. Knowledge from different sources has different characteristics and is therefore transferred at different costs. The ability to absorb knowledge is path or history-dependent. There should be a continuous circle of learning and renewal. The challenge is to repeat the process over and over so that the organisation continuously learns from its own actions and from scanning the environment and then modifies its strategies accordingly.

The factor that comes across from all the works is the importance of continual learning. Voss and Pedersen (2001) state that it is now almost axiomatic that knowledge and learning are at the root of understanding how corporate advantage is gained and sustained. This passage is an appropriate transition to the next section: The Definition and Nature of Core Competencies.

3.6 The Definition and Nature of Core Competencies

It was noted in the Introduction that all successful organisations have core competencies, but that the ways in which they articulate and utilise them strategically vary widely. This section focuses on the definition, composition and nature of core competencies. The works of Smith (1776) and Ricardo (1817) are reviewed first as absolute and comparative advantages are forerunners of core competencies. These are followed by discussions on contributions by Drucker (1964, 1995) and Porter (1998). Prahalad and Hamel (1990, 1996), as the leading exponents of the core competency concept, receive the most attention. The Hitt, Ireland and Hoskisson (2005), Thompson and Strickland (2003) and Barney, Wright and Ketchen (2001) versions of core competencies are then considered. Other works reviewed include Goddard (1997) and Manning (1997).

The definitions of core competencies in the Introduction are repeated to facilitate comparisons between the different schools of thought.

3.6.1 Review

Smith (1776) wrote the *Wealth of Nations,* regarded as *the* free market economics treatise. He created the notion of absolute advantage in which a nation exports an item if it is the world's lowest cost producer. Ricardo (1817) refined the notion of absolute advantage to that of comparative advantage, recognising that market forces will allocate a nation's resources to those industries where it is relatively most productive. This means that a nation might still import a good where it could be the lowest cost producer if it is even more productive in producing other goods (Ricardo 1817, cited by Porter 1990). Porter (1990) believes that both absolute and relative advantages are necessary for trade.

Drucker (1964) advocates focusing on opportunities and building on strengths. A crucial step is to recognise the realities of the firm's individual talents and limitations. He does not use the term *core competencies*, but asks "What can we do well?" (Drucker 1964:192). He states that opportunities have to be reflected against the experience of a company and its past successes and failures.

In a later work Drucker (1995:43) does use the term *core competencies* "To convert this potential into reality requires matching the opportunities with the company's strength and competence. It requires what I first (in my 1964 book *Managing for Results*) presented as "strength analysis" and what now – thanks mainly to the work of Professors C.K. Prahalad and Gary Hamel – is coming to be known as the analysis of "core competence" Drucker goes on to ask what the company is good at, what it does well, what strengths give it a competitive edge and to what this should be applied.

A theory of a business has three parts: assumptions about the environment of the organisation, the specific mission and the core competencies needed to accomplish the mission (Drucker 1995). The assumptions about environment define what an organisation is paid for; the assumptions about mission define what an organisation considers to be meaningful results; and the assumptions about core competencies define where an organisation must excel to maintain leadership. Drucker goes on to state that assumptions about environment, mission, and core competencies must fit reality and one another.

Core competencies are different for every organisation and are part of an organisation's personality, according to Drucker (1995), but every organisation – not just businesses, he insists – needs one core competence: *innovation.* Every organisation needs a way to record and appraise its performance in the practice of innovation. Here Drucker (1995) advocates maintaining a careful record of the innovations in an entire field, not only the company's own performance, during a given period. This practice, he concedes, may be assessment rather than measurement. It raises rather than answers questions, he continues, but he does conclude that it raises the right questions.

Porter (1998) does not use the term *core competence.* He uses the terms *value activities* (discrete activities in the value chain), *skills* and *expertise.* "The expertise or skills to be transferred are both advanced and proprietary enough to be beyond the capabilities of competitors" (Porter 1998:139). It can safely be assumed that combinations of value activities, skills and expertise, as envisaged by Porter, would include core competencies as defined by some of the other authors.

Prahalad and Hamel (1990) originally made a case for rethinking the corporation in terms of core competencies, rather than divisions or strategic business units (SBUs). They see core competencies as the collective learning in an organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies. They give as examples Sony's capacity to miniaturize and Philips' optical/media expertise. They go on to discuss the tangible links between identified core competencies, core products and end products. Core products are the physical embodiment of one or more core competencies.

They recommend that at least three tests be applied to identify a core competency:

1. It should provide potential access to a wide variety of markets.
2. It should make a significant contribution to perceived customer benefits.
3. It should be difficult for competitors to imitate.

In *Competing for the Future,* Hamel and Prahalad (1996) define a core competence as a bundle of skills and technologies that enables a company to provide a particular benefit to customers. A core competence represents the sum of learning across individual skill sets and individual organisational units. It is, therefore, very unlikely to reside in its entirety in a single individual or small team.

Hamel and Prahalad explain that a core competence is not an "asset" in the accounting sense of the word. Core competencies do not appear in balance sheets (*at least not under present accounting conventions*: my note) A factory, distribution channel, brand or patent cannot be a core competence. These are things rather than skills. However, an aptitude to manage *that* factory (for example, Toyota's lean manufacturing), or a distribution channel (Wal-Mart's logistics), a brand (Coca-Cola's advertising) or intellectual property, may constitute a core competence.

> A core competence is a source of competitive advantage in that it is competitively unique and makes a contribution to customer value or cost. But, whereas all competencies are sources of competitive advantage, not all competitive advantages are core competencies. Likewise, every core competence is likely to

be a critical success factor, but not every critical success factor will be a core competence (Hamel and Prahalad 1996:229).

Examples are: a licensing agreement that allows unique access to a particular technology, an exclusive import licence for a particular product, or the location of factories preferentially positioned close to raw material supplies. All the examples are competitive advantages and each a critical success factor, but none is a core competency.

Prahalad and Hamel (1990, 1996) state that the dividing line between a particular skill and the core competency to which it contributes may be difficult to define. They suggest that the most useful level of aggregation of core competencies, in a medium-sized company or business unit, is typically one that yields somewhere between five and fifteen core competencies. Few companies are likely to build world leadership in more than five or six fundamental competencies

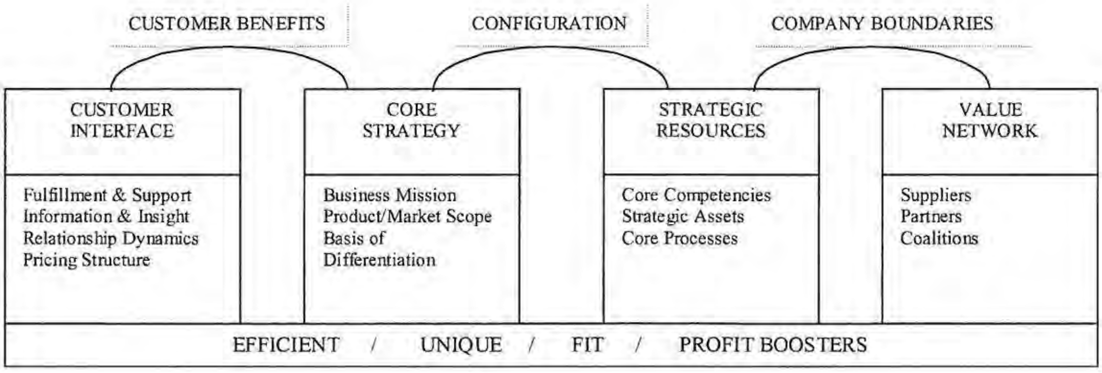
The entire management team should fully understand and participate in the five key competency management tasks according to Hamel and Prahalad (1996):

1. Identifying existing core competencies.
2. Establishing a core competency acquisition agenda.
3. Building core competencies.
4. Deploying core competencies.
5. Protecting and defending core competency leadership.

Unlike physical assets, competencies do not wear out, although a core competency may lose its value over time. In general, the more a competency is used, the more refined it gets and the better it becomes (Hamel and Prahalad 1996).

Writing on his own, Hamel (2000) sets out core competencies as part of a total management framework. This is illustrated in Figure 3.13.

Figure 3.13 Hamel's Management Framework



Source: Adapted from Hamel (2000:94).

The four components of the framework encompass customer interface, core strategy, strategic resources and value network. Strategic resources consist of core competencies, strategic assets and core processes.

There are four factors to consider in determining the wealth potential of any business concept, as illustrated in Figure 3.13 (Hamel 2000):

1. The extent to which the business concept is an *efficient* way of delivering customer benefits;
2. The extent to which the business is *unique;*
3. The degree of *fit* among the elements of the business concept; and
4. The extent to which the business concept exploits *profit boosters* that have the potential to generate above-average returns.

Core competencies are what the firm knows. They encompass skills and unique capabilities. What does it know that is a) unique, b) valuable to customers and c) transferable to new opportunities? Strategic assets are what the company owns, while core processes are what people in the firm actually do. Core processes are methodologies and routines used in transferring inputs into outputs (Hamel 2000).

Hitt et al. (2005) define core competencies as resources and capabilities that serve as a source of competitive advantage for a firm over its rivals. Resources are defined as inputs into a firm's production process, such as capital equipment, skills of individual employees, patents, finance and talented managers. A capability is the firm's capacity to deploy resources that have been purposely integrated to achieve a desired end state.

Core competencies distinguish a company competitively and reflect its personality. McKinsey & Company (Hitt et al. 2005) recommends that a company have three or four core competencies around which their strategic actions can be framed. Core competencies, unlike physical assets, tend to become more valuable through additional use, echoing the views of Hamel and Prahalad (1996) expressed earlier. Hitt et al. (2005) warn that the possible value creation of core competencies should never be taken for granted for all core competencies have the potential to become core rigidities. A core competency that is emphasised when it is no longer competitively relevant can cause organisational inertia. Events occurring in the external environment can also create conditions through which core competencies can become core rigidities, generate inertia and stifle innovation.

Hitt et al. (2005) also specify two tools that help identify and build competencies. These are a) internal analysis and b) value chain analysis. The four internal analysis criteria used in deciding whether or not capabilities are strategic and, hence, core competencies, are whether they are valuable, rare, costly to imitate and non-substitutable.

Valuable capabilities help a firm neutralise threats or exploit opportunities. Rare capabilities are those not possessed by many others. Costly-to-imitate capabilities may be historical such as a unique and valuable organisational culture or brand name. Costly-to-imitate capabilities sometimes arise from ambiguous causes where the causes and uses of a competency are unclear. Social complexity arising from interpersonal relationships, trust and friendship among managers, suppliers and customers can also give rise to costly-to-imitate capabilities. Non-substitutable capabilities are those for which there is no strategic equivalent (Hitt et al. 2005).

Table 3.4 shows the outcomes from combinations of the criteria for sustainable competitive advantage. If a company meets all four criteria, then the prognosis is a sustainable competitive advantage with above-average returns. If it meets none of the four criteria, then a competitive disadvantage with below-average returns is foreseen. In between these two extremes are competitive parity and temporary competitive advantage depending on the mix of the criteria.

Table 3.4 Outcomes from the Combinations of the Criteria for Sustainable Competitive Advantage

Is the resource or capability valuable?	Is the resource or capability rare?	Is the resource or capability costly to imitate?	Is the resource or capability non-substitutable?	Competitive consequences	Performance implications
No	No	No	No	Competitive disadvantage	Below-average returns
Yes	No	No	Yes/No	Competitive parity	Average returns
Yes	Yes	No	Yes/No	Temporary competitive advantage	Above-average returns to average returns
Yes	Yes	Yes	Yes	Sustainable competitive advantage	Above-average returns

Source: Adapted from Hitt, Ireland and Hoskisson (2005:88).

Thompson and Strickland (2003) define a core competence as something that a company does well relative to other internal activities. A company's core competence is therefore likely to reside in its people, and its intellectual capital, not in its assets on the balance sheet. Core competencies thus tend to be grounded in cross-departmental and cross-functional combinations of skills, resources and technologies. They take the definition further by using the term *distinctive competence*, which is something the company does well relative to competitors. Consequently, a core competence becomes a basis for competitive advantage only when it is a distinctive competence.

For a particular company resource, whether it be a distinctive competence, an asset or a competitive capability, to qualify as the basis for sustainable competitive advantage, it must pass four tests of competitive value (Thompson and Strickland 2003):

1. Is the resource hard to copy?
2. How long does the resource last?
3. Is the resource really competitively superior?
4. Can the resource be trumped by different resources/capabilities of rivals?

Barney, Wright and Ketchen (2001) argue that sustained competitive advantage derives from the resources and capabilities a firm controls that are valuable, rare, imperfectly imitable and not substitutable. The resources and capabilities can be viewed as bundles of tangible and intangible assets, including a firm's management skills, its organisational processes and routines, and the information and knowledge it controls.

Fiol (2001, cited in Barney et al. 2001) questions the premise that it is possible to achieve a sustainable competitive advantage based on any particular core competency, no matter how inimitable. She argues that in the current competitive environment, skills/resources of organisations and the way organisations use them must constantly change to produce continuously changing and temporary advantages.

Iesenhardt and Martin (2001, cited in Barney et al. 2001), along with Fiol (2001, cited in Barney et al. 2001) conclude that competitive advantages cannot be sustained in dynamic, rapidly changing markets. However, Iesenhardt and Martin (2001) specifically identify the conditions under which sustained competitive advantage is possible in these settings where a particular firm applies its dynamic capabilities "sooner, more astutely or more fortuitously" in making strategic choices.

Barney et al. (2001) suggest that the ability to learn and the ability to change are likely to be among the most important capabilities that a firm can possess.

Goddard (1997) states that the most powerful tool for success is the ability to establish a corporate vernacular that can create economic value. He uses Wal-Mart as an illustration of how core competence helped to make the company the world's largest and most profitable retailer. He quotes Confucius's advice to a new leader "Fix the language" (Goddard 1997:2).

Goddard (1997) points out that much credit is given to Wal-Mart's "cross-docking" technique of inventory replenishment. This is a just-in-time system to keep inventory permanently on the move. Like any truly sustainable economic advantage, it took years of adaptive control to design and master. It entailed massive strategic investments in a variety of interlocking support systems, far beyond what could be justified by conventional return on investment criteria.

Manning (1997) believes that executives who strategise around their core competencies often have not given enough thought to what they are doing. Like other popular management ideas, that of core competency is open to different interpretations. He asserts that there is no recognised, rigorous discipline for identifying competencies, so almost any skill or technology may fit the bill. The competence label is too readily fixed to things that made a firm famous but no longer matter. All too often, Manning continues, companies choose exactly the same competencies as their competitors. He concedes that competencies obviously matter. But (quoting IMD Professor Derek Abell 1993), he points out that it is not enough merely to *have* a resource or a competence; competitive advantage rests on having *superior* resources and competencies (emphasis mine). "What you do must count. And you must do it better that anyone else" (Manning 1997:220).

3.6.2 Summary

Figure 3.14 reflects the works reviewed in brief descriptions and key words. Drucker (1964, 1995), Hamel and Prahalad (1990, 1996) and Manning (1997) are the most important in terms of the later analysis and research results compared to prevailing theory.

Figure 3.14 Literature Review Summary: The Definition and Nature of Core Competencies

1. **Ricardo** (1817) Comparative advantage.
2. **Smith** (1776) Absolute advantage.
3. **Drucker** (1964, 1995) Strengths analysis. Environment, mission and core competencies must fit. Innovation essential.
4. **Porter** (1998) Value activities.
5. **Hamel and Prahalad** (1990, 1996) Transferable, consumer benefits, inimitability. Five or six competencies. Competencies versus competitive advantages.
6. **Hamel** (2000) Total management framework..
7. **Hitt Ireland and Hoskisson** (2003, 2005) Resources + capabilities. McKinsey = three or four competencies. Valuable, rare, costly to imitate and non-substitutable.
8. **Thompson and Strickland** (2003) 'Distinctive' competence. Inimitability, long lasting, competitively superior, can competition 'trump'? Two or three competencies.
9. **Barney, Wright and Ketchen** (2001) Resources + capabilities. Valuable, rare, imperfectly imitable and not substitutable. Sustainability.
10. **Goddard** (1997) Corporate vernacular. "Fix the language". Takes time to develop. Wal-Mart examples.
11. **Manning** (1997) No recognised rigorous discipline for identifying core competencies. Must be done better than competition.

3.6.3 Conclusion

In conclusion, it is noted that although the experts differ in their definition of core competencies, it is clear that they are talking about similar concepts. (This does raise the question of how academics differ in their definitions from practitioners, who are driven by results rather than process). While all of the definitions are acceptable to me for purposes of this thesis, that of Hamel and Prahalad (1996) – a bundle of skills and technologies that enable a company to provide a particular benefit to customers – is preferred, because of their status as pioneers of the core competency concept. Their three criteria are that a core competency must provide access to a wider variety of markets, be difficult to imitate and make a significant contribution to the perceived benefits of customers.

A core competency is not an asset in the accounting sense of the word. Core competencies are aptitudes and skills rather than things. A core competency is therefore likely to reside in a company's people and intellectual capital, not in its assets on the balance sheet. A core competency is a source of competitive advantage in that it is competitively unique and makes a contribution to customer value or cost. But, whereas all core competencies are sources of competitive advantage, not all competitive advantages are core competencies. Correspondingly, every core competency is likely to be a critical success factor, but not every critical success factor will be a core competency. Core competencies, unlike physical assets, tend to become more valuable through additional use, but caution should be exercised to prevent core competencies from becoming core rigidities.

The various experts differ on how many core competencies a company can build. This varies from two or three, to three or four, five or six (with world leadership) and up to five to fifteen in a medium-sized company.

There is no recognised rigorous discipline for identifying competencies. The sometimes nebulous nature of some core competencies can be in conflict with the statement in Section 3.5 "what cannot be measured, cannot be managed". Related to this is Porter's (1998) mention of *discrete* (emphasis mine) activities in the value chain. The ability to learn and the ability to change are likely to be among the most important capabilities that a company can possess.

Having examined the definition, composition and nature of core competencies, the thesis moves to the next section, which covers the development of core competencies.

3.7 The Development of Core Competencies

As observed by Tallman and Fladmoe-Lindquist (2002), building capabilities and developing resources must continue for the life of a company, new ones being created as old ones are compromised. Porter's (1990) framework of national competitiveness, which was mentioned earlier in both the review on strategy and the review on international business is examined in greater detail in this chapter. Porter's (1990) work is followed by Sachs's (2005) perspectives on what drives economic development and growth, and hence competitiveness.

Moving from national to company considerations, various models relating to development of core competencies, including internal analysis, the value chain and other methods, are examined. The works of Hamel and Prahalad (1996), pioneers of the modern concept of core competencies, again receive particular attention. Contributions by Hitt, Ireland and Hoskisson (2005), Thompson and Strickland (2003), Drucker (1995) and Porter (1985) are again included, and other views on how core competencies are developed or emerge are explored.

Articles by Bartlett and Ghoshal (2002), Fites (1998) and Mascarenhas, Baveja and Jamil (1998) provide practical examples relating to the development of core competencies. The last-mentioned is especially relevant to this thesis. The review concludes by assessing the role of mergers and acquisitions in the development of core competencies.

3.7.1 <u>Review</u>

Porter (1998:155) maintains that:

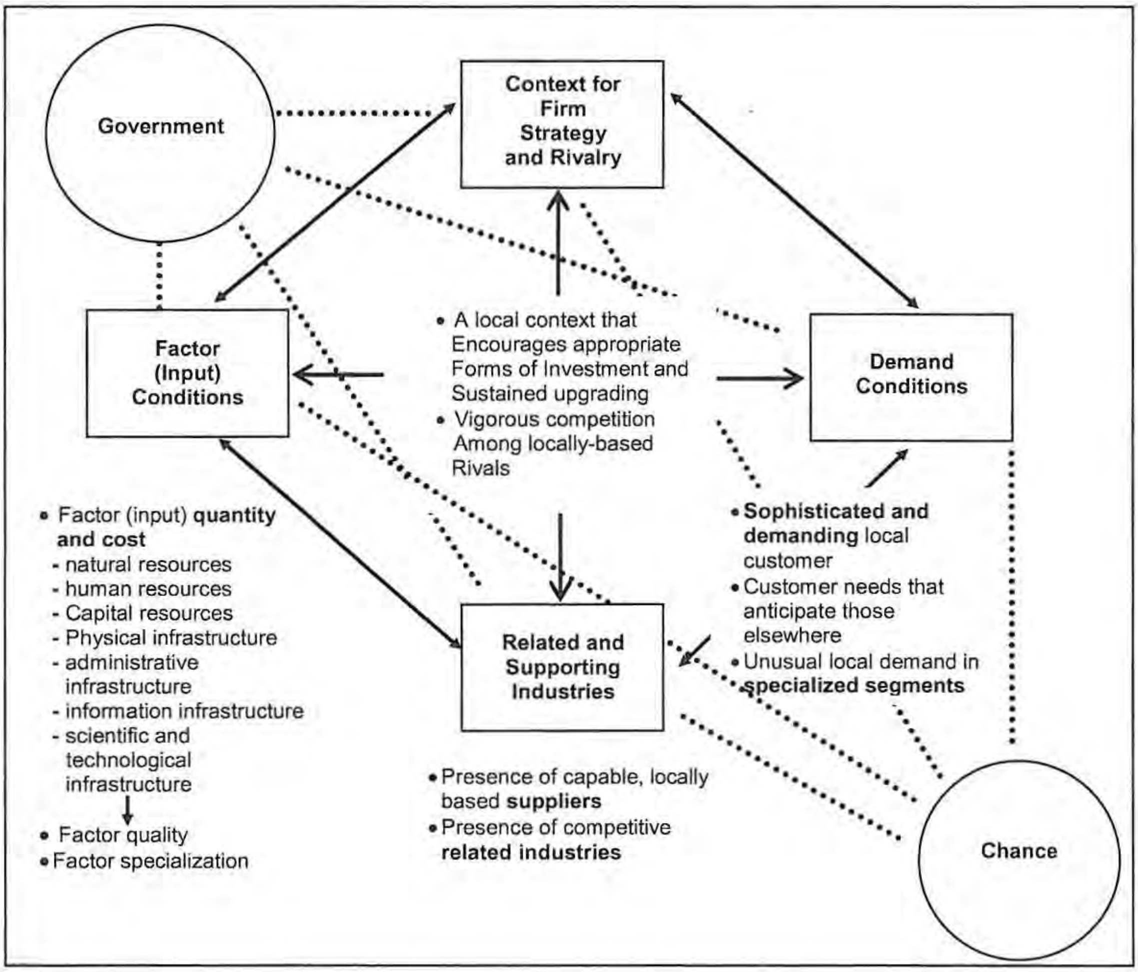
> National prosperity is created, not inherited. It does not grow out of a country's natural endowments, its labour pool, its interest rates, or its currency's value, as classical economics insists. A nation's competitiveness depends on the capacity of its industry to innovate and upgrade. Companies gain advantage against the world's best competitors because of pressure and

challenge. They benefit from having strong domestic rivals, aggressive home-based suppliers and demanding local customers.

Porter (1990, 1998) goes on to state that differences in national values, cultures, economic structures, institutions and history all play an important role in shaping competitive abilities.

As seen earlier in both sections 3.3.3 (History and Overview of Strategy Review) and 3.4.3 International Business Review), Porter's Diamond comprises four broad attributes: factor conditions, demand conditions, related and supporting industries, firm strategy, structure and rivalry. These individually and as a system, together with additional variables of chance and government, shape the environment in which local firms compete, and this promotes or impedes the creation of competitive advantages. The difference between core competencies and competitive advantages was examined in Section 3.7. It is assumed that certain core competencies would be included among the competitive advantages created or developed by the workings of Porter's Diamond. His diamond system is shown in Figure 3.15 below and an explanation from his writings follows.

Figure 3.15 Porter's Diamond – The Complete System



Source: Adapted from Porter (1998:211).

Factor Conditions

These are a nation's position in relation to factors of production, such as skilled labour or infrastructure, necessary to compete in a given industry. Further details are shown in Figure 3.15. Porter (1990) differentiates between basic and advanced factors, and generalised and specialised factors.

Basic factors are passively inherited, or their creation requires relatively modest or unsophisticated private and social investment. Advanced factors are necessary to achieve higher-order competitive advantages such as differentiated products and proprietary production technology and their development demands large and often sustained investments in both human and physical capital. Generalized factors include the highway system, a supply of debt capital or well-motivated employees with college educations, and can be utilised in a wide range of industries and services. Specialised factors involve narrowly skilled personnel, infrastructure with specific properties, knowledge bases in particular fields and factors with reference to a limited range or even to a single industry (Porter 1990).

Another distinction is whether factors are inherited (natural resources) or created (telecommunication system). In the sophisticated industries that form the backbone of any advanced economy, a nation does not inherit but creates the most important factors of production, such as skilled human resources or a scientific base. The most important factors of production are those that involve sustained and heavy investment and are specialised. To support competitive advantage, a factor must be highly specialised to an industry's particular needs. Nations will succeed in industries where they are particularly good at creating and upgrading needed factors (Porter 1990).

Porter (1990) believes that selective disadvantages in the more basic factors can prod a company to innovate and upgrade – a disadvantage in a static model of competition can become a competitive advantage in a dynamic one. Disadvantages can become advantages when they send companies proper signals about circumstances that will spread to other nations and where favourable circumstances prevail elsewhere in the Diamond.

Demand Conditions

Demand conditions refers to the nature of home market demand for the industry's product or service. Home demand, maintains Porter (1990), can influence efficiencies through economies of scale, but its effect on the shape and character of improvement and innovation by a nation's firms are more important. Sophisticated and demanding local customers, customer needs that anticipate those elsewhere and unusual local demand in specialised segments that can be served locally are the three characteristics especially significant to choosing competitive national advantage.

> A saturated home market creates intense pressures to push down prices, introduce new features, improve product performance, and provide other incentives ... saturation escalates local rivalry... Another frequent result of home market saturation is vigorous efforts by a nation's firms to penetrate foreign markets in order to sustain growth and even fill capacity. It was striking how many of the indicators we studied began their first significant international activity after the home market saturated (Porter 1990:96).

Related and Supporting Industries

This refers to the presence or absence in the nation of supply industries and other related industries that are internationally competitive. Internationally competitive home-base suppliers create advantages because they deliver the most cost-effective inputs in an efficient, rapid and sometimes preferential way. Home-based, related and supporting industries also provide an advantage in innovation and upgrading, based on close working relationships. Porter (1990) believes that the nation's companies benefit most when the suppliers are, themselves, global competitors. Home-based competitiveness in related industries provide similar benefits: information flow and technical interchange speed the rate of innovation upgrading.

Firm Strategy, Structure and Rivalry

Firm strategy, structure and rivalry refers to the conditions in a nation governing how companies are created, organised and managed, as well as the nature of domestic rivalry. Porter (1990) notes that no one managerial system is appropriate. Countries also differ markedly in the goals that companies and individuals seek to achieve. Individual motivation to work and expand skills is also important to competitive advantage. Nations tend to be competitive in activities that people admire or depend on - the activities from which a nation's heroes emerge.

The presence of strong local rivals, states Porter (1990), is a final and powerful stimulus to the creation and persistence of competitive advantage. Domestic rivalry creates pressures on companies to innovate and improve and perhaps compete for "bragging rights". Porter (1990) goes on to say that geographic concentration magnifies the power of domestic rivalry. He continues that it is also vigorous domestic competition that ultimately pressures domestic companies to look at global markets and toughens them to succeed in them. "It is rare that a company can meet tough foreign rivals when it has faced no significant competition at home" (Porter 1990:119).

The willingness and ability of firms to compete globally is partly a function of other determinants such as pressure from domestic market saturation or local rivalry and the pull-through of international demand. Managerial attitudes play an important role as well. A relevant example is management attitude toward globalisation.

The Diamond as a System

The points of the diamond are self-reinforcing and constitute a system, according to Porter (1990). Domestic rivalry and geographic concentration have especially great power to transform the diamond into a system; domestic rivalry, because it promotes investment in all other determinants; geographic concentration, because it elevates and magnifies the interaction of the four separate influences.

Porter (1990) observes that nations are rarely home to just one competitive industry. The diamond creates an environment that promotes clusters of competitive industries. A cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementaries. Clusters affect competition in three ways: by increasing the productivity of constituent firms or industries, by increasing their capacity for innovation and thus for productivity growth, and by stimulating new business formation that supports innovation and expands the cluster.

Chance

Chance events are described by Porter (1990) as occurrences that have little to do with circumstances in a nation and are often largely outside the power of firms (and often the nation's government) to influence. Examples are pure inventions, breakthroughs in basic technologies, discontinuities in input costs such as oil prices, significant shifts in world financial markets or exchange rates, major shifts in foreign market demand, wars and external political developments.

According to Porter (1990), chance events are important because they create discontinuities that allow shifts in competitive position. They play their role partly by altering conditions in the "diamond". Major shifts in input costs or exchange rates, for example, create selective factor disadvantages that catalyze periods of significant innovation.

Invention and entrepreneurship are at the heart of national advantage. Porter's research shows that neither entrepreneurship nor invention is random. "While chance events can allow shifts in competitive advantage in an industry, national attributes play an important role in *what nation exploits them.* The nation with the most favourable 'diamond' will be most likely to convert chance events into competitive advantage" (Porter 1990:125).

Government

Porter (1990) advocates that a government's role is to influence the four determinants. He recommends that government should encourage change, promote domestic rivalry and stimulate innovation to support national competitiveness. Porter (1998) suggests the following specific approaches : focus on specialised factor creation, aim at sustained investment, avoid intervening in factor and currency markets, enforce strict product and environmental standards, deregulate competition and enforce strong domestic antitrust policies.

According to Porter (1990), a home base is particularly relevant to the creation of competitiveness. The national "diamond" is very difficult to penetrate or replicate from afar (not to mention from within the nation) unless a nation is indeed the place where strategy is set, products and processes are ultimately created and the firm seeks to be an insider in a national cluster. If a nation tries to have many "home bases", he continues, the chances are that it will fail to reap the benefits of any. If the circumstances in the home nation do not support the innovation required for competitive advantage, and cannot be improved, a firm must shift its home base to a nation that better catalyses and provides the needed tools for international success. This implies that the management team must be relocated and perhaps replaced and, also, that the primary research and development and marketing resources must move as well.

The home base is the nation in which the essential competitive advantages of the enterprise are created and sustained (Porter 1990). It is also where a company's strategy is set and the core product and process technically (broadly defined) are created and maintained. Sophisticated production often takes place in the home base. While the shareholding of companies is often concentrated at the home base, the nationality of shareholders is a secondary consideration. As long as the local company remains the true home base by retaining effective strategic, creative, and technical control, the nation will still reap most of the benefits to its economy even if the company is own by foreign investors.

Porter (1990) points out that it can take a decade or more to develop competitive advantage. It is assumed, referring back to Section 2.4, that competitive advantages would include core competencies. He concludes that companies must recognise the central role of innovation and the uncomfortable truth that innovation grows out of pressure and challenge. A company should seek out the most capable competitors as motivators, welcome domestic rivalry, globalise to use advantages in other nations and locate the home base to support competitive advantage. Porter (1998:195) emphasises that this should be "not just once, but continuously".

The *Competitive Advantage of Nations* (Porter 1990) does have its critics. Hamel (1997, cited in Crainer 1997) maintains that the book tells almost nothing about the future of competitiveness, a future in which geography will have less and less to do with competitiveness. "In a world of open markets and mobile capital technology and knowledge, no firm need be the product of its geography" (Hamel 1997, cited by Crainer 1997:219). Hamel (1997) does allow that the book explains industry clusters in countries and was a great historical study, useful to governments for competitive policies.

Van Winden, van den Berg and van der Meer (2004, cited by Winn 2005) maintain that Porter's theory of national competitiveness is weak in theory, with a number of questionable assumptions. Much has changed since *The Competitive Advantage of Nations* was published in 1990. Developments in information technology, communication and transport and the emergence of China as an economic factor have all had an impact. While aspects of Porter's framework may be challenged, no alternative has emerged to take its place. The Diamond will be used later in the thesis to examine some of the reasons for the success of South Africa-originated multinational companies.

Sachs (2005) has a somewhat different perspective from Porter (1990) on the factors influencing economic potential and growth. He cites a country's resource base, climate, topography, political relations with neighbours, internal ethnic and political divisions and proximity to world markets as key factors. His checklist for making a differential diagnosis of countries has seven categories: extent of poverty, economic policy framework, fiscal framework and fiscal trap, physical geography, governance patterns and failures, cultural barriers and geopolitics.

While certain of Sachs's (2005) deliberations are covered by Porter's (1990) natural resources definition, Sachs (2005) is more definitive on economic geography and geopolitics. Physical geography includes the proximity of populations to ports, international trade routes, and navigable waterways and access of population to motorised transport. Geopolitics embraces international security relations, cross-border security threats and trade barriers.

The checklist for the extent of poverty asks questions such as, What proportion of households live in extreme poverty? What proportion of households lack access to basic needs in schooling, healthcare, water and sanitation, electricity, roads, nutrition? What are demographic trends that may affect the numbers and distribution of the extreme poor? The economic policy framework has systematic questions such as the cost of doing business in the country. What is the coverage of key infrastructure? What is the trade policy framework, and how are trade barriers impinging on the costs of production, especially for export-orientated businesses?

The questions relating to the fiscal framework concern the current levels of budget spending and public revenue. The share of public spending in gross domestic product in various categories (health, education, infrastructure) indicates the efforts that a country is making to reduce poverty. The patterns of governments go beyond the specifics of the budget and detailed economic policies. Sachs (2005) notes that while history has shown that democracy is not a prerequisite for economic development, a regime that is despotic, arbitrary and lawless will easily ruin an economy. He asks whether the succession of power from one government to the next is regularised, or subject to the power of current rulers.

The cultural barriers to economic development described by Sachs (2005) include reference to the effects of class, caste, ethnicity, religion, and gender inequity. Do cultural norms and practices define limits to the economic opportunities of minority groups? Is interethnic violence rampant?

Having reviewed the factors contributing to national competitiveness and hence ultimately to the development of core competences, we turn now to the company level, beginning with Prahalad and Hamel (1996). They stress that it is essential to identify the elements that contribute to each core competency. In addition to this, companies should benchmark not only against their competitors, but also against other firms that excel in important areas.

> Senior managers must be full participants in the process of identifying core competency. The process will involve many meetings, heated debate, frequent disagreements, unexpected insights, and a sense of excitement about potential new opportunities. . . . The goal of the process is to develop a wide and deep understanding of the skills that currently underpin the firm's success . . . and to provide the basis for actively managing what, after all, are the firm's most valuable resources (Hamel and Prahalad 1996:248-249).

A company's competence-building agenda is determined by its strategic architecture (Hamel and Prahalad 1996). Strategic architecture is a high-level blueprint for the deployment of new functionalities, the acquisition of new competencies, or the migrations of existing competencies, and the reconfiguring of the interface with customers. Strategic architecture is not a detailed plan. It identifies the major capabilities to be built but does not specify exactly how they are to be built. A competence product matrix is often useful in setting specific competence acquisition and deployment goals (see Figure 3.16 below). The matrix distinguishes between existing and new competencies and between existing and new product markets.

Figure 3.16 Establishing the Core Competency Agenda

Core Competence	Market: Existing	Market: New
New	*Premier plus 10* What new core competencies will we need to build to protect and extend our franchise in current markets?	*Mega-opportunities* What new core competencies would we need to build to participate in the most exciting markets of the future?
Existing	*Fill in the blanks* What is the opportunity to improve our position in existing markets by better leveraging our existing core competencies?	*White spaces* What new product or services could we create by creatively redeploying or recombining our current core competencies?

Source: Adapted from Hamel and Prahalad (1996:250).

The lower-left quadrant represents the company's existing portfolio of competencies of products and services. By mapping which competencies support which end-product markets, a company can identify opportunities to strengthen its position in a particular product market by importing competencies that may reside elsewhere in the corporation. The upper-left quadrant suggests another important question: What new core competencies must we be building today to ensure that our customers regard us as the premier provider in five or ten years' time? The goal here is to understand what new competencies must be built to support and extend a company's franchise in its existing markets.

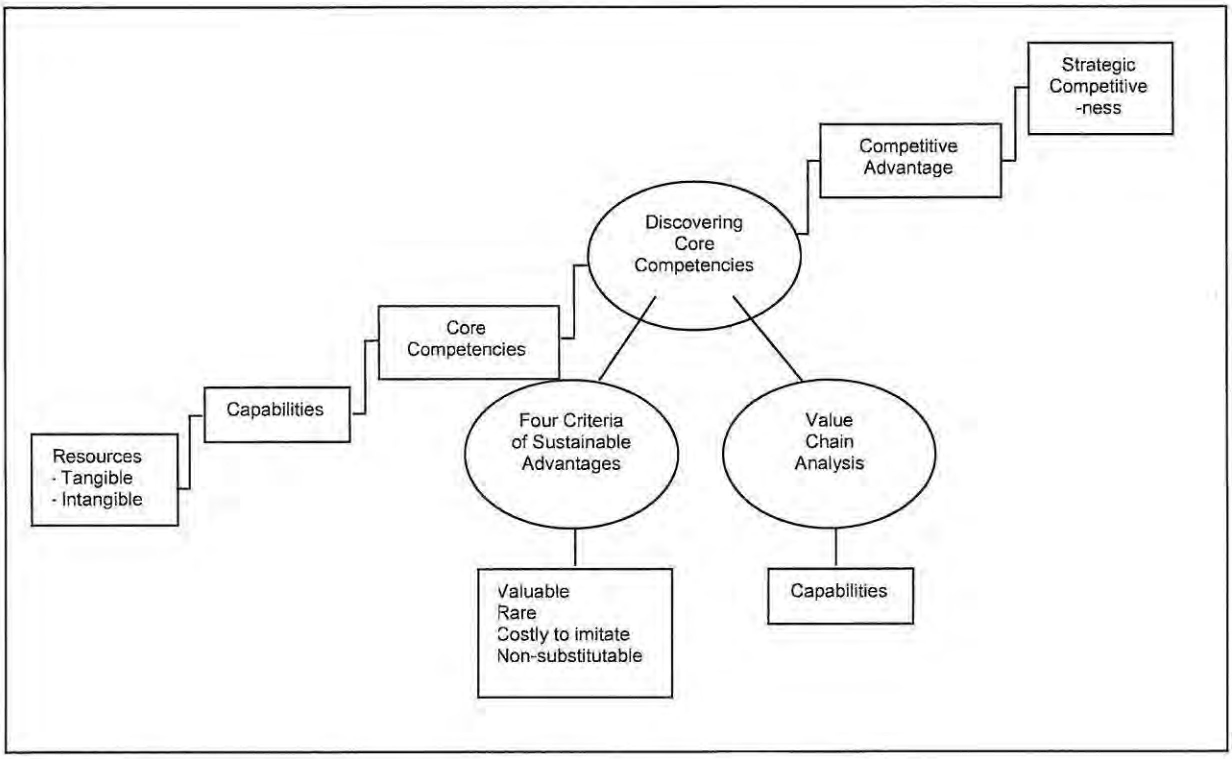
The lower-right quadrant is used to refer to opportunities that do not fall within the product-market orbit of existing business units. The objective here is to imagine opportunities to extend existing core competencies into new product markets. Opportunities represented in the upper-right quadrant do not overlap the company's current market position or its current competence endowment. Nevertheless, a company may choose to pursue such opportunities if they are seen to be especially significant or attractive. The authors state that opportunities in this quadrant should be approached with great caution, as the company has little or no experience to assist its decisions.

Hamel and Prahalad (1996) state that it may take five, ten, or more years to build world leadership in a core competency area. (This compares to Porter's 1990 view, mentioned above, that it can take a decade or more to develop competitive advantage.) Consistency of effort is crucial. Consistency depends on a deep consensus about which competencies to build and support. The stability of the management teams charged with competency development is also a key. Slow, persistent, cumulative learning is at the heart of competency development. Hamel and Prahalad advocate regular "competency review" meetings, which should focus on the levels of investment plans for strengthening constituent skills and technologies, internal patterns of deployment, the impact of alliances and outsourcing. Their recommended goal is not to "hardwire" the core competency into the organisation through structural changes, but to "soft-wire" the perspective into the heads of every manager and employee.

Writing on his own Hamel (2003) postulates that it is generally possible to see the future's broad outline – to anticipate the point at which a growth curve suddenly flattens out, or an existing business model runs out of steam. He advocates variety and avoiding grandiose strategies. Companies should devote themselves to launching low-risk experiments. Experiments should go beyond just products. He does not specifically mention core competencies in the above statements; however, core competencies are a central part of his strategic philosophy, and I am therefore assuming that the development of core competencies is implicitly included in the experiments he recommends.

The views of others on the development of core competencies are now considered, beginning with Hitt, Ireland and Hoskisson (2005). They specify two tools, internal analysis and value chains that help identify and build core competencies. Internal analysis stipulates that a capability be valuable, rare, costly to imitate and non-substitutable before it can be a core competency. Value chain analysis is used to identify and evaluate the competitive potential of resources and capabilities. Figure 3.17 illustrates the components of internal analysis.

Figure 3.17 Components of Internal Analysis Leading to Competitive Advantage and Strategic Competitiveness



Source: Adapted from Hitt, Ireland and Hoskisson (2005:75).

Resources, capabilities and core competencies are the factors that make up the foundation of competitive advantage. Resources are the source of a firm's capabilities. Capabilities, in turn, are the source of a firm's core competencies, which are the basis of its competitive advantage. As shown in Figure 3.17, combinations of resources are managed to create core competencies (Hitt, et al. 2005).

Typically, resources alone do not yield a competitive advantage. A competitive advantage is created through the unique bundling of several resources. Resources (defined in Section 1.5 as inputs to the production process) are divided into tangible and intangible assets. Tangible resources are assets that can be seen and quantified while intangible resources include assets that typically are rooted in a company's history and have accumulated over time. Because they are embedded in unique patterns of routines, intangible resources are relatively difficult for competitors to analyse and imitate and are, therefore, generally superior to tangible resources as a source of core competencies (Hitt et al. 2005). See Tables 3.5 and 3.6 below.

Capabilities are often based on developing, carrying and exchanging information and knowledge through the company's human capital. The foundation of many capabilities lies in the unique skills and knowledge of a firm's employees and, often, their functional expertise. It is crucial to have human capital to develop and use capabilities and, ultimately, core competencies. Core competencies emerge over time through an organisational process of accumulating and learning how to deploy resources and capabilities. It is increasingly believed that the knowledge possessed by human capital is among the most significant of an organisation's capabilities and may, ultimately, be at the root of all competitive advantages (Hitt et al. 2005).

Table 3.5 Tangible Resources

Financial Resources	• The firm's borrowing capacity • The firm's ability to generate internal funds
Organisation Resources	• The firm's formal reporting structure and its formal planning, controlling, and coordinating systems
Physical Resources	• Sophistication and location of a firm's plant and equipment
Technological Resources	• Stock of technology, such as patents, trade-marks, copyrights, and trade secrets

Source: Adapted from Hitt, Ireland and Hoskisson (2005:81).

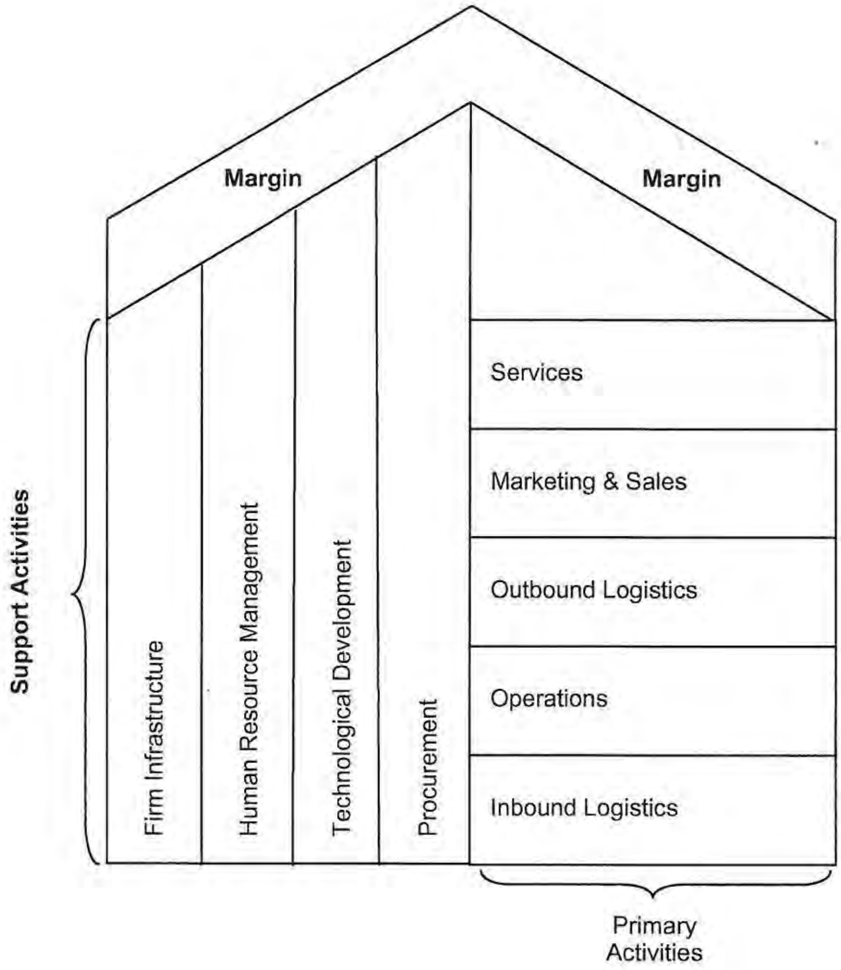
Table 3.6 Intangible Resources

Human Resources	• Knowledge • Trust • Managerial capabilities • Organisational routines
Innovation Resources	• Ideas • Scientific capabilities • Capacity to innovate
Reputational Resources	• Reputation with customers • Brand name • Perceptions of product quality, durability, and reliability • Reputation with suppliers • For efficient, effective, supportive and mutually beneficial interactions and relationships

Source: Adapted from Hitt, Ireland and Hoskisson (2005:81).

The value chain concept is an essential part of the thesis and is illustrated in Figure 3.18 below. The value chain figure is well known but is shown here because of its central role in the thesis, especially the allocation of core competencies to different locations or activities in the chain. Hitt et al. (2005) define it as a template that firms use to understand their cost position and to identify the multiple means that might be used to facilitate implementation of a chosen business-level strategy. The value chain is segmented into primary and support activities. Primary activities are involved with a product's physical creation, its sale and distribution to buyers and its service after sale. Support activities provide the support necessary for the primary activities to take place.

Figure 3.18 The Basic Value Chain



Source: Adapted from Hitt, Ireland and Hoskisson (2005:89).

Value chain analysis allows the firm to understand the parts of its operations that create value and those that do not. It shows how a product moves from raw-material stage to the final customer. For individual firms, the essential idea of the value chain "is to add as much value as possible, as cheaply as possible, and, most important, to capture that value" (Hitt et al. 2003:93). The intent is to determine areas where the firms have the potential to create and capture value. The items should be evaluated relative to competitors' capabilities (Hitt et al. 2005).

The primary activities of a value chain are described as follows (Hitt et al. 2005):

1. Procurement. Activities completed to purchase the inputs needed to produce a firm's products. Purchased inputs include items fully consumed during the manufacture of products (e.g., raw materials and supplies) as well as fixed assets – machinery, laboratory equipment, office equipment, and buildings.
2. Technological Development. Activities completed to improve a firm's product and the process used to manufacture it. Technological development takes many forms, such as process equipment, basic research, product design and servicing procedures.
3. Human Resource Management. Activities involved with recruiting, hiring, training, developing and compensating all personnel.
4. Firm Infrastructure. Firm infrastructure includes activities such as general management, planning, finance, accounting, legal support and governmental relations that are required to support the work of the entire value chain. Through its infrastructure, the firm strives to effectively and consistently identify external opportunities and threats, identify resources and capabilities and support core competencies.

The primary activities of a value chain are described as follows (Hitt et al. 2005):

1. Inbound Logistics. Activities such as materials handling, warehousing and inventory control used to receive, store and disseminate inputs to a product.
2. Operations. Activities necessary to convert the inputs provided by inbound logistics into final product form. Machining, packaging, assembly and equipment maintenance are examples of operations activities.
3. Outbound Logistics. Activities involved with collection, storing and physically distributing the final product to customers. Examples of these activities include finished-goods warehousing, materials handling and order processing.
4. Marketing and Sales. Activities required to provide means through which customers can purchase products and to induce them to do so. To effectively market and sell products, firms develop advertising and promotional campaigns, select appropriate distribution channels and select, develop and support their sales force.

5. Service. Activities designed to enhance or maintain a product's value. Firms engage in a range of service-related activities, including installation, repair, training and adjustment.

Hitt et al. (2005) state that to be a source of competitive advantage, a resource or capability must allow the firm:

1. To perform an activity in a manner that is superior to the manner in which competitors perform it

   OR

2. To perform a value- creating activity that competitors cannot complete.

When a firm's resources and capabilities are not a source of competence and competitive advantage, then outsourcing is one possible solution. Outsourcing is the purchase of a value-creating activity from an external supplier.

Porter (1985) emphasises that the activities in a value chain are the building blocks of competitive advantage. Porter's definitions of competitive advantage as seen in Section 3.6 do sometimes encompass what would be defined as core competences by others. He stresses that the value chain is not a collection of independent activities, but a system of interdependent activities. These activities are related by linkages within the value chain. Linkages are relationships between the way one value activity is performed and the cost, or performance, of another.

Thompson and Strickland (2003) point out that a company's core competencies very often emerge incrementally as it moves, either to bolster skills that contributed to successes or to respond to new customer problems, technological and market opportunities and competition. Core competencies typically reside in the combined efforts of different work groups and departments at different locations in a firm's value chain. The key to leveraging a company's core competencies into competitively valuable capabilities, with potential for competitive long-term advantage, is by concentrating more effort and more talent than rivals do on deepening and strengthening these competencies.

Building and strengthening core competencies, say Thompson and Strickland (2003), is therefore an exercise in managing human skills, knowledge bases and intellect, and coordinating and networking the efforts of different work groups and departments at every related place in the value chain. The organisation must first develop the ability to do something, however imperfectly or inefficiently. As experience builds, the ability begins to translate into a competence and capability. Should the organisation become better than rivals at their activity, the capability becomes a distinctive competence and carries the potential for competitive advantage.

Drucker (1995) stresses that it is critical for a business to create resources of knowledge and people to respond to opportunities when they arise. He advocates a separate budget to create and maintain the resources for the future (in research and technology, market share, service, and people and their development) that should be sustained irrespective of economic conditions.

The questions of how to identify both the core competencies one has and those the business needs, in order to maintain a leadership position, are raised by Drucker (1995). He provides examples of two companies that are developing the methodology to measure and manage core competency. The methods are to keep careful track of one's own and competitors' performances, looking especially for unexpected poor performance in areas where one should have done well. The successes demonstrate what the market values and will pay for, while the non-successes should be viewed as early indications that the market is changing or that the company's competences are weakening.

Teece, Pisano and Shuen (1997) define dynamic capabilities as the firm's ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments. To be strategic, a capability must be honed to a user need, unique and difficult to replicate. The firm's processes and positions collectively encompass its competencies and capabilities. A difficult-to-replicate or difficult-to-imitate competency is defined as a distinctive competency.

Where a firm can go is a function of its current position and the paths ahead. Its current position is often shaped by the path it has travelled. Previous investments and its repertoire of routines (its history) constrain its future behaviour. Path dependencies and technological opportunities mark the road ahead. Because of imperfect factor markets and the non-trade ability of "soft" assets such as values, culture and organisational experience, distinctive competencies and capability generally cannot be acquired. They must be built. This, Teece et al. (1997) state can sometimes take years, possibly decades.

Lei, Hitt and Bettis (1996) view learning and core competencies as mutually interdependent over time. They envisage path dependency as the idiosyncratic pattern of learning and application of competencies resulting from the evolution of skills and historical investments and developments. They state that organisational learning helps firms to continuously develop and change their core competency. Organisational learning alone does not translate into a core competence – the firm must utilise the learning into firm-specific resources and skills. The development of dynamic core competencies requires the accumulation, over time, of skills and technology.

Barney (1995) points out that as firms evolve, they pick up skills, abilities and resources that are unique to them, reflecting their particular path through history. These resources and capabilities reflect the unique personalities, experiences and relationships that exist in only a single firm. He states that strategists are often enamoured of the importance of "Big decisions" as determinants of competitive advantage. "Big decisions" are sometimes critical in understanding the firm's position. However, more often, a firm's competitive advantage seems to depend on numerous "Small decisions" through which a firm's resources and capabilities are developed and exploited. Success may depend not on doing a few things right, but on doing a lot of little things right.

Oxman (2002) maintains that pans to improve performance management should begin by clearly defining and differentiating between core competencies and results – and balancing them appropriately. Best-practice firms, he says, look at an employee's longer-term contribution to a firm's sustained success and consider the extent to which he or she demonstrates and develops competencies.

Hitt, Keats and de Marie (1998) recommend developing a learning and innovative organisational culture with strong teams (particularly cross-functional ones). There should be a sense of responsibility to spread best practices from one unit to others by building a structure that diffuses knowledge throughout the organisation. To transform an organisation and achieve even moderate levels of success, core skills that are critical to build appropriate core competencies must be identified and developed. This will require managerial and organisational introspection and openness to change.

Luo (2000) highlights the need for multinational corporations to convert learning efforts into firm-specific resources and skills if they are to translate organisational learning into a critical competence. This process involves three stages: knowledge acquisition, knowledge sharing and knowledge utilisation (integration of learning so that it is broadly available, reconfiguration of old and new resources and revitalisation of acquired knowledge in new situations).

The provision of practical examples begins with Bartlett and Ghoshal (2002). They maintain that while many companies claim that their people are their most important asset, few have built the human resource systems, processes or cultures that can even offset, let alone challenge, the deeply embedded bias toward financial assets (Bartlett and Ghoshal 2002). Leadership is therefore required from a sophisticated human resource professional, who also has to have a strong understanding of the business. An example is given of a practice at British Petroleum called "peer assist". This was initially a small-scale project that encouraged those on the frontline in one business unit to contact other BP operations that had the expertise to help solve problems. Cutting through formal layers and complex procedures, the process became an accepted way of doing business. Managers soon recognised that it was not acceptable to refuse a request for help.

Bartlett and Ghoshal (2002) conclude that today's managers must compete, not just for product markets or technical expertise, but for the hearts and minds of talented and capable people. And, after persuading them to join the enterprise, management must also ensure that those valuable individuals become engaged in the organisation's ongoing learning process and stay committed to the company's aspirations.

Continuing with practical examples, Fites (1998) describes how Caterpillar's 186 independent dealers around the world play a central role in helping the company build close relationships with customers and gain insights into how it can improve products and services. Caterpillar gives their dealers extraordinary support, helps ensure that the dealerships are well run and emphasises full and honest two-way communication. Caterpillar top management meets annually with key people from the dealerships at regional conferences, where they discuss the sales and goals for each product line and what each party has to do to achieve them. The company periodically invites all dealers to a week-long conference for a comprehensive review of strategy, product plans and marketing policies.

Mascarenhas, Baveja and Jamil (1998) examine the core competencies of 12 leading multinational companies. The companies include Campbell Soup, Crown Cork & Seal, Merck and Siemens. The core competencies are of three types: superior technological know-how, reliable processes and close external relationships. A technological competence involves a deep understanding of a subject area. It includes knowledge of the scientific properties, inter-relationships, and latest developments in a subject area. A reliable process delivers an expected result quickly, consistently, and efficiently, with the least inconvenience or disruptions to customers. Close external relationships can identify opportunities for mutual benefit such as cost reduction or new ideas.

The examples given include Campbell's Soup, with technological know-how of food growing and processing, such as its flavour-adding technology and reliable process of company-wide focus on performance encouraged by a "pay-for" performance that is ingrained from the board down to supervisory level. The company has the ability to transfer this system to international acquisitions.

Crown Cork & Seal is cited with technological know-how of tooling investment to cut metal and reduce the material requirements handling and cost of cans. Its reliable process competency is the culture of cost reduction in its management, structure, operations and design of cans. The company has the ability to transfer cost-reduction practices to acquisitions. It leverages its close customer relationships across plastic and metal packaging and filling machinery, domestically and internationally, to achieve close relationships with external parties.

Merk is regarded as having excellent functional specialists in research and manufacturing that help to achieve superior performance. High ethical standards and controls reduce the risks of drug failures. A strong record of obtaining drug approvals from policy-makers further improves the reliable process. The company's strong relationship with the medical profession helps it to attract talent. Its credibility with the Food and Drug Administration in the USA helps it obtain approvals.

Siemens has semiconductor technological know-how that cuts across its 14 divisions. Its reliable process competency is achieved via reliable high-quality, low-cost manufacturing derived from master/apprenticeship programmes. Innovation productivity is fostered by a long tradition of managing the innovation process. Close relationships with external parties are achieved through ties to German banks, which provide access to capital to finance customer purchases.

Mascarenhas et al. (1998) analyse the factors mentioned by executives that contribute to the development of the three types of competencies. The most common factor, with regard to developing a technical competency, is exposure to a demanding technical, operating or economic environment. This is followed by defying previously assumed technical or operating limits, using the magnitude of development tasks and deadlines to motivate employees, committing substantial resources to an area and committing resources early.

A mix of informal corporate culture and formal operating controls is generally utilised to develop a reliable process. Internal analysis, to identify better suppliers and outsourcing opportunities, logistical innovations, to improve communication and customer response, utilisation of experience associated with having a large installed base and company-wide reward and incentive systems, are other important factors.

The study concludes that close external relations are best developed by the acquisition of other firms, international reach to develop relationships across countries, the use of compelling technical and/or reliable competencies to forge international relationships and the use of scale and size. A new emphasis on external relationship competency is emerging. These new relationship competencies can compliment a firm's traditional competencies and enable it to cope with the demands of globalisation, mass customisation and higher quality, and shorter product cycles.

Mascarenhas et al. (1998) conclude that different approaches and multiple methods are clearly needed to develop each type of competency. They add that leading companies do not rest on their traditional competencies but also develop new competencies that respond to, or anticipate, emerging business conditions. A shift, they add, is occurring in relative emphasis from internal technological and reliable process competencies toward external relationship competencies.

Contrary perhaps to the view of Teece et al. (1997) view (Section 3.5) that distinctive competencies and capabilities cannot generally be acquired but must be built, there are occasions when mergers and acquisitions play a key role in the development of core competencies. Tallman and Fladmoe-Lindquist (2002) note that an acquisition or alliance in the correct location can access skills and resources not available at home. Learning through international expansion confronts the problem of "sticky" or location-bound knowledge that multinational corporations can assimilate only by establishing new units in the originating location. "Stickiness" refers to difficulties experienced in the transfer of knowledge (Szulanski 2002).

Vermeulen and Barkema (2001), in turn, caution that exploitation of a firm's knowledge base through "green fields" investments may eventually make a firm simple and inert. The knowledge base could remain more or less the same in this case. In contrast, they state, acquisitions may broaden a firm's knowledge base and decrease inertia and so enhance the viability of its later ventures. Their research corroborates the idea that firms learn from related acquisitions, not unrelated ones. It suggests that firms do not learn from an acquisition in a country they have never entered before; they do learn from an acquisition in a country where they have established a position earlier. Vermeulen and Barkema (2001) propose that "green fields" and acquisitions should not be judged on their individual performances only. The learning opportunities offered by the acquisition of another firm are an important factor that has to be considered, but it is surely not the only one.

Research conducted by Birkenshaw, Hood and Jonsson (1998) shows that the factors that lead to the transformation of subsidiary resources into part of multinational corporations' specific advantages are related to the transfer of resources, acceptance of the subsidiaries' specialised resources in other parts of the multinational corporations, and the value of resources. The research results revealed that the multinational corporation's subsidiaries contribute significantly to the creation of firm-specific advantages. The research also indicated that initiative plays a critical role in the early stages of contributory role development, rather than in its subsequent growth.

Lei and Hitt (1995) postulate that acquisitions and leveraged buyouts (LBO) can create conditions within the firm that make outsourcing core skills more attractive than building these skills and capabilities internally. Over-reliance on outsourcing may trap the firm into growing dependence in which it loses its knowledge and skill base to the outsourcing partner. Lei and Hitt do allow that related acquisitions may improve shareholder value and help to build the critical skills necessary to meet foreign competition. Even certain types of related acquisitions, however, may not help in building core competencies and skills if senior management uses an asset-based philosophy that deters learning and skill absorption application. They conclude that long-term sustained competitiveness comes from nurturing internal knowledge and skill sets that form the basis of continuous learning and core competencies.

3.7.2 Summary

Figure 3.19 summarises the works reviewed in Section 3.7, The Development of Core Competencies. Porter (1990) Hamel and Prahalad (1996) and Mascarenhas (1998) are especially important. Hitt et al. (2003) are relevant because of the later use of value chains to compare the different companies. Methods used to develop core competencies are noted for each author. Four of the works listed refer to mergers and acquisitions.

Figure 3.19 Literature Review Summary: The Development of Core Competencies

1. **Porter** (1990) National competitiveness. "Diamond". Factor conditions, related and supporting industries, demand, firm strategy and rivalry, chance and government. Can take a decade to develop competitive advantage.
2. **Sachs** (2005) Economic geography, geopolitics, differential diagnosis.
3. **Hamel and Prahalad** (1996) Strategic architecture, benchmarking, agenda, product competence matrix, regular review meetings. Five to ten years to develop. Management stability, cumulative learning. Facilitate development.
4. **Hitt, Ireland and Hoskisson** (2003) Value chain. Internal analysis (four criteria). Emerge over time.
5. **Porter** (1985) Value chain activities are building blocks for core competences.
6. **Thompson and Strickland** (2003) Emerge incrementally. Concentrate effort and talent. Learning + experience.
7. **Drucker** (1995) Separate sustainable budget. Methodology to manage core competences.
8. **Teece, Pisano and Shuen** (1997) Replication, imitation. Path dependency and technology.
9. **Lei, Hitt and Bettis** (1996) Meta-learning.
10. **Barney** (1995) Numerous small decisions. Importance of people.
11. **Hitt, Keats and de Marie** (1998) Cross-functional teams.
12. **Luo** (2000) Convert learning into specific competences. Knowledge acquisition, sharing and utilisation.
13. **Bartlett and Ghoshal** (2002) *Building Competitive Advantage through People.* BP peer assist.
14. **Fites** (1998) *Make Your Dealers Your Partners.* (Caterpillar) Close relationships.
15. **Mascarenhas, Baveja and Jamil** (1998) Three types and factors to develop – 12 multinationals. Different and multiple approaches.
16. **Tallman and Fladmoe-Lindquist** (2002) Acquisitions can access skills unavailable in home country.
17. **Vermeulen and Barkema** (2001) *Learning Through Acquisitions.* May increase knowledge base.
18. **Berkinshaw, Hood and Jonnson.** (1998) Subsidiary initiative
19. **Lei and Hitt** (1995) *The Effect of Mergers and Acquisitions on Building Firm Skills and Capabilities.* Cautions on dangers.

3.7.3 Conclusion

Competitive advantages and core competencies are forged on a playing field of national competitiveness. Porter's Diamond, with its factor conditions, related and supporting industries, demand conditions, firm strategy, structure and rivalry, analyses the determinants of national competitiveness. Chance and government also play important roles. Sachs has a somewhat different perspective from Porter. His checklist for making a differential diagnosis of different countries has the categories of poverty, economic policy framework, fiscal framework, physical geography, governance, patterns and failures, cultural barriers and geopolitics (Sachs 2005). Economic policies, physical geography and geopolitics influence economic growth and the competitiveness of countries.

Learning is of fundamental importance to the development of core competencies. It takes time to develop world-class competencies, sometimes years, and, in the opinion of some of the authors, even a decade or so. Different and multiple methods are required to develop core competencies.

The methods used to develop core competencies include benchmarking, review meetings, product matrixes, value chains, internal analysis, concentration of effort and talent, exposure to demanding environments, corporate culture, formal controls and acquisitions, travel, the importance of people and their development, cross-functional teams and path dependency. Mergers and acquisitions can significantly affect the building of competencies and subsidiary initiative, besides being key to international expansion.

Mascarenhas et al. (1998) employ three types of competency, whereas the basic value chain has nine different locations or activities. There can be many subdivisions for each of the locations. Luo (2000) uses four categories of competency but does not investigate the different methods that could be used to develop and transfer each of the categories.

The literature available on the practical problems and issues that companies confront during the development of core competencies is limited. There is little indication of the relative effectiveness of the different methods used to develop and transfer core competencies and the context (for example value chain location) which might cause them to be more or less effective. My research will explore these aspects as satisfactory answers will improve the general body of knowledge relating to core competencies and have applicability for academics and practitioners alike.

The importance of mergers and acquisitions in international expansion and the building of core competencies is noted and will accordingly be reviewed in the next section.

3.8 Mergers and Acquisitions

Mergers and acquisitions, as seen in Section 3.3 and Section 3.7, are one of the keys to global expansion. This section reviews seven works: Hitt, Ireland and Hoskisson (2005), Lajoux (1998), Eccles, Lanes and Wilson (1999), Gaughan (2002), Drucker (1986), Carey (2001) and Nohria, Joyce and Roberson (2003) to examine definitions, the rationale for mergers and acquisitions, the success and failure rates, problems and solutions, pricing and acquisition strategies and examples from the master acquirers.

3.8.1 Review

A merger is a strategy through which two firms agree to integrate their operations on a relatively co-equal basis. An acquisition is a strategy through which one firm buys a controlling or 100 percent interest in another firm with the intent of making the acquired firm a subsidiary business within its portfolio. A takeover is a special type of acquisition strategy wherein the target firm did not solicit the acquiring firm's bid (Hitt, Ireland and Hoskisson 2005). The annual value of global mergers and acquisitions peaked in 2000 at about \$3.400 billion and fell to about \$1.750 billion in 2001, rising to \$2.900 billion in 2005 (Politi and Saigol 2005). About 40 to 45 percent of the acquisitions in recent years have been made across country borders (Hitt et al. 2005).

The reasons for mergers and acquisitions include increased market power, lower risk compared to developing new products, diversification (geographic, product or industry), overcoming entry barriers, avoiding excessive competition, learning and developing new capabilities, reducing the cost of new product development and increased speed to market (Hitt et al. 2005).

Despite the compelling reasons for mergers and acquisitions, there is a significant failure rate. Lajoux (1998) cites 15 studies on post-merger failure rates. While each used different criteria and definitions, the majority of the studies showed failure rates in excess of 50 percent. For example, a 1987 McKinsey study of 112 acquisitions showed that 77 percent failed to earn back capital in three years. A 1996 Coopers and Lybrand study of 125 mergers revealed that 66 percent were financially unsuccessful.

A study by Mercer Management Consulting in 1997 found that the mergers of the 1990s were substantially outperforming those of the 1980s. They attribute the improvement to better post-merger management, rather than price or strategy.

Problems in achieving successful mergers and acquisitions include integration difficulties, inadequate evaluation of targets, large or extraordinary debt, inability to achieve synergy, too much diversification, managers overly focused on acquisitions and taking on an acquisition too large in relation to the acquirer. Conflicting corporate cultures, inadequate due diligence (of buyer and/or seller) and lack of a compelling strategy are other causes of merger and acquisition failure. Integrating two companies following an acquisition can be difficult. Challenges include melding two disparate cultures, linking different financial and controls systems, building effective working relationships (particularly when management styles differ) and resolving problems regarding the status of the newly acquired firm's executives (Hitt et al. 2005).

Hitt et al. (2005) suggest that acquisitions are likely to be more successful when the acquired firm has assets or resources that are complementary to the acquiring firm's core business and when the acquisition is friendly. The acquiring firm should also conduct effective due diligence to select the target firm and evaluate the target firm's health (financial, cultural and human resources). The merged firm should maintain a low-to-moderate debt position, and it helps when both firms have had experience with change and are flexible and adaptable.

The reason that mergers fail to create value is often simply because the acquiring company paid too much, according to Eccles, Lanes and Wilson (1999). They define a "value gap" as the difference between the intrinsic value and purchase price of an acquisition. "Synergy value" is the net present value of the cash flows that will result from improvements made when the companies are combined. Acquirers generally base their calculations on five types of synergies: cost savings, revenue enhancements, process improvements, financial engineering and tax benefits.

Cost saving is the most common type of synergy and the easiest to estimate. Revenue enhancements are difficult to estimate because they involve external variables beyond management's control. Process improvements occur when managers transfer best practices and core competencies from one company to another. This can result in both cost savings and revenue enhancements. Eccles et al. (1999) maintain that reducing the weighted average cost of capital (WACC) through borrowing to finance an acquisition is not a good enough reason on its own to do a deal. They also caution that companies should not make deals based on real benefits from tax engineering alone.

Eccles et al. (1999) recommend that precautions against overpaying include real options valuation, an approach that calculates a value for each of the options that the deals create. A higher-level manager can also set a price ceiling before negotiations begin. Eccles and colleagues give examples of companies with rules as to acquisitions: to achieve a minimum return on investment within a specified period, to earn at least the company's cost of capital or the target company's growth rate has to be higher than that of the acquirer itself. Another company compares value created by a potential acquisition to the value that could be created by buying back its own shares.

The above-mentioned authors identify two areas where even successful companies could improve their performance. The first is risk analysis and the second is external communications to the capital markets, customers, suppliers, regulatory bodies and geographic communities.

Gaughan (2002) notes that the anticipated existence of synergistic benefits allows firms to incur the expenses of the acquisition process and still be able to give target shareholders a premium for their shares. The problem with this is that premiums are usually paid up front, with the gains coming over the course of time. He advocates that the choice of the appropriate discount rate to calculate the net present value (NPV) of the target include the determination of the riskiness of the target. One of the basic rules regarding the choice of the discount rate is to use the firm's cost of capital.

According to Drucker (1986) there are five simple rules for successful acquisitions that have been followed by all successful acquirers over the past century. Firstly, an acquisition will succeed only if the acquiring company thinks through what it can contribute to the business it is buying, rather than what the acquired company will contribute to the acquirer, no matter how attractive the expected "synergy" may appear. Secondly, successful diversification by acquisition requires a common core of unity. The two businesses must have in common either markets or technology, although occasionally a comparable production process has provided sufficient unity of experience and expertise, as well as a common language to bring companies together.

Thirdly, no acquisition will work unless the people in the acquiring company respect the product, the markets and the customers of the company they acquire. The acquisition must be "a temperamental fit". Fourthly, the acquiring company must be able to provide top management within a year or so for the company it acquires. Drucker (1986) considers it an elementary fallacy to believe one can "buy management". The buyer must be prepared to lose the top incumbents in the companies it buys. Top people are used to being bosses; they don't want to be "division managers". Drucker (1986) opines that recruiting new top managers is a gamble that rarely pays off.

Fifthly, it is important that a large number of people in the management groups of both companies receive substantial promotions from the former companies to the other within the first year of a merger. The goal is to convince managers in both companies that the merger offers them personal opportunities. It should be noted that increased globalization makes following the fourth and fifth rules far more complex in the 21st century than it was in the 1980s.

Carey (2001) makes important observations based on the views of "master acquirers". Alex Mandl-Teligent, previously number two at AT&T, believes that acquiring is much faster than building. Speed is absolutely essential in the new economy. Dennis Kozlowski (now in serious legal difficulties), when at Tyco International, suggested that acquisitions work best when the main rationale is cost reduction. Jan Leschly, of SmithKlineBeecham (SKB), focuses on revenues when the company looks at acquisitions. He adds that SKB has been much more successful at acquiring products and technologies than it has been at acquiring companies.

Mackey McDonald, of VF Corporation (the company name, not an abbreviation) notes that the company focuses on core businesses that it knows, like jeans and intimate apparel, and tries to bring its core competencies to these areas. An acquisition becomes attractive if it offers VF a new consumer segment or geographic market or if it adds new products to one of its core categories. And Kozlowski of Tyco International said "I have worked at companies that did diversify outside their core businesses and I can tell you that they were never very successful." (Carey 2001:8).

Nohria, Joyce and Roberson (2003) recommend that companies enter new businesses that leverage existing customer relationships and complement core strengths. Companies should also develop a system for identifying, screening and closing deals. Only a small number (22 percent) of the 160 companies in their study were able to make acquisitions and partnerships a winning practice. Their research indicates that companies that do relatively small deals (less than 20 percent of the acquirer's existing size) on a consistent basis (about two or three every year) are likely to be more successful than organisations that do large occasional deals.

3.8.2 Summary

Figure 3.20 summarizes the contributions of the seven works reviewed. The complexity of Drucker's fourth and fifth rules in the 21st century should be kept in mind.

Figure 3.20 Literature Review Summary: Mergers and Acquisitions

1. **Hitt, Ireland and Hoskisson** (2003) Definitions. Reasons (market power, diversification, reduce risk, entry barriers, develop new capabilities) Problems (integration difficulties, no synergies, size of acquisition) and solutions (complementary assets, friendly acquisitions, due diligence).
2. **Lajoux** (1998) Majority generally unsuccessful.
3. **Eccles, Lanes and Wilson** (1999) Pricing – precautions against overpaying. Synergies – cost, revenue, process, financial engineering and tax benefits. WACC
4. **Gaughan** (2002) Premiums paid up-front, performance later.
5. **Drucker** (1986) Five rules: acquirer's contribution, common core of unity, "temperamental fit", provide top management, promotions. Management risks. Cannot readily "buy" management.
6. **Nohria, Joyce and Roberson** (2003) System required for identifying, screening and closing deals. Leverage customer relationships and complement core strengths. Consistent bases of acquisitions.
7. **Carey** (2001) Practical examples –"faster than building", cost reduction rationale etc.

3.8.3 Conclusion

In conclusion, it is noted that the majority of mergers and acquisitions are generally unsuccessful and that companies that diversify outside their core business are seldom very successful.

The reasons for acquisitions include increased market power, lower risk compared to developing new products, diversification (geographic, product or industry), overcoming entry barriers, avoiding excessive competition, learning and developing new capabilities, reducing the cost of new product development and increased speed to market. "Acquiring is much faster than building." The problems associated with acquisitions include integration difficulties, inadequate evaluation of targets, inability to achieve synergy, management risks, conflicting corporate cultures and inadequate due diligence. Acquisitions are likely to be more successful when assets are complementary, acquisitions are friendly and there is adequate due diligence.

According to Drucker (1986), there are five simple rules for successful acquisitions. The acquiring company should think through what it can contribute to the business it is buying; a common core of unity is needed; the people in the acquiring business should respect the product, the markets, and customers of the company they acquire; the acquiring company must be able to provide top management for the company it acquires; and a large number of people in the management groups of both companies should receive substantial promotions from one of the former companies to the other. The fourth and fifth rules are more complex in the 20th century than they were in the 1980s because of globalization.

Companies should be cautious about overpaying and evaluate the various synergies: cost savings, revenue enhancement process improvements, financial engineering, and tax benefits. Weighted average cost of capital or other methods should be used as a discipline when calculating returns expected from acquisitions. Companies should have systems for identifying, screening and "closing" deals.

It can be concluded from the above that it is crucial to have effective methods of valuing and pricing acquisitions, to conduct effective due diligence studies (which should include the human factor) to identify and realistically quantify synergistic opportunities and to be aware of Drucker's (1986) five rules.

3.9 Post-Merger and Acquisition Integration

It can be seen from the previous section that the majority of mergers and acquisitions are generally considered unsuccessful. The difficulties of post-merger integration were also mentioned. This section explores the importance and nature of post-merger and acquisition integration and reviews the recommendations of experts in that field. The section begins with contributions by Lajoux (1998), Pritchett, Robinson and Clarkson (1997), a major work based on GE Capital (Ashkenas, Demonarco and Francis 2001) and again includes the observations of master acquirers cited by Carey (2001).

3.9.1 <u>Review</u>

Lajoux (1998) regards the term *merger and acquisition (M&A) integration* as referring to the art of combining two or more companies – not just on paper but in reality – after they have come under common ownership.

She refers to a 1990 study of 31 acquisitions by the New Jersey Institute of Technology, which found that post-merger performance depends more on post-merger integration than on strategy, and a1996 study by Coopers and Lybrand that found that 66 percent of 125 companies were financially unsuccessful in their post-merger period. The later study found a correlation between a slow pace of post-merger transition and low levels of revenue, cash flow and profitability.

The process of post-merger integration faces problems of differences in language, law, accounting, technology, and culture according to Lajoux (1998). She provides appropriate advice to deal with these challenges. The advice includes the view that it is always desirable to hire local communications experts to deal with unique cultural and legal requirements. When selecting senior managers for a merged organisation, it is usually best to look for the managers who are most able to integrate the two organisations. If cultures are extremely different, it may not be wise to force them to work together. She quotes Hippocrates: "the first rule is to do no harm" (Lajoux 1998:105).

Lajoux (1998) continues with the observations that companies acquired must obviously comply with legal and accounting requirements in their host countries. A headquarters manager will usually be preferable when entering a new country where key decisions will be investment-oriented. A local manager will be preferable when the company has existing operations. Important human resources questions to be addressed very early on are: To whom will senior management of the acquired company report? Conversely, who, in the acquiring organisation, may directly interface with the acquired company and who must work through the acquired company's CEO? What personnel will be reassigned from the acquiring company to the acquired company and vice versa?

If people are an organisation's most important resource, she continues, then the most important aspect of post-merger integration must be the task of retaining key human resources from both companies and then merging them at all levels, from the board of directors to the frontline of sales. The acquirer's strongest defence against employee defections is a good reputation as an employer, substantiated by actions consistent with that reputation.

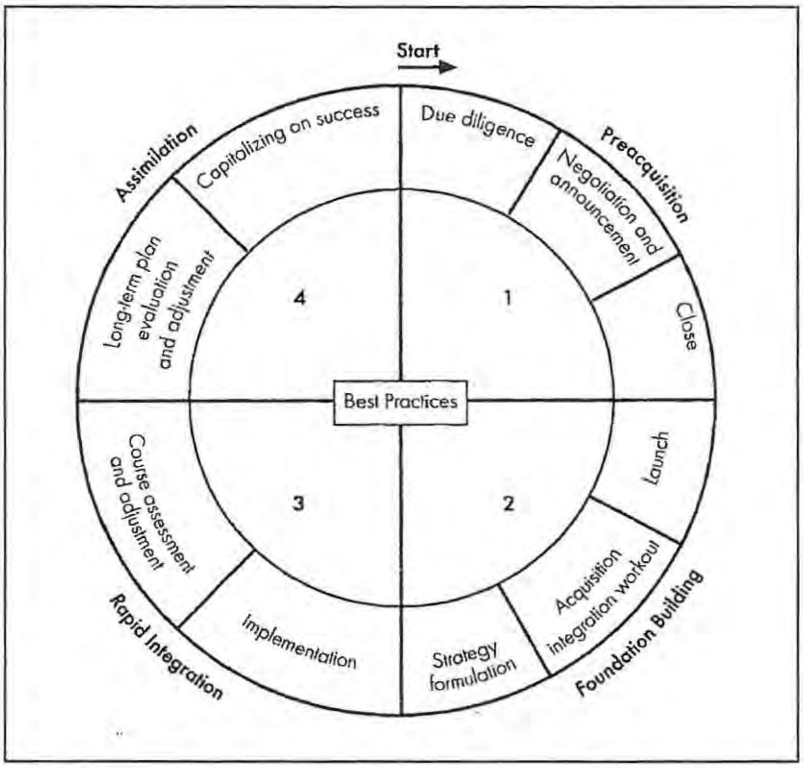
Pritchett, Robinson and Clarkson (1997) list coaching points for management in the acquiring firm: The most important of these are: don't promise things will remain the same in either company, make few promises and keep them, talk in specifics whenever you can, provide more communication than usual during and after the merger/event. Their additional counsel is that if you don't have the answer people in the acquired firm need, help them find it, provide a clear sense of direction and keep people in the acquired firm focused and future-oriented.

According to Pritchett et al. (1997), an acquiring company should do one of two things: embrace the people and make them yours, or terminate them and get them out as quickly as possible. Clear, well-defined, reporting relationships and lines of authority should be established as soon as possible. The parent-company managers that are to be "sent across" to the acquisition should be coached on how to make their entrance or debut. (Consideration of cultural difference and management styles is especially important).

Numerof and Abrams (1998) make the observation that international mergers and acquisitions (M&A) face fundamental challenges that stem from the cultural differences between the companies involved. They recommend four measures to assist successful integration. Firstly, establish the purpose, goal and focus of the merger. This is the time to develop a new corporate mission, vision and strategic objectives where appropriate. In addition it is imperative to integrate communications, human resources, information materials and other critical operating systems. Secondly, adopt a project management orientation. Thirdly, establish a firm notion of sponsorship and membership and fourthly, manage communications and expectations effectively. It is important to identify the people who need to be aware of, can support, or will participate in the acquirer's efforts.

GE Capital has been working to make acquisition integration a core capability and a competitive advantage that will enable it to continue its growth in the future. Ashkenas, Demonarco and Francis (2001) draw on their experiences at that company to provide guidelines for effective post-merger and acquisition integration. GE Capital has developed a model that divides the integration process into four stages, starting with the work that goes on before the acquisition is completed, followed by foundation building rapid integration and continuing all the way through to assimilation. There are two or three sub-processes in each action stage, such as due diligence during the pre-acquisition stage and strategy formulation during the foundation-building stage. Finally, each stage includes several best practices, specific and practical steps managers can take to support the process. The model is shown in Figure 3.21 below.

Figure 3.21 Wheel of Fortune



Source: Ashkenas, Demonarco and Francis (2001:154).

Ashkenas et al. (2001) view acquisition integration as much art as science. While their model recommends a particular sequence, there are aspects of every acquisition integration process that are new or unique. Managers will have to improvise as they do in any major organisational transformation.

> Decisions about management structures key roles reporting relationships, layoffs, responsibilities and other career-affecting aspects of the integration should be made, announced and implemented as soon as possible after the deal is signed, within days if possible. Creeping changes, uncertainty and anxiety that last for months are debilitating and immediately start to drain value from an acquisition (Ashkenas et al. 2001:165).

The acquirer should act in a straightforward and truthful manner. "Never tell the acquired staff that it will be business as usual" (Ashkenas et al. 2001:169). A successful integration melds not only the various technical aspects of the business, but the different cultures as well. The best way to do this is to get people working together quickly to solve business problems and accomplish results that could not have been achieved before. And finally, communicate, communicate, communicate and then communicate some more.

The authors conclude that there are four lessons to be learned and applied in post-acquisition integration. Firstly, begin the integration process before the deal is signed. Secondly, dedicate a full- time individual to managing the integration process. Thirdly, implement any necessary restructuring sooner rather than later and finally, integrate not only the business operations, but also the corporate cultures.

Carey's *Lessons from Master Acquirers* (2001) discussed in the previous section on mergers and acquisitions is followed by applying it to the post-acquisition phase. Jan Leschley of SmithKlineBeecham believes that even if the rationale for a deal is terrific, it can still fall apart because of cultural differences. Merging US and European companies, as his company did recently, is a particularly complicated process. The management styles of the two continents are totally different according to Leschley. Nicholas Moore, of PricewaterhouseCoopers, adds to these comments by stressing that cultural differences are not just a matter of geography; different companies can have very different attitudes and ways of working.

Ed Liddy (Allstate) maintains that one does not always have to have a higher degree of cultural integration. In the end, what one does with an acquisition depends on the channels and the products the acquirer, and the acquired company are in. Raj Gupta of Rohm & Haas proposes that once the deal closes, first settle the uncertainty of who's going to report to whom and who's responsible for what. Liddy continues that one should try to have the management structure completely laid out when an acquisition is announced. The work of integration really needs to start when the acquisition is being planned because it is tied up with the reason that the company is being acquired. He stresses how crucial communications are at this stage. According to Tig Krekel of Hughes Space and Communications, people in companies that have been acquired become extremely sensitive to every detail. Constant communication is needed to avoid paralysis and maintain morale. Another flashpoint is the customer. In the drive to complete a deal, it is easy to lose sight of the concerns of customers.

> A very interesting statistic I once read says that people are normally productive for about 5.7 hours in an eight-hour business day. But any time a change of control takes place, their productivity falls to less than an hour … inevitably, people immediately start thinking about themselves. So moving fast and getting the right people in place are extremely important. (Dennis Kozlowski, 2000, Tyco International, cited by Carey 2001:17).

3.9.2 Summary

The five works reviewed are summarised in Figure 3.22.

Figure 3.22 Literature Review Summary: Post Merger and Acquisition Integration

1. **Lajoux** (1998) Definition. International complications – law, accounting, culture, language, technology. Post-merger integration leading reason for failure. Communicate.
2. **Pritchett,Robinson and Clarkson** (1997) "Coaching" list (limit promises, keep promises, reporting relationships and structure). Communicate.
3. **Numerof and Abrams** (1998) Four measures – goals, project management, sponsorship / membership, communication.
4. **Ashkenas, Demonarco and Francis** (2001) GE Capital examples. Begin before signature, full-time person, restructuring sooner rather than later, integrate cultures and operations. Communicate.
5. **Carey** (2001) Practical examples, culture, reporting relationships, speed. Communicate.

3.9.3 Conclusion

Several studies cite post-merger integration as the leading reason for the failure of acquisitions. The process of post-merger integration in international business faces problems with differences in language, law, accounting, technology and culture.

Cogent advice for the management of an acquiring firm includes the following: make few promises and keep your promises, do not promise things will remain the same in either company, provide more communication than usual during and after the merger/event, establish clear, well-defined, reporting relationships and lines of authority and either embrace the people and integrate them or terminate their services and get them out as quickly as possible.

Four lessons recommended for successful integration are: begin the integration process before signature, dedicate a full-time individual to manage the integration process, implement any necessary restructuring sooner rather than later and integrate not only the business operations, but also the corporate cultures.

Advice from master acquirers of our age covers the following examples: even if the rationale for a deal is terrific, it can still fall apart because of cultural differences; cultural differences are not just a matter of geography, different companies can have very different attitudes and ways of working; the first thing that should be done once the deal closes is to settle the uncertainty of who is going to report to whom and who is responsible for what. Moving fast and getting the right people in place are extremely important.

While the works reviewed in this section provide a wide scope of advice to acquiring companies, they all have in common the importance of culture, the need for communication; and resolving the management structure as soon as possible.

3.10 The Transfer of Core Competencies

The success of a company's international expansion is partly determined by its ability to transfer its core competencies to its foreign operations from both its head office and other global operations. This section examines the various models relating to the transfer of knowledge, operational practices and core competencies, the factors affecting the success of transfer, and (most important), the methods used to transfer core competencies, the problems and obstacles encountered in transfer and the requirements for effective implementation.

The key models are those of Szulanski (1996, 2000), Kogut and Zander (1993, 1995) and Kostova (1999). The factors affecting the success of transfer are covered by Minbaeva, Pedersen, Bjoerkman, Fey and Park (2001), Petersen and Pedersen (2001) and Luo (2000), in addition to what is discussed in the models. The work of Luo (2000) is especially important in this regard. The methods of transfer are discussed by Hamel and Prahalad (1996), Hitt, Ireland and Hoskisson (2003), Thompson and Strickland (2001), Porter (1996), and six other contributors. The problems and obstacles encountered are examined by certain of the aforementioned authors. Bossidy and Charan (2002) and Pietersen (2002) address the question of implementation.

3.10.1 Review

The various works by Szulanski (1996, 2000) present models of the transfer of knowledge, describe the difficulties experienced in transfer and make recommendations for dealing with them. Szulanski's (1996) studies show the major barriers to internal knowledge transfer to be related factors, such as the recipient's lack of absorptive capacity, causal ambiguity and an arduous relationship between the source and the recipient. These results contrast with conventional wisdom, which attributes stickiness, almost exclusively, to motivational factors. He quotes Porter's statement that "the mere hope that one business unit might learn something useful from another is frequently a hope not realised" (Porter 1985:353 cited by Szulanski, 1996:28).

Szulanski (1996) uses the word *transfer* rather than *diffusion* to emphasise that the movement of knowledge within an organisation is a distinct experience, not a gradual process of dissemination, and depends on the characteristics of everyone involved. The transfer process is divided into four sections: initiation, implementation, ramp up and integration. He suggests that the problems encountered as the transfer unfolds will vary according to the stage of the transfer. This is discussed later in his 2000 study. Four sets of factors are likely to influence the difficulty of knowledge transfer (Szulanski 1996). These are the characteristics of the knowledge transferred, of the source, of the recipient and of the context in which the transfer takes place.

Knowledge with a proven record of past usefulness is less difficult to transfer. A lack of motivation and perceived reliability of the source is likely to influence the behaviour of a recipient adversely. The lack of motivation of some recipients to accept knowledge from the outside is known as the "not invented here" or NIH syndrome. A source of knowledge may be reluctant to share crucial knowledge for fear of losing ownership, position of privilege or superiority. They may resent not being adequately rewarded for sharing hard-won success.

The recipient may also lack absorptive or retentive capacity (Szulanski 1996). Lacking absorptive capacity means that recipients might be unable to exploit outside sources of knowledge. The ability of recipient to institutionalise the utilisation of new knowledge reflects its "retentive capacity". In the absence of such ability, initial difficulties during the integration of received knowledge may become an excuse for discontinuing its use and, when feasible, reverting to the previous status quo (Zaltman, Duncan and Holbeck 1973, cited by Szulanski 1996). An organisational context that facilitates the development of transfers is said to be fertile while a context that hinders the gestation and evolution of transfers is said to be barren.

According to Szulanski (1996), when best practices do not transfer, a gap develops between what is known within the organisation and what is actually put to use. The findings of his research suggest that this is not so much because organisations do not want to learn and transfer what they know, but rather because they do not know how to do so.

Szulanski (2000) goes into more detail in a later work by examining the different stages of transfer. The transfer of knowledge is a process in which an organisation recreates and maintains a complex set of routines in a new setting. Stickiness connotes difficulties experienced in that process. A distinction is usually made between the initiation and implementation of a transfer. Within the implementation phase, further distinctions are often made among: a) the initial implementation effort; b) the ramp-up to satisfactory performance and c) subsequent follow-through: an evaluation of the efforts to integrate the practice with other practices of the recipients.

Initiation stickiness is the difficulty in recognising opportunities to transfer and acting upon them. The implementation stage may depend on how challenging it is to bridge the communications gap between the source and the recipient and to fill the recipient's technical gap. Bridging the communications gap may require solving problems caused by incompatibilities of language, coding schemes and cultural conventions. Ramp-up stickiness depends on the number and seriousness of unexpected problems and the efforts required to solve them. Unexpected problems are easier to solve when cause/effect relationships for the new practice are understood and when it is possible to forecast and explain results. The absorptive capacity of the recipient (i.e. the ability to utilise new knowledge) depends on the existing stock of knowledge and skills (Szulanski 2000).

Szulanski (2000) suggests that organisations can learn to transfer knowledge by making the transfers less "eventful". An organisation equipped with effective routines to handle all aspects of a transfer is unlikely to consider that transfer sticky. The organisation should learn to cope with stickiness by drawing on the lessons of prior knowledge transfer. Szulanski's model offers the possibility of learning to manage organisational learning, that is, to plan knowledge transfers more effectively and to "un-stick" sticky transfers. Szulanski (1996) questions using incentive systems alone to mitigate internal stickiness. His findings suggest that it might be profitable rather to devote scarce resources and managerial attention to develop the learning capacities of organisational units, foster closer relationships between units and systematically understand and communicate practices.

One of the most prevalent and effective practical manifestations of organisational learning is the so-called transfer of knowledge and best practices within the firm (O'Dell, Grayson and Essaides 1998, cited by Szulanski 2000). Upon discovering differences in the performance of similar units, firms multiply efforts to leverage existing knowledge through transfers of best practice.

Kogut and Zander (1993) regard firms as social communities that specialise in the creation and internal transfer of knowledge. Their research clearly indicates that the costs of transfer are related to the accumulation of experience in learning. They conclude that technology transfer lies at the heart of the issue of the growth of firms, domestically and internationally. Firms grow on their ability to create new knowledge, to replicate this knowledge and so expand their markets.

In a later work, Zander and Kogut (1995) point out that the capabilities of a firm, or any organisation, lie primarily in the organising principles by which individual and functional expertise is structured coordinated and communicated. They note that the characteristics of social knowledge influence the time taken to transfer major product and process innovations. Zander and Kogut use five central constructs to characterise a firm's knowledge at the levels of individual competence and group and organisational capabilities. These are: codifiability, teachability, complexity, system dependence and product observability. These constructs are ways to measure the degree to which a capability can be communicated and understood.

Codifiability is the degree to which knowledge can be encoded while system dependence is the extent to which a capability is dependent on many different experienced people for its implementation. Capability transfer often requires the sending of engineers and workers from the originating plant to help the "building up" of know-how in an associated plant. Zander and Kogut (1995) understand capability transfer and imitation as diffusion processes determined by a common, though not exclusive, set of factors. They demonstrate that the degree of codification, and how easily capabilities are taught, has a significant influence on the speed of transfer.

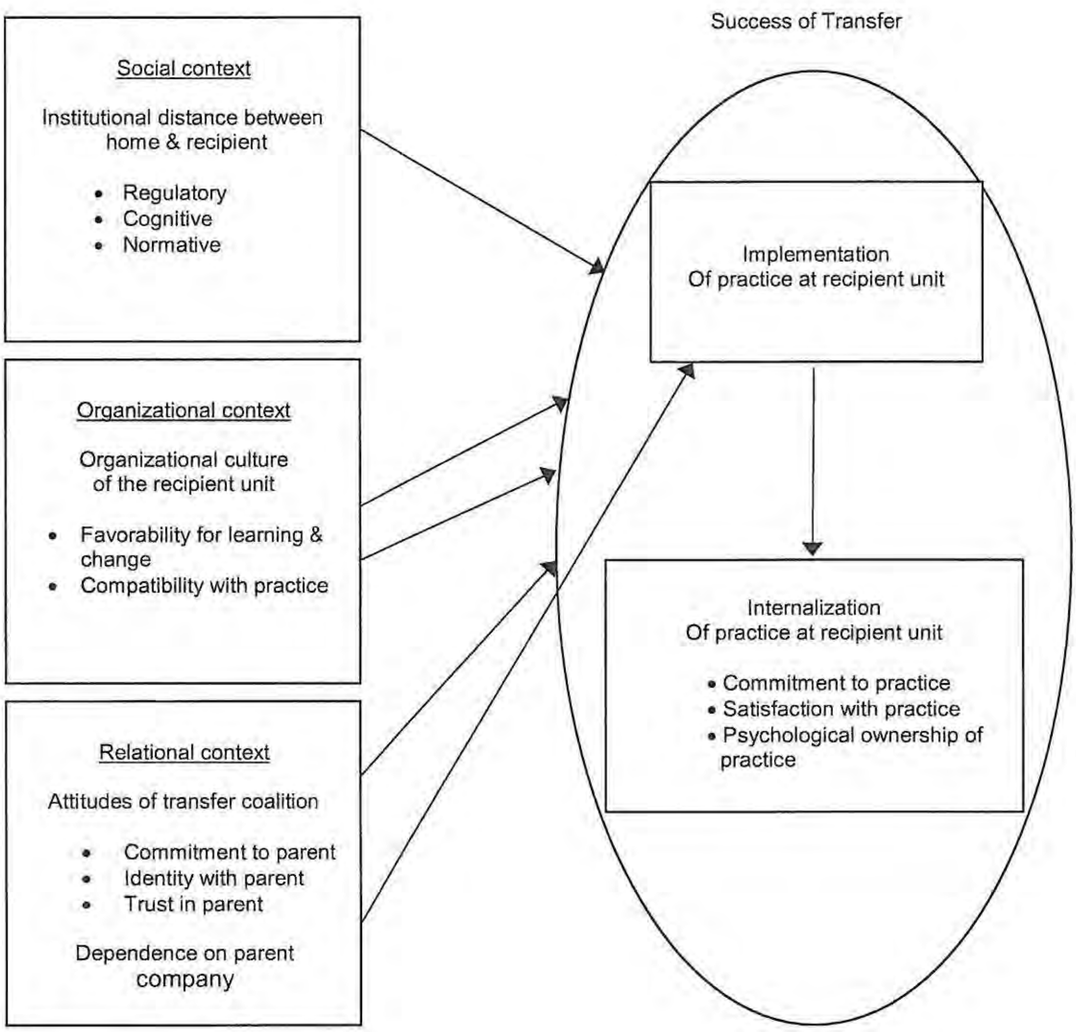
Kostova (1999) defines strategic organisational practices as those practices considered to be dominant, critical or crucial for achieving the strategic mission of the firm.

These are held to reflect the core competencies of the firm and to provide a distinct source of competitive advantage that differentiates the firm from its competitors. The focus of her model is on the transfer by a parent company to a foreign subsidiary of the same company, but she believes that the underlying ideas of her model are general enough to accommodate transfers in various directions within the MNC (foreign subsidiary to parent company, one subsidiary to another). She suggests that the process of transfer has two aspects: the diffusions of a set of rules and the transmission, or creation, of an "infused-with-value" meaning of these rules among the employees of the recipient unit.

According to Kostova (1999), three sets of factors (social, organisational and relational), at three levels (country, organisational and individual), affect transfer success. The social context refers to institutional distance between home and recipient and covers regulatory cognitive and normative factors. The organisational context refers to the organisational culture of the recipient unit and encompasses favourability for learning and change and compatibility with existing practices. The relationship context covers the attitudes of the transfer coalition (commitment to parent, identification with parent, trust in parent), and dependence on the parent company.

The success of transfer is defined as the degree of institutionalisation of the practice at the recipient unit. Institutionalisation is the process by which a practice achieves a taken-for-granted status in the recipient unit: "This is how we do things here." Institutionalisation has two levels: implementation and internalisation. Implementation is the degree to which the recipient unit follows the formal rules implied by the practice. Internalisation is the state in which the employees at the recipient unit view the practice as valuable for the unit and become committed to the practice. Implementation and internalisation, although theoretically distinct, are likely to be interrelated. This is illustrated in Figure 3.23.

Figure 3.23 Model of Success of the Transnational Transfer of Organizational Practices.



Source: Adapted from Kostova (1999:2).

Kostova (1999) uses the concept of country institutional profile, drawing on institutional theory. Institutional environments are characterised by regulatory, cognitive and normative factors. The regulatory component reflects the existing laws and rules in a particular national environment that promote certain types of behaviours and restrict others. The cognitive component reflects the cognitive categories widely shared by people in a particular country. Schemas, frames, inferential sets and representations affect the way people notice, categorise, and interpret stimuli from the environment. The normative component of an institutional environment focuses on normative systems, values and norms held by the individuals in a given country. Institutional distance is the difference between the institutional profiles of the two countries: the home country of the practice, and the country of the recipient organisational unit.

The success of transfer of a strategic organisational practice, from a parent company to a recipient unit, is concluded by Kostova (1999) to be:

1. Negatively associated with institutional difference between the countries of the parent company and the recipient unit.
2. Positively associated with the degree to which the unit's organisational culture is generally supportive of learning, change and innovation.
3. Positively associated with the degree of compatibility between the values implied by the practice and the values underlying the unit's organisational culture.
4. Positively associated with a) the commitment of the transfer coalition at the recipient unit to the parent company, b) the identity of the transfer coalition with the parent company, and c) the trust of the transfer coalition in the parent company.
5. Positively associated with the implementation, but not the internalisation, of the practice that is being transferred to that unit where the unit is perceived to be dependent on the parent company.

It is therefore of strategic importance for multinational corporations to learn what factors might facilitate or impede the process of transfer. This is especially important for knowledge critical to the competitive advantage of the firm, such as the knowledge embodied in strategic organisational practices (Kostova 1999).

In a further study, Kostova and Roth (2002) anticipate tension between the need for global integration and local adaptation. This gives rise to institutional duality, where foreign subsidiaries are confronted with two distinct sets of isomorphic pressures, and a need to maintain legitimacy with both the host country and the multinational corporations.

The results of the research by Kostova and Roth (2002) show that both implementation and internalisation vary across foreign subsidiaries, as a result of two factors: the institutional environment in the host country and the relationship context within the multinational corporation. Specific examples are: the relational context influences practice implementation. Units that perceive themselves to be more dependent on their parent reported lower levels of implementation. Identification and trust were positively associated with levels of implementation. The effects of host country institutional pressures on the level of internalisation were negatively affected by the regulatory profile and positively affected by the cognitive and normative profile. The authors suggest that what really matters for internalisation is having social knowledge about a practice, which helps people understand the practice too. Internationalisation is positively affected by the cognitive profile and negatively affected by the normative institutional profile.

Kostova and Roth (2002) identify four patterns of local adoption: active, minimal, ascent and ceremonial. Active adoption means implementing and believing in and recognising the value of a practice. Minimal adoption connotes relatively low levels of both implementation and internalisation while assent pattern has belief in the value of the practice yet a low level of implementation. The ceremonial is characterised by a relatively high level of implementation and a low level of internalisation. They conclude that there appear to be substantial challenges in general to the diffusion of a practice perceived at a corporate head office to be technically efficient. Only a small portion of the foreign subsidiaries of the multinational corporations in the sample reported high levels of both implementation and internalisation.

Lane and Lubatkin (1998) examine the Cohen and Levinthal model of the theory of absorptive capacity. Their research results show that interorganisational learning is positively related to the similarity of basic knowledge, lower management formalisation, research centralisation, compensation policies and research communities.

Research by Minbaeva, Pedersen, Bjoerkman, Fey and Park (2001) supports the argument that the absorptive capacity of the subsidiary facilitates transfer of knowledge from the other parts of the multinational corporation. The larger the absorptive capacity the more effective the transfer of knowledge. The results indicated that ability is a necessary, but not sufficient condition of absorptive capacity. It needs to be combined with employee motivation in order to effect the reception of knowledge from other parts of the multinational corporation.

Petersen and Pedersen (2001) contend that entrant firms familiarise themselves with foreign markets at different paces. To some extent, these differences are due to the varying management control of the entrant firms. Their study emphasises managerial discretion as a potentially important factor, whereas (they say) the general approach to the liability of foreignness issue is somewhat deterministic. A large number of entrant firms seem to master a rapid reduction of liability of foreignness, possibly by engagement in learning prior to the market entry. The research suggests that the liability of foreignness and the associated costs of doing business abroad will decline over a period of time for the majority of the firms in their sample.

Luo (2000) contends that dynamic capabilities require a strong base of established capabilities or resources (capability possession), as well as the ability to efficiently deploy these resources (capability deployment), and to continuously create bundles of new resources and knowledge (capability upgrading). Capability possession concerns a firm's established distinctive resources, including critical assets, knowledge, or capabilities that are firm-specific, difficult to imitate, and able to generate economic returns and a competitive advantage. Capability deployment involves both quantity and quality-based resource commitment and allocation (Luo 2000).

Transferability is the extent to which a parent firm is equipped with, or controls, distinctive capabilities that can be transferred to a foreign sub-unit, resulting in a competitive advantage. Although the transfer of critical capabilities can take place from one sub-unit to another, the movement from parent to foreign sub-unit is of the most practical relevance because a substantial part of critical capability is usually based in parent companies and located in home countries (Luo 2000).

Luo (2000) continues that the degree to which the same critical capability contributes to a firm's competitive advantage is generally not homogenous across markets. Transferability is also heterogeneous among various capabilities. He holds that transferability is also influenced by the nature of differences in industrial, macroeconomic, socio-cultural, and regulatory-political environments between markets and is also influenced by the nature of distinctive resources and capabilities. Capability transfer must consider what can create a competitive edge in a host market and also consider the reconfiguration of transferred and locally developed capabilities. The alignment with entry mode selection (examples: export, licensing, franchising, joint venture, wholly owned subsidiary) must be considered when transferring capabilities.

According to Luo (2000), technological capabilities are more transferable than organizational capabilities and financial capabilities are more transferable than operational capabilities. He postulates that global experience and reputation are more transferable than home-country-based experience and reputation. By the same token, global distribution and marketing skills are more transferable than home-country-based distribution and marketing skills. Relationship-building (with suppliers, buyers and governments) expertise is more transferable than market-power-based capabilities.

Luo (2000) envisages human resource practices facilitating knowledge sharing and utilisation. Transferability can be improved by a global compensation system, transferring managers globally and global training systems for example, "centre of excellence" (Ernst and Young). A global company culture, as opposed to regional or local cultures, may also play a fundamental role in the transfer of critical capabilities.

Hamel and Prahalad (1996) point out that leveraging a core competency across multiple businesses and into new markets often requires redeploying that competency internally from one division or strategic business unit to another. Some companies are better at this than others, and hence get more effective use of their competencies.

The mobility of competencies is facilitated when employees, who provide a particular competency, meet frequently to exchange ideas and experience (Hamel and Prahalad 1996). Seminars and conferences are important for instilling a sense of community among people working in the same competency. Geographic proximity can also aid competency mobility. Where a competency is spread across facilities, in a dozen countries or more, collective learning and the reallocation of individuals to new products can become difficult. A company should avoid unnecessary fragmentation of its core competencies.

Corporate core competencies are complex sets of resources and capabilities that link different businesses, primarily through managerial and technological knowledge, experience and expertise (Hitt, Ireland and Hoskisson 2003). Related firms often transfer competencies across businesses, thereby creating value by eliminating the need for the second unit to allocate resources to develop the competence and/or through corporate relatedness by resource intangibility. Intangible resources are difficult for competitors to understand and imitate. The transfer of competencies can be facilitated by moving key people into new management positions. Some managers of business units may be reluctant to transfer key people who have accumulated knowledge and experience crucial to the unit's success.

In terms of implementing strategies and best practices (and hence sometimes core competencies), Thompson and Strickland (2003) state that corporations must be willing to shift resources from one area to another to support new initiatives and priorities. They suggest that each department and unit should benchmark a value chain as to how it performs specific tasks and activities against best-in-industry or best-in-world performers. They also believe that the use of incentives and rewards is the single most powerful tool management has to win strong employee commitment to diligent, competent execution.

As seen in previous sections, Porter (1998) does not use the term *core competencies* as such. He does, however, address transferring skills as a concept of corporate strategy. He lists strategic prerequisites for transferring skills as proprietary skills in activities important to competitive advantage in target industries, ability to accomplish the transfer of skills among units on an ongoing basis and acquisitions of beachhead positions in new industries as a base. Organizational prerequisites for transferring skills are the existence of largely autonomous but collaborative business units, high-level corporate staff members who see their role primarily as integrators and cross-business-unit committees, task forces, and other forms of organisation to serve as focal points for capturing and transferring skills. He advocates that the objectives of line managers should include skills transfer and that incentives should be based in part on corporate results.

Porter (1998) cautions against the pitfalls in transferring skills of mistaking similarity or comfort with new businesses as a sufficient basis for diversification, providing no practical way for skills transfer to occur and ignoring the fact that an industry structure may not be attractive. He notes that transferring skills leads to competitive advantage only if the similarities among businesses meet three conditions. Firstly, the activities involved in the business are similar enough that sharing expertise is meaningful. Broad similarities alone are not enough. Secondly, the transfer of skills involves activities important to competitive advantage. Transferring skills in peripheral activities may be beneficial but not effective at producing competitive advantage. Thirdly, the skills transferred represent a significant source of competitive advantage for the receiving unit.

