

# Measuring the understanding of value-based management in small businesses in Gauteng

**RM MAFIROWANDA**

**24709158**

**BSc Hons Chemical Technology**

Mini-dissertation submitted in *partial* fulfillment of the requirements for the degree *Master in Business Administration* at the Potchefstroom Business School, Potchefstroom Campus of the North-West University

Supervisor: Prof Ines Nel

October 2015

## **ABSTRACT**

Value-based management (VBM) is a framework that relies on the sole principle of creating value for shareholders. The ultimate and sole goal of a business is to create value for its shareholders whether for a non-profit or profit organization.

The main goal for companies is to deliver value for its shareholders. Most firms who have accepted and implemented VBM are those that are listed on stock exchanges. This is mainly because there is a strong correlation between the share price, market value and value added for shareholders. Although small businesses may not entirely utilize the VBM methods and principle, the underlying concept behind VBM is still valid and crucial for any business. It is thus imperative for small businesses to understand the concept of VBM and to implement its various attributes within their business. The ability of small businesses to create and maximise shareholder value is essential for their survival and longevity. Although in most small businesses the owner manager is usually the only shareholder, the premise of VBM is still valid and applicable. It allows the owner or business manager to increase the performance and, consequently, the value of the enterprise, which should translate into outperforming competitors, increasing growth rate and maximising return on capital. The rationale in such a process lies in the fact that if small businesses use VBM as a concept, adopted from the principle, they are more likely to perform better than their counterparts who do not use this concept. There is need for small businesses to focus on strategic financial management rather than on the normative financial accounting metrics. This action entails small businesses looking to become proactive and to strategize rather than being reactive and focusing solely on ensuring a financial profit.

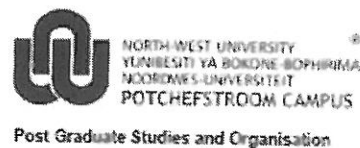
The initial stages of this research study sought to define and describe value-based management from literature as a means of presenting a background for the premise of the research study. The research also highlighted the various value-based performance metrics, the stages of implementation and components of a value-based system. An empirical study by means of an interview was conducted among small businesses within Gauteng, South Africa. An interview guide was constructed in consideration of the literature study conducted in terms of the various concepts within VBM. The interview guide ensured that the interview was focused and remained as unbiased as possible. The interview was designed to investigate participants' level of understanding of VBM.

The results of the study showed that many respondents did not have a good understanding of the various concepts within VBM. The participants showed a lack of understanding towards the concepts of strategic and general business decisions, operations and supply chain management, as well as financial management.

The findings of the empirical study were analyzed and conclusions were drawn from these. The premise of the conclusion was based on both the primary and secondary objectives. From the conclusions presented, recommendations were also made and presented. Consequently, recommendations for further areas of research, including looking into small business practices in other regions, were also presented.

**Keywords:** management; shareholders; small businesses; stakeholders; strategic management; value; value-based management.

## Appendix E: Solemn declaration



### SOLEMN DECLARATION AND PERMISSION TO SUBMIT

#### 1. Solemn declaration by student

I, ROH M. MAFIRWANDA

declare herewith that the thesis/dissertation/mini-dissertation/article entitled (exactly as registered/ approved title)

MEASURING THE UNDERSTANDING OF VALUE-BASED MANAGEMENT IN SMALL BUSINESSES IN SAUTONG

which I herewith submit to the North-West University, Potchefstroom Campus, in compliance / partial compliance with the requirements set for the MBA degree, is my own work, has been language edited and has not already been submitted to any other university.

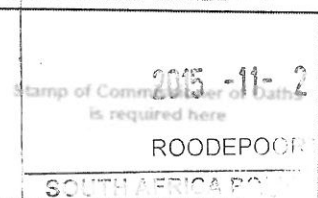
I understand and accept that the copies that are submitted for examination are the property of the University.

Signature of student [Signature] University number \_\_\_\_\_

Signed at ROODEPOORT this 28 day of \_\_\_\_\_

Declared before me on this 28 day of November 2015

Commissioner of Oaths: [Signature]



PLEASE NOTE: If a thesis/dissertation/mini-dissertation/article of a student is submitted after the deadline for submission, the period available for examination is limited. No guarantee can therefore be given that (should the examiners' reports be positive) the degree will be conferred at the next applicable graduation ceremony. It may also imply that the student would have to re-register for the following academic year.

#### 2. Solemn declaration and permission to submit by supervisor

The undersigned declares

- The student is hereby granted permission to submit his/her mini-dissertation/dissertation or thesis: YES/NO
- That the student's work has been submitted to Turnitin and a satisfactory report has been obtained: YES/NO

Signature/Supervisor/Promoter: \_\_\_\_\_

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

Original details: Mariette Ackermann (10512187) C:\Users\10512187\Desktop\SOLEMN DECLARATION AND PERMISSION TO SUBMIT.docm

7 October 2015

File reference: F.1.11.3.2/5

SOLEMN DECLARATION AND PERMISSION TO SUBMIT

1

## ACKNOWLEDGEMENTS

I would to express my deepest gratitude to:

- To God, Jehovah, my provider. For a journey that brought me closer to him. Psalms 142:2 & 2 Corinthians 12:9
- To my wife, Vongai, a constant source of strength and support.
- To my parents, in your absence I can still feel your presence. I pray you see a lot of yourselves in all I do. Every action in my life is to honour your memory. I promised you Mom, I would attain a Master's degree.
- To my colleagues and classmates, it has been a pleasure knowing and working with you. Thank you for the support and encouragement, I am glad to have made this journey with you.
- To the PBS, for setting up an amazing programme with world class lecturers and facilities.
- Finally to Professor Ines Nel, this is as much your accomplishment as it is mine. Thank you for your vision, encouragement, assistance and support throughout the entire time of my studies.

# TABLE OF CONTENTS

|   |                |
|---|----------------|
| <b>ABSTRACT .....</b>   | <b>I</b>       |
| <b>DECLARATION .....</b>  | <b>III</b>     |
| <b>ACKNOWLEDGEMENTS .....</b>                                       | <b>IV</b>      |
| <br><b>ABBREVIATIONS.....</b>                                       | <br><b>XII</b> |
| <br><b>CHAPTER 1 .....</b>  | <br><b>13</b>  |
| <br><b>SMALL BUSINESSES AND THE SOUTH AFRICAN ENVIRONMENT .....</b> | <br><b>13</b>  |
| <b>1.0 Introduction .....</b>                                       | <b>13</b>      |
| <b>1.1 Problem Statement .....</b>                                  | <b>19</b>      |
| <b>1.2 Objective of the study .....</b>                             | <b>19</b>      |
| 1.2.1 Main Objective .....  | 20             |
| 1.2.2 Secondary objectives.....                                     | 20             |
| <b>1.3 Research methodology .....</b>                               | <b>20</b>      |
| 1.3.1 Literature study.....   | 20             |
| 1.3.2 Empirical study .....   | 21             |
| 1.3.3 Research Design .....   | 21             |
| 1.3.4 Participants.....   | 21             |
| 1.3.5 Measuring instrument .....                                    | 21             |
| <b>1.4 SCOPE OF THE STUDY .....</b>                                 | <b>22</b>      |
| <b>1.5 LIMITATIONS OF THE STUDY .....</b>                           | <b>22</b>      |
| <b>1.6 LAYOUT OF THE STUDY .....</b>                                | <b>23</b>      |
| <br><b>CHAPTER 2.....</b>   | <br><b>25</b>  |
| <br><b>THE CONCEPT OF VALUE BASED MANAGEMENT .....</b>              | <br><b>25</b>  |
| <b>2.1 Introduction .....</b>                                       | <b>25</b>      |
| 2.2. Basic principles of value-based management.....                | 25             |
| <b>2.3 Components of value-based management .....</b>               | <b>27</b>      |
| <b>2.4 Metrics.....</b>   | <b>28</b>      |
| <b>2.5 Reasons for implementing value-based management.....</b>     | <b>35</b>      |

|  |   |           |
|--|---|-----------|
| <b>2.6</b>   | <b>Benefits of value-based management.....</b>                | <b>36</b> |
| <b>2.7</b>   | <b>Critique of using VBM and its implementation.....</b>      | <b>37</b> |
| <b>2.8</b>   | <b>Key success factors for the implementation of VBM.....</b> | <b>39</b> |
| <b>2.9</b>   | <b>Chapter Summary.....</b>                                   | <b>41</b> |
| <b>CHAPTER 3.....</b>                                    |   | <b>42</b> |
| <b>VALUE BASED MANAGEMENT SYSTEM IMPLEMENTATION.....</b> |   | <b>42</b> |
| <b>3.0</b>   | <b>Introduction .....</b>                                     | <b>42</b> |
| <b>3.1</b>   | <b>Implementation of VBM system.....</b>                      | <b>42</b> |
| 3.1.1  | Stage 1 Analysing value-based requirements.....               | 43        |
| 3.1.2  | Stage 2 Setting targets & management commitment .....         | 44        |
| 3.1.3  | Stage 3 VBM training.....                                     | 44        |
| 3.1.4  | Stage 4 Employee involvement .....                            | 45        |
| 3.1.5  | Stage 5 Performance evaluation.....                           | 46        |
| <b>3.2</b>   | <b>Steps involved in implementing a VBM system .....</b>      | <b>46</b> |
| 3.2.1  | Setting an overall objective: enhance shareholder value ..... | 47        |
| 3.2.2  | Create organisational specific goals .....                    | 48        |
| 3.2.3  | Develop company policies .....                                | 48        |
| 3.2.4  | Value drivers .....   | 49        |
| 3.2.4.1  | Sales/Revenue growth.....                                     | 49        |
| 3.2.4.2  | Operating profit margin: .....                                | 50        |
| 3.2.4.3  | Sales growth rate.....  | 50        |
| 3.2.4.4  | Cash tax rate: .....  | 51        |
| 3.2.4.5  | Fixed capital needs:.....                                     | 51        |
| 3.2.4.6  | Working capital needs: .....                                  | 51        |
| 3.2.4.7  | Cost of capital:.....   | 51        |
| 3.2.4.8  | Planning period or value growth duration:.....                | 52        |
| <b>3.3</b>   | <b>Create action plans, targets and measures .....</b>        | <b>53</b> |
| <b>3.4</b>   | <b>Measure performance .....</b>                              | <b>53</b> |

|   |   |           |
|---|---|-----------|
| <b>3.5</b>                                    | <b>A typical example of how a business can use a VBM system.....</b>  | <b>54</b> |
| 3.6   | Using EVA as a metric in a business .....   | 55        |
| <b>3.7</b>                                    | <b>General value-based framework.....</b>   | <b>56</b> |
| <b>3.8</b>                                    | <b>Chapter Summary.....</b>   | <b>59</b> |
| <b>CHAPTER 4.....</b>                         |   | <b>60</b> |
| <b>REPORTING AND RESULTS DISCUSSION .....</b> |   | <b>60</b> |
| <b>4.1</b>                                    | <b>Introduction .....</b>   | <b>60</b> |
| <b>4.2</b>                                    | <b>The procedure and scope of the research study .....</b>  | <b>60</b> |
| 4.2.1   | Sampling and sample size .....  | 60        |
| 4.2.2   | The measuring instrument .....  | 61        |
| 4.2.3   | Data collection .....   | 62        |
| 4.2.4   | Themes & findings .....   | 66        |
| 4.2.4.1                                       | General business management .....   | 67        |
| 4.2.4.2                                       | Operations and supply chain management.....   | 73        |
| 4.2.4.3                                       | Financial and performance measurement.....  | 78        |
| 4.2.4.4                                       | Follow up questions .....   | 82        |
| <b>4.3</b>                                    | <b>Summary of themes .....</b>  | <b>85</b> |
| <b>4.4</b>                                    | <b>Chapter Summary.....</b>   | <b>87</b> |
| <b>CHAPTER 5.....</b>                         |   | <b>88</b> |
| <b>CONCLUSION AND RECOMMENDATIONS.....</b>    |   | <b>88</b> |
| <b>5.1</b>                                    | <b>Introduction .....</b>   | <b>88</b> |
| <b>5.2</b>                                    | <b>Conclusions.....</b>   | <b>88</b> |
| 5.2.1   | Conclusions with regard to participants' understanding of strategic business planning & general decision making ..... | 88        |
| 5.2.2   | Conclusion on the respondents' understanding of operations and supply chain management .....                          | 90        |
| 5.2.3   | Conclusion on financial management understanding .....  | 92        |
| 5.2.4   | General follow up questions.....  | 92        |



|  |   |            |
|--|---|------------|
| <b>5.3</b>   | <b>RECOMMENDATIONS .....</b>                  | <b>93</b>  |
| <b>5.4</b>   | <b>EVALUATION OF STUDY .....</b>              | <b>94</b>  |
| 5.4.1  | Primary objective .....                       | 94         |
| 5.4.2  | Secondary objective .....                     | 94         |
| <b>5.5</b>   | <b>Limitations of the study .....</b>         | <b>95</b>  |
| <b>5.6</b>   | <b>Suggestions for further research .....</b> | <b>96</b>  |
| <b>BIBLIOGRAPHY .....</b>                          |   | <b>97</b>  |
| <b>ANNEXURES.....</b>                              |   | <b>103</b> |
| <b>APPENDIX A INTERVIEW GUIDE.....</b>             |   | <b>103</b> |
| <b>APPENDIX B CODING OF RESPONSES .....</b>        |   | <b>108</b> |
| <b>APPENDIX C STATISTICAL DATA.....</b>            |   | <b>142</b> |
| <b>APPENDIX D LETTER OF LANGUAGE EDITING .....</b> |   | <b>146</b> |

## LIST OF TABLES

|   |    |
|---|----|
| Table 2-1 Using metrics as measures for value creation .....  | 34 |
| Table 4-1 Races of the respondents.....   | 65 |
| Table 4-2 Themes for responses to the overall company goal.....   | 67 |
| Table 4-3 Themes on responses for company's long and short term strategic goals .....   | 68 |
| Table 4-4 Themes on responses on the overall company vision or goal and<br>communication to the employees .....               | 69 |
| Table 4-5 Themes on responses to the company's main stakeholders.....   | 70 |
| Table 4-6 Themes on responses on the expectations of the shareholders towards the<br>business.....                            | 70 |
| Table 4-7 Themes on responses for key ingredient, and competitive advantage<br>maintained .....                               | 71 |
| Table 4-8 Themes on the business decision making mechanism .....  | 71 |
| Table 4-9 Themes on responses for business decision evaluation procedure .....  | 72 |
| Table 4-10 Themes on responses on definition of value and general strategy of the<br>company .....                            | 73 |
| Table 4-11 Themes on responses of operations management and company's overall goal .....                                      | 74 |
| Table 4-12 Themes gathered on response for the continual improvement of company<br>unique selling proposition.....            | 75 |
| Table 4-13 Themes on responses on general company hierarchical structure .....  | 76 |
| Table 4-14 Themes gathered on description of company culture within the organization.....                                     | 76 |
| Table 4-15 Themes gathered on management and goals of supply chain within the<br>organisation. ....                           | 76 |
| Table 4-16 Themes on responses on specific goals in terms of company performance<br>measurement .....                         | 78 |
| Table 4-17 Themes gathered on responses of performance measurement .....  | 78 |
| Table 4-18 Themes gathered to responses on performance metrics .....  | 79 |
| Table 4-19 Themes gathered to responses on the source of information used for<br>evaluating performance for the company ..... | 79 |
| Table 4-20 Themes gathered on description of drivers for financial performance in a<br>business.....                          | 80 |
| Table 4-21 Themes gathered on responses for measures for achieving company specific<br>financial overall goal.....            | 81 |

|  |    |
|--|----|
| Table 4-22 Themes gathered on responses for knowledge of value based management as a general business principle .....      | 82 |
| Table 4-23 Themes gathered on responses of general implementation of VBM within a business.....                            | 83 |
| Table 4-24 Themes gathered on response for managing value with a business and the role of management .....                 | 84 |
| Table 4-25 Themes gathered on the responses of the elements considered important for continued success of a business ..... | 85 |
| Table 4-26 Summary of themes gathered in general business planning and decision making .....                               | 85 |
| Table 4-27 Summary of themes gathered in operations and supply chain management .....                                      | 86 |
| Table 4-28 Summary of themes gathered in financial management .....  | 87 |

## LIST OF FIGURES

|   |    |
|---|----|
| Figure 1-1 Three key areas for value creation .....   | 16 |
| Figure 2-1 Common performance measures and relative popularity .....                                      | 35 |
| Figure 3-1 Stages of implementing a VBM system .....  | 43 |
| Figure 3-2 Steps involved in implementing a VBM system .....  | 47 |
| Figure 3-3 Key drivers of value in a company .....  | 53 |
| Figure 3-4 The use of multiple value drivers into one basic measure to measure<br>shareholder value ..... | 54 |
| Figure 3-5 Break down of EVA and value drivers .....  | 55 |
| Figure 3-6 Value-based management framework .....   | 58 |
| Figure 4-1 Gender of respondents .....  | 63 |
| Figure 4-2 Highest Level of education .....   | 64 |
| Figure 4-3 Titles of respondents .....  | 64 |
| Figure 4-4 Sale revenue of respondent's business .....  | 65 |
| Figure 4-5. Total Capital Investment of the businesses .....  | 66 |

## ABBREVIATIONS

| Acronym | Term  |
|---------|---|
| VBM     | Value based management                        |
| CF      | Cash flow                                     |
| CFROI   | Cash flow return on investment                |
| CVA     | Cash value added                              |
| DCF     | Discounted cash flow                          |
| EBDIT   | Earnings before depreciation interest and tax |
| EBIT    | Earnings before interest and taxes            |
| EVA     | Economic value added                          |
| FCF     | Free cash flow                                |
| MVA     | Market value added                            |
| NOPAT   | Net operating profit after tax                |
| OCF     | Operational cash flow                         |
| ROI     | Return on investment                          |
| ROA     | Return on assets                              |
| ROIC    | Return on invested capital                    |
| SVA     | Shareholder value added                       |
| VBM     | Value-based management                        |
| WACC    | Weighted-average cost of capital              |
| ROS     | Return on sales                               |

# CHAPTER 1

## SMALL BUSINESSES AND THE SOUTH AFRICAN ENVIRONMENT

### 1.0 Introduction

Small businesses play a vital role within the South African economy. In most developing economies small and medium sized enterprises have a positive and massive influence on the GDP of a country. They are responsible for the bulk of employment creation, innovation and are crucial for social development within the societies that they serve. The survival and longevity of small and medium sized enterprises is of paramount importance in any economy, especially within the South African economy. According to Ntsika (cited by Olawale & Garwe 2010:729), SMEs are responsible for approximately 56% of private sector employment and contribute about 36% of the gross domestic product. According to Kongolo (2010:2290), in South Africa, SMEs have the largest propensity to employ more people, being responsible for over 18% of new jobs created and this percentage increased to 44% towards the end of the period 2004-2007. A study carried out by the Competition Commission (Mahembe 2001:13) estimated that 99.3% of South African businesses were SMEs and that these SMEs accounted for 53.9% of total employment and contributed 34.8% to GDP. SMEs are thus responsible for over 50% of the total new employment observed and contribute approximately US\$119 billion annually to the South African economy (Anon 2015). SMEs also play a key role in drawing attention to and addressing social issues, such as social imbalances, poverty, poor health and illiteracy, within the communities they serve. Generally a fast growing and developing economy is attested by an evolving and ever expanding SME sector. The National Development Plan (NDP) drafted by the National Planning Commission, which pegged the country's average economic growth rate at 5% per annum over the next 15 years, has shed light on the critical but yet crucial role of SMEs in South Africa. According to Mahembe (2001:13) the SME sector, when fully functional, can contribute immensely to a country's economy by creating employment opportunities and increasing production and export volumes, whilst introducing innovation and entrepreneurship skills. The NDP also highlights the impact SMEs will have on the future of the South African economy:

*Some 90 percent of jobs will be created in small and expanding firms. The economy will be more enabling of business entry and expansion, with an eye to credit and market access. By 2030, the share of small and medium-sized firms in output will grow substantially..... Export growth, with appropriate linkages to the domestic economy, will play a major role in boosting growth and employment, with small- and medium-sized firms being the main employment creators, (Mahembe (2001:13).*

The National Small Businesses Amendment Act (29 of 2004) defines a small business enterprise as:

*... a separate and distinct business entity, together with its branches or subsidiaries, if any, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy.*

The National Small Business Act 102 of 1996 defines a small sized business, depending on the industrial sector, as a separate and distinct business entity, averaging a staff component of fewer than 50 employees with an annual turnover of between R2million and R7million and average gross asset value of R2million. According to the National Small Business Act 102 of 1996, the main criteria used for determining whether an enterprise can be classified as medium, small, very small or micro depends on the total full-time equivalent of paid employees, the total turnover and the total gross asset value. The Income Tax Act (58 of 1962) defines a small business corporation (SBC) as any closed corporation or co-operative or any private company, all shareholders of which are, at all times during the year of assessment, natural persons, in which the gross income for the year of assessment does not exceed R20 million per annum. This study will generally classify a small business as one that has a minimum of 5 up to a maximum of 50 full time employees, with a minimum gross asset value of R200 000. This study will not place too much emphasis on the annual turnover but will look for businesses that have been in active operation for at least two full financial years.

The strength of a budding economy lies in increasing the insurgence and number of small businesses, coupled with ensuring the growth in size and increased sustainability of existing SMEs. These are key objectives to be met within the South African context for the economy's future prosperity. A cornerstone to ensuring the growth of existing small businesses is the need to increase their competitiveness and sustainability. Competitiveness for individual firms is intimately linked, apart from the environment in which they operate, to their ability to adapt to challenges within their environments, as well as how successfully they can devise strategies to seize opportunities (Anon; 2014:4). Central to the growth of a firm, which is loosely denoted by turnover as well as an increase in number of employees, value creation is a crucial aspect

of sustainability. It is thus fundamentally important for such entities to be able to create as well as measure the value created.

Sustainability refers to the creation and implementation of policies and processes within a company whose main aim is to enhance its financial, environmental, societal, human and other resources for long-term health (Kielstra, Lofthouse, Waston; 2008:4). The efficient use of resources to maximise the return is thus a key component of any sustainability initiative. It is important to ensure the sustainability of any business, because this provides a guarantee for future growth and revenue. Sustainability allows firms to enhance competitiveness and ultimately create value. Value creation and management is thus a key cog within the sustainability engine within a company. Companies that are able to ensure efficient use of resources, identify value creation strategies, articulate through propositions, as well as their implementation, are most likely to remain sustainable and competitive.

Bonini & Gorner (2011:2) attests to the importance of a long-term view on strategic management, building such strategy into value creation levers with the sole purpose of driving return on capital, growth and risk management. Apart from strategic policies, there is a need for setting up organisational elements and pillars that support the performance and value levers. This process includes support and participation from management on the strategy for sustainability and value creation. According to Bonini & Gorner (2011:3) there are three key areas that organisations should focus on for value creation. These are summarised by the following figure:



**Figure 1-1** Three key areas for value creation



(Source Bonini & Gorner 2011:3)

From the above chart, it can be seen that companies can thus look to lock value within the following three functional areas:

**Growth:** Achieved through innovation and release of new products as well as cross-selling. It is a vital component of any strategic management initiative for a company. According to the GEM Report for South Africa (2013), innovative products and services are a source for unique value to societies and are responsible for the creation of events which will positively impact the lives of people. Companies can also look to acquire new customers and markets, as well as building up new portfolios. In this area companies look to increase sales' volumes as well as margins' manipulation. Growth is thus a key component for the sustainability and competitiveness of any company. It is, therefore, imperative for companies to focus on strategies that enhance growth through innovation and research and development as well as market penetration. From a strategic perspective, companies can use VBM to forecast growth, create a mission and vision that focuses the company's energy and efforts towards creating value.

**Return on capital:** Involves venturing into sales and sustainable marketing through focusing and acquiring sustainable value chains. Companies can also lock in value by creating more efficient and sustainable operations, reducing unnecessary emissions and waste. Companies

need to be introspective and continuously analyse and improve their operations. A company's ability to give a favourable return on investment is a crucial requisite for any institution. It is thus vital for any company to be able to make wise decisions that ultimately fulfil the expectations of shareholders. This process forms part of VBM that focuses on the financial management aspect of a business. Management should thus be able to monitor and focus on the return and value created financially by a business. There are several metrics that companies can use, which include Economic Value Added (EVA), Return on Investment (ROI) and Net operating profit after tax (NOPAT). These practices also call for companies to adequately focus on creating value in operations, through strategic operations management. Companies can thus make strategic decisions that look at maximising value creation and, ultimately, the return on investment.

**Risk Management:** Companies that seek to create value must be able to manage risk. This pursuit involves reputation management through Customer Relations Management (CRM) as well as Supplier Relationship Management (SRM). It is also important to look into operational risk management which involves understanding the types and levels of risk the companies face within its operations. Companies should also be aware of the existing regulations and legislation within the spheres in which they operate through regulatory management.

Value-based management (VBM) thus gives companies a holistic framework for value creation as well as strategic performance measurement. It provides companies with a means to set up structures that solely aim at creating and maximising value for shareholders. VBM incorporates new management techniques such as activity based costing, budget controls and balanced scorecards. The principle of VBM has been widely used in public companies as a means to ensure that they meet and deliver on the expectations of shareholders. Soumaya (2013: 539) states that creating value and the measurement of such, is not only of importance to listed companies but can be a vital tool for daily management for small companies as well. It is, thus, paramount to the sustainability and continued competitiveness of SMEs that they accept and adopt VBM.

Some other aspects of an integrated VBM system that companies can employ on all of its levels include strategic planning and operational and financial management (Young & O'Bryne; 2001:18). These aspects can be summarized as follows:

**Strategic planning and management:** Companies can use VBM which involves the creation of internal objectives (vision and mission) that focus on value creation. This approach calls for companies to base all operational decisions on the vision, mission and objectives of the company. VBM necessitates companies making decisions and focusing operations on ventures or actions that maximise value for the company. Small businesses can, consequently, use VBM to assist or dictate decisions around growth targets, investments, product expansion and even market penetration.

**Operations management:** VBM requires companies to select and implement strategies and organisational designs consistent with their set objectives. VBM also allows companies to identify specific performance variables and value drivers that create value for the organisation. The company can build its operations and focus around these value drivers and performance variables. This process involves designing an efficient value chain system and building around effectual operations to maximise on value. The companies can thus develop action plans, selecting performance measures and setting targets based on the priorities identified in the value driver analysis.

**Financial and performance management:** Companies can use VBM to evaluate the success of action plans and conduct organisational and managerial performance evaluation. Through VBM companies can continuously assess the validity of the organisation's internal objectives, strategies and plans. VBM requires companies to create control mechanisms that allow them to review results and make necessary adjustments as the need arises. This action demands the use of various metrics to continuously assess the performance of the company and ascertain if the objectives are being met (Ittner and Larcker 2001:350).

