

**CHARACTERISTICS OF SUBSIDIARY ENTREPRENEURIAL CULTURE  
IN A POST-ACQUISITION ENVIRONMENT: THE CASE OF LIBSTAR**

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University

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**DECLARATION**

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## **ABSTRACT**

The research set out to prove that subsidiary entrepreneurial culture in a post-acquisition environment is different from entrepreneurial culture in an independently owned company. Whereas independently owned companies focus on their own successes and failures, acquired companies are constantly required to take into consideration the parameters and objectives set by headquarters.

Little is known about what occurs within the subsidiary post-acquisition, and how managerial structures and processes either stimulate or hinder the entrepreneurial culture, which is an aspect often neglected during the acquisition process. This study aims to address the uncertainty regarding which key characteristics constitute subsidiary entrepreneurial culture in a post-acquisition environment, and aims to expand the currently inadequate body of knowledge on subsidiary entrepreneurial culture.

Based on the theoretical frameworks of intrapreneurship, multinational subsidiary entrepreneurship and international entrepreneurship, an interview guide was developed and used as the primary research instrument. Data was collected by means of semi-structured interviews and data analysis was conducted using ATLAS.ti. The qualitative, exploratory nature of the study necessitated a case study research design, which was based on a non-probability sample of five subsidiaries competing in the private-label food and beverage industry.

Findings suggest that the components of subsidiary entrepreneurial culture in a post-acquisition environment are: new businesses and ventures, product innovativeness, process innovativeness, self-renewal, risk-taking, proactiveness, competitive aggressiveness and subsidiary autonomy. Furthermore, entrepreneurial culture is enhanced by a subsidiary-driven locus of control and through headquarters' support in the form of financial stability, structure and a future-oriented approach for long-term success. A framework of subsidiary entrepreneurial culture was developed with the aim of providing managers with an outline of the relevant determinants that can enhance subsidiary entrepreneurship.

Managers should take note that although the locus of control may vary within each subsidiary, granting the subsidiary decision-making autonomy and the autonomy to

manipulate its entrepreneurial orientation are key to nurturing the pre-established entrepreneurial culture.

Future research agendas could incorporate perspectives from both the subsidiary and the headquarters. Analysis can also be done regarding the extent to which disruptive entrepreneurial culture may be diminished before it impacts negatively on business performance.

Keywords:

Acquisition

Entrepreneurship

Post-acquisition

Subsidiary

Subsidiary Entrepreneurial Culture

## OPSOMMING

Die doel van hierdie navorsing was om te bewys dat filiaal-entrepreneurskultuur in 'n na-verkrygingsomgewing verskil van entrepreneurskultuur in 'n maatskappy in onafhanklike besit. Terwyl maatskappye in onafhanklike besit op hulle eie suksesse en mislukkings fokus, word daar gedurig van verkrygde maatskappye vereis om die parameters en doelwitte wat deur die hoofkantoor gestel word, in ag te neem.

Min is bekend oor wat ná verkryging binne die filiaal plaasvind, en oor hoe bestuurstrukture en -prosesse die entrepreneurskultuur daar óf stimuleer óf verhinder. Dít is 'n aspek wat dikwels tydens die verkrygingsproses verwaarloos word. Hierdie studie is daarop gemik om die onsekerheid aan te spreek oor wat 'n doeltreffende filiaal-entrepreneurskultuur in 'n na-verkrygingsomgewing behels, asook om die ontoereikende bestaande kennis oor filiaal-entrepreneurskultuur uit te brei.

Deur gebruik te maak van die teoretiese raamwerke van intrapreneurskap, multinasionale filiaal-entrepreneurskap en internasionale entrepreneurskap is 'n onderhoudsgids ontwikkel en as die primêre navorsingsinstrument gebruik. Die data is met behulp van semi-gestruktureerde onderhoude ingesamel, en die data-ontleding is met ATLAS.ti gedoen. Die kwalitatiewe, verkennende aard van die studie het 'n gevallestudie-navorsingsontwerp genoodsaak, wat gebaseer was op 'n nie-waarskynlikheidsteekproef van vyf filiale wat meeding in die voedsel-en-drankbedryf vir privaat handelsmerke.

Die bevindinge dui daarop dat die komponente van filiaal-entrepreneurskultuur in 'n na-verkrygingsomgewing die volgende is: nuwe besighede en ondernemings, produk-innovering, proses-innovering, selfvernuwing, risiko's, proaktiwiteit, mededingende aggressie en filiaal-outonomie. Verder word entrepreneurskultuur versterk deur 'n filiaalgedreve beheerlokus en deur die hoofkantoor se ondersteuning in die vorm van besigheidstelsels, -strukture en finansiële hulp. 'n Raamwerk vir filiaal-entrepreneurskultuur is ontwikkel met die doel om bestuurders van 'n oorsig van die relevante determinante wat filiaal-entrepreneurskultuur kan versterk, te voorsien.

Bestuurders behoort daarop te let dat alhoewel die beheerlokus binne elke filiaal mag wissel, die outonomie van 'n filiaal om besluite te neem en om hulle entrepreneursoriëntering te manipuleer van kardinale belang is om 'n voorafgevestigde

entrepreneurskultuur te koester.

Toekomstige navorsingsagendas sou sowel die filiaal as die hoofkantoor se perspektiewe kon inkorporeer. Daar is ook ruimte vir 'n ontleding van die mate waartoe ontwrigtende entrepreneurskultuur verminder kan word voordat dit die maatskappy se prestasie negatief beïnvloed.

Sleutelwoorde:

Verkryging

Entrepeneurskap

Na-verkryging

Filiale

Filiaal-entrepreneurskultuur

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## CHAPTER 1

### INTRODUCTION TO THE STUDY

#### 1.1 BACKGROUND

##### 1.1.1 Why subsidiary entrepreneurial culture is important

“The cultural element in the acquisitions integration process has been identified as one of the key issues surrounding the failure of many mergers and acquisitions” (Lodorfos & Boateng, 2006).

Acquisitions are corporate actions where an organisation buys most, if not all, of a target company's ownership stakes so as to assume control of that company. In saying that, however, both organisations continue to exist (Firer, Ross, Westerfield & Jordan, 2004). Acquisitions result from business decisions that are usually made as part of a growth strategy in order to achieve market leadership or to increase one's market share in order to become a leading player. Acquiring a leading niche business in an attractive and relevant market segment is often undertaken when entry by start-up and organic growth would take too long or be uneconomical. Taking over an existing company's operations and niche is often a lot more favorable and affordable for a company than expanding its own business processes. This results in diversification.

Many of the problems encountered in acquisitions can be attributed to cultural differences. It is therefore essential that cultural differences be nurtured, understood and managed correctly if companies are to ensure a successful acquisition process (Lodorfos & Boateng, 2006). Given that culture will seldom stop a proposed transaction from taking place, it becomes management's responsibility to prevent culture from undermining their desired goals. This requires a sound integration strategy, one that supports and manages cultural differences (Lodorfos & Boateng, 2006).

In this research, an exploratory study into the characteristics of entrepreneurial culture of the subsidiary in a post-acquisition environment is undertaken. The theme of subsidiary entrepreneurial culture remains unexplored in business literature, and is believed to have notable research and managerial significance (Boojihawon,

Dimitratos & Young, 2007). This research is based on a case study of five entrepreneurial subsidiaries all acquired by the same parent company, as such this research will be qualitative in nature.

### **1.1.2 Why subsidiaries?**

As suggested, a subsidiary perspective is adopted in this research due to the increasing acknowledgment that subsidiaries are not simply secondary components of their parent companies (Birkinshaw, Hood & Johnsson, 1998). Rather, it is being realised that subsidiaries have the potential to exhibit independent and entrepreneurial behaviour. Birkinshaw *et al.* (1998) state that subsidiaries can be investigated as networks of autonomous and differentiated units due to their ability to enter independently into new opportunities in the local market. Furthermore, as a parent company expands and as its subsidiaries develop resources and capabilities of their own, they take on additional responsibilities.

### **1.1.3 A South African perspective**

South Africa has a low entrepreneurship rate in comparison to other countries around the world (Herrington & Kew, 2013). Thus, an opportunity arises for stimulating entrepreneurial culture in the country. This is desirable because, as measured by the Total Entrepreneurial Activity (TEA) index (a measurement that shows the percentage of individuals between the ages of 18 and 64 who have started their own companies or already manage companies that they own either partly or entirely (Von Broembsen & Wood, 2005)), entrepreneurship is a predominant driver of national economic development (Wennekers & Thurik, 1999). One of the reasons for this is that small businesses of between 10 and 49 employees provide numerous job opportunities that aid in economic growth (Wennekers & Thurik, 1999).

The Global Entrepreneurship Monitor (GEM) defines individuals intending to pursue a business opportunity as intentional entrepreneurs (Herrington & Kew, 2013). Cross-tabulating the rate of perceived opportunities with that of perceived capabilities, the 2013 GEM revealed that the pool of potential entrepreneurs in South Africa consists of 25% of the adult population (Herrington & Kew, 2013: 42). This can be attributed to market dynamics continuously leading towards the privileging of larger organisations, low levels of education, and a lack of research and development

(Herrington & Kew, 2013: 43).

Low entrepreneurship rates in South Africa highlight the value of stimulating an entrepreneurial culture among new as well as established organisations. Entrepreneurship is an intentional behaviour and it is therefore important to support and encourage these intentions in developing countries such as South Africa, where increases in entrepreneurial activity can boost national economic expansion (Venter, Urban & Rwigema, 2008).

#### **1.1.4 The focus of the research**

This study focuses on the relationship between the headquarters and the subsidiary, particularly looking at the subsidiary's entrepreneurial culture once an acquisition has taken place. It investigates the overall effects of the acquisition on entrepreneurial culture within the subsidiary and in turn, aims to produce a framework to help managers perpetuate an effective entrepreneurial culture for the long-term success of the acquisition.

This chapter proceeds to address the research problem and to present the rationale for and expected benefits of the undertaking of the present study. Thereafter, the primary and secondary objectives are laid out and the methodology and research design are explained. The chapter concludes with a brief outline of the orientation of this study.

### **1.2 RESEARCH PROBLEM**

Entrepreneurial culture is constantly under pressure after an acquisition has taken place. Post-acquisition, both parties to the agreement tend to focus all of their attention and energy on financial and strategic gains, while neglecting to consider the impact and importance of a subsidiary's pre-existing entrepreneurial culture (Birkinshaw, Bouquet & Morrison, 2004). This can have adverse effects on performance quality and may, in extreme circumstances, result in a failed acquisition (Barkema & Schijven, 2008).

The problem to be addressed in this research is the uncertainty regarding which key characteristics constitute subsidiary entrepreneurial culture in a post-acquisition

environment, and aims to expand on the currently inadequate body of knowledge on subsidiary entrepreneurial culture.

If subsidiary entrepreneurial culture is managed correctly, through the use of a theoretical framework, acquisitions will have the potential to provide management and their subsidiaries with remarkable growth and expansion opportunities (Beugelsdijk, Koen & Noorderhaven, 2006). This research therefore aims to create a framework for companies to follow in a post-acquisition environment so as to reduce the chances of an unsuccessful acquisition.

### **1.3 BENEFITS OF THE STUDY**

As stated above, this study aims to provide parent companies and subsidiary managers with a theoretical framework for sustaining a strong entrepreneurial culture in a post-acquisition environment. Once it is established which characteristics are important in such an environment, organisations will have a more solid idea of how to nurture, sustain and perpetuate subsidiary entrepreneurial culture in the post-acquisition environment. This structure will allow managers to focus on certain aspects of the entrepreneurial culture, while being able to neglect others that may no longer be important post-acquisition. This ability for managers to prioritise will further improve the chances of a successful acquisition.

With regards to managerial significance, an awareness of the characteristics that are favourable to subsidiary entrepreneurship would allow managers of subsidiaries to shape and influence entrepreneurship within the subsidiary. This can lead to improved performance outcomes for both the subsidiary and the parent company (Birkinshaw & Hood, 1998).

The study additionally seeks to explore the locus of subsidiary entrepreneurship; that is, whether entrepreneurial activities of a subsidiary are primarily determined by the subsidiary itself, by the headquarters, or jointly. By determining where the favourable locus of control should lie, managers, especially the headquarter in this instance, will be able to assess what level of control is required from the parent company in order to maintain a healthy working environment for both parties.

Thereafter, the influence of the acquisition on the subsidiary will be explored. This will offer significance in terms of what the headquarters have done correctly.

This study aims further to make available to academics a framework of literature for understanding the effect of post-acquisition phenomena on subsidiary entrepreneurial culture. In order to achieve this aim, the researcher has developed various areas of infant literature and combined it into an extensive body of research.

## **1.4 OBJECTIVES OF THE STUDY**

The objectives of the study consist of a primary research objective, as well as a few secondary research objectives.

### **1.4.1 Primary research objective**

- Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment.

### **1.4.2 Secondary research objectives**

- Determine whether the entrepreneurial locus of control lies with the headquarters, with its subsidiaries, or jointly.
- Determine the influence of the acquisition on each subsidiary.
- Develop a framework of characteristics of subsidiary entrepreneurial culture in a post-acquisition environment, which include the necessary locus of control as well as the relevant support structures.

Table 1.1 provides an outline of the research objectives and how they will be addressed.

**Table 1.1 An outline of the research objectives and how they will be addressed**

<b>OBJECTIVES</b>	<b>INTERVIEW QUESTIONS/PROBES</b>	<b>TYPE OF DATA &amp; ANALYSIS</b>	<b>REPORTING THE RESULTS</b>
Determine the key characteristics of a subsidiary entrepreneurial culture in a post-acquisition environment.	Open-ended questions focused specifically on determining the key characteristics of each subsidiary's entrepreneurial culture.	Qualitative: transcribed interviews; textual data (content analysis)	Written explanations and themes derived and visualised in diagrams.
Determine whether the entrepreneurial locus of control lies with the headquarters or with its subsidiaries.	Open-ended questions focused specifically on determining where this locus of control lies.	Qualitative: transcribed interviews; textual data (content analysis)	Written explanations and themes derived and visualised in the quadrant put forward by Boojihawon <i>et al.</i> (2007) titled "Locus of subsidiary entrepreneurship".
Determine what has changed in each subsidiary since the acquisition.	An open-ended question asking subsidiaries what the most prominent change has been in their company since being acquired by the headquarters.	Qualitative: transcribed interviews; textual data (content analysis)	Written explanations will explain this data.
Develop a framework for managers for a successful post-acquisition subsidiary entrepreneurial culture.	The researcher will compile this framework once all of the information has been gathered from the interviews.	Qualitative: transcribed interviews; textual data (content analysis)	This framework will be presented in the form of written explanations, as well in a figure

## 1.5 RESEARCH DESIGN AND METHODOLOGY

Two types of sources were consulted whilst researching the subject of this study: secondary sources and primary sources. A literature search was conducted using several academic books, journals and articles from the University of Stellenbosch's online databases. All of these secondary sources contributed significantly to the final body of research. However, it was essential that primary research be conducted thereafter, as the interpretations made from the secondary research were broad and not specific to this case.

The primary research of this study drew its results from a dataset that was collected from five of its sixteen entrepreneurial subsidiaries of a company call Libstar, during a three-week period of interviews. The companies chosen to be included in the research were Cape Herb and Spice, Rialto Foods, Lancewood, Amaro Bakery and Montagu Foods. A detailed description of Libstar and these subsidiaries will be provided in chapter 5.

The approach was exploratory in nature and employed a case study methodology as its principal method of design and data collection. The empirical component of the study involved a qualitative investigation into the key characteristics of subsidiary entrepreneurial culture, namely new businesses/ventures, product innovativeness, process innovativeness, self-renewal, risk-taking, proactiveness, competitive aggressiveness, subsidiary entrepreneurial network management, subsidiary autonomy. This list of characteristics was compiled from extensive secondary research. Table 1.2 is a summary of the methodological components and primary research design.

**Table 1.2 Primary research design**

<b>METHODOLOGY COMPONENTS</b>	
<b>1. Research design</b>	Case study
<b>2. Type of case study</b>	Multiple-embedded interpretive case study
<b>3. Research strategy</b>	Exploratory approach
<b>4. Approach</b>	Qualitative
<b>5. Time dimension</b>	Cross-sectional
<b>6. Sampling</b>	Non-probability; purposive
<b>7. Data collection</b>	Semi-structured interviews
<b>8. Data analysis</b>	Content analysis
<b>9. Reporting</b>	Interpretive text with diagrams and figures

## 1.6 ORIENTATION OF THE STUDY

A brief overview of the structure of the thesis is presented below.

### Chapter 1: Introduction to the study

The first chapter offers a short background to the study and clarifies the purpose of the research. This is done through a discussion of the problem statement and the overall importance of the study. The chapter then moves on to discuss the objectives of the study, its research design and the methodology employed. The chapter draws to a close with an overview of the structure of the study.

## **Chapter 2: Entrepreneurial culture and intrapreneurship**

This chapter provides the reader with a thorough understanding of the term “entrepreneurial culture.” This is achieved via the presentation of separate literature reviews of entrepreneurship and culture, as well as a review of literature concerning the concept of ‘entrepreneurial culture’. ‘Entrepreneurial culture’ will be seen to form one of the core concepts of the remainder of the thesis. Following on from this, chapter 2 addresses intrapreneurship theory, its link to entrepreneurship, and its relevance for building a framework for this study. The link between intrapreneurship and entrepreneurship is relevant for this particular study, as intrapreneurship denotes entrepreneurship within an existing organisation. This research aims to analyse entrepreneurial culture within existing subsidiaries.

## **Chapter 3: Mergers and acquisitions**

Chapter 3 considers literature regarding mergers and acquisitions, focusing mainly on acquisitions and briefly addressing the post-acquisition environment. The literature discusses mergers and acquisitions with the terms appearing interchangeably. It then provides discrete definitions of each activity as an individual phenomenon. At this stage in the chapter, merger literature is somewhat excluded from the rest of the study, as this study is dealing solely with a post-acquisition environment. The motivations for undergoing an acquisition as well as the reasons why acquisitions might fail are addressed. This chapter draws to a close by discussing change management in a post-acquisition environment.

## **Chapter 4: Multinational corporation (MNC) subsidiary entrepreneurial culture and international entrepreneurial culture**

This chapter deals with MNC subsidiaries and subsidiary entrepreneurial culture. It is relevant that MNC subsidiaries be discussed here, as the concept of subsidiary entrepreneurial culture comes from literature regarding this topic. The literature on international entrepreneurial culture is considered thereafter. Research on international entrepreneurial culture has been seen to be valuable to the investigation of entrepreneurship in MNC subsidiaries, which can be seen as positioned at the interface of the two areas.

## **Chapter 5: Methodology**

The research design and methodology of this study are presented in chapter 5. The chapter begins with an introduction of Libstar and each of the five subsidiaries.. It then revisits the research objectives and discusses the primary and secondary research design. The remainder of the chapter discusses the research instruments, the population and sampling procedure, and the data analysis tool used when conducting the research.

## **Chapter 6: Findings**

The overall findings of the study are delivered in this chapter. The data gathered are analysed and related back to the original objectives of the study. Thereafter, the final research results are discussed in detail and a theoretical framework derived from these results is presented. This framework provides a managerial guideline for post-acquisition subsidiary entrepreneurial culture and aims to provide a foundation for follow-up studies where this framework may be tested in other companies.

## **Chapter 7: Limitations, conclusions and recommendations**

Chapter 7 concludes the study. It discloses any limitations that were found to be relevant to the study. Thereafter, the final conclusions and recommendations are presented.

## CHAPTER 2

### ENTREPRENEURIAL CULTURE AND INTRAPRENEURSHIP

#### 2.1 INTRODUCTION

This chapter investigates literature regarding the concepts and theoretical perspectives of entrepreneurial culture relevant for this study. It discusses the concept of ‘entrepreneurship’ and what persuades individuals to participate in entrepreneurial activities, as well as the relevance of such activities in South Africa. In order to fully understand entrepreneurial culture, one should be familiar with what constitutes entrepreneurial activity, the motivations thereof and the benefits attributed to entrepreneurship. It then defines the concept of culture. Thereafter, a definition of entrepreneurial culture that closely references the founder-driven entrepreneurial culture perspective is put forward.

The chapter proceeds to focus on the first theoretical perspective on which this study is based, namely intrapreneurship. In order to fully understand the phenomenon of subsidiary entrepreneurial culture, the researcher uses the concept of intrapreneurship to understand entrepreneurship within an existing organisation.

Intrapreneurship and its contribution towards understanding entrepreneurship within an existing organisation are discussed. An in-depth understanding of the phenomenon is offered, and the evolution of the concept is traced by paying close attention to corporate entrepreneurship. Within this context, the behaviour of corporate entrepreneurs is discussed. Subsequently, intrapreneurial organisations, the scope of intrapreneurship and the ways in which intrapreneurial culture can be evaluated are discussed. The chapter concludes by discussing the eight most relevant dimensions of intrapreneurial culture. These dimensions are integral to the realisation and categorisation of the relevant characteristics of subsidiary entrepreneurial culture in a post-acquisition environment.

### 2.1.1 Defining entrepreneurship

Entrepreneurship is a multi-dimensional term that is not easy to define. In the context of this study, however, definitions of entrepreneurship are examined in the corporate context specifically.

According to Hebert and Link (1989: 39), entrepreneurship refers to “the actions of a risk taker” and “a creative venture into a new business” or the revival of an existing business. They believe that entrepreneurship can be seen in new products, new production levels and new forms of organisation. Badenhorst, Cant, Cronje, du Toit, Erasmus, Grobler, Kruger, Machado, Marais, Marx, Strydom and Mpofu (2006) define entrepreneurs as “achievement-orientated, innovative individuals to whom milestones offer specific challenges.” Bateman and Snell (1996: 208) view entrepreneurship as an element that adds refreshing organisational value.

Based on the scope of the aforementioned definitions of entrepreneurship, it appears that the boundaries of the concept are blurred. Entrepreneurship as a career, however, can be understood in terms of three broad theories: the trait theory, the social development approach and the structure opportunity model (Badenhorst *et al.*, 2006: 39).

The trait theory, stemming from a psychological approach to the phenomenon of entrepreneurship, observes entrepreneurs from a behavioural perspective. It identifies a few common characteristics among entrepreneurs. These characteristics are risk-taking, innovation, autonomy, proactiveness and the desire for success (Henderson & Robertson, 2000: 282).

The second approach is the social development approach. This approach addresses those influences and constraints that ultimately shape individuals into entrepreneurs. These factors are said to be external. They include family background, education, experience and training, risk and apparent job prospects (Henderson & Robertson, 2000: 282).

The third and final approach is the structure opportunity model. This model suggests that individuals choose entrepreneurship as a career path due to their personal desires, job opportunities and the state of the economy. Economists have a differing

perspective, however. They believe that entrepreneurs are driven solely by the motivation of making profit (Badenhorst *et al.*, 2006: 36).

Elements from all three of the above theories have an influence on individuals choosing entrepreneurship as a career path. With this being said, it is relevant that the personal motives behind pursuing entrepreneurship as a career choice be discussed.

### **2.1.2 Personal motives to become an entrepreneur**

According to Cooper, Woo and Dunkelberg (1988), individuals are drawn to the idea of being an entrepreneur for three distinct reasons: the ability to be autonomous, the challenge in successfully completing tasks, and financial gain.

The first factor that attracts individuals to an entrepreneurial activity is autonomy. Many individuals turn to entrepreneurship as they find personal control, empowerment and responsibility for their own decisions highly important (Kolvereid, 1996: 48). The freedom to work for themselves is what guides this choice (Nieman, Hough & Niewenhuizen, 2005:32).

The second entrepreneurial motive is the challenge of completing tasks successfully. (Cooper *et al.*, 1988). Entrepreneurial individuals are inspired by the ability to successfully manage their own business (Nieman *et al.*, 2005: 32). Leading on from this, the desire to take risks as well as the motivation for innovation are two prominent traits that can be identified in entrepreneurial individuals (Badenhorst *et al.*, 2006:43, Venter *et al.*, 2008:51-57).

Lastly, Cooper *et al.* (1988) proposed that personal wealth is another important contributing factor towards entrepreneurship as a career choice. It is a common belief that entrepreneurs experience great economic success, as the profits are self-made (Kolvereid, 1996:48). This is however, often a misleading perception, as financial rewards are often only experienced well into an enterprises life cycle.

### **2.1.3 Entrepreneurship and its relevance in a South African context**

Entrepreneurship has many benefits for a country such as South Africa. Given the country's high unemployment rate of 25.5% (South Africa, 2014), entrepreneurship is an essential form of job creation and economic growth. Entrepreneurial businesses are

also beneficial in that they provide society with innovative goods and services. This section of the chapter will provide the reader with a better understanding of what entrepreneurship does for South Africa's economic development. It will address this development from a social and an economic perspective. With this being said, it is important that the limiting factors of entrepreneurship and entrepreneurial activity be taken note of as well.

### **2.1.3.1 The benefits of entrepreneurship**

Entrepreneurship has great benefits for both social and economic development in a country. Literature in the last two decades has paid particular attention to the role entrepreneurial activity plays in a country's economic development (Bell, Callaghan, Demick & Scharf, 2004; Henderson & Robertson, 2000; O'Neill & Viljoen, 2001; Reynolds, Camp, Bygrave, Autio & Hay, 2001; Sarasvathy, 2001; Wennekers & Thurik, 1999). Economists throughout the world consider entrepreneurial pursuits and the creation of job opportunities and new business ventures to have a positive impact on investments and the growth of a country's gross domestic product (GDP). The GDP of a country refers to the country's total annual output, measured by the final purchase price (Schilling & Kluge, 2008). Job opportunities and new business ventures in turn have an encouraging effect on a country's national economic growth (Wennekers & Thurik, 1999: 29; O'Neill & Viljoen, 2001: 1). Small and medium size businesses are therefore fundamental players in strengthening a country's economy.

The 1995 publication of the White Paper on the Development of Small Business confirmed that Small, Medium and Micro-Enterprises (SMME) are vital mechanisms that South Africa should consider as a means of addressing the issues of job creation, inequality, unemployment and economic growth (Manuel, 1995). South Africa's national small-business strategy later announced that addressing the above issues formed its policy's primary objective (Von Broembsen & Wood, 2005). As a formal recognition of the government's support of small businesses, a Small Business Act was passed in 1996 in response to the positive opportunities that SMMEs seemed to offer (National Small Business Act, 1996). The Act aims to encourage individuals to get involved with the growth of the SMME sector of South Africa.

There are public-policy initiatives in South Africa that are currently focusing attention

on encouraging entrepreneurial activity (Herrington & Kew, 2013). In 2012, the government held an entrepreneurial forum with the intention of providing network opportunities and a platform from which to develop business relationships for upcoming local entrepreneurs. The forum also aimed to provide these potential entrepreneurs with the necessary tools and knowledge needed to start, manage and operate a business. The forum included expert panelists well known for their entrepreneurial skills and knowledge and emphasised the significance of entrepreneurship in South Africa as a way to create jobs. They stated that 70% of job opportunities that exist are provided by small and medium-sized businesses.

The total early-stage entrepreneurial activity (TEA) rate measures the percentage of the adult population who are either nascent entrepreneurs and are yet to pay salaries or those who have been operating for less than three and a half years whilst paying salaries (Herrington & Kew, 2013). When comparing South Africa's TEA rate it is evident that there is room for growth. Whereby, countries of comparable GDP per capita have superior TEA rates (Herrington & Kew, 2013). However, this is usually the case in factor-driven countries with low per-capita GDPs. Many of South Africa's sub-Saharan trading partners have comparatively higher TEA rates. This provides substantial opportunity as entrepreneurship promotes trade and further trading innovation. As South Africa strives to progress from an efficiency-driven economy towards an innovation-driven economy, it becomes evident that the country's lack of entrepreneurship is a hurdle. Such deficiencies will need to be overcome in order to progress towards a truly entrepreneurial society.

### **2.1.3.2 Negative factors associated with entrepreneurship**

In spite of the benefits presented above, entrepreneurship is not always an attractive career alternative. Unemployment, disputes with management, workplace dissatisfaction and job uncertainty may influence individuals to believe they do not have many job options, resulting in "necessity entrepreneurs" (Nieman *et al.*, 2005: 31). An excess of necessity entrepreneurs exists in South Africa. This indicates that a vast number of enterprises prevail as a means to an end, not due to passion and innovation (Venter *et al.*, 2008: 111). This often results in failure, as necessity entrepreneurs lack the necessary drive, vigor and motivation to succeed in the highly competitive markets.

Aside from the issue of necessity entrepreneurs, there are other, more pressing issues that negatively affect and impact the inspired entrepreneurs of South Africa. Foxcroft, Wood, Kew, Herrington and Segal (2002) have identified three key factors that decrease entrepreneurial activity in South Africa; namely financial support, human capital, and government policies and programmes.

Reynolds *et al.* (2001: 26) confirmed the first restrictive factor of financial support, by showing that, according to the GEM, South African nascent entrepreneurs are inhibited by a lack of venture capital. Furthermore, there is a lack of understanding of the supplementary assistance and expertise that venture capital provides (Herrington & Kew, 2013). Poverty, a lack of resources, and a lack of business skills and experience deny many potential entrepreneurs access to financial support (Reynolds *et al.*, 2001: 47). It is therefore expected that wealthier individuals are more likely to pursue entrepreneurial activities in comparison to the less wealthy that may struggle to gain financial support. This problem is, however, being slowly corrected in South Africa.

In 2012 the Small Enterprise Finance Agency (SEFA) was formed by the government, merging three public organisations, namely Khula Enterprises, the South African Microfinance Apex Fund and the Industrial Development Corporation's (IDC) Small Business Levy Book ([sefa.org.za](http://sefa.org.za)). One of SEFA's main intentions is to work on closing the gaps in the market when commercial banks are unable to fund business start-ups. In order to close these gaps, SEFA is planning to lend R2 billion to small businesses from 2014 to 2016. SEFA will have to regularly monitor and evaluate activities, effectiveness, impact and governance in order make any rapid adjustments in the start-up organisation's model if need be.

A shortage of resources and a deficiency of business knowledge and practical experience also affect the possibility of many prospective entrepreneurs gaining access to financial support (Venter *et al.*, 2008: 22). This problem is very prevalent in South Africa. In 2012, South Africa's pool of intentional entrepreneurs was 14%, which is well below the average of 27% in efficiency-driven countries. Cross-tabulating the rate for perceived opportunities with that for perceived capabilities, the GEM for 2012 revealed that the pool of potential entrepreneurs in South Africa consists of only 19% of the adult population.

Human capital is the second limiting factor identified by Foxcroft *et al.* (2002). This concerns the education and training system's ability to develop the skills and outlook necessary for entrepreneurship, as well as the country's entrepreneurial capability. According to Khumalo (2007), higher education's success in producing such graduates depends on the output of the schooling system. Prior to 1996, the education system in South Africa was designed to actively hinder independence and creative thinking, especially under the Bantu education system during apartheid (Subotzky, 1999). During the years of apartheid, entrepreneurship was discouraged in many schools (Venter *et al.*, 2008: 55). This weakened the economically active population's drive and desire to fulfill their entrepreneurial dreams, as they no longer had the self-esteem needed to create new businesses.

An improved school curriculum was first introduced in 1996 by the South African government 1996. This was referred to as Outcome-Based Education, a system that aimed to link the classroom more closely to the real world (Mbibisa, 2009). The curriculum teaches both entrepreneurship and management skills, and in so doing aims to shift the mindset of children toward a more entrepreneurial way of thinking. However, with this being said, there is still a lack of basic literacy and numeracy skills, as well as technical skills, in South African schools (Mbibisa, 2009).

The third limiting factor that was identified by Foxcroft *et al.* (2002) is government policies. During apartheid, policies were put in place that disadvantaged non-whites as they were restrained from owning and managing businesses (Foxcroft *et al.*, 2002). Furthermore, Bantu education prohibited them from gaining both technical and professional skills (Manuel, 1995). These skill shortages still affect a large portion of the non-white population in South Africa today (Foxcroft *et al.*, 2002).

The 1996 National Small Business Enabling Act emphasised that the barriers affecting all non-white entrepreneurs, were to be eradicated (Nieman *et al.*, 2005: 166). Recent research, however, has illustrated that the Act has not resulted in structures being put in place that aid previously disadvantaged individuals in pursuing entrepreneurship as a career. As a result, it is expected that non-white individuals who have already entered employment may still find it difficult to pursue entrepreneurial activities.

At the 2012 entrepreneurial forum in South Africa, concerns were raised regarding the issue of Broad Based Black Economic Empowerment (BBBEE) policies and how to develop and encourage self-reliance in entrepreneurs. It was acknowledged that South Africa's BBBEE policies face major challenges, but that the legislation is solid and, if applied correctly to the broader population, may successfully achieve its objectives.

Having discussed entrepreneurship as a career choice, the following section will address corporate culture before turning to the compound concept of 'entrepreneurial culture'.

## 2.2 CORPORATE CULTURE

"The very concept of culture depends on a recognisable tradition, an array of meanings, actions, artefacts and institutions that endure across time, that generate a sense of allegiance or membership, on the one hand, and a sense of difference from those who do not participate, on the other" (Gergen, 1994: 18).

Culture is a diverse concept that cannot be defined by a single definition. For the purpose of this study, culture will be considered from a corporate perspective. Reference will be made to acquisitions where relevant for this study.

### 2.2.1 Defining corporate culture

The dominant definition of corporate culture in the management literature defines it as the joint assumptions, values, and ideals that give employees a collective understanding of the organisation's focus (Donaldson & Lorsch, 1983; Schein, 1985; Kotter & Heskett, 1992; Nadler & Tushman, 1997). Corporate culture can also be understood as the manner in which an organisation operates, the processes it uses, its thought patterns, and the collective actions individuals take within the organisation (Riad, 2005). Jaruzelski, Loehr and Holman (2011) describe corporate culture as the organisation's self-contained ways of behaving, acting, thinking, and believing. This all-encompassing view will be employed in this research.

Corporate culture is considered to consist of the various artefacts that exist within an organisation, along with the values and visions the organisation attempts to uphold in combination with continuous sharing and learning of tacit knowledge (Schein, 1999;

Bessant & Tidd, 2011: 131). This continuous sharing and learning helps shape the way the group thinks, acts and functions internally, as a unified body (Schein, 1999).

The complexity of corporate culture is largely due to the fact that it includes a diverse array of individuals as well as their individual goals within and perceptions of the workplace (Smith, 2005). These norms and beliefs generate the abovementioned set of artefacts, which support and encourage the culture in the company. This is evident in the symbols, structures and processes in the internal workings of the organisation (Smith, 2005). These internal workings promote unity and an understanding amongst employees of the organisation's primary focus and drive (Smith, 2006: 131).

### **2.2.2 Culture as a cohesive glue**

An organisation is a self-governed, autonomous unit, bound by the strong tie of culture. Culture can be perceived as the basis for cohesion in the organisational unit (Buono, Bowditch & Lewis, 1985; Cartwright & Cooper, 1993a, b). It is referred to as the organisation's cohesive "glue" (Riad, 2007: 27). This perspective emphasises the strong bond between collective values, beliefs, understandings and cultural norms (Schein, 1985; Sathe, 1985).

While this portrayal of organisational culture as an integrated force is compelling, it also presents an interior solidarity and unity. Organisational culture becomes a power to contend with and, in the process, its plurality and the individuality of those who represent it is stripped away. Every organisational culture is unique. The most commonly held supposition is that a specific cultural conformity motivates an effective organisation with high levels of integration (Schein, 1985; Sathe, 1985). However, a fragmented or pluralistic organisational culture can also be successful if managed correctly (Riad, 2007).

### **2.2.3 Culture and acquisitions**

According to Schein (1985), modifying corporate culture is not an easy task. When two autonomous organisations merge, the full effect of modifying corporate culture becomes clear (Schein, 1985). As such, while corporate culture can add great value to a company in a pre-acquisition environment, this culture also has the tendency to become a major management constraint in a post-acquisition environment due to the

difficulties it presents when two organisations merge. Many authors have highlighted the binding nature of corporate culture. This aspect makes it difficult for managers to act as change agents.

The opposing points of view expressed by two companies undergoing an acquisition and the conflicts that exist within result in a very difficult situation to control (Feldman, 1991; Meyerson, 1991). However, individuality of culture does not necessarily need to be viewed as a defining characteristic as difference is a familiar notion within organisations. From this stance, a point of critique aimed at cultural cohesion between two organisations is that investigations into cultural cohesion attempt to determine surface-level signs without taking into account the struggle that is entailed in the real production (Linstead & Grafton-Small, 1992; Turner, 1986; van Maanen & Barley, 1985).

Gergen's (1994) notion of organisational culture is that it is intertwined with feelings, values and actions that create loyalty and commitment within a group that is seen to be significantly different from another. With regards to acquisitions, corporate culture is the key challenge standing in the way of organisations coming together effectively (Buono *et al.*, 1985; Cartwright & Cooper, 1993a, b). The differences between corporate cultures have often been described as the source of integration failure (Very, Lubatkin, Calori & Veiga, 1997; Weber, 1996; Riad, 2005).

Due to the problems and failures that exist in aligning cultural cohesion within a business, business literature has suggested an alternative approach. This approach accepts and encourages pluralism and uncertainty in corporate culture and understands that differences exist in the workplace (Vaara, 1999a, b, 2000).

Differing perspectives on organisational culture are reflected in a wide array of definitions (Ott, 1989) and extensive reviews (Alvesson, 2002; Bate, 1994; Martin, 2002). The two notions that exist in the wider organisational culture literature view corporate culture in two ways: the extent to which culture is shared and the extent to which it is unique (Martin, 2002). While some literature warns that similarity of organisational cultures may not always ensure the success of an acquisition (Cartwright & Cooper, 1993b), the belief is that a certain level of cultural consistency motivates efficient integration and organisation in acquisitions (Riad, 2005).

## 2.3 ENTREPRENEURIAL CULTURE AND ENTREPRENEURIAL ORGANISATIONS

Having discussed the importance of culture within an organisation, as well as the meaning of entrepreneurship and its relevance in a South African context, the single concept of entrepreneurial culture will now be dealt with.

### 2.3.1 Background

Organisational culture and entrepreneurship research have been entwined for a considerable amount of time (Mintzberg, 1973; Pettigrew, 1979; Schein, 1983). Entrepreneurship and strategy are two concepts that are also intertwined. The terms were brought together as the concept of corporate entrepreneurship started to develop. Corporate entrepreneurship denotes entrepreneurial behaviours within multifaceted existing organisations (Burgelman, 1983, 1984). Burgelman (1984) explained corporate entrepreneurship as expanding the organisation's domain of capability and equivalent opportunity set through internally created innovative resource combinations.

Stevenson and Jarillo (1990) describe entrepreneurial corporations as organisations that seek future prospects, despite the resources they currently control. Covin and Slevin (1991) described entrepreneurial organisations as risk-taking, innovative, and proactive. These traits are in line with the behaviours of entrepreneurial individuals discussed in the section 2.1 above. Moreover, the relationship that exists between entrepreneurship as an organisational approach and corporate culture is one of joint reinforcement. Entrepreneurial cultures emerge from organisational cultures. When they emerge successfully, the organisational culture will be affected positively as well.

Lumpkin and Dess (1996) made an interesting development regarding entrepreneurial orientation. They identified five dimensions that they believe influence an organisation's entrepreneurial culture through its decision-making strategies, processes and practices. These include autonomy, innovativeness, risk-taking, proactiveness, and competitive aggressiveness. These factors initiated further research, which led to the exploration of the relationships that exist between organisational-level entrepreneurial behaviours and organisational accomplishments

(Barringer & Bluedorn, 1999; Zahra, Jennings, & Kuratko, 1999). There tends to be agreement that entrepreneurial behaviours are influenced by organisational culture, personal behaviours and actions, mainly experienced at the management level (Hornsby, Kuratko, Shepherd, & Bott, 2009; Hornsby, Kuratko, & Zahra, 2002).

Aside from the five dimensions mentioned above, a vital feature of entrepreneurial culture is that the organisation treats each of the dimensions as sought-after and worth pursuing. It is essential that these factors be encouraged and supported by an entrepreneurial organisation (Covin & Miles, 1999: 48).

Entrepreneurial culture can be understood from two differing perspectives: The founder-driven entrepreneurial culture perspective and the environment-driven entrepreneurial culture perspective (Kansikas & Kuhmonen, 2008).

(i) The founder-driven entrepreneurial culture perspective:

An organisation's entrepreneurial culture comprises shared tacit assumptions about autonomy, innovativeness, risk-taking, proactiveness, and competitive aggressiveness.

(ii) Environment-driven entrepreneurial culture perspective:

An organisation's entrepreneurial culture is learned by a collective of individuals, as they resolve their struggles of adapting externally and integrating internally. The culture is established when these strategies have become efficient enough to be deemed adequate and, therefore, to be passed on to incoming employees. These strategies are then taught to the incoming members as the most accurate manners to observe, think and respond to problems of a similar nature.

For the purpose of this study, entrepreneurial culture will be considered from the founder-driven entrepreneurial culture perspective. Due to the fact that this study looks at the subsidiary entrepreneurial culture of established organisations, it is important to take note of how, by whom and with what intentions the initial entrepreneurial culture was formed. Only then is it possible to understand why this culture currently exists in the form that it does.

### 2.3.2 Defining entrepreneurial culture

#### (i) Creation and early development of the founder-driven perspective

The founder-driven entrepreneurial culture perspective (FDP) is both simplistic and intuitive. Since it is a founder, or a group of founders that create an entrepreneurial organisation, their influence plays a vital role in all elements of the development of the organisation as well as the shaping of the core principles and values of that organisation. FDP accentuates the importance of the founder(s) in guiding the company's culture. This means that entrepreneurial culture is managed and directed in a top-down manner. This culture sets the foundation for the organisation and for the culture that is likely to evolve in years to come.

A founder-centred perspective has been around for some years (Mintzberg, 1973; Pettigrew, 1979; Schein, 1983). The idea that surrounds this perspective is one in which the entrepreneur's goals, strategy and vision are viewed as the deciding factors of how the organisation is run (Mintzberg, 1988). The founder is therefore the most essential player in the development of the company's culture.

According to Schein (1983), in the beginning stages of an organisation the founder(s) of an organisation have the ability to shape and influence the group's culture through forceful leadership skills and vision for the organisation. There is a strong intuitive connection here. The personality traits and sentiments favoured will more than likely be those associated with innovativeness, risk-taking, proactiveness, competitive aggressiveness, and autonomy. As an organisation starts to expand, employees are accepted and socialised into the belief systems and value systems that are currently in place in the organisation (Schein, 1983). When employees are socialised, they are given the opportunity to envelop themselves in the entrepreneurial culture of the organisation, whilst learning what behaviours are unacceptable.

#### (ii) The evolution of founder-driven entrepreneurial culture

As an organisation starts to expand, it is necessary that founders hire top-level managers that support and encourage the views and values of the organisation. A considerable amount of literature has addressed the functions and responsibilities of top-level managers in organisations (Hambrick, 2007), as well as the position that

leadership has in management (Cannella Jr. & Monroe, 1997). Top management play a vital part in creating the strategic path of organisations and exhibiting the necessary values for employees (Chatman, 1991; Chatman & Cha, 2003).

Another way that founders can enhance an evolving entrepreneurial culture is by presenting what are referred to as critical incidents and thereafter displaying the forms of behaviour appropriate in those situations (Schein, 1983). A critical incident refers to an “emotionally charged or anxiety producing moment” that the employees of an organisation witness. The aim of a critical incident is to create a behavioural standard through organisational learning that is regarded as the appropriate way to conduct oneself. However, it is not rare for the founder of an entrepreneurial organisation to promote independent accomplishment and risk-taking among employees and to incentivise such creativity.

Founders have the difficult job of not only overseeing the company’s organisational culture but, more importantly, its entrepreneurial culture as well. It is their job to ensure that the entrepreneurial culture adheres to the organisation’s founding values and beliefs, and to ensure that it has a strong enough presence in the organisation’s culture as a whole. Founders must continually perpetuate this culture through their actions and behaviour in the workplace, during critical incidents and organisational learning.

### **(iii) Criticisms of the FDP**

As an organisation begins to mature, the founder’s role in the organisation tends to diminish, and there is a high possibility that his or her interests and anxieties will become incompatible with those of the employees as the organisation continues to change and evolve (Martin, Sitkin & Boom, 1985). As an organisation grows, the original and established entrepreneurial culture may no longer be as important or desirable to employees as it once was. However, it is important that the intrinsic entrepreneurial values remain present in the daily routines of the organisation (Salvato, 2009). An organisational culture that is ingrained in the organisation’s business practices and processes is something of great importance (Zahra, Hayton, & Salvato, 2004).

It is a founder's responsibility to ensure that this culture evolves accordingly as the organisation changes and adapts. Employees need a leader and someone who can offer guidance by setting an example and resolving confusions. This task is always challenging, as the strain and pressure placed on the founder(s) of the organisation can become too great. This may result in the loss of entrepreneurial culture, and a higher chance of bureaucratisation occurring. This will be discussed in more detail below.

Another major setback in many entrepreneurial organisations is that many do not have the necessary systems and procedures in place to execute formal socialisation. Many organisations do not have the appropriate human resources departments or knowledge management capabilities that are needed to educate employees and guide the necessary change. This increases the challenge of the founder's job.

### **2.3.3 Defining an entrepreneurial organisation**

Having discussed the type of environment that is created by the FDP, focus will now be shifted away from the founder and the employees to the organisation itself. This subsection will briefly discuss the entrepreneurial organisation and touch on its challenges.

Due to their dynamic and individualistic nature, entrepreneurial organisations offer an exciting environment in which research into organisational culture can take place. In an entrepreneurial company, growth, innovation, and the creation of opportunities and relationships offer an optimal setting for cultural evolution. Growth in human resources, amenities, and responsibilities challenge the resilience of the existent culture. Innovation offers an original approach to the way things are done and to the attitude with which those challenges that threaten the entrepreneurial culture are tackled.

### **2.3.4 Challenges faced by entrepreneurial organisations**

One of the major challenges faced by entrepreneurial organisations are the changes that growth and maturity bring with them. As organisations grow and increase in both size and complexity, they tend to gravitate towards more bureaucratic systems as "the need for coordination, control, and stability calls for greater procedures, rules, and routines" (Becker, 2004: 655).

When bureaucratisation starts taking charge, the many complex entrepreneurial cultures and subcultures that have developed over the years run the risk of being threatened. Trying to adapt these intricate entrepreneurial cultures and subcultures to ensure their survival becomes an incredibly difficult task for organisations (Schein, 2009). Due to the fact that bureaucracies have a tendency to destroy innovation, autonomy and enthusiasm for taking risks, it is argued that this would only limit the ability for an entrepreneurial culture to continue evolving (Chandler & Hanks, 1994).

In such cases, the necessary mechanisms and routines should be put in place so as to recognise and foresee any cultural changes that may take place when growth occurs. In entrepreneurial organisations, the presence of the founder may still hold great influence here (Morley & Shockley-Zalabak, 1991). If the entrepreneurial culture is nurtured and encouraged throughout the company's life cycle, there is a good chance that the culture(s) will evolve and adapt to suit the new systems and procedures that are put in place (Martin, Sitkin, & Boehm, 1985).

## 2.4 SUMMARY

The presence of entrepreneurial culture in an organisation is significant for two fundamental reasons; the first being the positive implications that it has for organisational performance and competitiveness, and the second being its ability to protect the entrepreneurial spirit of an organisation and its employees from the inevitable changes that come with the growth of an organisation and the evolution of its systems. Entrepreneurial culture helps an organisation protect itself from the negative effects of bureaucratisation.

Change brings about a natural strain to founders, as it becomes an ongoing struggle to maintain and uphold the very culture on which the organisation prides itself. The only answer to this challenge is evolution. This is where the primary founders of the organisation play an essential role in nurturing the culture, allowing the culture to develop and transform, and guiding the employees in the same direction as the change.

This chapter also explored how an entrepreneurial culture is formed and how that same culture is maintained and sustained during the lifecycle and growth of an organisation. Culture plays an imperative role in any company, but it is especially

important element of an entrepreneurial company. The relatively smaller size of these companies and their closeness to the founder and the founder's vision means that culture adopts a much greater significance in an entrepreneurial organisation than it would in a larger, more bureaucratic organisation.

## 2.5 THE CONTRIBUTION OF INTRAPRENEURSHIP

### 2.5.1 Introduction

When trying to determine the salient characteristics of subsidiary entrepreneurial culture, Pinchot's (1987) *Intrapreneurship* theory presents a somewhat parallel school of thought valuable in helping the researcher attain the study's research objectives. The key contributions of the sub-field of intrapreneurship have been as follows: generating consciousness and comprehension of the role played by entrepreneurship within an existing organisation for the renewal and operation of those organisations, increasing knowledge of thriving intrapreneurs and new corporate activities within their domain, and building awareness of entrepreneurial organisations. These contributions are all relevant and applicable to subsidiary entrepreneurial culture (this will be discussed in chapter 4).

This subsection of Chapter 2 begins by defining the concept of 'intrapreneurship'. It presents a brief history of the theory and thereafter proposes various definitions for the term. Focus is then shifted to entrepreneurial behaviour, the intrapreneurial organisation, the scope of intrapreneurship, and how one would evaluate intrapreneurial culture. Before the chapter draws to a close, the defining components of intrapreneurship are discussed.