> The transfer of skills is an active process that significantly changes the strategy or operations of the receiving unit. The prospect for change must be specific and identifiable. Almost guaranteeing that no shareholder value will be created, too many companies are satisfied with vague prospects or faint hopes that skills will transfer (Porter 1998:140).

The transfer of skills does not happen by accident or by osmosis. Critical personnel will have to be re-assigned, perhaps even on a permanent basis, and the support and involvement of top management in skills transfer is essential. Many companies have failed at skills transfer because of the lack of incentive programmes (Porter 1998).

Research by Bresman, Birkinshaw and Nobel (1999) shows that the transfer of technological knowledge is facilitated by communication, visits and meetings, and time elapsed since acquisition. They demonstrate that the immediate post-acquisition period is characterised by imposed one-way transfers of knowledge from the acquirer. Over time, this gives way to high-quality reciprocal knowledge transfer.

People approaching best-practice replication are often overly optimistic and overconfident according to Szulanski and Winter (2002). Getting it right the second time (and all the times after that) involves adjusting for overconfidence in one's own abilities and imposing strict discipline on the process and organisation. They recommend ensuring that you have got something that can be copied and is worth copying, work from a single template, copy the example exactly and make changes only after you achieve acceptable results. Best-practice replication, while less glamorous than innovation, contributes enormously to the bottom line of most companies (Szulanski and Winter 2002). "Placing too much trust in experts and documents is the first big mistake organisations can make when trying to replicate best practice . . . The second big mistake is when one forgets that one is trying to replicate a practice and instead, starts trying to improve it" (Szulanski and Winter 2002:64).

Sutton (2002) stresses that there is no knowledge advantage unless it leads to an action advantage. He proposes three overarching lessons from research into how organisations can go from theory to practice. Philosophy matters is the first lesson. Firms that consistently turn knowledge into action have concise, and widely followed, philosophies, or general beliefs, that are used to guide action across a range of situations. Know by doing, is the second lesson. If you know by doing, there is no gap between what you know and what you do. The third lesson is to forgive and remember failure. Forgiveness is crucial when people fail because it enables them to maintain their self-esteem and to continue as useful and respected members of the organisation. Remembering failure is also crucial so that the same mistakes are not repeated.

Bartlett and Ghoshal (2000:709) highlight issues relating to transferability:

> In a truly transnational company, overseas subsidiaries can be the source of capabilities, expertise and innovation that can be transferred to other parts of the organisation. Such an administrative ability to transfer new ideas and developments requires a considerable amount of management time and attention to break down the not-invented-here (NIH) syndrome that often thrives in international business. In this process, those with worldwide functional responsibilities are ideally placed to play the central cross-pollination role. Through informal contacts, formal evaluations, and frequent

travel, they can identify where the best practices are being developed and implemented. They can arrange cross-unit visits, and transfers, host conferences, form task forces, or take other initiatives that would expose others to the new ideas."

Govindarajan and Gupta (2000) state that among the first issues a globalising company must address is how to transplant the core elements of its business model, its core practices, and its core beliefs to a new subsidiary. Obstacles to transferring the "corporate DNA" can emerge from employees, customers, regulations and so forth in the new location. The company therefore needs to develop clarity regarding what exactly its core "beliefs", practices and competencies are.

In transplanting core beliefs and practices to a new subsidiary, Govindarajan and Gupta (2000) say that there is always a transformational event. They stress that it is highly likely that the transplanted beliefs and practices are, at best, partially understood and often seen as alien and questionable (especially in the case of an acquisition). Transferring core beliefs and practices to a new subsidiary almost always requires transferring a select group of committed believers (the "DNA carriers") to the new operation. The size of this group would depend largely on the scale of the desired transformation effort.

The transplanting of the corporate DNA can be regarded as successful only when the new beliefs and practices have become internalised in the mind-sets and routines of employees at the new subsidiary (Govindarajan and Gupta 2000). This requires a visibly explicit and credible commitment by the parent company to its core beliefs and practices, deepening the process of education within the new organisation, and a concrete demonstration that the new beliefs and practices yield rewards and benefits.

Research by Ghoshal, Korine and Szulanski (1994) shows that subsidiary autonomy has no discernible influence on inter-unit communication. Interpersonal relationships develop through lateral networking mechanisms, such as joint work in teams, task forces and meetings, and these have significant positive effects on the frequency of both subsidiary-headquarters and intersubsidiary communication. The authors recommend that management in multinational companies make the requisite investment in inter-unit networking as this is a key source of the multinational corporation's ability to develop, share, and leverage knowledge.

The final stage of Pietersen's (2002) Strategic Learning Cycle, previously discussed in Section 3.5 is implementation and experimentation. He states that it is a misnomer to refer to the final step alone as "implementation". This is because the entire strategic learning process – learn, focus, align and execute – is a challenge of implementation.

The difference between a company and its competitors is the ability to execute (Bossidy and Charan 2002). These authors see execution as a discipline and a system. It has to be built into a company's strategy, its goals and its culture. They state that the single biggest difference between businesses that execute and those that do not is the rigour and intensity with which the leader prosecutes the processes of people, strategy and operations. Leaders need to master the individual processes and the way they work together as a whole. A leader's most important job is selecting and appraising people.

Bossidy and Charan (2002) recommend clear specific targets, rewards linked to achievement of targets, and follow-up and follow-through, together with quarterly performance reviews, which should conclude with an agreement on what is to be done. There should be contingency plans, and the assumptions likely to be the most vulnerable should be checked thoroughly. They conclude that companies should place a high premium on getting things done, winning and attracting the very best and most diverse talent.

3.10.2 Summary

This section is summarised in Figure 3.24. Nine of the 21 entries list methods used to transfer core competencies. All the contributors are considered important Kostova (199), Luo (2000), Hamel and Prahalad (1996), Bartlett and Ghoshal (2002) and Govindarajan and Gupta (2000) especially so.

Figure 3.24 Literature Review Summary: The Transfer of Core Competencies

1. **Szulanski** (1996) Stickiness, barriers. Characteristics of knowledge, source, recipient, context.
2. **Szulanski** (2000) Initiation, implementation, ramp-up and integration.
3. **Kogut and Zander** (1993) Costs of transfer. Experience and learning.
4. **Zander and Kogut.** (1995) Codifiability, teachability, complexity, system dependence and product observability.
5. **Kostova** (1999) Three sets of factors (social, organisational and relational) at three levels (country, organisational and individual) affect transfer success.
6. **Kostova and Roth** (2002) Institutional profile of host country and MNC relational context affects adoption.
7. **Minbaeva, Pedersen, Bjoerkman, Fey and Park** (2001) Absorptive capacity of subsidiaries facilitates transfer.
8. **Petersen and Pedersen** (2001) Firms familiarise with foreign conditions at different speeds.
9. **Luo** (2000) Capability possession, deployment and upgrading. Transferability varies by country and capability. Transferability influenced by nature of distinctive resources and capabilities. HOW and WHAT of transfer. Technological capabilities > organisational capabilities. Financial > operational capabilities.
10. **Hamel and Prahalad** (1996) Competence allocation process recommended. Mobility facilitates transfer. Geographic proximity, seminars, conferences all assist.
11. **Hitt, Ireland and Hoskisson** (2003) Move key people to facilitate transfer.
12. **Thompson and Strickland** (2003) Shift resources. Value chain. Benchmarking.
13. **Porter** (1996) Strategic and organizational prerequisites. Cross-business-unit committees and task forces. Objectives and incentives. Pitfalls.
14. **Bresman, Birkinshaw and Nobel** (1991) Transfer facilitated by communication, visits and meetings, time.
15. **Szulanski and Winter** (2002) Adjust for overconfidence. "Getting it right the second time".
16. **Sutton** (2002) Forgive but remember failure.
17. **Bartlett and Ghoshal** (2002) "Not invented here". Informal contacts, frequent travel.
18. **Govindarajan and Gupta** (2000) Recommend clear communication on core beliefs, practices and competencies. "DNA carriers".
19. **Ghoshal, Korine and Szulanski** (1994) Joint work in teams, task forces and meetings.
20. **Pietersen** (2002) Implementation is a cycle of learn, focus, align, execute.
21. **Bossidy and Charan** (2002) Leaders must understand and be competent in processes of people, strategy and operations. Seek best and diverse talent.

3.10.3 Conclusion

"Stickiness" is the barrier to the transfer of knowledge. The transfer of knowledge is influenced by the characteristics of the knowledge, the source, the recipient and the context in which the transfer takes place. Experience and learning are critical elements. The success of transfer is influenced by codifiability, teachability, complexity, system dependence and product observability.

There are three sets of factors, at three levels, that affect the success of transferring operational practices (which might or might not be core competencies). The factors are social, organisational and relational; while the three levels are country, organisational and individual. The adoption of a practice is affected by the institutional profile of the host country and the multinational corporation relational context.

The absorptive capacity of subsidiaries facilitates the transfer of knowledge. Companies should adjust for overconfidence when attempting to transfer management practices. Companies are counselled to forgive, but also to remember failure as part of the learning process.

The potential for transferability varies by country and capability. Transferability is also influenced by the nature of the distinctive resources and capabilities. Technological capabilities are held to be generally more transferable than organisational capabilities, and financial capabilities more transferable than operational capabilities.

Research shows that firms familiarise themselves with foreign conditions at different speeds.

The methods used to transfer core competencies include: moving key players, "DNA" carriers, holding seminars and conferences, incorporating into objectives, shifting resources, value chains, benchmarking, rewards and incentives, visits, meetings, communication, informal contacts, travel, joint work in teams, task forces and meetings.

The difficulties companies confront in transferring core competencies include: the "not invented here", or NIH, syndrome, recipients lacking absorptive or retentive capacity, language, culture, institutional duality, poor relationships and reluctance to transfer key people. The actions that can be taken to resolve the difficulties include effective routines to handle transfers, developing the learning capacities of organisational units, closer relationships between units, drawing on the lessons of prior transfers and ensuring that the prospects for change are specific and identifiable.

Implementation is a cycle of learn, focus, align and execute. Leaders must understand and be competent in the processes of people, strategy and operations if they are to implement successfully. Companies are counselled to seek the best and diverse talent.

There is again (as in the case of the development of core competencies) little indication of the relative effectiveness of the methods used to transfer core competencies and the context (for example value chain location) in which they would be most effective. For example, transferring a marketing core competency may require completely different methods from those of transferring an operational competency.

3.11 Summary and Conclusion

The purpose of this section is to integrate the results of the literature review into a workable framework or model for the thesis. The nine areas have each been summarised near the end of each subsection, before the conclusion, and are therefore not repeated here. The section revisits the conclusions reached in each of the areas, discusses the gaps and opportunities in the body of knowledge ascertained during the review and then sets out the theoretical framework or model to be followed in compiling the thesis.

3.11.1 Conclusions

The conclusions reached for each of the nine areas are summarised, or paraphrased, below. The conclusions relating to the three sections on core competencies – Definition and Nature of Core Competencies, The Development of Core Competencies and The Transfer of Core Competencies – are more comprehensive than those of the other six sections.

History and Overview of Strategy

Strategy is an evolutionary discipline or practice with no universally accepted theory. Each of the persons listed in Table 1 made a meaningful contribution to strategic thinking and/or practice. The Strategic Paradigm in Figure 3.8 depicts the strategic process that most academics or companies follow to one extent or another.

International Business

International business is extremely complex. The complexity is probably best articulated by Ohmae (1991) as country and currency, and by Barlett and Ghoshal (2000) as the factors of sovereignty, distance, time, language and culture together with product and functional and geographical diversity. Culture is considered to be crucial.

A key advantage of the multinational corporation is its ability to create new value through the accumulation, transfer and integration of different kinds of knowledge, resources and competencies across its global units. Most companies move into global markets on the strength of competitive advantages based on capabilities and competencies in their home markets.

Bartlett and Ghoshal's (2000b) conclusion that companies from fringe economies can succeed in global business is noted, as are their views on the composition of global management teams. A mixture of language skills, international experience and nationalities is recommended for global teams.

Culture and International Business

The influence of culture on international business is extremely important. Although the authors reviewed have some differences on the particular influences of culture, there is no doubt that it is crucial and that one ignores cultural aspects at one's peril.

National culture influences corporate culture, and there is no one best way of conducting international business. Multinational corporations face cultural adjustments costs, which can include double-layered acculturation, which is having to deal not only with the foreign culture but also with the corporate culture of an acquisition or joint venture in that country. Multinational corporations stand to gain more from foreign expansion if they judiciously take cultural diversity into consideration.

Learning and Knowledge Management

The accumulation of knowledge or learning is a continuous process that multinational companies can influence by control, motivation and context. The ability to absorb knowledge is path-or history-dependent.

"If you can't measure it, you can't manage it" is said to be as true of learning as it is any other corporate objective.

Definition and Nature of Core Competencies

Experts differ in their definition of core competencies, but they refer to a similar concept. The Hamel and Prahalad definition (1996) that core competencies are a bundle of skills and technologies that enable a company to provide a particular benefit to customers is the preferred definition for the thesis. Their three criteria are that a core competency must provide access to a wider variety of markets, be difficult to imitate and make a significant contribution to the perceived benefits of customers.

Core competencies are aptitudes and skills rather than skills alone. All core competencies are sources of competitive advantage, but not all competitive advantages are core competencies. Every core competency is likely to be a critical success factor, but not every critical success factor will be a core competency. Experts differ on how many core competencies a company can build – varying from two to five – or even fifteen for a medium-size company.

The ability to learn and the ability to change are likely to be among the most important capabilities that a firm can possess. Innovation is an essential core competency for any organisation. There is no recognised, rigorous discipline for identifying competencies.

Development of Core Competencies

Competitive advantages and core competencies are forged on a playing field of national competitiveness. Factor conditions, demand, related and supporting industries, firm strategy, structure and rivalry, chance and government all play key roles (Porter 1990). Economic geography and geopolitics are further key considerations.

Learning is of fundamental importance to the development of core competencies. It takes years or even a decade or so to develop world-class competencies. Different and multiple methods are required to develop core competencies, including benchmarking, review meetings, product matrixes, value chains, internal analysis, concentration of effort and talent, exposure to demanding environments, corporate culture, formal controls, acquisitions, travel, people and their development, cross-functional teams and path dependency.

There is little indication of the relative effectiveness of the different methods used to develop core competencies and the context (for example value chain location) in which they would be most effective. There is limited literature available on the practical problems and issues that companies confront in the development of core competencies.

Mergers and Acquisitions

Despite compelling reasons to acquire and merge, the majority of mergers and acquisitions are generally considered to be unsuccessful. Although "acquiring is faster than building", companies that diversify outside their core competencies are seldom very successful. The problems relating to mergers and acquisitions include integration difficulties, inadequate development of targets, inability to achieve synergy, management risks, conflicting corporate cultures and inadequate due diligence.

Companies should have systems for identifying, screening and "closing" deals. It is crucial to have effective methods of valuing and pricing acquisitions, to conduct effective due diligence studies (which should include human resources), and to identify and realistically quantify synergistic opportunities. WACC or other methods should be used as a discipline when calculating returns expected from acquisitions. Drucker (1986) proposes five rules for successful acquisitions, two of which are complex in today's globalisation environment.

Post-Merger and Acquisition Integration

Inadequate post-merger and acquisition integration is widely regarded as the major reason that most mergers and acquisitions are not successful. The recommended actions to improve the situation include: begin the integration process as soon as possible, dedicate individuals to it, institute well-defined reporting relationships and organisational structures as soon as possible, make few promises and keep them, do not promise that things will remain the same in either company, pay particular attention to the different cultures and either embrace the people, and integrate them, or terminate them and get them out as soon as possible. Communication is crucial.

The Transfer of Core Competencies

The transfer of knowledge is influenced by the characteristics of the knowledge, the source, the recipient and the context in which the transfer takes place. Experience and learning are critical elements. The success of transfer is influenced by codifiability, teachability, complexity, system dependence and product observability.

Social, organizational and relational factors affect the success of transferring operational practices (which might or might not be core competencies) at the levels of country, organization and individual.

The potential for transferability varies by country and capability. Transferability is also influenced by the nature of the distinctive resources and capabilities. Technological capabilities are held to be generally more transferable than organisational capabilities, and financial capabilities are more transferable than operational capabilities.

The methods used to transfer core competencies include: moving key players, "DNA carriers", holding seminars and conferences, shifting resources, value chains, benchmarking, rewards and incentives, visits, meetings, communication, informal contacts, travel, joint work in teams, task forces and meetings.

The issues and problems confronted in transfer of core competencies include "not invented here" or NIH syndrome, recipients lacking absorptive or retentive capacity, language, culture, institutional duality, and reluctance to transfer key people. Transfer does not happen by accident or osmosis. The possible measures to resolve the difficulties include effective routines to handle transfers, developing the learning capabilities of organisational units, closer relationships between units, drawing on the lessons of prior transfers and ensuring that the prospects for change are specific and identifiable.

There is little indication of the relative effectiveness of the methods used to transfer core competencies and the context in which they would be most effective.

3.11.2 Gaps and Opportunities

The review of the literature revealed the following major "gaps", or opportunities for improving the body of knowledge relating to the development and transfer of core competencies:

1. There is little indication of the relative effectiveness of the different methods used to develop and transfer core competencies and the context (for example value chain location) in which they would be most effective.

   Mascarenhas, Baveja and Jamil (1998) cover three types of competence and the methods to develop them. Luo (2000) uses four categories of competence but does not investigate the different methods that could be used to develop and transfer each of the categories. His findings are not based on empirical research.

   The basic value chain has nine different locations of activities. There is therefore an opportunity to evaluate different methods and relate these to different activities in the value chain. This will open up a new perspective. Companies will have better chances of success in both the development and transfer of core competencies once they become aware of the likely effectiveness of the various methods of development and transfer by value chain location.

2. While the various models in the literature covered the process and concept of development and transfer, there is nevertheless an opportunity to contribute to the general body of knowledge by examining the practical problem and issues confronted by the four companies during the development (especially) and transfer of core competencies. What, for example, are these problems and how are they resolved? How do the companies assess or measure the success

of transfer? And how do the companies believe that pitfalls can be avoided and transfer improved?

3. South Africa-originated multinational companies are relatively new to the global business arena. There is consequently a further opportunity to examine and report on the reasons for their success (or lack of it).

4. The lessons learned by the companies in "going global" can be used to formulate guidelines for other companies contemplating or implementing international expansion.

3.11.3 Theoretical Framework

The theoretical framework, derived from the literature review, is shown in Figure 1.1 in the Introduction. The literature review is used both for the research questions and for determining the structure of the thesis. While core competencies are at the centre of the thesis, the influence of other factors upon them is considered. The framework and the nine separate area summaries and conclusions are used to analyse and review findings in the final five chapters.

Having reviewed the relevant literature and constructed a theoretical framework to guide the writing of the thesis, we may now examine the methodology used in conducting the research study.

4. RESEARCH DESIGN AND METHODOLOGY

4.1 Introduction

The chapter begins with a discussion of different *paradigms* and the *methods* used in the research. It then describes the concepts and key topics covered in the thesis. Criteria are set out for the selection of the multinational corporations to be studied. Profiles of the corporations in question are shown.

A section on *data gathering* describes the methods used to collect data. A further section on *data analysis* describes how data were analysed, how questionnaires were reviewed and checked, and the statistical methods used. Subsequent sections deal with the issues of *quality and ethics.* The chapter ends with a brief discussion of the *limitations* of the research project.

The primary works consulted for this chapter were Mouton (2001) *How to Succeed in Your Master's & Doctoral Studies,* Saunders, Lewis and Thornhill (2000) *Research Methods for Business Students* and Yin (2000) *Case Study Research.* Other references were Cantrell (1993), Guba and Lincoln (1994), Moore (2000), Rhodes University Environmental Education Unit (2001), Siegel (1956), Stake (2003), Winegardner (2002) and Zehna and Weiss (2002).

4.2 Paradigm

Guba and Lincoln (1994:105) define a paradigm as the basic belief system or worldview that guides the investigator not only in choices of method but in ontologically and epistemologically fundamental ways. It represents a worldview that defines for its holder the nature of "the world", the individual's place in it and the range of possible relationships to that world and its parts, as for example, cosmologies and theologies do. Guba and Lincoln (1994) believe that questions of method are secondary to questions of paradigm. They state that both quantitative and qualitative methods may therefore be used appropriately with any research paradigm.

The four paradigms analysed by Guba and Lincoln (1994) are positivism, post-positivism, critical theory and related ideological positions, and constructivism. Table 4.1 outlines the basic ontology, epistemology, methodology and knowledge interests of each.

Table 4.1 Research Paradigms

POSITIVISM	POST-POSITIVISM INT	INTERPRETIVISM	CONSTRUCTIVISM
Ontology – Stable external reality; law-like	Ontology – Stable external reality; law-like; but can only be approximated	Ontology – Internal reality of personal, subjective experience	Ontology - Socially constructed reality; discourse
Epistemology - Objective, detached observer	Epistemology - Observers are subjective but need to strive for objectivity and to control their bias	Epistemology - Empathic, observer intersubjectivity	Epistemology- Suspicious, political, observer constructing versions
Methodology - Experimental, quantitative, hypothesis testing, analytical	Methodology - Descriptive, interpretive, both quantitative and qualitative	Methodology - Interactional, interpretive, qualitative	Methodology – Often deconstruction, textual analysis, discourse analysis
Knowledge interest - Technical	Knowledge interest - Technical or practical	Knowledge interest - Practical	Knowledge interest - Political/emancipatory troubling given understandings

Source: Janse van Reneburg (2001:12-19).

Returning to Guba and Lincoln (1994), the ontology of post-positivism is viewed as critical realism. Reality is assumed to exist but to be only imperfectly apprehensible because of basically human intellectual mechanisms and the fundamentally intractable nature of phenomena. It is possible to approximate but never to fully know reality. The epistemology is classified as modified dualist/objectivist. Objectivity is a "regulatory ideal" with special emphasis placed on "external guardians" of objectivity, such as critical traditions. The appropriate criteria for judging the goodness or quality of a post-positivism enquiry are the conventional benchmarks of "rigour", internal validity, external validity, reliability and objectivity. Tests are whether findings "fit" with pre-existing knowledge and the critical community, such as editors, referees and professional peers. The post-positivism methodology is modified experimental/ manipulative. Emphasis is placed on "critical multiplism", a refurbished version of triangulation.

My study relates to post-positivism as it meets the criteria in Table 4.1. Reality can only be approximated. I am a subjective observer striving for objectivity and attempting to control my biases. I describe and interpret the events at four multinational corporations, using both qualitative and quantitative data. By default, the other three paradigms on the table do not match my research, although there may be small areas that overlap.

According to Winegardner (2002), the development of a case study begins with the establishment of a theoretical framework and the set of questions to be answered by the research. The way the questions are framed and what they seek to know are influenced by the epistemological orientation of the researcher, how he or she sees the world and the acquisition of knowledge. This is in part a reflection of the researcher's professional discipline and review of its body of literature. For example, a study of organisational behaviour could be devised from the perspective of a cultural anthropologist, a behavioural psychologist, an information scientist, an economist and so on.

I am endeavouring to bring the perspective of a general manager or CEO, combined with that of a teacher, to the thesis. There are similarities between the roles of CEOs and teachers (Harvey 2005). As a CEO I should know which core competencies to develop and transfer and *how* best to do so – in other words, find the most effective methods available for the different core competencies. I should also be interested in the conditions pertaining to these, the obstacles involved and how to improve the development and transfer of core competencies. The lessons learned by South African companies in going global and the reasons for their successes and mishaps are other important aspects I should wish to understand. As a teacher my interest would be in what contributions I could make to the existing body of knowledge and how I could impart these to students and practitioners. This discussion raises the questions of my own partiality and objectivity and I shall describe my relationships with the four corporations covered by the thesis.

I was employed by The South African Breweries (the forerunner of SABMiller) from 1966 to 1978 and by Wolverine World Wide from 1979 to 1986. I consequently have some knowledge of these companies and operating experience of both the beer and footwear industries. My responsibilities at The South African Breweries at one time included Zambia Breweries (Harvey 1993a) and at Wolverine World Wide, the International Division, which included subsidiaries in several countries and licensees in over sixty. The terms used at the time were "expertise", "skills" and "knowledge" but core competencies were certainly developed and transferred at both those entities.

I also have direct operating experience in the earthmoving-equipment industry (Barloworld's Caterpillar was its largest division in 2002) through responsibility for the Komatsu business in Southern Africa from 1990 to 1995. Komatsu is a competitor of Caterpillar. I have no direct operating experience in the paper and pulp industry in which Sappi operates but do have indirect knowledge through serving on the Anglo American Industrial Corporation Board when that company controlled Mondi, a major competitor of Sappi's.

I know the CEOs of Barloworld, SABMiller and Wolverine World Wide as well as several executives at each of those companies. My friends include retirees from both SABMiller and Wolverine World Wide. My daughter is employed by Wolverine World Wide. I manage a portion of my retirement fund portfolio and have shares in all four companies.

SABMiller is the largest of the four companies studied and, being listed on the London Stock Exchange, together with the nature of its product, is more visible and receives more media coverage than the other South African companies. This company, as will be seen later, also volunteered more access to staff. Wolverine World Wide is the smallest of the four companies but because it is located in the United States there is a vast variety of information and data available on it.

While I have made every effort to remain impartial and objective, the possibility exists that my knowledge and background could result in some unconscious bias. A recognition that there may be a bias is at least a "start" in dealing with the situation. I measured and assessed the performances of the different companies and compared their performances with competitors and stock market indices to facilitate objectivity. I also employed the method of triangulation by examining other sources of information.

4.3 Methods

There are several ways of doing social science research. These are case studies, experiments, surveys, histories and the analysis of archival information (Yin 2003). Table 4.2 lists the five strategies and, for each, the form of research question, whether control of behavioural events is required and whether focus is on contemporary events.

Table 4.2 Relevant Situations for Different Research Strategies

STRATEGY	FORM OF RESEARCH QUESTION	REQUIRES CONTROL OF BEHAVIORAL EVENTS	FOCUSES ON CONTEMPORARY EVENTS
Experiment	How, why?	Yes	Yes
Survey	Who, what, where, how many, how much?	No	Yes
Archival analysis	Who, what, where how many, how much?	No	Yes/No
History	How, why?	No	No
Case study	How, why?	No	Yes

Source: Yin (2003:5).

Referring back to the questions raised or aims of the thesis in the Introduction, "how" and "why" are the most prevalent among these, although there are some "what", "where", "how many" and "how much". The most suitable methods for the research are therefore deemed to be a case study together with a survey (or a survey within a case study). The histories of South Africa and the four companies are also covered and there is limited archival analysis.

Yin (2003:13) defines a case study as "an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident". Case study data collection is typically multifaceted and usually involves interviewing, observing and analysing documents. Multiple sources of information are normally sought and used because no single source of information should be regarded as providing a comprehensive perspective (Yin 2003).

Winegardner (2002) states that case studies can be categorised by the epistemology of the researcher and research framework. The case study method can be applied to interpretive, post-positivist, positivist and critical approaches to research. The case study has an especially strong tradition in anthropology, sociology, education, psychology, history and management science (Merriam 1998, cited by Winegardner 2002). Its unique strength is its ability to deal with a full variety of evidence – documents, artefacts, interviews and observations – beyond what might be available in a conventional history study (Yin 2003).

Case studies can be classified by purpose – description, explanation, evaluation and exploration (Gall, Borg and Gall 1966, cited by Winegardner 2002). When the purpose is descriptive, the researcher looks for constructs to organise the data and relate it to other research findings and for themes which identify the salient features of a case.

In an explanatory case study, the operative dynamic is identification of patterns, in which one type of observed variation is systematically related to another type. If causality is claimed, the pattern is termed causal if not, it is termed relational. *Evaluation* is an umbrella term for various types of case study in which the researcher makes judgements. Exploratory research endeavours to find out what is happening, seeks new insights, asks questions, and assesses phenomena in a new light. It consequently normally focuses on current events and concerns and seeks to answer questions of how and why. A particular application of the exploratory case study is as a diagnostic tool to develop a range of objective possibilities that could occur. Some researchers see significant value in the ability of case studies to suggest a range of possibilities for a future which cannot be assumed to be a projection of the past (Robson 1993, cited by Winegardner 2002). Aspects of all four types of case study are present in the thesis with exploratory research being predominant.

Yin (2003) prefers multiple cases over single cases as this improves the chances of doing a good case study and, more important, the analytic benefits from having two or more cases may be substantial. There is the possibility of direct replication even though the contexts of the different cases are likely to differ to some extent. If common conclusions can be arrived at under the varied circumstances, the external generalisability will expand. I found that there were methods of developing and transferring core competencies that the companies agreed on despite having different histories and being in different industries.

4.4 Conceptualisation

Stake (2003) envisages six major conceptual responsibilities of the qualitative case researcher. These are bounding the case, conceptualising the object of study; selecting phenomena, themes or issues – that is, the research questions – to emphasise; seeking patterns of data to develop the issues; triangulating key observations and bases for interpretation; selecting alternative interpretations to pursue and developing assertions or generalisations about the case.

The case is "bounded" by focusing the thesis on four companies and supporting this by references to several other companies and executives. The aims and objectives of the thesis are:

1. To advance the general body of knowledge relating to the development and transfer of core competencies.
2. To have practical applicability for both management practitioners and academics.

3. To explain how three corporations, originating in South Africa, with limited international experience, became global leaders in their fields within a decade.
4. To examine the lessons learned by the corporations and glean advice from these for other corporations contemplating or implementing international expansions.

The purpose of the thesis is to explore the methods used for developing and transferring core competencies in the context of international business. The core competencies are related back to the value chain activities underlying them so that development and transfer can be described under different conditions. The problems and issues confronted during development and transfer, how success of transfer can be assessed and measured, how pitfalls can be avoided and transfer improved are all considerations.

The key concepts and topics of interests are: core competencies, value chain activities, methods for developing core competencies, methods for transferring core competencies and the degrees of success in transferring core competencies. National and organisational culture are important influences on these concepts.

4.5 Selection of Multinational Corporations

Convenience, access and geographic proximity can be the main criteria for selecting cases according to Yin (2003). The agreement of the chosen three South African corporations and a US multinational to participate in the research was obviously vital. I added another five criteria for the selection of the three South African multinational corporations studied in the thesis.

The first criterion was contained in the definition that a multinational corporation has substantial direct investment in foreign countries and actively manages those operations and regards them as integral parts of the company, both strategically and organisationally (Bartlett and Ghoshal 2000:2).

The second criterion was that at least 50 percent of sales and profits should be derived from outside the country of origin. Thirdly, companies should also be well established, substantial in size, with information relatively freely available, that is, publicly listed. Fourthly, companies should be successful in that their performance must be clearly superior to that of most of their peer groups.

Fifthly, companies in the mining, information and technology and finance sectors were excluded from consideration because their core competencies and value chains differ significantly from industrial and consumer product companies with which I am familiar. Richemont, a luxury-goods company listed in both South Africa and Switzerland, was not considered as one of the three South African companies, because it was created out of the Rupert family's European tobacco interests and the Ruperts had no similar luxury goods businesses in South Africa at the time of formation.

Table 4.3 illustrates the leading South African companies in 2002, at the time the research commenced. The companies selected were the South African Breweries (SAB), ranked seventh in South Africa by turnover at the time; Sappi ranked ninth; and Barloworld ranked eleventh. Similar criteria to those applicable to the South African companies were used in the selection of the US multinational, with less stringent requirements on the criteria of sales and profits from outside the country of origin. The US multinational chosen was Wolverine World Wide. Yin's (2003) criteria of convenience, access and geographic proximity were all met. I am resident in Grand Rapids, Michigan, approximately 30 kilometres from Wolverine World Wide's headquarters in Rockford, Michigan. While not being held out as necessarily representative of US multinationals, it has been in international business for 50 years, markets its products in more than 140 countries and is highly successful by any standard of measurement.

In 2002 Wolverine World Wide may have fallen marginally short of the second criterion that at least 50 percent of sales and profits should be derived from outside the country of origin. As seen in Table 4.4, 49 percent of the company's sales in pairs in 2002 were outside the USA. It is conceivable that the monetary value of the sales of their products at retail prices outside the USA may have exceeded 50 percent of their total sales. It is noted that many US-based multinational companies may derive more than 50 percent of their sales of profits from within the USA because of the size of the US economy in relation to the rest of the world. In any event, 53 percent of Wolverine World Wide's sales in pairs were outside the United States in 2005 (Wolverine World Wide 2005 Annual Report).

Table 4.3 Leading South African Companies 2002 (Ranked by Turnover)

Rank	Company	Turnover Rm	Total Assets Rm	Market Cup Rm	Equity Funds Rm	Net Profits Rm	Financial Year End
1	BHPBill . . .	163,979	299,752	92,309	138,835	19,567	Jun 2002
1	BHPBill . . .	143,460	221,774	130,766	98,307	10,371	Jun 2001
2	Anglo	129,444	269,658	154,923	135,145	15,667	Dec 2002
-	Anglo	176,024	281,833	246,530	139,119	25,417	Dec 2001
3	Old Mutual	70,277	661,069	40,926	15,986	6,750	Dec 2002
-	Old Mutual	58,121	735,035	63,816	5,207	8,310	Dec 2001
4	Sasol	61,587	62,523	52,738	32,657	8,588	Jun 2002
4	Sasol	41,289	49,384	75,335	25,165	7,374	Jun 2001
5	Sanlam . . .	44,811	179,256	16,007	17,486	-894	Dec 2002
-	Sanlam . . .	47,148	196,502	23,625	19,662	4,207	Dec 2001
6	Metcash . .	43,054	8,864	3,012	326	501	Apr 2002
6	Metcash . .	35,626	7,308	3,928	551	249	Apr 2001
7	SAB	42,239	43,671	49,940	6,398	4,011	Mar 2002
9	SAB	28,992	27,296	71,896	9,152	3,032	Mar 2001
8	Bidvest . . .	41,950	14,357	12,382	4,755	1,204	Jun 2002
8	Bidvest . . .	29,415	9,349	14,571	3,748	1,048	Jun 2001
9	Sappi	39,252	48,705	21,493	20,200	2,758	Sep 2002
5	Sappi	37,694	40,478	31,271	16,333	1,901	Sep 2001
10	Richemont	37,843	47,177	56,167	21,490	6,196	Mar 2002
12	Richemont	25,586	27,958	125,280	11,403	4,601	Mar 2001
11	Barworld . .	35,999	25,310	10,735	9,574	1,151	Sep 2002
10	Barworld . .	27,945	20,464	13,823	7,651	911	Sep 2001
12	Stanbank .	33,849	396,279	38,894	30,246	6,343	Dec 2001
13	Stanbank .	24,961	285,124	45,743	20,721	4,152	Dec 2000
13	Nedcor . . .	30,187	267,067	26,831	11,575	2,577	Dec 2001
-	Nedcor . . .	21,220	195,470	33,470	13,328	640	Dec 2000
14	Absa	30,095	247,016	20,784	16,108	2,813	Mar 2002
11	Absa	27,732	196,510	20,198	15,507	3,287	Mar 2001
15	FirstRand .	28,334	373,550	38,768	20,527	3,718	Jun 2002
14	FirstRand .	23,051	264,763	43,018	17,876	3,807	Jun 2001
16	Imperial . . .	28,122	19,317	10,719	6,954	1,215	Jun 2002
15	Imperial . . .	21,874	16,015	10,807	6,725	1,013	Jun 2001
17	Didata	22,322	12,841	2,416	2,919	253	Sep 2002
16	Didata	21,635	17,076	12,146	3,777	1,132	Sep 2001

Source: Financial Mail Top Companies 2003:28.

Salient details of the four corporations for the financial years ending in 2002 or 2003 are shown in Table 4.4. Most of these figures have changed since then. For example Barloworld revenues were \$6,344 million, SA Breweries (now SABMiller) \$12,901 million, Sappi \$4,728 million and Wolverine World Wide \$992 million for their 2004 or 2005 financial years. Further updated information is provided in Chapter 5.

Table 4.4 Profiles of the Four Multinational Corporations 2002–2003.

	Barloworld[1]	SABMiller	Sappi	Wolverine
Year established	1903	1895	1936	1883
Business	Industrial brand	Brewing	Paper & pulp	Footwear
Head office location	South Africa	UK	South Africa	USA
Primary listing	Johannesburg	London	Johannesburg	New York
Secondary listing	LSE, Frankfurt, Brussels, Zurich	Johannesburg	New York	Pacific
Sales Rands millions	27,945	78,803	33,294	-
Sales US\$ millions		8,295	3,729	827[2]
Net profit after tax	160	421	220	48
Total assets	2,573	12,879	4,641	532
Percentage sales abroad	56.0	75.1[3]	87.0	49.0[4]
Countries with operations	31	40	8[5]	13
Countries products sold	100+	60+	100+	140+
Employees	23,192	42,402	17,572	4,426
Year end	Sept 2002	March 2003	Sept 2002	Dec 2002

Notes:

1. Barloworld financials translated at R10.5 to the dollar as of September 2002.
2. Wolverine World Wide sales reflect only licence fees from sales made by foreign licensees. Total worldwide sales of their products are therefore substantially higher than the revenues shown.
3. SABMiller sales abroad refer to sales outside South Africa, not the United Kingdom.
4. Wolverine World Wide sales abroad based on pairs.
5. Sappi's operations of 8 units refer to manufacturing facilities.

Source: Barloworld Annual Report 2002. Barloworld 2003a. Barloworld 2003b.
SABMiller Annual Report 2003. SABMiller 2003a. SABMiller 2003b.
Sappi Annual Report 2002. Sappi 2003a. Sappi 2003b.
Wolverine World Wide Annual Report 2002. Wolverine World Wide 2003.

Barloworld is the world's largest distributor of Hyster products, accounting for 20 percent of that brand's global sales. It is the largest distributor of Caterpillar products outside the United States, if not the largest single distributor in the world. SABMiller is the second largest brewer in the world and the leading brewer in emerging markets. Sappi is the world leader in fine coated paper. Wolverine World Wide is generally regarded as the world's leading marketer of branded, non-athletic footwear.

SABMiller acquired the Miller Brewing Company in the United States in July 2002. When I began the thesis, insufficient time had elapsed to allow for adequate evaluation of the development and transfer of core competencies at Miller. In addition to the time problem, the situation was further complicated by a change of the CEO at the company. The Miller Brewing Company is consequently not analysed in the thesis. Discussions were nevertheless held with management representatives, and lessons from their experiences are shown where considered appropriate. The SABMiller investment in South America was less than 24 months old at the time and is not included in the thesis.

I did not believe that it would be possible to have sustainable access to the SABMiller group head office in London to study the entire group as an entity. My contact person for purposes of the thesis was relatively new to the company, and the two or three people in the head office with the requisite knowledge would not have been readily available for my research on a continual basis. Because of the largely decentralised policy of the company it was possible to obtain the required information from executives in the field. SABMiller is evaluated as a single company in Chapter 5, "Corporations Studied", Chapter 6, "Core Competencies of the Corporations", Chapter 9, "Review of Strategies of the Corporations" and Chapter 10, "Going Global". However, in Chapter 7, "Development of Core Competencies" and Chapter 8, "Transfer of Core Competencies", two of SABMiller's regions – SABMiller Africa and Asia, and SABMiller Europe – are analysed as distinct entities. There were certain advantages to this as the two regions of the same company with a common list of core competencies could be compared and contrasted. In certain instances the experiences of both the two regions and the London head office are examined.

The SABMiller Africa and Asia region had sales of $1,209 million for the year ending March 2003. This covered operations in China and India and numerous African countries. The region had 55 lager breweries, 30 commercial sorghum breweries (and 12 soft-drink bottling plants) at this date with 7,305 employees. SABMiller Europe had sales of $1,646 million and operations in eight countries for the same period. There were 18 breweries, one bottling plant and 8,959 employees (SABMiller Annual Report 2003:2-3). Both of the regions are therefore very substantial international businesses.

4.6 Data Gathering

According to Yin (2003), evidence for case studies may come from six sources: documents, archival records, interviews, direct observation, participant-observation and physical artefacts. Overriding principles important to data collection in doing case studies are the use of: a) multiple sources of evidence (evidence from two or more sources, but converging on the same set of facts or findings), b) a case study database (a formal assembly of evidence distinct from the final case study report) and c) a chain of evidence (explicit links between the questions asked, the data collected and the conclusions drawn).

My methods of gathering information or collecting evidence included personal interviews, telephone interviews, questionnaires, documentation such as company annual reports and websites, written reports, reports by share analysts and media, and direct observation. A case study database was maintained in both electronic and hard-copy format. This comprises files for each of the four companies and the major chapters and research topics in the thesis. I believe that there is an adequate chain of evidence from initial establishment of the core competencies for each company, the methods used to develop and to transfer them and the practical operating experience of the companies through to the final conclusions.

4.6.1 Chronology

Appendix 4.2 shows the record of research and fieldwork practice. The purpose of the present section is to provide an outline chronology of the major research practices that were followed, to assist readers in understanding the process. The series of interviews and questionnaires and respondents involved was fairly complex. There was also some interchange between questionnaires and interviews, because executives were not always readily available for interviews and I took the opportunities when they presented themselves.

I met with Dr. T. Johnson, the Dean of Business School Lausanne, in Switzerland, on 10 April 2002 to discuss the possibility of enrolling for a Doctor of Business Administration (DBA) degree and the possible topics for a thesis. I was accepted into the programme on 27 June 2002. Professor R. Pai was appointed as my advisor. I met with him in the USA and submitted a topic and outline thesis on 27 September 2002. He and Dr. Johnson approved these on 17 October 2002.

The next step was to approach the chief executives of the three South African companies that I hoped to study in the thesis. I had already met with E.A.G. Mackay, the Chief Executive of the South African Breweries, in London on 27 November 2001. He had agreed to endorse and support the thesis and referred me to A. Miller Salzman, Head of Investor Relations, as the contact person for this purpose. I met with A.J. Phillips, the CEO of Barloword, in Johannesburg on 22 October 2002. He named P.M. Drewell, Head of Corporate Communications, to be the Barloworld coordinator for the thesis. The Chief Executive of Sappi, E. van As, was out of the country when I attempted to approach him. His secretary, S. Oliver, however, endorsed the approach in principle and then arranged with R. Hope, Director Strategic Development of Sappi to participate in the thesis with him as the coordinator of my work. I subsequently met with A. Miller Salzman in London on 7 November 2002. South African Breweries had in the meantime acquired Miller Brewing in the USA to form SABMiller in July 2002.

I drew up an initial questionnaire relating to the companies' backgrounds, human resources and cultures and the development and transfer of core competencies, which was based on review of the literature and personal experience, cleared this with Professor R. Pai, and then submitted it to P.M. Drewell, A. Miller Salzman and R. Hope at the end of January 2003. The initial questionnaire contained elements of a pilot study in its sections relating to the development and transfer of core competencies. The initial questionnaire is shown in Appendix 4.3. I met with A. Miller Salzman on 3 February 2003, and she referred me to R. van der Schyff, Human Resources Development Manager, at SA Breweries in South Africa, F. Miller, Human Resources Development Manager, at SA Breweries Africa and Asia, and N. Mogilnicki, Human Resources Manager SABMiller Europe, for further research.

I met with and interviewed P.M. Drewell on 9 May 2003, R. van der Schyff on 10 June 2003, and R. Hope on 13 June 2003. The purposes of the meetings were to establish contact with these executives, review the draft questionnaire, discuss the issues in the questionnaire, and agree on and format the core competencies of the three companies. The core competencies were discussed with the three executives based on the definitions in the Literature Review and the information submitted with the initial questionnaire.

The core competencies were subsequently submitted to the three executives and A. Miller Salzman (in the case of SABMiller) for confirmation. Tape recordings were made of the discussions and transcripts were sent to the executives for review and agreement. Further details on how the core competencies were obtained are provided in Section 4.6.2 and Chapter 6. The (revised) Questionnaire 2, Development and Transfer of Core Competencies, was submitted to P.M. Drewell, R. Hope, F. Miller and N. Mogilnicki with a copy to A. Miller Salzman in August 2003. These were completed and returned by the four executives (excluding A. Miller Salzman) by the middle of October 2003. An abridged version of the Initial Questionnaire (Q1A) was also completed by Miller and Mogilnicki.

I approached T. O'Dovonan, the CEO of Wolverine World Wide, in January 2003 to follow through on Dr. Johnson's suggestion that a leading American multinational be included in the thesis to provide the basis of comparison with the South African companies. I met with and interviewed him on 6 October 2003, and he and J.C. Tegner, Director of Corporate Communications, provided the information and completed Questionnaire 2 and an abridged version of Questionnaire 1 on October 9 and 13.

Questionnaire 3, Questions for a CEO, was submitted to, completed and returned by A.J. Phillips and E. van As in November 2003. The questions were similar to those raised with E.A.G. Mackay in November 2001.

In February 2004 I submitted a draft thesis to Professor R. Pai and met with him to discuss it on 7 May 2004. He advised me that the thesis needed to take more account of practical problems and solutions experienced by the companies. I drew up Questionnaire 4, Practical Problems, Solutions and Lessons Learned, on 25 May 2004. I met with and interviewed G. Leibowitz (successor to A. Miller Salzman as my contact person), Vice President Investor Relations of SABMiller, in London on 13 July 2004, and E. van As in Johannesburg on 22 July 2004 to discuss the questionnaire. Transcripts of interviews were made and are available. I had not met either of these people before and took the opportunity to have personal interviews with them. P.M. Drewell of Barloworld and J.C. Tegner of Wolverine World Wide completed and returned this questionnaire by email and telephone as did F. Miller of SAB Africa and Asia and N. Mogilnicki of SAB Europe.

While teaching at Rhodes University in Grahamstown, South Africa, I received advice on the thesis from Professor P. Court, the Head of the Department of Management. I realised at the time that I would be able to do a Doctor of Philosophy (PhD) at Rhodes with an additional year or two of work if I could transfer the thesis from Business School Lausanne to Rhodes. I met with Dr. Johnson in Lausanne and Professor A. Webb, Dean of the Faculty of Commerce at Rhodes, to see if I could arrange this. Dr. T. Johnson agreed that I could retain the advisory hours not already used should I wish to do research through BSL or submit a different thesis for a DBA at some later date.

The thesis was transferred to Rhodes University in December 2004 and Professor P. Court and Dr. C.O. Smith of the Department of Education at Rhodes were appointed to be my supervisors. Questionnaire 5, Foreign Assignment, and Questionnaire 6, South Africa, were sent out on 25 August and 25 October 2005 respectively, to the representatives of the four companies and different information was exchanged by email and telephone. These were follow-up questionnaires arising out of my analysis of the previous questionnaires and interviews. The original draft thesis written for

Business School Lausanne (BSL) was reviewed between January 2005 and June 2005 and then rewritten between July 2005 and September 2006 to meet the requirements of the Rhodes PhD Programme. The most noteworthy changes were to Chapter 4, "Research Design and Methodology", the statistical procedures used, the sequence of chapters and general presentation and style. The contents of the Literature Review remained substantially unchanged, although the presentation was rearranged.

To summarise and clarify the situation, I dealt or interacted with two executives in three of the companies, namely the CEO and the contact person at Barloworld (A.J. Phillips and P.M. Drewell), Sappi (E. Van As and R. Hope) and Wolverine World Wide (T.J. O'Donovan and J.C. Tegner). In the case of SABMiller, I initially met with E.A.G. Mackay, the Chief Executive, and A. Miller Salzman. I subsequently dealt with R. Van der Schyff in South Africa, F. Miller at SABMiller Africa and Asia and N. Mogilnicki at SABMiller Europe. Miller Salzman was succeeded by G. Leibowitz in 2004. The other SABMiller personnel whom I dealt with either through personal and/or telephone interviews were A. Parker, Managing Director of SABMiller Africa and Asia, M. Makanjee, Corporate Affairs Director of SABMiller Africa and Asia, B. Smith, Senior Vice President Corporate Strategy, Miller Brewing Company and now Head of the SABMiller South American Region, J. Nel, Human Resources Director of the entire SABMiller group and K. Russell, Senior Trade Brewer at the Ibhayi Brewery in Port Elizabeth, South Africa. I did not deal with R. Van der Schyff in South Africa again as the South African region was not directly included in the research. The region was, however, invaluable for background and other information.

In addition to the above I interviewed retired executives from SABMiller. These included M.B. Hofmeyr, a prior Chairman, H.F.G. McCallum, previously Commercial Manager, P.R. Savory, retired Marketing Director and E.M. Turner, whose career with SABMiller at times included responsibility for Appletizer and fruit drinks and African operations outside of South Africa.

I also interviewed executives outside of the four companies, and sometimes the industries, to obtain different viewpoints. These included T. Moore, Managing Director of the Grand Rapids branch for Baird and Company, a member of the New

York Stock Exchange; B.M. Musham, President and CEO of Gear Holdings in New York; P. Reddy, a previous President of K-Swiss International; and G. Pitman, Chairman of both Inview Television and Professional Pacific in London. M. Moore, Chairman of Boart Longyear International, the multinational mining equipment company previously owned by Anglo American, completed a version of Questionnaire 1 to give me another perspective. The contributions by these people are discussed and quoted where considered relevant in the thesis.

The various methods of gathering information and evidence are now discussed individually in the following subsections.

4.6.2 Personal Interviews

Saunders et al. (2000:242, citing Kahn and Cannell 1957) describe an interview as "a purposeful discussion between two or more people". Interviews can help to gather valid and reliable data that are relevant to research questions and objectives. The "research interview" is a general term for several kinds of interview. The nature of any interview should be consistent with research questions and objectives. Interviews may be categorised as structured interviews, semi-structured interviews and unstructured interviews. There is overlap between these different typologies.

According to Yin (2003), interviews have the advantage of being able to focus directly on a case study topic. They can also be insightful and provide perceived causal inferences. The disadvantages of personal interviews may include bias due to poorly constructed questions, response bias and inaccuracies due to poor recall and reflexivity, where an interviewee gives what the interviewer wants to hear.

According to Saunders et al. (2000), structured interviews use questionnaires based on predetermined or standardised or identical set of questions. Semi-structured and unstructured interviews by comparison are nonstandardised. In semi-structured interviews, the researcher has a list of themes and questions to be covered, although these may vary from interview to interview. Unstructured interviews are informal. One should use these to explore general areas of interest further.

Each type of interview has a different purpose. Structured or standardised interviews can be used in survey research to gather data, which can then be the subject of quantitative analysis. Semi-structured and in-depth, or nonstandardised, interviews are used in qualitative research in order to conduct exploratory discussions not only to reveal and understand the "what" and the "how" but also to place more emphasis on exploring the "why". In descriptive studies structured interviews can be used as a means to identify general patterns, while semi-structured and in-depth interviews can be very helpful to "find out what is happening and to seek new insights" (Robson 1993:42, cited by Saunders et al. 2000).

Qualitative interviews may be divided into "one-to-one" and "one-to-many". The former covers face-to-face interviews and telephone interviews, while the latter is for focused group interviews (Saunders et al. 2000). By "personal interview" I mean a face-to-face, one-to-one meeting.

Yin (2003) regards the interview as one of the most important sources of case study information. He divides interviews into three categories: those of an open-ended nature, a focused interview or a formal survey. He considers most case study interviews to be of an open-ended nature. Key respondents are asked about the facts of a matter as well as their opinions about events. A focused interview is where a respondent is interviewed for a short period of time (for example, one hour). In such cases the interviews may still remain open-ended and assume a conversational manner, but one is more likely to follow a certain set of questions derived from case study protocol. A formal survey interview is the third type. It is normally designed as part of a case study to produce quantitative data.

I regard the interviews in my research to be predominantly semi-structured (Saunders et al. 2000 definition) or open-ended (Yin 2003 definition). This corresponds with Yin's observation that open-ended interviews are suitable for case studies and with Robson's (1993 cited by Saunders et al. 2000) views that semi-structured interviews are useful to reveal and understand "what" and "how" and to explore "why" (see Table 4.2). There were also informal meetings to discuss issues that arose. These include those at the Wits Business School in Johannesburg with J. Job on 31 October 2002, A.J. Phillips, on 24 June 2003, 21 October 2004, 4 August 2005 and 18 May

2006, F. Miller and A. Parker, 20 October 2004 and M. Makanjee on 18 May 2006. My Rhodes University Strategic Management Honours class visited the Ibhayi Brewery in Port Elizabeth, South Africa on 22 May 2003, 19 August 2004, 3 March 2005.and 9 March 2006. I used these opportunities to interview K. Russell and benefited from his interaction with the students.

The first interview was with E.A.G. Mackay, the Chief Executive of The South African Breweries (the forerunner to SABMiller) in London on 27 November 2001. While I had not decided on the exact thesis topic, or registered for a doctorate, I wanted to take advantage of being able to meet with him before access became more difficult as SAB continued its expansion. I did not send him a list of questions in advance but had written points, such as the advantages and disadvantages of South Africa as the original home base, to guide me on the course of enquiry to be followed. I made notes on the discussion and sent them to him for approval. While I did not alter any meaning, I did moderate some strong statements that I thought had been made for emphasis. He replied with a polite note re-establishing his original wording. After this I decided to use a tape recorder for interviews, provided the interviewees approved. Only one person preferred not to have an interview recorded. I do agree with Saunders et al. (2000) that taping an interview allows an interviewer to concentrate on questioning and listening and provides an accurate and unbiased record.

The purposes of the exploratory interviews with A.J. Phillips, on 22 October 2002, R. Hope, on 25 October 2002 and A. Miller Salzman, on 7 November 2002, were to establish initial contact and discuss the guidelines for each company to be followed in gathering information and liaising on the thesis. My contacts were to be P.M. Drewell at Barloworld, A. Miller Salzman at SA Breweries (in London) and R. Hope at Sappi. These executives would answer any questions and provide information. If they could not do so themselves, they would either refer me to others or consult with other sources within their respective companies. I did agree to discuss, or inform them, of any issues that in my judgement could be contentious, before publication. A. Miller Salzman adopted the approach that I could contact anyone in SA Breweries for information and assistance and should revert to her if I encountered any problems in obtaining the desired information or cooperation.

The second interviews were to review Questionnaire 1, Initial Questionnaire, dated 28 January 2003, with the three contacts. I met with and interviewed P.M. Drewell on 9 May 2003 and A. Miller Salzman on 3 February 2003, R. Van der Schyff (SA Breweries in South Africa) on 10 June 2003 and R. Hope on 13 June 2003. A. Miller Salzman referred me to F. Miller, of SABMiller Africa and Asia, and N. Mogilniki, SABMiller Europe, to assist with my research.

The initial questionnaire included background information on value chains, internal analysis procedures for determining core competencies and the definitions used in the thesis. It asked: "What are your core competencies? Where possible link each core competency to an activity in the value chain." The executives responded to this question, and we discussed the core competencies, format and locations or activities in the value chain. A temporary obstacle at the time was that none of the South African companies had "official" or formal lists of their core competencies. This is discussed in more detail in Chapter 6. I submitted written confirmations of the competencies and locations in each company to the respective respondents and A. Miller Salzman in London, in the case of SABMiller, for review as to accuracy. All of the executives accepted the confirmations.

The choice of seven core competencies by Barloworld and SABreweries and six by Sappi may appear fortuitous at first glance. This is not the case when one considers that there are nine main locations in a value chain and a successful multinational business would need to succeed in at least several of these to be a world leader.

I contacted T. O'Donovan President and CEO of Wolverine World Wide, the US multinational, about participation in the project in August 2003. He consented and I interviewed him and J.C. Tegner, Director of Corporate Communications, in Rockford Michigan on 6 October 2003 and 2 May 2004 respectively. The first meeting was to discuss the questionnaires, and the second was to obtain more information on some qualitative issues such as human resources policies. I again met with J.C. Tegner on 20 January 2006 to extend the scope of enquiry with questions relating to the operations in Japan and Russia and other issues. The interview with T. O'Donovan was of special interest, because he had been with the company for 34 years and had been a colleague of mine when I was employed there from 1979 to 1986.

Other important personal interviews were with G. Leibowitz, Senior Vice President Investor Relations (who took over the role of contact person when A. Miller Salzman went on maternity leave), in London on 13 July 2004, and E. van As in Johannesburg on 22 July 2004. These interviews were to discuss the questions raised in the questionnaire relating to practical problems, solutions and lessons learned (Q4) dated 25 May 2004. I considered both these interviews to be particularly rich experiences. G. Leibowitz is an American citizen who had recently joined SABMiller from Merrill Lynch. His was, therefore, a perspective from outside both the company and South Africa. E. van As led the international expansion of Sappi, so I found the discussion very fruitful.

Interviews with persons from outside of the four companies were with T. Moore, Managing Director of Baird and Company in Grand Rapids, Michigan, on 4 June 2002, where we discussed the operations of Wolverine World Wide. Interviews with B.M. Musham, President and CEO of Gear Holdings, on 14 December 2003, and P. Reddy, ex-President of K-Swiss International in Grand Rapids, on 27 February 2004. L. Whipple, President of Whipple Associates, on 8 June 2004, and G. Pitman, Chairman of Inview Television Limited and Professional Pacific Limited, on 14 July 2004, covered international business in general and the development and transfer of core competencies more specifically. Whipple is a consultant to Wolverine World Wide and previously held the position of Vice-President of International Licensing, Europe, Asia and Africa for the corporation. JC Tegner (2 May 2004) agreed that I could utilize Whipple's services for research related to Wolverine as well.

A list of the transcripts of interviews that are available is shown in Appendix 4.4.

4.6.3 Telephone Interviews

According to Saunders et al. (2000), qualitative interviews by telephone may have advantages associated with access, speed and lower costs. A disadvantage is the loss of personal contact. It is difficult to conduct an interview by telephone and record data at the same time. Saunders et al. therefore believe that qualitative interviewing by telephone is likely to be appropriate only in particular circumstances. For example, it may be appropriate to conduct a short follow-up telephone interview to clarify the meaning of some data when one has already undertaken a face-to-face interview or when access would otherwise be prohibited because of long distance. I discovered that another reason for a telephone interview is that information may be required urgently.

The majority of my telephone interviews, or discussions, were to enquire further into or to clarify issues with the contact people. There were several notable exceptions to this. N. Mogilnicki, who was to complete the initial questionnaire, asked that the qualitative questions be discussed over the telephone rather than his submitting a written report. We did this on 21 April 2003, and I confirmed the conversation in writing by way of a transcript.

I had two telephone interviews with A. Miller Salzman on 12 March 2002 and 10 September 2003. The first discussion related to SA Breweries that was being studied by my Strategic Management class at Rhodes University. The second interview involved the acquisition of Miller Brewing. A group of students, in a class other than my own, was writing a paper on this topic. Their lecturer directed them to me in the belief that I could obtain vital information for their paper. Both these conversations proved useful for my thesis.

As mentioned earlier, Miller Brewing is excluded from the study of SABMiller. There are however lessons to be learned from (what was then) the pending turnaround. J. Nel, Human Resources Director of SABMiller (located in London), and B. Smith, Vice President Corporate Strategy of Miller Brewing, whom I had approached for information, telephoned me from Milwaukee on 3 January 2004 and 12 February 2004, to discuss specific issues. They were both extremely busy and communicated in this way when they found the time. I made notes of the discussions.

A further important telephone interview was with F. Miller on 1 June 2004. I had sent her questionnaire 4, which covered practical problems, and she advised me when she was ready to discuss the issues.

4.6.4 Questionnaires

Questionnaire is a general term to include all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order (de Vaus 1996, cited by Saunders et al. 2000). It therefore includes structured interviews and telephone questionnaires, as well as those in which the questions are answered without an interviewer being present.

Questionnaires generally work best with standardised questions which one can be confident will be interpreted the same way by all respondents (Robson 1993, cited by Saunders et al. 2000). Questionnaires can be used for descriptive or explanatory research. It is usually better to link questionnaires with other methods in a multi-method approach rather than as the only data collection method (Saunders et al. 2000).

The six types of questions are list, category, ranking, scale, quantity and grid. List, ranking and scale were used (Saunders et al. 2000). List questions offer the respondent a list of responses any of which can be chosen, not necessarily one only. Category questions, in contrast, are designed so that each respondent's answer can fit only one category. A ranking question asks the respondent to place things in rank order. This means that one can discover relative importance to the respondent. Scale or rating questions are often used to collect attitudes and belief data. The most common approach is the Likert-style rating scale in which one asks the respondent how strongly he or she agrees or disagrees with a statement or series of statements, usually on a four- or five-point scale. A response to a quantity question is a number which gives the amount of a characteristic. A grid or matrix enables one to record the responses to two or more questions at the same time.

Open questions are used widely in in-depth and semi-structured interviews. They are useful in questionnaires if one is unsure of the response, such as in exploratory research when a detailed answer is required or when one may want to find out what is uppermost in the respondent's mind (Saunders et al. 2000).

Questionnaires can be divided into self-administered and interviewer-administered. The self-administered include on-line questionnaires, postal questionnaires and delivery and collection questionnaires. The interviewer-administered questionnaire consists of the telephone questionnaire and the structured interview. The choice of the type of questionnaire used is influenced by the characteristics of the respondents from whom one wishes to collect data, the type of questions that need to be asked to collect the data, and the numbers of questions that need to be asked to collect the data (Saunders et al. 2000).

I used six questionnaires, including the initial one. These were:

1. Questionnaire 1. Initial Questionnaire on the Development and Transfer of Core Competencies and Competitive Advantages. 28 January 2003
2. Questionnaire 2. The Development and Transfer of Core Competencies. 31 July 2003
3. Questionnaire 3. Questions for a CEO. 2 November 2003
4. Questionnaire 4. Practical Problems, Solutions and Lessons Learned. 25 May 2004
5. Questionnaire 5. Foreign Assignments. 25 August 2005
6. Questionnaire 6. South Africa. 25 October 2005

Questionnaire 1, Initial Questionnaire was reviewed by both a market research expert, V. Yeh, previously the head of market research at Wolverine World Wide and now an academic in Detroit, Michigan, and Professor R. Pai at Business School Lausanne in Switzerland.

Questionnaires 2 to 4 could have been handled through personal interviews. Some of them were, but logistics meant that questionnaires sent and received by e-mail were generally the most effective ways of obtaining the information. The questions, particularly those relating to the various methods used to develop and transfer core competencies, were largely derived from the literature reviews.

The Initial questionnaire (Questionnaire 1) was sent to P.M. Drewell, R. Hope, A. Miller Salzman and R. van der Schyff. The resulting meetings are covered in personal interviews, Subsection 4.6.2. This questionnaire included open-ended, qualitative questions in four categories. These referred to the general background of the company, human resources and culture, the development of core competencies and the transfer of core competencies. It also included information on Porter's Diamond, value chains, value chain activities or locations and definitions and concepts used in the thesis. This information was necessary to provide background on the thesis to the respondents and to facilitate their answering the questions. The initial questionnaire is shown in Appendix 4.3. Section Three and Section Four of this questionnaire are shown in the pages that follow.

Questionnaire 2, The Development and Transfer of Core Competencies was sent to the same respondents with F. Miller of SABMiller Africa and Asia, and N. Mogilnicki, of SABMiller Europe, added to the list. The questionnaires were sent out on 31 July 2003 and had all been reviewed and completed by 8 October 2003. The delay occurred because two of the respondents were travelling internationally. These were later sent to T. O'Donovan and J.C. Tegner at Wolverine World Wide, on 7 October 2003, and completed on 10 October 2003. An abridged version of Questionnaire 1, Initial Questionnaire, was supplied to Miller, Mogilnicki, O'Donovan and Tegner at the same time that they received Questionnaire 2. The abridged version contained the same background information and qualitative questions (see Questionnaire 1, Section Three and Section Four) as Questionnaire 1 but not Tables A and B, which had been amended and included in Questionnaire 2. These were completed by the respondents at the same time that they did Questionnaire 2.

There were two minor changes made to the initial questionnaire of 28 January 2003. It was decided that four, rather than three, methods used to develop core competencies would be sought to give broader coverage. The original request for the percentage of success of transferring of core competences was changed to a degree of success marked out of seven points as this was more practical than respondents providing percentages. "Competitive Advantages" had in the meantime been dropped from the thesis title and consequently from the questionnaires. The resulting Questionnaire 2 is shown on page 221.

The tables in the questionnaire used ranking, lists and scale questions. Rankings were used for what were considered to be the most important core competencies and what were considered to be the core competencies which were performed best. Because of the complexity of core competencies, respondents were asked to list four methods used to develop core competencies. As seen in the literature review, it can take up to a decade to develop core competencies so scale measurements were not realistic. Scale measurements were, however, used for the transfer of core competencies. Transfer is more immediate and tangible than development. A scale of seven was used to provide a wider spread than, say, a scale of five would.

The questionnaire included two tables, A and B. Table A related to the methods used to develop core competencies. Respondents were asked to choose the four most effective methods they used out of seventeen possibilities for each of the core competencies. In Table B, using a scale of one to seven, where one equals not effective at all and seven equals very effective, respondents were asked to estimate the degree of success in transferring each of their core competencies. In the same table, and using the same scale, respondents were also asked to rate the effectiveness of twelve different methods that could be used to transfer each of the core competencies.

Questionnaire 1. Initial Questionnaire. 29 January 2003
Core Competencies Questions

SECTION THREE. DEVELOPMENT OF CORE COMPETENCIES (AND COMPETITIVE ADVANTAGES)

1. "A nation's competitiveness depends on the capacity of its industry to innovate and upgrade. Companies gain advantage against the world's best competitors because of pressure and challenge. They benefit from having strong domestic rivals, aggressive home-based suppliers, and demanding local customers." Michael R. Porter *The Competitive Advantage of Nations* (1990)

   Given this statement, the definition of Porter's Diamond together with the two diagrams – please list what you consider to be the FIVE most important factors or issues illustrated in the Diamond which led to your company becoming the competitive force that it is today.

2. Do you explicitly use
   a) A Value Chain
   b) Internal Analysis (please see diagram) in deciding upon and developing Core Competencies?

3. What are your core competencies? Where possible please link each core competency to an activity in the value chain.

4. Please explain in a few sentences how core competencies are chosen and developed in your company.

5. For each of your core competencies please list what you have found to be the most effective methods used (up to three) to develop or facilitate the development of each core competency. Table A provides a check list of some methods. If there are methods that you use that are not on the check list, could you please add them.

6. Have new acquisitions contributed to the development of core competencies?

7. Please explain in a few sentences how you instigate and maintain a learning process.

8. What specifically do you do to assist managers and key employees in dealing with the challenges of geography, language and culture?

9. What competitive advantages do you have that would not be core competencies as defined in this document?

Questionnaire 1. Initial Questionnaire (continued)

SECTION FOUR. TRANSFER OF CORE COMPETENCIES

1. How do you determine the success or otherwise of transferring a core competency?
2. What were the greatest challenges your company faced in transferring core competencies?
3. Please list (key words) what you consider to be the problems and issues involved in the process of transferring core competencies.
4. List the measures taken to avoid pitfalls in the transfer of core competencies.
5. What do you believe you could do to improve the transfer of core competencies?
6. Table B relates to the transfer of core competencies. Using your subjective judgement first estimate the percentage success you believe has been achieved in transferring each of your core competencies.

   Then, using a scale of 1 to 7 – where:
   1 = not effective at all and 7 = very effective
   Grade the methods listed for transferring, in terms of effectiveness (in your judgement), each of the core competencies in your company.

   If you use methods of transfer which are not listed – please add them to the list and assign grades.
7. With all the successful acquisitions that you have made – list what you consider to be the five most important points in post M&A integration.

Questionnaire 2. Development and Transfer of Core Competencies. 31 July 2003

The Core Competencies of your company are attached. These relate to question 3 of Section 3 of the Draft Questionnaire dated 28 January 2003 and subsequent correspondence and discussions. Each of the core competencies is designated by a capital letter. [Note: The SABMiller core competencies follow this as an example. The capital letters were subsequently replaced by codes and the sequence of core competencies changed to standardise the answers by value chain location for the four companies].

1. Using your subjective judgement, please rank the core competencies in terms of:
    a. How important you consider each competency to be in terms of being competitive in the markets in which you compete.
    b. How well you consider each competency is performed by your company.

    Rankings are relative i.e. the most important would be 1, second would be 2 and so forth. You may rank some equal in importance or in how well they are performed.

RANKING	CORE COMPETENCIES						
	A	B	C	D	E	F	G
a. Importance							
b. Performance							

Any comments ?

2. Table A provides a check list of methods that can be used to develop or facilitate the development of core competencies. Under each core competency designated by a capital letter please mark the methods you have found to be

most effective for that competency with an **X** – up to 4 methods per competency.

If you use methods that are not listed, please add them to the list and specify what they are.
Any comments?

Questionnaire 2. Development and Transfer of Core Competencies (continued)

TABLE A. METHODS USED TO FACILITATE OR DEVELOP CORE COMPETENCIES

METHOD	CORE COMPETENCIES						
	A	B	C	D	E	F	
1. Exposure to a demanding technical, operating or economic environment 2. Commit substantial resources to an area 3. Use of company-wide reward and incentive systems 4. Corporate culture that demands high performance standards 5. Internal analysis that identifies activities that should be developed							
6. Inclusion in planning process (objectives, goals etc) 7. Formation of special multidisciplinary teams 8. Use of international reach and size 9. Benchmark corporate competencies against competitors and other firms 10. Regular review of existing and nascent core competencies							
11. Allocation of key managers and experts to areas 12. Commitment to long-term paths or trajectories of development 13. Investment in skills and knowledge, development of human resources 14. Seminars conferences 15. Acquisitions							
16. Recruit outside talent 17. Value chains 18. Others (please specify) .... 19. Others .... 20. Others......................							

Questionnaire 2. Development and Transfer of Core Competencies (continued)

3. Table B provides a check list of methods which can be used to transfer or facilitate the transfer of core competencies.

   Based on your subjective judgement, first estimate the degree of success that you believe has generally been achieved in transferring each of your core competencies.

   Use a scale of 1 to 7, where: 1 = not effective at all and 7 = very effective.

   Then, using the same scale, please grade the methods used for transferring in the check list, in terms of effectiveness (in your judgement), for each of the core competencies designated by the capital letters.

   If you use methods of transfer which are not listed, please add them to the list, specify what they are and assign grades to them.

   Any comments?

   Completed by:

   Designation:

   Company:

   Date:

THANK YOU!

Questionnaire 2. Development and Transfer of Core Competencies (continued)

TABLE B TRANSFER OF CORE COMPETENCIES

METHOD	CORE COMPETENCIES A	B	C	D	E	F	G
A. Estimated degree of success in transferring each core competency.							
B. Effectiveness of methods used: 1. Appoint key people from within company to management positions in new acquisitions 2. Post-merger and acquisition integration teams 3. Experts deliver, install and return 4. Short-term secondments 5. Models or examples (other acquisitions or investments)							
6. Rotate managers and key people from new acquisitions in wider company 7. Seminars/conferences 8. Visits 9. Manuals and video material 10. Inclusion in management process (priority objectives etc)							
11. Compensation incentives based on achievement of transfer 12. Benchmark core competencies against competitors and other firms 13. Other................ 14. Other................ 15. Other................							

Questionnaire 2. Development and Transfer of Core Competencies (continued)

SABMILLER CORE COMPETENCIES (EXAMPLES)

CORE COMPETENCE	VALUE CHAIN LOCATION
A) Human Capital/Corporate Culture	Human resource management Firm infrastructure (General Management)
B) Low Cost Quality Production	Operations Procurement Technological development
C) "Hi-Tech"	Technological development
D) Marketing	Marketing and Sales.
E) Merger and Acquisition Capabilities	Firm infrastructure (General Management, Finance, Legal, IT) Human Resource Management
F) Purchasing [1]	Procurement Inbound logistics
G) Distribution[2]	Outbound logistics

[1] This includes sources of supply, purchasing methods and effectiveness, as well as global purchasing capability

[2] This includes effective servicing of customers and minimising the cost of product movement

Questionnaire 3, Questions for a CEO, is shown below. This was submitted to A.J. Phillips and E. van As on 2 November 2003 and completed and returned by them on 11 November 2003 and 19 November 2003 respectively. The questions are similar to those raised with E.A.G. Mackay in November 2001. This questionnaire was not sent to T. O'Donovan at Wolverine because the questions related specifically to South Africa as a home base or country of origin.

Questionnaire 4, Practical Problems, Resolutions and Lessons Learned, was sent to P.M. Drewell, F. Miller and N. Mogilnicki on 25 May 2004. Copies were also sent to E. van As of Sappi (with a copy to R. Hope) and G. Leibowitz of SABMiller. Drewell responded on 9 June 2004, Mogilnicki on the same day, and this was finalised by F. Miller by telephone on 17 June 2004. As mentioned previously, E. van As and G. Leibowitz were available for personal interviews which were used to complete the questionnaire on 22 July 2004 and 13 July 2004 respectively. J.C. Tegner answered this by email on 10 October 2004. It had been submitted to him earlier that month.

Following a discussion with F. Miller on 20 October 2004, I decided that a brief questionnaire relating to what executives posted to foreign assignments were expected to treat as priorities would add to the quality of the research relating to "going global" and the reasons for the success of the four companies. This is shown in Questionnaire 5, Foreign Assignments. This was completed and returned via email by A.J. Phillips on 30 August 2005 following on an interview at the Wits Business School on 4 August 2005, F. Miller on 9 September 2005, N. Mogilnicki on 29 August 2005, and R. Hope on 8 September 2005. This was discussed with J. Tegner at a personal interview on 20 January 2006.

In section 2.7.4 I outlined how South African managers learned a great deal about acquisitions because of the many acquisitions and divestments that occurred from the 1980s until the present time. They also experienced, in many cases, the adverse results of investing outside their core competencies. I decided to inquire how strongly these experiences had aided South African managers in their global endeavours. I therefore sent Questionnaire 6, South Africa, to various respondents on 25 October 2005. P.M. Drewell, N. Mogilnicki, A. Parker and R. Hope replied on 26 October 2005, and E. van As on 27 October 2005.

Questionnaire 3. Questions for a CEO. 2 November 2003

1. What are the advantages and disadvantages of having South Africa as the home-base?

2. What are* some of the reasons for the decision to retain SA for the primary listing and head office?

3. Corporate culture has been one of the reasons for your company's success. What pressures has this come under as the company expanded globally?

4. The global expansion has been partly a function of exporting expertise and core competencies. In which aspects of these do you consider that you have been more successful and in which less successful?

5. Research shows that the majority of mergers or acquisitions are NOT successful – depending of course on the criteria. Could you explain why you have been so VERY successful with your acquisition strategy?

6. List the key factors for success in your industry.

7. What are the key reasons for your success in expanding globally?

8. What do you consider to be the defining events or times in your transformation to a global company?

9. Are there any comments that you would like to make?

* Original question was "Could you give"

Questionnaire 4. Practical Problems, Solutions and Lessons Learned. 25 May 2004

1. What practical problems were encountered in
   a) developing core competencies?
   b) transferring core competencies?
2. How were the practical problems in 1a and 1b resolved?
3. What lessons were learned in going global?
4. What advice would you give to a company about to embark on global/international expansion? What to avoid and what to be cautious about?

Questionnaire 5. Foreign Assignments. 25 August 2005

What is the first thing (or things) that you expect an executive to do when transferred to a foreign country?

Questionnaire 6. South Africa. 25 October 2005

A. The size of the South African economy (in relation to its major trading partners), together with the country's diversity, resulted in relatively small and differentiated market segments in many industries. This situation provided managers with opportunities to learn how to be profitable in small markets by targeting segments, controlling costs and managing with limited resources.

Please check one:

1. Strongly agree with the above statement
2. Agree
3. Neutral
4. Disagree
5. Strongly disagree

Any comments?

B. The 1980s and 1990s were periods of great change and uncertainty in South Africa, challenging companies and their managements to learn how to cope in such conditions. The divestments by foreign companies, the acquisitions by domestic companies and the subsequent restructuring taught many managers about disposals, mergers and acquisitions and the consequences of investing outside their core competencies.

Please check one:

1. Strongly agree with the above statement
2. Agree
3. Neutral
4. Disagree
5. Strongly disagree

Any comments?

4.6.5 E-mail

E-mail is a means of communication rather than a source of evidence. The questionnaires for example were mostly sent and received by e-mail. In one way e-mails did almost become a source of information. When I needed information, I often sent an e-mail to one of my contact people at the companies. Invariably, the information was supplied, usually within days. One example is when I decided that knowing the number of South African expatriates serving in the companies of global operations would be useful information. Many personal communications were also by email. Details are shown in Appendix 4.2.

A second example is when I needed views of the contact persons in the South African companies and Wolverine World Wide on the effectiveness of methods for developing core competencies. I e-mailed and received responses from M.A. Drewell and L. Whipple on 8 August 2006, F. Miller and N. Mogilnicki on 31 July 2006. The analysis of leadership in chapter 9 is a third example. This subject assumed some personal tones so I wanted the CEOs to have sight of the drafts before including them in the thesis. A.J. Phillips replied on 14 August 2006 and O'Donovan on 24 August

2006. A. Godbeer replied for E.A.G. Mackay on 29 September 2006 and J. Maree for .van As to convey his message (that he had not found the time to read the information) on 14 September 2006. There were no requests for changes to what I had written.

4.6.6 Analysis of Documents

The advantages of this source of evidence include stability, as documents can be reviewed repeatedly. The analysis is unobtrusive and exact (with respect to names, references and details of an event). The disadvantages can be low retrievability and bias selectivity, if collection is incomplete. There may be reporting bias if a work reflects the (unknown) bias of an author (Yin 2003). The variety of documents includes letters, memoranda, written reports of events, administrative documents, formal studies or evaluations of the same "site" and newspaper clippings and other articles appearing in the mass media or community and news letters. According to Yin (2003) the most important use of documents is to corroborate and augment evidence from other sources. Firstly, documents are helpful in verifying information that might have been mentioned in an interview. Secondly, documents can provide other specific details to corroborate information from other sources. If the documentary evidence is contradictory rather than corroboratory, one needs to pursue the problem by inquiring further into the topic. Thirdly, one can make inferences from documents.

I added the category of share analysts' reports to the variety of documents to be studied. I used Investec Securities (very useful because of their overseas operations) and Andisa Securities (Standard Bank) to review the South African companies, as I had access to these two institutions. I used Value Line, Standard & Poor's, Prudential Equity Group and Susquehana Financial Group for information on Wolverine World Wide.

The annual reports of the corporations were examined thoroughly. The main sources of media information were the *Financial Times* (including its search programme), *The Economist,* and the *Financial Mail,* both hard copy and websites for all three publications. The archival records of the four companies and the three publications were all accessed to retrieve pertinent previous reports and articles.

4.6.7 Direct Observations

By making a field visit to the case study "site" one is creating the opportunity for direct observations. Observations of relevant behaviours or of environmental conditions serve as yet another source of evidence in a case study. The observations can range from formal to casual data collection activities, which can involve observations of a corporate environment, factories, classrooms and the like (Yin 2003).

Direct observations cover events in real time and also cover the context of an event. They may, however, be time-consuming, selective unless there is broad coverage and reflexive where an event may be perceived differently because it is being observed (Yin 2003).

I did not make any direct observations of employees in any of the companies developing or transferring core competencies. I do not, however, believe that it is possible to deal closely with an organisation without forming some impressions. I visited the corporate headquarters of the four companies at least twice each, was exposed to their reception areas and staff, and interacted and communicated with my contact people and others on an ongoing basis. A visit to the Ibhayi Brewery in Port Elizabeth, as part of a conducted tour for my students, took place in each of the past four years. I will return to my impressions from these observations in Chapter 9.

4.7 Data Analysis

Yin (2003) states that data analysis consists of examining, categorising, tabulating, testing, or otherwise recombining both quantitative and qualitative evidence to address the initial propositions of a study. He believes that every case study should strive to have a general analytic strategy, defining priorities for what to analyse and why. The three strategies he advocates are relying on theoretical propositions, setting up a framework based on rival explanations and developing case descriptions. Five specific techniques can be used for any of these strategies: pattern matching, explanation building, time-series analysis, logic models and cross-case synthesis.

The strategies that I followed were relying on theoretical propositions and developing case descriptions. I did look for patterns in the data but not to the technical degree advocated by Yin (2003). Time series analysis and logic models are not used. The major emphasis is on cross-case synthesis, and I touch on explanation building.

Saunders et al. (2000) make key distinctions between quantitative and qualitative data. Quantitative data are based on meanings derived from numbers. The collection of data results in numerical and standardized data and analysis is conducted through the use of diagrams and statistics. Qualitative data, on the other hand, are based on meanings expressed through words. The collection of data results in nonstandardized data requiring classification into categories. Analysis is conducted through the use of conceptualisation. I will deal with qualitative data and quantitative data separately.

4.7.1 Qualitative Data

Qualitative analysis, according to Mouton (2001), involves the breaking up of data into manageable themes, patterns, trends and relationships. The aim of analysis is to understand the various constitutive elements of the data through an inspection of the relationships between concepts, constructs or variables and to ascertain whether there are any patterns or trends that can be identified or isolated, or to establish themes in the data. Interpretation involves the synthesis of data into larger coherent wholes. Dey (1993:28, cited by Saunders et al. 2000:381) points out that "the more ambiguous and elastic our concepts, the less possible it is to quantify data in a meaningful way." A contrast can thus be drawn between the "thin" abstraction or description associated with quantitative data collection and the "thick" or thorough abstraction or description associated with qualitative data (Dey 1993, Robson 1993, cited by Saunders et al. 2000).

The nature of qualitative data according to Saunders et al. (2000) has implications for both its collection and its analysis. The richness and fullness associated with qualitative data cannot be captured by a standardised method of collection, as can quantitative data. During analysis the non-standardized and complex nature of the data that have been collected will need to be classified into categories before they can be meaningfully analysed. According to Saunders et al. (2000) the most likely way to analyse qualitative data that have been collected is through the creation of a conceptual framework. Saunders and colleagues take the approach of disaggregating the mass of qualitative data into meaningful and related parts or categories as they are collected. This requires identifying key themes or patterns for further exploration and recognising relationships and developing the categories being used. Data collection, data analysis and the development and verification of relationships and conclusions form an interrelated and interactive set of processes.

The key concepts used in the thesis are discussed in Section 4.4 on conceptualisation. These are core competencies, value chain activities, methods for developing core competencies, methods for transferring core competencies and the degrees of success of transferring core competencies. In addition to these concepts, there are the categories or sections outlined in Figure 1, Theoretical Framework of the Thesis. For example, in Chapter 7, The Development of Core Competencies, these would be the determinants of competitiveness, the selection process, acquisitions, and practical problems and solutions. My questionnaires and interviews were structured around these categories so that much of the qualitative data was collected in this form.

An example of working with the qualitative data is the cross-synthesis between the four corporations and the review of their strategies and performance not only in the light of the Nohria, Joyce and Roberson (2003) 4+2 formula but also in media and analysts' reports. In the 4+2 formula companies have to excel at four primary management practices – strategy, execution, culture and structure – and any two of four secondary practices: talent, leadership, innovation and mergers and partnerships.

The issues with which I grappled included how much weight should be given to each of the eight management categories. I chose to allocate the most effort to the strategy, leadership and merger and partnership practice (including post-merger integration), because of their importance in global expansion, and the development and transfer of core competencies. A related issue was how much credence to give to the different media and analysts' reports, especially where they had different views on the same company or issue. In these instances I gave both points of view.

4.7.2 Quantitative Data

I followed the suggestions of Saunders et al. (2000) that initial quantitative analysis should explore data using both tables and diagrams. The choice of table or diagram is influenced by the research questions and objectives, the aspects of the data to be emphasised and the level of measurement at which the data were recorded. Subsequent analysis involves describing the data and exploring relationships using statistics.

In analysing data, I checked the incoming completed questionnaires against one another and also other reports from the companies for consistencies. I contacted the relevant respondent to discuss the issues where there were apparent inconsistencies. Descriptive and statistical procedures were applied to the data where appropriate. The statistical methods that would normally be used are correlation and regression analysis. These explore the relationships between different variables and support the reliability of the data provided by the companies.

Saunders et al. (2000) note that a correlation coefficient enables one to quantify the strength of the relationship between two ranked and quantifiable variables. Its value is always between plus one and minus one. Positive values suggest that two variables are linearly correlated, with the tendency being greater the closer the correlation coefficient is to one. Negative values suggest that the variables are negatively linearly related with one tending to increase linearly as the other decreases, with the tendency being greater the closer the coefficient is to minus one (Zehna & Weiss 2002). In contrast to the correlation coefficient the regression coefficient (sometimes known as the coefficient of determination) enables one to assess the strength of relationship between a quantifiable dependent variable and one or more quantifiable independent variables. Its values can range from zero to one, or zero to one hundred percent (Zehna and Weiss 2002).

The statistical significance of a result tells something about the degree to which the result is "true" (in the sense of being representative of the population) (Statsoft 2002). P-value expresses the probability that an observed outcome would take a value as extreme or more extreme than the one actually observed. The smaller the P-value the stronger the evidence that the observed result is unlikely to occur just by chance (Moore 2000). In many areas of research the P-value of 0.05 is customarily treated as a "borderline acceptable" error level (www.statsoft.com). The decisive level of P is called the significance level. When the event or one that is more deviant would occur five percent of the time or less, by chance, one takes the inductive leap and asserts that the results are due to non-chance factors (Runyon 1977).

Because of the small number of variables (five entities and four companies involved) nonparametric calculations such as the *Spearman* coefficient and *Kruskal-Wallis* levels of significance were used instead of the better-known *Pearson* coefficients. A nonparametric test of significance makes no assumption concerning the shape of the parent distribution or population distribution-free test of significance (Runyon 1977). The Spearman rank correlation coefficient **rs** is a measure of association which requires that both variables be measured in at least an ordinal scale so that the objects or individuals being studied are ranked in two ordered series (Siegel 1956). Pearson scattergrams were used to show positive or negative relationships graphically, but no calculations are presented.

4.7.3 Interpretation and Synthesis

According to Mouton (2001), interpretation involves the synthesis of one's data into larger coherent wholes. One interprets and explains observations or data by formulating hypotheses or theories that account for observed patterns and trends in the data. This means relating one's results and findings to existing theoretical frameworks or models, and showing whether these are supported or falsified by the new interpretation. Interpretation also means taking into account rival explanations or interpretations of one's data and showing what levels of support the data provide for the preferred interpretation.

I follow Mouton's guidelines in interpreting my results in Chapter 11. These results are related to the theoretical framework constructed for the thesis and existing views on core competencies expounded in the literature reviews. My data are synthesised into larger wholes and are presented so as to address the four basic aims of the thesis. The synthesis includes two matrices, one for the development of core competencies and another for the transfer of core competencies. They set out the methods for development and transfer that the companies have found to be most effective for the different value chain locations.

I discuss how my results support, deviate from, or add to the existing body of know ledge. The subsequent conclusions and recommendations are presented to assist management practitioners to improve their management of the development and transfer of core competencies and to enable academics to improve their research into and teaching of core competencies. I also address other possible interpretations of some of my findings, but these do not receive the same attention as the aforementioned issues.

4.8 Quality Issues

This section again deals with qualitative and quantitative issues separately and concludes with generic quality issues.

4.8.1 Qualitative

Four tests are commonly used to establish the quality of any empirical social research (Kidder and Judd 1986, cited by Yin 2003). They are:

1. *Construct validity:* establishing correct operational measures for the concepts being studied
2. *Internal validity:* (for explanatory or causal studies only, and not for descriptive or exploratory studies) establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships
3. *External validity:* establishing the domain to which a study's findings can be generalised

4. *Reliability:* demonstrating that the operations of a study – such as the data collection procedures – can be repeated with the same results.

Yin (2003) recommends using multiple sources of evidence, establishing a chain of evidence and having key informants review drafts of important parts of cases to achieve construct validity. I followed these recommendations, as shown in the coming chapters.

The issue of multiple sources raises the subject of triangulation. Triangulation means that researchers can corroborate information in one or more ways: *data triangulation* by using different data sources, *investigator triangulation* by using two or more researchers, *theory triangulation* by using different perspectives to interpret data and *methodological triangulation* by using multiple methods to gather data (Guba and Lincoln 1985, cited by Cantrell, 1993). I used different data sources (interviews, questionnaires, documents, archival records, media, observation) and multiple methods (case study and a survey within the case study, statistical analysis) as seen in sections 4.3 and 4.6 above.

I do not see internal validity as significantly relevant to the thesis, as the cases are more exploratory and descriptive than explanatory or causal. Guba and Lincoln (1994) may have alternate views on this in post-positivist research. They consider the appropriate criteria for judging the quality of an enquiry to be the conventional benchmarks of "rigour" internal validity, external validity (generalisability), reliability and objectivity. They note that these criteria depend on the realistic ontological position where reality is "real" but only imperfectly and probablistically apprehensible.

Yin (2003) advocates replication logic for multiple-case studies in the pursuit of external validity. He explains that survey research relies on statistical generalisation, whereas case studies rely on analytical generalisation. A major purpose of my survey was to ascertain which methods of developing and transferring core competencies were found to be the most effective by the corporations studied. In analytical generalisation the investigator is attempting to generalise a particular set of results to some broader theory. I follow this concept in the chapters examining the four multinational corporations.

The test of reliability is that a later investigator, following the same procedures as set out in this thesis, and conducting the same case studies and questions all over again, would arrive at the same findings and conclusions reached here (Yin 2003). The procedures and data base are well documented, and I believe that the same findings and conclusions would be reached again.

Yin (2003) continues that four principles underlie all good social-science research:

1. The analysis should show that all the evidence was attended to.
2. The analysis should address, if possible, all major rival interpretations.
3. The analysis should address the most significant aspect of the case study.
4. The investigator should use his/her prior expert knowledge in the case study.

Once again, I believe that I followed these principles. All the evidence is available either in the text or in the appendices, or by request should a reader wish to assess whether all the evidence was attended to and whether the most significant aspects of the case are addressed. I also use my own prior knowledge and judgement where I consider this appropriate. An example of this use of knowledge is the compilation of the questionnaires, notably the methods used to develop and transfer core competencies.

Mouton (2001) supports many of Yin's (2003) contentions and stresses that the data collection process should be documented as accurately, and in as much detail, as possible. Every aspect of the study – the sample design, fieldwork procedures and so on – should be meticulously documented and recorded. Keeping track of fieldwork is also a form of quality control. Items to be recorded should include: dates when access was gained to the field, dates when interviews were conducted, the length of interviews, information on interviewees and factors that influence fieldwork. Appendix 4.2 is a record of data collection and fieldwork and it details the information that Mouton recommends. Transcripts and notes on personal interviews and telephone interviews are also available.

According to Winegardner (2002) there is little distinction between validity and reliability in the post-positivist approach, as both are assessed in context rather than against an external and objective standard. Reliability is more a function of the credibility of the researcher's knowledge claims and acknowledgment of his or her central role, relationship and biases in the research, and less a function of replicability.

The post-positivist school of qualitative research, according to Winegardner (2002), generally rejects objectivity as a criterion of validity and instead focuses on the validity of interpretation as determined by various criteria. These include *usefulness,* the extent to which a case study is enlightening or liberating, *contextual completeness*, in which comprehensiveness is a standard of credibility, and *researcher positioning*, which is a demonstrated sensitivity by the researcher to how he or she relates to the case being studied. Other factors are the *reporting style,* which Winegardner regards as the ability to reconstruct the participants' reality credibly and authentically, *triangulation*, *chain of evidence, member checking,* the corroboration of data by participants in the case study and *outlier analysis,* the use of exceptions to test and strengthen the basic findings. Transcripts of interviews were sent to the respondents for review and agreement.

I see the case as being very useful from the viewpoint of a CEO or a general manager because of the road maps and practical experiences involved. I trust that I clarified my positioning as a researcher. Triangulation, establishing a chain of evidence and corroboration of important data by participants were all employed.

Overcoming the various forms of bias is integral to the way in which interviews are conducted. Saunders et al. (2000) recommend that the following points be considered to attempt to avoid sources of bias in qualitative interviews: preparation and readiness for the interview; the level of information supplied to the interviewee; the appropriateness of the researcher's appearance; the nature of the opening comments; and the researcher's approach to questioning, ability to demonstrate attentive listening skills and approach to recording information. I took these points into account and believe that I avoided bias from the viewpoint of the respondents in this regard.

Saunders et al. (2000) state that there are likely to be concerns surrounding the generalisability of findings from qualitative research that are based on the use of a small and unrepresentative number of cases. They note two arguments that have been advanced to clarify and modify the approach often adapted to the generalisability or transferability of qualitative research. Firstly, Bryman (1988, cited by Saunders et al. 2000:259) states that "within a case study a wide range of different people and activities are invariably examined so that the contrast with survey samples is not as acute as it appears at first glance". A well-completed and rigorous case study is thus more likely to be useful in other contexts than one that lacks such rigour.

Secondly, the argument is related to the significance of this type of research to theoretical propositions (Bryman 1988, Yin 1994, cited by Saunders et al. 2000). Where one is able to relate a research project to existing theory one will be in a position to demonstrate that one's findings will have a broader significance than the case or cases that form the broader basis of one's work (Marshall and Rossman 1999, cited by Saunders et al. 2000). I do relate many of the findings back to theoretical principles emanating from the literature review.

The research was confined to three multinational corporations originating in South Africa and one US multinational corporation. Four corporations is a limited universe (although the three South Africa companies represent a significant portion of South African companies that met the five criteria used for selection at the time).

Stake (2003) points out that researchers cannot avoid generalisation in case studies. They generalise to happenings of their cases at times yet to come and in other situations. They expect the reader to comprehend the reported interpretations but to modify their (the reader's) own. Thus researchers use the methods for casework that they actually use to learn enough about their cases to encapsulate complex meanings into finite reports; and so describe the cases in narrative sufficiently descriptive that readers can vicariously experience these happenings and draw conclusions (which may differ from those of the researchers). It is therefore up to the readers in similar kinds of companies or with similar experiences to make the generalisation.

4.8.2 Quantitative Quality Issues

Mouton (2001) describes different sources of error in questionnaires with scale construction, errors in data capturing and errors in analysis and interpretation. Errors in questionnaires most commonly occur when no piloting or pretesting is done, ambiguous or vague words or phrases are used and double-barrelled questions (questions that combine two or more questions in one) are posed. Other possible weaknesses are leading questions, where the respondent is influenced or led to give a certain response and fictitious constructs, for example, asking people about matters of which they have no knowledge.

As discussed in Subsection 4.6.4 the initial questionnaire was reviewed by a market research expert and a professor at Business School Lausanne in Switzerland, in order to minimise the potential errors listed in the previous paragraph. Babbi (1998, cited by Mouton 2001) discusses the issue of whether respondents are competent to answer certain types of question. This is another instance where having a contact person at each of the companies proved advantageous. If the contact person in question experienced any difficulty or challenge with questions he or she had the resources of the entire organisation to call on.

The closed-ended quantitative questions, Tables A and B, are based on the respondents' subjective judgement. The respondents, nevertheless, all hold senior management positions, and their subjective judgements represent their corporations' positions for the purpose of the thesis.

The most common errors in data capturing, according to Mouton (2001), are human errors, post-coding errors, too many missing values and omission of data validation procedures as a first step in data analysis. My exposure to these risks was limited, because of the small sample of five entities. I did, however, follow the procedures of reviewing and checking all incoming questionnaires, looking for illogical relationships and checking that rules and filter questions were followed. I found two with errors where data had been placed in the incorrect columns.

The main errors in analysis and interpretation are using inappropriate statistical techniques in quantitative analysis, drawing inferences from data that are not supported by the data and biased interpretation of the data through selectivity. I use nonparametric statistical procedures because of the small sample in order to avoid the first source of error.

4.8.3 Generic Quality Issues

I used a variety of methods in gathering data. This meant that different methods were at times used to carry out the same research. For example the questionnaire dated 25 May 2004, Practical Problems, Resolutions and Lessons Learned, was researched through a personal interview with E. van As, while the other respondents replied by e-mail. I contend that the richness of the interview compensated for the different methods of gathering information in this instance.

My experience was that the methodology that I followed has proven flexible while at the same time facilitating thoroughness and depth of enquiry. It was possible to obtain information, follow up and enlarge or expound on themes and issues fairly quickly. An example of this is the questionnaire on foreign assignment, dated 25 August 2005. Each company assigned the responsibility of overseeing my research to a senior manager, and I believe this further facilitated quality control.

I believe that my age and experience enabled me to obtain more access to CEOs and executives at the four companies than would be the case with a "typical PhD candidate" in their twenties or thirties (For example three of the four CEOs came down from different locations in their headquarters to greet me personally in their reception areas on my arrival for the first interviews with them.) This, I contend, contributed to the quality of the research. A disadvantage of this access, however, means limitations on the valuable time that can be expected of the executives concerned. I tried to be aware of the value of executive time and my "privileged position" and therefore imposed restraints on my requests for meetings and time. I was able to gather all the information that I felt was necessary.

4.9 Ethical Issues

Mouton (2001) sees the ethics of science as what is wrong and what is right in the conduct of research. Because scientific research is a form of human conduct, he continues, such conduct should conform to generally accepted norms and values. Researchers should, at all times, strive to maintain objectivity and integrity. They should always indicate the limits of their findings and the methodological constraints that determine the limits of their findings and report them fully, with no misrepresentation.

I believe that I adhered to Mouton's (2001) principles and turn to Saunders et al. (2002) for a more detailed discussion of key ethical issues. They summarise the key issues arising in a research project as:

1. Privacy of possible and actual partners
2. Voluntary nature of participation and the right to withdraw partially or completely from the process
3. Consent and possible deception of participants
4. Maintenance of the confidentiality of data provided by individuals or identifiable participants and their anonymity
5. Reactions of participants to the way in which a researcher seeks to collect data
6. Effects on participants of the way in which a researcher uses, analyses and reports data
7. Behaviour and objectivity of the researcher

These issues are dealt with in the three stages of *design and initial access, data collection* and *analysis and reporting* as set out by Saunders et al. (2002).

Questionnaire 2. Development and Transfer of Core Competencies. 31 July 2003

The Core Competencies of your company are attached. These relate to question 3 of Section 3 of the Draft Questionnaire dated 28 January 2003 and subsequent correspondence and discussions. Each of the core competencies is designated by a capital letter. [Note: The SABMiller core competencies follow this as an example. The capital letters were subsequently replaced by codes and the sequence of core competencies changed to standardise the answers by value chain location for the four companies].

1. Using your subjective judgement, please rank the core competencies in terms of:
    a. How important you consider each competency to be in terms of being competitive in the markets in which you compete.
    b. How well you consider each competency is performed by your company.

   Rankings are relative i.e. the most important would be 1, second would be 2 and so forth. You may rank some equal in importance or in how well they are performed.

RANKING	CORE COMPETENCIES						
	A	B	C	D	E	F	G
a. Importance							
b. Performance							

   Any comments ?

2. Table A provides a check list of methods that can be used to develop or facilitate the development of core competencies. Under each core competency designated by a capital letter please mark the methods you have found to be

4.9.1 Design and Initial Access

Ethical problems should be anticipated and dealt with during the design stage of any research project. The right to privacy should not be infringed upon by the nature and timing of any approach or by attempts to apply pressure on intended participants. As I approached the four CEOs directly, I certainly followed the recommended etiquette (one was away and his secretary and a senior manager took the decision in his absence).

Researchers should distinguish between absence of consent, implied consent and informed consent where participants' consent is given freely and based on full information about participants' rights and use of data. One CEO initially expressed reservations about participating but gave his full consent when I undertook to conduct the research within parameters that resolved the reservations.

4.9.2 Data Collection

Participants should not be asked to participate in anything that goes beyond the scope of the access agreed upon, and the researcher should remain within the aims of the research project as originally shared with the participants. I adhered to these requirements with one exception, where an initial advisor asked me to undertake additional research when I (and some of the participants) believed that the subject had already been fully covered. This necessitated an explanation and a request to the four research contacts in each company. Almost all of the people I dealt with in all four companies had, in any event, ended meetings, or personal communications, with an offer of further help if required.

The maintenance of objectivity is a general ethical principle. This means that researchers should make sure that data are collected accurately and fully and that subjective selectivity is avoided in what is recorded. I believe that I followed this principle. Although parts of the process itself, and certain interviews, were interactive, I followed a framework in asking questions and, to the best of my knowledge, maintained a high level of objectivity.

The question of confidentiality and anonymity arose on only a few occasions. Participants were provided with transcripts of interviews to review. Only two modifications were made to the original transcripts submitted.

4.9.3 Analysis and Reporting Stages

Researchers should maintain objectivity during the analysis stage to make sure that they do not misrepresent the data collected. This includes not being selective about which data to report or, when applicable, misrepresenting their statistical accuracy (Zikmund 1997, cited by Saunders et al. 2000).

Referring specifically to case studies, Stake (2003) points out that case study research shares an intense interest in personal views and circumstances. It is important (but never sufficient) for targeted persons to receive drafts revealing how they are presented, quoted and interpreted and for the researcher to exercise great caution to minimise the risks. Issues of observation and reportage should be discussed in advance. My agreement with the companies was that I could certainly utilise any information that they provided but that I should extend the courtesy of discussing any significant surprises or controversial findings before publication. In this regard, I did, for example, did send the three South African companies Table 5.1 from Section 5.2 which shows their share prices and share price growth rates compared with the Johannesburg Securities Exchange Index from 1994 to 2005 for their perusal before including it in the thesis. I also sent drafts of the leadership issues in chapter 10 to the three CEOs and the chairman of Sappi for review, as I believed these were of a personal nature.

A further ethical concern stems from the use made by others of the conclusions which a researcher may reach and any course of action to which explicit reference is made, or is implicitly suggested, based on the research data. On the few occasions where research findings could potentially reflect adversely on a company, I did discuss this with the managers concerned and gave them opportunities to provide explanations before committing the research to writing. One of the ethical considerations of my actions was that they should not have affected my objectivity.

A digital copy of the first draft of my initial thesis was sent to each of the four contacts for review in April 2004. There were no negative responses to any of the content.

I am fully aware of the responsibility to produce research that is valid, objective, reliable, and conducted with integrity.

4.10 Summary and Conclusion

The paradigm, or worldview, of post-positivism is followed in the thesis. External reality is regarded as stable but can only be approximated by researchers. Researchers are subjective but should strive for objectivity and control their bias. The basic methodology followed in the thesis is that of a case study, supported by a survey within the case (questionnaire) and complemented by statistical analysis. I endeavour to bring the perspective of a CEO, combined with that of a teacher, to the thesis.

The idea is to evaluate the methods used for developing and transferring core competencies in the context of international business. The key concepts, or topics used, are core competencies, Porter's Diamond, value chain activities, methods used for developing core competencies, degrees of success in transferring core competencies and methods used for transferring core competencies.

Strict criteria were applied in the selection of the multinational corporations. Barloworld is the world's leading distributor of Hyster products and the largest distributor of Caterpillar products outside the USA. SABMiller is the second largest brewer in the world and the leading brewer in emerging markets. Sappi is the world leader in fine-coated paper. Wolverine World Wide is generally regarded as the world's leading marketer of branded, non-athletic footwear. Two regions of SABMiller – SABMiller Africa and Asia and SABMiller Europe – are analysed in certain portions of the research because of the impracticalities of obtaining information for the entire group.

In gathering data, evidence for case studies may come from six sources: documents, archival records, interviews, direct observation, participant-observation and physical artefacts. Multiple sources of evidence should be used, a case study database maintained and a chain of evidence established between the questions asked, the data collected and the conclusions drawn. I believe that I followed these guidelines. The data were collected through personal interviews, telephone interviews, documents and questionnaires. Archival records and direct observation were utilised to a lesser extent.

Data analysis consists of examining, categorising, tabulating, testing, or otherwise recombining both quantitative and qualitative evidence to address the initial propositions of a study. Three strategies of data analysis are relying on theoretical propositions, setting up a framework based on rival explanations and developing case descriptions. Five specific techniques can be used for any of these strategies: pattern matching, explanation building, time-series analysis, logic models and cross-case synthesis. I followed the strategies of relying on theoretical propositions and developing case descriptions, with the major emphasis on techniques being cross-case synthesis and limited explanation building. I used nonparametric statistical procedures to support certain of my findings.

The four tests commonly used to establish the quality of any empirical social research are: construct validity, internal validity, external validity and reliability. Researchers should use multiple sources of evidence, establish a chain of evidence and have key informants review drafts of interviews. I believe that I followed these guidelines. I contend that my age and experience enabled me to gain better access to the most senior executives for research purposes than would be the case with most younger PhD candidates.

The ethics of science concerns what is right and wrong in the conduct of research. I, once again, believe that I followed the guidelines and principles necessary to produce research that is valid, objective, reliable and conducted with integrity

Having covered the design and methodology followed in the research, the empirical part of the thesis begins by examining the four multinational corporations in the next chapter.

5. CORPORATIONS STUDIED

5. 1 Introduction

Following on Chapter 2 which outlined South Africa's situation and salient features relating to the thesis, this chapter examines the South African-originated multinational corporations and Wolverine World Wide, the US multinational corporation. An understanding of the corporations is essential to answering the questions raised in the thesis.

The corporations are reviewed in subsections: *Industry (including key factors for success), Profile, History, Management, Mission, Strategy, Core Competencies, Operations, Financial and Statistics, and Performance versus Peer Groups.* The most important of these are Management, Strategies, Core Competencies and Performance versus Peer Groups.

The section on performance versus peer groups is included for three reasons. Firstly, one of the criteria for the selection of the multinational corporations was that their recent performance should be better than their peer groups. Secondly, good performance does give credibility to the viewpoints of the companies' representatives. Thirdly, while successful performance in relation to history, industry standards and peer groups does not necessarily mean that core competencies are (or have been) effectively developed and transferred, performance certainly improves the likelihood.

5.2 Peer Groups

The peer groups, which are common to the three South African companies, are the companies listed on the Johannesburg Securities Exchange (JSE) and the different share indices derived from them. Table 5.1 contextualises the Johannesburg Securities Exchange in relation to other stock markets, both in developed and developing countries.

Table 5.1 World Stock Markets, 30 December 2005

Stock Markets	Dividend Yield Percentage	Price Earnings Multiple
Argentina	1.75	9.3
Australia	3.5	17.5
Brazil	3.8	10.3
Canada	2.12	19.6
Chile	2.58	17.3
China	1.23	13.9
Hong Kong	3.07	13.2
India	1.62	17.1
Malaysia	3.65	11.3
Russia	1.27	17.3
Singapore	2.82	14.5
South Africa (All Share)	2.9	14.2
Thailand	2.62	10.2
UK (FTSE 100)	3.02	14.5
US (Dow Jones Industrials)	1.72	18.6

Source: *Financial Times* (2006:21).

Incidentally, the US, with the second highest price earnings (PE) multiple ratio in the table, had one of the worst growth records in 2005. The Dow Jones Industrial Index fell by 0.61 percent while the JSE All Share Index increased by 25.5 percent in US dollar terms (*New York Times* 2006:9). By the same measurements the stock exchanges in London increased by 4.6 percent, Canada by 27.5 percent and India by 33.1 percent. The JSE PE multiples were similar to those of the London Stock Exchange but below that of the United States.