Global Entrepreneurship Monitor (GEM) Report (2013) noted that many aspects of the South African educational system are considered the worst in the world. This consequently affects SMEs with the bulk possessing entrepreneurs with poor management skills which are a result of the lack of adequate training and education. This deficiency consequently results in high rates of business failure (SA has one of the lowest SMEs survival rates in the world) (Mahembe 2011:7). These poor performance levels calls for SMEs to enhance sustainability, improve scalability and maintain competitiveness. In order to do so, SMEs need to take a leaf from the corporate 'game-book' and to adopt strategic management techniques to better regulate their operations, improve bottom-line and satisfy fiduciary duties. SMEs need to increase the efficient use of resources, make strategic decisions, as well as invest wisely in operations. All

these practices are essential for the growth of existing SMEs and the successful development of new ones.

For any business to survive in modern times, it is imperative to deliver value. Organisations are supposed to make it a mandate to create value for customers/consumers, shareholders as well as all relevant stakeholders. It is essential for a business to fully understand the concept of creating value, and thus focus its sole premise on creating, maximising and delivering such value. Companies can thus implement VBM from a strategic, operative and financial perspective to align with the principle of maximising shareholder value.

### **1.1 Problem Statement**

The notion and argument upon which this research is founded is that VBM has had credible impact on how public companies address their fiduciary duties to shareholders. This has had significant impact and influence on the performance of stock listed companies subsequent to the 2008 melt down. If such aims have yielded credible and noteworthy impact in stock listed firms, a similar approach might be able to reproduce equivalent results in small businesses and thus significantly influence the continued achievements of small businesses. Successful business growth depends on a scalable business model that will increase profits over time, by growing revenue while avoiding cost increases (Housh 2015). It is thus safe to say that if small businesses are able to capture and deliver value, they might be to make themselves investable and scalable as well. It might also present as a blueprint for sustainability as well as for continued success and growth for small businesses.

This research seeks to answer one significant question: How much do small owners and/or managers know and understand about value creation? This will allow a subsequent question to be addressed: How can small businesses utilize the concept of VBM in business to create and capture value?

### **1.2 Objective of the study**

The research objectives will be divided into two sections, namely general objectives and specific objectives.

### **1.2.1 Main Objective**

The general objective of this research is to investigate the level of understanding of the concept of value-based management (VBM) in small businesses in Gauteng, South Africa. This research seeks to explore how well business managers and owners of small businesses understand the principles of VBM.

### **1.2.2 Secondary objectives**

The secondary objectives of this research fall within the context of VBM:

- ascertain the level of understanding of the concept of strategic planning and management in decision making in small business enterprises;
- assess the level of understanding of operations and supply chain management within small businesses;
- assess the level of understanding of financial and performance management in small businesses.

## **1.3 Research methodology**

This research study will consist of two main sections namely, a literature study and an empirical study.

### **1.3.1 Literature study**

The literature study will consist of a review of relevant articles and books regarding the topic of value-based management (VBM) which will aim to present a synoptic understanding of the topic. It will also aim to conceptualise the principle of value management. This study will look at anecdotes and metrics as well as benefits. It will also examine implementation, previous results, drawbacks, limitations and criticism of VBM.

The literature study will summate the concept drawn from the principle of VBM within the context of a business which will serve as a tool to present a theoretical foundation of the concept. This process will involve identifying the value drivers prevalent within the modern business arena. The literature study will, thus, present a modern synoptic of the implementation of the concept together with the benefits of VBM.

### **1.3.2 Empirical study**

The aim of the empirical research is to determine the level of understanding of small businesses towards the concept of VBM. This will involve analysis of the data collected from interviews conducted with owners/managers of small businesses from various industries and sectors. The populations from which the sample will be drawn encompass all small businesses operating within the Gauteng region.

### **1.3.3 Research Design**

This empirical study consists of the following phases:

- the creation of the interview script of questions, and the selection of measuring instrument;
- the analysis of the data from the responses drawn from the interviews;
- the report and discussion of the results; and
- conclusions and recommendations drafted from results of the empirical investigations.

### **1.3.4 Participants**

The research is centred and based on responses from interviews conducted from a selection of predetermined participants. The participants will be sampled from small businesses within the Gauteng region. The participating companies should have at least two full financial years in active operation.

### **1.3.5 Measuring instrument**

The research utilizes an interview comprising of semi-structured questions to ensure a more rigorous and effective collection of data. Semi-structured as well as open-ended questions will be used in the interview to allow participants to elucidate and better explain perceptions, whilst giving the freedom to express views in their own words. The goal of the interviewer is to study and gather common themes within the respondents' attitudes and perception towards the concept. An interview guide and pilot run will be drafted to ensure that the interview questions yield the most in terms of content and direction and also ascertain if they are suitable for the objectives set. The interviewer will seek to gather amongst others, the following information from the participants:

- the nature of their business, as well as the length of existence;
- the structure of the business;

- the strategy employed, highlighting the vision and mission as well position of the company and its competitive advantage; and
- their level of understanding towards the concept of VBM spanning issues of strategic, financial and operations management.

In addition, participants will be asked to:

- show an ability to identify performance levers and value drivers within the context of a business;
- show the ability to recognize the impact of the performance levers within the day-to-day operations of their business; and
- explain how they manage and plan around the performance levers within the context of the businesses.

#### **1.4 SCOPE OF THE STUDY**

This study will focus on small businesses based within the Gauteng region in South Africa. The study seeks to analyse participants' understanding of the principle of VBM. The area of focus within this research study is in financial and strategic management.

#### **1.5 LIMITATIONS OF THE STUDY**

The study poses a number of limitations in terms of the key note. The main limitation is to present the questions within the interview in a manner that is understandable and comprehensible to participants. This will play a pivotal role in ensuring the usability of the responses gathered and, ultimately, affect the validity of the research. The interview questions must be able to present a valid representation of the basic principles in VBM that transcends any industry. The other limitation is that the sample of participants will allow more detailed information on the topic but will not allow for a comprehensive representation of the entire population of all small businesses in Gauteng, as well as in South Africa. This in itself can be an avenue for further research in the future.

## **1.6 LAYOUT OF THE STUDY**

### **CHAPTER 1: Small businesses and the South African environment**

Chapter 1 will consist of a brief introduction into the background of the topic. It will present the problem statement as well as the objectives of the study. This chapter will also set out the research methodology, highlighting both the scope and the limitations of the study.

### **CHAPTER 2: Value-based management: drivers, anecdotes and implementation**

Chapter 2 seeks to present a theoretical platform explaining the principles of VBM as noted in literature. It also aims to conceptualize the principle of VBM in the context of modern day businesses. This discussion will cover the various metrics available, highlighting their use and implementation, and also address the various benefits associated with metrics and their implementation in businesses.

### **CHAPTER 3: Value drivers and performance levers in modern businesses**

This chapter aims to present a framework for identification of value drivers in modern businesses and seeks to establish and discuss the performance levers associated with value drivers within a business. This section aims to show how performance levers are used for strategic decisions during business operations and seeks to determine the link between value drivers and associated performance levers from a strategic perspective.

### **CHAPTER 4: Discussion and reporting of results**

Chapter 4 discusses the findings of the interviews conducted and will present the responses in a standardized format. The data will be collected and organized into various common themes, concepts or groups. This chapter will seek to code and analyse the data after it has been organized. The aim of the interview will be to determine the level of the interviewees' understanding as well as exposure to VBM. The chapter will analyse the level of implementation of the concepts of VBM within the participants' organizations. Finally, the findings will be reported and discussed.

### **CHAPTER 5: Conclusion and recommendations**

This chapter aims at presenting a conclusion based on the findings discussed in Chapter 4, taking into account the levels of understanding of VBM of small business owners/managers within the Gauteng region. It will also present recommendations on the implementation of VBM in small businesses, based on the perceptions gathered, along



with the effects of the level of implementation. Ultimately the chapter will attempt to present a framework for the implementation of VBM in small businesses.

## CHAPTER 2

### THE CONCEPT OF VALUE BASED MANAGEMENT

#### 2.1 Introduction

This chapter aims to present a definition and foundation for the concept of value-based management (VBM). This chapter will also provide a theoretical and literature analysis of VBM which will involve looking at the various components and principles of VBM, metrics and their application/implementation, as well as analysing the drawbacks. The following is an outline of this chapter:

1. an overview of VBM;
2. the components of VBM;
3. VBM metrics;
4. advantages and critique of using VBM and
5. key success factors for the implementation of VBM.

#### 2.2. Basic principles of value-based management

As mentioned in Chapter 1, value-based management (VBM) is a framework that relies on the sole principle of creating value for shareholders. The ultimate and sole goal of a business is to create value for its shareholders (Young and O'Bryne 2001; Moskalev & Park 2010), whether for a non-profit or profit organization. Athanassakos (2007:1397) defines VBM as a philosophy that utilizes analytical tools to focus the organization's objective for the sole aim of creating value for shareholders. VBM thus creates and provides a framework that aligns strategy, performance measurement and, in turn, compensation and reward systems. Rapp et al (2011:172) define value-based management systems as:

*all types of integrated management strategy and financial control systems that rely on a metric which considers return (on invested capital) and the cost/or at least the amount of invested capital simultaneously*

It is important to note that VBM is not strategy creation but it is a way to implement and execute strategy.

Jakovleva (2013:131) explains that the greatest goal of management is to ensure the efficient use of the company's assets and ultimately the increase in its market value (capitalization, profits) which can be achieved by the introduction of controlling mechanisms which help the company adapt itself to the changes of external environment. He also argues that the company's economic growth should be ultimately increased through adopting successful application of advanced technologies, which consequently result in the increased quality of products as well as a competitive advantage. Some companies now use VBM not only as a means to maximise shareholder value but also make the company more attractive to investors and creditors (Beck: 2014:154). The premise of VBM can be deduced to rely on the notion that companies use value maximisation as a means to plan, strategize, control budget and make decisions. Value maximisation then becomes the bedrock of any of the company's internal objectives. VBM thus becomes the roadmap for ensuring that the company creates the most value for its stakeholders out of its operations. It is also important that the entire organisation be aligned and focused around value management. According to Beck (2014:158) a comprehensive VBM system comprises strategic planning, establishment of value drivers, financial measures, analysis of internal and external factors, and the consistent supervision of skilled, efficient and active top level management.

According to Rapp *et al.* (2011:173), over 80% of the largest companies in Germany had implemented VBM by the beginning of 2008. In a study carried out on Canadian firms, Athanassakos (2007:1397) noted that companies that implemented VBM had much higher stock prices compared to those that did not implement it. The principle of VBM has been widely used in public companies as a means to ensure that they meet and deliver on the expectations of their shareholders. The principle acts as a guideline and measure for the competence of a company in creating value by ensuring that it provides an economic profit that surpasses the return on capital, incorporating the cost of capital in the process. According to Malmi and Ikäheimo (2003:235), VBM can be used for capital budgeting, valuation, management control, as well as incentive compensation. VBM is an approach to management that allows companies to align their goals, overall aspirations, analytical techniques, and management processes to focus management decisions solely on creating value (Koller: 1994; 94).

## 2.3 Components of value-based management

According to Ittner and Larcker (2001:353) though there are frameworks which vary from one company to another, VBM generally consists of the following steps:

- (i) choosing specific internal objectives that lead to shareholder value enhancement ... usually denoted as a strategic management practice;
- (ii) selecting strategies and organizational designs consistent with the achievement of the chosen objectives;
- (iii) identifying the specific performance variables, or “value drivers”, that actually create value in the business, given the organization’s strategies and organizational design;
- (iv) developing action plans, selecting performance measures, and setting targets based on the priorities identified in the value driver analysis;
- (v) evaluating the success of action plans and conducting organizational and managerial performance evaluations and
- (vi) assessing the on-going validity of the organization’s internal objectives, strategies, plans and control systems, in light of current results, and modifying them as required.

Claes (2006:270) described VBM as being comprehensively covered by four important aspects.

- Value can be created when both costs for debt and for equity are covered, and not when companies realise financial but economic profit. Hence wealth is created only when a company covers all operating costs as well as the cost of capital. Companies must strive to create economic value (rather than maximizing accounting profits), through achieving residual income.
- VBM is a managerial approach concerned with more than just the calculation of value, which revolves around techniques, concepts and tools aimed at meeting the firm’s objectives. These factors would relate to the entire organisation including functional areas such as production, logistics, strategy, finance, accounting and human resources as well as all levels.
- The VBM system is built around value drivers. Therefore emphasis and focus is channelled on the activities that are related to the variables that can directly relate/influence value. These activities can be expressed in financial and non-financial terms, and involve all organizational levels.

In order to create value, companies must generate returns on invested capital that exceed the cost of capital. This is achieved by carefully focusing on revenue streams as well as understanding the impact of activities on the 'bottom-line' of operations. Ultimately a company creates value for its shareholders when its earnings surpass the cost of the capital invested (Largani et al: 2012; 491).

## **2.4 Metrics**

The ultimate objective of a firm/organization is to maximize value both in financial and non-financial terms. (Moskalev & Park 2010:49). This ultimately becomes engrained in the firm's strategy, operations/processes, communication, organizational structure, all of which are aligned to key value drivers. According to Rapp *et al.* (2011:172) VBM metrics create a bridge between the traditional accounting-based measures of firm performance and the return expectations of investors. Thus VBM metrics bring into consideration accounting oriented costs of operations as well as investors' opportunity cost of capital. Metrics allow companies to track progress as well as assess performance both from a financial and operational perspective. They provide a measure to guide both the company on internal objectives and shareholders on the performance of the company towards satisfying delivery of returns.

Britzelmaier and Huss (2008:149) define VBM as a "set of metrics based on the idea of a comparison of the costs of capital and the return on capital". Central to the concept of VBM is the ability for companies to quantify and measure value created. Metrics allows companies as well as shareholders to measure the performance as well as congruency of the results to the company's objectives. Companies have previously relied on contemporary measures such as financial profit or earnings per share as a means of measuring performance. These measures, however, fail to capture the cost of capital used in the creation of revenue and profit. Companies and the public alike have thus sought to 'drill down' into the numbers to ascertain the true performance of a company by means of more comprehensive metrics. According to Favaro (2003:21) metrics allow companies to clearly measure and provide feedback on the financial performance, whilst affording a signal of whether business value is being created or destroyed. It is thus imperative for companies to use metrics that accurately reveal the performance and contribution of a company, both from a financial and non-financial perspective.

Various metrics can be used as a measure of the added value of a company and these include the five approaches listed below.

#### **a. Cash flow return on Investment (CFROI)**

CFROI is calculated as the internal rate of return of a net present value of future cash flows (Britzelmaier and Huss, 2008:153). It is a measure of the cash flow return made on capital invested. This measure, in turn, recognizes the finite economic life of depreciating assets and the residual value of non-depreciating assets. This result is denoted as the actual cash flow a business generates, expressed as a percentage of the cash invested in the business.

CFROI can be calculated generally using the following formula:

$$CFROI = \frac{\text{Cash flow}}{\text{Capital invested}}$$

This can also be translated as;

$$CFROI = \frac{(\text{Adjusted EBIT}(1 - t) + \text{Depreciation \& Other non - cash charges})}{\text{Capital Invested}}$$

Where;

*EBIT = Earnings before Interest and Taxes*

*t=tax*

According Damodaran (2007;10), capital invested is defined by the formula:

$$\begin{aligned} \text{Invested Capital} &= \text{Fixed Assets} + \text{Current Assets} - \text{Current Liabilities} - \text{Cash} \\ &= \text{Fixed Assets} + \text{Non - cash Working Capital} \end{aligned}$$

According to Ameels *et al.* (2002), the CFROI calculation involves four complements, the life of the assets, the amount of the total assets (both depreciating and non-depreciating), the periodic cash flows assumed over the life of those assets and the release of non-depreciating assets in the final period of the life of the assets.

#### **b. Return on Invested Capital (ROIC)**

Return on Invested Capital (ROIC) is defined as the ratio of net operating profits after tax (NOPAT) to invested capital.

$$ROIC = \frac{NOPAT}{CAPITAL\ INVESTED}$$

Where;

**NOPAT** = net operating profit after tax

**Capital invested** = Fixed Assets + Current Assets – Current Liabilities – Cash

It is thus a measure that captures how much of every single dollar invested is translated into profit. The ROIC can be used as a measure to ascertain the profitability of a company, as the higher the value the more the company is generating per dollar invested.

### c. Discounted Cash Flow (DCF)

Discounted Cash Flow (DCF) is a process of valuing a financial or non-financial asset by calculating the asset's cash flows and discounting it at an appropriate rate (Megginson *et al.*, 2010:915). DCF methods allow companies to calculate the present value of the expected future cash flows of an asset by discounting at the company's cost of capital and to factor the time value of money into calculation of value. Assets that are able to provide real return or contribute real value have a positive present value of future cash flows. This means the asset is able to continuously generate a cash flow in the future that provides above inflation returns. This metric allows companies to strategically make decisions on which assets to acquire, retain or sell. Companies can thus only retain or buy assets that are able to give value back in returns for the company. DCF can also be used to determine the value of a company which can be stated as the present value of expected future cash flows discounted at the company's cost of capital (Nel 2012;12).

The equation for calculation of present value:

$$PV = \sum_t^n CF_t \times \frac{1}{(1+r)^t}$$

Where:

**PV** – is the present value for the asset's return;

**CF** – is the cash flows generated by the asset

$r$  – Is the discount rate;

$t$  – Is the year; and

$n$  – Is the period of time in consideration.

#### **d. Economic value added (EVA)**

According to Friedl and Deuschinger (2008:1), “EVA is based on the idea of economic profit” (also known as residual income), thus a company is said to create value when returns from a project covers all operating costs and the cost of capital. EVA is the most commonly used metric for value management. EVA is now recognized world over as an important tool of performance measurement and management (Kumar & Sharma 2010: 206). Young and O’Byrne (2000:18) argue that EVA is accurate because it also includes the quality financing as well as the cost of debt financing. According to Meggison *et al.* (2010:697) EVA is a copyrighted trademark of Stern Stewart & Company, and is defined as the difference between net operating profits after taxes and the cost of funds. A company is thus said to create value when it has a positive EVA,  $EVA > 0$ . It provides an indication of the company’s performance in terms of economic profit, which is the value created above and beyond the cost of capital/required return by shareholder (Booyse et al, 2011: 125). EVA has recently gained popularity as the most comprehensive metric to measure value added for managers and business owners.

EVA can be calculated using the formula:

$$EVA = NOPAT - Capital\ charges$$

Where;

**NOPAT** – is net operating profit after tax and is calculated as follows;

$$NOPAT = Net\ Sales - Operating\ expenses - Taxes$$

**Capital charges** – is calculated using the formula:

$$Capital\ charges = Invested\ capital \times cost\ of\ capital$$



#### **e. Market Value added**

According to Ameels et al (2002:14), market value added is the difference between the equity valuation of a company and the sum of the adjusted book value of debt and equity invested in the company. MVA is, therefore, the difference between the market valuation of the company and the capital invested by investors. The more the MVA, the more the company is creating value for its investors and the reverse is also true. MVA is a metric that is able to quantify the actual value created for shareholders. It is thus a key and simple way of evaluating the performance of the company. According to Nel (2012:15), companies should strive to increase the MVA rather than the value of the company. There are a lot of non-financial aspects to MVA that companies need to understand. The market value of a company is based on the sum of its book value as well as the perception buyers or investors put in the strength of the company to continue generating more value in the future. Goodwill is also an aspect that is related to how the market values a company and is influenced by aspects such as branding, brand equity, advertising power, as well as the general perception clients have of the company.

MVA can be calculated by using the following formula:

$$MVA = Total\ market\ value - Total\ capital\ invested$$

Where:

**Total capital invested** = total fixed costs + net working capital

According to De Wet & Hall (2004:41), changes in MVA over a period of time can be used to measure whether a company's value has been created or destroyed. It thus allows companies and investors to assess the value created by the company over a period of time. Consequently MVA can be used in strategic decision making from an investor perspective, assessing the need for more capital investment, based on the performance of the company, to actually create value with the current invested capitals.

#### **f. Shareholder value added**

Shareholders are the primate owners of a company. The purpose or goal of a company is thus to satisfy the expectations of shareholders in the form of return on value in the capital invested. According to Petermüller & Britzelmaier (2008:133), shareholder value is the

market value of the equity capital and is a function of corporate value and can be calculated using the formula;

$$\text{Shareholder value} = \text{Corporate value} - \text{Debt}$$

SVA leans towards the shareholder value network, which depicts the essential link between the corporate objective of creating shareholder value and the basic valuation or value drivers. According to Largani *et al.* (2012:491), one of the ways for calculating SVA is:

$$\text{SVA} = \text{NOPAT} - (\text{WACC} \times \text{CAPITAL})$$

#### **g. Return on assets**

This is a rudimentary approach to valuation which looks at the growth percentage of total assets. ROA is a consideration of the profits generated compared to the amount of capital invested.

ROA can be calculated using the following formula:

$$\text{ROI} = \frac{\text{Net profit}}{\text{Total assets}}$$

The higher the ROA the more the company is generating as a function of the capital invested. For companies that do not have any equity or debt, the return on investment is the same as the return on equity. In the case of companies that have equity, the ROE is calculated as follows:

$$\text{ROE} = \frac{\text{Net profit}}{\text{Total Shareholder's equity}}$$

Both ROE and ROA provide a simple way of measuring the performance of a company, to ensure it is creating value. It is also important for companies to compare the ROA and ROE in relation to cost of capital. Companies that are able to provide a return on investment that is greater than the cost of capital are deemed to be creating value, with the reverse being true as well. The cost of capital in most cases is denoted as WACC. The weighted average cost of capital (WACC) is calculated by weighting the cost of equity ( $k_E$ ) and debt after tax ( $k_D(1 - T)$ ) in relation to their proportion in the total capital of the firm

$$WACC = k_E * W_E + k_D (1 - T) * W_D$$

Where:

$$W_E = \frac{\text{Value of equity}}{\text{Value of equity and debt}}$$

And

$$W_D = \frac{\text{Value of debt}}{\text{Value of equity and debt}}$$

**T** - Tax

According to Iakovleva *et al.* (2011:68), companies can thus choose any of the above mentioned metrics as a means to measure value creation. The metrics give companies a view into the effectiveness of the strategies for value creation. Companies can thus adjust strategies in line with trying to maximise the value created. The table below summarises how the metrics can be used to ascertain if companies are creating, sustaining or destroying company value.

**Table 2-1** Using metrics as measures for value creation

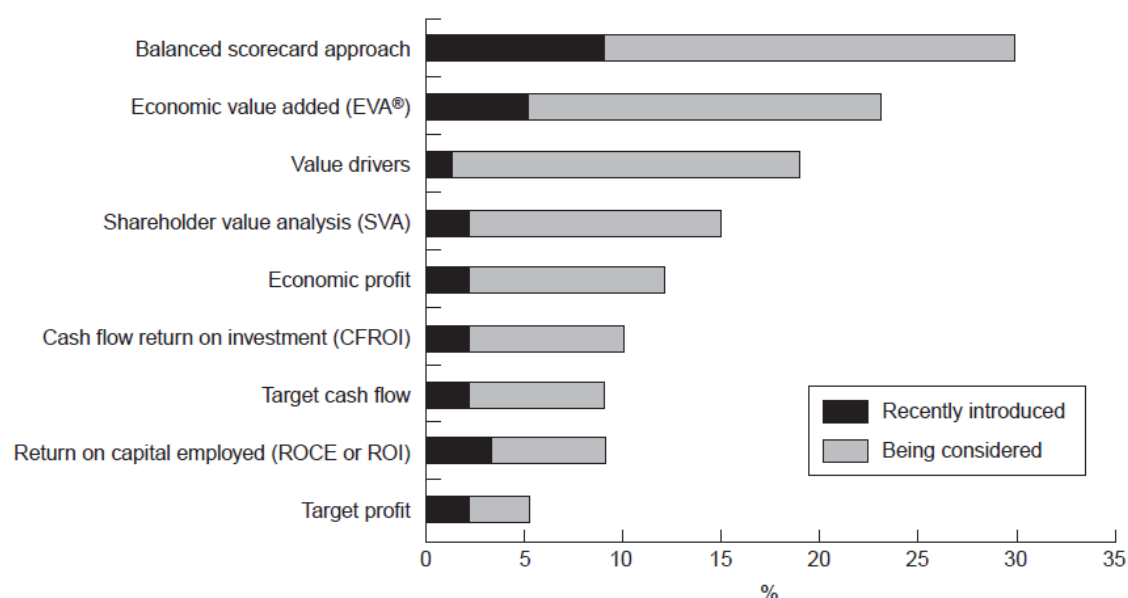
| Methods | Creating Value                  | Stabilizing value<br>(equilibrium) | Damaging (lost) value           |
|---------|---------------------------------|------------------------------------|---------------------------------|
| DCF     | IRR, MIRR, ROI<br>>WACC         | IRR, MIRR, ROI = WACC              | IRR, MIRR, ROI < WACC           |
| EVA     | EVA > 0, CFROI > K <sub>m</sub> | EVA = 0, CFROI = K <sub>m</sub>    | EVA < 0, CFROI < K <sub>m</sub> |

(Source: Iakovleva *et al.*, 2011:68)

A study carried out by Francis & Minchington (2002:236) to investigate the incidence of performance measures used in companies, revealed that traditional performance measures, such as economic profit, are still commonly used with a growing interest in the new performance measures like EVA. The findings of this study are summarised in Fig 2.1 which showed that the new measures, however, have not taken root and the number of companies adopting these measures is rising slowly. The results of the study showed that the majority of companies still relied on traditional performance measures. Amongst others, the findings from the survey conducted by Francis and Minchington, (2002:236) highlighted that traditional

measures are still dominant in practice whilst profit was widely used (94% of respondents), with return on capital employed (ROCE) also being in common use (71% of respondents). The recent and more updated measures still remain unpopular n with respondents. It can be concluded from the study that the general awareness towards new performance measures still remains relatively low, with 26% of respondents being unaware of EVA®:

**Figure 2-1** Common performance measures and relative popularity



(Source: Francis & Minchington 2002: 236)

## 2.5 Reasons for implementing value-based management

According to Beck & Britzelmaier (2012:3), VBM is necessary to cope with the increasing challenges resulting from globalization and deregulation of the capital markets, accompanied by the changing activities of shareholders. VBM was introduced at the end of the 1900s and has gained momentum as well as publicity over the past decade. In a study carried out by Claes (2006:294) the following were summarised as reasons for implementing VBM:

- responding to pressure from capital markets;
- to motivate and encourage entrepreneurial behaviour;
- for communicating and signalling with stock market;

- monitoring and attending to working capital;
- decentralization and target setting;
- privatization and consequent attention for shareholders' return; and
- a desire for a single management system.