### 2.5.2 A brief history of intrapreneurship

Intrapreneurship is a relatively new concept, having come into existence in the early 1980s. Due to its relative novelty, little research has been undertaken in this field, with the majority of research that has been done focusing on the measurement of intrapreneurship in organisations. During the early 1980s, there was a noticeable shift in the way in which organisations were conducting business. New trends became evident where companies, attempting to improve on their own practices, found the need to explore alternative and innovative ideas to change the way that things were

done. At a similar time, Gifford Pinchot had started to develop his concept of the intra-corporate entrepreneur. By 1985, he coined the term “intrapreneurship”.

Pinchot (1987) refers to intrapreneurs as ‘dreamers that do’. Accordingly, intrapreneurship can be divided into two separate phases. The first phase can be referred to as ‘vision and imagination’, and the second phase as ‘preparation and emerging exploitation’. Analytically, this division formalises the sequential nature of the variety of intrapreneurial activities, while empirically it encourages the collection of significant items for the measurement of intrapreneurship. The two key components of intrapreneurship are explicitly associated as imagination incorporates the exploration of potential obstacles and issues facing a project or strategy and the figuring out of a variety of solutions in the process.

In 1992, the term ‘intrapreneur’ was included in *The American Heritage Dictionary*, which defined it as “[a] person within a company who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation” (Kautz, 1999).

Intrapreneurs have the ability to turn an imaginative idea into a profitable reality, therefore signifying that intrapreneurship can be defined as the process in which “[i]nnovative products or processes are developed by creating an entrepreneurial culture within an already existing organisation” (Fry, 1993: 373).

Intrapreneurship is often referred to as entrepreneurship within an existing organisation (Hisrich & Peters, 1998). Pinchot (1987) recognised intrapreneurs as having the ability to increase the rate and cost-efficiency of new ventures from research and development to the market.

A number of definitions of intrapreneurship have been put forward in previous research. Stevenson and Jarillo (1990) defined it as a process where employees of an organisation go after opportunities regardless of the resources that they currently possess. Sharma and Chrisman (1999) defined it as the invention of new ventures by an existing company, or as the rejuvenation and innovation of that company.

Intrapreneurship in any form has innovation as its common underlying theme. This means that innovation is used as a means to reinvent or revive the organisation and its

place within the market. It is also a mechanism that helps improve the competitive arena in which an organisation competes (Covin & Miles, 1999).

Although Pinchot's outlook was mainly focused on the individual, a considerable amount of research conducted in the past two decades has explored the phenomenon of entrepreneurship at the organisational level. The research done by Peterson and Berger (1972) on organisational-level entrepreneurship aimed to identify both the organisational and external influences impacting an organisation's entrepreneurial actions. Miller and Friesen's (1983) study on organisational-level entrepreneurship presented a significant turning point in the field. Since then researchers have continued to use their theory and research instruments to investigate an organisation's entrepreneurial activities, as well as the relationships between strategic, environmental and organisational variables, as well as (Zahra, Jennings & Kuratko, 1999). This theory will be briefly expanded on in section 2.6.

The aims of this study necessitate the consideration of both the individual and the organisational view. Intrapreneurship is therefore understood as entrepreneurship within an existing organisation, referring to emerging behavioural objectives and behaviours of an organisation, which correspond with the original ideas of its employees and the new ways of doing business. Intrapreneurship is ultimately any entrepreneurial activity started and performed by an individual or individuals in a corporate environment, irrespective of the company's age and capacity. Individuals that advance the organisation define intrapreneurial behaviour as the identification and exploitation of opportunities and developments; for example, the expansion of original products and services, and the development of technologies, administrative techniques, strategies, and competitive postures (Rauch, Wiklund, Lumpkin & Frese, 2009; Lumpkin, Cogliser & Schneider, 2009).

## 2.6 BEHAVIOURAL INTRAPRENEURSHIP

In previous years, both entrepreneurship and management literature has devoted a considerable amount of attention to organisational-level entrepreneurship or corporate entrepreneurship (Antoncic & Hisrich, 2003). It is possible to analyse corporate entrepreneurship at an individual, an organisational and a market level.

At an organisational level, studies have examined the formation of new business ventures and highlighted the differences between types of new ventures and their organisational fit (Kuratko, 2007). The entrepreneurial organisation and its characteristics have also been considered (Kao, 1991; Lumpkin & Dess, 1996). At the level of the individual, attention has been focused on the traits of the entrepreneurial employee or intrapreneur (Pinchot, 1987) and on the organisational requirements for intrapreneurship (Kanter, 1989).

The intrapreneur is very similar to an entrepreneur in that the intrapreneur realises his/her ideas without having to be at the top of the organisation (Cunningham & Lischneron, 1991). The fundamental idea behind intrapreneurship includes the realisation and development of a prospect, where the intrapreneur believes that the new way in which the opportunity has been developed will result in the successful realisation of an organisation's goals (Heinonen, 1999).

Intrapreneurs are employees who take the initiative to start new business activities in an organisation. They consistently grasp opportunities for innovation and translate them into profitable ideas. These ideas thus serve as catalysts (Smilor & Sexton, 1996). Intrapreneurship-related activities include the perception of opportunities, the generation of ideas, the design of new products or the recombination of resources, the building of an internal coalition, the ability to persuade management, the acquisition of resources, and planning and organising.

Behaviourally, intrapreneurship encompasses a set of actions necessary to shift a concept or idea straight into implementation (Dyer, 2001). Dyer (2001) refers to this as "the management of bold ideas". This management demands a mixture of clarity and courage of vision and purpose. Deliberate and well-managed action is essential if intrapreneurs are to turn their ideas into reality. Countless organisations are encouraging intrapreneurs to bring innovation back into the organisation. These organisations want employees who not only think innovatively, but also act innovatively in the marketplace.

Intrapreneurship thus shares many key behavioural characteristics with entrepreneurship. Key behavioural characteristics of intrapreneurs include personal initiative, actively search for information, thinking out of the box, voicing ideas,

taking control, proactiveness and risk-taking (Kanter, 1989, Lumpkin, 2007). Intrapreneurs are prepared to take calculated risks because they are comfortable with the possible consequences of their innovative choices. They are not fearful of ambiguity and uncertainty, as they continuously look for experimental ways to evaluate, respond to and anticipate customers (Lumpkin, 2007). Intrapreneurs never stop learning from the marketplace. It is proposed that intrapreneurial behaviour is a higher-order construct, which highlights the connections between employees' innovative, proactive and risk-taking behaviours. Intrapreneurs are willing to take risks in order to achieve sustainable progress for their organisation (Antoncic & Hisrich, 2003). They are susceptible to failure but believe that innovative contributions made to their organisation will assist in achieving the long term goals of the company. Furthermore, an intrapreneur has a medium to long-term view and is not focused on short-term failures or successes. They are driven to be visionary within an organisation and to transmit their innovations throughout the organisation and into the market place (Antoncic & Hisrich, 2003).

## 2.7 INTRAPRENEURIAL ORGANISATIONS

Morris (2001: 16) defines the entrepreneurial organisation as “[o]ne that proactively seeks to grow and is not constrained by the resources currently under its control”. As previously mentioned, more organisations are realising the need for intrapreneurship due to the rapid growth of new and global competitors, as well as a mass departure being experienced by companies' top employees who want to start their own enterprises. The contemporary organisation is therefore dedicating a considerable amount of time and energy to developing in-house entrepreneurship. If an organisation neglects to do so, they run the risk of stagnation of growth, a decrease in sales, and a loss of their most valuable employees. Organisations are therefore encouraging an intrapreneurial spirit within organisational boundaries, thus promoting innovation and proactive behaviour (Kuratko & Hodgetts, 1995). This highlights the possibility for organisations to conduct business differently, while taking risks in the process (Wickham, 1998).

Promoting and establishing an intrapreneurial philosophy in an organisation results in numerous rewards, including an expansion in the capacity and/or variety of a product and service range, the promotion of organisational expansion and

achievement, and the building of a workforce that can maintain its competitiveness (Kuratko & Hodgetts, 1995). Intrapreneurship is becoming an increasingly significant approach for the profitability, renewal and survival of an organisation (Zahra 1995, 1996).

## **2.8 THE SCOPE OF INTRAPRENEURIAL CULTURE**

There are at least three different conceptual approaches to intrapreneurial culture, which correspond with approaches to entrepreneurial culture. The above review of literature on intrapreneurship makes it evident that the theory of entrepreneurial culture coincides with that of intrapreneurship (Pinchot, 1987). The three conceptual approaches discussed here compliment this comparison and inspired the researcher to borrow ideas from the intrapreneurial literature when building a theoretical framework for subsidiary entrepreneurial culture.

The first approach is the “pursuit of entrepreneurial opportunity” (Shane, 2003). This includes the development of new products or services, a new physical marketplace or new manufacturing processes. This outlook symbolises the most inclusive view of entrepreneurship (Shane, 2003: 35). The second approach is “new entry” (Lumpkin & Dess, 1996). This involves breaking into a new market with inventive products, entering markets that are already established with inventive products, or entering existing markets with established goods or services (Lumpkin & Dess, 1996). The third and final approach is new organisation creation. Gartner (1989) suggests a behavioural perspective of entrepreneurship as a procedure through which a new organisation is created. Subsequent to new organisation creation, intrapreneurship can be inventive or replicative, but it should permanently be focused on “internal start-up”. This includes establishing joint ventures, a new subsidiary, a new market or a new business unit.

The theoretical explanation and expansion on the processes of intrapreneurship given above, forms a foundation for a theory-driven research design of subsidiary entrepreneurial culture.

## **2.9 EVALUATING INTRAPRENEURIAL CULTURE**

Due to the fact that intrapreneurship varies in both depth and extent, intrapreneurship

can exist at different levels of intensity in an organisation. It is important that organisations discover means to quantify and reward intrapreneurship in terms of how frequently it occurs and the enthusiasm with which it is practiced (Antoncic, Bostjan-Hisrich & Robert, 2001). In order for this to be accomplished, procedures should be devised that help trace an organisation's performance variables. These variables should be measured at the level of the individual, as well as at a structural and cultural level.

As noted above, entrepreneurship within organisations exists as a matter of degree and intensity. Not all organisations experience the same level of entrepreneurship. Organisations can be rated on the intrapreneurship continuum, which runs from more to less entrepreneurial. Viewing intrapreneurship as a continuum is apparent in Covin and Slevin's (1989) differentiation between conservative (risk averse, non-innovative, and reactive) organisations and entrepreneurial (risk-taking, innovative, and proactive) organisations, and in Brazeal and Herbert's (1999) organisational entrepreneurship depiction that varies from the entrepreneurially-challenged organisation (with a non-existent commitment to entrepreneurship) to the entrepreneurial organisation (with a total commitment to entrepreneurship) (Zahra, 1991, 1993; Knight, 1997; Lumpkin & Dess, 1997; Lumpkin, 1998).

## 2.10 DIMENSIONS OF INTRAPRENEURSHIP

Intrapreneurship may be better comprehended if reference is made to its architecture and distinctive features. Two approaches to the development of organisational-level entrepreneurship have been acknowledged.

The first of these is based on Miller and Friesen's (1983) categorisation of innovative strategy making. This can be otherwise referred to as the entrepreneurial orientation approach. Covin and Slevin (1991) renamed this approach entrepreneurial posture. Their version of the approach retained the three most reputable traits of organisational-level entrepreneurship; namely innovativeness, proactiveness and risk-taking. They considered entrepreneurial orientation to be a unidimensional concept. Lumpkin and Dess (1996), on the other hand, also refer to the approach as entrepreneurial orientation. However, they extended the approach and identified two

further dimensions; namely autonomy and competitive aggressiveness. Lumpkin and Dess (1996) view entrepreneurial orientation as a concept that has many facets.

The second approach, found in the work of Guth and Ginsberg (1990) and Zahra (1993), is referred to as the corporate entrepreneurship approach. This views entrepreneurship at the overarching level of the corporation. The corporate entrepreneurship perspective recognises two significant attributes of organisational-level entrepreneurship. The first attribute is the creation of new businesses or ventures by an existing organisation. The second attribute is that of strategic renewal. This looks at ways of readdressing and re-examining strategy and reorganising the corporation. Due to its inclusion of venturing and strategic reformulation, it is evident that the corporate entrepreneurship approach supports the entrepreneurship orientation approach.

Previous notions of organisational entrepreneurship (intrapreneurship) can be divided into eight categories: new ventures (Zahra, 1993; Guth & Ginsberg, 1990); new businesses (Sharma & Chrisman, 1999; Zahra, 1991); product/service innovativeness (Miller & Friesen 1983; Covin & Slevin, 1986, 1991; Lumpkin & Dess, 1996; Knight, 1997); process innovativeness (Miller & Friesen 1983; Covin & Slevin, 1986, 1991; Lumpkin & Dess, 1996; Knight, 1997); self-renewal (Guth & Ginsberg, 1990; Zahra, 1991, 1993); risk-taking (Miller & Friesen, 1983; Covin & Slevin, 1986, 1991; Lumpkin & Dess, 1996); proactiveness (Miller & Friesen, 1983; Covin & Slevin, 1986, 1991; Lumpkin & Dess , 1996; Knight, 1997); and competitive aggressiveness (Covin & Slevin, 1991; Lumpkin & Dess, 1996; Miller & Friesen 1983; Knight, 1997). This study will disregard service innovativeness, as none of Libstar's subsidiaries situate themselves in the service industry.

This study will borrow and marginally adapt the eight intrapreneurship dimensions in order to achieve the objective of determining a valid set of characteristics for subsidiary entrepreneurial culture. This issue will be addressed again in chapter 4.

### **2.10.1 New businesses/ventures**

New businesses/ventures form one of the key characteristics of intrapreneurship (Stopford & Baden-Fuller, 1994). New venturing includes the configuration of autonomous and/or semi-autonomous components or organisations, often labelled as

incubative entrepreneurship (Schollhammer, 1982), internal ventures (Hirsch & Peters, 1984), corporate start-ups (MacMillan *et al.*, 1984), autonomous business unit creation (Vesper, 1984), venturing activities (Guth & Ginsberg, 1990), and corporate venturing (Sharma & Chrisman, 1999).

These ventures have the capacity to exist inside (internal venturing) or outside (external venturing) the functioning organisational spheres (Sharma & Chrisman, 1999). Entering new businesses is an important characteristic of intrapreneurship, as it redefines the company's products and provides the opportunity to enter into new markets (Zahra, 1991). Overall, new ventures refer to the development of new business units or organisations, while the new businesses element denotes the entering of new businesses by the existing organisation without the formation of additional organisational entities.

### **2.10.2 Product and process innovativeness**

In product innovation, emphasis is placed on development. Process innovation, on the other hand, stresses the importance of innovation in technology. Intrapreneurship includes new product advancements, product developments, and production methods and procedures (Schollhammer, 1982). Zahra (1993) includes product innovation and technological entrepreneurship as innovative features of developed organisations.

The discussion of the two approaches presented above makes it clear that product/service innovativeness and technological innovativeness is considered significant for both entrepreneurial orientation and the corporate entrepreneurship approach. Technology focuses its energy on the actual process of production and concentrates on the theoretical knowledge and the practical knowledge and skills that are employed by the organisation to develop, manufacture and distribute its products. This can be demonstrated in many different aspects of the organisation, such as amongst employees, resources, amenities and procedures, and in physical processes (Burgelman & Rosenbloom, 1997). The implementation of original products can be distinguished from the incorporation of new elements in the organisation's production processes (Damanpour, 1996).

### 2.10.3 Self-renewal

Self-renewal refers to the renovation of an organisation through the rejuvenation and alteration of the main philosophies on which the organisation is built (Guth & Ginsberg, 1990; Zahra, 1991; Sharma & Chrisman, 1999). This includes strategic and organisational transformation through the constant redefining of the business construct, reorganisation, and the initiation of system-wide changes for innovation (Zahra, 1993). Muzyka, de Koning & Churchill (1995) consider continuous renewal of organisations and flexibility as essential elements of any entrepreneurial company. Stopford and Baden-Fuller (1994) also regard the renewal of organisations as an essential characteristic of intrapreneurship. Self-renewal is therefore a significant dimension of organisational-level entrepreneurship.

### 2.10.4 Risk-taking

Risk-taking is an essential element of entrepreneurship and intrapreneurship (Knight, 1921; Schumpeter, 1934; McClelland, 1961; Hisrich, 1986; Hisrich & Peters, 1998). While some understand risk as an intrinsic characteristic of innovativeness, proactiveness and new business formation (Covin & Slevin, 1989; Lumpkin & Dess, 1996), risk-taking has also been seen as a key dimension of intrapreneurship.

Risk-taking can refer to the quest for new opportunities and the bold taking of actions (Lumpkin & Dess, 1997; Lumpkin, 1998). This boldness in taking actions and constant search for new business ventures (Stopford & Baden-Fuller, 1994) has been considered characteristic of entrepreneurship in an existing firm. Mintzberg (1973) regards risk-taking and decisive action as vital factors of intrapreneurship, where entrepreneurial strategy-making is characterised by bold decision-making in the face of uncertainty.

### 2.10.5 Proactiveness

This dimension refers to the taking of initiative and ground-breaking developments (Covin & Slevin, 1991) in pursuing new business prospects or delving into unknown marketplaces under the authority of top management (Lumpkin & Dess, 1996). It is related to the extent to which organisations aim to be leaders instead of followers for their competitors in important business spheres and decisions. These bold actions

include factors such as the launch of new products, innovative operating technologies, and sophisticated administrative techniques (Covin & Slevin, 1986). The future-oriented nature of proactiveness is expressed in its anticipation of future needs and can be described as a response to opportunities (Lumpkin & Dess, 1996).

#### **2.10.6 Competitive aggressiveness**

According to Lumpkin and Dess (1997), competitive aggressiveness is a response to threats. This aggressiveness relates to the organisation's tendency to challenge its competition (Lumpkin & Dess, 1996). Covin and Slevin (1991) believe that an organisation's ability to compete with industry opponents is largely evident in the entrepreneurial attitude and culture of a company. Covin and Covin (1990) and Miller (1987) refer to competitive aggressiveness as a managerial temperament expressed in an organisation's eagerness and desire to overtake its competitors. It refers to the attempt to surpass industry rivals in the marketplace in order to improve the company's status and stay abreast of any potential or existing threats (Harris & Gibson, 2008).

Competitive aggressiveness is an entrepreneurial attitude. Such an attitude is related to the competency and presence of a company in a highly competitive environment (Covin & Slevin, 2002). It is a vital factor among entrepreneurs in today's dynamic and changing world. These entrepreneurs, who are highly motivated and have great interest in excelling under competitive conditions, thrive off of their desire to achieve and excel (Michael & Shanahan, 2008).

### **2.11 SUMMARY**

Intrapreneurship is a significant topic of investigation in entrepreneurship research. It can be more accurately understood with reference to evolving intentions and behaviours that are connected to the original ways of doing business within existing organisations. Following the proposed definition, intrapreneurship should be seen primarily as an activity-based idea that operates within the organisation and expands the organisation's products and services, norms, orientations, technologies, structures or operations into new directions.

Intrapreneurship continues to evolve into an integrative concept based on entrepreneurial orientation and corporate entrepreneurship that extends beyond entrepreneurship and management literature. Intrapreneurship is a multi-faceted concept consisting of eight (new business/ventures, product innovativeness, process innovativeness, self-renewal, risk-taking, proactiveness, and competitive aggressiveness). By analysing, developing and improving these intrapreneurial characteristics, managers can make significant improvements in their organisation's overall performance.

## **2.12 CONCLUSION**

This chapter discussed the literature regarding the different conceptions of and theoretical perspectives on entrepreneurial culture. It looked at the concept of entrepreneurship and its relevance in South Africa, where it was argued that entrepreneurship is an essential vehicle of job creation and economic growth. This offers great significance for a country with as high an unemployment rate as South Africa. The chapter then went on to define the concept of culture. Thereafter, a definition for entrepreneurial culture was derived.

The concept of intrapreneurship and its contribution towards understanding entrepreneurship within an existing organisation was then discussed. The chapter concluded by discussing the eight dimensions of intrapreneurial culture, with the eventual aim of forming a framework of characteristics of subsidiary entrepreneurial culture in a post-acquisition environment. These dimensions are new businesses/ventures, product and process innovativeness, self-renewal, risk-taking, proactiveness, and competitive aggressiveness.

## CHAPTER 3

### MERGERS AND ACQUISITIONS

“The key principle behind buying a company is to create shareholder value over and above that of the sum of the two companies” (Evans, 2000: 1).

Chapter 3 reviews the literature on mergers and acquisitions (M&As) that is relevant to the post-acquisition environment. Three categories of M&As are considered, namely vertical, horizontal and conglomerate M&As and a clear distinction between the concepts of ‘mergers’ and ‘acquisitions’ is made thereafter. Mergers are defined as a situation in which two companies of separate ownership combine to form a single entity under single management. Acquisitions, on the other hand, occur when both organisations continue to exist. The acquired company, or target company, is incorporated into the acquiring company.

The scope of the study limits further discussion to acquisitions. Therefore, the remainder of the chapter discusses acquisitions, paying particular attention to the motivations behind acquisition transactions. These motivations can be related to the opportunity to improve the company’s position in the market through an acceleration of growth, and the opportunity to reduce the risks and costs that might otherwise have been endured were the company to expand independently. The chapter then presents the reasons behind the failure of acquisitions. These are related to the inability to create synergy due to differing business philosophies, leadership styles and visions, innovation management techniques, technologies and entrepreneurial cultures. The term synergy refers to the efficiencies gained through processes such as M&As (Mullins, 2001). Synergies are the increase in the value of the new company due to increase in sales, economies of scale or cost savings (Arzac, 2005).

In concluding, the chapter presents solutions to these problems in the form of change management and integration strategies. The change management process is concerned with integration at the human level of the two organisations, stressing the importance of a supportive culture that promotes unity in the acquisition process. The post-acquisition integration process is then discussed, with particular attention being paid to the elements of the process, the responsibilities of the process, and the plans covering the phases of the integration strategies.

### 3.1 MERGERS AND ACQUISITIONS (M&As)

M&As have become a global phenomenon over the past two decades and are a popular strategic choice to ensure competitive advantage (Lodorfos & Boateng, 2006: 1405). M&As provide a means to grow and expand assets, increase sales and market share, acquire technical expertise, complement internal research and development, reduce risk exposure and achieve economies of scale (Lodorfos & Boateng, 2006: 1411). Economies of scale refer to a certain critical mass that is often required for companies to compete in the marketplace. One clear characteristic of M&As is that the number of M&As tends to increase during times of economic expansion and reduce when economic growth slows down.

In most literature the terms merger and acquisition are used interchangeably, and are employed to indicate a situation in which two organisations are brought together in different degrees in order to form one organisation (Olie, 1994).

M&As generate financial gains in one of two manners. The first of these is through improvements in operational efficiency, and the second is through increase in market power (Lin, 2014). Improvements in operational efficiency that have been induced by M&As can be analysed by comparing pre- and post-merger levels of financial success and overall efficiency.

However, Ring and Öfverström (2000: 12) argue that not all M&As have the primary goal of improving financial performance. They believe that some aim to enlarge the knowledge base of an organisation or to enable the company to enter new markets. Rumyantseva, Gurgul and Enkel (2002: 13) agree with this and add that there has been an increase in the number of M&As that have the primary objective of acquiring knowledge assets, otherwise referred to as human capital (this will be discussed at a later stage in the chapter).

According to Casal and Fontela (2007: 58), M&As are a means of strengthening existing capabilities and of acquiring valuable new capabilities. They continue by stating that M&As allow organisations to obtain these valuable capabilities in a shorter space of time than if they were to be developed internally. M&As have become the primary mechanism by which companies try to increase size, growth rate and profit margins (Evans, 2000).

M&As can be grouped into three categories (Cartwright & Cooper, 1992):

- i) Vertical M&As: Two or more companies in a particular value-chain merge; for example, in the case where a supplier merges with, or is acquired by, a manufacturer.
- ii) Horizontal M&As: Two or more companies that are in direct competition with one another and share the same or similar product or service lines and markets merge. Combining with a competitor like this can increase a company's market share.
- iii) Conglomerate: Two companies across different industries merge. Conglomerates usually serve as a way to provide more consistency in long term growth. Typically, companies that are in a late phase of their life cycle with very limited growth prospects will seek to diversify their businesses through M&As. Two different types of conglomerate M&As exist: pure and mixed. A pure conglomerate merger or acquisition involves organisations that have no common ground, while a mixed conglomerate merger or acquisition involves organisations that are interested in product or market extensions.

## **3.2 THE DISTINCTION BETWEEN MERGERS AND ACQUISITIONS**

For the purpose of this study, it has been assumed that mergers and acquisitions are two very different strategic corporate activities. It is therefore necessary to make a distinction between the two terms. In doing so, it will be made clear why acquisitions form the focus of the remainder of this chapter and the study.

### **3.2.1 Mergers**

A merger occurs when two companies that have separate ownership combine and begin operating under a single ownership and management, usually to obtain strategic or financial objectives (Firer, Ross, Westerfield, & Jordan, 2004). A merger can be described as the combination or amalgamation of one commercial company or institution with another or the consolidation of two or more companies into one. In its most basic form, a merger occurs when two organisations, usually of a similar size, agree to advance in the market place as a single, new company instead of remaining separately owned and operated (Lin, 2014).

The shareholders of the combined entities mutually share the risks and rewards of the

new entity, and no one party to the merger obtains control over the other (Kotler & Casoline, 2009). For a transaction to qualify as a merger, it must satisfy four criteria (Kotler & Casoline, 2009):

- i) No party is the acquirer or the acquired;
- ii) All parties to the combination participate in the management structure of the new entity;
- iii) The combining entities are relatively equal in terms of size;
- iv) The consideration received by the equity shareholders of each party consists primarily of equity shares in the combined entity, any other consideration received being relatively immaterial.

When a merger involves two companies of a similar size, this can be referred to as a merger of equals. Both companies' stocks are surrendered and new company stock is issued in its place (Angwin & Vaara, 2005). In practice, true mergers of equals do not occur very often. An organisation will usually purchase another and, as part of the deal's terms, allow the acquired organisation to declare the action a merger of equals, even if it is technically not. Being bought out often has negative connotations. Therefore, by disguising the takeover as a merger, dealmakers and top managers are able to make the transaction seem more equal (Angwin & Vaara, 2005).

### **3.2.2 Acquisitions**

With acquisitions, both organisations continue to exist. The acquiring organisation remains in business and the acquired organisation, otherwise known as the target company, is incorporated into the acquiring company (Evans, 2000). Acquisitions are corporate actions where an organisation buys most, if not all, of a target company's ownership stakes so as to assume control of that company. An acquisition is a business decision that is usually made as part of a growth strategy (Lin, 2014). Taking over an existing company's operations and niche is often more favorable and affordable for a company than expanding its own business processes.

Similarly to a merger, an acquisition is an action through which a company will seek increased efficiency improved market visibility, and economies of scale. Acquisitions

make it possible for companies to achieve the critical mass required for economies of scale much faster than through internal growth (Firer *et al.*, 2004). These are usually smaller deals, making them different to mergers. Acquisitions are often mutual agreements, where all parties are satisfied with the terms and conditions of the transaction. In saying this, however, there are always exceptions. Acquisitions of a more hostile nature exist. A hostile takeover occurs when the management of the target company resists the takeover (Magenheim & Mueller, 1988).

There are three determinants essential to the success of any acquisition (Martin, 2002). Firstly, the business deal must be pursued for strategic reasons, as opposed to being exclusively financially motivated or tax related. Secondly, the ultimate purchase price should not go beyond the inherent or joint value of the company. Lastly, both parties must manage the implementation of the acquisition in order to realise the importance of the strategic benefits involved (Martin, 2002).

Despite the particular field of expertise or structure of the company in question, all acquisitions have the same goal in mind; that is, to create synergy so as to ensure that the value of the new entity is greater than the sum of the two parts (Bena & Kai, 2014). A successful acquisition is determined by whether this synergy is attained.

A motivation for acquisitions is to attain economies of scale and the associated cost benefits. Cost savings generally come from reducing the support services in the combined entity, namely accounting, human resources, legal services, procurement, etc. There are a number of strategic reasons companies pursue acquisitions. These include positioning, gap filling, the desire broader market access, and organisational competencies (Bena & Kai, 2014). Positioning, firstly, refers to the procedure resulting in the combined entity's ability to take advantage of future opportunities. Companies need to position themselves to take advantage of emerging trends in the marketplace. An acquisition is a corporate action commonly used to achieve this (Bena & Kai, 2014). The second strategic reason behind acquisitions is that of gap filling, where the combined entity compensates for the strengths and weaknesses of the individual companies. Acquiring a foreign company can give a company immediate access to global markets, both emerging and developed. This provides broader market access to the acquiring firm. Acquiring intellectual capital and diverse human capital can rejuvenate an organisation, leading to creative and innovative

thinking and development within the organisation. This in turn leads to the development of organisational competencies (Bena & Kai, 2014).

Evans (2000: 3) states further that acquisitions can also be driven by basic business reasons. These include the ability to acquire a company, which will be more affordable than investing internally due to administrative costs. Another rationale is that of diversification. It may be necessary to even out or improve a company's earnings and achieve more consistent long-term growth. This is quite likely for companies who are in late phases of their industry life cycle, where future growth is unlikely. A company in the market may be undervalued or experiencing cash flow difficulties and hence becomes a target, as an acquirer is able to harness its operating efficiencies. Intangible assets, such as a strong brand and intellectual property, have also become increasingly important. Furthermore, companies that have a history of strong positive earnings may want to utilise the tax benefits of less successful companies, whereby, purchasing a company that has an assessed tax loss can lower the tax payable by the acquirer (Bena & Kai, 2014).

Acquisitions continue to be a favored growth strategy, with cross-border acquisitions being seen as a popular means of entering foreign markets (Salama, Holland & Vinten, 2003). A great amount of recent strategy literature has been centred on value creation at an organisational level of an acquisition for the aforementioned reasons (Cartwright & Schoenberg, 2006).

Acquisition research has been focused on the idea that related acquisitions should display superior performance in comparison with unrelated acquisitions (Lubatkin, 1983). Acquisition performance has been analysed from a number of different perspectives, and various measures of performance have been used. Finance scholars have centred their research on analysing the value created by acquisitions for shareholders. Their work shows a concern with societal-level value creation, as it highlights the benefits accrued from the asset relocation of the entire economy (Haspeslagh & Jemison, 1991). Research from a financial perspective has continued to show that the value accrues to the shareholders of the target company and not to that of the acquiring organisation (Weston & Chung, 1990; Sudarsanam & Mahate, 2003).

Research has also explored the idea that organisational fit is directly associated with

acquisition performance (Datta, 1991). Organisational fit refers to the likeness of the acquirer's and the target company's characteristics, presuming that similarities in strategy, organisation, capacity and culture of business will lead to improved performance. Cultural elements refer to an array of different factors. These include things such as policies and procedures, norms and values, communication channels, language and reporting structures.

Singh and Montgomery (1987) put forward the opposing view that it is the variations in organisations and how these differences are recognised and handled that affect the outcomes of an acquisition. Diversity in organisations and in strategies could be valuable for performance and growth in the new unit.

There is a need for theory development on related acquisitions versus unrelated acquisitions. This warrants an approach that takes both the process and context into consideration (Firer *et al.*, 2004; Mullins, 2001). The process encompasses elements such as management, ownership, strategies and corporate governance, while the context refers to the rationale for the acquisition, the business cycle of the acquired company and the future prospects of the industry as a whole (Firer *et al.*, 2004; Mullins, 2001).

### **3.3 WHY ACQUISITIONS FAIL**

According to Kode, Ford & Sutherland (2003), many companies undergoing acquisitions fail to recognise the importance of shareholder value. This is due to a failure to harness the synergies between the companies that combine. Evaluating synergies between companies should be part of the overall evaluation and its value should be reflected in the acquisition premium. A failure to understand and appreciate these synergies results in destruction of shareholder value (Bena & Kai, 2014).

It is essential that the companies involved in an acquisition find a way to integrate successfully. There are, however, always challenges presented when combining different business philosophies, leadership styles, visions, innovation management techniques and technologies that have been in place and designed to suit a specific company's needs over an extended period of time (Firer *et al.*, 2004). A major hurdle associated with acquisitions is the cultural and human differences between organisations. These factors are not always taken into consideration during the overall

cultural and human due-diligence process. As a result, there is an incredibly high rate of failure for acquisitions (Mullins, 2001).

Failure to perform a thorough due diligence with a competent team could result in a risk to the acquiring company and such risk is almost always associated with a negative financial impact (Henry, 2002). Due diligence is vital for detecting possible problematic areas, revealing risks and liabilities, and ensuring that there are no unpleasant surprises after the acquisition has been finalised. However, in today's fast-paced marketplace, some companies decide to cut short the due diligence process, or even to reduce it to a minimum and make an offer based on competitive intelligence and public information. This can be a great risk and a source of potential harm to the acquiring company (Henry, 2002).

Work force reduction is another factor, which leads to the failure of acquisitions. Work force reduction is defined as an activity undertaken by a company to reduce costs and to improve efficiency, productivity and competitiveness. Once an acquisition takes place, companies typically embark on a cost reduction exercise and, generally, reducing the salary bill by means of staff layoff seems to be an easy way to reduce costs (Krishnan & Park, 2000).

Krishnan and Park (2000) state that acquisitions fail due to the fact that companies engage in workforce reduction without understanding the resources of the two partners. Human resources are scarce, inimitable and valuable, and will result in competitive advantage for the merged entity. To that effect, consolidation of workforces may result in improved efficiencies.

The third and primary reason for acquisitions failing is integration problems. Some level of integration is required between the two organisations involved. Integration often comes easier when the companies involved form part of related industries. During the process of acquisition, there can be great uncertainty and confusion in an organisation (Henry, 2002). When this confusion is coupled with workforce reduction, greater turbulence is created. It may cause highly skilled employees to quit and seek employment elsewhere where they might feel more secure. On seeing their colleagues leave, employees of the acquired entity may become even more demotivated, thus reducing productivity, creativeness and innovation (Krishnan & Park, 2000; Van den Steen, 2010; Carrillo & Gromb, 1999; Landier, 2009; Lodorfos &

Boateng, 2006).

Lodorfos and Boateng (2006) state that the cultural element in the M&A integration process has been identified as one of the key issues that cause many M&As to fail. Many of the problems encountered in acquisitions can be traced back to cultural differences. These differences include both social and organisational cultural factors, and have the potential to influence collaboration within the newly formed entity (Simonin, 1999: 602). Conflicting beliefs and misunderstandings that result from cultural differences could lead to impaired information flow and obstructed knowledge transfer and thereby cause inefficiencies.

In order to minimise the risks related to cultural incompatibilities, Lodorfoss and Boateng (2006) stress the importance of analysing and understanding the cultural elements of the merging organisations, as well as their motivations for merging. This objective can be achieved by evaluating the compatibility of the organisations through highlighting both the positive and the negative features of the different cultures; thereby determining what degree of integration is required.

Lordorfos and Boateng (2006) go on to suggest that organisations should establish a dedicated integration team with representation from all the partners involved, along with suitable change management experts and organisational psychologists, so as to reduce and eradicate any cultural incompatibilities.

### **3.4 ENTREPRENEURIAL CULTURE AND ITS ROLE IN ACQUISITIONS**

One of the biggest challenges faced by entrepreneurial organisations that have undergone an acquisition are the changes and increased complexity that growth and new management bring with them. Acquisitions are often followed by a shift towards a more bureaucratic system, as there becomes a greater need for coordination and control, as well as tighter procedures and routines (Becker, 2004). With these procedures and routines being put in place, bureaucratisation brings with it a threat to the established entrepreneurial cultures and subcultures that exist within an organisation. It becomes a tough task for managers to adapt these cultures to fit the new environment (Schein, 2009). However, it is that these cultures be nurtured, as

bureaucracies are known to rid organisations of things such as innovation, autonomy and enthusiasm for taking risks (Chandler & Hanks, 1994).

In order for these cultures to be protected, it is important that nurturing policies be put in place before the acquisition starts affecting the entrepreneurial culture of the organisation (Morley & Shockley-Zalabak, 1991). If these processes are carried through, there is a strong possibility that the entrepreneurial cultures and subcultures will be able to adapt and evolve to suit the new systems, procedures and changes that come with the acquisition (Martin, Sitkin & Boehm, 1985).

### **3.5 CHANGE MANAGEMENT IN A POST-ACQUISITION ENVIRONMENT**

Finding companies that share similar strategic goals and corporate cultures is often a complicated process (Galpin & Herndon, 2000), as such, the success of an acquisition is related, but not limited to, the smooth integration of the different organisations involved (Sudarsanam, 1995).

Change is inevitable after an acquisition has taken place. Such change has the potential to create a complicated situation when employees discourage or try to hinder the acquisition process (Daly & Geyer, 1994). A considerable amount of literature on organisational culture emphasises how to minimise employees' resistance to change. Daly & Geyer (1994) identify two important factors that can affect employees' dedication to change. The first of these is participation. This refers to the participation of the employees – if employees participate, they are empowered to contribute to the change process. The second factor is education. Here, it is emphasised that employees should be educated regarding the reasons for and the effects of the change that needs to be seen.

The change management process is mainly concerned with integration at the human level of the two organisations (Galpin & Herndon, 2000). Knowledge sharing involves changes to the details of how people do their work, and affects their perceptions of their own insight and process knowledge. As such, it can be expected that knowledge sharing is vitally important to the change management process and to the way in which employees work and think. If companies are to reap any benefits

from an acquisition, it is necessary that they implement and manage this process of change (Galpin & Herndon, 2000).

Jacob and Ebrahimpur (2001: 77) believe that there is an obvious link between multi-organisational networks and knowledge transfer mechanisms within a joined organisational entity. They believe that intra-organisational knowledge transfer mechanisms provide the foundation for interorganisational mechanisms of the same type. They add that an organisation requires a certain minimum knowledge capacity in order to absorb new knowledge. The organisation also needs to have effective internal knowledge transfer mechanisms to be able to benefit from external sources of knowledge (Jacob & Ebrahimpur, 2001).

A successful acquisition is more likely to occur if supported by a nurturing culture (Buono & Bowditch, 2003). A supportive culture can contribute to employee dedication. It is therefore necessary for management to focus on people management. This is referred to as ‘management by example’. Managers motivate and inspire employees to be committed to the new entity, and show consideration for the employees during this time of change. Although this is not easy for managers to accomplish, it is necessary (Simmons, 1988; Buono & Bowditch, 2003).

Managing people whilst undergoing an acquisition is often ignored due to a focus on other, seemingly more important, issues. The management of employees has a tendency to be neglected with the belief that any problems in this area will solve themselves (Simmons, 1988). In reality, staff-related problems do not disappear, and in fact often get worse over time. This area therefore requires attention. Unresolved problems could lead to discontented employees and result in unpleasant behavior, affecting all stakeholders as well as the implementation process (Simmons, 1988).

To ensure success of an acquisition, those in charge of the change management process should know the needs of all stakeholders involved. Without being aware of the human side of the acquisition, companies could receive resistance, resentment, and rejection from all stakeholders, and risk causing a failed acquisition (Simmons, 1988).

When an acquisition decision has been finalised, a vital phase commences. The focus of this phase is on how to integrate the separate organisations. ‘People integration’

forms an important component for the success of the acquisition, wherein communication plays a vital role. It has been noted that if the relevant individuals are motivated to share their knowledge and experience, integration will be achieved effectively (Galpin & Herndon, 2000).

### **3.6 THE POST-ACQUISITION INTEGRATION PROCESS**

Management plays a vital role in the post-acquisition integration process. Managers must assume responsibility by planning, preparing and attempting to control the outcomes of the acquisition.

Post-acquisition integration is believed to be the most significant factor motivating acquisition synergy realisation (Larsson & Finkelstein, 1999). The integration process requires an adaptive approach from both the target company and the acquiring company (Haspeslagh & Jemison, 1991; Morosini, 1998).

The integration process is comprised of the transfer of performance capabilities and knowledge to accomplish the goal of the acquisition. The integration process refers to a sequence of implementation proceedings (Cooper & Finkelstein, 2006) and the product of a socialisation scheme (Nahavandi & Malekzadeh, 1988). A post-acquisition integration process is typically seen as lengthy and open-ended, starting when the acquisition deal is signed and continuing for many years after the acquisition has been completed (Haspeslagh & Jemison, 1991).

#### **3.6.1 Elements of the integration process**

At the core of an acquisition is the integration phase, which is designed to translate the opportunities of the participating organisations into actual gains for the merged entities. There is no one-size-fits-all method for building productive capacity in a corporation. Two theoretical frameworks are presented in section 3.5.1.2 and 3.5.1.2 below. The first framework, put forward by Galpin and Herndon (2000), introduces elements of the acquisition process that focus on work streams that, according to the authors, are vital for the success of any merger integration. The second framework is the product of Harvey and Newgarden (1969), which focused on plans for each phase of integration.

Although it is acknowledged that every acquisition is different, lessons can be learnt from past acquisitions of a similar nature. In this way, executives, managers and employees can approach their own acquisition process more effectively.

### **3.6.1.1 Responsibilities of the acquisition integration process**

Galpin and Herndon (2000) identified nine diverse but strongly interrelated sets of responsibilities, or work streams, of the acquisition integration process (represented in Table 3.1). Acquisition integration should be customised according to the specific organisations involved, and adapted to each specific agreement. This is the actual process of planning and implementing the new organisation with its processes, its employees, its technology, and its systems. The merging organisation must carefully consider the timeline of integration, the chaos that will be involved and ways to lessen this chaos, ways to assist employees to stay client-centred, how best to keep day-to-day operations running, and how best to communicate with all stakeholders (i.e. shareholders, employees, clients, and the broader public) (Galpin & Herndon, 2000).

By preparing these work streams to be used during the integration process, an organisation can prepare itself to deal with this process effectively. The success of this model depends on the synchronised implementation of work streams as part of the integration plan, rather than on a series of independent actions (Galpin & Herndon, 2000).

Each work stream begins with strategic planning, which can assist in the forming of a thorough project approach used in the work stream. As a general rule, the strategic planning for each work stream should reach consensus as soon as possible. Each work stream generally runs up until the completion of integration (Galpin & Herndon, 2000). Table 3.1 identifies the core work streams involved in successful integration.

**Table 3.1 Key work stream components in successful integration (Galpin & Herndon, 2000)**

Work stream	Key components	Impact
1. Executive leadership roles and responsibilities	Initial strategic planning; identification of top-level leadership; changing of leadership; business and technical expertise	Ensure integration issues are considered during initial deal making. Ensure integration becomes part of overall transaction process.
2. Integration planning and implementation	Task force infrastructure; charters; sub team work process, transition and synergy-capture plans	Establishes and coordinates consistent process for all functions/ business units to follow. Ensures thorough planning and fast implementation.
3. Communication	Overall communication strategy; ongoing processes and feedback channels; special meetings and events	Manages rumours. Ensures fast two-way flow of facts and perceptions. Engages the entire organisation in the integration. Helps the organisation embrace the change.
4. Structure and staffing	Create, approve, and support the processes for determining the organisation's structure and staffing decisions	Ensures that the best candidate for the job is hired. Minimises cronyism and favouritism.
5. Recruiting	A specific policy, process, or tool to identify key talent and gain commitment to the organisation	Retains key talent, increases short-term commitment. Refocuses attention on long-term opportunities.
6. Cultural integration	Structured approach to identify and clarify key management processes that establish how things will be done in the new organisation	Deals proactively with major failure factors. Provides an analytical approach to specific issues for changing alignment. Early warning process.
7. Human capital related integration	Targeted alignment/ rationalisation of all people and processes so as to support the new organisation's business objectives	Eliminates proliferation of practices that no longer support business needs. Reinforces desired culture in the new organisation. Drives employee

		behaviour toward key objectives.
<b>8. Measurement and feedback</b>	Merger integration scorecard, synergy planning and tracking; integration feedback	Tracks and reports key operational, financial, customer, and organisational issues most subject to merger-related disruption risk.
<b>9. Project management</b>	Consolidated project plan; contract rosters; information-distribution protocols; key action items for core team and executive attention	Links all efforts to specific milestones. Ensures accountability and continued focus on timely completion of tasks.

### **3.6.1.2 Plans covering the phases of integration process (Harvey & Newgarden, 1969)**

According to Harvey and Newgarden (1969), the time period after an acquisition has taken place is always subject to confusion and uncertainty. These periods are characterised by differences in engrained working procedures and everyday tasks. The confusion that is coupled with these changes often results in a decrease in efficiency levels, which ultimately affects the organisation as a whole. In order to prevent monetary losses for the company during these times, it is important that plans are prepared for all phases of the integration. These plans should be specific to each organisation, each task, and to each employee and division responsible for a particular task (Harvey & Newgarden, 1969).

Table 3.2 presents a general idea of the areas integration plans should cover and, within those areas, certain objectives that should be met in most cases.

**Table 3.2 Plans covering phases of integration**

<b>General considerations:</b> Post-acquisition aims, especially the anticipated time frame for return on investment Similarities of buyer and target Identification or reaffirmation of core competencies of target Resources available to devote to the acquisition Financial resources Human resources Outside consultants Appointment of team to manage the post-merger integration period
<b>Communications:</b> Immediate action Commitment to open communication Preparation of short- and long-term communication plans
<b>Overall organisational structure:</b> Post-implementation review to determine the strength and weakness of the new structure and make necessary
<b>Post-merger implementation of functional areas:</b> Management of information systems Finance Sales Marketing Manufacturing Human resources
<b>People:</b> Identification of resources needed during the immediate post-merger period and for the long-term: skills and competencies Analysis of human resources available in acquired firm: strengths and weakness versus needs Identification of personnel Harmonisation of performance appraisal, compensation, and benefits programs Training and development
<b>Organisational culture (mission, values, and common language):</b> Evaluation of common values and identification of areas of potential conflict Development of common strategic vision Development of common value statement Communication of mission and values to all employees Walking the walk: management of the post-merger period according to key values

Managing a successful acquisition integration process is one of the most difficult challenges a company can face. Following an effective acquisition program can reduce this difficulty by offering managers the necessary assistance.

### 3.7 CONCLUSION

This chapter addressed the literature that exists on M&As and went on to explain the difference between the two terms. As the study focuses primarily on acquisitions, merger literature was disregarded for the remainder of the chapter. The motivation for acquisitions was discussed, with particular attention being focused on the attainability of economies of scale and the associated cost benefits. Furthermore, strategic reasons such as positioning, gap filling, the desire to broaden market access and organisational competencies were mentioned. This was followed by the common reasons for the failure of acquisitions. These reasons were related to the inability of two or more organisations to create synergy due to differing business processes and entrepreneurial cultures.

The chapter concluded by discussing change management and the many obstacles and challenges that are presented to both companies and employees during and after an acquisition transaction has taken place. Change management focuses on protecting the “human level” of the integration process. Guidance for dealing with the integration process was then presented in the form of two theoretical frameworks, put forward by Galpin and Herndon (2000) and Harvey and Newgarden (1969), respectively.

## CHAPTER 4

### MNC SUBSIDIARY ENTREPRENEURIAL CULTURE & INTERNATIONAL ENTREPRENEURIAL CULTURE

#### 4.1 INTRODUCTION

Multinational corporations (MNCs) subsidiary entrepreneurial culture is a relatively unexplored topic in the literature, although it has considerable research and managerial significance. The topic of subsidiary entrepreneurship has received a small amount of direct attention (Birkinshaw, 1997, 2000) and requires further study (Paterson & Brock, 2002; Young & Tavares, 2004). As part of a discussion of entrepreneurship in the subsidiary, this chapter will discuss literature on MNCs and on international entrepreneurial culture (IEC).

Chapter 4 further develops the reader's understanding of subsidiary entrepreneurial culture in a post-acquisition context. Due to the fact that the researcher has chosen to adopt a subsidiary perspective for this study, the chapter discusses MNCs and subsidiary management research, the relevance of entrepreneurship within a post-acquisition environment, as well as perspectives on MNC subsidiaries. There are three perspectives mentioned here, namely environmental determinism, headquarter assignment and subsidiary choice.

The chapter then discusses management's role in the subsidiary, focusing on the ability of subsidiaries to be recognised as their own unique entities, having their own abilities, skill sets and connections with suppliers and customers. In other words, subsidiaries can and should be understood as semi-autonomous units existing within a larger organisation. Autonomy plays a key role herein, as high levels of decision-making authority results in an increase of entrepreneurial ventures. This is related to strategic choice and subsidiary initiative, which affect the level of entrepreneurial culture experienced within the subsidiary. Strategic choice refers to the ability of the subsidiary to respond independently to issues and developments that emerge within their organisation, while subsidiary initiative includes phenomena such as autonomous actions and proactive, risk-taking behaviour.

The chapter then discusses the relevance of IEC with reference to subsidiary

entrepreneurial culture. IEC focuses on the network that exists amongst the team of entrepreneurial subsidiaries and the alliances that they create in order to overcome things such as resource constraints. Also related to IEC is the creation of new international ventures, which generate competitive advantage. The chapter concludes by discussing managerial implications of IEC. Managers are encouraged to enhance an IEC that assists and encourages the entrepreneurial activities of their international organisations.

## 4.2 BACKGROUND

MNCs and subsidiary management research form the subjects of two well-developed areas of literature (Young & Tavares, 2004). Although attention has been focused on innovation within MNCs, the theme of subsidiary entrepreneurship remains undeveloped (Brock & Birkinshaw, 2004). This chapter aims to provide further insight into MNC subsidiary entrepreneurial culture.