The three South African companies are also listed on other stock markets and, because of their overseas business, are "rand hedge" shares. Their share prices on the Johannesburg Securities Exchange are likely to improve in relation to companies with largely domestic interests when the rand weakens (or is expected to weaken) against the US dollar and other currencies.

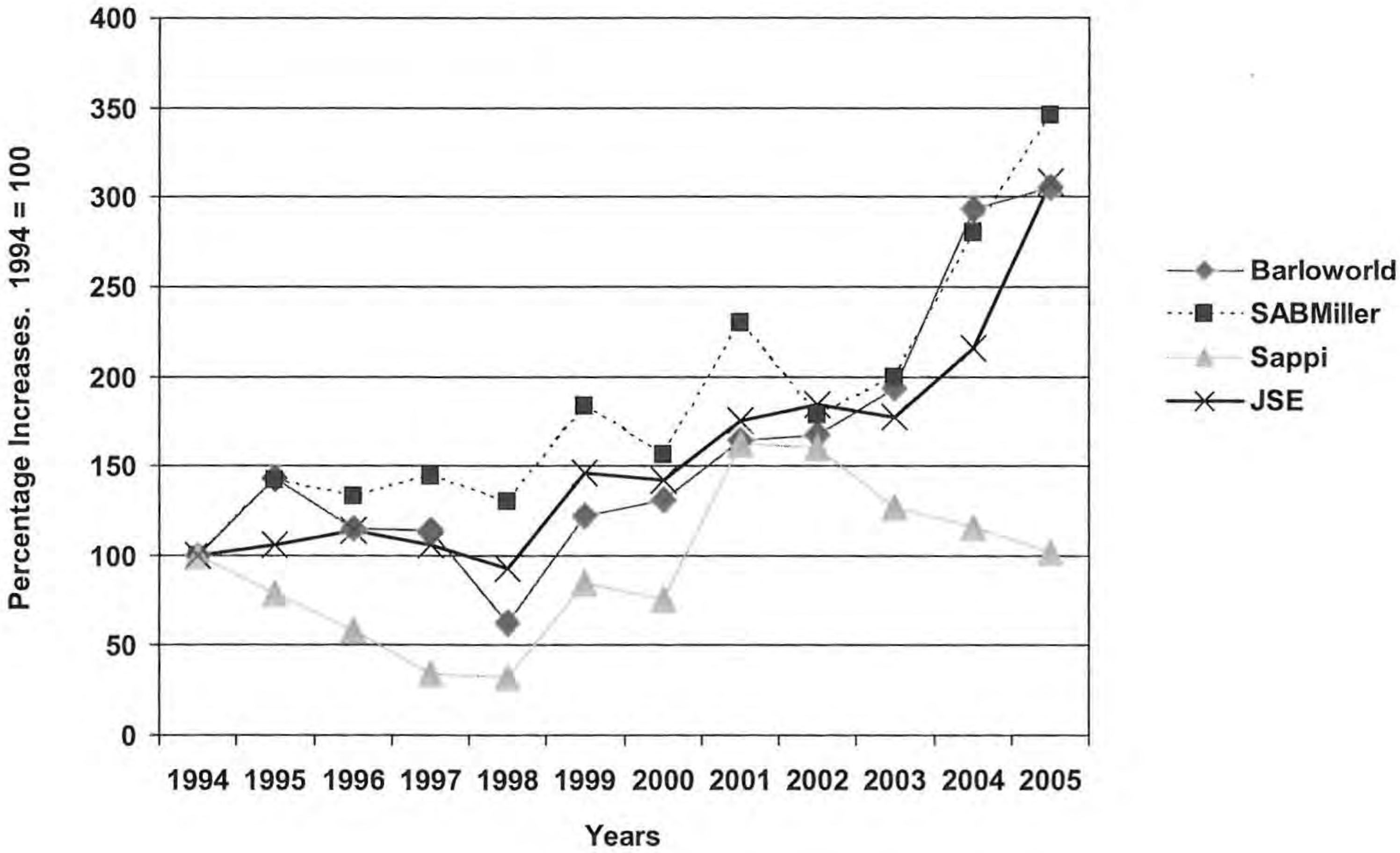
One way to assess the performances of different companies is to compare their share prices with those of competitors, peer groups and share indices over time. Other peer groups are companies or composites of companies in similar industries. Examples are the Value Line Industry Composites that are used in Sections 5.5.10 and 5.6.10 of this chapter. Table 5.2 presents the share prices of Barloworld, SAB Breweries/SABMiller and Sappi, as well as JSE and All Share Index from December 1994 to December 2005. This information is shown graphically in Figure 5.1. Each company will be dealt with separately in the following subsections. The share price returns shown for the three companies (and the JSE Index) do not include dividends which were typically around 4.0 percent for Barloworld, 2.2 percent for SABMiller and 2.6 percent for Sappi. Table 5.1 shows the dividend yield for the JSE as 2.6 percent in 2005.

Table 5.2 JSE Share Prices December 1994 – 2005
Cents

Year	Barloworld			SABMiller [(1)]			Sappi			JSE	
	Close	**High**	**Low**	**Close**	**High**	**Low**	**Close**	**High**	**Low**	**JSE All**	**JSE Ind**
1994	3,625	5,700	2,650	3,407	3,717	2,797	7,150	7,000	2,975	5,867	6,984
1995	5,190	5,200	3,025	4,847	4,901	3,122	5,600	7,650	5,025	6,228	7,987
1996	4,160	5,950	3,965	4,540	5,555	4,061	4,200	5,950	3,800	6,657	7,921
1997	4,130	6,500	4,015	4,917	6,187	4,392	2,450	4,950	2,350	6,202	7,425
1998	2,260	5,500	1,860	4,420	1,899	3,248	2,275	3,400	1,800	5,430	6,264
1999	4,430	4,480	2,200	6,260	10,820	4,275	6,080	6,450	1,895	8,543	9,211
2000	4,760	5,200	3,300	5,320	6,560	4,080	5,410	7,000	3,800	8,326	8,084
2001	5,960	6,200	4,305	7,830	8,850	5,000	11,640	12,700	5,100	10,361	7,731
2002	6,080	7,300	5,400	6,080	9,000	6,020	11,450	16,200	10,500	10,815	6,775
2003	7,015	7,050	4,750	6,801	6,994	4,500	9,100	12,950	7,720	10,387	8,243
2004	10,630	10,726	6,520	9,545	9,810	6,550	8,300	10,450	7,452	12,676	11,768
2005	11,053	11,730	8,685	11,725	12,780	8,780	7,251	8,575	5,830	18,097	15,568
Compound growth rates											
1994-2000	4.64	-1.52	3.72	7.71	9.93	6.49	-4.54	0.0	4.16	6.01	2.46
2000-2005	18.35	17.67	21.35	17.22	14.21	16.56	6.03	4.14	8.94	16.18	14.00
1994-2005	10.67	6.78	11.40	11.93	11.85	10.96	0.13	1.86	6.30	10.78	7.56

(1) When SABMiller listed on the London Stock Exchange in 1999, 773.7 million new shares were issued to replace 349 million outstanding at the end of 1998. Share prices for 1994 – 1998 were calculated by using shares in issue at the end of each year divided by 773.7 million.
Source: Johannesburg Securities Exchange (2004), Standard Bank (2006) and Financial Mail (2006a).

Figure 5.1 JSE All Share Index Performance 1994-2005



5.3 Barloworld

5.3.1 Industry

Barloworld is involved in a variety of industries relating to infrastructure, capital equipment and distribution.

The key factors for success for the overall group are the ability to strategically understand each industry and have the depth of management competence and financial resources to do what is required (P.M. Drewell, personal interview, Sandton, 9 May 2003). The key factors for success for the largest business, the Caterpillar distributorship, are building and servicing a machine population. This includes the ability to keep a customer's equipment running, service at short notice and supply parts within 48 hours (Harvey 1999).

5.3.2 Profile

Barloworld is an industrial brand management company that achieves durability in business through long-term value creation. Their goal is to create value through leadership in every market in which they operate.

Sales are approximately R39 billion or $6 billion. There are 23,000 employees in 31 countries. Barloworld markets products and services in over 100 countries. It represents some of the "world's great brands in the marketplace". These include Caterpillar, Hyster, Perkins, Ditch Witch and many of the world's leading automotive brands. Barloworld is arguably the largest Caterpillar dealer outside the United States and is the world's largest lift truck dealer, selling 20 percent of Hyster's global production. The company is a significant player in both motor retailing and car hire in South Africa. There are also Barloworld's own brands that are market leaders in their respective product and service niches. These include cement, lime, coatings, scientific equipment and steel tube brands.

The head office is in Johannesburg, South Africa. There is a primary listing on the JSE Securities Exchange, South Africa, with secondary listings in London, Frankfurt, Antwerp, the joint Swiss exchanges and Namibia. The portfolios of 20 institutional investment companies account for 63.05 percent of the company shareholding. All 20 are located in South Africa (Barloworld Annual Report 2005).

Other information in this subsection was obtained from Barloworld (2005a).

5.3.3 History

Major Ernest (Billy) Barlow formed Thomas Barlow and Sons in Durban, Natal, in 1902. It was an independent company based on a family business of the same name in England. It initially handled woollen goods, such as blankets and coats. Engineering components were added within five years.

A Johannesburg office was opened in 1920. "Punch" (Charles Sydney) Barlow joined the company in 1927 and sold the first Caterpillar tractor. Barlow and Sons became the official Caterpillar dealer and two years later added the forklift dealership. The company was listed on the Johannesburg Stock Exchange in 1941.

The company acquired the Ford dealership's Nagington Motors and entered the motor distribution business in 1959. It expanded rapidly into many fields in the 1960s embracing motor vehicle retailing, steel and building materials, materials handling equipment, consumer electronics and steel manufacturing and sale. It also acquired trading interests in the UK, Zimbabwe, Botswana and what was then South West Africa. It was listed on the London Stock Exchange in 1969.

In 1970, Barlow Rand was formed with the acquisition of Rand Mines. Cement, stainless steel, telecommunications, paint and additional motor franchises were added to the business portfolios. There were further acquisitions in the 1980s as growth continued through diversification. Information technology, electrical engineering and textile businesses were acquired. Barlow Rand also managed the IBM and Merck brands in South Africa at the time. In 1984, Barlow Rand acquired J. Bibby and Sons plc in the United Kingdom. This was to be a major springboard to further international expansion. The Bibby business included scientific products.

In 1989, the company had profits after tax of R1 billion. The exchange rate in that year was R2.54 to the dollar. There were 240,000 employees. International expansion continued in Europe in the early 1990s, absorbing Lamson in Belgium, Finanzauto in Spain and Stet in Portugal. Finanzauto was the Caterpillar distributor in Spain, listed on the Madrid Stock Exchange, and the acquisition of it by Barlow Rand was the second-ever contested takeover in Spanish corporate history. This is now a case study that is taught at leading business schools around the world (Miller and Velamuri 1998). Barlow Rand sales in 1992 were $12.6 billion, when the exchange rate was R2.80 to the dollar.

During the period of political transition in South Africa (1990 to 1994), Barlow Rand played a major part in the peaceful transition to democracy and assisted in the management of the elections. In 1993/94, it focused and streamlined its businesses to concentrate on capital goods, specific industries and motor retailing. The other businesses were unbundled.

The period 1995 to 2000 was a time of consolidation and investment. Three billion rand was invested in business units to achieve the world-class capabilities required for the 21st century. Global activities were expanded with the acquisition of Lanes Limited and Taubmans in Australia, the Ditch Witch franchise in Georgia, USA, the Perkins distributorship in South Africa and the Caterpillar franchise in Siberia.

The value based management strategy and philosophy was adopted in 1999 (P.M. Drewell, personal interview, 9 May 2003). The name Barloworld was adopted in 2000. International expansion continued in 2001 with the acquisition of Freightliner in the USA, three motor dealers in Australia, a laboratory business in the UK and a cement business in Zimbabwe. The company also launched a new business unit called Barloworld Logistics, formed from operations in its other businesses. In 2004 the company acquired the balance of the shares it did not already own in Avis Southern Africa.

Information for this subsection was obtained from Barloworld (2005b).

5.3.4 Management

Warren Clelow (68), the Non-Executive Chairman, joined the group in 1963. He was appointed CEO of Barlow Rand Limited (now Barloworld Limited) in 1983 and was appointed Chief Executive Officer in 1985. The CEO, A.J. (Tony) Phillips joined Barloworld in 1968. He led the turnaround to profit of the then-listed Spanish subsidiary Finanzauto from 1993 to 1995, and became CEO of Barloworld in 1999. The ten executive directors of Barloworld are listed in Table 5.3 below.

Table 5.3 Barloworld Management

Name	Responsibility	Age	Year Joined
A.J. (Tony) Phillips	CEO	59	1968
J. (John) Blackbeard	Scientific	48	1996
M.D. (Mike) Coward	Steel Tube	52	1977
L.S. (Lester) Day	Equipment	58	1973
B.P. (Brandon) Diamond	Industrial Distribution	54	1970
J.E. (John) Gomersell	PP Cement and Lime	59	1971
A.J. (André) Lamprecht	Barloworld Coatings	53	1981
M. (Martin) Laubscher	Barloworld Motor	45	1980
P.M. (Peter) Surgey	Executive Director HR	50	1983
C.B. (Clive) Thompson	Finance Director	39	1997

Source: Barloworld Annual Report 2005:18.

Four of the directors each have more than 30 years of service while another three have more than 20 years of service each. Two of the executive directors are British citizens and the other seven are South African citizens. There have been only five CEOs in the 103-year history of the company (Drewell, 9 May 2003).

The company had 107 managers and technical experts serving outside South Africa in October 2005 (P.M. Drewell, personal communication, 15 November 2005). Fifty one of these were stationed in Botswana, 10 in Angola and 10 in Namibia. Only 14 of the 107 employees were serving outside Africa, with one each in Australia and Spain, three in Siberia, three in the UK and six in the USA.

5.3.5 Mission

The overall mission is to achieve durability in business through long-term value creation for all stakeholders.

> Our overriding goal is to sustainably add value for our stakeholders – our shareholders, our customers, employees, principals and suppliers – and the communities in which we operate, including our custodianship of the physical environment. We strive to make a distinct and positive contribution in the local markets in which we compete. Our strategies are designed to ensure that the benefits we bring to all stakeholders will continue for the long term (Barloworld Annual Report 2004:6).

5.3.6 Strategy

"Value Based Management (VBM) is at the heart of how we do business. What makes VBM different is the recognition that we seek to create value for all our stakeholders simultaneously" (Barloworld Annual Report 2004:6). This philosophy or strategy requires a minimum cash flow return on investment of 8 percent. Further details of the strategies are presented in the 2002 to 2005 Annual Reports and the Barloworld website (2005a) and (2005b) as shown below:

1. The focus is to build an International Brand Management Company that delivers world-class performance and profitability.
2. Constantly strive to improve financial and operational performance using Value-Based Management (VBM) as the driving force to achieve this goal. VBM principles are applied to every facet of the business, from strategy to capital allocation (P.M. Drewell, 9 May 2003).
3. Build "a dynamic, innovative and forward-looking organisation that allows us to attract people of the highest calibre, people who will continue on the path toward creating a value enterprise with a global footprint... We encourage

best practice to create value through new, different and better ways of doing things... We rely on the calibre and commitment of our people, based on teamwork, care for the customer, loyalty, integrity, honesty and entrepreneurship".

4. Expand within existing activities.
5. Develop grassroots opportunities within core competencies.
6. Expand geographic footprint.
7. Add new products and service "in what we do well".

5.3.7 Core Competencies

These include the ability to create and sustain long-term relationships, the ability to evolve and innovate, a unique organisational ability to function together and implement coherent strategies across the organisation and corporate culture (value-based management philosophy). Others are corporate governance, merger and acquisition capabilities (including post-merger integration) and the unique ability to operate under difficult circumstances (P.M. Drewell, 9 May 2003).

5.3.8 Operations

Barloworld has nine divisions: Capital Equipment, Industrial Distribution, Motor, Cement and Lime, Scientific, Coatings, Steel Tube, Logistics and Financial Services and Other. Figure 5.2 below shows the countries and regions in which each of the divisions has operations.

Figure 5.2 Barloworld Operations

Asia
- Scientific

Australia
- Motor
- Coatings
- Logistics

Canada
- Scientific

Europe
- Capital Equipment
- Industrial Distribution
- Scientific
- Logistics

Russia
- Capital Equipment (Siberia

Southern Africa
- Capital Equipment
- Motor
- Cement and Lime
- Coatings
- Steel Tube
- Logistics
- Financial Services

United Kingdom
- Industrial Distribution
- Scientific
- Logistics

United States
- Industrial Distribution
- Scientific
- Financial Services
- Logistics

Source: Barloworld Annual Report 2004:17.

5.3.9 Financials and Statistics

Table 5.4 summarises financial and operating results for the financial years ending September from 1999 to 2005. Appendix 5.1 provides similar information for the period from 1993 to 1999.

Sales increased from R12,874 million in 1994 to R39,401 million in 2005, a growth rate of 10.7 percent per year, some of the growth stemming from acquisitions. Net profit increased from R338 million to R2,176 million over this period, a growth rate of 18.4 percent a year. Significantly higher growth rates were experienced from 1999 to 2005 – sales 12.6 percent per year, and profit before exceptional items, 23.5 percent a year.

The return on equity calculations, for the period 1993 to 1999 shown in Appendix 5.1, includes exceptional items. Once the exceptional items are excluded the return on equity declines to 9.4 percent in 1994 and 8.6 percent in 1999, with mid-teen figures achieved in between. These are not high returns when one considers the inflation and interest rates over this period, which were discussed in Chapter 2. The return on equity has improved steadily since 1999, rising to 16.0 percent in 2005. P.M. Drewell (9 May 2003) attributes the improvements to the introduction of Value Based Management in 1999. Operating margins improved from 4.4 percent in 1999 to 8.8 percent in 2005. Targets are shown on page 117 of the 2005 Barloworld Annual Report. The target for return on equity is to exceed 15 percent and for operating margin to exceed 7 percent. Total borrowings to total shareholders funds increased from 42.1 percent in 1999 to 63.2 percent in 2005.

The market capitalisation of R24,260 million at 30 September 2004 included a premium over the interest of shareholders of R12,181 million compared to the discount of R943 million on a market capitalisation of R6,301 million at the same date in 1999.

Table 5.4 Barloworld Seven-Year Summary 2005

	Compound annual growth %	2005 Rm	2004 Rm	2003 Rm	2002* Rm	2001* Rm	2000* Rm	1999* Rm
BALANCE SHEETS								
Assets								
Property, plant and equipment	8.7	**7 922**	7 706	6 656	7 565	6 053	5 297	4 815
Goodwill and intangible assets	29.9	**2 745**	2 675	1 580	1 903	1 530	890	571
Investments in associates and joint ventures and other non-current assets	9.3	**2 853**	3 048	3 503	4 019	2 874	1 944	1 674
Deferred taxation assets	21.7	**550**	517	472	385	257	188	169
Non-current assets	11.7	**14 070**	13 946	12 210	13 872	10 714	8 319	7 229
Current assets	10.7	**14 535**	13 897	11 548	13 225	11 232	8 419	7 891
Total assets	11.2	**28 605**	27 843	23 758	27 097	21 946	16 738	15 120
Equity and liabilities								
Capital and reserves								
Share capital and premium		**1 397**	1 209	712	682	682	690	749
Reserves and retained income		**10 682**	9 893	8 972	10 552	8 395	7 208	6 495
Interest of shareholders of Barloworld Limited	8.9	**12 079**	11 102	9 684	11 234	9 077	7 898	7 244
Minority interest		**646**	719	706	791	625	556	554
Interest of all shareholders		**12 725**	11 821	10 390	12 025	9 702	8 454	7 798
Non-current liabilities	17.6	**7 103**	6 938	4 916	5 195	3 845	2 881	2 680
Deferred taxation liabilities		**906**	797	617	617	318	281	277
Non-current liabilities		**6 197**	6 141	4 299	4 578	3 527	2 600	2 403
Current liabilities	11.2	**8 777**	9 084	8 452	9 877	8 399	5 403	4 642
Total equity and liabilities	11.2	**28 605**	27 843	23 758	27 097	21 946	16 738	15 120
INCOME STATEMENTS								
Revenue	12.6	**39 401**	36 672	34 603	35 999	27 945	22 457	19 337
Operating profit before goodwill amortisation	26.4	**3 480**	2 979	2 442	2 067	1 487	1 155	854
Goodwill amortisation			(148)	(113)	(116)	(88)	(47)	(34)
Operating profit	27.2	**3 480**	2 831	2 329	1 951	1 399	1 108	820
Fair value adjustments on financial instruments		**(56)**	(107)	(334)	55			
Finance costs		**(463)**	(474)	(531)	(401)	(305)	(247)	(293)
Income from investments		**187**	259	274	253	254	256	296
Profit from continuing operations	25.1	**3 148**	2 509	1 738	1 858	1 348	1 117	823
Loss from discontinuing operations							(30)	(85)
Profit before exceptional items		**3 148**	2 509	1 738	1 858	1 348	1 087	738
Exceptional items		**4**	40	81	369	(278)	668	951
Profit before taxation		**3 152**	2 549	1 819	2 227	1 070	1 755	1 689
Taxation		**(1 033)**	(888)	(600)	(636)	(383)	(302)	(182)
Profit after taxation		**2 119**	1 661	1 219	1 591	687	1 453	1 507
Income from associates and joint ventures		**57**	107	114	119	31	40	61
Net profit		**2 176**	1 768	1 333	1 710	718	1 493	1 568
Attributable to:								
Minority shareholders		**315**	259	211	207	101	87	73
Barloworld Limited shareholders		**1 861**	1 509	1 122	1 503	617	1 406	1 495
		2 176	1 768	1 333	1 710	718	1 493	1 568
Attributable net profit excluding exceptional items and loss from discontinuing operations	20.3	**1 855**	1 492	1 031	1 156	884	765	613

Table 5.4 Barloworld Seven-Year Summary (continued)

CASH FLOW STATEMENTS

	2005 Rm	2004 Rm	2003 Rm	2002 Rm	2001 Rm	2000 Rm	1999 Rm
Cash flow from operations	**3 576**	3 153	2 419	3 037	2 317	1 494	1 176
Dividends paid (including minority shareholders)	**(1 197)**	(897)	(940)	(649)	(436)	(381)	(324)
Net cash flow (used in) from investing activities	**(2 980)**	(2 124)	(1 812)	(2 621)	(2 834)	(1 764)	724
Net cash flow from (used in) financing activities	**601**	(258)	487	(24)	1 625	411	(1 122)
Net (decrease)/increase in cash and cash equivalents	**0**	(100)	154	(257)	672	(240)	454

PROFITABILITY AND ASSET MANAGEMENT

	Target							
Operating margin %	>7	8.8	8.1	7.1	5.7	5.2	5.5	4.4
Net asset turn X	>2	1.9	2.0	2.0	2.0	1.9	1.9	1.8
Return on net assets %	>15	17.8	17.1	14.7	12.8	11.8	12.2	10.7
Return on ordinary share holders funds* %	>15	16.0	14.4	9.9	11.2	10.4	9.7	8.6
Cash flow return on investment** %	>8	10.3	8.9	8.1	8.5	8.3	6.6	6.2

*excluding exceptional items **CFROI

LIQUIDITY AND LEVERAGE

Total liabilities to total shareholder funds	<150	117.7	128.8	122.7	120.2	122.9	94.7	90.3
Total borrowing to shareholder funds		63.2	65.2	59.1	59.8	64.1	43.7	42.1
Net borrowings/EBITDA	<2.5	1.2	1.4	1.2	1.6	1.8	1.4	1.2
Number of years to repay interest bearing debts	<5	2.2	2.4	2.5	2.4	4.2	2.6	2.3
Current ratio	>1	1.7	1.5	1.4	1.3	1.3	1.6	1.7

VALUE ADDED

Number of employees		25 963	25 233	22 749	23 192	23 233	21 966	22 148
Revenue per employee	R000	1539.2	1528.6	1506.4	1550.8	1236.4	1018.1	774.2
Value created per employee	R000	473.4	451.3	407.3	430.6	304.9	300.6	253.6
Employment cost per employee	R000	250.5	249.8	237.3	251.3	193.2	169.8	137.9

Source: Barloworld Annual Report 2005:115-119.

5.3.10 Performance versus Peer Group

P.M. Drewell (9 May 2003) states that one of the insights of the value based management system and Holt Methodology (discussed in Subsection 2.7.1) is the recognition that the Barloworld peer group, in terms of performance, is the South African stock market. The company compares its stock market performance to the Johannesburg Securities Exchange (JSE) indices in its 2005 annual report.

Table 5.2 shows the JSE share prices from 1994 to 2005. Barloworld, based on the closing price at year end, achieved a compound growth rate of 10.7 percent compared to the JSE All Share Index of 10.8 percent and JSE Industrial Index 7.6 percent for the 11 years from 1994 to 2005 (Barloworld's value to investors would have been higher than the JSE because their dividends averaged 4.0 percent compared to the JSE average of 3.1 percent). The Barloworld share price growth rates were even better in the five years from 2000 to 2005 – 18.4 percent – compared to 16.2 percent for the All Share Index and 14 percent for the Industrial Index.

The Barloworld price earnings multiple (PE) varied from 8.5 to 11.0 from 1999 to 2004 and stood at 13.2, compared to the JSE All Share Index of 14.2 on 30 December 2005.

The company's results in other currencies such as the US dollar are shown in Appendix 5.2.

5.4 SABMiller

5.4.1 Industry

The company is involved in the brewing industry, soft drinks and fruit juices. Its southern African interests include hotels and gaming, and a 30 percent interest in a leading wine and spirit company (SABMiller Annual Report 2005).

Thompson and Strickland (2003) believe that the key factors for success in the brewing industry are: full utilisation of brewing capacity (to keep manufacturing costs low); a strong network of wholesale distributors (to give access to as many retail outlets as possible) and clever advertising (to induce beer drinkers to buy a particular brand). I would add the importance of brands – whether global, national, regional or local – to this list. Consistent quality and taste are crucial.

Key factors for success for the soft drinks industry would be similar, although global brands would be even more important. The four leading global brewing players held 32 percent of the world beer market in 2002, while the four top players in consumer products generally hold from 60 to 85 percent of their markets (Mackay 2003, cited by Crotty 2003).

5.4.2 Profile

SABMiller is the second largest brewer in the world, by volume, with a brewing presence in over 40 countries. It is one of the world's diverse international brewers, with leading market positions in the United States and certain countries in Europe, Central America, Asia and Africa. The company recently acquired the second largest brewer in South America. It is one of the largest bottlers and distributors of Coca-Cola products outside of the United States. SABMiller has a diverse and comprehensive portfolio of local, regional and global brands. Its major brands include Miller Lite, Miller Genuine Draft, Pilsner Urquell, Castle Lager, Peroni Nastro Azzurro, Tyskie Gronie and Snow (SABMiller Annual Report 2005).

Sales for the 2005 financial year exceeded \$14.5 billion, the equivalent of R87.4 billion. There were 40,668 employees at the end of 2005, while associate companies in China employed a further 28,000 people (SABMiller Annual Report 2005).

The head office is in London, England, where the company is domiciled. SABMiller is listed on both the London Stock Exchange and the Johannesburg Securities Exchange.

Nine companies held in excess of 3 percent of the share capital (having normal voting rights) as of May 2005. These groups accounted for 67.4 percent of the total shareholding, the Altria Group Inc, in the United States, having 23.8 percent, groups in the United Kingdom 7.9 percent, with the remaining 35.7 percent held by groups in South Africa (SABMiller Annual Report 2005:114).

5.4.3 History

The company was founded in 1895 and listed on the Johannesburg Stock Exchange as the first industrial share on that exchange in 1897. It was listed on the London Stock Exchange in 1898.

Expansion continued north of the Limpopo River border of South Africa with the formation of Rhodesian Breweries in 1910. In 1911, South African Breweries (SAB) assisted the local barley industry by supplying seed free of charge and contracting to buy the crop at market prices.

In 1917, it acquired the defunct Union Glass Company to counter the shortage of bottles during World War I. In 1925, SAB acquired a stake in Schweppes carbonated soft drinks. In 1935, SAB and rival Ohlsson's established extensive hop fields at George in the Western Cape. The same two companies promoted the local barley industry in 1945. In 1950, the SAB head office and seat of control moved from London to Johannesburg. Rhodesian Breweries invested in a new brewery in Ndola, Zambia, then Northern Rhodesia, in 1951.

In 1955, a new excise duty structure was introduced that discriminated against beer in favour of wine and spirits, making beer the most heavily taxed beverage in South Africa. The demand for beer fell because of the increased taxes. SAB responded by consolidating with the two other larger brewers in SA at the time: Ohlssons and United Breweries. In 1960, SAB bought control of the Stellenbosch Farmers' Winery.

In 1962, the government lifted restrictions on the drinking of alcohol by black South Africans. This, together with focused marketing activities, began to remedy a static situation in beer consumption. In 1964, SAB was granted a license to brew Guinness in South Africa, Amstel in 1965 and Carling Black Label in 1966.

Stellenbosch Farmers' Winery merged with Moni's Wineries, but SAB was compelled to reduce its holding to 34 percent. Excise duties on beer were again increased significantly in 1966. SAB positioned itself to diversify by forming Barsab Investment Trust, a joint venture with Thomas Barlow and Sons for acquisitions outside both their mainstream activities. From the mid-1960s to the early 1990s, SAB followed a strategy of growth through diversification. This involved the food industry, real estate, Southern Sun Hotels (including Sun City), mass market retailing, furniture, footwear, plate glass, textiles, matches and clothing retail (Wits Business School 2003).

In 1972, a new competitor, Luyt Breweries, entered the market. It was unsuccessful and was salvaged and revitalised by the Rembrandt Group (a leading tobacco and spirits company) as Intercontinental Breweries. The so-called 'beer wars' went on for some seven years, generating unprecedented interest in beer and stimulating marketing sophistication and product and packaging innovation never seen before.

In 1973, SAB established breweries in Botswana and Angola. Barsab was dismantled in the same year, and the two shareholders each took control of different companies from the portfolio. A small taste change in Castle Lager impressed the brewers at the time but nearly cost the brand its life – the mistake was quickly reversed, hammering home the lesson that the brand does not belong to the brewer or the marketer, but to the consumer.

In 1975, SAB acquired its failed competitors, Whitbreads and Old Dutch; Stellenbosch Farmers' Winery once again became a wholly owned subsidiary. In 1976, SAB acquired Swaziland Breweries.

In 1978, SAB published a code on non-discriminatory employment, the first in the country.

In 1981, the company secured a controlling interest in Lesotho Breweries. In 1983, SAB made some investments away from the southern African subcontinent through beverages in the USA such as soft drinks, juice and a niche beer, Rolling Rock. The

US investments were reluctantly terminated in 1988, because of political considerations at the time.

Hungary's largest brewery, Dreher, was acquired in a SAB beachhead move into Central Europe in 1993. Dreher was located in the middle of Prague, and SAB experienced difficulties with supply deliveries and convincing people to come to work because of expensive bus fares. SAB also learned a lesson when competitors did not follow their price leadership (A. Miller Salzman, personal interview, London, 3 February 2003).

Following the first democratic elections in SA in 1994, SAB was invited to revitalise the beer industry in Tanzania by that country's government and also re-entered the markets in Zambia, Mozambique and Angola. By the end of the 1990s, SAB was the largest brewer in Africa, producing over half of the beer consumed on that continent (Wits Business School 2003). SAB continued the process of international expansion by obtaining joint control of the second largest brewer in China in 1994 and further investments in Poland and Rumania in 1996.

A new CEO, Graham Mackay, was appointed in 1999. There was a renewed focus on core brewing activities, and non-core interests were sold. The company became the largest brewer in Eastern Europe with the acquisition of breweries in the Czech Republic (Pilsner Urquell) and became active in Russia and India as well.

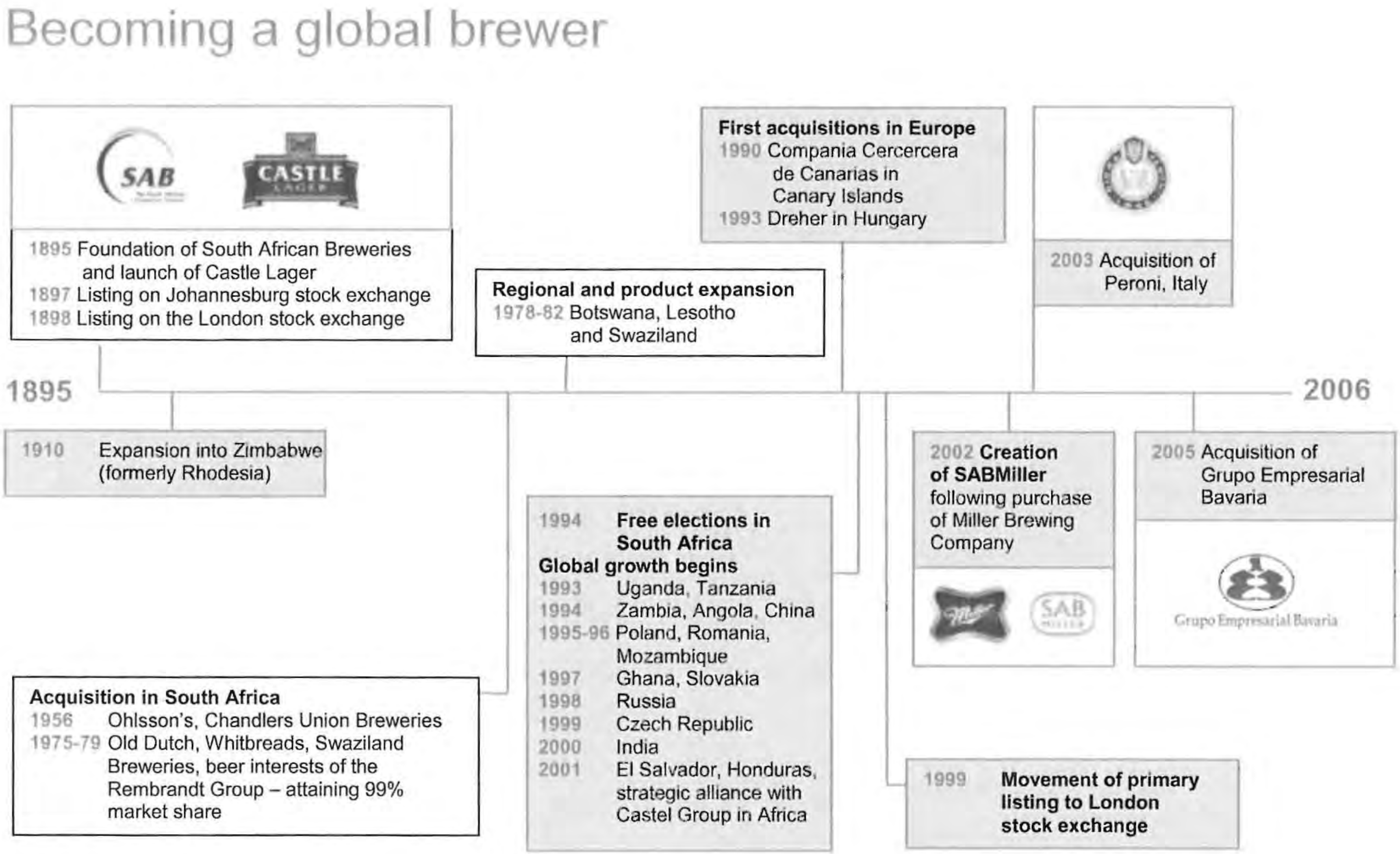
In 1999, SAB moved its primary listing back to London, and the head office was moved from Johannesburg to that city. In 2001, turnover from SAB's international operations accounted for 42 percent of group turnover. SAB formed a pan-African strategic alliance with the Castel Group and also entered Central America with brewing and soft drink acquisitions in Honduras and El Salvador.

SABMiller plc was formed in 2002 as SAB acquired 100 percent of The Miller Brewing Company, the second largest brewery in the United States. SABMiller became the second largest brewer, by volume, in the world. In 2003, it made its first significant investment in Western Europe with a majority interest in Birra Peroni in Italy. In 2005 SABMiller obtained a controlling interest in Bavaria S.A., the second largest brewer in South America with leading market positions in Colombia, Peru, Ecuador and Panama.

The SABMiller history is illustrated graphically in Figure 5.3.

Information in this subsection was obtained from SABMiller (2006b).

Figure 5.3



Source: Makanjee (2006).

5.4.4 Management

Jacob Meyer Kahn (65), the chairman, joined the group in 1966. He was appointed Group Managing Director of SAB Limited in 1983 and Executive Chairman in 1990. He was seconded full-time to the South African Police Service as its Chief-Executive in 1997, serving for two and a half years. In 1999, he assumed the chairmanship of SAB plc.

E.A.G. (Graham) Mackay joined SAB Ltd in 1978. He held a number of senior positions before becoming Chief Executive in 1999, overseeing the company's relisting on the London Stock Exchange in the same year. Malcolm Ian Wyman has been with the company since 1986. He became Group Corporate Financial Director in 1990 and Chief Financial Officer in 2001. Table 5 summarises details of the top management. Only three of the executives listed have less than 15 years service with the company and are all in "staff" positions, engaged to bring in new expertise required by the changed circumstances of the company. Five of the 10 have more than 20 years service. Eight of the 10 are South African citizens.

Table 5.5 SABMiller Management

Name	**Responsibility**	**Age**	**Year Joined**
E.A.G. Mackay	Chief Executive	56	1978
M.I. (Malcolm)Wyman	Chief Financial Officer	59	1986
N.J. (Norman) Adami	Miller Brewing Company	50	1979
A. (Alan) Clark	SABMiller Europe	45	1990
S. (Sue) Clark	Corporate Affairs Director	41	2003
J. (Johan) Nel	Human Resources Directo	48	1998
A.C. (André) Parker	SABMiller Africa and Asia	54	1975
M. (Mark) Sherrington	Marketing Director	49	2002
A. (Andrew) Tonkinson	Group Company Secretary	60	1976
A. (Tony) van Kraligen	The South African Breweries	47	1982

Source: SABMiller Annual Report 2005:46-48.

B. (Barry) Smith joined this management team with responsibility for the South American operations when the Bavaria S.A. transaction finalised. He was engaged by The South African Breweries in 1984.

J.M.Kahn's predecessor, R.J. (Dick) Goss, served as Chief Executive of SAB for 17 years.

The vast majority of the company's approximately 55 breweries around the world are headed by management teams originating in South Africa. About 140 managers and technical experts had been "exported" from South Africa by 2001 (E.A.G Mackay, personal interview, London, 27 November 2001). This number had risen to 168, stationed in 24 countries, by the end of 2004. Twenty of the 168 were non-SA Breweries or expatriate employees. SABMiller Europe headquartered in Budapest accounted for 24 of the total, Tanzania 10, India 10, and the USA (Miller Brewing) 9. Secondments to 11 African countries accounted for 63 of the 168 total. There are trends of the numbers declining in certain countries as local nationals were trained to replace seconded people (M. van Eyk, personal communication, 21 October 2005).

5.4.5 Mission

The mission statement of the group in December 2003 (SABMiller 2003a) was as follows:

> SABMiller plc is an international company committed to achieving sustained commercial success, principally in beer and other beverages, but also with strategic investments in hotels and gaming. We achieve this by meeting the aspirations of our customers through quality products and services and by sharing fairly among all stakeholders the wealth and opportunities generated, and by seeking business partners who share our values. Thereby, we fulfil our goals of business growth and maximised long-term shareholder value while behaving in a socially responsible and progressive manner.

The current website (sabmiller.com 2005) lists guiding principles for dealing with shareholders, partners, other providers of capital, customers/consumers, suppliers, employees, communities, government and current and future generations. An example relating to shareholders is that SABMiller is committed to increasing long-term shareholder value, exceeding that achieved on comparable investments.

5.4.6 Strategy

SABMiller's strategy as communicated in the 2003 Annual Report was to:

1. Drive volume and productivity.
2. Optimise and expand its existing positions through acquisition.
3. Seek value-adding opportunities to enhance its position as a global brewer.
4. Grow its brands in the international premium beer market.

"In Africa we learnt, on a small scale, how to run foreign companies. Then we went into Eastern Europe and learnt more; we also made mistakes and learnt our experience didn't always work. Probably most important was that we learnt how to be adaptable" (E.A.G. Mackay 2003, cited by Crotty 2003).

Mackay (2005) expounded on this strategy in the 2004 and 2005 annual reports. SABMiller saw gains to be made in the near term from its strong established operations in growth markets: South Africa, the rest of Africa, Europe and Central America. It then envisaged, somewhat later, growth from the recent big acquisitions, Miller in the United States and Peroni in Italy. The developing markets of China and India and the growing contribution of their international premium brands make up the longer-term part of the strategy.

5.4.7 Core Competencies

Core competencies are human capital/corporate culture, low-cost quality production (the lowest cost quality manufacturer and distributor of beer in the world), "high tech", marketing, merger and acquisition capabilities (including post-M&A integration), purchasing and distribution (R. van der Schyff, personal interview, 10 June 2003 and A. Miller Salzman, personal interview, 3 February 2003).

The above were the core competencies used for purposes of the thesis. SABMiller set out explicit core competencies to be used globally in 2004 (G.Leibowitz, personal interview, London, 13 July 2004). These are discussed further in Chapter 6.

5.4.8 Operations

The company is divided into five geographic regions for brewing and bottling businesses. The North American region has eight breweries; Central America three breweries and six bottling plants; Europe eighteen breweries and one bottling plant; Africa and Asia have sixty-one breweries and ten bottling plants; South Africa has seven breweries. Twenty-nine of the Africa and Asia breweries are commercial sorghum breweries. The Other Beverage Interests Division, located in South Africa, has an additional ten bottling plants. The Hotels and Gaming Division in Southern Africa, in which SABMiller now has a 49 percent shareholding, has four casinos and seventy-seven hotels (SABMiller Annual Report 2005).

5.4.9 Financials and Statistics

Table 5.6 summarises the financial results for the years ending March from 2001 to 2005. These are in US dollars. The years 1997 to 2001 are shown in both US dollars and South African rands and are available in Appendix 5.4. Appendix 5.3 covers the years from 1992 to 1998 in South African rands.

The adjusted earnings mentioned in Table 5.6 exclude the impact of amortisation and other nonrecurring items, to present a more meaningful comparison for the years shown in consolidated financial statements (SABMiller Annual Report 2005:81).

Group sales increased from $4,543 million in 1997 to $12,901 million in 2005, an annual compound growth rate of 13.9 percent over the eight-year period. Net profits increased from $363 million to $1,141 million over the same period, a growth rate of 15.4 percent a year.

Return on equity averaged 24.6 percent from 1992 to 1998 and declined to an average of 16.9 percent from 1999 to 2005. The return on equity declined to a low of 10.4

percent in 2003 but improved to 16.3 percent in 2005. The temporary decline in return on equity is attributable to the acquisition programme. Brewing companies generally have a price earnings (PE) multiple in the high teens, and premiums are usually paid in an acquisition. Examples of PE multiples are Anheuser-Busch (US) 15.8, Fosters (Australia) 12.5, Heineken (Holland) 16.6, Interbrew (Belgium) 16.9 and Scottish and Newcastle (UK) 21.2 (*Financial Times* 2005:14).

Operating margins, which have been as high as 16.7 percent, declined to 11.1 percent in 2003 but improved to 14 percent in 2005. Total borrowings to total assets varied from 23.9 percent in 2001, rising to 28.8 percent in 2003 and reducing to 21.9 percent in 2005. This ratio had exceeded 60 percent at times in the 1990s.

The business segment analysis shown in Appendix 5.5 is worth studying. Beer South Africa, which accounted for $2,522 million of the $14,543 million sales, including associates, contributed $708 million of the $2,043 million operating profit, recording net operating assets of $284 million out of the group total of $10,499 million in 2005.

Table 5.6 SABMiller Five-Year Financial Review 2005

Years ended 31 March					
	2001	2002	2003#	2004	**2005**
	Restated		Restated		
	US$m	US$m	US$m	US$m	**US$m**
Income statements					
Turnover (including associates share)	4,184	4,364	8,984	12,645	**14,543**
Turnover (excluding associates share)	3,624	3,717	8,167	11,366	**12,901**
Profit before interest and taxation (including associates)	700	704	933	1,579	**2,361**
Net interest payable	-54	-98	-163	-188	**-167**
Taxation	-195	-208	-349	-579	**-850**
Minorities	-99	-105	-125	-167	**-203**
Profit for the year	352	293	296	645	**1,141**
Adjusted earnings	372	350	581	925	**1,251**
Balance sheets					
Fixed assets	3,667	4,758	10,431	11,483	**12,287**
Current asset investments/cash at bank and in hand	218	290	561	682	**1,143**
Other current assets	514	643	1,258	1,634	**1,798**
Total assets	4,399	5,691	12,250	13,799	**15,228**
Interest-bearing debt	-1,053	-1,535	-3,523	-3,707	**-3,339**
Other creditors and provisions	-1,054	-1,102	-2,377	-3,108	**-3,586**
Total liabilities	-2,107	-2,637	-5,900	-6,815	**-6,925**
Net assets	2,292	3,054	6,350	6,984	**8,303**
Shareholders funds	2,006	2,309	5,572	6,165	**7,665**
Equity minority interests	286	745	778	819	**638**
Capital employed	2,292	3,054	6,350	6,984	**8,303**
Cash flow statements					
EBITDA	854	904	1,483	2,185	**2,740**
Working capital movements	5	71	85	107	**52**
Net cash inflow from operating activities	859	975	1,568	2,292	**2,792**
Net interest and dividends	-93	-158	-238	-286	**-251**
Taxation	-179	-179	-286	-456	**-625**
	587	638	1,044	1,550	**1,916**
Net capital expenditure	-331	-250	-429	-549	**-738**
Net investments	7	-49	-6	-211	**456**
Net acquisition of subsidiaries and associates	-700	-768	-54	-515	**-897**
Net cash (shortfall)/surplus	-437	-429	555	275	**737**
Management of liquid resources	64	19	44	-16	**-658**
Net cash inflow/(outflow) from financing	491	699	-48	12	**-100**
Dividends paid	-177	-173	-203	-309	**-412**
(Decrease)/increase in cash in the year	-59	116	248	-38	**-433**
Performance per share (US cents per share)					
Basic earnings	50.4	40.7	27.5	54.1	**94.1**
Diluted earnings	50.3	40.3	27.4	53.0	**91.1**
Adjusted basic earnings	53.3	48.7	54.0	77.6	**103.2**
Net asset value	258.9	274.6	438.3	484.4	**569.2**
Share statistics					
Total number of shares (million)	775.0	840.9	1,271.20	1,272.70	**1,346.50**
Weighted average number of shares (million)	697.1	718.5	1,076.10	1,192.20	**1,212.10**
Weighted average number of shares (diluted) (million)	699.4	766.6	1,079.10	1,264.70	**1,272.80**
Returns and productivity					
Return on equity (%)	18.5	15.2	10.4	15.0	**16.3**
Operating margin (%)	16.7	16.1	11.1	12.2	**14.0**
Cash operating margin (%)	23.6	24.3	18.4	19.3	**21.2**
Operating return (%)	42.6	37.5	34.9	44.0	**55.6**

Table 5.6 SABMiller Five-Year Financial Review 2005 (continued)

Cash operating return (%)	22.2	17.9	13.2	16.7	**18.9**
Group turnover per employee (US$000s)	115.7	111.9	192.6	287.2	**315.5**
Average monthly number of employees	31,327	33,230	42,402	39,571	**40,892**
Solvency and liquidity					
Net interest cover (times)	13.0	7.2	6.1	8.2	**12.2**
Free cash flow	349	496	755	1,161	**1,825**
Total borrowings to total assets (%)	23.9	27.0	28.8	26.9	**21.9**
Cash flow to total borrowings (%)	81.6	63.5	44.5	61.8	**83.6**

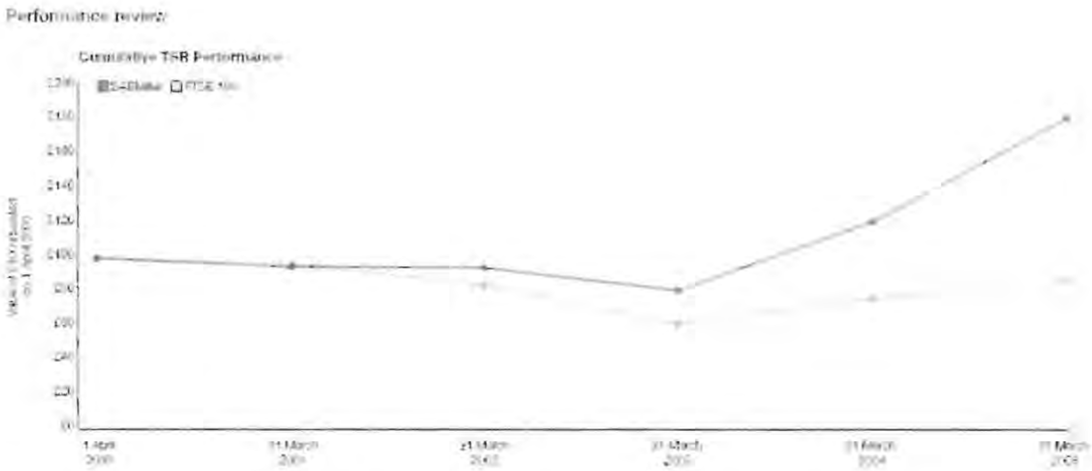
2003 figures have been restated to reflect the adoption of FRS 5 Reporting the substance of transactions, application note G and UITF 38. Earlier years have not been restated.

Source: SABMiller Annual Report 2005:121

5.4.10 Performance versus Peer Group

The following graph compares the company's total shareholder return (TSR) over the period from 1 April 2000 to 31 March 2005, with the FTSE 100 Total Return Index over the same period. TSR is the combination of share price appreciation and dividends returned over the medium-to-long-term.

Figure 5.4 SABMiller TSR Performance Graph 2005



Source: SABMiller Annual Report 2005:57.

Since SABMiller moved its primary listing to the London Stock Exchange in March 1999 the FTSE 100 has produced a TSR of 12 percent, while the company produced a TSR of 164 percent as at 31 March 2005 (SABMiller Annual Report 2005).

The 2002 Annual Report compared TSRs with other brewing and liquor companies, but this has not been done in subsequent reports. The comparison showed that SABMiller outperformed the FTSE 100 TSR but not certain of the beer competitors over the three years to March 2002. Table 5.4 shows that the SABMiller performance improves significantly in 2003, improving further in 2004 and 2005.

Referring to Table 5.2, the SABMiller share price on the Johannesburg Securities Exchange (JSE) increased at an annual rate of 11.9 percent compared to the 10.8 percent achieved by the JSE All Share Index and the 7.6 percent achieved by the JSE Industrial Index in the 11 years to December 2005. The growth rate of the SABMiller share price from 2000 to 2005 was 17.2 percent compared to the JSE All Share index of 16.2 percent and the JSE Industrial Index of 14.0 percent.

The SABMiller PE multiple on 30 December 2005 was 18.8 compared to the JSE All Share Index multiple of 14.2 (*Financial Times* 2006:20).

5.5 Sappi

5.5.1 Industry

Sappi is engaged in the forestry, pulp and paper industries.

The paper industry, in which Sappi competes, is generally divided into the printing and writing market segment, consisting of newsprint, groundwood paper and fine paper, and the packaging market segment, consisting of container board, box board and sack kraft. Paper pulp is the main raw material used in the production of printing, writing and packaging paper. *Pulp* is the generic term that describes the cellulose fibre derived from wood. Dissolving pulp is used in a variety of textile products rather than paper products. It is manufactured by similar processes, but purified further to leave virtually pure cellulose fibres. *Timber products* mean sawn timber for building construction and furniture manufacturing (Sappi Annual Report on Form 20-F 2004).

According to E. van As (personal communication, 19 November 2003) the key factors for success in the industry are to focus on the customer and deliver what he or she needs in a cost-effective manner. These are amongst the usual key factors for success that one would expect in most industries. He stipulates the following as specific differentiating factors in the paper industry:

1. Low cost, that is dependent on four main drivers: wood, energy, people and capital costs.
2. Productivity – large machines that must run at their "sweet spot".
3. A large enough market share to run the variety of grades efficiently on each piece of production equipment, i.e. not having to run a full range of products on one or two pieces of equipment that can, by their nature, run only a small proportion of the grades efficiently.

The paper and pulp industries are highly capital-intensive and cyclical. The timing of capital expenditure and acquisitions is therefore critical.

5.5.2 Profile

Sappi is one of the most global paper companies, with 20 mills across Europe, North America and southern Africa with a joint venture mill in China. There is a global customer base and the brands are internationally known. Sappi is the world's largest producer of chemical cellulose and coated fine paper. The company's coated fine paper market shares are given as approximately 24 percent in the USA, 20 percent in Europe and more than 60 percent in southern Africa. Its share of the world market for chemical cellulose is approximately 15 percent (Sappi Annual Report on Form 20-F 2004) Coated paper has a higher level of smoothness than uncoated paper with higher reprographic quality and printability (Sappi Annual Reports 2002 and 2004). End uses range from glossy magazines and catalogues to books (Sappi 2005a).

Sales for the fiscal year ended September 2005 were $5 018 million, the equivalent of R30 billion. There were 15,618 employees (Sappi Annual Report 2005).

Sappi is incorporated in the Republic of South Africa with its principal offices in Johannesburg. The primary listing is on the Johannesburg Securities Exchange, with secondary listings on the New York and London Stock exchanges (Sappi Annual Report 2005).

Geographic ownership of the company as of September 2005 was South African investors 42 percent, European investors 12 percent and North American investors 46 percent. Two beneficial holders of more than 5 percent of the issued share capital were the Public Investment Commission (SA), with 11.2 percent and the Industrial Development Corporation (SA), with 6.8 percent. Two fund managers located in South Africa were each responsible for managing 5 percent or more of the share capital of Sappi (Sappi Annual Report 2005).

5.5.3 History

South African Pulp and Papers Industries Limited was registered as a company in 1936, and construction of a pulp and paper mill began near Springs in the Transvaal in the following year. In 1947, it purchased two farms north of Tugela in Natal with the aim of establishing a second paper mill. In 1950, it bought another farm in Natal to establish pine plantations. The first reel of paper for kraft packaging was produced at Tugela in 1954.

In 1959, the majority share was acquired in Union Corrugated Cases and, in 1960, a further majority share in Cellulose Products, a manufacturer of tissue wadding. In 1966, construction of the Ngodwana Mill was completed, and the new mill produced its first unbleached kraft pulp. In 1968, the company applied for international patents covering the Sapoxyl bleaching process, using oxygen rather than chlorine. Trials began on the world's first commercial Sapoxyl bleaching reactor at the Springs mill in 1970.

The company re-registered as "Sappi Limited" in 1973. Three operating subsidiaries – Sappi Fine Papers, Sappi Kraft and Sappi Forests, each with its own board of directors – were formed in 1977. Eugene van As was appointed Group Managing Director in 1978. Sappi acquired Stanger Pulp and Paper in 1979 and formed a new division, Sappi Timber Products, specialising in saw milling, in 1980.

In 1981, a new waste-based mill in Cape Town produced its first linerboard made entirely from waste paper. In 1982, it acquired Novabord, a particle board manufacturing operation and, in 1983, Timberboard. In 1985, expansion of the Ngodwana mill was completed. Production included newsprint, linerboard, unbleached pulp and the first saleable tonnages of bleached pulp.

In 1986, 50 years after the establishment of the company, Sappi International was created to handle the export marketing of all Sappi products. Particle board expansion was commissioned at Sappi Novabord, near White River in what was then Transvaal, now Mpumulanga Province. The company acquired the Usutu Pulp Company in Swaziland, one of the world's leaders in unbleached softwood kraft pulp production, the following year. In 1989, it acquired Saiccor, the world's single largest producer of dissolving pulp.

Until 1990, the company had primarily expanded its operations within southern Africa. In 1990, it purchased five fine paper mills in the United Kingdom and established Sappi Europe, with its head office in London. In 1991, it acquired Speciality Pulp Services of Hong Kong and established Sappi Trading, the group's international trading company.

In 1992, Sappi acquired Hannover Papier, Germany's leading producer of coated wood-free paper. Sappi shares were listed on the London and Frankfurt Stock exchanges and the Paris Bourse. In 1994, a 75 percent stake was acquired in S.D. Warren, the USA's largest manufacturer of coated wood-free paper. This established Sappi as the world's leading producer of these grades. Eugene van As, the CEO of Sappi, moved to the United States temporarily, to manage Warren in the first year after its acquisition (J. Job, personal interview, 31 October 2002).

In 1995, an R800 million expansion was completed at Sappi Saiccor, reinforcing its position as the world's leading producer of dissolving pulp. Major modernisation and upgrading projects on all of Sappi's older mills in southern Africa were completed the following year. A further 22 percent shareholding in Warren was acquired, raising Sappi's ownership to 99 percent.

In 1997, Sappi acquired KNP Leykam, Europe's largest producer of coated wood-free paper. The Sappi Group was restructured into two focused operation divisions: Sappi Fine Paper, domiciled in London, managing the coated and uncoated fine paper businesses, and Sappi Forest Products, located in Johannesburg, managed the diversified forestry, pulp, particle board and container board businesses. Sappi Fine Paper became the world's largest producer of coated fine paper. It also became the market leader in North America, Europe and Africa and the largest exporter of coated papers to Asia.

In 1998, all companies in the group shed their former names and assumed the name "Sappi" worldwide. The group listed its shares on the New York Stock Exchange in the same year.

In 2000, the company sold Sappi Novabord, the particle board and medium density fibre board division, and, in 2001, it sold Sappi Mining Timber. In the same year, Sappi Fine Paper, North America, exited the US uncoated paper business. In 2002, Sappi closed its Transcript Mill subsidiary in Scotland and exited the carbonless paper market. All these actions were taken to focus on its core businesses, pulp and coated fine paper and to dispose of non-core operations.

In 2002, Sappi acquired Potlatch Corporation's fine coated fine and its pulp and paper mill in Minnesota, USA. These were adjudged an excellent fit with Sappi's existing operations in North America and Europe.

Eugene van As retired as CEO in 2003 and assumed the position of Non-executive Chairman.

In 2004 Sappi acquired a 34 percent equity stake in Jiangxi Chenming in China. This company is building a light paper machine and mechanical pulp mill.

Information for this subsection was obtained from Sappi (2003b) and (2006b).
Milestones in Sappi's history are shown in Figure 5.5.

Figure 5.5 Milestones for Sappi

- **1978** – Eugene van As appointed group MD
- **1980** – Cape kraft mill built
- **1981-1985** – Expansion of Ngodwana, in Mpumalanga, in one of SA's largest industrial projects at the time.
- **1988** – Acquisition of Sappi Salccor, a low-cost producer of chemical cellulose, 50 km south of Durban
- **1989** – Management control of Usulu pulp mill in Swaziland acquired.
- **1990** – Sappi Europe established, with purchased of five fine-paper mills in the UK.
- **1991** – Van As appointed executive chairman.
- **1992** – Acquisition of Hannover Papler, Germany's leading producer of coated woodfree paper, making Sappi one of Europe's top three producers in the sector.
- **1994** – Acquistion of SW Warren in the US for $1,45bn, then the largest-ever foreign investment by a SA company. The group gains a leading market share of more than 20% in the US coated paper market.
- **1995** – Completion of $250m expansion at Saiccor, which becomes the world's largest single producer of chemical cellulose.
- **1991-1996** – Upgrades and expansions completed at Ngodwana, Tugela and Enstra mills in SA.
- **1996** – Gencor unbundles its controlling stake in Sappi; shareholder base starts to diversify.
- **1997** – Acquisition of KNP leykam, the leading European producer of coated fine paper, for $1,7bn.
- **2002** – Acquisition of Potlach coated paper business in the US for $480m.
- **2003** – Jonathan Leslie appointed group CE, Van As retires as an executive director; becomes nonexecutive chairman.
- **2004** – Acquisition of 34% interest of Jiangxi Chenming Paper in China.

Source: Adapted from McNulty (2006c).

5.5.4 Management

Eugene van As, the Non-executive Chairman, joined the company as Managing Director of a Sappi subsidiary in 1977. He was appointed Group Managing Director and CEO of Sappi Limited in 1978, becoming Executive Chairman in 1991.

J.C.A. (Jonathan) Leslie joined as CEO in April 2003. He is a British citizen. He was employed by Rio Tinto from 1977 to 2002. He has wide experience of Africa, Australia, Latin America and the USA, including having been Managing Director of Rossing Uranium in Namibia. He was Mining Director of Rio Tinto in 1994 and was appointed CEO of the Gold and Diamonds Group in 1997. Wolfgang Pfarl, an Austrian citizen, is CEO of Sappi Fine Papers, Europe, and came to the group via a merger in 1993. Details of top managers are summarised in Table 5.7. Job and Wilson are the other executive directors. Two of the six executives listed have more than 10 years service with Sappi. Four of the six were recruited from outside the company in the past six years.

Table 5.7 Sappi Management

Name	**Responsibility**	**Age**	**Year Joined**
J.C.A. (Jonathan) Leslie	CEO	54	2003
W. (Wolfgang) Pfarl	Sappi Fine Papers	60	1993
J.L. (John) Job	Technology	60	1999
D.G. (David) Wilson	Finance	47	1999
V. (Ronee) Hagen	Sappi Fine Paper USA	59	2004
A. (Albert) Lubbe	Sappi Fine Paper SA	57	1996

Source: Sappi Annual Report 2005:12-15.

Sappi typically has about 40 people on assignment between their different regions. Over half of these would be from South Africa to about eight countries (R. Hope, personal communication, 21 December 2005).

5.5.5 Mission

Sappi's objective is to be the outstanding company in the global pulp and paper sector. This requires that the company return superior value to shareholders. The company has undertaken to measure performance using appropriate metrics: total shareholder return versus their peers; and internally growth in net present value per share. Sustaining these returns requires being recognised by all the company's stakeholders – customers, employees, local communities and regulators – as a company that adds outstanding value in all areas of its business, and one that does so responsibly (Sappi Annual Report 2004).

5.5.6 Strategies

Sappi plans to build on its position as the global leader in the market and explore opportunities across the broad spectrum of coated paper and dissolving pulp. The company business model is built on the major cornerstones of:

1. Coated-paper focus
2. Full pulp integration
3. Global manufacturing platform
4. Financial discipline

(Sappi Annual Report 2002 and 2003).

The strategies listed below were obtained from the Sappi 2002 Annual Report and accessed from the website on 12 September 2003.

1. Staying focused on branded fine paper, the fastest-growing sector in the paper industry.
2. Growing leading market shares in North America and Europe and entering new areas.
3. Providing new innovative products and services.
4. Continuing to improve the efficiencies of world-class assets.
5. Supporting the coated fine paper business with a high level of pulp integration.
6. Superior service.
7. Systems.

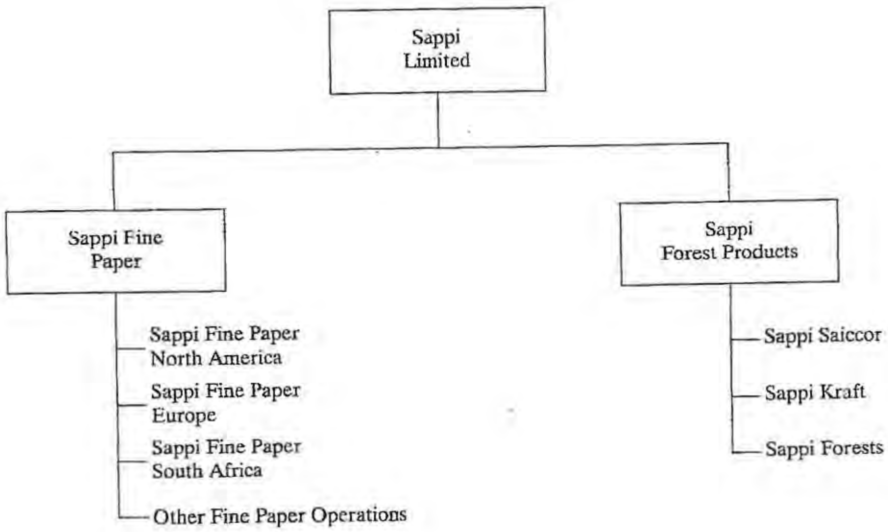
5.5.7 Core Competencies

Sappi's core competencies are marketing, operations, a culture of innovation in products, technology and business practices, merger and acquisition capabilities (including post-merger integration), systems and human capital (R. Hope, personal interview, Johannesburg, 13 June 2003).

5.5.8 Operations

Sappi's organisational structure is shown in Figure 5.6.

Figure 5.6 Sappi Organisational Structure.



Source: Sappi Annual Report (on Form F-10) 2004:16.

Sappi Fine Paper's operations are conducted from London. They are managed through three regional business units; Sappi Fine Paper, North America, Sappi Fine Paper, Europe and Sappi Fine Paper, South Africa. There are four fine paper mills in North America, seven in Europe and three in South Africa. There are sales and trading offices throughout these regions and additional Sappi trading offices in Central America, South America, Central Africa, Australia and four in Asia (Sappi Annual Report [on Form F-10] 2004:16).

Sappi Forest Products, headquartered in Johannesburg, is a pulp and commodity paper products business that operates three business units, Sappi Kraft, Sappi Saiccor and Sappi Forests. Sappi Saiccor is the world's largest producer of dissolving pulp. Sappi Forest Products also produces newsprint and kraft packaging paper and beneficiates wood into timber products. It operates five mills (Sappi Annual Report Form F-10 2004).

5.5.9 Financials and Statistics

Appendix 5.6 shows results from February 1991 to September 1999 in South African rands. Sales increased at a rate of 26.5 percent per annum while net profit increased at a rate of 7.8 percent over this period. Return on equity averaged 9.2 percent, with a high of 21.2 percent in 1995 and a low of 2.4 percent in 1997.

Table 5.8 reviews financial and operating results for the period from September 2001 to September 2005. Results are shown in US dollars. Sales grew at 4.6 percent per year but net profit declined from \$217 million in 2002 to \$213 million in 2005. Return on equity averaged 6.2 percent over this period, with a high of 15.3 percent in 2001 and a negative return of 10.5 percent in 2005. Sappi's recent results not only were impacted by the slowdown in the industry but exacerbated by the strengthening of the rand, as their pulp is produced in South Africa and exported to its subsidiaries in North America and Europe. The 2005 Annual Report attributed the loss for that year to extremely difficult industry conditions. Surplus capacity depressed prices on the one hand while rising input costs, led by accelerating oil prices, increased costs on the other hand. There were nonrecurring "impairment charges" of \$183 million for Muskegon Mill in the USA and \$50 million dollars for the Usutu Mill in Swaziland.

The company's debt/equity ratio was 0.41 in 1994, rose to a peak of 1.55 in 1997, reflecting borrowings to finance acquisitions and expansion and improved to 0.88 in 2005.

Sappi sets out its financial goals on page 5 of the 2005 Annual Report, where return on equity is targeted to exceed the American risk-free rate by at least five percentage points and is set at more than 11 percent.

Table 5.8 Sappi Five-Year Review 2001-2005

	Annual compound growth (%)	September 2005 US$ million	September 2004 US$ million	September 2003 US$ million	September 2002 US$ million	September 2001 US$ million
Income statement and cash flow						
Sales	4.6	5,018	4,728	4,299	3,729	4,184
Operating (loss) profit [6]	–	(137)	188	272	402	239
Net finance costs (excluding capitalised interest)	(8.7)	87	110	111	102	125
Depreciation, amortisation and fellings	8.7	490	465	395	338	351
(Loss) profit before taxation [6]	–	(224)	78	161	300	147
Net taxation [7]	–	(11)	(17)	18	83	15
Net (loss) profit for the year [1][6]	–	(213)	95	143	217	132
Headline earnings [1]	(50.1)	18	98	157	230	259
Cash generated by operations	(7.9)	554	601	645	722	771
EBITDA [2][6]	(12.1)	353	653	667	740	590
Balance sheet						
Non-current assets [1]	6.4	4,332	4,564	4,280	3,658	3,375
Current assets	3.1	1,376	1,580	1,575	1,094	1,219
Total assets [1]	5.6	5,708	6,144	5,855	4,752	4,594
Current liabilities	0.5	1,485	1,524	1,361	1,050	1,449
Total capital employed	7.8	4,223	4,620	4,494	3,702	3,145
Net debt	10.2	1,662	1,584	1,491	1,419	1,126
Returns (%)						
Operating (loss) profit to sales [6]		(2.7)	4.0	6.3	10.8	5.7
Operating (loss) profit to average [6] net assets (RONA) [7]		(3.1)	4.1	6.0	11.7	7.0
Net (loss) profit to average ordinary shareholders' equity (ROE) [1][3][6]		(10.5)	4.6	7.9	13.7	15.2
Ratios						
Net debt/total capitalisation [2]		0.38	0.32	0.31	0.30	0.30
Net debt/equity ratio [2]		0.88	0.73	0.75	0.67	0.73
Asset turnover (times)		0.88	0.77	0.73	0.78	0.91
Current asset ratio		0.93	1.04	1.16	1.04	0.84
Trade accounts receivable days outstanding (including receivables securitised)		50	56	52	54	44
Inventory turnover (times)		6.3	5.4	5.3	5.8	6.6
Cash interest cover (times)		6.4	5.5	5.8	7.1	6.2
Number of employees		15,616	16,010	16,939	17,572	18,231
Sales per employee (US$'000)		321	295	254	212	229

Source: Sappi Annual Report 2005:66-67.

5.5.10 Performance versus Peer Group

Sappi's mission (Subsection 5.5.5 above) mentions the company's undertaking to measure performance using total shareholder return versus their peers. This measurement is not yet available in the annual report or on the website.

R. Hope (personal interview, 25 October 2002) reported that Sappi would rank in the top three in the world in terms of overall financial performance compared to companies in similar industries. It might rank first in overall return on equity for the past few years (at that stage).

The following table shows Sappi's return on equity versus the Value Line Paper and Forest Product Composite for US-listed companies:

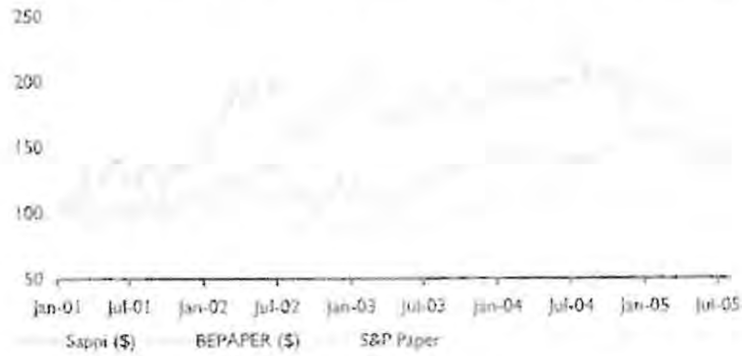
Table 5.9 Return on Equity: Sappi versus Value Line Composite Percentages

Year	**2001**	**2002**	**2003**	**2004**
Value Line	3.6	3.5	2.7	9.0
Sappi	15.9	14.3	8.1	4.8

Source: Roth (2005:910).

Figure 5.7 below shows Sappi and its European and US peer groups. It can be seen that Sappi rerated significantly relative to its peers in 2001 and 2002, but that this rerating has unwound since the middle of last year, particularly relative to the European peer group which more closely resembles Sappi.

Figure 5.7 Sappi and Its International Peers 2001 – 2005



Source: Bloomberg, cited by Rasmussen (2005:7).

Table 5.10 shows Sappi's rating compared to its main international peers. "It is clear that Sappi is accorded a rating well below all but Abitbi and M-Real, which continues to make losses" (Investec Securities 2005:7). Investec believe there is potential for Sappi to rerate relative to the large European peer.

Table 5.10 Sappi International Peer Group Comparison

	P/CF 2005	PE 2005
International Paper	7.0	25.[illegible]
Abitibi Stone *	4.5	nm
UPM Kymmene	6.[illegible]	20.2
Stora Enso	6.1	26.4
M-real *	3.4	nm
Cap Wtd Average	6.3	24.3
Sappi	4.7	27.2
Sappi % of average	74	112

Source: Rasmussen (2005:7).

Mondi, Sappi's South African-based competitor, reported operating profits of $569 million for 2004 and $495 million for 2005, compared to Sappi's loss in the latter year (Anglo American Annual Report 2005). With net operating assets of $6,365 million Mondi is of a comparable size to Sappi.

Referring back to Table 5.2, Sappi's share price growth rate from 1994 to 2005, based on closing prices, was 0.1 percent versus the JSE All Share Index of 10.8 percent. Based on these statistics it has substantially underperformed in comparison with the Johannesburg Securities Exchange. The cyclical nature of the industry and the timing of measurement should however be taken into account when judging Sappi's performance. For example if this study had been undertaken in 2002, with the high price of 16,200 cents and the low price of 2,975 cents in 1994, the growth rate would have substantially exceeded that of the JSE. The question therefore is what recovery Sappi will make in the next year or two as the cycle changes.

E. van As (personal interview, Johannesburg, 22 July 2004) points out that Sappi outperformed its global competitors over the period 1994 to 2003 but did not beat the JSE over this period because of the cyclical, capital-intensive and competitive nature of the paper and pulp industry.

In addition to the above there is evidence that the company's performance and rating since 2003 have declined relative to competition. This is discussed further in Chapter 10.

Sappi shares were at a price earnings multiple of 48.9 and a dividend yield of 2.6 percent on the JSE on the 30 September 2005.

5.6 Wolverine World Wide

5.6.1 Industry

The company competes in the footwear and related industries markets. The key success factors include brand, styling and product development, distribution, customer service and operations/sourcing. The relative importance of each key factor for success depends on the particular market segment (Harvey 1993b).

5.6.2 Profile

Wolverine World Wide is a leading marketer of branded casual, rugged outdoor, work, outdoor sport and uniform footwear. The company's global portfolio of owned and licensed brands includes: Bates Uniform Footwear, CAT Footwear, Hytest, Harley-Davidson Footwear, Hush Puppies, Merrell, Sebago, Stanley Footgear and Wolverine Boots and Shoes. Products are marketed in over 140 countries worldwide.

The company also operates a retail division to showcase its brands, a tannery that produces Wolverine Performance Leathers, and an apparel and accessory licensing division to extend its own brands into product categories beyond footwear.

The company sales approximate $992 million, while the sales of its brands under licence are not far behind the same figure. There are approximately 5,130 employees.

The head office is in Rockford, Michigan, USA. The company is listed on both the New York Stock Exchange and the Pacific Exchange (Wolverine World Wide Annual Report 2004).

5.6.3 History

The Krause family, the company's founders, has handed down their trade of bark tanning (using vegetable matter) from father to son since 1630. Henry Krause, born in Prussia in 1829, learned the trade from his father before emigrating to America in 1844. His son, G.A. Krause, formed a partnership with his uncle in Grand Rapids, Michigan, to buy and sell leather and hides and wholesale shoes.

In 1903, a shoe factory was built in Rockford, Michigan, and the firm was incorporated as the Hirth-Krause Company in 1906. In 1908, a new process was developed for tanning cordovan horse hide. The Wolverine Brand name was selected. In 1921, the company adopted its most successful brand name and became the Wolverine Shoe and Tanning Corporation. The first glove factory was opened in the same year. The company grew and prospered through the 1920s; while market conditions fluctuated, the national popularity of the Wolverine brand provided a solid foundation for continued growth. In 1925, it began an unprecedented farm-publication advertising campaign that made Wolverine Shell horsehide shoes a widely recognised brand name.

The Depression years were difficult for Wolverine, but it managed to keep its employees working and continued to produce and sell despite the Great Depression. Toward the end of the Depression, the supply of horses dwindled as automobiles and tractors rapidly replaced the animals. As horsehide shortage reached critical proportions another cataclysmic event, World War II, presented the company with a new opportunity. The War Production Board asked Wolverine to explore the possibilities of tanning pig skins for gloves. In spite of the considerable difficulty involved, Wolverine produced large quantities of pigskin gloves for the war effort.

In 1945, the tannery was expanded and modernised for tanning pig skin and, in 1950, a revolutionary pig-skinning machine was developed and patented. In 1957, Hush Puppies shoes were introduced and in 1958 the Hush Puppies Brand was launched with a heavy marketing and advertising campaign. In 1959, Greb Shoes, Canada, became the first foreign licensee to produce Hush Puppies shoes.

The name *Hush Puppies* was suggested by the company sales manager. While on a trip to Tennessee, he asked why the little fried corn dough balls were called "hush puppies"; the reply was that "the fried dough was used by farmers to quiet their barking dogs". In 1965, the company was listed on the New York Stock Exchange, and in 1966 it was renamed Wolverine World Wide Inc, to better reflect its international scope and stature. Several acquisitions of other shoe companies were made, and in 1975 manufacturing began in West Germany, Wolverine's first manufacturing facility abroad. A retail stores operation was established in 1976 and in 1977 an advanced, high-capacity computer system became operational.

The company prospered in the late 1970s and early 1980s. Imports began to increase their share of the US footwear market; athletic shoes became very popular and competed with traditional footwear. Wolverine World Wide's profitability began to decline and culminated in a loss in 1986. The return on equity did not exceed 10 per cent in any year between 1984 and 1992 (Wolverine World Wide annual reports, 1986 -1992).

Geoffrey Bloom was hired away from Florsheim to become President of Wolverine in 1987. A further loss was experienced in 1990. The company began to focus on marketing, product development and sourcing. Results improved from 1994 onward with net income to sales exceeding 6 percent in 1996. The company has maintained a net income to sales ratio of more than 5 percent from 1996 until the present, with the exception of 1999 (4.9 percent) and 2000, when once-off nonrecurring charges were made for sourcing realignment charges (factory closures) and write-off of the Russian wholesale business (Wolverine World Wide Annual Reports 1999, 2000).

The company introduced CAT Footwear, under licence from Caterpillar, in 1993, acquired Merrell Footwear in 1997, introduced Harley-Davidson footwear, under licence, in 1998 and acquired Sebago in 2003 (Wolverine World Wide annual reports, 1993-2004).

Information for this subsection was obtained from Wolverine World Wide (1983) and annual reports from 1990 to 2004.

5.6.4 Management

Geoffrey B. Bloom (63) the Chairman, joined Wolverine as President and Chief Operating Officer (COO) in 1987. He was appointed CEO and President in 1993 and Chairman in 1996. He retired as CEO in 2000. Timothy J. O'Donovan was appointed CEO and President in 2000, having been COO and President since 1996. He joined Wolverine in 1969. O'Donovan and seven other executive officers are listed in Table 5.11 below.

Table 5.11 Wolverine World Wide: Management

Name	Responsibility	Age	Year Joined
T.J. (Timothy) O'Donovan	CEO	59	1969
S.M. (Steven) Duffy	Executive Vice President	52	1989
V.D. (Dean) Estes	Vice President	55	1975
S.L. (Steven) Gulis	Executive Vice President CFO & Treasurer	47	1986
B.W. (Blake) Krueger	Executive Vice President & Secretary	51	1993
N.P. (Nicholas) Ottenwess	Vice President of Finance & Corporate Controller	42	1993
R.J. (Bob) Sedrowski	Vice President Human Resources	55	1990
J.D. (James) Zwiers	General Counsel & Assistant Secretary	37	1995

Source: Wolverine World Wide Annual Report (on Form 10-K) 2004:15.

All eight of the managers shown in Table 5.11 have at least 10 years service with the company, with two having more than 30 years' service. All members of the Board of Directors and all executive officers are American citizens except for Alberto Grimoldi, an Argentinian shoe manufacturer and retailer, who became a director in 1994. (Wolverine World Wide Annual Report on Form 10-K 2004:15). Less than a dozen employees have been appointed from the US to the company's foreign operations in the last eight years (J.C. Tegner, personal interview, Rockford, 20 January 2006).

Bloom retired from the board in July 2005. O'Donovan was elected Chairman. Krueger was promoted to President and Chief Operating Officer of the company. Estes, Duffy and Sedrowski retired before the end of 2005. Cheryl L Johnson, recruited from outside the corporation, was appointed Vice President of Human Resources (Wolverine World Wide Annual Report 2006).

5.6.5 Mission

Wolverine World Wide's mission is to become "the world's premier non-athletic footwear company". The vision to achieve this is to be consumer-focused, fact-based and market-driven (Wolverine World Wide 2003 and 2005).

5.6.6 Strategies

The strategies are summarised as follows:

1. Build the strongest brand portfolio in the industry.
2. Expand global reach.
3. Accelerate growth in the women's segment of the market.
4. Create an environment that enables the company to attract and retain the best people in the industry (build a strong team and company culture).
5. Ensure the entire organisation is following a market-driven and consumer-focused operating philosophy.
6. Provide "best in class" service to customers.

7. Achieve product excellence from design through production (product innovation).
8. Provide community service.

(Wolverine World Wide Annual Reports, 2002, 2003 and 2004).

5.6.7 Core Competencies

The company's core competencies are: the ability to build brands; the ability to operate globally (mind-set, reach, scope, distribution); the ability to recruit and maintain a highly motivated management team; a global operations capability; merger and acquisition and business start-up capabilities (including post-merger integration); innovative product design and development and marketing (T.J. O'Donovan, personal interview, Rockford, 6 October 2003).

5.6.8 Operations

Besides the United States, the company has owned operations in Canada, the United Kingdom, Austria, Finland, France, Germany, the Netherlands, Spain, Sweden and Switzerland. It has a worldwide network of independent licensees and distributors.

The company controls the sourcing and manufacture of approximately 76 percent of the pairs of footwear marketed under the company's brand names globally. The company's licensees control the balance. Approximately 88 percent of the pairs controlled by the company are purchased, or sourced, from third parties, with the remainder produced at company-owned facilities. These facilities are located in Michigan and Arkansas, in the US and the Dominican Republic. The company sources the majority of its footwear from a variety of foreign manufacturing facilities in the Asia-Pacific region, Central and South America, India and Europe. It maintains technical offices in the Asia-Pacific region to facilitate the sourcing and importation of quality footwear.

The Wolverine Leathers Division operates the largest pigskin tannery in the US. The Retail Stores Division operated 63 domestic retail stores in February 2003; the

Apparel and Accessory Licensing Division licenses the company's brands for use on non-footwear products, including apparel, socks, handbags, gloves, eyewear, watches and plush toys.

The Office of the Chairman (OTC) consists of the five senior executives. The Operating Board (OB) consists of the general managers of each of the brands, the heads of the primary business functions and the senior executives. The OTC and OB meet regularly to share and exchange business information, strategic direction, plans and results. (J. Tegner, personal communication, 7 October 2003).

(Wolverine World Wide Annual Reports on Form 10-K, 2002 and 2004).

5.6.9 Financials and Statistics

Table 5.12 depicts the financial highlights from 2002 to 2004 and Appendix 5.8 provides a five-year operating summary from 2000 to 2004; Appendix 5.9 the same information from 1993 to 1997. Further details from the years 1994 to 2002 are available in Appendices 5.10, 5.11 and 5.12.

Sales increased from $387.5 million in 1994 to $991.9 million in 2004, a compound growth rate of 9.9 percent. Net earnings improved from $16.6 million to $65.9 million over the same period, a compound growth of 14.8 percent. Net income to sales exceeded 5.5 percent for each of the 10 years when non-recurring items are excluded. Return on equity varied from 11.8 percent in 1995 to 15.5 percent in 1997 and was generally in the low teens (Sirios 2005).

The total debt-to-total capitalisation ratio stood at 42 percent in 1999 and was steadily reduced, reaching 8.7 percent by 2004.

Table 5.12 Wolverine World Wide: Financial Highlights 2004

FINANCIAL HIGHLIGHTS

	2004	2003	2002
OPERATING HIGHLIGHTS (in millions)			
Revenue	**$ 991.9**	$ 888.9	$ 827.1
Earnings before income taxes and minority interest	**97.1**	75.1	71.7
Income taxes	**30.9**	23.3	23.6
Net earnings	**65.9**	51.7	47.9
Working capital	**320.6**	300.9	284.5
Cash provided by operating activities	**106.4**	102.2	88.3
Capital expenditures	**18.1**	16.0	13.9
KEY RATIOS			
Gross margin percentage	**37.7%**	36.7%	35.6%
Selling and administrative expenses as a percentage of revenue	**27.6%**	27.7%	26.3%
Effective income tax rate	**31.8%**	31.0%	32.9%
Net earnings as a percentage of revenue	**6.6%**	5.8%	5.8%
Total debt to total capitalization	**8.7%**	12.2%	16.5%
Return on average equity	**15.1%**	13.4%	12.6%
Return on average assets	**10.8%**	9.3%	8.6%
Revenue per employee (in thousands)[1]	**$ 193.2**	$ 185.8	$ 186.9
PER SHARE OF COMMON STOCK[2]			
Diluted net earnings	**$ 1.09**	$ 0.85	$ 0.77
Cash dividends declared	**0.19**	0.15	0.12
CORPORATE STATISTICS			
Shares used for computing diluted earnings per share (in thousands)[2]	**60,474**	61,081	62,334
Number of shareholders of record[3]	**1,518**	1,590	1,721
Number of employees at year-end	**5,134**	4,784	4,426

(1) Based on the number of employees at year-end.
(2) All amounts are adjusted for the Company's three-for-two stock split distributed on February 1, 2005.
(3) As of the applicable record date.

MARKET INFORMATION

Wolverine World Wide, Inc. common stock is traded on the New York Stock Exchange and Pacific Exchange under the symbol "WWW." The following table shows the high and low stock prices on the New York Stock Exchange and dividends declared by calendar quarter for 2004 and 2003. The number of shareholders of record on March 1, 2005 was 1,518.

	2004		2003	
Stock Price	High	Low	High	Low
First quarter	**$16.10**	**$13.40**	$11.72	$ 9.53
Second quarter	**18.81**	**15.38**	12.87	10.70
Third quarter	**17.92**	**14.27**	14.00	12.35
Fourth quarter	**21.66**	**16.18**	14.39	13.00

Cash Dividends Declared Per Share	2004	2003
First quarter	**$.043**	$.037
Second quarter	**.043**	.037
Third quarter	**.043**	.037
Fourth quarter	**.065**	.037

A quarterly dividend of $.065 per share was declared during the first quarter of fiscal 2005.
All prices and dividends are adjusted for the Company's three-for-two stock split distributed on February 1, 2005.

Source: Wolverine World Wide Annual Report 2004: Inside cover.

5.6.10 Performance versus Peer Group

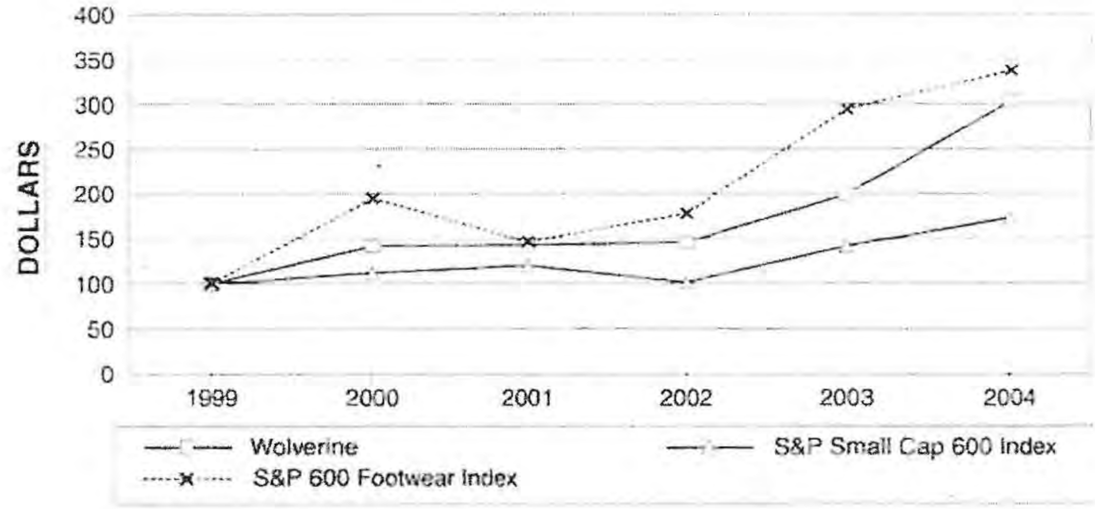
Wolverine compares its performance against both footwear competitors and other companies in general.

Figure 5.8 below compares the cumulate total stockholder return on Wolverine common stock to the Standard & Poor's Small Cap 600 Index and the Standard & Poor's 600 Footwear Index, for the five years from 1999 to 2004, assuming an investment of $100 at the beginning of the period indicated. Details of similar indices for the period from 1994 to 1999 are shown in Appendix 5.13 and were used in conjunction with Figure 5.8 and Table 5.13 to calculate the various returns.

Wolverine is part of the Standard & Poor's Small Cap 600 Index and the Standard & Poor's 600 Footwear Index. In addition to Wolverine, the Standard & Poor's 600 Footwear Index consists of Brown Shoe Company, Inc., K-Swiss Inc. (Class A), and The Stride Rite Corporation. These indices are weighted based on the market capitalisation of the companies included in each index.

Cumulative total stockholder return is measured by dividing: (a) the sum of the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and the difference between the share price at the end and the beginning of the measurement period; by (b) the share price at the beginning of the measurement period.

Figure 5.8 Wolverine World Wide and Peer Group Total Return 1999-2004



Source: Wolverine World Wide: Notice of Annual General Meeting 2005:21.

The dollar values plotted in the graph are shown in Table 5.13 below.

Table 5.13 Wolverine World Wide: Total Stockholder Return 1999-2004

		S&P	**S&P**
			6000
Fiscal		**Small Cap**	**Footwear**

Year-End	Wolverine	600 Index	Index
1999	$ 100.00	$ 100.00	$ 100.00
2000	$ 141.18	$ 111.80	$ 194.03
2001	$ 142.51	$ 120.10	$ 146.38
2002	$ 145.73	$ 101.54	$ 177.79
2003	$ 198.76	$ 141.35	$ 294.57
2004	$ 303.95	$ 173.08	$ 337.45

Source: Wolverine World Wide: Notice of Annual General Meeting 2005:11.

Wolverine World Wide achieved a compound return of 16.1 percent a year for the 10 years to 2004, achieving 8.2 percent for the first five years and improving to 24.9 percent for the second five years. This was significantly ahead of the Small Cap Index but marginally below the Footwear Composite. The Footwear Composite was 17.9 percent for the 10 years, attaining 9 percent for the first five years and 27.5 percent for the second five years. The Wolverine return from 2002 to 2004 exceeded the Footwear Composite, the two being respectively 44.4 percent and 37.8 percent. Its share appreciation over this period was almost 120 percent, compared to 40 percent for the Standard & Poor's 500 and 30 percent for the Dow Jones Industrial Index (Wolverine World Wide Annual Report 2004:15).

The Wolverine World Wide return on sales figures are in line with the Value Line Shoe Industry Composite statistics of 5 to 6 percent, while the return on equity returns are slightly below the composite of 16 to 18 percent (Sirios 2005).

5.7 Summary and Conclusion

All four of the corporations studied are long established; three of them are more then a century old. Each of the four is engaged in very different industries but all are world leaders in some aspects of their business.

Hamel and Prahalad (1996), discussed in the literature review, stress the importance of management stability in the development of core competencies. The average tenure for a chief executive of an FTSE 100 firm is four years (Haywood 2003); 5.9 years for CEOs in the USA (Challenger, Gray and Christmas 2003, cited by Whitfield 14 July 2004). All four corporations have histories of long-serving chief executives. Three of the companies have exceptional stability and continuity in their managements. Sappi having the lowest long-service records of top executives.

Of the four companies, however, Sappi is closest to the Govindarajan and Gupta (1998, 2001) ideal of heterogeneous management teams. These authors recommend that teams include a mixture of language skills, international experience and nationalities. Bossidy and Charan (2002) also advocate seeking the best and diverse talent. My reference to diversity here is based on what is required for effective management and a corporation's realistic acceptance of its environment and not on what may be seen to be politically correct or fashionable. The achievements of the four management teams clearly demonstrate what relatively homogeneous teams can accomplish, although one does not know what would have happened if the teams had been more diverse.

The remarks in the previous paragraph are based on an analysis of the top management teams of the corporations. I do know that all of the companies have local people in the management of their foreign interests. It should also be noted, from the different tables summarising the managements of each of the companies, that it can take 20 to 30 years for a recently employed graduate to rise to top management. The three South African companies have been in multinational business for only a decade, while Wolverine World Wide has only recently begun to manage its own wholesale distribution in parts of the world having previously relied on licensee networks. All four company boards of directors have greater diversity than their management teams at present.

The three South African corporations made crucial appointments from within their own ranks when faced with crisis or challenge, rather then recruiting outsiders experienced in a particular country or culture. Tony Phillips from Barloworld was transferred to Finanzauto in Spain in 1993 without any working knowledge of Spanish at the time (A.J.Phillips, personal interview, 22 October 2002). Eugene van As of Sappi acted as CEO of SD Warren in the USA for almost a year after that corporation was acquired in 1994. SABMiller appointed Norman Adami as President of Miller Brewing Company from his position of head of the South African operations in 2003 (SABMiller Annual Report 2003). In contrast Wolverine World Wide recruited Geoffrey Bloom from Florsheim, a leading US footwear company, when it faced challenges in 1987.

Barloworld had 107 managers and technical experts serving outside South Africa in October 2005. Only 14 of the total were however, in assignments outside continental Africa. SABMiller on the other hand had a 168 employees serving outside South Africa of whom 103 were outside continental Africa. Sappi generally has somewhat more than 20 people from South Africa on assignments outside the country plus somewhat less than 20 from other countries rotating throughout the group. There are therefore significant differences between the three companies in the numbers of staff transferred or seconded out of South Africa to posts outside continental Africa. Wolverine has transferred less than a dozen employees to foreign interests over the past eight years.

Mission statements and strategies of the four corporations are set out clearly in annual reports and on websites. Barloworld is somewhat broader than the others in this regard, but it has a wider range of industries under its management. All of the corporations have core competencies relating to both human resources and acquisition and post-acquisition integration.

The recent financial results of the four companies are superior to those of the majority of their peers and peer groups. The share price and dividend performances of both Barloworld and SABMiller matched or exceeded that of the JSE All Share Index for the 11 years to 2005, notwithstanding the 42.8 percent increase in the index from 2004 to 2005. SABMiller's total shareholder return substantially exceeded that of the FTSE 100 for the period March 1999 to March 2005. Sappi's share performance over this period was well below the JSE All Share Index, but it did outperform most of its global competitors for several years up to 2003. There is some evidence that its performance relative to competitors declined in 2004 and 2005.

Wolverine World Wide is the only one of the four companies that publically compares its performance to both competitors and a general share market index. SABMiller did show these in 2002 but has shown only performance against the FTSE 100 Index for the past three years. Barloworld compares its performance to the JSE All Share Index in its 2005 Annual Report, but not to competition. (There are 10 divisions). Sappi states and reports on its financial performance against objectives and standards but as yet not against competition or share indices.

Wolverine's total return to shareholders of 16.1 percent over 10 years is slightly ahead of the 11-year returns of Barloworld of 14.67 percent or SABMiller of 13.93 percent when estimated dividends of the latter two companies are taken into account.
Having examined the corporations, we can now investigate their core competencies in the next chapter.

6. CORE COMPETENCIES OF THE CORPORATIONS

6.1 Introduction

Core competencies are defined in Section 1.5. The preferred definition for the thesis is that of Hamel and Prahalad (1996:219) who define a core competence as a bundle of skills and technologies that enable a company to provide a particular benefit to customers. A core competence, as articulated by them, has three traits: it makes a contribution to perceived customer benefits it is difficult for competitors to imitate and it can be leveraged to a wide variety of markets (Mascarenhas, Baveja and Jamil 1998). Based on my own management, consulting and executive education experience, I believe that the majority of management practitioners are more conversant and at ease with the Thompson and Strickland (2003), or similar definitions of a core competence than they are with other definitions. Thompson and Strickland (2003) describe a core competence as something that the company does well relative to other internal activities and a distinctive competence as something that the company does well relative to competitors.

Chapter 1 mentions the Kaplan and Norton (2004) observations that strategies can exist around many doctrines. All successful companies have core competencies but the ways in which they are articulated vary widely. These observations apply to the four corporations in question.

P.M. Drewel (personal interview, Sandton, 9 May 2003) points out that Barloworld's strategy is crafted around its value based management (VBM) philosophy and long term relationships. J. Nel of SABMiller considers drivers and processes as key components of the company's strategy (telephone interview, 30 January 2004). Sappi's Annual Report of 2004 as well as R. Hope (personal interview, Johannesburg, 13 June 2003) have leadership as a core element of Sappi's strategy based on six core leadership competencies: leading others, strategic thinking, operational delivery, driving change, commercial insight and self awareness. Wolverine World Wide follows a consumer-focused, fact-based and market-driven strategy (Wolverine World Wide 2004 and 2005).

All four of the companies mention core competencies in annual reports and company documents, and take them into account when formulating strategy. All of them use varieties of strategic frameworks, as described by Figure 3.8 in Subsection 3.3.3. None of them, however, has core competencies as the "lead" driving factor in its strategies. Only Wolverine World Wide had an "official" or formal list of core competencies which was given to me at my first interview with the company. Executives in the other three companies seemed to know what their core competencies were, and I found no significant differences in the perceptions of overall core competencies within a corporation.

The three South African companies, however, did not produce any formal lists or codified descriptions of core competencies, mainly because core competencies were not the major drivers of their strategies. It was therefore necessary for me to discuss the core competencies in depth with company officials and agree on what they were. Question three of section three of the core competencies questionnaire, dated 29 January 2003, asked the question "What are your core competencies? Where possible link each core competency to an activity in the value chain." The value chain is the concept or mechanism used to analyse and compare the core competencies by corporation.

The core competencies agreed upon with the companies were subsequently coded to reflect their locations in the value chain. A company's initial code begins with the first letter of its name (e.g. Barloworld is "B"). SABMiller is signified by "AE" because *Sappi* begins with an "S" and two of the regions of SABMiller, Africa and Asia and Europe are analysed separately in parts of the research. The core competencies are reported in terms of their locations in the value chain with *primary* locations followed by *support* locations. Primary locations commence with service, followed by marketing and sales, outbound logistics, operations and inbound logistics. These are set out in Figure 3.18 on the value chain in Subsection 3.7.1. The support activities are firm infrastructure, human resource management, technological development and procurement. The merger and acquisition activity is used as a distinct part of the firm infrastructure because of the importance of mergers and acquisitions in international expansion and all of companies listing this as a core competency. I also devised a standard format so that the core competences could be allocated to the relevant locations in the value chain, enabling me to compare and contrast the companies in the analysis phase. Draft formats of the core competencies were subsequently submitted to the companies for review and approval.

The core competencies for each of the four companies are presented, together with background and explanatory information, in the following sections. Several value chain activities may support, or make up, a core competence. In these cases the most important of the activities is classified as the "predominant" value chain activity and the others as the "secondary" activities, so as not to confuse the terminology with that of primary and support activities in the values chain. The predominant activity for each core competence is listed first in the right-hand column of the tables, with the secondary activities following below. For example, Wolverine World Wide's core competency of recruiting and maintaining a highly motivated management team (see Table 6.4) is "placed" in the human resource management section of the value chain, although general management activity is also involved. Value chains and the locations of the core competencies are discussed in Section 6.6 of this chapter.

In practice the core competencies are interdependent; some overlap, while most could not exist without support from others (see also Porter's [1985] value chain activities in Subsection 3.6.1). Very few core competencies, for example, would exist without adequate management and people competencies. However, it is necessary to demarcate and compartmentalise core competencies for the purposes of analysis.

6.2 Barloworld

Barloworld's seven core competencies are shown in Table 6.1. These are merger and acquisition capabilities (including post-merger and acquisition integration), culture (a value based management philosophy), the ability to create and sustain long-term relationships, the ability to evolve and innovate, a unique organisational ability to function together and implement coherent strategies across the organisation, corporate governance and a unique ability to operate under difficult circumstances.

In the case of merger and acquisition capabilities, firm infrastructure is the predominant value chain activity, with human resource management as a secondary value chain activity. The ability to create and sustain long-term relationships comprises (or is located in) the value chain activities of a firm's infrastructure (general management) and service. Infrastructure (general management) is the predominant value chain activity and service is the secondary activity. Six of the seven core competencies have firm infrastructure (general management) as the value chain activity directly related to the core competencies concerned because of the nature of Barloworld as an industrial brand manager. It is diversified and the corporate office manages the divisions and not the primary value chain activities which the three other industry-specific corporations do.

Table 6.1 Barloworld Core Competencies

Code	Core Competence	Value Chain Activity or Location
B6	Merger and acquisition capabilities (including post-M&A integration)	Firm infrastructure (general management, finance, legal, IT) Human resource management
B7	Culture (value based management philosophy)	Human resource management Firm infrastructure (general management)
B10a	Ability to create and sustain long-term relationships	Firm infrastructure (general management) Service
B10b	Ability to evolve and innovate	Firm infrastructure (general management)
B10c	Unique organisational ability to function together and implement coherent strategies across the organisation.	Firm infrastructure (general management)
B10d	Corporate governance	Firm infrastructure (general management, finance)
B10e	Unique ability to operate under difficult circumstances	Firm infrastructure (general management) Human resource management

Core competence B6 merger and acquisition capabilities (as practiced by Barloworld) are discussed in greater detail in Chapter 9.

B7 Culture: "Value Based Management (VBM) is the framework through which we are building a value-creating culture throughout our company" (A.J. Phillips, personal communication, 22 March 2002). The core of the financial component of VBM is cash flow return on investment (CFROI), which eliminates accounting distortions and allows companies to exceed their real cost of capital (Barloworld Annual Report 2002). Phillips (22 March 2002) adds that through teamwork and communication, Barloworld's goal is to harness the exceptional intellectual capital it already has within the organisation and provide an opportunity for this to be recognised, rewarded and fulfilled. Phillips in the Barloworld Annual Report (2002:13) states, "We will achieve our goals through the commitment, passion, hard work and loyalty of the people who work for Barloworld. They are the true foundation on which we have built 100 years of success."

The ability to create and sustain long-term relationships (B10a) includes customer service. Phillips (22 March 2002) amplifies this core competency with the statement: "We have a proven record of forging long-term relationships with both our principals and our customers. We have an unbroken relationship with Caterpillar Inc that dates back to 1927 and a relationship with Nacco Industries Inc [the owners of Hyster] since 1929...On the customer front, we have relationships with major mining companies, such as De Beers, that date back to the fifties".

The ability to innovate (B10b) is borne out by the company's history of adapting and changing over more than a century. W. Clewlow, Chairman, is quoted as saying that the company is always looking at ways of improving the business and has been better than most at reading the winds of change. (W. Clewlow, cited by Schneider 2002).

Phillips (personal interview, Sandton, 22 October 2002) points out the company's ability to implement a value based management philosophy across the organisation within a two-year time period as a demonstration of the company's unique organisational ability to function together and implement coherent strategies across the organisation (B10c).

The corporate governance core competence (B10d) includes the requisite accounting systems, information technology and culture (P.M. Drewell, 9 May 2003). According to A.J. Phillips (22 October 2002) the unique ability to operate under difficult circumstances (B10e) is manifested by the operations of, inter alia, the Capital

Equipment Division, in countries and areas such as Angola, Mozambique, Zambia, Bulgaria and Siberia.

P.M. Drewell (9 May 2003) adds an additional perspective in that Barloworld has historically articulated its core competencies around three "D's": Doing things *differently*, taking on *difficult* challenges and leveraging its *diversity* (diversity of products, geographies, lines of business, ways of thinking)

The core competency relating to long term relationships is borne out by the length of service of the company's top management shown in Table 5.3 and the history of only five CEOs in a century. The value management culture was credited by P.M. Drewell (9 May 2003) with the improvement in the company's performance since 1999. It is noteworthy that Norsk Hydro, the largest company in Norway and one of the world's leaders in oil energy and aluminium, stresses its use of the VBM philosophy on its website (Norsk Hydro 2006).

6.3 SABMiller

SABMiller core competencies are shown in Table 6.2. The seven are marketing, distribution, low cost quality production, purchasing, human capital/corporate culture, merger and acquisition capabilities, and "high-tech".

In the case of the human capital/corporate culture core competence, human resources management is classified as the predominant value chain activity and firm infrastructure (general management) as the secondary activity.

Table 6.2 SABMiller Core Competencies

Code	Core Competence	Value Chain Activity or Location
AE2	Marketing	Marketing and sales.
AE3	Distribution **	Outbound logistics
AE4	Low-cost quality production	Operations Procurement Technological development
AE5	Purchasing *	Procurement Inbound logistics
AE6	Merger and acquisition capabilities (including post-merger and acquisition integration)	Firm Infrastructure (general management, finance, legal, IT) Human resource management
AE7	Human capital / corporate culture	Human resource management Firm infrastructure (general management)
AE8	"Hi-Tech"	Technological development

* This includes sources of supply, purchasing methods and effectiveness, as well as global purchasing capability.

** This includes effective servicing of customers and minimising the cost of product movement.

According to M.B. Hofmeyr, (personal interview, Knysna, 9 March 2002) the very diverse South African country and market meant that SAB learned to be quick on its feet and understand different cultures. E.A.G. Mackay (Annual Report 2003) adds that SABMiller has portfolios of strong national and regional brands principally based on mainstream segments of the market. This pertains especially to market segmentation, brand management, packaging and sales and distribution (R. van der Schyff, personal interview, Sandton, 10 June 2003). Marketplace understanding is based on in-depth qualitative and quantitative research of consumers and customers. Mackay (personal interview, London, 27 November 2001) points out that marketing and distribution skills are not always portable into foreign markets and conditions as these skills require an in-depth knowledge of the local environment and cultures.

With regard to the core competency of low cost quality production, P.R. Savory (personal communication, 14 March 2002) proclaims that SABreweries is recognised as the world's most efficient-cost quality beer producer and distributor. H.F.G.

McCallum (personal interview, Johannesburg 10 May 2003) adds to this the observation that SABMiller is the most innovative and low cost global brewer when it comes to procurement. It pioneered the bulk handling and transportation of malt. "SABMiller's capital cost of capacity in new ventures is 20 to 30 per cent below competition" (A. Miller Salzman, telephone interview, 12 March 2002). Figure 6.1 illustrates the relative strength of this core competency compared to competition.