## **2.6 Benefits of value-based management**

The effects and benefits of implementation have been widely documented, with most research aimed at public companies. Studies have focused on the effect of share price and VBM metrics such as EVA, with notable findings (Rapp *et al.*, 2011; DeWet & Hall, 2004). In a study carried out by Claes (2006:294) the following were summarised as the benefits of VBM:

- It provides a consistent focus and common language within the organisation.
- It creates a capital consciousness and mind-set change, whilst allowing companies to pay more attention to working capital management.
- It encourages employees to become more entrepreneurial.
- It allows companies to allocate resources beneficially to better performers.
- It creates a greater awareness to financials such as the Balance Sheet, resulting in it becoming more difficult for investment proposals to attain approval or acceptance.
- Focus has changed from profit maximisation to increased return on capital.
- People take more initiatives and act more proactively and discussions about investments in business planning and budgeting become more profound.
- Cultural change (from public body to private company) resulting in organizations becoming more business-like and professional in attitude.
- It provides management with a complete management system, compared to the previous fragmental approach.
- Costs become more transparent and comparable thus creating better transparency as well as consistency; and
- It creates greater awareness of how activities and decisions impact on return on investment and economic value.

VBM has further advantages compared to other contemporary management principles. It acts as a guideline and measurement for companies to ensure that they maximise value as well enhance competitiveness. It allows companies to better trace the impact of actions taken as

well as to make better and clearer decisions for the benefit of the company. VBM acts as a tool that facilitates value creation and ultimately allowing companies to create transparency within operations. According to Beck (2014:158), VBM also has the following advantages:

- maximizing value-creation as well as improving strategies for coping with increased complexity and greater uncertainty and risk;
- preventing undervaluation of stock, whilst encouraging value-creating investments;
- streamlining planning and budgeting and increasing transparency of a company;
- supporting transactions in globalized and deregulated capital markets;
- aligning interests of high level managers with those of shareholders and stakeholders;
- facilitating the use of stock as a means of payment and also for mergers or acquisitions;
- facilitating communication with investors, analysts and stakeholders;
- facilitating improvement of internal communication, clearly defining management priorities;
- facilitating improvement of decision-making and helping balance short-term, mid-term and long-term trade-offs;
- improving resource allocation, setting effective compensation targets; and
- preventing takeovers.

## **2.7 Critique of using VBM and its implementation**

VBM as a management technique has a fair share of criticism. The main criticism of the method is that it is deemed to be too complicated and difficult to implement. It is also noted that there has, over the years, been few publications showing a strong correlation between the method and actual value created. Like any other management initiative bringing about change, it is always associated with certain limitations. The limited implementation of VBM in small to medium enterprises is exacerbated by a lack of resources as well as technical know-how (Krol, 2007:17). There is a possibility that SMEs and/or owners or respective business managers have little to no exposure to the principles of VBM. Thus the level of understanding of the principles of VBM may be inadequate, therefore limiting its implementation within SMEs. According to Garengo *et al.* (2005:29), the obstacles experienced by SMEs in the implementation of any performance measurement system include the following six deficiencies listed below.

1. **Lack of human resources:** To successfully implement any system, there is always a need for sufficient human resources. For SMEs, this is a luxury that few can afford in comparison to their much larger counterparts. In most cases, SMEs are owned and run by their owners, with very few supporting staff. This deficiency cripples the success of implementing any initiative compared to big businesses that, in most cases, have large manned departments to handle change management initiatives.
2. **Managerial capacity:** In SMEs the critical factors for success are perceived as a technical excellence in products as well as operational processes. In SMEs very little emphasis is placed on creating a culture conducive for growth, therefore, managerial tools and techniques are perceived as being of little benefit to the company.
3. **Limited capital resources:** For any initiative to succeed there is a need to provide sufficient resources to ensure sustainability. SMEs have very limited cash coffers and, subsequently, have limited money or capital to invest in the successful implementation of any new system.
4. **Reactive approach:** SMEs are typically characterized by poor strategic planning and less formalised decision making. This lack of explicit strategies and methodologies to support the decision making processes promotes a short-term view of the business. This perception, consequently, results in SMEs employing a reactive approach to managing the company's activities as opposed to a pre-emptive strategy. This causes SMEs to become responsive to external stimuli and less aggressive in investing in R&D as well as first-mover initiatives.
5. **Tacit knowledge and little attention given to the formalization of processes:** Many of the processes within SMEs are based on the owner or business manager's tacit knowledge which results in the company's processes being less formal or properly documented.
6. **Misconception of performance measurement.** Many owners or managers of SMEs have very little to no formal business training. This lack of knowledge means that they have a minimal understanding of the majority of business principles. In most cases, SMEs have little appreciation of performance measurement principles such as the Balanced Scorecard. There is a general misconception amongst SMEs that such principles only apply to larger enterprises. Although most of these principles are relevant and applicable to SMEs, very few owners or business managers have the requisite understanding of their use.

## **2.8 Key success factors for the implementation of VBM**

According Morisawa & Kurosaki (2002:3), the successful implementation of VBM as a management tool is reliant on 15 factors. These factors are grouped into 5 areas, namely: (1) approach towards VBM, (2) corporate governance, (3) decision-making processes, (4) plan, do, check and act (PDCA cycle), and (5) raising awareness with respect to increasing corporate value. According to Morisawa & Kurosaki (2002:12) key success factors for the implementation can be summarised as follows:

### **(a) Approach (Morisawa & Kurosaki, 2002:12)**

- ✓ Commitment of the company management concerning individual orientation towards corporate management.

### **(b) Corporate governance (Morisawa & Kurosaki, 2002:12)**

- ✓ Decision-making structures include the functioning of proper external checks (outside directors and other mechanisms) and internal checks (separation of managerial and executive functions).
- ✓ Comprehensive investor relations.
- ✓ Outside directors accepted from organizations other than companies or banks that have trading or capital relationships with the company.
- ✓ In investor relations, efforts are made to increase the frequency and time of briefings to investors, and the period from settlement of accounts to the announcement of results is shortened; and
- ✓ Managerial and executive functions are separated (low percentage of directors with concurrent executive responsibilities, and a high percentage of operating officers compared to directors and auditors).

### **(c) Decision-making processes (Morisawa & Kurosaki, 2002:12)**

- ✓ Decision-making for investments is based on clear guidelines (including NPV as the primary indicator).
- ✓ Managerial meetings function fully and properly as deliberative forums; and



- ✓ Net present value (NPV) is employed as the primary indicator in guidelines for investment decisions.

**(d) PDCA (plan, do, check and act) cycle (Morisawa & Kurosaki, 2002:12)**

- ✓ Capital efficiency indicators are included in intermediate planning.
- ✓ Agreement on organizational objectives and objectives of unit supervisors, and linkage between policy measures and budgets necessary for their realization.
- ✓ Mid-term review and feedback of term-end results for planning of the next term.
- ✓ Well-defined, performance-based compensation programmes (with clear performance appraisal criteria for directors).
- ✓ EVA indicators, ROE, ROCE, ROA, and other capital efficiency indicators are used in intermediate planning.
- ✓ Formulation of policies and budgets is coordinated.
- ✓ Progress on organizational objectives and measures for attainment are reviewed during each term.
- ✓ Results of term-end review are provided as feedback for planning of the next term; and
- ✓ Clear standards exist for performance appraisals of executives.

**(e) Raising awareness (Morisawa & Kurosaki, 2002:12)**

- ✓ Understanding of corporate value management is not limited solely to headquarters' staff, but extends to all ranks of employees. Continuous training and reinforcement is thus a necessity.
- ✓ A thorough understanding of value-based management.

The key factors for the successful implementation of VBM, (according to Morisawa & Kurosaki, 2002:12) rely solely on management commitment, clear communication, employees/ subordinates buy-in, as well as consistency in application. An understanding of VBM is crucial

in all phases of implementation. Companies are also required to have reporting structures as well as proper financials to ensure the system is adequately put in place. Company financials are thus key components for any VBM performance measurement system. These monetary components are to be created timeously and business managers should have an adequate understanding of how the figures impact on the overall objectives of the company. In order to successfully implement VBM, companies require clear concise objectives that are easily traceable, reproducible as well as congruent. The VBM system and its implementation must be a complete top-down initiative, with the objectives being broken down to departmental and individual levels. As with any change initiative, implementing a successful VBM system requires enough resources to ensure the implementation of the new idea as well as the change in mind set/mentality of all company employees. This innovation involves the conception of a company culture that centres on the objectives of creating and maintaining the desire for maximising shareholder value.

## **2.9 Chapter Summary**

The reason companies are in business is to remain profitable, to act in the interest of the community and other stakeholders, to ensure sustainability and to provide a favourable return for shareholders or owners. VBM is thus a management system aimed at creating and maximising shareholder value. VBM allows companies to centre operations, strategy as well as decision making processes, around maximising shareholder value. Metrics are thus utilised to measure the value created by companies. An understanding of the principle of VBM allows companies to ascertain objectives, accurately measure performance to ultimately create maximum value for shareholders. Although VBM has various benefits, it also poses several disadvantages. VBM does have pitfalls, but essential factors for successful implementation include management commitment, clear objectives, frequent performance review as well as a comprehensive reward system and clear communication of objectives.

## **CHAPTER 3**

### **VALUE BASED MANAGEMENT SYSTEM IMPLEMENTATION**

#### **3.0 Introduction**

In the previous chapter, a theoretical synopsis on the concept of VBM was presented. This chapter aims to discuss on how an actual VBM system is implemented within a modern business. This process involves identifying the various stages involved within setting up a VBM system, the components of VBM system, value drivers and understanding their impact in the process of value creation within a modern business. VBM can also be understood as an instrument to align company objectives with the objectives of the owner-manager.

#### **3.1 Implementation of VBM system**

Olsen (2003:301) describes the consequent steps involved in adopting VBM practices as involving the following steps/measures:

- focusing the organization's efforts around a relative total shareholder return aspiration that is cascaded down into business areas;
- managing direct levers for value creation in a way that recognizes trade-offs between intrinsic value improvement and realized value improvement; and
- aligning corporate centre practices to leverage capabilities and the impact of culture on value creation.

According to Slater & Olson (1996:48) a comprehensive value-based system must be able to deliver objectives on shareholder value, as well as being engaging, motivating and, consequently, rewarding for personnel throughout the organisation in addition to creating value. The stages involved in the implementation of a VBM system are depicted in Fig 3:

**Figure 3-1** Stages of implementing a VBM system



*(Source: Slater & Olson, 1996:48)*

### **3.1.1 Stage 1 Analysing value-based requirements**

According to Huss & Britzelmaier (2008:149) VBM is an overall management approach that aims at the sustained and consistent long-term creation and maximization of shareholder value and ultimately shareholder wealth. The initial stage involves analysis and planning in order to put the strategy in place as well as identify areas for improvement. It is during this stage that company overall objectives are spelt out. Business planning is thus a key stage in the implementation of a VBM system. This stage involves top management setting out the overall company goal, which may be driven from the expectation of the shareholders. This stage, in common with any initial stage in a change initiative, is crucial because it sets the tone for the entire process. It is thus imperative that all top management personnel are in agreement as well as in possession of a clear view of the direction in which the company is moving. According to Pitman (cited by Mottis & Ponssard 2002: 44) implementing a VBM system often requires a change in culture, beliefs, organisational structure, processes, as well as behaviour – all with the aim of raising management performance. It is, thus, crucial for management to understand the requirements of such a system and anticipate its use. The success of the initiative relies on alignment of the business objective with the following issues:

- corporate mission (business philosophy);
- corporate strategy (course of action to achieve corporate mission and purpose);
- corporate governance (who determines the corporate mission and regulates the activities of the corporate);
- corporate finance, culture, communication and reporting;
- organisation of the corporation,
- decision processes and systems,
- performance management processes and systems,
- performance measurement and
- remuneration (de Jong 2006).

### **3.1.2 Stage 2 Setting targets & management commitment**

This stage involves creating sub-goals or targets for the organisation, with the main objective of creating maximum value for shareholders. According to Slater & Olson (2008:50) the key objective for a VBM system is to inspire, direct and motivate individuals and groups within a company to find more efficient ways to accomplish tasks. This stage builds on from the initial stage during which the company assesses the overall corporate goal, which is then broken down into smaller departmental/individual tangible 'stretch' goals. The aim of the goals is to 'stretch' people into pushing the bounds and limits, thus challenging the status quo. Stretch goals also play a role in inspiring individuals to 'buy into' the system, ultimately reducing resistance to change initiatives. Adopting stretch goals can be said to increase performance variance across organisations, (Gary, Yang, Yetton & Sterman). The company's objectives must also be tailored to suit the different levels within an organization.

### **3.1.3 Stage 3 VBM training**

This stage emphasizes the need to equip employees and participants to implement the VBM system. This process involves educating and sharing information with all contributing members. The success of any system relies on the ability for those it is intended for, to understand its application and use. According to a research study carried out by Haspeslagh, Noda & Boulos (2001:1), companies who have been successful in implementing VBM systems have invested heavily in time, effort and money in training and equipping employees. Training

allows employees to acquire a firm understanding of the dynamics of VBM as well as its overall purpose. Training also highlights the needs and mechanics of the system, the company's current financial situation as well as the overall benefits for the company. The process involves ensuring employees understand the impact of all actions and activities ultimately towards the end goal or objective of the company. This allows employees to be better informed of the consequence of even the smallest of actions towards the future desired state of the company. This is one of the overall benefits of implementing a VBM system because it allows employees to be conscious of actions taken towards achieving the company's overall objective. Training employees goes a long way in reducing resistance to change by equipping employees with the basic skills required for implementing such a system as well as creating awareness and transparency (Lee: Unknown).

### **3.1.4 Stage 4 Employee involvement**

The process of training gives employees a general overview of the VBM system. There is a need to breakdown the complicated jargon into simpler easy to understand content. This process involves outlining the system and the duties/responsibilities of individuals as well as departments that is 'spelling out' the contributions expected of employees towards achieving the company's overall goal. According to Huss & Britzelmaier (2008:148), in order to ensure the success of a VBM system, it is crucial to involve the entire company, from the bottom to the top of the hierarchy. Within this process employees are given the necessary tools and empowered to alter their actions for the benefit of the company's overall intention of creating maximum value for shareholders. This process allows employees to be fully aware of the company's overall objective and how actions affect its attainment. This process can even be likened with stage two, where the overall company goal is broken down to individual or departmental deliverables. According to Beck (2008:153), one of the features of VBM is that it re-organises a company by splitting it into small branches and divisions. This division ensures easier review of performance, and allows for better implementation of the company's objectives, tracing areas of improvement and consolidating areas of performance. This process also involves 'drilling down' into more specific functions or areas that contribute towards the company's overall goal. For example, for a company involved in manufacturing, the goal to maximise shareholder value can be translated into establishing a superior ROA. Therefore, there is a need to carefully monitor inventory levels, hence the warehouse department will have to establish standards for inventory levels at any given time because these have an impact in the ROA. This process also involves better equipping individuals and departments to monitor the impact of their own performance towards attaining the company's objective.

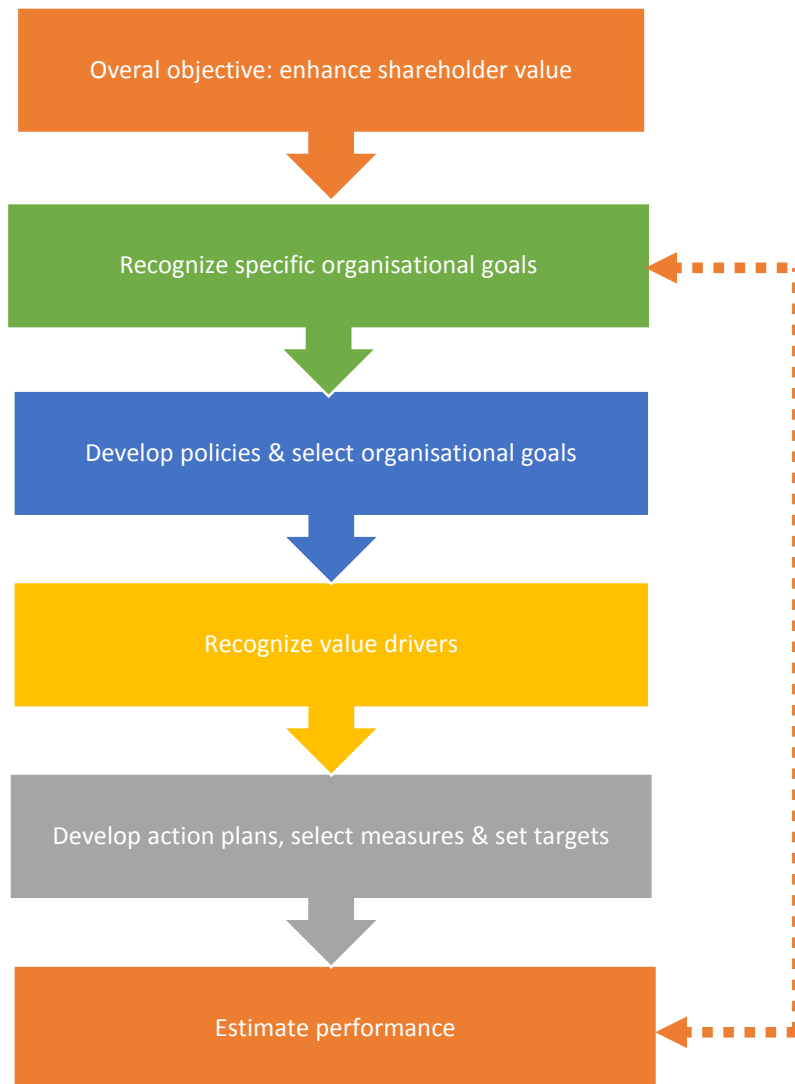
### **3.1.5 Stage 5 Performance evaluation**

VBM is not a process but rather a continuous cycle that allows companies to peg themselves against their own performance for continual improvement. According to Sakunasingha (2006:1) companies in the modern era face a great challenge of seeking to uncover new ways to measure and manage performance. The common saying “what gets measured gets managed” does hold credible value within the business fraternity. The process involves a company assessing its performance against set objectives. Once performance targets are achieved, the company seeks to compensate individuals and departments accordingly. This re-enforces the habit and ensures future commitment. The loop is re-engaged as new targets/objectives are set that seek to surpass previous records and ‘stretch’ the company and its resources once again. This second stage is just as crucial as the initial stage, because companies need proper recording instruments that allow them to assess the performance of the company towards achieving its objectives. “Good quality information is necessary for both strategic and operational decisions,” (Starovic, Cooper & Davis, 2004:7). This second stage is crucial for performance management and compensation systems, because it can be used as a measure for objectives and deliverables for both individuals and departments. A VBM system can be a reliable tool for a reward system because it can provide easily measurable performance indicators that can be linked to rewards such as bonuses or salary increments. For example, a company can set a target poor sales growth of 5%, which would be related to individual sales personnel’s bonuses. This system allows employees to see a direct relationship between their effort and the reward they receive. It is thus critical for companies to be able to see in which areas value is being created as well in which areas it is being destroyed.

### **3.2 Steps involved in implementing a VBM system**

A VBM system can be implemented via a series of cyclical steps. The system acts as a continuous feedback loop to the company. It allows companies to continuously assess their performance and adjust their objectives as well as make any relevant alterations to the system in order to achieve the best results. The steps involved in creating a VBM system are shown in Fig 3.2 below

**Figure 3-2**Steps involved in implementing a VBM system



*(Adopted from Ittner & Larcker, 2001:353)*

### **3.2.1 Setting an overall objective: enhance shareholder value**

The key aspect of a VBM relies on the existence of an overall objective that needs to be accomplished by the company. This objective is mainly found within the company's vision and operative goal and is the starting point for any VBM system. Identifying this objective is the onset of strategic management within the operations of a business. The objective spells out a desired future state or vision of the intention of management within the operation of the company. One of the reasons why companies are in existence is to satisfy stakeholders, amongst others, and to provide a decent return to its shareholders. In most small to medium



sized businesses, the shareholders usually are the managers of the business. The role of the owner-manager is of great importance because he/she usually is the lone decision maker. This situation is different to that of public traded larger corporations in which the shareholders are a separate entity to the board of directors as well as the business managers. The goal of any company, large or small, is to create value, which in turn ensures growth and sustainability of the business. The objective or goal of the company is usually based on financial terms, for example: increase the EVA by 5% each year or increase market share by 15%. This goal is all based on the nature of the business as well as the industry it operates in. The underlying principle behind the objective set, however, is to ensure maximum returns for shareholders. It is thus imperative for company management to understand the context within the operating sphere, as well as what shareholder value it seeks to attain and to centre its efforts and objectives towards achieving this goal.

### **3.2.2 Create organisational specific goals**

After ascertaining the overall objectives, the company can narrow down the vision to more tangible milestones. This narrowing process involves breaking down the overall objective to smaller specific goals that build onto the main objective. For example a company that sets out to increase EVA by 15% each year, would also look to increase its profit margin and reduce cost of sales because these are all factors that affect the overall EVA. In essence the main objective may simply be to increase EVA by 15%, thus the company specific goals that build on the main objective may be to reduce cost of sales by 15%, increase revenue by 25% or increase profit margin by 10%. The company specific goals may also be broken down to departmental goals as well as individual goals. For example in order to achieve the overall objective of maximising shareholder value, the sales department may be tasked to increase total sales volume (total revenue) by a specific factor. This can also be broken down to more individual goals, for example each salesperson can also be given a specific target that works toward achieving the overall company objective. The main objective is the glue that galvanises the company because it is the compass that directs efforts and keeps the company in line.

### **3.2.3 Develop company policies**

The specific goals set also call for a change in culture within the company. This action in turn calls for alterations in company policies, to foster a culture that is suitable for the new goals. It also enforces positive behavioural changes within employees. For example, line managers

under the new goals of increasing EVA by 15%, are called to maintain certain levels of inventory and to also assess critically any purchases to ensure that they add value rather than destroy it. The VBM system thus created calls for innovative policies that centre on enforcing the new goals. It is also important to ensure that the culture within the organisation is conducive to maximum shareholder value creation.

### 3.2.4 Value drivers

An important part of VBM is a deep understanding of the performance variables that will actually create the value of the business—the key value drivers which are defined as any variable that affects its value of the company (Koller 1994:91). Akalu (2002:2) defines a value driver as economic variables that are critical to revenue generation as well as cost functions of a company. According to Bijlsma, Jongebreur & Winthagen (2002:4), it is critical for organizations to identify both operations and strategic drivers. The premise of a VBM system relies on the business managers and owner's ability to understand and identify value drivers that positively influence the company's value. The more management identifies and analyses value drivers directly within its control, the easier it is to implement a VBM system. This identification allows management to translate the broad goal of value creation into the specific actions most likely to deliver that value (Smith 2001: 2).

*Value drivers are factors that have a major influence on the value of a company and they typically include: growth, margins, capital investments, working capital, risk, tax rate, capital structure, (Anon: 2013).*

According to Britzelmaier & Huss (2008: 156) a value driver model centers on seven key drivers of shareholder value which are:

#### 3.2.4.1 Sales/Revenue growth

Sales growth measures changes in the total sales of the firm. It is one of the key aspects of a business that drives value creation. It builds on the rationale that the more a company sells the more it grows. Sales are thus the key determinant of growth and consequently value creation within a company. Sales growth as a percentage can be calculated using the formula

$$\text{Sales growth \%} = \frac{\text{Total net sales}(Y_t) - \text{total net sales } (Y_{t-1})}{\text{total net sales } (Y_{t-1})} \times 100\%$$

Where:

Total net sales ( $Y_t$ ) – total sales figure from current year

Total net sales ( $Y_{t-1}$ ) – total sales figure from previous year

According to Akalu (2000:2) a company can manipulate sales growth as a value driver by employing either an increase in sales price, diversifying the sales mix, increasing the sales volume or, consequently, by increasing production.

#### **3.2.4.2 Operating profit margin:**

This approach is commonly referred to as the return on sales (ROS) and is defined as the ratio of operating income divided by net sales, and calculated as a percent using the formula;

$$\text{Operating margin} = \frac{\text{Operating income}}{\text{Total revenue}}$$

Operating profit margin is a measurement of what proportion of revenue a company retains. A good operating margin is needed for a company to be able to pay for its fixed costs, such as interest on debt. A higher operating margin means that the company has less financial risk. Operating margin can be considered total revenue from product sales less all costs before adjustment for taxes, dividends to shareholders and interest on debt. Profit margin can be easily manipulated by changing the cost structure of the company, for example reducing the labour cost and total direct cost of goods, ultimately increasing the profit margin (Akalu, 2002:2).

#### **3.2.4.3 Sales growth rate**

This is a measure of how much the sales growth percentage is comparable on a year on year basis. This measures just how much the company is maintaining its actual sales growth. Companies strive to increase their sales growth every year, and thus increase the growth rate. The sales growth rate is thus found by using the formula;

$$\text{Sales growth rate} = \frac{\text{Sales growth (Yr)} - \text{Sales growth (Yr - 1)}}{\text{Sales growth (Yr - 1)}}$$

#### **3.2.4.4 Cash tax rate:**

The tax rate is a government stipulated rate that companies are required to pay to the government. The rate at which the tax is stipulated can affect how much a company retains of its profit and, consequently, the actual value it creates for its shareholders.

#### **3.2.4.5 Fixed capital needs:**

Fixed capital needs measure the requirement of the business, from a capital perspective, of how much a company requires in order to meet the mandate. It is a crucial value driver because companies require a certain threshold of capital investment in order to create value. This investment can be in the form of assets such as buildings, equipment as well as stock/inventory. This sum represents the requirements of a company in order to create a competitive advantage against competition and, thus, generate value for shareholders. The amount of capital required to attain a certain predetermined level of value creation is thus vital to the success of a VBM initiative. It is thus imperative for management to provide for such capital requirements in order to ensure the success of VBM objectives.

#### **3.2.4.6 Working capital needs:**

These needs relate to the amount of capital a company requires at any given time in the form of short term assets to cover its short term liabilities. Working capital ratio gives an indication of a company's efficiency and short-term financial health. The working capital is calculated as:

$$\textbf{Working capital} = \textbf{Current assets} - \textbf{Current liabilities}$$

The standard norm is a ratio between 1.2 and 2.0, which implies that a company has enough current assets, such as cash that can be used to pay any short liabilities up to 1,2 - 2 times. Companies thus strive to maintain a positive working capital, because a negative or low working capital for prolonged periods of time is an indication of value destruction within an organization. A working capital ratio of over 2 can also be an indication that the company is failing to utilize its assets, which is a potential area for value destruction.

#### **3.2.4.7 Cost of capital:**

This cost is defined as the actual cost of funds used to finance a business. It is heavily reliant on the method used to finance a business, either debt or equity. For a company financed by debt, the cost of capital is denoted as the interest rate charged on the debt. For a company financed by equity, the cost of capital is denoted as the required return on equity by shareholders. According to Minchington & Francis (2000; 23) shareholder value is created

when a company generates returns for equity investors which exceed the returns that those investors could have received elsewhere. A lot of companies use a combination of debt and equity to finance their businesses. In such scenarios, the overall cost of capital is derived from a weighted average of all capital sources, referred to as the weighted average cost of capital (WACC). The cost of capital represents a hurdle that a company must overcome before it can begin to generate value. WACC is also extensively used in the capital budgeting process to determine whether a company should proceed with a project (Investopedia 2015).