Research into entrepreneurship within multinational subsidiaries is at an early phase of development. However, since the early 1990s, many questions relating to entrepreneurship in MNC subsidiaries has been of interest to researchers (Birkinshaw & Hood, 1998; Taggart, 1998). The idea of entrepreneurial culture in multinational subsidiaries was suggested by Birkinshaw (1997), and since then, many researchers have recognised that subsidiaries can contribute to innovative and entrepreneurial activities in MNCs (Birkinshaw, 1997, 2000; Birkinshaw, Hood & Johnson, 1998; Birkinshaw, Hood & Young, 2005). Birkinshaw (1997) suggested that additional research be done on what comprises entrepreneurial culture in multinational subsidiaries. Although work on MNCs since then has provided insight into MNC subsidiary entrepreneurial behaviour, the concept of MNC subsidiary entrepreneurial culture still remains largely unexplored and underdeveloped (Birkinshaw, 1997).

The role of multinational subsidiaries continues to be of interest to researchers. IEC will be discussed at a later stage in this chapter. Both of the aforementioned research streams on MNC's and international entrepreneurship contribute to the study of entrepreneurship in subsidiaries, which can be seen as positioned at the intersection of the two areas (Boojihawon, Dimitratos & Young, 2007). It has been recognised that subsidiaries are not only secondary components of their headquarter companies.

Instead, they should be viewed as interorganisational networks of autonomous and distinguished units (Bartlett & Ghoshal, 1989; Harzing, 1999; O'Donnell, 2000, Boojihawon *et al.*, 2007). Therefore, by combining the ideas from these two fields of research, one can argue that multinational subsidiaries that possess global vision and have the capacity to network with other MNC subsidiaries are likely to obtain successes through their entrepreneurial behaviour.

Due to the growing acknowledgment that subsidiaries no longer serve as contingent components of their parent companies. Instead, many have the potential for independent entrepreneurial actions. Moreover, subsidiaries are unique in that they face both external and internal competitive arenas simultaneously. Not only do subsidiaries face the external pressures placed on them by competitors in the marketplace, but they face additional pressures which arise from internal competition within the subsidiary interorganisational network. For the purpose of this study, however, it is only the internal competitive arena that will be addressed.

The following section will briefly touch on the literature regarding multinational subsidiaries and subsidiary management.

#### **4.3 THE MNC SUBSIDIARY**

A subsidiary is defined as a company that is partly or wholly owned by another company, known as the parent or holding company, which has a controlling interest in the subsidiary company. In the case of MNCs, subsidiaries are often defined as operating entities controlled by the MNC and located in a different country to the headquarter (Bartlett & Ghoshal, 1989). The MNC subsidiary is understood as a semi-autonomous unit with the potential for entrepreneurial behaviour. MNC subsidiaries operate in a competitive internal environment, which can be characterized by increased competition from fellow subsidiaries. The external environment consists of local customers, components and services, and competitors (Ghoshal & Bartlett, 1990). This study, as previously mentioned, will only analyse the internal environment.

A very important characteristic of a subsidiary is its potential to add to the firm-specific advantage of the MNC. In saying that, however, there are three criteria that need to be satisfied in order for this potential to be fulfilled.

The first criterion is related to the value of the subsidiary's resources. With use of a stringent resource-based perspective, it is expected that the resources of the subsidiary be sophisticated, specialised and different from any other resources possessed by the MNC, so as to offer competitive advantage (Barney, 1991). If subsidiaries are able to combine their specialised resources with other resources in other parts of the MNC, they are likely to form part of the MNC's firm-specific advantage.

The second criterion relates to recognition by corporate management. This recognition is connected to the subsidiary's specialised resources and their understanding and acceptance from other units of the MNC. It is essential that this expertise is acknowledged by other parts of the MNC in order for it to form part of the MNC's firm-specific advantage. Gaining this recognition can be accomplished through either top-down or bottom-up mechanisms. Top-down mechanisms exist when corporate management identifies the pioneering subsidiaries within the MNC through means such as informal conversations, analysis of productivity levels, and internal benchmarking analyses, whereas bottom-up mechanisms involve entrepreneurial pursuits by subsidiary managers that display and showcase their expertise, sophistication and eagerness to pursue further ventures to parent company managers (Birkinshaw & Hood, 1998). Recognition by corporate management, otherwise known as the contributory role, refers to the level of specialised resources that are recognised by the MNC which contribute to the firm-specific advantage.

The third criterion is that of subsidiary initiative. Subsidiary initiative denotes the pursuit of entrepreneurial activities in the international market, where the subsidiary is able to contribute with its specialised resources. As in the case of the second criterion, subsidiary initiative is also likely to positively influence the subsidiary's contributory role. Subsidiary initiative has a substantial effect on the function of the subsidiary (Birkinshaw, 1995; Bishop & Crookell, 1986; Ghoshal, 1986). Subsidiary initiative will be discussed in greater detail in the following section.

#### **4.4 PERSPECTIVES ON MNC SUBSIDIARIES**

There are three different perspectives that may be extracted from the literature on MNC subsidiaries. The first perspective is one of environmental determinism. Due to the fact that MNCs operate in a multitude of different environments, the function of

each subsidiary may be seen as a large and important part of its local environment.

The second perspective is one of headquarter assignment. This perspective indicates that the parent company assumes responsibility for the definition of the strategic requirements of the MNC as a whole, as it is believed that the parent company has the best understanding of how subsidiary roles should be assigned in order to guarantee that all requirements are met. This is where control and coordination mechanisms may be used to direct the behaviour of subsidiary managers, which, in turn, determines the subsidiary's role (Birkinshaw & Morrison, 1995; Ghoshal, 1986; Gupta & Govindarajan, 1994; Roth & Morrison, 1990).

The third perspective is one of subsidiary choice. With this perspective, the role of the subsidiary is largely open for subsidiary management to define for themselves. The assumption here is that they understand their local market and local capabilities better than their parent company, and are therefore in the best position to decide which role they should play (White & Poynter, 1984; D'Cruz, 1986). The focus of this perspective is on the subsidiary's particular resources and competences, management's aspirations, and the initiative taken by the subsidiary employees that determine the subsidiary's role (Birkinshaw, 1995; Etemad & Dulude, 1986; Roth & Morrison, 1990).

#### **4.5 MANAGEMENT'S ROLE WITHIN THE SUBSIDIARY**

In support of the third perspective explained above, subsidiaries are increasingly being recognised as having their own unique abilities and skill sets, as well as vital connections with their local suppliers and customers. This grants subsidiaries the opportunity to seek their own local opportunities, and thereafter to progress on a global scale (Bartlett & Ghoshal, 1986; Hedlund, 1986).

In recent literature, new conceptualisations of the parent-subsidiary relationship within the MNC have been explored. Unlike the narrow focus of previous research assessing facets of the parent-subsidiary relationship, research is now extending its field beyond phenomena such as centralisation, formalisation, coordination and control to phenomena such as heterarchy (Hedlund, 1986) and the transnational corporation (Bartlett & Ghoshal, 1989). This idea of the parent-subsidiary relationship involves an all-encompassing understanding of the subsidiary as a semi-

autonomous unit existing within a larger, differentiated network.

Autonomy, resources, integration and interorganisational communication are all key elements aiding in subsidiary innovation. Zahra, Dharwadkar and George (2000) discovered that when subsidiaries had a greater level of autonomy and a high level of decision-making authority, they were more likely to pursue entrepreneurial ventures. Recent research emphasises the role of networks and the embeddedness of the subsidiary within the MNC in improving the skills and entrepreneurial prospects at the subsidiary level (Forsgren & Johanson, 1992; McEvily & Zaheer, 1999). Management within the subsidiary has a vital role to play in subsidiary innovation and it is the extent of the attention granted by the parent company that permits such innovation to take place.

With independence and growth, the subsidiary is able to increase its specialised resources. This increase is often linked to a reduction in headquarter control, which opens doors for a greater level of strategic choice for subsidiary managers (Prahalad & Doz, 1981). Once this level of independence has been achieved, it is very important how the subsidiary is managed internally, as this may affect the organisation as a whole. These responsibilities lead to increasing levels of subsidiary initiative and visibility within the corporate system (Bartlett & Ghoshal, 1994).

There are differing opinions about how, and how much of, the headquarters' attention should be allocated to subsidiaries to create an optimal environment for attention-seekers and attention-providers within the organisation as a whole. The headquarters are likely to encourage subsidiary operations, to transfer knowledge, to aid in coordination and to decrease disorderly behaviour (Foss & Pedersen, 2002). Subsidiaries, however, are constantly competing for attention from their parent company so as to increase their chances of acquiring more resources, to gain bargaining power, or to try and prevent unnecessary levels of intervention.

If subsidiaries are granted greater strategic autonomy, it is likely to result in higher levels of strategic choice, resulting in a lower level of dependence on headquarters (Child, 1972; Prahalad & Doz, 1981; Birkinshaw & Hood, 1998; Paterson & Brock, 2002). Strategic choice therefore offers subsidiaries more autonomy from the MNC. This is significant for managers and their role within the subsidiary. The following section describes strategic choice in greater detail.

#### **4.6 STRATEGIC CHOICE**

Strategic choice refers to the ability of the subsidiary to respond and adapt to issues and developments that emerge independently. When they are granted the opportunity to make independent, strategic decisions subsidiaries are, in turn, granted greater bargaining power and access to critical resources (Astley & Sachdeva, 1984; Andersson & Pahlberg, 1997; Birkinshaw, 1997). Subsidiary managers tend to believe that entrepreneurial pursuits require decentralisation in business units (Porter, 1990).

Strategic choice refers to a number of strategic configurations of subsidiaries, and this choice determines the possibilities of headquarter-subsidiary involvement (Birkinshaw & Hood, 1998; Anderson & Pahlberg, 1997). There are three strategic characteristics of subsidiaries that should be mentioned. These are autonomy, inter-unit power and subsidiary initiative. Autonomy refers to the subsidiary's ability to account for hierarchical decision-making authority. Inter-unit power looks at the way in which a subsidiary's actions and processes are connected to other subsidiaries within the MNC. Lastly, subsidiary initiative includes the contributory role the subsidiary can play through its entrepreneurial pursuits.

These characteristics give an encompassing explanation of a subsidiary's strategic configuration, otherwise referred to as strategic choice, which further determines its role inside the MNC. Subsidiaries constantly strive to attain high levels of strategic choice.

The level of attention a subsidiary receives from its parent company constitutes a significant indicator of whether a subsidiary is able to have freedom of strategic choice or not. Subsidiaries constantly face the challenge of adapting to both their local market environment and connecting internally with their headquarters. Eventually, it is desirable for the subsidiary to attain high levels of autonomy, inter-unit power, and initiative-taking.

#### **4.7 SUBSIDIARY INITIATIVE**

“An initiative is essentially an entrepreneurial process, beginning with the identification of an opportunity and culminating in the commitment of resources to that opportunity” (Birkinshaw, 1997: 207). An Initiative involves autonomous actions,

proactive and risk-taking behaviour, resource use beyond the subsidiary's control, and the acquisition of power and influence (Birkinshaw, 1997, 1999, 2000; Birkinshaw *et al.*, 1998). It is an independent and proactive activity that improves the way in which an organisation uses and expands its resources. Initiative is a form of distributed corporate entrepreneurship and is promoted by a high level of distinctive subsidiary capabilities; whereas it is suppressed by high levels of decision-making centralisation, low levels of subsidiary credibility and low levels of headquarters–subsidiary communication (Birkinshaw, 1999). A subsidiary undertakes an initiative if its leadership and entrepreneurial culture are strong, while competition in its host market is low (Birkinshaw *et al.*, 1998).

MNC subsidiary initiative, on the other hand, is defined as “the entrepreneurial pursuit of international market opportunities to which the subsidiary can apply its specialised resources” (Birkinshaw, 1997). The concept of subsidiary initiative is argued to relate positively to the subsidiary's contributory role and strategy.

Subsidiary initiative has the ability to increase responsibility within the MNC network, which, in turn, will have a positive effect on the MNC as a whole (Sargent & Matthews, 2006). MNC subsidiary entrepreneurship is a developmental process and therefore the literature on developing subsidiary initiative and strategies has significant implication when considering this topic (Birkinshaw *et al.*, 1998; Paterson & Brock, 2002).

#### **4.8 SUBSIDIARY ENTREPRENEURIAL CULTURE**

MNC subsidiary entrepreneurship has received limited research consideration, but is a subject that can be closely linked to the literature on corporate entrepreneurship. Corporate entrepreneurship refers to acts in response to market opportunity. In recent literature, this term has been said to encompass both internal entrepreneurial processes, as well as entrepreneurial processes that are external to the MNC (i.e. local and global initiatives) (Zahra *et al.*, 2000).

Subsidiaries with a strong entrepreneurial culture often believe in the power of small teams, where autonomous behaviour is encouraged so as to stimulate entrepreneurial activities (Deutschman, 2004). Yamin (2002) argues that the organisational isolation of multinational subsidiaries enhances the potential for entrepreneurial action and an

entrepreneurial culture within subsidiaries, and increases the likelihood of a differentiated set of competencies within the MNC (the existence of which can counteract strategic inertia at headquarters and improve adaptive capabilities in the MNC). There is an interesting trade-off between control and autonomy between headquarters and their subsidiaries.

Birkinshaw *et al.* (2005) state that investigations into how MNC subsidiary entrepreneurship can best be attained should form part of future research. This bares significant relevance in that many MNC subsidiaries experiment with new organisational designs with the attempt to become more entrepreneurial and innovative (Brock & Birkinshaw, 2004). As culture provides the context in which entrepreneurship is embedded (Jarillo & Martinez, 1990), the notion of MNC subsidiary entrepreneurial culture, which forms the subject of the present study, is likely to offer insightful information regarding the phenomenon of entrepreneurship within multinational subsidiaries.

#### **4.8.1 Main characteristics of MNC subsidiary entrepreneurial culture**

##### **4.8.1.1 Subsidiary entrepreneurial network management**

Subsidiary entrepreneurial network management originated from the idea that the MNC is an interorganisational network (Ghoshal & Bartlett, 1990). This network management refers to knowledge sharing, teamwork and learning within the network. Flexibility, adaptability and resourcefulness are three important aspects needed when managing these subsidiary networks. The facility to make use of the knowledge and resource pool of the parent company and other subsidiaries when needed is a major success factor of this feature. Communication and the pooling of expertise and experience within a network should be assisted and encouraged by the parent company (Ghoshal & Bartlett, 1990).

The desire for networking amongst the subsidiary group can be perceived as an essential factor in the management and organisation of entrepreneurial activities. This is seen in the areas of knowledge sharing and resource allocation. These interorganisational network activities are considered entrepreneurial due to the drive for dynamic responses to the external environment (Venaik, Midgley & Devinney, 2004).

#### 4.8.1.2 Subsidiary autonomy

Subsidiary autonomy refers to the freedom and liberty possessed by a subsidiary to initiate and take control of subsidiary entrepreneurship over and above the control exercised by the parent company (Burgelmann, 1983; Paterson & Brock, 2002). Autonomy is suggested to have a positive influence on subsidiary innovative activities (Venaik *et al.*, 2005), which highlights that a subsidiary should be mostly autonomous and have the independence to maintain strategic control of its own ventures. Guidance and strategic assistance from the parent company should only be sought when required (Birkinshaw & Morrison, 1995; Martinez & Jarillo, 1991).

### 4.9 SUMMARY: MULTINATIONAL SUBSIDIARIES

A subsidiary's management practices penetrate throughout the subsidiary and affect the ways in which its business is conducted. These practices influence the development of specialised resources, which further influences the degree of subsidiary initiative present in the organisation. Ultimately, this results in the presence of a contributory role in the MNC. It is all of these factors that eventually formulate a subsidiary's entrepreneurial culture.

The parent-subsidiary relationship plays a vital part in the development of this culture, as it has the power to determine the subsidiary's contributory role and level of initiative. It can therefore be said that the level of autonomy granted may have the biggest influence on a subsidiary's levels of initiative and contributory role.

When addressing the issue of parent-subsidiary management, it is important that the parent company become comfortable with the subsidiary's level of dependence decreasing. There has to be an understanding where subsidiary managers are able to make their own decisions in the interest of both the subsidiary and the MNC as a whole (Prahalad & Doz, 1981).

The internal network of the MNC can be modeled as its own internal market (Ghoshal & Bartlett, 1990). This market is made up of an interorganisational network within the corporate system, and its efficiency depends greatly on subsidiary initiative. Subsidiary initiative allows other internal units to become aware of the subsidiary's unique and distinguishing competences, giving them a sense of competitive

advantage, and hence creating a healthy environment of competition and sharing of information flows within the network market (Ghoshal & Bartlett, 1990). This exchange of information regarding resources aids the MNC with the promotion of its specialised capabilities.

Subsidiaries provide major outflows of sophisticated resources to the entire MNC network (Gupta & Govindarajan, 1994), and continually work on producing new product lines on a global basis (Roth & Morrison, 1990). This creates both internal and external pressures for the subsidiary and its developmental growth.

#### **4.10 INTERNATIONAL ENTREPRENEURSHIP**

In the competitive environment created by globalisation, a change in market forces has prompted many entrepreneurial organisations to adjust their business practices (Dimitratos, Voudouris, Plakoyiannaki & Nakos, 2012). International entrepreneurship (IE) is increasingly important to mitigate the changing market climate in modern organisations. Local entrepreneurs are required to continually monitor international market developments in order to compete successfully, as diminished barriers to entry and global integration of markets has brought international markets into direct competition with one another (Dimitratos *et al.*, 2012).

Both entrepreneurial research and international business research have experienced increased attention over recent years (McDougall & Oviatt, 1997, 2000; Zahra & Garvis, 2000). Entrepreneurship and internationalisation have become closely related and interlinked due to globalisation (Lumpkin & Dess, 1996; Zahra *et al.*, 1999; Ibeh & Young, 2001; Zahra, Ireland & Hitt, 2000). Therefore, it seems plausible that IE should encompass the key components of entrepreneurship; i.e. cross border innovation, proactiveness and risk-seeking behaviour.

The following literature review provides a conceptual framework for the examination of IE by investigating the general context in which it is embedded. It is important to note that the entrepreneurial activities and organisational culture of the organisation are interrelated. By positing an IEC and exploring its dimensions, this section of chapter 4 will address the framework of the IE construct, employing concepts from

organisational theory studies. The literature incorporates ideas from IE, entrepreneurship and international business literatures.

#### **4.11 INTERNATIONAL ENTREPRENEURSHIP (IE)**

Zahra and George (2002) defined IE as a process in which the organisation explores and experiments with business opportunities in the international marketplace. As previously mentioned, in the study of IE, many authors attempt to integrate insights from entrepreneurship and the classic approaches to internationalisation (Dimitratos *et al.*, 2004; McDougall & Oviatt, 2000; Zahra & Garvis, 2000; Jones & Coviello, 2005).

McDougall and Oviatt (2000) suggest that IE embodies a combination of innovativeness, proactiveness, and risk-taking behaviour that extends into international markets and intends to generate value in organisations. By proposing such a definition, it is clear that these authors have embraced ideas from the broader entrepreneurship literature and literature on entrepreneurial orientation (Zahra *et al.*, 1999; Lyon, Lumpkin, & Dess, 2000).

IEC, on the other hand, refers to the organisational culture that assists and accommodates the entrepreneurial activities of an organisation on an international playing field (Zahra, 2005). Organisations that have a strong IEC are more likely to pursue entrepreneurial ventures of an international nature than those that do not. Therefore, a thorough understanding of what IEC encompasses is essential in order to understand how IE is formed. In the field of IE, organisational culture and IEC are two concepts frequently employed in the activities of both small and large organisations.

#### **4.12 INTERNATIONAL ENTREPRENEURIAL CULTURE**

Despite the popularity surrounding the three-item construct of entrepreneurship (innovation, risk-seeking and proactive behaviour), it is essential that its limitations are not ignored. In the field of entrepreneurship, Wiklund (1999) argues that researchers struggle to understand what the construct of entrepreneurship in fact represents. Rauch, Wiklund, Lumpkin, and Frese (2009) suggest that additional sub-variables should be included in the entrepreneurship construct. This is particularly

important, as entrepreneurship research has evolved from an investigation focused on the creation of new enterprises to a study of risk-taking innovative activities within both small and large organisations (Kor, Mahoney, & Michael, 2007; Petra & Koenraad, 2006; Zahra *et al.*, 1999).

The shortcomings of the three-item construct were addressed in chapter 2 in the discussion of the literature on corporate entrepreneurship within the subsection regarding dimensions of intrapreneurship. In that subsection, previous notions of organisational entrepreneurship (intrapreneurship) are mentioned. These notions were divided into eight categories: new businesses/ventures, product innovativeness, process innovativeness, self-renewal, risk-taking, proactiveness, and competitive aggressiveness (Covin & Slevin, 1991; Lumpkin & Dess, 1996; Miller & Friesen, 1983; Knight, 1997). The researcher aims to draw attention to the relevance of these dimensions in the literature on IEC.

Dimitratos and Plakoyiannaki (2003) offer an interesting view. They analyse IE as a feature embedded in the organisational culture context. In this theoretical work, they put forward the idea of an IEC that consists of six dimensions; namely international market orientation, international learning orientation, international innovation propensity, international risk attitude, international networking orientation and international motivation. Dimitratos and Plakoyiannaki (2003) and Zahra (2005) believe that this all-encompassing view of IEC provides an integrated and complete depiction of the international entrepreneurial behaviour of the organisation. This expanded notion of IEC will be employed in this study.

Dimitratos and Plakoyiannaki (2003) suggest that IE is an organisation-wide phenomenon that expands to all hierarchical levels and geographic boundaries of the organisation. This means that IE can pertain to both small international new ventures and large multinational corporations and their foreign subsidiaries. Entrepreneurial behaviour, from a subsidiary's point of view, may be seen as a capability distributed throughout the multinational corporation and its associates (Birkinshaw, 1997, 1999, 2000).

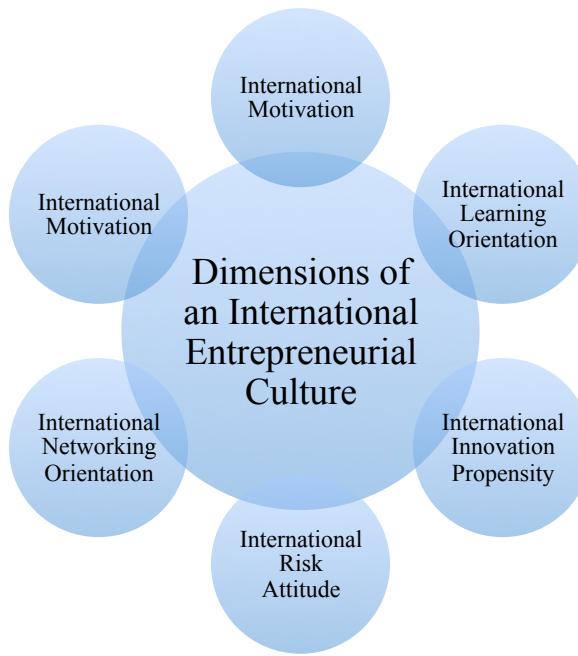
MNC subsidiary entrepreneurial culture of larger organisations consists of global vision, entrepreneurial orientation and entrepreneurial multinational corporation network management (Boojihawon *et al.*, 2007).

IEC and the theme of opportunity have been closely linked in previous theoretical work (Dimitratos *et al.*, 2012). To explain this linkage, Zahra *et al.* (2005) hypothesised that IEC influences the way in which entrepreneurs become aware of and make use of international opportunities. Dimitratos and Jones (2005) further expand on this by noting that, since IEC is reliant on an organisation-wide process, it looks to create value through the attainment of business opportunities abroad.

#### **4.13 THE IEC CONSTRUCT**

An opportunity-based conceptualisation of IEC is said to consist of six interrelated organisational culture dimensions as mentioned above in section 4.12 on IEC. This opportunity-based construct of IEC is much more expansive than the three-dimensional construct of entrepreneurship (Khandwalla, 1977; Miller & Friesen, 1982; Covin & Covin, 1990).

This notion of IEC focuses on a gap that arises due to the absence of the aspect of opportunity in the entrepreneurship construct. The six-dimensional IEC construct encapsulates a variety of features of the organisational culture of the internationalised company regardless of its age, size, sector or the duration of its period of involvement in the international marketplace (see Figure 4.1). It aims to provide an inclusive and precise depiction of all the elements that encourage opportunity-action activities abroad (Armario, Ruiz & Armario, 2008; Freeman & Cavusgil, 2007). The six IEC dimensions will be discussed below, and linked to the themes of organisational culture and opportunity. Figure 4.1 below represents the six IEC dimensions.



**Figure 4.1 The dimensions of an international entrepreneurial culture (Armario, Ruiz, & Armario, 2008)**

As stated above, IE is an organisation-wide process, wherein the organisational culture of the organisation lies, which aims to create value through the exploitation of opportunities abroad (Oviatt & McDougall, 2005). There are five aspects associated with this statement that need to be expanded on.

The first of these is the statement that IE is an organisation-wide phenomenon that extends to all hierarchical levels and geographic boundaries of the organisation. It is not specific to top-levels of the organisation, the foreign country subsidiaries or the international operations department (Khandwalla, 1977). Secondly, IE is a process. This suggests that IE is dynamic and ever-changing. The IE process can involve interrelated and integrated decisions necessitating a significant degree of resource commitment (Miller & Friesen, 1982; Covin & Covin, 1990). Thirdly, IE is embedded in the organisational culture of the firm. Thus, in order to fully understand the manifestations of IE, one must review the outer and overall organisational context in which it is embedded (Covin & Covin, 1990).

Fourthly, IE evolves in accordance with the discovery and exploitation of opportunities in the international marketplace. Some researchers assert that real

entrepreneurs create and pursue opportunities regardless of the resources they possess. Entrepreneurial organisations tend to possess a mindset that enables recognition of opportunities in the international marketplace, and view the exploitation of these opportunities as achievable (Dimitratos *et al.*, 2012). Fifth, IE activities aim at value creation for the firm. Entrepreneurship yields superior performance for the organisation and delivers wealth to the stakeholders of the organisation (Birkinshaw, 1997).

#### **4.14 SIX DIMENSIONS OF IEC**

The six dimensions of IEC can be manifested in a variety of material and cognitive elements of organisational culture. These cultural and IEC dimensions can be overlapping, mutually reinforcing and interactive. The following section of the literature review discusses the six dimensions as previously identified.

##### **4.14.1 International market orientation**

International market orientation denotes the attitudes and performance capabilities that an organisation may assume so as to provide its customers with greater and more sophisticated value in an international context (Murray, Gao, Kotabe & Zhou, 2007). This dimension can be related to product innovativeness as discussed in the review of intrapreneurship literature in chapter 2. Product innovativeness refers to innovative development, advancements, production methods and procedures (Schollhammer, 1982). This dimension, as with international market orientation, aims to provide its customers with greater and more sophisticated value. Market orientation has become an increasingly popular topic in organisation theory, strategic management, and marketing studies (He & Wei, 2011). It is an important dimension of organisational culture.

Market orientation can be conceptualised in terms of three elements: customer orientation, inter-functional coordination, and competitor orientation. Customer orientation entails a thorough understanding of the customer's needs, and the prioritisation of these needs (Dimitratos *et al.*, 2012). Customer orientation can be achieved through the measurement of satisfaction, and the provision of superior service (Dimitratos *et al.*, 2012). As customers' needs are constantly evolving, product innovativeness is also seen as vital in order to successfully meet these needs.

Inter-functional coordination addresses the issue of alignment of all corporate resources through the functional integration of strategy so as to develop an organisation that is responsive to the market (Dimitratos *et al.*, 2012). Competitor orientation demands that organisations understand the weaknesses and the strengths of their competition in the marketplace. This is accomplished through the assessment of competitive offers, rapid response to the initiatives of competitors and exploitation of untapped market opportunities that can lead to increased competitive advantage (Dimitratos *et al.*, 2012). As with product innovativeness, international market orientation constantly looks to make improvements; however, in this case, attention is focused on the international market place.

Competitor orientation seems to be the most-researched aspect in IE and entrepreneurship studies. This phenomenon involves proactiveness vis-à-vis competitors, and is measured through Covin and Covin's (1990) scale: proactiveness captures the extent to which the organisation instigates or mimics the actions of their competitors, innovates original products, and lives by an “undo-the-competitors” versus a “live-and-let-live” posture.

#### **4.14.2 International learning orientation**

International learning orientation refers to the tendency of the organisation to search for and make use of intelligence regarding the international market arena as a mechanism of competitive advantage (Voudouris, Dimitratos, & Salavou, 2011). This tendency can be related to the proactiveness dimension of intrapreneurship. This dimension includes initiative taking and ground-breaking developments (Covin & Slevin, 1991) in pursuing new business opportunities or delving into unfamiliar marketplaces (Lumpkin & Dess, 1996).

International learning and international market orientations are closely connected, and are viewed as interrelated dimensions in various empirical studies. Market orientation can be perceived as something that is in place prior to learning orientation, since the former offers scope to the organisation and drives organisational learning toward certain segments of the market (Knight & Kim, 2009). Learning orientation is considered within organisation theory literature to be an essential feature of organisational culture (Brown, 1998; Moorman, 1995).

Bertels and Savage (1999) emphasise the importance of organisational learning for staying abreast with market needs. Unless learning values are instilled in the organisational culture of the organisation, the organisation will not succeed in the marketplace. This holds true for intrapreneurial organisations as well, which is why proactiveness is such an important dimension. If an organisation does not remain competitive in its behaviour and actions, it will not succeed. Learning related to market trends and demands can be obtained via three processes: information acquisition, which refers to the practices the organisation applies when generating market-related intelligence (Autio, George & Alexy, 2011); information dissemination, which refers to the processes the organisation utilises in order to convey market-related intelligence to organisational participants (Cassiman & Golovko, 2011); and information use, which refers to the systems and techniques that the organisation uses for decision making and acquiring experience based on this market-related intelligence (Kohli & Jaworski, 1990).

Entrepreneurship research suggests that entrepreneurial learning is concerned with the awareness and knowledge that make the detection of opportunities possible (Kirzner, 1979). These opportunities are realised through proactive behaviour and actions. Entrepreneurial learning is built on experiences based on both past and ongoing successes and failures (Oviatt & McDougall, 2005). When the organisation internationalises, it acquires general experiential knowledge of how to deal with foreign competitors and specific experiential knowledge regarding foreign business practices. As does international learning orientation, proactiveness makes use of information in such a way that it is possible for the organisation to discover gaps in the market, while adding value for its customers.

#### **4.14.3 International innovation propensity**

International innovation propensity refers to the tendency of the organisation to adopt original and innovative ideas, products, or processes designed to service foreign markets (Knight & Kim, 2009). This dimension can be related to product and process innovativeness, as well as to new businesses and ventures.

International innovation propensity is strongly related to international learning orientation in two facets. Firstly, organisational learning takes place before innovation

in foreign markets, as through the learning process the organisation generates knowledge that it can use in new and creative practices (Nevis, DiBella & Gould, 1995). Money spent on research and development is a key indicator of innovativeness. Secondly, an organisation with an innovative stance abroad should have the ability to learn from its involvement in new and creative processes (Lemon & Sahota, 2004). As with product and process innovativeness, and new businesses/ventures, such organisations should constantly aspire to customise their products, processes and choice of business ventures for the specific market in which they are competing.

Innovation propensity makes up a significant dimension of the organisational culture of the company. The role of organisational culture in promoting innovation is manifested in the norms, beliefs and values that are shared by organisational members who facilitate the generation of thoughts and beliefs, and the implementation of creative methods (O'Reilly, 1989).

Miller and Friesen's (1982) scale is commonly implemented to capture an organisation's desire to be innovative. This scale measures the extent to which the organisation favours "innovative versus established products, many versus few product introductions, and major versus minor changes in its new products" (Dimitratos *et al.*, 2012). This again places emphasis on the relevance of innovativeness. Stating that innovative entrepreneurship helps to boost the growth of an economy can emphasise the construct of innovation propensity. Innovativeness can be said to be intrinsic in entrepreneurship (Timmons, 1978; Martin, 1984).

#### **4.14.4 International risk attitude**

International risk attitude refers to the extent to which an organisation is willing to undertake risky resource commitments in foreign markets. This can be linked to risk taking as discussed in the intrapreneurship literature. Risk taking is thought to be a distinguishing factor of any form of entrepreneurial behaviour. International entrepreneurial organisations can generally be characterised according to their propensity for risk taking. Therefore, risk attitude is closely connected with innovation propensity. In organisation theory studies, risk attitude constitutes a key dimension of the organisational culture of the organisation (Reynolds, 1986). The ability of the organisation to take risks can be accredited to the characteristics of

organisational culture and plays an important role for its survival in unstable situations (Hofstede, 1991). Moreover, Douglas and Wildavsky (1982) argue that organisational preferences for risk seeking rather than risk avoidance determine the cultural risk values of the organisation.

In the IE and entrepreneurship field, risk attitude denotes the propensity of the organisation to prefer low- versus high-risk projects (Khandwalla, 1997), incremental versus wide-ranging behaviour (Miller & Friesen, 1982), and cautious versus bold decisions when faced with making decisions that involve uncertainty (Naman & Slevin, 1993). Entrepreneurial organisations are usually characterised by undertaking a significant degree of personal, social and financial risk (Baird & Thomas, 1985: 231). A risk-taking propensity minimises strategic stagnation and can lead to high performance (Miller & Toulouse, 1986).

International risk attitude may be closely linked to international market orientation, a fact reflected in the argument that international entrepreneurial organisations are risk-takers inasmuch as they recognise and exploit opportunities in foreign markets (Miller & Friesen, 1982).

#### **4.14.5 International networking orientation**

International networking orientation refers to the way in which the organisation acquires resources from the environment by creating alliances and social integration to be made use of in its international activities (Gulati, 1998). Networking orientation is a significant dimension of organisational culture in organisation theory studies (Barley, 1990; Powell, Koput & Smith-Doerr, 1996).

The social network approach to organisational culture suggests that the culture of the organisation is based on a system of relations. Identifying and appreciating this system of relations offers an in-depth view of the culture of the organization, because in this way the structures that sustain and renew the organisational assumptions and values can be understood (Boojihawon *et al.*, 2007). Organisations with more open cultures are likely to pursue social links between and across the hierarchical levels of the organisation, as well as outside of it. This literature is related to that of subsidiary entrepreneurial network management from the MNC subsidiary literature discussed in section 4.8.2.1. Social capital and embeddedness are two concepts central to the

network perspective of organisational culture.

Much research conducted in entrepreneurship studies has associated the procedures of entrepreneurial organisations with networking activities (Zucchella, Palamara, & Denicolai, 2007). Social networks greatly help with the operations of entrepreneurs, and networking is one of the main approaches used by entrepreneurial organisations to obtain resources and deal with environmental uncertainty and obstructions in their operations. This was discussed in detail in section 4.8.2.1 as well, and can be seen as a key factor of subsidiary entrepreneurship.

The relationships in the network aid in the development of the organisation and lead to increased resource commitments in foreign markets. This proposition of network theory highlights the relationship between international networking and international learning orientation. In essence, effective internationalisation of the organisation depends largely on the network relationships of the organisation (Zucchella, Palamara, & Denicolai, 2007).

#### **4.14.6 International motivation**

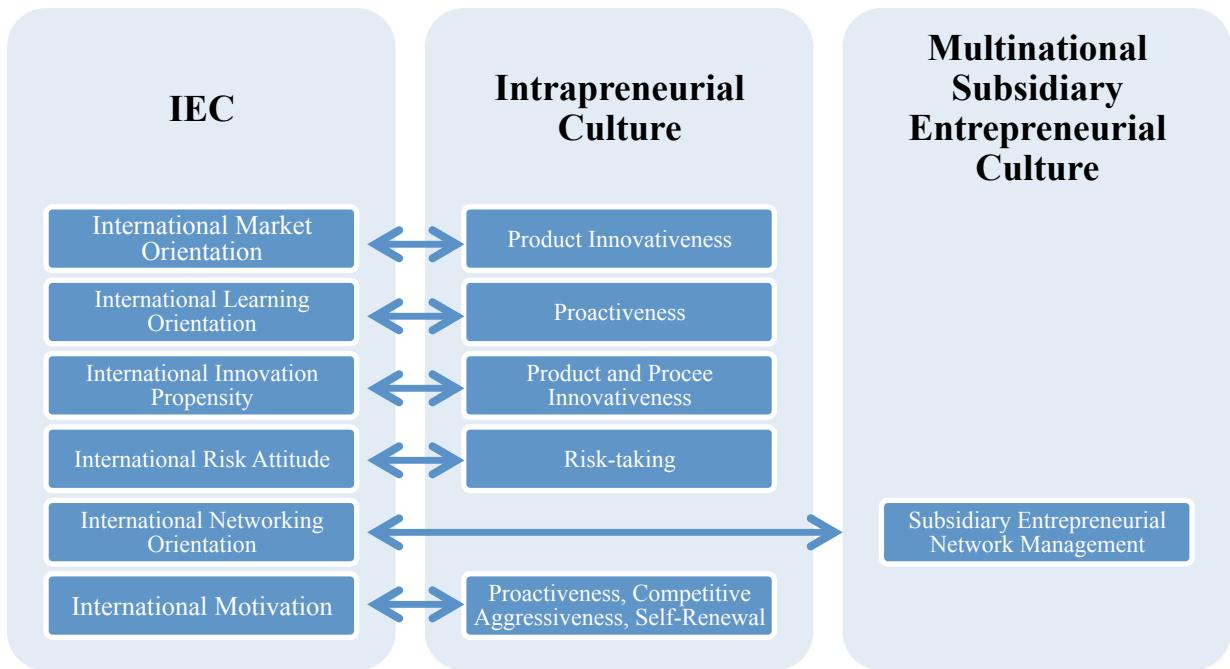
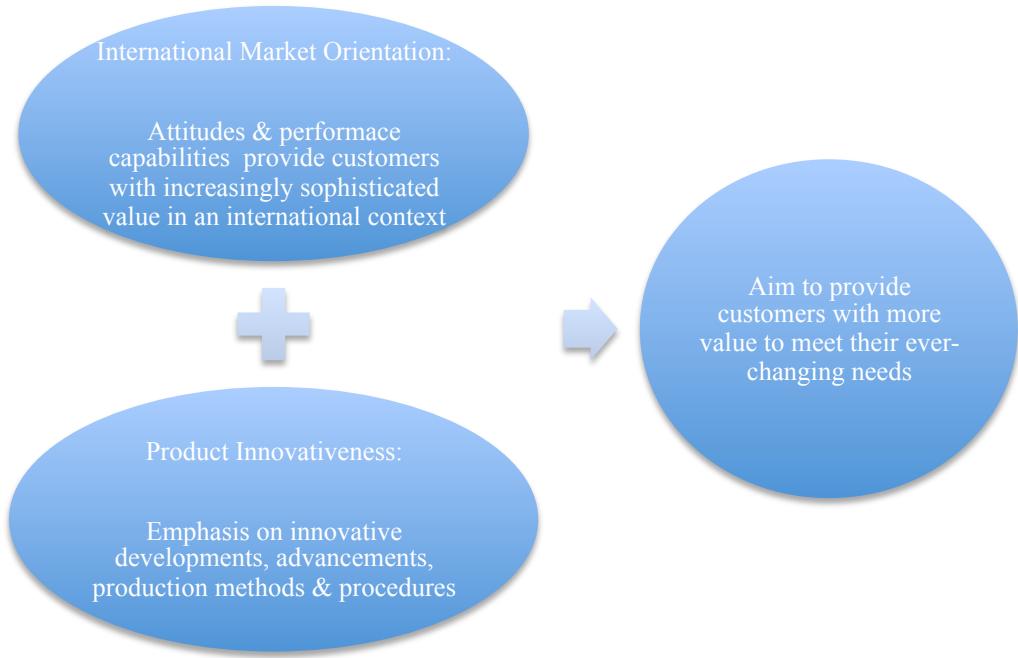
International motivation refers to the instigation, direction, and energisation of the behaviour of organisational members with regards to ventures in foreign markets. Motivation deals with the incentive and reward that should be offered to members of the organisation in order to inspire them to meet the desired performance requirements (Detert *et al.*, 2000). This corresponds with the importance of proactiveness and encouraging proactive behaviour within an organisation. International motivation is closely linked to international market orientation, the difference being that the former refers to internal processes of the organisation, because it is connected with inducing the organisational members to achieve the goals of the organisation abroad.

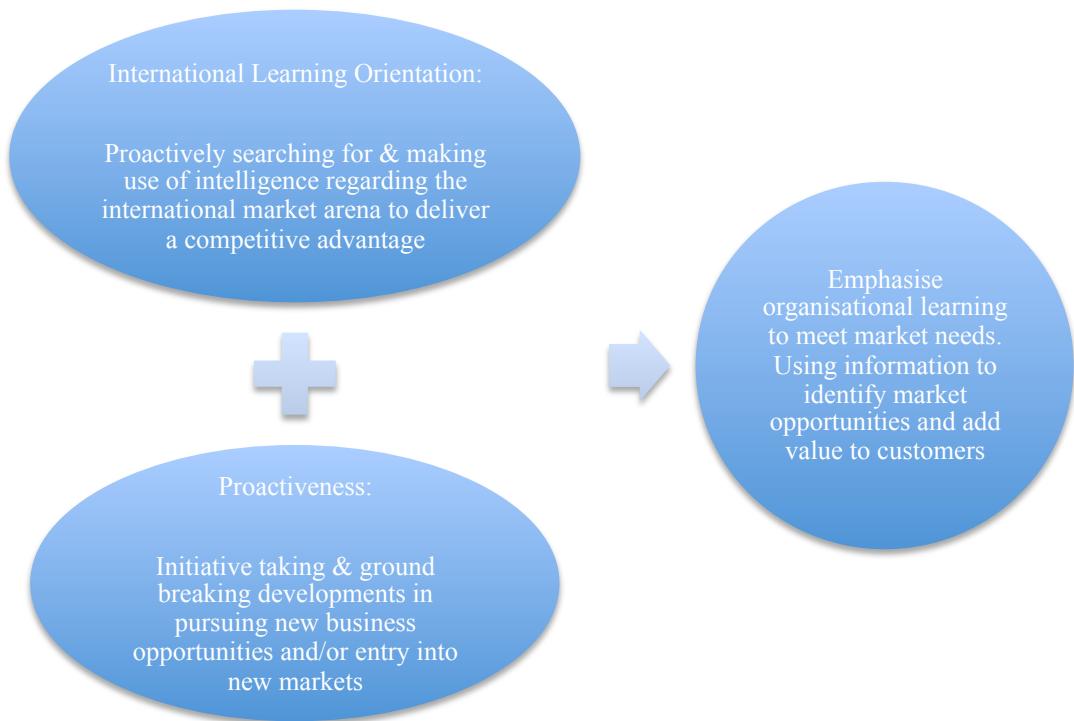
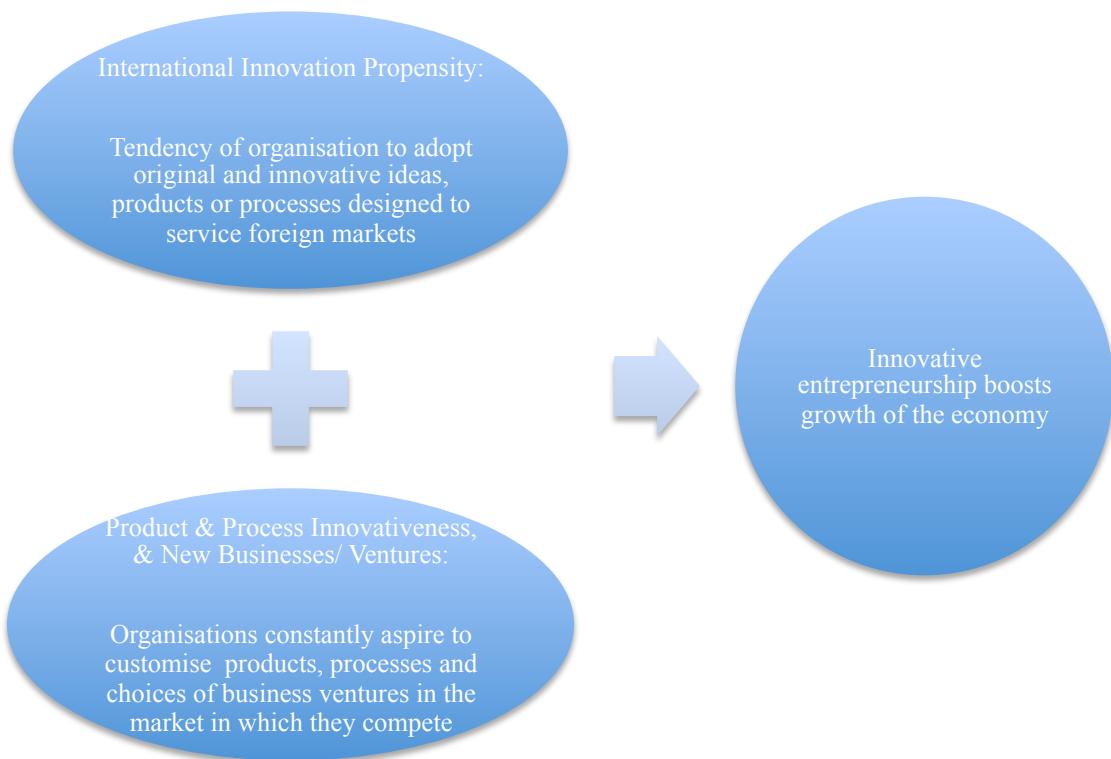
Motivation is a key feature of organisational culture in the organisation theory literature (Zhou, Tse & Li, 2006). Motivation can be tied to the notion of competitive aggressiveness found in the intrapreneurship literature. Competitive aggressiveness is a managerial temperament expressed in an organisation's eagerness and desire to overtake its competitors (Covin & Covin, 1990; Miller, 1987).

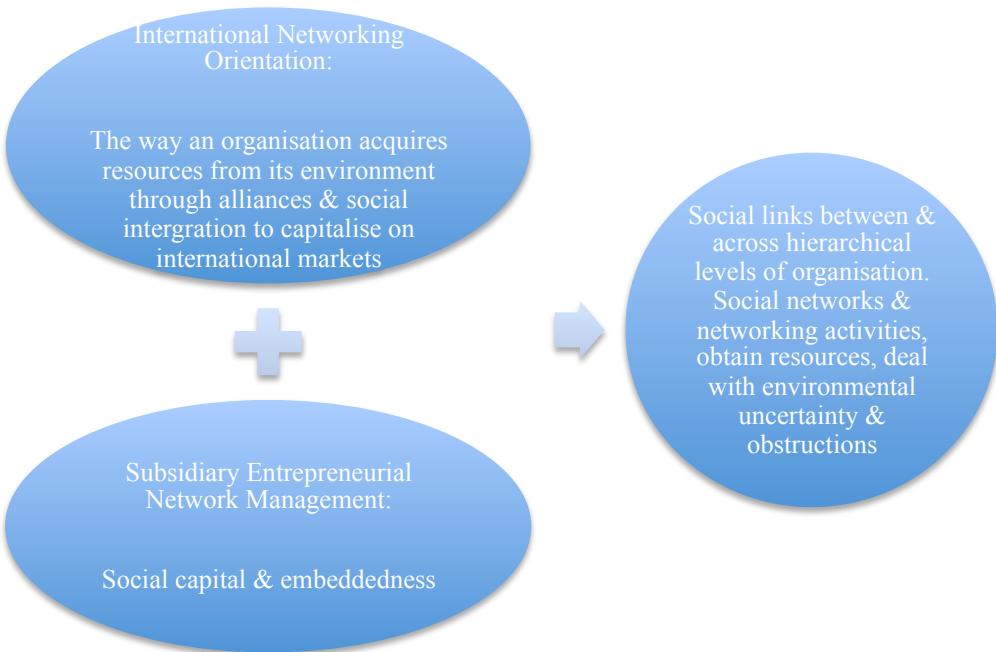
Organisational culture values and norms are foundations of motivation, pertaining to broad goals that present opportunities for action, and influence the initiation and direction of behaviour. This corresponds with the idea of self-renewal discussed in chapter 2. Self-renewal refers to the reformation of an organisation through the rejuvenation of the main philosophies on which the organisation is built (Guth & Ginsberg, 1990; Zahra, 1991; Sharma & Chrisman, 1999). Organisational culture affects the development and behaviour of its human capital (O'Reilly, 1989). Human capital is a vital resource that the organisation possesses and can use in order to acquire entrepreneurial prospects in foreign markets (Zahra & Dess, 2001).