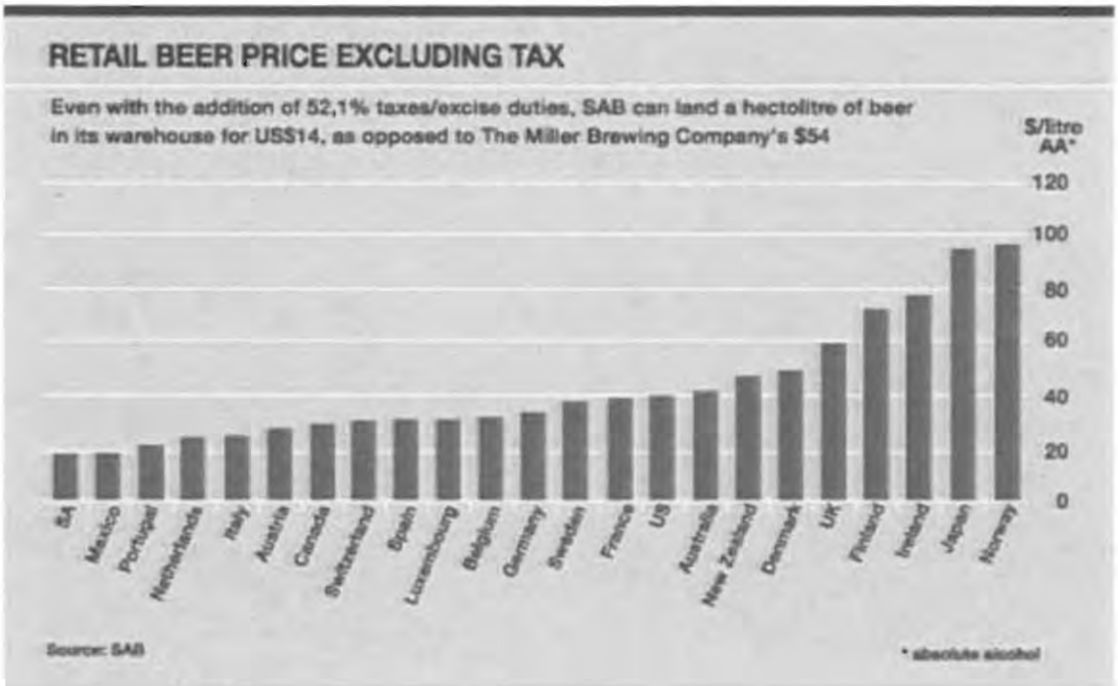
McCallum's (2003) statement on procurement is again referred to when it comes to the core competence of purchasing, located in the procurement activity of the value chain.

The merger and acquisition core competence is readily apparent from the number and speed of successful acquisitions and investments. "All the deals ... show that our acquisition process works. The process is very systematic and not ego driven. We like to have management control and turned our back on deals when we were not sure what control we would have" (A. Miller Salzman, personal interview, London, 3 February 2003).

Hitt, Ireland and Hoskisson (2001) define human capital as the knowledge and skills of a firm's entire workforce. Mackay (27 November 2001) states that SAB's major resource is human capital. "The people of SABMiller are what make us different. We have many talented, creative and driven individuals who are dedicated to the business" (SABMiller Annual Report 2003:3). Van der Schyff (10 June 2003) notes that there is very much an excellence in delivery.

Salzman (12 March 2002) explains that the "hi-tech" core competence supports the low-cost quality competence and several others. Turner (personal interview, Sandton, 19 October 2004) observes that SA Breweries' staff were generally well accepted in world brewing circles; even in the depths of the country's isolation. He attributes this to the company's reputation for general management and technical expertise.

Figure 6.1 Comparative Retail Beer Price Excluding Tax



Source: SABreweries (2005, cited by Gilmour 2005:4).

6.4 Sappi

Marketing, operations, a culture of innovation, merger and acquisition capabilities, systems and human capital are the six Sappi core competencies listed in Table 6.3. As in the cases of Barloworld and SABMiller human resource management is classified as the predominant value chain activity in core competencies relating to human capital and culture.

Table 6.3 Sappi Core Competencies

Code	Core Competence	Value Chain Activity or Location
S2	Marketing	Marketing and sales
S4	Operations	Operations (manufacturing, scheduling)
S6	Merger and acquisition capabilities (including post-M&A integration)	Firm infrastructure (general management, finance, legal, IT) Human resource management
S7	Human capital	Human resource management Firm infrastructure (general management)
S8	Culture of innovation in products, technology and business practices	Technological development. Firm infrastructure (general management)
S10f	Systems	Firm infrastructure (general management, finance, IT)

R. Hope (13 June 2003) explains that Sappi probably knows its customers better than most because of its focus and marketing expertise. The company has developed strong, globally competitive brands (Sappi Quarterly Report June 2002).

One of the foundations of the operations core competency is the unrelenting focus on efficiency and cost management (Sappi Annual Report 2001:2). R. Hope expands on this, mentioning the Sappi system that allows use of a product carousel to make what each machine is ideally suited to make.

The merger and acquisition capability core competency is illustrated by the fact that four of the five major acquisitions from 1990 to 2002 were at times when the pulp cycle was near its bottom (J. Job 2002). Prices paid were generally below 60 percent of replacement cost. Three major acquisitions – Hannover Papier (1992), S.D.Warren (1994), and KNP Leykam (1997) - showed significant increases in profitability after acquisition by Sappi. Returns on investment were notably in excess of US and European industry averages.

R. Hope (13 June 2003) notes that Sappi has a good history of innovation in terms of technological innovations, different ways of doing things and financial systems. "Dynamic technology clusters that operate across our regions drive Sappi's ability to design and enhance value – adding products and services, bringing them to the market faster than ever. The companies that make up the Sappi Group today are the originators of almost all coated fine paper product innovations in the last century. This excellence is continued by our three research and development centres in Europe, North America and South Africa" (Sappi Annual Report 2001:6).

The human capital core competency is quoted on the website (Sappi 2003c):

"Our people make the difference:

Rising to the challenge.

Skills development

Performance driven."

R. Hope considers that Sappi people have a "can do" mentality.

Systems has been set out as a distinct core competence. Hope amplifies this. He states that the financial systems have been a major factor in the company's success, in particular the costing system. The income statement is based on sales and not on production, so that Sappi is a marketing and selling type of organisation. Its unique advanced electronic-order planning system enables the company to optimise its manufacturing systems while guaranteeing customers immediate confirmation of availability and delivery details (Sappi Annual Report 2001).

6.5 Wolverine World Wide

Wolverine World Wide has three "abilities" listed in its leading core competencies. These are the ability to build brands, the capability to operate globally (mindset, reach, scope, distribution) and the ability to recruit and retain a highly motivated management team. The others are marketing, global operations capability, merger, acquisition and business start-up capability, and innovative product design and development. Firm infrastructure (general management) is judged to be the predominant activity in the ability to build brands core competency. Marketing and sales and service are secondary activities for this core competency. The core competence of ability to recruit and retain a highly motivated management team is most directly related to human resource management as the predominant activity with firm infrastructure as a secondary value chain activity. See Table 6.4.

Table 6.4 Wolverine World Wide Core Competencies

Code	Core Competence	Value Chain Activity or Location
W2	Marketing	Marketing & sales
W4	Global operations capability Manufacturing / sourcing Warehousing / distribution Information technology services Service Procurement	Operations Firm infrastructure (general management) Outbound logistics Information technology (infrastructure) Service Procurement, inbound logistics
W6	Merger, acquisition, business start-up capability (including post-M&A integration)	Firm infrastructure (general management, finance, legal, IT) Human resource management
W7	Ability to recruit and retain a highly motivated management team.	Human resource management Firm infrastructure (general management)
W8	Innovative product design & development	Technological development Marketing & Sales
W10g	Ability to build brands	Firm infrastructure (general management) Marketing & Sales Service
W10h	Ability to operate globally (mindset, reach, scope, distribution)	Firm infrastructure (general management)

Indicative of Wolverine's marketing core competence is its stated goal, which it has achieved over the past few years, to grow sales at a rate of at least twice that of the industry (Gulis 2003). The brand building core competence discussed below is also illustrative of the marketing competency.

Regarding the global operations capability, the company controls the sourcing and manufacture of approximately 75 percent of the pairs of footwear marketed under the company's brand names globally. Of the pairs controlled by the company, approximately 85 percent are purchased or sourced from third parties, with the remainder produced at company-owned and affiliated facilities located in Michigan, Arkansas, the Dominican Republic and Mexico (Wolverine World Wide Annual Report Form 10-K 2003). "GIS, the Global Information System, is helping our designers, merchandisers, and factories deliver products to market through web-enabled information sharing and across our global supply chain ... Many orders are fulfilled the same day they are received. The company aims to provide the best in class service to our customers" (J.C. Tegner, personal communication, 7 October 2003).

T. O'Donovan (personal interview, Rockford, 6 October 2003) observes that the company has learned a great deal about post-merger and post-start up integration. He notes that a newly acquired business or start-up can be integrated from day one as if it had been in the company for six months.

The ability to recruit and retain a highly motivated management team is addressed by the creation of the necessary environment. O'Donovan (6 October 2003) gives the example of the presidents of each major brand being responsible for global performance of their brand. The Global Operations Group is responsible for manufacturing, sourcing, distribution, service, warehousing and customer support for the various brands. This organisational structure he says, could not work if it were not for the culture of constant informal and formal communication and cooperation at all levels in the company.

The company has an association with Michigan State University biomechanics laboratories as part of its pursuit of its core competence of innovative product design and development. Wolverine has numerous patented and proprietary designs and comfort technologies (Wolverine World Wide Annual Report Form 10-K 2003).

O'Donovan (6 October 2003) gives several examples of Wolverines ability to build brands. CAT and Harley-Davidson Footwear were established as leading US and global brands in their respective niches within a few years of launch and Merrell sales grew tenfold in the seven years since the acquisition of the brand.

The ability to operate globally applies to marketing, distribution, sourcing, procurement, and other activities and functions, which can be leveraged across the various businesses. Wolverine World Wide multi-brands are marketed in over 130 countries. The company has 45 years of continuous international experience (O'Donovan, 6 October 2003).

The list of seven core competencies was provided by T.J. O'Donovan (6 October 2003).

6.6 Value Chains

The tables that portray the core competencies in the prior four sections reflect the value chain activities associated with the core competencies or, alternatively, the parts of the value chain where the core competencies are located. As mentioned earlier, the activities or locations are classified into "predominant" and "secondary". Table 6.5 shows the predominant and secondary value chain activities derived from Tables 6.1 to 6.4. **X** signifies a predominant value chain activity and **Y** signifies a secondary activity.

Table 6.5 is included to demonstrate the complexity and inter-relatedness of core competencies and to give an idea of the configuration of core competencies in each of the companies. The corporations each have the number of **X**s or "predominant" core competencies; 27 for the four in total. Three of the companies have seven core competencies and Sappi has six. The total number of secondary activities is 39, of which Wolverine World Wide accounts for 14, notably higher than the others. There is no statistical significance attributed to this. Wolverine was the only one of the four companies with an official list of core competencies. Table 6.6 is derived from Table 6.5 and shows the companies' core competencies by value chain activity in terms of the predominant activity. This will be the basis for analysis. Mergers and acquisitions are shown as a separate value chain activity, splitting this out from the infrastructure: general management classification. All four companies have core competencies located in mergers and acquisitions (infrastructure) and human resource management. The three other than Barloworld have core competencies classified in the location in the value chain of marketing and sales, operations and technological development.

The infrastructure: general management location encompasses five Barloworld core competencies, two Wolverine World Wide "global" core competencies and Sappi's core competence in systems. This location is broader and has more variety than the seven other value chain locations. Infrastructure: general management may be of special interest as a case study in terms of the methods that Barloworld, and Wolverine use to develop and transfer their "corporate" and global core competencies.

As discussed earlier SABMiller Africa and Asia and SABMiller Europe are separate entities for some research purposes. The numbers cited in the previous paragraph will all increase by one unit when this occurs. For example, the research "universe" comprises five entities, five core competencies of both mergers and acquisitions and human resource management and four of marketing and sales, operations and technological development.

Table 6.5 Value Chain Activities Cited in Core Competencies

Activity	**Barloworld**	**SABMiller**	**Sappi**	**Wolverine**	**Total**		
Primary					**X**	**Y**	
Service		Y	Y	YY		-	4
Marketing & sales		X	X	XY	3	1	
Outbound logistics		X		Y	1	1	
Operations		X	X	X		3	-
Inbound logistics		Y	Y		-	2	
Support							
Infrastructure -							
General management	XXXXXX Y	XY	XX YYY	XXX YYY		12	8
Finance	YY	Y	YY	Y		6	
IT	Y	Y	Y	YY		5	
Legal	Y	Y	Y	Y		4	
HR management	X YY	X Y	X Y	X Y	4	5	
Technological		XY	X	X	3	1	
Procurement		X Y	Y			1	2
Total	**7X 8Y**	**7X 8Y**	**6X 9Y**	**7X 14Y**		**27**	**39**

Notes: X = "Predominant" value chain activity in a core competence.
Y = "Secondary" value chain activity included in core competency (but not a "predominant").
Infrastructure – General management will include M&A.
Inbound logistics and procurement were combined in a core competency for SABMiller.

Table 6.6 Core Competencies By Value Chain Activity

Company

Primary Activities	Barloworld	SABMiller	Sappi	Wolverine	**Total**
1. Service					
2. Marketing & sales		X	X	X	3
3. Outbound logistics		X			1
4. Operations		X	X	X	3
5. Inbound logistics		X			1
Support Activities					
6. M & A (infrastructure)	X	X	X	X	4
7. Human resource management	X	X	X	X	4
8. Technological development		X	X	X	3
9. Procurement					
Support					
10. Infrastructure	2	7	5	5	19
a. Evolve/Innovate	X				1
b. Execute & organise	X				1
c. Corporate governance	X				1
d. Difficult circumstances	X				1
e. Evolve/Innovate	X				1
f. Systems			X		1
g. Brand building				X	1
h. Operating globally				X	1
Total	7	7	6	7	27

Note: Procurement combined with Inbound logistics for SABMiller.

6.7 Competitive Importance and Performance

Having formatted the corporations' core competencies and the related value chain activities, the issues of how important the different core competencies are for competitive purposes can now be addressed. Related to this are the questions of how well the core competencies are performed and what relationships there may be between the importance of a core competency for competitive purposes and how well it is performed. Chapters 7 and 8 explore further what relationships these factors may have with the development and transfer of core competencies.

Questionnaire 2, Development and Transfer of Core Competencies, asked respondents to use their subjective judgement and rank their companies' core competencies in terms of:

a) how important each competency is in being competitive in the markets in which the company competes
b) how well each competency is performed by the company.

The rankings are relative; that is, the most important would be 1, second would be 2 and so forth. Each of the respondents made the point that ranking a core competency relatively low in terms of both importance and/or performance did not mean that it was unimportant or had not performed well compared to competition. For example, Wolverine World Wide considers the *ability to build brands* the most important core competency in terms of being competitive, while it ranks it only sixth in terms of performance. Craig Sirois, in Value Line of 14 November 2003, comments on Wolverine's impressive portfolio of brands and its effect in driving Wolverine's sales performance. Chapter 9 includes other analysts' positive comments on Wolverine World Wide's brands.

The rankings of competitive importance and performance using the codes are shown Table 6.7 below.

Table 6.7 Rankings of Importance and Performance

	Barloworld Imp	Barloworld Perf	A & A Imp	A & A Perf	Europe Imp	Europe Perf	Sappi Imp	Sappi Perf	WWW Imp	WWW Perf
1	B7	B10a	A4	A4	E7	E4	S2	S4	W10g	W4
2	B10a	B10d	A2	A6	E2	E3	S8	S6	W7	W7
3	B10b	B7	A7	A7	E3	E6	S6	S2	W10h	W10h
4	B10c	B10b	A3	A2	E4	E7	S4	S10f	W8	W6
5	B6	B6	A6	A3	E5	E2	S10f	S8	W2	W8
6	B10d	B10c	A8	A8	E8	E5			W4	W10g
7	B10e	B10e	A5	A5	E6	E8			W6	W2

The relative rankings of competitive importance and performance shown in Table 6.7 are tabulated into Table 6.8 below for purposes of statistical procedures.

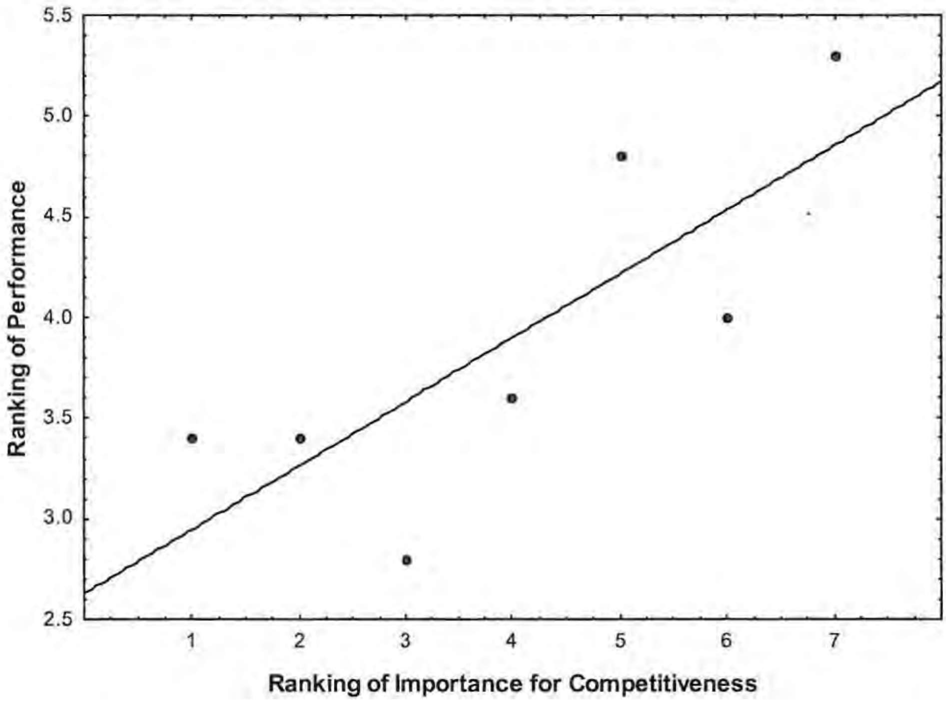
Table 6.8 Competitive Importance and Performance

	Performance Ranking					
Imp rank	**Total**	**Barlow**	**A&A**	**Eur.**	**Sapi**	**WWW**
1	3.4	3	1	4	3	6
2	3.4	1	4	5	5	2
3	2.8	4	3	2	2	3
4	3.6	6	5	1	1	5
5	4.8	5	2	6	4	7
6	4.0	2	6	7		1
7	5.3	7	7	3		4
r_s	0.85	0.54	0.75	0.18	-0.20	-0.14
P-value	**0.016**	0.215	0.052	0.702	0.747	0.760

r_s = Spearman correlation coefficient

The composite, or total, column shows a significant correlation between the relative rankings of importance and performance (Spearman correlation coefficient of r_s = 0.85, P-value 0.016). The different companies, however, diverge widely.

Figure 6.2 Ranking of Performance versus Ranking of Importance



Barloworld ranks *culture (value based management philosophy)* as the most important core competency for competitiveness and rates this as third in performance. The second most important core competence is *ability to create and sustain long-term relationships*, ranking first in performance. *Ability to evolve and innovate* is rated third in importance and fourth in performance. The Barloworld Spearman correlation is 0.536 with a P-value of 0.215.

SABMiller Africa and Asia has a Spearman correlation of 0.750 with a P-value of 0.052. The company rates *low-cost quality production* first in both importance and performance. *Marketing* is rated second in importance and fourth in performance while *human capital/corporate culture* rates third in both importance and performance. SABMiller Europe, in contrast, has a low Spearman correlation of 0.179 with a P-value of 0.702. It ranks *human capital/corporate culture* as first in importance, but fourth in performance. Like SABMiller Africa and Asia, it ranks *marketing* second in importance, but only fifth in performance. *Distribution* is rated third in importance and second in performance.

Sappi did not rate its core competence *human capital,* on the basis that human capital is a *"sine qua non"* (essential requirement) for all core competencies and therefore cannot be ranked on the same plane as the others. The company ranks *marketing* as the most important core competency and grades it third in performance. The second most important core competency is given as *culture of innovation in products, technology and business practices,* but only fifth, out of five, in performance. In Chapter 9, "Review of Strategy", Sappi is shown to be the leader in certain technologies in its industry over the past century. *Merger and acquisition capabilities* were considered to be third in importance and second in performance. Sappi ranks *operations* fourth in importance and first in performance. The low performance grading of the second most important core competency causes Sappi to have a Spearman correlation of negative 0.200 with a P-value of 0.747.

Wolverine World Wide's most important core competency is the *ability to build brands.* The company rates it only sixth in terms of performance. One of the results of this is that the Spearman correlation is minus 0.143 with a P-value of 0.760. The second most important core competency is the *ability to recruit and maintain a highly motivated management team.* It, however, scores second place in performance and the third-rated core competency, in terms of importance, *ability to operate globally*, is also rated third in performance. Wolverine rates *global operations* as sixth in importance but first in performance.

I followed up the issues of SABMiller Europe, Sappi and Wolverine World Wide where core competencies, that they considered the most, or second most, important, ranked relatively lowly in performance (N. Mogilnicki, telephone discussion, 21 August and 22 October 2003; R. Hope, Questionnaire 2, The Development and Transfer of Core Competencies, 13 June 2003; J.C. Tegner, telephone discussion, 20 October 2003) . All three respondents emphasised the point made earlier that a lowly ranked performance may still be better than the competition's and that the core competency concerned is very important to the corporation. Mogilnicki added that cultural factors impeded the performance of human resource core competencies in his region and Tegner suggested that the core competency of building global brands could be one of the most difficult to implement.

This section demonstrates that performance may not match the importance for competitive purposes even in well managed companies.

Despite the widely varying correlations, there are patterns in the relationship between importance and performance. Four of the five (SABMiller Europe is the non-conformer) have two of their three most important core competencies classified in the first three in terms of performance. Sappi did not rate *human capital/corporate culture* as discussed earlier, but for the reason given I believe that it is safe to assume that it is amongst their most important core competencies. The other four companies each include core competencies relating to *human resource management* in their three most important competencies, and, with the exception of SABMiller Europe, rate this in the top three in terms of performance.

6.8 Summary and Conclusion

The following are the summaries of the most important aspects of this chapter and the conclusions related to them.

Strategies can exist around many doctrines or concepts. All successful companies have core competencies but the ways in which they are articulated vary widely (Kaplan & Norton 2004). Barloworld bases its strategy on its value based management (VBM) philosophy and long-term relationships; SABMiller considers drivers and processes key components of its strategy; Sappi has leadership as a core element of its strategy based on six core leadership competencies and Wolverine World Wide follows a consumer-focused, fact-based and market-driven strategy. Wolverine World Wide was the only one of the four corporations that had a formal list of core competencies at the time of this research (SABMiller now uses formal and explicit core competencies). It was consequently necessary to discuss and agree on what the core competencies for the companies were.

Barloworld's core competencies comprise the ability to create and sustain long-term relationships, the ability to evolve and innovate, a unique organisational ability to function together and implement coherent strategies across the organisation, culture (value based management philosophies), corporate governance, merger and acquisition capabilities (including post-merger and acquisition integration) and a unique ability to operate under difficult circumstances. SABMiller has human capital/corporate culture, low-cost quality production (the world leader), "hi-tech" marketing, merger and acquisition capabilities (including post-merger and acquisition integration), purchasing and distribution as its core competencies.

Sappi lists marketing, operations, a culture of innovation in products, technology and business practices, merger and acquisition capability (including post-merger and acquisition integration), systems and human capital. Wolverine World Wide core competencies are the ability to build brands, the ability to operate globally, the ability to recruit and maintain a highly motivated management team, merger and acquisition/start-up capabilities (including post-merger and acquisition integration) innovative product design and development and marketing.

The core competencies above include the primary and support value chain locations or activities related to the core competencies. Several value chain activities may support or comprise a core competency. In these cases the most important, or directly related activity is classified as the "lead" value chain activity and the others as "supporting" activities. For example, Wolverine's core competency of recruiting and maintaining a highly motivated management team is "placed" in the human resource management section of the value chain, although general management activity is also involved.

The rankings of importance for being competitive and rankings for performance of the core competencies by the corporations do not always coincide. A composite of all the companies has a Pearson correlation of 0.700 with a P-value of 0.080. Different companies diverge widely. Sappi and Wolverine World Wide have negative correlations, because core competencies that they consider very important for competitive purposes rank near the bottom of their competencies in terms of performance.

Four out of the five companies (SABMiller Europe is the non-conformer) have two of their three most important core competencies classified in the first three for performance. Each of the five regards a core competency relating to human resource management as being in the three most important core competencies. All companies, with the exception of SABMiller Europe, have this core competency in the top three in terms of performance.

7. THE DEVELOPMENT OF CORE COMPETENCIES

7.1 Introduction

With each company's core competencies and their locations in the value chain established in the previous chapter, this chapter goes on to study the development of these core competencies. The methods used to develop, or facilitate the development of, core competencies are covered by Table A in Questionnaire 2, The Development and Transfer of Core Competencies and the responses to the questions are analysed. Data from interviews are also included. Two other issues relating to development are also discussed: how core competencies are chosen and developed and whether new acquisitions contribute to the development of core competencies.

The chapter commences by examining *determinants of competitiveness*. Porter's Diamond is applied to the South African corporations and Wolverine World Wide to provide an overview of the factors which influenced the development of core competencies and competitive advantages.

The section *Selection and Development* describes how the corporations choose and develop their core competencies. The section *Methods* covers the methods used to develop core competencies by each of the five corporations (two of which are SABMiller regions) and a composite of the five. The methods are again analysed by value chain location so that the most effective methods for each location or activity can be determined. *Acquisitions* deals with the role of acquisitions in the development of the corporations' core competencies. The five corporations' experiences of developing core competencies are discussed in *Practical Problems and Solutions*.

7.2 Determinants of Competitiveness

Section 3.7 in the literature review examines Porter's Diamond, and Section 2.7 outlines its application to South Africa. The Diamond is again applied here to illustrate how conditions in the country influenced the competitiveness, including the development of core competencies, of the South African companies. This section also helps to explain the companies' global successes. Wolverine is analysed in outline only, as the thesis does not seek to explain its global success.

7.2.1 Barloworld

Barloworld is an industrial brand management company that has both its own brands and international franchises such as Caterpillar, Hyster and Avis. This should be kept in mind when applying the "Diamond" framework to the company, as certain core competencies would be embedded in the company's subsidiaries rather than corporate headquarters.

Factor Conditions

South Africa is considered to be the "mineral treasure house of the world", as seen in Subsection 2.7.1. The country's economical costs of electricity facilitated the development of the mining industry. The mining riches of South Africa helped in the development of what is now Barloworld's Capital Equipment Division, with the Caterpillar franchise for Southern Africa. The mining sector is the largest segment of the earthmoving-equipment market. The surface mining sector of coal and diamonds accounts for the majority of this (Harvey 1999).

The South African experience, in turn, helped Barloworld acquire the Caterpillar distributor in Spain and Portugal (Finanzauto) and gain the Caterpillar franchise for Western Siberia. Barloworld believes that its experience in places like Angola (40 years of civil war) have equipped it to operate in difficult geographic areas. Siberia rivals South Africa as one of the world's richest mineral depositories (Williams 2002). Minerals are also a source of raw materials for the company's tube-making, coating and cement industries (Schneider 2002).

As seen in Section 2.9, South Africa ranks 13th out of 30 countries for basic infrastructure in the 2003 *World Competitiveness Yearbook.* Barloworld, with its Caterpillar franchise and other infrastructure-related businesses such as cement and lime, benefited as investment was made in the country's infrastructure. The recently resurgent South African tourist industry, stimulated partially by the country's natural beauty and wild-animal reserves, forms an important market for the car rental business in which Barloworld now controls 100 percent of the Avis franchise (Figure 9.1 in Chapter 9).

South Africa's substantial investment in telecommunications (ranked third as a percentage of GNP in the 2001 *World Competitiveness Yearbook*) facilitates the use of information technology (IT) and communication at Barloworld. "Whether in Johannesburg, Madrid, North Carolina or the UK, Information Services staff are seen as being part of Barloworld IS" (Schneider 2002:75). Information technology has played an important role in Barloworld's globalisation, particularly in the world of communication. All chief information officers (CIOs) in the group hold virtual meetings via video conferencing once a month, reducing the need for foreign travel (Schneider 2002).

The 2003 *World Competitiveness Yearbook* ranks South Africa poorly in education (26th), labour market (25th) and employment (29th). These relative disadvantages are even more accentuated in the 2001 *Yearbook*, with employment, skilled labour, science and education listed as 49th out of 49 countries. Harassment and violence, personal security and private property, and "brain drain" are all listed as 47th.

Selective disadvantages in factors, although influencing strategy and innovation, often contribute to sustained economic success. This is because disadvantages in basic factors, such as labour shortages, lack of domestic raw materials, or a harsh climate, create pressures to innovate around them (Porter 1990).

Barloworld has addressed certain of what would be regarded as Porter's Diamond factor disadvantages through training and development programmes. In 1999 Barloworld established the "BU Programme" of executive education for its senior managers, operated in conjunction with the Gordon Institute of Business Science in Johannesburg, South Africa. This is linked to an MBA programme which ensures that the participants gain credit towards this qualification for the studies that they undertake (Barloworld Annual Report 2002).

Section 2.6 summarises the HIV/AIDS epidemic in South Africa. This pandemic threatens South African companies in terms of product sales, costs, human resource availability, medical aid and tax costs and an adverse social operating environment. Extensive Barloworld programmes to combat AIDS range from the increased intake of trainees to an extensive education programme and, where appropriate, the administration of anti-retroviral drugs as part of medical benefit programmes (Barloworld Annual Report 2002).

Demand Conditions

Barloworld serves a wide range of customers locally and internationally. Its greatest revenue has generally come from its capital equipment segment, to which South Africa is the second largest geographical contributor. The well-established mining sector, with competing companies, has sophisticated and demanding buyers pressuring the company to meet higher standards and continually improve. Most of Barloworld's business in South Africa depends on infrastructure spending, whether government or private (Williams 2002; Harvey 1999).

Barloworld was restricted from providing statistical information on the South African earth-moving-equipment (EME) market to me. This information is shared only by the submitting members of the industry and cannot even be revealed to Barloworld shareholders (R. Goller, personal communication, 10 May 2006). My approaches to Caterpillar in the USA for this information were not successful. I do know from my own experience (Harvey 1999) that the South African EME market is internationally important, because of the heavy equipment used in mining. Caterpillar is the dominant player in the market, and I recall it having a market share of about twice that of its nearest competitor.

Porter (1990) observes that a frequent result of home market saturation is vigorous efforts by a nation's firms to penetrate foreign markets to sustain growth and even fill capacity. Phillips (presentation Wits Business School, 4 August 2005) stated that a major reason for his company's international expansion was the fact that it enjoyed high and leading market shares in its markets in South Africa. The growth potential, he added was therefore very limited if the company were confined to South Africa alone.

Related and Supporting Industries

These vary by country and by division. The most common are those related to infrastructure. In South Africa the most important are the mining, construction and manufacturing industries, especially engineering, and government expenditure. Barloworld is in some ways its own related, and supporting, industry. In 2001 it formed Barloworld Logistics, by combining divisions previously embedded in its cement and motor business (Schneider 2002).

Strategy, Structure and Rivalry

The company's overall objective is to achieve durability in business through the long-term creation of value for all stakeholders. Its strategies centre around long-term relationships and its value-based management (VBM) philosophy. More detailed discussions are in Subsection 5.3.6 and Chapter 9.

Barloworld's Capital Equipment Division (Caterpillar) and Komatsu are the only full-product-line competitors in the South African earthmoving-equipment market, although there are other specialised players. The intense global rivalry between Caterpillar and Komatsu manifests in South Africa, increasing pressure on Barloworld to continually improve the Caterpillar performance (Harvey 1999). The other Barloworld divisions and subsidiaries all have competitors in South Africa, which is a relatively small and segmented market by international standards. This again places pressure on them to perform.

Government

Barloworld has benefited, directly and indirectly, from government spending on infrastructure. However, on balance, the data presented in Chapter 2 shows that government affected the company very adversely from 1948 to 1993, because the policies impacted negatively on both the South African environment and Barloworld's opportunities to do business globally.

Chance

Reference is made to Subsection 2.7.6 regarding the influence of "chance" on South Africa and Subsection 3.7.1 which gives Porter's (1990) definition of chance. Chance events, such as oil-price spikes, would have impacted Barloworld more than companies in most other industries. The circumstances that led to Barlow selling its first Caterpillar tractor in 1927 were pivotal if not chance events.

7.2.2 SABMiller

R. van der Schyff (personal interview, 10 June 2003) believes that the company has an ability to examine its operations using Porter's Diamond and where the analysis reveals problems turn the problems into opportunities. "Given our infrastructure, we've been fairly well placed, but at the bottom of it has been the people side of it. The ability to resource up, the ability to develop skills, hire skills, competitive skills, higher than has been the case of our competitors in South Africa and as good as anything in the United States or Britain, or certainly competitive in those countries".

Factor Conditions

The basic raw materials for the brewing of beer – water, hops, barley and sugar – were and are available in South Africa (Haywood, Davidson, Berger and Burmeister 2002). The road and railway infrastructure enabled SABMiller's products to be distributed widely, and, as with Barloworld, advanced telecommunications facilitated internal and global communication and the use of "high tech" (Section 2.7.and 6.3).

To combat the country's human-resource drawback, the company invested heavily in human capital. Training amounts to an average of 3.2 days per person per year (SABMiller Corporate Accountability Report 2003). The company operates a training institute – a so-called corporate university – that has affiliations with local and international tertiary establishments (R. van der Schyff, 10 June 2003).

The then South African Breweries moved its legal domicile and head office to London in 1999 to improve its cost of capital and availability of finance (R. van der Schyff, 10 June 2003). The company's subsequent acquisitions using shares listed on the London Stock Exchange could not have been done with a Johannesburg listing only. The 2003 SABMiller Annual Report states that weighted average cost of capital declined from 11.0 percent in 2002 to 9 percent because of a lower average risk premium following the acquisition of Miller Brewing and a lower group risk profile from an increased geographical spread of businesses.

The weather in South Africa is generally conducive to the beer industry. Countries in hot equatorial climates generally have very low per capita beer consumption figures (P.R. Savory, personal communication, 14 March 2002).

Related and Supporting Industries

The company controls the largest bottler and distributor of soft drinks (Coca-Cola and Schweppes) in South Africa and of fruit juices and bottled water marketed locally and internationally (Appletiser). Core competencies can be developed and cross-fertilised in these related businesses. SABMiller also has investments in South Africa's largest wine and spirits company (Distel) and in hotels and casinos (SABMiller Annual Report 2005).

Mini-clusters of supporting industries have developed around the brewing centres in South Africa. Examples are the suppliers of cans, glass bottles, labels and packaging, allowing for symbiotic relationships and communication (Haywood et al. 2002). Van der Schyff (10 June 2003) believes that the supply chains are as good as any in other countries with the possible exception of Japan. The company engages its suppliers to achieve long-term, mutually beneficial relationships and has set up a global sourcing council to coordinate the purchase of key raw materials for brewing and packaging. It has outsourced distribution to independent contractors in South Africa and, consequently, contributed towards black economic empowerment as outlined in Section 2.6 (SABMiller Corporate Accountability Report 2002).

Demand Conditions

"The first requirement for volume, per capita and growth in any beer market is a substantial, well-paid blue-collar class of mostly physical workers and high population densities" (P.R. Savory, 14 March 2002). These requirements have been met, particularly after 1962 (see Government below). The culturally diverse and segmented market caused the company to learn rapidly how to understand different cultures and satisfy the needs of different consumers (M.B. Hofmeyr, personal interview, Knysna, 9 March 2002).

All of the company's operations keep under continuous review the changing desires of their consumers, with a view to developing new products in accordance with a group-wide approach. This leads to continuous innovation and upgrading of products (SABMiller Corporate Accountability Report 2003).

The company holds a 98 percent share of the beer market in South Africa (Grant and Wiggins 2005). In my experience, this share not only reflects the importance of economies of scale as a key success factor in the brewing industry but also suggests that the needs of the country's diverse beer drinkers are being met. See Subsection 5.4.1. The company has kept the price of beer as low as possible, even if that meant forcing efficiencies to the extreme, the result of which has been SA Breweries producing the cheapest beer in the world (Gilmore 2005). This is illustrated in Figure 6.1 in Section 6.3.

South Africa had the 11th largest beer market in the world in 2004, surpassing countries such as Australia and Canada. See Appendix 7.16. In 1996 the per capita consumption of beer in South Africa was 4.42 litres per adult. This compared to Australia with 6.07, the USA with 5.36 and Canada with 4.23 litres per adult. These three countries are generally regarded as more advanced economically and industrially than South Africa (Haywood et al. 2002).

According to Miller Salzman (personal interview, 3 February 2003), the overriding vision and mission in the early 1990s was that they wanted to expand. The company knew that it would to stay the same size if it stayed in South Africa alone. "We got to the stage we were like a potted plant that had been root bound."

Firm Strategy, Structure and Rivalry

SABMiller's global strategy is discussed in Subsection 5.4.6 and 9.4.1. It is to drive volume and productivity, optimise and expand its existing positions and grow its brands in the premium beer market. Growth is envisaged from the recent big acquisitions – Miller in the United States and Peroni in Italy – while the developing markets of China and India make up the longer-term part of the strategy.

The organisation structure has become flatter and "more lean" over the past decade (R. van der Schyff, 10 June 2003). E.A.G. Mackay (personal interview, London, 22 November 2001) reveals that productivity has improved by a factor of four to eight over two decades. The brewery in Port Elizabeth, South Africa, operates a full brewing shift with a maximum of 15 people (K. Russell, personal interview, Port Elizabeth, 3 March 2005). From my own experience a comparative figure in the 1970s was between 100 and 200, depending on the brewery and the production mix.

Subsection 5.4.3, on the history of the company, describes several beer "wars" in the latter half of the last century. These included two international groups investing in the South African beer industry. The resulting competitive engagements are seen as having sharpened the SA Breweries' marketing and other core competencies. The competition is now for "share of throat" and embraces opaque beer, wine and spirits and, in some cases, even soft drinks (K. Russell, 3 March 2005). The present chairman of SABMiller has denied that SA Breweries, in South Africa, is a monopoly and described it as a "temporary sole supplier" (J.M. Kahn, personal interview, Pretoria, circa 2000).

Government

Historically, governments favoured both South African Breweries' brewing competitors and the wine and spirits industry with regard to excise tax. "... had to contend with a hostile government that imposed high excise duties" (J.M Kahn, Corporate Report, *Financial Mail,* 12 August 2005:18). Another adverse effect of government was the legal restrictions on the availability of liquor to certain population groups prior to 1962 (see Subsection 5.4.3).

Chance

Reference is made to both government and chance in Subsections 2.7.5 and 2.7.6. Government and chance affected SA Breweries as they did Barlows and Sappi. Without a solution to the political problems of the country, the company would not have been able to expand globally.

7.2.3 Sappi

The South African pulp and paper industry is based on raw materials planted and harvested in the country. Special attention is therefore paid to factor conditions and supporting and related industries in studying this company.

Factor Conditions

Apart from a small establishment in Swaziland, South Africa has the only pulp and paper industry in Africa (Sappi Annual Report 2002). South Africa does not have navigable rivers and abundant natural forests. Companies in the industry therefore had to innovate; the establishment of plantations is an example of this (R. Hope, personal interview, Johannesburg, 25 October 2002). A key factor advantage is the growing time of trees in South Africa versus that in the Northern Hemisphere. As an example: the rotation period for Sappi hardwoods is about eight years compared to more than forty years in Canada (R. Hope, personal communication, 7 October 2003). South Africa has a further advantage in that both hardwood and softwood species are produced in equal quantities and as a result are of a more consistent quality than those harvested from natural forests (South African Forestry 2004, cited by Rohman 2005). The costs of land and labour were, and are, relatively low (R. Hope, 25 October 2002).

Sappi owns and manages 545,000 hectares of pine and eucalyptus plantations in South Africa. This accounts for approximately 23 percent of the country's timberlands (Sappi Annual Report 2002 on Form 20-F). Sappi's Saiccor mill is the lowest-cost producer and the world's largest producer of dissolving pulp (Chapman, Da Silva, Mackie and Stavrakis 2002). Fluctuating exchange rates could endanger the lowest-cost status at times.

According to Forestry South Africa (2004), the industry is faced with the challenge of its low skills level. It is developing learnerships specifically for pulp and paper manufacture through the Forest Industries Education and Training Programme. The learnerships are expected to upgrade the skills of present employees and raise skill levels in the future.

South Africa recycles about 52 percent of its consumption of paper, which is equivalent to European levels of fibre recycling. The more fibre that is recycled, the more capacity the country has to produce paper, and the less that must be disposed of by municipalities in solid-waste disposal sites (Forestry South Africa 2004).

Sappi has built a global information technology platform that is used across all its businesses (Sappi Annual Report 2003), similar to what Barlow and SA Breweries did. Sappi originated many of the industry's major innovations of the 20th century. It implements best practice and continues to maintain focus on innovation throughout the group. There are research and development centres in Europe, North America and South Africa that have established multi-regional, multi-disciplinary teams to ensure that knowledge is transferred throughout the group (Sappi Annual Report 2002 on Form 20-F).

The Sappi Forests subsidiary seeks to build on the natural advantage of tree growing cycles and has an extensive research operation which concentrates on programmes to improve the yield per hectare of forest land used. Significant progress has been made in developing faster-growing trees with enhanced fibre yields (Sappi Annual Report 2002 on Form 20-F).

Principal supply requirements are wood, pulp and energy, and large amounts of water (Sappi Annual Report 2004 on Form 20-F). The company's energy requirements in Southern Africa are met principally by gas, electricity and coal, supplemented by purchases of oil and by the use of internally generated biomass and by-products. Escom, the state-owned electricity company, provides approximately 68 percent of the electricity requirements (see Section 2.9 for information on low-cost electricity). The balance is generated internally.

Demand Factors

The products in South Africa are sold to a large number of customers, including merchants, converters and other direct customers, many of whom have long-standing relations with Sappi (Sappi Annual Report 2004 on Form 20-F). Product ranges need to be developed speedily to service the needs of a diverse market that includes sophisticated and demanding customers (Chapman et al. 2002, Sappi Annual Report 2002 on Form 20-F). The growth in the industry is attributed to the industry's long time competitiveness (Forestry South Africa 2004).

South Africa ranked 24th in the world in both paper and paperboard production in 2004. It ranked 15th in pulp production, illustrating the importance of exports of this product. See Appendix 7.15.

Hope (25 October 2002) reports that Sappi decided to pursue international growth in 1989 because the growth opportunities in South Africa were limited by their high market share and the sluggish local market.

Related and Supporting Industries

The industry is well integrated from seeding to final product, linking forestry, paper and board manufacturing to converting operations (Forestry South Africa 2004). Appendix 7.16 depicts the array of related and supporting industries of the forest industry. It shows the various products and final uses derived from forest plantations and sugar cane.

There are industry clusters in forestry and milling. Both Sappi and Mondi, Sappi's competitor, have plantations and mills in Mpumalanga Province and Kwa Zulu Natal. Sappi and Mondi plantations grow alongside mills that produce newsprint and kraft (Chapman et al. 2002). Sappi Forest Products produces bleached and unbleached paper pulp for itself and the world market (Sappi Annual Report 2004).

Downstream packaging companies in South Africa – Nampak, Kohler and Consol – control 80 percent of their market. Sappi and Mondi have had to maintain technological advantages and innovations to serve these strongly placed customers. There is considerable product information flow between the related industries (Chapman et al. 2002). This encourages close relationships, short communication lines and concurrency with respect to innovation.

Strategy, Structure and Rivalry

Sappi's overall objective is to be the outstanding company in the global paper and pulp sector. The strategies to achieve this are discussed in Subsection 5.5.6 and 9.5.1. They include moving towards a more market-oriented practice and ensuring that adequate marketing, production and process technology competencies are in place.

The company's chief competitor in South Africa is Mondi, a subsidiary of the Anglo American Corporation, Africa's largest company. Mondi, founded in 1967, is a producer of pulp, paper, packaging board, sawn timber and related products (Anglo American Annual Report 2002). It owns or leases 660,000 hectares of forest land in South Africa (Chapman et al. 2002).

Sappi and Mondi have different global strategies and focus. Sappi concentrates on coated woodfree paper while Mondi focuses on uncoated woodfree, graphic paper and packaging (McNulty 2003). Sappi also produces uncoated woodfree paper, as well as newsprint in South Africa, and competes in the same markets as Mondi. Having to compete with such a strong rival has forced Sappi to continually improve and innovate. Imports, primarily from Europe, have gained an increased share of the Southern African paper markets since sanctions and boycotts against South Africa ended with the demise of apartheid in the early 1990s (Sappi Annual Report 2004 on Form 20-F).

Government

There are no tariffs imposed on imports of pulp and newsprint into South Africa. Tariffs on most other paper products under the World Trade Organisation rules are 10 percent, and will decline to five percent over time (Sappi Annual Report 2004 on Form 20-F).

The primary South African laws affecting Sappi's operations have been substantially revised since 1994 to reflect the environmental concerns of interested and affected parties. These include the National Water Act, the National Environment Management Act and expected revisions to the Air Pollution Prevention Act of 1965 (Sappi Annual Report 2001 on Form 20-F).

Chance

The appointment of Eugene van As as the group managing director and CEO in 1978 was undoubtedly pivotal and possibly also chance. He had joined the company as the managing director of a subsidiary in 1977. A firm of executive recruiters conducted a search for a new CEO of Sappi in 1978. It is difficult to envisage any of the outside candidates showing the same boldness as van As did in transforming Sappi from a South African player to a world leader in its markets (I was aware of the search).

7.2.4 Wolverine World Wide

The company's headquarters is located in Rockford which is 20 miles from Grand Rapids, the largest town in western Michigan.

Factor Conditions

Industry in the area was originally based on lumber, and Grand Rapids became the furniture capital of the USA. The furniture industry declined as companies moved to areas such as North Carolina, seeking lower cost structures. Office furniture replaced household furniture and the area now has three of the world's largest office furniture companies; Steelcase, Hayworth and Herman Miller (Lydens 1976).

Wolverine had ready access to all of the resources listed in Figure 3.15 depicting Porter's Diamond. Located in the Midwest, it was close to supplies of pigskin from Ohio and other neighbouring states. Labour costs became relatively expensive for the shoe industry in Michigan and the company moved production to Arkansas, then to the Caribbean and now has China as the major supplier.

The Huggins 2004 World Knowledge Competitiveness Index placed the Grand Rapids/Holland territory third in the world in knowledge intensive industry (the territory includes Muskegon where Sappi has a mill). It was beaten only by San Francisco, including Silicone Valley, and Boston, with Harvard and the Massachusetts Institute of Technology (Bauer 2004). The 2005 World Knowledge Competitive Rankings placed Grand Rapids sixth (Expansion Management 2006). There are four universities in the Grand Rapids area, regional campuses of several others and more leading universities within a two-hour drive of Grand Rapids. Wolverine has therefore had a local source of managerial and technical talent.

"Grand Rapids is truly a research, innovative and entrepreneurial community" claims Jenny Shangraw, the city's information resource manager (2004, cited by Bauer 2004). The area is served by the Gerald R. Ford International Airport and Alticor (formerly Amway), the worlds largest direct marketing organisation, is another multinational company located in the area.

Demand Conditions

The initial markets for Wolverine were lumber workers and farmers. Post-World War II affluence in America led to a rise in white-collar jobs, a move from the farms into the cities and a general increase in leisure time and leisure activities. Hush Puppies were the perfect leisure shoes – casual, comfortable – and uniquely "breathable" (Wolverine World Wide 1983).

In terms of Porter's Diamond the demand conditions of demanding local customers, needs that anticipated those elsewhere and unusual local demand in specialised segments that can be served locally were all fulfilled by Hush Puppies. The brand subsequently became one of the first global footwear brands.

The USA is the largest footwear market in the world. Consumption in 2004 was 2,150 million pairs, of which only 35 million pairs were produced in the country. Some estimates place the US at almost a quarter of the world's consumption of leather shoes and leather products (Plunkett Research 2006). The Wolverine decision to go global was therefore not so much the result of the local saturated market but rather seeing opportunities elsewhere. The US market is highly competitive. (L.Whipple, personal interview, Grand Rapids, 8 June 2004).

Related and Supporting Industries

Wolverine benefited from the presence of capable, locally based suppliers and competitive related industries until the 1980s when the movement of footwear manufacturing offshore led to the decline of accessory leather and component suppliers. Wolverine had made some of its own materials and continues to do so for its military footwear and specialised products.

Strategy, Structure and Rivalry

As seen in Subsection 5.6.10 Wolverine has numerous direct competitors, not only in the USA but world-wide. The company has always had effective competitors, causing it to respond, innovate and upgrade its competencies.

Government

Besides legislation and government policy the government has influenced the success of Wolverine by its purchase of military footwear. The free trade policies of the Reagan administration in the 1980s led to a decline in duties on imported footwear and resulting increases in imports. The shoe manufacturing industry now supplies less than 5 percent of the country's market (L. Whipple, personal interview, Grand Rapids, 14 December 2005).

Chance

Some of the chance events affecting Wolverine World Wide are discussed in Subsection 5.6.3, History. The decline of the supply of horse-hides due to the emergence of automobiles together with the War Production Board request to Wolverine to produce pigskin gloves during World War II led to the company developing and patenting an effective pig-skinning machine (Wolverine 1983).

The decision by Adolph Krause, President of Wolverine in 1957 to use the name "Hush Puppies" suggested by the company's sales manager instead of others recommended by an advertising agency is possibly a pivotal chance event in the company's history (Wolverine 1983).

7.3 Selection and Development

The questionnaire asks respondents to explain, in a few sentences, how core competencies are chosen and developed in their company. The answers are discussed below. Knowing how the company's select and develop core competencies enables one to compare the data with the literature review. Any advances in knowledge will be of benefit to both academia and practitioners. The knowledge can also assist other companies in their own selection and development of core competencies.

7.3.1 Barloworld

According to P.M. Drewell (9 May 2003) Barloworld has been opportunistic in choosing and developing core competencies. He uses the analogy of a surfer to explain the situation, as they have always attempted, often unconsciously or subconsciously, to "pick the waves and ride them". This, therefore, included a degree of instinctive insight. He adds that the executives are very aware of whether or not the company can do something well. Core competencies are a constantly evolving issue.

Barloworld now has a strategic planning process team that, at the time of the interview, was installing standard methodology through all their businesses. Value chains are utilised, including the examination of resources, capabilities and core competencies. The newly formed Barloworld Logistics is now a major supply chain management business, and Drewell expects this to further advance the use of value chains in determining the company's core competencies.

7.3.2 SABMiller

Van der Schyff (10 June 2003) states that the core competencies have not always been consciously chosen but often evolve from meeting the dictates of business imperatives. He gives as examples the areas of brewing and distribution. Because these are critical areas, there has been a focus on learning more about and developing them. "Good" people are assigned to the areas which facilitates the development process. There is also interaction between best practices and formal training programmes. Individuals build up their skill bases and this in turn affects the choice and development of core competencies as they are rotated around the company.

Mackay (SABMiller 2004c) illustrates the importance of learning in the development of core competencies in his address to SABMiller distributors at a conference in New Orleans on 26 March 2004:

> Ten years ago we knew how to operate in South Africa very well. And in the ten years or more since we came out of South Africa, we have developed ways of doing things; ways of taking on new markets. That's very different from just knowing how to operate in an existing, in a "given" environment. We have – over these years – learned an enormous amount about what questions to ask, how to look at things, what's required in a market, how to restructure a given market or business, what to aim for, what the key levers are to pull. And, very important, what rules you use when you assess all that.

The above views are complemented by the regions, or companies, of SABMiller Africa and Asia and SABMiller Europe. The former observes that their core competencies are chosen through job analysis and structuring of competence guides. These vary depending on the individual businesses and their locations (F. Miller, Questionnaire 2, The Development and Transfer of Core Competencies, 22 August 2003).

Historically each country in the SABMiller Europe region has been different, says N. Mogilnicki (telephone interview 21 August 2003). There is limited integration across the different countries at present and each drives its own core competencies. Top management in all the countries is largely from South Africa, and these managers play a very influential role. Endeavours are now being made to consolidate and integrate operations and systems which will influence the selection and development of core competencies. SABMiller Europe has an audit system of capabilities standards in the various functions and divisions, which is most developed in the sales area.

7.3.3 Sappi

R. Hope (13 June 2003) states: "We don't really sit down and choose core competencies. It is more a matter of identifying competencies that we need to fulfil our goals and strategies". The company reviews the situation each year and goes through the formality of using value chains. The degree of structure or formality varies by business but it is now standardising certain processes such as strategic planning.

Around 2003, Sappi's human resources department was investigating leadership characteristics that will involve asking what core competencies are, what they need to be and where they are lacking in skills. This is expected to lead to a more structured approach (R. Hope, Questionnaire 2, The Development and Transfer of Core Competencies, 29 September 2003). The 2004 Sappi Annual Report carries details of this approach, which is mentioned in Section 6.1.

7.3.4 Wolverine World Wide

Core competencies have evolved from experience, largely from the requirements of competitive markets. The company has a strategic business planning and development programme which has core competencies as one of the foundations of its business model. Value chains and other methods of analysis are used at different times (J.C. Tegner, Questionnaire 1A, Initial Questionnaire, 9 October 2003).

7.3.5 Review

One can see from the above that all five companies use some process to develop core competencies. However, none appears to go to the lengths of the rigorous analytical approaches advocated by Hamel and Prahalad (1998) and Hitt, Ireland and Hoskisson (2005). None of the companies uses the Hamel and Prahalad product matrix, or specifically asks the four questions advocated by Hitt et al. which relate to a core competency being valuable, rare, costly to imitate, and non-substitutable. While the core competencies in place may well meet these four criteria, the companies do not explicitly ask these four questions in the process of developing core competencies.

Wolverine World Wide has core competencies as one of the foundations of its business model, while SABMiller Africa and Asia has a system that goes down to the core competencies of individuals. Barloworld, SABMiller Europe and Sappi all stated that they were moving toward more structured approaches in the development of core competencies at the time.

All five corporations utilise value chains in one way or another when developing core competencies, as advocated by Porter (1985) and Hitt et al. (2005).

The views of Hamel and Prahalad (1998), Hitt et al. (2005) and Thompson and Strickland (2003) – that core competencies emerge over time and that learning and experience are crucial – are supported by the findings related to the corporations in the study.

The corporations "choose" to develop certain core competencies because they are essential to the achievement of objectives, or to deal with competition, rather than through a rigorous checklist or analytical process. This relates somewhat to Drucker's (1995) suggested method of keeping careful track of one's own and competitors' performances, where successes demonstrate what the market values, and non-successes suggest early indications that the market is changing or that the company's competencies are weakening.

7.4 Methods

Table A in Questionnaire 2, The Development and Transfer of Core Competencies asks the respondents to designate the four methods of the seventeen listed that they found to be most effective in developing, or facilitating the development of, each of their core competencies. It also suggests that they add and specify any other methods that are not covered in the questionnaire.

The responses are analysed by examining totals, means and percentages. Totals are used to rank methods in the tables. Means and percentages are also discussed in the text.

7.4.1 Companies

The most-cited methods of developing core competency by company and value chain location in reply to Table A are shown in Appendices 7.1 to 7.5. Even a cursory glance at the five tables shows that the methods cited most vary not only between the companies but also by value chain location within each company. Three additional methods were specified by Sappi, bringing the total of methods listed to 20. The maximum number of times each method can be cited or mentioned is seven for four of the companies and six for Sappi, as the other companies each have seven core competencies and Sappi has six. Table 7.1 in Subsection 7.4.2 shows the methods cited by the five companies.

Barloworld considers method 4, *corporate culture that demands high performance standards,* to be its most effective method to facilitate or develop core competencies. This method is mentioned the maximum of seven times. Method 13, *investment in skills and knowledge, development of human resources,* with four mentions is the second most effective, followed by method 11, *allocation of key managers and experts to areas,* mentioned three times.

SABMiller Africa and Asia rates method 1, *exposure to a demanding technical, operating or economic environment,* and method 11, *allocation of key managers and experts to areas,* as its two most effective methods, with four mentions each. It also considers method 7, *formation of special multi-disciplinary teams;* method 8, *use of international reach and size;* and method nine, *benchmarking,* as effective methods, with three mentions each. The company mentions method 10, *regular review of existing and nascent core competencies,* twice (and is the only company to do so), and it is the only one to mention method 15, *mergers and acquisitions* and method 17, *value chains* as being in the four most effective methods for any of the value chain locations.

SABMiller Europe, like Barloworld, cites method 4, *corporate culture that demands high performance standards* the full seven times. Method 11, *allocation of key managers and experts to areas,* is also cited seven times while method 13, *investment in skills and knowledge, development of human resources,* is cited four times.

Sappi regards method 7, *formation of special multi-disciplinary teams*, as its most effective overall method, with four mentions. The second most effective method is method 4, *corporate culture that demands high performance standards* mentioned three times. Sappi mentions method 5, *internal analysis that identifies activities that should be developed,* twice and is the only company to do so. It also mentions three others twice: method 2, *commit substantial resources to an area*, method 6, *inclusion in planning process (objectives, goals etc)* and method 13, *investment in skills and knowledge, development of human resources.*

Wolverine World Wide rates method 1, *exposure to a demanding technical, operating or economic environment* as its most effective overall method. It mentions this the maximum of seven times. The company's second most effective method is method 2, *commit substantial resources to an area*, which receives five mentions, followed by method 8, *use of international reach and size*, with three mentions. The only other company to mention this method more than once is SABMiller Africa and Asia, which does so three times. Wolverine mentions five other methods twice. They are method 3, *use of company-wide reward and incentive systems;* method 4, *corporate culture that demands high performance standards;* method 6, *inclusion in planning* *process (objectives, goals etc)* and method 9, *benchmark core competencies against competitors and other firms.*

SABMiller Europe's median score is the highest, followed by Wolverine World Wide, Barloworld and SABMiller Africa and Asia. Sappi's score is the lowest. However, the differences in scores are not significant at the 5% level of significance (Kruskal-Wallis ANOVA:H=1.95, (4, N=61)), P=0.7447). See Table7.1, i.e. no significant difference between companies. There is no significant difference in median scores between the methods with n>2 (Kruskal-Wallis ANOVA: H=11.5, (11, N=53)). i.e. no method differences.

The South African multinationals and Wolverine World Wide differ notably in the number of mentions accorded to the different methods. The South African companies as a group consider method 4, *corporate culture* (with the partial exception of SABMiller Africa and Asia); and method 11, *allocation of key managers and experts to areas* (Sappi is an exception) as the first and second most effective methods. Method 7, *formation of special multidisciplinary teams,* and method 13, *investment in skills and knowledge,* tie for third place with method 9, *benchmark core competencies against competitors and other firms,* in fifth place. The calculations for the South African companies are shown in Appendix 7.6. Wolverine World Wide, on the other hand, regards method 1, *exposure to a demanding technical, operating or economic environment*, method 12, *commit substantial resources to an area,* and method 8, *use of international reach and size* to be more effective for its purposes.

Several partial explanations for the above suggest themselves. The South African corporate culture is less individualistic than that of corporations in the United States (see Hofstede, Section 3.4). The South African companies began their international ventures in the early to mid-1990s. This would have influenced their views on corporate culture in a multinational sense. Wolverine World Wide has been competing in global markets for several decades longer. The South African companies, with their experience of the relative scarcity of skills and the need to train and upgrade have carried this mindset into the international field. I checked these explanations with my contacts in the different companies, and four of five replied that they agreed with the explanations in general (e-mails: F.Miller and N. Mogilnicki 31

July 2006, P.M. Drewell and L.Whipple 8 August 2006). F. Miller of SABMiller Africa and Asia expressed reservations about the sentences on corporate culture. As seen in Subsection 5.6.4, Wolverine has posted less than a dozen employees to foreign positions from the USA over the past eight years. The three South African companies have (to varying degrees) transferred numerous employees from South Africa to their affiliates in other countries.

7.4.2 Company Composites

As seen in Section 7.4.1 and Table 7.1, the maximum number of times a method can be cited is seven times for four of the companies and six for Sappi, that is, one citation for each of the companies' core competencies. The total maximum number of citations or score per method is therefore 34 (4 x 7 + 6). The total number of possible citations of all methods is consequently 136 (4 x 28 + 24).

The overall perceived effectiveness of the 20 methods is considered before examining the relative effectiveness of each method in developing core competencies for the different value chain locations.

The most-mentioned method is method 4, *corporate culture that demands high performance standards.* This receives 21 mentions out of a possible 34 and accounts for 15.4 percent of the total 136 possible mentions. Each of the companies mentions this method at least twice, and two of them, Barloworld and SABMiller Europe, accord it the maximum of seven mentions or points.

The second most-effective method on an overall basis is method 11, *allocation of key managers and experts to areas.* It scores 16 points. All companies mention it at least once, and SABMiller Europe mentions it seven times. This method accounts for 11.7 percent of the total mentions.

Method 1, *exposure to a demanding technical, operating or economic environment,* receives 15 mentions, to be placed third. Each company mentions this method at least once, with Wolverine World Wide mentioning it the maximum of seven times.

Exposure to a demanding technical, operating or economic environment accounts for 11.3 percent of the total points, or mentions.

Method 7, *formation of special multi-disciplinary teams,* receives 13 mentions to be placed fourth. Each of the companies mentions it at least twice with Sappi doing so four times. Method 7 accounts for 9.8 percent of the total.

Method 13, *investment in skills and knowledge, development of human resources,* is placed fifth. All companies mention it, with SABMiller Europe doing so five times. Its 12 points account for 8.8 percent of the total.

Figure 7.1 graphically illustrates the effectiveness ratings of the 20 methods.
Rankings based on means result in the same order as those of totals for the top six methods. See Table 7.1. The percentages for the companies and the company composites are shown in Table 7.2. The top four methods account for 48.2 percent, and the top five methods account for 57 percent of the total.

Table 7.1 Development of Core Competencies: Company Composites

Times methods cited

Method	BAR	A&A	EUR	SAP	WW	ΣX_i	n	$\overline{x}$	Rank
1. Exposure to demanding technical, operating, economic environment	2	4	1	1	7	15	5	3.0	3
2. Commit substantial resources to an area	1		1	2	5	9	4	2.2	7
3. Use of company-wide reward and incentive systems	1		2		2	5	3	1.4	10
4. Corporate culture that demands high performance standards	7	2	7	3	2	21	5	4.2	1
5. Internal analysis that identifies activities that should be developed	1	1		2		4	3	1.3	12
6. Inclusion in planning process (objectives, goals etc)	2	2		2	2	8	4	2.0	9
7. Formation of special multi-disciplinary teams	2	3	2	4	2	13	5	2.6	4
8. Use of international reach and size	1	3	1	1	3	9	5	1.5	7
9. Benchmark core competencies against competitors and other firms	1	3	2	2	2	10	5	2.0	6
10. Regular review of existing and nascent core competencies	1	2				3	2	1.5	13
11. Allocation of key managers and experts to areas	3	4	7	1	1	16	5	3.2	2
12. Commitment to long-term paths or trajectories of development	2	1		1	1	5	4	1.3	10
13. Investment, skills & knowledge, development of human resources	4	1	4	2	1	12	5	2.4	5
14. Seminars/conferences									17
15. Acquisitions		1				1	1	1.0	14
16. Recruit outside talent			1			1	1	1.0	14
17. Value chains		1				1	1	1.0	14
18. Others: Identify leadership competencies				1		1	1	1.0	
19. Others: Performance management				1		1	1	1.0	
20. Others: Focus and scale				1		1	1	1.0	
Total ΣX_i	28	28	28	24	28	136			
Number n	13	13	10	14	11		61		
Mean $\overline{x}$	2.2	2.2	2.8	1.7	2.5			2.3	

Note: Rank refers to ΣX_i column. Methods 18 to 20 not ranked because from Sappi alone.

Table 7.2 Development of Core Competencies: Company Composites (Percentages)

Times methods cited

Method	BAR	A&A	EUR	SAP	WW	ΣX_i	Rank
1. Exposure to demanding technical, operating, economic environment	7.1	14.3	3.6	4.2	25.0	11.0	3
2. Commit substantial resources to an area	3.6		3.6	8.3	17.9	6.6	7
3. Use of company-wide reward and incentive systems	3.6		7.1		7.1	3.7	10
4. Corporate culture that demands high performance standards	25.0	7.1	25.0	12.5	7.1	18.4	1
5. Internal analysis that identifies activities that should be developed	5.5	2.6		8.3		2.9	12
6. Inclusion in planning process (objectives, goals etc)	7.1	7.1		8.3	7.1	5.9	9
7. Formation of special multi-disciplinary teams	7.1	10.3	7.1	16.7	7.1	9.6	4
8. Use of international reach and size	3.3	10.3	3.6	4.2	10.7	6.6	7
9. Benchmark core competencies against competitors and other firms	3.3	10.3	7.1	8.5	7.1	7.4	6
10. Regular review of existing and nascent core competencies	3.3	7.1				2.2	13
11. Allocation of key managers and experts to areas	10.3	14.3	25.0	4.2	3.6	11.8	2
12. Commitment to long-term paths or trajectories of development	3.6	3.6		4.2	3.6	3.7	10
13. Investment, skills & knowledge, development of human resources	14.3	3.6	14.3	8.3	3.6	8.8	5
14. Seminars/conferences						-	17
15. Acquisitions		3.6				.7	14
16. Recruit outside talent			3.6			.7	14
17. Value chains		3.6				.7	14
18. Others: Identify leadership competencies				4.2		.7	
19 Others: Performance management				4.2		.7	
20. Others: Focus and scale				4.2		.7	
Total ΣX_i	100.0	100.0	100.0	100.0	100.0	100.0	
Number n	13	13	10	14	11		
Mean $\bar{x}$							

Note: Rank refers to ΣX_i column. Methods 18 to 20 not ranked because from Sappi alone.

The results of this study are not directly comparable with that of Mascarenhas, Baveja and Jamil (1998), which was covered in Subsection 3.7.1. Their study used three types of competence – *technical, reliable process and close external relationships* – while this study uses the primary and secondary locations or activities in the value chain. There are, however, certain similarities. The results of this study certainly support their conclusion that different approaches and multiple methods are needed to develop each type of competence.

Corporations in Mascarenhas et al.'s (1998) study mentioned *exposure to a demanding technical environment* with *commit substantial resources to an area* tied with two other methods for second place. The corporations researched in this thesis placed these two methods in reverse position to this with *commit substantial resources* in first position and *exposure to a demanding environment* second. The Mascarenhas et al. research regarded *corporate culture* followed by *internal analysis* as the two leading methods in the core competence of reliable processes. The companies in this study in the operations value chain, rated *allocation of key managers and experts* first and *exposure to a demanding environment* second.

Other methods covered in the literature, such as method 10, *regular competence review meetings* (Hamel and Prahalad 1998); method 5, *internal analysis;* method 17, *value chains* (Hitt, Ireland and Hoskisson 2005); and method 12, *path dependency* (Teece, Pisano and Shuen 1997; Lei, Hitt and Bentis 1996; Barney 1995), receive relatively few mentions. *Internal analysis* receives four mentions; *value chains,* one; *regular review of existing and nascent core competencies,* three. *Commitment to long-term paths or trajectories of development* is mentioned by four of the five companies but only one of them mentions it more than once. Method 10, *benchmarking* and method 8, *use of international reach and size,* are mentioned by all the corporations, scoring ten and nine mentions respectively. Method 14, *seminars/conferences,* is not mentioned by any of the five companies as being in the four most effective methods for any of their core competencies.

There appear to be some contradictions between the scores in Table 7.1 and the written or spoken answers to Question 4 of Section Three in Questionnaire 1: Initial

Questionnaire on the Development and Transfer of Core Competencies and Competitive Advantage – "Please explain, in a few sentences, how core competencies are chosen and developed in your company." All the companies mention value chains in their answers to this question, but only one lists it in Table A answers in Questionnaire 2. I raised this question with two of the companies (P.M. Drewell, email, 26 October 2003 and F. Miller, telephone interview, 25 October 2003), and the answer was that they certainly use value chains, but it did not rank in the four most effective methods for any of their core competencies.

The following subsections analyse the effectiveness of the methods of developing core competencies by value chain location.

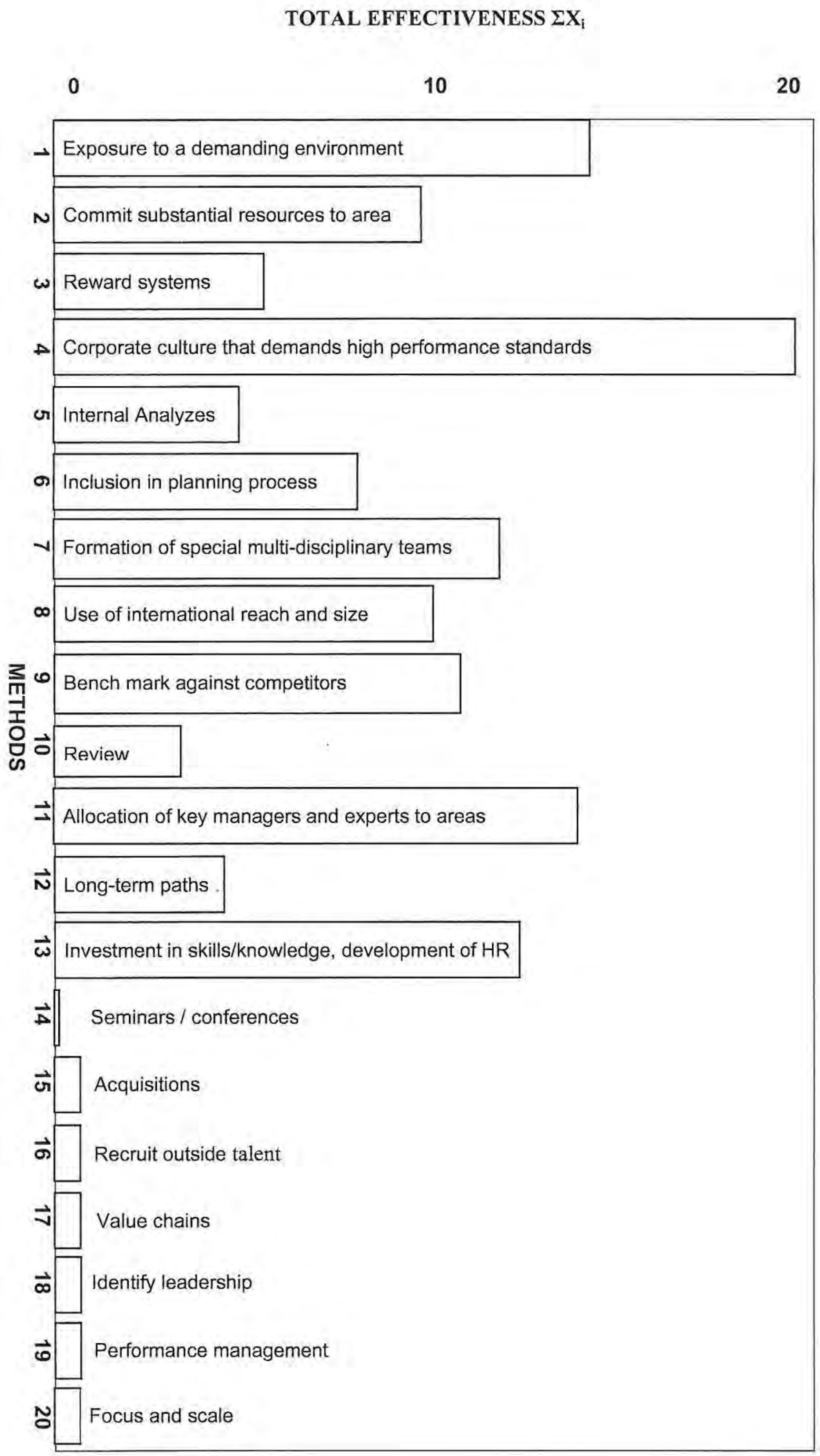


Figure 7.1 Development of Core Competencies: Effectiveness of Methods

7.4.3 Value Chain

Table 7.3 shows the same methods as Table 7.1 does but is presented by value chain location, not by company. The number of mentions per method and the total mentions are obviously the same. The information is presented in this way so that the effectiveness of the various methods can be assessed in the contexts of different value chain locations. A particular method, may, for example, be more effective in a marketing location than in an operational one.

Eight value chain locations are used in the table and subsequent analysis. The infrastructure: general management location has special considerations that were discussed in Section 6.6. All five of the companies report on merger and acquisitions and human resource management, four on marketing, operations and technology; three on infrastructure: general management; and two on outbound logistics and inbound logistics/purchasing.

There is a significant difference in median scores between the first 8 columns (marketing to infrastructure: general management) (Kruskal-Wallis ANOVA: $H=20.5$, $(7, N=73)$, $P=0.0047$). M&A, human resource management, and infrastructure are significantly different from outbound logistics and in inbound logistics (Mann-Whitney: M&A: $U=13.5$, $P + 0.0340$; human resource management: $U=13.0$, $P=0.0489$; infrastructure: general management: $U=10.0$, $P=0.0045$).

There is no significant difference in median scores between the methods with $n>3$ (Kruskal-Wallis ANOVA: $H=9.2$, $(9, N=59)$, $P = 0.4202$). i.e. no methods differences.

Three methods achieve the maximum of five mentions in a specific value chain activity. These are: method 4, *corporate culture that demands high performance standards,* in human resource management; method 7, *formation of special multi-disciplinary teams,* under mergers and acquisitions; and method 13, *investment in skills and knowledge, development of human resources,* once again in human resource management.

No methods receive four mentions in any one value chain location. The methods that receive three mentions are method 2, *commit substantial resources to an area,* in technological development; method 3, *use of company-wide reward and incentive systems,* in human resource management; method 4, *corporate culture that demands high performance standards,* in mergers and acquisitions; method 8, *use of international reach and size,* in mergers and acquisitions; and method 11, *allocation of key managers and experts to areas,* in operations..

Method 7, *formation of multi-disciplinary teams,* is rated the most effective method in the merger and acquisition location. Method 13, *investment in skills and knowledge, development of human resources,* receives the most mentions in human resource management together with method 4, *corporate culture that demands high performance standards.* The latter is rated as the most effective method in both human resource management and infrastructure. Method 2, *commit substantial resources to an area,* receives the most mentions in the technological development location.

Method 11, *allocation of key managers and experts to areas,* is ranked first in operations and "ties" for first place in marketing and sales.

The suitability of the methods for different locations is discussed above. The same information on effectiveness will now be presented from the perspective of the value chain locations. What are the most effective methods to develop core competencies in each value chain location as determined by the companies?

Marketing has four methods that receive two mentions each. They are method 1, *exposure to a demanding technical, operating or economic environment;* method 3, *use of company-wide reward and incentive systems;* method 4, *corporate culture that demands high performance standards;* and method 11, *allocation of key managers and experts to areas.* Outbound logistics shows agreement of the two respondents only on method 9, *benchmark core competencies against competitors and other firms.*

Operations has five methods that receive two mentions each, but method 11, *allocation of key managers and experts to areas,* receives three mentions. Inbound logistics features method 8, *use of international reach and size,* as the leading method, the only method on which both respondents agree. Mergers and acquisitions report method 7, *formation of special multi-disciplinary teams,* as the most effective method. All five companies cite it. The next most effective methods are 4, *corporate culture that demands high performance standards,* and 8, *use of international reach and size.* Three companies cite each of these methods.

In the human resource management location all five companies mention method 4, *corporate culture that demands high performance standards,* and method 13, *investment in skills and knowledge, development of human resources.* Four companies submitted data for the technology location, and three of them mention method 2, *commit substantial resources to an area.* Five other methods receive two mentions each. Infrastructure: general management shows method 4, *corporate culture that demands high performance standards,* as cited five times and there are two other methods (1 and 2) that receive four mentions each. The maximum number of mentions for any method in this location is eight as opposed to four in the other locations.

There are different answers as to what is the most effective method for each of the eight value chain locations. These results further support the conclusions of Mascarenhas et al. (1998) that different approaches and multiple methods are needed as mentioned in Subsection 7.4.2. Method 4, *corporate culture that demands high performance standards,* however, features in three of the eight, it "ties" with three others in marketing and with one other (method 13, *investment in skills and knowledge, development of human resources*) in human resource management and is cited more than any other method in infrastructure: general management. Method 11, *allocation of key managers and experts to areas* is placed first in operations and "ties" for first position in marketing and sales.

The tables showing value chain locations for marketing, outbound logistics, operations, inbound logistics and procurement, mergers and acquisitions, human resource management, technological development and infrastructure: general management are shown in Appendices 7.7 to 7.14. This information is the same as that shown in Appendices 7.1 to 7.5 but is presented by value chain locations. The eight value chain locations will now be discussed in more detail.

Table 7.3 Development of Core Competencies: Value Chain

Times methods cited

Methods		Marketing	Out Log	Operations	In Log	M & A	HRM	Technology	Infrastructure	Total	Rank
1.	Exposure to a demanding technical, operating, economic environment	2	1	2	1	1	2	2	4	15	3
2.	Commit substantial resources to an area	1		1				3	4	9	7
3.	Use of company-wide reward and incentive systems	2					3			5	10
4.	Corporate culture that demands high performance standards	2	1	2	1	3	5	2	5	21	1
5.	Internal analysis that identifies activities that should be developed	1			1	1			1	4	12
6.	Inclusion in planning process (objectives, goals etc)	1	1	2		2			2	8	9
7.	Formation of special multi-disciplinary teams	1		2	1	5		2	2	13	4
8.	Use of international reach and size				2	3		2	2	9	7
9.	Benchmark core competencies against competitors and other firms	1	2	2		2	1		2	10	6
10.	Regular review of existing and nascent core competencies	1	1						1	3	13
11.	Allocation of key managers and experts to areas	2	1	3	1	2	2	2	3	16	2
12.	Commitment to long-term paths or trajectories of development	1						1	3	5	10
13.	Investment in skills and knowledge, development of human resources	1	1	1			5	1	3	12	5
14.	Seminars/conferences										17
15.	Acquisitions					1				1	14
16.	Recruit outside talent							1		1	14
17.	Value chains				1					1	14
18.	Other: Identify Leadership Competencies			1						1	
19.	Other: Performance Management						1			1	
20.	Other: Focus and Scale						1			1	
Total	ΣX_i	16	8	16	8	20	20	16	32	136	
Number	n	12	7	9	7	9	8	9	12	73	
Mean	$\overline{X}$	1.3	1.1	1.8	1.1	2.2	2.5	1.8	2.7	1.9	

Note: Rank refers to Total or ΣXi column. 18-20 not ranked. Sappi only.

7.4.4 Value Chain Locations

Marketing

See Appendix 7.7. There are widespread views on the most effective methods. Four methods are each cited twice but with different combinations of the companies. They are method 1, *exposure to a demanding technical, operating or economic environment* (SABMiller Africa and Asia, Wolverine), method 3, *use of company-wide reward and incentive systems* (SABMiller Europe, Wolverine), method 4, *corporate culture that demands high performance standards* (SABMiller Europe, Sappi) and method 11, *allocation of key managers and experts to areas* (SABMiller Africa and Asia, SABMiller Europe).

Method 2, *commit substantial resources to an area,* and method 6, *inclusion in planning process (objectives, goals etc)* are cited by Wolverine World Wide. It should be recalled that Section 6.2 discusses this company's target of growing sales at twice the industry average with 50 percent of this derived from new business, whether geographic or brand. Method 5, *internal analysis that identifies activities that should be developed;* method 7, *formation of special multi-disciplinary teams;* and method 12, *commitment to long-term paths or trajectories of development,* are the other methods cited by Sappi.

SABMiller Africa and Asia also mentions method 9, *benchmark core competencies against competitors and other firms,* and method 10, *regular review of existing and nascent core competencies.* The fourth method cited by SABMiller Europe is 13, *investment in skills and knowledge, development of human resources.*

Outbound Logistics

The two companies reporting for this location are SABMiller Africa and Asia and SABMiller Europe. They agree on the effectiveness of one method which is method 9, *benchmark core competencies against competitors and other firms.* SABMiller Africa and Asia cites its other selections as method 1, *exposure to a demanding technical, operating or economic environment;* method 6, *inclusion in planning* *process (objectives goals etc);* and method 10, *regular review of existing and nascent core competencies.* The additional three methods cited by SABMiller Europe are method 4, *corporate culture that drives high performance standards;* method 11, *allocation of key managers and experts to areas;* and method 13, *investment in skills and knowledge, development of human resources.* See Appendix 7.8.

Operations

See Appendix 7.9. The three South African companies reporting on this location all cite method 11, *allocation of key managers and experts to areas.* There are five other methods that receive two mentions each, but once again with the companies in different combinations. SABMiller Europe and Wolverine World Wide cite method 1, *exposure to a demanding technical, operating or economic environment* and method 4, *corporate culture that demands high performance standards.* SABMiller and Sappi endorse method 6, *inclusion in planning process (objectives, goals etc).* SABMiller Africa and Asia and Wolverine World Wide cite method 7, *formation of special multi-disciplinary teams,* while Sappi and Wolverine World Wide cite method 9, *benchmark core competencies against competitors and other firms.*

Inbound Logistics and Procurement

See Appendix 7.10. Once again only SABMiller Africa and Asia and SABMiller Europe are included in this location, and the sole method that they agree on is method 8, *use of international reach and size* (Subsection 7.2.2 refers to SABMiller's global purchasing capability).

SABMiller Africa and Asia cites the three additional options of method 1, *exposure to a demanding technical, operating or economic environment;* method 5, *internal analysis that identifies activities that should be developed;* and method 17, *value chains* (I believe that logistics is one of the better areas in which to utilise value chain analysis). SABMiller Europe mentions method 4, *corporate culture that demands high performance standards;* method 7, *formation of special multi-disciplinary teams*; and method 11, *allocation of key managers and experts to areas.*

Mergers and Acquisitions

There is a degree of consensus on the effectiveness of methods here. See Appendix 7.11. All five companies choose method 7, *formation of special multi-disciplinary teams,* as one of their four most effective methods of developing core competencies in this value chain location. Three South African companies – Barloworld, SABMiller Europe and Sappi – select method 3, *corporate culture that demands high performance standards* and Barloworld, SABMiller Africa and Asia and Sappi mention method 8, *use of international reach and size.*

Two companies mention method six, *inclusion in planning process (objectives, goals etc)* (Barloworld and Wolverine); two mention method 8, *benchmark core competencies against competitors and other firms* (SABMiller Africa and Asia and SABMiller Europe), and method 11, *allocation of key managers and experts to areas* (SABMiller Europe and Wolverine). SABMiller Africa and Asia is the only respondent to cite method 15, *acquisitions,* as one of their top four methods in developing core competencies.

Human Resource Management

See Appendix 7.12. Human resource management is the sole value chain activity where the five companies agree fully on two of the methods. Those methods are 4, *corporate culture that demands high performance standards* and 13, *investment in skills and knowledge, development of human resources.*

Barloworld, SABMiller Europe and Wolverine World Wide all cite method 3, *use of company-wide reward and incentive systems.* SABMiller Africa and Asia and Wolverine World Wide both cite method 1, *exposure to a demanding technical, operating or economic environment,* while both SABMiller Africa and Asia and SABMiller Europe cite method 11, *allocation of key managers and experts to areas.*

Technological Development

See Appendix 7.13. Three companies, SABMiller Europe, Sappi and Wolverine World Wide, agree on method 2, *commit substantial resources to an area.* Wolverine World Wide and Sappi both cite method 1, *exposure to a demanding technical, operating or economic environment.* SABMiller Europe and Wolverine World Wide agree on method 4, *corporate culture that demands high performance standards.* SABMiller Africa and Asia and Sappi both list method 7, *formation of special multi-disciplinary teams.* SABMiller Africa and Asia and Wolverine World Wide both mention method 8, *use of international reach and size,* while the two SABMiller companies mention method 11, *allocation of key managers and experts to areas.*

Infrastructure: General Management

This value chain activity comprises five Barloworld core competencies – the Sappi core competency relating to systems and the two Wolverine World Wide core competencies – the ability to operate globally and the ability to build brands.

These core competencies sometimes are diverse, and direct comparisons between them are therefore questionable as discussed in Section 6.6. It is however, worth noting that method 2, *commit substantial resources to an area,* is regarded as effective for Barloworld corporate governance, Sappi systems and the two Wolverine World Wide core competencies of brand building and operating globally. Barloworld cites method 4, *corporate culture that demands high performance standards,* for all five of its core competencies under the value chain category of infrastructure: general management. Barloworld also cites method 1, *exposure to a demanding technical, operating or economic environment,* for two of its five core competencies and Wolverine World Wide lists that method for both of its core competencies. Barloworld mentions method 12, *commitment to long-term paths or trajectories of development,* for its two core competencies of long-term relationships and operating under difficult circumstances as does Wolverine World Wide for brand building. See Appendix 7.14.

7.5 Acquisitions

Method 15, *acquisitions,* is included in the tables and discussions in Section 7.4. Question 6, in part 3 of Questionnaire 1, Initial Questionnaire on the Development and Transfer of Core Competencies and Competitive Advantage, asks if new acquisitions have contributed to the development of core competencies.

P.M. Drewell (9 May 2003) agrees that Barloworld has developed core competencies through acquisitions. This has varied depending on the country and the company. A good example is information technology systems. Finanzauto, in Spain, assisted in the development of information technology systems in the wider group.

F. Miller (22 August 2003) notes that acquisitions of companies made by SABMiller Africa and Asia have at times accentuated areas which had been neglected by that company. This has on occasion led to the identification and development of new competencies.

N. Mogilnicki (21 August 2003) of SABMiller Europe states that its acquisitions in Europe have not "really" contributed to the development of core competencies in the wider SABMiller group. The reasons given for this are that the original South African Breweries was on significantly higher management standards, technically and business-wise, than the companies that were acquired. There were strong brewing traditions in the companies acquired, but business acumen and experience were lacking because of the absence of a free market economy in the past.

Sappi has a positive view of the contribution that acquisitions have made to the development of core competencies in the company according to R. Hope (13 June 2003). The original Sappi South African business was better at marketing and general business and had far better control systems than the companies it acquired. On the other hand, the companies that it acquired in Germany and Austria, Hannover Papier and KNP Leykham, had far better manufacturing skills than Sappi, while the US acquisition, S.D. Warren, refined the concept of relationship sales through distributors. The different skills were built on and transferred to others in the group so that these acquisitions made very significant contributions to the development of core competencies (E. van As, personal communication, 9 November 2003).

J.C. Tegner (10 October 2003) observes that Wolverine World Wide found different operational and strategic processes and management techniques and styles in the businesses it acquired. Wolverine evaluated these and, where it was clear that there were opportunities for improvement, integrated them into its existing businesses. Acquisitions have therefore made meaningful contributions to the development of core competencies in the company

Having analysed the methods of developing core competencies and their effectiveness in different value chain locations, it is now appropriate to examine the experiences of the five companies in encountering and solving practical problems relating to the development of core competencies.

7.6 Practical Problems and Solutions

The examination of practical problems experienced by the companies and the solutions contribute towards two aims of the thesis, namely, to advance the general body of knowledge relating to the development and transfer of core competencies and to have practical applicability for both management practitioners and academics.

7.6.1 Barloworld

According to Drewell (Questionnaire 4, Practical Problems, Solutions and Lessons Learned, 25 May 2004) the biggest practical problem encountered by Barloworld in developing core competencies is agreeing on what their core competencies are. He adds that while this may appear trite, reaching agreement is more than an academic exercise when there is a strong view that excellence across all relevant issues in its businesses cannot be reduced to a simple list of focus priorities. Once the core competencies are agreed upon, a further challenge is to make them "feel alive and relevant".

Strong training systems, leadership, the length of service of key employees and passion and commitment across management teams are included among the ways to resolve the problems.

7.6.2 SABMiller

The practical problems encountered by SABMiller in developing core competencies are those often experienced by expanding multinational corporations (G. Leibowitz, personal interview, London, 13 July 2004). These include the role of group functions and the need for some type of matrix management as expansion continues. Regional chief executives need to become more aware of the needs of a wider group.

Leibowitz (13 July 2004) notes that there are certain practical problems common to both the development and the transfer of core competencies. One of the practical problems experienced by SABMiller was the lack of a standardised company wide agreement on the definitions of core competencies. He states that SABMiller has now set out four explicit core competencies to be formatted and used globally (see Annual Report 2004:6). These are:

1. Brand portfolio positioning and shaping (clarify segments, premium market's importance, trading up)
2. Sales and merchandising
3. Cost/productivity leadership
4. Human organisation and performance management.

Figure 7.2 depicts the four SABMiller core competencies in a matrix. This is contained in a communication from SABMiller (A. Miller Salzman) in response to questions from Rhodes Honours students. Further details of the communication are shown in Appendix 7.18. Leibowitz (personal communication, 1 September 2006) states that he is not using this format in his presentations.

The information in Figure 7.2 is very similar to that in Table 6.2 in Section 6.3. The only one of the seven core competencies in Table 6.2 that is not specifically covered in Figure 7.2 is "merger and acquisition capabilities". This is covered implicitly by "organisation capability/structured to meet strategy". Table 6.2 was derived largely from my personal interview with van der Schyff on 10 June 2003 when the company did not have a standardized core competency format. Figure 7.2 meets the theoretical requirements of Hitt, Ireland and Hoskisson (2003-2005) by combining resources and capabilities with core competencies in a comprehensive and concise description.

The company expects to be able to more readily codify and monitor core competencies and, hence, facilitate their development and transfer, following the explicit definitions and formatting. There is to be more emphasis on being a "group" rather than a series of geographical areas. The company has established global councils chaired by individual regional managers. "Interconnectedness" is important and the company seeks a balance in developing, bringing on and sharing core competencies (Leibowitz, 13 July 2004).

Leibowitz communicated further on 6 December 2005: "SABMiller is in the process of more explicitly identifying, highlighting, codifying and promulgating a set of core competencies (with value driver and KPI definitions) amongst a larger group of internal middle management than ever before. This will continue through 2006, and at some point will be made public as a set."

F. Miller (telephone interview, 17 June 2004), notes that the practical problems encountered by SABMiller Africa and Asia include inadequate local education systems, some ex-colonial, which can result in a lack of initiative outside of routine operations. She sees this as more marked in certain countries with socialistic histories. Miller observes that the SABMiller approach to the development of core competencies has been serendipitous rather than systemic. There have been problems in discovering the best methodologies to use. A further problem has been that management has sometimes been "too busy getting things done to devote adequate time to reflecting on core competencies, their development and transfer." Miller advocates building local training competence and using patience rather than enforcement, together with training programmes targeted specifically to these ends, as practical ways of addressing the problems.

The practical problems experienced by SABMiller Europe centred on different business models in South Africa (very dominant) versus Europe (competitive), a highly decentralised model of SABMiller which is not conducive to setting SABMiller standards, and different languages (N. Mogilnicki, personal communication, 9 June 2004). Mogilnicki believes that these practical problems are not yet resolved. The core competencies reside primarily in the top management and it will take some time before these are cascaded throughout the company. Some of the techniques being used to resolve the problems include creating standards for process procedures and systems using synergies in project management across the region; investments in education, development and language training; instituting a performance culture; auditing capabilities and competencies; working out plans for improvement; and the use of outside consultants in certain areas.

Figure 7.2 SABMiller Core Competencies Format Example

Core competency	Resources / Capabilities
Brand-building and portfolio shaping	➢ ***Insight on consumer choice patterns*** ➢ ***Robust and well-structured brand portfolio, across segments but skewed towards higher value brands with stronger equity and margins*** ➢ ***Nimble and innovative marketing strategy, balancing volume impact with ROI considerations***
Sales and distribution	➢ ***Quantity and quality of sales force and merchandising at retail point-of-sale*** ➢ ***Local market plans and analytical tools*** ➢ ***Productive relationships with distributors***
Costs and productivity	➢ ***Strong operational efficiency and control model, cutting costs to reinvest in brands, assets, people*** ➢ ***World class manufacturing, driving productivity and flexibility*** ➢ ***Procurement based on detailed supplier cost structure insight***
Organisation capability	➢ ***Structured to match strategy*** ➢ ***Performance management, new talent recruitment*** ➢ ***A vigorous, fact-based and meritocratic corporate culture***

Source: SABMiller (A. Miller Salzman 2003) cited by Goble, Muhlwa and Plaskitt (2003:16).

7.6.3 Sappi

Sappi experienced problems similar to those of companies in other industries in developing core competencies (E. van As, personal interview, 22 July 2004). Finding the right skilled people to develop core competencies was certainly a practical problem. Another was trying to be clear on the definition of the company's core competencies. Other problems, related particularly to the nature of the industry, included excessive focus on relationship marketing and neglect of product and brand marketing. This was because a few large customers accounted for a disproportionate share of sales.

Van As (22 July 2004) states that Sappi instituted a number of actions to resolve these practical problems. It imposed its accounting systems on the companies that it had acquired and provided information to those who needed it, thus enhancing both the reputation of Sappi and the morale of the people in the acquired companies. Several different efforts were made to strengthen the pride of employees in working for Sappi. The company sponsored an award for the European Printer-of-the-Year and then progressed to a Global Printer-of-the-Year event. The names of the acquired companies were changed to Sappi, to encourage a "family" of employees. The existing managements were largely retained so that their knowledge of the country and company was kept in place and facilitating the development and transfer of core competencies. A national of the country in question usually heads Sappi operations.

Sappi management usually travel from South Africa to visit global operations rather than have worldwide employees "summoned" to head office. The practical problems of developing and transferring core competencies are often resolved by "going there" and trying to understand problems and operations.

7.6.4 Wolverine World Wide

Wolverine has been in international business since 1959, which is approximately 30 years longer than the South African companies have been. It has, until recently, marketed its products predominantly through a world wide network of licensees and distributors. These two factors influence the practical problems experienced in the development of core competencies. J.C Tegner (Questionnaire 4: Practical Problems, Solutions and Lessons Learned, 1 October 2004) explains that developing brand building as a core competency over the past decade has required the company to evolve from a manufacturing to a market-driven business.

Wolverine needs to transfer core competencies to the distributors and licensees that are building its brands globally. Tegner (1 October 2004) notes that licensees control product, positioning, placement and price within their markets for the Wolverine brands. A very practical problem, he continues, is that it is nearly impossible to know everything licensees are doing in their markets with "their" businesses and "our" brands. Wolverine therefore had to develop a competency to select excellent partners as licensees. To mitigate risks, Wolverine provides licensees with global products, or product standards, which include everything from manufacturing resources to global style, trend and colour information. The company also has approval processes and procedures that licensees should follow as they develop products for their markets under Wolverine brand names.

The Wolverine product development teams and contract manufacturers have continuous access to the company's global information system. The system provides a common source for product development and commercialisation data that enable the company and its associates to identify and anticipate problems timeously (Tegner 1 October 2004).

L. Whipple (31 October 2005) states that a practical problem often experienced with core competencies is that they develop, or are developed, over lengthy periods. Management focus may be on short-term results to the detriment of the development of core competencies. He asserts that many core competencies are found by accident in a corporation's early days and believes that a resolution to this practical problem is to regularly review core competencies against what is required by changes in the environment.

According to Whipple, codifying core competencies can have both practical advantages and disadvantages. An advantage is that codification makes it easier to describe and communicate. A disadvantage is that a core competency may become entrenched long after it has lost its usefulness. He gives an example US shoe companies which had codified shoe manufacturing expertise as a core competency. Management and staff were consequently inflexible when the need arose to focus on marketing, reduce manufacturing operations in the US and source on a worldwide basis.

7.7 Summary and Conclusion

The attributes of Porter's Diamond of National Advantage – *factor conditions, demand conditions, related and supporting industries, firm strategy, structure and rivalry,* - plus *chance* and *government,* are applied to the South African companies and Wolverine World Wide to explain the emergence and development of core competencies and competitive advantages.

While these differ from company to company, there are aspects which affect all of the South African entities. The mineral riches played a part, directly or indirectly in each company, as did the cheap electricity, investment in telecommunications and road and rail infrastructure. The tree growing cycle in South Africa versus that in the Northern Hemisphere is a specific advantage for Sappi. The companies have built on the factor and other advantages of South Africa and acted to counter the disadvantages to develop core competencies. For example, Barloworld, SABMiller and Sappi all responded to the potential human-capital weakness in the country through a variety of methods including technology and training.

Wolverine World Wide had ready access to all the resources noted in Porter's Diamond. When labour costs became relatively expensive, the company moved production to the Caribbean but now has China as the major supplier. The demand conditions of the Diamond were all fulfilled, which enabled Hush Puppies to become one of the first global footwear brands.

While all five companies use some process to arrive at core competencies, none go as far as the rigorous internal analytical approaches advocated by Hamel and Prahalad (1998) and Hitt, Ireland and Hoskisson (2003). SABMiller Africa and Asia has a system that goes down to individual competencies. Core competencies evolve in relation to competition or are "chosen" because they are essential to the achievement of objectives. All companies utilize value chains in some way or another when developing core competencies.

The companies consider the following to be the five most effective methods to develop core competencies on an overall basis: 1) *corporate culture that demands high performance standards,* 2) *allocation of key managers and experts to areas,* 3) *exposure to a demanding technical, operating or economic environment,* 4) *formation of special multi-disciplinary teams* and 5) *investment in skills and knowledge, development of human resources.*

The effectiveness of methods varies by company and value chain location. Results of the research produce a different answer as to the most effective method for each of the eight value chain locations. All five companies agree on *corporate culture that demands high performance standards* and *investment in skills and knowledge, development of human resources* in the human resource management location. All five again agree on the formation of *special multi-disciplinary teams* for developing core competencies in the merger and acquisition core competency.

The results of this research support the conclusions of Mascarenhas et al (1998) that different approaches and multiple methods are needed to develop each type of competence. In their study, however, the most mentioned method in technology is *exposure to a demanding technical, operating and economic environment* while *corporate culture* was placed first in their equivalent of operations. The companies in this study regard *commit substantial resources to an area* as the most effective method in technological development while *allocation of key managers and experts to areas* headed the operations methods.

Methods covered in the literature, such as method 10, *regular competence review meetings* (Hamel and Prahalad 1998); method 5, *internal analysis;* method 17, *value chains* (Hitt, et al 2005); and method 12, *path dependency* (Teece et al 1997; Lei et al 1996; Barney 1995), receive relatively few mentions. Method 14, *seminars/conferences*, is not mentioned by any of the five companies as being in the four most effective methods for any of their core competencies.

A significant difference between the South African multinationals and Wolverine World Wide is the latter's relatively high ratings of *exposure to a demanding technical, operating or economic environment, commit substantial resources to an area* and *use of international reach and size.* The South African companies consider the methods relating to *corporate culture, investment in skills and knowledge* and *allocation of key managers and experts to areas* to be more effective. The differences are partly because the South African companies carried their mindsets on training and upgrading human resources into the international arena in the mid 1990s.

Four of the five companies state that they have developed core competencies through acquisitions. SABMiller Europe says that the original South African Breweries had significantly higher management standards, technically and business-wise, than the companies it acquired in Europe. Sappi is positive – core competencies being transferred to and from the companies they acquired - in a very meaningful manner.

The practical problems experienced by the companies in the development of core competencies centre around agreeing on and defining their core competencies. All five companies expressed similar views on this issue. The approach to the development of core competencies has often been serendipitous rather than systematic. There have been problems on finding and deciding on the best mythologies to use. A further problem has been that management has sometimes been "too busy getting things done to devote adequate time to reflecting on core competencies, their development and transfer." Other problems encountered include overconfidence, limited knowledge of local conditions and the time required to develop or build core competencies. The question of which methods to use has also been an issue.

Practical actions to solve the problems include standardisation of definitions for global use so that they may be more readily codified and communicated, standardised information systems, retention of key staff and regular reviews of core competencies in relation to the environment. SABMiller provide an example of a format for core competencies in a matrix that encompasses resources and capabilities. The company is introducing value drivers and key performers indicators to improve the management of core competencies.

In a logical progression from this discussion of the development of core competencies, the following chapter examines their transfer.

8. THE TRANSFER OF CORE COMPETENCIES

8.1 Introduction

The development of core competencies having been studied in the previous chapter, this one studies their transfer. The methods used to transfer core competencies are set out in Table B of Questionnaire 2, The Development and Transfer of Core Competencies. The results are analysed and statistical analysis applied to certain aspects. Qualitative issues relating to the transfer of core competencies include challenges, means of measuring and assessing the success of transfer, ways to avoid pitfalls, how to improve transfer and the practical problems experienced by the five corporations and the actions they undertook to address the problems.

The first section describes the *challenges* faced by the corporations and compares these with some of the theory from the literature review. The *success of transfer* is examined and compared with the rankings of importance for competitiveness and for performance. This is followed by an examination of the *effectiveness of methods,* done by company, or company composites, overall total, value chain overview, and different locations in the value chain. Reference is again made to leading theories from the literature review.

The relationship between the *effectiveness of methods* and the *ratings of success* in transferring core competencies is explored. *The methods companies use to measure and assess the transfer of core competencies* are described. This is followed by a discussion of the *approaches they take to avoid pitfalls* and what *actions they believe would improve the transfer of core competencies.* The final section is a discussion not *the practical problems and solutions experienced by the five companies.*

8.2 Challenges

Question 4 of Section 4 of Questionnaire 1: Initial Questionnaire asked the companies what were the greatest challenges they faced in transferring core competencies. Their responses are discussed below.

Barloworld sees its greatest challenge as keeping track of where things are changing. Creating a desire to learn is a challenge. Installing effective training and development programmes is very important here (P.M. Drewell, personal interview, Sandton, 9 May 2003). Phillips, the Barloworld CEO, has stated publicly that managing across time zones can be more challenging than managing their wide range of products (A.J. Phillips, presentation to GIBS, 2003).

SABMiller Africa and Asia, regard their biggest challenges in transferring core competencies as language and context. Operating in developing environments, especially those that were previously socialist, add additional challenges (F. Miller, Questionnaire 1A, abridged Initial Questionnaire, 22 August 2003).

SABMiller Europe, regards the perception of certain local nationals as a formidable obstacle to the transfer of core competencies. Some of these individuals believe(d) they were doing well before SA Breweries bought the businesses. This is especially the case in Poland and the Czech Republic, where people are proud of their beer heritage and ways of working. Cultural differences brought about by the former communist system are very difficult to overcome. There is a need to convince people that they can still learn and improve, particularly in the management area. Culture, language and attitudes (national pride) are summarised as obstacles (N. Mogilnicki, Questionnaire 1A, abridged Initial Questionnaire, telephone interview, 21 August 2003).

B. Smith (telephone interview, 12 February 2004) enlarges on the SABMiller Africa and Asia and SABMiller Europe experiences regarding environments that were previously communist. He bases this on his period as Managing Director of SAB's Polish subsidiary. Some managers there had been appointed because of party affiliations, not competence. He states that most people who had grown up under communism had little concept of free markets and the necessary management skills to operate in competitive environments. It was often very difficult to get them to change and learn new ways. On the other hand, "younger people" in the Polish business were/are almost desperate to be part of the free market and Western values, and were/are very keen and willing to learn and adapt.

SABMiller found that one of the greatest challenges to effective management (and, hence, transfer of core competencies) of the Miller Brewing Company was the "passivity" and acceptance of decline by many managers and employees at the newly acquired company. Another challenge was the introduction of the SAB performance management system. SABMiller regarded the system as an overall method of managing a business, evaluating performance and developing people, that often entailed a frank two-way discussion and performance review. Many Miller employees tended to see the performance management system as just another incentive scheme (J. Nel, telephone interview, 30 January 2004).

Smith (12 February 2004) maintains that there is a natural resistance to being acquired under almost any circumstances. Post-acquisition behaviour can therefore often affect the transfer of core competencies.

Sappi regards getting a common language and NIH (not-invented-here) as their foremost challenges. Common language refers not only to vernacular or cultural differences, but to definitions and terminologies. An example given is that the word "customer" may mean different things in different divisions and different countries (R. Hope, personal interview, Johannesburg, 13 June 2003).

Resistance to change, fear, stress and moving out of comfort zones are among the impediments to the transfer of core competencies as seen by Wolverine World Wide. Integrating changes into the corporate culture is another (J.C. Tegner, Questionnaire 1A, abridged Initial Questionnaire, 9 October 2003).

If a multinational controls the organisation, then it will not, under most circumstances, allow an individual to adversely affect transfer of sound practices (B.M. Musham, personal interview, New York, 14 December 2003).

Kostova (1999) postulated that three sets of factors (social, organisational and relational) at three levels, (country, organisational and individual) affect the success of transfer of business practices. While there is nothing in my research that refutes this, it is very difficult for a multinational company to have a big influence on a foreign country and, hence, implementation will often depend on individual relationships.

The research findings are in line with the views of Minbaeva, Pedersen, Bjoerkman, Fey and Park (2001) that the absorptive capacity of subsidiaries facilitates transfer. Bartlett and Ghoshal's (2000) contention that distance, time, language and culture, product, function and geographic diversity all add to the challenge of global business is supported by my research findings.

8.3 Success in Transferring Core Competencies

Questionnaire 2, Question 1 of The Development and Transfer of Core Competencies asked the companies to rank their core competencies in terms of:

a) how important each core competency is in terms of the company being competitive
b) how well the company performs in terms of the core competency.

The rankings are relative; that is, the most important would be ranked one, the second two and so forth.

Table B in Questionnaire 2 asks for the estimated degree or rating of success in transferring each of the companies' core competencies. A seven-point scale is used, where seven equals very effective and one equals not effective at all. The same scale is employed to rate the effectiveness of the 12 methods used for transferring core competencies. There was provision for companies to specify and add other methods that they used to the list.

The companies report estimated ratings of *success in transferring core competencies* from Barloworld as 5.9, followed by Sappi and Wolverine World Wide at 5.0 each, SABMiller Africa and Asia, 4.9, and SABMiller Europe, 4.0. Barloworld results are higher than those from the other companies, although the differences in degrees of success are not significant at the 5% level (Kruskal-Wallis ANOVA: $H=6.58$, $(4, N=33)$, $P=0.1600$). See Table 8.1.

The Barloworld results should be seen in the context of a holding company with subsidiaries in related industries (sometimes not directly) with different product lines. The results of SABMiller Europe are adversely affected by low scores in inbound logistics, human resource management and technological development. The company estimates a 2.0 rating of success in transferring human resource management activities. Barloworld rates this 7.0, with the other three companies each marking it 5.0 points. This category would rate a 5.5 if SABMiller Europe were excluded as an outlier.

Operations shows the highest degree of success. It averages 6.0 points with the two SABMiller companies each rating it at 6.0 points, Wolverine 7.0 and Sappi 5.0. *Mergers and acquisitions* has a 5.8 average with Barloworld at 7.0, Sappi 6.0 and SABMiller Europe and SABMiller Africa and Asia 5.0 points each. Wolverine did not participate in the mergers and acquisitions question. The eight core competencies comprising *infrastructure: general management* are in third position with an average of 5.3 points. Barloworld gave an average rating of 5.4 to its five core competencies, Sappi. 6.0 points to *systems* and Wolverine World Wide an average of 4.5 to its two core competencies. Fourth is *outbound logistics* at 5.0 points, but with only the two brewing companies as participants.