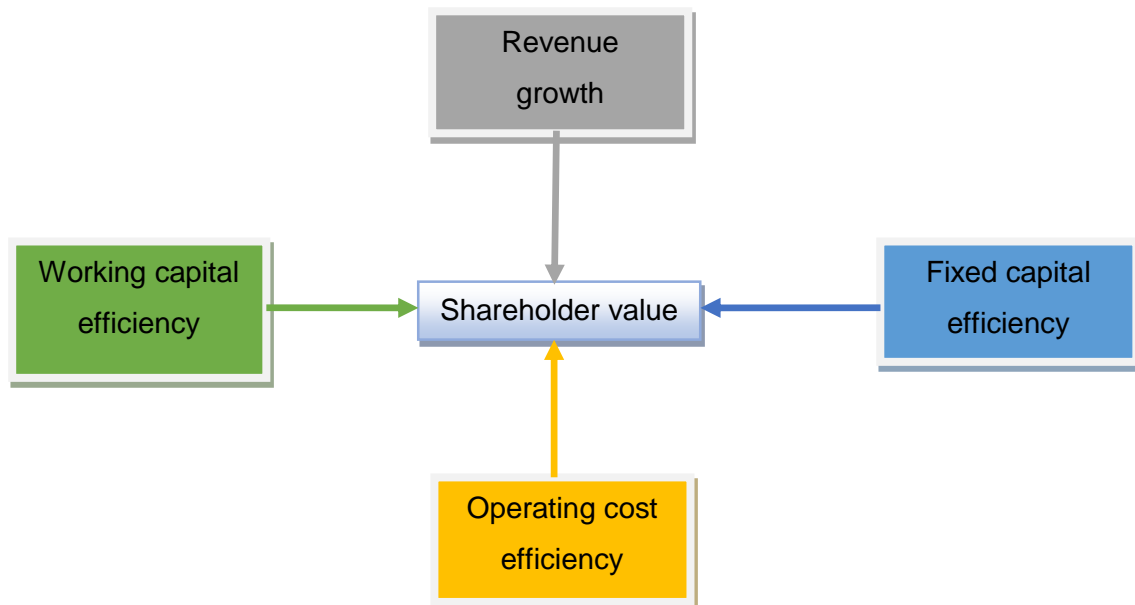
#### **3.2.4.8 Planning period or value growth duration:**

This is the period in which a company enjoys a competitive advantage. It is in this period that a company maximizes on its market presence and superior offering. The longer the period, the more value a company can generate for its shareholders. According to Minchington & Francis (2000;24), “the competitive advantage period for an organisation depends on for how far into the future the company expects to be able to add value above its weighted average cost of capital (WACC)”.

According to Christopher & Ryals (1999:3), the four basic and key drivers that enhance shareholder value can be best summated as:

- Revenue growth
- Working capital efficiency
- Fixed capital efficiency
- Operating cost efficiency

**Figure 3-3** Key drivers of value in a company



(Cited by Christopher & Ryals, 1999:3)

### **3.3 Create action plans, targets and measures**

In order to fully implement a VBM system, once the value drivers are identified, there is a need to identify the action steps required to better manage these value drivers. This is a vital moment in the implementation of the system. Managers must be able to map a way forward or a framework based on the value drivers and how best the company can achieve its objectives. This practice, in turn, involves planning as well as setting objectives, targets, measures, and initiatives that lead to the overall goal of the company. This plan may involve non-financial aspects such as training, recruitment, as well as financial aspects such as budget controls and targets of budgetary planning. For example such goals may include setting limits on spending or expenditure for a particular period, as well as assessing the overall impact of any purchases.

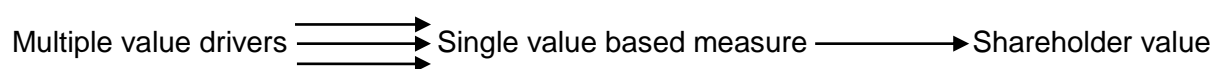
### **3.4 Measure performance**

This stage is the final step in the VBM system, which involves a review of the company's objectives/goals. The period in which companies review their goals/objectives depends on the nature of the business. It can be a quarterly, annual or even bi-annual process. It has become

critical for companies to measure performance and review objectives on a regular basis. This is because of the shifting environment in which businesses operate in modern times. This process allows companies to keep pace with the industry, maintain market share, and retain competitive advantages. Performance assessment can be based on financial terms (sales growth, EVA, ROA, SHV) as well as non-financial terms such as customer retention or even the number of customer complaints. The presence of accessible and reliable information is the key to this stage because the basis of performance measurement must be based on readily available and relevant information. The ability of a company to accurately and timeously measure the value created is crucial to ensuring that the main objective of maximising value creation is attained.

### 3.5 A typical example of how a business can use a VBM system

A VBM system should be linked with the basic aim and strategy of the organization together with the standard operating procedure and decision-making processes. Thus, a comprehensive VBM system comprises strategic planning, establishment of value drivers, financial measures, analysis of internal and external factors and the consistent supervision of skilled, efficient and active top level management (Beck, 2014) The purpose of a VBM system thus revolves around linking strategies to underlying value drivers, as well as tying information systems with goals and objectives. It also looks into resource allocation and performance evaluation of value drivers. VBM systems are expected to improve communication of the specific actions required to achieve the chosen strategy, motivate performance against strategic value driver goals and provide more rapid feedback on whether the strategy is achieving its objectives. Value-based metrics take value drivers and consolidate them into a single measure, for example EVA®, or shareholder value analysis (SVA) or one of the other value-based measures (Francis & Minchington 2002:238). The aim of all VBM systems is to culminate the various value-based drivers into one single measurement for shareholder value.

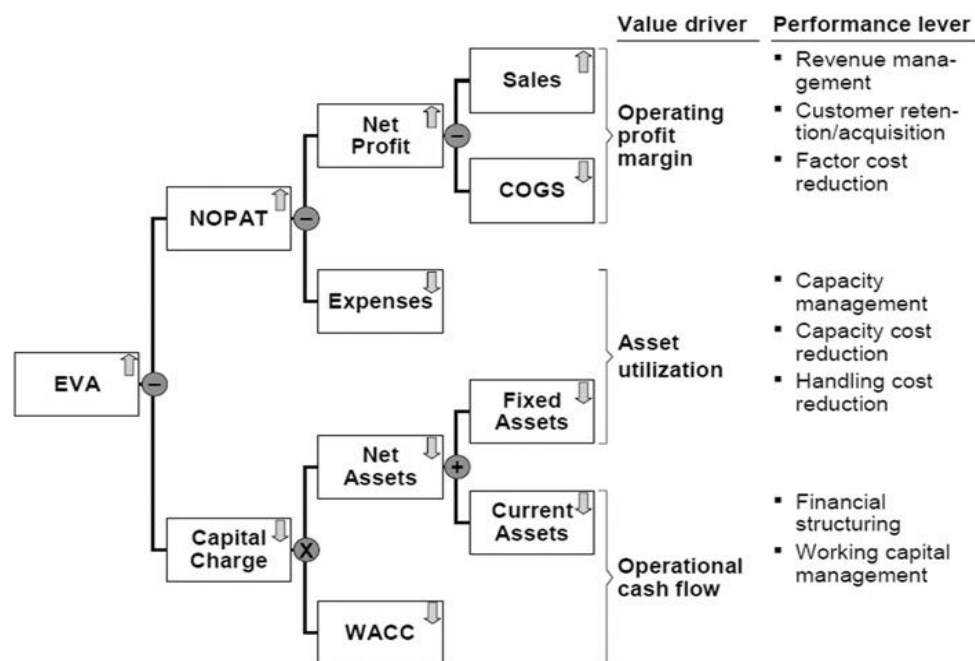


**Figure 3-4** The consolidation of multiple value drivers into one basic measure to measure shareholder value

### 3.6 Using EVA as a metric in a business

Shareholder value as calculated and denoted from EVA consists of multiple interdependent value drivers. The three main and most commonly used value drivers being (i) operational profit margin (ii) asset utilization and (iii) operational cash flow as denoted in Fig. 8 (Hahn and Kuhn 2012:136).

Figure 3-5 Breakdown of EVA and value drivers



(Source: Hahn and Kuhn 2012:136)

For a company that utilises EVA as its single measure for shareholder value creation, the following are some of the key areas management can look into when setting up a VBM system.

- Ascertaining the acceptable level of EVA on a regular basis, for example setting the company's overall objective to a specific EVA annually.



- Increasing its sales revenue through promotions, marketing as well as the addition of new product lines through research and development. A company can also set a sales' target per department or individual and use these targets as a basis for remuneration and reward.
- Reducing its cost of sales, by implementing cost cutting measures that reduce direct costs, use of efficient supply chains (eliminating out the 'middle man') and other efforts aimed at minimising overheads.
- Increasing asset utilisation through improved return on assets. This can be achieved by lowering downtimes, regular maintenance as well as improving the efficiency of its operations.
- Maintaining a positive operational cash flow. This involves careful monitoring of current assets and liabilities (current ratio) to levels below the actual cost of capital which ensures that the company always has sufficient current assets to adequately furnish its liabilities.

A company can thus set targets on annual EVA target which can be translated to an annual net operating profit after tax target and then broken down department by department. The EVA target is the milestone compass that directs the company's efforts and thus the basis of all its targets.

### 3.7 General value-based framework

According to Rapport (cited by Largani, Kaviani & Abdollahpour, 2012:493), there are three main areas management decisions can impact when creating value within a business.

- **Operating** – This area covers the day to day running of the business. It also addresses areas such as company structure, policies and procedures. These areas, when setup well can be a source for value creation, as well as a competitive advantage. For example, 'lean operations' calls for a company to have a narrow structure, which might reduce business red tape and ultimately, increase efficiency. It also allows companies to react and respond to external stimuli much faster, thus improving their chances of survival within the industry. Operating decisions include those regarding which products or services to offer, pricing policies, promotions, distribution and customer service. According to Anon 2014:4 (Ernest & Young):

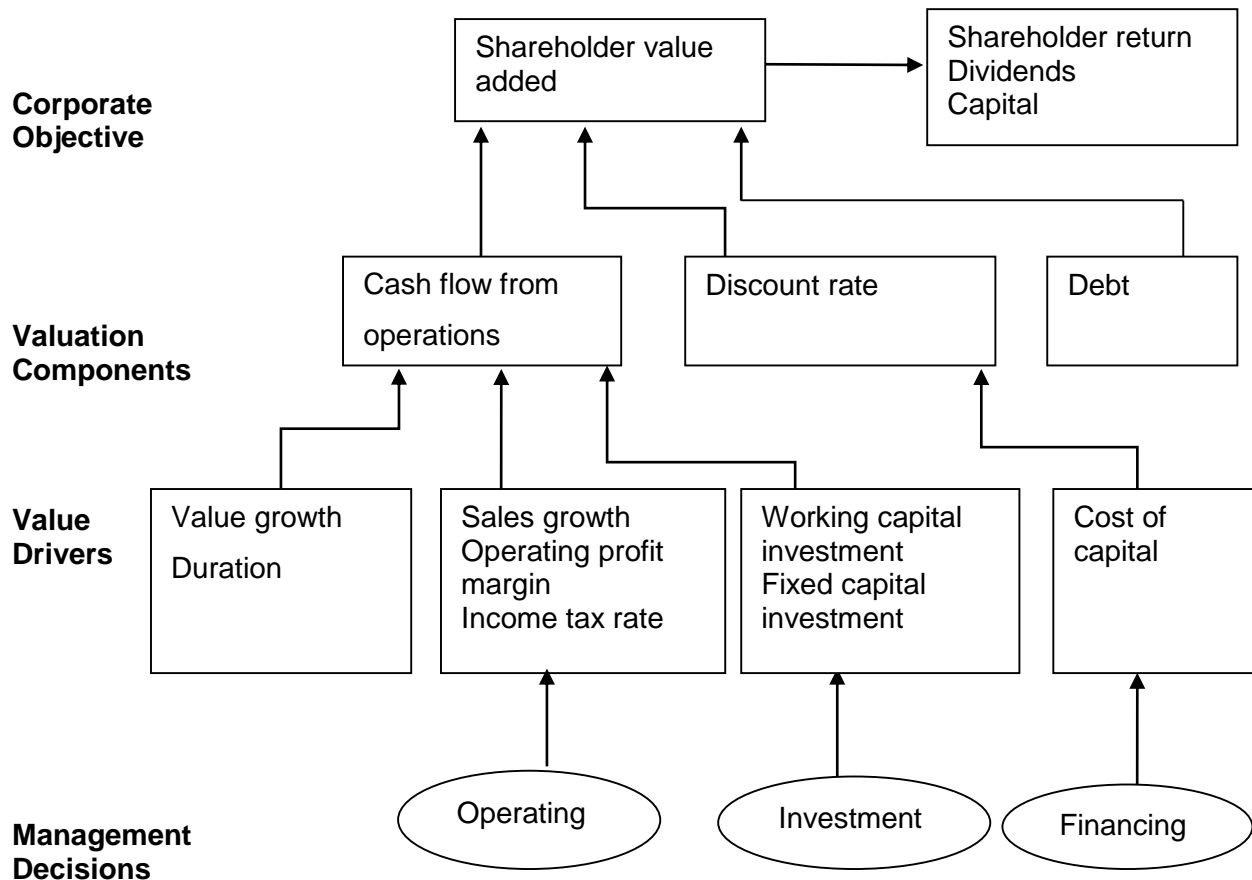
*Many businesses understand the forces that drive value but they fail to understand the level of effort required to consistently correlate the impact of the most significant drivers across a variety of dimensions (including product, channel, geography, market,*

*segment or business unit) and to understand their impact on output metrics is a level of insight that few companies have achieved.*

- Companies can also strive to create efficient value chain systems or distribution channels. These schemes are usually a great source of value creation for a company. A streamlined value system ensures that a company reduces wasteful non-value adding activities and focuses on value adding activities, thus delivering a product at lower cost than competitors. This concept has seen a remarkable growth in third party logistics services when companies seek to streamline operations and reduce fixed asset turnover (Christopher & Ryals: 1999:4).
- **Investment** – This process encompasses how the company utilizes and allocates its capital within the business and plays a pivotal role in the overall health of a company. A company should be able to allocate resources wisely to areas that increase value creation. Investments in assets, R&D, staff training, personnel and technology all play a crucial role in business sustainability. . It is, thus, essential that companies possess a viable measuring instrument that allows them to only invest in areas that return the most value to the business. For example, a proposal to upgrade an old cash counter with a digital barcode reading computerised counter should be considered based on the merits of value creation. Business managers and owners must ensure that their decisions, intents and objectives are in line with the creed of maximising value. Such a business mentality safeguards the business from splurging on resources without assessing the impact of purchases in terms of the overall value created. The same exercise can be used to gauge which activities a company should outsource and which operate in-house, thus allowing them to retain only key/core activities and outsource all other ancillary functions as a cost reduction exercise.

**Financing** – This area is also crucial to the longevity of a business. It deals with the actual cost of operating a business. Financing deals with the cost of capital, which ultimately determines whether a company is able to service its debt. Failure to provide returns that surpass the cost of capital can result in the failure of a company. Value can to some extent be measured on the basis of the excess made by the company over the cost of the capital used. According to Slater & Olson (1996:48), the underlying premise behind value-based planning evolves on the notion that shareholder value is created when a company's return on capital exceeds the cost of capital.

Figure 3-6 Value-based management framework



(Cited by Largani, Kaviani, & Abdollahpour, 2012:493)

**Supply chain management-** Supply chains include all activities, linkages, information exchanges and relationships formed within business operations in order to delivery products/services to consumers/clients (Wittman, 2010:1). This is a key component of any operations for any business as it deals with how a company delivers its product or service. Supply chain management can be a source for value creation within a company. Supply chain management deals with how companies deliver product/service to clients. Companies can seek to capture value by streamlining supply chains thus allowing the product/service to be delivered at a much cheaper and effective cost than competitors. This process can be a strategic initiative by companies to increase market share and competitive advantage. Transport and logistics costs are a major component for any company and, in most cases, are related costs as a percentage of sales ranging from 9% to 14% depending on industry sector for companies (Snowdale; 2009:1). Thus in order to create value within in a business there is need to carefully streamline supply chains in order to deliver cost effectively. It also deals with

how companies operate with suppliers, by cutting down on stock levels through 'just-in-time' deliveries as well as cutting out the 'middle man' at both ends. Currently, companies seek to by-pass the 'middle man', and engage in closer and more direct relationships with their customers. This approach has seen business models revamped and companies restructuring product delivery to clients.

### **3.8 Chapter Summary**

Every area of a business can be influenced by management to ensure value creation. Value drivers are related and it is important for businesses to understand the impact of their decisions with regard to value creation, as well as to anticipate the manipulation of the value drivers related to each business area. Companies must be able to align value drivers towards overall company objectives. The success of any value based initiative relies on the management's understanding of the drivers and the impact of employee actions towards these value drivers. Such initiatives call for an understanding of the dynamics of the industry specific drivers, corporate culture and the policies that lead to value creation within a company. Value based management calls for companies to re-examine operations in order eradicate value destroying activities and focus on those that create value. It is essential for companies to ascertain the levels of value created and thus they need to be able to trace and calculate value created within their own operations.

## **CHAPTER 4**

### **REPORTING AND RESULTS DISCUSSION**

#### **4.1 Introduction**

This chapter covers the empirical research conducted amongst sampled small businesses within Gauteng. The main objective of the study is to investigate the level of understanding of the concept of value-based management (VBM) in small businesses in Gauteng, South Africa. The secondary objectives of the study include;

- ascertaining the level of understanding of the concept of strategic planning and management in decision making in small business enterprises;
- assessing the level of understanding of operations and supply chain management within small businesses; and.
- assessing the level of understanding of financial and performance management in small businesses.

#### **4.2 The procedure and scope of the research study**

The empirical study seeks to study and explore the level of understanding of the principles of VBM amongst small businesses and, in particular, how well business owners and/or managers of small enterprises in Gauteng understand VBM.

##### **4.2.1 Sampling and sample size**

Small businesses within the Gauteng region were considered as samples for the research. The sampling technique utilized in the research was that of non-probability. Purposive or judgmental sampling was the method utilized for the selection of the sample and the collection of data. This method of sampling allowed the use of discretion in the selection of the samples in order to best meet the study's objectives and gain the greatest amount of information for statistical inference (Saunders, Lewis & Thornhill 2007:237). The purposive sampling strategy utilized in the research involved the use of heterogeneous or maximum variation sampling. This method was utilized to gather the maximum information and ascertain distinctive themes

amongst the respondents. The research used a small business/enterprise database to select likely candidates for the study. The participants were consulted for permission, consent and interest in participating in the study.

The sample group was focused on small businesses operating within the Gauteng region.

The sample size was not predetermined and interviews were conducted until a point of saturation was reached. The point of saturation was regarded as the point when no further new information or themes were found within the interviews. Follow up interviews were conducted only when deemed necessary to ensure that no new themes of information could be gathered.

#### **4.2.2 The measuring instrument**

The research will utilize semi-structured questions to ensure a more rigorous and effective collection of data. DiCicco-Bloom and Crabtree (2006:315) states that semi-structured questions are generally centred on a set of predetermined open-ended questions, but consequent or continuation questions can emerge as the interview progresses. Semi-structured in-depth interviews are the most widely used interviewing format for qualitative research and can occur either with an individual or in groups. According to Cohen (2006) semi-structured questions allow participants to elucidate and better explain their perceptions whilst giving them freedom to express their views in their own words. Open-ended questions will also be utilized to ensure that the interviewer maintains a firm grasp on the direction of the interview whilst allowing the participants to discuss the topic in more depth and detail.

The goal of the interview is to study and gather common themes within the respondents' attitudes and perceptions towards the concept. "Semi-structured interviews can provide reliable, comparable qualitative data" (Cohen 2006). An interview guide will be drafted to ensure that the interview remains focused and is as unbiased as possible, (see Appendix A). A pilot run was conducted to ensure that the interview questions are suitable for the objectives set and yield maximum data in terms of content and direction.

The interview guide was divided into sections that deal with various aspects of the study in order to meet the research objectives. These sections sought to explore the various aspects of VBM as practised within a business. The knowledge was based on the literature study presented in Chapter 3. The interview guide was developed to assess respondents' general knowledge of the value drivers within a business. The interview guide comprised of 25 selected questions.

The questions were structured into four sections namely:

- **Section A** – this section covered the basic demographic questions which were split into sub-sections;
- 1. **Section 1** – this section comprised general demographic questions aimed at the business owner or manager which would provide information for statistical derivation and analysis of the sample group.
- **Section 2** – this section dealt with the statistical aspects of the business. It sought information on the business such as the industry, market, years of existence and revenue streams.
- **Section B** – questions in this section sought to determine the respondents' understanding of general business planning and management decision making within a business.
- **Section C** – questions in this section sought to determine the respondents' understanding of operations management and supply chain management within a business.
- **Section D** – questions in this section sought to determine the respondents' understanding of financial measurement and performance management within a business.

#### **4.2.3 Data collection**

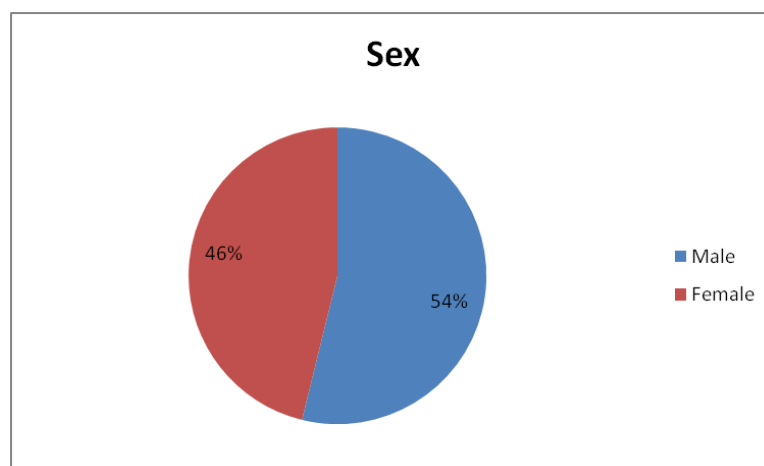
The researcher utilized a tape recorder for collecting and recording all the data from the research sample. Prior to conducting the interview, participants were informed of the procedure and direction which the interview would follow. When the researcher was satisfied that they fully understood all the steps and procedures to be followed, their consent was obtained. This procedure ensured that participants were at ease throughout the duration of the interview. The interview was conducted at a predetermined location, which whenever possible, was the offices or premises of the participant. According to Whiting (2008:36), interviews are to be conducted in a comfortable environment with care being taken as to the suitability of the seating arrangements and the décor. In cases where geographical restraints prevented a face-to-face interview, the interview was conducted telephonically and the consequent conversation recorded in the normal manner.

A total of 18 candidates were interviewed and their responses analysed. Demographic information collected during the interviews includes:

- Gender
- Race
- Highest level of education
- Previous work experience
- Title or position within the business
- Number of years of service

Diagrams 4.1 to 4.5 show a summary of the demographics of the respondents collected from the interviews. All of the respondents in the research sample were owners of the businesses and were also managers.

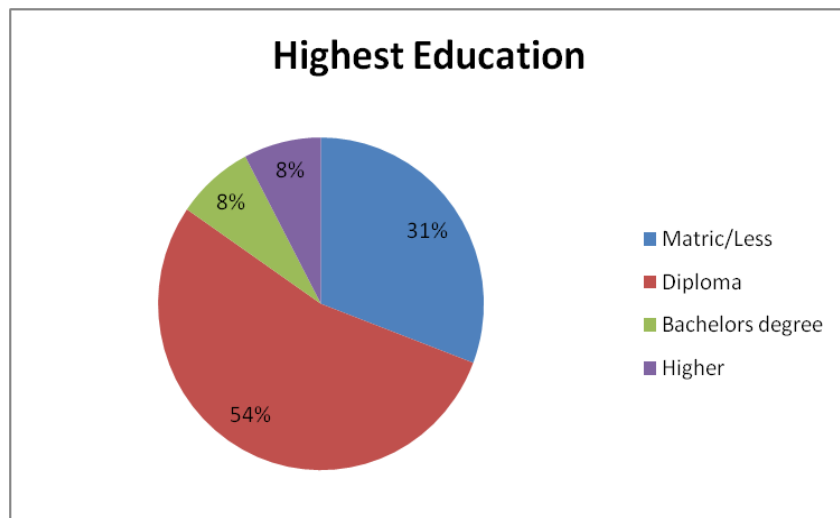
**Figure 4-1** Gender of respondents



Seven (54%) of the respondents in the research were males, compared to six (46%) who were females. Another demographic statistic collected during the interview was the highest level of education attained by each of the respondents. Figure 12 shows that of the thirteen respondents over half of the respondents had only attained a general matric certificate, with the highest level of education reached in the sample being a post graduate Master's degree.

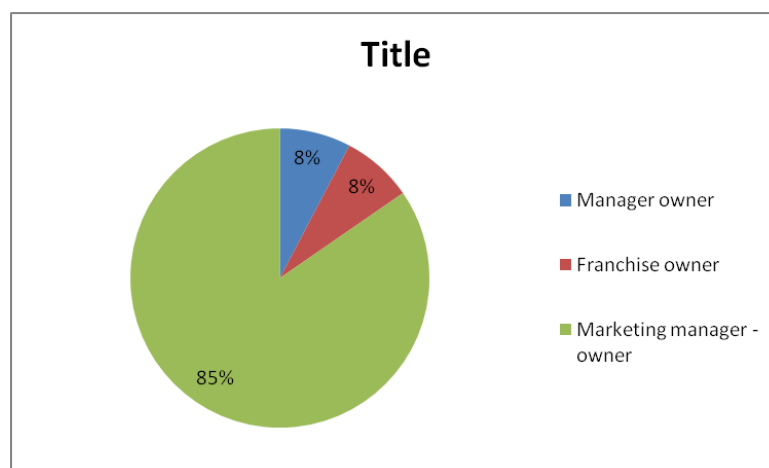


**Figure 4-2** Highest Level of education



Another fact gathered during the interview was the general title or position of the respondent within the organisation. The information collected indicated that all respondents (100%) were owners of the businesses. Out of the thirteen respondents interviewed, eleven were manager-owners, who were actively involved in the direct running of the businesses, whilst others held positions such as franchise owner and marketing manager.