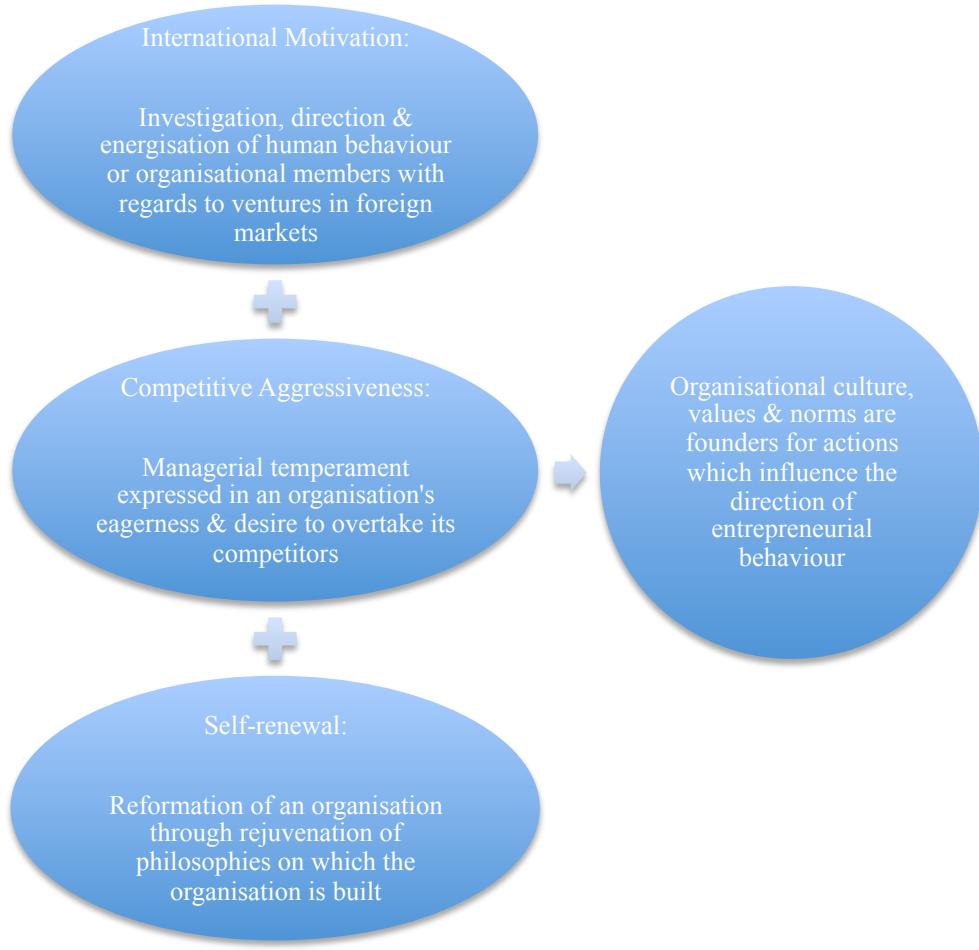
The literature on MNCs deals with the issue of how subsidiaries can contribute to entrepreneurial activities in MNCs (Birkinshaw, 1997, 2000), thus providing evidence on the direction and energisation stages of the international motivation dimension. Subsidiaries can implement their own subsidiary strategy (Prahalad & Doz, 1981) in an international organisational network (Ghoshal & Bartlett, 1990), where they may also serve as centers of excellence (Andersson & Forsgren, 2000).

Figure 4.2 presents an outline of the related dimensions in MNC subsidiary entrepreneurial culture, IEC and intrapreneurial culture. Figures 4.3 to 4.8 detail the related dimensions from MNC subsidiary entrepreneurial culture, IEC and intrapreneurial culture, as well as their relationships with one another. These dimensions form the framework that will be used to establish a set of characteristics of subsidiary entrepreneurial culture in a post-acquisition environment. Subsidiary autonomy is excluded from these, as it is not linked to any of the concepts featured below; however, it is a key theme in all entrepreneurial literature and shall be included in the final framework that is developed. The plus signs in the figures below indicate that two dimensions are linked, while the arrow represents how they are linked.

**Figure 4.2 Characteristics of subsidiary entrepreneurial culture****Figure 4.3 International market orientation and product innovativeness**

**Figure 4.4 International learning orientation and proactiveness****Figure 4.5 International innovation propensity, product and process innovativeness and new businesses/ ventures**

**Figure 4.6 International risk attitude and risk-taking****Figure 4.7 International networking orientation**



**Figure 4.8 International motivation, competitive aggressiveness and self-renewal**

#### 4.15 LINKING IE TO IEC

The figures represent an attempt to provide IE with a theoretical foundation. This attempt aims to give the IE construct increased conceptual coherence and acceptance, as entrepreneurship and international business researchers may be able to understand the IE construct more easily through the integrated conceptualisation of an IEC. This conceptualisation of an IEC offers advanced insights that researchers can consult when designing future studies in the field of IE.

Attention will now be shifted from IE to the concept of opportunity-based IEC. IE research should contain theory-driven, organisational-level aspects that capture the international behaviour of entrepreneurial organisations (Keupp & Gassmann; 2009). In support of this, Coviello and Jones (2004) propose that by integrating entrepreneurship and internationalisation models, it is possible to develop IE constructs and measures that are robust, valid and reliable. By drawing on numerous

literature streams, opportunity-based IEC aims to provide greater legitimacy to the international entrepreneurship field.

#### **4.16 MANAGERIAL IMPLICATIONS OF IEC**

The main managerial implication relates to features of organisational culture that managers of internationalised organisations have to develop in order to successfully pursue entrepreneurial ventures of an international nature (Keupp & Gassmann, 2009). Given the significance of international entrepreneurship for the international performance of the organisation, managers are encouraged to cultivate an IEC that assists the entrepreneurial activities of their international organisations. The desired organisational culture should nurture an international entrepreneurial orientation renowned by risk-taking, proactiveness and innovativeness; a market orientation that places the international customer's needs at the centre of the enterprise's activities and assembles competitor information abroad (Dimitratos *et al.*, 2012); a motivational structure that encourages employees to suggest idea and proposals for foreign developments and opportunities (Covin & Slevin, 1991); a learning orientation that successfully distributes and makes use of intellect amongst the internationalised organisation's subdivisions (Lumpkin & Dess, 1996); and an enthused networking approach that pursues combined manufacturing, research, advertising and marketing activities with both rival and supportive organisations globally (Coviello & Jones, 2004; Zhou *et al.*, 2006).

#### **4.17 SUMMARY**

In this subsection, the researcher explored and refined the concept of IE, and presented the relevant dimensions of IEC. IE is considered to be an organisation-wide process that is deeply embedded in the overall context of an organisational culture. In accordance with the need for expansion of the field of IE, and in light of the recent definitions put forward by McDougall and Oviatt (2000) and Zahra and George (2002), the conceptualisation of IE is seen to apply to any organisation, regardless of its age or size. The dynamic nature of IE is highlighted as a procedural phenomenon manifested in the dimensions of an IEC. IE takes time to evolve.

The aforementioned exploration of literature on IE and IEC came to two primary conclusions. Firstly, it became evident that research in the IE domain has to examine

the overall organisational context in which IE is present. Secondly, it is suggested that in order to encapsulate the IE phenomenon, researchers should make use of six dimensions rather than the original three-dimensional approach that previous studies employed (Dimitratos *et al.*, 2012).

This means that as a replacement for innovation, risk seeking, and proactive behaviour in international markets that studies previously used to measure IE, researchers should explore six dimensions of an IEC instead: international market orientation (Zhou *et al.*, 2006), international learning orientation (Moorman, 1995), international innovation propensity (Lemon & Sahota, 2004), international risk attitude (Reynolds, 1986), international networking orientation (Powell *et al.*, 1996), and international motivation (Zhou *et al.*, 2006) (Figure 4.1). These dimensions were introduced earlier in section 4.14 in the discussion of the literature relating to organisation theory, IE, entrepreneurship, and international business.

#### **4.18. CONCLUSION**

The purpose of this chapter was to broaden the reader's understanding of subsidiary entrepreneurial culture. Addressing the literature on multinational subsidiaries and IEC developed an understanding of entrepreneurship from a subsidiary perspective, and made clear the dynamics that exist amongst interorganisational networks post-acquisition. The chapter presented the MNC and MNC subsidiary literature, focusing closely on the subsidiary itself, its internal procedures and its relationship with the headquarter. An exploration of management's role inside the subsidiary highlighted the fact that subsidiaries should be understood as semi-autonomous units, where management has autonomy and decision making power.

The chapter then discussed IE and IEC, looking at their core dimensions and managerial implications. Within IE and IEC, the chapter addressed the network that exists amongst entrepreneurial subsidiaries, and the alliances that they create in order to overcome challenges such as resource constraints, as well as the creation of international new ventures, which generate sustainable competitive advantage when companies internationalise. This exploration provided an understanding of the internal interorganisational relationships and dynamics that exist amongst subsidiaries. This was important, as the objective of this study is to understand the entrepreneurial culture of a subsidiary in a post-acquisition environment.

The core dimensions of IEC, as well as the literature on subsidiary entrepreneurial network management, were then linked to the core dimensions of intrapreneurship which were discussed in chapter 2. Chapter 2 detailed eight dimensions of intrapreneurship. These dimensions complement corporate entrepreneurial culture. IEC and subsidiary entrepreneurial network management were included in order to provide a full characterisation of subsidiary entrepreneurial culture in a post-acquisition environment.

The following chapter details the methodology and research design that were adopted for this study. In addition, it presents the case studies that were undertaken.

## CHAPTER 5

### METHODOLOGY

The objective of this chapter is to explain the methodology employed in the empirical component of this study. It will account for the approach that was taken and clarify the mode of enquiry. The chapter will cover the planning, design and preparation of the case study that was undertaken, as well as the data collection and data analysis process. The chapter will begin with a brief description of Libstar (the parent company that was investigated) and a description of each of the five subsidiaries selected for this research.

#### 5.1 LIBSTAR

Libstar was founded in 2005 with the intention of building South Africa's first broad-based, black-controlled company in the fast moving consumer goods (FMCG) market (Libstar, 2013). It is a company with interests in enterprises that manufacture and distribute products in the food and beverage, household and personal care segments of the market. The group meets the needs of private label segments of larger retailers, manufactures its own branded products and products for brand owners, and has a role in the food service industry (Libstar, 2013).

The group operates nationally through more than 16 subsidiaries located in the Gauteng, Kwa-Zulu Natal, Western Cape, Eastern Cape and Mpumalanga provinces. Clients include all major retailers and wholesalers in the South African market: large brand houses like Unilever, Nestle and Tiger Brands; and food service players like McDonalds and KFC (Libstar, 2013). They operate through various channels in the market, including retail and wholesale trade channels, home and food service channels, and business-to-business channels, such as contract packing and ingredients, as well as exports.

The primary focus of Libstar is the acquisition of controlling equity stakes in existing businesses which demonstrate sound management and high growth potential. Libstar provides financial security, access to development capital, and high-level management input (Libstar, 2013). They value their employees, and develop them through skills, management and leadership programmes. They facilitate category

management with the objective of creating consumer, shopper and customer demand. Libstar places a strong emphasis on innovation.

Libstar operates a multitude of relationships with customers, employees, suppliers, partners and communities. Libstar is a company that recognises individuality, demands accountability, applauds ingenuity and inspires an ongoing culture of entrepreneurial spirit and inventiveness (Libstar, 2013). In their quest to achieve sustainable growth and enhanced value, Libstar's formula incorporates the implementation of corporate discipline and governance.

Libstar provides a strong foundation and support matrix for all of its partners through balance sheet restructuring, cross-funding opportunities, cost rationalisation, central administration, cash management, information technology, marketing functions, management support and expertise, and access to development capital (Libstar, 2013). In addition, group corporate branding and synergies, combined with strong leadership and its contact networks, create opportunities to grow sales channels both locally and internationally. Access to development capital and the opportunity to develop a diverse range of skills in their employees through leadership programmes enables Libstar to pursue these opportunities (Libstar, 2013).

### **5.1.1 The Libstar group**

Each of the subsidiaries operating under Libstar's umbrella started out as a small, self-funded enterprise before being acquired. For the purpose of this study, five of Libstar's subsidiaries have been chosen for analysis.

The selection of the five subsidiaries was made after discussions with André Naudé, Libstar's executive director. André Naudé is involved in both business and organisational development. He has accumulated a rich background in marketing and sales and has an incisive understanding of consumer and customer relationship marketing (Libstar, 2013). The five subsidiaries chosen for this study were Amaro Foods, Cape Herb and Spice, Lancewood, Montagu Foods, and Rialto Foods.

#### **Amaro Foods**

Amaro Foods produces an extensive range of bakery products for Woolworths, a

leading food, apparel and homeware retailer, in the Western and Eastern Cape in South Africa. They produce and supply bakery products, including soft rolls, a braai range, croissants, specialty breads, wraps and hot cross buns to Woolworths. The bakery's manufacturing facilities are based in Epping and Killarney Gardens in Cape Town. (Libstar, 2013).

### **Cape Herb & Spice**

Cape Herb & Spice procures, blends, packages and sells a wide range of innovatively packaged herbs and spices as private label and branded products to foreign and local retailers. The Cape Herb & Spice Company was founded in 1994 in Cape Town, a city whose mix of European, African and Asian culture has given it a rich culinary heritage. Today, the company continues Cape Town's tradition as a hub for the spice trade as it procures its spices from all four corners of the globe (Libstar, 2013).

### **Lancewood**

Lancewood manufactures an extensive range of cheddar, gouda, mozzarella, cream and cottage cheese, crème fraîche, yoghurt, dips, and whey powder under the Lancewood brand. They also produce private label products for retailers.

Founded in 1996, Lancewood's cheese and dairy products have earned an excellent reputation for superior quality and flavour. They have won numerous awards, both locally and internationally. Lancewood's state of the art manufacturing facility is strategically placed in George, South Africa; in close proximity to the local farms, ensuring milk is delivered with the minimum delay. They embrace a culture of innovation in order to continually meet the changing requirements of today's discerning consumers (Libstar, 2013).

### **Montagu Foods**

Montagu Foods produces and markets a wide range of wet condiments, including chutney, sweet chilli sauce and salad dressing under private label for all major retailers. Based in Montagu in the hot, dry fruit-growing region of the Little Karoo, Montagu Foods evolved from a well-established family farming business which concerned itself with the production of wine grapes, fruits for canning and dried fruit

on the farm “Little Oaks”. The company’s success is based on the sale of its premium quality South African chutneys (Libstar, 2013).

### **Rialto Foods**

Rialto Foods imports, packs and distributes value added food products, including specialist cheeses, meats, condiments, desserts, pastas, olive oils and canned fish, from a number of European (especially Italian) and Far Eastern food manufacturers, mainly for Woolworths. Rialto Foods became an importer and distributor of Italian products in response to an increase in the demand for wholesome, authentic, high-quality Italian foods in South Africa (Libstar, 2013).

In 2011, Rialto Foods acquired two other businesses, namely Taste of Japan and Truckles. Taste of Japan specialises in importing and distributing quality Asian food products from Japan, China, Thailand and Singapore to various retail, food service and manufacturing outlets in South Africa. Truckles sources, packs and distributes local and imported cheeses for the South African market (Libstar, 2013).

## **5.2 RESEARCH DESIGN AND METHODOLOGY**

### **5.2.1 Research objectives**

This chapter will discuss the methodology and research design that were adopted in this study. Before doing so, however, it is necessary that the research objectives from chapter 1 be revisited so as to highlight the significance of the chosen methodology and research design. The objectives consist of a primary research objective, as well as a few secondary research objectives. These are laid out below.

#### **Primary research objective**

- Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment.

#### **Secondary research objectives**

- Determine whether the entrepreneurial locus of control lies with the headquarters, with its subsidiaries or jointly.

- Determine the influence of the acquisition on each subsidiary.
- Develop a framework of characteristics of subsidiary entrepreneurial culture, which include the necessary locus of control as well as the relevant support structures, in a post-acquisition environment.

### 5.2.2 Research design

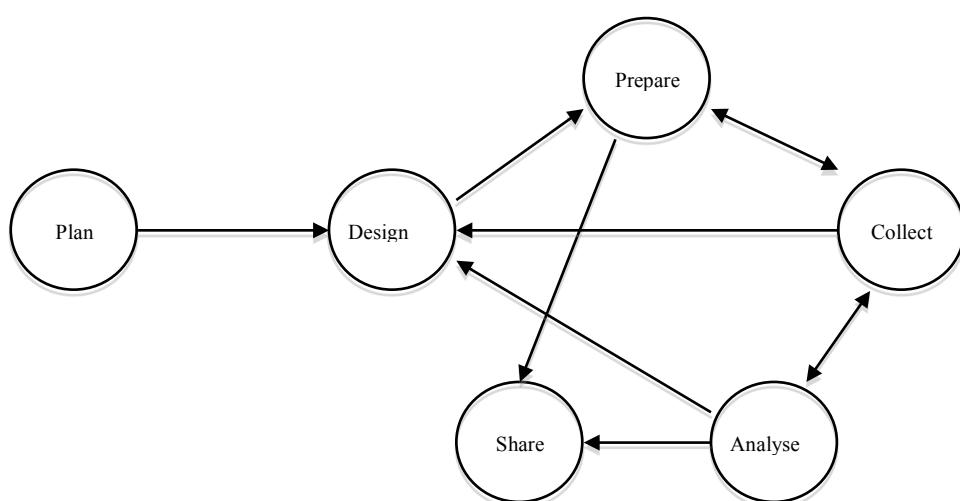
Due to the exploratory nature of this study, a qualitative approach was adopted, and a case study methodology was employed as the primary means of data collection. Empirical qualitative methods proved to be the best way to achieve this goal. Qualitative methods allow flexibility to follow unexpected ideas during the research process, which might not have fit into a pre-determined model (Yin, 2009). Qualitative methods also allow the researcher to be sensitive to contextual factors, which ended up being a very important input to the findings. The main reason for choosing qualitative research therefore lies in the freedom and flexibility it offers to explore new ideas and theories, as opposed to the rigidity of quantitative methods (Yin, 2009).

Since subsidiary entrepreneurial culture is essentially a social phenomenon concerning issues related to culture and meaning, the case study method seemed to be the most appropriate, as this study required exploratory research methods. The case study method was also appropriate given the limited amount of empirical work that has been conducted on subsidiary entrepreneurship (Boojihawon *et al.*, 2007). The case study approach was helpful in developing a detailed understanding of the issue of subsidiary entrepreneurial culture, while also providing the freedom to explore insights that might have emerged during the data collection process (Yin, 1994). Table 5.1 provides a brief summary of the methodological components of this study.

**Table 5.1 Primary research design**

<b>1.</b>	<b>Research design</b>	Case study
<b>2.</b>	<b>Type of case study</b>	Multiple-embedded interpretive case study
<b>3.</b>	<b>Research strategy</b>	Exploratory
<b>4.</b>	<b>Approach</b>	Qualitative
<b>5.</b>	<b>Time dimension</b>	Cross-sectional
<b>6.</b>	<b>Sampling</b>	Non-Probability; Purposive
<b>7.</b>	<b>Data collection</b>	Semi-structured interviews
<b>8.</b>	<b>Data analysis</b>	Content Analysis
<b>9.</b>	<b>Reporting</b>	Interpretive text with diagrams and figures

Robert, K. Yin's (2009) book *Case study research design and methods* was consulted when establishing the research design and methodology to be used in this study. His work is seen as a benchmark in the field and the structure of case study research. Figure 5.1 presents Yin's (2009) case study process.

**Figure 5.1: The Case Study Process (Yin, 2009)**

### 5.2.3 Planning the case study

According to Yin (2009: 8), the choice of research strategy depends on three key considerations. These include the type of research question posed, the degree of control that the investigator has over behavioral events, and whether the focus of the study is on contemporary or historical events.

This subsection of chapter 5 explains the researcher's rationale for selecting the case study approach.

A case study is a process whereby one or more cases is studied in depth using the appropriate methods. In this instance, the researcher adopted a multiple case study approach. The general objective of this kind of research is to develop as full an understanding of a case as possible (Silverman, 2010: 139). Research methods commonly employed in case studies include experiments, surveys and histories or analyses of archival records (Yin, 2009: 5). These methods offer different ways of collecting and analysing empirical data, and each follows its own exploratory logic.

Case study research allows the researcher to retain the holistic and meaningful characteristics of real life events, such as individual life cycles, organisational and managerial processes, international relations and the maturation of industries (Yin, 2009: 9). It is able to explain the causal links in real life intervention that are too complex for surveys or experimental strategies to capture. Furthermore, the case study approach covers contemporary issues where control over behavioural issues is not possible. Using a case study method, the researcher was able to analyse and observe the causal links that exist in organisational and managerial processes while maintaining her distance, as control over behavioural issues is not possible.

Since few studies have investigated subsidiary entrepreneurship, an exploratory strategy was appropriate for the present study. Exploratory studies seek to explore what is happening and thus ask questions about it (Gray, 2009: 36). These studies can be useful when not enough is known about a particular phenomenon.

As stated in the beginning of section 5.2.2, this study involved a qualitative method of data collection. Qualitative and quantitative research methods are not simply different ways of doing the same thing; instead, these methods have different strengths and

logics, and are often used to address different kinds of questions and goals. Qualitative research derives its strengths primarily from its inductive approach, its focus on specific situations or people, and its emphasis on words rather than numbers (Maxwell, 2005: 22). Subsidiary entrepreneurial culture is a phenomenon that concerns complex human behaviour and ideas, not stable scientific objects. As such, it was necessary to conduct interviews with an extended sample to reduce the possible skew.

#### **5.2.4 Designing the case study**

Research design is the logic that links the data to be collected and the conclusions to be drawn to the initial questions of the study (Yin, 2009: 24). It helps guide the researcher in the process of collecting, analysing, and interpreting data (Frankfort-Nachmias & Nachmias, 1992: 77).

According to Cooper and Schindler (2008: 724), a research design is the blueprint for fulfilling research objectives and answering questions. Two types of research can be utilised to fulfill research objectives, namely secondary research and primary research. Secondary research is that which has been undertaken by another researcher prior to the investigation in question. It involves “interpretations of primary data generally without new research” (Cooper & Schindler, 2008: 725), whilst primary research are “original works of research or raw data without interpretation” (Cooper & Schindler, 2008: 722). In this study, both secondary research and primary research were drawn upon.

##### **5.2.4.1 Secondary research**

Secondary research was particularly valuable in the beginning stages of the study as it expanded the researcher’s understanding of the topic at hand and helped the researcher clarify the research questions and research focus. A literature search was conducted using several academic books, journals and articles from the University of Stellenbosch’s online databases. All of these secondary sources contributed significantly to the final body of research.

The broad databases of information contributed to a thorough understanding of the relevant constructs. This provided the researcher with the opportunity to compose and

build a well-developed, all-encompassing theoretical framework. However, the interpretations that were made from this research are broad and not specific to this particular case. Primary research was therefore required in order to obtain data to reach the research objectives.

#### **5.2.4.2 Primary research**

Primary research is the most dependable source of information as it has not yet been filtered or interpreted by a second party (Blumberg, Cooper & Schindler, 2008). Primary research aims to ensure that all data collected will address the stated objectives, while ensuring the validity and reliability of that data. This will in turn influence the value of the study's final results and recommendations.

A primary distinction in designing case studies is between single and multiple case study designs (Yin, 2009: 47). Prior to any data collection, a decision should be made as to whether a single case or multiple cases will be used to address the research question.

The “case” for this study consisted of the characteristics of subsidiary entrepreneurial culture in the post-acquisition environment, specifically that inhabited by the subsidiaries of Libstar. The study examined a holistic, multiple case design with an analysis of the characteristics of subsidiary entrepreneurial culture. Libstar was chosen for this particular study as their business model and the business models of their subsidiaries complemented that of the researcher’s study objectives. These employers and employees have extensive entrepreneurial experience, coupled with a strong entrepreneurial spirit, which enabled them to contribute successfully to the empirical part of this research.

The empirical component of this study involved an investigation into the key characteristics of subsidiary entrepreneurial culture; namely new businesses/ventures, product innovativeness, process innovativeness, self-renewal, risk-taking, proactiveness, competitive aggressiveness, subsidiary entrepreneurial network management, and subsidiary autonomy. This list of characteristics was formed from the extensive secondary research presented in the previous chapters.

### 5.2.5 Preparation for the case study

The specific need for protecting human subjects comes from the fact that nearly all case studies are about contemporary human affairs, and therefore there is a need to acquire formal approval for the case plan (Yin, 2009: 73). As part of this protection, the case study investigator was responsible for conducting the study with special care and sensitivity that went beyond the research design and other technical considerations (Yin, 2009:73). Yin (2009:73) suggests that this care usually involves the following two requirements:

- (i) Gaining informed consent from all persons who may be part of the study. In this study, André Naudé, the executive director of Libstar, made an oral agreement with the selected subsidiaries and their participants that they would participate voluntarily. André Naudé then sent a formal email to each of the participants explaining what the case study procedure would entail, as well as the researcher's intentions and objectives of conducting the research at their respective companies. No participants were forced to participate. A copy of this email is provided in Appendix A.
- (ii) Protecting participants from any harm or negative consequences. Anonymity was ensured and confidentiality was protected by complying with the confidentiality protocol of the University of Stellenbosch. Any information that was obtained in connection with this study and that could be identified with the participants will remain confidential and will be disclosed only with the participant's permission or as required by law. Consent was given by all participants for interviews to be recorded for the purpose of analysis. Participants were given the right to review the recording once their interview was finished, if requested. All recordings were deleted and destroyed after the research was completed and the researcher's supervisors were satisfied.

### 5.2.6 Sampling process

The sampling process involves the target population, sampling technique and the unit of analysis for the study. In order for the representativeness of the sample to be sufficient it was essential that the researcher executed each step accurately. This, in turn, influenced the validity and the reliability of the results (Blumberg *et al.*, 2011: 172).

### **5.2.6.1 Target population**

The target population for this study was Libstar's sixteen subsidiaries. Due to the qualitative nature of this case study, the population and the sample of the study were smaller than they would be if it were a quantitative study.

### **5.2.6.2 Sampling technique**

The non-probability technique of purposive sampling was made use of when selecting the five subsidiaries for this study. Non-probability sampling makes the assumption that there is an even distribution of characteristics within the population in question. According to Cooper and Schindler (2008: 725), sampling is “the process of selecting some elements from a population to represent that population”. This makes it reasonable to believe that any sample would be representative, and because of that, that results will be accurate. Making a selection of the five subsidiaries was therefore based on the fact that they presented a representative sample of the entire Libstar Group, with all subsidiaries having started out as privately owned enterprises and all competing in the private label food and beverage industry. Non-probability sampling methods can be useful when descriptive comments about the sample itself are desired. They are efficient, inexpensive and convenient (Blumberg *et al.*, 2011: 172). This was particularly useful, as the researcher’s aim was to analyse the way in which each subsidiary interpreted the phenomenon of subsidiary entrepreneurial culture and which characteristics they perceived to be important.

Purposive sampling, otherwise known as judgment or authoritative sampling, is a type of non-probability sampling technique. It is used when a sample is compiled based on certain judgments that are made about the overall population. The underlying assumption is that the researcher will select units that are characteristic of the population. An advantage of probability sampling is the reduced cost and time involved in acquiring the sample. André, the executive director of Libstar, helped with the selection of the relevant subsidiaries, taking into consideration time and financial constraints.

### **5.2.6.3 Sample size**

The size of the sample for this particular study included five of Libstar’s sixteen

subsidiaries competing in the foods and beverage private label industry. As stated in section 5.2.6.2 above, this was due to the scope of the study and the time constraints placed upon the researcher. There were two interviewees (the original entrepreneurs from each company, as well as a middle manager) interviewed from each subsidiary. This allowed the researcher to remain within the capacity of the study, while gaining two different opinions and perspectives from interviewees at different management levels in the organisation; thereby creating triangulation of data within the subsidiaries themselves. When investigating personal experience through the use of interviews, a small sample size is much more effective (Crouch and McKenzie, 2006).

### **5.2.7 The pilot case study**

A pilot test was designed and run on André Naudé from Libstar once the researcher had developed and confirmed the interview guide. Since André Naudé selected the subsidiaries for this study and supported the research question at hand, he was able to provide the necessary input regarding the validity of the interview guide and prompts. This helped to ensure that the questions were clear, understandable and not overly technical. The result of the pilot test indicated whether any questions needed to be changed, re-phrased and reworded, or excluded entirely. The final interview guide looks very similar to the researcher's initial draft, with a few additions made to the necessary prompts so as to extract the information more easily while avoiding confusion and ambiguity. The interview guide is attached for further reference (see Appendix B).

### **5.2.8 The measuring instrument**

An interview guide with open-ended questions was developed by the researcher. The interview guide was administered to each participant during an in-depth, semi-structured interview. The interviews were the primary instrument used to explore issues, events, emotions, knowledge and experiences around the matters of interest. As stated above, these interviews were semi-structured, yet non-directive. This approach was helpful in developing a detailed, first-hand conceptualisation of subsidiary entrepreneurial culture; while also providing the flexibility to investigate any key concepts or ideas that may have transformed or emerged during the data collection process (Yin, 1994).

Led by the interview guide, a senior manager (the original entrepreneur from each company) as well as a middle manager from each subsidiary discussed issues regarding the different areas and characteristics of subsidiary entrepreneurial culture derived from the theoretical frameworks discussed in chapters 2 and 4. These were the key dimensions of intrapreneurship from chapter 2 (new businesses/ventures, product innovativeness, process innovativeness, self-renewal, risk-taking, proactiveness, and competitive aggressiveness), as well as those characteristics borrowed and adapted from the multinational subsidiary entrepreneurial culture literature (subsidiary entrepreneurial network management and subsidiary autonomy), as well as the international entrepreneurial culture literature discussed in chapter 4. For each of these themes, a series of open-ended questions was introduced, followed by the necessary prompts. Each interview took roughly one hour. The interviews were recorded, transcribed and annotated with additional notes made during the discussions. Before the research instrument was designed, each research objective was addressed as its own entity so as to ensure comprehensiveness.

In order for the primary objective (“Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment”) to be met, the researcher asked questions pertaining to (a) the nine characteristics that were selected from the secondary research on intrapreneurship from chapter 2; (b) the multinational subsidiary literature from chapter 4; and (c) the international entrepreneurship literature. These dimensions were used to create an inclusive framework of characteristics of subsidiary entrepreneurial culture so as to help determine an outcome for this objective. The researcher was expected to be rigorous when selecting these characteristics in order to create the beginnings of a valid theoretical framework for future managerial use.

Due to the fact that the questions needed to be unbiased, the researcher had to ensure that the key words used in each question were non-directive, and that the questions themselves were derived from valid theory. It was essential that questions were kept short and precise without any room for ambiguity. This was done in order to elicit the necessary information and answers from the interviewees.

Hill’s (2003) questionnaire was consulted for guidance during this process. This questionnaire was used as a starting point, as it helped the researcher grasp what kinds

of questions and prompts should be used so as to extract the relevant information from the interviewee.

A number of questions and prompts were designed by the researcher in order to address the secondary objectives. The first of these objectives (“Determine whether the entrepreneurial locus of control lies with the headquarters, with its subsidiaries or jointly”) was addressed by the researcher posing a question to the interviewee, followed by two prompts relating to subsidiary autonomy. Thereafter, the interviewee was asked to plot on a graph which quadrant he or she believed his/her subsidiary to lie in. The graph was borrowed and adapted from Boojihawon *et al.* (2007).

The different quadrants can be understood as follows (Boojihawon *et al.*, 2007):

(i) Limited or no entrepreneurship: Minimal entrepreneurial activity undertaken by the subsidiary or the headquarters.

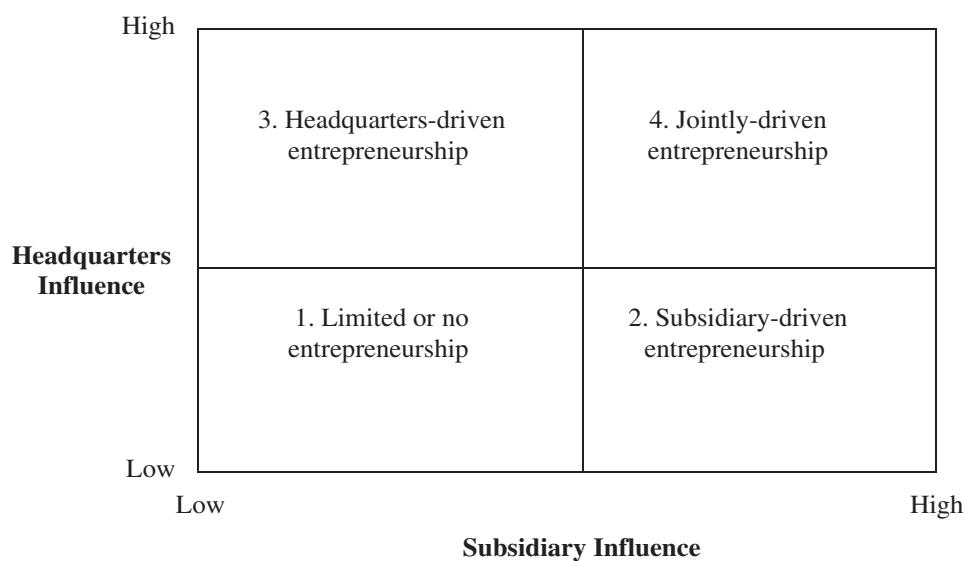
(ii) Subsidiary- driven entrepreneurship: The subsidiary promotes its own vision, identity and strategic focus, while broadly identifying with the headquarters’ vision. The entrepreneurial orientation (innovativeness, proactiveness, risk-taking) of the subsidiary is initiated, built and continuously reinvigorated by the subsidiary itself. The subsidiary is largely autonomous and maintains strategic control of its ventures. Assistance and strategic support should be provided to the subsidiaries, by the headquarters when required.

(iii) Headquarters-driven entrepreneurship: The headquarters defines the vision and strategic orientation of the subsidiary. It is the role of the subsidiary to achieve consistency with the headquarters’ vision and the company’s strategy. The entrepreneurial orientation of the subsidiary is defined by the headquarters’ philosophy and orientation. The headquarters’ presence is a key consideration when developing new ideas and guiding the strategic orientation of the subsidiary. There is regular intervention from the headquarters onto subsidiary management to maintain strategic control over projects. As such, subsidiary autonomy is limited.

(iv) Jointly-driven entrepreneurship: The vision, identity and strategic focus of the subsidiary is a shared corporate vision, yet each subsidiary promotes its own business development. The entrepreneurial orientation of the subsidiary is shared between the

subsidiary and the headquarters. Furthermore, there is shared autonomy, coordination and control of strategic ventures. There is generally a central control of creative work and expertise.

Figure 5.2 below represents the different entrepreneurial loci of control.



**Figure 5.2: Locus of control (Boojihawon *et al.*, 2007)**

In order for the researcher to determine the influence of the acquisition on each subsidiary, the closing question of the interview guide was a direct question asking “What has been the biggest change that your company has experienced since being acquired by Libstar?”

Finally, it was necessary to use the data post-analysis to develop a framework of characteristics of subsidiary entrepreneurial culture in a post acquisition environment, which include the necessary locus of control as well as the relevant support structures.

### 5.2.9 Data collection

The data collection process influences the reliability and validity of the data, conclusions and future recommendations (Blumberg *et al.*, 2011). When adopting a case study methodology, the researcher has the advantage of being able to use multiple information sources. If a researcher can show that multiple sources of information all come to the same conclusion, the validity and reliability of the study

increases. This method is called triangulation (Blumberg *et al.*, 2011). The case study method was suitable for this particular research given the limited amount of empirical work that exists on subsidiary entrepreneurship. This approach was helpful when developing a detailed understanding of the investigated issue of subsidiary entrepreneurial culture in a post-acquisition environment (Yin, 1994).

The data collection method used in this study was semi-structured interviews with a top manager (the original entrepreneur) and a middle manager from each subsidiary, as indicated in the sampling process. Interviewing two individuals from each of the five subsidiaries produced triangulation of data. During the data analysis process, data saturation was created. The information reached a point of saturation whereby interviewing additional participants would be repetitious. As such, the researcher was able to prove that the multiple sources all came to the same conclusions.

### **5.2.10 Data analysis**

According to Cooper and Schindler (2008), data analysis is the “process of editing and reducing accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques”. Qualitative data analysis is commonly used in case studies. Each step in the analysis of the data must be written up and accounted for. This way the reader can follow each step, which also influences the reliability and validity of the results.

The data for this study were analysed by means of content analysis. The tool that was used for the analysis was ATLAS.ti. ATLAS.ti is a computer program designed for the efficient analysis of both qualitative and quantitative data. However, it is based on grounded theory, therefore shifting its focus mainly towards qualitative analyses (Atlas, 2013). It helps researchers analyse unstructured data such as text by compressing this data into themes based on interpretation. ATLAS.ti provides a set of tools to help interpret, organise and analyse text as data (Atlas, 2013). ATLAS.ti can produce simple word counts from a set of documents.

ATLAS.ti consolidates large volumes of documents and keeps track of all notes, explanations, codes and memos. Thereafter, it has the facility to generate and provide analytical and visualisation tools designed to invite new interpretative views on the material (Atlas, 2013). “The purpose of ATLAS.ti is to help researchers uncover and

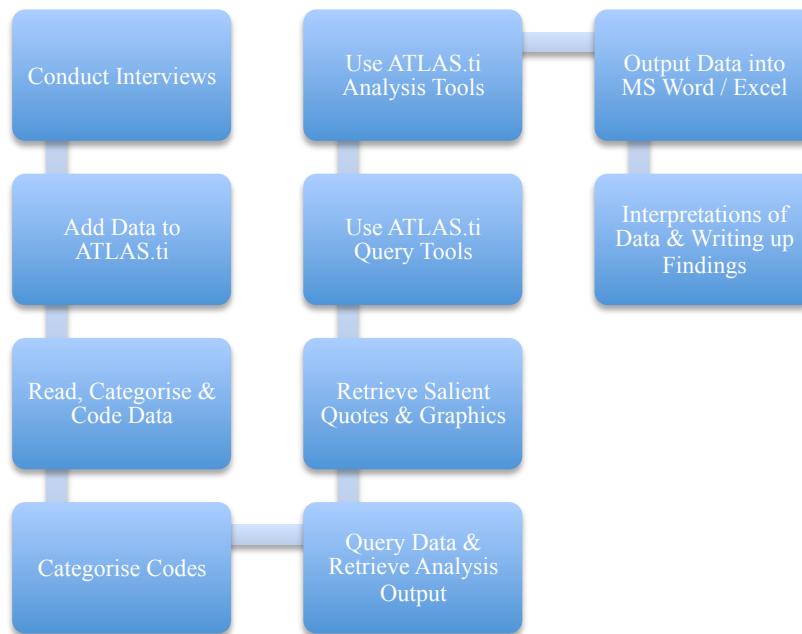
systematically analyse complex phenomena hidden in unstructured data" (Atlas, 2013). The program provides tools that help the user situate, code and interpret the findings of the primary data, to evaluate their relevance, and to envision the relations between them (Atlas, 2013).

Transcribing the data that have been collected helps the researcher ensure that all the necessary details from the interviews are captured for further analysis. After the data has been transcribed, it must be coded. This helps to reduce the many individual responses into a smaller set of general themes and groupings (Zikmund & Babin, 2010: 490). These groupings create categories, which make the data more controllable.

Once these themes have been identified, the researcher has the ability to count the frequency with which they occur. ATLAS.ti aids with the identification and counting of these recurring themes. The data then has to be reassembled in order to make valid conclusions (Boeije, 2012). The theoretical framework that the researcher devised was revisited during this process in order to determine how the characteristics that surfaced from the data corresponded to the characteristics of the researcher's theoretical framework. The end result of this process of content analysis included an integrative explanation that served as a detailed view of the phenomenon that was studied.

The data analysis procedure and results will be addressed in chapter 6.

Figure 5.3 below presents an overview of the process, which was used to analyse the data from the interviews, which was carried out using ATLAS.ti.



**Figure 5.3 Overview of the data analysis process using ATLAS.ti**

### 5.3 PROCEDURES TO ENSURE THE QUALITY OF THE CASE STUDY

According to Yin (2009: 40), it is possible to determine the quality of any given research design based on a series of logical tests. Four tests have commonly been used in empirical research to determine the quality of research design. These are: construct validity, internal validity, external validity and reliability (Yin, 2009: 40). Table 5.2 below provides a brief overview of each test and suggests during which phase each tactic should be used.

**Table 5.2: Case study tactics for four design tests (Yin, 2009)**

Test	Case study tactics	Phase of research during which tactic is used
<b>Construct validity</b>	<ul style="list-style-type: none"> <li>• Use multiple sources of evidence</li> <li>• Establish chain of evidence</li> <li>• Have key informants review draft case study report</li> </ul>	<ul style="list-style-type: none"> <li>• Data collection</li> <li>• Data collection</li> <li>• Composition</li> </ul>
<b>Internal validity</b>	<ul style="list-style-type: none"> <li>• Do pattern-matching</li> <li>• Do explanation building</li> </ul>	<ul style="list-style-type: none"> <li>• Data analysis</li> <li>• Data analysis</li> </ul>

	<ul style="list-style-type: none"> <li>• Do time-series analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Data analysis</li> </ul>
<b>External validity</b>	<ul style="list-style-type: none"> <li>• Use replication logic in multiple-case studies</li> </ul>	<ul style="list-style-type: none"> <li>• Research design</li> </ul>
<b>Reliability</b>	<ul style="list-style-type: none"> <li>• Use case study protocol</li> <li>• Develop case study database</li> </ul>	<ul style="list-style-type: none"> <li>• Data collection</li> <li>• Data collection</li> </ul>

### 5.3.1 The Four Tests

#### 5.3.1.1 Validity

Construct validity incorporates multiple sources of evidence. In this particular instance, the researcher did a case study on five different organisations, thus increasing the pool of evidence and creating triangulation of the data (Yin, 2009: 41). The second test of validity is referred to as internal validity. Yin (2009: 42) states that internal validity is only relevant in causal or explanatory studies, in which the investigator is trying to determine whether one event led to another event. Since the nature of this study deals with exploratory issues, internal validity is not applicable here.

External validity reflects the extent to which the findings that result from a study are generalisable beyond the immediate case (Yin, 2009: 43). Scholfield (2002: 173) states that “the heart of external validity is replicability”. The question is whether or not the results obtained in one study would be reproducible in those target instances to which one intends to generalise. These target instances could be different populations, situations, times, measures, study designs or procedures (Scholfield, 2002: 173). After conducting the case study research, the researcher created a framework for subsidiary entrepreneurial culture in a post-acquisition environment. By creating this framework, the researcher is suggesting that other studies could replicate such research using a similar target group and could map their research onto this framework. Analytical generalisation is used as a template to test the results of the case study against some previously developed theory (Yin, 2009). If two or more cases support the same theory, then replication can be claimed. This type of generalisation is known as Level Two Inference (Yin, 2009: 44).

### 5.3.1.2 Reliability

The objective of this test is to ensure that if a later investigator were to conduct the same case study in a similar environment, he or she should arrive at the same findings and conclusions. “The goal of reliability is to minimise the errors and biases in a study” (Yin, 2009: 45). This study aimed to ensure that any form of bias was excluded by formulating an interview guide that was objective and transparent, while being replicable at the same time. A prerequisite for allowing future researchers to repeat a study is the documentation of the procedures that have been followed. One method of improving the reliability of case studies is to generate a case study protocol (Yin, 2009: 45).

Newman & Benz (1998: 39) state that if validity is established, reliability is implicit; but that it is possible to have reliability without validity. The basic assumption behind reliability is that it either supports or improves validity. Reliability therefore reflects consistency (Newman & Benz, 1998: 39). Validity refers to the extent to which a study or a set of instruments measure what they are supposed to measure, while reliability estimates may indicate whether the outcomes will remain stable over time or whether these outcomes are consistent among independent observers (Newman & Benz, 1998: 41).

## 5.4 CONCLUSION

The chapter began with a description of Libstar and each of the study’s chosen subsidiaries. Due to the exploratory nature of this study, a qualitative approach was adopted, and a case study methodology was employed as the primary means of data collection. The research objectives were outlined and the reasons for the selection of a case study approach were provided. Yin’s (2009) case study process was adopted as the research design. This process included planning the case study and the research design, conducting the sampling process, developing the research instrument, collecting the data, analysing the data, and the sharing of the results. The chapter ends with a discussion on the procedures put in place to ensure the quality of the case study. This included construct validity, internal validity, external validity and reliability. The following chapter will address the data analysis process, and address each of the study’s objectives.

## CHAPTER SIX

### FINDINGS

#### 6.1 INTRODUCTION

This chapter presents the findings of the empirical investigation based on the primary and secondary research that has been conducted. The chapter discusses a review of the sample profile used for this study. The subsidiaries that were involved in the study are discussed, and a brief overview of the participants is provided. Thereafter, each objective is discussed in relation to the themes according to which it was addressed. Within each theme, separate categories and subcategories emerged during the data analysis process. The empirical findings are further substantiated with supporting literature that was presented in chapters 2 and 4 of this study. The chapter concludes with the presentation of a framework developed for managers to use as guideline in the acquisition integration process.

#### 6.2 SAMPLE PROFILE

The following section provides a brief profile of each sampling unit that was interviewed for this study.

Libstar was founded in 2005. It is a company with interests in enterprises that manufacture and distribute products in the food and beverage, household and personal care segments of the market. The group concentrates on supplying the needs of private-label segments of larger retailers, the manufacturing of products for brand owners as well as its own branded products, and the food service industry (Libstar, 2013). Libstar's primary focus is the acquisition of controlling equity stakes in existing businesses, which demonstrate sound management and high growth potential. Libstar provides financial security, access to development capital, and high-level management input (Libstar, 2013).

For the purpose of this study, five of Libstar's subsidiaries were chosen for analysis. The five subsidiaries chosen for this study were Rialto Foods, Lancewood, Cape Herb and Spice, Montagu Foods, and Amaro Bakery.

Rialto Foods imports, packs and distributes value-added food products from a number

of European and Far Eastern food manufacturers. Rialto Foods' primary customer is Woolworths. Two interviews were conducted at their Head Office in Montague Gardens in Cape Town; one with the Chief Executive Officer (CEO) and one with the Operations Director.

Lancewood manufactures an extensive range of cheeses and dips, as well as whey powder products, under the Lancewood brand and as private-label products for retailers. One joint interview took place at their Sales Office in Plattekloof in Cape Town, with the CEO and the Financial Manager.

Cape Herb & Spice produces a wide range of herbs and spices as private-label and branded products to foreign and local retailers. Two interviews were conducted at their head office in Westlake in Cape Town; one with the Product Development Director and one with the CEO.

Montagu Foods produces and markets a wide range of wet condiments under private label for all major retailers. Two interviews were conducted at Libstar's office in Plattekloof, Cape Town; one with the Managing Director (MD) and one with the Operations Manager.

Amaro Foods produces an extensive range of bakery products for Woolworths in the Western Cape and Eastern Cape in South Africa. Two interviews took place at the bakery's manufacturing facilities in Epping in Cape Town; one with the MD and one with the Chief Financial Officer (CFO).

### **6.3 FINDINGS**

A key objective of this study was to explore the characteristics of subsidiary entrepreneurial culture in a post-acquisition environment. This section of the chapter presents the key findings from the semi-structured interviews held with the ten aforementioned interviewees from the five different subsidiaries of the Libstar Group. The names of each subsidiary have been revealed in the findings. However, the researcher assigned a number (1-10) to the names of each respondent for the sake of anonymity. All interviews were recorded and transcribed verbatim. ATLAS.ti was used to examine the data from the interviews. ATLAS.ti is a qualitative data analysis software package that is used as a data management and analysis tool.

The findings are presented according to each specific objective, as laid out by the interview guide (see Appendix B). Each finding is described in detail and broken down into the various themes, categories and subcategories that emerged from the data obtained during the interviews. Where relevant, direct quotes from the participants are used to clarify the results and literature is provided to supplement the findings. The final product is a framework drawn up from the primary and secondary research gathered throughout this study.

The tables presented under each theme below represent an overview of the research objectives of this study, as well as the different themes and categories that were employed in order to determine the objectives. These tables also include the subcategories which emerged in relation to the relevant themes and categories. Each category represents a question or prompt presented to the interviewee, and each subcategory represents the outcomes that emerged from different interviewees' responses.

The remainder of this chapter will address each research objective and their respective questions accordingly.

### **6.3.1. Findings specific to objective 1**

This section presents the study's findings in relation to objective 1.

#### **Objective 1:**

Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment.

##### **6.3.1.1 Entrepreneurial organisation**

In order to address the primary objective of this study, it was necessary to determine whether the interviewees considered their subsidiaries to be entrepreneurial after the acquisition and its effects. It was also important to recognise each respondent's understanding of subsidiary entrepreneurship. This was a vital consideration, as many subsidiaries' knowledge of what constitutes entrepreneurial culture is unclear.

Furthermore, which key characteristics constitute subsidiary entrepreneurial culture in a post-acquisition environment remains unclear as well. In order to gauge the

interviewees' understanding of subsidiary entrepreneurship, an introductory question was required for the interview guide. Table 6.1 below presents the entrepreneurial characteristics that were identified by the interviewees as being present in their organisations post-acquisition. Furthermore, Table 6.1 summarises the positive and negative contribution of the headquarters in relation to theme 1: entrepreneurial organisation.