Human resource management, which is in fifth place, averages 4.8 points but, as discussed above, would be 5.5 without SABMiller Europe. *Marketing and sales* is in sixth place with 4.5 points, two companies scoring 5.0 and the other two 4.0. *Technological development*, in seventh place, is rated at 3.8 points, three respondents marking it as 4.0 points with SABMiller Europe at 3.0 points.

Inbound logistics is in eighth place with 3.5 points, and once again covers only the two brewing companies. This category incorporates *purchasing/procurement.* The SABMiller global purchasing programme has some challenges in being transferred to local operations (N.Mogilnicki, 21 August 2003).

There are significant differences in median scores among the core competencies, *viz.* marketing & sales, operations, M&A, human resource management, technological development and infrastructure: general management with n > 2 (Kruskal-Wallis ANOVA: H=12.5, (5, N=24), P=0.0284). There are significant difference at the 5 % level between the primary activities of operations and marketing & sales and with technological development (Mann-Whitney: marketing & sales: U=1.0, P=0.0433; technological development: U=0.0, P=0.0209) and between the support activities of M&A, and technological development (Mann-Whitney: U=0.0, P=0.00209).

Certain of these results are in line, but others are at variance with the literature and research.

Kogut and Zander (1993) refer to codifiability, teachability, complexity, system dependence and product observability. Kostova (1999 and 2002) refers to relational aspects, while Luo (2000) maintains that transferability is influenced by the nature of distinctive resources and capabilities. Flowing from these views it would seem that technological capabilities should be more transferable than organisational capabilities and financial capabilities more transferable than operational capabilities.

This is not the case with *operations* and *technological development* in my study. *Operations*, with the rating of 6.0, is the highest of any value chain location, while *technological development* is marked as 3.8 points. Finance is not dealt with as a separate value chain location. The competencies most directly related to finance are *M&A,* rated at 5.8 and Sappi's *systems,* which has a rating of 6.0 points.

Zander and Kogut (1995) state that the transferability of knowledge depends on codifiability, teachability, complexity, system dependence and product observability. Szulanski (1996) holds that the transfer is influenced by characteristics of the knowledge, source, recipient and context.

Information technology has changed markedly since 1995 and 1996, and this must surely affect the characteristics of transfer of certain core competencies. Wolverine World Wide's operations, for example, are very complex, with over 85,000 SKUs (stock keeping units), 20,000 of these being sourced, manufactured and inventoried on a global basis.

Table 8.1 Ratings of Success in Transferring Core Competencies

Seven-Point Scale COMPANY

Primary Activities		BAR	A&A	EUR	SAP	WWW	ΣXi	n	$\overline{x}$		Rank
1. Service											
2. Marketing & Sales			5	4	4	5	18	4	4.5		6
3. Outbound Logistics			5	5			10	2	5.0		4
4. Operations			6	6	5	7	24	4	6.0		1
5. Inbound Logistics			4	3			7	2	3.5		8
Support Activities											
6. M & A		7	5	5	6	N/A	23	4	5.8		2
7. Human Resource Management		7	5	2	5	5	24	5	4.8		5
8. Technological Development			4	3	4	4	15	4	3.8		7
9. Procurement											
10. Infrastructure: General Management		27			6	9	42	8	5.3		3
a. Long-term relationships		6					6	1	6.0		
b. Evolve/Innovate		4					4	1	4.0		
c. Execution/Organisational		5					5	1	5.0		
d. Corporate governance		7					7	1	7.0		
e. Difficult circumstances		5					5	1	5.0		
f. Systems					6		6	1	6.0		
g. Brand building						4	4	1	4.0		
h. Operating globally						5	5	1	5.0		
Total	ΣX_i	41	34	28	30	30	163		38.7		
Number	n	7	7	7	6	6	33		8		
Mean	$\overline{x}$	5.9	4.9	4.0	5.0	5.0	4.9		4.8		

Notes: Figures are rounded in certain instances. Procurement is included in Inbound Logistics. Rank is based on mean.

In Section 7.6 I discuss the relationship between the rankings of how important the companies regard each core competency to be for competitive purposes and how well they perform each core competency. The statistical analysis of the composite for the five companies shows a Spearman correlation coefficient r_s of 0.714 with a P-value of 0.0713. The different companies diverge widely and only SABMiller Africa and Asia, with a Spearman correlation coefficient of r_s 0.750 and a P value of 0.052 shows a significant relationship between importance and performance. The relationships between performance and success in transferring core competencies and between importance and success of transfer are now examined.

Table 8.2 presents the relationship between performance and success of transfer. There is a strong significant correlation between the ranking of how well the companies, as a composite, perform each core competency and the ratings of success in transferring these core competencies (Spearman correlation coefficient r_s = 0.79 with a P-value of 0.033). The companies vary from a low of r_s = 0.32 for Sappi to a high of r_s = 0.76 for SABMiller Europe.

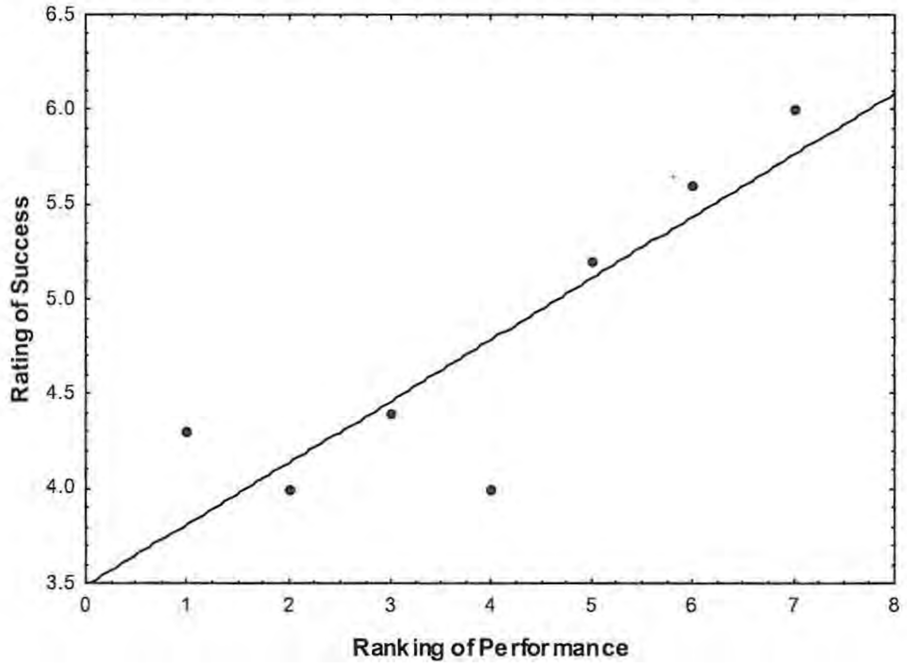
Figure 8.1, Transfer of Core Competencies: Ranking of Performance and Rating of Success demonstrates the regression plot relationship between the two factors.

Table 8.2 Transfer of Core Competences: Ranking of Performance and Rating of Success

	Rating of Success					
Performance	**Total**	**Barlow**	**A&A**	**Europe**	**Sappi**	**WWW**
1	6.0	6	6	6	5	7
2	5.6	7	5	5	6	5
3	5.2	7	5	5	4	5
4	4.0	4	5	2	6	
5	4.4	7	5	4	4	4
6	4.0	5	4	3		4
7	4.3	5	5	3		5
r_s	0.79	0.43	0.67	0.76	0.32	0.62
P-value	0.033	0.335	0.101	0.045	0.604	0.192

r_s = Spearman correlation coefficient

Figure 8.1 Transfer of Core Competencies: Ranking of Performance and Rating of Success



Having examined the relationship between performance and success, attention is now turned to the relationship between importance and success of transfer.

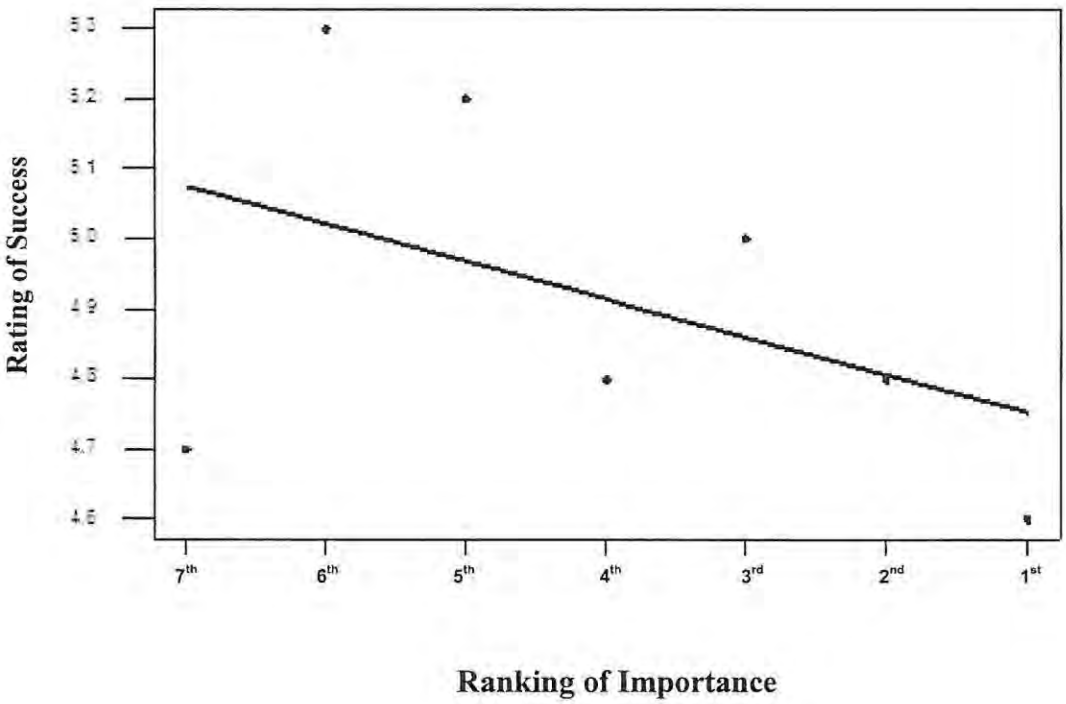
Table 8.3 shows the relationship between ranking of importance and the rating of success in transferring the core competencies. There is a negative correlation of Spearman r_s = -0.40, though not significant. Sappi and Wolverine World Wide have fairly strong negative correlations but again the correlations are not significant at the 5% level. SABMiller Africa and Asia has a significant positive correlation between rankings of importance and degrees of success in transferring core competencies (r_s = 0.81, P = 0.0271). See Figure 8.2 which illustrates the regression plot relationship between ranking of importance and rating of success in transferring core competencies.

Table 8.3 Transfer of Core Competencies: Ranking of Importance and Rating of Success

	Rating of Success					
Importance	**Total**	**Barlow**	**A&A**	**Europ**	**Sappi**	**WWW**
1	4.6	7	6	2	4	4
2	4.8	6	5	4	4	5
3	5.0	4	5	5	6	5
4	4.8	5	4	6	5	4
5	5.2	7	5	3	6	5
6	5.3	7	4	3		7
7	4.7	5	4	5		
r_s	-0.40	0.06	0.8	-0.27	-0.7	-0.62
P-value	0.379	0.905	**0.02**	0.554	0.11	0.192

r_s = Spearman correlation coefficient

Figure 8.2 Transfer of Core Competencies: Ranking of Importance and Rating of Success



The above results strongly suggest that there is a tendency for the companies to transfer those competencies that they do well in some descending level of success, especially the three core competencies that they do best.

8.4 Methods

Table B in Questionnaire 2, Development and Transfer of Core Competencies, provides a checklist of 12 methods that can be used to transfer, or facilitate the transfer, of core competencies. Respondents were asked to grade the methods on a scale of one to seven in terms of effectiveness for each of their core competencies. The respondents could add other methods to the list.

The effectiveness of the methods used to transfer core competencies is examined by company, totals, value chain and the different value chain locations. The responses are analysed by totals, means and percentages, similar to the analysis in Section 7.4, Methods. The results of weighting the responses are discussed briefly.

The measurement of the effectiveness of methods used to transfer core competencies differs from that used in development as the respondents assign numbers to their choices in contrast to the development of core competencies which tallied the number of mentions. The numeric responses can be analysed in a number of ways. Total, arithmetic average or mean, weighted total, weighted mean, percentage and the rankings achieved in different value chain locations. One way would be to look at all the measurements and determine how the methods rate on an overall basis. The various ways can produce different results in certain instances.

As an analogy – one manager may prefer to follow a method based on how many companies (in this study five) – use a particular method. Another could be more influenced by how effective companies find a particular method, even though fewer companies may use that method. A third manager may look to see the methods used by a company which resembles his or her own operations more than the others do. A fourth manager might examine all three of these instances before making a decision.

A further complication is that different ways would be used for different reasons. For example, totals would be of interest in looking at a particular value chain location but means or averages would be of more interest in examining a specific company. In the former case the interest would be in how many companies use the method and in the latter instance, how effective the company considers the method to be.

Attempting to use all the above ways simultaneously would lead to complexity and possibly confusion. I will therefore use non-weighted totals to rank methods but where pertinent include the means or averages relating to these at the same time. This method was chosen to give equal relevance to the different companies. Tables on percentages are also provided. The results of weighted totals and means will be mentioned briefly. Further details are available in Appendix 8.6 and Appendix 8.17 for readers who prefer this type of measurement.

While the companies as a composite are analysed in terms of the responses, it should be kept in mind that a major thrust of this study is the issue of *which* methods are likely to be effective under different circumstances. The results by individual company and by value chain location are therefore vital in examining this issue.

8.4.1 Companies

The responses of the five companies to the questions relating to the transfer of core competencies are presented in Appendices 8.1 to 8.5. Table 8.4: Section 8.4.2 shows the company composites. The tables show the estimated degree (rating) of success in transferring core competencies and the effectiveness of the methods used to transfer them. For example, in Appendix 8.1 Barloworld reports an estimated degree of success of 5.9 on a seven-point scale. The results are discussed in Table 8.4 below.

Barloworld's rating of the effectiveness of methods is 4.3 on average. Method 1, *appoint key people from within company to management positions in new acquisitions,* is rated the most effective method of transfer with 7.0 points. Second is method 6, *rotate managers and key people from new acquisitions in wider company,* with 6.6 points, followed by method 11, *compensation incentives based on achievement of transfer,* 6.3 points, and method 10, *inclusion in management process* (priority objectives etc.) 6.0 points.

Barloworld has, in general, been successful in transferring strong financial and reporting disciplines, attention to detail and information systems, but less successful in certain of the "soft" issues (A.J. Phillips, Questionnaire 3, Questions for a CEO, 11 November 2003).

SABMiller Africa and Asia, which lists nine methods, averages 3.8 points for effectiveness. Method 8, *visits*, with 6.0 points, is rated as the most effective method. Next come method 10, *inclusion in management process*, 5.0 points; method 1, *appoint key people from within company to management positions in new acquisitions*, 4.9 points; and method 12, *benchmark core competencies in other firms* 4.4 points.

SABMiller Europe averages 3.1 points for the 12 methods it uses. Method 6, *rotate managers and key people from new acquisitions in wider company,* is considered the most effective overall method with 4.9 points, followed by method 2, *post-M&A integration teams*, 4.6 points. Third is method 1, *appoint key people from within company to management positions in new acquisitions*, 4.0 points. Method 10, *inclusion in management process,* averages 3.4 points.

The South African base gave South African Breweries a sound base in the production, technical and financial functions. The marketing and distribution skills have not always been as portable into foreign markets and conditions (E.A.G. Mackay, personal interview, London, 27 November 2001).

Sappi, which added two methods – method 13, *multi-disciplinary/regional teams,* and method 14, *leadership* – considers each of these worthy of the top effectiveness rating of 7.0 points. Method 8, *visits,* is rated at 6.0 points; method 6, *rotate managers and key people from new acquisitions in wider company,* 5.3 points; and method 4, *short-term secondments*, 5.2 points. The company averages 4.6 points for effectiveness of the 14 methods that it uses.

In evaluating the relative successes of transferring different core competencies, van As (Questionnaire 3, Questions for a CEO, 17 November 2003) thinks that Sappi's success has been due to capitalising on both the expertise and core competencies it had and those of the businesses that it acquired. His view is that Sappi was a much better marketer, more commercial and with far better financial systems than any of the companies it acquired. The acquired companies had superior manufacturing skills and sales relationship concepts through distributors. Sappi built on the different core competencies and skills and transferred them from where they were to the rest of the group. He considers that the most important skills transferred were those of demanding performance, setting targets, agreeing where they were and "developing a culture that was unfriendly not to meet targets".

Wolverine World Wide averages 5.7 points for the eight methods marked. Method 4, *short-term secondments,* method 7, *seminars/conferences,* method 8, *visits,* and method 10, *inclusion in management process,* are all rated at 6.0 for effectiveness. Method 2, *post-M&A integration teams,* and method 3, *experts deliver, install and return,* are both rated at 5.7 points. Method 1, *appoint key people from within company to management positions in new acquisitions,* and method 12, *benchmark core competencies in other firms,* are also considered to be relatively effective methods, with ratings of 5.8 and 4.7 respectively.

Wolverine differs from the South African companies in the level of effectiveness it ascribes to the methods it uses. The calculations for effectiveness of methods of the South African companies as a group are shown in Appendix 8.8. Wolverine is the only one of the five companies with a high rating for method 3, *experts deliver, install and return.* It also considers method 7, *seminars and conferences,* as more effective than do the other companies. It has certain similarities with Sappi in the relatively high effectiveness ratings they both give to method 4, *short term secondments.* The main reasons for the differences are Wolverine World Wide's historic use of licensees and distributors, rather than foreign subsidiaries and its product line, which changes during a year because of the fashion nature of its business (L. Whipple, personal interview, Grand Rapids, 1 September 2006).

Another way of examining the methods used is that of utilisation or "impact" of the methods. This is calculated by adding up the ratings of the effectiveness of the methods and then expressing each method as a percentage of the total for each company. This is shown in Table 8.5. For example the total points for Barloworld (Appendix 8.7) amount to 363. Method 1, *appoint key people from within company to management positions in new acquisitions,* totals 49 points. This is expressed as 13.4 percent in the table.

The abovementioned method is the leader in the Barloworld utilisation. It is followed by method 6, *rotate managers and key people from new acquisitions in wider company*, with 12.7 percent, and then method 12, *benchmark core competencies against competitors and other firms,* with 12.1 percent.

The leading "impact" method for SABMiller Africa and Asia, is method 8, *visits,* with 16.9 percent, followed by method 1, *appoint key people from within company to management positions in new acquisitions,* with 16 percent. Third is method 10, *inclusion in management process* (priority objectives etc), with 14.1 percent.

Method 4, *rotate managers and key people from new acquisitions in wider company,* accounts for 13.1 percent of the impact at SABMiller Europe. Method 2, *post-M&A integration teams,* is second with 12.4 percent and third is method 10, *inclusion in management process* (priority objectives etc), with 9.3 percent.

Sappi added two methods to Questionnaire 2, The Development and Transfer of Core Competencies. These are method 13, *multi-disciplinary/regional teams,* and method 14, *leadership.* Each account for 11.4 percent and method 8, *visits*, with 9.8 percent is in third place.

Wolverine World Wide rates eight methods. Method 1, *appoint key people from within company to management positions in new acquisitions,* accounts for 18.4 percent of the total impact or utilisation. Method 7, *seminars and conferences,* and method 10, *inclusion in management process (priority objectives etc)*, each account for 14.4 percent.

8.4.2 Company Composites

Table 8.4 shows the effectiveness of methods for the individual companies and the totals and means by method for them as a group. The companies as a whole regard method 1, *appoint key people from within company to management positions in new acquisitions*, with a total of 25.7 points and a mean of 5.1, as the most effective method. The second most effective method is method 8, *visits,* with a total of 25.5 and a mean of 5.1 points. Method 10, *inclusion in management process (priority* *objectives etc*), is third with 24.4 points and a mean of 4.9. The next two are method 2, *post-M&A integration teams* (21.0 points, mean 4.2) and method 12, *benchmark core competencies against competitors in other firms* (19.1 points, mean 3.8).

Method 6, *rotate managers and key people from new acquisitions in wider company,* receives the highest mean rating. It is rated by three companies, which limits its total points to 16.8, but with mean of 5.6 points. Sappi, which added method 13, *multi-disciplinary regional teams* and method fourteen, *leadership* to the list of methods, rates each of these at 7.0 points, which is the highest level of effectiveness. These methods are not ranked because they are a universe of one. They are noted, however, as being highly effective for Sappi.

The methods considered most effective by the companies based on the mean (by those who use them) are in order of perceived effectiveness: first, method 6, *rotate managers and key people from new acquisitions in the wider company* (5.6); second, method 8, v*isits* (5.1); third, method 1, *appoint key people from within company to management positions in new acquisitions* (5.1); fourth, method 10, *inclusion in management process* (4.9); and fifth, method 2, *post-M&A integration teams* (4.2).

The major changes in rankings when using means instead of totals are therefore method 6, r*otate managers and key people from new acquisitions in the wider company,* displacing method 8, *visits,* at the top of the list and method 12, b*enchmark core competencies against competitors and other firms,* being excluded from the top five.

Figure 8.3 depicts the effectiveness of methods graphically, while Figure 8.4 shows the same information but for the mean or users of the particular method only.

There are no significant differences in median scores among the methods used with n > 2 (Kruskal-Wallis ANOVA: H=16.6, (11, N=53), P=0.1207). There are significant differences in median scores among the companies (Kruskal-Wallis ANOVA: H=16.0, (4, N=55), P=0.0031). Wolverine World Wide is significantly different from SABMiller Europe and SABMiller Africa and Asia (Mann-Whitney:

Europe: U=1.0, P=0.0003, Africa and Asia: U=8, P=0.0071) and SABMiller Europe and Sappi are significantly different (Mann-Whitney: U=32.5, P=0.0081).

The results are generally in line with the literature review. Hitt, Ireland and Hoskisson (2003), *move key people to facilitate transfer* relates to method 1, *appoint key people from within company to management positions in new acquisitions.* Govinderajan and Gupta (2000), *"DNA carriers";* Bresman, Birkenshaw and Nobel (1991), *visits;* Bartlett and Ghoshal (2002), *frequent travel;* Hamel and Prahalad (1996), *mobility facilitates transfer;* are all examples relating to *visits.* Porter (1996) advocates that transfer be specifically included in a company's objectives. Method 10, *inclusion in management process (priority objectives etc),* is rated third overall in the study. Ghoshal, Korine and Szulanski (1994) mention *joint work in teams* and *task forces.* Thompson and Strickland (2003) recommend *benchmarking.* Method 12, *benchmarking* is ranked fifth overall. The top rating of method 6, *rotate managers and key people from new acquisitions in the wider company*, by the three entities that use it, supports Garvin's (2000) contention that personnel rotation programmes are one of the most powerful methods of transferring knowledge.

The above ratings are based on simple arithmetic totals and means or averages. If weighting is introduced as shown in Appendix 8.6, the ranking of methods in terms of effectiveness does change. This becomes: first, method 1, *appoint key people from within company to management positions in new acquisitions*; second, method 10, *inclusion in management process*; third, method 3, *visits*; fourth, method 2, *post-M&A integration teams*; and fifth method 6, *rotate managers and key people from new acquisitions in wider company.* The results of the different methods of calculation are compared in Appendix 8.7.

Table 8.4 Transfer of Core Competencies: Company Composites

Seven-Point Scale	BAR	A&A	EUR	SAP	WWW	ΣX_i	n	$\bar{x}$	Rank
A. Estimated degree of success in transferring core competencies.	5.9	4.9	4.0	5.0	5.0	24.8	5	5.0	
B. Effectiveness of methods used:									
1. Appoint key people from within company to management positions	7.0	4.9	4.0	4.0	5.8	25.7	5	5.1	1
2. Post-M&A integration teams	3.3	3.6	4.6	3.8	5.7	21.0	5	4.2	4
3. Experts deliver, install and return	2.6	2.3	2.6	3.2	5.7	16.4	5	3.2	9
4. Short-term secondments	2.6	1.0	3.3	5.2	6.0	18.1	5	3.6	7
5. Models or examples (other acquisitions or investments)	3.6	-	2.9	4.0		10.5	3	3.5	12
6. Rotate managers and key people from new acquisitions	6.6	-	4.9	5.3	-	16.8	3	5.6	8
7. Seminars/conferences	2.9	3.8	1.9	4.0	6.0	18.6	5	3.7	6
8. Visits	5.4	6.0	2.1	6.0	6.0	25.5	5	5.1	2
9. Manuals and video material	2.9	3.7	2.0	3.0	-	11.6	4	2.9	10
10. Inclusion in management process (priority objectives etc)	6.0	5.0	3.4	4.0	6.0	24.4	5	4.9	3
11. Compensation incentives based on achievement of transfer	6.3	-	2.3	3.0	-	11.6	3	3.9	10
12. Benchmark core competencies against competitors and other firms	2.9	4.4	3.1	4.0	4.7	19.1	5	3.8	5
13. Other: Multi-disciplinary/regional teams				7.0		7.0	1	7.0	
14. Other: Leadership				7.0		7.0	1	7.0	
Total ΣXi	52.1	34.7	37.1	63.5	45.9	233.3		63.5	
Number n	12	9	12	14	8	55		14	
Mean $\bar{x}$	4.3	3.9	3.1	4.5	5.7	4.2		4.5	

Note: Figures are rounded in certain instances. Rank is based on Total or ΣXi column.

Figure 8.3 Transfer of Core Competencies: Overall Effectiveness of Methods

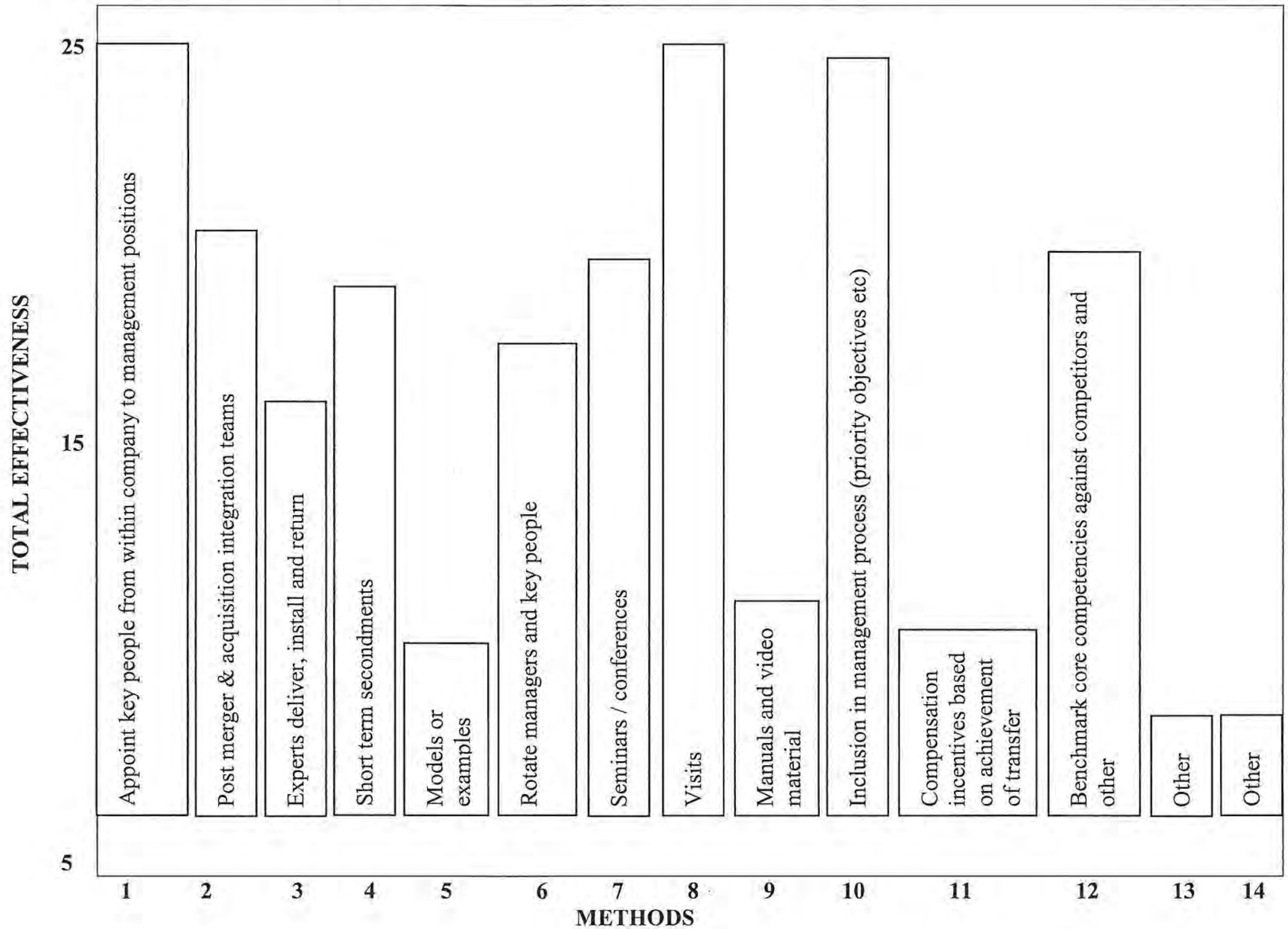


Figure 8.4 Transfer of Core Competencies: Effectiveness of Methods by Users (Mean)

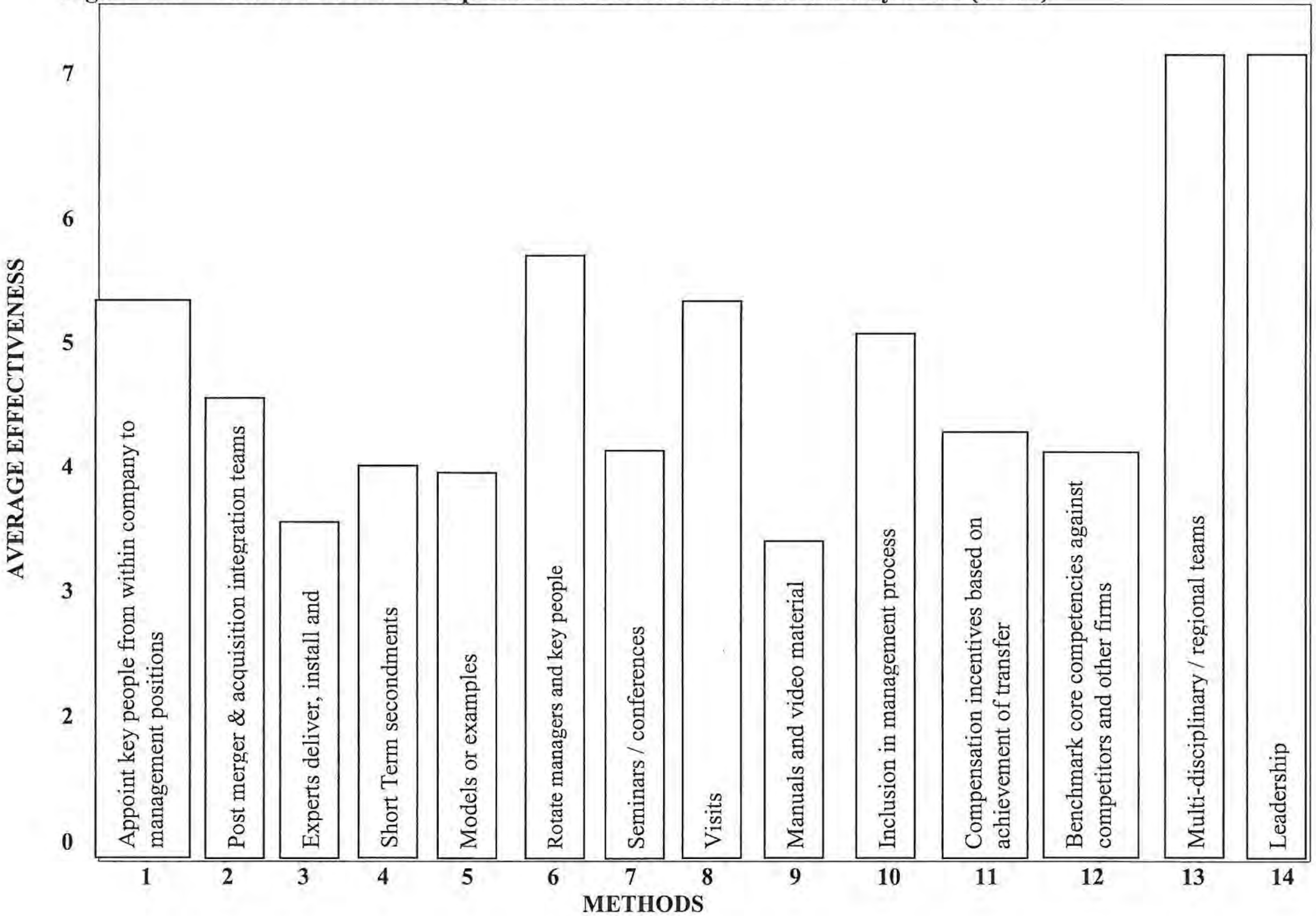


Table 8.5 was used, in Subsection 8.4.1, to examine the utilisation of methods by measuring percentages for the five companies individually. When all five companies are taken together as a composite, the method with the highest overall percentage is method 1, *appoint key people from within company to management positions in new acquisitions,* with 13.0 percent. The next most effective methods are method 10, *inclusion in management process,* 11.2 percent; method 8, *visits*, 10.0 percent; method 2, *post-M&A integration teams*, 10.0 percent; and method 7, *seminars and conferences,* 8.0 percent.

Having analysed the effectiveness of methods by both individual company and the composite, or total, we now turn to value chain locations.

Table 8.5 Transfer of Core Competencies: Company Composites (Percentages)

Seven Point Scale	BAR	A&A	EUR	SAP	WWW	ΣX_i	n	$\overline{x}$
A. Estimated degree of success in transferring core competencies	5.9	4.9	4.0	5.0	5.0	24.8	5	5
B. Effectiveness of methods used:								
						Total		Percent
1. Appoint key people from within company to management positions	13.4	16.0	10.8	6.5	18.4	65.1		13.0
2. Post-M&A integration teams	6.3	11.7	12.4	6.2	13.6	50.2		10.0
3. Experts deliver, install and return	5.0	6.6	6.9	5.1	13.6	37.2		7.4
4. Short-term secondments	5.0	3.3	8.9	8.4	4.8	30.4		6.1
5. Models or examples (other acquisitions or investments)	6.9	-	7.7	6.5	-	21.1		4.2
6. Rotate managers and key people from new acquisitions	12.7	-	13.1	8.7	-	34.5		6.9
7. Seminars/conferences	5.5	10.8	5.0	5.4	14.4	41.1		8.2
8. Visits	10.5	16.9	5.8	9.8	9.6	52.6		10.5
9. Manuals and video material	5.5	10.3	5.4	4.9	-	26.1		5.2
10. Inclusion in management process (priority objectives etc)	11.6	14.1	9.3	6.5	14.4	55.9		11.2
11. Compensation incentives based on achievement of transfer	12.1	-	6.2	4.9	-	23.2		4.6
12. Benchmark core competencies against competitors and other firms	5.5	10.3	8.5	4.3	11.2	39.8		8.0
13. Other: Multi-disciplinary/regional teams				11.4		11.4		2.3
14. Other: Leadership				11.4		11.4		2.3
Total ΣX_i	100.0	100.0	100.0	100.0	100.0	500		100.0
Number n	12	9	12	14	8			14
Mean $\overline{x}$	8.5	11.1	8.5	7.1	12.5			7.1

Note: Figures are rounded in certain instances.

8.4.3 Value Chain

As seen previously, the value chain locations are the means by which the core competencies of the different companies can be categorised and compared. Table 8.6 and 8.7 present the effectiveness of methods by value chain location. Table 8.6 shows this by "total" for each of the eight value chain locations. The figures are only comparable within a location as the number of respondents per location varies. Table 8.7 shows similar information by "mean". This information is shown in more detail for each of the value chain activities in Appendices 8.9 to 8.16. Weighted results are depicted in Appendix 8.17.

Operations has the highest mean rating of effectiveness at 4.9, followed by infrastructure: general management at 4.6, marketing, mergers and acquisitions and human resource management, at 4.5 each, outbound logistics and technology with 3.7 each, and inbound logistics in the bottom position with a mean rating of 2.6.

There are significant differences in median scores among the methods (1 to 12) used (Kruskal-Wallis ANOVA: H=32.8, (11, N=96), P=0.0006). Method 6 is significantly different from methods 2 to 5, 7, 9, 11 and 12 (Mann-Whitney: P<0.0157). Also method 8 is significantly different from methods 3, 4, 7 and 9 (Mann-Whitney: P<0.0313) and method 1 is significantly different from methods 3, 4 and 9 (Mann-Whitney: P<0.0357). There are significant differences in median scores among the columns (Kruskal-Wallis ANOVA: H=19.7, (7, N+108), P=0.0063). Inbound logistics is significantly different from marketing, outbound logistics, operations, M&A, human resource management and infrastructure: general management (Mann-Whitney: marketing: U=29.0, P=0.0047: outbound logistics: U=33.5, P=0.0262; operations: U=15.0, P=0.0004; M&A: U=30.0, P=0.0055; human resource management: U=23.5, P=0.0019; infrastructure: general management: U=34.5, P=0.0109); and operations is significantly different from outbound logistics and technology (Mann-Whitney: outbound logistics: U=41.0, P=0.0270; technology: U=48.0, P=0.0216).

The mean numbers in Table 8.7 vary from those shown in Table 8.4, Transfer of Core Competencies: Company Composites, because of weighting and rounding as figures previously shown in the five companies are instead reflected in the eight value chain locations.

The most effective methods in marketing and sales are: Method 8, *visits,* which has a total of 21 points and a mean of 5.3; method 10, *inclusion in management process* (20 and 5.0); and method 7, *seminars and conferences* (19 and 4.8). Method 6, *rotate managers and key people from new* acquisitions has a mean of 6.5 but it restricted to a total of 13 because only two of the four companies reporting use this method. While method 13, *multi-disciplinary/regional teams* and method 14, *leadership,* are each rated at 7.0, they apply to Sappi alone.

The methods considered the most effective in outward logistics are: Method 1, *appoint key people from within company to management positions in new acquisitions,* and method 8, *visits*, each with a total of 9 and a mean of 4.5 points. Method 10, *inclusion in management process,* is in third place with a total of 8 and a mean of 4.0. Method 6, *rotate managers and key people from new acquisitions in wider company,* has the highest means at 6.0 but is only reported by one company.

The most effective methods in operations are: Method 1, *appoint key people from within company to management positions in new acquisitions,* and method 10, *inclusion in management process*. They each have a total of 23 and a mean of 5.8. Method 2, *post-M&A integration teams,* method 8, *visits,* and method 12, *benchmark core competencies,* are considered the next most effective methods, with 5.3 points each. Methods 2 and 12 each have 21 points but method 8, visits, only 16 because three companies use this method.

Method 2, *post-M&A integrations teams* has the highest total of 7 in inbound logistics, but a mean of 3.5. Method 1, *appoint key people from within company to management positions in new acquisitions* and method 8, *visits* are next in line with totals of 6 and means of 3.0. Method 12, *benchmark* has 5 points and a mean of 5.0 – highest in this value chain location – but is only reported by SABMiller Europe. Method 10, *inclusion and management process,* and method 4, *short-term secondments* each register a total of 5 and a mean of 2.5.

The methods that are considered to be the most effective for transferring core competencies in the mergers and acquisitions value chain location are method 1, *appoint key people from within company to management positions in new acquisitions,* and method 6, *rotate managers and key people from new acquisitions in wider company,* which receive ratings of 6.0 each. Four companies report on the first method and three on the second so the respective totals are 24 and 18. Method 2, *post-M&A integration teams* has the second highest total with 22 points and a mean of 5.5. Method 5, *models or examples* (other acquisitions or investments) has 14 points and a mean of 4.7. The methods considered the next most effective are method 2, *post-M&A integration teams,* and method 5, *models or examples* (*other acquisitions or investments*), with 5.5 and 4.7 ratings respectively.

Method 1, *appoint key people from within company to management positions and new acquisitions* scores the highest total in the human resource management value chain location. It has 23 points and a mean of 4.6. The methods considered to be the most effective for human resource management are method 8, *visits,* and method 10, *inclusion in management process.* These two methods achieve totals of 21 and means of 5.3. Another effective method in this category is method 6, *rotate managers and key people from new acquisitions in wider company* (15 and 5.0).

The most effective methods in technological development are method 8, *visits* (14 and 4.7) and method 7, *seminars and conferences* (13 and 3.0) and method 12, *benchmark core competencies against competitors and other firms* with 12 points and a mean of 3.0. Method 10, *inclusion in management process* (priority objects, etc.) and method 4, *short-term secondments* have totals of 11 points and means of 3.7.

Infrastructure: general management comprises 8 diverse core competencies from three of the companies. Barloworld accounts for five of these. The methods considered to be the most effective for this location are method 1, *appoint key people from within company to management positions in new acquisitions,* with a total of 54 and a mean of 6.8, method 8, *visits* (40 and 5.7) and method 10, *inclusion in management* process (40 and 5.7). Method 6, *rotate managers and key people from new acquisitions in wider company* (38 and 6.3) and method 11, (34 and 5.7) are other effective methods in this location.

There are several different answers to the issue of the effectiveness of the methods used for each of the eight value chain locations. Method 1, *appoint key people from within the company to management positions in new acquisitions,* is ranked first in three of the eight value chain locations: operations (jointly with method 10), mergers and acquisitions and infrastructure: general. Method 6, *rotate managers and key people from new acquisitions in wider company,* is ranked first in both marketing and outbound logistics and shares first position with method 1, *appoint key people from within company to management positions in new acquisitions,* in the mergers and acquisition location. Method 8, *visits,* is marked first in both human resource management and technology. Method 12, *benchmark core competencies against competitors and other firms,* is rated the most effective method in inbound logistics.

Appendix 8.17 shows the same information but the calculations are on a weighted basis.

Table 8.6 Transfer of Core Competencies: Value Chain (Totals)

	Marketing	Out Log	Operations	In Log	M & A	HRM	Technology	Infra GM	ΣX_i	n	$\bar{x}$
A. Estimated degree of success in transferring core competencies.	4.5	5.0	6.0	3.5	5.8	4.8	3.8	5.3	38.7	8	4.8
B. Effectiveness of methods used:											
1. Appoint key people from within company to management	12	9	23	6	24	23	7	54	158		
2. Post-M&A integration teams	16	7	21	7	22	10	9	23	120		
3. Experts deliver, install and return	12	6	18	2	12	6	8	18	86		
4. Short-term secondments	8	5	14	5	14	11	11	14	85		
5. Models or examples (other acquisitions or investments)	6	4	6	2	14	9	6	18	69		
6. Rotate managers and key people from new acquisitions	13	6	10	4	18	15	8	38	112		
7. Seminars/conferences	19	5	12	4	3	11	13	24	94		
8. Visits	21	9	16	6	10	19	14	40	137		
9. Manuals and video material	11	5	11	2	11	11	7	12	74		
10. Inclusion in management process (priority objectives etc)	20	8	23	5	10	21	11	40	138		
11. Compensation incentives based on achievement of transfer	4	4	6	2	13	10	4	34	78		
12. Benchmark core competencies against competitors and others	17	7	21	5	5	9	12	18	94		
13. Other: Multi-disciplinary/regional teams	7		7		7	7	7	7	42		
14. Other: Leadership	7		7		7	7	7	7	42		
Total ΣX_i	173	75	195	50	170	168	124	347	1,329		

Table 8.7 Transfer of Core Competencies: Value Chain (Mean)

Seven Point Scale	Marketing	Out Log	Operations	In Log	M & A	HRM	Technology	Infra GM	ΣX_i	n	$\bar{x}$
A. Estimated degree of success in transferring core competencies.	4.5	5.0	6.0	3.5	5.8	4.8	3.8	5.3	38.7	8	4.8
B. Effectiveness of methods used:											
1. Appoint key people from within company to management	4.0	4.5	5.8	3.0	6.0	4.6	2.3	6.8	37.0	8	4.6
2. Post-M&A integration teams	4.0	3.5	5.3	3.5	5.5	3.8	3.0	3.3	31.9	8	4.0
3. Experts deliver, install and return	3.0	3.0	4.5	1.0	4.0	2.5	2.7	2.6	23.3	8	2.9
4. Short-term secondments	2.7	2.5	3.5	2.5	3.5	3.5	3.7	2.3	24.2	8	3.3
5. Models or examples (other acquisitions or investments)	3.0	4.0	3.0	2.0	4.7	4.3	3.0	3.0	27.0	8	3.4
6. Rotate managers and key people from new acquisitions	6.5	6.0	5.0	4.0	6.0	5.0	4.0	6.3	42.8	8	5.4
7. Seminars/conferences	4.8	2.5	4.0	2.0	1.5	3.5	3.3	3.4	25.0	8	3.2
8. Visits	5.3	4.5	5.3	3.0	3.3	5.3	4.7	5.7	37.1	8	4.6
9. Manuals and video material	3.7	2.5	3.7	1.0	3.7	3.8	2.3	2.0	22.7	8	2.8
10. Inclusion in management process (priority objectives etc)	5.0	4.0	5.8	2.5	3.3	5.3	3.7	5.7	35.3	8	4.4
11. Compensation incentives based on achievement of transfer	2.0	4.0	3.0	2.0	4.3	3.7	2.0	5.7	26.7	8	3.3
12. Benchmark core competencies against competitors and others	4.3	3.5	5.3	5.0	2.5	3.0	3.0	3.0	29.6	8	3.7
13. Other: Multi-disciplinary/regional teams	7.0		7.0		7.0	7.0	7.0	7.0	42.0	6	7.0
14. Other: Leadership	7.0		7.0		7.0	7.0	7.0	7.0	42.0	6	7.0
Total ΣX_i	62.3	44.5	68.2	31.5	62.3	62.3	51.7	63.8	446.6		59.5
Number n	14	12	14	12	14	14	14	14	108		14
Mean $\bar{x}$	4.5	3.7	4.9	2.6	4.5	4.5	3.7	4.6	4.1		4.3

Note: Figures are rounded in certain instances. Methods 13 and 14 not ranked. Sappi only.

8.4.4 Value Chain Locations

Having covered value chains we now examine the different locations in more detail. The ratings key measurements are on the seven-point scale.

Marketing and Sales

See Appendix 8.9.

SABMiller Africa and Asia regards method 8, *visits,* and method 10, *inclusion in management process (priority objective, etc*), as its two most effective methods, giving each a rating of 6.0. Next are method 1, *appoint key people from within company to management positions in new acquisitions,* method 7, *seminars/conferences,* method 9, *manuals and video material,* and method 12, *benchmark core competencies against competitors and other firms,* rating each 5.0.

SABMiller Europe considers method 2, *post-M&A integration teams,* and method 6, *rotate managers and key people from new acquisitions in wider company,* as its most effective method with 7.0 points each. The third most effective method is method 1, *appoint key people from within the company to management positions,* with a rating of 5.0.

The two most effective methods for Sappi are method 13, *multi-disciplinary/regional teams,* and method 14, *leadership.* They each rate 7.0. Method 6, *rotate managers and key people from new acquisitions in wider company,* and method 8, *visits,* are next with scores of 6.0 each.

Wolverine World Wide rates method 7, *seminars/conferences,* as its most effective method with 7.0 points. Method 8, *visits,* and method 10, *inclusion in management process,* each rate 6.0 points, while method 2, *post-M&A integration teams,* method 3, *experts deliver, install and return,* method 4, *short-term secondments,* and method 12, *benchmarking* each score 5.0 points.

The method which scores the highest in the marketing and sales value chain location is method 8, *visits,* with 21.0, at an average of 5.3. SABMiller Europe rates this method as 3.0 but the other companies give it a rating of 6.0. The second most effective method is method 10, *inclusion in management process.* Its total score is 20.0 with an average of 5.0. Method 7, *seminars/conferences,* although given only a 2.0 rating by SABMiller Europe, achieves a total of 19.0 points with an average of 4.8. Method 12, *benchmarking core competencies against competitors,* has an average rating of 4.5, with a total of 18.0 points. Method 2, *post-M&A integration teams,* is in fifth position with a total of 16.0 and average of 4.0 points. SABMiller Europe and Wolverine World Wide each rate this method highly (7.0 and 5.0 ratings respectively), but SABMiller Africa and Asia and Sappi both accord it a ranking of 2.0 points.

Method 6, r*otate managers and key people from new acquisitions in wider company,* is utilised only by SABMiller Europe and Sappi, but they rate it highly with respective scores of 7.0 and 6.0.

Outbound Logistics

This is shown in Appendix 8.10. SABMiller Africa and Asia and SABMiller Europe are the only two respondents in this section.

SABMiller Africa and Asia rates method 8, *visits,* 6.0 points, followed by method 1, *appoint key people from within company to management positions in new acquisitions,* with a rating of 5.0 points. Method 2, *post-M&A integration teams,* and method 10, *inclusion in management process (priority objectives etc),* each receive a rating of 4.0 points.

SABMiller Europe regards method 6, *rotate managers and key people from new acquisitions in wider company,* as the most effective method with a rating of 6.0. Method 1, *appoint key people from within company to management positions*, method 2, *post-M&A integration teams* ,method 4, *short-term secondments,* method 5, *models or examples,* method 10, *inclusion in management process,* method 11, *compensation* *incentives based on achievement of transfer,* and method 12, *benchmark core competencies against competitors and other firms,* each receive ratings of 4.0 points.

The two companies therefore agree approximately on method 1, *appoint key people,* method two, *post-M&A integration teams,* and method 10, *inclusion in management process,* in terms ·of effectiveness. The marked differences between the two companies are their views on method 6, *rotate managers and key people from new acquisitions in wider company,* and method 8, *visits.*

Operations

Appendix 8.11 shows the rating of effectiveness in this value chain activity.

SABMiller Africa and Asia considers method 10, *inclusion in management process (priority objectives etc),* and method 8, *visits,* as the most effective methods with ratings of 7.0 each. Another four methods each receive ratings of 6.0 points: method 1, *appoint key people,* method 2,, *post-M&A integration teams,* method 7, *seminars/conferences,* method 9, *manuals and video material,* and method 12, *benchmarking.*

SABMiller Europe views method 2, *post-M&A integration teams,* and method 10, *inclusion in management process,* as its most effective methods. Each of these methods is rated at 6.0 points, while method 1, *appoint key people from within company from management positions in new acquisitions,* method 3, *experts deliver, install and return,* and method 6, *rotate managers and key people,* are accorded ratings of 5.0 points.

Sappi rates method 13, *multi-disciplinary/regional teams,* and method 14, *leadership,* as its most effective method with 7.0 points each. These are followed by method 12, *benchmarking,* and method 8, *visits,* with 6.0 points each.

The most effective methods for Wolverine World Wide, with 7.0 points each are method 1, *appoint key people from within company to management positions in new acquisitions,* and method 3, *experts deliver, install and return.* Method 2, *post-M&A*

integration teams, method 4, *short-term secondments,* and method 10, *inclusion in management process,* are next with 6.0 points each.

There is a high degree of consensus in this section. The methods considered the most effective are method 1, *appoint key people from within company to management positions in new acquisitions,* with a total of 23.0 points (average 5.8), and method 10, *inclusion in management process,* with the same ratings. Tied for third position are method 2, *post-M&A integration team*, rated 6.0 by each company, with the exception of Sappi, which accords it a rating of 3.0 points, and method 12, *benchmark core competencies*. Both of these methods achieve 21.0 points with an average of 5.3. Method 6, *rotate managers and key people from new acquisitions in wider company,* is mentioned only by SABMiller Europe and Sappi, but each rates it a 5.0.

Inbound Logistics

SABMiller Africa and Asia, and SABMiller Europe are the only two participants in this section. See Appendix 8.12.

The first-mentioned of these brewing companies considers three methods to be the most effective, with 4.0 points each. These are: method 1, *appoint key people from within company to management positions in new acquisitions,* method 2, *post-M&A integration teams,* and method 8, *visits*.

The second, SABMiller Europe, gives method 12, *benchmark core competencies against competitors and other firms,* 5.0 points (Africa and Asia does not select this method at all), with method 4, *short term secondments,* method 6, *rotate managers and key people from new acquisitions in wider company,* and method 10, *inclusion in management process (priority goals etc),* each receiving 4.0 points.

There is therefore little agreement on any of the methods. The ones on which they agree, with the highest points are method 2, *post-M&A acquisition teams,* method 1, *appoint key people from within company to management positions in new acquisitions,* and method 8, *visits*. SABMiller Europe awards the last two ratings of only 2.0 points each.

Mergers and Acquisitions

See Appendix 8.13

Wolverine World Wide marked this section non-applicable as mergers and acquisitions and post-merger and acquisition integration processes have, until recently, been performed by headquarters and not transferred to any global subsidiaries or divisions.

Barloworld rates method 1, *appoint key people from within company to management positions in new acquisitions,* as its most effective method with 7.0 points. It is followed by method 2, *post-M&A integration teams,* method 6ix, *rotate managers and key people from new acquisitions in wider company,* method 9, *manuals and video material,* and method 11, *compensation incentives based on achievement of transfer* with 6.0 points each. Four other methods score 5.0 points each.

SABMiller Africa and Asia selects only three methods: method 1, *appoint key people from within company to management positions in new acquisitions,* with 5.0 points, method 2, *post-M&A integration teams,* rating 2.0 points and method 3, *short-term secondments* 1.0 point.

SABMiller Europe grades three methods as being highly effective and worthy of seven point ratings. These are: method 1, *appoint key people from within company to management positions in new acquisitions,* method 2, *post-M&A integration teams,* and method 6, *rotate key managers and key people.* Method 5, *models or examples of other acquisitions or investments,* rates 5.0 points, as it does with Barloworld.

Sappi endorses method 2, *post-M&A integration teams,* together with method 13, *multi-disciplinary/regional teams,* and method 14, *leadership,* as its most effective methods with 7.0 points each. Method 8, *visits,* is next most effective with a rating of 6.0 points.

The strongest areas of consensus, with all four companies participating are method 1, *appoint key people from within company,* (24.0 points in total, average 6.0) and method 2, *post-M&A integration teams* (total 22.0, average 5.5). Three companies regard method 6, *rotate managers and key people*, as an effective method with an average rating of 6.0 points. Method 5, *models and examples,* records an average of 4.7 points for the three companies using this method.

Human Resource Management

See Appendix 8.14

Barloworld rates method 1, *appoint key people from within company to management positions in wider company,* and method 10, *inclusion in management process (priority objectives etc),* as highly effective, with 7.0 points each. Six points are assigned to method 6, *rotate managers and key people from acquisitions in wider company,* and method 11, *compensation incentives based on achievement of transfer.* Method 8, *visits,* is given a rating of 0.5 points.

SABMiller Africa and Asia, regards method 8, *visits* as worthy of 7.0 points, method 10, *inclusion in management process (priority objectives etc)*, 6.0 points, with 5.0 points being assigned to method 1, *appoint key people from within company,* method 7, *seminars/conferences,* method 9, *manuals and video material,* and method 12, *benchmark core competencies against competitors and other firms.*

SABMiller Europe's most effective method is considered to be method 10, *inclusion in management process (priority objectives etc)*. The method is rated as 4.0 points, while the next most effective methods are awarded 3.0 points each. These are: method 1, *appoint key people,* method 4, *short term secondments,* method 5, *models or examples of other acquisitions or investments,* and method 12, *benchmark core competencies against competitors and other firms.* Method 8, *visits,* is regarded as not effective at all, 1.0 point being assigned to this method.

Sappi classifies method 13, *multi-disciplinary teams*, and method 14, *leadership*, as highly effective with rating of 7.0 points each. Method 4, *short-term secondments*, method 6, *rotate managers and key people* and method 8, *visits,* are also highly regarded, with 6.0 points each.

Wolverine World Wide's human resource management core competence is *ability to recruit and maintain a highly motivated management team.* The company selects only one method that they use to transfer this core competency. This is method 1, *appoint key people,* which receives a rating of 4.0 points.

The only method which all five respondents record is method 1, *appoint key people from within company to management positions in new acquisitions.* It totals 23.0 points, with an average of 4.6. Method 10, *inclusion in management process*, with four participants, has a higher average of 5.3. Method 8, *visits,* is in third place with an average of 4.8, followed by method 6, *rotate managers and key people* with 4.7 points. Both these methods would average 6.0 points if the results of SABMiller Europe were removed and regarded as outliers.

Technological Development

A table with details is shown in Appendix 8.15

SABMiller Africa and Asia regards method 8, *visits,* and method 10, *inclusion in management process (priority objective etc),* as the most effective methods, rating them 6.0 points each. Four points each are assigned to method 1, *appoint key people,* method 2, *post-M&A integration teams,* method 7, *seminars/conferences,* and method 12, *benchmark core competencies against competitors and other firms.*

SABMiller Europe classifies method 3, *experts deliver, install and return,* and method 4, *short term secondments,* as five-point categories, with method 2, *post-M&A integration teams,* coming in third, with 4.0 points.

Sappi rates method 13, *multi-disciplinary teams,* and method 14, *leadership,* as highly effective methods (7.0 points each). Method 8, *visits,* is graded as 6.0 points with method 4, *short term secondments,* and method 6, *rotate managers and key people from new acquisitions in wider company,* following with 5.0 points.

Wolverine World Wide grades two methods only, method 7, *seminars/conferences*, 5.0 points, and method 12, *benchmarking*, 4.0 points.

There is therefore a wide variety and spread of methods regarded as effective. Method 7, *seminars/conferences,* and method 12, *benchmark core competencies against competitors in other firms,* are the only two methods selected by all four participants. The first averages 3.3 points and the second 3.0. Method 8, *visits,* averages 4.7 (three participants) but rises to 6.0 if SABMiller Europe is excluded as an outlier. This method nevertheless receives the highest mean rating, with method 6, *rotate managers and key people from acquisitions in wider company* (4.0 mean), in second position.

Infrastructure: General Management

Appendix 8.16 shows the five core competencies from Barloworld, *systems* from Sappi and *operate globally* and *brand building* from Wolverine.

Barloworld varies the ratings of the effectiveness of methods depending upon the relevant core competency. Method 1, *appoint key people from within company to management positions in new acquisitions,* method 6, *rotate managers and key people from management positions in new acquisitions in wider company,* method 10, *inclusion in management process (priority objectives etc),* and method 11, *compensation incentives based on achievement of transfer,* are the methods that feature most across the spectrum of the core competencies.

Sappi adds method 13, *multi-disciplinary/regional teams,* and method 14, *leadership,* and rates these both as the most effective possible with 7.0 points each. Other methods considered to be highly effective are method 1, *appoint key people from within company to management positions in new acquisitions* (7.0 points), and method 2, *post-M&A integration teams,* and method 8, *visits,* with 6.0 points each. Method 3, *experts deliver, install and return,* and method 4, *short-term secondments,* each merit 5.0 points.

Wolverine World Wide rates two methods in the core competence of operating globally. These are method 1, *appoint key people from within company to management positions in new acquisitions* (6.0 points) and method 3, *experts deliver, install and return* (5.0 points). The company rates the effectiveness of five methods in transferring the competencies of brand building. These are all rated as six-point methods and are: method 1, *appoint key people from within company to management positions in new acquisitions,* method 2, *post-M&A integration teams*, method 7, *seminars/conferences,* method 8, *visits,* and method 10, *inclusion in management process (priority objectives etc).*

Having examined the success of transfer in Section 8.3 and methods and their effectiveness in Section 8.4, attention is now turned in the following section to the relationship between the two.

8.5 Methods and Success of Transfer

The relationship is shown in Table 8.8, which compares the effectiveness of methods with the ratings of success for the companies as a whole and individually by core competency. There is a very high degree of correlation $r_s = 0.93$; P-value = 0.003. The individual companies have high degrees of correlation with the exception of Wolverine World Wide. This company's relatively low level of correlation $r_s = 0.31$, is caused by its core competency related to branding (core competency 2) receiving a success rating of 4.0 although the methods have an effectiveness rating of 6.0. If this one factor is removed as an outlier, the correlation improves to $r_s = 0.67$ with a P-value of 0.215.

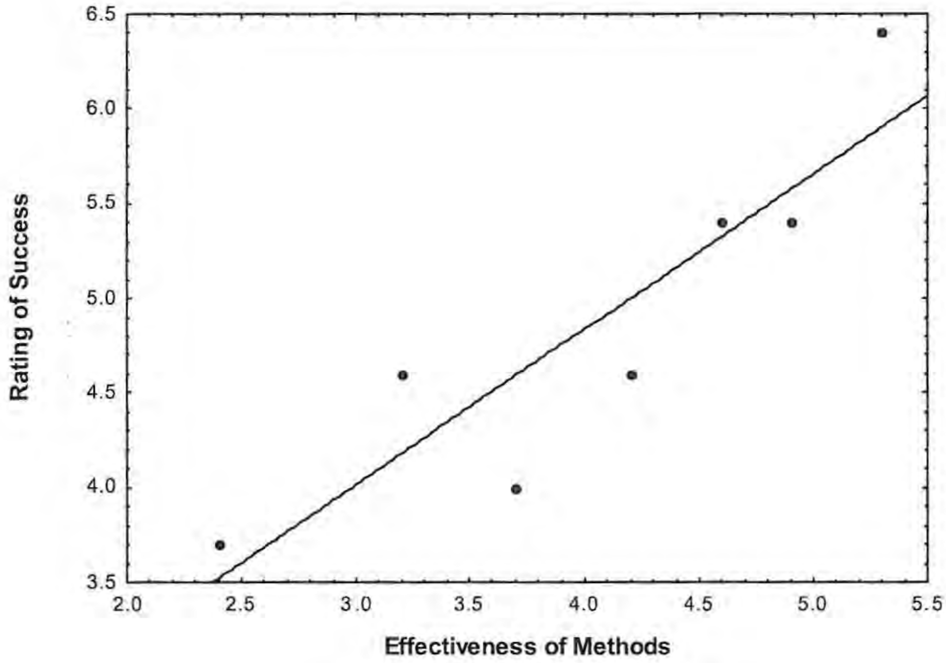
Table 8.8 also shows the eight value chain locations. The correlation for the total value chain is $r_s = 0.80$ with a P-value of 0.018 when measured by value chain locations. The difference between this measurement and the company total is due to "rounding and weighting".

Figure 8.5 depicts the correlation for the company total graphically. The significant high degree of correlation gives substantial credibility to the information provided by the companies and highlights the importance of selecting the appropriate methods when transferring core competencies.

TABLE 8.8 **Transfer of Core Competencies: Effectiveness of Methods and Ratings of Success**

Core Comp	Total		Barlow		A&A		Europe		Sappi		WWW		Value Chain	
	Effect	Success	Effect	Success	Effect	Success	Effect	Success	Effect	Success	Effect	Success	Effect	Success
1	5.3	6.4	5.8	7	5.4	6	3.8	6	5.1	6	6.2	7	4.9	6.0
2	4.9	5.4	5.5	7	4.2	5	3.8	5	4.9	6	6.0	4	4.6	5.3
3	4.6	5.4	5.0	7	4.2	5	3.4	5	4.7	5	5.7	5	4.5	5.8
4	4.2	4.6	4.0	5	3.7	4	3.4	4	4.6	5	5.5	5	4.5	4.8
5	3.7	4.0	3.8	4	3.3	5	2.8	3	4.3	4	4.5	4	4.5	4.5
6	3.2	4.6	3.3	6	2.7	5	2.3	3	3.9	4	4.0	5	3.7	5.0
7	2.4	3.7	3.0	5	2.1	4	2.2	2					3.7	3.8
VC													2.6	3.5
r_s	0.93		0.73		0.66		0.94		0.96		0.31		0.80	
P-Value	**0.003**		0.063		0.104		**0.001**		**0.003**		0.552		**0.018**	

Figure 8.5 Transfer of Core Competencies: Effectiveness of Methods and Rating of Success, Company Total



8.6 Measurement and Assessment of Transfer

"How do you determine the success or otherwise of transferring a core competence" asks question 1 of Section Four in Questionnaire 1, Initial Questionnaire, leading to the responses summarized below.

Barloworld does not think about this in exact detail. The methodology of core competencies is intuitive rather than structured (P.M. Drewell, 9 May 2003).

SABMiller Africa and Asia assesses the success, or otherwise, of transfer via an internal assessment process (which they call CAP), performance management and annual financial results (F. Miller, 22 August 2003). Their counterpart in Europe reports that not much in this area is formalised as of now (N. Mogilnicki, 21 August 2003). As seen in Section 7.6, SABMiller is improving the measurement process by including value drivers and key performance indications with the definitions of core competencies (Leibowitz, personal communication, 6 December 2006).

Sappi uses performance indicators, or metrics, to assess and measure progress. Benchmarking is significant, both internally and externally. Common language and common definitions assist in this regard; and their technology clusters contribute significantly to this area (R. Hope, 13 June 2003).

Wolverine World Wide reports using a variety of financial metrics, including ROA, ROE and ROIC evaluations, for each profit centre. Success, or the lack of it, is also measured through third-party research to evaluate key parameters of customer satisfaction across their customer base, as compared to their peer group (J.C. Tegner, 9 October 2003).

8.7 Ways to Avoid Pitfalls

The respondents were asked to list the measures taken to avoid pitfalls in the transfer of core competencies (question 4 of Section 4 in Questionnaire 1). The responses follow.

Barloworld regards retention strategy to ensure committed long-term employees and substantial investment in training and development as key factors. This is reinforced by careful analysis of core competencies and effective action plans to ensure that they remain in place (P.M. Drewell, 9 May 2003).

SABMiller Africa and Asia offer "hub" or head-office support, and the use of expatriates, especially competent and experienced senior staff (F. Miller, 22 August 2003). SABMiller Europe, relies on very precise standards in technical and financial areas. They examine the reasons for deviations from norms (N. Mogilnicki, 21 August 2003).

Sappi ensures good benchmarking, both internally and externally. Their cluster management systems identify what is happening in each area and endeavour to maintain the same disciplines related to core competencies across the group. They encourage managers and experts to "talk to each other" continually, using common language and terminology (R. Hope, 13 June 2003).

Wolverine World Wide uses change management, which is embraced and executed concurrent with changes. People are coached and trained repeatedly in new processes. Realistic time lines are built into business plans to allow for change (J.C. Tegner, 9 October 2003).

8.8 Improvements

"What do you believe you could do to improve the transfer of core competencies" is the fifth question in Questionnaire 1, Initial Questionnaire, covering this section.

Barloworld sees continually upgrading the methods and investing greater resources in their developing leadership pool as ways to improve the transfer of core competencies (P.M. Drewell, 9 May 2003).

SABMiller Africa and Asia states that a better understanding of legislative frameworks of the countries within which new acquisitions occur would help to improve transfer. They also advocate a more thorough human resources component to due diligence studies (F. Miller, 22 August 2003).

SABMiller Europe believes that a great deal can be done to improve matters. Most acquisitions have been made recently, and there has not been enough time to satisfactorily transfer appropriate core competencies. A study into this is being undertaken (N. Mogilnicki, 21 August 2003). The introduction of key performance indicators, discussed in Section 8.7, is expected to result in improvements.

B. Smith (12 February 2004) states that there will be times, however regrettable, when the only way to improve transfer (and development and, obviously, other management issues) of core competencies is to change management. While this depends on the situation and people involved, his rule-of-thumb advice is to generally have nationals in the sales management and corporate affairs functions. The human resources positions need to be carefully evaluated.

Sappi believes that further improvements can be made by "working at it", practicing and better communications (R. Hope, 29 September 2003).

Wolverine World Wide sees improved communication and providing reward programmes, beyond normal compensation, as key to better transfer of core competencies (J.C. Tegner, 9 October 2003).

Kogut and Zander (1993) stress the importance of learning in the transfer of information. Sutton (2002) advocates "forgive but don't forget" and "learn from mistakes". In discussions with Drewell (9 May 2003), van der Schyff (10 June 2003) and Hope (13 June 2003), all three stated that their respective companies did allow a measure of mistakes and that these were generally regarded as learning experiences rather than opportunities for punishment. Wolverine World Wide states in its Management Values to "keep mistakes to a size the business can handle" (J.C. Tegner, 9 October 2003).

8.9 Practical Problems and Solutions

The questions leading to this section were added to the research in May 2004 after it was decided that the corporations' practical experiences would improve the research findings. Certain of the practical problems experienced and the resolutions adopted are common to both the development and the transfer of core competencies.

P.M. Drewell (personal communication, 9 June 2004) sees the biggest practical problem confronted by Barloworld in transferring core competencies as getting leaders "to live" the core competencies, maintain focus on them and develop training and succession systems to ensure that these are sustainable. His recommendations to solve these practical problems are the same as those for the development of core competencies: leadership training systems, retention of key employees and passion and commitment throughout the management teams.

Section 7.6 discusses the practical problems and solutions encountered by SABMiller in the development of core competencies. Certain of these practical problems and solutions also manifest themselves in the transfer of core competencies. Problems were experienced in getting regions to properly transfer core competencies both to other regions and areas under the regions own management. The lack of a standardised company agreement on the definitions of its core competencies was a major reason for this. Leibowitz (13 July 2004) points out that this was particularly apparent in the Miller Brewing acquisition and integration.

Problems encountered in other regions included overconfidence in the building brands, together with limited local knowledge in certain instances. This hindered the transfer of core competencies relating to marketing, sales and merchandising. As in the case of the development of core competencies, the explicit standardisation and formatting of core competencies should also enable the company to more readily codify and monitor the transfer of core competencies.

Miller of SABMiller Africa and Asia (17 June 2004) experienced practical problems similar to those related to the development of core competencies. As discussed in Section 8.6, a further practical problem was how to identify the core competencies to be transferred (see previous paragraph: standardisation will help). She again advocates practical solutions of building local training competence, patience and not enforcement, and targeted training programmes.

SABMiller Europe found the practical problems of transferring core competencies to include sufficient, competent, people as a proportion of the number of people that needed to be developed, different language and cultures which do not take constructive criticism particularly well (N. Mogilnicki, personal communication, 9 June 2004). The solutions to these problems, not yet fully resolved, are the same as those outlined for the development of core competencies in Section 7.6

Van der Schyff (10 June 2003) advocates "practise, practise, practise" as a way to deal with the practical problems related to the transfer of core competencies. He uses the analogies of a tennis stroke or a golf swing. The stroke or swing might be reasonable or even excellent but one has to keep working at it, searching for continuous improvement, sometimes looking at new ways of things but essentially to keep trying, trying and trying again. He believes that SABMiller has a great advantage in the transfer of core competencies. This is because of the ability to transfer or second experienced people to foreign operations and particularly new acquisitions. These people have the core competencies within themselves and set out to instil them in the people in the foreign operations. A person from another company would not have the same set of competencies and so there might be a conflict in terms of transference, culture and so forth.

Sappi (E. van As, personal interview, Johannesburg, 22 July 2004) has a similar approach to the practical problems and solutions in the transfer of core competencies as it does the development of core competencies. Additional information is that Sappi managed to transfer core competencies better than most companies because of its reputation for retaining most of the local management. It normally changes systems and things but not people. Only a limited number of South Africans were transferred overseas, sufficient to facilitate the transfer of core competencies but not so many as to be threatening to the nationals of acquired companies (according to van As). He counsels focus – do not try more than five things – at a time. Specific targets are set and companies are often shown where other parts of the group had achieved better results by cross-business benchmarking.

The practical problems encountered by Wolverine World Wide (L. Whipple, personal communication, 8 June 2004, 30 October 2005) in the transfer of core competencies incorporate the difficulty of translating a corporate core competency to a specific brand/product in some other part of the world. What, for example, are the distribution channels available? Will the name translate well, or should a secondary name in the local language be used? In these particular instances small teams were used to search for solutions. Whipple advises patience in trying to solve practical problems, together with a realisation that all desired core competencies may not be transferred at the rate or level desired.

8.10 Summary and Conclusion

The biggest challenges to transferring core competencies are given as culture, language, attitude, getting a "common language" NIH (not invented here), time zones, and resistance to change. These are in line with the research findings of Kostova (1999), Bartlett and Ghoshal (2000) and Minbaeva et al. (2001). Referring back to the research of Palich and Gomez-Mejia (1997) and the fact that there are cultural conditions not favourable to operations, challenges to the transfer of core competencies do not necessarily mean that performance is affected.

The companies reported estimated degrees of success in transferring core competencies on a seven-point scale. The results varied from Barloworld, 5.9, Sappi and Wolverine World Wide, 5.0 each, SABMiller Africa and Asia, 4.9, to SABMiller Europe, 4.0. There are no significant differences in median scores among the companies (Kruskal-Wallis ANOVA: H=6.6, (4, N=33), P=0.1600). The Barloworld results should be seen in the context of a holding company with subsidiaries in related but different industries. The results of SABMiller Europe are adversely affected by the low scores in inbound logistics and human resource management.

The value chain location or activity results of transfer are as follows: operations shows the highest degree of success, with 6.0 points, followed by mergers and acquisitions at 5.8; infrastructure: general management at 5.3; outbound logistics at 5.0 and human resource management at 4.8 (5.5 if SABMiller Europe is eliminated as an outlier). Marketing and sales is sixth with 4.5, followed by technological development, 3.8, and inbound logistics 3.5. There are significant differences in median scores among the core competencies with n >2 (Kruskal-Wallis ANOVA: H=12.5, (5, N=24), P=0.0284). Statements from Barloworld and SABMiller indicate that there is a higher success rate of transferring those core competencies that are more readily measured and codified than is the case with the "soft ones" dealing with markets and values.

While certain of the results are in line with the literature and research, parts of it are not. Kogut and Zander (1993) refer to codifiability, teachability, complexity, system dependence and product observability. Kostova (1999 and 2002) refers to relational aspects, while Luo (2000) maintains that technological capabilities are more transferable than organizational capabilities and that financial capabilities are more transferable than operational capabilities. This is certainly not the case with *operations* and *technological development* in my study. Information technology has changed substantially since certain of the research was conducted in the mid-1990s.

There is a very strong correlation between the rankings of how well the companies as a group perform each core competency and the ratings of success in transferring these core competencies. The Spearman coefficient is 0.79 with a P-value of 0.033. The results strongly suggest that the companies transfer those core competencies that they do well – in descending level of success, especially the three core competencies that they do best. There is a negative correlation (Spearman - 0.40 with a P-value of 0.379) between the rankings in terms of importance to competitiveness and the ratings of success of transfer. In other words, companies may transfer what they do well, rather than what is important for competitive purposes.

The companies conclude that on an overall basis the most effective method for transferring core competencies is: *appoint key people from within company to management positions in new acquisitions*. This method has a total of 25.7 points out of a maximum of 35 and a mean of 5.1 out of a possible 7.0. The second most effective method is *visits*, which has a total of 25.5 points and a mean of 5.1. *Inclusion in management process (priority objectives etc)* is third, with a total of 24.4 points and a mean of 4.8. The next two most effective methods are *post-merger and acquisition integration teams* (21.0 and 4.2) and *benchmark core competencies against competitors and other firms* (19.1 and 3.8). *Rotate managers and key people from new acquisitions in wider company* is considered the most effective method (16.8 and 5.7) by the three companies that use it. Sappi added *multi-disciplinary/regional teams* and *leadership* and rated each as highly effective with the maximum of 7.0 points.

The research results are generally in line with the literature review. This relates to Hitt et al. (2003) who advocate moving key people to facilitate transfer and to Bresman et al. (1991), Bartlett and Ghosal (2002), and Hamel and Prahlad (1996) who stress the importance of travel and visits. Porter (1996), include in objectives, Govindarajan (2000) "DNA carriers", Ghosal, Korine and Szulanski (1994), joint work in teams and task forces and Thompson and Strickland (2003), benchmarking are other works verified by the research. The top rating of method 6, *rotate managers and key people from new acquisitions in the wider company* by the three companies that use it supports Garvin's (2000) view that personnel rotation programmes are one of the most powerful methods of transferring knowledge.

The effectiveness of the methods varies by company and by location in the value chain. *Appoint key people from within company to management positions in new acquisitions,* is rated first in five of the eight value chain locations, two of the five tied with other methods. *Visits* is in the top position in two locations, tying with *appoint key people* in one of them. *Post-M&A integration teams* are rated first in inbound logistics.

The most effective methods for marketing and sales are *visits* and *inclusion in management process*. *Seminars/conferences* are considered relatively effective in marketing and operations, but not in any of the other value chain activities. Operations has *appoint key people, inclusion in management process, post-M&A integration teams, rotate managers and key people, visits,* and *benchmarking* as the most effective methods.

Human resource management has *appoint key people, inclusion in management process* and *visits,* as its most effective methods. *Appoint key people* is considered most effective in operations and M&A, and less effective in marketing and sales and technology. *Visits* are considered to be relatively effective in all value chain activities with the exception of M&A and operations. *Benchmarking* is held to be more effective in marketing and sales, operations and inbound logistics. *Post-M&A integration teams* are believed to be more effective in marketing and sales, operations and M&A.

The biggest difference between South African companies and Wolverine World Wide is Wolverine's relative emphasis on *seminars/conferences*. Wolverine rates the latter at 6.0 effectiveness. It has been hosting international licensees and distributors seminars and conferences for almost half a century. *Seminars/conferences* are considered relatively effective in marketing and operations in general, but not in any of the other value chain locations.

There is a high degree of correlation (Spearman 0.93 with a P-value of 0.003) between the effectiveness of the methods used to transfer core competencies and the ratings of success achieved in transferring the core competencies. This gives credibility to the information provided by the companies in this context and highlights the importance of selecting the appropriate methods of transfer.

The methods used by the companies to measure and assess the success or otherwise of the transfer of core competencies include performance indicators and metrics, bench marking, both internal and external, performance management and, in the case of Wolverine World Wide, third-party research to evaluate key parameters of customer satisfaction.

The measures taken to avoid pitfalls in transfer encompass head-office support, the use of experienced senior staff and expatriates, precise standards of measurement where possible, "common language and terminology" and change management.

The ways in which the transfer of core competencies can be improved are: better understanding of legislative frameworks of the countries where new acquisitions are made (Kostova 1999), a more thorough human relations component to due diligence study, better communications, "practicing" (see Kogut and Zander 1993 on experience and learning), change of management and reward programs beyond normal compensation. There is evidence that all the corporations have a measure of learning from mistakes in line with the recommendations of Sutton (2000) to "forgive but don't forget".

Certain of the practical problems experienced and the solutions devised are common to both the development and the transfer of core competencies. One practical problem is getting leaders "to live" the core competencies. Leadership training systems, retention of key employees and passion and commitment are among the solutions.

Over confidence on brand building together with limited local knowledge has caused problems for SABMiller in marketing and sales. The solutions embrace the explicit standardisation and formatting of core competencies so that they can be codified and monitored. SABMiller provides an example of a core competence matrix depicting definitions and the supporting resources and capabilities. A further problem is how to identify the core competencies to be transferred. The solutions advocated are building local training competence, targeted training programmes and patience rather than enforcement. Continual practice and the transfer of experienced people to foreign positions are other solutions.

Sappi advocates changing systems but retaining most of the local management and counsels focus – do not try to do more than five things at a time. Set specific targets and demonstrate to companies the success of their peers.

Wolverine has encountered difficulties in translating a corporate core competency into a specific brand or product in some other part of the world and, like SABMiller, proposes patience among the solutions.

The findings support the Bresman, Birkinshaw and Nobel (1999) research on foreign acquisitions, which conclude that problems associated with transfer increase with geographical and cultural distance.

Having examined the results of the research with both the development and transfer of core competencies, we review in the next chapter the strategies of the four companies.

9. REVIEW OF THE CORPORATIONS' STRATEGIES

9.1 Introduction

Core competencies are not an end in themselves but an inherent part of strategies. The review of the strategies in this chapter aims to give a better understanding of the corporations and their core competencies. The chapter also explores aspects of the third aim or question of the thesis, which is how the three corporations, originating in South Africa, with limited international experience, became global leaders in their fields within a decade.

The strategies of the four corporations are reviewed against the model proposed by Nohria, Joyce and Roberson (2003). Special attention is paid to strategy, leadership, mergers and acquisitions, and post-merger and acquisition integration while referring to the literature framework in these areas. The works of Collins (2001), Bartlett and Ghoshal (2000), Drucker (1986, 1995), Lajoux (1998), Ashkenas, Demonaco and Francis (2001), and Pritchett, Robinson and Clarkson (1997) are included in the framework. The global expansion of the three South African companies has been predominantly by acquisition. The success of mergers and acquisitions and post-merger and acquisition integration influences the development and transfer of core competencies.

Nohria et al. (2003) examine more than two hundred well-established management techniques as they were employed, over a 10 year period, by 160 companies. *The results show that to sustain superior performance, corporations have to excel at four primary management practices – strategy, execution, culture and structure – and any two of four secondary practices: talent, leadership, innovation and mergers and partnerships.* The authors state that the key to this 4+2 formula is not which technique is chosen within each practice, but how well and how consistently corporations stick with it. It did not seem to matter which of the two secondary practices the companies excelled at, and excelling at more than two of the four practices made no significant difference either.

The eight management practices are examined in the six subsections numbered one to six for each of the four companies; culture, structure and talent are discussed under a common heading. Post-merger integration is added as a further practice in a seventh subsection. Section 9.2 begins with a summary of the Nohria et al. (2003) guidelines relating to the practice concerned. The strategies of the four corporations are reviewed against these guidelines. The different sources discussed in Chapter 4, "Research Design and Methodology", are introduced by referring to relevant media and analysts reports on the companies. I add my own direct observations, based on experiences and anecdotes or mini-case studies. The different sources, including interviews, questionnaires and direct observations contribute to the process of triangulation referred to in Chapter 4.

9.2 The Nohria, Joyce and Roberson 4+2 Formula

Nohria et al. (2003) advise companies to build strategy on deep knowledge of target customers and the company's capabilities. The strategy must be clearly and consistently communicated to employees, customers and shareholders. The strategy should be refined only in response to marketplace changes, new technologies or government regulations, for example.

Collins (2001:118) raises the strategic issues of "what you are deeply passionate about, what you can be the best in the world at and what drives your economic engine". Everyone I interviewed in the four companies was, or seemed, passionate about their business so that issue does not need to be discussed. Being the best in the world and what drives economic engines are reviewed under the Strategy subsections. I have also taken the opportunity to include analyst and media perceptions of the four companies and their strategies in these subsections. The criterion for inclusion is whether the articles or relevant reports support or question the companies' strategies.

"As with strategy, it is not what you execute that matters but how" (Nohria et al. 2003:6). A company must develop and maintain flawless operational execution and streamline operational processes essential to consistently meeting customer expectations. The authors advocate that a company increase its productivity over time by about twice the industry average to be a steady winner.

Nohria et al. (2003) recommend that companies should develop and maintain a performance-orientated culture. This requires holding managers and employees, individuals and teams to unyielding performance expectations. Company values should be stated clearly and forcefully.

Nohria et al. (2003) point out that winning companies build and maintain a fast, flexible and flat organisation. The organisational structure should simplify the work to be done. The authors conclude that it makes little difference whether the companies are organised by function, geography or product. What does matter is whether the organisational structure simplifies the work

Nohria et al. (2003) advise companies to hold on to talented employees and find more. They point out that it is cheaper and more reliable to develop stars than to buy them. "Find leaders who are committed to the business and its people. Successful leaders reach out to front lines, forging connections with people at all levels. They seize opportunities before competitors do and tackle problems early". (Nohria et al. 2003:10).

In *Lessons from Late Movers,* reviewed in Section 3.3.2, Bartlett and Ghoshal (2000) point out that in each of the 12 merging multinational corporations they studied, there were leaders who drove the corporation relentlessly up the value curve. These leaders showed two characteristics: unshakable belief that their corporation would succeed internationally and a remarkable openness to new ideas that would facilitate internationalism, even when the ideas challenged established practice and core capabilities.

"Level 5" leaders are ambitious but, first and foremost, ambitious for their companies (Collins 2001). This applies in the four companies reviewed when one considers the length of service of the CEOs involved as one criterion. This particular issue of leadership is consequently not discussed for the individual companies. The characteristic of Level 5 leaders embodying a paradoxical mix of personal humility and professional will is reviewed. It is not appropriate for me to be personally and subjectively judgemental about this leadership characteristic of the four CEOs. I therefore provide information and anecdotes (mini-case studies) so that clear inferences can be drawn. I did send drafts to the CEOs as mentioned in Section 4.9.

Making industry-transforming innovations is advocated by Nohria et al. (2003). Companies are advised to lead their industries with breakthrough innovations, even if that means cannibalising existing products. New technologies should enhance all operations, not just product development processes. As noted in the literature review (Section 3.5), Drucker (1995) regards innovation as the one core competency that every organisation needs.

Nohria et al. (2003) include seeking growth through mergers and partnerships as one of the four secondary practices. Their advice is to enter only new businesses that leverage existing customer relationships and complement core strengths and to forge partnerships that best use both companies' talents. Companies should develop a systematic way of identifying, screening and closing such deals.

Section 3.9 in the literature review noted how the majority of mergers and acquisitions are generally unsuccessful according to the numerous studies and examples quoted by Lajoux (1998). In examining the company strategies and performance in this practice, the success rate criteria for acquisition, reasons for success and setbacks and challenges will be discussed.

Lajoux (1998), in Section 3.10, cites post-merger integration as often being the reason for failures of acquisitions. She points out the additional complications of international business: law, accounting, culture, language and technology. Ashkenas et al. (2001), using GE as a model advocate early planning, restructuring sooner rather than later, having a person responsible full-time for integration, integrating operations and cultures. Pritchett et al. (1997) and others stress the importance of communication and of limiting and keeping promises.

The corporations were also asked to list the five most important actions in regard to post-M&A integration (Questionnaire 1, Initial Questionnaire). The lists provided are the basis for the subsections and examine post-M&A integration.

9.3 Barloworld

9.3.1 Strategy

Barloworld includes the ability to create and sustain long-term relationships as one of its leading core competencies. It has deep knowledge of its target customers, especially in its founding businesses, such as capital equipment and motor vehicle retailing (Section 5.3.8). The company's strategy or philosophy of VBM (value based management) is stated in its annual reports from 2000 to 2005 and on its website. The statement of strategy in the 2003 annual report includes the guidelines that it would use to expand within existing activities and also develop grassroots opportunities within its own core competencies.

In terms of Collins's (2001) advice for companies to search for the one denominator that has the single greatest impact, Barloworld utilises two key metrics to measure financial performance in its VBM philosophy (see Section 5.3.6).

The first metric is cash flow return on investment (CFROI). CFROI measures the cash flow return on inflation-adjusted assets. The company creates sustainable value by growing assets that are producing returns in excess of its real cost of capital. For management purposes Barloworld has set a hurdle of achieving an 8 percent real CFROI on average through the economic cycle for every part of its business. This rate is used not only to assess the performance of existing businesses but also for capital expenditure projects and acquisitions. The second metric is cash value added (CVA). The key to creating value is to achieve positive cash value added every year (Barloworld Annual Report 2005).

According to Philips (presentation, Wits Business School, Johannesburg, 4 August 2005), "Barloworld is as good as anybody in managing a Caterpillar franchise". As the company is the world's largest distributor of Hyster it is conceivably as good as anybody in managing a forklift business. Barloworld would also be a candidate as one of the world's best in having the unique ability to operate under difficult circumstances (Angola, Siberia, Mozambique), as seen in Section 6.2. There are, however, companies from countries such as China, Taiwan and Korea who also have this type of ability.

Although expressing concern for certain of Barloworld's smaller and offshore operations, Kershaw (2004), of Investec Securities, and an unnamed analyst from Andisa Securities (2005a), comment favourably on the overall company and its outlook.

9.3.2 Execution

A unique organisational ability to function together and implement coherent strategies across the organisation is among Barloworld's core competencies. A unique ability to operate under difficult circumstances is another core competence (Section 5.3.8). McNulty (2002) commends Barloworld's VBM programme for placing a greater emphasis on operational execution and less tolerance for laggards.

9.3.3 Culture, Structure and Talent

Referring back to the previous section, the unique organisational ability of Barloworld to function (or work) together, and implement coherent strategies across the organisation is again relevant here. The corporate culture, together with the value based management philosophy, is another strength. While there had been an historic willingness to tolerate non-performance because of the importance of long-term relationships, VBM cash flow return targets are now non-negotiable. There is now a high level of management-team accountability (P.M. Drewell, personal interview, Sandton, 9 May 2003).

The Barloworld structure is flat with all 10 of the divisions reporting to the CEO (please see Section 5.3.7 above and P.M. Drewell, personal communication, 3 May 2004).

Barloworld has very deep management and continuity; 20 to 30 years service is not at all unusual (A.J. Phillips, personal communication, 22 May 2002). Details of management are given in Table 5.3 in Subsection 5.3.4. "Building a dynamic, innovative and forward looking organisation that allows us to attract people of the highest calibre..." (Barloworld 2003). The CEO points out, in both the 2002 and 2003 annual reports, that they did not lose a single member of their global leadership team to competitors in those years.

9.3.4 Leadership

Tony Phillips, who was appointed CEO of Barloworld in 1999, introduced the value based management (VBM) system. The investment returns for the last four years have shown significant improvements (see Subsection 5.3.9). McNulty (2004) credits Phillips with adopting new thinking in the form of value based management of industrial brands as a unifying theme across its diverse businesses in more than 30 countries

I first met Tony Phillips in 1992, shortly before he left for Spain to take up the position of CEO of Finanzauto. Since then I have interviewed and communicated with him on the thesis as detailed in Appendix 4.2, Data Collection and Fieldwork Record. Included in this appendix are Phillips's 2003 to 2006 attendances at the Wits Business School *Managing a Turnaround* programme. Finanzauto was used as a case study and Philips responded to the different team presentations and led in judging them. Each year several delegates remarked on "how down-to-earth" Phillips is for someone heading such a prominent company.

In 2001, I decided that a written strategy assignment paper at Rhodes University would be a practical exercise covering leading South African multinational companies. The idea was that a team of students studying a particular company would submit three questions to the company concerned and incorporate the replies in the assignment. I approached several companies to see if they would participate.

When Phillips agreed that Barloworld would assist, I asked him to whom the questions should be sent. He replied that he would handle the questions himself. I responded that this was not what I expected of his valuable time. He rejoined that it was good for CEOs in their fifties to *occasionally* check what twenty-one-year-olds thought of the world in general and his company in particular. Besides, he added, some of the students might even become Barloworld customers or employees because of this exercise.

A few days after the questions had been sent out by students to all the companies, his assistant, Bonny Raby, telephoned to explain that her CEO would be in hospital for a back operation around the time that his replies would be expected. "But don't worry" she added, "Tony has taken his laptop with him and will reply from the hospital". Which he did.

9.3.5 Innovation

The Barloworld statements of strategy include "We encourage best practice to create value through new, different and better ways of doing things", while the core competencies include the ability to evolve and innovate (see Subsections 5.3.6 and 5.3.8). Phillips's "new thinking" on the nature of Barloworld is discussed in Section 6.6 (McNulty 2004). There are limits on product innovation for the reason that the capital equipment and motor businesses have products designed and produced by the licensors and not by Barloworld. This does not apply to the company's own businesses such as PP Cement and Lime and the Scientific Division.

9.3.6 Mergers and Partnerships

Success Rate

Figure 9.1 lists the major acquisitions and disposals of Barloworld over the past five years. Since value based management was introduced in 1999, the overall view is that all acquisitions completed since then are expected to achieve the financial target requirements. Evidence for this is that no acquisition made, since then, has been sold or shut down (P.M. Drewell, personal communication, 26 October 2003).

Analysts from Andisa Securities (25 May 2005) note that "the real sticky wickets" in Barloworld are Coatings, Australia and the Industrial Distribution and Scientific divisions. The Barloworld Interim Report, for the six months ending 31 March 2005, refers to difficult market conditions for the Coatings Division and provisions for site rationalisations for the Scientific Division that negatively affect current financial results but will benefit future ones.

Figure 9.1 Barloworld Incremental Acquisitions (and Disposals) 2000-2005

Acquisitions R4.0 billion including:	**- Avis Southern Africa** **- PPC shares** **- Freightliner dealerships**

Equipment

- Finaltair
- Energyst
- Circon

Industrial Distribution

- Barton, Texarkana & North West Arkansas Freightliner
- Sterling dealership (Tennessee)
- Netherlands Hyster
- N Ireland Hyster

Cement & Lime

- Mooiplaas Dolomite
- Porthold (Zimbabwe)
- PPC shares
- Kgale Quarries (Botswana)
- Readymix (Botswana)

Motor

- Avis Southern Africa
- SA retail dealerships

Coatings

- ICC
- White Knight (Australia)
- Sonnex Paints (Namibia)
- Hamilton Brush

Scientific

- Protean Laboratory Group (UK)
- LPM Lasers

Logistics

- Optimus
- Supply Chain Solutions
- ZA Trans

Disposals R6.6 billion including:

- 12 million Dimension Data shares
- Comparex shareholding
- Motor leasing book
- Equipment leasing book

Source: Adapted from Barloworld: Deutsche Bank Conference (September 2005).

Criteria

According to Drewell (9 May 2003) there is a long checklist of criteria, but the key questions are:

1. Will it achieve our CFROI hurdle rate (8 percent real) over the business cycle? This generally means that it would be queried if the answer were more than three years.
2. Can we manage it?
3. Do the people in the business feel like the type we can work with?

Barloworld prefer to have control of acquisitions unless there are very strong reasons for not doing so. Phillips (personal interview, 22 October 2002) states that they also prefer to appoint the number one or number two executive to a new acquisition from within the broad Barloworld Group and not necessarily only from South Africa.

Reasons for Success

Phillips (personal communication, 11 November 2003) states that Barlow's success is due to a great deal of practice. Their philosophy is to start small and build incrementally and select businesses where Barloworld has core competencies.

Setbacks and Challenges

In 1992, Barloworld, through its subsidiary, Bibby, in the UK, acquired Finanzauto the Caterpillar distributor in Spain and Portugal that was listed on the Madrid Stock Exchange. This was the second-ever contested corporate takeover in Spanish history. The condition of the company was far worse than expected and there were severe losses in 1992 and 1993. Tony Phillips, then CEO of the South African Caterpillar business, was sent to Spain to rectify the situation. Finanzauto subsequently became the single biggest business in Barloworld (Miller and Velamuri 1998). The coatings business in Australia went through four very difficult years but is now producing acceptable results (P.M. Drewell, personal interview, 9 May 2003).

9.3.7 Post-Merger Integration

Drewell (9 May 2003) lists the following five most important points in post- M&A integration:

1. Obtaining control of administration and financial controls.
2. Integrating people into Barloworld.
3. Appointing one of the top executives from the wider Barloworld Group.
4. In acquisitions often allowing senior people up to two years to decide if for themselves whether wish to stay with Barloworld.
5. Introducing and installing the value based management philosophy. ·

Drewell (9 May 2003) points out that while this approach may take longer, with certain inherent disadvantages, it has clear advantages in the long term. Building and maintaining long-term relationships is a key core competency of the group.

The case of Finanzauto demonstrated the company's ability to provide management to new acquisitions (Drucker's 1986 fourth rule on acquisitions) when Phillips and Wilson were sent to turnaround this Spanish acquisition. Five of the seven present chief executives of Barloworld divisions have prior management experience in other divisions within the company which supports a view that the company can provide management to new acquisitions. Relating to Drucker's fifth rule, it is possible for someone from an acquired company to be promoted within Barloworld as exemplified by Ramón Fernández-Urrutia, who succeeded Phillips as CEO of Finanzauto and was subsequently promoted to an executive director position in Barloworld.

9.4 SABMiller

9.4.1 Strategy

SABMiller states its strategies clearly in its annual reports (2000 to 2005) and on its website. Its business is very customer-focused. Miller Salzman (personal interview, London, 3 February 2003) stresses that SABMiller's knowledge of North American consumers at that time had not reached the level achieved in South Africa, where there is substantial in-depth knowledge.

As mentioned in Subsection 10.3.4, SABMiller measures performance wherever possible. Two of the most prominent areas (SABMiller Annual Reports 2000–2005) are volume ("keep building brands that consumers love and market them superbly") and "relentless focus on operational performance" (SABMiller Annual Report 2005:9).

The performance indicators mentioned most in reviews of operations in the annual reports from 2000 to 2005 are volumes and EBITA (earnings before interest, tax and amortization) percentage margin which cover the two areas discussed in the previous paragraph. A third performance indicator is TSR (total shareholder return) compared to the FTSE 100 Index which is covered in Subsection 5.4.10.

As seen in Section 6.3 and Figure 6.2 SABMiller is the lowest cost producer and distributor of quality beer in the world. I refer also to Mackay's relentless focus on operating efficiencies, mentioned two paragraphs before. A case could also be argued that SABMiller is the best in the global beer industry or even the liquor industry in terms of the performance of their home country employees when deployed around the world. See Sections 6.3, 9.4.3 and 10.3.4 in this regard

In their special reports on SABMiller, Andisa Securities (2005b) and Geard of Investec Securities in the UK (2005) comment favourably on SABMiller's balanced business model. According to McKinsey, the consultancy, half of the top 100 global companies, by market capitalisation, could be companies from emerging markets or developing economies in the next 10 to 15 years, compared with only two now; Samsung and LG, the South Korean consumer product manufacturers (Mumbai 2005). McKinsey also identified 54 companies from developing economies as trendsetters ranking "high on competitiveness and global-ness". They include Hyundai, the South Korean car maker and engineering group; SABMiller, the "beverages group from South Africa"; Cemex, a Mexican cement producer; and Infosys, an Indian software group. Other media reports on SABMiller appear later in this chapter.

Sams and Szabat (2005) note that SABMiller was one of more than 500 local brewers, and a growing number of local competitors, when it entered China in the mid-90s. It quickly discovered that there was a limited market for its premium-priced brand. It commenced acquiring leading low-price regional and local brewers, building a diversified portfolio of low, medium and high-priced brands. The company's acquisition strategy focused a few clear targets: low-cost providers, deep local management expertise and strong ties to local governments to ease licensing and red tape. "As other brewers faltered and exited China, SABMiller's business there has flourished including growing market share for a leading regional brand from 7.5 percent to 41 percent in a single year" (Sams and Szabat 2005:17). Leibowitz (personal communication, 1 September 2006) reports that SABMiller now has the leading beer brand in China (Snow).

9.4.2 Execution

Van der Schyff (personal interview, 10 June 2003) regards SABMiller as being "outstanding" in delivery. The annual reports give significant details of achievements in quality, productivity and profitability, often by country (SABMiller Annual Reports 2003 to 2005). Eisenberg, Thigpen and Robinson, in *Time* of 12 July 2004, remark on Miller Brewing CEO Norman Adami's talent in execution.

9.4.3 Culture, Structure and Talent

Corporate culture and human capital is a critical SABMiller core competency. There are numerous statements by Mackay, Adami and others on the performance-oriented culture. Two, for example, from Adami (2002:5): "In their expansion strategies most of our international competitors emphasise their brand or capital resources; we emphasise our people." And "Our culture and our people are characterised by their optimism and passion about our brands and about the company. The people are energised, proud, innovative and committed and continuously strive to achieve excellence."

Mackay (Jones 2002) is cited as blunt in his assessment of Miller Brewing four months after taking control of the company. He states that it is not a finely tuned, focused, effective organisation and describes the Miller way of getting things done as inadequate. Analyst Geard, of Investec Securities in London, expresses the view of his company that SABMiller has the strongest management and most robust operating culture in the sector, which in this case refers to global liquor and brewing companies.

Miller Salzman (personal interview, 7 November 2002) and van der Schyff (personal interview, 10 June 2003) stress that SABMiller has very flat organisational structures.

Human resources, or human capital, are regarded as SABMiller's greatest strength by its management. By 2001, 140 managers and technical experts had been "exported" from the South African operations to other parts of the world (E.A.G. Mackay, personal interview, London, 27 November 2001).

9.4.4 Leadership

Graham Mackay, who was appointed as CEO of SA Breweries in 1999, has led the disposal of non-core, or diversified, businesses and the transformation from a regional brewer (albeit dominant) to the second largest brewer by volume in the world. His performance will ultimately be judged on the success of the Miller Brewing Company and the other acquisitions, such as Bavaria, and the return on equity of the group once there has been sufficient time to absorb acquisitions. The share price, financial results and company announcements all indicate that these are well on track at the present time.

I have contact with SABMiller via the thesis research and the annual visits of one of my Rhodes classes to the Ibhayi Brewery in Port Elizabeth. I also have friends among the SABMiller retirees. I am therefore very aware of how Mackay is regarded by SABMiller employees and retirees.

I first met Graham Mackay in the late 1980s and saw him at a few SA Breweries-related functions and events in the 1990s before the interview with him in London on 27th November 2001. He served on a panel on *Global Leadership: The Business Imperative* at the London Business School's Global Leadership Summit on 7 and 8 July 2003. I attended this programme as a delegate. The chair of the panel praised Mackay's achievements when introducing the members to the delegates present. Mackay replied in words to the effect that his achievements were due to "those who had preceded him and those with whom he worked at SABMiller".

Both the media and analysts report favourably on the performance of SABMiller. Analysts at Morgan Stanley, cited by Wiggins (2005), state that the acquisition of South America's second largest brewer leaves SABMiller as the clear leader in terms of geographic platform. The Lex Column, in the *Financial Times* of 21 May 2004, categorised the SABMiller results for the year ended 2004 as "all the more intoxicating" and as finally proving that its recent success owes more to operating improvements than to the strength of the South African rand.

9.4.5 Innovation

All of the SABMiller worldwide operations are expected to continuously review the changing desires of their consumers, with a view to developing new products in accordance with a group-wide approach. Many group corporations in addition have formal systems to encourage creativity and continuous improvement among their employees. The aforementioned are reported on yearly in SABMiller corporate accountability reports (SABMiller Corporate Accountability Report 2003). "Hi-tech" is listed as one of SABMiller's core competencies. It is widely regarded as the lowest cost manufacturer and distributor of quality beer globally. Its brewery in Port Elizabeth, South Africa, is said to be the most technologically advanced in the world (K. Russell, personal interview, Port Elizabeth, 22 May 2003). Further details on low-cost brewing are found in Section 6.3.

9.4.6 Mergers and Partnerships

Success Rate

SABMiller does not have a prescriptive list for the performance of acquisitions. On the whole, none of the acquisitions since 1999 have failed or are expected to fail to reach their target of achieving the weighted average cost of capital (WACC) by the fourth year. The Central America results are below initial expectations, but there is still some time in hand. There are certain small breweries in China that, on an individual basis, may not be clearing WACC but these are small in relation to the total operation in that country (A.Miller Salzman, personal interview, 7 November 2002).

"All the deals show that our acquisition process works. The process is very systematic and not ego-driven. We like to have management control and turned our back on deals when we were not sure what control we would have" (A. Miller Salzman, personal interview, 3 February 2003).

The media and share analysts have recently commented favourably on SABMiller's acquisition ability. These include Geard of Investec (2005) and the Lex Column (2005). Theobald (2005) comments that SABMiller alone of the South African companies that expanded internationally has managed, as far as can be seen, to consistently make value-enhancing acquisitions.

Criteria

Miller Salzman (telephone interview, 10 September 2003) lists the following:

1. Acquisitions are expected to reach an ROI that is at least equal to SABMiller's WACC within four years.
2. SABMiller uses sophisticated models utilising discounted cash flow (DCF), net present value (NPV)
3. SABMiller pays particular attention to whether or not they understand the markets that they will be entering or could learn to do so very quickly.
4. What core competencies can they bring to bear to improve the performances of acquired companies? (This part of the acquisition programme is highly confidential.)
5. SABMiller strongly prefers to have control. They will deviate from this only when required by law, as in China, or where joint ventures or strategic alliances are in their interest.

As an example of adherence to criterion 1 above, SABMiller withdrew its bid for China's Harbin Brewery group when Anheuser-Busch made a higher offer. Parker, SABMiller's Africa and Asia CEO, said that he regretted not gaining control of Harbin but added that there is a price and a ceiling to every deal, and not every deal has to be done (Baglole and Bilefsky 2005).

Leibowitz (personal interview, London, 13 July 2004) reports that WACC targets have been refined for acquisitions. These are now two to four years for mature markets and four to six years for emerging markets.

Reasons for Success

SABMiller was able to supply management and technical staff to most of the acquisitions they made. At the same time, the South African operation went through great technological change and productivity improvements so that staff who would have faced early retirement were given new opportunities to work globally. Productivity in the South African operation improved by approximately a factor of five over a period of 15 years (E.A.G. Mackay, 27 November 2001).

B. Smith (telephone interview, 11 February 2004), who transferred to Miller Brewing from Johannesburg, believes that one of the reasons for SABMiller's international success is that the company has a decentralized operating philosophy in South Africa. Managers therefore receive general manager experience at a relatively younger age and learn to operate across different departments and functions. This he states leads to greater flexibility and adaptability together with a greater knowledge of operations. In contrast he says, many of the acquisitions made by SABMiller showed tendencies of a silo mentality, where employees were not that conversant with the operations outside of their own. The article by Sams and Szabat (2005) referred to in Subsection 9.4.1 support Smith's view on adaptability and flexibility.

Setbacks and Challenges

SAB acquired a brewery in the middle of Budapest, Hungary, in 1993. The competing breweries were all located outside the city and SAB experienced problems in attracting staff, having materials delivered and so forth. SAB also put up prices (because of low margins) expecting that the competitors would follow, as they certainly would have done in South Africa. The competitors in Hungary did not (A. Miller Salzman, personal interview, 7 November 2002).

Significant progress has been made with the Miller Brewing Company. I, nevertheless, regard this as a challenge because of the strength of Anheuser-Busch, with a market share of 49.6 percent (Eisenberg et al. 2004) and a return on equity exceeding 60 percent in the last four years (Nugent 2005). John (2005) commends SABMiller for the "splendid job" it did in capitalizing on the low carbohydrate fad to restore Miller Lite. It cautions that the company will require discipline to sustain its success as Anheuser-Bush applies pricing pressure. A turnaround should be judged to be successful only after several years of acceptable financial results (Harvey 2001).

SABMiller have "system templates" in the areas of production, technical, finance, marketing and a very strong HR function. These are installed in all acquisitions as soon as possible, although there is managerial discretion relating to operations in each country and market. The systems ensure a "common language" (A. Miller Salzman, 10 September 2003). Post acquisition integration teams are used (SABMiller Interim Report, 30 September 2002).

Cole (2005) states that SABMiller has a thoroughly impressive record for making acquisitions work.

9.4.7 Post-Merger Integration

F. Miller of SAB Miller Africa and Asia (Questionnaire 1, Initial Questionnaire, 22 August 2003) provides the following five key points.