**Figure 4-3** Titles of respondents



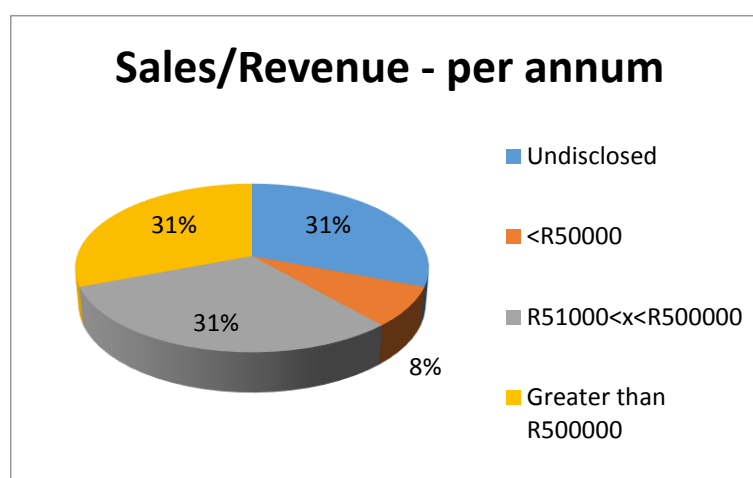
Of the thirteen respondents interviewed the races represented were white, black and Indian, while the number of respondents in each group was five, three and five respectively.

**Table 4-1** Races of the respondents

| Race   | Count | Percentage |
|--------|-------|------------|
| White  | 5     | 38%        |
| Black  | 3     | 23%        |
| Indian | 5     | 38%        |
| Total  | 13    | 100%       |

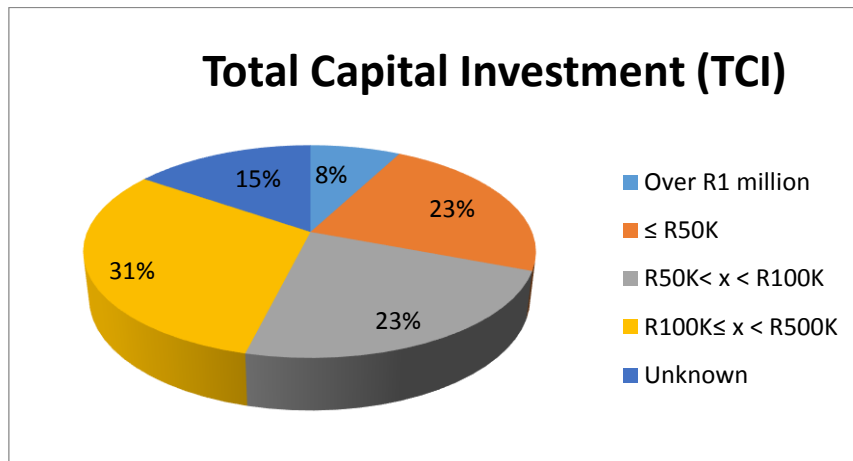
A further statistic gathered during the interviews was related to the financials of the business. The respondents were asked about the company's annual sales revenue. Four of the thirteen respondents (31%) interviewed had an annual sales revenue greater than R500 000. Four of the thirteen respondents (31%) interviewed had an annual sales revenue of between R51 000 and R500 000. One of the thirteen respondents (8%) interviewed had an annual sales revenue of under R50 000, whilst four of the thirteen respondents (31%) did not disclose their company's revenue. The research also sought to discover the total number of years each business had been in operation and, according to the data collected, the average number of operational years was 7.8.

**Figure 4-4** Sale revenue of respondent's business



The interview also sought to discover the total capital invested within the business. Four of the respondents (31%) recorded a capital investment of between R100 000 and R500 000. The total capital invested within the sample businesses ranged from R50 000 to R500 000 with two out of the thirteen respondents (15%) either not knowing or not being prepared to disclose their TCI. Only 8% of the total number of sample companies had a TCI of more than R1 million rand whilst 23% of the interviewed companies had a total capital investment of R50 000 or less.

**Figure 4-5.**Total Capital Investment of the businesses



The other main statistic determined during the interview was the number of shareholders within the business. All respondents showed an understanding of this question and on average each business had at least one shareholder. In all cases the respondent was either one of the shareholders or the only shareholder within the business. The respondents were also asked if their business had any credit, three out of the thirteen respondents had a credit facility ranging from a short loan from the bank to a credit card in the name of the business.

#### **4.2.4 Themes & findings**

The interview questions were structured according to three areas of focus, in relation to the objective of the study, namely (i) general business planning & decision making (ii) financial management and (iii) supply chain management. The respondents were also asked follow up questions to assess their understanding of the concept of VBM. The results of the interview questions were analysed and common themes within the responses identified. The following are the results of the interviews in terms of the chosen themes.

#### 4.2.4.1 General business management

Table 4-2 Themes for responses to the overall company goal

| Theme               | Examples of responses   | Count |
|---------------------|---|-------|
| Profit Maximisation | <i>"To get profit returns from the business. It is logical people go into business for the money to generate returns"</i><br><br><i>"To make a profit , to make money so that I can provide for my family"</i>  | 46%   |
| Customer service    | <i>"To provide a good service to our clients, and to grow as well as generate profit as a business"</i><br><br><i>"To offer good service to clients at affordable prices"</i><br><i>To ultimately create employment, To offer great service to clients"</i>   | 46%   |
| ROI                 | <i>"The business overall goal is to provide a return on the money invested."</i><br><br><i>"The business should be able to generate enough in revenue through sales enough to provide a profit for the business owners. The more you generate in sales the more profit and return that the business generates."</i> | 8%    |

The questions in this section sought to establish how respondents viewed the reasons why their company was in business. The response rate was a hundred percent as all thirteen respondents gave an answer. It was noted that six respondents (46%) attested that the overall goal of their business was to maximise profit. Six respondents said the sole purpose of the business was to provide service to its customers. Only one respondent (8%) declared that the overall goal of the company was to earn a decent return on investment.

**Table 4-3** Themes on responses for company's long and short term strategic goals

| Themes                             | Examples of responses   | Count |
|------------------------------------|---|-------|
| Growth                             | <p><i>"We want to grow the business, put more shelving, more products at better prices"</i></p> <p><i>"The business main goals both long and short term is to grow its customer base, grow sales every year by 10%"</i></p> | 69%   |
| Customer service                   | <i>"To continue offering great service to our clients"</i>  | 8%    |
| Profit maximisation                | <i>"Ultimately to remain profitable as a business, if there is any other services we can offer clients to subsidise or supplement our revenue we can look into."</i>  | 8%    |
| Increase capacity & creating brand | <i>"Short term - to increase our capacity, more resources, staff, tables &amp; rooms long term - to house our own brands and products. Create an in house brand customer can relate and respond to."</i>                    | 8%    |
| No response                        | <i>Not applicable</i>   | 8%    |

The respondents were also asked about the strategic long and short term goals of the company, with a response rate of ninety two percent (92%) because two out of the thirteen participants did not respond to the question. The majority of the respondents (9 out of 13) noted growth of the business both in terms of the long and short goals of the company. The other respondents noted customer service, profit maximisation as well as increasing capacity, amongst the other main long and short term goals for the company.

**Table 4-4** Themes on responses on the overall company vision or goal and communication to the employees

| Themes                   | Examples of responses   | Count |
|--------------------------|---|-------|
| Training & Communication | <p><i>"Training and communications - we are always constantly training our staff on the values traditions we expect in the business."</i></p> <p><i>"...As part of the introduction to the company, all new employees are taken through what the company stands for and what it is all about."</i></p>  | 15%   |
| Company inclusive        | <p><i>"We work together, the more we do in service, the better our finances and hence everyone understands that and works towards it."</i></p> <p><i>"Everyone is included and framed for them to understand &amp; know what we all about all the walls within the company"</i></p>   | 15%   |
| Communication            | <p><i>"Communication is key in the business, and it is always good to let your employees know what you expect from them and the business."</i></p> <p><i>"Constant reminder to all employees about the fundamentals of good service. We want everyone to walk in and out differently through how we treat them. It goes beyond just the product but the service we offer"</i></p> | 23%   |
| No response              | <i>Not applicable</i>   | 46%   |

The interview also sought information about how the strategic plans and goals were communicated to the employees. Six respondents (46%) failed to provide a response to this question, whilst 3 out of the thirteen respondents emphasised how crucial constant training and reminders were used to ensure employees understood what the business is about. Training was also a major theme gathered from the respondents because they expressed the constant need to keep employees fully aware of the business goals. Other respondents interviewed expressed the importance of the company manager/owner being prepared to engage with employees and, in so doing, encourage a sense of camaraderie, with 2 out of the 13 respondents (15%) stressing the need for a sense of inclusion amongst all employees.

**Table 4-5** Themes on responses to the company's main stakeholders

| Themes                | Examples of responses   | Count |
|-----------------------|---|-------|
| Internal stakeholders | <i>"Stakeholders in the business include my family."</i><br><i>"The shareholders are the main stake holders"</i>                      | 38%   |
| External stakeholders | <i>"This is a highly regulated industry, so government is one of the main stakeholders along with the franchiser - big corporate"</i> | 15%   |
| No response           | <i>Not Applicable</i>   | 38%   |
| Both                  | <i>"Customers, shareholders, government through various institutions , SARS- Tax"</i>   | 8%    |

Another main focus of the interview was to assess how the respondents viewed stakeholders in direct relation to the company. The response rate was 62% with five of the thirteen respondents failing to provide a response. The main themes gathered showed that respondents viewed the business as being influenced by either internal or external stakeholders and, in some cases, both. Some of the stakeholders mentioned included shareholders, franchisors, government as well as government bodies. This shows that the participants understand that the business as a whole has far reaching influences.

**Table 4-6** Themes on responses on the expectations of the shareholders towards the business

| Themes                   | Examples of responses  | Count |
|--------------------------|--|-------|
| Decent returns & margins | <i>"Earn returns on investment"</i><br><i>"To get the most out of the investment, to make money"</i> | 54%   |
| Growth                   | <i>"To create a renowned brand and grow the business"</i>  | 8%    |
| Profit making            | <i>"To make profit from the business"</i><br><i>"To make enough profit to justify the business"</i>  | 31%   |
| General sustainability   | <i>"To have their company run properly"</i>  | 8%    |

The question concerning the expectations of the shareholders was the foundation of the interview because it sought to assess how well respondents understood the importance of meeting shareholders' expectations towards the business. Most of the respondents interviewed were shareholders within the business. This question had resounding significance in assessing if the company had knowledge of the expectations of shareholders. Seven of the respondents (54%) stated that the expectations of the shareholders towards the business were to earn a decent return and margin. It was also noted that although the response rate for the question was 100%, no numerical or tangible aspect/measure was

provided in the responses. Four of the respondents (31%) stated profit making as an expectation of the shareholders. Growth and general sustainability were other main themes gathered in response to the expectations of held by shareholders.

**Table 4-7** Themes on responses for key ingredient, and competitive advantage maintained

| Themes                               | Examples of responses  | Count |
|--------------------------------------|--|-------|
| Quality products                     | <i>"We do a good job, that's why we keep being referred"</i>   | 8%    |
| Quality service                      | <i>"Our main ingredient is the perfection we make towards our service and quality in all the work we do. We strive to ensure we provide a quality job and ensure that the client is satisfied with the job they paid for."</i> | 23%   |
| Affordable prices                    | <i>"We offer great service at reasonably cheap prices compared to our competitors."</i>  | 15%   |
| No USP                               | <i>"Not Applicable"</i>  | 23%   |
| Quality products & quality service   | <i>"Quality products, excellent service and knowledgeable competent staff."</i><br><br><i>"Our key ingredient is in knowing our customers and providing a unique service and product."</i>                                     | 15%   |
| Affordable prices & quality products | <i>"We pride in providing decent products at affordable prices."</i>   | 15%   |

Respondents were also asked to describe their unique selling proposition, with 3 of the 13 respondents (23%) failing to provide a response to this question. Quality service provision was a major USP expressed by 3 of the 13 respondents (23%). Quality products and affordable prices were the other main themes expressed by respondents, with some supporting a combination of USPs. Two respondents stated quality products and quality service as a USP, whilst an equal number expressed affordable prices and quality products as a USP.

**Table 4-8** Themes on the business decision making mechanism

| Themes         | Examples of responses  | Count |
|----------------|--|-------|
| Management     | <i>"The Managers &amp; Supervisors are responsible for executing the decisions."</i><br><i>"As owners we are responsible for all decisions."</i>                           | 69%   |
| Entire company | <i>"We work as a team and we all contribute - management and staff included."</i><br><i>"We as a team make decisions. We discuss and bounce off ideas unto each other"</i> | 15%   |
| Shareholders   | <i>"Shareholder"</i>   | 15%   |



A major component of VBM relies on the decision making mechanism or system within a business. This question sought to assess how businesses involved in the research sample viewed general decision making. Nine respondents (69%) noted that management/owner was the main decision maker within the operations of the business, whilst two respondents (15%) each stated that the entire company and shareholders made decisions. The significance of these responses lies in the fact that because the businesses interviewed were small, there was not a clear distinction between management and shareholders. It is also crucial to highlight the impact of everyone within the company participating in decision making because it elicits employee involvement and engagement.

**Table 4-9 Themes on responses for business decision evaluation procedure**

| Themes                               | Examples of responses   | Count |
|--------------------------------------|---|-------|
| Sales maximisation                   | <i>"The idea is to get the most for the business and potentially maximise sales"</i>  | 8%    |
| Sound business - client satisfaction | <i>"We do decisions based on what is good for the business and what clients require"</i>  | 15%   |
| Sound business - profit maximisation | <i>"Whatever makes business sense? Ultimately the most profit we can generate based a demand"</i>   | 8%    |
| No response                          | <i>"Not applicable"</i>   | 62%   |
| Sound business – management decision | <i>"We don't have any method of choosing projects we do, we try and accept all offers for business. We do have to turn down projects if we are extremely busy. These decisions are made by myself as the manager."</i><br><i>"As management we decide on what needs to be done as well as what new products to look into. For example all the ice cream machines and soft drink dispensers were a management idea to create more revenue streams and allow the business to grow."</i> | 8%    |

The research interview also sought to ascertain the general method used to evaluate business decisions. Sixty two percent of the respondents failed to provide a response, presumably because the businesses did not have a clear method for evaluating decisions. Amongst the themes gathered 'sales maximisation', a process through which the business would seek to maximise sales and use this practice as a basis to evaluate any business decision, was the most popular theme with fifteen percent of the responses supporting this approach.. Other respondents also stated that business decisions were also made based generally on sound business sense aimed at ensuring both client satisfaction and profit maximisation (8% of the responses were in favour of each of these outcomes). Eight percent (8%) of the responses also declared that management evaluated the business decisions.

#### 4.2.4.2 Operations and supply chain management

This question sought to ascertain how the respondents understood value from a business perspective. Seven of the respondents (54%) stated that value was a factor of cost, ensuring that clients get more than they anticipate and/or expect. Four of the respondents also stated that value was a function of meeting customer requirements and expectations. In the interview the respondents could not quantify these measures or provide details as to how this value is ascertained or validated. One respondent each (8%) also stated that value involves providing customers with affordable prices, as well as excellent services and quality products. From the findings it can be noted that all respondents felt value was a function or attribute aimed at the customer. Though the specific details differed, all respondents expressed value as being what the customers perceived they should receive from the company and its product or service.

**Table 4-10 Themes on responses on definition of value and general strategy of the company**

| Themes                                       | Examples of responses  | Count |
|--|--|-------|
| Meeting customer requirements & expectations | <i>"Value is when you provide a service to a client more than their expectations."</i><br><i>"Value is the ability to meet the buyers / Clients expectation through quality &amp; at affordable prices. Our value resides in being able to provide our customers with a basket of services all in one at competitive prices".</i>          | 31%   |
| Cost effective pricing                       | <i>"Value in a business is being able to offer customers more than they would get elsewhere we try and ensure our pricings and services are competitive and affordable."</i><br><i>"It is based on the pricing of a product you deliver value to clients when they get more from you as a business in terms of service &amp; product."</i> | 54%   |
| Provision of affordable prices               | <i>"It is provision of a service at affordable prices, ensuring that the customers get more for their money."</i>  | 8%    |
| Excellent services & quality products        | <i>"Value is based on giving clients good prices, excellent services and quality products in our industry."</i>  | 8%    |

The research also asked respondents how company operations are kept in line with the overall goal. The question had an overall 62% response rate, with five respondents failing to provide a response. Amongst the responses, the themes gathered included Innovations and promotions (8%) in which respondents stressed the importance of enticing customers and increasing sales. Sales management was also highlighted by respondents (8%), and the respondents stated the need to maintain sales volume and enhance profit margins. Operations management & rewards were also highlighted (8%), with respondents stating that supplier

relations and best buying practices were employed to ensure that the company operations were aligned to the company goal. Respondents also highlighted constant evaluation & training (8%), as well as constant evaluation & cost management (8%) as important, noting that businesses employed these tactics to ensure that company operations are in line with its overall goal. Constantly evaluating the company operations and training of employees to ensure awareness of the goal was also regarded as crucial. Costs are a major deterrent in most businesses and the ability to manage costs is imperative to ensure businesses do not stray from overall goals.

**Table 4-11 Themes on responses of operations management and company's overall goal**

| <b>Themes</b>                         | <b>Examples of responses</b>   | <b>Count</b> |
|---------------------------------------|--|--------------|
| Innovation & promotions               | <i>"We are always for new ideas to grow our business, doing specials as well as giving out to market &amp; advertise ourselves."</i>   | 8%           |
| No response                           | <i>"Not applicable"</i>  | 38%          |
| Cost management                       | <i>"The main thing to ensure is that we keep our expenses low and that we deliver the best to our clients by ensuring that we delivery fresh and quality food. Service is also a main component of this industry. Constant staff training allows us to deliver a good service to our clients."</i> | 15%          |
| Sales management                      | <i>"There is little you can do to affect the company's objectives, but ultimately this is a volumes business, with low margins, the more you sell the more your profit as your margins are generally regulated."</i>   | 8%           |
| Operations management & Rewards       | <i>"We try and ensure we are not wasteful and that we are buying products at the best prices. We go around shopping for better prices and deals on raw materials to ensure are getting the absolute best prices."</i>  | 8%           |
| Constant evaluation & Training        | <i>"We re-evaluate our operations as often as possible to always ensure we are delivering our mandate. Constant training including 360 degrees analysis of the business processes to ensure we are delivering value client feedback is crucial in ensuring we keep our A game."</i>                | 8%           |
| Constant evaluation & Cost management | <i>"We are careful to always review our basket of products to ensure we get the absolute best prices from our suppliers. We are constantly looking for ways to please our customers with promotions and value savers."</i>   | 8%           |

**Table 4-12 Themes gathered on response for the continual improvement of company unique selling proposition**

| <b>Themes</b>            | <b>Examples of responses</b>  | <b>Count</b> |
|--------------------------|---|--------------|
| No response              | <i>Not applicable</i>   | 62%          |
| Meeting customer demands | <i>"In our industry it is about stocking quality brands that are reliable at affordable prices"</i>   | 23%          |
| Technology innovation    | <i>"The use of technology, integrating our services, social media in marketing and advertising investing in other services to be able to cross sell &amp; are classified offerings to our clients currently looking into bringing raw materials &amp; machinery."</i> | 8%           |
| Market differentiation   | <i>"It will really set us apart if we create our own in-house brand to deliver a complete package to our clients. So we currently work on creating products for in line items for our spa. We will start with professional range then grow retail."</i>               | 8%           |

Respondents were also asked to list ways they employ to improve the USP of the business. The majority of responses (8 out of 13) failed to provide a response, with three respondents stating the need to meet customer demands as a prime focus to improve USP. Technology innovation was also a mechanism deployed by respondents (8%) here respondents noted the use of technology to streamline operations and leverage social media platforms to enhance product offerings. Marketing differentiation was also noted by respondents (8%), who stated that businesses sought to enhance product offerings to separate them from those of their competitors. This practice allows companies to gain market share and improve their selling propositions.

**Table 4-13 Themes on responses on general company hierarchical structure**

| Themes         | Examples of responses   | Count |
|----------------|---|-------|
| Flat structure | <p><i>"We have basic structure, I work as the spa Manager, my daughter as a front sales Manager. Personnel report to us as Management in the relevant areas"</i></p> <p><i>"Flat structure - we have managers &amp; supervisors and the rest of the employees. We report to the Owners who also work here with us."</i></p> | 92%   |
| No structure   | <i>"There is no structure, I am the team leader and have a team of floor salesman below me, who support &amp; report to me"</i>   | 8%    |

The nature of the structure and nature of culture within a business is also crucial in setting up VBM. The respondents were asked to define the reporting structure, with only eight percent (8%) of the respondents failing to provide answers to this question. Twelve respondents reported a flat structure within the organisation. The respondents were also asked to describe the culture within the organisations, with five respondents (38%) describing the culture as relaxed and cordial. Three respondents could not provide a description of the culture, whilst 23% of the respondents described the culture within the organisation as professional, whilst 15% put emphasis on hygiene and good presentation.

**Table 4-14 Themes gathered on description of company culture within the organization**

| Themes                             | Examples of responses  | Count |
|------------------------------------|--|-------|
| Fun & cordial culture              | <p><i>"We are a fun bunch we talk and tease each other"</i></p> <p><i>"We work as a team, there is no job I cannot do so I am a hands on manager"</i></p>  | 38%   |
| Professional culture & setting     | <i>"Professional - we strive for excellence and to carry our business and present ourselves as a formal &amp; professional image."</i>   | 23%   |
| Emphasis on hygiene & presentation | <i>"We have a very strict hygiene culture. We value what we provide our customers and put importance in ensuring it is the best and of the highest quality. This comes also from management, myself included, right down to my staff, who have to see the importance of hygiene and safety".</i> | 15%   |
| No discernible culture             | <i>Not applicable</i>  | 23%   |

Respondents were also asked to describe the method they employ to manage their supply chain with nine respondents failing to provide a response. Whilst efficient stock management (15%) and supplier relationship management (15%) were expressed as other means by which businesses manage the supply chain. The ability to ensure stock required by customers is available when needed in the right quantities is paramount to the efficient functioning of a supply chain. It is also crucial for companies to maintain positive supplier relations in any supply chain.

**Table 4-15 Themes gathered on management and goals of supply chain within the organisation.**

| <b>Themes</b>                    | <b>Examples of responses</b>   | <b>Count</b> |
|----------------------------------|--|--------------|
| No response                      | <i>Not applicable</i>  | 69%          |
| Efficient stock management       | <p><i>"We strive to always be in stock and thus we aim to keep healthy stock level, and for more recent modules and models"</i></p> <p><i>"Our supply claim is very simple &amp; straightforward. There is little you can do except managing your stock orders and delivery and to always ensure you always stock but that is like in any business. Like in any business, the decision you make in your operations consequently have an impact to your business, one has to ensure enough thought and research and timing goes into your decision"</i></p> | 15%          |
| Supplier relationship management | <i>"We emphasise on cordial relationships with our suppliers on the area and to put our customer's service at high regards at the end."</i>  | 15%          |

#### 4.2.4.3 Financial and performance measurement

**Table 4-16 Themes on responses on specific goals in terms of company performance measurement**

| Themes                          | Examples of responses  | Count |
|---------------------------------|--|-------|
| Growth in sales                 | <i>"To grow and increase our sales"</i><br><br><i>"We want to grow our business every year by double digits both from a service (i.e. Massage booking, Treatments etc) to product sales"</i>   | 23%   |
| Prevent a loss/to make a profit | <i>"To generate enough sales to earn clear profit levels. Since there is little we can do to our profit margins in terms of manipulation."</i><br><i>"Not to run a loss, i.e. to always ensure we keep our expenses as low as possible."</i> | 62%   |
| General growth in all areas     | <i>"We broke down are goals as per department - Double sales every year - Increase of clients - Open four branches / increase / spread - Reduce staff turnover"</i>  | 8%    |
| No response                     | <i>Not applicable</i>  | 8%    |

The respondents were also asked to describe the company's goals from a financial perspective, with a response rate of 92%. Eight of the thirteen respondents (62%) described the company's financial specific goals as the need to prevent a loss or consequently make a profit. The respondents, however, did not disclose any specific or single indicator assigned a true value. Twenty three percent of the respondents (23%) also reported growth in sales as a goal.

**Table 4-17 Themes gathered on responses of performance measurement**

| Themes                          | Examples of responses   | Count |
|---------------------------------|---|-------|
| No response                     | <i>Not applicable</i>   | 31%   |
| Sales revenue generated monthly | <i>"Sales revenue - how much we generate from our sales, and we track these every month"</i>  | 15%   |
| Financial books every month     | <i>"We keep Financial books up to date and use them to keep track of the business financial position."</i>                              | 23%   |
| Project/Job evaluation          | <i>"We work on a project basis, so after every project I can calculate the overall cost and compare against of note &amp; expenses"</i> | 15%   |
| Financials updated annually     | <i>"We compare at the end of each year our performances for the previous year and plan for the coming year"</i>                         | 8%    |
| Target every week               | <i>"Management / board sent out every week tracking our progress towards our goals"</i>   | 8%    |

The respondents were also asked how the businesses measured performance, and only four respondents failed to provide a response. The respondents all stated that they use a method to analyse performance, ranging from the use of sales generated on a monthly basis, to sales targets set every month. The majority of the respondents relied on financial figures that are revised on a monthly basis.

**Table 4-18 Themes gathered to responses on performance metrics**

| Themes                            | Examples of responses   | Count |
|-----------------------------------|---|-------|
| Evaluation of company performance | <p><i>"These are measures used to evaluate the performances of a business e.g. Profit margins, ROA, ROE"</i></p> <p><i>"Performance metrics are measures a company can use to keep track or measure their performance. One example I know is return on assets. It allows a company see to if how much it generates in sales per every dollar invested in assets. Companies can use metrics such as sales revenue, ROA to monitor how well the company is performing."</i></p> | 62%   |
| No response                       | <i>Not applicable</i>   | 38%   |

Respondents were also asked to define performance metrics and usage in modern business. A resounding sixty-two percent (62%) were able to describe the means companies use to measure performance. The respondents were also able to highlight various examples of performance metrics which included ROI, POE, profit margins and ROA. Respondents also noted that financial statements were used for evaluation, these included bank statements, income statements, cash flows and balance sheets.

**Table 4-19 Themes gathered to responses on the source of information used for evaluating performance for the company**

| Themes               | Examples of responses  | Count |
|----------------------|--|-------|
| Financial statements | <p><i>"Financial statements - Income statement, Cash Flows, Balance sheets"</i></p> <p><i>"Income statement- this is the main tool we use along with other supporting tools like bank statements, receipts &amp; invoices to co-ordinate and reconcile."</i></p> | 92%   |
| No response          | <i>Not applicable</i>  | 8%    |

The respondents were also questioned about the drivers used to measure financial performance in the business, with four of the respondents (31%) failing to provide a response. Five of the thirteen respondents (38%) stated that sales volumes were the major drivers for financial performance. Respondents explained logic being that the more the company sales, the better the company performs. Two respondents noted that managing business expenses



is a major driver for financial performance, whilst a further eight percent (8%) stated the need to maintain profit margin as a key driver for ensuring financial performance. Eight percent of the respondents (8%) highlighted on the need to maintain financial books up to date to ensure the business keeps track of its performance.