**Table 6.1: Overview of objective 1, theme 1: Entrepreneurial organisation and the respective categories and subcategories which emerged**

Objective	Questions & probes as per interview guide	Interview data	
	Themes	Categories	Subcategories
	Questions	(deduced from interview data)	
1. Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment	<b>1. Entrepreneurial Organisation</b> <ul style="list-style-type: none"> <li>• <i>You were labelled as an entrepreneurial company pre-acquisition.</i></li> <li>• <i>Why would you label yourself as an entrepreneurial company? Are there any specific characteristics of your entrepreneurial culture present post-acquisition?</i></li> </ul>	1.1 Entrepreneurial characteristics still present post-acquisition 1.2 Libstar's positive contribution 1.3 Libstar's negative contribution	Quick decision-making Small in size Driven for success Risk taking Innovation Autonomous Structure Systems & procedures Lack of vested interested Time consuming

Table 6.2 below illustrates that almost all of the interviewees confirmed that the acquisition had not changed the entrepreneurial nature of their company. The respondents were positive about their entrepreneurial posture, and expressed that their businesses continued to be run as independent entities, and that business is conducted in much the same way as it was prior to the acquisition.

**Table 6.2: Responses to whether the company is still entrepreneurial**

<b>Objective 1, Theme 1, Category 1.1</b>
<b>Respondent 1:</b> "We still run it like an entrepreneurial company. I still see the company as my own."
<b>Respondent 2:</b> "Entrepreneurship to us is trading. It's always looking to buy and sell more products. That has always been a part of Rialto. Post-Libstar we are still run as the exact same entrepreneurial company, we are still looking for markets to either sell or source our products."
<b>Respondent 3:</b> "The company still operates as a stand-alone entity, making its own profit and managing its own cash flow, so although we are part of the Libstar group, it's totally separate in the environment in which we are operating."
<b>Respondent 4:</b> "We are still responsible for everything that goes on around the table and we just have to report back to the upper level of management. So although the shareholding is split, the business stands completely alone."
<b>Respondent 5:</b> "Nobody from Libstar sits in the building so we still run our business in a big way."
<b>Respondent 6:</b> "So what we have been able to ensure is that Respondent 5 stays as far away from these structures and formalities as possible so that her innovation levels remain unaffected and so that she can still run the company as her own."
<b>Respondent 7:</b> "I'm left alone to do my own thing. How I choose to do my work is my decision."
<b>Respondent 9:</b> "I have not allowed the acquisition to change this. I would not be here today if the acquisition changed this."
<b>Respondent 10:</b> "Respondent 9 has never allowed the acquisition to change the way he runs his business."

The data given by the respondents supported the research presented on the subsidiary choice perspective in section 4.4 of chapter 4. This perspective suggests that the role of the subsidiary should be largely open for the subsidiary's management to define; and that the focus should be on the subsidiary's particular resources and competencies, management's aspirations, and the initiative taken by the subsidiary employees that determine the subsidiary's role (Birkinshaw, 1995; Roth & Morrison, 1990). Table 6.3 below presents the interviewees' responses relating to the entrepreneurial characteristics that are still present post-acquisition. These responses address Theme 1, Category 1.1 and the subcategories that emerged during the interview process.

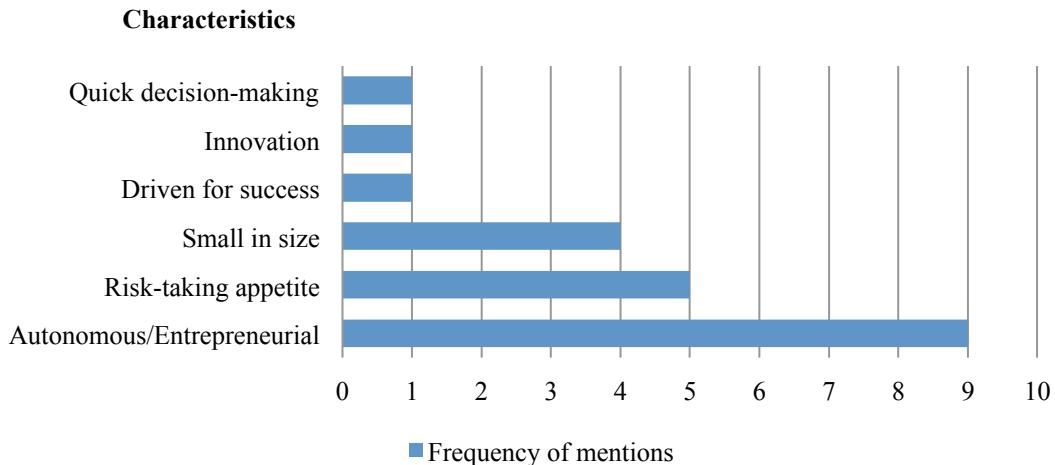
**Table 6.3: Entrepreneurial characteristics still present post-acquisition**

<b>Objective 1, Theme 1, Category 1.1</b>
<b>Quick decision-making, small in size, driven for success, risk-taking, innovation</b>
<b>Respondent 1:</b> “The main reason why we were entrepreneurial was that we were not a corporate. We were a small, quick decision-making company and we were really driven for success [...]. We were quick decision-makers, quick thinkers, active on our decisions – right or wrong, we would take risks [...]. We took risks and we grew our business. Fundamentally, this has not changed.”
<b>Respondent 2:</b> “Rialto has always looked for more opportunities to sell more to the same customer or find a new customer. So we are always looking for more opportunities to grow the business.”
<b>Respondent 5:</b> “Risk taking has always been a big part of it [...]. There is more funding now so we can take bigger risks.”
<b>Respondent 6:</b> “Respondent 5’s innovation levels remain unaffected.”
<b>Respondent 9:</b> “We’re entrepreneurial because we’re on the forefront of innovation. We pride ourselves on our quality and being the best that we can.”
<b>Respondent 10:</b> “We are one of the leaders in the industry. Our machinery is the latest, technology is sophisticated, our thinking is different.”

The most significant entrepreneurial characteristics that were extracted from the interviewees about their subsidiaries were quick decision-making, small in size, driven for success, risk-taking, innovation, and the ability to remain autonomous. Almost all respondents mentioned that their subsidiary is still predominantly an autonomous, stand-alone entity, and half of the respondents mentioned that their company still takes risks and the business has remained small in size.

These data correspond with the literature that was presented in the founder-driven entrepreneurial culture perspective in section 2.3.1 of chapter 2. This perspective suggests that an organisation’s entrepreneurial culture is comprised of shared tacit assumptions about autonomy, innovativeness, risk-taking, proactiveness, and competitive aggressiveness (Kansikas & Kuhmonen, 2008).

Figure 6.1 below presents the frequency of respondents who mentioned each of the characteristics of entrepreneurial culture. The frequency of respondents who mentioned each characteristic was calculated using ATLAS.ti’s word-count tool.



**Figure 6.1: Characteristics of entrepreneurial culture still present in the organisation**

Libstar has contributed both positively and negatively in terms of entrepreneurship. Libstar has positively influenced its subsidiaries in terms of structure, systems and procedures. These structures, systems and procedures have assisted in the growth of the enterprises and have improved the functionality of the businesses as a whole. This data is complemented by the perspective of headquarter assignment mentioned in section 4.4 of chapter 4. This perspective indicates that the parent company uses control and coordination mechanisms to direct the behaviour of subsidiary managers, which in turn may determine the subsidiary's role (Birkinshaw & Morrison, 1996; Ghoshal, 1986; Gupta & Govindarajan, 1994; Roth & Morrison, 1990). Table 6.4 below presents the interviewees' responses relating to Libstar's positive contribution towards entrepreneurial organisations. This addresses Theme 1, Category 1.2 and its respective subcategories. These responses provide support for the claim that the headquarters has had a positive influence.

**Table 6.4: Libstar's positive contribution towards entrepreneurial organisations**

<b>Objective 1, Theme 1, Category 1.2</b>
<b>Structure, systems &amp; procedures</b>
<p><b>Respondent 1:</b> “The biggest thing is structure. Not formalised structure, just the necessary structure. They didn’t necessarily put it in; they just educated us and made us aware of how to better manage our business.”</p> <p><b>Respondent 2:</b> “I mean what has Libstar brought to the table: just a lot more structure around how we should conduct and manage our business, and safeguard its growth.”</p> <p><b>Respondent 8:</b> “[...] He hired me to implement corporate business operations. So I had to come and do HR, procurement, production, purchasing, everything just to get the corporate stuff in place.”</p>

Contrastingly, Libstar’s negative contribution can be seen in its lack of vested interest in the subsidiaries. The subsidiaries have also been negatively affected by the reporting structures that are in place, where they are required to report back to the headquarters before certain decisions can be made. This procedure slows down decision-making activity, and in turn increases procedural time to execution.

This need for control shown by Libstar can also be related to the headquarter assignment perspective from section 4.4 of chapter 4. This perspective indicates that the parent company assumes responsibility for the definition of the strategic requirements for the organisation as a whole, as it is believed that the parent company has the best understanding of how subsidiary roles should be assigned in order to guarantee that all requirements are met (Birkinshaw & Morrison, 1996; Ghoshal, 1986; Gupta & Govindarajan, 1994; Roth & Morrison, 1990). This approach negatively affects subsidiary performance levels and, in turn, negatively affects subsidiary entrepreneurial culture. Table 6.5 below presents the interviewees’ responses relating to Libstar’s negative contribution towards entrepreneurial organisations; addressing Theme 1, Category 1.3. The responses provide evidence of headquarters’ negative influence on the entrepreneurial characteristics within an organisation.

**Table 6.5 Libstar's negative contribution towards entrepreneurial organisations**

<b>Objective 1, Theme 1, Category 1.3</b>
<b>Reporting back, lack of vested interest, time-consuming</b>
<b>Respondent 5:</b> "On the downside however, we have to spend a considerable amount of time making Libstar feel comfortable with where our financial situation is [...], collating massive quantities of financial information day in and day out to keep them satisfied [...] taking up a considerable amount of time from management."
<b>Respondent 6:</b> "With the corporate structure we always have to answer to somebody. [...] The corporate structure expects that you spend six months analysing a decision, which never used to be the case prior to Libstar."

### **Summary of theme 1: Entrepreneurial organisation**

Libstar's subsidiaries are all still considered to be entrepreneurial in their post-acquisition state. This is displayed by the high levels of autonomy exhibited within each subsidiary. High levels of autonomy within a subsidiary help to ensure that the company's core culture and values, which were present prior to the acquisition, remain in place. This contributes to the long-term success of an acquisition. This is verified by the literature discussed in section 2.1.2 of chapter 2, which argued that entrepreneurial organisations find control and accountability empowering (Kolvereid, 1996: 48).

Contrastingly, an acquisition can negatively impact a subsidiary's entrepreneurial culture if corporate structures are enforced. These structures slow down decision-making processes and lower innovation levels. As a result, autonomy may become an increasingly important characteristic in order to promote and encourage entrepreneurial behaviour.

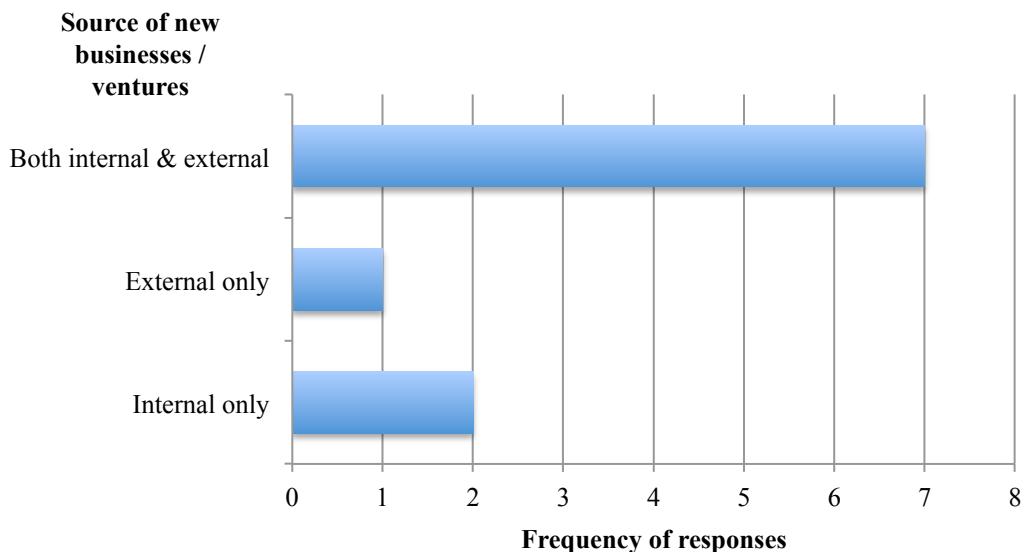
#### **6.3.1.2 New businesses/ventures**

The new businesses/ventures characteristic of subsidiary entrepreneurship refers to the creation of new businesses within the organisation. This is characterised by redefining the company's products and/or developing new markets, and refers to the formation of more formally autonomous or semi-autonomous units. Table 6.6 below presents the perceived sources of new businesses/ventures and Libstar's positive contribution towards such business/ventures. These are summarised from the interviewees' responses to question 2 of the interview guide.

**Table 6.6: Overview of objective 1, theme 2: New internal businesses/ventures and the respective categories and subcategories which emerged**

Objective	Questions & probes as per interview guide	Interview data	
		Categories	Subcategories
	Themes <i>Questions</i>	(deduced from interview data)	
1. Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment	<b>2. New Businesses / Ventures</b> <ul style="list-style-type: none"> <li>• Does your organisation actively search for new business opportunities? Are these opportunities for internal or external ventures?</li> <li>- (If internal): Are these new streams within your existing product line?</li> <li>- (If external): Are these new start-ups outside of your organisational domain?</li> <li>• How does Libstar facilitate this process?</li> </ul>	2.1 Internally sourced 2.2 Externally Sourced 2.3 Libstar's positive contribution 2.4 Libstar's negative contribution	Innovative actions Improvements Expansion of product line Competitive advantage Risk taking Category growth Business expansion Marketing Fairs Trends & Innovations Financial backing Expansion Structure Expertise Opportunities Granting autonomy Systems & procedures Information sharing No contribution

All of the subsidiaries actively search for new internal business opportunities and new external business ventures. The sources of these internal business opportunities and external ventures that were listed varied amongst respondents. Most respondents mentioned that they actively search for both internal and external ventures. The high activity levels of searching for new businesses and ventures are in line with the literature presented on new businesses/ventures in section 2.10.1 of chapter 2, which states that entering into new businesses is important for entrepreneurship within an existing organisation, as it redefines the company's products and provides opportunities for entering into new markets (Zahra, 1991). Figure 6.2 below presents the frequency of interviewees' responses regarding where new businesses/ventures were sourced.



**Figure 6.2: Source of new business ventures actively sought by respondents**

The different internal business expansion avenues utilised included the formulation of innovative ideas and technologies, improvements to existing business processes, expansion of product lines, creating competitive advantages and taking risks. These are presented above in Table 6.6. Such actions for enabling category growth and business expansion are supported by the literature discussed in section 2.10.1 of chapter 2, which suggests that new businesses refers to entering new businesses internally, by redefining and expanding on the company's products, without the formulation of additional organisational entities. Table 6.7 below presents examples of interviewees' responses regarding each subsidiary's active search for new internal businesses in response to the questions addressing Theme 2, Category 2.1.

**Table 6.7: Internally sourced new businesses / ventures**

<b>Objective 1, Theme 2, Category 2.1</b>
<b>Innovative actions, improvements, expansion of product line, competitive advantage, risk taking</b>
<b>Respondent 1:</b> "Within the categories that we work, we're continuously trying to expand within those product lines."
<b>Respondent 4:</b> "This growth has mainly been driven by internal growth in terms of new categories as well as value added products."
<b>Respondent 5:</b> "Equipment innovation and streamlining."
<b>Respondent 9:</b> "We're continuously looking for new and innovative ideas and technologies internationally. [...] We are continuously looking for new ideas and looking to take new risks and this really keeps us on our toes."

Category growth and business expansion were examples of external ventures given by the respondents. This was coupled with marketing, the attendance of business fairs, and the tracking of trends and innovations through travel. The respondents' answers relating to category growth and business expansion can be validated by the literature presented in section 2.10.1 in chapter 2. New ventures refer to the development of new business units or organisations. New venturing includes the configuration of autonomous and/or semi-autonomous components or organisations, often labelled as internal ventures (Hisrich & Peters, 1984), corporate start-ups (MacMillan, Block & Narasimha, 1984), autonomous business unit creation (Vesper, 1984), venturing activities (Guth & Ginsberg, 1990), and corporate venturing (Sharma and Chrisman, 1999). Table 6.8 below presents examples of interviewees' responses regarding each subsidiary's active search for new external ventures in response to the questions addressing Theme 2, Category 2.2. These illustrate a selection of actions taken by the subsidiaries towards external venture creation.

**Table 6.8: Externally sourced new businesses/ventures**

<b>Objective 1, Theme 2, Category 2.2</b>
<b>Category growth, business expansion, marketing, fairs, trends and innovations</b>
<b>Respondent 1:</b> "And then outside of our current catalogue, we venture into new stuff. We have a dedicated team in the business that just does that."
<b>Respondent 3:</b> "Growing categories by importing products from overseas."
<b>Respondent 7:</b> "Always external in the marketing sphere mainly. Always in the retail trade."
<b>Respondent 10:</b> "We've just bought another company and are looking at buying another company up in Johannesburg so we're constantly looking at growing, but keeping it in our product range and line of work."

Libstar has been influential in facilitating the search for and attainability of new businesses and ventures, both internally and externally, for its subsidiaries. Libstar facilitates information sharing and the implementation of systems and procedures that have introduced the subsidiaries to new opportunities that they might otherwise not have found. Furthermore, Libstar's expertise has assisted with structural concerns and expansionary procedures whilst providing the requisite financing. Additionally, providing financing, expertise and new opportunities under management autonomy has enabled the subsidiaries to further enhance their competitive positions. This is demonstrated in Table 6.9, which presents the interviewees' responses relating to Libstar's positive contribution towards new business ventures. This addresses Theme 2, Category 2.3.

**Table 6.9: Libstar's positive contribution towards new businesses/ventures**

<b>Objective 1, Theme 2, Category 2.3</b>
<b>Financial backing, expansion, structure, expertise, opportunities, allowing autonomy, systems and procedures, and information sharing</b>
<b>Respondent 1:</b> "They do facilitate the process. They have people that come from a sales and marketing background and they understand how to structure a range and how to present it to the market. We have learnt how to focus on categories and how to implement these categories successfully."
<b>Respondent 2:</b> "There is always the sharing of information."
<b>Respondent 6:</b> "They look and see. They leave me up to it, but they need to see the results."
<b>Respondent 8:</b> "The nice thing about being apart of the Libstar group is that I can phone anyone for advice. So Libstar brings a lot of expertise to the group and to everybody. They don't keep their information to themselves. Communication is always open and this brings in a lot of experience."
<b>Respondent 9:</b> "Big brother is there from a corporate governance perspective and a due diligence perspective they're phenomenal. From a financial accounting perspective, their systems and procedures have made a huge difference I think, and also from a financial backing point of view."
<b>Respondent 10:</b> "The lead to the Johannesburg company came from Libstar and once we get the ball rolling, Libstar helps us with the figures, the finance and the buyout. They do all the agreements and the legal paperwork."

Respondents 5 and 6 from Cape Herb and Spice said that Libstar has not assisted them in the process of attaining new businesses/ventures. Table 6.10 below presents the interviewees' responses regarding Libstar's lack of contribution towards new business ventures; addressing Theme 2, Category 2.4. This illustrates Libstar's lack of assistance in attaining new businesses/ventures.

**Table 6.10: Libstar's lack of contribution towards new businesses/ventures**

<b>Theme 2, Category 2.4</b>
<b>No contribution</b>
<b>Respondent 5:</b> "Libstar does not facilitate this process. They have a number of so-called experts that are supposed to be on tap for us to get information from, but sometimes they come in quickly and want to make a quick decision, but in the end the best expert is often yourself."
<b>Respondent 6:</b> "Libstar does not facilitate this process. We primarily export and that is a market that Libstar does not have much experience with."

The key issue that arose in relation to this category was that of very little contribution or facilitation on the part of Libstar. This emphasises the view that the headquarters can provide contributions that are highly beneficial to its subsidiaries.

**Summary of theme 2: New businesses/ventures**

The active search for new businesses and ventures, coupled with strong headquarter support, encourages high levels of entrepreneurial behaviour within a company. It is beneficial for the headquarters to continually encourage subsidiaries to actively search for new businesses and ventures, as this provides them with the opportunity to contribute towards the expansion of their company network through entrepreneurial means, and facilitates an independent avenue for growth. The encouragement of a creative and proactive frame of mind further influences subsidiaries to identify new businesses and markets in which to participate, providing further avenues for growth and development. The seeking and promoting of new businesses and ventures is a key component and characteristic of an entrepreneurial organisation.

**6.3.1.3 Product innovativeness**

Product innovativeness refers to the development of new products and product improvements. Table 6.11 below provides an overview of the interviewees' responses in relation to question 3 of the interview guide, which dealt with product innovativeness. The headquarters' contributions are also presented.

**Table 6.11: Overview of objective 1, theme 3: Product innovativeness and the respective categories and subcategories which emerged**

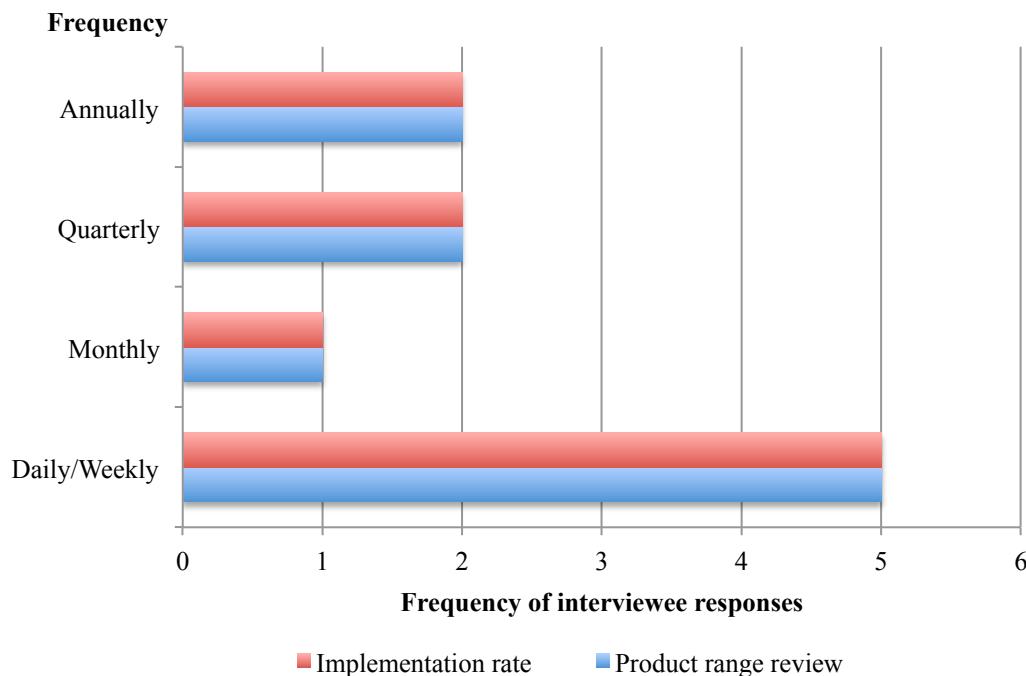
Objective	Questions & probes as per interview guide	Interview data	
		Categories	Subcategories
	Questions	(deduced from interview data)	
1. Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment	<b>3. Product Innovativeness</b> <ul style="list-style-type: none"> <li>• Since being acquired by Libstar, is there sufficiently more resource slack allowing people to experiment with product development? Please explain.</li> <li>• How often do you review your product range?</li> <li>• What kind of a relationship is there between the number of new ideas and the number of new ideas implemented?</li> </ul>	3.1 Product range review 3.2 Implementation rate 3.3 High implementation rate 3.4 Libstar's positive contribution 3.5 Libstar's negative contribution	Daily/ Weekly Monthly Quarterly Annually High Moderate Low Training Improvements Expansion Financial success Structure Resource slack No resource slack

The different subsidiaries review their product ranges either daily or weekly or monthly or quarterly or annually, or a combination of the aforementioned. Due to Libstar's annual conference, all subsidiaries are expected to review and present their products, performance, procedures and plans going forward at least once a year. Section 2.10.2 in chapter 2 on product innovativeness views frequency in product range review favourably, and suggests that new product advancements and product developments are key factors in maintaining a company's entrepreneurial culture (Schollhammer, 1982).

The implementation rate of new products showed an interesting link to the frequencies with which subsidiaries reviewed their product lines. Frequent product range reviews were correlated with high implementation rates of new products and services. High implementation rates were associated with actions such as frequent training, improvements and expansions. Monthly and quarterly reviews were

accompanied by a moderate implementation rate, and annual review was accompanied by a low implementation rate.

Figure 6.3 below illustrates how frequently subsidiaries review their product range, as well as the implementation rate of new ideas.



**Figure 6.3: Frequency of product range review and implementation rate**

Seven of the ten interviewees felt that Libstar had in no way contributed to resource slack. Interviewees responded by saying that there had been no change in the amount of resources that they currently possess in comparison to what they possessed before being acquired by Libstar.

Table 6.12 below presents the interviewees' responses relating to Libstar's positive contribution towards product innovativeness; addressing theme 3, category 3.4. Some interviewees responded that Libstar has made a positive contribution by making more resources available to the subsidiaries. This can be attributed to the increased financial support and capabilities provided by the organisational structure.

**Table 6.12: Libstar's positive contribution towards product innovativeness**

<b>Objective 1, Theme 3, Category 3.4</b>
<b>Financial success, organisational structure, increased resources</b>
<b>Respondent 7:</b> "Yes. Within the Libstar group there are enough people that have the expertise to help me with development. There is a great development team and laboratory, which is great. [...] They offer us a great deal of help when we need it."
<b>Respondent 8:</b> "Yes definitely. [...] The nice thing with Libstar is that when I order a lot of raw materials and raw produce, we can often do group deals here and there. I'll go to bidfoods and as a group we can make group orders. If we were just Montagu Foods we wouldn't be able to get such great deals. Libstar allows us to piggyback off them."
<b>Respondent 10:</b> "No, not with product development, but with expansion and machinery definitely. Without Libstar we wouldn't be able to expand as much, but with regards to New Product Development I don't think Libstar influences this at all."

In contrast to this, Table 6.13 presents the interviewees' responses relating to Libstar's negative contribution towards product innovativeness; addressing theme 3, category 3.5.

**Table 6.13: Libstar's negative contribution towards product innovativeness**

<b>Objective 1, Theme 3, Category 3.5</b>
<b>No resource slack</b>
<b>Respondent 3:</b> "I would not necessarily say we have resource slack from Libstar, but internally we have a lot more resources and more attention is being paid to product development with internal monthly meetings. [...] So this has nothing to do with the acquisition itself."
<b>Respondent 5:</b> "No. It's very lacking in the group from the Libstar side."
<b>Respondent 6:</b> The amount of resources being thrown in is the exact amount of resources that Respondent number 5 and I want to give. The amount of resources we have has nothing to do with Libstar. We are self-sufficient and will not go to Libstar and ask them for money."

### **Summary of theme 3: Product innovativeness**

The frequency with which a subsidiary reviews its product range was shown to be positively correlated with the implementation rate of new products. Libstar encourages its subsidiaries to expand their product ranges by offering the necessary resources and implementing the necessary structure. This supports a long-term culture of entrepreneurship within a subsidiary, as it encourages proactive behaviour, risk-taking and innovation. Product innovation is a key component of growth, as it can further enhance brand awareness and profitability if implemented correctly. The literature in chapter 2, section 2.3.1, further emphasises the importance of innovation to expand an organisation's domain of capability. Business expansion is a key

component of an entrepreneurial organisation and product innovation can be seen as an important avenue of business expansion (Burgelman, 1984).

#### **6.3.1.4 Process innovativeness**

Process innovativeness refers to new production methods, technological advancements and procedural advancements. Table 6.14 below provides an overview of the interviewees' responses in relation to question 4 relating to process innovativeness and the headquarters' positive contribution towards the facilitation of process innovation.

**Table 6.14: Overview of objective 1, theme 4: Process innovativeness and the respective categories and subcategories which emerged**

Objective	Questions & probes as per interview guide	Interview data	
		Categories	Subcategories
	Themes <i>Questions</i>	(deduced from interview data)	
<b>1. Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment</b>	<b>4. Process Innovativeness</b>  • <i>Can you comment on any new methods or technological operational processes that have been introduced recently?</i> • <i>Were these developments done as an internal process or is it done in conjunction with Libstar?</i>	4.1 New business processes  4.2 Motivation  4.3 Libstar's positive contribution	Specialisation  New plants or machinery  Minimal innovativeness  Customers  Cost  Forefront of innovation  Growth  Future oriented  Systems & procedures  Expertise

Introducing innovative processes is an important tool to remain competitive and drive cost-saving exercises. Furthermore, these processes can enhance efficiency and increase implementation rates in businesses. The subsidiaries commented on a variety of new methods and technological operational processes that had been introduced recently in their companies. New methods included new specialisations, new business plants and new machinery. This complements the literature in section 2.10.2 of chapter 2 on process innovativeness. Process innovativeness stresses the importance of innovation in technology. This includes product advancements, product developments, and production methods and procedures (Schollhammer, 1982). Zahra

(1993) included product innovativeness and technological entrepreneurship as innovative features of developed organisations. Table 6.15 presents the interviewees' responses relating to process innovativeness; addressing theme 4, category 4.1. These responses are indicative of the integration of process innovativeness within the majority of the subsidiaries.

**Table 6.15: New business processes**

<b>Objective 1, Theme 4, Categories 4.1</b>
<b>Specialisation, new plants or machinery, and minimal innovativeness</b>
<b>Respondent 4:</b> "There is a lot, especially in terms of packaging. All of our products have been revamped in terms of packaging design. [...] On the operational side, there has been a lot of investment made in terms of manufacturing. We have a new cutter, which changed a massive part of our business. Last year we spent R18 million on factory operational assets that we bought in order to better the processes."
<b>Respondent 5:</b> "We've installed an automated filling system which controls weights of product so that we can control costs. We are in the process of vertically integrating downward by opening up a dedicated plant for grinding, mixing, chopping, cleaning and sterilising of spices that will be implemented next year. So yes, we have quite a big budget for improving our productivity and our food safety."
<b>Respondent 8:</b> "We just installed a new filler for our salad dressing range. This gives us a lot more flexibility in our plant. [...] We have had to put new systems in place, get new products involved and get new retailers, which we supply, and it really is working for us. We need to keep up the technology in the plant in order to satisfy the demand."
<b>Respondent 9:</b> "[...] We're also working on adding a natural enzyme into our products, which will extend their shelf life, which we're aiming to launch in October as well, and the gluten-free factory as well which is going to be great."
<b>Respondent 10:</b> "We converted from electricity to gas, and now we've converted from gas to paraffin in terms of utilities. This has saved us a lot of money especially from Eskom. This has been a major cost saver."

The motivations for new process innovativeness include cost reductions, satisfying customers' needs, ensuring that the company remains competitive within its markets, and enabling growth and profitability. Table 6.16 presents the interviewees' responses relating to the motivation for process innovativeness; addressing theme 4, category 4.2. These responses confirm the use of process innovation to remain competitive.

**Table 6.16: Motivation for process innovativeness**

<b>Objective 1, Theme 4, Category 4.2</b>
<b>Customers, cost, forefront of innovation, growth</b>
<b>Respondent 1:</b> "The business needs it. When your business grows it needs it, or else it will fall apart. People have to have structure. If we want to grow, we can only do it by being structured and having our goals in place."
<b>Respondent 3:</b> "We are motivated by the desire for growth and development."
<b>Respondent 5:</b> "We're on a continual drive to improve costs and production methodologies."
<b>Respondent 9:</b> "Our business philosophy and our business vision is to stay at the forefront of innovation. So this, along with our customer is what motivates this development."
<b>Respondent 10:</b> "Cost drives everything in today's market."

Six of the ten respondents mentioned that their subsidiary uses internally developed process innovation, while the remaining four respondents referred to Libstar's contribution in terms of developing systems and processes, as well as in terms of their expertise and training that has encouraged the subsidiaries to become more future-oriented in certain spheres of their business. This is supported by the interviewees' responses relating to Libstar's positive contribution towards product innovativeness; addressing theme 4, categories 4.3, which are presented below in Table 6.17.

**Table 6.17: Libstar's positive contribution towards product innovativeness**

<b>Objective 1, Theme 4, Categories 4.3</b>
<b>Future-oriented, systems and procedures, expertise</b>
<b>Respondent 1:</b> "We have a full time coach/HR person that has come in thanks to Libstar and his primary job for the next two years is to put systems in place."
<b>Respondent 2:</b> "In conjunction with Libstar. This is what we have had to do for a company that came from two entrepreneurs and is now almost worth R1 billion. We would have had to put these systems in place regardless of Libstar as our growth requires it. But Libstar has definitely helped us get there quicker."
<b>Respondent 3:</b> "Libstar assisted with the artwork and packaging design."
<b>Respondent 5:</b> "We have used Libstar quite a bit on productivity, workflow and warehouse planning."

### **Summary of theme 4: Process innovativeness**

Process innovativeness is a key avenue for companies to maintain and increase competitiveness. As a result, new methods and technological operational processes are encouraged due to the cost-related benefits and the need for growth. Libstar encourages process innovativeness and inspires its subsidiaries to adopt a future-oriented approach to their business. This strengthens entrepreneurship within a

subsidiary, as it keeps the entrepreneurial culture focused on long-term goals and less focused on immediate business successes and cost benefits. This approach can be attributed to the headquarters' expertise. Process innovativeness can promote growth and profitability in much the same way as product innovativeness.

### 6.3.1.5 Self-renewal

Self-renewal is the transformation of organisations through the renewal of the internal processes and structures on which the organisation is built. Table 6.18 below provides an overview of the importance of such processes, as well as strategic reformulation and reorganisation within an organisation, with respect to the interviewees' responses to question 5 of the interview guide.

**Table 6.18: Overview of objective 1, theme 5: Self-renewal and the respective categories and subcategories which emerged**

Objective	Questions & probes as per interview guide	Interview data	
		Themes	Categories
	Questions	(deduced from interview data)	
<b>1. Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment</b>	<b>5. Self-Renewal</b> <ul style="list-style-type: none"> <li>• <i>How much emphasis is placed on strategic reformulation and reorganisation?</i></li> <li>• <i>Why is this important to your organisation?</i></li> </ul>	5.1 Strategic reformulation & reorganisation	Ongoing renewal
			Not much renewal
		5.2 Importance of self-renewal	Growth
			Change
			People
			Reformulation

Strategic reformulation and reorganisation is a continual process. It involves process renewal and a long-term focus on increased competitiveness to improve one's market position and development of business processes is essential to ensure that subsidiaries are able to keep up with constantly-evolving market forces.

In an increasingly competitive market, self-renewal of one's processes and product offerings are key characteristics of an entrepreneurial organisation. This is supported by the literature presented in section 2.10.5 of chapter 2. Muzyka *et al.* (1995) and

Stopford & Baden-Fuller (1994) consider continuous renewal of organisations and flexibility as essential elements of any entrepreneurial or intrapreneurial company. Entrepreneurial organisations need to keep innovating and reinventing themselves in order to meet consumers' ever-changing needs. Table 6.19 presents the interviewees' responses regarding the importance of self-renewal; addressing theme 5, category 5.2. This is in agreement with the literature referred to above, and provides further support for the idea that an entrepreneurial organisation is innovative and evolves over time.

**Table 6.19: The importance of self-renewal**

<b>Objective 1, Theme 5, Category 5.2</b>
<b>Growth, change, people, reformulation</b>
<b>Respondent 1:</b> "Change is needed. Change is for the better and if we are not ahead of the game, we're just going to fall behind. Structure is key in today's economy. I don't enjoy spending time on reformulation and reorganisation. It's tiring and being an entrepreneur it is most certainly not something I enjoy doing, but we've had to and we've seen the benefits thereof."
<b>Respondent 2:</b> "On a numbers point of view, we've said we want to be a R1 billion business by 2015, so how do we get there? This is our key to unlock our ability to make this happen. We now have clarity of where we want to go."
<b>Respondent 4:</b> "It's given growth to the business in terms of the brand."
<b>Respondent 8:</b> "I was one of the lucky guys that was sent to study further for a supply chain management diploma. Sent on it by Libstar. That opens a lot of scope for us and with the old traditional ways of managing a factory to times like today; it's all about transformational leadership, which is great for me. [...] I'm doing my first skills program at the moment."
<b>Respondent 9:</b> "It is important to become more efficient. The key to manufacturing is change."
<b>Respondent 10:</b> "It is important to keep up with growth and change."

### **Summary of theme 5: Self-renewal**

Reengineering of processes is important so as to promote growth and profitability. In a rapidly changing competitive environment, it is difficult to stay relevant. In order to achieve this self-renewal, management plays a key role in driving and promoting the reformulation and reorganisation of the internal business processes.

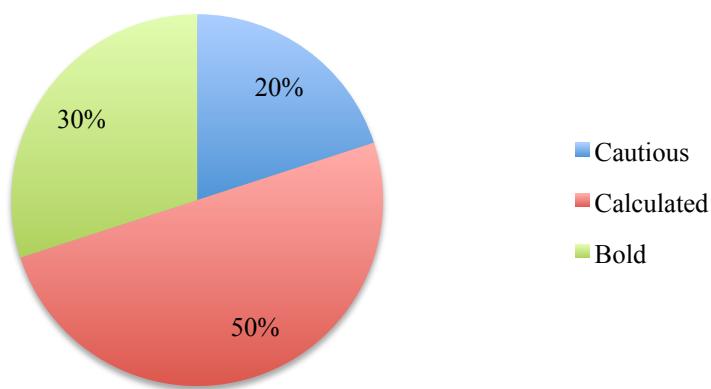
#### **6.3.1.6 Risk-taking**

Risk-taking involves decisive actions and a bold and directive opportunity-seeking style of leadership. Such actions are indicative of an entrepreneurial organisation. Table 6.20 below provides an overview of the subsidiaries' approach to risk-taking in a post-acquisition environment and the effect the headquarters has had on the subsidiaries' appetite for risk. These data arose in response to question 6 of the interview guide.

**Table 6.20: Overview of objective 1, theme 6: Risk-taking and the respective categories and subcategories which emerged**

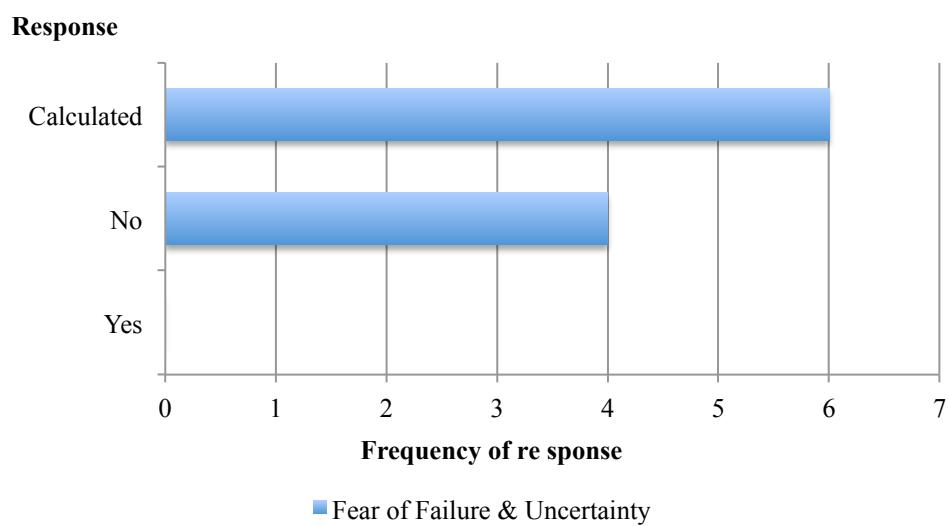
Objective	Questions & probes as per interview guide	Interview data	
		Categories	Subcategories (deduced from interview data)
	Themes	Questions	
1. Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment	6. Risk Taking	6.1 Decision-making processes	Bold
			Calculated
			Cautious
		6.2 Fear of failure & uncertainty	No fear & uncertainty
			Calculated
			Yes, fear & uncertainty
		6.3 Libstar's positive contribution	Bolder investments & decisions
			No influence
			Financial support
			Entrepreneurial mindset
			Governance & financial reporting
		6.4 Libstar's negative contribution	The need for approval
			Time consuming processes

‘Calculated decision-making’ emerged as a new category for decision-making processes within the subsidiaries. Calculated decision-making in this instance refers to those decisions that are bold; however, the risks that are involved are evaluated. In essence, the management believes that the possible rewards outweigh the evaluated risks. The emergence of calculated decision-making is due to the need to take the headquarters into consideration. Figure 6.4 below displays the different answers given by the interviewees. Of the respondents, 50% said that their decision-making processes are calculated, 30% of the respondents said that they are bold, and 20% of the respondents said that they are cautious.



**Figure 6.4: Percentage of respondents' approach to decision-making processes**

In an entrepreneurial organisation, bold and calculated steps are required to achieve the desired outcomes. There was a lack of fear amongst those subsidiaries that considered themselves entrepreneurial. Most respondents mentioned that one has to fail along the way in order to learn how to succeed. Of the respondents, 60% made calculated decisions in order to reduce failure and uncertainty, whereas 40% of the respondents said that fear does not affect them at all. Figure 6.5 below represents the interviewees' responses surrounding the fear of failure and uncertainty when making decisions.



**Figure 6.5: Fear of failure and uncertainty**

The literature presented on risk-taking in section 2.10.4 of chapter 2 is in agreement with the respondents' active risk-taking behaviour. These actions include the search for new opportunities, swift dedication of resources and bold taking of actions (Lumpkin & Dess, 1997; Lumpkin, 1998). This boldness and the constant search for new business ventures are considered a characteristic of entrepreneurship within an existing organisation (Stopford & Baden-Fuller, 1994). The interviewees' responses regarding fear of failure and uncertainty; addressing theme 6, category 6.2, are presented below in Table 6.21. Herein most of the subsidiaries confirmed the need to take risks in order to be successful. There was consideration given to the headquarters; however, in the end the decision was based on each subsidiary and its own desire to grow and develop.

**Table 6.21: Fear of failure and uncertainty**

<b>Objective 1, Theme 6, Category 6.2</b>
<b>Calculated fear, no fear of failure and uncertainty</b>
<b>Respondent 1:</b> "No. If we fail, and we have failed in the past, we fix it! Obviously all of our risks are calculated and we can not fail all the time, but we fix it!"
<b>Respondent 2:</b> "I think either you're far too cautious with your decision-making and that way you don't get to market quick enough and you lose that opportunity with your customer, or your competitor is quicker to market than you are."
<b>Respondent 3:</b> "If it's not making 100% sense we won't make the decision."
<b>Respondent 5:</b> "[...] We're problem solvers so then you can approach anything and fix it. It definitely makes you bolder."
<b>Respondent 6:</b> "You've always got a 'big brother' watching, but in the same token, you can't succeed without the failure. So you have to make mistakes in order to know what works and what doesn't. There's always an element of fear but you have to learn by your mistakes in order to grow."
<b>Respondent 10:</b> "There is always a fear of failure. Our failure is always calculated and kept to a minimum. We always have a way out and a backup plan."

Libstar has influenced the subsidiaries' decision-making processes both positively and negatively. On a positive note, Libstar has afforded its subsidiaries the ability to make bolder investments and bigger decisions due to their entrepreneurial mindset. A key support structure created for the subsidiaries is that of financial support. Financial support enables the subsidiaries to make certain bold but calculated decisions that they otherwise might not have been able to make. Libstar has also enhanced financial reporting and governance systems, which both increase productivity.

According to the literature on risk-taking in section 2.10.4 of chapter 2, subsidiaries tend to aim for high levels of headquarters' attention. High levels of attention help

subsidiaries remain connected to their parent company, which in turn raises their standing within the interorganisational network. Subsidiaries constantly face the challenge of adapting to and connecting internally with their headquarters. The desired levels to be attained would be high autonomy, high inter-unit power, and a high level of initiative taking (Andersson & Pahlberg, 1997; Birkinshaw, 1997). Table 6.22 below presents the interviewees' responses regarding Libstar's positive contributions towards risk-taking; addressing theme 6, categories 6.3. Responses ranged from the ability to act more boldly to financial support, and in one instance, a subsidiary said they acted more cautiously. The presence of the headquarters has made all the subsidiaries consider investment decisions more thoroughly.

**Table 6.22: Libstar's positive contributions towards risk-taking**

<b>Objective 1, Theme 6, Categories 6.3</b>
<b>Bolder investments and decisions, no influence from Libstar, financial support, entrepreneurial mindset, governance and financial reporting</b>
<b>Respondent 1:</b> "No. We make our decisions and we run them by Libstar, but they have not influenced the way we make our decisions."
<b>Respondent 2:</b> "Where Libstar is very strong is their financial reporting and the governance around that. That discipline of reporting has allowed our business to understand where we are as a business financially in both the short term and the long term all the time."
<b>Respondent 4:</b> "If it is a substantial investment then Libstar will definitely be involved in the decision-making."
<b>Respondent 5:</b> "We have more source of funds so acquiring bigger businesses or machinery or equipment, it's easier for us to take bolder decisions as we can make use of the money that they have assigned to expansion and investment. Only being partially responsible for the financial successes or failures allows you to be bolder."
<b>Respondent 7:</b> "Being acquired by Libstar has not affected our decision-making. I run the company with more detail."
<b>Respondent 8:</b> "Because of the backing I can make bold decisions. [...] The backing of Libstar allows us to make bigger and bolder decisions in a short time because people trust the Libstar name and the levels of expertise."
<b>Respondent 9:</b> "We're a lot bolder in the investments and in the decisions we make."

Libstar has negatively influenced decision-making by increasing the time required to execute decisions. This is due to the procedures and approval requirements that are put in place regarding any large investment or bold decisions to be made. Table 6.23 below presents the interviewees' responses regarding Libstar's negative contributions towards risk-taking; addressing theme 6, categories 6.4.

**Table 6.23: Libstar's negative contributions towards risk-taking**

<b>Objective 1, Theme 6, Categories 6.4</b>
<b>Need for approval, time-consuming processes</b>
<p><b>Respondent 6:</b> "We have to meet our targets, and if we miss our targets we have to explain why which is frustrating because before, we would always just move on, but now we have to go through the motions twice over to explain to Libstar what happened and why. We've always understood our failures; it just takes a lot longer now."</p> <p><b>Respondent 10:</b> "It has because now our thought is always Libstar. Meeting their bottom line, are we keeping them happy, etc. We now have to delay certain things in order to ensure that they are happy. We need to keep track of our budget. We can't just order or buy things now."</p>

### **Summary of theme 6: Risk-taking**

Bold decision-making is generally coupled with decisions involving increased risk. Risk-taking is an important characteristic of any entrepreneurial organisation. Entrepreneurial subsidiaries were not affected by a fear of failure and uncertainty. The ability and desire for a company to take risks is indicative of an entrepreneurial organisation. Such ability and desire is supported by the structures in place and the mentality within an organisation, which is influenced and enhanced by the corporate culture. Libstar has been seen to positively influence the risk-taking nature of most subsidiaries. This leads to the conclusion that the headquarters plays an important role in the culture of subsidiaries when influencing their respective risk-taking natures.

#### **6.3.1.7 Proactiveness**

Proactiveness refers to taking the initiative and utilising bold and aggressive tactics in the pursuit of opportunities, as well as risk-taking. Table 6.24 below provides an overview of the actions taken by the subsidiaries in order to maintain proactiveness in response to question 7 of the interview guide.

**Table 6.24: Overview of objective 1, theme 7: Proactiveness and the respective categories and subcategories which emerged**

Objective	Questions & probes as per interview guide	Interview data	
		Categories	Subcategories
	Themes <i>Questions</i>	(deduced from interview data)	
1. Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment	<b>7. Proactiveness</b> <ul style="list-style-type: none"> <li>• <i>What does your organisation do to anticipate future opportunities?</i></li> <li>• <i>Can you give me an example of any recent pioneering developments?</i></li> </ul>	7.1 Anticipate future opportunities  7.2 Pioneering example	Private label hindrance Competitive advantage Better functionality Good relationship with retail Travel Track trends Business philosophy Invest in businesses with potential  Example No Example

The ability to anticipate future opportunities was seen to be a key trait of an entrepreneurial organisation. However, the scale and market standing of a subsidiary was seen to influence a subsidiary's ability to anticipate future opportunities. Certain subsidiaries felt they are in fact hindered by their standing as the sole private-label distributors for certain companies. Such subsidiaries are unable to take control of anticipating future opportunities, as the company that they produce for controls the demand for the subsidiary's goods or services.

However, some interviewees indicated a list of actions taken in order to anticipate future opportunities. These actions included things such as open channels of communication, good relationships with retail partners, tracking trends and travelling abroad to research international trends. Other interviewees mentioned that anticipating future opportunities is a part of their business philosophy. Improving the overall functionality of the business and investing in assets that offer potential growth can also assist with anticipating future opportunities.

Table 6.25 below presents the interviewees' responses regarding the ability to anticipate future opportunities; addressing theme 7, category 7.1. The answers given

by the respondents are in agreement with the literature presented in section 2.10.5 of chapter 2 on proactiveness. Here, it is argued that it is important for companies to pursue new business prospects or delve into unknown marketplaces (Lumpkin & Dess, 1996). This dimension's future-oriented approach anticipates future needs of the market and further responds to the opportunities presented (Lumpkin & Dess, 1996).