1. Structures
2. People
3. Processes
4. Competencies
5. Measures

The five most important issues according to SABMiller Europe's Mogilinicki (Questionnaire 1, Initial Questionnaire, 8 August 2003) are:

1. Address cultural issues.
2. Change management, getting people to adopt new ways.
3. Communication, especially regarding 1 and 2.
4. Integrate specific areas.
5. Training and development.

The company has demonstrated its ability to provide management to new acquisitions as seen in Subsection 9.4.3 above. The vast majority of the 55 breweries around the world are headed by management teams from South Africa (Subsection 5.4.4). This ability was manifested notably in the transfer of Adami from the position of CEO of SABreweries in South Africa to President and CEO of Miller Brewing in the USA. Regarding Drucker's fifth rule, I consider that it would be highly impractical to attempt to promote several managers out of each new acquisition to other parts of the world within a world of acquisition. Referring to the interview with Mackay (27 November 2001) he did state that it was the intention of the company to create an "international beer culture".

9.5 Sappi

9.5.1 Strategy

Sappi's strategies are clearly spelt out in the different annual reports (2000 to 2005) and the website. Acquisitions have been a crucial part of their success. Hope (personal interviews, Johannesburg, 25 October 2002 and 13 June 2003) refers to "clear goals" and "clear ideas" several times and emphasises that the company knows as much about its customers as anyone in the industry.

Strategy

Sappi provided detailed financial objectives and financial performance indicators in its 2000 to 2005 annual reports. As mentioned in Subsection 5.5.10, however, it did not provide TSR (total shareholder return) information about itself and its competitors. I am somewhat constrained by this in searching for Collins's (2001) economic driver or denominator. The impression I have of the industry is that demand and supply are especially important and that, consequently, pricing and the utilization of capacity are major drivers of profitability. The timing of major capital expenditures would also be an important determinant. Operating profit to sales and return on net assets (RONA) are among the few most important measurements used by the company.

Sappi is the largest manufacturer of fine coated paper in the world, but I have not seen any benchmark on how they perform relative to competitors in this field. There is a history of technological innovation and it is conceivable that they led the world in this area for a period of time, or may do so today.

The *Financial Times*/PricewaterhouseCoopers World's Most Respected Companies Survey 2004 ranked Sappi seventh in the consumer goods category. The companies ahead of it were Sony Ericsson, 3M, Nike, Kimberly-Clark, L'Oréal and Hitachi. It is difficult to envisage Sappi achieving such a significant international standing without having a successful strategy. McNulty (2003) however questions aspects of Sappi's strategies. Sappi's primary focus is on pulp and fine paper, while Anglo American's Mondi, a competitor, has built integrated European operations in areas such as corrugated packaging and uncoated wood-free paper. The latter markets have been more stable during the recent downturn and McNulty notes that recent financials show Mondi delivering larger and more stable profits than Sappi.

Both Investec Securities (Rasmussen 2005) and Andisa Securities (2005c) comment that the Sappi turnaround is coming later than they had anticipated earlier. Rasmussen, of Investec, stresses that he has little doubt that it will be forthcoming but Benway (2005), of Standard and Poor's, believes that it will be years before Sappi again reaches its peak in profits.

9.5.2 Execution

The various statements by van As (personal communication, 19 November 2003) and Hope (25 October 2002, 13 June 2003), the presentation by Job (personal interview, Johannesburg, 31 October 2002) at the Wits Business School, together with the annual reports (2000 to 2004) all indicate a high level of ability to execute.

9.5.3 Culture, Structure and Talent

Van As (19 November 2003) cites corporate culture as one of the reasons for Sappi's success. He explains that the company kept the same value system while transforming from a South African company into a global leader. "The most important one was demanding performance, setting targets, agreeing what they were and developing a culture that it was unfriendly not to meet targets".

The Sappi organisational structure is shown in Figure 5.4 in Subsection 5.5.8. The flatness of the structure was reinforced by Hope (13 June 2003).

The Sappi philosophy with regard to mergers and acquisitions is to choose the best people out of Sappi and the business being acquired or merged (R. Hope, 13 June 2003). This should improve the calibre and depth of talent available to the company. Sappi, more than the other companies in this study seems to have recruited top-level managers from the outside. These are limited, but notably include the new CEO, Jonathan Leslie; David Wilson, who joined Sappi from Barloworld in 1999; and Ronee Hagen, who came from Alcoa in 2004 (see Subsection 5.5.4). Hope (13 June 2003) stresses that Sappi has not inundated foreign acquisitions with people from their South African operations.

9.5.4 Leadership

Eugene van As led Sappi from 1978 to 2003. During this quarter of a century, the company went from a South African operation with some exports to the global leader in fine coated paper with manufacturing operations on three continents. Hope (13 June 2003) stresses the positive effects of leadership and clear goals on Sappi's performance. I consider that Sappi took the greatest risk of the three South African-originated corporations in going global when the debt equity ratios mentioned in Chapter 5 are taken into account.

The only time that I met Eugene van As personally was the interview on 22 July, 2004. I have no contact with Sappi other than as a shareholder and via this thesis. I therefore do not have the amount of information or personal knowledge of the leadership of van As that I have about the other three CEOs in the research. In my interview I found van As to be courteous, helpful and forthright. He answered Questionnaire 3, Questions for a CEO comprehensively and promptly.

I sent van As a fax in 2001, asking if Sappi would assist with the strategy paper referred to in Section 9.3, Barloworld. The following voicemail message was on my cell phone the following morning. "Good morning, Professor. This is Sigrid Oliver, Mr. van As's secretary. We have received your request. Mr. van As is away overseas at present. The person to contact on this matter is Robert Hope, Director of Strategic Development. He is also away at the moment. I have however spoken to Karen Cousins, Robert Hope's secretary. We will be delighted to help you and Karen will set this up with Mr. Hope when he returns. Karen's telephone number is [-]. She will telephone you if she has not heard from you in two days".

After this service I sent an email to van As thanking Sappi and complimenting the two secretaries on their initiative and responsiveness. He replied – a letter of several paragraphs – thanking me and stating that while he knew how good they were, it was nevertheless always pleasant to receive commendations from outsiders.

9.5.5 Innovation

A culture of innovation in products, technology and businesses is one of Sappi's core competencies. The 2002 annual report mentions that the companies that make up Sappi are the originators of almost all the fine-paper product innovations in the 20th century. There are three research and development (R&D) centres, situated in Europe, North America and South Africa. The history section on Sappi (Subsection 5.5.3) records how Sappi applied for the world patents on the Sapoxyl bleaching process in 1968 and commercialised these in 1970. The culture and ability to innovate therefore goes back several decades.

9.5.6 Mergers and Partnerships

Success Rate

Sappi's major acquisitions are shown in Table 9.1 and Figure 9.2.

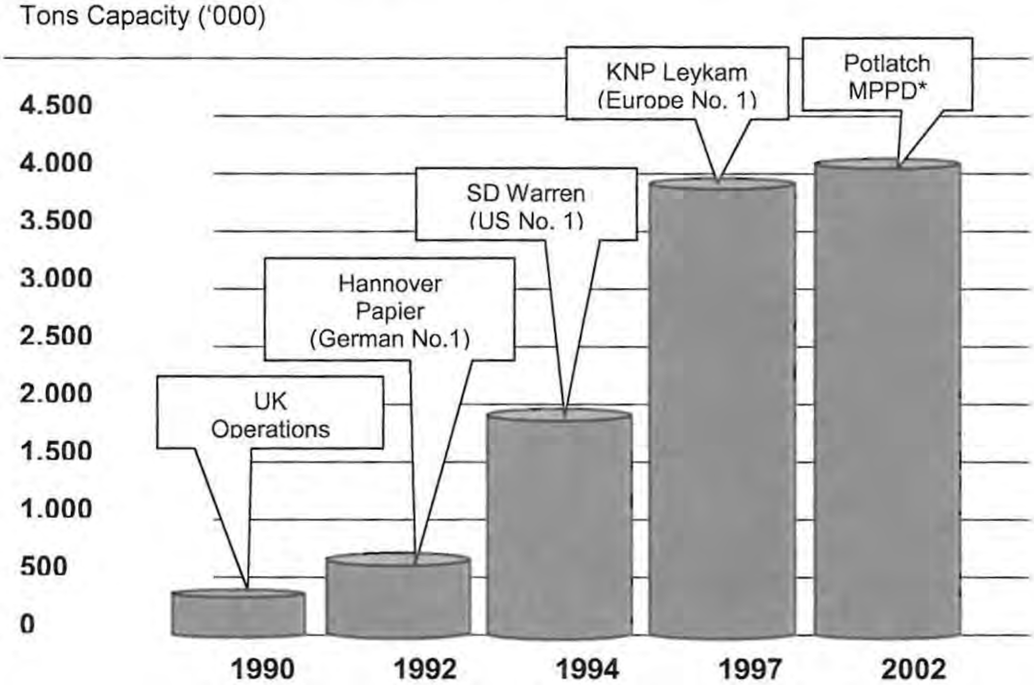
Table 9.1 Sappi Acquisition Performance 1994 to 2001

Acquisition	**RONA Then**	**RONA 2000**	**RONA 2001**
SD Warren (1994)	4.0%	14.6%	2.1%
US Industry Average	10.3%	11.8%	1.7%
Hannover Papier (1992)	3.5%	19.5%	13.4%
KNP Leykam (1997)	2.4%		
European Industry Average	1992: 5.3% 1997: 8.8%	13.8%	11.0%

Source: Adapted from Job (31 October 2002:5).

Table 9.1 summarises the return on net assets before and after acquisition, comparing these to industry averages. Results improve significantly with the exception of the 2001 downturn in the US when Sappi was still above the industry average.

Figure 9.2 Sappi Acquisition History



*MPPD = Polatch Minnesota Pulp & Paper Division

Source: Adapted from Job (2002:5).

Criteria

Acquisitions must beat the weighted average cost of capital (WACC) or generate a return at least equal to that of Sappi buying back its own shares. The company prefers 100 percent acquisitions (J. Job, presentation, Wits Business School, 31 October 2002).

Reasons for Success

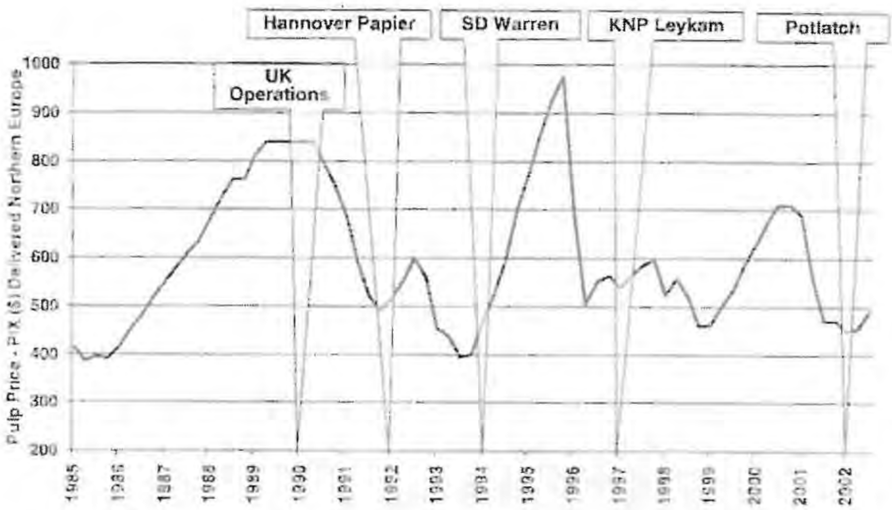
One of the reasons for Sappi's success in acquiring businesses is the price paid. Table 9.2 compares the purchase prices with book values and replacement costs. Eight out of nine acquisitions were below 67 percent of replacement cost. Figure 9.2 which follows immediately after Table 9.2 suggests that Sappi was able to purchase the acquisitions at attractive prices because of the timing of the transactions relative to the pulp cycle at the time.

Table 9.2 Sappi Purchase Price versus Book Value and Replacement Cost.

Date	Acquirer / Target	Aggregate Value ($MM)	Cost Per Ton ($)	Purchase Price / Book Value	% of Replacement Cost
Oct-94	Sappi / SD Warren	1,485	877	1.4x	52%
Jul-97	Consolidated / Repap	742	1,194	n/a	64%
Sep-97	Sappi / KNP Leykam	1,400	762	1.6x	51%
Sep-97	CVC / Condat	318	978	n/a	65%
Oc-97	UPM-Kymmene / Blandin	650	1,208	n/a	65%
Apr-99	Modo FP / SCA FP	1,122	1,198	1.4x	67%
Feb-00	Stora-Enso / Consolidated	4,952	2,015	2.2x	113%
May-00	IP / Champion	9,785	1,010	1.6x	63%
May-00	Metsa Serta / Modo Paper	2,133	776	1.9x	46%
May-02	Sappi / Potlatch	480	980*	0.7x	60%
	140,000 Brainerd tons		nil		

Source: Job (2002:19).

Figure 9.3 Pulp Cycle



Source: Job (2002:21).

Van As (Questions for a CEO, 19 November 2003) stresses that it is very important to not pay too much for the future potential of the business, to evaluate the future potential and make the potential come true, and to insist that an owned business has to perform to standards, financial, governance and so forth.

He adds that Sappi has managed to keep the vast majority of the original employees and senior managers. Rather than changing everybody in an acquisition, they tried to "infect" the acquired management team with Sappi's philosophy and enthusiasm.

Setbacks and Challenges

The first acquisition in the UK was not successful in the early years. It was subsequently turned around. Eugene van As, although the CEO of the entire group, moved to the US to manage Warren for a year when that company was acquired in 1994 (J. Job, 31 October 2002).

9.5.7 Post-Merger Integration

Hope, (Initial Questionnaire, 13 June 2003) provides the following post-merger integration criteria for Sappi's integration practices.

1. Clear idea of integration strategy even before closing the deal.
2. Act fast.
3. Strong financial systems, so that they know what is going on from the beginning. They also insist on Sappi brands being used and a variation of their HR policies.
4. Strong measuring systems to ensure that synergies are realised.
5. Choose the best people, out of both the acquired business and Sappi.

I find it more difficult to assess Sappi's capacity to provide management to new acquisitions than I do for the other companies. Its policy is to have companies headed by foreign nationals where possible and, as seen above, choose the best people out of both the acquired businesses and Sappi. The company normally has about 40 employees on assignment between countries of which more than 20 would be from South Africa (R. Hope, personal communication, 1 December 2005). As seen in Section 9.5.6, van As, while CEO of the entire Sappi Group, acted as the CEO of Warren for 12 months when it was acquired. An example of employees from acquisitions being promoted is Executive Director Wolfgang Pfarl, CEO of Sappi Fine Papers Europe, following the acquisition of KNP Leykam in Austria. There are several other examples of people from other countries being promoted within Sappi (direct observation, Sappi annual reports).

9.6 Wolverine Worldwide

9.6.1 Strategy

Wolverine's mission, vision and strategies are set out very clearly in their annual reports and on their website. O'Donovan and Gulis become even more specific in an address to analysts in October 2003. They set out a target of growing sales by at least twice the rate of the footwear industry in general. This is to be done both geographically and by strengthening the brand portfolio. Sales growth should include at least 50 percent from new business, whether geographic or brand. The strategies include "ensure the entire organisation is following a market driven and consumer focused operating philosophy" (Wolverine World Wide Annual Report 2002:5).

The performance drivers or performance indicators mentioned most often in the annual reports of the last few years are revenue growth (target mid- to upper single digit), growth in earnings per share (1.5 times the rate of revenue growth) and TSR compared with competition and other stock market indices (Wolverine World Wide Annual Reports 2000 to 2004).

Wolverine is widely regarded as the best global marketer of non-athletic branded footwear. From 1990 to 2005 the company's brand portfolio grew from three to eight and revenue grew threefold (Wolverine World Wide Annual Report 2005). It is also conceivable that the company is the best at customer service in the industry. It aims to provide "best in class" service to its customers (Wolverine World Wide Annual Report 2002). See also Sections 6.5 and 9.6.2.

Driscoll, of Standard & Poor's (2005), comments favourably on Wolverine World Wide's diversified business model, brand portfolio and strong balance sheet and Sirios, of Value Line (2005), commends the company for its re-engineering of the product line and brand image of the newly acquired Sebago business. Shanley and Svezia, of the Susquehanna Financial Group (2005), highlight the company's ability to achieve consistent sales growth, the continued strong consumer demand for the company's footwear styles, the strong potential for new products and proven financial management. The Prudential Equity Group's Dunn and Wong (2005), state that Wolverine World Wide has a proven track record of strategic development and brand management.

9.6.2 Execution

The Wolverine strategies incorporate the target of providing "best in class" service to customers. Some orders are shipped on the day that they are placed although the sourcing/operations/warehousing process is very complex (Wolverine World Wide 2003). This indicates a very strong ability to execute. Tegner (telephone interview, 2 February 2004) states that the ability to execute is not listed as a core competency for the simple reason that "getting things done is regarded as a matter of course at Wolverine World Wide". As seen in Section 6.2 above, Wolverine aims at sales growth of twice the industry average, and has achieved this over the past five years.

I cannot recall any company anywhere demonstrating the standard of response to emails, telephone calls and requests that I experienced with Wolverine. The other companies in the study were very helpful and responsive, but Wolverine was truly outstanding in these aspects. Emails sent to employees at Wolverine were always answered within 24 hours. If the recipient was not available, the automatic reply stated when that person was expected to return and reply to my email. There were also suggestions as to who else to contact if I did not want to wait for the person addressed to return. I had similar experiences with Wolverine's voicemail services. I enquired whether this responsiveness was because of a written company policy. I was told that there was not a written policy, but that this was the way that employees behaved generally, and that people sometimes checked their incoming emails several times a day.

9.6.3 Culture, Structure, and Talent

O'Donovan (personal interview, 6 October 2003) believes that the Wolverine organisational structure would not work if it were not for the culture of constant informal and formal communication and cooperation at all levels in the company. The Wolverine World Wide human resource philosophies include the statement "create a culture which respects and encourages objectivity, composure, fairness, performance, accountability and a sense of humour" (J. Tegner, personal communication, 13 October 2003).

The Wolverine structure of Operating Board and Office of the Chairman is outlined in Section 5.6.8. This leads to a "flat" platform for decisions and action (J. Tegner, telephone interview, 2 February 2004).

Recruiting and retaining a highly motivated management team and the best people is both a Wolverine strategy and core competency. The financial performances and continuity of management show that there is depth of talent in the company (see Subsections 5.6.4 and 5.6.7).

9.6.4 Leadership

Geoff Bloom, who was recruited as President and COO in 1987, is widely credited for the Wolverine World Wide turnaround in the 1990s and with establishing the company as a top- class marketing organisation by the standards of any industry (T. Moore, personal interview, Grand Rapids, 4 June 2002). Bloom, who had been the Company's Chief Operating Officer from 1987 to 1993, Chief Executive Officer from 1993 to 2000 and Chairman of the Board from 1996 to April 2005, retired from the Wolverine Board in July 2005. "Under Geoff's leadership, the Company's portfolio grew from three to eight major consumer brands; revenue grew threefold and shareholders benefited from a tenfold increase in the Company's market value" (Wolverine World Wide Annual Report 2005:5). Tim O'Donovan, who succeeded Bloom in 2000, has led the company through the six subsequent years with earnings per share compounding at a rate in excess of 15 percent (see Subsection 5.6.9).

I first met Tim O'Donovan in 1977 when representing the South African Breweries footwear interests at a Wolverine World Wide global conference of Hush Puppy licencees. We were colleagues when I worked at Wolverine from 1979 to 1986. I have seen him at annual general meetings of the company or while visiting the company over the years. I do know other employees at Wolverine besides my daughter and I associate with a number of Wolverine retirees and ex-employees.

In 2004, Sandy Habel, a marketing specialist, (several rungs below O'Donovan) was discussing a transfer of a friend of hers at Wolverine with a fellow employee. She complained that her friend had been badly treated after 27 years service and (sarcastically) suggested that she herself should probably apply for a 30-year contract if that is how people with 27 years service were treated. She then noticed that O'Donovan, coming around a corner behind her, had heard most of what she had said. He came to her office several hours later, knocked on the door and communicated more or less as follows: "I have checked out the case of [–] that you referred to this morning. She was transferred at the same salary with a similar level of responsibility. I hope that this puts your mind at ease" (Habel, personal interview, 10 January 2005).

9.6.5 Innovation

Wolverine's core competencies include innovative product design and development (see Subsection 5.6.8). In my judgement (coming from 12 years' management experience in the shoe industry) the company is certainly one of the mainstream non-athletic shoe leaders in product innovation, if not the leader in commercialising and marketing the innovative product features. The company has been an industry leader in information technology and systems for over two decades. Its central services operating model, using a SAP global operating system, gains a cost advantage and enables their brands to focus on brand building activities. This operating model also allows the company to add new businesses by leveraging the infrastructure (Wolverine World Wide Annual Report 2004). Dunn and Wong (2005) mention this strength in a recent report.

9.6.6 Mergers and Partnerships

Success Rate

Table 9.3 lists the acquisitions and license agreements concluded by Wolverine from 1958 to 2005. The major movements began with the Caterpillar licence in 1994.

Table 9.3 Wolverine World Wide: Acquisitions and Licence Agreements

Brand	Year	Price
Hush Puppies	1958	NA
Bates	1969	NA
Caterpillar	1994	NA
HyTest	1996	$24.5
Merrell	1997	$16.3
Harley Davidson License	1998	NA
Stanley License	2000	NA
Track 'N Trail trade name	2001	NA
Sebago	2003	$16.9
Patagonia license	2005	NA

Source: Wolverine World Wide, cited by Dunn, L. and Wong, H. (2005).

Merrell sales grew sevenfold in the five years following the acquisition of that company by Wolverine World Wide. CAT and Harley Davidson were established as leading US and global footwear brands in their respective niches within a few years of launch. Wolverine World Wide acquired the European CAT and Merrell distributors in 2002 a move that is already beginning to pay dividends (T. O'Donovan, personal interview, Rockford, 6 October 2003).

Criteria

Wolverine World Wide uses computer modelling to evaluate projected returns on proposed acquisitions. It also pays particular attention to due diligence studies. The basic and most important consideration is, however, whether application of the Wolverine World Wide business model to the proposed acquisition would enable it to grow faster than the established Wolverine World Wide core businesses (T. O'Donovan, 6 October 2003).

Reasons for Success

O'Donovan (6 October 2003) states that Wolverine World Wide has been very selective in making acquisitions and provided confidential examples of opportunities that they had not pursued. He considers Wolverine's post-merger integration to be of a very high standard and points to "great people" and 120 years of experience. The company has been able to provide management for new acquisitions when required. Its "bolt-on" model has enabled it to absorb acquisitions rapidly and successfully.

Setbacks and Challenges

In 2000, there was a $14 million realignment charge to exit the Wolverine World Wide Russian wholesale footwear operation. This operation was established in September 1998 (Wolverine World Wide Annual Report 2002).

9.6.7 Post-Merger Integration

J. Tegner, (abridged Initial Questionnaire, 10 October 2003) puts forward the following five points:

1. Establish a common vision.
2. Integrate people to establish a sense of trust and team spirit.
3. Set realistic performance goals, short- and long-term, for the new team.
4. Provide sufficient resources to execute plans.
5. Engage in exhaustive planning prior to closing of acquisitions.

Financial system templates are not listed above but the way in which acquisitions are integrated into Wolverine ensures that they are used (J. Tegner, 2 February 2004).
Until recently the company did not purchase businesses headquartered outside the United Sates, although it acquired companies in the USA that sometimes had global interests and markets. Tegner, (personal interview, 20 January 2006) notes that fewer than a dozen Wolverine employees have been sent from the United States to posts abroad. The company's operating, marketing and other infrastructures have enabled it to integrate acquisitions without having to appoint additional key people to

management positions (T. O'Donovan, 6 October 2003). There are instances of persons from acquired companies being promoted within Wolverine. For example a manager acquired with Merrell has been promoted within Wolverine and now leads a division that is several times the size it was when acquired (direct observation).

9.7 Summary and Conclusion

A review of the corporations' strategies against the Nohria et al. (2003) primary practices –strategy, execution, culture and structure – indicates that all four of the corporations excel in the four primary practices. This judgement is based on available information, the financial results and performances compared with peer groups as discussed in Chapter 5. Certain analysts and media reports have questioned aspects of Sappi's strategy. I have taken the view that Sappi's strategy is being assessed over a decade and not only in the present industry downturn, although there are indications that its position relative to competition has declined over the past two years.

The information also strongly suggests that all four corporations succeed or excel in more than two of the four secondary management practices – talent, leadership, innovate, mergers and partnerships – although the levels of excellence may vary among the practices for each corporation. I believe that, based on the available evidence, all four corporations excel in the leadership and merger and partnership practices. In addition they all have strong records in innovation, and Barloworld, SABMiller and Wolverine World Wide rate highly in talent when the top management teams are considered. Three of Sappi's top six managers were recruited from outside the company which is contrary to the Nohria et al. (2003) talent requirements.

Each of the companies emphasises two (although Barloworld focuses on one of the two metrics it uses) or three performance indicators. Collins (2001) advises companies to look for one denominator to measure what drives company economic engines. Sappi, unlike the other three companies, has not compared financial performance with peer groups or stock exchange indices in its annual reports.

Collins's (2001) other mantra of "What you can be the best in the world at" goes beyond the concept of a core competence. SABMiller and Wolverine World Wide, on the information available, are conceivably the best in the world in their industries at two, or perhaps even more, core competencies. Barloworld is as good as anyone at managing Caterpillar and Hyster franchises and certainly among the few best in the world, if not the best, at managing in difficult environments. Sappi has been a technological leader, and still may be.

The leadership practices of all four companies appear to meet the Nohria et al. (2003) requirements while Barloworld, SABMiller and Sappi do the same for the *Lessons from Late Movers* requirements of Bartlett and Ghoshal (2000) for companies from developing or fringe countries. All four CEOs meet Collins's (2001) criteria of being ambitious but, first and foremost, ambitious for their companies. I am convinced that three of them (based on my direct observations, experiences and anecdotal evidence) show the traits of a paradoxical mix of personal humility and professional will. I do not have sufficient experience or information to draw conclusions about the fourth (Sappi) without being subjectively judgemental. My limited experience and anecdotes, however, point in the same direction.

The corporations studied in this thesis have generally been very successful in their acquisitions. Each of the South African corporations experienced some early setbacks or challenges, but they were able to resolve the situations and learned from the experiences. Each of the four corporations has a system of identifying, screening and closing deals, as advocated by Nohria et al. (2003). There are safeguards to avoid overpaying, as recommended by Eccles et al. (1998) and Hitt et al. (2003). Due diligence is a crucial criterion for all of the corporations.

The four corporations demonstrate a high degree of success in post-merger acquisition integration and consequently in dealing with the complication and challenges set out by Lajoux (1998). The corporations certainly match and sometimes even exceed the post-merger and acquisition requirements set out in Section 3.10 of the Literature Review. The installation of financial and other systems and the integration of people are two common factors in the post-acquisition programmes of all four companies. Barloworld and Sappi add somewhat iconoclastic philosophies, Barloworld sometimes allowing people in acquired corporations up to two years in which to decide whether they wish to stay with the corporation as this is in keeping with their core competency of long-term relationships (P.M. Drewell, 9 May 2003). Sappi chooses the best people from its own and the acquired corporation when making key appointments (R. Hope, 13 June 2003).

SABMiller (especially) and Barloworld have proven ability to provide management to new acquisitions. Wolverine has generally dealt with this issue by absorbing acquisitions into the company's infrastructure, and also providing management. Sappi's ability to provide management to new acquisitions is more difficult to assess. Barloworld, Sappi and Wolverine all have examples of executives from acquired companies being promoted within the larger group.

The conclusion is that the international success of the three South African corporations is largely due to the formulation and execution of successful strategies. The reasons for success within the strategies varies by corporation, but there are some broad similarities. Leadership, innovation, acquisitions and post-merger and acquisition integration are critical components of the success of all three of them.

10. GOING GLOBAL

10.1 Introduction

This chapter rounds off the thesis prior to the final chapter, "Conclusions and Recommendations". It addresses two main themes: firstly, why the South African companies achieved global success, and secondly, utilising the lessons they (and Wolverine World Wide) learned and their advice for others contemplating or undertaking international expansion.

The chapter also deals with three issues which influence both the development and the transfer of core competencies. These are how favourable different countries are to the companies' operations, the learning processes employed by the companies and the ways in which they prepare their people to deal with the challenges of international business, such as culture, language, geography, time and distance.

The four companies are covered in separate sections which follow a similar format. The sections begin with a discussion of the company's *home base* and the *defining event or times* in its transformation from a local company to a global one, followed by its *experiences in different countries*. The next subsection examines the *reasons for the company's success*, followed by a subsection covering the *learning processes and methods* that it uses, together with what it does to prepare managers, technical experts and others for the challenges of international business. A further subsection reviews the experience and views of *other companies and executives* on going global. The final subsection sets out the *global lessons that the company learned* and its resulting *advice to others*.

The questions that were originally asked of the respondents follow.

Defining Events or Times. "What do you consider to be the defining events or times in your transformation to a global company?" (question 8, Questionnaire 3, Questions for a CEO, 2 November 2003).

Home Base. "What are the advantages and disadvantages of South Africa as a home base?" (question 1, Questionnaire 3, Questions for a CEO, 2 November 2003).

Country Experiences. "In which countries have the cultures been most favourable to your operations? In which countries have the cultural differences been the least favourable to your operations?" (questions 3 and 4, Section 2, Questionnaire 1, Initial Questionnaire, 28 January 2003).

Reasons for Success. "What do you consider to be the three most important reasons for your success?" (question 9, Section 1, Questionnaire 1, Initial Questionnaire, 28 January 2003). "What are the key reasons for your success in expanding globally?" (question 7, Questionnaire 3, Questions for a CEO, 2 November 2003).

Learning and Preparation. "Please explain in a few sentences or key words how you initiate and maintain a learning process. What specifically do you do to assist management and key employees in dealing with the challenges of geography, language and culture?" (question 8, Section 3, Questionnaire 1, Initial Questionnaire, 31 January 2003). "What is the first thing (or things) that you expect an executive to do when transferred to a foreign country?" (Questionnaire 5: Foreign Appointments, 25 August 2005).

Lessons Learned – Advice. "What lessons did you learn in going global? What advice would you give to a company about to embark on global expansion?" (questions 3 and 4, Questionnaire 4, Practical Problems, Solutions and Lessons Learned, 24 May 2004).

Questionnaire 6, South Africa

A. The size of the South African economy, together with the country's diversity, resulted in relatively small and differentiated market segments in many industries. This situation provided managers with opportunities to learn how to be profitable in small markets by targeting segments, controlling costs and managing with limited resources.

B. The 1980s and 1990s were periods of great change and uncertainty in South Africa, challenging companies and their management to learn how to cope in such conditions. The divestments by foreign companies, the acquisitions by domestic companies and the subsequent restructuring taught many managers about disposals, mergers and acquisitions and consequences of investing outside their core competencies.

Experiences and Views of Other Corporations

This section was included to examine different experiences and perspectives on international business. The interviews and discussions generally centred on the demands of international business. Two of the persons involved submitted written reports specifically relating to core competencies.

10.2 Barloworld

I consider the subsection on lessons learned particularly cogent with regard to this company.

10.2.1 Home Base

A.J. Phillips (Questions for a CEO, 11 November 2003) states that the advantages of having South Africa as the home base include cost, access to skills, climate, and "being a big fish in a small pond". The big-fish advantage assists in recruiting management and staff and access to banks and finance, for example. He sees the disadvantages as being distance from major markets and world centres, the reputation of South Africa, the high cost of capital, the country risk and emerging market status.

P.M. Drewell (personal interview, Sandton, 9 May 2003), in evaluating South Africa as a country of origin sees a strength in South Africans' not having any kind of global arrogance. He thinks that the South African culture is very open to learning from whoever has and wherever there is a good idea.

The advantages above, plus "muscle and size" and the comparative cost in the European Union or the United States of America are some of the reasons for the company retaining South Africa for its primary listing and head office.

10.2.2 Defining Event or Times

Phillips (11 November 2003) considers the defining event in the transformation of Barloworld from a regional to a global company to be the acquisition of Finanzauto, the Caterpillar distributor in Spain and Portugal. He bases this judgement on Finanzauto's size and complexity.

10.2.3 Country Experiences

Barloworld considers the national cultures most favourable to its operations to be the United Kingdom, South Africa, the USA and now Australia. The countries regarded as being the least favourable are Spain and parts of Africa, particularly Angola until very recently. The Barloworld operation in Spain performs very well and is possibly the most important business in the group. There are, nevertheless, challenges in operating in that country because of the culture and language (P.M. Drewell, 9 May 2003).

The clash of culture and language caused problems for Phillips at Finanzauto in Spain. His visit to the banks to give an honest assessment of the situation and a request for assistance during a difficult period only resulted in Fananzauto's overdraft facilities being withdrawn immediately. Barlows/Barloworld is a household name in South Africa and a visit to the local bank to ensure overdraft facilities would be a formality provided the management could justify them. In Spain banking is a social activity involving contacts, networks and established relationships (Miller, personal communication, 5 May 2003).

10.2.4 Reasons for Success

Phillips (11 November 2003) believes that Barloworld has been successful because of "lots of practice". The company prefers to start small, work incrementally and choose businesses where it has core competences. He rates culture as a major reason for its success (personal interview, Sandton, 22 October 2002).

Drewell (9 May 2003) sees the three most important reasons for the company's success as culture, a deep sense of what they think they can do and the ability to evolve. He amplifies the evolution aspect by quoting the Shell Company scenario (that played in the seventies) which concluded that the average life of a company was 35 years. He notes that Barloworld is not trying to manage or balance a portfolio but is searching for a series of businesses which they understand and which will deliver satisfactory returns. Drewell credits the introduction of value based management (VBM) in 1999 and the policy of buying only businesses that Barloworld can manage for the improved results since 2000.

10.2.5 Learning and Preparation

Barloworld addresses learning through a series of executive planning programmes, cross-functional task teams and shared interest groups and there are intranets across the entire group. Knowledge is therefore continually being transferred among people. The company believes that the length of service of most of their management and key people make an important difference to learning. Learning is also seen as a cultural philosophy: the idea that one does not have or know all the answers and therefore needs to be constantly searching (P.M. Drewell, 9 May 2003).

The company has not moved many people around the world outside of Africa and has no formal process for preparing employees for foreign assignments. "Anyone who needs to go and learn something can and does." While employees do go to two or three-week language courses, the practical application begins only when the employees and their families arrive in the foreign country and begin interacting with people there. The company operates mainly in English-speaking countries (P.M.Drewell, 9 May 2003).

Phillips (Questionnaire 5, Foreign Appointments, 30 August 2005) believes that one of the first things an executive appointed to a foreign post should do, if the language there is not English, is take a full immersion course to produce almost instant fluency as well as a cultural programme to incorporate politics, sport, food and drink, recreation, manners and culture. This should enable the "new" recruit to fit into his or her new role without becoming an object of curiosity or ridicule.

10.2.6 Lessons Learned - Advice

Phillips (presentation to Gordon Institute of Business Science, Sandton, 30 July 2003) recommends the following 10 guidelines or lessons learned in going global:

1. The timing is always wrong.
2. Time zones are tougher than product diversity.
3. If you are going to buy it, make sure you know who will run it.
4. Local really is lekker (meaning great).
5. Size absolutely does count.
6. Culture and values are the most important (but toughest) things to understand and manage.
7. Really understand your strengths and weaknesses.
8. Due diligence does not mean counting the stock.
9. Pride comes before the fall.
10. If you don't like travel, don't try it.

P.M. Drewell (personal communication, 9 June 2004) believes that effectively inculcating values and competencies in global subsidiaries depends on the placement of people in key leadership positions. He counsels companies about to embark on international expansion to make sure that they have the people to move into the new businesses, to avoid arrogance, and to allow double the time initially anticipated to implement plans.

10.3 SABMiller

The term "home base" has a somewhat different connotation for SABMiller than it does for Barloworld and Sappi. SABMiller has its primary listing and head office in the UK. In its case "home base" refers to "origin", although there are views that the South African operation, SAB, is the "heart and soul" of the SABMiller group. "SAB has given us the profits, the cash, the credentials, expertise and the people to be able to build the SABMiller empire", states J.M. Kahn, the current chairman of the company (cited by Gilmour 2005:11).

10.3.1 Home Base

E.A.G. Mackay (personal interview, London, 27 November 2001) sees more advantages than disadvantages in South Africa as the company's original home base. A major advantage, he contends, is that the people tend to be more flexible and, perhaps, humble. They are experienced in managing with limited resources and are prepared to go into less clear and comfortable situations than, say, competitors from first world industrial nations. In a 2003 interview (A. Crotty 2003) he mentions that SABMiller management adapted more easily because South Africans are inclined towards cultural flexibility. That flexibility, Mackay adds, has been influenced by the fact that the country is not a great power that has been involved in cultural domination and, furthermore, has a troubled history.

A disadvantage is the effects of the isolation experienced by South Africa in the 1980s. The beer business of South African Breweries, however, ensured that it was continually up-to-date with technology and other aspects of the world industry.

A. Miller Salzman (personal interview, London, 3 February 2003) remarks that there was a fairly negative reception of South African companies in general in the late nineties and the early 21st century. When South African Breweries listed on the London Stock Exchange in 1999, "certain fund managers were disgruntled that a South African company with no business in the UK was listed on their exchange . . . when South African Breweries acquired Miller Brewing, the perception was put across by a number of Miller employees that they were worried about racism, which they associated with South Africa's history. The world hasn't fully realized that we've moved on".

The Economist (2004c) in its article "The battle of big beer" used the phrase "Mr. Mckay had better watch out". The article refers to the competition between

Anheuser-Bush and SABMiller to acquire the Harbin Brewery in China and the former company's export of its Budwiser Brand to South Africa.

The moving of the company's primary listing and head office to London was to improve access to finance and reduce the cost of capital (R. van der Schyff, personal interview, Sandton, 10 June 2003). One of the disadvantages of locating a multinational head office and domicile in South Africa is therefore the cost of capital and relative amount of finance available. See also A.J. Phillips (11 November 2003) in Section 10.2.

10.3.2 Defining Event or Times

There are a number of milestones in SABMiller's transformation from a regional brewer to a world leader. These include the listing on the London Stock Exchange, the investment in Hungary, the purchase of Pilsner Urquell, and the acquisition of Miller Brewing in the USA. While it may not be the one defining moment or event, the milestone which attracted the widest attention and changed perceptions of The South African Breweries was the acquisition of Miller. Grant and Wiggins (2005) argue that SABMiller's turnaround of Miller is the most significant test of a foreign company's ability to change the fortunes of an American corporate icon since Daimler-Benz's ultimately successful transformation of Chrysler.

10.3.3 Country Experiences

As of 30 November 2004, SABMiller had 168 employees on transfer or secondment from South Africa to 24 countries (M. Van Eyk, personal communication, 21 October 2005). These numbers indicate an in-depth perspective of experiences in the different countries.

SABMiller Africa and Asia regard the countries with cultures most favourable to their operations as Tanzania, Uganda, Zambia, Mozambique, Botswana, Lesotho and Swaziland. The countries where culture and other factors make it most difficult to operate are Angola and China. The operation in Angola is a Coca-Cola plant, not a brewery; the language is Portuguese (F. Miller, Initial Questionnaire, 29 August 2003).

SABMiller Europe views the operations in the countries in their region as more or less equally favourable, depending on the length of time they have owned those businesses. Poland is probably the best-integrated into the SABMiller systems and management practices. It was one of the first breweries to be acquired. No country stands out as unfavourable (N. Mogilnicki, telephone interview, 21 August 2003). Mogilnicki comments that its operations in all the countries that were communist have had problems in the sense of people not understanding businesses practices. A previous managing director of SABMiller in Poland narrates how difficult it was to get some otherwise intelligent people to understand the concept of a market. These people simply did not have the concept in their background or traditions (B. Smith, personal interview, Sandton, circa 2000). Changes in management and skilled employees were sometimes made because of this obstacle.

Mackay (Crotty 2003) states that some of the difficulties encountered in Russia, China and India are not found in South Africa. Russia is in a roller-coaster process of change which creates difficulties in doing business. They have, however, high levels of education, and the country is trying to move quickly towards a market-type economy. India, he says, is quite a difficult environment. The government is extraordinarily complex and, unfortunately, open to special pleading. In China, he continues, the government, unlike that of Russia, has tried to keep a lid on political freedom and the educational levels are not as high. This obviously creates issues when doing business there.

While the development challenges in Africa are daunting, the business opportunities remain real and considerable. "If there were more of Africa, we would be investing in it" (E.A.G. Mackay 2005).

10.3.4 Reasons for Success

A. Miller Salzman (personal interview, London, 3 February 2003 and telephone interview, 10 September 2003) states that the main reasons for the SABMiller success are management, corporate culture and human resources, and the ability to export the core competencies of producing and marketing low-cost quality beer around the world. She also stresses the ability of the company to make and integrate acquisitions.

The company's international expansion was partly an exercise in exporting core competencies and expertise from a South African base. Mackay (27 November 2001) sees this as very much an issue of providing and improving human capital. He points out that the company has a strong tradition of developing human capital, dating, in part, to the sixties when a "strong" personnel director (Dr. Simon Biesheuvel) was appointed to the board. N. Adami, then the Chief Executive of SAB in South Africa, in a public speech in 2002, continues this theme, stating that the HR function has enjoyed prominence in SAB since the early 1960s, long before it became fashionable (Adami 2002). Hofmeyr (personal interview, Knysna, 9 March 2002) adds that South African Breweries has an excellent track record of developing and choosing management and possesses technical expertise which is recognised worldwide.

The SAB "South African Beer Culture" provided a "wonderful springboard", but the company cannot really expect to spread it worldwide. SABMiller is placing great emphasis on developing an international culture and as part of this several new board members bring diversity and international experience to the company (E.A.G. Mackay, 27 November 2001).

Kahn (Gilmore 2005:12) explains that SAB always set itself world- class standards. He postulates that South Africa's unique culture has provided the finest training ground in the world.

> At SAB, we lived through high inflation rates, had to contend with a hostile government that imposed high excise duties, we endured political violence, labour unrest, and political sanctions. It's not stretching the point to say that we lived through the 10 biblical plagues in SA during the apartheid era. We became self-sufficient by employing high standards.

Both Kahn (Gilmour 2005) and Smith (telephone interview, 11 February 2004) note the company's predilection to measure and benchmark as a reason for its success. Kahn says that if something cannot be measured, then it is not worth doing.

G. Leibowitz (personal interview, London, 13 July 2004) sees the distinguishing characteristics of the South African managers in SABMiller as analytical rigour and self-confidence. He adds that they are very adaptable, with the self-confidence born out of adversity experienced in South Africa. He has come across perceptions, both inside SABMiller and outside, that SABMiller's South African management is from a very cohesive culture, which can at times have a risk (perceived or otherwise) of being exclusive.Smith (11 February 2004), who has held top positions with the company in South Africa, Poland and the USA and is now CEO of the South American operations, observes that the South African managers, in general, and SA Breweries in particular, receive true general management responsibilities earlier than their European and US counterparts. South African companies are generally more centralised, there is less of a "silo" mentality and managers are consequently more capable of managing across different divisions and functions with an appreciation of how the whole organisation works.

10.3.5 Learning and Preparation

In learning and training, SABMiller Africa and Asia follows the Brinkerhoff Six-Stage Model, with appropriate modifications (F. Miller, 29 August 2003). SABMiller Europe runs programmes and training courses in leadership, marketing and other areas, aimed at creating capabilities (N. Mogilnicki, 21 August 2003).

SABMiller Africa and Asia utilises "look-see-decide" visits (where employees visit a country before deciding to accept appointments), spouse interviews and language and culture orientation classes (F. Miller, 29 August 2003). SABMiller Europe has no specific programme to deal with international challenges. The business in each country is relatively autonomous, and there is a fairly widespread reluctance of people to move outside their country. Proficiency in English is a prerequisite for a senior management position in SABMiller Europe. There is also an unwritten code that anyone who wants to transfer between countries to senior positions must first work in the head office (or hub) and/or prove themselves with other countries before being transferred (N. Mogilnicki, 21 August 2003).

F. Miller (personal interview, Johannesburg, 20 October 2004) believes that the first priority of an executive transferred to a foreign post should be to "build relationships" with fellow employees and community members. To illustrate the principle of acceptance by a community, she gives the example of the South African Breweries chief executive in the region who was given the keys to the city of Plzen in the Czech Republic.

Mogilnicki (Questionnaire 5, Foreign Appointments, 26 August 2005) sees the initial priorities as depending on individual circumstances, at least to a limited extent. He agrees that time should be devoted to building relationships and understanding culture. He ventures that most of the people seconded from South Africa spend time understanding a business in greater detail. "They listen a lot and say very little – after a while quick visible changes follow".

10.3.6 Lessons Learned – Advice

One of the biggest lessons that SABMiller learned in going global was the importance of studying each country and how to approach it. It is crucial in the beer business to get the right mix of local and international brands in each country and to push merchandising no matter how many distribution layers there may be (G. Leibowitz, 13 July 2004). A. Parker gave an example of this in his address to the Wits Business School on 20 October 2004. The company initially "assumed" that Uganda, Tanzania and Kenya made up the "East African Market". The company learned through experience that the markets in the three countries were very different and needed to be managed as such. Makanjee (2006) advises people to maintain humility and to remember that there is not only one way of doing things.

Leibowitz (13 July 2004) advises companies about to embark on global expansion to be very aware of the changing role of group functions and the need for some type of matrix management. He once again stresses the need to research each country.

Miller of SABMiller Africa and Asia (telephone interview, 17 June 2004) sets out the lessons that she and her colleagues learned in going global as the competence and adaptability of South African Breweries expatriates, the adaptability and transferability of the company's systems, the importance of regional brands and, extremely important, the need to respect other cultures. She advises companies beginning global expansion to understand the context of what they are getting into, to do adequate due diligence on new countries and acquisitions (especially human resources and legal aspects), to avoid arrogance and to choose the correct local partners.

As seen in Subsection 5.4.3, SABMiller "learned the hard way" in Hungary, according to A. Miller Salzman (3 February 2003). It acted like *the* market leader (as it clearly was in South Africa) and was initially surprised when competitors did not follow its actions.

Mogilnicki of SABMiller Europe (personal communication, 9 June 2004) sets out the lessons learned in going global in Europe as realising that each market is different and requires different approaches. He recommends that companies play to their strengths and not fight wars that cannot be won – for example – to attack suitable market niches and develop them instead of fighting large barriers to entry or competing with powerful entrenched interests. He counsels companies to be very sensitive to local cultures and allow for local differences, but to nevertheless enforce the standards that are important. He stresses the need to listen, understand, listen, check the understanding and then listen again. Mogilnicki emphasises the need for adequate due diligence before acquiring businesses and entering new markets.

10.4 Sappi

Sappi, like Barloworld, has its primary listing and head office in South Africa.

10.4.1 Home Base

The first advantage of having South Africa as a home base is that it is home for the company, the people and the skill base that built the group, according to E. van As

(Questions for a CEO, 17 November 2003). In the same time zone as Europe the country is well placed from that perspective for both East and West. It is not in the centre of any of the major markets, and therefore local management is perhaps more focused on what people do elsewhere than on what they do at home. Van As muses that as they know they are not the centre of the world, they are perhaps less arrogant and more inclined to learn.

Van As (Questionnaire 3, Questions for a CEO, 17 November 2003) states that Johannesburg is a dynamic city with a very diverse cultural base, which he believes is one reasons that South Africans are good integrators of businesses. They are accustomed to working with many cultures in their home market.

Sappi, as a global company that can attract the best talent in the local market, is an attractive employer in South Africa. Sappi, based, let us say, in New York, would be an unattractive employer relative to the major multinational corporations, banking and the information technology industry. The disadvantage is that South Africa is 10 hours or more away from each of Sappi's major markets. It is, therefore, easy to get out of touch if the company does not consciously work at maintaining communications. A great deal of travel is required. In some cases it is more difficult to recruit to South Africa than it would be to the United States or Europe (van As, 17 November 2003).

Hope (personal interviews, Johannesburg, 25 October 2002, 13 June 2003) does not remark on any meaningful anti South Africanism in Sappi's international expansion. He does, however, mention incidents where management of acquired companies in the United States were "incredulous" that experts were coming from South Africa to help install programs and systems better than the ones in the acquired companies.

The decision to retain South Africa as a primary listing and head office location was because it was home, and therefore moving elsewhere made sense only if it created shareholder value. Sappi did a great deal of research on different locations and concluded that the same business located in another part of the world was unlikely to be more valuable and that they would have had to disrupt the entire management to accomplish that end. Van As (17 November 2003) points out that historical evidence on the companies that did migrate from Johannesburg to London indicates that the move created no shareholder value by itself. The recent SABMiller results seem to indicate otherwise in the case of at least that company.

10.4.2 Defining Event or Times

The defining event or time in the transformation of Sappi from a local to a global company was the realisation that if it were to be efficient and grow it had to grow internationally. Allied to this realisation are the major steps to the building of Sappi as it is now: the first offshore acquisition in the United Kingdom, acquiring the leading coated paper manufacturer in Germany, acquiring the top coated paper manufacturer in the United States, and then buying the number one manufacturer in Europe (E. van As, 17 November 2003).

10.4.3 Country Experiences

Sappi's first acquisition outside South Africa was a company in the United Kingdom. Of any investment Sappi has made in any country, this proved to be the most difficult to integrate. Sappi management discovered that the actions that they thought had been agreed to had not been implemented. The next acquisition, which was in Germany, was a very different experience. Strategic and operational issues were debated vigorously by the South African and German management, but once agreed upon, implementation was excellent. Today, Sappi states that it probably finds it as easy to establish a "common language" with its German interests as it does with those in the USA (R. Hope, 13 June 2003).

10.4.4 Reasons for Success

Hope (25 October 2002) puts forward leadership, clear goals and strong systems as three reasons for the international success of the company.

E. van As (17 November 2003) regards corporate culture as one of the reasons for Sappi's success and points out that it has been difficult to retain the same culture as the company has expanded. He doubts whether it has kept exactly the same culture but does think that it has kept the same value system. The head office people travel to the subsidiaries rather than forcing the subsidiary people to come to the head office. This has helped Sappi inculcate its culture and values into the companies it acquired. Maintaining a firm home base with intrinsic focus on teamwork, integrity and financial performance helped imbue its values into the acquired companies.

Van As (personal interview, Johannesburg, South Africa, 22 July 2004) regards South African managers as good integrators who work easily with many other cultures. They are generally very adaptable and sometimes naively confident – or sometimes the opposite, too easily impressed.

10.4.5 Learning and Preparation

One of the most important learning processes Sappi employs is that of rotating people between countries and businesses. Sappi is rotating people between countries and businesses at an increasing rate. The average assignment is from two to three years. Technology clusters, which are cross-country and cross-functional, play a vital role in learning and transfer. Sappi prefers managers to work on more than one continent before they are promoted into senior executive roles. The company will assist with transfers where promising people are given roles on another continent. This enables the managers to learn about different cultures and also to absorb and share best practices and core competencies (R. Hope, Questionnaire 5, Foreign Assignments, 13 June 2003).

R. Hope (11 October 2005) expects a person transferring to a foreign post to learn the business, develop and agree on objectives and settle the family (which may include cultural and language familiarisation) as his or her priorities.

10.4.6 Lessons Learned – Advice

An essential lesson learned by Sappi in going global is that culture is crucial. Van As (22 July 2004) stresses that one should listen to what people mean and not to what they say. Another lesson is that a company should understand what it has to offer and focus on its core competencies and capabilities. One must understand the markets that one is going into; as van As emphasises, "Do your homework, do your homework, do your homework".

Van As (22 July 2004) advocates using both local and global expertise when appropriate. An example of this would be using a lawyer with an advantage in his or her territory because of local knowledge but supplementing with a lawyer who has a global or head office view. Van As advises companies to go out and investigate opportunities; available good deals may not always be readily apparent. A lesson he learned is that one should have the courage to walk away from questionable deals.

Van As's advice to a company about to embark on global expansion is to be cautious about *everything*. "Ask why you are doing it. What can you add to the businesses you acquire? What core competencies do you have which could be transferred? Can you adapt to the culture?" (E. van As, 22 July 2004).

10.5 Wolverine World Wide

Wolverine is not accorded the same in-depth treatment as its South African counterparts in this chapter, because one of the themes addressed is why the South African companies have enjoyed global success. The focus in this section is therefore on lessons learned in going global and advice for others.

10.5.1 Home Base

The Wolverine headquarters are located in an area close to where the original business was founded in Michigan 122 years ago. As the history shows (Subsection 5.6.3), the location was initially advantageous for raw material supplies, labour and distribution. The company now has an infrastructure of skilled people in the area. If it was starting afresh from day one, with no employees and history to be taken into account, a better location, at least for the warehouse and distribution facilities, might be the West Coast of the United States, because of the scale of imports from China.

10.5.2 Country Experiences

Wolverine World Wide regards the countries where culture is most favourable to their operations as Canada, the United Kingdom and Japan. The last-mentioned may seem surprising. Its licensee in Japan, appointed in 1961, was one of the first Hush Puppies licensees (J.C. Tegner, abridged Initial Questionnaire, 9 October 2003). Russia is regarded as the country where they have experienced the most problems. The closure of Wolverine's Russian wholesale footwear business involved a $14 million write-off (T. O'Donovan, personal interview, Rockford, 6 October 2003).

Tegner (personal interview, Rockford, 20 January 2006) explains the reasons for the success in Japan and the failure in Russia. The licensee appointed in Japan proved to be an excellent partner with great affinity for the Hush Puppies brand, and managed his business well with controlled distribution. The Japanese licensee often sends three delegates to annual Hush Puppies conferences. Most other licensees send one representative. Hush Puppies tried to enter the Russian market in the middle-to-late 1990s, which Tegner feels was premature, as the commercial infrastructure was underdeveloped and unstable, and there was an absence of the rule of law as envisaged by Wolverine.

10.5.3 Reasons for Success

The perspective here is also different from that of the South African companies, because Wolverine has been in international business since 1956. A key reason for success over the entire period must be the ability to adapt and innovate. The company also developed an international mind-set long before most of its conventional footwear competitors. The reasons for success over the past decade are found in the annual reports. These encompass strategy, implementation, brand building, innovative product design, operational systems, service and retention, and motivation of key employees (Wolverine World Wide annual reports 1995 – 2004).

10.5.4 Learning and Preparation

Wolverine World Wide's executive team has a process of sharing and exchanging information that runs up and down the organisation. The Office of the Chairman (OTC) consists of the five senior executives. The Operating Board (OB) consists of the general managers of each of the brands, the heads of the primary business functions and the senior executives. The OTC and OB meet regularly to share and exchange business information, strategic direction, plans and results. Members are tasked with sharing the critical elements of the meetings with the people who report directly to them and soliciting responses to current and previous topics. This creates a cycle of information flow, exchange and improvement (J.C. Tegner, 9 October 2003).

Management and skills training programmes at Wolverine World Wide cover the US, Canadian, Caribbean and European operations. Seven hundred associates in western Michigan alone participated in this programme in 2003 (Wolverine World Wide Annual Report 2003).

Wolverine assists its managers in dealing with international management challenges through a combination of technology and local market experts. It utilises its employees in factories in foreign lands and licensees in each country to provide the necessary local knowledge and expertise. The company's technology provides management and key employees with global access to Wolverine's extensive online, enterprise-wide software solution resources. Real-time data and reports regarding critical products under development, through design to delivery, financial information and general business data are available across the value chain. The use of local expertise and information technology on a global basis therefore assists Wolverine employees in dealing with the challenges of geography, language and culture (J.C. Tegner, 9 October 2003).

10.5.5 Lessons Learned – Advice

One of the key lessons that Wolverine learned is the necessity to continually monitor a changing global environment so that strategies can be altered and core competencies adjusted or changed. The United States imported less than 50 percent of its footwear requirements in 1980. It imports more than 95 percent at present. The core competencies related to manufacturing in the USA were rendered obsolete over this period, and it became essential to replace them with core competencies such as global sourcing and logistics (L.H. Whipple personal communication and interview, 8 June 2004, telephone interview 31 October 2005).

Another major lesson learned is that markets and cultures in other countries should be studied thoroughly before entering the markets. Countries and cultures – even adjacent ones or those with a similar language – can differ markedly. The importance of selecting the appropriate acquisition, partner, distributor or licensee is a further lesson that has been learned in nearly 50 years of international business. While this is obviously also important in domestic markets, it is even more so in global markets because of the added complexity of international business such as distance, culture and language (L.H. Whipple, 8 June 2004, 31 October 2005).

The advice to companies contemplating international expansion is to study markets and cultures in advance, and to be very clear about their own ideas, products and goals. There should be clear and strong "product positioning" definitions that can be explained to and understood by foreign partners, licensees and distributors. Companies should continually scan the global environments in which they operate (L.H. Whipple, 8 June 2004, 31 October 2005).

10.6 Experiences and Views of Other Corporations

Boart Longyear is a company headquartered in South Africa with operations in 32 countries. Its primary business is drilling: exploration drilling for precious and base metals, water, energy (except oil and gas), environmental monitoring and remediation, and percussive drilling for underground hard rock mining. It is both the leading global drilling contractor and the leading supplier of drilling products in the exploration segment. BL was selected as South Africa's most global company in a contest sponsored by Barloworld and Deloitte and Touche in 1997 (M. Moore 2004).

M. Moore, the Chairman of Boart Longyear in 2004, supports the attractions of Johannesburg as an international head quarter as set out by Phillips and van As in

Questions for a CEO (11 and 17 November 2003, respectively). He adds the points that it has an outstanding climate, excellent sports and leisure facilities and activities, English as the commercial language and world-class education in the private system. The only significant negative that he sees in attracting expatriates to South Africa is personal safety. He also notes the advantage of being in the same time zone as continental Europe.

According to Moore (28 July 2004), apartheid was a significant negative for a South African company trying to grow abroad prior to 1994, but this was somewhat lessened by respect for South Africa's mining expertise. Following the change of power in 1994, being a South African company became an advantage, as South Africa is regarded as neutral in various world tension spots.He observes that there are many examples of people educated in South Africa who have been very successful in business and other fields in other countries. BL has sent many South African employees to its operations elsewhere, and they have risen up the ranks on merit and performed well.

One of the practical problems he mentions is that of fostering integrity in new operations in certain countries. This can encompass bureaucratic problems such as import duties, customs, licences, taxes and so forth. "How one responds sets the tone to all your employees and the world at large. Open the door an inch and the floodgate opens. The problem is that this can delay your start-up until the various officials realise that nothing is forthcoming. So, one needs time and patience with new operations. The integrity message has to be continually enforced by leadership and example". Only one other respondent raised this type of problem during all my discussions with the companies. This was in a casual conversation rather than an interview so I prefer to keep the respondent anonymous. The company concerned encountered requests for bribes on a few occasions in countries that it was investing in for the first time. The situation was handled effectively by informing the people concerned that it was totally forbidden by policy. After this, there were no further approaches.

Another problem encountered frequently by BL was the NIH (not-invented-here) factor. An example of this is the cost of imported tools compared to locally made tools which could be a factor of two to five or more, mainly because of import duties. Here the experience was that demonstrating on a small scale that the productivity gains far offset the higher cost is an effective method of dealing with the NIH factor. Moore notes that forcing change has often met with resistance, even sabotage. After successful trials, the changes were normally adopted with enthusiasm.

Moore (2004) states that companies should make it known in the organisation that the people who are prepared to go and make it happen are well rewarded. He believes that it should be a requirement for promotion to top jobs that people take on assignments away from home. Moore advocates the top management team visiting new operations frequently, to send the signal to employees (both in the home country and the new country), customers, partners and government that the foreign operation is important to the company and to demonstrate support for the expatriate managers. He continues that it is important to spend time with a new management team in a new country so that the values that are behind the core competencies of a company can be transferred. He suggests frequent visits for reinforcement.

Gear Holdings is a multinational corporation in the marketing, manufacturing, sourcing, design and licensing of home furnishings. The US is their largest market but there are other important operations in Japan, China, Indonesia and several countries in South America. B.M. Musham (personal interview, New York, 14 December 2003), the CEO, insists that there is very little success in international business without frequent travel. She considers culture to be crucial and stresses the importance of personal relationships. When you telephone and ask for something, she says, your chances of success are a great deal better if you speak to somebody with whom you have a relationship, and not a stranger.

K-Swiss is a multinational corporation in the general sport and tennis footwear and apparel business. P. Reddy, an ex-president of K-Swiss International (personal interview, Grand Rapids, 27 February 2004), considers culture and personal relationships very important in international business. He believes that the fact that he was born and grew up in India was an advantage in his business dealing in Japan, China and other parts of South east Asia.

Inview Television is the largest independent manager of television channels in Europe. Chairman G. Pitman (personal interview, London, 14 July 2004), advises people in international business not to be seduced by their own success and ideas. He recommends that people do not talk around issues but be clear and concise. He points out that many people do not listen or do not want to listen. It is important to try and understand the people one is dealing with, he sums up: "Keep your feet on the ground and listen carefully."

10.7 South Africa

Three of the five respondents to Questionnaire 6 agreed with the statement that the South African economy and diversity provided managers with opportunities to learn how to be profitable in small markets by targeting segments, controlling costs and managing with limited resources. One respondent was neutral while the fifth disagreed.The "agree" is supported by the views of Mackay (22 November 2001) and Kahn (Gilmour 2005) on the use of limited resources. Drewell (26 June 2005) points out that South Africa has been a great training ground for international managers. He provides examples of the Daimler Chrysler and BMW CEOs of their South African subsidiaries going on to greater roles.

Only one of five participants agreed that the uncertain 1980s and 1990s taught many South African managers about disposals, mergers and acquisitions, restructuring and the consequences of investing outside their core competencies. Two were neutral and two disagreed. Mogilnicki (26 October 2005) notes that people in South Africa are taught independence and responsibility for their own destinies at an early age and sees this as strong driver of managerial behaviour. Kahn (Gilmour 2005) has somewhat different views from the majority of the participants on this issue, listing the obstacles and challenges facing SAB as the finest training ground in the world (see Subsection 10.3.4).

Figure 10.1 summarises the advice to others undertaking or contemplating international expansion.

Figure 10.1 Summary: Advice on Going Global

BARLOWORLD

Phillips (2003). Ten Guidelines. Know who will manage proposed acquisitions. Culture and values are most important but most difficult to manage. "Pride comes before the fall". Due diligence.

Drewell (2004). Key manager appointments crucial. Avoid arrogance. Double anticipated time.

SABMILLER

Leibowitz (2004). Research each country. Awareness of changing role of group functions.

Miller (2004). Understand context. Due diligence (especially HR, legal). Avoid arrogance. Choose correct local partners. Respect other cultures.

Mogilnicki (2004). Play to strength. Be sensitive to cultures. Listen. Due diligence.

Makanjee (2006). Humility. "Not only one way".

Parker (2004). Every market is different.

SAPPI

Van As (2003, 2004). "Perhaps South Africans less arrogant more inclined to learn". Use both global and local expertise. Investigate opportunities. Exercise caution. Core competencies contribution? Culture.

Hope (2003). Ensure future leadership. Understand cost situation.

WOLVERINE WORLD WIDE

Whipple (2004, 2005). Study markets and cultures. Select appropriate partner. Clear market positioning. Scan global environment.

Tegner (2004). Select right partners. Product and brands crucial.

Management Values. "The sun doesn't shine on the same dog all the time".

OTHER

Moore (2004). Frequent visits. Demonstrate, rather than instruct.

Musham (2003). Frequent travel. Culture, personal relationships.

Reddy (2004). Culture, personal relationships.

Pitman (2004). Don't be seduced by own ideas and success. (Non-arrogance?)

10.8 Summary and Conclusion

The advantages of South Africa as a home base include cost, access to skills and services and climate. The infrastructures and people that enabled the South African companies to go global are located in the country. Two of the companies consider that, being global companies, they can attract the best talent in the local market, whereas they might be unattractive employers relative to other multinationals, banks or information technology companies if they were located in one of the other major centres of the world, such as New York or London.

All three of the South African companies, while using different phraseology, comment on the adaptability, humility or non-arrogance, openness to learning and ability of South African managers to interact with other cultures.

The disadvantages of South Africa as a home base are the cost of capital, the limited availability of finance for global expansion, the distance from major centres and markets, and (sometimes) the reputation of the country as an emerging market. It is difficult to recruit from overseas at times.

The English-speaking countries, including those located in Africa, are regarded by the South African companies, as having cultures generally more favourable to operations and, hence, transfer of core competencies. On the other hand, Sappi experienced problems with its first overseas acquisitions in the United Kingdom, while Wolverine considers Japan to be a favourable market. Russia, China and India are cited as being relatively difficult in terms of culture and other considerations.

All three of the South African companies specify a major acquisition(s) as the defining point in their transformation from local to global players. While each company puts forward different reasons for its success, there is consensus on certain factors. These factors are management or leadership, and culture and human resources. While most companies might say something like this, in these three particular cases the companies have become world leaders in their fields and outperform their peers. This, together with the service records of their managements, gives credibility to their views.

The corporations use various and favoured learning methods. Barloworld uses executive planning programmes, cross-functional task teams, shared interest groups and intranets across the entire group. SABMiller Africa and Asia follows the Brinkerhoff Six-Stage model. SABMiller Europe runs programmes and training courses in leadership, marketing and other practices. Sappi rotates people between countries and businesses. It makes extensive use of technology clusters, which are both cross-country and cross-functional. Wolverine World Wide relies on its interlocking Office of the Chairman and Operating Board.

Barloworld has no formal processes for preparing employees for the challenges of international business, but this does get accomplished individually and informally. SABMiller Africa and Asia utilises "look - see – decide" visits, spouse interviews and language and culture orientation classes. SABMiller Europe has no specific programme at present. Sappi rotates staff and Wolverine World Wide uses a combination of technology and local market experts.

Barloworld lists 10 lessons learned or guidelines on "going global". Especially pertinent are that if a company is going to buy something it should know who will manage it; that cultures and values are the most important (but toughest) things to understand and manage; and that one must really understand strengths and weaknesses and the importance of thorough due diligences. Wolverine stresses the importance of monitoring global trends. All four of the companies stress the importance of studying countries before investing or entering, and they agree on the critical importance of culture.

Executives from other corporations explained the importance of travel, culture and personal relationships.

The advice given by the companies relates to the lessons they have learned. The need for humility, or the absence of arrogance, re constant themes among the executives contributing to this chapter. Each market is different, and homework should be thoroughly done before entering markets or acquiring business. Companies should be very aware of the cruciality of cultural differences and respect other cultures. Further advice is to focus on what core competencies they can bring to bear on their expansion and acquisitions and be prepared to travel. Key management should be available for transfer to new acquisitions, and companies should know in advance who will manage prospective acquisitions.

The companies view their South African managers as adaptable, willing to learn and able to relate to many different cultures. Confidence, stemming from adversity, is mentioned more than once.

11. CONCLUSIONS AND RECOMMENDATIONS

11.1 Introduction

This final chapter begins with Section 11.2, *Review of Findings* which covers Chapter 2 and Chapters 5 through Chapter 10. Concentration centres on Chapter 7, "The Development of Core Competencies" and Chapter 8, "The Transfer of Core Competencies". These two chapters include responses to Questionnaire 1, Initial Questionnaire, and Questionnaire 2, The Development of Core Competencies. Chapters 7 and 8 deal with five rather than four companies because two SABMiller regions are covered as separate entities. Chapter 9 reviews the companies' strategies while Chapter 10, Going Global, is largely based on interviews and answers to Questionnaire 1, Initial Questionnaire, Questionnaire 3, Questions for a CEO, Questionnaire 4, Practical Problems, Solutions and Lessons Learned, Questionnaire 5, Foreign Appointments and Questionnaire 6, South Africa.

Section 11.3 next interprets these findings in terms of the *literature review and theoretical framework* in Chapter 3 and is followed by Section 11.4 which discusses the *limitations of the research.* The *conclusions* of the thesis, based on the earlier findings, are set out in Section 11.5. The next section, 11.6, explores the significance of the findings and conclusions. These are followed by Section 11.7 on *recommendations.* Finally in Section 11.8, *findings* and *conclusions* are reviewed against the four aims and objectives of the thesis.

11.2 Review of Findings

In reviewing the findings we should keep in mind that, while four corporations were studied, two regions of SABMiller were regarded as individual entities for certain research purposes.

The salient points from Chapter 2, "South Africa", include the country's mineral wealth and other natural assets such as wildlife, game reserves and scenic landscapes, its location and its diversity (for example, 11 official languages). The election of a democratic government in 1994, and its subsequent following of a free market philosophy, opened up the way for South African companies to expand globally.

The Institute of Management Development (IMD) rankings – placing South Africa ninth out of 30 of countries with populations of over 30 million in the *management* function, ahead of France, Italy, Japan and the UK – are significant. The IMD rates cheap electricity and investment in telecommunications as the leading strengths of the country with human development, "braindrain", personal security and unemployment as the major weaknesses.

Chapter 5, "Corporations Studied", demonstrated that the corporations in the study were very long established and had performed better than their peer groups in recent history, with a caveat relating to Sappi's performance relative to its competitors in 2004 and 2005. Each of them showed exceptional *stability and continuity of management*, especially with regard to the CEO's length of service.

Core competencies are covered in Chapter 6. Wolverine World Wide was the only one of the four corporations that had a formal list of core competencies at the time that this research began. It was, therefore, necessary to discuss and agree on what the core competencies for the companies were. Barloworld's core competencies comprise the ability to create and sustain long-term relationships, the ability to evolve and innovate, a unique organisational ability to function together and implement coherent strategies across the organisation, culture (value based management philosophies), corporate governance, merger and acquisition capabilities (including post-merger and acquisition integration) and a unique ability to operate under difficult circumstances.

SABMiller has human capital/corporate culture, low-cost quality production (the world leader), "high-tech", marketing, merger and acquisition capabilities (including post-merger and acquisition integration), purchasing and distribution as its core competencies. Sappi lists marketing, operations, a culture of innovation in products, technology and business practices, merger and acquisition capability (including post-merger and acquisition integration), systems and human capital. Wolverine World Wide's core competencies are the ability to build brands, the ability to operate globally, the ability to recruit and maintain a highly motivated management team, merger and acquisition/start-up capabilities (including post-merger and acquisition integration), innovative product design and development, and marketing.

Chapter 6 also examines core competencies in terms of location in the *value chain*. The companies' rankings of the core competencies in terms of importance for being competitive, and rankings of performance in the core competencies, do not always coincide. Each of the five regards a core competency relating to *human resource management* as being in the three most important of their competencies, four of them ranking this in their top three core competencies in terms of performance.

Chapter 7, "Development of Core Competencies", examines the South Africa-specific determinants of competitiveness for each company. These differed by company, but all were affected by cheap electricity, investment in telecommunications, road, rail and air infrastructure and *government* and *chance*. All three corporations responded to human capital weakness in the country through a variety of methods.

All companies use some process (including value chains) to choose their core competencies. The core competencies evolve, or emerge, in response to competition, or are chosen because they are necessary to meet competition, or are essential to the achievement of objectives.

The results of Questionnaire 2, The Development and Transfer of Core Competencies, show that the effectiveness of methods used to develop core competencies varies by company and by location in the value chain.

The most effective method for development on a seven-point scale is *corporate culture that demands high performance standards* with 21 total points and a mean of 4.2. Second is *allocation of key managers and experts to areas* (16 and 3.2); third *exposure to a demanding technical, operating or economic environment* (15 and 3.0); fourth *formation of special multi-disciplinary teams* (13 and 2.6); and fifth *investment in skills and knowledge* and *development of human resources* (12 and 2.4). Other methods covered in the literature, such as *regular competence review meetings, internal analysis, value chains* and *path dependency,* received relatively few mentions. All companies mention *benchmarking* and *use of international reach and size,* but none mentions *seminars/conferences.*

The South African companies consider the methods relating to *corporate culture, investments in skills and knowledge and allocation of key managers and experts to areas* as the most effective methods. Wolverine World Wide highly rates *exposure to a demanding technical, operating or economic environment, commit substantial resources to an area* and *use of international reach and size.* The South African companies began their international ventures in the early to mid-1990s which influenced their views on corporate culture in a multinational sense. They also carried their mind-sets, based on their experiences of the relative scarcity of skills and the need to train and upgrade, into the international field.

Different methods are considered to be the most effective for each of the eight different value chain locations. *Corporate culture that demands high performance standards* is placed first in infrastructure: general management and joint first in marketing and sales and human resources management. *Allocation of key managers and experts to areas* is placed first on its own in operations and joint first with three others in marketing and sales. See Table 11.1. The rankings are depicted from left to right. Rankings are also reflected individually for each value chain location when tied positions cause differences from the columnar rankings, as in marketing and sales. There is a four-way tie for first place so "1st" is shown in the 2nd, 3rd and 4th columns. The numbers in bold to the left of each method in the blocks are those allocated to the methods in the original research.

Four of the five companies report that acquisitions have helped them develop core competencies. The practical problems encountered by the companies largely centre around how to agree on and define core competencies. The solutions include standardization of definitions and format, and regular review of core competencies in relation to the environment. An example of a SABMiller core competency matrix is provided.

Table 11.1 Development of Core Competencies: Most Effective Methods by Value Chain Location

Rank Location	1st	2nd	3rd	4th	5th	Notes
Marketing & Sales	**4** Corporate culture	**11** Allocation of key managers and experts *1st*	**1** Exposure to a demanding environment *1st*	**3** Reward and incentive systems *1st*		The four shown are cited equally
Outbound Logistics	**9** Benchmark	**4** Corporate culture	**11** Allocation of key managers and experts *2nd*	**1** Exposure to a demanding environment **6** Inclusion in planning process *2nd*	**10** Regular review **13** Investment in skills and knowledge *2nd*	Two SABMiller regions. Only agree on **9**. Others receive equal mention
Operations	**11** Allocation of key managers and experts	**1** Exposure to a demanding environment	**4** Corporate culture *2nd*	**7** Multi-disciplinary teams *2nd*	**6** Inclusion in planning process **9** Benchmark *2nd*	Methods other than **11** receive equal mention
Inbound Logistics	**8** Use of international reach and size	**4** Corporate culture	**11** Allocation of key managers and experts *2nd*	**1** Exposure to a demanding environment *2nd*	**5** Internal analysis **17** Value chains **7** Multi-disciplinary teams *2nd*	Same as Outbound logistics. Agree on **8**
Mergers & Acquisitions	**7** Multi-disciplinary teams	**4** Corporate culture	**8** Use of international reach and size *2nd*	**11** Allocation of key managers and experts	**6** Inclusion in planning **9** Benchmark	All five choose **7**. Three choose **4** and **8**
Human Resources Management	**4** Corporate culture	**13** Investment in skills and knowledges *1st*	**3** Reward and incentive systems	**1** Exposure to a demanding environment	**11** Allocation of key managers and experts	All five agree on **4** and **13**
Technological Development	**2** Commit substantial resources	**4** Corporate culture	**11** Allocation of key managers and experts *2nd*	**1** Exposure to a demanding environment *2nd*	**8** International reach and size **7** Multi-disciplinary teams *2nd*	Three choose **2**
Infrastructure: General Management	**4** Corporate culture	**1** Exposure to a demanding environment	**2** Commit substantial resources *2nd*	**3** Allocate key managers and experts	**12** Commit to long term paths **13** Investment in skills, knowledge *4th*	Five of eight core competencies Barloworld
Overall	**4** Corporate culture	**11** Allocation of key managers and experts	**1** Exposure to a demanding environment	**7** Multi-disciplinary teams	**13** Investment in skills and knowledge	

Chapter 8, "Transfer of Core Competencies", has the most salient findings. The biggest *challenges* in transferring core competencies are regarded as culture, language, attitude, establishing a "common language", NIH (not invented here), time zones and resistance to change. Two companies cited certain employees that had grown up under communist regimes as major obstacles.

The *ratings of success in transferring core competencies* on a seven-point scale are: Barloworld, 5.9; Sappi and Wolverine World Wide, 5.0 each; SABMiller Africa and Asia, 4.9; and SABMiller Europe, 4.0. The differences in ratings of success are not significant at the 5 percent level (Kruskal-Wallis ANOVA: H = 6.58 [4, N = 33] P = 0.1600).

The *ratings of success* vary by location in the value chain and are as follows: Operations 6.0; mergers and acquisitions, 5.8; infrastructure: general management, 5.3; outbound logistics, 5.0; human resource management, 4.8; marketing 4.5; technological development, 3.8; and inbound logistics, 3.5. The human resource management rating improves to 5.5 if SABMiller Europe is eliminated as an outlier because of its low rating in this category. There are significant differences in median scores between the core competencies, viz: marketing and sales, operations, M&A, human resource management and technological development with n > 2 (Kruskal-Wallis ANOVA: H = 12.5 [5, N = 24] P = 0.0284).

The findings on the overall effectiveness of methods are shown in Table 11.2. *Appoint key people from within company to management positions in new acquisitions* is considered the most effective method with 25.7 points and an average of 5.1 points for the five companies.

Second is *visits* (25.5 and 5.1); third, *inclusion in management process* (24.4 and 4.9). The next two are *post-merger and acquisition integration teams* (21.0 and 4.2) and *benchmark core competencies against competitors* and *other firms* (19.1 and 3.8).

Table 11.2 Transfer of Core Competencies: Most Effective Methods by Value Chain Location

Rank Location	1	2	3	4	5	Notes
Marketing & Sales	8 Visits	10 Inclusion in management process	7 Seminars / conferences	12 Benchmark	1 Appoint key people 2 Post-M & A teams	6 Rotate managers and key people has highest mean
Outbound Logistics	1 Appoint key people	8 Visits *1st*	10 Inclusion in management process	2 Post -M & A integration teams 12 Benchmark	7 Seminars / conferences *6th*	Two participants, both SABMiller regions
Operations	1 Appoint key people.	10 Inclusion in management process *1st*	2 Post -M & A teams	12 Benchmark *3rd*	3 Experts deliver, install	8 Visits has high mean but WWW does not rate
Inbound Logistics	2 Post-M & A teams	1 Appoint key people	8 Visits *2nd*	12 Benchmark	4 Short-term secondments 10 Inclusion in management process *4th*	As for Outbound Logistics
Mergers & Acquisitions	1 Appoint key people	2 Post-M & A teams	6 Rotate managers and key people	5 Models or examples 4 Short-term secondments	11 Compensation incentives *6th*	
Human Resources Management	1 Appoint key people	10 Inclusion in management process	8 Visits *2nd*	6 Rotate managers and key people	4 Short-term secondments 7 Seminars/conferences 9 Manuals, etc.	
Technological Development	8 Visits	7 Seminars / conferences	12 Benchmark	10 Inclusion in management process	4 Short-term secondments *4th*	Wide variation of views
Infrastructure General Management	1 Appoint key people	8 Visits	10 Inclusion in management process *2nd*	6 Rotate managers and key people	11 Compensation incentives	Five of eight core competencies Barloworld
Overall	1 Appoint key people	8 Visits	10 Inclusion in management process.	2 Post-M & A teams	9 Benchmark	Three companies using 6 = highest mean

Rotate managers and key people from new acquisitions in wider company is used by only three companies which limits its total to 16.8 points but the average is 5.6. Sappi, which added *multi-disciplinary regional teams* and *leadership* to the list of methods, rates each at 7.0 points.

The effectiveness of methods varies by company and by location in the value chain. *Appoint key people from within company to management positions in new acquisitions* is regarded as the most effective method for five out of the eight value chain activities, two of them tied for first position. The biggest difference between Wolverine World Wide and the South African-originated companies is Wolverine's relative emphasis on *short-term secondments* and *seminars/conferences.* Wolverine, which has been hosting international licensees and distributors seminars and conferences for almost half a century, rates the latter at 6.0 effectiveness.

There is a strong significant correlation between the ranking of how well the companies, as a composite, perform each core competency and the ratings of success in transferring these core competencies (Spearman correlation coefficient r_s = 0.79 with a P-value of 0.033). The companies vary from a low of r_s = 0.32 for Sappi and a high of r_s = 0.76 for SABMiller Europe. There is a negative correlation, though not significant, between the rankings of the importance for competitiveness of each core competency and the rating of success in transferring these core competencies (Spearman correlation coefficient r_s = -0.04 with a P-value of 0.379). These results suggest that there is a tendency for the companies to transfer the competencies that they do well in some descending line of success.

There is a very high degree of correlation, r_s = 0.93 P-value =0.033, between the effectiveness of methods and the ratings of the success of transfer. The individual companies have high degrees of correlation, with the exception of Wolverine World Wide. This company's relatively low level of correlation, r_s = 0.31, is caused by its core competency relating to branding receiving a success rating of 4.0, although the methods have an effectiveness rating of 6.0. If this one factor is removed as an outlier, the correlation improves to r_s = 0.67 with a P-value of 0.215.

The correlation for the total chain is $r_s = 0.80$ with a P-value of 0.018 when measured by value chain locations. The difference between this measurement and the company total is due to "rounding and weighting". The high degree of correlation gives substantial credibility to the information supplied by the companies and highlights the importance of selecting the appropriate methods when transferring core competencies.

The methods used by the companies to measure and assess the success or otherwise of the transfer of core competencies include performance indicators and metrics, benchmarking, performance management and third-party research to evaluate key parameters of customer satisfaction.

The measures taken to avoid pitfalls in transfer encompass head-office support, the use of experienced senior staff and expatriates, precise standards of measurement where possible, "common language" and terminology, change management and, sometimes, when unavoidable, changes in management and key staff. The ways in which *the transfer of core competencies can be improved* are stated by the companies as: better understanding of legislative frameworks of the countries where new acquisitions are made, a more thorough human relations component to due diligence studies, better communications, "practicing" and reward programmes beyond normal compensation.

Certain of the practical problems and solutions are common to both the development and transfer of core competencies. This includes how to select the appropriate core competencies for transfer and how to get leaders "to live the core competencies". The solutions include the definition, standardisation and formatting of core competencies so that they can be monitored. Training and retention of key employees is also important.

Chapter 9, "Review of Strategies", concludes that all of the companies excelled in the primary business practices – strategy, execution, culture and structure – advocated by Nohria, Joyce and Roberson (2003). The information available also strongly suggests that they all excel in more than two of the four secondary management practices: talent, leadership, innovate, mergers and partnerships. Special attention was paid to *strategy, leadership, and mergers and acquisitions* and *post-merger and acquisition integration*. These practices are discussed further in Section 11.3.

There are numerous *explanations and reasons as to how the three South African originated companies became global leaders in their fields within a decade.* All three were well established and longstanding. There was exceptional management stability and continuity, although these did not always meet the standards of heterogeneity advocated by Govindarajan and Gupta (2003). All were experienced in mergers and acquisitions and post-M&A integration and knew the risks of investing outside their core competencies before they embarked on international expansion.

Factor conditions in South Africa certainly played a part: the English language, trading ties to other nations, infrastructure, cheap electricity and information technology. The election of a democratic government in 1994 and its subsequent adoption of free market policies paved the way for the companies to expand internationally.

The companies took action to deal with their potentially weak human resource situations. *They had leadership that believed in their ability to become global players.* Added to the above reasons are the views of the CEOs themselves, which encompassed *multicultural experience, flexibility, adaptability, "humbleness" and willingness to learn.* All the companies had become adept at marketing to small segments or niches in competitive local markets.

Each of the three experienced initial setbacks in the early stages of their international expansion programmes: Barloworld with its acquisition of Finanzauto in Spain in 1992, SA Breweries with its first European acquisition in Hungary in 1992 and Sappi with its purchase of paper mills in the UK in 1990. Each of the setbacks related in some way to assumptions that South African conditions or values would apply in the foreign situations. All three ultimately resolved these situations and learned from the experiences.

Chapter 10, "Going Global", examines the issues of the home base, experiences in different countries, reasons for success, methods of learning and preparation, lessons learned and advice to others.

South Africa's advantages as a home base include cost, access to skills and services and climate. The infrastructures and people that enable the South African companies to go global are located in the country. All the South African companies' spokespersons comment on the ability of South African managers to interact with other cultures, adaptability, humility or non-arrogance and openness to learning. Confidence, stemming from adversity, is also mentioned.

The disadvantages of South Africa as a home base are the cost of capital, the limited availability of finance for global expansion, the distance from major centres and markets and the reputation of the country as an emerging market (at times). It is sometimes difficult to recruit from overseas.

The South African corporations view the English-speaking countries, including those located in Africa, as having cultures generally more favourable to operations and hence transfer of core competencies. Sappi initially experienced problems in the United Kingdom, while Wolverine considers Japan to be a favourable market. The countries cited as least favourable in terms of culture are Russia, China and India.

The South African companies all regard a major acquisition(s) as the defining point in their transformation from local to global players. The companies provide different reasons for their successes but form a consensus on the factors of management or leadership, culture and human resources.

The companies use varied and favoured learning methods. Barloworld has no formal processes for preparing employees for the challenge of international business, but this does get accomplished individually and informally. SABMiller Africa and Asia utilises "look – see – decide" visits, spouse interviews and language and culture orientation classes. SABMiller Europe has no specific programme at present. Sappi rotates staff and Wolverine World Wide uses a combination of technology and local market experts.

Barloworld lists 10 guidelines on "going global". Especially pertinent is that a company should know who will manage acquisitions in advance; that cultures and values are the most important (but toughest) things to understand and manage; that "pride comes before the fall" and that one must really understand one's strengths and weaknesses. All four of the companies, including Wolverine, stress the importance of studying countries before entering or investing, the importance of thorough due diligence and the critical importance of culture. Wolverine notes the importance of monitoring global trends.

The advice from the companies is that each market is different and that thorough research is essential before entering new markets or acquiring businesses. Companies should be very aware of how crucial cultural differences are and respect other cultures. Persuasion, rather than instruction, is favoured in dealings with foreign affiliates. Pilot demonstrations and peer success models can be effective in dealing with NIH (not invented here). Further advice is to focus on what core competencies can contribute to acquisitions and to be prepared to travel. Key managers should be available for transfer to new acquisitions, and companies should know in advance who will manage prospective acquisitions. The South African companies underline the importance of humility in several places in this chapter.

A majority of the respondents to Questionnaire 6, South Africa, agreed that the diverse and relatively small South African economy provided managers with opportunities to learn how to be profitable in small markets by targeting segments, controlling costs and managing with limited resources. A majority disagreed with the proposition that the turbulent 1980s and 1990s in South Africa, with foreign disinvestment, taught managers about mergers and acquisitions, restructuring and the consequences of investing outside their core competencies.

11.3 Interpretation of the Findings in Light of the Literature Framework

Before finalising this section, I did reflect on whether there were other possible interpretations of some of my findings. I concluded that any other plausible interpretations would be a question of degree or emphasis and not markedly different from my own.

Areas of possible different emphasis might be those of "leadership" and "strategy". There were companies in other English-speaking countries that had some of the advantages and fewer disadvantages than the three South African companies did. Theoretically, these companies were better positioned to take advantage of global expansion opportunities (the brewing industry, especially, comes to mind). And yet it was Barloworld, South African Breweries and Sappi that became the world leaders in their fields. The question here is whether I placed sufficient emphasis on the importance of leadership and strategy in their successes.

Trompenaars's (1993) philosophy that there is no one best way to conduct international business is supported by my research. Makanjee (2006) used almost identical words in commenting on the reasons for SABMiller's success. There are numerous references to culture and the need for adaptability in the research.

The IMD ranking of South Africa as ninth in management out of 30 countries is, I suggest, probably surprising to many outside observers. There is really no available literature that can be used to evaluate the views of the CEOs as to the advantages and disadvantages of South Africa as a country of origin and world headquarters location. Porter (1990) believes that a home base is particularly relevant to the creation of competitiveness. It is the nation in which the essential competitive advantages of the enterprise are created and sustained. It is also where a company's strategy is set and the core product and process technology (broadly defined) are created and maintained. He also notes that sophisticated production often takes place in the home base.

The views of Porter (1990) on home base are complemented by Tallmann and Fladmoe-Lindquest (2002). They point out that even in a globalizing market, firms move initially into foreign markets on the strengths of competitive advantages based on capabilities from the home market. These remarks apply to the three South African companies and Wolverine. All of them used the competitiveness forged in their home countries to expand globally. SABMiller is an interesting situation in this regard. Its head office and domicile are in London but the staff and processes that are used to manage foreign affiliates come from South Africa. According to Kahn (Gilmour 2005), SA Breweries is the heart and soul of SABMiller.

In terms of Sachs's (2005) differential diagnosis, physical geography, (location and ports), history and geo-politics help explain South Africa's emergence as the most industrialised country on the African continent despite the apartheid era. He also raises the issues of culture barriers to economic development which in this case was apartheid.

Hamel and Prahalad (1996) stress the importance of management stability and cumulative learning in the development of core competencies. Chapter 5 details the exceptional management stability and continuity in the corporations studied. The management teams may not be as diverse as recommended by Bossidy and Charan (2002) and Govindajaran and Gupta (2003). Partial explanations for this are that the South African companies have been "multinationals" for less than a decade, while Wolverine World Wide has, until recently, relied on worldwide distributors and licensees to market its product. As seen in the literature of Palich and Gomez-Mejia (1997, 1999) there are advantages to both homogeneity and heterogeneity of management teams. Heterogeneity supposedly facilitates creativity while homogeneity favours execution rather than creativity.

There are different views on how many core competencies a company should have or focus on. In the literature review in Subsection 2.3.6 Hamel and Prahalad (1990) advocate five or six, and Hitt, Ireland and Hoskisson (2003) quote McKinsey as limiting this to three or four, while Thompson and Strickland (1998) believe that a corporation cannot be a world leader in more than two or three competencies.

Barloworld, SABMiller and Wolverine World Wide each identified seven core competencies for the study. Sappi listed six. The companies are therefore closer to the views of Hamel and Prahalad on this issue. While the companies may not be the world leader in each and every one of their core competencies, they conceivably are in at least one or several. It is more difficult to compartmentalise core competencies in practice than it is in theory. They are closely interrelated and intertwined. For example, how effective would Wolverine World Wide be at building brands if it did not excel in the other core competencies such as operations' best of class (in service) and motivating and retaining key management?

Manning's (1997) contention that there is no recognized rigorous skill for identifying competencies is substantiated by the practical problems experienced by the companies in both the development and transfer of core competencies. The major problems are those of identifying, agreeing on and defining core competencies.

The use of Porter's (1990) Diamond to examine the determinants of competitiveness for South Africa in Chapter 2 and for the South African companies in Chapter 7, "The Development of Core Competencies", illustrates its usefulness as a framework for analysis. The Diamond's four attributes of factor input conditions, firm strategy, structure and rivalry, demand conditions and the two additional variables of chance and government provide a standardised format that was employed to examine the factors which influence the competitiveness of South Africa, the three South African companies and Wolverine World Wide.

Examples cited in Section 7.2 of the thesis include natural resources and sophisticated and demanding local customers for the products and services of the three South African companies. Mineral riches facilitated the use of Caterpillar equipment from Barloworld, and having shorter tree-growing cycles than those in the Northern Hemisphere advanced Sappi's cost competitiveness, while the South African climate (not tropical) is conducive to the drinking of beer. Porter's (1990) statement that vigorous efforts by a nation's firms to penetrate foreign markets to sustain growth and even full capacity are frequently the result of the saturation of home markets, is also supported by my research. Representatives from Barloworld, SABMiller and Sappi stated that a primary reason for expanding internationally was the need to grow, as they were already leaders in the South African markets.

Hamel and Prahalad (1996), Hitt et al. (2003) and Thompson and Strickland (1998) *all* stress that core competencies take time to develop, emerge over time and require experience in cumulative learning. The information from all respondent companies concurs with these views. Where there is a difference, however, is in some of the key questions advocated by the three sources mentioned. While the companies may end up with core competencies that are "valuable, rare, costly to imitate and non-substitutable" (Hitt et al. 2003) or "transferable, benefiting consumers and inimitable" (Hamel and Prahalad 1996), they do not arrive at these by specifically asking these questions. The core competencies evolve, or emerge, in response to competition, or are chosen because they are necessary to meet competition, or are essential to the achievement of objectives.

The results of Questionnaire 2, The Development and Transfer of Core Competencies, generally support the conclusions of Mascarenhas, Baveja and Jamil (1998) that different and multiple approaches are needed to develop core competencies. I was surprised at the extent of the results; that is different methods were considered to be the most effective for each of the eight different value chain locations. *Corporate culture* is in first place in infrastructure: general management and shares this place with other methods in marketing and sales and human resource management. *Allocation of key managers and experts to key areas* is ranked first in operations and ties for this position in marketing and sales. See Table 11.1.

In the Mascarenhas et al. (1998) study, the most mentioned method in technology is *exposure to a demanding technical, operating or economic environment* while *corporate culture* was placed first in their equivalent of operations. The companies in this study regard *commit substantial resources to an area* as the most effective method in technological development and *allocation of key managers and experts to areas* as the most effective in operations.

The results also support the other references relating to methods used to develop core competencies. Here I refer to Hamel and Prahalad (1996), Hitt et al. (2003), Thompson and Strickland (1998), Teece, Pisano and Shuen (1997), Hitt, Keats and de Marie (1998) and Bartlett and Ghoshal (2002). There is some deviation between the results and the literature in that methods such as regular competence review meetings, internal analysis, value chains and path dependency receive relatively few mentions by the companies. None of the companies mentioned *seminars/conferences* as being in the four most effective methods. All did, however, mention *benchmarking* and *use of international reach and size*.

Four of the five companies reported that acquisitions helped them develop core competencies. This is in line with Vermeulen and Barkema (2001) *Learning through Acquisitions*; Lei and Hitt (1995), *The Effect of Mergers and Acquisitions on Building Firm's Skills and Capabilities;* and Birkinshaw, Hood and Jonssen (1998), *Subsidiary Initiative*. SABMiller Europe felt that the companies that it acquired had a minimal effect on the development of core competencies. This was attributed to the levels of management expertise and technology of the original South African Breweries being significantly superior to those of the companies they acquired in Europe.

Luo (2000) states that transferability is influenced by the nature of distinctive resources and capabilities. Flowing from this, technological capabilities should be more transferable than organisational capabilities and financial capabilities more transferable than operational capabilities. Zander and Kogut (1995) state that the transferability of knowledge depends on codifiability, teachability, complexity, system dependence and product observability.

Mackay, of SABMiller (personal interview, London, 27 November 2001), expresses the view that his company had a wonderful base in production, technical and financial functions but that the marketing and distribution skills have not always been as portable into foreign markets and conditions. Phillips, at Barloworld (Questions for a CEO, 11 November 2003), writes that Barloworld has successfully "exported" core competencies relating to financial and reporting disciplines, attention to detail and IT and IS competences but that export of "soft" issues has been less successful. The statements by the two CEOs appear to support the views of Luo (2000) and Zander and Kogut (1995).

The companies' ratings of success in transferring core competencies by value chain location are however somewhat different from the views of Luo (2000). Operations shows the highest success with a 6.0 rating, followed by mergers and acquisitions with 5.8, infrastructure: general management with 5.3, outbound logistics with 5.0, human resource management with 4.8, marketing and sales with 4.5, technological development with 3.8 and inbound logistics with 3.5. As previously noted human resource management would be 5.5 if SABMiller Europe was eliminated as an outlier.

The function, or core competency, of operations can be very complex, requiring both organisational and operating capabilities. The complexity of Wolverine's operations was discussed in Section 9.6. The manufacture and processing of beer and paper are also complex and go well beyond the transfer of technical formulations. The top rating of success in operations cannot therefore be attributed to simplicity or ease of transfer.

The ratings of success in transferring human resource management core competencies, a "soft" issue, are relatively high, especially high if SABMiller Europe, is excluded. As in the case of operations, the high rating cannot be attributed to ease of transfer or simplicity.

I suggest that part of the explanation for the differences between Luo (2000), Zander and Kogut (1995) and the research results lies in the strong correlation between core competency performance and degrees of success in transferring the competencies. There is almost a sliding scale of success based on performance – especially in the first three core competencies' rank in terms of performance. Four of the five companies regard human resource management core competencies as being in their top three performers. Szulanski (1996) holds that transfer of knowledge is influenced by the characteristics of the knowledge, source, recipient and context of the transfer. He states that prior success facilitates transfer.

The results relating to the methods used to transfer core competencies, shown in Table 11.2, are generally in line with the literature review. Hitt, Ireland and Hoskisson (2003), *move key people to facilitate transfer;* Govinderajan and Gupta (2000), *"DNA carriers;* Bresman, Birkenshaw and Nobel (1991), *visits;* Bartlett and Ghoshal (2002), *frequent travel;* Hamel and Prahalad (1996), *mobility facilitates transfer;* are all examples relating to the methods of the appointment of key management and visits. Porter (1996) advocates that development be specifically included in a company's objectives. Ghoshal, Korine and Szulanski (1994) mention *joint work in teams* and *task forces.* Thompson and Strickland (2003) recommend *benchmarking.*

The top rating of method 6, *rotate managers and key people from new acquisitions in the wider company*, by the three entities that use it, supports Garvin's (2000) contention that personnel rotation programmes are one of the most powerful methods of transferring knowledge.

I found very little in the literature that relates to methods used by companies to *measure and assess the success or otherwise of the transfer of core competencies, measures taken to avoid pitfalls in transfer*, ways in which the *transfer of core competencies can be improved* and *practical problems and solutions*. Kostova (1999 and 2002) covers some of these aspects in a macro sense. In this regard my research makes a contribution to the body of knowledge concerning the transfer of core competencies. The aforementioned issues were discussed earlier in Section 11.2. For example, performance indicators and metrics, benchmarking, performance management and third-party research are among the methods used to measure the success of the transfer of core competencies.

Chapter 9 reviewed strategies of the corporations. All companies in the study performed exceptionally well against the primary and secondary factors advocated by Nohria, Joyce and Roberson (2003). Collins's (2001) "What you can be the best at" relates to strategy. SABMiller and Wolverine World Wide are conceivably the world's best in their respective industries at two, or perhaps even more, core competencies. Barloworld is as "good as anyone" in managing Caterpillar and Hyster franchises and certainly among the few best at managing in difficult environments. Sappi has been a technological leader and still may be. I am convinced that three of the CEOs demonstrate the leadership traits of a paradoxical mix of personal humility and professional will extolled by Collins (2001), but I lack the experience and information about Sappi's leadership to draw conclusions without being subjectively judgemental.

Collins (2001) also advises companies to look for one denominator to measure what drives company economic engines. Each of the companies emphasises two or three performance indicators, with Barloworld's concentration on CFRI coming closest to Collins's (2001) requirements. Sappi has not compared financial performance with peer groups or stock exchange indices in its annual reports.

Chapter 9 also concentrated on the issues of mergers and acquisitions and post-merger and acquisition integration. The research by Lajoux (1998) shows that the majority of mergers and acquisitions are generally not successful. This is certainly not the case with the corporations studied. All demonstrated a high degree of success in both acquisition and post-acquisition integration, as discussed below.

Nohria, Joyce and Roberson (2003) advocate that corporations have a system of identifying, screening and closing deals; Eccles, Lanes and Wilson (1998) recommend safeguards to prevent overpaying for acquisitions; and Hitt et al. (2003) propose critical due diligence studies. The first three of Drucker's (1986) five simple rules for successful acquisitions relate to a company contemplating what it can contribute to acquisitions it makes, the need for a common core of unity and "temperamental fit", where respect is shown for the products, markets and customers of the companies it acquires. The corporations studied again show practices well in keeping with these rules.

There are several key references relating to post-acquisition and merger integration. A critical factor is that poor post-acquisition and merger integration is repeatedly cited as the leading reason for unsuccessful mergers and acquisitions. Ashkenas, DeMonaco and Francis (2001) recommend early planning, restructuring sooner rather than later, integrating cultures as well as operations and having a full-time person responsible for integration. Pritchett, Robinson and Clarkson (1997) present a "coaching list" that urges companies to "limit but keep promises". Drucker's (1986) final two rules about acquisitions are a company's ability to provide top management for the company it acquires and promotional opportunities for managers from one of the companies to the other.

The corporations again meet the standards proposed by the literature reviews. The lists they provide as to the five most important actions to facilitate post-acquisition and merger integration, are at the "cutting edge" of theory in this regard. There are two iconoclastic philosophies on integration: Barloworld allows managers in newly acquired companies up to two years to decide whether *they* want to stay with the company; and Sappi chooses the best people from both acquired companies and Sappi itself when forming management teams in merged and acquired operations.

Drucker's (1986) fourth rule is the ability to provide top management to new acquisitions. SABMiller has seconded employees from South Africa to manage its breweries and operations spread across 60 countries in five continents, including the appointment of President of Miller Brewing in the USA. Barloworld provided top management for its acquisition in Spain, and its top management in South Africa has demonstrated versatility in managing different divisions. Wolverine World Wide has an ability to absorb acquisitions into their operations infrastructure and provide management where desirable. Sappi prefers to appoint nationals of a country to its global operations, and its ability to provide top management is therefore less clear.

I consider Drucker's (1986) fifth rule, promotions of managers from acquirer and acquired to each other's companies, to be complex and difficult in today's global business environment. Barloworld, Sappi and Wolverine, nevertheless, each have examples of managers from acquisitions being promoted within the larger group.

The responses of the companies regarding challenges in operating in different countries (including transferring core competencies) are very much in line with the literature review. Bartlett and Ghoshal (2002) point out the complications caused by distance, time, language and culture. They also stress the exacerbations of product, functional and geographic diversity. All of these conditions are mentioned in the responses. Culture is apparently the leading "complicator", and here the literature of Hofstede (1999), Trompenaars (1993) and Schneider and Barsoux (1997) is very pertinent. Both the SABMiller regions cited employees who had grown up under communist regimes as major obstacles to the transfer of core competencies. Landers (1998) specifically states that 75 years of anti-market, anti-profit schooling and insider privilege in the former Soviet Union have planted and frozen anti-entrepreneurial attitudes.

While not specifically covered in any of the literature that I reviewed, I believe it accurate to state that Sappi, initially experiencing difficulties in the United Kingdom with its first foreign acquisition, and Wolverine World Wide, stating that the culture in Japan (and of their long-established licensee) is very favourable to their operations, are contrary to conventional wisdom. "Conventional wisdom" would expect companies from English-speaking countries to generally have less difficulty in the UK markets than they would have in Japan, which has a very different language, culture and customs.

The literature review on learning and knowledge (Subsection 2.3.4) is supplemented by other works, such as Hamel and Prahalad (1996) with *cumulative learning,* Thompson and Strickland (1998) and Lei, Hitt and Bettis (1996) with *meta learning.* The companies in the study use a wide variety of learning methods and processes for preparing employees for the challenges of international business. The companies all show evidence of being willing to learn from mistakes rather than punish them. This is in line with the advice of Sutton (2002) to "forgive but don't forget". SABMiller Africa and Asia specifically follows the Brinkerhoff Six Stage Model (1998), which was reviewed in the literature.

I do not regard any of the advice given by the companies in Chapter10, "Going Global", to be contrary to any prevailing literature on the subject that I am aware of, or to that discussed in the literature review. What was not in the literature review, however, was the importance of "humbleness" or humility, as perceived by representatives of the South African multinationals. The finding that South African managers are perceived to be well able to interact with other cultures, are adaptable, "humble" and open to learning, are key factors. Barney, Wright and Ketchen (2001) regard the ability to learn and the ability to change as being among the most important capabilities that a firm can possess.

Bartlett and Ghoshal (2000b:132), state that contrary to popular wisdom, companies from the fringes of the world economy can become global players. "What they need is organisational confidence, a clear strategy, a passion for learning and the leadership to bring these factors together". The three South African companies have become global players. They have demonstrated the attributes specified by Bartlett and Ghoshal. As discussed in Chapter 5, Barloworld is the world's largest distributor of Hyster lift trucks and one of the leading Caterpillar franchise holders. SABMiller is the second largest brewer in the world and the leader in emerging markets. Sappi's performance, relative to competitors', may have declined over the past two years, but it is, nevertheless, the world's leading producer of coated fine paper and chemical cellulose (dissolving pulp).

There have been significant changes in the operations of the companies since I began the first steps toward a doctorate when I interviewed Graham Mackay in London on 27 November 2001. Sales of the company he leads were $3,624 million in the financial year ended March 2001. Sales for the 2005 financial year were $12,901 million following three very substantial acquisitions and other meaningful ones. Return on equity declined from the 18.5 percent achieved in 2001, because of the cost of the acquisitions but improved to 16.3 percent in 2005 (SABMiller Annual Report 2005). The South African brewing interests (Beer South Africa) accounted for 32.6 percent of group sales and 49 percent of operating profit in 2001. The respective figures in 2005 were 17.3 percent and 35.4 percent (SABMiller Annual Report 2005).

Barloworld's sales increased from R27,945 million in the 2001 financial year ended September to R39,401 million in 2005. The company's return on equity improved from 10.4 percent to 16 percent over this period. Southern Africa now accounts for almost 60 percent of its sales following the acquisition of additional share holdings in Avis South Africa and Pretoria Portland Cement (PPC). In 2001, 44 percent of sales and 37 percent of operating profit were accounted for by South African interests. By contrast, in 2005, southern African interests made up 58.4 percent of sales and 82.8 percent of operating profit. PPC accounted for 53.3 percent of the southern African operating profit and 44.1 percent of the group operating profit (Barloworld Annual Report 2001, 2005).

Sappi's sales were $4,184 million in the year to September 2001. Sales increased to $5,018 million in 2005 but net profit fell from $132 million to a loss of $224 million. South Africa accounted for 15 percent of sales in 2005, compared to 13 percent in 2001 (Sappi Annual Report 2001, 2005).

11.4 Limitations of the Research

The limitations of the research were discussed in Chapter 4. One of the factors was the number of participants. The implementation of the research accentuated this factor, as Barloworld did not participate in the primary value chain locations such as marketing and sales and operations because of its nature as a holding company or corporate headquarters with divisions and subsidiaries in different industries. The two SABMiller regions were the only participants in the value chain locations of outbound logistics and inbound logistics – again reducing the size of the universe.

Chapter 10 covered countries where it was shown that cultures were favourably, or unfavourably, inclined to affect the operations and hence the development and transfer of core competencies. There were, however, no questions specifically linking countries to the core competencies, their development and transfer, and degrees of success in transfer. It is apparent that the degrees of success and the effectiveness of methods to both develop and transfer core competencies, would differ by country as pointed out by Luo (2000) and Kostova (1999). There were certain differences in the ratings of success and the effectiveness of methods between the two SABMiller regions.

The quality of the thesis would have been higher had it been possible to gather data separately for each country that constitutes a major market. This would be an undertaking suitable for a separate study.

Sappi included additional methods for both the development and the transfer of core competencies. If these – performance management and multi-disciplinary/regional teams and leadership – had been included in the data gathering, this may have influenced the other companies' selections.