**Table 4-20 Themes gathered on description of drivers for financial performance in a business**

| Themes                | Examples of responses  | Count |
|-----------------------|--|-------|
| Sales                 | <i>“Definitely sales - with regulated margins, the only way to make more money is to sell more.”</i><br><br><i>“ Increase in sales , Reduce in expenses”</i> | 38%   |
| Profit margin         | <i>“Profit margin - at the end of the day, your performance as a business is reliant on just how much you make in profit.”</i>                               | 8%    |
| No response           | <i>Not applicable</i>  | 31%   |
| Expenses              | <i>“The business must be able to manage its expenses as these can cause a business to fail”</i>  | 15%   |
| Financials up to date | <i>“Keeping your books in order to actual track has well you doing as a business.”</i>   | 8%    |

**Table 4-21 Themes gathered on responses for measures for achieving company specific financial overall goal**

| <b>Themes</b>                        | <b>Examples of responses</b>   | <b>Count</b> |
|--------------------------------------|--|--------------|
| No response                          | <i>Not applicable</i>  | 46%          |
| Marketing & Advertising              | <p><i>"Marketing and advertising aggressively through pamphlets, publications, facebook, twitter to just get our word out there. We also do promotions to entice patronage loyalty points program. Do a treatment and get the 10th free, hampers and gifts. Competitions like bring a friend and get discount on all treatments."</i></p> <p><i>"We invest a lot in marketing to entice people to do business with us. To allow people to know about us and what we are able to do."</i></p> | 15%          |
| Constant training                    | <i>"We invest in training as all directors are currently studying towards several qualifications. I am doing my MBA. We also include in resources to give us the edge and allow us to reach the next level."</i>   | 15%          |
| Targets on all new projects          | <i>"We have targets of how many new projects we hope to get, and go out securing these projects. I also keep track of how many projects we undertake or have at any given time. My wife who acts as a marketing person, strives on getting more customers in, and is also responsible for all front desk responsibilities. This allows us have a professional front office aspect and goes a long way in ensuring we get more new clients and retain all our other customers."</i>           | 8%           |
| Monitoring expenses                  | <i>"We carefully monitor our expenses and try to keep a lap our spending. We work with a budget to ensure we don't overspend or under-utilize the available resources."</i>  | 8%           |
| Search for New Business Acquisitions | <i>"We look out for new business including participating in any tenders for projects. We liaise with a lot of construction companies that recommend us for business on their sites."</i>   | 8%           |

Respondents were also asked what measures are put in place to ensure the company meets its ultimate goal. Six of the thirteen respondents (46%) failed to provide a response to this question. The main themes gathered included respondents stating the importance of marketing & advertising (15%) as well as constant training (15%) as a means of ensuring companies meet overall objective goals. Marketing and advertising allows companies to announce to the market and garner loyalty to the brand. This practice allows companies to bring in more customers and consequently increase sales. Training employees on the values and goals of the company allows for a shared goal and 'buy-in' from the entire company towards its goals. Other views expressed by respondents involved the need to search for new business (15%), as well as targeting new projects (15%) as a means of attaining the company's main goals. Respondents also highlighted the need to constantly monitor business expenses to ensure the company attains its financial goals.

#### 4.2.4.4 Follow up questions

Respondents were asked follow up questions to ensure that the responses can be aligned with the research objectives and ensure clarity towards the respondents' understanding of VBM.

The respondents were asked if they had any knowledge of VBM as a management technique. Nine of the respondents (69%) failed to provide a response to the question. Whilst the remaining four respondents (31%) stated that they had heard of the concept, describing VBM as a process which aimed to create value for the client.

**Table 4-22 Themes gathered on responses for knowledge of value based management as a general business principle**

| Themes                        | Examples of responses  | Count |
|-------------------------------|--|-------|
| No response                   | Not applicable   | 69%   |
| Creation of value for clients | <i>"I have very limited knowledge of VBM. I assume it is based on making the delivery of value to the clients the focus of a business through innovation, new products, better comparable pricings"</i><br><br><i>"Yes I think so. It is creating a proposal that centres around creating a competitive that provides customers with excellent service &amp; quality product services"</i><br><br><i>"I have heard a little bit about value based management and I think it all about ensuring that your business provides its clients/customers with the best value for money. Whether it be a product or service, value based management is all about making you customer the main focus of your business. Ensuring they get the best product, the best quality at the best price possible."</i> | 31%   |

Respondents were also asked on how VBM is implemented within a business, with seventy-seven percent (77%) failing to respond. Respondents stated that ways in which businesses can implement VBM within the business include innovation to meet customer demands (8%), focusing the business model towards value creation (8%) including realignment of internal operations towards value creation (8%).

**Table 4-23 Themes gathered on responses of general implementation of VBM within a business**

| <b>Themes</b>                       | <b>Examples of responses</b>  | <b>Count</b> |
|-------------------------------------|---|--------------|
| No response                         | <i>"Not applicable"</i>   | 77%          |
| Innovation to meet customer demands | <i>"By investing in innovation to constantly create better products for the market and deliver on the requirements of customer's demands."</i>  | 8%           |
| Focusing on value creation          | <i>"It can involve turning a business inside out, focusing all business operations towards value. It involves training people, changing perceptions, mind-sets of the business towards maximisation of the ultimate customer experience."</i>   | 8%           |
| Internal focus on value creation    | <i>"A business can look to implement VBM by ensuring that all of its internal processes are geared towards providing the client with a decent quality product or service. A company can also invest in making its processes more streamlined to reduce costs and ultimately provide a decent saving which can be transferred to its customers."</i> | 8%           |

The interview also asked respondents how value could be managed within a business, as well as the importance of management that was geared towards the process of creating value. Thirty-one of the responses gathered stated the heavy reliance on management in creating an environment and platform for businesses to focus on value creation. Fifteen percent (15%) of the respondents also noted that businesses could focus on pricing to ensure customers are offered the best prices and generate value for clients. Respondents (15%) also noted the need to create a customer-centred business that aimed at solely providing for the needs and expectation of customers. Eight percent (8%) of the respondents noted the need for businesses to focus on supply chain management by enhancing sourcing and procurement techniques. This along with investment in brand awareness allows businesses to better engage customers and potentially maximise on sales opportunities.

**Table 4-24 Themes gathered on response for managing value with a business and the role of management**

| <b>Themes</b>                                  | <b>Examples of responses</b>  | <b>Count</b> |
|--|---|--------------|
| No response                                    | <i>Not applicable</i>   | 31%          |
| Focus on pricing                               | <i>“By ensuring your business is selling and providing for its clients the best products at affordable prices.”</i>   | 15%          |
| Management involvement importance              | <i>“Management plays a valuable in growing that the company puts value creation at the focus of the business management to respectable for setting policies as well as allocating the necessary resources.”</i> | 31%          |
| Customer focus                                 | <i>“Make client the centre of the business, and always aim to provide quality products at comparable prices.”</i>   | 15%          |
| Better sourcing practices, sales & advertising | <i>“Get good pricing from suppliers through negotiating, keep expenses low and increase your sales through marketing and advertising, management plays a crucial role in creating value for its customers.”</i> | 8%           |

The interview also questioned respondents about the current state of the business environment, and the necessary elements or aspects a business has to follow in order to ensure continued success. The response rate to this question was fifty-four percent (54%), because six respondents failed to provide a response. Five out of the thirteen respondents (38%) highlighted the growing need for businesses to focus on creating a unique selling experience, thus maximizing sales. Sales were noted as the most crucial aspect for any business in the modern era. The other main themes gathered included a need to focus on meeting the needs of customers (8%), which would require a more detailed and tactical approach to understanding what customers expect from a business. It was also noted that in order for businesses to enjoy continued success in the modern era, innovation is a crucial element. Businesses that allow for reinvention, with a constant need to create new products/services that are better, more efficient, and more affordable and will outlast and outperform those of competitors.

**Table 4-25 Themes gathered on the responses of the elements considered important for continued success of a business**

| Themes              | Examples of responses   | Count |
|---------------------|---|-------|
| No response         | <i>Not applicable</i>   | 46%   |
| Focus on innovation | <i>"Innovation is the order of the day. To continually improve yourself as a business and improve yourself as a business and improve on your service to your clients"</i>   | 8%    |
| Sales               | <i>"Sales, like before, the more sales / projects the better the company performs."</i><br><br><i>"Reduction of costs - Increase sales - Maximise of product offering"</i>  | 38%   |
| Customer focus      | <i>"I think customer service is a key area of growth for any business. By ensuring that company treats its customers well, more customers return and the business grows. The better you treat your customers the more they will be willing to do business with you. In my industry, customer satisfaction means customers will remember you and recommend you to their friends and call on you when next they need to do a renovation".</i> | 8%    |

### 4.3 Summary of themes

The themes gathered in each section were also analysed to see if there was commonality amongst the themes within the section. The themes were ranked based on the number of times they were mentioned within each section. The summary of these findings is given below:

| General business planning & decision making | Count |
|---|-------|
| Profit Maximisation                         | 5     |
| Quality product & service                   | 5     |
| Customer service                            | 4     |
| Affordable prices                           | 4     |
| Growth                                      | 3     |
| ROI   | 2     |

**Table 4-26 Summary of themes gathered in general business planning and decision making**

In general business planning and decision making, it was noted that respondents described a number of the responses towards profit maximisation. This response means that many of the businesses represented during the interviews highlighted the importance of profit making within the organisations. The second most mentioned theme amongst the responses was customer service, with respondents stating the importance of businesses focusing their attention on ensuring customer satisfaction. The average response rate for the entire section was forty-three percent (43%), with some participants failing to provide a response. The other

common themes within this section included growth, with respondents highlighting how crucial continual growth is to any business as well as affordable prices and good returns. With this reasoning it can be concluded that within the sampled businesses the themes highlighted in the tables form the core of general business decisions and planning. This outcome, in turn, means the themes are the goals that most of the businesses seek to accomplish as well as regard as important within the business in relation to the business planning and decision making processes.

The same process was carried out with themes gathered in the operations and supply chain management section.

| <b>Operations and Supply chain management</b> | <b>Count</b> |
|---|--------------|
| Cost management                               | 6            |
| Meeting customer requirements & expectations  | 2            |
| Operations management                         | 2            |
| Rewards                                       | 2            |
| Efficient stock management                    | 2            |
| Constant evaluation                           | 2            |
| Excellent services & quality products         | 1            |
| Innovation & promotions                       | 1            |
| Sales management                              | 1            |
| Supplier relationship management              | 1            |
| Training                                      | 1            |

**Table 4-27 Summary of themes gathered in operations and supply chain management**

It can be noted that the average response rate for the section was forty-nine percent (49%). The most common theme within this section was cost management, with respondents stating the need for businesses to monitor and constantly evaluate business costs. It can also be deduced from the responses that the respondents identified managing costs as a crucial component towards an efficient operations and supply chain management. The other common themes within this section included customer service, with attention being paid towards meeting the demands and requirements of customers. Efficient stock management and a need to constantly evaluate the business operations were also highlighted as key aspects of good business practice within this section. It can be deduced from these findings that the common themes are considered to be the aims or goals as well as directives of businesses with regard to managing operations and supply chains. Training, sales management, excellent services and quality products, along with innovation and promotions were also common themes highlighted in this section. It is, however, important to note that although maintaining supplier relationships was listed it gained few considerations amongst the respondents.

#### Common themes in financial management

| <b>Financial &amp; performance measurement</b> | <b>Count</b> |
|--|--------------|
| Sales  | 6            |
| Profit   | 3            |
| Expenses                                       | 3            |
| Growth   | 1            |
| Training                                       | 1            |
| Excellent service                              | 1            |
| Marketing and Advertising                      | 1            |
| Search for New Business Acquisitions           | 1            |

**Table 4-28 Summary of themes gathered in financial management**

The most common theme amongst the themes gathered within this section is sales. Many respondents highlighted the importance of gearing a business's financial goals towards increasing sales. Respondents stressed the importance of sales to the survival and longevity for any business. The other common themes listed by respondents in this section included profit and expenses. Respondents highlighted the main goals of businesses as being the need to continually generate profit, and, in a bid to prevent business losses, the need to monitor expenses.

#### **4.4 Chapter Summary**

The objective of the empirical research conducted was to explore business owners/managers' exposure and understanding of the concept of VBM. Based on the literature study, an interview guide was created to test respondents' level of understanding towards VBM within small to medium enterprises. The interview was split into three sections to determine participants' knowledge and exposure to VBM. These focus areas were general decision making, financial management and supply chain management. The respondents for the interviews were sampled from small businesses within Gauteng. They were interviewed and the responses analysed for common themes within each of the sections. The themes were analysed to ascertain the level of understanding of respondents towards the various aspects of VBM.



## **CHAPTER 5**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The main objective of the study was to investigate the level of understanding of the concept of value-based management (VBM) in small businesses in Gauteng, South Africa. Chapter 2 introduced the theoretical background to this concept and presented an overview of some of literature upon which the research was based. Chapter 3 presented a framework for implementation of VBM. Chapter 4 detailed the findings of the qualitative empirical study conducted amongst the owners/managers of the small businesses sample. The researcher utilized the interview method as a measuring instrument to gather data. An interview guide was created and used to ascertain the level of understanding of participants with regard to the concept of VBM. Chapter 4 presented the results of the interviews. This chapter seeks to present conclusions drawn from the data presented in Chapter 4 and will evaluate the research against the set objectives as well as offer recommendations for future research.

#### **5.2 Conclusions**

The findings from the interviews presented in Chapter 4 were analysed in order to evaluate and ascertain the level of understanding of small business managers or owners in Gauteng towards the concept of VBM. These findings will be the basis for drawing conclusions. These conclusions will be presented according to the three sections investigated and finally an overall conclusion will be drawn against the set secondary objectives.

##### **5.2.1 Conclusions with regard to participants' understanding of strategic business planning & general decision making**

Section B of the interview guide aimed to determine respondents' understanding of VBM. It sought to determine the level of understanding of respondents towards the strategic planning and general decision making concepts of this style of management within a business. The responses towards the questions were used to ascertain the respondents' level of understanding. The content of the main questions within Section B which addressed strategic business planning and general decision making were:

- Q1 – this addressed the main reason for which businesses are in operation. The primary goal for a company according to VBM is to meet the shareholders' expectations. Thus all businesses that understand VBM focus the overall goal of their business towards meeting these expectations. Respondents to the interview failed to acknowledge the importance of meeting shareholders' demands or expectations.
- Q3 – this question addressed the strategic long- and short-term goals of the business. VBM calls for both these goals to focus on growth and maximise returns for shareholders. The highest number of responses (69%) stated the importance of growth within businesses both as short- and long-term goals. A further 8% of the responses stated profit maximisation as strategic goals for businesses.
- Q4 – this question sought to determine respondents' understanding of how goals are communicated within the business. The successful implementation of VMB in a business relies on employee 'buy-in' and participation and hence stresses the significance of communication and training. Respondents showed understanding towards the importance of communication and training with a response rate of 36% stating the need for both. The overall response rate towards the question was low, however, with the majority of respondents failing to offer an answer which suggests that respondents lacked an understanding of this concept.
- Q6 – this question sought to determine how well respondents understood the expectations of shareholders. In VBM, it is imperative for businesses to acknowledge the expectations of shareholders, which normally include a desire for the maximum return on investment. The respondents' 100% response rate indicated their awareness of this concept, 54% of whom stressed the importance of adequate financial returns and profit margins.
- Q9 – this question addressed the general decision making mechanism within the business. Respondents (69%) identified management as the main decision makers within their businesses. VBM calls for management involvement and emphasises the vital role management plays in the successful implementation of VBM within a business.
- Q10 – this question was concerned with specific decision making instruments within the business. VBM calls for a strategic process of evaluating business decisions to ensure that businesses make resolutions that are in line with maximising returns for shareholders. Though respondents stated various forms of decision making, none of them disclosed the strategic use of a value-based metric. This deficiency can be deduced as highlighting their

lack of understanding of how businesses need to evaluate business decisions to ensure the overall goal of meeting shareholder expectations.

Based on the findings of the empirical study on the concept of strategic business planning and decision-making described above, it can be concluded that respondent sample generally showed a low understanding of VBM. Respondents, although aware of shareholders (the majority of them were shareholders in their own business), failed to adequately show how the business is geared towards meeting the expectations of shareholders. In the businesses represented by respondents, there was a lack of knowledge with regard to the concise requirements of shareholder expectations. The importance of profit maximisation, quality product and service, customer service and affordable prices were the main common themes mentioned in the responses to Section B.

### **5.2.2 Conclusion on the respondents' understanding of operations and supply chain management**

Section C of the interview guide determined the respondents' understanding of the concept of operations and supply chain management with regard to VBM. The responses to the questions were used to evaluate the respondents' level of understanding. The main questions within this section addressed operations and supply chain management.

- Q2 – this question addressed respondents' description of the business strategies employed to manage value within supply chains. Efficient operations and supply chain management offer businesses an opportunity to deliver value and, ultimately, to maximise on returns. Respondents displayed an understanding of the need to ensure the delivery of goods to consumer's at the most cost effective price, which, ultimately, is a measure of a streamlined supply chain. Fifty-four percent (54%) of responses stated the need for cost effective pricing as a description of value and the strategies employed by businesses to deliver value.
- Q3 – this question asked respondents to comment on the means through which their company keeps operations in line with their overall goal. The response rate on the question was fairly low as respondents failed to explain how businesses use and manage supply chains to deliver value.
- Q4 – this question asked respondents to describe the value stream within businesses. Most respondents (62%) failed to describe the value chain within their business. An understanding of VBM calls for owners/managers of businesses to comprehend the

necessity of value chains and managing value streams efficiently. Respondents generally showed poor understanding for these concepts and how they are used to deliver value.

- Q6 – this question asked respondents to describe the hierarchical structure of their businesses and its impact on the manner in which the company is managed. Respondents were able to describe the structure of their businesses, with the majority of respondents describing the structure as flat, which is the norm in small businesses. However, respondents failed to show an understanding of how the business structure can be used to influence general business operations. Flat structures are more agile and, thus, present an opportunity for the business to streamline operations and generate value.
- Q7 – this question asked respondents about the culture of their organisation. Culture within an organisation plays a crucial role in the success of VBM implementation. Respondents failed to show an understanding of the importance of culture within their organisation and its role in creating a nurturing ambience for the successful implementation of VBM
- Q9 – this question asked respondents how their businesses manage supply chains, as well as their company's specific goals with regard to supply chain managements. The number of respondents who failed to provide an answer was very high (69%). This paucity of response indicates a fairly low understanding of how companies manage supply chains to deliver overall value.
- Q10 – when answering this question respondents showed little understanding of the impact of decisions concerning operations and supply chain management on value creation.

The findings of the empirical study on the concept of operations and supply chain management showed that respondents have a very limited understanding of how companies can create value through efficient management. Respondents, however, did show an appreciation of various aspects of managing supply through efficient stock control and the maintenance of positive supplier relationships. Respondents also failed to highlight the importance of the impact decisions, relating to operations and supply chains, can have on value creation. Respondents showed little understanding of how the culture and hierarchical structure of a business can impact the operation of a business and present an opportunity for value creation. It can be concluded from the findings that sample respondents generally showed a low understanding of VBM.

### **5.2.3 Conclusion on financial management understanding**

Section D of the interview guide sought to determine the respondents' understanding of financial management with regard to VBM. The responses to the questions were used to evaluate the respondents' level of understanding of this concept. The majority of questions within this section addressed financial management:

- Q1 – respondents were asked about their company's specific financial goals. Generally VBM calls for companies to have financial specific goals with the aim of maximising returns for shareholders. Most respondents stated that making a profit and preventing running at a loss is one of their company's specific goals. Respondents showed little understanding of financial goal setting as a means of creating value for shareholders.
- Q3 – respondents were also asked to state their understanding of the value metric used in business. Most respondents (62%) were able to offer a definition of performance metric as well as provide examples of its use within their business operations. Respondents also showed an understanding of the need for information in order to be able to measure performance, thus highlighting the importance of financial statements in business.
- Q5 – respondents were asked to highlight the various drivers for financial performance within businesses. 38% of respondents were able to state one of the key value drivers within their business as sales, whilst another 8% highlighted profit margin as a driver for financial performance. However, it was obvious from their answers that the majority of respondents did not understand the significance of value drivers within their business.
- Q8 – respondents were also asked to highlight the measures their businesses put in place to attain their overall financial goal. Generally in VBM, businesses regard managing working capital as well as operating cost efficiency as a measure to ensure the company meets its financial goals. The respondents lacked awareness of the financial goals and various other monetary measures companies can put in place to manage their financial performance.

### **5.2.4 General follow up questions**

The interview guide also provided for follow up questions to measure the respondents' overall understanding of VBM. It can be concluded from their answers that respondents exhibit little understanding of the concept of VBM. The key themes gathered by the interviewer pointed to

the importance of customer service, sales and managing expenses. The respondents failed to describe VBM as a management technique focused towards meeting the expectations of shareholders. Most respondents stated that VBM is a mechanism geared towards providing value for customers as opposed to shareholders.

### **5.3 RECOMMENDATIONS**

Based on the conclusions described above, the following recommendations can be presented:

- Small businesses are more concerned with staying 'afloat' and thus focus on sales and managing expenses. This approach leaves very little room for formulating and implementing any management principles that focus on the needs and expectations of shareholders. There was not awareness of the fact that by having an attitude focused towards meeting shareholder expectations, businesses are more likely to attract investments.
- Generally small businesses tend to neglect the principles of VBM and, in so doing, stifle their growth and limit their potential. There is need to grow small businesses' understanding of various management principles. There should be workshops aimed at presenting small businesses with comprehensive management skills. Many of small businesses within the research sample showed a general lack of understanding of financial planning and strategic management. The acquisition of these skills is thus crucial in order to enhance the growth opportunities of small businesses and make them more attractive to shareholders.
- Sound financial planning encompasses more than the regular updating of financial statements. Small businesses need to understand how to use various value metrics and performance management techniques. These practices can be used to present 'stretch' goals for small businesses which will enable them to better manage their resources. In the research undertaken it was noted that none of the small businesses had company specific goals with a specific value target. By creating a single value target, for example profit margin percentage, or return on assets, companies can use these target as 'stretch' goals to develop their personnel and make their company more attractive to both shareholders and customers.
- Supply chains are a key source for value creation. By understanding the various components involved throughout the life span for a product. Small businesses tend to put

less effort into managing supply chains and thus neglect a major opportunity for value creation. It is imperative that small businesses evaluate supply chains in order to assess and constantly improve their efficiency. If executed correctly, efficient supply chains afford small businesses an opportunity to be more agile in their response to market stimuli and, thus, able to deliver goods faster and cheaper than their competition.

- Operations management is an area generally under-utilized by small businesses. In the research sample the small businesses assessed did not show an appreciation of how operations management is crucial for value creation in an organisation. This lack of appreciation applied to decisions on the reporting structure as well as to the types of artefacts created and culture existing within a given organisation. Such decisions play a pivotal role in the implementation of VBM. Small businesses should, therefore, take note of the impact such decisions have within their businesses and learn how to best utilize the size and operations of the business to leverage value creation. Such decisions can provide an opportunity for a competitive edge and, thus, is an avenue small businesses can and should explore.

## **5.4 EVALUATION OF STUDY**

The success of the study is evaluated below based on the findings of the primary and secondary objectives.

### **5.4.1 Primary objective**

The general objective of the research was to investigate the level of understanding of the concept of value-based management (VBM) in small businesses in Gauteng, South Africa. This research project sought to assess business managers and owners of small businesses' level of understanding of the principles of value-based management (VBM). The assessment of this achievement was based on the summation of the findings and conclusions of the secondary objectives.

Based on the findings of the research, it can be concluded that such findings were negative. From the primary objective set, it can be concluded that the small business owners/managers interviewed do not have an understanding of the concept of VBM.

### **5.4.2 Secondary objective**

The secondary objectives of the research within the context of VBM were:

- To ascertain the level of understanding of the concept of strategic planning and management in decision making in small business enterprises

**Conclusion:** It can be concluded, based on the results of the empirical study conducted, that the owners/managers of the small businesses sampled had little comprehension of strategic planning and general business decisions. There was no evidence within the small businesses sampled of an understanding of the premise of VBM being employed during the planning and making of business decisions.

- To assess the level of understanding of operations and supply chain management within small businesses.

**Conclusion:** It can be noted from the results of the study that the owners/managers of the small businesses sampled did not understand the concept of VBM in terms of financial management. The small businesses sampled did not show evidence of an awareness of the VBM concept nor of its application within businesses.

- To assess the level of understanding of financial and performance management in small businesses.

**Conclusion:** It can be deduced from the results of the empirical study that the owners/managers of the small businesses sampled did not comprehend the basic premise of financial and performance management. The small businesses sampled did not exhibit any evidence of an understanding of VBM in terms of financial and performance management.

## **5.5 Limitations of the study**

This research study possessed several limitations. The most prevalent limitation was exhibited in the simplification of the concept of VBM in order to make the questions more understandable to the participants. The response rate for many of the questions was poor because respondents were not familiar with some of the terminology. This lack of knowledge might affect the validity of the data drawn from the respondents' answers. The other limitation witnessed during the research was that of the restricted scope and geographic distribution due to the short time allotted for the research. In order to achieve a better understanding of small businesses utilisation of VBM, there is a need to broaden the sample size and geographic location. It is possible, however, that widening of scope may affect the results of similar research because the findings may differ within small businesses operating in other regions. This possibility presents an opportunity for further research in an attempt to validate the findings and conclusions of the current research project in other regions and situations.



## **5.6 Suggestions for further research**

Based on the findings, conclusions and extent of this research, the following can be avenues for future researcher to investigate:

- The research scope can be increased to analyse small businesses within other regions in South Africa in order to assess the differences, if any, that might exist amongst small businesses operating in other regions.
- The research was not focused on small businesses in general, and thus there is an opportunity to analyse the differences that might exist within other industries and/or larger businesses.
- Further research can be used to analyse other demographic factors amongst small business owners/managers such as differences in race, sex and educational level. The research can be carried out and statistical analysis employed to evaluate the consequences of these differences.

## BIBLIOGRAPHY

ACTS see SOUTH AFRICA

AKALU, M. M. 2002. Measuring and ranking value drivers: a shareholder perspective. Available: <http://repub.eur.nl/res/pub/6815/2002-0432.pdf> Date of access: 2 August 2015.

AMEELS, A., BRUGGEMAN, W. & SCHEIPERS, G. 2002. Value-based management: An integrated approach to value creation. A literature review. Vlerick Leuven Gent Management School Working Paper.

ANON. 2014. Why is it so challenging? Making better decisions faster: using driver analytics to change the game and boost performance in consumer products. Ernest & Young. Stable Url: [http://www.ey.com/Publication/vwLUAssets/Making\\_better\\_decisions\\_faster/\\$FILE/Making\\_better\\_decisions\\_faster\\_EN0426.pdf](http://www.ey.com/Publication/vwLUAssets/Making_better_decisions_faster/$FILE/Making_better_decisions_faster_EN0426.pdf)

ANON, 2015. Stable Url: <http://www.banking.org.za/what-we-do/inclusive-economy/sme/sme-enterprise>. Date Accessed 08 January 2015.