**Table 6.25: Ability to anticipate future opportunities**

<b>Objective 1, Theme 7, Category 7.1</b>
<b>Private label hindrance, competitive advantage, better functionality, good relationships with retail, travel, track trends, business philosophy, invest in potential</b>
<b>Respondent 1:</b> "If we wanted to enter this range, what we will try and do in this business is invest. [...] We have started importing frozen bread from France. It's gone from zero to about R700 000 of sales so we're saying there is an opportunity."
<b>Respondent 3:</b> "It is part of our strategy. [...] We're always looking for new opportunities. What categories are we not involved in and what can we get involved in."
<b>Respondent 5:</b> "We travel widely because 80% of what we sell, we sell abroad so it is essential that we are aware of what is being sold in the market, what is available and what is competitive in the market, be it in your product range or not. [...] It is vital that you constantly look at the bigger picture and see if we can spread out to other categories that are synergistic with ours."
<b>Respondent 6:</b> "We try and make the product better as well as cheaper. We are very much private-label so most innovation comes from brand leaders, so it's very easy for us to reformulate the products under the private-label image. We also attend trade shows all around the world."
<b>Respondent 8:</b> "Open relationships are very important with retail. Respondent 7 is always on top of that. Suppliers, contractors, retail."

The majority of respondents commented on improvements on already existing processes, while a number of pioneering examples were also presented. Table 6.26 below presents the interviewees' responses regarding examples of pioneering proactiveness; addressing theme 7, category 7.2. These responses display a selection of examples of pioneering done by the subsidiaries in support of their proactive behaviour.

**Table 6.26: Examples of pioneering proactiveness**

<b>Objective 1, Theme 7, Category 7.2</b>
<b>Pioneering example</b>
<b>Respondent 5:</b> “We are the first company in this country to import and run our own irradiation testing and equipment, which every other company in South Africa doesn’t have.”
<b>Respondent 7:</b> “We’ve got a project, which is confidential at this stage. It’s my initiative so I’m very excited about it, but I must still get everyone else excited about it.”
<b>Respondent 9:</b> “We have our ethnic bread plant which is now line specific. We’re also working on adding a natural enzyme into our products which will extend their shelf life which we’re aiming to launch in October as well, and the gluten-free factory as well which is going to be great.”

### **Summary of theme 7: Proactiveness**

Subsidiaries employed a variety of means to remain proactive. These included tracking trends, travelling abroad and investing in potential business opportunities, as well as nurturing and ensuring good relationships with retail customers. Along with this, subsidiaries said that they ensure that their products and business processes are superior to those of their competitors. These factors are important in today’s competitive environment. Market demand dictates which companies and products will be successful. In order to remain relevant, a company needs to remain proactive and innovative in order to maintain their market position. An increasingly competitive landscape means that market share is continually subject to changing tastes, and as a result the companies that proactively seek developments in their respective markets are able to compete effectively. This is a further indication that an entrepreneurial organisation is one that is able to identify and act to quickly to meet changing demands, not one that is reactive to changing demands. In this respect, it is important that management keep an element of visionary leadership.

#### **6.3.1.8 Competitive aggressiveness**

Competitive aggressiveness is characterised by top management’s pursuit of enhanced competitiveness through the introduction of new products and operating technologies in order to develop competitive advantages. Table 6.27 below provides an overview of the subsidiaries’ approaches to competitive aggressiveness in response to question 8 of the interview guide.

**Table 6.27: Overview of objective 1, theme 8: Competitive aggressiveness and the respective categories and subcategories which emerged**

Objective	Questions & probes as per interview guide	Interview data	
		Categories	Subcategories
	Questions	(deduced from interview data)	
1. Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment	<b>8. Competitive Aggressiveness</b> <ul style="list-style-type: none"> <li>• <i>How does your organisation detect external threats in the market place?</i></li> <li>• <i>What competitive actions do you take in order to keep abreast with, or stay abreast of, these threats?</i></li> </ul>	8.1 Detect external threats 8.2 Competitive actions taken	Track trends Adding value Networking Travel Exchange rate Own threat Boldness Promotions Efficiency Competitive advantage Investments Adding value Not much

The subsidiaries used various methods to detect external threats in the market place, such as tracking trends, adding value, networking and travelling. The methods discussed here can be related to the literature presented in section 2.10.6 of chapter 2 on competitive aggressiveness. Covin and Slevin (1991) believe that an organisation's ability to compete with industry opponents is largely evident in the entrepreneurial attitude and culture of a company.

Another interesting aspect that is present in one of the subsidiaries is the problem of exchange rate volatility and the weakening of the rand. Since Rialto relies solely on imports, remaining competitively aggressive can become difficult at times when the exchange rate moves against them. However, Respondent 1 went on to describe his view of his subsidiary when it comes to detecting external threats in the market place. The interviewees' responses regarding their approaches to detect external threats are presented below in Table 6.28; addressing theme 8, category 8.1.

**Table 6.28: Approaches to detect external threats**

<b>Objective 1, Theme 8, Category 8.1</b>
<b>Track trends, adding value, networking, travel, exchange rate, own threat</b>
<b>Respondent 1:</b> “On external threats, competition, I’m quite arrogant about that. I say that my shadow is my threat. I strongly believe that if I fail or if we as a company fail in delivering then we will fail and therefore allow competition to take over.”
<b>Respondent 2:</b> “One of our biggest threats is the exchange rate and it’s anybody’s call where the exchange rate is going to be today, in a month or in 6 months’ time. [...] But how do we come across threats every day, I think it’s definitely in our relationships that we have in the market, and with Libstar’s networking skills, we always have feelers out there and Libstar is very good at staying connected with what is going on around us and at informing us. And most importantly, being close to our customer.”
<b>Respondent 3:</b> “We’re more of a threat to anyone else than they are to us. We have a solid price strategy, packaging strategy and product strategy. The brand is also a massive protector.”
<b>Respondent 5:</b> “We always put ourselves out there and we’re always on the floor. We react quickly to what we see and make sure we always keep our eyes and ears open for what’s going on around us.”
<b>Respondent 8:</b> “Because of our systems put in place, we can undermine our competitors by lowering our prices. We can run a promotion for three months because we can piggyback off our Pick ‘n Pay retail.”
<b>Respondent 10:</b> “We do a SWOT analysis to understand who is coming into the industry and this helps us monitor our threats in the industry in terms of what’s going on around us. Therefore, we also look at the opportunities that exist.”

Taking bold decisions, making large investments, ensuring efficiency within the subsidiary, adding value and creating competitive advantage are all examples of competitive aggressiveness. Running promotions on products was mentioned as an effective action to be aggressive, as was making use of the expertise offered by Libstar. In order to compete effectively it is important that a company ensures a competitive advantage is developed and maintained. This is aided through additional value adds by way of complementary products and services, among others. The literature presented in section 2.10.6 of chapter 2 on competitive aggressiveness is in agreement with the findings that were deduced.

Covin and Covin (1990) and Miller (1987) refer to competitive aggressiveness as a managerial temperament expressed in an organisation’s eagerness and desire to overtake its competitors. It refers to the attempt to surpass industry rivals in the marketplace in order to improve the company’s status and stay abreast of any potential or existing threats (Harris & Gibson, 2008). Table 6.29 below presents the interviewees’ responses regarding competitive actions taken; addressing theme 8, category 8.2. These responses indicate that many of the subsidiaries displayed elements of competitive aggressiveness.

**Table 6.29: Competitive actions taken by subsidiaries**

<b>Objective 1, Theme 8, Category 8.2</b>
<b>Boldness, promotions, expertise, efficiency, competitive advantage, investments, adding value, not much</b>
<b>Respondent 1:</b> "In my head, it's what is difficult to import. Let's go and look at products that other people can't do because either it's a major investment or investment in either buying the product or putting in an infrastructure."
<b>Respondent 2:</b> "In a market where we are, or in an economic situation where we are, with rising costs, whether it's exchange-rate driven or political or just the world economy, we've always got to be seen as adding value, especially with Woolworths as our biggest customer. So it's a combination of not only boldness of trying to look for innovation and newness, it's always pushing back against the supplier base and always looking to improve because that's the only way to stay competitive."
<b>Respondent 5:</b> "We try to understand where our competitors are placing themselves price-wise. [...] If you can supply great quality at a good price, there's no reason why you should be taken off the shelf."
<b>Respondent 8:</b> "We try to save on production costs and overhead costs. We train our people to provide world-class manufacturing, and we try to be the best at what we're doing."
<b>Respondent 9:</b> Looking for value in our current ranges, doing promotions has becoming very important to us recently as well."

### **Summary of theme 8: Competitive aggressiveness**

When asked how their subsidiary detects external threats in the market place, certain respondents commented on the exchange rate and the fact that they have no control over its effects. Other interviewees, however, responded by saying that they spend time travelling, networking, and tracking trends. There were those interviewees that said that they consider themselves to be their own threat in the market, due to the value that they add to their products.

When asked what competitive actions are taken in order to keep abreast with or stay abreast of these threats, respondents answered by saying that they respond with bold actions, such as investments, and adding value and competitive superiority to their products. Other respondents mentioned that they run promotions, while efficiency and expertise of business processes was mentioned as well. There were, however, some interviewees who said that they do not do much in terms of competitive actions due to their private-label positioning.

#### **6.3.1.9 Subsidiary entrepreneurial network management**

Subsidiary entrepreneurial network management is characterised by free and open communication channels and information sharing within the interorganisational network of subsidiaries. Table 6.30 below provides an overview of the subsidiaries' views on the degree of interaction and communication that is shared within the

interorganisational entrepreneurial network and the involvement of the headquarters in this process.

**Table 6.30: Overview of objective 1, theme 9: Subsidiary entrepreneurial network management and the respective categories and subcategories which emerged**

Objective	Questions & probes as per interview guide  Themes <i>Questions</i>	Interview data	
		Categories	Subcategories
		<i>(deduced from interview data)</i>	
1. Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment	<b>9. Subsidiary Entrepreneurial Network Management</b> • Please explain the degree of interaction and communication that exists internally between your company and the other the subsidiaries? • Does Libstar encourage this?	9.1 Degree of interaction & communication	Aspects shared
			Product & non-product aspects
			Advice
			Group deals
		9.2 Libstar's positive contribution	Very little sharing
			Encouragement
		9.3 Libstar's neutral contribution	Indifferent levels of encouragement
		9.4 Libstar's negative contribution	No encouragement
			No knowledge sharing

The degree of interaction and communication that exists internally between each company and the network of other subsidiaries was discovered to be fairly minimal. Libstar conducts an annual conference where all spheres of business are shared amongst the group. Aside from Montagu Foods, who finds the network useful and beneficial, all of the other subsidiaries expressed that there is very little communication and information sharing within the network. Table 6.31 below presents the interviewees' responses regarding the degree of interaction and communication between the subsidiary and the parent company; addressing theme 9, category 9.1.

**Table 6.31: Degree of interaction and communication**

<b>Objective 1, Theme 9, Category 9.1</b>
<b>Frequent, very little, annual conference</b>
<p><b>Respondent 7:</b> “Libstar facilitates a CEO two day conference, once a year, where everybody sits and presents their companies. They present all their numbers and graphs and also the way forward. Cape Herb and Spice comes to us with opportunities for exporting some of our products. Dickenhal Foods discusses certain products that they can't or don't have the space in their facility to produce and hand it to us. [...] We are constantly supporting each other. This network sharing is extremely beneficial to us.”</p> <p><b>Respondent 8:</b> “There is a lot of interaction. We can phone whomever we want. If Libstar buys a new company they'll always tell us about it and encourage us to go and visit them and talk to them about their business. We are always phoning and feeding off the other subsidiaries.”</p>

The responses from the interviewees referring to the low levels of communication indicates a situation that differs from the ideal situation presented in the literature on subsidiary entrepreneurial network management referred to section 4.8.2.1 of chapter 4. The literature refers to the interorganisational network as a place where knowledge sharing, teamwork and learning actively occur. The opportunity to make use of the knowledge and resource pool of the parent company and other subsidiaries when necessary is a major success factor of the subsidiary entrepreneurial network. Communication and the pooling of expertise and experience within a network should be encouraged by the parent company (Ghoshal & Bartlett, 1990). In section 3.4 of chapter 3, Jacob and Ebrahimpur (2001: 77) also state that there is an obvious link between multi-organisational networks and knowledge transfer mechanisms within a joined organisational entity, and that intra-organisational knowledge transfer mechanisms provide the foundation for interorganisational mechanisms.

However, respondents mention that the most valuable business aspects that are shared are advice and expertise. Along with this, subsidiaries have access to group deals within the network. Other respondents made mention of Libstar's annual employee conference as the only opportunity for sharing, which they do not find particularly useful. Table 6.32 below presents the interviewees' responses regarding Libstar's positive contribution towards subsidiary entrepreneurial network management; addressing theme 9, category 9.2.

**Table 6.32: Libstar's positive contribution towards subsidiary entrepreneurial network management**

<b>Objective 1, Theme 9, Category 9.2</b>
<b>Product and non-product aspects, advice, group deals, very little sharing</b>
<p><b>Respondent 1:</b> "I do ask them for advice and offer advice where I can. This is very beneficial."</p> <p><b>Respondent 2:</b> "I would say all aspects are shared: opportunities, product- related, non-product-related. It's very open, but very informal."</p> <p><b>Respondent 3:</b> "We don't really have a relationship in that sense with the other companies. We're all trying to satisfy Libstar's needs."</p> <p><b>Respondent 4:</b> "Very little interaction for us."</p> <p><b>Respondent 5:</b> "Everyone's very friendly so you can contact one another, but people really don't have the time for the nonsense. Nobody's developed a new or useful way that there can be inspiration or knowledge sharing among people."</p> <p><b>Respondent 6:</b> "Very little. In most instances none. There are opportunities that exist, but we don't really make use of this."</p> <p><b>Respondent 9:</b> "We have conferences annually where we share and encourage one another. So it is beneficial but not essential."</p>

Overall, it was found that Libstar encourages interaction amongst the group; however, they do not enforce it. The most important finding related to this theme was that while subsidiary entrepreneurial network management is a beneficial characteristic of subsidiary entrepreneurship, it is not an essential one. This is contradictory to the literature presented above from section 3.4 of chapter 3 and section 4.8.2.1 of chapter 4, which indicate that the desire for networking amongst the subsidiary group is an essential factor in the management and organisation of entrepreneurial activities.

### **Summary of theme 9: Subsidiary entrepreneurial network management**

There is minimal interaction between and communication shared amongst the subsidiaries of the Libstar Group. The respondents did not find this characteristic to be of much importance to the success of their entrepreneurial culture in a post-acquisition environment, and although Libstar encourages interaction within the group, they do not enforce it. Subsidiary entrepreneurial network management was considered to be beneficial rather than essential for the entrepreneurial culture of a subsidiary.

#### **6.3.1.10 Subsidiary autonomy**

Subsidiary autonomy refers to the level of independence granted to the subsidiary to maintain control over its own strategic decisions and entrepreneurial ventures. Table

6.33 below provides an overview of the decision-making structures that exist within each subsidiary and the influence that Libstar has over this.

**Table 6.33: Overview of objective 1, theme 10: Subsidiary autonomy and the respective categories and subcategories which emerged**

Objective	Questions & probes as per interview guide	Interview data	
		Categories	Subcategories
	Themes <i>Questions</i>	(deduced from interview data)	
<b>1. Determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment</b>	<b>10. Subsidiary Autonomy</b> • Tell me about the decision-making structures in your organisation? • Does Libstar have an influence over this?	10.1 Decision making structures	Autonomous
		10.2 Libstar's positive contribution	Expertise
			Minimal influence over decision-making
		9.4 Libstar's negative contribution	Big decisions
			Financial expenses

Subsidiary autonomy continues to be present in all of the subsidiaries. The original entrepreneurs have remained in control of their daily operational decision-making processes. Libstar has supported and encouraged this, while providing guidance and structure where necessary. This can be related to the literature in section 4.8.2.2 of chapter 4, wherein Venaik *et al.* (2005) consider autonomy to have a positive influence on a subsidiary's innovative activities.

As mentioned, Libstar's influence on day-to-day operational decisions is minimal. However, they have an influence on strategic decisions when approval is needed for capital investments. Their general approach to capital expenditure is that any investment over ZAR500,000 needs to be vetted by them. This is in agreement with the literature presented in section 4.8.2.2 of chapter 4, which proposes that a subsidiary should be mostly autonomous and have the independence to maintain control of its own ventures. Guidance and strategic assistance from the parent

company should only be sought when required (Birkinshaw & Morrison, 1995; Martinez & Jarillo, 1991). The interviewees' responses regarding Libstar's positive and negative contributions in relation to subsidiary autonomy are presented below in Table 6.34; addressing theme 10, categories 10.2 and 10.3.

**Table 6.34: Libstar's positive and negative contributions in relation to subsidiary autonomy**

<p><b>Objective 1, Theme 10, Categories 10.2 &amp; 10.3</b></p> <p><b>Positive: Expertise, minimal influence over decision-making</b></p> <p><b>Negative: Big decisions, financial expenses</b></p>
<p><b>Respondent 2:</b> "From a CAPEX point of view they get involved and if we wanted to do something different on our strategic roadmap then we have to share that with them, but overall they allow us to run our businesses as we wish, which has been very successful."</p> <p><b>Respondent 6:</b> "Depending on how big the decision is. Day-to-day operational they don't, but if it is a big or large financial decision then absolutely."</p> <p><b>Respondent 7:</b> "Not much. My respect for Libstar and the seniors pushes me in the right direction to make the right decisions, as I want to make them happy for the sake of the business. With capital expenditure I also have a free hand with what I can spend. If it is a considerable amount of money (R500 000 or more), I have to run the idea by them."</p> <p><b>Respondent 10:</b> "No. Unless Respondent 9 feels like he needs Libstar's input, we'll generally make our decisions on our own. So long as we meet and stay within budget there shouldn't be a problem."</p>

### **Summary of theme 10: Subsidiary autonomy**

Autonomy is prevalent in all of the subsidiaries. Libstar's influence on operational and strategic decisions is minimal, unless those decisions involve capital investments over ZAR500,000. This level of autonomy is strongly encouraged by Libstar in a post-acquisition environment. It is necessary that Libstar continues to encourage its subsidiaries to have their own unique entrepreneurial cultures, as bureaucracies are known to rid organisations of characteristics such as autonomy, innovation and enthusiasm for taking risks (Chandler & Hanks, 1994).

#### **6.3.2 Findings specific to objective 2**

<p><u>Objective 2:</u></p> <p>Determine whether the entrepreneurial locus of control lies with Libstar or with its subsidiaries.</p>
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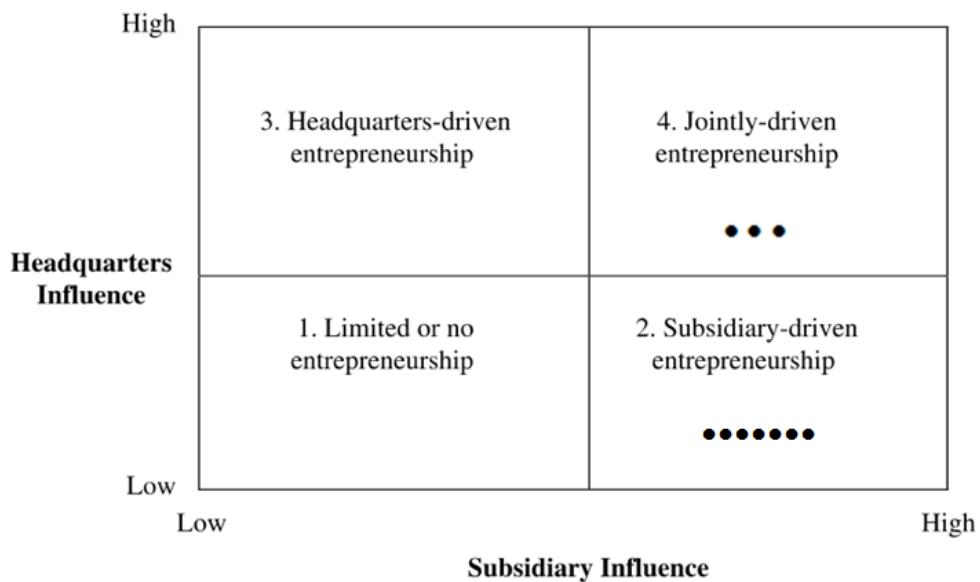
In order to determine where the entrepreneurial locus of control lies, the researcher applied an adaption of Boojihawon *et al.*'s (2007) study on the locus of control to the sample of this study.

Table 6.35 below provides an overview of the respondents' responses regarding different entrepreneurial loci of control.

**Table 6.35: Overview of objective 2, theme 11: Position of locus of control and the respective categories and subcategories which emerged**

Objective	Questions & probes as per interview guide	Interview data	
		Categories	Subcategories
	Themes <i>Questions</i>	(deduced from interview data)	
2. Determine where the entrepreneurial locus of control lies; with Libstar or with its subsidiaries.	11. Position of locus of control • Please indicate in which quadrant you think your organisation lies and why?	11.1 Locus of Control	Limited or no entrepreneurship Subsidiary-driven entrepreneurship Headquarters-driven entrepreneurship, Jointly-driven entrepreneurship

In order to establish where management viewed the locus of control within their organisation, the subsidiaries plotted where their entrepreneurial locus of control lies in comparison to Libstar's influence on a graph. Figure 6.6 presents the frequency of plots of each answer given by the interviewees.



**Figure 6.6: Plot of entrepreneurial locus of control**

*Note:* • represents interviewee responses when asked to place their company on Figure 6.6.

Subsidiary-driven entrepreneurship was the most common response given. The answers given by the respondents can be aligned with the literature from section 4.8.2.2 of chapter 4, which suggests that entrepreneurs should continue to feel in control of their organisations, as it is a vital element for the long-term success of the company (Birkinshaw & Morrison, 1995).

This view is also supported by the literature presented on the locus of control in section 5.2.8 of chapter 5. The subsidiary-driven locus of control denotes that the subsidiary is, for the most part, autonomous and maintains strategic control of its ventures. Assistance and strategic support from the parent company are sought when required.

A jointly-driven locus of control suggests that there is shared coordination and control of strategic ventures between the subsidiary and the headquarters, and that the central control of creative work and expertise is shared as well. Levels of autonomy vary between the two organisations (Boojihawon *et al.*, (2007).

### 6.3.3 Findings specific to objective 3

Objective 3:

Determine the influence of the acquisition on each subsidiary.

Subsidiaries can be understood as semi-autonomous units with the potential for entrepreneurial behaviour. Libstar, however, assumes responsibility for the definition of the strategic requirements of each subsidiary by using control and coordination mechanisms to direct the behaviour of subsidiary managers. Three categories and six subcategories emerged from the data in relation to the influence of the acquisition on each subsidiary (objective 3) during the interview process. These findings are presented below in Table 6.36.

**Table 6.36: Overview of objective 3, theme 12: Influence of the acquisition on each subsidiary and the respective categories and subcategories which emerged**

Objective	Questions & probes as per interview guide	Interview data	
		Categories	Subcategories
	Themes Questions	(deduced from interview data)	
<b>3. Determine the influence of the acquisition on each subsidiary</b>	<b>12. Influence of the acquisition on each Subsidiary</b> • What has been the biggest change that your company has experienced since being acquired by Libstar?	12.1 Structure	Systems
			Corporate Governance
			Security and Stability
		12.2 Financial Stability	Benefits
			Bolder Decisions
		12.3 Future Oriented	Expansion of Knowledge

The third objective of this study, and the last question of the interview guide, aimed to determine the influence of the acquisition on each subsidiary. The acquisition has led to improvements in each of the subsidiaries, whilst not affecting or changing the core values and entrepreneurial culture of the companies. Once the data were analysed using ATLAS.ti, the most prevalent changes that have been experienced by the subsidiaries were grouped into three different categories. These categories emerged once the data had been grouped and organised using the program's network analysis tool. The three different categories were financial stability, structure and a future-

oriented outlook for business.

Financial stability formed the first category. Greater benefits and being able to make bolder decisions were the primary elements of financial stability. This stability has also allowed for bolder decision-making as mentioned above in section 6.3.1.6 on risk-taking. Table 6.37 below presents a sample of the interviewees' responses regarding the financial stability with which Libstar has provided its subsidiaries. This addresses theme 12, category 12.2. These quotes further illustrate Libstar's positive contribution in terms of financial stability.

**Table 6.37: Financial stability of the subsidiary**

<b>Objective 3, Theme 12, Category 12.2</b>
<b>Benefits and bolder decisions</b>
<b>Respondent 3:</b> "We make much bolder decisions."
<b>Respondent 6:</b> "From a back office-type role they have also been very useful as we can get discounts from insurance, banking and benefits."
<b>Respondent 7:</b> "Financial control and discipline. We have become more controlled. Before being acquired by Libstar, I had a bookkeeper, not an accountant. Being a farmer, my financial background is there but it's not professional. [...] We had the financial successes, but afterwards we realised that the control was not there. When we became a member of Libstar, the financial structures were spelled out. We have certain guidelines and we follow those. So now those are the last things we worry about. We've got a great accountant now who is in control of everything. [...] I enjoy being a part of a bigger group in trade. [...] We are allowed to go out there with a stronger background to go wheel and deal."
<b>Respondent 8:</b> "This has been a positive change in terms of people, growth and systems being put in place - we never had medical aid, provident fund or disability aid. We never had any of these things in place. There has been great social development in terms of incentives."
<b>Respondent 10:</b> "Financial support. We wouldn't be able to be in this vicinity if it wasn't for Libstar."

Structure formed the second overarching category extracted from the interviewees' responses. In terms of structure, interviewees mentioned the systems, corporate governance, security and stability that have been put in place since being acquired by Libstar. These contributions have increased the operational efficiency of the subsidiaries. Table 6.38 below presents the interviewees' responses regarding the structural contributions made by Libstar to each subsidiary. This addresses theme 12, category 12.1.

**Table 6.38: Structure of subsidiaries**

<b>Objective 3, Theme 12, Categories 12.1</b>
<b>Systems, corporate governance, security and stability</b>
<b>Respondent 1:</b> “I think what has changed is that we as a business now, with the systems that Libstar have brought in, it has made us better understand this business. I think that’s been the biggest change. [...] We’re not alone now. We can speak to the Libstar Group for advice, which makes us feel a lot more comfortable. We feel a lot more relaxed, as a lot of the pressure has been taken off. It used to be a case of if something went horribly wrong with my business I would be left with nothing, whereas now I have the security of Libstar. Libstar has given us great stability.”
<b>Respondent 2:</b> “I think that we’ve become a lot more structured. When I came we were 25 people and now we’re over 120 people. It went from an R80 million turnover to now being over R600 million. The biggest thing is structure. Not formalised structure, just the necessary structure. They didn’t necessarily put it in; they just educated us and made us aware of how to better manage our business.”
<b>Respondent 5:</b> “We were granted the stability in order to grow and the need to expand and be noticeable in South Africa. [...] We didn’t have the foundation before. The relationship was just farmer-driven.”
<b>Respondent 6:</b> “We’ve got to know the South African market very well. And administrative improvements with regard to reporting structures, which has been very useful. Being forced to do a lot of reporting, forces you to be able to identify where you’re going wrong or where you’re going right.”
<b>Respondent 9:</b> “Definitely corporate governance.”

Being acquired by Libstar has encouraged the subsidiaries to become more future-oriented with their approach to business. Expansion of business knowledge has enabled the subsidiaries to focus on long-term goals, instead of the previous focus on immediate successes. Table 6.39 below presents the interviewees’ responses regarding the future-oriented approach of the subsidiary; addressing theme 12, category 12.3. These responses illustrate Libstar’s positive contribution to the subsidiaries and how this has benefited them.

**Table 6.39: Future-oriented long-term outlook of the subsidiary**

<b>Objective 3, Theme 12, Category 12.3</b>
<b>Knowledge expansion</b>
<b>Respondent 1:</b> “[...] And then the second thing is the structure of our business in the right way for the future.”
<b>Respondent 5:</b> “I would say that we’re forced to consider the future a lot more than we would have before. Budgeting is the biggest change. We are now forced to look at a three- to five-year budget. We used to just respond to the market. If our clients grew and if the opportunities we tried were successful, or unsuccessful, we would just carry on. [...] It’s very useful to set these long-term goals and to strive for bigger things.”

### **Summary of theme 12: The influence of the acquisition on each subsidiary**

The above categories and subcategories verify that all of the respondents view the acquisition as having positively changed to their company and having further provided them with the necessary platform for growth and development. The support of the

headquarters discussed above is in accordance with the literature presented on the perspective of headquarters assignment in section 4.4 of chapter 4. This perspective suggests that the headquarters may use control and coordination mechanisms to direct the behaviour and actions of their subsidiary managers (Birkinshaw & Morrison, 1996; Ghoshal, 1986; Gupta & Govindarajan, 1994; Roth & Morrison, 1992). This perspective further supports subsidiary entrepreneurial culture and the notion of subsidiary-driven entrepreneurship, where subsidiaries are able to seek assistance and strategic support from the parent company when required, and they have the ability to draw on the knowledge and resource pool of the parent company when necessary (Boojihawon *et al.*, 2007).

#### **6.3.4 Findings specific to objective 4**

Objective 4:

Develop a framework of characteristics of subsidiary entrepreneurial culture, which includes the necessary locus of control as well as the relevant support structures, in a post-acquisition environment.

A framework of subsidiary entrepreneurial culture, encompassing objectives 1, 2 and 3 discussed above, was developed with the aim to provide managers with an outline of the relevant determinants to enhance subsidiary entrepreneurship. Table 6.40 presents an overview of each objective and the key elements of subsidiary entrepreneurship that were deduced for each objective.

**Table 6.40: Overview of objective 4, theme 13: Developing a framework of characteristics of subsidiary entrepreneurial culture in a post-acquisition environment**

Objective	Questions & probes as per interview guide Themes <i>Questions</i>	Interview data	
		Categories	Subcategories
		<i>(deduced from interview data)</i>	
4. Develop a framework of characteristics of subsidiary entrepreneurial culture in a post-acquisition environment, which include the necessary locus of control as well as the relevant support structures.	13. Developing a framework	13.1 Characteristics of subsidiary entrepreneurial culture	New Business/Ventures Product Innovativeness Process Innovativeness Self-Renewal Risk Taking Proactiveness Competitive Aggressiveness Subsidiary Autonomy
		13.2 Locus of Control	Subsidiary Driven Entrepreneurship Structure: Systems Corporate Governance Security and Stability
		13.3 Headquarter Support	Financial Stability: Benefits Bolder Decisions Future Oriented: Expansion of Knowledge

## 6.4 FRAMEWORK OF SUBSIDIARY ENTREPRENEURIAL CULTURE IN A POST-ACQUISITION ENVIRONMENT

From the data discussed above, certain deductions and conclusions can be made. This section of the chapter summarises the findings from the primary and secondary objectives in response to the final research objective. This final objective is presented in the form of a framework, which encompasses all three of the above objectives. The main purpose of this framework is to provide assistance to managers seeking to stimulate a robust subsidiary entrepreneurial culture. Although the locus of entrepreneurship may vary within each subsidiary, it appears to be essential for management to maintain a strong vision and entrepreneurial orientation for their organisation. Furthermore, it is important for the headquarters to provide its subsidiaries with the necessary strategic support, assistance and expertise as required.

From the findings, the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment have been established. From the nine characteristics that were proposed based on the literature review, eight key characteristics remained relevant after the data from the interviews were analysed. The key characteristics that emerged were new businesses/ventures, product innovativeness, process innovativeness, self-renewal, risk-taking, proactiveness, competitive aggressiveness and subsidiary autonomy. Subsidiary entrepreneurial network management was not found to be a significant characteristic of subsidiary entrepreneurial culture. Although respondents confirmed that it is a beneficial characteristic, most answers put forward that it is not a prevalent characteristic within the Libstar Group. Libstar does not enforce sharing within the network, and most subsidiaries choose not to make use of the available channels.

Seven of the ten respondents said that their entrepreneurial locus of control continues to lie within the subsidiary itself. The subsidiary-driven locus of control indicates that the subsidiary is, for the most part, autonomous and maintains strategic control of its ventures. Assistance and strategic support from the parent company are sought when required (Boojihawon *et al.*, 2007). Subsidiary-driven entrepreneurship ensures autonomy, which is likely to enhance the presence of the above-listed entrepreneurial culture characteristics within a subsidiary, ultimately resulting in a successful and long-term acquisition.

When respondents were asked what influence the acquisition has had on their entrepreneurial culture, all of the respondents were positive about the effect Libstar has had on the growth and performance levels of their subsidiaries. The headquarters has offered them an effective structure and support. The three most important categories that emerged in this were financial support, offered in terms of benefits and granting subsidiaries the opportunity to make bolder decisions; structure in terms of systems, corporate governance and security; and inspiring a future-oriented approach to business through knowledge-sharing and expertise.

Figure 6.7 below presents a framework of characteristics of subsidiary entrepreneurial culture, which includes the necessary locus of control, as well as the relevant support structures required, in a post-acquisition environment.

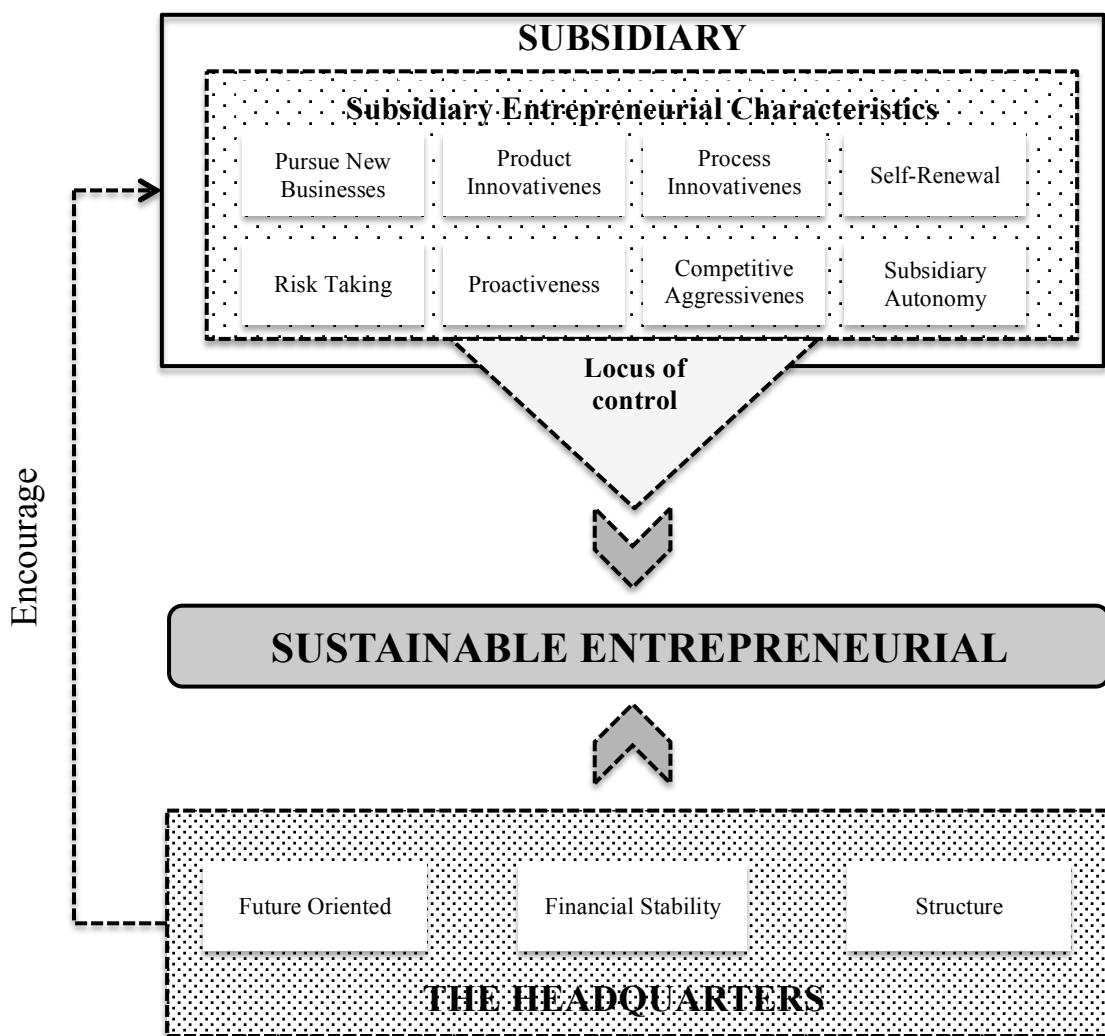
The eight characteristics of subsidiary entrepreneurial culture that were revealed by the interviewees, as being the most important for a subsidiary in a post-acquisition environment are presented in the rectangle titled ‘subsidiary entrepreneurial characteristics’. These characteristics are found within the subsidiary. These characteristics are indicative of what one would expect to see in an independent entrepreneurial company, prior to an acquisition. The only characteristic that has changed as a result of the acquisition is that of autonomy, which is now considered ‘subsidiary’ autonomy due to its existence in a post-acquisition environment. Apart from this characteristic, all other characteristics remain unchanged. From the nine characteristics that were proposed based on the literature review, it was deduced that subsidiary entrepreneurial network management was not a significant characteristic of subsidiary entrepreneurial culture. This characteristic therefore, does not appear in the framework.

The locus of control, which is most beneficial to the sustainability of an entrepreneurial organisation in a post-acquisition environment, was identified as ‘subsidiary-driven entrepreneurship’. This indicates that the subsidiary should remain largely autonomous and maintain strategic control of its ventures. A subsidiary-driven locus of control enables the subsidiary to benefit from assistance and strategic support from the headquarters when necessary (indicated by the small dotted arrow), whilst enabling the subsidiary to maintain executive control over their business.

In a post-acquisition environment, when the subsidiary requires assistance, the headquarters should provide three forms of support, namely financial stability, structures and a future oriented vision. Financial stability refers to the benefits provided by the headquarters to the subsidiaries as well as the ability for subsidiaries to make bolder decisions and bigger investments due to the assistance provided by the headquarters. The structure provided by the headquarters is evident in the systems, corporate governance, security and stability that the headquarters offer each subsidiary. Finally, a future oriented vision and approach to business should be instilled in each of the subsidiaries by the headquarters. This vision encourages subsidiaries to focus on the long-term goals of their subsidiaries, as opposed to focusing on immediate successes. These structures offer the necessary leadership, mentorship and strategic support to the subsidiaries. The role the headquarters plays

with regards to the entrepreneurial characteristics is to foster and encourage these characteristics within the subsidiary indicated by dotted line labeled ('Encourage').

One can deduce that an independent, entrepreneurial company will have entrepreneurial characteristics; however, with the support of the headquarters, the acquired subsidiary has the ability to remain a sustainable entrepreneurial organisation. This is indicated by the block labelled 'sustainable entrepreneurial organisation'. The final framework is presented below in figure 6.7.



**Figure 6.7: Framework of subsidiary entrepreneurial culture in a post-acquisition environment**

## 6.5 CONCLUSION

This chapter presented the major findings of the study. It began with a brief overview of the sample profile used for the study and the individuals that participated. Thereafter, each objective was discussed in relation to the themes that were addressed and the categories and subcategories that emerged during the data analysis process. The presentation of the empirical findings was accompanied by supporting quotations elicited during the interviews, and the findings were further substantiated by the supporting literature that was discussed in the literature reviews of chapters 2 and 4.

The key characteristics of subsidiary entrepreneurial culture were extracted. These were new businesses/ventures, product innovativeness, process innovativeness, self-renewal, risk-taking, proactiveness, competitive aggressiveness and subsidiary autonomy; and the necessary entrepreneurial locus of control was determined. The most relevant locus of control that emerged was subsidiary-driven entrepreneurship. The necessary changes required by the headquarters in terms of support were then listed. These included financial stability, structure and providing a future-oriented approach to business. Thereafter, a framework that encompasses the information from all of the above objectives was developed for managerial use.

## CHAPTER 7

### LIMITATIONS, CONCLUSIONS AND RECOMMENDATIONS

#### 7.1 INTRODUCTION

Subsidiaries are no longer viewed as mere secondary components of their parent companies, but as semi-autonomous business units which have the ability to exhibit independent and entrepreneurial behaviours of their own (Birkinshaw *et al.*, 1998). The importance of nurturing and integrating the different entrepreneurial cultures is often neglected during the acquisition process due to the focus on financial and strategic gains (Birkinshaw *et al.*, 2004). This is seen to negatively affect the performance of an acquisition and may result in failure (Barkema & Schijven, 2008). As a consequence thereof, entrepreneurial culture continues to be an area of concern and one that requires direct attention after an acquisition has taken place. Another area that leads to this concern is the effect that the headquarters has on the subsidiary once the acquisition has taken place.

This research set out to prove that subsidiary entrepreneurial culture in a post-acquisition environment is different to that of entrepreneurial culture in an independently owned company. The difference herein lies with the fact that an acquired company is constantly required to take the headquarters into consideration. Corporate decision-making structures and financial targets are two elements that need to be considered.

The study therefore aimed to address the original research problem of the lack of clarity in many subsidiaries' knowledge of what constitutes entrepreneurial culture. Furthermore, much of the literature on subsidiary entrepreneurial culture is unclear as well. The theme of subsidiary entrepreneurial culture remains unexplored in business literature, and is believed to have notable research and managerial significance (Boojihawon *et al.*, 2007).

In this chapter, the empirical results from the study are addressed. The chapter begins by providing a brief overview of the literature of this study, as well as the study's objectives. Thereafter, the chapter provides a synopsis of the findings as well as the relevant conclusions. The chapter then discusses the limitations of the research and

recommendations for future research, and concludes with the managerial implications that arose from the outcomes.

## 7.2 OBJECTIVES OF THE STUDY

The research objectives of the study were made up of a primary objective and three secondary objectives. The primary objective was to determine the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment.

The secondary objectives were as follows:

- Determine whether the entrepreneurial locus of control lies with the headquarters, with its subsidiaries or jointly.
- Determine the influence of the acquisition on each subsidiary.
- Develop a framework of characteristics of subsidiary entrepreneurial culture in a post-acquisition environment, which include the necessary locus of control as well as the relevant support provided by the headquarters in a post-acquisition environment.

These objectives aimed to address the research problem discussed above.

## 7.3 SYNOPSIS OF THE STUDY

A review of the existing literature on entrepreneurial culture, mergers and acquisitions, multinational subsidiary entrepreneurial culture and international entrepreneurial culture was presented in order to better understand the complex construct of subsidiary entrepreneurial culture in a post-acquisition environment. The review of the literature on entrepreneurial culture, multinational subsidiary entrepreneurial culture and international entrepreneurial culture presented the relevant characteristics of subsidiary entrepreneurial culture. The chapter on mergers and acquisitions provided an understanding of acquisitions and the acquisition process. The above-mentioned body of literature aided in the construction of the primary research instrument needed to attain the study's research objectives.

The primary objective of this study was to gain an understanding of subsidiary entrepreneurship in a post-acquisition environment. The size of the sample for this

particular study included two participants from each of five of Libstar's sixteen subsidiaries, which compete in the private-label foods and beverage industry. The qualitative, exploratory research was carried out using a multiple case study method and the data were analysed using ATLAS.ti. In order to achieve the primary objective, it was necessary to explore the key characteristics that help perpetuate entrepreneurial culture in a subsidiary in a post-acquisition environment. Such research has significant theoretical interest, as the study of entrepreneurship in a post-acquisition subsidiary environment is still at a relatively early stage of development (Birkinshaw *et al.*, 2005; Boojihawon *et al.*, 2007).

As mentioned in the literature on intrapreneurship in section 2.10 of chapter 2 and in the literature on multinational subsidiary entrepreneurial culture in section 4.8 of chapter 4, as well as the literature on international entrepreneurial culture in section 4.14 of chapter 4, nine independent entrepreneurial characteristics were suggested to be relevant for subsidiaries in a post-acquisition environment. These characteristics included (i) new businesses/ventures; (ii) product innovativeness; (iii) process innovativeness; (iv) self-renewal (v) risk-taking; (vi) proactiveness; (vii) competitive aggressiveness; (viii) subsidiary entrepreneurial network management; and (ix) subsidiary autonomy.

Based on the literature presented in chapters 2 and 4, an interview guide was developed containing questions and prompts so as to elicit the necessary information from the participants in order to answer the research objectives of this study (See Appendix B). This interview guide was developed using Hill's (2003) questionnaire for guidance as a starting point for this process. Hill's questionnaire assisted in identifying the types of open-ended questions and prompts that were used to extract the relevant information from the interviewees.

Secondary objectives were included to broaden the scope of the study on subsidiary entrepreneurial culture. The first of the secondary objectives set out to determine the desired entrepreneurial locus of control that should exist between the headquarters and the subsidiary. Subsidiaries were asked to plot on a graph where they thought their locus of control lay. The following secondary objective set out to determine the influence of the acquisition on each subsidiary. The relevant elements of headquarters

support that are required by subsidiaries in order to ensure a smooth and successful acquisition integration process were studied.

## **7.4 SUMMARY OF THE EMPIRICAL FINDINGS OF THE STUDY**

The findings are presented below and are substantiated by relevant supporting literature. Emphasis is placed on those instances where studies provide support for or contradict certain findings. The discussion is presented according to each objective, and according to the relevant themes and categories that emerged during the data analysis process.

### **7.4.1 Summary of the key characteristics of subsidiary entrepreneurial culture in a post-acquisition environment**

It was found that eight of the nine suggested characteristics of subsidiary entrepreneurial culture proved to be important. These were (i) new businesses/ventures; (ii) product innovativeness; (iii) process innovativeness; (iv) self-renewal, (v) risk-taking; (vi) proactiveness; (vii) competitive aggressiveness; (viii) subsidiary entrepreneurial network management; and (ix) subsidiary autonomy. Subsidiary entrepreneurial network management however, proved to be a less important element for the subsidiaries. The nine themes are presented below.

#### **7.4.1.1 Entrepreneurial organisation**

The most prevalent theme that emerged when asking interviewees about their entrepreneurial status since being acquired by Libstar was autonomy. All of the subsidiaries confirmed that their businesses continue to be run as independent entities and that business is conducted in much the same way as it was prior to the acquisition. The core cultures of the companies have not changed. Due to the fact that the levels of autonomy and decision-making authority have remained high, entrepreneurs continue to be responsible for the entrepreneurial culture present inside their organisations. This finding is in line with the ‘subsidiary choice perspective’ discussed in section 4.4 of chapter 4, which suggests that the role of the subsidiary should be predominantly decided upon by subsidiary management (Birkinshaw, 1995; Roth & Morrison, 1992).

#### **7.4.1.2 New businesses/ventures**

It was found that most subsidiaries actively search for new business opportunities both internally and externally. This active search for new businesses and ventures ties in with the literature presented on new businesses/ventures in section 2.10.1 of chapter 2. This literature highlights the importance of entering into new markets by suggesting that it be done through the expansion of internal businesses (Zahra, 1991) and external ventures (Hisrich & Peters, 1984; MacMillan *et al.*, 1984; Vesper, 1984; Guth & Ginsberg, 1990; Sharma & Chrisman, 1999). This pursuit of opportunities was highlighted as an avenue for growth and as a way to protect market share and increase profitability.

#### **7.4.1.3 Product innovativeness**

The data found in relation to the theme of product innovativeness displayed a positive relationship between the frequency with which product ranges were reviewed and the implementation rate of new ideas and products. This relationship is supported by the findings suggested in section 2.10.2 in chapter 2, which indicates that product innovativeness is key to sustaining a company's entrepreneurial culture (Schollhammer, 1982).

#### **7.4.1.4 Process innovativeness**

Process innovativeness was exhibited by the subsidiaries in terms of the specialisation of existing business processes and the purchasing of new plants and machinery and the expansion of existing facilities. These findings were complemented by the literature presented on process innovativeness in section 2.10.2 of chapter 2, which highlights the relevance of advancements in products and production methods and the significance of innovation and technology (Schollhammer, 1982; Zahra, 1993).

#### **7.4.1.5 Self-renewal**

The empirical results revealed that most interviewees find strategic reformulation and reorganisation important for their subsidiaries in order to ensure growth and keep up with change. The literature on self-renewal presented in section 2.10.5 of chapter 2 supports these findings by confirming that continuous renewal and flexibility are

essential elements of a successful entrepreneurial company (Muzyka *et al.*, 1995; Stopford & Baden-Fuller, 1994).

#### **7.4.1.6 Risk-taking**

Most respondents revealed that their decision-making processes are bold, but have become more calculated since being acquired by Libstar. Calculated decisions refer to those decisions that are bold, but involve continuous evaluation of the risks involved. The literature presented on risk-taking in section 2.10.4 of chapter 2 supports active levels of risk-taking behaviour in entrepreneurial organisation (Lumpkin & Dess, 1997; Lumpkin, 1998; Stopford & Baden-Fuller, 1994).

#### **7.4.1.7 Proactiveness**

The empirical results showed that subsidiaries anticipate future opportunities through actions such as investing in potential business opportunities, investigative business travel and by tracking new trends in the marketplace. This displayed a positive relationship with the literature presented on proactiveness in section 2.10.5 of chapter 2, which argues that companies should continually look to pursue new business prospects and venture into unknown markets (Lumpkin & Dess, 1996).