Core competencies are not an end in themselves but an inherent part of strategy. I would have been able to better evaluate certain issues relating to core competencies if I'd had access to the strategic plans of the corporations. It would be completely unrealistic to expect to have access to these confidential documents. As it was, the companies were extremely helpful. One of the companies showed me a strategic plan that was three years old and it did help my understanding of the role of core competencies in that company's strategy.

The research does not take into account the time element involved in developing and transferring core competencies. Several sources in the literature review (Porter 1990; Hamel and Prahalad 1996) believe that the development of core competencies can take a decade or even more. There was no literature reviewed on the time taken to transfer core competencies. Luo (2000) states that transferability varies by capability and country, Zander and Kogut (1995) specify codifiability, teachability, complexity, system independence and product observability, Kostova (1999) stipulates social, organisational and relationship factors that affect the transfer of core competencies. In addition to the aforementioned factors presumably priority, resources allocated and intensity would all affect transfer and the time taken. I did not consider it practical to include the time element in my study. The time taken to transfer different core competencies under varying conditions could be an area for further research.

My own experience and informal research agree with the views of the South African companies CEOs on the advantages and disadvantage of South Africa as a country of origin and location for world headquarters (Chapter 10). Their views strongly influenced the explanations I advanced for the international success of the companies. The quality of this section would be better if views of competitors and people from the companies they acquired could have been included in the research. I could, for example, have sought interviews or distributed questionnaires to such parties. While the responses may have added other perspectives to the issues examined in my research this would have entailed significant time and effort in pursuit of data that I do not regard as being central to the thesis.

Three employees in two of the companies, who were not South African, and other senior managers in all the corporations expressed similar views on flexibility, adaptability and resourcefulness of managers from South Africa. All mentioned multicultural backgrounds.

11.5 Conclusions.

The conclusions flow from the findings summarised in Sections 11.2 and 11.3. The findings were also discussed earlier in Chapters 7, 8, 9 and 10.

1. *The most important issues and practical problems relating to the management, development and transfer of core competencies centre on how to define (or describe) select, agree and format core competencies.* This conclusion is based not only on the various questionnaires and interviews, but also on the fact that only Wolverine World Wide of the four multinational companies presented a formal list of core competencies when the research began.

2. *Core competencies are as likely to evolve over time and result from strategies and actions to be competitive as they are to be chosen by a process of rigorous internal analysis.* All the companies did, however, have such a process and use value chains to some extent.

3. *Different and multiple methods are needed to develop core competencies.* This is the same conclusion as the one reached by Mascarenhas et al. (1998), based on a study of 12 multinational corporations.

4. *The effectiveness of methods to develop core competencies varies by company and value chain location.* All five companies, did however, agree very substantially on the most effective methods in the merger and acquisition and human resource development value chain locations.

5. *The high degree of correlation (Spearman $_{rs}$ =0.93with a P-value of 0.003) between the effectiveness of the methods used to transfer core competencies and the ratings of success achieved in transferring the same core competencies highlights the importance of selecting the appropriate methods of transfer. There is also a strong tendency for companies to be more successful at transferring core competencies that they perform exceptionally well.* There is almost a sliding scale, with some exceptions, correlating how well a core competency is performed and how successfully it is transferred. This tendency

can at times transcend the traditional views of "hard versus soft" core competencies, value chain location and other literature views relating to codifiability, context and so forth.

6. *Different and multiple methods are needed to transfer core competencies.*

7. *The effectiveness of methods to transfer core competencies varies by company and value chain location.*

8. *There are notable differences between the South African companies and Wolverine World Wide on the effectiveness of methods used both to develop and to transfer core competencies.* The differences are explained largely by the different modes of operation (WWW's historic use of licensees and distributors), certain cultural aspects, the South African companies' relative newness to the international arena and their taking of their mind-sets relating to the development and training of people to their foreign affiliates. There are, nevertheless, many similarities.

9. *The success of the South African-originated multinationals can be satisfactorily explained by a combination of historical, competitive factor conditions, leadership and strategies.* Multicultural experience, use of English, flexibility, adaptability, "humbleness" and willingness to learn are extremely important. The companies excelled at acquisitions and post-merger integration.

10. *Each international market is different and thorough research is essential before entering new markets or acquiring businesses. Cultural differences can be critical, and one should respect other cultures.* Other advice from the companies to those undertaking or contemplating foreign expansion is to focus on what core competencies can contribute to acquisitions, know in advance who will manage prospective acquisitions and favour persuasion rather than instruction in dealing with foreign affiliates. Pilot demonstrations and peer success models can be effective in dealing with NIH (not invented here). The importance of *humility* or *humbleness* is stressed.

11.6 Significance of Findings and Conclusions

The subject matter of the thesis is relevant to the current and crucial issues of globalisation and multinational corporations.

The findings and conclusions as expressed in "roadmaps" for assessing the likelihood of the effectiveness of methods for developing and transferring core competencies, based in different locations in a value chain, are highly significant for both practicing managers and academics. This information will increase the chances of success, lessen the risk of error and reduce the cost of experimentation. It will provide academics with more information to teach on the management, development and transfer of core competencies. For example they will be able to list the different methods available to transfer, explain which methods would be more likely to be effective in different value chain locations and, consequently, describe "how" core competencies can be transferred.

The finding of the strong relationship between performance in core competencies and the degrees of success in transferring core competencies should alert managers to the likelihood of success in transference. It should also caution against the risks of not paying enough attention to core competencies that are very important for competitive reasons but more difficult to transfer.

The examples of the companies' actions in acquisitions, post-acquisition integration, experiences in different countries, challenges, methods used to measure and assess the success, or otherwise, of transfer, measures taken to avoid pitfalls, ways in which the transfer of core competencies can be improved, the examples of problems and solutions and their advice on going global all have practical and academic applications.

I consider the fact that this is the first PhD thesis relating to South African multinational companies to be of some significance on its own.

11.7 Recommendations

The recommendations, or model, for the development and transfer of core competencies includes the following:

1. *Core competencies should be defined (or described) in a formalised format and be committed to writing.* There should be procedures for selection of, and agreement on, core competencies. See the recommendation under 9 below. I refer to SABMiller with its new process of explicitly identifying, highlighting, codifying and promulgating a set of core competencies with value drivers and key performance indicators. The company's core competence matrix in Figure 7.2 is a good example to follow.

2. *The development and transfer of core competencies should be an integral part of strategy and be included in the management process (priority goals).*

3. *Continuity and stability of management and those tasked with the development and transfer of core competencies is important.*

4. *A learning climate should be fostered.*

5. *Companies and managers should be aware of the likely effectiveness of alternative methods of development and transfer in different value chain activities.* See Table 11.1 and Table 11.2 which depict the experiences of the companies in this study as to the effectiveness of methods in different value chain locations.

6. *It is crucial to select for transfer core competencies that are in the best interests of the particular situation and avoid the trap of transferring core competencies because the company happens to do them exceptionally well.*

7. *Regularly measure and assess core competencies, their development and transferability. Both internal and external benchmarking is important.*

8. *Good communications will include people continually talking to each other with "common language" and terminology.* I refer also to the Wolverine World Wide model of rapid response (see Section 10.5) to incoming communications such as emails, telephone calls and letters. Adopting some of its processes would improve both external and internal communications in many organisations.

9. *Devote sufficient time and resources to the development and transfer of core competencies.* This would include review-type meetings and analytical forethought as advocated by Prahalad and Hamel (1996).

10. *The advice of the companies related to going global is recommended to those undertaking or contemplating global expansion.* This relates specifically to the differences in markets, the need for research, the cruciality of cultural differences, knowing who will manage prospective acquisitions and the great importance of humility.

11.8 Performance against Aims and Objectives.

The thesis achieves the four aims set out in the Introduction.

The thesis contributes to the advancement of the general body of knowledge relating to core competencies and international business.

It is (to the best of my knowledge) the first doctoral thesis to examine South African originated multinational corporations. New and useful information is provided that can also serve as a foundation for further research.

Secondly, it opens up a new perspective by evaluating different methods for developing and transferring core competencies and relating these to different activities in the value chain.

Thirdly, the conclusion that there is a strong correlation between the effectiveness of the methods used to transfer core competencies and the ratings of success in transferring the core competencies give credibility to the information provided by the companies. It also demonstrates the importance of choosing the appropriate methods to transfer core competencies.

Fourthly, the conclusion that companies have strong tendencies to successfully transfer those core competencies that they perform exceptionally well is very significant. These tendencies can at times transcend other well-established factors, such as "hard" and "soft" core competencies and knowledge, codifiabilty, context of transfer, teachability and other factors.

The thesis has significant practical applicability. It provides practical examples of the effect of culture in different countries on company operations and transfer of core competencies, the challenges that companies face in transferring core competencies, the methods used to develop and transfer core competencies, ways to measure successful transfer, and how to avoid pitfalls and improve transferability.

The model provides "roadmaps" or guidelines to which methods are more likely to be successful in developing and transferring core competencies located in different positions in the value chain. Companies will have a better chance of success in both the development and transfer of core competencies once they become aware of the likely effectiveness of the various methods of development and transfer by value chain location.

The methods used by the three South African-originated companies and Wolverine World Wide to successfully acquire, and subsequently integrate, other companies are described and examined.

The thesis, in my judgement, satisfactorily explains how the three South African companies became global leaders in their respective fields within a decade. The lessons learned by the companies in going global, and their advice to others contemplating or implementing international expansion, are, I believe, effectively recorded, analysed and communicated.

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Notes:

1. Access to *Economist, Financial Mail* and *Financial Times* websites and URLs listed above obtained via subscriptions to these publications.
2. Websites of the four companies have changed since 2002. The latest URLs are shown together with dates accessed from 2002 to 2006.
3. The names of states and countries are not mentioned where a town or city is well known. Example: London or Johannesburg.

LIST OF APPENDICES

APPENDIX 1.1

SEARCH FOR PhD THESES RELATING TO SOUTH AFRICAN MULTINATIONAL COMPANIES

1. Acquiring communicative competence for the world of work : a business needs analysis and its impact on curriculum development and delivery
2. Shadows of the past : chances and problems for the Herero in claiming reparations from **multinationals** for past human rights violations
3. Strategies for integrating a manufacturing company into the global community
4. The impact of the Medicines and related Substances Control Amendment Act on investment
5. An investigation into project management failure
6. The value created by South African **multinationals** in a global economy
7. The use of debt and derivative instruments by South African based **multinationals**
8. Major management issues facing United States **multinationals** in South Africa 1994-2000
9. Foreign direct investment into sub-Saharan Africa : perceptions of South African business
10. APPROACHES TO THE PROBLEM OF POLITICAL RISK IN FOREIGN DIRECT INVESTMENT
11. COUNTRY RISK ASSESSMENT BY EUROPEAN **MULTINATIONALS** INVESTING IN SOUTH AFRICA
12. THE EUROPEAN ECONOMIC COMMUNITY CODE OF CONDUCT FOR COMPANIES WITH INTERESTS IN SOUTH AFRICA : A LEGAL APPRAISAL
13. THE THEORETICAL CONCEPTS OF ABSORPTION COSTING IN THE USA AND SOUTH AFRICA TO DETERMINE THE INFLUENCE OF THESE **MULTINATIONALS** ON THE LOCAL METHODS APPLIED TO INVENTORY VALUATION
14. **MULTINATIONAL** INVESTMENT CRITERIA OF SOUTH AFRICAN COMPANIES
15. CORPORATE AUTONOMY IN SELECTED EUROPEAN MULTI-NATIONALS IN SOUTH AFRICA

16. FACTORS INFLUENCING THE USE OF ISRAEL AS A SPRINGBOARD FOR SOUTH AFRICAN EXPORTS
17. GUIDELINES FOR THE EVALUATION OF NEW PRODUCT INVESTMENTS IN THE SOUTH AFRICAN PASSENGER CAR INDUSTRY
18. An outsources offshore information processing model for Japanese finance sector **multinationals**

Note: The above are the forms in which the information was received.

No. 6

Project	333853
Researcher(s)	Van der Walt TJ
Title	**The value created by South African multinationals in a global economy**
Language	English
Purpose	11 MCom (Ondernemingsbestuur)
Status	Completed **Year of completion** :- 2000
Institution(s)	Rand Afrikaans University (RAU) General
Subject	Business administration / Business Leadership
Intended publication	Dissertation
Abstract	No abstract available

Project	954850
Researcher(s)	Krowitz D
Title	**The use of debt and derivative instruments by South African based multinationals**
Language	English
Purpose	11 MBA
Status	Completed **Year of completion** :- 1995
Institution(s)	University of the Witwatersrand (UWITS) Graduate School of Business Administration
Subject	Business administration / Business leadership Management economics
Intended publication	Report; Dissertation

No. 7

No. 9

Project	947020
Researcher(s)	Mwangi JCM
Title	**Foreign direct investment into sub-Saharan Africa : perceptions of South African business**
Language	English
Purpose	11 MA
Status	Completed **Year of completion** :- 1995
Institution(s)	University of the Witwatersrand (UWITS) Graduate School of Business Administration
Subject	**Business** administration / **Business** leadership Management economics
Intended publication	Dissertation
Abstract	For a long time **South Africa** has not been fully accepted by the rest **of** the world for purposes **of** trade and **investment**. This has been due to sanctions imposed as a form **of** protest against the system in place in **South Africa**. Since earnest political reform began in 1990, the international community has gradually come to accept **South Africa** especially in relation to international **business. Sub-Saharan Africa** in particular has tended to look at **South Africa** as the possible engine **of** economic growth for the region. The purpose **of** this exploratory study is to establish the relative importance **of** key factors that have to be taken **into** consideration by **South African businessmen** when making **foreign direct investment** decisions relating to **sub-Saharan Africa**. In addition to this, the study will attempt to establish the perceived advantages that **South African** multinational corporations have over other multinationals operating in the region. The main findings **of** the research was that the volatile political environment in SSA with particular reference to transparency **of** the leadership and acceptability **of** the leadership by the majority **of** the population was the most important issue to **South African business** when considering making **foreign direct investment** decisions in **Sub-Saharan Africa**. The second most important issue is the unpredictable economic environment especially in relation to the absence **of** appropriate and coherent policies that support **investment** and **business** in general. Relevant policies sighted here include fiscal and monetary policy impacting on inflation and interest rates that are put in place. The two main concerns raised highlighted the need for improved economic management in SSA along with genuine and sustainable political stability in the region. In relation to the advantages SA **business** have as investors in SSA, the study revealed that the most important advantage is the comparative advantage developed in **South Africa** especially in relation to technical and managerial capability. This capability was developed as a response to the sanctions imposed by the rest **of** the world in the days **of** apartheid. This advantage identifies the area **of** technology and managerial skill transfer in which the countries **of** SSA can realistically benefit from SA.

No. 14

Project	833064
Researcher(s)	DE BLOIS L
Title	**MULTINATIONAL INVESTMENT CRITERIA OF SOUTH AFRICAN COMPANIES**
Language	ENGLISH
Purpose	11 MBA
Status	Completed **Year of completion** :- 1983
Institution(s)	UNIVERSITY OF THE WITWATERSRAND (UWITS) GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
Subject	BUSINESS ADMINISTRATION / BUSINESS LEADERSHIP FINANCIAL MANAGEMENT
Intended publication	Dissertation

Source: Nexus (2006).

APPENDIX 2.1 WORLD COMPETITIVENESS YEARBOOK 2003: ECONOMIC PERFORMANCE AND GOVERNMENT EFFICIENCY

Population greater than 20 million

	Economic Performance					Government Efficiency				
	Domestic Economy	International Trade	International Investment	Employment	Prices	Public Finance	Fiscal Policy	Institutional Framework	Business Legislation	Societal Framework
Argentina	29	9	28	28	24	29	26	29	26	26
Australia	2	28	18	8	2	4	12	1	1	1
Brazil	22	27	16	18	17	10	23	25	15	16
Canada	3	11	7	9	6	11	19	4	3	2
China Mainland	4	6	8	1	22	2	7	10	20	17
Colombia	26	30	20	24	9	20	14	8	9	21
France	8	7	2	20	10	19	30	7	8	6
Germany	11	3	4	13	5	23	28	16	6	3
India	15	17	11	16	8	24	5	18	22	18
Indonesia	27	16	29	19	21	25	8	28	28	29
Italy	13	12	14	22	11	26	29	15	13	13
Japan	5	15	9	6	27	16	22	17	16	14
Korea	9	10	30	4	26	1	15	14	24	28
Maharashtra	25	20	10	12	13	21	6	19	25	22
Malaysia	14	1	27	10	12	17	2	2	4	7
Mexico	24	26	6	11	20	8	16	20	17	24
Philippines	23	22	23	23	3	28	9	21	19	12
Poland	28	14	17	30	15	22	27	27	27	25
Romania	19	21	26	26	25	6	24	26	23	20
Russia	20	5	21	15	29	9	21	24	29	27
Sao Paulo	21	24	13	25	18	3	17	22	14	11
South Africa	18	23	24	29	1	15	11	13	18	19
Spain	10	8	5	21	7	14	18	6	7	9
Taiwan	12	2	15	14	19	13	1	11	11	10
Thailand	16	4	19	2	4	7	3	5	10	8
Turkey	17	19	12	27	30	30	25	23	12	15
United Kingdom	6	13	3	7	14	18	20	9	5	5
Usa	1	25	1	5	16	12	10	3	2	4
Venezuela	30	29	22	17	28	27	13	30	30	30
Zhejiang	7	18	25	3	23	5	4	12	21	23

Competitiveness Simulations help policy makers focus on and prioritize the key competitiveness issues facing their countries. We replace the country's 20 weakest criteria values with the 49-country average value to compute a simulated overall competitiveness ranking, however, this is a theoretical exercise and should not be perceived as policy advice. Consideration must be given to each country's development level, political constraints and social value system.

Source: IMD World Competitiveness Yearbook 2003.

APPENDIX 2.2 WORLD COMPETITIVENESS YEARBOOK 2003: BUSINESS EFFICIENCY AND INFRASTRUCTURE

Population greater than 20 million

Business Efficiency					Infrastructure					
Productivity	Labor Market	Finance	Management Practices	Attitudes and Values	Basic Infrastructure	Technological Infrastructure	Scientific Infrastructure	Health and Environment	Education	
27	30	30	27	26	26	25	29	17	13	Argentina
5	2	3	2	2	1	3	9	2	1	Australia
21	11	22	11	7	20	16	25	16	25	Brazil
4	12	4	1	3	5	2	6	5	2	Canada
17	14	21	22	17	9	23	12	22	28	China Mainland
23	8	18	10	22	17	21	24	15	11	Colombia
6	20	7	13	24	4	7	4	4	4	France
9	13	6	7	19	2	4	3	1	10	Germany
24	10	12	24	10	29	18	14	27	22	India
26	26	28	29	30	28	30	27	30	30	Indonesia
7	29	16	16	16	21	14	15	10	15	Italy
10	18	15	20	23	8	9	2	3	9	Japan
15	19	14	25	14	16	10	10	12	18	Korea
28	7	11	17	8	27	17	11	28	20	Maharashtra
18	1	9	3	5	6	5	18	9	5	Malaysia
25	22	26	23	21	22	26	30	24	27	Mexico
19	6	23	14	25	30	11	28	23	17	Philippines
16	24	19	30	28	15	28	22	25	14	Poland
8	28	25	26	12	19	27	19	19	16	Romania
22	27	29	28	27	23	29	8	29	8	Russia
29	9	17	4	4	18	13	17	13	24	Sao Paulo
11	25	10	9	20	13	15	23	21	26	South Africa
14	21	8	15	15	11	12	16	7	7	Spain
3	3	5	5	6	10	6	5	11	6	Taiwan
20	4	13	8	11	14	20	26	18	21	Thailand
13	23	20	18	9	25	19	21	14	19	Turkey
12	17	2	12	18	7	8	7	8	12	United Kingdom
1	5	1	6	1	3	1	1	6	3	Usa
30	15	27	21	29	24	22	20	26	23	Venezuela
2	16	24	19	13	12	24	13	20	29	Zhejiang

Source: IMD World Competitiveness Yearbook 2003.

APPENDIX 2.3 WORLD COMPETITIVENESS YEARBOOK 2001: SOUTH AFRICA'S TWENTY STRONGEST CRITERA OVERALL

The section highlights the country's 20 strongest criteria that is those with the highest standardized values (STD Values)*

Number	Name	Country Value	Country Rank	49 Country Ave.
4.2.01	INVESTMENT IN TELECOMMUNICATIONS Percentage of GDP	1.659	3	0.648
4.1.18	ELECTRICITY COSTS FOR INDUSTRIAL CLIENTS USD per kwh	0.020	1	0.055
2.2.02	EFFECTIVE PERSONAL INCOME TAX RATE Percentage of GDP per capita	1.51	3	17.45
2.5.01	TOTAL PUBLIC EXPENDITURE ON EDUCATION Percentage of GNP	8.0	5	4.9
1.5.02	COST-OF-LIVING INDEX Cost index of basket of goods in majo9r cities, excluding housing	72.32	2	96.80
2.2.09	EMPLOYER'S SOCIAL SECURITY CONTRIBUTION RATE Compulsory contribution as a percentage of GDP per capita	.78	3	17.69
2.2.04	EMPLOYER'S SOCIAL SECURITY CONTRIBUTION RATE Compulsory contribution as a percentage of GDP per capita	0.00	1	9.38
2.4.05 (Survey)	PARALLEL (BLACK-MARKET, BARTER, UNRECORDED) ECOMY Parallel (Black-market, barter, unrecorded) economy does not impair economic development in your country	5.56	4	4.40
2.4.12 (Survey)	UNEMPLOYMENT LEGISLATION Unemployment legislation provides an incentive to look for work	6.36	7	4.87
3.2.13	FEMALE LABOR FORCE Percentage of total labour force	47.14	5	40.58
3.1.03	OVERALL PRODUCTIVITY – REAL GROWTH Estimates: Percentage change of real GDP per person employed	6.78	9	2.95
3.1.08	PRODUCTIVITY IN INDUSTRY (PPP) Estimates: Related GDP (PPP) per person employed in Industry, US$	63,257	10	45,446
2.4.14 (Survey)	LEGAL REGULATION OF FINANCIAL INSTITUTIONS Legal regulation of financial institutions is adequate for financial stability	7.77	16	6.63
2.1.06	CENTRAL GOVERNMENT FOREIGN DEBT Percentage of GDP	2.516	11	13.687
2.4.15 (Survey)	RIGHTS AND RESPONSIBILITIES OF SHAREHOLDERS Rights and responsibilities of shareholders are well-defined	7.71	15	6.92
3.4.10 (Survey)	SOCIAL RESPONSIBILITY Business leaders do not neglect their responsibility towards society	6.37	15	5.83
3.4.04 (Survey)	CORPORATE BOARDS Corporate boards prevent improper business practices in corporate affairs	6.52	14	5.93
3.4.05 (Survey)	SHAREHOLDER VALUE Shareholder value is effectively managed	6.18	15	5.58
2.09	EXPORT OF GOODS – REAL GROWTH Percentage change, based on national currency in constant prices	21.03	12	14.99
3.3.06 (Survey)	STOCK MARKETS Stock markets provide adequate financing to companies	6.23	19	5.27

*STD Values = [(country's value) – (49 country average)] / (standard deviation)

Source: The World Competitiveness Yearbook 2001.

APPENDIX 2.4 WORLD COMPETITIVENESS YEARBOOK 2001: SOUTH AFRICA'S 20 WEAKEST CRITERIA

20 Weakest Criteria Overall				49
Number	Name	Country Value	Country Rank	Country Ave.
1.4.07	UNEMPLOYMENT RATE Percentage of labour force	36.20	49	8.45
1.4.02	EMPLOYMENT Percentage of population	21.10	49	33.12
3.2.08	INDUSTRIAL DISPUTES Working days lost per 1,000 inhabitants per year	72.01	44	11.77
3.2.14 (Survey)	SKILLED LABOR Skilled labour is not available in your country's labor market	3.84	49	6.41
2.5.03	PUPIL-TEACHER RATIO (SECONDARY EDUCATION) Number of pupils per teacher	31.40	43	15.34
4.5.03 (Survey)	EQUAL OPPORTUNITY Discrimination poses a handicap in society	3.87	49	6.32
4.3.16 (Survey)	SCIENCE & TECHNOLOGY AND YOUTH Science & technology does not interest the youth of your country	4.11	48	6.08
2.5.10 (Survey)	ECONOMIC LITERACY Economic literacy is generally low among the population	1.92	49	3.15
1.4.03	EMPLOYMENT - GROWTH Percentage change	4.54	49	1.94
4.5.04 (Survey)	HARASSMENT AND VIOLENCE Harassment and violence do seriously destabilize the workplace	4.55	47	7.34
3.2.16 (Survey)	BRAIN DRAIN Well-educated people emigrate abroad	2.08	47	5.26
2.3.19 (Survey)	PERSONAL SECURITY AND PRIVATE PROPERTY Personal security and private property are not adequately protected	1.56	47	5.99
4.3.15 (Survey)	SCIENCE AND EDUCATION Science is not adequately taught in compulsory schools	2.84	49	5.16
3.2.06 (Survey)	LABOR RELATIONS Labour relations are generally hostile	4.03	48	6.20
2.4.13 (Survey)	IMMIGRATION LAWS Immigration laws prevent your company from employing foreign labour	3.77	47	5.58
2.5.11 (Survey)	EDUCATION IN FINANCE Education in finance is not sufficient in your country	2.92	48	3.37
2.5.02	PUPIL-TEACHER RATIO (PRIMARY EDUCATION) Number of pupils per teacher	35.00	42	18.17
3.2.15 (Survey)	AVAILABILITY OF FINANCE SKILLS Skills in finance are not available in your country's labour market	4.66	47	6.56
4.4.09	HUMAN DEVELOPMENT INDEX Combines economic-social-educational indicators / Source: Human Development Report	0.697	46	0.843
2.5.04	SECONDARY SCHOOL ENROLLMENT Percentage of relevant age group receiving full-time education	59.0	42	82.9

Source: The World Competitiveness Yearbook 2001.

APPENDIX 2.5 WORLD ECONOMIC FORUM: GROWTH COMPETITIVENESS RANKINGS 2005

	GCI	GCI	GCI		
Country	2005 Rank	2005 Score	2004 Rank	Changes 2004-2005	Changes 2004-2005
Finland	1	5.94	1	→	0
United States	2	5.81	2	→	0
Sweden	3	5.65	3	→	0
Denmark	4	5.65	5	↗	1
Taiwan	5	5.58	4	↘	-1
Singapore	6	5.48	7	↗	1
Iceland	7	5.48	10	↗	3
Switzerland	8	5.46	8	→	0
Norway	9	5.4	6	↘	-3
Australia	10	5.21	14	↗	4
Netherlands	11	5.21	12	↗	1
Japan	12	5.18	9	↘	-3
United Kingdom	13	5.11	11	↘	-2
Canada	14	5.1	15	↗	1
Germany	15	5.1	13	↘	-2
New Zealand	16	5.09	18	↗	2
Korea, Rep.	17	5.07	29	↗	12
United Arab Emirates	18	4.99	16	↘	-2
Qatar	19	4.97	—	n/a	n/a
Estonia	20	4.95	20	→	0
Austria	21	4.95	17	↘	-4
Portugal	22	4.91	24	↗	2
Chile	23	4.91	22	↘	-1
Malaysia	24	4.9	31	↗	7
Luxembourg	25	4.9	26	↗	1
Ireland	26	4.86	30	↗	4
Israel	27	4.84	19	↘	-8
Hong Kong SAR	28	4.83	21	↘	-7
Spain	29	4.8	23	↘	-6
France	30	4.78	27	↘	-3

Belgium	31	4.63	25	↘	-6
Slovenia	32	4.59	33	↗	1
Kuwait	33	4.58	—	n/a	n/a
Cyprus	34	4.54	38	↗	4
Malta	35	4.54	32	↘	-3
Thailand	36	4.5	34	↘	-2
Bahrain	37	4.48	28	↘	-9
Czech Republic	38	4.42	40	↗	2
Hungary	39	4.38	39	→	0
Tunisia	40	4.32	42	↗	2
Slovak Republic	41	4.31	43	↗	2
South Africa	42	4.31	41	↘	-1
Lithuania	43	4.3	36	↘	-7
Latvia	44	4.29	44	→	0
Jordan	45	4.28	35	↘	-10
Greece	46	4.26	37	↘	-9
Italy	47	4.21	47	→	0
Botswana	48	4.21	45	↘	-3
China	49	4.07	46	↘	-3
India	50	4.04	55	↗	5
Poland	51	4	60	↗	9
Mauritius	52	4	49	↘	-3
Egypt	53	3.96	62	↗	9
Uruguay	54	3.93	54	→	0
Mexico	55	3.92	48	↘	-7
El Salvador	56	3.86	53	↘	-3
Colombia	57	3.84	64	↗	7
Bulgaria	58	3.83	59	↗	1
Ghana	59	3.82	68	↗	9
Trinidad and Tobago	60	3.81	51	↘	-9
Kazakhstan	61	3.77	—	n/a	n/a
Croatia	62	3.74	61	↘	-1
Namibia	63	3.72	52	↘	-11
Costa Rica	64	3.72	50	↘	-14

Brazil	65	3.69	57	↘	-8
Turkey	66	3.68	66	→	0
Romania	67	3.67	63	↘	-4
Peru	68	3.66	67	↘	-1
Azerbaijan	69	3.64	—	n/a	n/a
Jamaica	70	3.64	65	↘	-5
Tanzania	71	3.57	82	↗	11
Argentina	72	3.56	74	↗	2
Panama	73	3.55	58	↘	-15
Indonesia	74	3.53	69	↘	-5
Russian Federation	75	3.53	70	↘	-5
Morocco	76	3.49	56	↘	-20
Philippines	77	3.47	76	↘	-1
Algeria	78	3.46	71	↘	-7
Armenia	79	3.44	—	n/a	n/a
Serbia and Montenegro	80	3.38	89	↗	9
Vietnam	81	3.37	77	↘	-4
Moldova	82	3.37	—	n/a	n/a
Pakistan	83	3.33	91	↗	8
Ukraine	84	3.3	86	↗	2
Macedonia, FYR	85	3.26	84	↘	-1
Georgia	86	3.25	94	↗	8
Uganda	87	3.24	79	↘	-8
Nigeria	88	3.23	93	↗	5
Venezuela	89	3.22	85	↘	-4
Mali	90	3.22	88	↘	-2
Mozambique	91	3.19	92	↗	1
Kenya	92	3.19	78	↘	-14
Honduras	93	3.18	97	↗	4
Gambia	94	3.18	75	↘	-19
Bosnia and Herzegovina	95	3.17	81	↘	-14
Mongolia	96	3.16	—	n/a	n/a
Guatemala	97	3.12	80	↘	-17
Sri Lanka	98	3.1	73	↘	-25

Nicaragua	99	3.08	95	↘	-4
Albania	100	3.07	—	n/a	n/a
Bolivia	101	3.06	98	↘	-3
Dominican Republic	102	3.05	72	↘	-30
Ecuador	103	3.01	90	↘	-13
Tajikistan	104	3.01	—	n/a	n/a
Malawi	105	3	87	↘	-18
Ethiopia	106	3	101	↘	-5
Madagascar	107	2.95	96	↘	-11
East Timor	108	2.93	—	n/a	n/a
Zimbabwe	109	2.89	99	↘	-10
Bangladesh	110	2.86	102	↘	-8
Cameroon	111	2.84	—	n/a	n/a
Cambodia	112	2.82	—	n/a	n/a
Paraguay	113	2.8	100	↘	-13
Benin	114	2.74	—	n/a	n/a
Guyana	115	2.73	—	n/a	n/a
Kyrgyz Republic	116	2.62	—	n/a	n/a
Chad	117	2.37	104	↘	-13

Source: World Economic Forum 2005.

APPENDIX 2.6 WORLD ECONOMIC FORUM: BUSINESS COMPETITIVENESS INDEX 2005

Table 3: The Business Competitiveness Index

Country	BCI ranking	Company operations and strategy ranking	Quality of the national business environment ranking
United States	1	1	2
Finland	2	5	1
Germany	3	7	4
Denmark	4	4	3
Singapore	5	14	5
United Kingdom	6	6	6
Switzerland	7	9	7
Japan	8	3	10
Netherlands	9	8	8
Austria	10	11	9
France	11	10	11
Sweden	12	7	14
Canada	13	16	13
Taiwan	14	13	15
Australia	15	23	12
Belgium	16	12	17
Iceland	17	15	18
New Zealand	18	21	16
Ireland	19	18	20
Hong Kong SAR	20	20	19
Norway	21	22	21
Israel	22	19	22
Malaysia	23	24	23
Korea, Rep.	24	17	24
Spain	25	25	26
Estonia	26	35	25
Czech Republic	27	29	27
South Africa	28	26	30
Chile	29	31	29
Portugal	30	39	28
India	31	30	31
Slovenia	32	27	35
United Arab Emirates	33	36	33
Hungary	34	40	32
Tunisia	35	45	34
Cyprus	36	48	36
Thailand	37	35	37
Italy	38	28	39
Slovak Republic	39	47	38
Greece	40	42	40
Lithuania	41	41	41
Poland	42	43	46
Jordan	43	69	42
Qatar	44	64	43
Ghana	45	55	47
Malta	46	61	44
Kuwait	47	63	45
Latvia	48	51	48
Brazil	49	32	52
Costa Rica	50	34	53
Turkey	51	38	51
Mauritius	52	46	49
Jamaica	53	54	54
Bahrain	54	67	55
Botswana	55	76	50
Colombia	56	45	57
China	57	53	56
El Salvador	58	57	58
Indonesia	59	50	59
Mexico	60	55	62
Panama	61	73	59
Kazakhstan	62	72	60
Croatia	63	70	61
Argentina	64	52	64
Trinidad and Tobago	65	62	63
Pakistan	66	68	65
Romania	67	58	67
Kenya	68	60	69
Philippines	69	44	70
Uruguay	70	79	66
Egypt	71	58	74
Sri Lanka	72	73	73
Namibia	73	75	72
Russian Federation	74	77	70
Ukraine	75	71	76
Nigeria	76	65	79
Azerbaijan	77	74	80
Bulgaria	78	82	71
Morocco	79	80	75
Vietnam	80	81	77
Peru	81	66	82
Tanzania	82	93	81
Macedonia, FYR	83	59	83
Zimbabwe	84	78	84
Uganda*	85	91	87
Serbia and Montenegro	86	108	86
Mali*	87	109	85
Armenia	88	87	90
Cameroon*	89	84	92
Gambia	90	100	89
Malawi	91	86	93
Venezuela	92	85	97
Moldova	93	90	94
Bosnia and Herzegovina	94	101	91
Algeria	95	111	88
Georgia	96	94	95
Madagascar	97	102	96
Mozambique	98	97	99
Benin*	99	106	98
Bangladesh	100	99	101
Dominican Republic	101	88	103
Tajikistan	102	107	100
Guatemala	103	83	104
Mongolia	104	91	102
Honduras	105	95	105
Nicaragua	106	110	106
Ecuador	107	96	108
Kyrgyz Republic	108	92	111
Cambodia	109	103	107
Guyana	110	105	109
Ethiopia	111	113	110
Albania	112	104	113
Bolivia	113	115	112
Paraguay	114	112	114
East Timor*	115	114	115
Chad*	116	116	116

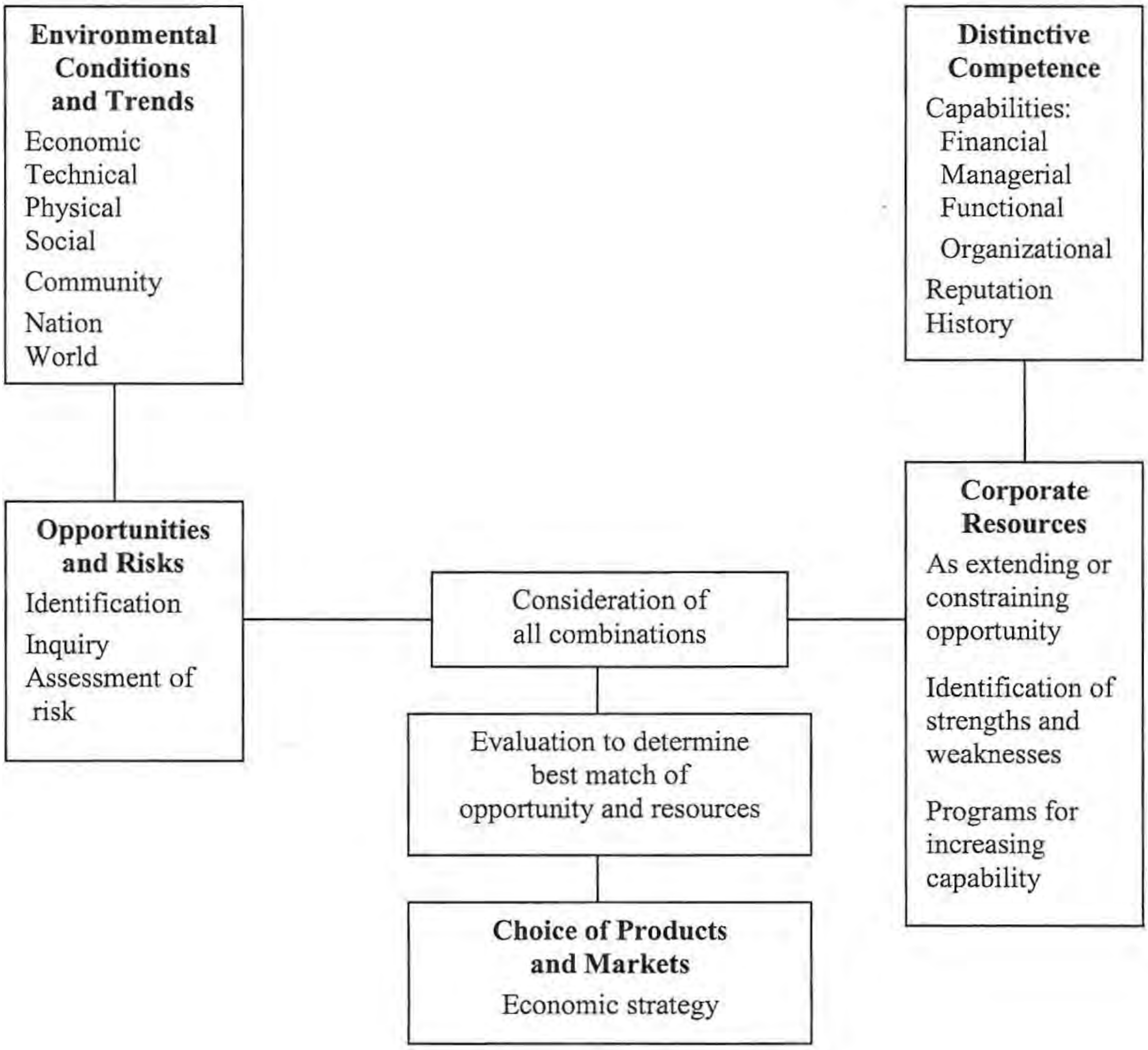
* Survey data for these countries have high within-country variance; until the reliability of survey responses improves with future educational efforts and improved sampling in these countries, their rankings should be interpreted with caution.

(cont'd)

xxi

Source: World Economic Forum 2005.

APPENDIX 3.1 ANDREW'S STRATEGIC FRAMEWORK



Source: Adapted from Andrews (1971, cited by Ghemawat 2001:6).

APPENDIX 4.1 LEADING SOUTH AFRICAN COMPANIES 2005

NO. 1 BHP BILLITON

Diversity, in both resources exploited and geographical presence, means money is always being made somewhere

SA GIANTS

Ranked by turnover	Company	Turnover Rm	Total assets Rm	Market cap Rm	Equity funds Rm	Net profit Rm	Financial year end
1	BHP Billiton Plc	157 841,4	208 600,0	182 889,7	100 937,9	22 558,6	Jun 2004
1	BHP Billiton Plc	140 612,6	255 621,6	136 488,5	121 036,0	19 162,2	Jun 2003
2	Anglo American Plc	141 647,7	281 971,6	200 120,3	143 903,4	16 136,4	Dec 2004
2	Anglo American Plc	124 246,7	277 160,0	206 154,0	137 140,0	12 560,0	Dec 2003
3	SABMiller Plc	71 936,7	47 449,4	99 048,2	183,5	6 050,6	Mar 2004
4	SABMiller Plc	65 315,0	50 259,8	75 305,3	1 196,9	4 944,9	Mar 2003
4	Sasol	60 151,0	71 589,0	96 698,0	37 462,0	7 116,0	Jun 2004
5	Sasol	64 555,0	67 688,0	70 035,5	36 269,0	10 085,0	Jun 2003
5	Old Mutual Plc	54 488,1	667 750,0	56 581,3	16 964,3	6 964,5	Dec 2003
3	Old Mutual Plc	70 277,8	661 069,4	45 771,1	15 986,1	6 750,0	Dec 2002
6	The Bidvest Group	51 262,2	15 820,7	21 751,0	3 811,2	1 640,8	Jun 2004
7	The Bidvest Group	47 073,4	13 775,0	17 065,5	4 393,1	1 438,7	Jun 2003
7	Sanlam	48 883,0	193 944,0	31 799,4	18 830,0	3 263,0	Dec 2003
8	Sanlam	44 811,0	179 256,0	24 243,9	17 486,0	894,0	Dec 2002
8	Standard Bank Group	45 337,0	538 996,0	82 337,5	28 706,0	6 959,0	Dec 2003
9	Standard Bank Group	43 069,0	388 848,0	53 853,8	26 458,0	3 741,0	Dec 2002
9	Telkom	40 795,0	51 684,0	58 934,0	21 287,0	6 336,0	Mar 2004
10	Telkom	37 600,0	51 788,0	42 055,9	17 755,0	3 725,0	Mar 2003
10	Barloworld	36 673,0	24 737,0	20 912,7	8 905,0	1 788,0	Sep 2004
13	Barloworld	34 603,0	22 111,0	15 451,6	8 340,0	1 542,0	Sep 2003
11	Absa Group	35 691,0	306 878,0	51 507,9	20 023,0	4 784,0	Mar 2004
12	Absa Group	36 501,0	269 020,0	29 199,8	17 734,0	3 635,0	Mar 2003
12	Imperial Holdings	35 278,0	22 465,0	20 563,2	8 236,0	1 639,0	Jun 2004
14	Imperial Holdings	32 277,0	20 846,0	14 377,6	7 695,0	1 470,0	Jun 2003
13	Nedcor	35 062,0	304 349,0	29 592,4	6 191,0	1 709,0	Dec 2003

NO. 15 SAPPI *Sustained recovery proved elusive, but there is optimism that demand for coated fine paper will continue to grow, especially in China*

SA GIANTS cont

Ranked by turnover	Company	Turnover Rm	Total assets Rm	Market cap Rm	Equity funds Rm	Net profit Rm	Financial year end
16	Nedcor	30 187,0	267 067,0	16 552,7	11 575,0	2 577,0	Dec 2002
14	FirstRand	34 918,0	424 263,0	70 918,4	24 218,0	5 857,0	Jun 2004
11	FirstRand	36 938,0	395 030,0	52 419,1	22 557,0	5 921,0	Jun 2003
15	Sappi	30 503,2	39 032,3	14 442,3	15 774,2	335,5	Sep 2004
17	Sappi	29 854,2	40 159,7	22 436,9	16 388,9	986,1	Sep 2003
16	Pick 'n Pay Stores	29 276,1	5 161,9	10 991,5	106,7	491,9	Feb 2004
18	Pick 'n Pay Stores	26 194,2	4 515,2	11 101,5	70,4	458,4	Feb 2003
17	Shoprite Holdings	26 641,2	7 702,2	7 603,3	1 831,3	495,1	Jun 2004
19	Shoprite Holdings	24 874,5	6 763,8	5 271,8	1 607,3	560,2	Jun 2003
18	Richemont Securities AG	26 167,8	71 534,9	94 899,6	54 348,8	2 240,3	Mar 2004
15	Richemont Securities AG	31 474,1	67 956,9	92 916,0	48 913,8	3 974,1	Mar 2003
19	Tiger Brands	25 421,5	10 926,4	16 135,4	2 818,4	1 669,8	Sep 2004
20	Tiger Brands	23 039,1	10 497,4	14 373,7	2 850,3	1 329,5	Sep 2003
20	MTN Group	23 871,0	20 244,0	71 653,6	8 079,0	4 387,0	Mar 2004
23	MTN Group	19 435,0	15 441,0	48 271,1	5 158,0	2 948,0	Mar 2003
21	Massmart Holdings	23 787,7	6 594,2	8 744,5	1 026,5	678,7	Jun 2004
22	Massmart Holdings	20 369,5	5 352,0	6 155,0	937,7	603,7	Jun 2003
22	Anglo American Platinum Corp	19 624,8	32 777,2	51 973,4	18 730,7	3 487,9	Dec 2004
26	Anglo American Platinum Corp	16 508,6	28 064,8	52 103,3	16 555,2	3 127,2	Dec 2003
23	Mittal Steel SA	18 838,0	18 536,0	22 644,2	13 741,0	2 518,0	Dec 2003
24	Mittal Steel SA	19 082,0	18 475,0	14 843,5	13 494,0	3 148,0	Jun 2003
24	Liberty Group	18 121,8	96 281,9	17 232,8	8 421,7	2 682,8	Dec 2003
27	Liberty Group	16 415,1	86 066,3	14 619,9	8 302,4	813,1	Dec 2002
25	Liberty Holdings	18 121,8	96 283,6	7 968,3	4 574,9	1 646,4	Dec 2003

Source: *Financial Mail* Top Companies 2005.

APPENDIX 4.2 DATA COLLECTION AND FIELDWORK RECORD

Name	Title or Subject	Place	Date
1. Barloworld			
1.1 <u>Personal Interviews</u>			
Phillips, A.J. (Tony)	Chief Executive Officer		
	Introduction	Sandton	22 October 2002
Drewell, P.M. (Mark)	Head Corporate Communication		
	Q1 *Initial Questionnaire*	Sandton	9 May 2003
1.2 <u>Telephone Interviews</u>			
Drewell, P.M.	*Core Competencies Follow-up*		7 June 2003
1.3 <u>Questionnaires</u>			
Phillips, A.J.	Q3 *Questions for a CEO*	e-mail	11 November 2003
	Q5 *Foreign Appointments*	e-mail	30 August 2005
Drewell, P.M.	Q2 *Development and Transfer*	e-mail	7 June 2003
	Q4 *Practical Problems… Lessons Learned*	e-mail	9 June 2004

	Q6 *South Africa*	e-mail	26 October 2005

1.4 Personal Communications

Phillips, A.J.	*Core Competencies*	e-mail	22 March 2002
	Chapter 9 (leadership)		14 August 2006
Drewell, P.M.	Q2 *Follow-up*	e-mail	26 October 2003
	SA companies & WWW differences	e-mail	8 August 2006
Coller, R.	*Market Information*	e-mail	10 May 2006

1.5 Wits Business School - Managing a Turnaround Executive Programme.

Phillips, A.J.	*Finanzauto S.A.*	Johannesburg	24 June 2003
			21 October 2004
			4 August 2005
			18 May 2006

2. SABMiller

1.1 Personal Interviews

Mackay, E.A.G. (Graham)	Chief Executive		
	Introduction/General	London	27 November 2001

Hofmeyr, M.B. (Murray)	Retired Chairman		
	General	Knysna	9 March 2002
Salzman, Miller A. (Anna)	Head of Investor Relations		
	Introduction	London	7 November 2002
	Q1 *Initial Questionnaire*	London	3 February 2003
McCallum, H.F.J. (Jack)	Retired Commercial Director		
	Purchasing/General	Johannesburg	10 May2003
Van der Schyff, R (Rob)	HR Development Manager, SA Breweries		
	Q1 *Initial Questionnaire*	Sandton	10 June 2003
Leibowitz, G (Gary)	Senior Vice President, Investor Relations		
	Q4 *Practical Problems…Lessons Learned*	London	13 July 2004
Parker, A (André)	Managing Director, Africa and Asia		
	General	Johannesburg	20 October 2004
Miller, F (Felicitie)	HR Development Manager, Africa and Asia		
	Foreign assignments. Development and transfer	Johannesburg	20 October 2004
Turner, E.M. (Ted)	Several Senior Positions e.g. MD Appletiser		
	Technical, General Management	Sandton	19 October 2004

2.2 Telephone Interviews

Saltzman, Miller, A.	*General*		12 March 2002
Mogilnicki, N (Mikolaj or Nick)	Q1A *abridged Initial Questionnaire*		22 August 2003
Saltzman, Miller, A.	*Acquisition of Miller Brewing*		10 September 2003
Miller, F.	Q1A and Q2 *Follow-up*		25 October 2003
	Q4 *Practical Problems . . . Lessons*		17 June 2004
Nel, J (Johan)	HR Director SABMiller		30 January 2004
	Miller Brewing Integration		
Smith, B (Barry)	Senior Vice President Corporate Strategy, Miller Brewing		12 February 2004
	General		

2.3 Questionnaires

Mogilnicki, N.	Q1A *abridged Initial Questionnaire*	e-mail	21 August 2003
	Q2 *Development and Transfer*	e-mail	22 August 2003
	Q4 *Practical Problems . . . Lessons Learned*	e-mail	9 June 2003
	Q5 *Foreign Appointments*	e-mail	29 August 2005
	Q6 *South Africa*	e-mail	26 October 2005

Miller, F.	Q1A *abridged Initial Questionnaire*	e-mail	22 August 2003
	Q2 *Development and Transfer*	e-mail	22 August 2003
	Q4 *Practical Problems . . . Lessons Learned*	e-mail	15 September 2003
	Q5 *Foreign Appointments*	e-mail	9 September 2005
Parker, A.	Q6 *South Africa*	e-mail	26 October 2005

2.4 Personal Communications

Savory, P.R. (Peter)	Retired Marketing Director		
	Reasons for Success	Letter	14 March 2002
Mogilnicki, N.	Q1A *abridged Initial Questionnaire Queries*	e-mail	13 August 2003
	SA Companies & WWW Differences	e-mail	31 July 2006
Miller, F.	*SA Companies & WWW Differences*	e-mail	31 July 2006
Leibowitz, G.	*Thesis Review*	e-mail	6 December 2005
	Thesis Review	e-mail	1 September 2006
Godbeer, A.	Assistant to Chief Executive		
	Ch. 9 (*Leadership*)	e-mail	29 September 2006

2.5 Wits Business School Managing a Turnaround Executive Programme

Parker, A.	*SABMiller Experiences in Africa and Asia*	Johannesburg	20 October 2004

Makanjee, M. (Maya)	Corporate Affairs Director Africa and Asia		
	SABMiller Africa and Asia: Poised for Growth		19 May 2006

2.6 SA Breweries Ebhayi Rhodes Honors Class Visit

Russell, K.	Brewmaster	Port Elizabeth	22 May 2003
			19 August 2004
			3 March2005
			9 March 2005

3. Sappi

3.1 Personal Interviews

Hope, R. (Robert)	Director Strategic Development		
	Introduction	Johannesburg	25 October 2002
	Q1 *Initial Questionnaire*	Johannesburg	13 June 2003
Van As, E. (Eugene)	Chairman		
	Q4 *Practical Problems . . . Lessons Learned*	Johannesburg	22 July 2004

3.2 Telephone Interviews

Bredenhaan, K. (Karen)	Assistant to Director Strategic Development		Various

3.3 Questionnaires

Hope, R.	Q2 *Development and Transfer of Core Competencies*	e-mail	29 September 2003
	Q5 *Foreign Appointments*		
	Q6 *South Africa*		
Van As, E.	Q3 *Questions for a CEO*	e-mail	19 November 2003
	Q6 *South Africa*	e-mail	26 October 2005

3.4 Personal Communications

Hope, R.	*Reasons for Sappi's Success*	e-mail	14 April 2002
	Tree Growing Cycles	e-mail	7 October 2003
Maree, J. (Jenny)	Ch. 9 (*Leadership*)	e-mail	14 September 2006

3.5 Wits Business School Managing a Turnaround Executive Programme

Job, J. (John)	Chairman, SA Businesses		
	Managing Global Expansion	Johannesburg	31 October 2002

4. Wolverine World Wide

4.1 Personal Interviews

O'Donovan T.J. (Tim)	President and CEO		
	Introduction, Q1A abridged Initial Questionnaire	Rockford, MI	6 October 2003
	Annual General Meeting	Rockford, MI	22 April 2004
Tegner, J.C. (John)	Corporate Communications		
	General	Grand Rapids, MI	2 May 2004
	Q5 *Foreign Appointments, General*		20 January 2006

4.2 Telephone Interviews

Tegner, J.C.	Q1A and Q2 *Questionnaire*	10 October 2003
Tegner, J.C.	*Various*	2 February 2004

4.3 Questionnaires

Tegner, J / O'Donovan, T	Q1A *abridged Initial Questionnaire*	e-mail	9 October 2003
	Q2 *Development and Transfer of Core Competencies*	e-mail	13 October 2003
Tegner, J.	Q4 *Practical Problems . . . Lessons Learned*	e-mail	1 October 2004

4.4 Personal Communications

LaBarge, S. (Susan)	Executive Assistant to the President		
	Background Documents	e-mail	7 October 2003
Tegner, J.C.	*Background Materials, Thesis*	e-mail	7 October 2003
O'Donovan, T.	Ch. 9 (*Leadership*)	e-mail	24 August 2006

4.5 Presentations

O'Donovan, T.	A Company Overview	To Analysts	15 August 2003
Gulis, S.L. (Steve)	Executive Vice President and CFO		
	A Financial Overview	To Analysts	15 August 2003

5. Other

5.1 Personal Interviews

Moore, T. (Tim)	Managing Director, Baird & Company	Grand Rapids, MI	4 June 2002
Mushum, B.M. (Bettye)	President and CEO, Gear Holdings	New York	14 December 2003
Reddy, P. (Prasad)	Previous President, K-Swiss International	Grand Rapids, MI	27 February 2004

Whipple, L. (Larry)	President, Whipple Associates	Grand Rapids, MI	8 June 2004 14 December 2005 1 September 2006
Pitman, G. (Graham)	Chairman, Inview Television Ltd. Chairman, Professional Pacific Ltd.	London	14 July 2004

5.2 Questionnaire and Report

Whipple, L.	*Transfer of Core Competencies in Multinational Corporations*		8 June 2004
Moore, M. (Mike)	Chairman, Boart Longyear International		
	Development and Transfer of Core Competencies		28 July 2004

5.3 Personal Communications

Whipple, L.	*SA Companies and WWW Differences*	e-mail	8 August 2006

APPENDIX 4.3 INITIAL QUESTIONNAIRE

DRAFT QUESTIONNAIRE

THE DEVELOPMENT AND TRANSFER OF CORE COMPETENCIES AND COMPETITIVE ADVANTAGES IN MULTINATIONAL CORPORATIONS

NEIL M. HARVEY

28 JANUARY 2003

NOTE: The original Initial Questionnaire is shown in the following pages. "Competitive Advantages" was later dropped from the thesis.

TABLE OF CONTENTS PAGE

SECTION ONE. GENERAL

1. What was the overriding vision / objective / mission that led . . . to achieve the global position that it has today?
2. What was the strategy that led to the success? (Please summarise in a few sentences).
3. What were the major obstacles and challenges encountered?
4. What significant setbacks (if any) were experienced?
5. What are the key success factors in your industry?
6. What have been your practices regarding percentage share holding, control and appointment of top management in entities in which you invest?
7. What do you consider to be your major strengths and weaknesses as a global company?
8. Who are your three most important competitors?
9. What would you consider to be the THREE most important reasons for your success?

SECTION TWO. HUMAN RESOURCES AND CULTURE

1. Describe your management philosophies / culture / style in a few sentences or key words.

2. What do you see as significant differences (if any) between what you describe in 1 and what you perceive as those of your major competitors in:
   a) the USA b) the United Kingdom c) Europe (excluding the UK)?
   Please deal with European countries individually if you feel it is merited.

3. In which countries have the cultures been most favourable to your operations?

4. In which countries have the cultural differences been the least favourable to your operations?

5. Describe your human resource philosophies and strategies in a few sentences or key words.

6. How long has the company been established?

7. How many CEOs have there been in that time?

8. What are the age, years of service and years in position of the present CEO?

9. What were the years of service and years in position of the CEO's predecessor?

10. What are the ages, years of service and years in positions of the executive directors? If any came as the result of an acquisition please include pre-acquisition experience but specify this as such.

SECTION THREE. DEVELOPMENT OF CORE COMPETENCIES (AND COMPETITIVE ADVANTAGES)

1. "A nation's competitiveness depends on the capacity of its industry to innovate and upgrade. Companies gain advantage against the world's best competitors because of pressure and challenge. They benefit from having strong domestic rivals, aggressive home-based suppliers, and demanding local customers." *Michael R. Porter. The Competitive Advantage of Nations 1990.*

   Given this statement, the definition of Porter's Diamond together with the two diagrams – please list what you consider to be the FIVE most important factors or issues illustrated in the Diamond which led to your company becoming the competitive force that it is today.

2. Do you explicitly use
   a) A Value Chain
   b) Internal Analysis (Please see diagram) in deciding upon and developing Core Competencies?

3. What are your core competencies? Where possible please link each core competency to an activity in the value chain.

4. Please explain in a few sentences how core competencies are chosen and developed in your company.

5. For each of your core competencies please list what you have found to be the most effective methods used (up to three) to develop or facilitate the development of each core competency. Table A: provides a check list of some methods. If there are methods that you use that are not on the check list, could you please add theme.

6. Have new acquisitions contributed to the development of core competencies?

7. Please explain in a few sentences how you instigate and maintain a learning process.

8. What specifically do you do to assist managers and key employees in dealing with the challenges of geography, language and culture?

9. What competitive advantages do you have that would not be core competencies as defined in this document?

TABLE A. METHODS USED TO DEVELOP OR FACILITATE THE DEVELOPMENT OF CORE COMPETENCIES

1. Exposure to a demanding technical, operating or economic environment.
2. Commit substantial resources to an area.
3. Use of company-wide rewards and incentive system to develop core competencies.
4. Corporate culture that demands high performance standards.
5. Internal analysis that identifies activities that should be developed.
6. Commit resources early.
7. Inclusion in company goals or objectives.
8. Formation of special multi-disciplinary teams.
9. Use of international reach and size.
10. Benchmark corporate competencies against competitors and other firms.
11. Regular review of existing and nascent core competencies.
12. Allocation of key managers and experts to areas.
13. Commitment to long term paths or trajectories of development.
14. Investment in skills and knowledge development of human resources.
15. Seminars / conferences.
16. Acquisitions.
17. Recruit outside talent.
18. Value chains.
19. Others (please specify).

SECTION FOUR. TRANSFER OF CORE COMPETENCIES

1. How do you determine the success or otherwise of transferring a core competency?

2. What were the greatest challenges your company faced in transferring core competencies?

3. Please list (key words) what you consider to be the problems and issues involved in the process of transferring core competencies.

4. List the measures taken to avoid pitfalls in the transfer of core competencies.

5. What do you believe you could do to improve the transfer of core competencies?

6. Table B : relates to the transfer of core competencies. Using your subjective judgement first estimate the percentage success you believe has been achieved in transferring each of your core competencies.

   Then, using a scale of 1 to 7 – where:
   1 = not effective at all and 7 = very effective
   grade the methods listed for transferring, in terms of effectiveness, (in your judgement) for each of the core competencies in your company.

   If you use methods of transfer which are not listed – please add them to the list and assign grades.

7. With all the successful acquisitions that you have made – list what you consider to be the five most important points in post M&A integration.

TABLE B. TRANSFER OF CORE COMPETENCIES

CORE COMPETENCY	A	B	C	D	E
Percentage success in transferring					
Effectiveness of transfer method (1 – 7)					

1. Appoint key people from within company to management positions in new acquisitions.
2. Post M&A integration teams.
3. Experts deliver, install and return.
4. Short term secondments.
5. Models or examples (other acquisitions or investments).
6. Rotate managers and key people from new acquisitions in wider company.
7. Seminars / conferences.
8. Visits.
9. Manuals and video material.
10. Company priority objectives.
11. Compensation incentives based on achievement of transfer.
12. Others (please specify).

FIGURE 1. PORTER'S DIAMOND

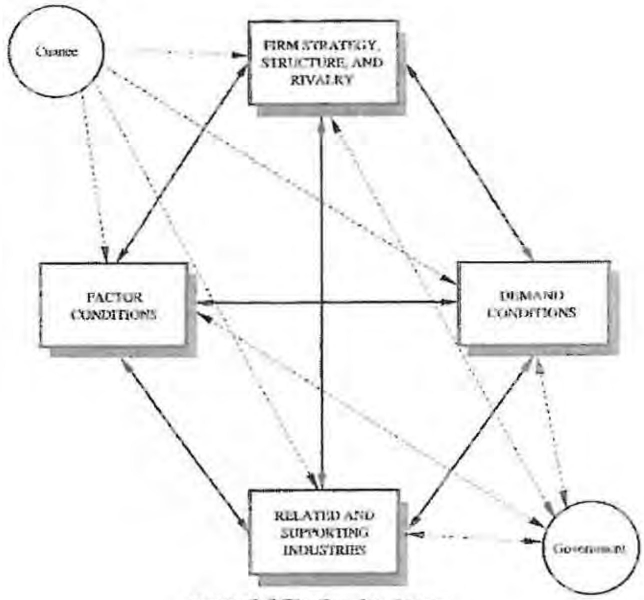


FIGURE 3-5 The Complete System

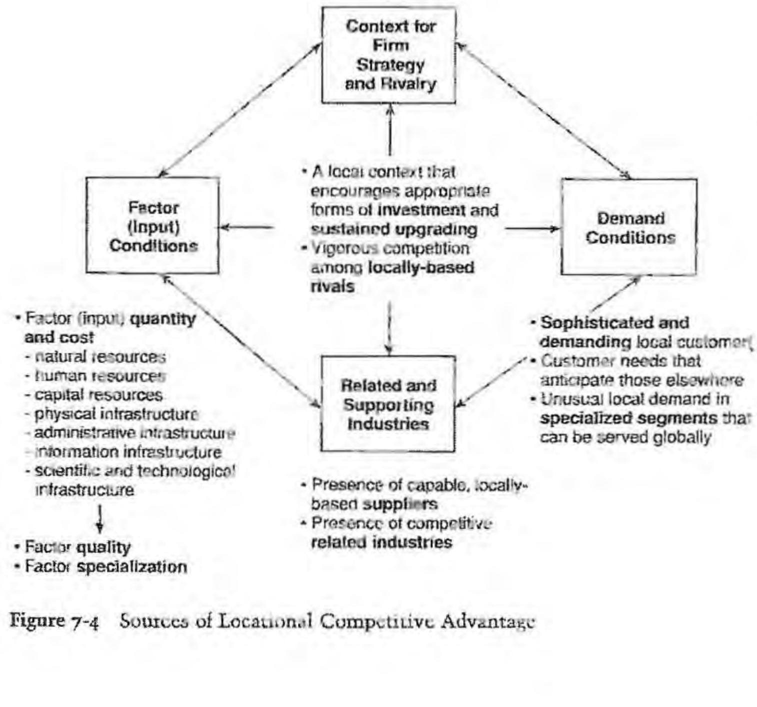
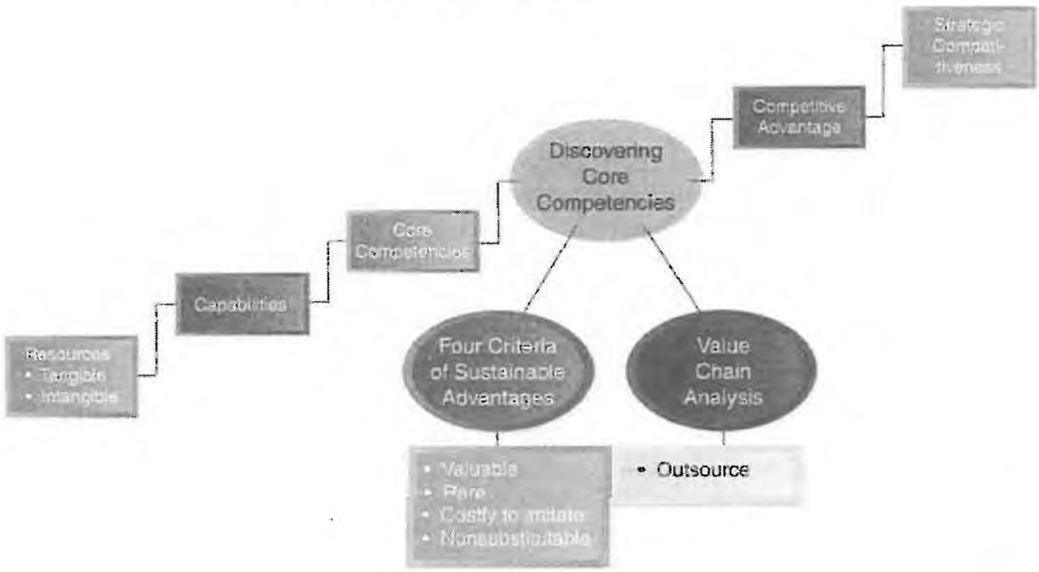


Figure 7-4 Sources of Locational Competitive Advantage

FIGURE 2. INTERNAL ANALYSIS & VALUE CHAIN

3.2 | Components of Internal Analysis Leading to Competitive Advantage and Strategic Competitiveness



3.6 | The Basic Value Chain

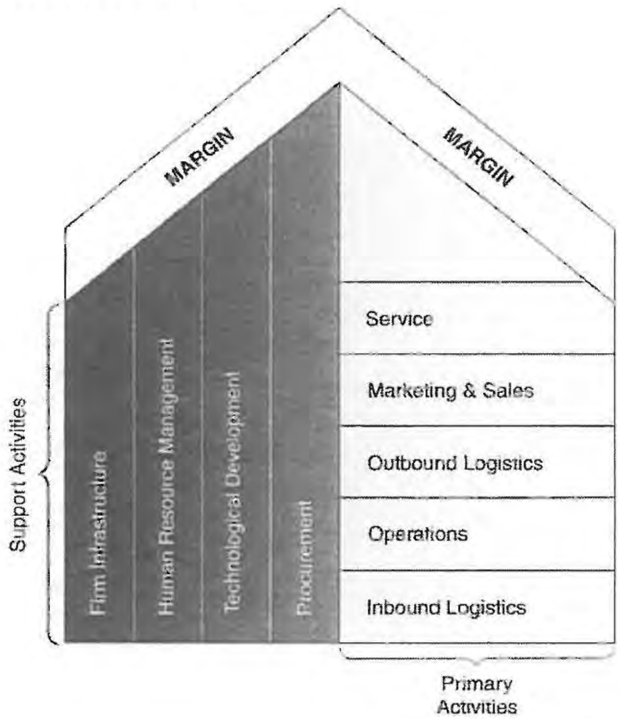


FIGURE 3. VALUE CHAIN ACTIVITIES

TABLE

3.8 | Examining the Value-Creating Potential of Primary Activities

Inbound Logistics

Activities, such as materials handling, warehousing, and inventory control, used to receive, store, and disseminate inputs to a product.

Operations

Activities necessary to convert the inputs provided by inbound logistics into final product form. Machining, packaging, assembly, and equipment maintenance are examples of operations activities.

Outbound Logistics

Activities involved with collecting, storing, and physically distributing the final product to customers. Examples of these activities include finished-goods warehousing, materials handling, and order processing.

Marketing and Sales

Activities completed to provide means through which customers can purchase products and to induce them to do so. To effectively market and sell products, firms develop advertising and promotional campaigns, select appropriate distribution channels, and select, develop, and support their sales force.

Service

Activities designed to enhance or maintain a product's value. Firms engage in a range of service-related activities, including installation, repair, training, and adjustment.

Each activity should be examined relative to competitors' abilities. Accordingly, firms rate each activity as *superior*, *equivalent*, or *inferior*.

Source: Adapted with the permission of The Free Press, a division of Simon & Schuster, Inc., from *Competitive Advantage: Creating and Sustaining Superior Performance*, by Michael E. Porter, pp. 39–40, Copyright © 1985,1998 by Michael E. Porter.

TABLE

3.9 | Examining the Value-Creating Potential of Support Activities

Procurement

Activities completed to *purchase* the inputs needed to produce a firm's products. Purchased inputs include items fully consumed during the manufacture of products (e.g., raw materials and supplies, as well as fixed assets—machinery, laboratory equipment, office equipment, and buildings).

Technological Development

Activities completed to improve a firm's product and the processes used to manufacture it. Technological development takes many forms, such as process equipment, basic research and product design, and servicing procedures.

Human Resource Management

Activities involved with recruiting, hiring, training, developing, and compensating all personnel.

Firm Infrastructure

Firm infrastructure includes activities such as general management, planning, finance, accounting, legal support, and governmental relations that are required to support the work of the entire value chain. Through its infrastructure, the firm strives to effectively and consistently identify external opportunities and threats, identify resources and capabilities, and support core competencies.

Each activity should be examined relative to competitors' abilities. Accordingly, firms rate each activity as *superior*, *equivalent*, or *inferior*.

Source: Adapted with the permission of The Free Press, a division of Simon & Schuster, Inc., from *Competitive Advantage: Creating and Sustaining Superior Performance*, by Michael E. Porter, pp. 40–43, Copyright © 1985,1998 by Michael E. Porter.

DEFINITIONS AND CONCEPTS

A **Capability** is the capacity for a set of resources to integratively perform a task or an activity. (Hitt, Ireland and Hoskisson 2001).

"As the glue that binds an organisation together, capabilities emerge over time through complex interactions among tangible and intangible resources."

Capabilities are often based on developing, carrying, and exchanging information and knowledge through the firm's human capital. The foundation of many capabilities lies in the skills and knowledge of a firm's employees and, often, their functional expertise. The value of human capital in the development and use of capabilities and, ultimately, core competencies is crucial.

Competitive Advantage – the ability of a firm to outperform its rivals. (Hitt, Ireand and Hoskisson 2001).

A **Sustained** or **Sustainable Competitive Advantage** occurs when a firm implements a value-creating strategy of which other companies are unable to duplicate the befits or find it too costly to imitate. (Hitt, Ireland and Hoskisson 2001).

Core Competencies are resources and capabilities that serve as a source of competitive advantage for a firm over its rivals. (Hitt, Ireland and Hoskisson 2001).

Core Competencies emerge over time through an organisational process of accumulating and learning how to deploy different resources and capabilities. As the capacity to take action, core competencies are the activities that the company performs especially well compared to competitors and through which the firm adds unique value to its goods or service over a long period of time.

The strategic value of resources is indicated by the degree to which they can contribute to the development of capabilities, core competencies, and ultimately a competitive advantage.

Firms use two tools to identify and build core competencies. The first consists of four specific criteria that determine which of their resources and capabilities are core competencies. Capabilities that are valuable, rare, costly to imitate and non-substitutable are strategic capabilities – also known as Core Competencies.

The second tool is Value Chain analysis – used to select the value-creating competencies that should be maintained, upgraded, or developed and those that should be outsourced.

Core Competencies are those competencies that define a firm's fundamental business as core. Core competencies must accordingly be derived by looking across the range of a firm's (and its competitors) products and services. (Teece, Pisano and Shuen 1997).

A **Core Competence** is a bundle of skills and technologies that enable a company to provide a particular benefit to customers. (Hamel and Prahalad 1996).

At Sony that benefit is 'pocketability' and the core competence is miniaturization. At Federal Express the benefit is on time delivery and the core competence, at a very high level, is logistics management.

A core competence represents the sum of learning across individual skill sets and individual organisational units.

"A core competence, as articulated by Prahalad and Hamel, has three traits; it makes a contribution to perceived customer benefits, it is difficult for competitors to imitate, and it can be leveraged to a wide variety of markets." (Mascarenhas, Baveja and Jamil 1998).

Intellectual Capital is the full spectrum of a companies intangibles, including for example, its data bases, software, manuals, trademarks, organisational structure and the expertise and abilities of its employees. (Lajoux 1998).

An industry's **Key Success Factors** concern the product attributes, competencies, competitive capabilities, and market achievements with the greatest direct bearing on company profitability. (Thompson and Strickland 1998).

Knowledge is information that is laden with experience, judgement, intuition and values. (Hitt, Ireland and Hoskisson 2001).

Knowledge Management is the management of a firm's intellectual capital. (Lajoux 1998).

Knowledge Management is concerned with identifying the valuable knowledge residing within a firm so that it can be catalogued for continuous and effective dissemination and use throughout the company. (Hitt, Ireland and Hoskisson 2001).

The **MNC** (Multinational Corporation) has substantial direct investment in foreign countries and actively manages those operations and regards them as integral parts of the company, both strategically and organisationally. (Bartlett and Ghoshal 2000).

Porter's Diamond is a model that examines four broad attributes of a nation, that individually, and as a system, together with Government and Chance, form the playing field that each nation establishes and operates for its industries:

Factor Conditions
Demand Conditions
Related and Supporting Industries
Firm Strategy, Structure and Rivalry (Porter 1998).

Resources are inputs into a firm's production process, such as capital equipment, skills of individual employees, patents, finance, and talented managers. (Hitt, Ireland and Hoskisson 2001).

Resources can be divided into **tangible resources**, which are assets that can be seen and quantified, and **intangible resources**, which include assets that are rooted deeply in the firm's history and that accumulated over time.

The four types of tangible resources and the three types of intangible resources are shown below:

Tangible Resources

Financial Resources	. The firm's ability to generate internal funds . The firm's borrowing capacity.
Organisational Resources	. The firm's formal reporting structure and its formal planning, controlling and coordinating systems
Physical Resources	. Sophistication and location of a firm's plant and equipment . Access to raw materials
Technological Resources	. Stock of technology, such as patents, trademarks, copyrights, trade secrets and formulae.

Intangible Resources

Human Resources	. Knowledge . Trust . Managerial capabilities . Organisational routines
Innovation Resources	. Ideas . Scientific capabilities . Capacity to innovate

Reputational Resources	. Reputation with customers . Brand name . Perceptions of product quality, durability and reliability . Reputation with suppliers. . For efficient, effective, supportive and mutually beneficial interactions and relationships.

The strategic value of resources is indicated by the degree to which they can contribute to the development of capabilities, core competencies, and, ultimately a competitive advantage.

Resources are the source of a firm's capabilities and capabilities, in turn, are the source of a firm's core competencies which are the basis of competitive advantages. Compared to tangible resources, intangible resources are generally a superior and more potent source of core competencies.

Strategic Intent is the leveraging of a firms internal resources, capabilities, and core competencies to accomplish the firms goals in the competitive environment. (Hitt, Ireland and Hoskisson 2001).

Strategic Mission is the statement of a firms unique purpose and the scope of its operations in product and market terms. (Hitt, Ireland and Hoskisson 2001).

A **Strategy** is an integrated and co-ordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage. (Hitt, Ireland and Hoskisson 2001).

Strategy – the word is derived from Greek *strategia* – meaning *generalship* which itself is compounded from two words meaning *army* and *to lead.* 'Your company strategy, therefore, defines how you will win.' (Pietersen 2002).

Value Chain. "Every firm is a collection of activities that are performed to design, market, deliver and support its product. All these activities can be represented using a value chain. A firm's value chain, and the way it performs individual activities, are a reflection of its history, its strategy, its approach to implementing its strategy and the underlying economies of the activities themselves." (Porter 1985).

APPENDIX 4.4 TRANSCRIPTS AND REPORTS

Barloworld:

Drewell, P.M. Interview. Q1 *Initial Questionnaire.* 9 May 2003

Phillips, A.J. Report. *Going Global.* 30 July 2003

Phillips, A.J. Q3. *Questions for a CEO.* 11 November 2003

SABMiller:

Mackay, E.A.G. Interview. 27 November 2001

Hofmeyr, M.B. Interview. 9 March 2002

Savory, P.R. Personal Communication. *Reasons for Success.* 14 March 2002

Miller Salzman, A. Interview. 12 March 2002

Miller Salzman, A. Interview. Q1 *Initial Questionnaire.* 3 February 2003

Miller Salzman, A. Telephone Interview. *Miller Acquisition.* 10 September 2003

Van der Schyff, R. Interview. Q1 *Initial Questionnaire.* 10 June 2003

Mogilnicki, N. Telephone Interview. Q1A abridged *Initial Questionnaire.* 22 August 2003

Smith B. Telephone Interview. *General, Miller, Poland.* 11 February 2004

Nel, J. Telephone Interview. *Miller.* 30 January 2004

Miller, F. Telephone Interview. *Questionnaire 1A and 2 Follow-up.* 25 October 2003

Miller, F. Telephone Interview. Q4 *Practical Problems . . . Lessons.* 17 June 2004

Sappi:

Hope, R. Interview. Q1 *Initial Questionnaire.* 13 June 2003

van As, E. Q4 *Questions for a CEO.* 19 November 2003

van As, E. Personal Interview. Q4 *Practical Problems . . . Lessons.* 22 July 2004

Wolverine:

Tegner, J.C. Notes on Meeting. 20 January 20 2006

O'Donovan, T. Interview. Q1A abridged *Initial Questionnaire.* 6 October 2003

Others:

Whipple, L. *Transfer of Core Competencies in Multinationals. Report.* 8 June 2004

Inview Television, Pitman, G. Interview. *International Business.* 14 July 2004

Boart Longyear International, Moore, M. *Transfer of Core Competencies.* Report. 28 July 2004

Notes: Other completed questionnaires and the rough notes on interviews not listed above are available.

APPENDIX 5.1 BARLOWORLD: SEVEN YEAR SUMMARY 1999

SEVEN-YEAR SUMMARY

BARLOW LIMITED AND SUBSIDIARIES AT 30 SEPTEMBER 1999

Income Statements Balance Sheets Cash Flow Statements Value Added Statement Seven-year Summary Segmental and Geographical Analysis

	1999 R'm	1998 R'm	1997 R'm	1996 R'm	1995 R'm	1994 R'm	1993 R'm
CONSOLIDATED BALANCE SHEET							
Share capital and premium	749	742	539	449	294	281	261
Reserves and retained surplus	5 721	4 431	3 835	3 506	3 204	2 807	2 505
Interest of shareholders of Barlow Limited	6 470	5 173	4 374	3 955	3 498	3 088	2 766
Interest of outside shareholders in subsidiaries	520	555	510	680	570	496	478
Interest of all shareholders	6 990	5 728	4 884	4 635	4 068	3 584	3 244
Deferred taxation liabilities	282	371	319	260	218	235	266
Long-term liabilities	2 123	1 681	1 485	1 644	1 123	638	903
Current liabilities	4 690	6 759	5 468	4 540	4 173	3 370	3 801
Total funds and liabilities	14 085	14 539	12 156	11 079	9 582	7 827	8 214
Property, plant and equipment	4 257	4 384	3 234	2 801	2 260	1 981	2 008
Non-current assets and investment in associates	1 669	1 697	1 623	1 413	1 116	720	749
Deferred taxation assets	163	221	117				
Current assets	7 996	8 237	7 182	6 865	6 206	5 126	5 457
Total assets	14 085	14 539	12 156	11 079	9 582	7 827	8 214
CONSOLIDATED INCOME STATEMENT							
Revenue	20 835	20 883	19 388	17 811	15 522	12 874	11 763
Operating profit	908	1 113	1 067	969	843	583	466
Net interest (paid)/received	(23)	(190)	(16)	47	68	34	(45)
Income from investments	37	52	40	40	32	19	28
Profit before exceptional items	922	975	1 091	1 056	943	636	449
Exceptional items	875	96	140	(14)	(24)	14	(104)
Profit before taxation	1 797	1 071	1 231	1 042	919	650	345
Taxation	209	198	327	260	301	219	150
Profit after taxation	1 588	873	904	782	618	431	195

Seven Year Summary 1999 (continued)

Share of associate companies' retained profits	**61**	39	29	10	4	1	20
Attributable net profit	**1 649**	912	933	792	622	432	215
– outside and preference shareholders	**73**	94	124	125	94	60	30
– ordinary shareholders in Barlow Limited	**1 576**	818	809	667	528	372	185
Attributable net profit excluding exceptional items	**685**	655	685	648	519	338	247
CONSOLIDATED CASH FLOW*							
Cash available from operations	**1 452**	1 220	957	564	938	369	
Dividends paid (including outside shareholders)	**(331)**	(120)	(201)	(210)	(149)	(341)	
Net cash from operating activities	**1 121**	1 100	756	354	789	28	
Net cash from/(used in) investing activities	**350**	(1 314)	(1 601)	(1 408)	(783)	(106)	
Net cash (used in)/from financing activities	**(1 017)**	(10)	993	769	172	(597)	
Net increase/(decrease) in cash and cash equivalents	**454**	(224)	148	(285)	178	(675)	

**Comparative figures prior to 1993 are not meaningful due to the unbundling of the Barlow Rand group with effect from 1 October 1993.*

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	1999 R'm	1998 R'm	1997 R'm	1996 R'm	1995 R'm	1994 R'm	1993 R'm
ORDINARY SHARE PERFORMANCE							
Weighted average number of ordinary shares in issue during the period (000)	**214 234**	211 497	206 557	202 231	200 071	198 571	196 243
Net profit per share (cents)	**735,6**	386,8	391,7	329,8	263,9	187,3	94,3
Earnings per share excluding exceptional items (cents)	**319,7**	309,7	331,7	320,3	259,6	170,4	125,9
Dividends per share (cents)	**141,0**	124,0	124,0	105,0	84,0	56,0	
Dividend cover (times)	**2,3**	2,5	2,7	3,1	3,1	3,0	
Net asset value per share (cents) *	**3 463**	3 453	2 932	2 493	1 913	1 706	1 416
PROFITABILITY AND ASSET MANAGEMENT							
Operating margin (%)	**4,4**	5,3	5,5	5,4	5,4	4,5	4,0
Net asset turn (times)	**2,1**	2,3	2,4	2,7	2,8	2,4	2,1
Return on net assets (%)	**12,2**	17,6	19,3	20,2	20,9	15,8	13,2
Return on total assets (%)	**8,5**	12,2	13,3	13,1	13,2	10,2	8,5
Return on ordinary shareholders'							

Seven Year Summary 1999 (continued)

funds (%)	**27,1**	17,1	19,4	17,9	16,0	12,7	6,7
Replacement capex to depreciation (%)	**56,6**	77,8	86,1	98,9	92,3	98,6	
Effective rate of taxation – including exceptionals (%)	**12,5**	21,2	27,4	26,3	34,4	36,9	45,6
Average rate of taxation – excluding exceptionals (%)	**24,1**	27,2	28,4	27,6	34,5	35,2	37,9
LIQUIDITY AND LEVERAGE							
Total liabilities to total shareholders' funds (%)							
Total borrowings to total shareholders' funds	**97,5**	147,3	142,4	133,4	130,2	111,8	145,0
– gross, including leasing operations (%)	**41,1**	68,2	72,9	54,1	42,7	33,1	55,6
– gross, excluding leasing operations (%)#	**16,4**	32,9	41,0	22,4	20,0	20,0	
Current ratio	**1,7**	1,2	1,3	1,5	1,5	1,5	1,4
Quick ratio	**1,1**	0,7	0,8	0,9	0,9	1,0	1,0
Interest cover – including leasing operations (times)	**3,3**	2,9	3,9	4,9	5,6	4,6	2,9
Interest cover – excluding leasing operations (times)#	**5,0**	3,5	5,7	8,4	7,8	4,9	3,0
Number of years to repay interest-bearing debt – gross	**2,0**	3,2	3,7	4,5	1,9	3,2	
Cash flow available from operations to total liabilities	**21,3**	14,5	13,8	9,1	17,7	9,2	
VALUE-ADDED							
Number of employees	**22 148**	27 804	29 681	30 740	30 660	30 351	32 880
Revenue per employee (R000's)	**834,2**	726,6	641,8	580,2	508,8	407,2	
Wealth created per employee (R000's)	**247,5**	182,2	168,9	145,2	127,0	102,6	
Employment cost per employee (R000's	**137,1**	112,1	97,8	87,9	75,7	64,9	
INFLATION-ADJUSTED INFORMATION							
South African CPI index (base 1993 = 100)	**152,1**	149,7	137,3	127,1	117,2	110,1	100,0
Deflation factor (base 1993 = 100)	**65,7**	66,8	72,8	78,7	85,3	90,8	100,0
Earnings per share excluding exceptional items (cents)							
– Historical	**319,7**	309,7	331,7	320,3	259,6	170,4	125,9
– Deflated	**210,2**	206,9	241,6	252,1	221,5	154,7	125,9
Dividends per share							
– Historical	**141,0**	124,0	124,0	105,0	84,0	56,0	
– Deflated	**92,7**	82,8	90,3	82,6	71,7	50,9	
Total assets							
– Historical	**13 922**	14 318	12 036	11 107	9 582	7 826	8 214
– Deflated	**9 150**	9 564	8 768	8 742	8 177	7 108	8 214

Including investments at market value

Source: Barloworld (2006c).

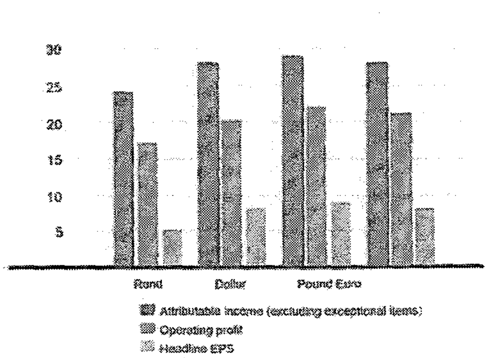
APPENDIX 5.2 BARLOWORLD 2005

GROUP SUMMARY IN OTHER CURRENCIES

for the year ended at 30 September 2005

	US dollar			Pound sterling			Euro		
	2005 $m	2004* $m	2003* $m	2005 £m	2004* £m	2003* £m	2005 €m	2004* €m	2003* €m
BALANCE SHEETS									
Assets									
Property, plant and equipment	1 246	1 190	946	704	658	566	1 034	958	808
Goodwill and intangible assets	432	413	225	244	228	134	358	333	192
Investment in associates and joint ventures and other non-current assets	449	471	498	254	260	298	372	379	426
Deferred taxation assets	86	80	67	49	44	40	72	64	57
Non-current assets	2 213	2 154	1 736	1 251	1 190	1 038	1 836	1 734	1 483
Current assets	2 286	2 146	1 642	1 292	1 186	981	1 896	1 728	1 403
Total assets	4 499	4 300	3 378	2 543	2 376	2 019	3 732	3 462	2 886
Equity and liabilities									
Capital and reserves									
Share capital and premium	220	187	106	124	103	64	182	150	91
Reserves and retained income	1 505	1 313	1 081	851	726	646	1 249	1 057	923
Non-distributable reserves – foreign currency translation	175	215	190	99	119	114	145	173	162
Interest of shareholders of Barloworld Limited	1 900	1 715	1 377	1 074	948	824	1 576	1 380	1 176
Minority interest	101	111	100	57	61	60	84	89	86
Interest of all shareholders	2 001	1 826	1 477	1 131	1 009	884	1 660	1 469	1 262
Non-current liabilities	1 117	1 071	699	632	592	417	927	863	597
Deferred taxation liabilities	142	123	88	81	68	52	118	99	75
Non-current liabilities	975	948	611	551	524	365	809	764	522
Current liabilities	1 381	1 403	1 202	780	775	718	1 145	1 130	1 027
Total equity and liabilities	4 499	4 300	3 378	2 543	2 376	2 019	3 732	3 462	2 886

Increase in profitability – 2004 to 2005 (%)



APPENDIX 5.2 continued . . .

Group Summary In Other Currencies Barloworld 2005

	US dollar			Pound sterling			Euro		
	2005 $m	2004* $m	2003* $m	2005 £m	2004* £m	2003* £m	2005 €m	2004* €m	2003* €m
INCOME STATEMENTS									
Revenue	6 149	5 552	4 305	3 437	3 081	2 679	5 942	4 641	3 990
Operating profit before goodwill amortisation	543	451	305	304	250	189	445	369	282
Goodwill amortisation		(22)	(14)		(12)	(9)		(19)	(13)
Operating profit	543	429	291	304	238	180	445	360	269
Fair value adjustments on financial instruments	(9)	(16)	(42)	(5)	(9)	(26)	(7)	(13)	(38)
Finance costs	(72)	(72)	(66)	(40)	(39)	(41)	(59)	(59)	(61)
Income from investments	29	39	34	16	22	21	24	32	32
Profit before exceptional items	491	380	217	275	212	134	403	310	201
Exceptional items	1	6	10		3	6	1	5	9
Profit before taxation	492	386	227	275	215	140	404	315	210
Taxation	(161)	(134)	(75)	(90)	(75)	(46)	(133)	(110)	(69)
Profit after taxation	331	252	152	185	140	94	271	205	141
Income from associates and joint ventures	9	16	14	5	9	9	6	14	13
Net profit	340	268	166	190	149	103	277	219	154
Net profit attributable to:									
Minority shareholders	49	38	26	27	22	20	41	32	24
Barloworld Limited shareholders	291	230	140	163	127	83	236	187	130
	340	268	166	190	149	103	277	219	154
Attributable net profit excluding exceptional items	289	226	128	162	125	80	237	185	119
Net profit per share (cents)	140.0	114.6	71.2	78.3	63.6	44.3	114.8	93.7	66.0
Headline earnings per share (cents)	139.4	129.2	73.2	78.0	71.7	45.6	114.4	105.7	67.9
Ordinary dividends per share (cents)	71.0	57.5	36.1	39.7	31.9	22.5	58.2	47.1	33.4
CASH FLOW STATEMENTS									
Cash flow from operations	558	477	301	312	265	187	458	390	279
Dividends paid (including minority shareholders)	(187)	(132)	(117)	(104)	(73)	(73)	(153)	(108)	(108)
Net cash flow from operating activities	371	345	184	208	192	114	305	282	171
Net cash used in investing activities	(465)	(322)	(226)	(260)	(176)	(140)	(381)	(262)	(209)
Net cash flow from/(used in) financing activities	94	(38)	61	52	(22)	38	76	(32)	56
Net (decrease)/increase in cash and cash equivalents	–	(15)	19	–	(8)	12	–	(12)	18
Exchange rates used:									
Balance sheet – closing rate (rand)	6.36	6.47	7.03	11.25	11.72	11.77	7.67	8.04	8.23
Income statement and cash flow statement – average rate (rand)	6.41	6.61	8.04	11.46	11.90	12.91	7.81	8.08	8.67

 # These schedules are provided for convenience purposes only. The reporting currency used for the financial statements and notes is South African rand.

** Restated – refer note 30.*

Source: Barloworld Annual Report 2005:122 – 123.

APPENDIX 5.3 SEVEN YEAR FINANCIAL REVIEW: SABMILLER 1998

Group statistics	7 year compound growth % pa	**1998**	1997	1996	1995	1994	1993	1992
Ordinary share performance *(cents per share)*								
Attributable earnings		**347,5**	633,7	566,2	465,1	362,5	303,7	290,4
Fully diluted earnings		**352,5**	605,3	540,8	438,8	347,6	295,2	286,3
Headline earnings								
fully diluted	*14,2*	**655,7**	595,1	524,8	429,6	359,9	293,5	284,7
fully diluted inflation adjusted	*13,1*	**601,2**	539,1	482,3	405,5	331,8	285,8	280,6
Cash equivalent earnings	*11,7*	**912,3**	892,0	838,2	688,6	596,9	497,6	473,0
Attributable cash flow	*12,7*	**871,8**	753,7	793,4	647,2	452,5	507,1	323,0
Dividends	*15,8*	**330,0**	287,0	250,0	200,0	155,0	137,0	130,0
Net equity	*10,0*	**2 273**	2 598	1 881	1 616	1 552	1 650	1 371
Returns and productivity								
Return on equity (%)	*Ave. 24,6*	**28,6**	23,2	28,9	27,8	24,2	18,2	21,1
Inflation adjusted return on equity (%)	*Ave. 17,3*	**17,5**	14,0	16,9	17,7	19,0	16,6	19,6
Taxed operating return (%)	*Ave. 17,4*	**19,5**	19,4	21,0	18,5	15,7	13,8	14,1
Taxed operating profit to sales income (%)		**9,0**	8,1	8,4	7,7	7,0	6,7	7,4
Net asset turn (times)	*Ave. 2,2*	**2,0**	2,4	2,6	2,5	2,2	2,1	1,9
Turnover per employee (R000)	*12,8*	**399,8**	351,8	305,0	253,4	219,8	209,0	194,5
Cash value added per employee (R000)	*17,8*	**177,8**	129,7	111,9	93,1	79,0	78,2	66,4
Solvency and liquidity								
Taxed net financing costs cover (times)	*Ave. 7,7*	**14,5**	10,5	6,4	6,7	6,1	5,0	4,8

Dividend cover (times)	*Ave. 2,2*	**2,0**	2,2	2,2	2,3	2,4	2,2	2,2
Financed gearing ratio	*Ave. 0,45*	**0,27**	0,12	0,39	0,55	,065	0,54	0,65
Total liabilities to total shareholders' funds		**1,13**	0,92	1,46	1,58	1,60	1,34	1,39
Interest free liabilities to total assets		**0,35**	0,38	0,41	0,38	0,35	0,33	0,31
Coverage of net debt by cash flows	*Ave. 0,94*	**1,40**	2,36	0,91	0,62	0,40	0,56	0,31
Cash realisation rate (%)	*Ave. 88*	**96**	85	95	94	76	102	68
Other statistics *(thousands)*								
Number of employees		**81,0**	105,0	106,9	110,1	109,8	104,2	89,5
Number of ordinary shareholders		**14,7**	15,4	15,2	14,5	14,2	15,1	15,5
Johannesburg Stock Exchange performance								
Market prices (cents per ordinary share)								
Closing (last sale)		**14 940**	14 000	12 600	10 000	8 100	5 925	5 650
High		**15 200**	14 150	14 500	10 600	9 750	6 350	6 075
Low		**10 720**	10 600	9 600	7 900	5 400	5 000	4 600
Weighted average	*18,8*	**13 193**	12 438	11 876	9 224	7 532	5 596	5 459
Market capitalisation *(Rm)*	*21,8*	**52 141**	48 173	40 866	31 654	25 309	18 376	16 538
SAB share price index	*17,9*	**396**	371	334	265	215	157	150
JSE actuaries' industrial index	*14,6*	**307**	289	288	231	196	154	156
Closing price earnings ratio *(times)*	*Ave. 21,6*	**22,9**	22,5	23,0	22,2	21,5	19,6	19,6
Closing price cash-earnings ratio *(times)*	*Ave. 14,1*	**16,4**	15,7	15,0	14,5	13,6	11,9	11,9
Closing price/net equity per share *(times)*	*Ave. 5,4*	**6,6**	5,4	6,7	6,2	5,2	3,6	4,1
Closing dividend yield *(%)*		**2,2**	2,1	2,0	2,0	1,9	2,3	2,3
Number of ordinary shares in issue *(million)*		**349,0**	317,0	296,4	280,9	273,9	272,7	268,1
Volume of shares								

traded (million)	**67,6**	52,9	17,7	21,1	18,7	10,3	7,2
Number of transactions *(thousand)*	**38,8**	36,9	12,7	10,7	9,6	7,4	6,9
Volume traded to number in issue *(%)*	**19,4**	16,7	6,0	7,5	6,8	3,8	2,7
Value of shares traded *(Rm)*	**8 919,8**	6 578,0	2 093,1	1 408,9	1 408,9	574,4	392,6

Source: SABMiller (2006c).

APPENDIX 5.4 SABMILLER: FIVE YEAR FINANCIAL REVIEW 2001

FIVE-YEAR FINANCIAL REVIEW

for the years ended 31 March

	1997 US$m	1998 US$m	1999 US$m	2000 US$m	2001 US$m	1997 Rm	1998 Rm	1999 Rm	2000 Rm	2001 Rm
Income statements										
Turnover (including associates' share)	5,244	5,877	6,184	5,424	4,184	23,731	28,205	36,364	33,355	30,689
Turnover (excluding associates' share)	4,543	5,028	4,923	4,390	3,624	20,559	24,130	28,950	27,007	26,584
Operating profit (including associates' share)	701	707	717	844	700	3,170	3,394	4,213	5,196	5,132
Net interest payable	(70)	(59)	(117)	(80)	(54)	(315)	(284)	(683)	(492)	(395)
Taxation	(190)	(211)	(195)	(186)	(186)	(860)	(1,010)	(1,145)	(1,145)	(1,366)
Minorities	(78)	(59)	(85)	(94)	(101)	(353)	(284)	(501)	(580)	(736)
Profit for the year	363	378	320	484	359	1,642	1,816	1,884	2,979	2,635
Adjusted earnings	360	410	394	426	379	1,628	1,973	2,306	2,623	2,783
Balance sheets										
Fixed assets	2,164	2,204	2,600	3,510	3,667	9,564	11,110	16,118	22,924	29,336
Current asset inv/cash at bank and in hand	547	602	749	316	218	2,419	3,031	4,640	2,063	1,746
Other current assets	1,046	1,006	913	558	514	4,621	5,071	5,662	3,644	4,109
Total assets	3,757	3,812	4,262	4,384	4,399	16,604	19,212	26,420	28,631	35,191
Interest bearing debt	(751)	(1,052)	(953)	(602)	(1,053)	(3,321)	(5,300)	(5,909)	(3,933)	(8,429)
Other creditors and provisions	(1,099)	(1,604)	(1,445)	(1,223)	(954)	(4,856)	(8,084)	(8,954)	(8,054)	(7,628)
Total liabilities	(1,850)	(2,656)	(2,398)	(1,825)	(2,007)	(8,177)	(13,384)	(14,863)	(11,987)	(16,057)
Net assets	1,907	1,156	1,864	2,559	2,392	8,427	5,828	11,557	16,644	19,134
Shareholders' funds	1,593	1,098	1,703	2,161	2,100	7,039	5,536	10,556	14,042	16,801
Equity minority interests	314	58	161	398	292	1,388	292	1,001	2,602	2,333
Capital employed	1,907	1,156	1,864	2,559	2,392	8,427	5,828	11,557	16,644	19,134
Cash flow statements										
EBITDA	819	907	933	917	854	3,704	4,362	5,489	5,646	6,261
Working capital movements	(25)	14	(45)	(53)	5	(112)	60	(269)	(336)	37
Net cash inflow from operating activities	794	921	888	864	859	3,592	4,422	5,220	5,310	6,298
Net interest and dividends	(76)	(55)	(119)	(82)	(93)	(343)	(267)	(695)	(505)	(680)
Taxation	(126)	(160)	(166)	(175)	(179)	(572)	(762)	(975)	(1,075)	(1,310)
	592	706	603	607	587	2,677	3,393	3,550	3,730	4,308
Net capital expenditure	(278)	(374)	(544)	(401)	(331)	(1,261)	(1,795)	(3,199)	(2,466)	(2,430)
Net investments	(8)	(21)	(1)	(569)	7	(34)	(100)	(4)	(3,509)	51
Net acquisition of subsidiaries and associates	(173)	(251)	(273)	30	(700)	(781)	(1,205)	(1,558)	190	(5,134)
Net cash surplus/(shortfall)	133	60	(215)	(333)	(437)	601	293	(1,210)	(2,055)	(3,205)
Management of liquid resources	(8)	(152)	(419)	503	64	(38)	(732)	(2,466)	3,102	471
Net cash inflow from financing	158	57	256	72	491	713	283	1,371	443	3,601
Dividends paid	n/a	n/a	n/a	(50)	(177)	n/a	n/a	n/a	(309)	(1,300)
Increase/(decrease) in cash in the year	283	(35)	(378)	192	(59)	1,276	(156)	(2,305)	1,181	(433)
Performance per ordinary share (US/SA cents per share)										
Basic earnings	49.9	52.1	43.9	64.3	51.5	225.9	249.9	258.1	395.6	378.0
Diluted basic earnings	n/a	n/a	43.8	64.1	51.4	n/a	n/a	257.6	394.7	376.8
Adjusted basic earnings	49.5	56.6	54.0	56.6	54.4	223.9	271.4	315.9	348.4	399.2
Net asset value	219.1	151.0	220.1	279.3	271.0	968.3	761.5	1,364.4	1,814.9	2,167.9
Share statistics										
Total number of shares *(million)*	727.0	727.0	773.7	774.3	776.0					
Weighted average number of shares *(million)*	727.0	727.0	729.9	752.8	697.1					
Weighted average number of shares (diluted) *(million)*	n/a	n/a	731.3	754.8	699.4					
Returns and productivity										
Return on equity *(%)*	22.6	37.3	23.1	19.7	18.0					
Operating margin *(%)*	13.5	13.0	13.2	14.6	16.7					
Cash operating margin *(%)*	18.0	18.0	19.9	20.9	23.6					
Operating return *(%)*	33.5	47.7	45.1	47.1	40.1					
Cash operating return *(%)*	25.1	28.6	24.7	25.8	22.2					
Group turnover per employee *(US$000's)*	94.8	101.7	100.3	91.3	115.7					
Average monthly number of employees	47,902	49,431	49,099	48,079	31,327					
Solvency and liquidity										
Net interest cover *(times)*	10.1	13.0	7.4	9.9	13.0					
Total borrowings to total assets *(%)*	20.0	27.6	22.4	13.7	23.9					
Cash flow to total borrowings *(%)*	105.7	97.5	93.2	143.5	81.6					

Source: SABMiller Annual Report 2001:126.

APPENDIX 5.4 (CONTINUED)

	Turnover 1997 US$m	Turnover 1998 US$m	Turnover 1999 US$m	Turnover 2000 US$m	Turnover 2001 US$m	Operating profit 1997 US$m	Operating profit 1998 US$m	Operating profit 1999 US$m	Operating profit 2000 US$m	Operating profit 2001 US$m
Business segment analysis										
Beer South Africa	1.753	1,804	1,609	1.608	1,365	378	401	380	407	343
SAB International	898	1,258	1,352	1.474	1,797	112	165	190	199	260
Other Beverage Interests	833	920	967	954	916	82	98	117	120	106
Hotels and Gaming	279	282	276	263	206	36	34	42	40	25
Central administration	—	—	—	—	—	(13)	(13)	(18)	(35)	(34)
Continuing businesses – excluding exceptional items	3,763	4,264	4,204	4,299	4,184	595	685	711	731	700
PGSI	1.481	1.613	1,751	1,125	—	113	81	75	61	—
Group – excluding exceptional items	5,244	5,877	5,955	5,424	4,184	708	766	786	792	700
Exceptional items										
SAB International	—	—	229	—	—	—	—	(50)	(11)	—
Hotels and Gaming	—	—	—	—	—	—	—	(9)	—	—
PGSI	—	—	—	—	—	(7)	(59)	(10)	(13)	—
Group – including exceptional items	5,244	5,877	6,184	5,424	4,184	701	707	717	768	700

	Turnover 1997 Rm	Turnover 1998 Rm	Turnover 1999 Rm	Turnover 2000 Rm	Turnover 2001 Rm	Operating profit 1997 Rm	Operating profit 1998 Rm	Operating profit 1999 Rm	Operating profit 2000 Rm	Operating profit 2001 Rm
Business segment analysis										
Beer South Africa	7,933	8,658	9,459	9,808	10,014	1,709	1,926	2,236	2,507	2,520
SAB International	4,064	6,038	8,021	9,081	13,180	509	791	1,099	1,225	1,909
Other Beverage Interests	3,771	4,412	5,688	5,872	5,986	370	473	688	735	774
Hotels and Gaming	1,262	1,353	1,624	1,618	1,509	164	163	245	248	180
Central administration	—	—	—	—	—	(60)	(65)	(104)	(217)	(251)
Continuing businesses – excluding exceptional items	17,030	20,461	24,792	26,479	30,689	2,692	3,288	4,164	4,498	5,132
PGSI	6,701	7,744	10,294	6,876	—	509	388	436	376	—
Group – excluding exceptional items	23,731	28,205	35,086	33,355	30,689	3,201	3,676	4,600	4,874	5,132
Exceptional items										
SAB International	—	—	1,278	—	—	—	—	(281)	(66)	—
Hotels and Gaming	—	—	—	—	—	—	—	(50)	—	—
PGSI	—	—	—	—	—	(31)	(282)	(56)	(80)	—
Group – including exceptional items	23,731	28,205	36,364	33,355	30,689	3,170	3,394	4,213	4,728	5,132

Source: SABMiller Annual Report 2001:127.

APPENDIX 5.5 SABMILLER: BUSINESS SEGMENT ANALYSIS 2005

for the years ended 31 March

	Turnover					Operating profit				
	2001	2002	2003#	2004	**2005**	2001	2002	2003	2004	**2005**
			Restated							
	US$m	US$m	US$m	US$m	**US$m**	US$m	US$m	US$m	US$m	**US$m**
Business segment analysis										
North America	-	-	3,408	4,778	**4,892**	-	-	75	189	**261**
Central America	-	186	514	531	**521**	-	7	10	31	**48**
Europe	1,097	1,280	1,583	2,420	**2,909**	130	168	239	327	**419**
Africa and Asia	700	946	1,209	1,555	**1,937**	130	162	219	288	**363**
Beer South Africa	1,365	1,112	1,270	1,964	**2,522**	343	287	338	522	**708**
Other Beverage Interests	816	676	788	1,171	**1,473**	106	95	120	186	**250**
Hotels and Gaming	206	164	212	226	**289**	25	28	42	52	**79**
Central Administration	-	-	-	-	**-**	-34	-35	-44	-57	**-85**
Group - excluding exceptional items	4,184	4,364	8,984	12,645	**14,543**	700	712	999	1,538	**2,043**
Exceptional items										
North America	-	-	-	-	**-**	-	-	-58	-14	**7**
Central America	-	-	-	-	**-**	-	-	-12	-6	**-**
Europe	-	-	-	-	**-**	-	-8	-	-6	**-51**
Hotels and Gaming	-	-	-	-	**-**	-	-	-	-	**-4**
Group - including exceptional items	4,184	4,364	8,984	12,645	**14,543**	700	704	929	1,512	**1,995**

2003 turnover restated to reflect the adoption of FRS 5 Reporting the substance of transactions, application note G. Earlier years have not been restated.

	EBITA					Net operating assets				
	2001	2002	2003	2004	**2005**	2001	2002	2003#	2004	**2005**
			Restated			Restated		Restated		
	US$m	US$m	US$m	US$m	**US$m**	US$m	US$m	US$m	US$m	**US$m**
Business segment analysis										
North America	-	-	250	424	**497**	-	-	5,147	4,726	**4,436**
Central America	-	22	56	76	**91**	-	1,135	1,089	964	**912**
Europe	148	198	275	383	**483**	1,091	1,253	1,446	2,109	**2,671**
Africa and Asia	132	171	233	306	**384**	472	728	866	1,259	**1,296**
Beer South Africa	343	287	338	522	**708**	415	263	356	320	**284**
Other Beverage Interests	106	95	120	186	**250**	520	355	524	713	**1,167**
Hotels and Gaming	25	28	42	53	**81**	159	140	167	219	**266**
Central Administration	-34	-35	-44	-57	**-85**	-148	-193	-283	-301	**-533**
Group - excluding exceptional items	720	766	1,270	1,893	**2,409**	2,509	3,681	9,312	10,009	**10,499**
Exceptional items										
North America	-	-	-58	-14	**7**	-	-	-	-	**-**
Central America	-	-	-12	-6	**-**	-	-	-	-	**-**
Europe	-	-8	-	-6	**-51**	-	-	-	-	**-**
Africa and Asia	-	-	-	7	**103**	-	-	-	-	**-**
Other Beverage Interests	-	-	-	13	**-**	-	-	-	-	**-**
Hotels and Gaming	-	-	4	-	**7**	-	-	-	-	**-**
Central administration	-	-	-	47	**252**	-	-	-	-	**-**
Group - including exceptional items	720	758	1,204	1,934	**2,727**	2,509	3,681	9,312	10,009	**10,499**

Restated to reflect the adoption of UITF 38. Earlier years have not been restated.