ANON. 2013. Key Business Drivers– Major Impact on Business Performance: Managing– Must Factors: Value, Growth, Innovation, Cost. November 6, 2013. Stable Url: <http://bizshifts-trends.com/2013/11/06/key-business-driver-major-impact-business-performance-managing-value-innovation-growth-sustainability/>. Date Accessed 16 February 2015.

ATHANASSAKOS, G. 2007. "Value based management, EVA and stock price performance in Canada", *Management Decision*, 45(9), pp. 1397 – 1411.

BECK, V. 2014. The effects of the implementation of value-based management. *International Journal of Economic Sciences and Applied Research*, (2), 153-165.

BECK, V. & BRITZELMAIER, B. 2012. Value-based management – A critical literature review. *International Journal of Sales, Retailing and Marketing*, 1(3), 3-20.

BIJLSMA, M., JONGEBREUR, L. P. W. & WINTHAGEN, S. "Application of System Dynamics in Value Based Management—an approach based on a real-life case."

BONINI, S. & GORNER, S. 2011. Sustainability & Resource Productivity Practice. The business of sustainability: Putting it into practice. McKinsey & Company.

BOOYSE, N.J., BUCHNER, S., FOOT, J., PIENAAR, A.J. & VAN DER POLL, H.M. 2011. An overview of the implementation of Economic Value Added (EVA™) performance measures in South Africa. *Southern African Business Review*, 15(3), pp 122-141

BRITZELMAIER, B. & HUSS, C. 2008. Aligning Business Planning to Value-based Management. In *CONFERENCE READINGS BOOK* (p. 148). November

CHRISTOPHER, M. & RYALS, L. 1999, "Supply Chain Strategy: Its Impact on Shareholder Value", *The International Journal of Logistics Management*, Vol. 10 Iss 1 pp. 1 – 10

CLAES, P. C. 2006. Management control and value-based management: Compatible or not. *Studies in Managerial and Financial Accounting, Performance Measurement and Management Control: Improving Organizations and Society*, 16, 269-301.

COHEN, D. & CRABTREE, B. 2006. Qualitative research guidelines project. Robert Wood Jonhson Foundation.

DAMODARAN, A. 2007. Return on capital (ROC), return on invested capital (ROIC) and return on equity (ROE): measurement and implications. *Return on Invested Capital (ROIC) and Return on Equity (ROE): Measurement and Implications (July 2007)*.

DE JONGE, J. 2006. Total shareholder return explained. Stable Url: [http://www.valuebasedmanagement.net/faq\\_what\\_is\\_value\\_based\\_management.html](http://www.valuebasedmanagement.net/faq_what_is_value_based_management.html)  
Date of access: 27 May 2015.

DE WET, J. H. & HALL, J. H. 2004. The relationship between EVA, MVA and leverage. *Meditari Accountancy Research*, 12(1), 39-59.

DICICCO-BLOOM, B. & CRABTREE, B. F. 2006. The qualitative research interview. *Medical education*, 40(4), pp. 314-321.

FAVARO, J. 2003. Value based management and agile methods. In *Extreme Programming and Agile Processes in Software Engineering* (pp. 16-25). Springer Berlin Heidelberg.

FRANCIS, G. & MINCHINGTON, C. 2002. Regulating Shareholder Value: A Case Study of the Introduction of Value-based Measures in a Water Company. *British Journal of Management*, 13(3), 233-247.

FRIEDL, G. 2013. Value-Based Management.

GARENGO, P., BIAZZO, S. & BITITCI, U. S. 2005. Performance measurement systems in SMEs: a review for a research agenda. *International journal of management reviews*, 7(1), 25-47

GARY, M. S., YANG, M. M., YETTON, P. W. & STERMAN, J. D. Stretch Goals and the Distribution of Performance.

GEM Report for South Africa 2013

GEM Global Report 2013

HAHN, G. J., KUHN, H. 2012. Value-based performance and risk management in supply chains: A robust optimization approach. *International Journal of Production Economics*, 139(1), 135-144.

HASPESLAGH P., NODA T. & BOULOS, F. 2001. How to Put Value in VBM - Managing for value: it's not just about the numbers. *Harvard Business Review*, 79(7) July-August, 65-73. Stable url: <http://hbswk.hbs.edu/archive/2552.html>. Date Accessed 20 October 2015.

HOUSH, W. 2015. Choosing a Business Model That Will Grow Your Company. Stable URL: <http://www.entrepreneur.com/article/243237>. Date Accessed 10 September 2015.

IAKOVLEVA, E., GADJIEV, R. & BUCHAEV, Y. 2011. Application of the value based management approach to assess the effectiveness of business assets control. West- Ost-report International Forum for Science and Research. P92

Investopedia. 2015. Cost of capital. <http://www.investopedia.com/terms/c/costofcapital.asp>. Date of access: 10 October 2015

ITTNER, D., C. & LARCKER, F. D. 2001. Assessing empirical research in managerial accounting: a value-based management perspective. *Journal of Accounting and Economics*, 32: 349–410

JAKOVLEVA, E. A. 2013. Economic margin models as basic methods of economic efficiency of Russian companies. НАУЧНО-ТЕХНИЧЕСКИЕ, pp131-137.

KIELSTRA, P., LOFTHOUSE, G. & WASTON, J. 2008. Doing good: Business and the sustainability challenge. Economist Intelligence Unit report.

KOLLER, 1994. What is value based management? McKinsey quarterly, 3:87-101.

KONGOLO, M. 2010. Job creation versus job shedding and the role of SMEs in economic development. *African Journal of Business Management*, 4(11):2288-2295.

KROL, F. 2007. Value based management in small and medium enterprises. Stable URL: [http://www.wiwi.uni-muenster.de/ctrl/md/content/publikationen/Arbeitspapier\\_9\\_1.pdf](http://www.wiwi.uni-muenster.de/ctrl/md/content/publikationen/Arbeitspapier_9_1.pdf) (05.02. 2012). Date Accessed 22 July 2015.

LARGANI, M. S., KAVIANI, M. & ABDOLLAHPOUR, A. 2012. A review of the application of the concept of Shareholder Value Added (SVA) in financial decisions. *Procedia-Social and Behavioral Sciences*, 40, 490-497.

LEE, S. UNKNOWN. Managing Resistance to Change. Stable Url: <https://www.bia.ca/articles/chng-managing-resistance.htm>. Date Accessed 14 May 2015.

MAHEMBE, E. 2011. Literature review on small and medium enterprises' access to credit and support in South Africa.

MALMI, T. & IKAHEIMO, S. 2003. Value based management practices—some evidence from the field. *Management Accounting Research*, 14(3), 235-254.

MEGGINSON, W. L., SMART, B. S. & GRAHAM, J. R. 2010. Financial management. 3<sup>rd</sup> ed. South Western. 966p.

MORISAWA, T. & KUROSAKI, H. 2002. The current state of value-based management in Japan and the road map for success. *Nomura Research Institute*, (56).

MOSKALEV, S. & PARK, S. C. 2010. South Korean chaebols and value-based management. *Journal of business ethics*, 92(1), 49-62.

MOTTIS, N. & PONSSARD, J. P. 2002. Value-based management and the corporate profit centre. EBF issue 8, winter 2001/02

National Planning Commission. National Development Plan 2030: Our Future-make it work.

NATIONAL SMALL BUSINESS ACT see South Africa.

NEL, L. 2012. Value based management: An application in North West regional pharmacies. Potchefstroom: North-West University. (Mini-dissertation – MBA) 122p.

OLAWALE, F. & GARWE, D. 2010. Obstacles to the growth of new SMEs in South Africa: A principal component analysis approach. *African Journal of Business Management*, 4(5):729-738.

PETERMOLLER, E. & BRITZELMAIER, B. 2008. Goals of the corporation from an ethical point of view: profit maximization, shareholder value and stakeholder approach. In Conference readings book (p. 126).

RAPP, M. S., SCHELLONG, D., SCHMIDT, M. & WOLFF, M. 2011. Considering the shareholder perspective: value-based management systems and stock market performance. *Review of Managerial Science*, 5(2-3), 171-194

RAPPAPORT, A. 1983. Corporate performance standards and shareholder value. *Journal of Business Strategy*, 3(4), 28-38.

SAKUNASINGHA, B. 2006. An empirical study into factors influencing the use of value-based management tools. *Theses*, 39.

SAUNDERS, M., LEWIS, P., & THORNHILL, A. 2007. Research methods for business students. Pearson Education UK. (Saunders, Lewis & Thornhill)

SBP Alert, Issue Paper 1. 2013. Stable URL: <http://www.sbp.org.za>

SLATER, S. F. & OLSON, E. M. 1996. A value-based management system. *Business Horizons*, 39(5), 48-52.

SMITH, P. 2001. Shareholder Value Implementation: Turning Promise into Reality. L.E.K Executive Insights. p8

SNOWDALE, R. 2009. The Impact of Transportation Services & Logistics Costs on Corporate Profitability. Stable URL: <http://www.dsi-tms.com/freight-shipping-blog/bid/8479/The-Impact-of-Transportation-Services-Logistics-Costs-on-Corporate-Profitability>. Date Accessed 31 October 2015.

SOUMAYA, H. 2013. EVA versus other performance measures. *Asian Economic and Financial Review*, 3(4): 532-541.

SOUTH AFRICA. 1962. Income Tax Act 58 of 1962. Pretoria: Government Printer

SOUTH AFRICA. 2004. National small business amendment Act 29 of 2004. *Government Gazette* No. 27101 Vol. 474 15 December 2004

SOUTH AFRICA. 1996. National small business Act 102 of 1996. Pretoria: Government Printer

STAROVIC, D. COOPER, S. & DAVIS, M. 2004. Maximising Shareholder Value Achieving clarity in decision-making. CIMA Technical Report. Stable URL: [http://www.valuebasedmanagement.net/articles\\_cima\\_maximizing\\_shareholder\\_value.pdf](http://www.valuebasedmanagement.net/articles_cima_maximizing_shareholder_value.pdf)

WHITING, L. S. 2008. Semi-structured interviews: guidance for novice researchers. Nursing Standard, 22(23): pp. 35-40.

WITTMAN, H. 2010. Total costs of logistics in South Africa need to be reduced. Science Scope September 2010. Stable URL: [http://www.csir.co.za/publications/pdfs/2.2\\_SS\\_BE\\_transport&logistics\\_chap1.pdf](http://www.csir.co.za/publications/pdfs/2.2_SS_BE_transport&logistics_chap1.pdf). Date accessed 18 October 2015

YOUNG, S. D. & O'BYRNE, S., F. 2001. EVA and value-based management. McGraw-Hill New York.

# ANNEXURES

## APPENDIX A INTERVIEW GUIDE

**Section A:** This section will be for statistical purposes

### Section 1

Job title.....

Gender.....

Race.....

Educational – Highest qualification.....

Previous Work experience.....

### Section 2

Number of employees.....

How many departments.....

Industry/Sector.....

Years of service.....

Financial Statistics.....

Sales/Revenue.....

Main source of revenue.....

Total capital investment.....

Market  
share.....

Others sources of revenue.....

Debt.....  
.....

Shareholders.....  
....

**Section B:** General business planning & decision making

1. What is the company's overall goal? How often is this evaluated? Is the overall goal ever updated, if so, how often?



Goal of question: to evaluate if participant knows and shows any understanding of value creating being the core goal of a company.

2. What are the company's vision, mission and strategic plan? Where are they derived from?

Goal of question: To assess if there is forethought of strategic value creation, and how the business views planning around value in terms of company's future.

3. What are the company's long term and short term strategic goals?

Goal of question: To assess if there is a forethought of strategic value creation, both on a short term and long term, and how the business views planning around value in terms of company's future.

4. How is the overall company vision or goal communicated to the employees and into the business environment?

Goal of question: To assess how the overall goal of the company is broken down and communicated to the rest of the organization.

5. Who are the company's main stakeholders?

Goal of the question: To see who the company views as the major players within the company's spheres.

6. What are the expectations of the shareholders towards the business? How does this impact the overall goal of the company?

Goal of the question: To assess if there is any correlation between the expectations of the shareholders and how the company operates.

7. What are your company's main products? Who are you main competitors?

Goal of the question: To assess how well the business understands its environment.

8. What is your key ingredient, what separates you from competition? How is this competitive advantage maintained?

Goal of the question: To assess the businesses value proposition or unique selling proposition.

9. Which level of the business is responsible for decision making?

Goal of the question: To assess how planning and strategic planning of the business are handled.

10. Is there any criteria used in evaluating business decisions? Is there a standard procedure to evaluate business decisions and the requirements of the business? How are new projects, products or services derived and decided upon? How is the impact of such decisions evaluated?

Goal of the question: To assess if value creation is used in assessing how the business invests in new projects or ventures. To assess what criteria the business use to choose investments.

11. How often are business decisions evaluated? By who?

Goal of the question: To assess how the company operates in terms of planning and strategic planning.

### **Section C: Operations and Supply chain management**

1. Who are your main clients? Who are your main suppliers?

Goal of the question: To assess the business supply chain

2. How would you describe value? What is the general strategy or aim of your company towards delivering value to your clients?

Goal of the question: To assess the participants understanding of value in terms of creating and delivery within a supply chain.

3. How do you keep your operations in line with the company's overall goal?

Goal of the question: To assess alignment between the company's supply chain and operations with company's ultimate goal.

4. Can you describe the value stream or distribution network for your product/service?

Goal of the question: To assess the participants understanding of value stream mapping within a supply chain. To assess who the company assesses the efficiency and effectiveness of the supply chain.

5. What measures do you consider to improve the USP or delivery of your products to your clients?

Goal of the question: To assess how the business looks into improving value creation and steps taken to continually maintain value.

6. How would you describe the company's hierarchical structure? Does it have any significance towards how the company operates?

Goal of the question: To assess how the business views its internal operations and the impact towards attaining the overall company goal.

7. How would you describe the culture within the organization?

Goal of the question: To assess how the business views the importance of culture towards attaining the overall company goal.

8. Are you familiar with lean or green operations? How does your company ensure that it is not wasteful in its operations?

Goal of the question: To assess how the business views activities aimed at creating a lean environment and its applications of the concepts within the business.

9. How do you manage your supply chain? Are there any specific goals towards how you manage the supply chain? If so, where are the goals derived from?

Goal of the question: To assess how the company aligns its supply chain with the company's overall goal.

10. How are the impact of the decisions made within the operations and supply chain of the business discussed and assessed?

Goal of the question: To assess how the business views the importance decisions made within supply chain and the impact towards the business in general.

#### **Section D: Financial & performance measurement**

1. What is the company's specific goal in terms of performance measurement? Where is it derived from? How do you determine if the company is meeting its overall goal?

Goal of the question: To assess how the business measures its overall goal and performance towards achieving its goal from a financial perspective.

2. How is performance measured? How often is the performance measured and how is it communicated?

Goal of the question: To assess how the company measures its performance.

3. How much do you understand about performance metrics? Do you have examples of metrics you know? Do you use any of these in your business?

Goal of the question: To assess if participants are aware of the various metrics available

4. What is the source of information used for evaluating performance for the company? Do you use financial books for evaluation? If so, how often?

Goal of the question: To assess how the company reaches its performance measures, as well as note the efficiency and accuracy of this process.

5. What are the drivers for financial performance?

Goal of the question: To assess the business understanding of the financial aspects of the business, how values take effect within the business.

6. What are the key performance indicators for your business?

Goal of the question: To assess if the business has narrowed down indicators of the understanding of the financial aspects that drive the performance and value of the business, as well as how these values take effect within the business.

7. What areas are the key areas you consider to be the drivers for the success of your business? How do these areas tie into the company's overall goal?

Goal of the question: To gauge the level of appreciation for understanding the various actual areas within a business that are responsible for driving value creation.

8. What measures do you put in place to ensure that the company's overall goal is achieved?

Goal of the question: To ascertain the level of initiative the business has towards attaining the company's goal.

#### **Follow up questions**

1. Have you ever heard of value-based management? How would you describe value based management?

Goal of the question: To see if the business possesses any understanding of the concept of VBM and assess the level of this understanding (basic, moderate, and excellent)

2. Can you briefly describe how VBM can be used and implemented within a business?

Goal of the question: To see if the business possesses any understanding of how a VBM system is implement and assess the level of this understanding thereof. (Basic, moderate, excellent)

3. How would you manage value within a business? What role do you think management plays towards creating value within a business?

Goal of the question: To assess the participant's general understanding of the concept of value within a business

4. Are there any other management or business principles you know? If so, can you describe one of them?

Goal of the question: To assess the participant's general understanding of strategic management principle within a business

5. What elements do you consider to be important for the continued success of any business?

Goal of the question: To assess the participant's general understanding of strategic management principle within a business

6. In the modern era and business environment, what should businesses focus on?

Goal of the question: To assess the participant's general understanding of the general business environment in which the business operates.

## APPENDIX B CODING OF RESPONSES

| Q1 What is the company's overall goal? |        |  |
|--|--------|--|
|  | Code   |  |
| C1                                     | Code 1 | To get profit returns from the business. It is logical people go into business for the money to generate returns   |
| C2                                     | Code 2 | To engage customers and provide a haven for them. Help them relieve stress and tension to also help take care of the bodies holistically   |
| C3                                     | Code 2 | To provide a good service to our clients, and to grow as well as generate profit as a business   |
| C4                                     | Code 2 | To offer good service to clients at affordable prices  |
| C5                                     | Code 2 | To provide client source and provide quality products to customers.  |
| C6                                     | Code 1 | To make a healthy profit and grow into the biggest electrical supply, fittings company in SA   |
| C7                                     | Code 2 | To serve our clients , meeting their everyday needs in getting their main, to printing, clothing & marketing pamphlets, Brochures, we strive to be a one stop shop for our customers   |
| C8                                     | Code 2 | To ultimately create employment, To offer great service to clients   |
| C9                                     | Code 1 | The Main reason why I went into this business is to do what I enjoy and provide a source of income for myself and family   |
| C10                                    | Code 1 | To make a profit , to make money so that I can provide for my family   |
| C11                                    | Code 1 | To make profit to allow me to grow the business  |
| C12                                    | Code 1 | I think the main goal of my company is to make a profit for me to be able to provide for my family.  |
| C13                                    | Code 3 | The business overall goal is to provide a return on the money invested. The business should be able to generate enough in revenue through sales enough to provide a profit for the business owners. The more you generate in sales the more profit and return that the business generates. |

| Q2 What are the company's vision, mission and strategic plan? |    |  |
|---|----|--|
|   |    |  |
| C1  | Q2 | To continue to sell and remain in business. Also to grow and open up more service stations   |
| C2  | Q2 | To give holistic therapy to our clients in terms of skincare facials, massages and to become a renowned brand in the market  |
| C3  | Q2 | To provide quality service, professional and affordable  |
| C4  | Q2 | To continue to grow the business and increase our facilities and ability to service more cars  |
| C5  | Q2 | To continue to grow and expand our business  |
| C6  | Q2 | To grow into the largest electrical supply fittings in the construction industries in SA   |
| C7  | Q2 | To provide the best quality service at affordable prices   |
| C8  | Q2 | To become the global leader in recruitment solution provider. To become a renowned brand in recruitment services within the industry. To penetrate & increase market presence key industries, creating & strengthening relationships with key stakeholders               |
| C9  | Q2 | Our vision as a company is to grow as business. To be able to increase our capacity and provide more.  |
| C10   | Q2 | We aim to provide service & products at quality and affordable prices for our clients  |
| C11   | Q2 | I want to do celebrity weddings, grow my business  |
| C12   | Q2 | The company's vision to provide decent service for customers   |
| C13   | Q2 | As a business we strive to provide a good service that meets clients' expectations, with just the right amount quality. The vision of the franchise is to maintain standards as required by the franchising company and adhere to its requirements and goals as a whole. |

| Q3 What are the company's long term and short term strategic goals? |  |  |
|---|--|--|
|   |  |  |

|     |    |   |
|-----|----|---|
| C1  | Q3 | Ultimately to remain profitable as a business, if there is any other services we can offer clients to subsidize or supplement our revenue we can look into.                                       |
| C2  | Q3 | Short term - to increase our capacity, more resources, staff, tables & rooms long term - to house our own brands and products. Create an in house brand customer can relate and respond to.       |
| C3  | Q3 | To continue with service provision to grow and ensure customer satisfaction   |
| C4  | Q3 | Growth as a business  |
| C5  | Q3 | Not applicable  |
| C6  | Q3 | Ultimately to grow as a business  |
| C7  | Q3 | To continue offering great service to our clients   |
| C8  | Q3 | Increase customer base through interest in sales staff & support  |
| C9  | Q3 | To increase output, more resource and capacity. We also want to increase and grow our product offerings   |
| C10 | Q3 | We want to grow the business, put more shelving, more products at better prices   |
| C11 | Q3 | To grow the business  |
| C12 | Q3 | The short term goals for the company are to continue to grow the business through more clients and personnel. The long terms for my company are to open up more branches and expand the business. |
| C13 | Q3 | The business main goals both long and short term is to grow its customer base, grow sales every year by 10%.  |

**Q4 How is the overall company vision or goal communicated to the employees and into the business environment?**

|    |        |  |
|----|--------|--|
| C1 | Code 4 | Not applicable   |
| C2 | Code 1 | Training and communications - we always constantly training our staff on the values traditions we expect in the business. We have put upon communications all up in the facilities to remind ourselves and clients of what we stand for. |

|     |        |  |
|-----|--------|--|
| C3  | Code 4 | Not applicable   |
| C4  | Code 2 | We work together, the more we do in service, the better our finances and hence everyone understands that and works towards it. If we work together towards this goal, the better for all the more payment & salary increments  |
| C5  | Code 4 | Not applicable   |
| C6  | Code 4 | Not applicable   |
| C7  | Code 3 | Constant reminder to all employees about the fundamentals of good service. We want everyone to walk in and out differently through how we treat them. It goes beyond just the product but the service we offer   |
| C8  | Code 2 | everyone is included and framed for them to understand & know what we all about all the walls within the company has done much more in showing who we are and where we going   |
| C9  | Code 3 | Speak this with my employees, they understand & know what I expect from the business and where I want to take my business  |
| C10 | Code 4 | Not applicable   |
| C11 | Code 4 | Not applicable   |
| C12 | Code 3 | Communication is key in the business, and it is always good to let your employees know what you expect from them and the business.   |
| C13 | Code 1 | It is crucial to understand the business main goal, and to know how they play part in getting the company towards the target goal. As part of the introduction to the company, all new employees are taken through what the company stands for and what it is all about. |

| 1. Who are the company's main stakeholders? |        |   |
|---|--------|---|
|   |        |   |
| C1  | Code 2 | This is a highly regulated industry, so government is one of the main stakeholders along with the franchiser - big aspirate |



|     |        |   |
|-----|--------|---|
| C2  | Code 1 | This is a family business and hence we are the main stake holders   |
| C3  | Code 1 | The shareholders are the main stake holders   |
| C4  | Code 1 | The shareholders, myself and my brother are the main stakeholders of the business   |
| C5  | Code 3 | Not applicable  |
| C6  | Code 3 | Not applicable  |
| C7  | Code 3 | Not Applicable  |
| C8  | Code 4 | Customers, shareholders, government through various institutions , Sales – Tax  |
| C9  | Code 3 | Not applicable  |
| C10 | Code 1 | Business owners - Directors   |
| C11 | Code 3 | Not applicable  |
| C12 | Code 1 | Stakeholders in the business include my family.   |
| C13 | Code 2 | The main stakeholders are the franchising company, who owns the trade name we use and operates, the customers we serve because without the there is no reason to even exist. These would be our main stakeholders within the environment we operate in. |

| 1. What are the expectations of the shareholders towards the business? How does this impact the overall goal of the company? |        |  |
|--|--------|--|
|  |        |  |
| C1   | Code 1 | Earn returns on investment   |
| C2   | Code 2 | To create a renowned brand and grow the business                                       |
| C3   | Code 4 | To have their company run properly   |
| C4   | Code 1 | To get more out of the business, profits and to grow increase our capacity & resources |
| C5   | Code 1 | To get the most out of the investment, to make money                                   |

|     |        |   |
|-----|--------|---|
| C6  | Code 3 | To make profit, the more profit the better happier I am as a shareholder.   |
| C7  | Code 1 | To get a decent return through margins  |
| C8  | Code 1 | To get a decent return, better than other areas of investment - above inflation return  |
| C9  | Code 3 | To make profit from the business  |
| C10 | Code 3 | To make enough profit to justify the business   |
| C11 | Code 3 | To be able to make a profit & Financial Stable, Make a source of income   |
| C12 | Code 1 | The shareholders of the company expect a return from the business. This should be in the form of profit made by the business from its clients.  |
| C13 | Code 1 | As one of the shareholders I speak on behalf of the others and believe that we expect the business to grow and provide good returns on the money invested. The business should grow in sales and revenue and provide sufficient profit for the owners of the business, myself included. |

| 1. What are your company's main products? Who are you main competitors? |                 |  |
|---|-----------------|--|
|   |                 |  |
| C1  | Code 2          | Blended petrol, diesel up and a fully operational grocery kiosk  |
| C2  | Code 1 & Code 2 | We specialize in massages, facials and related cosmetic procedures, we also do product sales and sales support both for retail & professional use. |
| C3  | Code 1          | We do valet, car washes  |
| C4  | Code 2          | We sell tires and service cars, tire alignment, puncher fixing   |
| C5  | Code 2          | We stock all make and models from spare parts to general products like inks  |
| C6  | Code 1 & Code 2 | We mainly deal with electrical projects, fitting within construction from small housing wings to bigger complex operations.                        |

|     |                 |   |
|-----|-----------------|---|
| C7  | Code 1 & Code 2 | We offer stationery, Printing forward, pamphlets, Flyers, Billboards, Postage, internet   |
| C8  | Code 1          | Recruitment services - candidate placing, Consulting & QMS  |
| C9  | Code 2          | We do all baking , confectioneries, cakes for weddings, parties etc   |
| C10 | Code 2          | We stock a variety products from food, meat, toiletries   |
| C11 | Code 1          | We offer catering, Events Management, Wedding planning & Services   |
| C12 | Code 1          | Our company provides a service to fix roof leaks, ceiling repairs, as well as tiling and paving of driveways and houses. The company also does small construction projects. There are a lot of companies that do the same kind of work we do. What makes us different is just that we offer superior service and great products. We strive to make sure our client is 100% satisfied with our work.   |
| C13 | Code 2          | We provide a wide variety of fast foods including fish and chips (which is our flagship), along with other savories like Vienna's, onion rings, calamari etc. We also provide refreshments in the form of soft drinks, ice cream and the likes. We face stiff competition from other fast food outlets like McDonalds, KFC, and Chicken Licken who all provide fast foods. We also have to compete with other self-owned businesses within the area they also like us provide fast foods. |