#### **7.4.1.8 Competitive aggressiveness**

A number of direct and proactive actions were revealed when assessing the level of competitive aggressiveness that exists within each subsidiary. These actions included travel, networking and tracking trends, as well as ensuring that large investments are being made and value is being added to products in order to maintain competitive advantage in the market. The respondents' answers display a positive relationship with the literature presented on competitive aggressiveness in section 2.10.6 of chapter 2, where Covin and Slevin (1991) support these competitive behaviours.

#### **7.4.1.9 Subsidiary entrepreneurial network management**

The amount of interaction and communication between the subsidiaries contradicted the literature presented in chapter 4 of this study. It was revealed that most respondents find subsidiary entrepreneurial network management to be a beneficial characteristic of subsidiary entrepreneurship, but not an essential one. Subsidiaries

did not find this characteristic to be of much importance to the success of their entrepreneurial culture in a post-acquisition environment, and although Libstar encourages interaction amongst the group, they do not enforce it. The literature on subsidiary entrepreneurial network management from section 4.8.2.1 of chapter 4 suggests that communication and knowledge sharing should be encouraged and maintained within an interorganisational network (Ghoshal & Bartlett, 1990).

#### **7.4.1.10 Subsidiary autonomy**

Most of the respondents said that their entrepreneurial culture is subsidiary-driven. The high levels of subsidiary autonomy that exist amongst Libstar's subsidiaries agreed with the literature presented on subsidiary autonomy in section 4.8.2.2 of chapter 4. This literature maintains that subsidiaries should be predominantly autonomous and should only receive guidance and strategic assistance from the parent company when required (Birkinshaw & Morrison, 1995; Martinez & Jarillo 1991).

#### **7.4.2 Subsidiary entrepreneurial locus of control in a post-acquisition environment**

A positive relationship was revealed between the answers given by the respondents regarding the entrepreneurial locus of control that exists within their subsidiaries and the literature on subsidiary-driven locus of control presented in section 5.2. 8 of chapter 5, which states that the subsidiary is largely autonomous and maintains strategic control of its ventures. Assistance and strategic support from the parent company is sought when required (Boojihawon *et al.*, 2007). Seven of the ten respondents believe that their entrepreneurial locus of control is subsidiary-driven, and the remaining respondents believe that their locus of control is jointly-driven. According to Boojihawon *et al.* (2007), this locus of control indicates that there is a shared coordination and control of strategic ventures, and that there is a central control of creative work and expertise.

#### **7.4.3 The influence of the acquisition on each subsidiary**

The most prominent influence that the acquisition has had on each subsidiary has been in terms of the financial stability, structure, and encouragement towards adopting a future-oriented approach to business with which Libstar has provided

them. These elements have made possible the necessary growth and expansion which subsidiaries otherwise might not have been able to achieve. These empirical results show a positive relationship with the literature presented on the perspective of headquarter assignment in section 4.4 of chapter 4. This perspective suggests that the headquarters should use control and coordination mechanisms to direct and support the behaviour and actions of subsidiary managers where necessary (Birkinshaw & Morrison, 1996; Ghoshal, 1986; Gupta & Govindarajan, 1994; Roth & Morrison, 1992).

#### **7.4.4 Framework of characteristics of subsidiary entrepreneurial culture in a post-acquisition environment**

After the above objectives were satisfied, a framework for subsidiary entrepreneurial culture in a post-acquisition environment was developed based on the relevant findings. This framework highlights the key entrepreneurial characteristics that should be present in a subsidiary in a post-acquisition environment, the preferred entrepreneurial locus of control, and the support needed from the headquarters in order to encourage subsidiary growth and development.

The framework offers managers the potential to shape and influence subsidiary entrepreneurship once an acquisition has taken place in order to ensure a smooth and successful acquisition process and to maximise the long-term growth potential and profitability of the business transaction.

#### **7.5 LIMITATIONS OF THIS STUDY**

Although the present study aimed to contribute to the understanding of subsidiary entrepreneurial culture in a post-acquisition environment, certain areas still remain uninvestigated and should be expanded on. Based on the outcomes of this study, the following limitations are stated.

Firstly, this study's sample was limited to South African subsidiaries. This was due to the time and financial constraints of the study. Opportunities therefore exist for further research to be conducted on subsidiaries from different countries. Individual values and experiences that influence each individual's perception of subsidiary entrepreneurial culture may differ from country to country.

Secondly, the primary source of data was from the viewpoint of the subsidiary. It is therefore recommended that further research be done by examining and integrating views from both the subsidiary and the headquarter level.

Thirdly, the size of the study sample means that limited generalisations can be made. Five cases represent a small sample size, leaving room for error of judgment. Along with this, the fact that all subsidiaries were acquired by the same parent company may cause a selection bias, which could influence the outcomes of this study. Therefore, future research into subsidiary entrepreneurial culture in a post-acquisition environment may incorporate investigations based on larger samples of organisations, and consider subsidiaries from different headquarters. This will give more strength to the findings and provide a better basis for generalising results.

## 7.6 SUGGESTIONS FOR FUTURE RESEARCH

This research has highlighted the positive impact of subsidiary entrepreneurship and aimed to close some of the knowledge gaps that exist in many researchers' understanding of the phenomenon. This research has contributed to the body of literature concerning what happens to the entrepreneurial culture within the subsidiary after being acquired by a larger entity. However, there is much room for expansion on the topic.

The following suggestions are offered for future research:

Since Libstar currently has sixteen subsidiaries operating under its umbrella, they are able to grant their subsidiaries the freedom and novelty to be subsidiary-driven entrepreneurial companies. This approach to headquarters' support helps to make the Libstar Group successful. In saying that, however, it is necessary that the organisation address the issue and possibility of growth. At what point can a holding company no longer allow their subsidiaries to have control over their own entrepreneurial culture? How many organisations are too many? It is important that organisations be able to answer these questions, as allowing high levels of autonomy may prove detrimental to the organisation's expansion and long-term survival.

Another research avenue worth exploring is how the increased autonomy that the subsidiaries are being granted affects the speed and efficiency in their decision-

making processes. What effect does the reduced influence from the headquarters have on the ability to integrate and execute management procedures efficiently?

Following on from the suggestions above, it may be necessary to explore what would happen to the subsidiaries' satisfaction levels if autonomy were to be taken away, and how this would affect entrepreneurs' views about undergoing an acquisition.

Future research could determine both the internal characteristics and the external influences of subsidiary entrepreneurial culture and see what influence the two might have on each other. Finally, it may be relevant to replicate this study on an MNC to determine if the results might vary due to the additional pressures competing in the international marketplace might place on management and the subsidiary alike.

## **7.7 MANAGERIAL IMPLICATIONS**

It is generally assumed that the success of entrepreneurial ventures depends greatly on the entrepreneurial spirit of the entrepreneur. In the event that an entrepreneurial venture gets acquired, how post-acquisition culture affects the entrepreneurial spirit and how this in turn impacts the overall outcome of an acquisition is of obvious interest to current and prospective headquarter managers.

The findings from the interviews indicate that of the nine suggested entrepreneurial characteristics of the entrepreneurial subsidiary, subsidiary entrepreneurial network management was seen to be a beneficial characteristic of entrepreneurial subsidiary culture, rather than an essential characteristic. However, this finding was contradictory to the literature presented on the topic in the literature review. It may be useful for managers to introduce network management structures strategically, with caution, and with the necessary consultation in order to prevent opposition on the part of independently minded and self-governing entrepreneurs. Although there was recognition of the general benefits of network management, respondents did not indicate a dependence on it for future successful outcomes.

In terms of locus of control, the findings indicate that the locus of control of entrepreneurship should be subsidiary-driven. The recognition of the characteristics that are favorable to subsidiary entrepreneurship suggests that managers of subsidiaries could potentially shape and influence entrepreneurship within the

subsidiary. This has the possibility of leading to improved performance outcomes for both the subsidiary and the parent company (Birkinshaw & Hood, 1998).

Allowing subsidiaries the autonomy to maintain strategic control of its ventures and to seek assistance and strategic support from the parent company when required enables the subsidiary to exhibit entrepreneurial behaviour. Managers can use this study in order to determine in which areas subsidiaries would benefit most in terms of contributory support. This support can be in the form of financial stability, structure, and encouraging entrepreneurs to focus on the long-term rather than on immediate successes. Managers could use this study to benefit their entire organisation, instead of imposing headquarter-driven control over its subsidiaries. The chances of a successful acquisition could be enhanced by allowing entrepreneurs to manage their companies with the same degree of autonomy as they did before the acquisition.

Lastly, the framework compiled for subsidiary entrepreneurial culture in a post-acquisition environment could serve as a guideline for managers to refer to when examining entrepreneurial culture within existing subsidiaries, or when considering the compatibility of different entrepreneurial cultures in possible future acquisitions. Thus, used as an operational framework, it could serve as an effective tool for managers to identify and address challenges arising within existing or future acquisitions.

## 7.8 CONCLUSION

The main contributions of this study are towards the expansion of the body of knowledge that exists on subsidiary entrepreneurial culture, and towards clarifying the meaning of the complex concept for subsidiaries in a managerial context. The implications of this study's research are mainly concerned with the human level of the acquisition. Without being aware of the human aspect of the acquisition, the motivation for change could receive resistance, resentment, and rejection from all stakeholders and even run the risk of a failed acquisition (Simmons, 1988). This study has provided insight into why strong entrepreneurial culture, subsidiary autonomy and support from the headquarters are the three core drivers of a successful subsidiary entrepreneurial culture in a post-acquisition environment.

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## **APPENDICES**

## APPENDIX A – INTERVIEW FACILITATION EMAIL

Dear All

### **RE : Master's Degree Thesis by Mischa de Nobrega**

I need your help and co-operation which will be very much appreciated. It will entail a 1 hour interview with Mischa. The purpose being to complete an interview guide as part of her Master's Degree thesis in Information and Knowledge Management through the University of Stellenbosch.

The thesis is about entrepreneurship using Libstar and your selected companies as basis for her research which has the following objectives:

What are the characteristics of subsidiary entrepreneurial culture, post-acquisition i.e. your company's characteristics before and after acquisition by Libstar.

- To explore the locus of subsidiary entrepreneurship before and after acquisition by Libstar and whether entrepreneurial activities are determined by the subsidiary itself, Libstar or both.

The study will be of great value to the Group, helping us all to know how to build or maintain an entrepreneurial culture, post acquisitions.

Mischa would like to have the interviews with yourself and someone else in your management team to be nominated by you at your respective offices. I have asked Janine to co-ordinate dates/times with you. Please let us have the name of the other person we need to include and send this mail too.

Please call me if there are any questions.

Thank you.

**André Naudé**

## **APPENDIX B – INTERVIEW GUIDE**

### **CHARACTERISTICS OF SUBSIDIARY ENTREPRENEURIAL CULTURE IN A POST-ACQUISITION ENVIRONMENT: THE CASE OF LIBSTAR -INTERVIEW GUIDE-**

**Company Name:** \_\_\_\_\_

**Interview number:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**Respondent Name:** \_\_\_\_\_

**Respondent's Tenure with Company:** \_\_\_\_\_

**Respondent's Position in the Company:** \_\_\_\_\_

**Time in Position:** \_\_\_\_\_

**Age of Company:** \_\_\_\_\_

**Date Acquired by Libstar:** \_\_\_\_\_

\_\_\_\_\_

**Primary Objective:**

Determine the key characteristics of a subsidiary entrepreneurial culture in a post-acquisition environment.

**Question 1: Introduction – Entrepreneurial Organisation:**

You were labelled as an entrepreneurial company pre-acquisition.

Why would you label yourself as an entrepreneurial company? Are there any specific characteristics of your entrepreneurial culture present post-acquisition?

**Question 2: New Businesses/ Venturing:**

Does your organisation actively search for new business opportunities?

Are these opportunities for internal or external ventures?

(If internal): Are these new streams within your existing product line?

(If external): Are these new start-ups outside of your organisational domain?

How does Libstar facilitate this process?

**Question 3: Product Innovativeness:**

Since being acquired by Libstar, is there sufficiently more resource slack allowing people to experiment with product development? Please explain.

How often do you review your product range?

What kind of a relationship is there between the number of new ideas and the number of new ideas implemented?

**Question 4: Process Innovativeness:**

Can you comment on any new methods or technological operational processes that have been introduced recently?

If yes: What motivated these developments?

Were these developments done as an internal process or is it done in conjunction with Libstar?

**Question 5: Self-Renewal:**

How much emphasis is placed on strategic reformulation and reorganisation?

Why is this important to your organisation?

**Question 6: Risk-Taking:**

Would you describe your company's decision-making processes as cautious or bold?

Please explain if the fear of failure and uncertainty have anything to do with this?

Has being acquired by Libstar influenced this?

**Question 7: Proactiveness:**

What does your organisation do to anticipate future opportunities?

Can you give me an example of any recent pioneering developments?

**Question 8: Competitive Aggressiveness:**

How does your organisation detect external threats in the market place?

What competitive actions do you take in order to keep abreast with, or stay abreast of, these threats?

**Question 9: Subsidiary Entrepreneurial Network Management:**

Please explain the degree of interaction and communication that exists internally between your company and the other the subsidiaries?

(If information and ideas are shared): Please specify what spheres of business are shared.

Does Libstar encourage this?

**Secondary Objective:**

Determine where the entrepreneurial locus of control lies; with Libstar or with its subsidiaries

**Question 10: Subsidiary Autonomy:**

Tell me about the decision making structures in your organisation?

Does Libstar have an influence over this?

Please indicate in which quadrant you think your organisation lies and why?

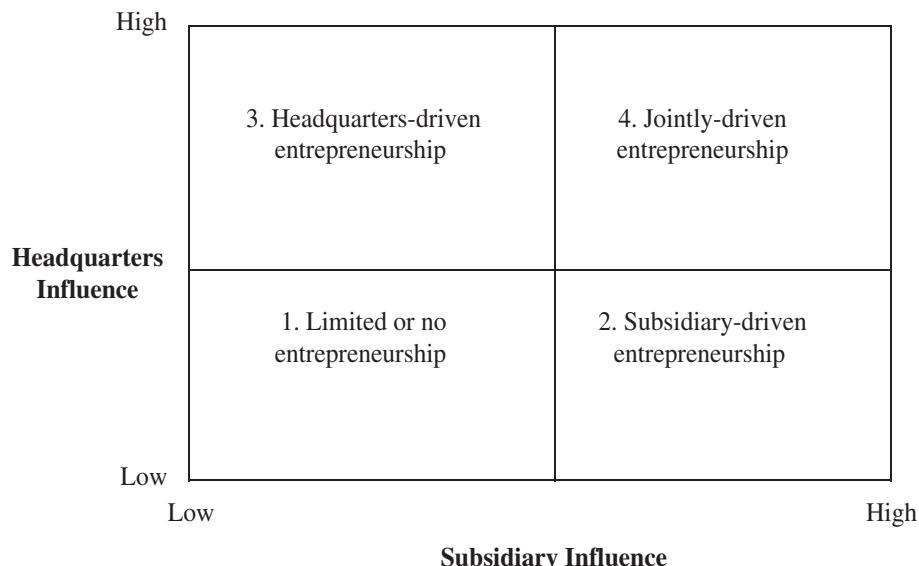


Fig. 1. Locus of Subsidiary Entrepreneurship.

**Secondary Objective:**

Determine what has been the biggest change in each subsidiary since being acquisition by Libstar.

**Question 11: Influence of Acquisition on each Subsidiary:**

What has been the biggest change that your company has experienced since being acquired by Libstar?

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 1

**Company:** **Rialto**

**Respondent Number:** **Respondent 1**

**Position in Company:** **CEO**

**Year company was founded:** **1998**

**Date acquired:** **2006**

**Question 1: Introduction:**

You were labelled as an entrepreneurial company pre-acquisition.

Why would you label yourself as an entrepreneurial company? Are there any specific characteristics of your entrepreneurial culture present post-acquisition?

**Response:**

*The main reason why we were entrepreneurial was that we were not a corporate. We were a small, quick decision-making company and we were really driven for success in the sense that we didn't ever have to go back to a board or a corporate structure. Everything slows down the decisions when such structures are involved. We were quick decision makers, quick thinkers, active on our decisions – right or wrong, we would take risks, which a corporate structure does not really allow for. We took risks and we grew our business. Fundamentally, this has not changed.*

*It hasn't fundamentally changed since being acquired by Libstar, but we are much more structured as a business and we obviously have to report back on a weekly basis with how we're doing, and then we have our quarterly board meetings where we report back to our shareholders on our performance and on our projections for year end. But from an actual running of the business, we still run it like an entrepreneurial company. I still see the company as my own.*

**Question 2: New Businesses/ Venturing:**

Does your organisation actively search for new business opportunities? Are these opportunities for internal or external ventures?

- (If internal): Are these new streams within your existing product line?
- (If external): Are these new start-ups outside of your organisational domain?
- How does Libstar facilitate this process?

**Response:**

*Yes. We do a bit of both*

*Within the categories that we work, we're continuously trying to expand within those product lines.*

*And then with outside of our current catalogue, we venture into new stuff. We have a dedicated team in the business that just does that. For example, the business has changed from where we were before and today we can say that for next year we're looking at probably 96 new products that we want to launch into the market and we've got a plan for each one of those products. What is our success rate? It's above 80% with everything that we launch.*

*With Libstar, we now have a much more structured plan. The size of our business warrants that structure now. So we've got a full dedicated team that manages that.*

*They do facilitate the process. They have people that come from a sales and marketing background and they understand how to structure a range and how to present it to the market. We have learnt how to focus on categories and how to implement these categories successfully.*

**Question 3: Product Innovativeness:**

Since being acquired by Libstar, is there sufficiently more resource slack allowing people to experiment with product development? Please explain.

How often do you review your product range?

What kind of a relationship is there between the number of new ideas and the number of new ideas implemented?

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 1

**Response:**

*No. I wouldn't say that. The nature of our business is still exactly the same. We're just doing things a bit better now.*

*We actually review our product range, for example now at the end of the financial year, we will look at budgeting for next year and we will relook at the success and failures of our ranges and based on that we will review the ranges for next year. 85% of this business is Woolworths so we do everything private label for Woolworths. They review their categories 3-4 times a year with us and now they have released four windows that you can release in a year so now it's being done more frequently, but before it was just twice a year. Once we do our budget for next year, we'll review them in March.*

*What we do is, we go category by category. We'll take a category and look at each one of the items in that category. We'll analyse each product by doing extensive market research. We'll analyse the price of the products on the shelves, we'll look at the success of the products and generally we'll say about 70-80% of those ideas we'll implement. We then say that about 80% of those ideas are successful. So it's a relatively high percentage.*

**Question 4: Process Innovativeness:**

Can you comment on any new methods or technological operational processes that have been introduced recently?

If yes: What motivated these developments?

Were these developments done as an internal process or is it done in conjunction with Libstar?

**Response:**

*Yes. Because our business has grown tremendously over the last few years, we have decided to become incredibly focused on what we do and on every sphere of our business. In the past we used to say distribution, logistics, warehousing fell all under one. But from an operational point of view, we realised that that doesn't really work. So now we've taken out planning and forecasting out of that. I believe that that is the backbone of our business so if we don't do that properly we either have under stock or over stock of the business and that affects the commercial side of the business so we've taken that out of the distribution arm and moved it to the commercial arm. So we dictate with the forecasting and planning people what stock we want to hold. At least we can then measure ourselves and how we're performing. In the past it used to be a blaming game about: you didn't order for me so we didn't achieve our sales. We've changed that way of working now and its working very well for us.*

*Another thing with our business growing so much, we have a lot more categories now so we have a lot more people working for those categories now, which we never had before. So instead of having one person doing 20 categories, we now have 3 people doing 20 categories so it's a lot more focused on that side. And we have also obviously improved on our commercial side of the business. We have employed two financial people, CA's, if you want to call them that, that are more business intelligent and numbers intensive so we are managing our gross profit within the categories so now we can see what each product is delivering to us wherein the past we never had that.*

*When you go from entrepreneurship to being acquired my Libstar, our thinking has changed a lot. Where we used to make R100 000 we would put R50 000 into our pockets and the other R50 000 would go straight back into the business, but now we are more focused on the future and on reinvesting our money and putting it back into the business, while growing our shares and our personal values of our shares for a potential buyout in the future. So it's no longer about the short term. It's more about looking at the long term.*

*I understand my business a lot better now and each function in my business is so much better understood. Libstar has given us all of this and they have taught us how to make our bottom line more efficient, as well as where we can make and save money.*

*The business needs it. When your business grows it needs it, or else it will fall apart. People have to have structure. If you want to grow, we can only do it by being structured and having our goals in place.*

*We have a full time HR person that has come in thanks to Libstar and his primary job for the next two years is to first of all to put systems in place as well as score cards off which we can measure our employees and how they're doing their jobs. We are currently in the process of deciding whom we want to take forward in this business from a succession point of view. We've put together a whole development programme for 29 people. And out of those 29 people, we are going to select 10 people that will have one on one coaching.*

**Question 5: Self-Renewal:**

How much emphasis is placed on strategic reformulation and reorganisation?

Why is this important to your organisation?

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 1

**Response:**

*I must say that in the last 2 years it has been very high. We have put a lot of time and effort into it. Our management team have all dedicated our time to it.*

*Change is needed. Change is for the better and if we are not ahead of the game, we're just going to fall behind. Structure is key in today's economy.*

*I don't enjoy spending time on reformulation and reorganisation. Its tiring and being an entrepreneur is most certainly not something I enjoy doing, but we've had to and we've seen the benefits thereof.*

**Question 6: Risk-Taking:**

Would you describe your company's decision-making processes as cautious or bold?

Please explain if the fear of failure and uncertainty has anything to do with this?

Has being acquired by Libstar influenced this?

**Response:**

*I think we're bold. Risk needs to be calculated, but I strongly believe that in our business*

*We had to invest R10 million into our business a few years back if we wanted to bring product out of Italy that we could slice it and dice it and pack it over here so that we could give our customers a fresh product. Everybody was against that idea; even Woolworths said that if it went wrong that it's not their problem. We did it due to being able to respond quickly with regards to a spike or a decrease in sales. Initially we were feeling the effects of sales due to the short shelf life of 45 days of our produce and the fact that we would have to wait for 8 weeks for our orders to arrive. But now with our cutters we are able to store produce for up to three months at a time. Now we can buy in bulk with an excellent shelf life.*

*The only way to grow our business was to make bold decisions and put up a factory here. We are now seeing a 65% growth per year.*

*Another bold decision that I'm wanting to make, but I have Woolworths and Libstar against me, is to have more storage space. They both think it is an unnecessary waste of money, but I'm looking five years down the line. It's a stock holding process. So the bold decision is that we're going to hold x amount of millions of stock, but we're not going to finance it. We're going to get our suppliers to finance it and whenever Woolworths needs the stock, we'll pay our suppliers. So our storage space will almost become a storage space for our suppliers. So we're in the negotiation process at the moment.*

*But the nice thing with Libstar is that although it's a corporate and although we are controlled by some very important stakeholders, they also have an entrepreneurial mind-set so they support our bold decisions.*

*No. if we fail, and we have failed in the past, we fix it! Obviously all of our risks are calculated and we can't fail all the time, but we fix it!*

*No. We make our decisions and we run them by Libstar, but they have not influenced the way we make our decisions. We have been one of Libstar's best performing groups so they don't bother us much at all.*

**Question 7: Proactiveness:**

What does your organisation do to anticipate future opportunities?

Can you give me an example of any recent pioneering developments?

**Response:**

*For example, if we decide that we want to go into a new range that is frozen, and I believe that frozen is one of the channels that South Africa is really underperforming and has got very small distribution of frozen products so what we'll do is we will try and do in this business is invest as little money as possible into cold storage because we obviously don't want to over-invest because it's quite an expensive exercise, so we're saying frozen is the future. What we're wanting to do is have a small amount of storage space to begin with and hire out storage space in the beginning to satisfy the market. With this we can draw weekly from the storage and we can test the market. And then based on that we can figure out if we must expand and invest money in the future.*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 1

*At the moment we're focusing a lot of our attention on frozen goods. We have started importing frozen bread from France. It's gone from zero to about R700 000 of sales so we're saying there is an opportunity.*

**Question 8: Competitive Aggressiveness:**

How does your organisation detect external threats in the market place?

What competitive actions do you take in order to keep abreast with, or stay abreast of, these threats?

**Response:**

*A massive external threat for our business and a threat over which we have no control is the exchange rate. And a big problem today is that people have less and less disposable income in their pocket than they used to have. So with the rand becoming weaker, our products are becoming more expensive. We work in a niche market, in an expensive market, and yes we always used to say that if a packet of Parma ham that used to cost R60, goes up to R80, then the same people that could afford the R60 can afford the R80. But that's not the case anymore. I think that it's all changing. Even the people with more money can't afford these luxuries anymore and that's a massive threat for us.*

*On external threats, competition, I'm quite arrogant about that. I say that my shadow is my threat. I strongly believe that if I fail or if we as a company fail in delivering then we will fail and therefore allow competition to take over.*

*So for me, because we are an import company, anyone can start an import company. You can start importing pasta tomorrow if you want to and start selling it. But for me, it's the decision to have a slicing plant to cut these meats, which puts me ahead of the market. So if my competitors want to compete with me on cold meats, they'll have to spend R10 million to invest in the same plant, but they're 5 years behind.*

*In my head, it's what is difficult to import. Let's go and look at products that other people can't do because either it's a major investment or investment in either buying the product or putting in an infrastructure. So that's what we look for. A lot of our competition look for easy imports, where as we are always looking to be ahead of the market. The infrastructure that we've got in terms of our 'people' infrastructure, nobody's got. We've got a seriously advanced product development teams that are dedicated and focused on a range of products, we've got a financial team that's dedicated, we've got planning teams that are dedicated, we've got food service teams that are dedicated. So the way we've done it is that our competition can't even come close to getting what we've got.*

*The next step we have took was to make the bold decision to go to Asia. But this wasn't easy. None of us know or understand the Asian market. So the best thing for us to do was to buy a business that already exists there and being them over. So we bought taste of Asia and taste of Japan. It cost us a lot of money, but we currently hold the whole of the Asian section in Woolworths and its doing incredibly well. And that's us being ahead of our game again. Our competitors have got too much time to make up.*

*What we've also started seeing which has been fascinating for us is that suppliers are starting to approach us and ask us to sell their products for them and take them to market. This again, puts us in a great position.*

**Question 9: Subsidiary Entrepreneurial Network Management:**

Please explain the degree of interaction and communication that exists internally between your company and the other the subsidiaries?

(If information and ideas are shared): Please specify what spheres of business are shared.

Does Libstar encourage this?

**Response:**

*Not good. I'm a board member at Libstar level, so I'm one of three people out of the 16 companies that sits at board level and is involved in Libstar's decision making. I think that the reason why there is very little interaction is because our group, we call ourselves a group, but we're actually not a group. All we've got is an umbrella that holds shares in the subsidiaries, but we're all entrepreneurial companies and we all hold shares in our own individual companies. For what reason does Respondent 9's bakery have to buy from me? The only reason why he should buy from me would be on quality and price. But if he can buy the same quality at a cheaper price he will do that, which I think needs to change. We are in the process of working on that.*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 1

*We do share. Obviously from myself being on the board of Libstar, I talk to the MD's a lot. I do ask them for advice and offer advice where I can. This is very beneficial.*

*They do encourage it, but it just doesn't happen enough. We only have company conferences once a year.*

**Question 10: Subsidiary Autonomy:**

Tell me about the decision making structures in your organisation?

Does Libstar have an influence over this?

Please indicate in which quadrant you think your organisation lies and why?

**Response:**

*So decision structures in this organisation, we work out of a matrix structure. We've got four channels that we call a sales channel. Which is our Woolworths channel, our food service channel, which is our channel that goes to all restaurants and coffee shops, and then we've got our other retail channel which is our Kikkoman brand which goes into Pick 'n Pay and Shoprite Checkers, and then we've got Montagu Foods, which belongs to us as well, and then we've got his channels which go into the other retail companies.*

*Each channel has a head of the channel. So I sit at the top and look after all four channels. I follow Woolworths personally. That's my baby. I haven't found a person that I trust to take over that yet. And then we've got food service MD. He's also a shareholder in the business. He came into the business 1 year after I started it so he's been with me for a long time. And then we've got "brands", which is headed by Respondent 7 who looks after Montagu.*

*Then Respondent 2 looks after operations and finance and then we've another person who manages our NPD process and technical process. And in future we're looking to split all of those into four separate spheres. So decision making is taken by myself and the channel heads and the group of us make the decisions.*

*So we've got our senior management team, then we've got our middle management team and then there's everybody else below. We're now starting to shift our decision making down. We want our middle managers to start owning their decisions and we're making our decision making structures more flat. We're sharing decision making and giving more autonomy to our middle managers. We meet with them every Monday for two hours where they will put everything onto the table and if there are any decisions that we're not happy with, we'll part with them and discuss them in our management meeting which happens after that every Monday as well. So Monday from 8 o'clock until 5 o'clock, the whole day is basically spent making decisions, and move on, right or wrong.*

*No. If is more than R1 and a half million then yes, if not, then not at all.*

**Question 11: Influence of Acquisition on each Subsidiary:**

What has been the biggest change that your company has experienced since being acquired by Libstar?

**Response:**

*I think what has changed is that we as a business now, with the systems that Libstar have brought in, has made myself and the business better understand this business. I think that's been the biggest change.*

*And then the second thing is the structure of our business in the right way for the future. And also, we're not alone now. We can speak to the Libstar group for advice, which makes us feel a lot more comfortable. We feel a lot more relaxed as a lot of the pressure has been taken off. It used to be a case of if something went horribly wrong with my business I would be left with nothing, whereas now I have the security of Libstar. Libstar has given us great stability.*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 2

<b>Company:</b>	<b>Rialto</b>
<b>Respondent Number:</b>	<b>Respondent 2</b>
<b>Position in Company:</b>	<b>Operations Director</b>
<b>Year company was founded:</b>	<b>1998</b>
<b>Date acquired:</b>	<b>2006</b>

**Question 1: Introduction:**

You were labelled as an entrepreneurial company pre-acquisition.

Why would you label yourself as an entrepreneurial company? Are there any specific characteristics of your entrepreneurial culture present post-acquisition?

**Response:**

*Respondent 1 the CEO will probably know more. Respondent 1 started this company, so he is very entrepreneurial. He has always looked for opportunities to sell more to the same customer or find a new customer. So he is always looking for opportunities to grow the business. Rialto is predominantly an importer and distributor, 99% of the products we sell, are all imported, that comes from where the business started. Lots of the goods are Italian, and we therefore have an Italian culture. The understanding of pasta, tomato, olive oil is important. Respondent 1 had the opportunity to sell to Woolworths, as well as the food services business that Mickey runs. Entrepreneurship to us is trading. It's always looking to buy and sell more products. That has always been a part of Rialto. Post-Libstar we are still as the exact same entrepreneurial company, we are looking for markets to either sell products or source products. Libstar has brought a lot more structure around how we conduct and manage our business, in order to safeguard it's growth really.*

**Question 2: New Businesses/ Venturing:**

Does your organisation actively search for new business opportunities? Are these opportunities for internal or external ventures?

- (If internal): Are these new streams within your existing product line?
- (If external): Are these new start-ups outside of your organisational domain?

How does Libstar facilitate this process?

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 2

**Response:**

Yes.

*Definitely, If I explain, 80% of our business is with Woolworths. So how do we keep growing?, With one customer/retailer that we do business with. We go to trade fairs, food fairs, and look for new trends and product innovation. Having worked with Woolworths for 8 years, we know their business well, we know how they look for new opportunities. We focus on how we can build onto what they are doing or how can we do something better. In the last few years, Respondent 1 has successfully managed the relationship to a point where we are a custodian of some of the categories of Woolworths, if you take Italian the onus is on us to always be ahead of any other suppliers who bring products to Woolworths, and obviously to be ahead of the rest of the world, so that we can bring the goods to Woolworths before the market. Similarly, the food service business is dealing with a lot of unstructured customers, such as restaurants, cafes and others. Sometimes in the food service there are customers who come to us looking for a product. I know a couple of years ago we got into feta for the first time, everybody knows Danish feta, but because of some of the food chains that we are dealing with, they are buying a feta product that is realistic. How can we source a supplier and convince people to buy our feta? Respondent 1 is trying to head up the different channels from a sale point of view. They live and breathe the product. They immerse themselves in the whole culture of food retailing, whether they are in a store researching or they are overseas in whatever capacity, identifying what retailers are doing this or these are doing this. And try bringing new businesses to SA.*

*Libstar facilitates this process. The way I've seen it is that you know there is always the sharing of information. From a sales or marketing perspective, they deal with other companies from a board level, they are always seeing the other opportunities those operating companies have with their markets. Often how can there be some synergy. We are always discussing that, for example, we import cheese but we don't manufacture cheese, Lancewood manufactures cheese for the local market, but there can be opportunities where we can source an imported cheese and they can perhaps pack it work it through their own channels. We haven't done anything to date. But there are those types of opportunities. (Would there ever be a problem where you start importing cheese and Lancewood sells cheese?) Well there could be a conflict of interest, for example, we were importing a range of Mexican products for Woolworths, the biggest volume product was a flour tortilla and there were a whole lot of other products that went with it. Respondent 9 who is the expert from a bakery point of view, he sourced machinery and said listen I can put machinery down, because I am a baker, I can produce the product cheaper and probably better quality than what you are buying overseas. Rialto and the customer got together, bought the machinery and started manufacturing, Woolworths approved the product, and started selling to Woolworths after a couple of years. (So its sort of a joint venture?) Yes, after a couple of years we actually structured a deal with Respondent 9 where he dealt with Woolworths directly, because there is no point in him selling to us and us selling on. There can be more efficiencies, because he is the master baker and he deals with Woolworths. It was our opportunity because we were supplying an existing product so we had the customer and he had the expertise, we married them together, and that was a great venture. We received a lot of support from Libstar, bringing the two companies together.*

**Question 3: Product Innovativeness:**

Since being acquired by Libstar, is there sufficiently more resource slack allowing people to experiment with product development? Please explain.

How often do you review your product range?

What kind of a relationship is there between the number of new ideas and the number of new ideas implemented?

**Response:**

*Well, Libstar haven't defined how we operate, they have supported us strategically in terms of how we should position ourselves with our customers, in the market etc. But from a product development point of view, we have always been a self-*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 2

*sufficient product led business, independently of Libstar. For example, I don't know if you have heard of the noodle plant in JHB. 2 minute noodles. We import our noodles from Singapore currently, I think Libstar already had this plant and they just upgraded it. There has been their own innovation around flavours. Although we were buying imported products and not involved with the manufacturing part, we were not developing new flavours, because all of our suppliers do that. We will go to them and say this is what we like, this is what Woolworths wants, can you match this? That's the difference between competitors and what we can influence. We can say this is what should be done, because we have the commercial data to say people like chicken flavoured noodles, I am not sure how much they are going to like, biltong flavoured noodles, for example.*

*We review our product range every week, because Woolworths' business is a private business, obviously it is a private label good, we review our trends and new launches of existing products, they are reviewing it independently of us against other competitors' prices etc. We are both reviewing it with the same amount of attention to detail with what we are trying to get out of it, a lot of it is based on commercial success of the product, successful upgrading of packaging, or increasing/reducing the range. It's much slower than a branded product, where u can import a container and say the next day we are not going to renew that order, this is more of our judgement not the customers' with food service. We focus on trying to offer a range that is little bit different. It's often where your competition is, I suppose your benchmarking yourself against the competition. And you also want to be able to be seen as offering a niche product. We can not only get this at Rialto, but we can get this and this and that etc., whereas other retailers don't. Is that a systematic approach to defining what our range is? I think not. We take that approach to defining what our range is, it's a process of this is doing commercially well and were not going to do that again. Or this is an opportunity like we bring in frozen breads from France, par baked, and that is a difficult market to get in to. You have to see it differently, it might not be the best return, but it fits in with your strategic intention for what we want to offering as a European importer. So how often do we review it, again I think we review, food services I mean Woolworths has a delicate focus because we have a product development team focussing on. We have a head of product and technical development, and in that there are product developers who focus on their own products with Woolworths, but they obviously understand trends in their ranges. Whereas food servicers who are not more focussed from a commercial point of view from a more product, "foody" point of view. I think there is actually quite a lot of work to be done.*

*We are in quite a sophisticated market. I would say that probably in the last 10 years, just the consumers understanding of food has developed tremendously. Where people wouldn't always find something like Parma ham on a regular basis, now they expect to find it on the shelves. For me, its difficult to say because in Woolworths I'd say probably about 80% of the ideas we come up with are implemented, because there is a specific focus on what they're looking for. Woolworths is usually pretty specific so there the success rate is very high. We always know what is expected of us.*

*In food service however, I'm not entirely sure what that percentage is.*

**Question 4: Process Innovativeness:**

Can you comment on any new methods or technological operational processes that have been introduced recently?

If yes: What motivated these developments?

Were these developments done as an internal process or is it done in conjunction with Libstar?

**Response:**

*We do grated cheese, sliced cheese, gouda, mozzarella and sliced meats. So we don't manufacture raw materials, but we take the raw material and we slice it up. We've introduced a second slicing line but that is just for expansion. It's not new technology. We're still essentially import, warehouse and distribute. We haven't done anything new aside from that. It's been more on the personal side of things. How do we do things quicker, how do we be more efficient, how do we be more focused? We've done a lot of that over the last year.*

*In conjunction with Libstar. This is what we have had to do for a company that came from two entrepreneurs and is now almost*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 2

worth R1 billion. We would have had to have put these systems in place regardless of Libstar as our growth requires it. But Libstar has definitely helped us get there quicker.

**Question 5: Self-Renewal:**

How much emphasis is placed on strategic reformulation and reorganisation?

Why is this important to your organisation?

**Response:**

*A lot of emphasis is placed on strategic reformulation and reorganisation. We've got a full time consultant that has been contracted to work with us for a year and a half. We started the process 9 months ago to really understand what our strategic map looks like and where we want to be in 3 years' time. We've now encapsulated this into one statement. With that, we've gone into a restructuring process to really focus on our business from a functional point of view. Focusing on each channel and understanding the jobs which need to be done as well as the possible challenges that are presented. We've done a lot of work with reorganisation and reformulation. It's changed the way we do our business.*

*On a numbers point of view, we've said we want to be a R1 billion business by 2015 so how do we get there? This is our key to unlock our ability to make this happen. We now have clarity of where we want to go.*

**Question 6: Risk-Taking:**

Would you describe your company's decision-making processes as cautious or bold?

Please explain if the fear of failure and uncertainty has anything to do with this?

Has being acquired by Libstar influenced this?

**Response:**

*Our decision-making processes are a combination of the two. I would say we're definitely bold, but we do put fact and figures behind it. I think the thing that defines our culture is that we're very much a 'can do' organisation. We don't spend hours and hours trying to understand why we can't do something instead we look at all the challenges that we need to overcome to make this happen and those take the lead. We drive the process.*

*I think either you're far too cautious with your decision making and that way you don't get to market quickly enough and you lose that opportunity with your customer because your competitor is quicker to the market than you are. Often, as you become a bigger organisation, the boldness really has to be in sync with the rest of the organisation. From a functional point of view, the organisation can tap into opportunities quickly with the expertise and technical side of the business that is up to standard not only outside legislation, but with the customer's requirements. With respect to failure, in the past we weren't as focused from a functional point of view, but now we have defined roles, proper job profiles, clarity in our areas, just a much better functional understanding.*

*Libstar is very strong in their financial reporting and governance. That discipline of reporting has allowed our business to understand all the time where we are as a business financially in both the short term and the long term. So from the financial side, they've given us a lot more strength as a business to expand from a capital expenditure point of view and from a cash flow point of view it's allowed us to do things much quicker, with making sure that there's a lot of corporate discipline in that.*

**Question 7: Proactiveness:**

What does your organisation do to anticipate future opportunities?

Can you give me an example of any recent pioneering developments?

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 2

**Response:**

*From my side, if I talk purely from operations, because we're much more focused now on the functional side of the business. If I take warehouse and distribution, now I spend a lot more time understanding, do we have an in-house fleet or do we have a third party fleet doing our deliveries? Do we invest in a bar code scanning system? So new opportunities to do things more efficiently and better is driven by our culture. We're always striving to do better.*

*I can't give me an example of any recent pioneering developments to be honest. We're in the process of bar coding, we want to be a SARS preferred importer which changes the way they perceive us. Are they pioneering? I'm not sure, but we are constantly looking at improvements. And continually want to become more focused and efficient in what we're doing.*

**Question 8: Competitive Aggressiveness:**

How does your organisation detect external threats in the market place?

What competitive actions do you take in order to keep abreast with, or stay abreast of, these threats?

**Response:**

*One of our biggest threats is the exchange rate and it's anybody's call where the exchange rate is going to be today, in a month or in 6 months' time. It's always a challenge for us. We try to be in control of that as much as can be by always looking forward by about 6 months. But how do we come across threats every day, I think it's definitely in our relationships that we have in the market, and with Libstar's networking skills, we always have feelers out there and Libstar is very good at staying connected with what is going on around us and at informing us. And most importantly, being close to our customer. Our relationship with our suppliers and with our customers is key and is the thing we value most.*

*The biggest area of focus for us now is to be competitive. In the market where we are, or in an economic situation where we are, with rising costs, whether its exchange rate driven or political or just the world economy, we've always got to be seen as adding value especially with Woolworths as our biggest customer. So it's a combination of not only boldness of trying to look for innovation and "newness", it's always pushing back against the supplier base and always looking to improve because that's the only way to stay competitive. Whether it's our strong relationships with our suppliers where we actually have to make some hard demands on them or alternatively looking for other suppliers, service providers or transport companies. Always having to look at how can we protect or improve the company's own margin, but at the same time improve our position with our customers.*

**Question 9: Subsidiary Entrepreneurial Network Management:**

Please explain the degree of interaction and communication that exists internally between your company and the other the subsidiaries?

(If information and ideas are shared): Please specify what spheres of business are shared.

Does Libstar encourage this?

**Response:**

*Interaction with the other companies happens predominantly at the CEO level. Libstar supports us, but they don't dictate how we run our business. They obviously have budgets that they expect us to achieve and they'll have conferences where they make us aware of things that from a group perspective they can see as challenges. That communication is either in the form of board meetings, which is a formal meeting. Other than having conferences during the year, it's very ad hoc, but in the same token, it happens all the time informally. I would say all aspects are shared: opportunities, product related, non-product related. Its*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 2

*very open, but very informal.*

*Libstar encourages sharing of business spheres.*

**Question 10: Subsidiary Autonomy:**

Tell me about the decision making structures in your organisation?

Does Libstar have an influence over this?

Please indicate in which quadrant you think your organisation lies and why?

**Response:**

*Decision making structures start at the top, with the boss. We have formalized a lot of our business from a communication point of view, we now have structured meetings. Monday's are back-to-back with meetings, from right down in the organisation, all the way up to the executive team where minutes are taken and we have action points. Then obviously within the business units we'll have our own meetings. Decision making will happen at those meetings. Decisions are made on a daily basis on the certain levels up until a certain thresholds that require a value in monetary terms or what impact it's going to have over the business.*

*From a capital expenditure point of view Libstar get involved and if we wanted to do something different on our strategic roadmap, then we have to share that with them, but overall they allow us to run our businesses as we wish, which has been very successful.*

*The business has subsidiary-driven entrepreneurship.*

**Question 11: Closing Question**

What has been the biggest change that your company has experienced since being acquired by Libstar?

**Response:**

*I think that we've become a lot more structured. When I came we were 25 people and now we're over 120 people. It went from an R80 million turnover to presently being over R600 million. The biggest thing is structure. Not formalized structure, just the necessary structure. They didn't necessarily put it in our organisation, they just educated us and made us aware of how to better manage our business.*

**APPENDIX C – INTERVIEWEE RESPONSES****Respondent 3 & 4**

<b>Company:</b>	<b>Lancewood</b>
<b>Respondent Number:</b>	<b>Respondent 3 &amp; 4</b>
<b>Position in Company:</b>	<b>CEO &amp; Financial Manager</b>
<b>Year company was founded:</b>	<b>1996</b>
<b>Date acquired:</b>	<b>2008</b>

**Question 1: Introduction:**

You were labelled as an entrepreneurial company pre-acquisition.

Why would you label yourself as an entrepreneurial company? Are there any specific characteristics of your entrepreneurial culture present post-acquisition?

**Response:**

*Yes definitely. The organisation was started by a family so those entrepreneurial characteristics are all still in place.*

*Although the company is part of the dairy industry, the company still operates as a stand-alone entity, making its own profit and managing its own cash flow, so although we are part of the Libstar group, it's totally separate in the environment in which we are operating, we are still responsible for everything that goes on around the table and we just have to report back to the upper level of management. So although the shareholding is split, the business stands completely alone.*

**Question 2: New Businesses/ Venturing:**

Does your organisation actively search for new business opportunities? Are these opportunities for internal or external ventures?

- (If internal): Are these new streams within your existing product line?
- (If external): Are these new start-ups outside of your organisational domain?
- How does Libstar facilitate this process?

**Response:**

*Internal and External*

*If you compare where the business was at R120 million five years ago when we bought it, it has now grown to be worth over R800 million today. This growth has mainly been driven by internal growth in terms of new categories as well as value added products.*

*Growing categories by importing products from overseas.*

*No. Libstar does not facilitate this process. They do not manage the company. They assist with artwork and other functionalities outside of Libstar to help us if needed, but it is not an everyday process.*

**Question 3: Product Innovativeness:**

Since being acquired by Libstar, is there sufficiently more resource slack allowing people to experiment with product development? Please explain.

How often do you review your product range?

What kind of a relationship is there between the number of new ideas and the number of new ideas implemented?

**Response:**

*I would not necessarily say we have resource slack from Libstar, but internally we have a lot more resources and more attention is being paid to product development with internal monthly meetings. This is all driven by the growth in Lancewood itself. In order to grow, you have to continuously look to expand or import new products. So this has nothing to do with the acquisition itself.*

*Monthly.*

*Quite a high percentage. At least 60%*

**Question 4: Process Innovativeness:**

Can you comment on any new methods or technological operational processes that have been introduced recently?

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 3 & 4

If yes: What motivated these developments? Were these developments done as an internal process or is it done in conjunction with Libstar?
<b>Response:</b> <i>There is a lot, especially in terms of packaging. All of our products have been revamped in terms of packaging design. The logo, the registered trademarks, our "Choosey about Cheese" slogan.</i>  <i>On the operational side, there had been a lot of investment made in terms of manufacturing. We have a new cutter, which changed a massive part of our business. Last year we spent R18 million on factory operational assets that we bought in order to better the processes.</i>  <i>If you look at the results of that, we have grown the soft cheese side of our business over the last five years 215%. This has more than twice doubled. Over the last few months we have finally become the market leaders in soft cheese. Simonsberg was the market leader for many, many years and we have finally overtaken them. We are motivated by the desire for growth and development.</i>  <i>They were internal to a large extent. Libstar assisted with the artwork and packaging design.</i>
<b>Question 5: Self-Renewal:</b> How much emphasis is placed on strategic reformulation and reorganisation? Why is this important to your organisation?
<b>Response:</b> <i>It is very important to us. At least monthly. But I must also add that the main strategy of our business has not changed for the last 5 years because when we bought it, the first thing we said was that in every 3 years we want to double the soft cheese business, which we have totally outperformed.</i>  <i>And then in hard cheeses, our main strategy was to convert bulk cheese into small branded packs and to grow the brand. We managed to do this from zero to the second biggest brand in hard cheese in South Africa.</i>  <i>It has given growth to the business in terms of the brand.</i>
<b>Question 6: Risk-Taking:</b> Would you describe your company's decision-making processes as cautious or bold? Please explain if the fear of failure and uncertainty has anything to do with this?  Has being acquired by Libstar influenced this?
<b>Response:</b> <i>Very Bold. If you look at what we've done in terms of takeover from R150 million to R840 million. We will only be cautious if it is going to be negative to Lancewood.</i>  <i>The expansion of the brand, the entry into new categories. Due to our small management team. Reaction time is very quick. We can close a product line now and open a new one, whereas in a corporate environment that is almost impossible. With only 5 of us we can make quick evaluations and evaluate our successes and failures monthly.</i>  <i>If it's not making 100% sense we won't make the decision. There is a project on the go at the moment which I'm not 100% in favour of and it won't go ahead unless we are all happy with. Every decision is thoroughly thought through.</i>  <i>Respondent 4: If it is a substantial investment then Libstar will definitely be involved in the decision making. So, either the chairman will take a decision with us, or the next step is for the board to take a decision.</i>  <i>Respondent 3: Ideas will always be run by Libstar.</i>
<b>Question 7: Proactiveness:</b> What does your organisation do to anticipate future opportunities? Can you give me an example of any recent pioneering developments?
<b>Response:</b> <i>It is part of our strategy. We had a meeting this morning looking at something new and within half an hour, we could phone people, get a new recipe, making a costing on a product, look what the payback time might be. R120 million project in terms of turnover and that was able to be done in 30 minutes. We're always looking for new opportunities. What categories are we not involved in and what can we get involved in.</i>

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 3 & 4

**Question 8: Competitive Aggressiveness:**

How does your organisation detect external threats in the market place?

What competitive actions do you take in order to keep abreast with, or stay abreast of, these threats?