Source: SABMiller Annual Report 2005:122.

APPENDIX 5.6 SAPPI: TEN YEAR REVIEW 1999

ten year review

	10 year annual compound growth	September 1999 R million	September 1998 R million[2]	September 1997 R million[2]
Income statement				
Net sales	26.5%	26,577.5	22,709.6	16,216.2
Operating income	17.4%	2,450.5	2,207.9	1,164.1
Net finance costs (before capitalised interest)		1,141.4	1,387.2	1,135.1
Depreciation, amortisation and fellings		2,145.0	1,744.5	1,091.1
Income before taxation	12.3%	1,133.6	1,131.4	467.7
Taxation		302.1	446.4	189.0
Attributable to minority interests		94.3	91.7	139.5
Net income	7.8%	737.2	593.3	139.2
Extraordinary items		–	–	–
Cash generated by operations	22.0%	4,914.2	4,485.3	2,429.8
Balance sheet				
Non-current assets		25,942.7	28,539.1	19,265.3
Current assets		6,922.5	9,115.5	5,634.6
Total assets	19.4%	32,865.2	37,654.6	24,899.9
Current liabilities		10,132.3	8,952.8	5,611.3
Total capital employed	17.2%	22,732.9	28,701.7	19,288.6
Statistics				
Average number of shares in issue (millions)				
Ordinary shares	10.2%	223.8	200.5	159.2
Share performance: per share (in cents)				
Earnings – Basic[4]		329	296	87
– Diluted[5]		327	294	87
Headline earnings – Basic[4]		456	253	99
– Diluted[5]		450	252	99
Ordinary dividend		115	100	–
Net asset value[6]	5.0%	5,195	5,109	4,575
Ordinary dividend cover (times)		2.7	2.7	–
Returns (%)				
Operating income to net sales		9.2	9.7	7.2
Operating income to average net assets		9.5	9.2	6.0
Net income to average ordinary shareholders' interest		7.9	7.9	2.4
Ratios				
Debt/total capitalisation		0.44	0.47	0.50
Debt/equity ratio		1.19	1.51	1.55
Current asset ratio		0.68	1.02	1.00
Cash interest cover		4.3	3.2	2.1
Number of employees		20,245	23,640	21,055

Notes

(1) The September 1995 period covers 12 months.

(2) September 1996, 1997 and 1998 years' figures and ratios have been restated to account for the changes in accounting policies. Figures and ratios prior to 1996 have not been restated.

(3) Ratios for February 1995 include Sappi Fine Paper North America income for only ten weeks but balance sheet figures at 28 February 1995.

(4) Basic earnings and headline earnings per share shown for 1996, 1997, 1998 and 1999 only are calculated according to AC 104 (revised).

(5) Diluted earnings per share and diluted headline earnings per share shown for 1996, 1997, 1998 and 1999 only are calculated according to AC 104 (revised). 1995 and prior periods' earnings per share are as previously disclosed, prior to the implementation of the revised AC 104. For this reason, the average number of shares in issue prior to 1996 includes deferred equity.

(6) Including deferred tax.

eptember 1996 R million	September 1995 R million	February 1995 R million	February 1994 R million	February 1993 R million	February 1992 R million	February 1991 R million
13.945.1	12.301.5	7.248.2	5.085.0	4.318.1	3.447.0	3.215.2
1.348.6	2.257.2	812.2	165.5	443.7	500.8	576.5
1 043.6	773.0	400.8	184.0	202.7	289.6	344.6
906.7	786.1	578.6	441.4	391.9	331.6	208.3
577.1	1.683.1	626.0	147.2	380.4	338.8	398.6
117.4	192.3	35.7	5.0	20.3	10.8	8.6
144.3	135.7	28.6	(3.0)	7.7	8.1	13.5
315.4	1.355.1	561.7	145.2	352.4	319.9	376.5
–	–	444.4	50.1	19.1	5.3	237.1
2,401.5	3,226.7	1.354.2	560.6	776.0	832.4	819.2
18,596.7	13,873.3	13,395.2	7,406.4	6,988.0	5,464.1	5,488.4
4,994.9	5,136.0	4,198.7	2,385.6	1,950.4	2,210.8	1,178.6
23,591.6	19,009.3	17,593.9	9,791.0	8,938.4	7,674.9	6,667.0
4,065.2	3,595.9	3,023.0	1,845.1	1,920.1	1,338.8	1,200.8
19,526.4	15,413.4	14,570.9	7,945.9	7,018.3	6,336.1	5,466.2
157.3	160.7	159.8	162.1	141.4	102.7	93.2
201						
201	846	352	90	249	312	393
171						
171	872	364	43	298	316	364
140	120	100	–	160	200	200
4,567	4,079	3,576	3,517	3,407	3,185	3,344
1.4	7.5	3.7	–	1.5	1.6	2.0
9.7	18.3	11.2	3.3	10.3	14.5	17.9
7.7	14.7	7.2	2.2	6.7	8.5	11.6
10.7	21.2	9.5	2.7	7.8	9.3	12.9
0.50	0.45	0.51	0.28	0.33	0.08	0.26
1.43	0.97	1.16	0.41	0.47	0.40	0.80
1.23	1.43	1.39	1.29	1.02	1.65	0.98
2.3	4.2	3.4	3.0	3.8	2.9	2.4
23,458	23,058	23,013	19,623	20,727	19,324	21,470

Source: Sappi Annual Report 1999. Supplied by Sappi Head Office 2003.

APPENDIX 5.7 SAPPI: FIVE-YEAR REVIEW 2005

	Annual compound growth (%)	**September 2005 US$ million**	September 2004 US$ million	September 2003 US$ million	September 2002 US$ million	Septemb 20 US$ milli
Income statement and cash flow						
Sales	4.6	5,018	4,728	4,299	3,729	4,1
Operating (loss) profit [6]	–	(137)	188	272	402	2
Net finance costs						
(excluding capitalised interest)	(8.7)	87	110	111	102	1
Depreciation, amortisation and fellings	8.7	490	465	395	338	3
(Loss) profit before taxation [6]	–	(224)	78	161	300	1
Net taxation [1]	–	(11)	(17)	18	83	
Net (loss) profit for the year [1][6]	–	(213)	95	143	217	1
Headline earnings [1]	(50.1)	16	98	157	230	2
Cash generated by operations	(7.9)	554	601	645	722	7
EBITDA [2][6]	(12.1)	353	653	667	740	5
Balance sheet						
Non-current assets [1]	6.4	4,332	4,564	4,280	3,658	3,3
Current assets	3.1	1,376	1,580	1,575	1,094	1,2
Total assets [1]	5.6	5,708	6,144	5,855	4,752	4,5
Current liabilities	0.6	1,485	1,524	1,361	1,050	1,4
Total capital employed	7.6	4,223	4,620	4,494	3,702	3,1
Net debt	10.2	1,662	1,584	1,491	1,419	1,1
Statistics						
Number of ordinary shares (millions)						
In issue at year-end [3]	(0.4)	225.9	226.5	226.9	230.2	22
Weighted average number of shares						
in issue during the year [3]	(0.8)	225.8	226.3	229.1	230.2	23
Share performance: per share (in US cents)						
Basic (loss) earnings [1][6]	–	(94)	42	62	94	

APPENDIX 5.7 (CONTINUED)

	September 2005 US$ million	September 2004 US$ million	September 2003 US$ million	September 2002 US$ million
Returns (%)				
Operating (loss) profit to sales [6]	(2.7)	4.0	6.3	10.8
Operating (loss) profit to average [6] net assets (RONA) [1]	(3.1)	4.1	6.6	11.7
Net (loss) profit to average ordinary shareholders' equity (ROE) [1] [2] [6]	(10.5)	4.6	7.9	13.7
Ratios				
Net debt/total capitalisation [2]	0.36	0.32	0.31	0.36
Net debt/equity ratio [2]	0.88	0.73	0.75	0.87
Asset turnover (times)	0.86	0.77	0.73	0.78
Current asset ratio	0.93	1.04	1.16	1.04
Trade accounts receivable days outstanding (including receivables securitised)	50	56	52	54
Inventory turnover (times)	6.3	5.4	5.3	5.8
Cash interest cover (times)	6.4	5.5	5.8	7.1
Number of employees	15,618	16,010	16,939	17,572
Sales per employee (US$'000)	321	295	254	212
Exchange rates				
US$ per one Euro exchange rate – closing	1.2030	1.2309	1.1475	0.9789
US$ per one Euro exchange rate – average (12 month)	1.2659	1.2152	1.0804	0.9188
ZAR to one US$ exchange rate – closing	6.3656	6.4290	7.1286	10.5400
ZAR to one US$ exchange rate – average (12 month)	6.2418	6.6824	8.3300	10.5393
Net (loss) profit to EBITDA[2] [6] reconciliation				
Net (loss) profit for the year [6]	(213)	95	143	217
Net finance costs	87	110	111	102
Net taxation	(11)	(17)	18	83
Depreciation and amortisation (including fellings)	490	465	395	338
EBITDA [2] [6]	353	653	667	740

Source: Sappi Annual Report 2005:64.

APPENDIX 5.8 WOLVERINE WORLD WIDE: FIVE YEAR OPERATING AND FINANCIAL SUMMARY 2004

FIVE-YEAR OPERATING AND FINANCIAL SUMMARY

	2004	2003	2002	2001	2000
(In Thousands, Except Per Share Data and Percentages)					
SUMMARY OF OPERATIONS[1]					
Revenue	**$991,909**	$888,926	$827,106	$720,066	$701,291
Cost of products sold	**617,774**	562,338	532,878	463,030	477,318
Selling and administrative expenses	**274,125**	246,652	217,154	182,178	198,953
Interest expense (net)	**3,245**	5,474	6,466	6,742	9,909
Income taxes	**30,879**	23,262	23,599	23,307	4,325
Net earnings	**65,938**	51,716	47,912	45,240	10,690
Net earnings as a percent of revenue	**6.6%**	5.8%	5.8%	6.3%	1.5%
Cash dividends declared	**$ 11,135**	$ 8,588	$ 7,192	$ 6,643	$ 5,797
Per share of common stock:[2]					
Basic net earnings[3]	**$ 1.15**	$ .88	$ .79	$ .74	$ .17
Diluted net earnings[3]	**1.09**	.85	.77	.71	.17
Realignment charges[1]	**—**	—	—	—	.47
Cash dividends declared	**.19**	.15	.12	.11	.09
Stockholders' equity[4]	**6.80**	6.48	5.61	5.65	5.14
Shares used for computing earnings per share:[1][2][3]					
Basic	**57,398**	58,764	60,368	61,107	60,909
Diluted	**60,474**	61,081	62,333	63,238	61,882
FINANCIAL POSITION AT YEAR-END					
Cash and cash equivalents	**$ 72,172**	$ 55,356	$ 27,078	$ 35,820	$ 8,434
Accounts receivable (net)	**151,174**	146,879	156,285	152,330	161,957
Inventories	**182,924**	164,904	168,998	177,041	144,192
Total current assets	**430,855**	386,636	364,643	374,802	325,086
Property, plant and equipment (net)	**94,930**	96,007	97,274	98,994	102,665
Total assets	**639,571**	593,762	531,994	543,678	494,568
Total current liabilities	**110,251**	85,766	80,177	74,521	54,004
Short-term borrowings	**—**	—	—	90	896
Long-term debt	**43,904**	59,923	72,915	90,848	92,194
Stockholders' equity	**458,291**	430,094	369,097	374,152	337,238
Working capital	**320,604**	300,870	284,466	300,281	271,082

Notes to Five-Year Operating and Financial Summary

1. *This summary should be read in conjunction with the consolidated financial statements and the notes thereto. In particular, see the discussions of the Fiscal 2000 $45.0 million realignment charge as discussed in the Company's 2000 Form 10-K filed with the Securities and Exchange Commission (SEC) and Note 11-Business Acquisitions.*
2. *On December 15, 2004, the Company announced a three-for-two stock split in the form of a stock dividend on shares of common stock outstanding at January 3, 2005 distributed to shareholders on February 1, 2005. All share and per share data has been retroactively adjusted for the increased shares resulting from this stock split. Treasury shares were excluded from the stock split.*
3. *Basic earnings per share are based on the weighted average number of shares of common stock outstanding during the year after adjustment for nonvested restricted stock. Diluted earnings per share assume the exercise of dilutive stock options and the vesting of all outstanding restricted stock.*
4. *Stockholders' equity per share is based on shares outstanding at year-end.*

Source: Wolverine World Wide Annual Report 2004: 30.

APPENDIX 5.9 WOLVERINE WORLD WIDE: FIVE YEAR OPERATION AND FINANCIAL SUMMARY 1997

Wolverine World Wide, Inc.

Five-Year Operating and Financial Summary[1]

(In Thousands, Except Per Share Data)	**1997**	1996	1995	1994	1993
Summary of Operations					
Net sales and other operating income	**$665,125**	$511,029	$413,957	$387,534	$333,143
Cost of products sold	**460,999**	355,224	290,469	264,384	233,115
Selling and administrative expenses	**137,157**	107,492	85,993	93,982	80,354
Interest expense (net)	**4,610**	1,595	3,678	3,639	4,211
Income taxes	**19,542**	14,811	10,047	6,625	4,440
Net earnings	**41,539**	32,856	24,067	16,598	11,492
Percent of net sales and other operating income	**6.2%**	6.4%	5.8%	4.3%	3.4%
Cash dividends declared	**$ 3,688**	$ 2,974	$ 2,347	$ 1,711	$ 1,086
Shares used for computing earnings per share[2,3]					
Basic	**41,516**	40,641	36,270	34,569	33,165
Diluted	**43,464**	42,955	38,507	37,332	36,925
Per share of common stock:					
Net earnings[2,3]:					
Basic	**$ 1.00**	$ .81	$ .66	$ .48	$ .35
Diluted	**.96**	.76	.62	.45	.31
Cash dividends[3,4]	**.09**	.07	.06	.05	.03
Stockholders' equity[3,5]	**6.52**	5.66	4.91	3.56	3.13
Financial Position at Year End					
Cash and cash equivalents	**$ 5,768**	$ 8,534	$ 27,088	$ 2,949	$ 3,730
Accounts receivable (net)	**138,066**	125,999	83,392	70,669	62,362
Inventories	**143,834**	117,427	88,350	81,637	70,556
Total current assets	**303,861**	264,628	214,875	171,148	149,512
Total current liabilities	**64,895**	69,810	37,647	43,117	38,306
Working capital	**238,966**	194,818	177,228	128,031	111,206
Property, plant and equipment (net)	**90,331**	63,003	46,885	35,348	31,623
Total assets	**449,663**	361,598	283,554	231,582	205,112
Short-term borrowings	**3,251**	1,026	2,339	1,432	1,948
Long-term debt	**94,264**	41,309	30,678	43,786	49,645
Stockholders' equity	**282,430**	239,292	204,214	131,343	112,146

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Notes to Five-Year Operating and Financial Summary

1. This summary should be read in conjunction with the consolidated financial statements and the notes thereto.

2. Basic earnings per share are based on the weighted average number of shares of common stock outstanding during the year after adjustment for nonvested common stock. Diluted earnings per share are based on the weighted average number of shares of common stock outstanding during the year and the assumed exercise of dilutive stock options.

3. On April 17, 1997, July 11, 1996, April 19, 1995 and March 10, 1994, the Company announced three-for-two stock splits on shares of common stock outstanding at May 2, 1997, July 26, 1996, May 1, 1995 and March 21, 1994, respectively. All share and per share data have been retroactively adjusted for the increased shares resulting from these stock splits.

4. Cash dividends per share represent the rates paid by the Company on the shares outstanding.

5. Stockholders' equity per share is based on shares outstanding at year end.

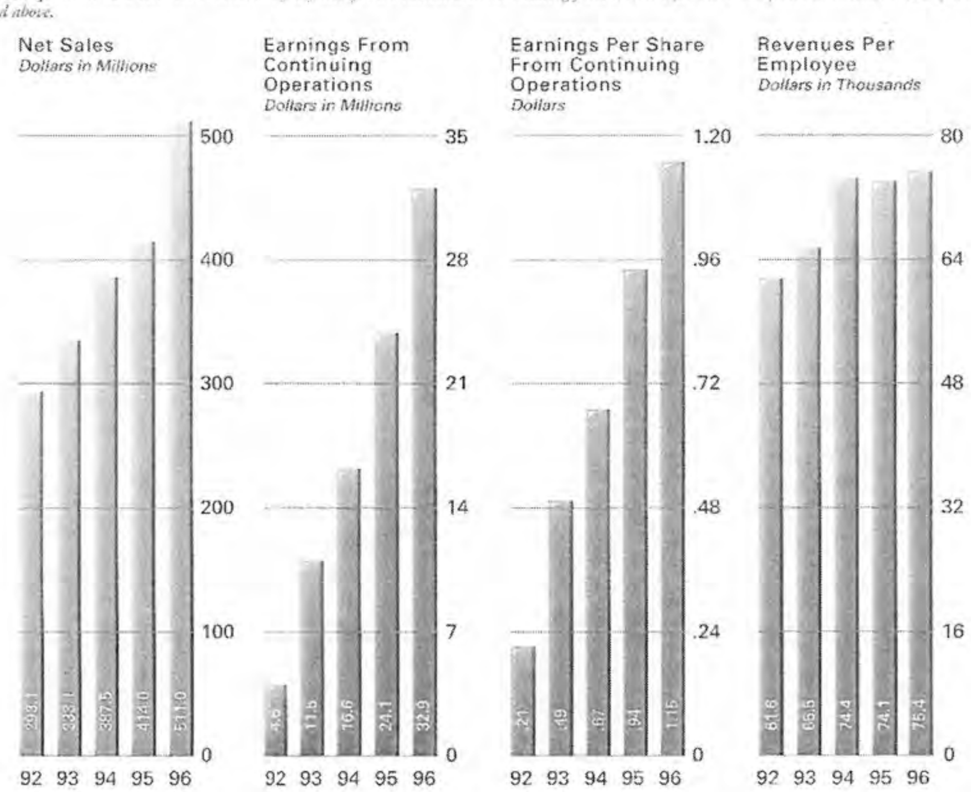
Source: Wolverine Annual Report 1997:30.

APPENDIX 5.10 WOLVERINE WORLD WIDE FINANCIAL HIGHLIGHTS 1994 - 1996

Financial Highlights

(Thousands of Dollars, Except Per Share Data)	1996	1995	1994
Operating Results			
Net sales and other operating income	$511,029	$413,957	$387,534
Earnings from continuing operations before income taxes	47,667	34,114	23,223
Income taxes	14,811	10,047	6,625
Earnings from continuing operations	32,856	24,067	16,598
Percent of net sales and other operating income	6.4%	5.8%	4.3%
Percent of average equity	14.8%	16.2%	13.6%
Per Share of Common Stock			
Earnings from continuing operations	$ 1.15	$ .94	$ .67
Dividends declared	.10	.09	.07
Corporate Statistics			
Shares used for computing earnings per share	28,526.045	25,671,702	24,537,084
Number of stockholders of record	1,961	1,975	2,046
Number of employees	6,775	5,586	5,206

All share and per share data have been retroactively adjusted for the increased shares resulting from the three-for-two stock splits announced in each of the years presented above.



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Source: Wolverine World Wide Annual Reports 1996:2.

APPENDIX 5.11 WOLVERINE WORLD WIDE FIVE YEAR OPERATING AND FINANCIAL SUMMARY 1995-1999

Wolverine World Wide, Inc.

Five-Year Operating and Financial Summary [1]

(In Thousands, Except Per Share Data)	**1999**	1998	1997	1996	1995
Summary of Operations					
Net sales and other operating income	**$ 665,576**	$ 669,329	$ 665,125	$ 511,029	$ 413,957
Cost of products sold	**457,001**	456,726	460,999	355,224	290,469
Selling and administrative expenses	**147,980**	143,403	137,157	107,492	85,993
Interest expense (net)	**10,346**	7,279	4,610	1,595	3,678
Earnings before interest, taxes, depreciation, amortization and restructuring charge (EBITDA)	**88,773**	82,123	78,292	56,409	43,557
Income taxes	**17,166**	20,157	19,542	14,811	10,047
Net earnings	**32,380**	41,651	41,539	32,856	24,067
Percent of net sales and other operating income	**4.9%**	6.2%	6.2%	6.4%	5.8%
Cash dividends declared	**$ 4,944**	$ 4,621	$ 3,688	$ 2,974	$ 2,347
Shares used for computing earnings per share:[2,3]					
Basic	**40,303**	41,520	41,516	40,641	36,270
Diluted	**41,486**	42,952	43,464	42,955	38,507
Per share of common stock:					
Net earnings, as reported:[2,3]					
Basic	**$ .80**	$ 1.00	$ 1.00	$ .81	$ .66
Diluted	**.78**	.97	.96	.76	.62
Restructuring charge	**(.23)**		(.05)		
Cash dividends declared[3,4]	**.12**	.11	.09	.07	.06
Stockholders' equity[3,5]	**7.48**	6.85	6.52	5.66	4.91
Financial Position at Year End					
Cash and cash equivalents	**$ 1,446**	$ 6,203	$ 5,768	$ 8,534	$ 27,088
Accounts receivable (net)	**170,732**	152,110	138,066	125,999	83,392
Inventories	**168,011**	167,039	143,834	117,427	88,350
Total current assets	**349,301**	340,978	303,861	264,628	214,875
Total current liabilities	**48,539**	51,268	64,895	69,810	37,647
Working capital	**300,762**	289,710	238,966	194,818	177,228
Property, plant and equipment (net)	**116,283**	111,135	90,331	63,003	46,885
Total assets	**534,395**	521,478	449,663	361,598	283,554
Short-term borrowings	**148**	6,546	3,251	1,026	2,339
Long-term debt	**139,201**	161,650	94,264	41,309	30,678
Stockholders' equity	**332,105**	300,320	282,430	239,292	204,214

Notes to Five-Year Operating and Financial Summary

1. This summary should be read in conjunction with the consolidated financial statements and the notes thereto.

2. Basic earnings per share are based on the weighted average number of shares of common stock outstanding during the year after adjustment for nonvested common stock. Diluted earnings per share assume the exercise of dilutive stock options and the vesting of all common stock.

3. On April 17, 1997, July 11, 1996 and April 19, 1995, the Company announced three-for-two stock splits on shares of common stock outstanding at May 2, 1997, July 26, 1996 and May 1, 1995, respectively. All share and per share data have been retroactively adjusted for the increased shares resulting from these stock splits.

4. Cash dividends per share represent the rates paid by the Company on the shares outstanding.

5. Stockholders' equity per share is based on shares outstanding at year end.

Source: Wolverine World Wide Annual Report 1999:32.

APPENDIX 5.12 WOLVERINE WORLD WIDE: FINANCIAL HIGHLIGHTS 2000-2002

Financial Highlights

	2002	2001	2000
OPERATING HIGHLIGHTS *(in millions)*			
Revenue	$827.1	$720.1	$701.3
Earnings before income taxes and minority interest	71.7	68.5	15.0
Income taxes	23.6	23.3	4.3
Net earnings	47.9	45.2	10.7
Working capital	283.2	300.3	271.1
Cash provided by operating activities	88.3	53.9	71.0
Capital expenditures	13.9	11.3	12.0
KEY RATIOS			
Gross margin percentages	35.6%	35.7%	31.9%
Selling and administrative expenses as a percentage of revenue	26.3%	25.3%	26.4%
Effective income tax rate	32.9%	34.0%	28.8%
Net earnings as a percentage of revenue	5.8%	6.3%	1.5%
Return on average equity	12.6%	12.9%	3.2%
Return on average assets	8.6%	8.7%	2.0%
Revenue per employee (in thousands)[1]	$186.9	$156.1	$143.0
PER SHARE OF COMMON STOCK			
Diluted earnings	$ 1.15	$ 1.07	$ 0.26
Cash dividends declared	0.18	0.16	0.14
CORPORATE STATISTICS			
Shares used for computing diluted earnings per share (in thousands)	41,792	42,449	41,795
Number of stockholders of record[2]	1,721	1,811	1,975
Number of employees at year-end	4,426	4,614	4,903

(1) Based on the number of employees at each applicable fiscal year-end.
(2) As of the applicable record date.

2

Market Information

Wolverine World Wide, Inc. common stock is traded on the New York Stock Exchange and the Pacific Exchange under the symbol "WWW." The following table shows the high and low sales prices on the New York Stock Exchange and dividends declared by calendar quarter for 2002 and 2001. The number of stockholders of record on March 3, 2003 was 1,721.

	2002		2001	
Stock Price	High	Low	High	Low
First quarter	$18.23	$14.00	$19.56	$12.96
Second quarter	19.25	15.80	18.49	13.30
Third quarter	17.72	12.55	19.50	15.00
Fourth quarter	17.24	13.42	16.98	12.25

Cash Dividends Declared Per Share	2002	2001
First quarter	$.045	$.04
Second quarter	.045	.04
Third quarter	.045	.04
Fourth quarter	.045	.04

A quarterly dividend of $.055 per share was declared during the first quarter of fiscal 2003.

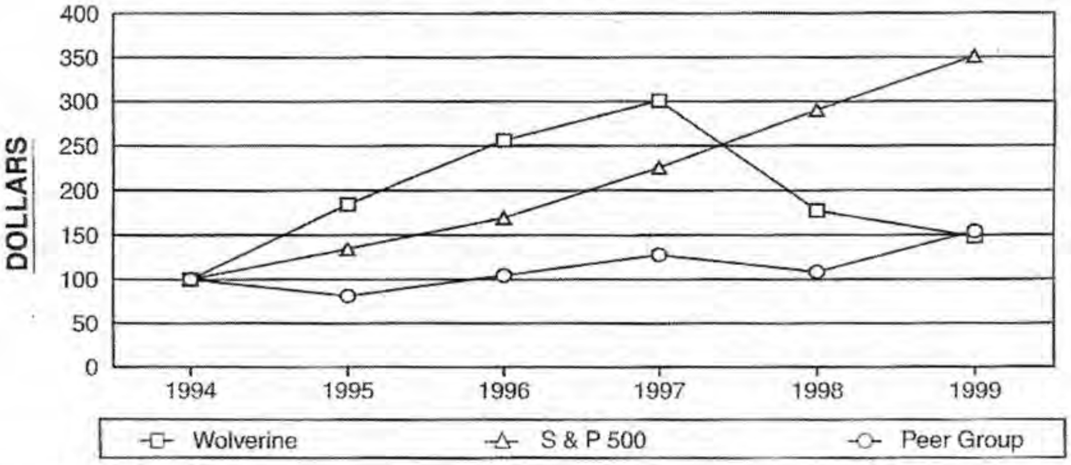
Source: Wolverine World Wide Annual Report 2002:2.

APPENDIX 5.13 WOLVERINE WORLD WIDE: STOCK PERFORMANCE 1999

STOCK PRICE PERFORMANCE GRAPH

The following graph compares the cumulative total stockholder return on Wolverine Common Stock to the Standard & Poor's 500 Stock Index and an index of peer companies that produce non-athletic footwear, assuming an investment of $100.00 at the beginning of the period indicated. The Standard & Poor's 500 Stock Index is a broad equity market index published by Standard & Poor's. The index of peer companies was constructed by the Company and consists of the companies listed in the footnote to the graph. In constructing the peer index, the return of each peer group company was weighted according to its respective stock market capitalization at the beginning of each period indicated. Cumulative total stockholder return is measured by dividing: (i) the sum of (a) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and (b) the difference between the share price at the end and the beginning of the measurement period; by (ii) the share price at the beginning of the measurement period.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL STOCKHOLDER RETURN



(1) The index of peer companies consists of J. Baker, Inc.; R.G. Barry Corporation; Brown Shoe Company, Inc.; Candie's, Inc.; Daniel Green Company; Genesco Inc.; Justin Industries, Inc.; Kenneth Cole Productions, Inc.; Lacrosse Footwear, Inc.; Penobscot Shoe Company; Rocky Shoes & Boots, Inc.; The Stride Rite Corporation; The Timberland Company; Wellco Enterprises, Inc.; and Weyco Group, Inc.

(2) In 1998, the index of peer companies also included Nine West Group, Inc., which was acquired in 1999 by Jones Apparel Group, Inc., and is no longer quoted for trading on an exchange or quotation system. For this reason, Nine West Group, Inc., has been omitted from the index of peer companies. In 1998, the index of peer companies included Brown Group, Inc., which changed its name in 1999 to Brown Shoe Company, Inc.

The dollar values for total stockholder return plotted in the graph above are shown in the table below:

Fiscal Year-End	Wolverine	S & P 500	Peer Group
1994	$100.0	$100.0	$100.0
1995	184.6	134.6	81.2
1996	256.0	169.2	104.6
1997	300.7	225.6	127.8
1998	177.3	290.1	108.5
1999	148.0	351.1	154.1

Source: Wolverine World Wide: Notice of Annual General Meeting 2000:9.

APPENDIX 7.1 DEVELOPMENT OF CORE COMPETENCIES: BARLOWORLD

Times methods cited

Method	**M & A** 6	**HRM** 7	**LT Relationship** 10	**Evolve Innovate** 10b	**Execute** 10c	**Corp. Gov.** 10d	**Diff Cir.** 10e	**TOTAL**
1 Exposure to a demanding technical, operating or economic environment				x			x	2
2 Commit substantial resources to an area						x		1
3 Use of company-wide reward and incentive systems		x						1
4 Corporate culture that demands high performance standards	x	x	x	x	x	x	x	7
5 Internal analysis that identifies activities that should be developed						x		1
6 Inclusion in planning process (objectives, goals etc)	x			x				2
7 Formation of special multi-disciplinary teams	x				x			2
8 Use of international reach and size	x							1
9 Benchmark core competencies against competitors and other firms		x						1
10 Regular review of existing and nascent core competencies			x					1
11 Allocation of key managers and experts to areas			x		x		x	3
12 Commitment to long term paths or trajectories of development			x				x	2
13 Investment in skills and knowledge, development of human resources		x		x	x	x		4
14 Seminars / conferences								
15 Acquisitions								
16 Recruit outside talent								
17 Value chains								
18 Others: Identify leadership competencies								
19 Others: Performance management								
20 Others: Focus and scale								
Total $\Sigma \overline{Xi}$	4	4	4	4	4	4	4	28

APPENDIX 7.2 DEVELOPMENT OF CORE COMPETENCIES: SABMILLER AFRICA AND ASIA

Times methods cited

Method	**2 Marketing**	**3 Outlog**	**4 Operations**	**5 Inlog**	**6 M & A**	**7 HRM**	**8 TECH**	**TOTAL**
1 Exposure to a demanding technical, operating or economic environment	x	x		X		x		4
2 Commit substantial resources to an area								
3 Use of company-wide reward and incentive systems								
4 Corporate culture that demands high performance standards			x			x		2
5 Internal analysis that identifies activities that should be developed				x				1
6 Inclusion in planning process (objectives, goals etc)		x	x					2
7 Formation of special multi-disciplinary teams			x		x		x	3
8 Use of international reach and size				x	x		x	3
9 Benchmark core competencies against competitors and other firms	x	x			x			3
10 Regular review of existing and nascent core competencies	x	x						2
11 Allocation of key managers and experts to areas	x		x			x	x	4
12 Commitment to long term paths or trajectories of development							x	1
13 Investment in skills and knowledge, development of human resources						x		1
14 Seminars / conferences								
15 Acquisitions					x			1
16 Recruit outside talent								
17 Value chains				x				1
18 Others: Identify leadership competencies								
19 Others: Performance management								
20 Others: Focus and scale								
Total $\overline{\Sigma Xi}$	4	4	4	4	4	4	4	28

APPENDIX 7.3 DEVELOPMENT OF CORE COMPETENCIES: SABMILLER EUROPE

Times methods cited

Method	Marketing 2	Outlog 3	Operations 4	Inlog 5	M & A 6	HRM 7	TECH 8	TOTAL
1 Exposure to a demanding technical, operating or economic environment			x					1
2 Commit substantial resources to an area							x	1
3 Use of company-wide reward and incentive systems	x					x		2
4 Corporate culture that demands high performance standards	x	x	x	x	x	x	x	7
5 Internal analysis that identifies activities that should be developed								
6 Inclusion in planning process (objectives, goals etc)								
7 Formation of special multi-disciplinary teams				x	x			2
8 Use of international reach and size				x				1
9 Benchmark core competencies against competitors and other firms		x			x			2
10 Regular review of existing and nascent core competencies								
11 Allocation of key managers and experts to areas	x	x	x	x	x	x	x	7
12 Commitment to long term paths or trajectories of development								
13 Investment in skills and knowledge, development of human resources	x	x	x			x		4
14 Seminars / conferences								
15 Acquisitions								
16 Recruit outside talent								
17 Value chains							x	1
18 Others: Identify leadership competencies								
19 Others: Performance management								
20 Others: Focus and scale								
Total $\Sigma \overline{Xi}$	4	4	4	4	4	4		28

APPENDIX 7.4 DEVELOPMENT OF CORE COMPETENCIES: SAPPI

Times methods cited

Method	2 Marketing	3 Operations	6 M & A	7 H & M	8 TECH	10f SYSTEMS		TOTAL
1 Exposure to a demanding technical, operating or economic environment					x			1
2 Commit substantial resources to an area					x	x		2
3 Use of company-wide reward and incentive systems								
4 Corporate culture that demands high performance standards	x		x	x				3
5 Internal analysis that identifies activities that should be developed	x		x					2
6 Inclusion in planning process (objectives, goals etc)		x				x		2
7 Formation of special multi-disciplinary teams	x		x		x	x		4
8 Use of international reach and size			x					1
9 Benchmark core competencies against competitors and other firms		x				x		2
10 Regular review of existing and nascent core competencies								
11 Allocation of key managers and experts to areas		x						1
12 Commitment to long term paths or trajectories of development	x							1
13 Investment in skills and knowledge, development of human resources				x	x			2
14 Seminars / conferences								
15 Acquisitions								
16 Recruit outside talent								
17 Value chains								
18 Others: Identify leadership competencies				x				1
19 Others: Performance management				x				1
20 Others: Focus and scale		x						1
Total $\Sigma \overline{Xi}$	4	4	4	4	4	4		24

APPENDIX 7.5 DEVELOPMENT OF CORE COMPETENCIES: WOLVERINE WORLD WIDE

Times methods cited

Method	**Marketing** 2	**Operations** 4	**M & A** 6	**H & M** 7	**TECH** 8	**BRAND** 10g	**GLOBAL** 10h	**TOTAL**
1 Exposure to a demanding technical, operating or economic environment	x	x	x	x	x	x	x	7
2 Commit substantial resources to an area	x	x			x	x	x	5
3 Use of company-wide reward and incentive systems	x			x				2
4 Corporate culture that demands high performance standards				x	x			2
5 Internal analysis that identifies activities that should be developed								
6 Inclusion in planning process (objectives, goals etc)	x		x					2
7 Formation of special multi-disciplinary teams		x	x					2
8 Use of international reach and size					x	x	x	3
9 Benchmark core competencies against competitors and other firms		x					x	2
10 Regular review of existing and nascent core competencies								
11 Allocation of key managers and experts to areas			x					1
12 Commitment to long term paths or trajectories of development						x		1
13 Investment in skills and knowledge, development of human resources				x				1
14 Seminars / conferences								
15 Acquisitions								
16 Recruit outside talent								
17 Value chains								
18 Others: Identify leadership competencies								
19 Others: Performance management								
20 Others: Focus and scale								
Total $\overline{\Sigma Xi}$	4	4	4	4	4	4		28

APPENDIX 7.6 DEVELOPMENT OF CORE COMPETENCIES: SOUTH AFRICAN COMPANY COMPOSITES

Method Times Cited

Method	BAR	A&A	EUR	SAP	WW	ΣX_i	n	$\overline{x}$	Rank
1. Exposure to demanding technical, operating, economic environment	2	4	1	1		8	4	2.0	5
2. Commit substantial resources to an area	1		1	2		6	3	2.0	7
3. Use of company-wide reward and incentive systems	1		2			3	2	1.5	11
4. Corporate culture that demands high performance standards	7	2	7	3		19	4	4.8	1
5. Internal analysis that identifies activities that should be developed	1	1		2		4	3	1.3	9
6. Inclusion in planning process (objectives, goals etc)	2	2		2		6	3	2.0	7
7. Formation of special multi-disciplinary teams	2	3	2	4		11	4	2.8	3
8. Use of international reach and size	1	3	1	1		6	4	1.5	7
9. Benchmark core competencies against competitors and other firms	1	3	2	2		8	4	2.0	5
10. Regular review of existing and nascent core competencies	1	2				3	2	1.5	15
11. Allocation of key managers and experts to areas	3	4	7	1		15	4	3.8	2
12. Commitment to long-term paths or trajectories of development	2	1		1		4	3	1.3	9
13. Investment, skills & knowledge, development of human resources	4	1	4	2		11	4	1.3	3
14. Seminars/conferences								2.8	17
15. Acquisitions		1				1	1	1.0	14
16. Recruit outside talent			1			1	1	1.0	14
17. Value chains		1				1	1	1.0	14
18. Others: Identify leadership competencies				1		1	1	1.0	
19. Others: Performance management				1		1	1	1.0	
20. Others: Focus and Scale				1		1	1	1.0	
Total ΣX_i	28	28	28	24		108			
Number n	13	13	10	14			50		
Mean $\overline{x}$	2.2	2.2	2.8	1.7				2.2	

Note: Rank refers to Total or ΣX_i column. Methods 18 to 20 not ranked because from Sappi alone.

APPENDIX 7.7 DEVELOPMENT OF CORE COMPETENCIES: MARKETING

Times methods cited

Method	BAR	A & A	EUR	SAP	WWW	n
1. Exposure to a demanding technical, operating or economic environment		X			X	2
2. Commit substantial resources to an area					X	1
3. Use of company-wide reward and incentive systems			X		X	2
4. Corporate culture that demands high performance standards			X	X		2
5. Internal analysis that identifies activities that should be developed				X		1
6. Inclusion in planning process (objectives, goals etc)					X	1
7. Formation of special multi-disciplinary teams				X		1
8. Use of international reach and size						
9. Benchmark corporate competencies against competitors and other firms		X				1
10. Regular review of existing and nascent core competencies		X				1
11. Allocation of key managers and experts to areas		X	X			2
12. Commitment to long-term paths or trajectories of development				X		1
13. Investment in skills and knowledge, development of human resources			X			1
14. Seminars/conferences						
15. Acquisitions						
16. Recruit outside talent						
17. Value chains						
18. Others: Identify leadership competencies						
19. Others: Performance management						
20. Others: Focus and scale						
Total ΣXi		4	4	4		16

Appendix 7.8 Development of Core Competencies: Outbound Logistics

Method Times Cited

Method	BAR	SABM A & A	EUR	SAP	WWW	n
1. Exposure to a demanding technical, operating or economic environment		X				1
2. Commit substantial resources to an area						
3. Use of company-wide reward and incentive systems						
4. Corporate culture that demands high performance standards			X			1
5. Internal analysis that identifies activities that should be developed						
6. Inclusion in planning process (objectives, goals etc)		X				1
7. Formation of special multi-disciplinary teams						
8. Use of international reach and size						
9. Benchmark core competencies against competitors and other firms		X	X			2
10. Regular review of existing and nascent core competencies		X				1
11. Allocation of key managers and experts to areas			X			1
12. Commitment to long-term paths or trajectories of development						
13. Investment in skills and knowledge, development of human resources			X			1
14. Seminars/conferences						
15. Acquisitions						
16. Recruit outside talent						
17. Value chains						
18. Others: Identify leadership competencies						
19. Others: Performance management						
20. Others: Focus and scale						
Total $\overline{\Sigma Xi}$		4	4			8

APPENDIX 7.9 DEVELOPMENT OF CORE COMPETENCIES: OPERATIONS

Times methods cited

Method	BAR	SABM A & A	SABM EUR	SAPPI	WWW	n
1. Exposure to a demanding technical, operating or economic environment			X		X	2
2. Commit substantial resources to an area					X	1
3. Use of company-wide reward and incentive systems						
4. Corporate culture that demands high performance standards		X	X			2
5. Internal analysis that identifies activities that should be developed						
6. Inclusion in planning process (objectives, goals etc)		X		X		2
7. Formation of special multi-disciplinary teams		X			X	2
8. Use of international reach and size						
9. Benchmark core competencies against competitors and other firms				X	X	2
10. Regular review of existing and nascent core competencies						
11. Allocation of key managers and experts to areas		X	X	X		3
12. Commitment to long-term paths or trajectories of development						
13. Investment in skills and knowledge, development of human resources			X			1
14. Seminars/conferences						
15. Acquisitions						
16. Recruit outside talent						
17. Value chains						
18. Others: Identify leadership competencies						
19. Others: Performance management						
20. Others: Focus and scale				X		
Total $\overline{\Sigma Xi}$		4	4	4	4	16

APPENDIX 7.10 DEVELOPMENT OF CORE COMPETENCIES: INBOUND LOGISTICS

Method Times Cited	BAR	SABM A & A	SABM EUR	SAPPI	WWW	n
1. Exposure to a demanding technical, operating or economic environment		X				1
2. Commit substantial resources to an area						
3. Use of company-wide reward and incentive systems						
4. Corporate culture that demands high performance standards			X			1
5. Internal analysis that identifies activities that should be developed		X				1
6. Inclusion in planning process (objectives, goals etc)						
7. Formation of special multi-disciplinary teams			X			1
8. Use of international reach and size		X	X			2
9. Benchmark core competencies against competitors and other firms						
10. Regular review of existing and nascent core competencies						
11. Allocation of key managers and experts to areas			X			1
12. Commitment to long-term paths or trajectories of development						
13. Investment in skills and knowledge, development of human resources						
14. Seminars/conferences						
15. Acquisitions						
16. Recruit outside talent						
17. Value chains		X				1
18. Others: Identify leadership competencies						
19. Others: Performance management						
20. Others: Focus and scale						
Total $\Sigma\overline{X}i$		4	4			8

APPENDIX 7.11 DEVELOPMENT OF CORE COMPETENCIES: MERGERS AND ACQUISITIONS

Method Times Cited

	Method	BAR	SABM A & A	SABM EUR	SAPPI	WWW	n
1.	Exposure to a demanding technical, operating or economic environment					X	1
2.	Commit substantial resources to an area						
3.	Use of company-wide reward and incentive systems						
4.	Corporate culture that demands high performance standards	X		X	X		3
5.	Internal analysis that identifies activities that should be developed				X		1
6.	Inclusion in planning process (objectives, goals etc)	X				X	2
7.	Formation of special multi-disciplinary teams	X	X	X	X	X	5
8.	Use of international reach and size	X	X		X		3
9.	Benchmark core competencies against competitors and other firms		X	X			2
10.	Regular review of existing and nascent core competencies						
11.	Allocation of key managers and experts to areas			X		X	2
12.	Commitment to long-term paths or trajectories of development						
13.	Investment in skills and knowledge, development of human resources						
14.	Seminars/conferences						
15.	Acquisitions		X				1
16.	Recruit outside talent						
17.	Value chains						
18.	Others: Identify leadership competencies						
19.	Others: Performance management						
20.	Others: Focus and scale						
Total	ΣXi	4	4	4	4	4	20

APPENDIX 7.12 DEVELOPMENT OF CORE COMPETENCIES: HUMAN RESOURCES MANAGEMENT

Method Times Cited	BAR	SABM A & A	SABM EUR	SAPPI	WWW	n
1. Exposure to a demanding technical, operating or economic environment		X			X	2
2. Commit substantial resources to an area						
3. Use of company-wide reward and incentive systems	X		X		X	3
4. Corporate culture that demands high performance standards	X	X	X	X	X	5
5. Internal analysis that identifies activities that should be developed						
6. Inclusion in planning process (objectives, goals etc)						
7. Formation of special multi-disciplinary teams						
8. Use of international reach and size						
9. Benchmark core competencies against competitors and other firms	X					1
10. Regular review of existing and nascent core competencies						
11. Allocation of key managers and experts to areas		X	X			2
12. Commitment to long-term paths or trajectories of development						
13. Investment in skills and knowledge, development of human resources	X	X	X	X	X	5
14. Seminars/conferences						
15. Acquisitions						
16. Recruit outside talent						
17. Value chains						
18. Others: Identify leadership competencies				X		1
19. Others: Performance management				X		1
20. Others: Focus and scale						
Total $\overline{\Sigma Xi}$	4	4	4	4	4	20

APPENDIX 7.13 DEVELOPMENT OF CORE COMPETENCIES: TECHNOLOGICAL DEVELOPMENT
Times methods cited

Method	BAR	SABM A & A	SABM EUR	SAPPI	WWW	n
1. Exposure to a demanding technical, operating or economic environment				X	X	2
2. Commit substantial resources to an area			X	X	X	3
3. Use of company-wide reward and incentive systems						
4. Corporate culture that demands high performance standards			X		X	2
5. Internal analysis that identifies activities that should be developed						
6. Inclusion in planning process (objectives, goals etc)						
7. Formation of special multi-disciplinary teams		X		X		2
8. Use of international reach and size		X			X	2
9. Benchmark core competencies against competitors and other firms						
10. Regular review of existing and nascent core competencies						
11. Allocation of key managers and experts to areas		X	X			2
12. Commitment to long-term paths or trajectories of development		X				1
13. Investment in skills and knowledge, development of human resources				X		1
14. Seminars/conferences						
15. Acquisitions						
16. Recruit outside talent			X			1
17. Value chains						
18. Others: Identify leadership competencies						
19. Others: Performance management						
20. Others: Focus and scale						
Total $\Sigma \overline{Xi}$		4	4	4	4	16

APPENDIX 7.14 DEVELOPMENT OF CORE COMPETENCIES: INFRASTRUCTURE: GENERAL MANAGEMENT

Times methods cited

Method	Lt. Relation	Evolve Innovate	Execution Organ	Corp. Govern.	Difficult Cercum.	Systems	Brand Building	Operate Globally	n
1. Exposure to a demanding technical, operating or economic environment		X			X		X	X	4
2. Commit substantial resources to an area				X		X	X	X	4
3. Use of company-wide reward and incentive systems									
4. Corporate culture that demands high performance standards	X	X	X	X	X				5
5. Internal analysis that identifies activities that should be developed				X					1
6. Inclusion in planning process (objectives, goals etc)		X				X			2
7. Formation of special multi-disciplinary teams			X			X			2
8. Use of international reach and size							X	X	2
9. Benchmark corporate competencies against competitors and other firms						X		X	2
10. Regular review of existing and nascent core competencies	X								1
11. Allocation of key managers and experts to areas	X		X		X				3
12. Commitment to long-term paths or trajectories of development	X				X		X		3
13. Investment in skills and knowledge, development of human resources		X	X	X					3
14. Seminars/conferences									
15. Acquisitions									
16. Recruit outside talent									
17. Value chains									
18. Others: Identify leadership competencies									
19. Others: Performance management									
20. Others: Focus and scale									
Total ΣXi	4	4	4	4	4	4	4	4	32

APPENDIX 7.15

Beer Consumption by Country (2004)

Rank	Rank in 2003	Country	2004			2003	
			Total consumption (1,000 kL)	Breakdown by country	Year-on-year increase	Total consumption (1,000 kL)	Breakdown by country
1	1	China	28,640	19.0%	14.6%	24,995	17.3%
2	2	US	23,974	15.9%	0.9%	23,771	16.5%
3	3	Germany	9,555	6.4%	-1.6%	9,711	6.7%
4	4	Brazil	8,450	5.6%	2.8%	8,220	5.7%
4	5	Russia	8,450	5.6%	11.1%	7,606	5.3%
6	6	Japan	6,549	4.4%	0.7%	6,500	4.5%
7	7	UK	5,920	3.9%	-1.8%	6,030	4.2%
8	8	Mexico	5,435	3.6%	2.0%	5,328	3.7%
9	9	Spain	3,376	2.2%	0.9%	3,345	2.3%
10	10	Poland	2,670	1.8%	-2.4%	2,735	1.9%
11	11	South Africa	2,530	1.7%	3.3%	2,450	1.7%
12	12	Canada	2,183	1.5%	0.8%	2,165	1.5%
13	13	France	2,020	1.3%	-4.6%	2,117	1.5%
14	14	South Korea	1,897	1.3%	2.0%	1,860	1.3%
15	15	Czech Republic	1,878	1.2%	2.1%	1,839	1.3%
16	18	Ukraine	1,729	1.1%	3.9%	1,665	1.2%
17	16	Italy	1,719	1.1%	-1.5%	1,745	1.2%
18	17	Australia	1,678	1.1%	-0.7%	1,689	1.2%
19	19	Colombia	1,658	1.1%	2.0%	1,625	1.1%
20	21	Thailand	1,595	1.1%	10.0%	1,450	1.0%
21	20	Venezuela	1,525	1.0%	2.5%	1,488	1.0%
22	25	Philippines	1,409	0.9%	15.6%	1,219	0.8%
23	23	Romania	1,302	0.9%	1.5%	1,283	0.9%
24	24	Argentine	1,281	0.9%	4.5%	1,225	0.8%
25	22	Netherlands	1,269	0.8%	-1.8%	1,292	0.9%

Note: Total consumption volume in Japan includes that of beer, *happo-shu* (low-malt beer) and *new genre*.

Worldwide total consumption volume (estimate):

2004	2003
150.392 million kL (up 4.2%)	144.296 million kL

[Comments]

- In 2004, annual consumption volume in the world recorded 19 years of consecutive growth. The growth rate against the previous year exceeded 4% for the first time since 1987. The reasons to the expansion of the beer market are attributed to the global economic recovery and high temperature caused by record-breaking heat waves.

- The Chinese market, which has topped the list for 2 straight years, is growing at a more rapid pace than last year (up 6.4%), getting a lead of 4.67 million kL on the US. Its growth is attributed to a population increase and improved standard of living due to economic growth. The beer market in China is characterized by market growth centered on urban areas as well as aggressive market entries by foreign breweries.

- Due to changes in economic policies and a growing health consciousness since the late 1990's, Russia jumped to 4^{th} in 2004 from 9^{th} in 1994, sharing its position with Brazil.

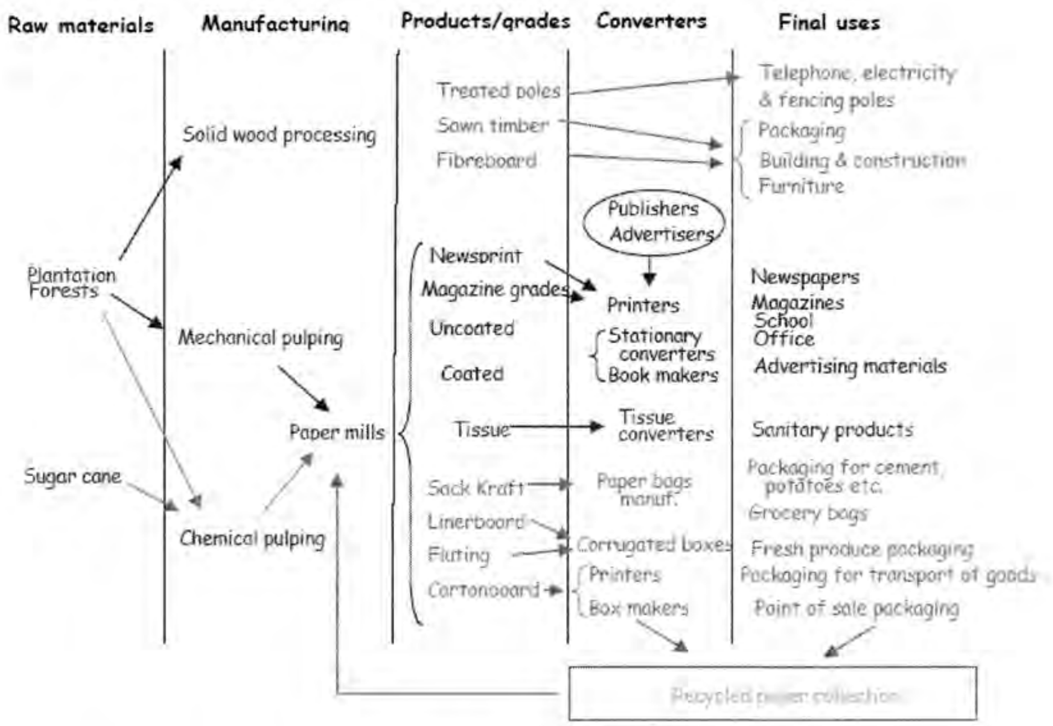
- Of the southeast Asian markets, Thailand (up 10%) and the Philippines (up 15.6%) showed remarkable growth.

- Japan remains in the same position on the list, but consumption increased (by 0.7%) for the first time since 2001 after a 2-year decline, which was attributed to the heat-wave and introduction of *new genre*.

Acknowledgement: I learned of this source through Thompson, B. and Harrison, J. (2006). *Multinational Assignment: SABMiller*. Strategy 402. Grahamstown: Department of Management, Rhodes University.

Source: Kirin (2004).

APPENDIX 7.16 FOREST INDUSTRY'S RELATED AND SUPPORTING INDUSTRIES



Source: South African Forestry (2004:7).

APPENDIX 7.17 WORLD'S TOP PULP, PAPER AND PAPER BOARD PRODUCERS AND CONSUMERS 000 TONS

Appendix 1
The World's Top 30 Producers and Consumers – 2004

Top 30 Paper & Paperboard producers

Paper & paperboard production	2004	% change
		04/03
1. USA	83,401	4,0
2. China, People's Rep.	49,500	15,1
3. Japan	30,889	2,0
4. Canada	20,461	2,5
5. Germany	20,392	5,6
6. Finland	14,036	7,5
7. Sweden	11,589	4,8
8. Korea, Rep. of	10,511	3,6
9. France	10,249	3,1
10. Italy	9,665	1,8
11. Brazil	8,422	6,4
12. Indonesia	7,678	5,6
13. Russia	6,789	6,5
14. United Kingdom	6,240	0,2
15. India	6,229	7,0
16. Spain	5,527	1,6
17. Austria	4,852	6,3
18. Taiwan	4,801	3,1
19. Mexico	4,349	6,6
20. Thailand	3,600	10,4
21. Netherlands	3,459	3,5
22. Australia	3,164	3,4
23. Poland	2,635	7,1
24. South Africa	2,563	9,9
25. Norway	2,294	4,9
26. Belgium	1,957	12,1
27. Switzerland	1,777	-2,2
28. Turkey	1,769	9,3
29. Portugal	1,666	9,5
30. Argentina	1,507	8,1

Source: Paperloop Inc.

Top 30 Pulp producers

Pulp production	2004	% change
		04/03
1. USA	53,585	3,8
2. Canada	26,406	0,6
3. China, People's Rep.	14,180	2,2
4. Finland	12,619	5,6
5. Sweden	12,106	3,1
6. Japan	10,720	1,3
7. Brazil	9,728	6,0
8. Russia	7,361	2,8
9. Indonesia	5,209	0,3
10. Chile	3,409	20,6
11. India	3,269	-2,8
12. France	2,547	3,0
13. Norway	2,528	5,8
14. Germany	2,402	9,6
15. South Africa	2,192	-5,4
16. Spain	1,998	5,5
17. Portugal	1,950	0,8
18. Austria	1,936	6,2
19. New Zealand	1,596	12,5
20. Australia	1,398	11,4
21. Poland	1,022	-0,3
22. Thailand	1,000	1,0
23. Argentina	942	2,6
24. Czech Republic	736	2,1
25. Italy	687	6,2
26. Korea, Rep. of	544	4,0
27. Belgium	531	8,1
28. Slovak Republic	523	9,3
29. Taiwan	404	0,0
30. Colombia	382	0,7

Source: Paperloop Inc.

Top 30 Paper & Paperboard consumers

Paper & Paperboard consumption	2004	% change
		04/03
1. USA	92,257	4,0
2. China, People's Rep.	54,392	13,2
3. Japan	31,426	2,0
4. Germany	19,442	3,3
5. United Kingdom	12,678	1,7
6. Italy	11,334	0,7
7. France	11,079	2,3
8. Korea, Rep. of	8,243	0,2
9. Brazil	7,303	8,7
10. Canada	7,299	2,5
11. Spain	7,194	-0,3
12. India	6,968	12,7
13. Mexico	6,137	4,5
14. Indonesia	5,408	1,8
15. Taiwan	5,187	2,9
16. Russia	4,933	7,8
17. Australia	4,122	2,7
18. Belgium	3,502	0,9
19. Poland	3,381	8,6
20. Netherlands	3,361	-6,3
21. Turkey	3,329	15,0
22. Malaysia	2,548	7,6
23. Sweden	2,276	-0,3
24. South Africa	2,147	12,6
25. Austria	2,088	3,1
26. Argentina	1,958	12,9
27. Switzerland	1,664	3,0
28. Iran	1,525	6,6
29. Finland	1,489	-8,1
30. Denmark	1,395	9,7

Source: Paperloop Inc.

Source: International Federation of Chemical, Energy, Mine and General Workers Unions (ICEM) (2005).

APPENDIX 7.18 QUESTIONS FOR SABMILLER

Appendix: Questions Posed to SABMiller

1. What are SABMiller's core competencies? What does SABMiller perceive as their most important resources and capabilities that contribute towards forming these core competencies, which can be used to achieve a competitive advantage over rivals?

Core competency	Resources / Capabilities
Brand-building and portfolio shaping	➢ ***Insight on consumer choice patterns*** ➢ ***Robust and well-structured brand portfolio, across segments but skewed towards higher value brands with stronger equity and margins*** ➢ ***Nimble and innovative marketing strategy, balancing volume impact with ROI considerations***
Sales and distribution	➢ ***Quantity and quality of sales force and merchandising at retail point-of-sale*** ➢ ***Local market plans and analytical tools*** ➢ ***Productive relationships with distributors***
Costs and productivity	➢ ***Strong operational efficiency and control model, cutting costs to reinvest in brands, assets, people*** ➢ ***World class manufacturing, driving productivity and flexibility*** ➢ ***Procurement based on detailed supplier cost structure insight***
Organization capability	➢ ***Structured to match strategy*** ➢ ***Performance management, new talent recruitment*** ➢ ***A vigorous, fact-based and meritocratic corporate culture***

2. Does each brand have its own strategy in terms of cost vs. differentiation? Can we have an example of one such strategy (for instance for Castle)? Furthermore, who is SABMiller's main target customer, or is it different for each brand?

- *Different for each brand. Target demographics by age, gender, income level, ethnicity, and "personality" are important inputs to our brand creation and management process. Castle Lager certainly has its own strategy – the brand imagery has certainly been rejuvenated on the basis of detailed consumer research, positioning, vis-à-vis our other brands and careful planning of the market strategy with an eye on both market goals and return on investment.*

3. What is your strategy in terms of:

a) International Strategy:

There is an obvious need to strike a balance between the need for Global Integration of SABMiller as a whole, as well as the need for Local responsiveness to specific countries and their domestic situations. How does SABMiller ensure that both elements of corporate strategy are adequately addressed?

- *By ensuring that local managing directors have sufficient autonomy to run their operations and respond to evolving market and competitive landscapes, whilst at the same time propagating global functional codes of best practice that are monitored and nurtured from the centre e.g. an SABMiller "Marketing Way" and "Communications Way".*

b) How do you perceive the relationship between international focus to change and develop as the beer market matures in the developing markets? Please make specific reference to your level of centralization and decentralization of decision making and strategy formulation, and what type of international organization structure SABMiller aspires to (multinational, International, or transnational)?

- *We are currently a multinational, evolving toward a more international structure. We believe that an incremental shift in balance towards a cross-border international focus is warranted by the consolidating global industry landscape. Global competitors (somewhat new to the sector) dictate coordinated international responses, leveraging the economies of scale of an international brand portfolio and standard marketing and pricing tools, whilst* *we also aim to leverage cost synergies from our own cross-border production platforms and global procurement relationships with suppliers.*

c) Co-operative Strategy:

How is the co-operative strategy for the ownership of breweries in developing markets like China, adding value to SABMiller as well as to the customer? What criteria and how were these partners chosen so as to ensure a strategic fit with the core competencies which would provide synergized value? How are these relationships managed and controlled so as to minimize risk of a cooperative strategy (possibility of misrepresentation, failure to use complementary resources, holding of investment to a ransom, etc)?

- *Our cooperative strategy in countries like China allow SABMiller to leverage its own operational competencies – sharpened by so much parallel experience around the world – as well as the local partner's local stature and relationship network. Such a local network is valuable vis-à-vis supplier relationships, local government and regulatory / agency relationships, local talent management, access to further local M&A opportunities, and in our case route to market and retailing synergies given our partner's network of supermarkets. Our partners are selected on this basis – strength of their local business and relationship platform as well as harmony of future goals and aspirations for the business (reinvestment in growth, managing for shareholder value, ethics etc). We then manage our partner relationships on a two tier basis: integrated Boards of Directors (e.g. in Chain we also have the Chairmanship) and also local managerial representatives of SABMiller. Ultimately though, the shared aspirations and ethical values are crucial as well.*

Source: Questions by Goble, Muhlwa and Plaskitt, (2003:16-18). Answers from Miller Salzman, SABMiller (2003).

Appendix 8.1 Transfer of Core Competencies: Barloworld

Seven Point Scale

	M & A	HRM	Infra LT Relationship	Infra Evolve Innovate	Infra Exec Organize	Infra Corp. Governance	Infra Difficult Circumstance	ΣXi	n	$\bar{x}$
A. Estimated degree of success in transferring core competencies.	7	7	6	4	5	7	5	41	7	5.9
B. Effectiveness of methods used:										
1. Appoint key people from within company to management positions	7	7	7	7	7	7	7	49	7	7.0
2. Post M&A integration teams	6	6	1	1	1	7	1	23	7	3.3
3. Experts deliver, install and return	5	5	1	1	1	4	1	18	7	2.6
4. Short term secondments	5	4	1	1	1	5	1	18	7	2.6
5. Models or examples (other acquisitions or investments)	5	6	2	2	2	4	4	25	7	3.6
6. Rotate managers and key people from new acquisitions	6	7	6	6	7	7	7	46	7	6.6
7. Seminars / conferences	2	4	1	3	5	3	2	20	7	2.9
8. Visits	3	7	5	6	7	7	3	38	7	5.4
9. Manuals and video material	6	5	1	1	1	5	1	20	7	2.9
10. Inclusion in management process (priority objectives etc)	5	7	7	7	7	7	2	42	7	6.0
11. Compensation incentives based on achievement of transfer	6	7	6	5	7	7	6	44	7	6.3
12. Benchmark core competencies against competitors and other firms	4	1	1	5	2	6	1	20	7	2.9
13. Other: Multi-disciplinary/regional teams										
14. Other: Leadership										
Total ΣXi	60	66	39	45	48	69	36	363		52.1
Number n	12	12	12	12	12	12	12	84		12
Mean X	5.0	5.5	3.3	3.8	4.0	5.8	3.0	4.3		4.3

Note: Figures are rounded in certain instances.

APPENDIX 8.2 TRANSFER OF CORE COMPETENCIES: SABMILLER AFRICA AND ASIA

Seven Point Scale

	Marketing	Out Log	Operations	In Log	M & A	HRM	Technology	ΣX_i	n	$\overline{x}$
A. Estimated degree of success in transferring core competencies.	5	5	6	4	5	5	4	34	7	4.9
B. Effectiveness of methods used:										
1. Appoint key people from within company to management positions	5	5	6	4	5	5	4	34	7	4.9
2. Post M&A integration teams	2	4	6	4	2	3	4	25	7	3.6
3. Experts deliver, install and return	4	3	4	1		1	1	14	6	2.3
4. Short term secondments	1	1	1	1	1	1	1	7	7	1.0
5. Models or examples (other acquisitions or investments)										
6. Rotate managers and key people from new acquisitions in wider company										
7. Seminars / conferences	5	2	6	1		5	4	23	6	3.8
8. Visits	6	6	7	4		7	6	36	6	6.0
9. Manuals and video material	5	2	6	1		5	3	22	6	3.7
10. Inclusion in management process (priority objectives etc)	6	4	7	1		6	6	30	6	5.0
11. Compensation incentives based on achievement of transfer										
12. Benchmark core competencies against competitors and other firms	4	3	6			5	4	22	5	4.4
13. Other: Multi-disciplinary/regional teams										
14. Other: Leadership										
Total ΣX_i	38	30	49	17	8	38	33	213		34.7
Number n	9	9	9	8	3	9	9	56		9
Mean $\overline{X}$	4.2	3.3	5.4	2.1	2.7	4.2	3.7	3.8		3.9

Note: Figures are rounded in certain instances.

APPENDIX 8.3 TRANSFER OF CORE COMPETENCIES: SABMILLER EUROPE

Seven Point Scale

	Marketing	Out Log	Operations	In Log	M & A	HRM	Technology	ΣXi	n	$\overline{x}$
A. Estimated degree of success in transferring core competencies.	4	5	6	3	5	2	3	28	7	4.0
B. Effectiveness of methods used:										
1. Appoint key people from within company to management positions	5	4	5	2	7	3	2	28	7	4.0
2. Post M&A integration teams	7	3	6	3	7	2	4	32	7	4.6
3. Experts deliver, install and return	1	3	5	1	2	1	5	18	7	2.6
4. Short term secondments	2	4	2	4	3	3	5	23	7	3.3
5. Models or examples (other acquisitions or investments)	2	4	2	2	5	3	2	20	7	2.9
6. Rotate managers and key people from new acquisitions	7	6	5	4	7	2	3	34	7	4.9
7. Seminars / conferences	2	3	2	3	1	1	1	13	7	1.9
8. Visits	3	3	3	2	1	1	2	15	7	2.1
9. Manuals and video material	3	3	2	1	2	2	1	14	7	2.0
10. Inclusion in management process (priority objectives etc)	4	4	6	4	1	4	1	24	7	3.4
11. Compensation incentives based on achievement of transfer	1	4	3	2	4	1	1	16	7	2.3
12. Benchmark core competencies against competitors and other firms	4	4	4	5	1	3	1	22	7	3.1
13. Other: Multi-disciplinary/regional teams										
14. Other: Leadership										
Total ΣXi	41	45	45	33	41	26	28	259		37.1
Number n	12	12	12	12	12	12	12	84		12
Mean $\overline{X}$	3.4	3.8	3.8	2.8	3.4	2.2	2.3	3.1		3.1

Note: Figures are rounded in certain instances.

APPENDIX 8.4 TRANSFER OF CORE COMPETENCIES: SAPPI

Seven Point Scale

	Marketing	Out Log	Operations	In Log	M & A	HRM	Technology	Infra Systems		ΣXi	n	$\bar{x}$
A. Estimated degree of success in transferring core competencies.	4		5		6	5	4	6		30	6	5.0
B. Effectiveness of methods used:												
1. Appoint key people from within company to management positions	2		5		5	4	1	7		24	6	4.0
2. Post M&A integration teams	2		3		7	4	1	6		23	6	3.8
3. Experts deliver, install and return	2		2		5	3	2	5		19	6	3.2
4. Short term secondments	5		5		5	6	5	5		31	6	5.2
5. Models or examples (other acquisitions or investments)	4		4		4	4	4	4		24	6	4.0
6. Rotate managers and key people from new acquisitions in wider company	6		5		5	6	5	5		32	6	5.3
7. Seminars / conferences	5		4		-	4	3	4		20	5	4.0
8. Visits	6		6		6	6	6	6		36	6	6.0
9. Manuals and video material	3		3		3	3	3	3		18	6	3.0
10. Inclusion in management process (priority objectives etc)	4		4		4	4	4	4		24	6	4.0
11. Compensation incentives based on achievement of transfer	3		3		3	3	3	3		18	6	3.0
12. Benchmark core competencies against competitors and other firms	4		6		-	-	3	3		16	4	4.0
13. Other: Multi-disciplinary/regional teams	7		7		7	7	7	7		42	6	7.0
14. Other: Leadership	7		7		7	7	7	7		42	6	7.0
Total ΣXi	60		64		61	61	54	69		369		63.5
Number n	14		14		12	13	14	14		81		14
Mean $\bar{X}$	4.3		4.6		5.1	4.7	3.9	4.9		4.6		4.5

Note: Figures are rounded in certain instances.

APPENDIX 8.5 TRANSFER OF CORE COMPETENCIES: WOLVERINE WORLD WIDE

Seven Point Scale

	Marketing	Out Log	Operations	In Log	M & A	HRM	Technology	Infra Brand Building	Infra Operate Globally	ΣXi	n	$\overline{x}$
A. Estimated degree of success in transferring core competencies	5		7		NA	5	4	4	5	30	6	5.0
B. Effectiveness of methods used:												
1. Appoint key people from within company to management positions			7			4		6	6	23	4	5.8
2. Post M&A integration teams	5		6					6		17	3	5.7
3. Experts deliver, install and return	5		7						5	17	3	5.7
4. Short term secondments			6							6	1	6.0
5. Models or examples (other acquisitions or investments)												
6. Rotate managers and key people from new acquisitions												
7. Seminars / conferences	7						5	6		18	3	6.0
8. Visits	6							6		12	2	6.0
9. Manuals and video material												
10. Inclusion in management process (priority objectives etc)	6		6					6		18	3	6.0
11. Compensation incentives based on achievement of transfer												
12. Benchmark core competencies against competitors and other firms	5		5				4			14	3	4.7
13. Other: Multi-disciplinary/regional teams												
14. Other: Leadership												
Total ΣXi	34		37			4	9	30	11	125		45.5
Number n	6		6			1	2	5	2	22		8
Mean $\overline{X}$	5.7		6.2			4.0	4.5	6.0	5.5	5.7		5.7

Note: Figures are rounded in certain instances.

APPENDIX 8.6 TRANSFER OF CORE COMPETENCIES: COMPANY COMPOSITES (WEIGHTED)

Seven Point Scale	BAR	A&A	EUR	SAP	WWW	ΣXi	n	x	RANK ΣXi	RANK $\overline{X}$
A. Estimated degree of success in transferring core competencies.	5.9	4.9	4.0	5.0	5.0	24.8	5	5.0		
B. Effectiveness of methods used:										
1. Appoint key people from within company to management positions	49/7	34/7	28/7	24/6	23/4	158	31	5.1	1	2
2. Post M&A integration teams	23/7	25/7	32/7	23/6	17/3	120	30	4.0	4	5
3. Experts deliver, install and return	18/7	14/6	18/7	19/6	17/3	86	29	3.0	8	10
4. Short term secondments	18/7	7/7	23/7	31/6	6/1	85	28	3.0	9	10
5. Models or examples (other acquisitions or investments)	25/7		20/7	24/6		69	20	3.5	12	8
6. Rotate managers and key people from new acquisitions	46/7		34/7	32/6		112	20	5.6	5	1
7. Seminars / conferences	20/7	23/6	13/7	20/5	18/3	94	28	3.4	6	9
8. Visits	38/7	36/6	15/7	36/6	12/2	137	28	4.9	3	3
9. Manuals and video material	20/7	22/6	14/7	18/6		74	26	2.9	11	12
10. Inclusion in management process (priority objectives etc)	42/7	30/6	24/7	24/6	18/3	138	29	4.8	2	4
11. Compensation incentives based on achievement of transfer	44/7		16/7	18/6		78	20	3.9	10	6
12. Benchmark core competencies against competitors and others	20/7	22/5	22/7	16/4	14/3	94	26	3.6	6	7
13. Other: Multi-disciplinary/regional teams				42/6		42	6	7.0		
14. Other: Leadership				42/6		42	6	7.0		
Total ΣXi	363	213	259	369	125	1329		61.7		
Number n	84	56	84	81	22	327		14		
Mean $\overline{X}$	4.3	3.8	3.1	4.6	5.7	4.1		4.4		

Note: Figures are rounded in certain instances. Methods 13 and 14 not ranked because Sappi only.

APPENDIX 8.7 TRANSFER OF CORE COMPETENCIES: COMPARISON OF DIFFERENT RANKING METHODS

Ranking Order

METHOD	NAME	TOTAL	MEAN	WEIGHTED TOTAL	WEIGHTED MEAN	PERCENT
1	Appoint key people from within company to management positions	1	2	1	2	1
8	Visits	2	3	3	3	3
10	Inclusion in management process	3	4	2	4	2
2	Post- M&A integration teams	4	5	4	5	4
12	Benchmark against competitors and others	5	7	6	7	6
6	Rotate managers and key people	8	1	5	1	8
7	Seminar/Conferences	6	8	6	9	5
11	Compensation incentives	10	6	10	6	12
3	Experts deliver, install and return	9	11	8	11	7
4	Short term secondments	7	9	9	10	9
9	Manuals and video material	10	12	11	12	10
5	Models or examples	12	10	12	8	11

Method Order

METHOD	NAME	TOTAL	MEAN	WEIGHTED TOTAL	WEIGHTED MEAN	PERCENT
1	Appoint key people from within company to management positions	1	2	1	2	1
2	Post- M&A integration teams	4	5	4	5	4
3	Experts deliver, install and return	9	11	8	11	7
4	Short term secondments	7	9	9	10	9
5	Models or examples	12	10	12	8	11
6	Rotate managers and key people	8	1	5	1	8
7	Seminar/Conferences	6	8	6	9	5
8	Visits	2	3	3	3	3
9	Manuals and video material	10	12	11	12	10
10	Inclusion in management process	3	4	2	4	2
11	Compensation incentives	10	6	10	6	12
12	Benchmark against competitors and others	5	7	6	7	6

Appendix 8.8 Transfer of Core Competencies: South African Companies

	BAR	A&A	EUR	SAP	ΣX_i	n	$\bar{x}$	Rank
A. Estimated degree of success in transferring core competencies.	5.9	4.9	4.0	5.0	19.8	4	5.0	
B. Effectiveness of methods used:								
1. Appoint key people from within company to management positio	7.0	4.9	4.0	4.0	19.9	4	5.0	1
2. Post M&A integration teams	3.3	3.6	4.6	3.8	15.3	4	3.8	5
3. Experts deliver, install and return	2.6	2.3	2.6	3.2	10.7	4	2.7	11
4. Short term secondments	2.6	1.0	3.3	5.2	12.1	4	3.0	8
5. Models or examples (other acquisitions or investments)	3.6	-	2.9	4.0	10.5	3	3.5	12
6. Rotate managers and key people from new acquisitions	6.6	-	4.9	5.3	16.8	3	5.6	4
7. Seminars / conferences	2.9	3.8	1.9	4.0	12.6	4	3.2	7
8. Visits	5.4	6.0	2.1	6.0	19.5	4	4.9	2
9. Manuals and video material	2.9	3.7	2.0	3.0	11.6	4	2.9	9
10. Inclusion in management process (priority objectives etc)	6.0	5.0	3.4	4.0	18.4	3	4.6	3
11. Compensation incentives based on achievement of transfer	6.3	-	2.3	3.0	11.6	3	3.9	9
12. Benchmark core competencies against competitors and other firms	2.9	4.4	3.1	4.0	14.4	4	3.6	6
13. Other: Multi-disciplinary/regional teams				7.0	7.0	1	7.0	
14. Other: Leadership				7.0	7.0	1	7.0	
Total ΣXi	52.1	34.7	37.1	63.5	187.4		60.7	
Number n	12	9	12	14	47		14	
Mean x	4.3	3.9	3.1	4.5	4.5		4.5	

Note: Figures are rounded in certain instances. Rank is based on Total column. Methods 13 and 14 not ranked because Sappi alone.

APPENDIX 8.9 TRANSFER OF CORE COMPETENCIES: MARKETING

Seven Point Scale

	BAR	A&A	EUR	SAP	WWW	ΣX_i	n	$\bar{x}$
A. Estimated degree of success in transferring core competencies.		5	4	4	5	18	4	4.5
B. Effectiveness of methods used:								
1. Appoint key people from within company to management positions		5	5	2		12	3	4.0
2. Post M&A integration teams		2	7	2	5	16	4	4.0
3. Experts deliver, install and return		4	1	2	5	12	4	3.0
4. Short term secondments		1	2		5	8	3	2.7
5. Models or examples (other acquisitions or investments)		-	2	4		6	2	3.0
6. Rotate managers and key people from new acquisitions			7	6		13	2	6.5
7. Seminars / conferences		5	2	5	7	19	4	4.8
8. Visits		6	3	6	6	21	4	5.3
9. Manuals and video material		5	3	3		11	3	3.7
10. Inclusion in management process (priority objectives etc)		6	4	4	6	20	4	5.0
11. Compensation incentives based on achievement of transfer			1	3		4	2	2.0
12. Benchmark core competencies against competitors and other firms		4	4	4	5	17	4	4.3
13. Other: Multi-disciplinary/regional teams				7		7	1	7.0
14. Other: Leadership				7		7	1	7.0
Total ΣXi		38	41	55	39	173		62.3
Number n		9	12	13	7	41		14
Mean $\bar{X}$		4.2	3.3	4.2	5.6	4.2		4.5

Note: Figures are rounded in certain instances.

APPENDIX 8.10 TRANSFER OF CORE COMPETENCIES: OUTBOUND LOGISTICS

Seven Point Scale

	BAR	A&A	EUR	SAP	WWW	ΣX_i	n	$\overline{x}$
A. Estimated degree of success in transferring core competencies.		5	5			10	2	5
B. Effectiveness of methods used:								
1. Appoint key people from within company to management positions		5	4			9	2	4.5
2. Post M&A integration teams		4	3			7	2	3.5
3. Experts deliver, install and return		3	3			6	2	3.0
4. Short term secondments		1	4			5	2	2.5
5. Models or examples (other acquisitions or investments)			4			4	1	4.0
6. Rotate managers and key people from new acquisitions			6			6	1	6.0
7. Seminars / conferences		2	3			5	2	2.5
8. Visits		6	3			9	2	4.5
9. Manuals and video material		2	3			5	2	2.5
10. Inclusion in management process (priority objectives etc)		4	4			8	2	4.0
11. Compensation incentives based on achievement of transfer			4			4	1	4.0
12. Benchmark core competencies against competitors and other firms		3	4			7	2	3.5
13. Other: Multi-disciplinary/regional teams								
14. Other: Leadership								
Total ΣXi		30	45			75		44.5
Number n		9	12			21		12
Mean $\overline{X}$		3.3	3.9			3.6		3.7

Note: Figures are rounded in certain instances.

APPENDIX 8.11 TRANSFER OF CORE COMPETENCIES: OPERATIONS

Seven Point Scale

	BAR	A&A	EUR	SAP	WWW	ΣX_i	n	$\overline{x}$
A. Estimated degree of success in transferring core competencies.		6	6	5	7	24	4	6.0
B. Effectiveness of methods used:								
1. Appoint key people from within company to management positions		6	5	5	7	23	4	5.8
2. Post M&A integration teams		6	6	3	6	21	4	5.3
3. Experts deliver, install and return		4	5	2	7	18	4	4.5
4. Short term secondments		1	2	5	6	14	4	3.5
5. Models or examples (other acquisitions or investments)			2	4		6	2	3.0
6. Rotate managers and key people from new acquisitions			5	5		10	2	5.0
7. Seminars / conferences		6	2	4		12	3	4.3
8. Visits		7	3	6		16	3	5.3
9. Manuals and video material		6	2	3		11	3	3.7
10. Inclusion in management process (priority objectives etc)		7	6	4	6	23	4	5.8
11. Compensation incentives based on achievement of transfer			3	3		6	2	3.0
12. Benchmark core competencies against competitors and other firms		6	4	6	5	21	4	5.3
13. Other: Multi-disciplinary/regional teams				7		7	1	7.0
14. Other: Leadership				7		7	1	7.0
Total ΣXi		49	45	64	37	195		68.5
Number $\underline{n}$		9	12	14	6	41		14
Mean $\overline{X}$		5.4	3.8	4.6	6.2	4.8		4.9

Note: Figures are rounded in certain instances.

APPENDIX 8.12 TRANSFER OF CORE COMPETENCIES: INBOUND LOGISTICS

Seven Point Scale	BAR	A&A	EUR	SAP	WWW	ΣX_i	n	$\overline{x}$
A. Estimated degree of success in transferring core competencies.		4	3			7	2	3.5
B. Effectiveness of methods used:								
1. Appoint key people from within company to management positions		4	2			6	2	3.0
2. Post M&A integration teams		4	3			7	2	3.5
3. Experts deliver, install and return		1	1			2	2	1.0
4. Short term secondments		1	4			5	2	2.5
5. Models or examples (other acquisitions or investments)			2			2	1	2.0
6. Rotate managers and key people from new acquisitions			4			4	1	4.0
7. Seminars / conferences		1	3			4	2	2
8. Visits		4	2			6	2	3.0
9. Manuals and video material		1	1			2	2	1.0
10. Inclusion in management process (priority objectives etc)		1	4			5	2	2.5
11. Compensation incentives based on achievement of transfer			2			2	1	2.0
12. Benchmark core competencies against competitors and other firms			5			5	1	5.0
13. Other: Multi-disciplinary/regional teams								
14. Other: Leadership								
Total ΣXi		17	33			50		31.5
Number n		8	12			20		12
Mean $\overline{X}$		2.1	2.8			2.5		2.6

Note: Figures are rounded in certain instances.

APPENDIX 8.13 TRANSFER OF CORE COMPETENCIES: MERGERS & ACQUISITIONS

Seven Point Scale

	BAR	A&A	EUR	SAP	WWW	ΣX_i	n	$\overline{x}$
A. Estimated degree of success in transferring core competencies.	7	5	5	6	NA	23	4	5.8
B. Effectiveness of methods used:								
1. Appoint key people from within company to management positions	7	5	7	5		24	4	6.0
2. Post M&A integration teams	6	2	7	7		22	4	5.5
3. Experts deliver, install and return	5		2	5		12	3	4.0
4. Short term secondments	5	1	3	5		14	4	3.5
5. Models or examples (other acquisitions or investments)	5		5	4		14	3	4.7
6. Rotate managers and key people from new acquisitions	6		7	5		18	3	6.0
7. Seminars / conferences	2		1			3	2	1.5
8. Visits	3		1	6		10	3	3.3
9. Manuals and video material	6		2	3		11	3	3.7
10. Inclusion in management process (priority objectives etc)	5		1	4		10	3	3.3
11. Compensation incentives based on achievement of transfer	6		4	3		13	3	4.3
12. Benchmark core competencies against competitors and other firms	4		1			5	2	2.5
13. Other: Multi-disciplinary/regional teams				7		7	1	7.0
14. Other: Leadership				7		7	1	7.0
Total ΣXi	60	8	41	61		170		62.3
Number n	12	3	12	12		39		14
Mean $\overline{X}$	5	2.7	3.4	5.1		4.4		4.5

Note: Figures are rounded in certain instances.

APPENDIX 8.14 TRANSFER OF CORE COMPETENCIES: HUMAN RESOURCE MANAGEMENT

Seven Point Scale

	BAR	A&A	EUR	SAP	WWW	ΣX_i	n	$\bar{x}$
A. Estimated degree of success in transferring core competencies.	7	5	2	5	5	24	5	4.8
B. Effectiveness of methods used:								
1. Appoint key people from within company to management positions	7	5	3	4	4	23	5	4.6
2. Post M&A integration teams	6	3	2	4		15	4	3.8
3. Experts deliver, install and return	5	1	1	3		10	4	2.5
4. Short term secondments	4	1	3	6		14	4	3.5
5. Models or examples (other acquisitions or investments)	6		3	4		13	3	4.3
6. Rotate managers and key people from new acquisitions	7		2	6		15	3	5.0
7. Seminars / conferences	4	5	1	4		14	4	3.5
8. Visits	7	7	1	6		21	4	5.3
9. Manuals and video material	5	5	2	3		15	4	3.8
10. Inclusion in management process (priority objectives etc)	7	6	4	4		21	4	5.3
11. Compensation incentives based on achievement of transfer	7		1	3		11	3	3.7
12. Benchmark core competencies against competitors and other firms	1	5	3			9	3	3.0
13. Other: Multi-disciplinary/regional teams				7		7	1	7.0
14. Other: Leadership				7		7	1	7.0
Total ΣXi	66	38	26	61	4	195		62.0
Number n	12	9	12	13	1	47		14
Mean $\bar{X}$	5.5	4.2	2.2	4.7	4.0	4.1		4.4

Note: Figures are rounded in certain instance.

APPENDIX 8.15 TRANSFER OF CORE COMPETENCIES: TECHNOLOGICAL DEVELOPMENT

Seven Point Scale

	BAR	A&A	EUR	SAP	WWW	ΣX_i	n	$\overline{x}$
A. Estimated degree of success in transferring core competencies.		4	3	4	4	15	4	3.8
B. Effectiveness of methods used:								
1. Appoint key people from within company to management positions		4	2	1		7	3	2.3
2. Post M&A integration teams		4	4	1		9	3	3.0
3. Experts deliver, install and return		1	5	2		8	3	2.7
4. Short term secondments		1	5	5		11		3.7
5. Models or examples (other acquisitions or investments)			2	4		6	2	3.0
6. Rotate managers and key people from new acquisitions			3	5		8	2	4.0
7. Seminars / conferences		4	1	3	5	13	4	3.3
8. Visits		6	2	6		14	3	4.7
9. Manuals and video material		3	1	3		7	3	2.3
10. Inclusion in management process (priority objectives etc)		6	1	4		11	3	3.7
11. Compensation incentives based on achievement of transfer			1	3		4	2	2.0
12. Benchmark core competencies against competitors and other firms		4	1	3	4	12	4	3.0
13. Other: Multi-disciplinary/regional teams				7		7	1	7.0
14. Other: Leadership				7		7	1	7.0
Total ΣXi		33	28	54	9	124		51.7
Number n						37		14
Mean $\overline{X}$		3.7	2.3	3.9	4.5	3.4		3.7

Note: Figures are rounded in certain instances.

APPENDIX 8.16 TRANSFER OF CORE COMPETENCIES: INFRASTRUCTURE: GENERAL MANAGEMENT

Seven Point Scale

	LT Relationship	Evolve Innovate	Execution Organization	Corporate Grvernment	Difficult Conditions	Systems	Operations Globally	Brand Building	ΣXi	n	$\overline{x}$
A. Estimated degree of success in transferring core competencies.	6	4	5	7	5	6	5	4	42	8	5.3
B. Effectiveness of methods used:											
1. Appoint key people from within company to management positions	7	7	7	7	7	7	6	6	54	8	6.8
2. Post M&A integration teams	1	1	1	7	1	6	-	6	23	7	3.3
3. Experts deliver, install and return	1	1	1	4	1	5	5	-	18	7	2.6
4. Short term secondments	1	1	1	5	1	5	-	-	14	6	2.3
5. Models or examples (other acquisitions or investments)	2	2	2	4	4	4	-	-	18	6	3.0
6. Rotate managers and key people from new acquisitions	6	6	7	7	7	5	-	-	38	6	6.3
7. Seminars / conferences	1	3	5	3	2	4	-	6	24	7	3.4
8. Visits	5	6	7	7	3	6	-	6	40	7	5.7
9. Manuals and video material	1	1	1	5	1	3	-	-	12	6	2.0
10. Inclusion in management process (priority objectives etc)	7	7	7	7	2	4	-	6	40	7	5.7
11. Compensation incentives based on achievement of transfer	6	5	7	7	6	3	-		34	6	5.7
12. Benchmark core competencies against competitors and other firms	1	5	2	6	1	3	-		18	6	3.0
13. Other: Multi-disciplinary/regional teams						7			7	1	7.0
14. Other: Leadership						7			7	1	7.0
Total ΣXi	39	45	48	69	36	69	11	30	347		63.8
Number n	12	12	12	12	12	14	2	5	81		14
Mean $\overline{X}$	3.3	3.8	4.0	5.8	3.0	4.9	5.5	6.0	4.3		4.6

Note: Figures are rounded in certain instances.

APPENDIX 8.17 TRANSFER OF CORE COMPETENCIES: VALUE CHAIN (WEIGHTED)

Seven Point Scale

	Marketing	Outbound Logistics	Operations	Inbound Logistics	M&A	HRM	Technology	Infra GM	ΣXi	n	$\overline{X}$
A. Estimated degree of success in transferring core competencies.	18/4	10/2	24/4	76/2	23/4	24/5	15/4	42/8	163	33	4.9
B. Effectiveness of methods used:	4.5	5.0	6.0	3. 5	5.8	4.8	3.8	5.3	38.7	8	4.8
1. Appoint key people from within company to management positions	12/3	9/2	23/4	6/2	24/4	23/5	7/3	54/8	158	31	5.1
2. Post M&A integration teams	16/4	7/2	21/4	7/2	22/4	15/4	9/3	23/7	120	30	4.0
3. Experts deliver, install and return	12/4	6/2	18/4	2/2	12/3	10/4	8/3	18/7	86	29	3.0
4. Short-term secondments	8/3	5/2	14/4	5/2	14/4	14/4	11/3	14/6	85	28	3.0
5. Models or examples (other acquisitions or investments)	6/2	4/1	6/2	2/1	14/3	13/3	6/2	18/6	69	20	3.5
6. Rotate managers and key people from new acquisitions	13/2	6/1	10/2	4/1	18/3	15/3	8/2	38/6	112	20	5.6
7. Seminars / conferences	19/4	5/2	12/3	4/2	3/2	14/4	13/4	24/7	94	28	3.4
8. Visits	21/4	9/2	16/3	6/2	10/3	21/4	14/3	40/7	137	28	4.9
9. Manuals and video material	11/3	5/2	11/3	2/2	11/3	15/4	7/3	12/6	74	26	2.9
10. Inclusion in management process (priority objectives etc)	20/4	8/2	23/4	5/2	10/3	21/4	11/3	40/7	138	29	4.8
11. Compensation incentives based on achievement of transfer	4/2	4/1	6/2	2/1	13/3	11/3	4/2	34/6	78	20	3.9
12. Benchmark core competencies against competitors and other firms	17/4	7/2	21/4	5/1	5/2	9/3	12/4	18/6	94	26	3.6
13. Other: Multi-disciplinary/regional teams	7/1		7/1		7/1	7/1	7/1	7/1	42	6	7.0
14. Other: Leadership	7/1		7/1		7/1	7/1	7/1	7/1	42	6	7.0
Total ΣXi	173	75	195	50	170	195	124	347	1,329		61.7
Number n	41	21	41	20	39	47	37	81	327		14
Mean $\overline{X}$	4.2	3.6	4.8	2.5	4.4	4.1	3.4	4.3	4.1		4.4

APPENDIX 11.1

POST THESIS EVENTS AND INFORMATION

Chapter 3. South Africa

2.3 Political

On 20 September 2006, a case against former deputy president Jacob Zuma was thrown out of court. State prosecutors, who had been hoping to show that Zuma took bribes from a French arms firm, were unable to complete the indictment. Zuma was cleared of raped charges earlier in the year, after an HIV-positive woman claimed that he had assaulted her. (*Economist* 2006b).

Archbishop Desmond Tutu, delivering the Steve Biko memorial at the University of Cape Town on 26 September 2006, warned that South Africa is in danger of losing its moral direction. He said it had failed to sustain the idealism that ended apartheid and warned of growing ethnic divisions. The retired Anglican Archbishop opposes ex-vice president Zuma becoming president due to his "moral failings". Tutu did state that the country had achieved a remarkable degree of stability in 12 years of democracy despite problems of poverty, aids, corruption and crime (BBC News 2006).

2.11 International Business

The Old Mutual, which is listed in both Johannesburg and London, acquired Scandia in Sweden in 2006. The enlarged group will be similar in size to Prudential of the UK and Aegon of Holland. South Africa will still account for 49 percent of the total value of Old Mutual's business. It will be equal with the UK in terms of the value of new business as each will 23 percent, with the US at 19 percent, Sweden 15 percent and the rest of the world (primarily Continental Europe outside Sweden) 20 percent (Cranston 2006).

MTN, South African company acquired Investcom for R33.5 billion. The deal made MTN, which is lead by CEO Phuthuma Nhleko, the market leader in the cellular business in the Middle East and Africa, with networks in 21 countries and serving almost 30 million subscribers (McLeod 2006). McNulty (5 May 2006) sees the acquisition as reflecting an impressively ambitious global strategy. MTN says it is in line with its vision to be the leading provider of telecoms emerging market.

South Africa's Netcare became one of the world's biggest private health care organizations after beating three international companies to win control of Britain's General Healthcare Group (GHG) in a R23.7 billion deal. The bid beat direct competition from three international private equity rivals – KKR, Cinven and Blackstone – for the 49 hospital chain (Philip 2006).

Economist (2006a:59) carried an article "South African business: going global". The article mentions how quickly South African Breweries moved to establish a global strategic position. It also states: "South Africa is now one of the top investors in sub-Saharan Africa, and has helped to spur economic development. New mines mean more exports and foreign exchange. Millions of Africans have access to phones, often for the first time."

The Swiss mining group Xstrata's acquisition of Canadian miner Falconbridge lifted its market capitalization to more than US$50 billion compared to Anglo American's $69 billion. The Chief Executive of Xstrata is Mick Davis from South Africa who was previously Head of Finance at Billiton and Escom (2006b).

Chapter 5. Corporations Studied

5.4 SABMiller

SABMiller revenue increased by 19 percent to $15,307 million for the financial year to March 2006. Adjusted EPS improved by 11 percent. (SABMiller Annual Report 2006) The total shareholder return since listing in London in 1999 amounted to 215 percent compared to the 20 percent achieved by FTSE 100 index.

The company communicated four strategic priorities:

- Creating a balanced and attractive global spread of businesses
- Developing strong, relevant brand portfolios in the local market
- Constantly raising the performance of local businesses
- Leveraging our global scale

  "Where something is done well within the group, we ensure that all our businesses learn and apply the lessons. This way, each operation benefits to the fullest extent from the skills, resources and experience of SABMiller as a whole. (Annual Report 2006:3)

5.5 Sappi

Chief Executive Jonathon Leslie resigned in March 2006. Van As will act as CEO until a successor to Leslie is appointed. McNulty (2006a) comments that it appears Sappi's decision to look outside the paper industry for a successor to Van As failed.

McNulty (2006c) lists Sappi's travails. These include problems with management succession planning, a strong rand, spiraling input costs, operational issues at some mills, logistical difficulties in the US, continuing operating losses, tough market conditions (particularly in Europe) and rising debt. He believes the poor result should be blamed on bad markets and management (and the board). He also notes taht chairman and acting CEO Eugene van As is at the centre of Sappi's battle to turn its fortunes around and that a recovery in market conditions is the key factor to the turnaround.

5.6 Wolverine World Wide

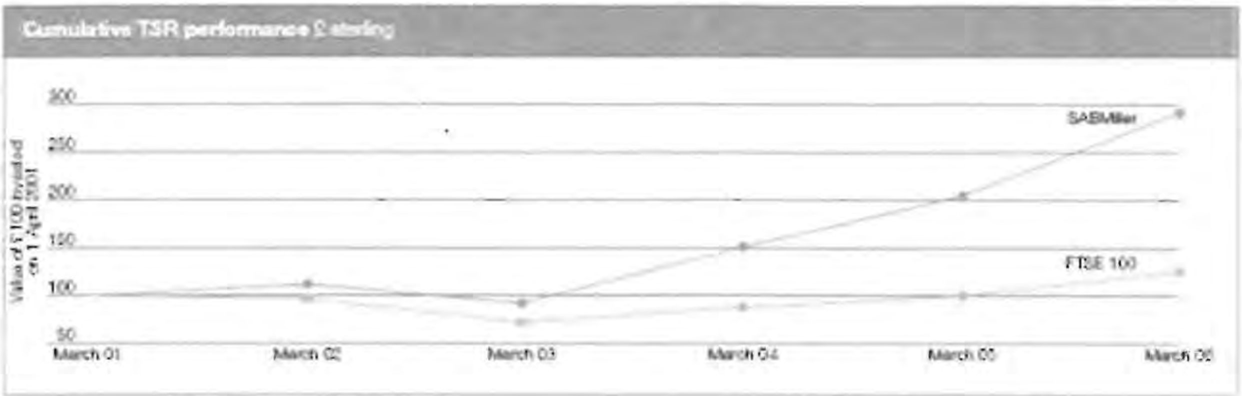
Wolverine World Wide revenue increased to $1061 million for the financial year to December 2005. The return on equity improved from 15.1 percent to 16.2 percent. EPS increased from $1.09 to $1.27. This is the fifth consecutive year of double-digit EPS increases.

The five year Cumulative Shareholder Return beat both the S & P 600 Footwear Index and the S & P Small Capital 600 Index. See Appendix 11.3.

The company announced a plan to drive itself to a new stage of strategic development – evolving Wolverine from a leading multi-branded footwear global business into a leading multi-branded global footwear, apparel and accessories company (Annual Report 2005).

APPENDIX 11.2

SABMILLER CUMULATIVE TSR PERFORMANCE 2001-2006



The above graph compares the company's TSR of the period from 1 April 2001 to 31 March 2006 with the FTSE 100 Total Return Index over the same period.

The total return to shareholders since the UK listing in 1999 is 215% compared with 20% for FTSE 100 as a whole (as measured 31 March 2006).

Source: SABMiller Annual Report 2006:5 and 2006:52.

APPENDIX 11.3

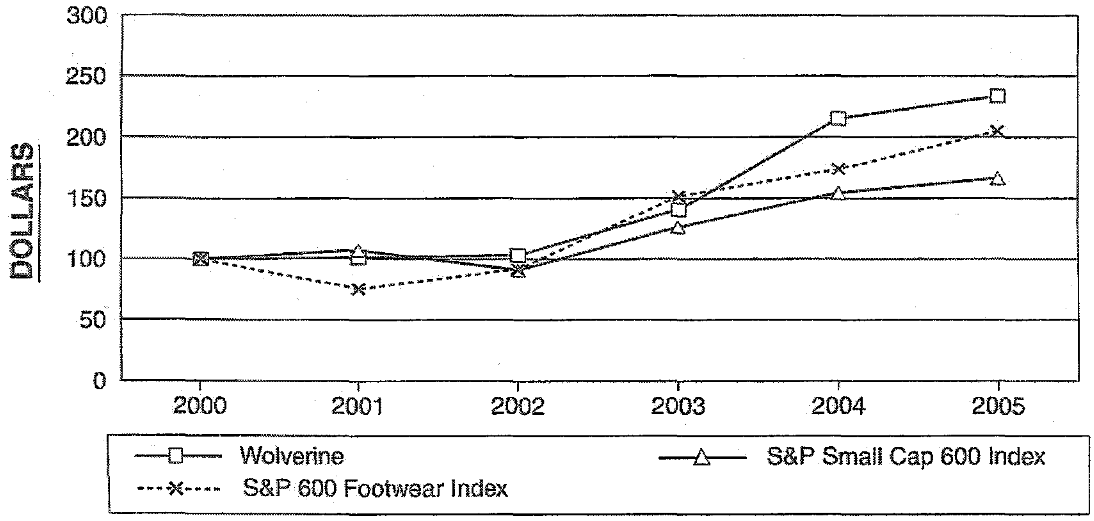
WOLVERINE WORLD WIDE CUMULATIVE TOTAL STOCK HOLDER RETURN 2000-2005

Wolverine's Stock Price Performance

The following graph compares the cumulative total stockholder return on Wolverine common stock to the Standard & Poor's Small Cap 600 Index and the Standard & Poor's 600 Footwear Index, assuming an investment of $100.00 at the beginning of the period indicated. Wolverine is part of the Standard & Poor's Small Cap 600 Index and the Standard & Poor's 600 Footwear Index. In addition to Wolverine, the Standard & Poor's 600 Footwear Index currently consists of Brown Shoe Company, Inc., K-Swiss Inc. (Class A), and The Stride Rite Corporation. These indices are weighted based on the market capitalization of the companies included in each index.

Cumulative total stockholder return is measured by dividing: (i) the sum of the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and the difference between the share price at the end and the beginning of the measurement period; by (ii) the share price at the beginning of the measurement period.

Five Year Cumulative Total Return Summary



The dollar values for total stockholder return plotted in the graph are shown in the table below:

Fiscal Year-End	Wolverine	S&P Small Cap 600 Index	S&P 600 Footwear Index
2000	$100.00	$100.00	$100.00
2001	$100.94	$107.43	$ 75.44
2002	$103.23	$ 90.83	$ 91.63
2003	$140.79	$126.44	$151.81
2004	$215.30	$154.82	$173.92
2005	$233.56	$166.71	$205.06

Source: Wolverine World Wide: Notice of Annual General Meeting 2006:13.

APPENDIX 11.4

LEADING SOUTH AFRICAN COMPANIES 2006

SA GIANTS

Ranked by turnover	Company	Turnover Rm	Total assets Rm	Market cap Rm	Equity funds Rm	Net profit Rm	Financial year end
1	BHP Billiton Plc	198 570,5	274 261,7	277 641,9	115 805,4	40 140,9	Jun 2005
1	BHP Billiton Plc	157 841,4	208 600,0	206 954,1	100 937,9	22 558,6	Jun 2004
2	Anglo American Plc	141 647,7	281 971,6	353 645,3	143 903,4	16 136,4	Dec 2004
2	Anglo American Plc	124 246,7	277 160,0	219 833,6	137 140,0	12 560,0	Dec 2003
3	SABMiller Plc	80 130,4	52 267,1	181 220,2	6 049,7	7 658,4	Mar 2005
3	SABMiller Plc	71 936,7	47 449,4	107 909,6	183,5	6 050,6	Mar 2004
4	Sanlam	70 731,0	225 817,0	39 742,0	25 724,0	7 799,0	Dec 2004
7	Sanlam	48 883,0	193 944,0	33 598,3	18 830,0	3 263,0	Dec 2003
5	Sasol	69 239,0	85 571,0	158 715,7	45 486,0	12 549,0	Jun 2005
4	Sasol	60 151,0	71 589,0	98 030,6	37 462,0	7 116,0	Jun 2004
6	The Bidvest Group	62 811,8	18 071,7	36 750,9	4 111,3	1 992,2	Jun 2005
6	The Bidvest Group	51 262,2	15 820,7	22 527,7	3 811,2	1 640,8	Jun 2004
7	Old Mutual Plc	53 271,7	703 880,4	117 641,6	23 891,3	8 369,6	Dec 2004
5	Old Mutual Plc	54 488,1	667 750,0	60 666,9	16 964,3	6 964,3	Dec 2003
8	Standard Bank Group	45 819,0	628 528,0	114 899,2	43 214,0	8 326,0	Dec 2004
8	Standard Bank Group	45 337,0	538 996,0	85 039,8	28 706,0	6 959,0	Dec 2003
9	Telkom	43 117,0	56 538,0	87 545,4	22 250,0	7 430,0	Mar 2005
9	Telkom	40 795,0	51 684,0	59 853,1	21 287,0	6 336,0	Mar 2004
10	Imperial Holdings	42 546,0	27 868,0	35 545,2	8 515,0	1 941,0	Jun 2005
12	Imperial Holdings	35 278,0	22 465,0	21 415,8	8 236,0	1 639,0	Jun 2004
11	FirstRand	40 386,0	460 595,0	112 300,6	29 265,0	9 208,0	Jun 2005
14	FirstRand	34 918,0	424 263,0	72 999,4	24 218,0	5 857,0	Jun 2004
12	Barloworld	39 401,0	25 084,0	30 238,7	8 823,0	1 958,0	Sep 2005
10	Barloworld	36 673,0	24 757,0	22 729,6	8 905,0	1 788,0	Sep 2004
13	Absa Group	35 062,0	348 328,0	77 355,2	24 113,0	6 215,0	Mar 2005

APPENDIX 11.4

LEADING SOUTH AFRICAN COMPANIES 2006 (continued)

SA GIANTS cont

Ranked by turnover	Company	Turnover Rm	Total assets Rm	Market cap Rm	Equity funds Rm	Net profit Rm	Financial year end
11	Absa Group	35 691,0	306 878,0	49 391,2	20 023,0	4 784,0	Mar 2004
14	Sappi	31 961,8	35 853,5	21 999,4	13 662,4	-159,2	Sep 2005
15	Sappi	30 503,2	39 032,3	18 265,1	15 774,2	335,5	Sep 2004
15	Pick 'n Pay Stores	31 885,0	5 460,0	14 681,2	4,3	564,0	Feb 2005
16	Pick 'n Pay Stores	29 276,1	5 161,9	10 962,3	106,7	491,9	Feb 2004
16	Nedbank	30 667,0	321 624,0	57 912,6	13 463,0	3 617,0	Dec 2004
13	Nedbank	35 062,0	304 349,0	29 666,0	6 191,0	1 709,0	Dec 2003
17	Richemont Securities AG	29 975,8	79 919,4	152 632,8	65 096,8	7 451,6	Mar 2005
18	Richemont Securities AG	26 162,8	71 534,9	101 842,2	54 348,8	2 240,3	Mar 2004
18	Shoprite Holdings	29 812,9	8 126,5	12 228,3	1 610,1	583,2	Jun 2005
17	Shoprite Holdings	26 641,2	7 702,2	7 527,2	1 831,3	495,1	Jun 2004
19	MTN Group	28 994,0	26 820,0	102 345,0	12 964,0	6 500,0	Mar 2005
20	MTN Group	23 871,0	20 244,0	73 149,9	8 079,0	4 387,0	Mar 2004
20	Massmart Holdings	26 561,4	6 910,4	11 664,9	25,9	625,9	Jun 2005
21	Massmart Holdings	23 787,7	6 594,2	8 366,0	1 026,5	678,7	Jun 2004
21	Anglo American Platinum Corp	23 308,4	36 303,3	122 283,3	25 740,6	4 550,9	Dec 2005
22	Anglo American Platinum Corp	19 624,8	32 777,2	50 875,0	18 730,7	3 487,9	Dec 2004
22	Mittal Steel SA	23 053,0	23 851,0	28 216,1	17 424,0	5 085,0	Dec 2004
23	Mittal Steel SA	18 838,0	18 536,0	28 305,3	13 741,0	2 518,0	Dec 2003
23	Liberty Group	20 554,0	109 326,0	24 740,7	8 435,0	3 573,0	Dec 2004
24	Liberty Group	18 121,8	96 281,9	17 931,5	8 421,7	2 682,8	Dec 2003
24	Steinhoff International Holdings	19 114,4	20 146,9	25 190,2	4 559,6	1 459,8	Jun 2005
39	Steinhoff International Holdings	10 572,1	12 896,4	15 091,5	5 763,3	1 364,3	Jun 2004
25	Dimension Data Hold	17 374,9	9 108,5	7 906,0	1 743,0	138,8	Sep 2005

Source: *Financial Mail* Top Companies 2006b:29-30.