**Response:**

*Respondent 3: We're more of a threat to anyone else than they are to us. We have a solid price strategy, packaging strategy and product strategy. The brand is also a massive protector.*

*Just doing the right things all the time. Checking logistics. To be available with produce on time, pricing strategy must be right, raw material availability. And then to differentiate yourself.*

*We brought out a 900g cheese block and everyone else believed that you could not sell a block of pre-packed cheese that weighed more than 300g. Now the cheddar and the gouda are the biggest sellers in Pick 'n Pay nationally, which nobody would have believed 5 years ago. But our belief was what can a family do with 1 block of cheese?*

*Main question is what's driving consumer behaviour?*

**Question 9: Subsidiary Entrepreneurial Network Management:**

Please explain the degree of interaction and communication that exists internally between your company and the other the subsidiaries?

(If information and ideas are shared): Please specify what spheres of business are shared.

Does Libstar encourage this?

**Response:**

*Non-executive director is a national procurements officer. He tries to consolidate purchasing among the internal companies on a global basis and tries to find where certain discounts may exist*

*We are a bit of an odd one out because we procure from the farmer and we sell it to the consumer. A great portion of the other companies are Woolworths dedicated companies or are contract packaging and we are the only guys that do not fit into that category. We're also the only branded guys within the whole group. With Libstar, we looked at a lot of logistics and sales side if there are no synergies, but that's problematic because it's so different.*

*Respondent 3: We don't really have a relationship in that sense with the other companies. We're all trying to satisfy Libstar's needs.*

*Respondent 4: Very little interaction for us.*

**Question 10: Subsidiary Autonomy:**

Tell me about the decision making structures in your organisation?

Does Libstar have an influence over this?

Please indicate in which quadrant you think your organisation lies and why?

**Response:**

*We're an executive team of 5 people and we take all the decisions. It's as easy as that. Because from the rest downwards its operational. On top of us we've got the board and we meet with them once a year to discuss capital expenditure and budget.*

*Libstar will sit in monthly on our executive meetings, but the daily decision making is taken by us. Libstar's influence is always respected because there is a lot of experience amongst them. They are not part of the day to day business, but they play an important role. They manage our cash flow and if there are surpluses with certain companies they will redistribute this money amongst the other companies where needed and will assist these other companies for a 2-3 month period.*

*We're very involved with Libstar in the marketing sense of things.*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 3 & 4

*Our organisation exhibits subsidiary driven entrepreneurship.*

**Question 11: Influence of Acquisition on each Subsidiary:**

What has been the biggest change that your company has experienced since being acquired by Libstar?

**Response:**

*We were granted the stability in order to grow and the need to expand and be noticeable in South Africa. We make much bolder decisions. We didn't have the foundation before. The relationship was just farmer-driven. The company's aim was to satisfy the local community, but since Libstar stepped in we took a step back and decided that we were going to treat all the producers the same – this is what we want to do and we have executed it as such.*

## APPENDIX C – INTERVIEWEE RESPONSES

### **Respondent 5**

<b>Company:</b>	<b>Cape Herb &amp; Spice</b>
<b>Respondent Number:</b>	<b>Respondent 5</b>
<b>Position in Company:</b>	<b>Product Development Director</b>
<b>Year company was founded:</b>	<b>1994</b>
<b>Date acquired:</b>	<b>2008</b>

**Question 1: Introduction:**

You were labelled as an entrepreneurial company pre-acquisition.

Why would you label yourself as an entrepreneurial company? Are there any specific characteristics of your entrepreneurial culture present post-acquisition?

**Response:**

*Nobody from Libstar sits in the building so we still run our business in a big way. Risk taking has always been a big part of it, although I guess it has gotten less over the years because you understand the risks and the market more, but there is more funding now so we can take bigger risks. On the downside however, we have to spend a considerable amount of time making Libstar feel comfortable with where our financial situation is at that you would know yourself anyways so you wouldn't have to be collating massive quantities of financial information day in and day out to keep them satisfied. This takes a lot of management input this side, which could be spent doing other things.*

*If they wanted this they should put their own people in to do the financial liaison with the Libstar group stuff that they impose on us on a daily business. It's expensive to acquire the right people, as well as taking up a considerable amount of time from management.*

**Question 2: New Businesses/ Venturing:**

Does your organisation actively search for new business opportunities? Are these opportunities for internal or external ventures?

- (If internal): Are these new streams within your existing product line?
- (If external): Are these new start-ups outside of your organisational domain?
- How does Libstar facilitate this process?

**Response:**

*Yes we actively search for new business opportunities. Both internal or external ventures.*

*Equipment innovation and streamlining*

*New customers and new markets.*

*Libstar does not facilitate this process. They have a number of so called experts that are supposed to be on tap for us to get information from, but sometimes they come in quickly and want to make a quick decision, but in the end the best expert is often yourself. If you have invested interest, from a strategic point of view you can look at everything, it is not just, we need a new machine, so we get a Libstar expert in to commission a new machine, as perhaps they don't understand the business as well as you do. They might only understand machines, but a machine only operates within a business that has to consider the market for products from that machine. For example what packaging might be required of that machine, not just the one thing. So you give off the responsibility to someone else and that is a sure fire way to disaster. So any entrepreneur wanting to sell their company to Libstar in order to gain expertise is sorely mistaken.*

*It is essential that you need to run your business the same way you always did.*

*They do facilitate financially if we need funding, but that's about it.*

*I think the answer is to sell out completely, or keep it completely. If I had the option to do it again, I would not. As far as*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 5

*investors go, Libstar are great. They don't snoop around or bother us, but it's just difficult to be making money for someone else.*

**Question 3: Product Innovativeness:**

Since being acquired by Libstar, is there sufficiently more resource slack allowing people to experiment with product development? Please explain.

How often do you review your product range?

What kind of a relationship is there between the number of new ideas and the number of new ideas implemented?

**Response:**

*No. It's lacking from the Libstar side. They try and get us to attend a conference where we share our 'innovative' ideas, but there is nothing that an entrepreneur hates more than sitting in that kind of uninspiring environment, where things are presented to us on slides in a very conventional and stale environment, It just doesn't work.*

*The annual conference we have is a joke. I'm never going to one of those things again.*

*I review our product range it daily.*

*I think we convert about 25% of our ideas into products.*

**Question 4: Process Innovativeness:**

Can you comment on any new methods or technological operational processes that have been introduced recently?

If yes: What motivated these developments?

Were these developments done as an internal process or is it done in conjunction with Libstar?

**Response:**

*We're on a continual drive to improve costs and production methodologies. We've installed an automated filling system which controls weights of product so that we can control costs. We are in the process of vertically integrating downward by opening up a dedicated plant for grinding, mixing, chopping, cleaning and sterilizing of spices that will be implemented next year. So yes, we have quite a big budget for improving our productivity and our food safety. Being in export, we're forced to keep up with some of the most advanced legal requirements for food safety in the world.*

*We have used Libstar quite a bit on productivity, workflow and warehouse planning.*

**Question 5: Self-Renewal:**

How much emphasis is placed on strategic reformulation and reorganisation?

Why is this important to your organisation?

**Response:**

*We had a situation 3 years ago where the Rand became very strong and we had to adopt a new strategy of concentrating on the local market versus focusing on the export market for obvious reasons. And we're now swinging across to the other side as the world has taken a bit of an upturn.*

*Strategically we're also looking at supplying bulk spices and we're also looking at importing spices to reduce costs. So we're vertically integrating aspects into the business. We just make improvements to the business that is obviously good for the bottom line and good for the business.*

**Question 6: Risk-Taking:**

Would you describe your company's decision-making processes as cautious or bold?

Please explain if the fear of failure and uncertainty has anything to do with this?

Has being acquired by Libstar influenced this?

**Response:**

*Bold.*

*Libstar closed tea blenders, which was an entrepreneurial business that went bankrupt and Libstar offered the opportunity to us to purchase the company and relocate it to Cape Town. This was a massive risk for us as we have no knowledge of the tea business, but we had a look at the business and decided to buy it from Libstar. We had to start up the business that we never had any experience in before. It's now up and running and we're seeing great returns. Of course it's had its hardships and struggles, but we're problem solvers so then you can approach anything and fix it. It definitely makes you bolder.*

*Yes. We have more sources of funds so acquiring bigger businesses or machinery or equipment, it's easier for us to take bolder decisions as we can make use of the money that they have assigned to expansion and investment. Only being partially responsible for the financial successes or failures allows you to be bolder.*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 5

**Question 7: Proactiveness:**

What does your organisation do to anticipate future opportunities?

Can you give me an example of any recent pioneering developments?

**Response:**

*We travel widely because 80% of what we sell, we sell abroad so it is essential that we are aware of what is being sold in the market, what is available and what is competitive in the market, be it in your product range or not. You have to look at other categories that might exist, like those categories that might encroach upon your categories if they are somewhat connected. It is vital that you constantly look at the bigger picture and see if we can spread out to other categories that are synergistic with ours.*

*We are the first company in this country to import and run our own irradiation testing and equipment, which every other company in South Africa doesn't have. We used to have to send our products away for irradiation which got very expensive but now we have sent our own staff away to be properly trained on how to use the machine and the benefits have been amazing.*

*So we turned a problem into an opportunity. We also did a great deal of ground breaking research into the infestation of insects in herbs and spices and basically discovered that freezing is the most effective way of sterilizing spices without using toxic gases or irradiation which is common in South Africa.*

**Question 8: Competitive Aggressiveness:**

How does your organisation detect external threats in the market place?

What competitive actions do you take in order to keep abreast with, or stay abreast of, these threats?

**Response:**

*We always put ourselves out there and we're always on the floor. We react quickly to what we see and make sure we always keep our eyes and ears open for what's going on around us.*

*We try to understand where our competitors are placing themselves price-wise. That is a very relevant issue in today's world. We try to offer our clients superior products at a reduced cost. Our service is equally as good, if not better than everyone else's. If you can supply great quality at a good price, there's no reason why you should be taken off the shelf. And if you are charging more, then you need to be able to explain to your customer why you're charging more.*

**Question 9: Subsidiary Entrepreneurial Network Management:**

Please explain the degree of interaction and communication that exists internally between your company and the other the subsidiaries?

(If information and ideas are shared): Please specify what spheres of business are shared.

Does Libstar encourage this?

**Response:**

*Very little. We are a very diverse group, so we don't really have forums for meeting up and we don't force them unnaturally.*

*There are some training courses that exist with the production managers and the financial people get together as well, but on a product and client basis there isn't much sharing.*

*They don't not encourage it, but they don't actively promote it. Everyone's very friendly so you can contact one another, but people really don't have the time for the nonsense. Nobody's developed a new or useful way that there can be inspiration or knowledge sharing among people.*

*We help some of the company's that we quite like so we will help them sell their products on the international market and introduce them to our clients.*

**Question 10: Subsidiary Autonomy:**

Tell me about the decision making structures in your organisation?

Does Libstar have an influence over this?

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 5

Please indicate in which quadrant you think your organisation lies and why?

**Response:**

*It's fairly flat. We don't have a very formal environment at all. We have middle managers and then Paul and I are the senior managers. It is a very flat structure. We have monthly meetings where we all get together and discuss every sphere of the business – financials, NPD (new product development), sales, production, quality etc. And the whole group discusses each functional area together.*

*No. It's generally if it's a financial implication we have to ask them, if not, its up to us.*

*Subsidiary-driven. We drive all of our own innovation, growth and sales. They haven't brought us any clients, growth or sales.*

**Question 11: Influence of Acquisition on each Subsidiary:**

What has been the biggest change that your company has experienced since being acquired by Libstar?

**Response:**

*I would say that we're forced to consider the future a lot more than we would have before. Budgeting is the biggest change. We are now forced to look at a 3-5 year budget. We used to just respond to the market. If our clients grew and if the opportunities we tried were successful, or unsuccessful, we would just carry on. We never really had to thumb suck and say this is where we want to be in 5 years' time, but it's very useful to set these long term goals and to strive for bigger things.*

## APPENDIX C – INTERVIEWEE RESPONSES

### **Respondent 6**

**Company:** **Cape Herb & Spice**

**Respondent Number:** **Respondent 6**

**Position in Company:** **CEO**

**Year company was founded:** **1994**

**Date acquired:** **2008**

**Question 1: Introduction:**

You were labelled as an entrepreneurial company pre-acquisition.

Why would you label yourself as an entrepreneurial company? Are there any specific characteristics of your entrepreneurial culture present post-acquisition?

**Response:**

*Company was formed by Respondent 5. She is an incredibly out there entrepreneur who has never been afraid to take risks. She used to run her company as a small stall outside the Waterfront and has now taken it to what it is today. Her claim to fame is the adjustable salt and pepper shaker. Turnaround time and always being on the forefront of new packaging and new innovation. She targeted the local market with produce that was not here for example, saffron, cumin, and steered clear of the exhausted herbs.*

*When you join the corporate world you're life becomes a lot more complicated, as there are a lot more structures, procedures, systems and processes put in place and this stops a lot of innovation as you are a lot more boxed in and begin working within those boxes. So what we have been able to ensure is that Irene stays as far away from these structures and formalities as possible so that her innovation levels remain unaffected and so that she can still run the company as her own. We keep our restrictions and our limitations in production from her otherwise it will affect her.*

*With the corporate structure we always have to answer to somebody. Our development and risk taking has slowed down as you have to think a lot more about what you do. The corporate structure expects that you spend 6 months analysing a decision, which never used to be the case prior to Libstar. You kind of need to separate yourself from that environment.*

**Question 2: New Businesses/ Venturing:**

Does your organisation actively search for new business opportunities? Are these opportunities for internal or external ventures?

- (If internal): Are these new streams within your existing product line?
- (If external): Are these new start-ups outside of your organisational domain?
- How does Libstar facilitate this process?

**Response:**

*Yes.*

*Equipment innovation and streamlining*

*New customers and new markets.*

*Libstar does not facilitate this process. We primarily export and that is a market that Libstar does not have much experience with.*

*Internally, we don't have a big brand so Libstar does not help much with this.*

**Question 3: Product Innovativeness:**

Since being acquired by Libstar, is there sufficiently more resource slack allowing people to experiment with product development? Please explain.

How often do you review your product range?

What kind of a relationship is there between the number of new ideas and the number of new ideas implemented?

**Response:**

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 6

*The amount of resources being thrown in are the exact amount of resources that Irene and I want to give. The amount of resources we have have nothing to do with Libstar. We are self-sufficient and will not go to Libstar and ask them for money.*

*Annually. We will put products on shelf and if within a year it has not sold we will take it off the market. But with our branded products it's very difficult to change products.*

*I would probably say we do 80% of what we want to do and I would say that 50% is successful.*

**Question 4: Process Innovativeness:**

Can you comment on any new methods or technological operational processes that have been introduced recently?

If yes: What motivated these developments?

Were these developments done as an internal process or is it done in conjunction with Libstar?

**Response:**

*There is nothing new that has changed, apart from IT processes. Everything else is pretty standard.*

*IT development is built on the same platform as everyone else, but we drive the program from our side more so than the other teams as we've had these advanced systems in place for a lot longer than a lot of the other companies. We have been working with Syspro for years. Each company's production systems are moulded to suit them.*

**Question 5: Self-Renewal:**

How much emphasis is placed on strategic reformulation and reorganisation?

Why is this important to your organisation?

**Response:**

*We talk a lot about it and annually we do a strategic review of the company and apart from a couple of tweaks it doesn't change. If I think about our annual meetings, not a lot of change is being seen. Many of the companies are still singing the same tune they've been singing for the past five years. Most strategies remain the same and the goals remain the same as well. It's a lot more talk than action. Very difficult to implement all the 'nice' things that everyone wants to do.*

**Question 6: Risk-Taking:**

Would you describe your company's decision-making processes as cautious or bold?

Please explain if the fear of failure and uncertainty has anything to do with this?

Has being acquired by Libstar influenced this?

**Response:**

*Bold from a new product development. Cautious from a financial perspective.*

*You've always got a big brother watching, but in the same token, you can't succeed without the failure. So you have to make mistakes in order to know what works and what doesn't. There's always an element of fear but you have to learn by your mistakes in order to grow.*

*We're a lot more cautious in decision making. It's all numbers based now. We have to meet our targets and if we miss the targets we have to explain why which is frustrating because before, we would always just move on, but now we have to go through the motions twice over to explain to Libstar what happened and why. We've always understood our failures; it just takes a lot longer now.*

**Question 7: Proactiveness:**

What does your organisation do to anticipate future opportunities?

Can you give me an example of any recent pioneering developments?

**Response:**

*Out in the fields and stores around the world. We do extensive market research. We are also incredibly lucky as South Africa is quite far behind the rest of the world in terms of spices so we are often ahead of the market. Not only this, but we try and*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 6

*make the product better as well as cheaper. We are very much private label so most innovation comes from brand leaders so it's very easy for us to reformulate the products under the private label image.*

*We also attend trade shows all around the world. We also get our packaging suppliers to join us as South Africa is also behind in the market in that regard as well. South Africans are still very far behind in terms of the private label industry and the value of the products.*

**Question 8: Competitive Aggressiveness:**

How does your organisation detect external threats in the market place?

What competitive actions do you take in order to keep abreast with, or stay abreast of, these threats?

**Response:**

*We always put ourselves out there and we're always on the floor. Who is doing what, and how are they doing it? How can we make our products cheaper or improve on our packaging. We are also very serious about the treatment processes that we use to treat our herbs and spices.*

*Innovation, innovation, innovation.*

**Question 9: Subsidiary Entrepreneurial Network Management:**

Please explain the degree of interaction and communication that exists internally between your company and the other the subsidiaries?

(If information and ideas are shared): Please specify what spheres of business are shared.

Does Libstar encourage this?

**Response:**

*Very little. In most instances none. There are opportunities that exist, but we don't really make use of this.*

*Yes.*

**Question 10: Subsidiary Autonomy:**

Tell me about the decision making structures in your organisation?

Does Libstar have an influence over this?

Please indicate in which quadrant you think your organisation lies and why?

**Response:**

*Operational decisions are taken by myself and Irene and then we take it up to the board and then implement it on the floor.*

*Depending on how big the decision is. Day to day operational they don't, but if it is a big or large financial decision then absolutely.*

*Subsidiary-driven.*

**Question 11: Influence of Acquisition on each Subsidiary:**

What has been the biggest change that your company has experienced since being acquired by Libstar?

**Response:**

*We've got to know the SA market very well. And administrative improvements with regard to reporting structures, which has been very useful. Being forced to do a lot of reporting, forces you to be able to identify where you're going wrong or where you're going right.*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 7

**Company:** Montagu Foods

**Respondent Number:** Respondent 7

**Position in Company:** MD

**Year company was founded:** 2001

**Date acquired:** 2007

**Question 1: Introduction:**

You were labelled as an entrepreneurial company pre-acquisition.

Why would you label yourself as an entrepreneurial company? Are there any specific characteristics of your entrepreneurial culture present post-acquisition?

**Response:**

*On a personal side, I am not happy being in the hands of other people. I like to add the value myself. I have to report to Libstar and get permission for bigger projects, but otherwise, I'm left alone to do my own thing. How I choose to do my work is my decision. Libstar let me do my own thing to a great extent. They also offer us a lot of great exposure. I get to see the country and I get to see the world.*

**Question 2: New Businesses/ Venturing:**

Does your organisation actively search for new business opportunities? Are these opportunities for internal or external ventures?

- (If internal): Are these new streams within your existing product line?
- (If external): Are these new start-ups outside of your organisational domain?
- How does Libstar facilitate this process?

**Response:**

*Always external. This is done in the marketing sphere mainly and always in the retail trade. I just had a meeting with Shoprite where I presented four new lines of products.*

*Libstar look and see. They leave me up to it, but they need to see the results.*

**Question 3: Product Innovativeness:**

Since being acquired by Libstar, is there sufficiently more resource slack allowing people to experiment with product development? Please explain.

How often do you review your product range?

What kind of a relationship is there between the number of new ideas and the number of new ideas implemented?

**Response:**

*Yes. Within the Libstar group there are enough people that have the expertise to help me with development. There is a great development team and laboratory, which is great. Also, like Cape Herb and Spice, they offer us a great deal of help when we need it.*

*We review our product range all the time. It's all about price. Because we're private label producers, we need to be 15-18% cheaper on shelf than the market leader otherwise we've got no business. So yes, we always look at tweaking the formulation, but we still try to ensure that we have the best quality that we can at the best price.*

*We have a fairly successful implementation rate. We generally produce about 10 possible new products and then launch 3 maybe 4 new products.*

**Question 4: Process Innovativeness:**

Can you comment on any new methods or technological operational processes that have been introduced recently?

If yes: What motivated these developments?

Were these developments done as an internal process or is it done in conjunction with Libstar?

**Response:**

*Not really. What we do is very basic. We cook products and we tweak somewhat on heating processes and heating times. We did change a bit on the filling and packaging side, but there's not much else that can be done differently.*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 7

**Question 5: Self-Renewal:**

How much emphasis is placed on strategic reformulation and reorganisation?

Why is this important to your organisation?

**Response:**

*Not very much. We are always aware of the fact that we need to be at the top of our game, but we resort under the Libstar norms and habits so we have to follow their lines and ways. It's basic management. Libstar will guide us and help us. For example, with procurement.*

**Question 6: Risk-Taking:**

Would you describe your company's decision-making processes as cautious or bold?

Please explain if the fear of failure and uncertainty has anything to do with this?

Has being acquired by Libstar influenced this?

**Response:**

*Our decision-making processes are Bold. I say this because we are left alone to act almost autonomously and we are able to make fast and quick decisions. We are cautious, but we make definite decisions. We don't waste time on making decisions as there is a lot of confidence in our team. We know what's right and we know what's wrong.*

*Being acquired by Libstar has not affected our decision making. I run the company with more detail. I study the situation more vigorously and get to more detail when making my decisions, but once we've done that we make the decision. Once we've made up our minds we don't hesitate or worry about failure. Our relationship with the retail trade is very solid. I can go into meetings with confidence. I know my pricing and we've got an excellent key accounts manager. I've got enough background and experience to go in there and sell my ideas.*

**Question 7: Proactiveness:**

What does your organisation do to anticipate future opportunities?

Can you give me an example of any recent pioneering developments?

**Response:**

*We keep a hawk eye on the retail trade. That is our job.*

*We've got a project going on at this stage, which I believe is pioneering. It's my initiative so I'm very excited about it, but I must still get everyone else excited about it. I would like to pack honey under dealers own brand. Private label in other words. It will take some convincing of the seniors, but I need to convince them. They are not convinced because it's different to the everyday line of business of what Libstar does. Everyone sees honey as a difficult product to pack and to sell, but I've done enough research and homework to know what to do and how to do it, so I'm confident that it can work, but I still need to sell the idea. But everyone on the Libstar board has to buy in to the idea. I would say I'm about 50% there. I won't do it unless I'm very positive and confident, which I am. I believe that there is a very good market for it and Shoprite believe that the percentage that we are going to get from the local and national trade is good. So we expect some good returns after 3-5 years.*

**Question 8: Competitive Aggressiveness:**

How does your organisation detect external threats in the market place?

What competitive actions do you take in order to keep abreast with, or stay abreast of, these threats?

**Response:**

*To detect external threats, you have to listen to what is going on in the market place. You have to keep your eyes and ears peeled and listen to what the trade tells you and to what the people within Libstar are talking about at all times with regards to trends. Also, my key accounts manager is a very reliable hand. He brings a lot of information home and is incredibly well connected in the trade. He is my main source of information.*

*In order for us to remain competitive, it's very much about price in the retail trade. We try not to take part in price-cutting as it will kill us. We cannot afford it. We are already 15-18% below our market leaders. We put the same quality out there (packing our products in glass bottles etc.) so our cost is more or less the same so where do we cut? We procure at best and save where we can. We greatly try to save on wastage, but we still don't partake in price-cutting. We leave that to the opposition. They can't do it forever so we just wait for them and carry on again.*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 7

**Question 9: Subsidiary Entrepreneurial Network Management:**

Please explain the degree of interaction and communication that exists internally between your company and the other the subsidiaries?

(If information and ideas are shared): Please specify what spheres of business are shared.

Does Libstar encourage this?

**Response:**

*Libstar facilitates a CEO two day conference, once a year, where everybody sits and presents their companies. They present all their numbers and graphs and also the way forward. This is where the guys get excited about their NPD and all their profit margins. And sometimes they get wacked by the big boss, but it's quite a proud moment for everyone to go there and stand up and present their company. If you're doing well and exceeding budget by 20% you're proud to announce that and in turn can present to the other companies your strategies for getting there. You also present your budget for the following year. So that's communication amongst the bigger group. Cape Herb and Spice comes to us with opportunities for exporting some of our products. Dickenhal Foods discuss certain products that they can't or don't have the space in their facility to produce and hand it to us. Because we both source suppliers we are constantly supporting each other. So that's very nice. There are great relationships amongst us. Dickenhal foods have produced salad dressing for us before and then we have paid them a cost plus on the invoice and that's it. We help them with costing and sourcing of products, packaging materials, and raw material. There is a line that cannot be crossed between companies of supplying one another, but we can always refer them to other suppliers. This network sharing is extremely beneficial to us and both companies are very supportive with one another.*

*Absolutely. Libstar definitely encourage this. But there is a lot of respect with confidential recipes and other business practices so the relationship remains very professional.*

**Question 10: Subsidiary Autonomy:**

Tell me about the decision making structures in your organisation?

Does Libstar have an influence over this?

Please indicate in which quadrant you think your organisation lies and why?

**Response:**

*I'm the boss, but I try not to act like the boss. You will meet Respondent 8. He is our operations manager. We then have our accountant. I use them to help me make decisions and they will always ask me to guide their decisions. We are quite a formidable team. The one will never act without discussing things with the rest of the team. They both have decision-making power, but we always check with one another. And obviously, from my position as MD I try to guide, but not to demand.*

*Not much influence from Libstar. My respect for Libstar and the seniors pushes me in the right direction to make the right decisions, as I want to make them happy for the sake of the business. With regards to capital expenditure, I also have a free hand with what I can spend. If it is a considerable amount of money (R500 000 or more), I have to run the idea by them. I will never act on my own if it's a big decision. I will always run our ideas by them purely out of respect of our relationship with them.*

*Jointly driven entrepreneurship. Will never make decisions on our own.*

**Question 11: Influence of Acquisition on each Subsidiary:**

What has been the biggest change that your company has experienced since being acquired by Libstar?

**Response:**

*Financial control and discipline. We have become more controlled. Before being acquired by Libstar, I had a bookkeeper, not an accountant. Being a farmer, my financial background is there, but it's not professional. My bookkeeper did what she thought was good. We had the financial successes, but afterwards we realised that the control was not there. When we became a member of Libstar, the financial structures were spelled out. We have certain guidelines and we make sure we follow those. So now those are the least things we worry about. We've got a great accountant now who is in control of everything. I enjoy being a part of a bigger group in trade. It's not always a good thing however, as not everybody likes the strong arm of a company such as Libstar, or a Tiger Brands or a Unilever, but for Montagu, we are allowed to go out there with a stronger background to go wheel and deal. And most importantly, I still run the company as if it were my own and I get a lot of satisfaction from my job.*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 8

**Company:** Montagu Foods

**Respondent Number:** Respondent 8

**Position in Company:** Operations Manager

**Year company was founded:** 2001

**Date acquired:** 2007

**Question 1: Introduction:**

You were labelled as an entrepreneurial company pre-acquisition.

Why would you label yourself as an entrepreneurial company? Are there any specific characteristics of your entrepreneurial culture present post-acquisition?

**Response:**

*Since I joined, Libstar had 60% of the shares. When I started with Respondent 7, he hired me to implement corporate business operations. So I had to come and do HR, procurement, production, purchasing, everything just to get the corporate stuff in place. There was nothing in place, but they had a really successful business, but to bring the corporate in was a challenge for me.*

**Question 2: New Businesses/ Venturing:**

Does your organisation actively search for new business opportunities? Are these opportunities for internal or external ventures?

- (If internal): Are these new streams within your existing product line?
- (If external): Are these new start-ups outside of your organisational domain?
- How does Libstar facilitate this process?

**Response:**

Yes.

*Between Respondent 7, the key accounts manager and I, we are looking to expand our business so it doesn't just mean buying new businesses, it also means expanding on our own product line.*

*Yesterday Tiger Brands came to see me and I'm starting to do contract packaging for them.*

*The nice thing about being a part of the Libstar group is that I can phone anyone for advice. I can phone Dickenhall Foods, I can phone Cape Herb and Spice, I can phone anybody. So Libstar brings a lot of expertise to the group and to everybody. They don't keep their information to themselves. Communication is always open and this brings in a lot of experience. The nice thing is we can tap in anywhere. If I've got a problem I can phone anyone who is doing more or less the same thing as I am and they can help me.*

*We have an operations forum once a year with the board of directors, where we will all get together to discuss new technology, what's going on with business. We'll have one in Durban, in Johannesburg, in Cape Town, so when I'm in the different places I will actually phone some of the guys up and go to their factories and see how things are going over there and see what they have in place. So I'll pop in and have a general chat. What is the price of fruit etc.? It really is a great help.*

**Question 3: Product Innovativeness:**

Since being acquired by Libstar, is there sufficiently more resource slack allowing people to experiment with product development? Please explain.

How often do you review your product range?

What kind of a relationship is there between the number of new ideas and the number of new ideas implemented?

**Response:**

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 8

*Yes definitely! Especially with Dickenhall because we're in the same trade. So they have food technicians and a massive lab, which we don't have. Our lab is small with a few guys that have expertise.*

*The nice thing with Libstar is that when I order a lot of raw materials and raw produce, we can often do group deals here and there. I'll go to bidfoods and as a group we can make group orders. If we were just Montagu Foods we wouldn't be able to get such great deals. Libstar allows us to piggyback off them..*

*We constantly review our product range. Because we do private label, we'll watch the sales and try to understand the trends and understand why things didn't go so well this month as opposed to last month. Is the packaging outdated, does the label need to be upgraded. Because we're in private label we have to speak to the retail, they don't speak to us, as they do with branded companies and products.*

*60% of new ideas are implemented*

**Question 4: Process Innovativeness:**

Can you comment on any new methods or technological operational processes that have been introduced recently?

If yes: What motivated these developments?

Were these developments done as an internal process or is it done in conjunction with Libstar?

**Response:**

*We just installed a new filler for our salad dressing range. This gives us a lot more flexibility in our plant. We've got 3 production lines. The one is a totally dedicated glass line, the second line, does all the PT filling from the 375ml to the 5 litre, the third line is our salad dressing range. This comes in a sleeve, but this was very ineffective. We couldn't get our quantities right or our volumes up. So we changed that and implemented the new labeller and we now have a much better system in place.*

*We are growing at 26% packing product since last year so that is huge for us. So our quantities have gone up, we have had to put new systems in place, get new products involved and get new retailers, which we supply and it really is working for us. We need to keep up the technology in the plant in order to satisfy the demand, which is 26% at the moment.*

*Totally internal. Libstar was not involved in this because it did not exceed R500 000. As soon as any expenditure goes beyond the R500 000 that is when Libstar demands to be involved. Other than that, we are free to make our own decisions.*

**Question 5: Self-Renewal:**

How much emphasis is placed on strategic reformulation and reorganisation?

Why is this important to your organisation?

**Response:**

*We sit in a small little town, so before being acquired by Libstar, a lot of the farm workers were unable to write their names or sign in their pay cheque on a Friday, so because I came from the corporate world I thought wow, there's a lot of difference I can make in this small little town. So the heart of my business is the people on the floor. From the production manager to the distributions manager, my finance, my quality people etc. So my job is all about the people. When being acquired by Libstar some successions were put in place. I was one of the lucky guys that was sent by Libstar to study a supply chain management diploma. That opens a lot of scope for us and with the old traditional ways of managing a factory to times like today, it's all about transformational leadership, which is great for me.*

*We're not baby boomers so our business is not all about technology and laptops, it's all about the people growth, tele-development. I'm doing my first skills program at the moment. We hire educated people because they're the easiest people to teach to get the job done. All of our employees used to belong to a union, but today, none of them belong to a union anymore, which is great because they all report directly to me so we are able to look after our people.*

*We do a bit of finance training with them as well – we have introduced a savings plan with the group. So if they save money, we'll give them a 5% growth rate on their money and they're really responding and giving suggestions etc.*

**Question 6: Risk-Taking:**

Would you describe your company's decision-making processes as cautious or bold?

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### Respondent 8

<p>Please explain if the fear of failure and uncertainty has anything to do with this?</p> <p>Has being acquired by Libstar influenced this?</p>
<p><b>Response:</b></p> <p><i>Cautious (from the factory side). I can't make a bold decision without Respondent 7 input. We work nicely as a team and think about our implementation plans. We make mistakes and learn from them so as to try and not miss the boat. This is what we're going to implement because this is what we've learnt.</i></p> <p>No.</p> <p><i>Because of the backing I can make bold decisions. We have a lot of respect for one another. We all know one another and the backing of Libstar allows us to make bigger and bolder decisions in a short time because people trust the Libstar name and the levels of expertise.</i></p> <p><i>Our decisions are more bold, but more accurate. We won't lose money because we respect Libstar. I love the backing of Libstar.</i></p>
<p><b>Question 7: Proactiveness:</b></p> <p>What does your organisation do to anticipate future opportunities?</p> <p>Can you give me an example of any recent pioneering developments?</p>
<p><b>Response:</b></p> <p><i>Open relationships are very important with retail. Respondent 7 and Dickenhall are always on top of that. Suppliers, contractors, retail. We want to create a win-win situation. If I'm going to do well, they're going to do well. No buddy-buddy relationships, they remain professional. And we'll help one another out in times of trouble.</i></p> <p><i>We're not leaders. We have to follow the market so it's very difficult to make a mark in the market.</i></p> <p><i>In the factory however, we have an under 1% waste factor. We are very proud of it and that is why we're making money. Our guys have been trained and have great skills to help this process.</i></p>
<p><b>Question 8: Competitive Aggressiveness:</b></p> <p>How does your organisation detect external threats in the market place?</p> <p>What competitive actions do you take in order to keep abreast with, or stay abreast of, these threats?</p>
<p><b>Response:</b></p> <p><i>We have a great relationship with the retail industry. We went through the early stages of growth and development, but I think we're here to stay. There might be a small company that comes in and does what we're doing.</i></p> <p><i>Because of our systems put it place, we can undermine our competitors by lowering our prices. We can run a promotion for three months because we can piggyback off our Pick 'n Pay retail.</i></p> <p><i>We try to save on production costs and overhead costs. We train our people to provide world-class manufacturing, and we try to be the best at what we're doing</i></p>
<p><b>Question 9: Subsidiary Entrepreneurial Network Management:</b></p> <p>Please explain the degree of interaction and communication that exists internally between your company and the other the subsidiaries?</p> <p>(If information and ideas are shared): Please specify what spheres of business are shared.</p> <p>Does Libstar encourage this?</p>
<p><b>Response:</b></p> <p><i>There is a lot of interaction. We can phone whoever we want. If Libstar buys a new company they'll always tell us about it</i></p>

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 8

*and encourage us to go and visit them and talk to them about their business: why are you successful? What are you doing with sales? What are you doing with distribution?*

*We are always phoning and feeding off the other subsidiaries. I have a lot of role models in the Libstar group.*

*Manufacturing practices, costing models, I'll piggy back on their experience, storage space, etc. With regards to supplying retail, we're one of the strongest competitors in the group.*

*Yes.*

**Question 10: Subsidiary Autonomy:**

Tell me about the decision making structures in your organisation?

Does Libstar have an influence over this?

Please indicate in which quadrant you think your organisation lies and why?

**Response:**

*Respondent 7 is on top, and then I'm under him, under me will be finance, production managers and supervisors and distribution managers. So Respondent 7 will be the ultimate decision maker and I will make all the decisions in the factory, from changing suppliers, new contracts, HR decisions. Spending money and decisions in the plant I'll definitely have to speak to Respondent 7 before they are made.*

*No. If I don't make budget then Libstar will have an influence over the decision making structures in our organisation. We're one of the smallest companies in the group. We can play golf all day if we want to, as long as we're making budget. They don't check up on us or breathe down our necks unless there is reason for them to do so. This is great. It gives us that flair of thinking out of the box. And because we're private label we have to try and think of creative ways of thinking. Cost savings. What can I do to assist you to get a better price. Can I sit in your production meetings? Help with production levels etc. We create a relationship to see how we can save money.*

*Jointly driven entrepreneurship. We make our own decisions, so much freedom with what she should change and what needs to change, but because Respondent 7 travels a lot, I can always phone Libstar when necessary. And I like being able to make my own decisions which helps with my confidence levels. But I want them to interfere and walk around my plant and see what work we're doing.*

**Question 11: Influence of Acquisition on each Subsidiary:**

What has been the biggest change that your company has experienced since being acquired by Libstar?

**Response:**

*This has been a positive change in terms of people growth and systems being put in place - we never had medical aid, provident fund or disability aid. We never had any of these things in place. There has been great social development in terms of incentives. The whole people element changed when Libstar was put in place. Help make the people better people. But the fundamentals of the business have remained exactly the same.*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 9

**Company:** Amaro Bakery

**Respondent Number:** Respondent 9

**Position in Company:** MD

**Year company was founded:** 1991

**Date acquired:** 2007

**Question 1: Introduction:**

You were labelled as an entrepreneurial company pre-acquisition.

Why would you label yourself as an entrepreneurial company? Are there any specific characteristics of your entrepreneurial culture present post-acquisition?

**Response:**

*We're entrepreneurial because we're at the forefront of innovation. We pride ourselves on our quality and being the best that we can. We have built the business from the ground up and these qualities exist in all of our employees and their thought processes so I value their input. I have not allowed the acquisition to change this. I would not be here today if the acquisition changed this.*

**Question 2: New Businesses/ Venturing:**

Does your organisation actively search for new business opportunities? Are these opportunities for internal or external ventures?

- (If internal): Are these new streams within your existing product line?
- (If external): Are these new start-ups outside of your organisational domain?
- How does Libstar facilitate this process?

**Response:**

*Yes. We are primarily a Woolworths supplier and food service. We continuously travel with them nationally and internationally looking for new and innovative products so our business philosophy coincides with theirs. We have been supplying them in this capacity since 1994 so for about 20 years now.*

*We're continuously looking for new and innovative ideas and technologies internationally and this year we are looking at launching a range of ethnic breads, which is nan breads, pita bread and flat breads, which are huge overseas. Our business currently has two factories and we are going to be opening up a gluten-free factory in conjunction with Woolworths in October as well so yes, it's an exciting business. We are continuously looking for new ideas and looking to take new risks and this really keeps us on our toes.*

*Big brother is there from a corporate governance perspective and a due diligence perspective they're phenomenal. From a financial accounting perspective, their systems and procedures have made a huge difference I think, and also from a financial backing point of view. Obviously having the resources and the finance within the group makes a major difference. When we were smaller it was a lot harder to get money from banks as we were a lot smaller and only had one client, but with Libstar backing us, our business has really been able to expand.*

**Question 3: Product Innovativeness:**

Since being acquired by Libstar, is there sufficiently more resource slack allowing people to experiment with product development? Please explain.

How often do you review your product range?

What kind of a relationship is there between the number of new ideas and the number of new ideas implemented?

**Response:**

*Product development has never been an issue, but now we're focusing a lot more of our energy and attention on training employees in managerial positions. We pay much better salaries. We are paying our employees much more than they used to get*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 9

*With Woolworths, every quarter. We have different ranges that come out at different times of the year for the different seasons. We have to constantly be innovative.*

*Its high. I would say about 80%*

**Question 4: Process Innovativeness:**

Can you comment on any new methods or technological operational processes that have been introduced recently?

If yes: What motivated these developments?

Were these developments done as an internal process or is it done in conjunction with Libstar?

**Response:**

*We have our ethnic bread plant which is now line specific. We're also working on adding a natural enzyme into our products which will extend their shelf life which we're aiming to launch in October as well and the gluten-free factory as well which is going to be great.*

*Our business philosophy and our business vision is to stay at the forefront of innovation. So this, along with our customer is what motivates development.*

*This has nothing to do with Libstar. It's all done ourselves and with our customer.*

**Question 5: Self-Renewal:**

How much emphasis is placed on strategic reformulation and reorganisation?

Why is this important to your organisation?

**Response:**

*Reformulation is an ongoing process. We continuously try to make products more cost effective, reengineer them from a formula perspective, making them more cost effective.*

*It is important to become more efficient. The key to manufacturing is change.*

**Question 6: Risk-Taking:**

Would you describe your company's decision-making processes as cautious or bold?

Please explain if the fear of failure and uncertainty has anything to do with this?

Has being acquired by Libstar influenced this?

**Response:**

*Bold.*

*We're in a very fortunate position in that we supply a customer that backs us 100%. If this was not the case, I think our job would be a lot harder. It plays a massive part and I've learnt to grow because of that. They allow us to take more risks.*

*We're a lot more bold in the investments and in the decisions we make.*

**Question 7: Proactiveness:**

What does your organisation do to anticipate future opportunities?

Can you give me an example of any recent pioneering developments?

*We continuously travel overseas as a business. It is very important that we do trips annually so as to keep up-to-date with the trends in the market. We are constantly going to expos and reviewing the market.*

*As mentioned above in the previous question related to our ethnic bread plant and the natural enzyme that we are adding into our products.*

**Question 8: Competitive Aggressiveness:**

How does your organisation detect external threats in the market place?

What competitive actions do you take in order to keep abreast with, or stay abreast of, these threats?

**Response:**

*We continuously evaluate other retailers, travel overseas to see what's happening.*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 9

*Looking for value in our current ranges, doing promotions has becoming very important to us recently as well.*

**Question 9: Subsidiary Entrepreneurial Network Management:**

Please explain the degree of interaction and communication that exists internally between your company and the other the subsidiaries?

(If information and ideas are shared): Please specify what spheres of business are shared.

Does Libstar encourage this?

**Response:**

*Very little. We buy some raw materials from some of them, but we never innovative with them.*

*We have conferences annually where we share and encourage one another. So it is beneficial but not essential.*

*Yes, Libstar encourages this.*

**Question 10: Subsidiary Autonomy:**

Tell me about the decision making structures in your organisation?

Does Libstar have an influence over this?

Please indicate in which quadrant you think your organisation lies and why?

**Response:**

*All decisions are made through me. There is a strong management culture in the organisation who are exceptionally adept at what they do. We have our operations manager, our financial manager and then there under are HR managers and maintenance managers etc*

*Minimal. I make all the decisions, unless they are largely financial then I need to go through Libstar before finalising anything.*

*Subsidiary-driven.*

**Question 11: Influence of Acquisition on each Subsidiary:**

What has been the biggest change that your company has experienced since being acquired by Libstar?

**Response:**

*Definitely corporate governance and financial stability.*

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 10

**Company:** Amaro Bakery

**Respondent Number:** Respondent 10

**Position in Company:** CFO

**Year company was founded:** 1991

**Date acquired:** 2007

**Question 1: Introduction:**

You were labelled as an entrepreneurial company pre-acquisition.

Why would you label yourself as an entrepreneurial company? Are there any specific characteristics of your entrepreneurial culture present post-acquisition?

**Response:**

*We are one of the leaders in the industry. Our machinery is the latest, our technology is sophisticated, our thinking is different. Respondent 9 has never allowed the acquisition to change the way that he runs his business.*

**Question 2: New Businesses/ Venturing:**

Does your organisation actively search for new business opportunities? Are these opportunities for internal or external ventures?

- (If internal): Are these new streams within your existing product line?
- (If external): Are these new start-ups outside of your organisational domain?
- How does Libstar facilitate this process?

**Response:**

*Yes. Both.*

*The gluten-free factory has been started internally by us with Woolworths.*

*Externally, we've just bought another company and Respondent 9 is looking at buying another company up in Johannesburg so we're constantly looking at growing, but keeping it in our product range and line of work.*

*The lead to the Johannesburg company came from Libstar and once we get the ball rolling, Libstar helps us with the figures, the finance and the buyout. They do all the agreements and the legal paperwork.*

**Question 3: Product Innovativeness:**

Since being acquired by Libstar, is there sufficiently more resource slack allowing people to experiment with product development? Please explain.

How often do you review your product range?

What kind of a relationship is there between the number of new ideas and the number of new ideas implemented?

**Response:**

*There isn't more resource slack with product development, but there definitely is with expansion and machinery. Without Libstar we wouldn't be able to expand as much, but with regards to NPD I don't think Libstar influences this at all.*

*Our product range review is constantly under review. Respondent 9 drives and monitors NPD, sales, quality and growth on a daily basis.*

*Most of our new ideas get implemented – about 85% of those. However, after being implemented, about 20% of those fail and have to be taken off the market. We'll launch a product and within 6 months at least 2-3 out of 5 products will be discontinued.*

**Question 4: Process Innovativeness:**

Can you comment on any new methods or technological operational processes that have been introduced recently?

If yes: What motivated these developments?

Were these developments done as an internal process or is it done in conjunction with Libstar?

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 10

<p><b>Response:</b>  <i>We converted from electricity to gas, and now we've converted from gas to paraffin in terms of utilities. This has saved us a lot of money, especially from Eskom. This has been a major cost saver.</i></p> <p><i>Cost motivates this. Cost drives everything in today's market.</i></p> <p><i>These developments are done internally.</i></p>
<p><b>Question 5: Self-Renewal:</b>          How much emphasis is placed on strategic reformulation and reorganisation?          Why is this important to your organisation?</p>
<p><b>Response:</b>  <i>A lot of emphasis! Because we are constantly growing, the structure of the business and of the staff is constantly reviewed. A new organogram is drawn up every six months. Everything is constantly being restructured.</i></p> <p><i>It is important to keep up with growth and change.</i></p>
<p><b>Question 6: Risk-Taking:</b>          Would you describe your company's decision-making processes as cautious or bold?          Please explain if the fear of failure and uncertainty has anything to do with this?</p> <p>Has being acquired by Libstar influenced this?</p>
<p><b>Response:</b>  <i>Cautious, but it's a combination of the two. We have a lot more to think about now with regards to the shareholders, staff and the investors. You can't just make a decision. The risk is always there, but our risks are always calculated. You have to take everybody else into consideration, whereas before our decisions were bold and quick. We would make decisions and deal with the consequences. There is now a lot of planning involved.</i></p> <p><i>There is always a fear of failure. Our failure is always calculated and kept to a minimum. We always have a way out and a backup plan. For example, we know where we can send our raw materials back to. Failure is a problem, but it is always calculated.</i></p>
<p><b>Question 7: Proactiveness:</b>          What does your organisation do to anticipate future opportunities?          Can you give me an example of any recent pioneering developments?</p>
<p><b>Response:</b>  <i>We are fairly restricted in terms of future opportunities. We are pretty restricted by Woolworths so it's not like we can approach any other retailer or sell to anyone else. We can supply to retailers, but we don't.</i></p> <p><i>I would say our gluten-free factory, which Respondent 9 mentioned is our most recent pioneering development.</i></p>
<p><b>Question 8: Competitive Aggressiveness:</b>          How does your organisation detect external threats in the market place?          What competitive actions do you take in order to keep abreast with, or stay abreast of, these threats?</p>
<p><b>Response:</b>  <i>We are one of the biggest bakery's in the Western Cape. Our biggest threat is Sasko and the bigger boys. We monitor their activities very closely. We do a SWOT analysis to understand who is coming into the industry and this helps us monitor our threats in the industry in terms of what is going on around us. Therefore, we also look at the opportunities that exist. Respondent 9 is very connected in the industry and with a lot of the big suppliers. It's a small industry and Respondent 9 always has his ear to the ground.</i></p> <p><i>There is very little action for us to take, unless Woolworths is looking to change their suppliers. If someone else enters the market that is supplying Spar, there's nothing we can do because we're not competing in the same market. However, if somebody starts supplying Woolworths then we can speak up and Respondent 9 will take action and tell Woolworths that we have an exclusive agreement with them.</i></p>
<p><b>Question 9: Subsidiary Entrepreneurial Network Management:</b></p>

## APPENDIX C – INTERVIEWEE RESPONSES

### Respondent 10

Please explain the degree of interaction and communication that exists internally between your company and the other the subsidiaries?

(If information and ideas are shared): Please specify what spheres of business are shared.

Does Libstar encourage this?

**Response:**

*Very little communication. Very little. We don't deal much with other subsidiaries except for who we buy from. And this is strictly procurement. You sell, we buy. There are no partnerships or agreements amongst the companies.*

*There is a finance conference once a year where we share certain things, but this is shared more at Libstar's level. So if we're doing something well, Libstar would tell the subsidiaries about what we're doing and then if they wanted to they would be able to pick up the phone and call us. Once in a blue moon I'll get a phone call from one of the subsidiaries but nothing major. Just to get some answers.*

*Yes Libstar encourages this. They don't hold us back.*

**Question 10: Subsidiary Autonomy:**

Tell me about the decision making structures in your organisation?

Does Libstar have an influence over this?

Please indicate in which quadrant you think your organisation lies and why?

**Response:**

*Respondent 9, Respondent 9, Respondent 9. The bigger decisions involve a whole lot of managers. There will be about 4 or 5 of us in a meeting, but Respondent 9 will always ultimately make the call.*

*No, Libstar do not influence this. Unless Respondent 9 feels like he needs Libstar's input, we'll generally make our decisions on our own. So long as we meet and stay within budget there shouldn't be a problem.*

*Jointly-driven.*

**Question 11: Influence of Acquisition on each Subsidiary:**

What has been the biggest change that your company has experienced since being acquired by Libstar?

**Response:**

*Financial support. We wouldn't be able to be in this vicinity if it wasn't for Libstar.*