| 1. What is your key ingredient, what separates you from competition? How is this competitive advantage maintained? |                 |   |
|--|-----------------|---|
|  |                 |   |
| C1   | Code 4          | In this industry there is very little or actually nothing you can do to separate / distinguish yourself |
| C2   | Code 1 & Code 2 | Quality products, excellent service and knowledgeable competent staff.                                  |
| C3   | Code 4          | Not applicable  |
| C4   | Code 3          | We have very competitive & affordable pricing   |

|     |                    |  |
|-----|--------------------|--|
| C5  | Code 3 &<br>Code 1 | Our pricing is one of the greatest weapons, along with the quality brands we stock that are genuine and reliable.  |
| C6  | Code 1             | We do a good job, that's why we keep being referred  |
| C7  | Code 3             | We offer great service at reasonably cheap prices compared to our competitors.   |
| C8  | Code 2             | We specialize in plastics industry, hence we offer more refined services & products & solutions  |
| C9  | Code 2             | In all that we do we strive for perfection we do everything with love and have genuinely a passion for what we do.   |
| C10 | Code 3 &<br>Code 1 | We pride in providing decent products at affordable prices   |
| C11 | Code 4             | Not Applicable   |
| C12 | Code 2             | Our main ingredient is the perfection we make towards our service and quality in all the work we do. We strive to ensure we provide a quality job and ensure that the client is satisfied with the job they paid for.  |
| C13 | Code 2 &<br>Code 1 | Our key ingredient is in knowing our customers and providing a unique service and product. Although you can get a similar dish elsewhere we strive to provide a unique service and experience. It also goes a long way that we provide a quality product and we strive to ensure our facilities are top class and adhere to strict hygiene codes and standards |

| 1. Which level of the business is responsible for decision making? |        |   |
|--|--------|---|
| C1   | Code 1 | As Owner I am responsible for decision making                           |
| C2   | Code 2 | we work as a team and we all contribute - management and staff included |
| C3   | Code 1 | The Managers & Supervisors are responsible for executing the decisions  |
| C4   | Code 1 | As owners we are responsible for all decisions                          |
| C5   | Code 3 | As shareholders we jointly make decisions that affect the business.     |

|     |        |   |
|-----|--------|---|
| C6  | Code 1 | As the business owner I make all the business decisions.  |
| C7  | Code 2 | We as a team make decisions. We discuss and bounce off ideas unto each other  |
| C8  | Code 3 | Share holder  |
| C9  | Code 1 | As the business owner I am the one who makes business decisions   |
| C10 | Code 1 | As business owners we are responsible for all business decisions  |
| C11 | Code 1 | As business partners we are responsible for all the business decisions made within the business   |
| C12 | Code 1 | As the owner I am responsible for making all the business decision. I also involve my employees to some degree to hear their ideas and views on the products we offer. I trust them because as they work with the products and interact with customers on the site they are able to hear what they (clients) say about the products and the business. |
| C13 | Code 1 | As management we are responsible for all the business decisions that go into the operations and into the normal day to day running of the business. It is important because it is our money that went into the business and therefore it is our decisions that should determine how our investment is treated.  |

| Is there any criteria used in evaluating business decisions? Is there a standard procedure to evaluate business decisions and the requirements of the business? |        |  |
|---|--------|--|
|   |        |  |
| C1  | Code 1 | The idea is to get the most for the business and potentially maximize sales              |
| C2  | Code 2 | We do decisions based on what is good for the business and what clients require          |
| C3  | Code 4 | Not applicable   |
| C4  | Code 4 | There is no Criteria   |
| C5  | Code 3 | Whatever makes business sense. Ultimately the most profit we can generate based a demand |

|     |        |   |
|-----|--------|---|
| C6  | Code 4 | Not applicable  |
| C7  | Code 4 | Not applicable  |
| C8  | Code 2 | We decide based on what xxx sense, allow to deliver & meet our customers' needs at ultimately makes no increase our services/ Sales   |
| C9  | Code 4 | Not applicable  |
| C10 | Code 4 | Not applicable  |
| C11 | Code 4 | Not applicable  |
| C12 | Code 4 | We don't have any method of choosing projects we do, we try and accept all offers for business. This is because sales are important to us and ensuring we meet the demand of the clients. We do have to turn down projects if we are extremely busy. These decisions are made by myself as the manager. |
| C13 | Code 5 | As management we decide on what needs to be done as well as what new products to look into. For example all the ice cream machines and soft drink dispenser where a management idea to create more revenue streams and allow the business to grow.  |

| <b>1. How often are business decisions evaluated? By who?</b> |        |   |
|---|--------|---|
| C1  | Code 2 | Because there is very little that changes within the business decisions are not evaluated as often                |
| C2  | Code 1 | As often as possible, there is no real schedule   |
| C3  | Code 3 | Not applicable  |
| C4  | Code 3 | Not applicable  |
| C5  | Code 1 | As often as necessary as we always need to ensure we are delivering the best products as required by our clients. |
| C6  | Code 3 | Not applicable  |

|     |        |   |
|-----|--------|---|
| C7  | Code 3 | Not applicable  |
| C8  | Code 1 | As often as possible, it takes a lot to come up with a winning formula and if calls for a business to always know what this market needs.   |
| C9  | Code 3 | Not applicable  |
| C10 | Code 3 | Not applicable  |
| C11 | Code 3 | Not applicable  |
| C12 | Code 3 | Not applicable  |
| C13 | Code 1 | We evaluate business decisions as often as possible to ensure we have the right mix of services and product to achieve our targets. If we need to re-evaluate our strategy we are not afraid to do so and relook at our options. It is a tough environment and there is a constant need to ensure you are doing the best to get your sales higher, with the high cost of doing business, electricity hike, fuel price increases, the business is at a constant threat hence management must be aware of such. |

| 1. Who are your main clients? Who are your main suppliers? |                    |   |
|--|--------------------|---|
| C1   | Code 1             | We sell to the general public anyone and everyone   |
| C2   | Code 1 &<br>Code 2 | We get bookings from individuals, couples and corporates  |
| C3   | Code 1             | Individuals   |
| C4   | Code 1             | Any who owns a car  |
| C5   | Code 1 &<br>Code 2 | Individual cars owners, dealerships and garage ( auto mechanics)  |
| C6   | Code 1 &<br>Code 2 | We deal with people who either are doing renovations on their houses as well as get projects for complexes & even government properties |
| C7   | Code 1 &<br>Code 2 | Individuals, Corporates, businesses   |
| C8   | Code 2             | We deal in the placing in thus , so we deal with the major groups - impact  |

|     |                    |  |
|-----|--------------------|--|
| C9  | Code 1 &<br>Code 2 | We deal with the general public & small companies, we cater corporate events as well   |
| C10 | Code 1             | We sell to the general public - Several suppliers -key ones include coca cola, blue ribbon and other distributors.   |
| C11 | Code 2             | We work with private clients, as well as Company corporates. We buy all our products locally where ever we can get it cheaper.   |
| C12 | Code 1             | Our main clients are individuals who want fixing of their homes and in some cases businesses as well. Our main suppliers are Builders Warehouses, Makro and other stores that deal in building supplies. |
| C13 | Code 1             | Everyone is our main clients. We have a set group of suppliers that provide us with our ingredients from distributors of fountain drinks to ordinary providers of stock like cooking oil, salt etc.      |

| <b>1. How would you describe value? What is the general strategy or aim of your company towards delivering value to your clients?</b> |        |   |
|---|--------|---|
|   |        |   |
| C1  | Code 1 | Value just as quality is a paraphrase based on the requirements and expectations of the consumer. Value is thus faded on delivering and the expectations of the consumer whether it is on cost or product.                      |
| C2  | Code 2 | Being able to offer clients a basket of products/Services at less the cost they would get it elsewhere. Strategy would be to offer more competitive pricing, deliver more services to meet demand at affordable prices products |
| C3  | Code 3 | It is provision of a service at affordable prices, ensuring that the customers get more for the money   |
| C4  | Code 2 | It is based on the pricing of a product, you deliver value to clients when they get more from you as a business in terms of service & product   |
| C5  | Code 2 | Value is when you deliver more than expected, this may involve providing additional services as well as deliver great quality and service   |
| C6  | Code 4 | Value is based on giving clients good prices excellent services and quality products in our industry.   |



|     |        |  |
|-----|--------|--|
| C7  | Code 2 | Value in a business is being able to offer customers more than they would get elsewhere we try and ensure our pricings and services and competitive and affordable   |
| C8  | Code 1 | Value is the ability to meet the buyers / Clients expectation through quality & at affordable prices. Our value resides in being able to provide our customers with a basket of services all in one at competitive prices.   |
| C9  | Code 1 | We deal with the general public & small companies, we cater corporate events as well as value is when you get more than what you paid for, the main goal for business is to try and make the customer dollar stretch. To allow customers to make in to shop and leave with more products   |
| C10 | Code 2 | Value is the ability to supply clients with more less. As a business we look for best value from our suppliers to pass on to our clients. Buying in bulk, is one of the common practice that gives us an advantage   |
| C11 | Code 1 | Value is when you provide a service to a client more than their expectations.  |
| C12 | Code 2 | Value is being able to provide a decent product at a cost effective price to the client. We ensure we provide value for our clients by buying quality material and getting the best prices for it. We also ensure we charge affordable prices for our services, offering discount whenever we can especially for big clients or on customers we have done business for before. |
| C13 | Code 2 | Value can be described as providing best cost for a particular product. If I can provide more to my clients for every Rand they spend here than they can get elsewhere I would have managed to provide value for my clients.   |

| 1. How do keep your operations in line with the company's overall goal? |        |  |
|---|--------|--|
|   |        |  |
| C1  | Code 4 | There is little you can do to affect the company's objectives, but ultimately this is a volumes business, with low margins, the more you sell the more your profit as your margins are generally regulated |
| C2  | Code 2 | Not applicable   |
| C3  | Code 2 | Not applicable   |

|     |                       |   |
|-----|-----------------------|---|
| C4  | Code 5<br>& Code<br>7 | We keep a lightship, we encourage the employees, and reward them accordingly when they perform  |
| C5  | Code 2                | Not applicable  |
| C6  | Code 3                | We always have to be low, reduce waste, buy the best material at the best pricing especially in bulk and at discounts   |
| C7  | Code 2                | Not applicable  |
| C8  | Code 6<br>& Code<br>8 | We re-evaluate our operations as often as possible to always ensure we are delivering our mandate. Constant training including 360 degrees analysis of the business processes to ensure we are delivering value client feedback is crucial in ensuring we keep our A game   |
| C9  | Code 1                | We are always for new ideas to grow our business, doing specials as well as giving out to market & advertise ourselves  |
| C10 | Code 6<br>& Code<br>3 | We are careful to always review our basket of products to ensure we getting the absolute best prices from our suppliers. We are constantly looking for ways to please our customers with promotions and value savers  |
| C11 | Code 2                | Not applicable  |
| C12 | Code 5<br>& Code<br>3 | We try and ensure we are not wasteful and that we are buying products at the best prices. We go around shopping for better prices and deals on raw materials to ensure are getting the absolute best prices. We also have good relationships with most of our suppliers and this allows us to get nice deals along the way. |
| C13 | Code 3                | The main thing to ensure is that we keep our expenses low and that we deliver the best to our clients by ensuring that we delivery fresh and quality food. Service is also a main component of this industry. Constant staff training allows us to deliver a good service to our clients.                                   |

**1. Can you describe the value steam or distribution network for your product/service?**

|     |        |   |
|-----|--------|---|
| C1  | Code 1 | We do not buy direct but we buy through our parent company and we claim subsidies from government.  |
| C2  | Code 2 | We distribute some renowned brands that we have xxx to but only on retail products we make sales from buying the retail products and selling them to our clients in our shop  |
| C3  | Code 1 | Not applicable  |
| C4  | Code 1 | Not applicable  |
| C5  | Code 2 | We work co a distributor for several spare parts manufacturer all purchases are made directly with supplier and we distribute in South Africa   |
| C6  | Code 1 | Not applicable  |
| C7  | Code 1 | Not applicable  |
| C8  | Code 3 | We have a simple value stream, as we do not deal with actual product. First point of call is the contact with the client, where we get the clients requirements and create a candidate profile stipulating the specifications the client needs, for the vacancy we look through our database of potential candidates to see if there are any fits, we also brief through ads, on job portals, our website social media, we sift through CV's and present 3 final potentials. The client will give us feedback an interview until we finalize the selection. |
| C9  | Code 1 | Not applicable  |
| C10 | Code 2 | We are the middle part of the chain, we are responsible for delivering products to our clients. We rely on supplies that distribute and deliver products to us. With other products we deal directly with manufacturers products to give more for less for our diets.   |
| C11 | Code 1 | Not applicable  |
| C12 | Code 1 | Not applicable  |
| C13 | Code 2 | We rely on our suppliers delivering quality products for us to use in our kitchen, and provide a quality product for our clients.   |

|  |        |  |
|--|--------|--|
| <b>1. What measures do you consider to improve the USP or delivery of your products to your clients?</b> |        |  |
| C1   | Code 1 | Not applicable   |
| C2   | Code 4 | It will really set us apart if we create our own in-house brand to deliver a complete package to our clients. So we currently are working on creating products for in line items for our spa. We will start with a professional range then grow retail.  |
| C3   | Code 1 | Not applicable   |
| C4   | Code 2 | In our industry it is about stocking quality brands that are reliable at affordable prices   |
| C5   | Code 2 | We always buy from the same spare parts manufacturers to ensure we maintain quality and reality, we take pride in supplying genuine parts sourced mainly in Germany  |
| C6   | Code 1 |  |
| C7   | Code 1 | Not Applicable   |
| C8   | Code 3 | The use of technology, integrating our services, social media in marketing and advertising investing in other services to be able to cross sell & are classified offerings to our clients currently looking into bringing raw materials & machinery.   |
| C9   | Code 1 | Not applicable   |
| C10  | Code 1 | Not applicable   |
| C11  | Code 1 | Not applicable   |
| C12  | Code 1 | Not applicable   |
| C13  | Code 2 | We are always on the lookout for other new products we can offer to our customers in order to entice them to spend more when they come in for lunch. This at times involves looking at other ways to deliver our products through promotions or product specials. This allows us to provide more value for our customers and hence maintain our competitive advantage. |

| <b>1. How would you describe the company's hierarchical structure? Does it have any significance towards how the company operates?</b> |        |   |
|--|--------|---|
| C1   | Code 1 | We didn't have a corporate structure, I have one supervisor who oversees the day to day but everyone generally report to me.  |
| C2   | Code 1 | We have basic structure, I work as the spa Manager, my daughter as a front sales Manager. Personnel report to us as Management in the relevant areas  |
| C3   | Code 1 | Flat structure - we have managers & supervisors and the rest of the employees. We report to the Owners who also work here with us.  |
| C4   | Code 1 | Flat - the team all report to me & my brother.  |
| C5   | Code 2 | There is no structure, I am the team leader and have a team of floor salesman below me, who support & report to me  |
| C6   | Code 1 | I am the manager and all mu guys report to me.  |
| C7   | Code 1 | We are a small shop and there is no ranks, we all work together as a team towards one goal  |
| C8   | Code 1 | We have a flat structure - 4 character / Managers each managing a specific areas  |
| C9   | Code 1 | One boss everyone reports to me   |
| C10  | Code 1 | We are two brothers who run the business, everyone reports to both of us  |
| C11  | Code 1 | We are equal partners and all other personnel report to both of us, we have split responsibilities  |
| C12  | Code 1 | I am the manager and have a senior guy who works as a supervisor amongst my guys (employees). They all report to me.  |
| C13  | Code 1 | I am the manager and have all other employee reporting to me. Other shareholders also form part of management but they work elsewhere and I am the only one who works and oversees the daily running of the business. |

|   |
|---|
| <b>1. How would you describe the culture within the organization?</b> |
|---|

|     |        |   |
|-----|--------|---|
|     |        |   |
| C1  | Code 4 | I wouldn't say there is any discernible culture because this is a small business, a rather simple operation.  |
| C2  | Code 2 | Professional - we strive for excellence and to carry our business and present ourselves as a formal & professional image.   |
| C3  | Code 4 | Not applicable  |
| C4  | Code 1 | We are a fun bunch we talk and tease each other   |
| C5  | Code 1 | We have a very good working relationship and work mostly as a team.   |
| C6  | Code 1 | We work as a team, there is no job I cannot do so I am a handsome manager   |
| C7  | Code 1 | We are a fun loving bunch, we are more of a family than anything, we looking for each other and deal with any issues as a family.   |
| C8  | Code 2 | We strive to ensure, we have a professional & open door, culture. We aim to create an atmosphere of openness and creativity.  |
| C9  | Code 3 | We put value in hygiene & tidiness and are at the centre of our business  |
| C10 | Code 4 | Not applicable  |
| C11 | Code 2 | We love a laid back approach towards our work. We are very professional in how we do our business.  |
| C12 | Code 1 | We work as a family, and we work together very well. I try to always and keep discipline with the guys (employees) and always reward them when they work hard. I also give them bonuses if as a business we perform well during the year.   |
| C13 | Code 3 | We have a very strict hygiene culture. We value what we provide our customers and put importance in ensuring it is the best and of the highest quality. This comes also from management, myself included, right down to my staff, who have to see the importance of hygiene and safety. |

**1. Are you familiar with lean or green operations? How does you company ensure that it is not wasteful in its operations?**

|     |                    |   |
|-----|--------------------|---|
| C1  | Code 1             | I am well acquainted with the turn but in our case, there is very little we can control or contribute towards lean operations unless we can invent others sustainable sources of fuel and reduce reliance on crude oil  |
| C2  | Code 1<br>& Code 2 | Yes - companies become more conscious and aware of the action towards the environment. As a business we are always on a lookup for brands that uphold such ethical belief (e.g. No animal testing, avoid use of harsh chemicals.  |
| C3  | Code 3             | Not applicable  |
| C4  | Code 1             | Yes it is when companies invest in material that are none toxic and safer for the environment   |
| C5  | Code 1             | I have heard about it. It is when companies foams a reducing, the impact their operations has on the planet   |
| C6  | Code 1<br>& Code 2 | As part of our mantra we strive to produce lean, products and look for green products   |
| C7  | Code 1             | Yes, Green operations are those that are kind to the environment  |
| C8  | Code 1<br>& Code 2 | Yes as a business we are always working on creating sustainability within our operations, we are a service and we try to be green being conscious of our involvement to the environment, using less paper for example   |
| C9  | Code 1<br>& Code 2 | Yes we strive to make sure we are not wasteful by managing our processes because if we are wasteful we can easily not make a profit.  |
| C10 | Code 3             | Not applicable  |
| C11 | Code 3             | Not applicable  |
| C12 | Code 1             | I know what green operations are about. It involves using materials that are safe for the environment. It also involves looking at ways to reuse or recycle materials within the operations of a business. We try and save as much of the raw materials whenever we work and avoid unnecessary mistakes that could be wasteful. |
| C13 | Code 1<br>& Code 2 | Yes. I am aware of green operations as a way of reducing the impact of a company and its operations towards the environment. We also strive to ensure we are conscious of the environment and we look for ways to reduce and even recycle.  |

| 1. How do you manage your supply chain? Are there any specific goals towards how you manage the supply chain? If so, where are the goals derived from? |        |  |
|--|--------|--|
| C1   | Code 2 | Our supply claim is very simple & straight forward. There is little you can do except managing your stock orders and delivery timeously to always ensure you always stock but that is like in any business. Like in any business, the decision you make in your operations consequently have an impact to your business, that enough thought and research and timing goes into your decision |
| C2   | Code 3 | We emphasize on cordial relationships with our suppliers on the area and to put our customer's service at high regards at the end.   |
| C3   | Code 1 | Not applicable   |
| C4   | Code 1 | Not applicable   |
| C5   | Code 2 | We strive to always be in stock and thus we aim to keep healthy stock level, and for more recent modules and models  |
| C6   | Code 1 | Not applicable   |
| C7   | Code 1 | Not applicable   |
| C8   | Code 1 | Not applicable   |
| C9   | Code 1 | Not applicable   |
| C10  | Code 3 | It is all about maintaining relationships with suppliers to be able to bargain and get the best prices. It is also important part of doing business because ensuring product delivery in the right quantity at the right time. There is very little you can change to the way we operate, its either you pay and get your products or you don't and they don't deliver                       |
| C11  | Code 1 | Not applicable   |
| C12  | Code 1 | Not applicable   |
| C13  | Code 1 | Not applicable   |

|  |
|--|
|  |
|--|



| <b>1. How are the impact of the decisions made within the operations and supply chain of the business discussed and assessed?</b> |        |   |
|---|--------|---|
| C1  | Code 1 | Not applicable  |
| C2  | Code 2 | Management decision are crucial and can impact the business both negatively or positively. How you handle your suppliers affects products delivery and how you service your clients affects the desire to come back again.  |
| C3  | Code 1 | Not applicable  |
| C4  | Code 2 | Any business decision is crucial as it can affect the business, here Management plays a pivotal role in the success of business   |
| C5  | Code 4 | The business made towards how much stock and where to buy can impact how much stock you have for always to clients. Supply chain management is thus key for the success of the business.  |
| C6  | Code 1 | Not applicable  |
| C7  | Code 1 | Not applicable  |
| C8  | Code 2 | Execution is key within any business. Management decisions are a key attribute in any business. Every day operations is reliant on the deadlines made and all those decisions all add up at the end.  |
| C9  | Code 1 | Not applicable  |
| C10   | Code 1 | Not applicable  |
| C11   | Code 1 | Not applicable  |
| C12   | Code 3 | The decisions you make about your operations, from where you buy your materials, to the guys you hire and the number of people you have working on a project affects your bottom line. If you are not able to manage your expenses very well you could end up running a loss and not making any profit at the end of the project. It is important in this business to make sure that you keep you expenses very low – your labour, your materials, your transport (to carry materials to the site and back). The costs of the business must be kept low, the lower, and the more profit you make. |
| C13   | Code 2 | Decisions made by management within a business are what make or break a company. It is thus crucial to make well informed decisions and to research more  |

|  |  |   |
|--|--|---|
|  |  | before making any decisions as they can have serious impact on the welfare of a business. |
|--|--|---|

| <b>1. What is the company's specific goal in terms of performance measurement? Where is it derived from? How do you determine if the company is meeting its overall goal?</b> |        |   |
|---|--------|---|
| C1  | Code 2 | To generate enough sales to earn clear profit levels. Since there is little we can do to our profit margins in terms of manipulation.   |
| C2  | Code 1 | We want to grow our business every year by double digits both from a service (i.e. Massage booking, Treatments etc) to product sales  |
| C3  | Code 5 | Not applicable  |
| C4  | Code 1 | To grow and increase our sales  |
| C5  | Code 1 | We strive to always increase sales, growth every year.  |
| C6  | Code 2 | Not to run a loss, i.e. to always ensure we keep our expenses as low as possible.   |
| C7  | Code 2 | To never make a loss, To increase our sales every year  |
| C8  | Code 4 | We broke down are goals as per department - Double sales every year - Increase of clients - Open four branches / increase / spread - Reduce staff turnover  |
| C9  | Code 2 | To make a profit and the company sustainable  |
| C10   | Code 2 | Our aim is to make at least 10% profit margin & sales increase on sales revenue every year  |
| C11   | Code 2 | The more to grow and increase our profits   |
| C12   | Code 2 | I aim for the business to make more profit each year than it did the previous year. I keep track of all the transactions and how make we make on every job and I use that to compare each year. The more profit we make each year the better the business is doing. |
| C13   | Code 2 | We aim at increasing our sales revenue every year by 10% or more. It is our growth expectation as management and it is something we sat down and decided amongst ourselves before and agreed that it is what we expect from ourselves and the business.             |

|  |        |  |
|--|--------|--|
| <b>1. How is performance measured? How often is the performance measured and how is it communicated?</b> |        |  |
| C1   | Code 2 | Sales revenue - how much we generate from our sales, and we track these every month  |
| C2   | Code 3 | We evaluate our books every month to ensure that we track how we are progressing. This also allows us to see trends in our business.   |
| C3   | Code 1 | Not applicable   |
| C4   | Code 2 | We want to grow our sales every year and thus we have targets set every month that we keep track of to track our progress  |
| C5   | Code 3 | We keep Financial books up to date and use them to keep track of the business financial position.  |
| C6   | Code 4 | We work on a project basis, so after every project I can calculate the overall cost and compare against of note & expenses   |
| C7   | Code 5 | We compare at the end of each year our performances for the previous year and plan for the coming year   |
| C8   | Code 6 | Management / board sent out every week tracking our progress towards our goals   |
| C9   | Code 1 | Not applicable   |
| C10  | Code 1 | Not applicable   |
| C11  | Code 4 | It is based on how much we make every job and in total every month   |
| C12  | Code 1 | Not applicable   |
| C13  | Code 3 | We keep our financials up to date and thus can monitor how we perform every month. We have monthly sales targets that lead up to the annual target. We keep everyone informed of our performance to keep people motivated and aware of where we stand. |

|   |
|---|
| <b>1. How much do you understand about performance metrics? Do you have examples of metrics you know? Do you use any of these in your business?</b> |
|---|

|     |        |  |
|-----|--------|--|
| C1  | Code 1 | These are measures used to evaluate the performances of a business e.g. Profit margins, XXX, POE   |
| C2  | Code 1 | They are means by which company performs is measured. Profit margins, Sales/return, share price  |
| C3  | Code 2 | Not applicable   |
| C4  | Code 2 | No   |
| C5  | Code 1 | Metrics are measures of company performance, ROA, Profit Margin  |
| C6  | Code 1 | I assume it is a way of measuring performance. Profit margin   |
| C7  | Code 1 | These are used to measure the performance. No we didn't  |
| C8  | Code 1 | They are a means of measurement of how a company would be doing. ROA, Net profit   |
| C9  | Code 2 | Not applicable   |
| C10 | Code 2 | Not applicable   |
| C11 | Code 2 | Not applicable   |
| C12 | Code 1 | How companies measure their own performance  |
| C13 | Code 1 | Performance metrics are measures a company can use to keep track or measure their performance. One example I know is return on assets. It allows a company see to if how much it generates in sales per every dollar invested in assets. Companies can use metrics such as sales revenue, ROA to monitor how well the company is performing. |

|   |        |  |
|---|--------|--|
| <b>1. What is the source of information used for evaluating performance for the company? Do you use financial books for evaluation? If so, how often?</b> |        |  |
| C1  | Code 1 | Financial statements - Income statement, Cash Flows, Balance sheets  |
| C2  | Code 1 | Income statement- this is the main tool we use along with other supporting tools like bank statements, receipts & invoices to co-ordinate and reconcile. |

|     |        |   |
|-----|--------|---|
| C3  | Code 2 | Not applicable  |
| C4  | Code 1 | Income statements, bank balances, we have a bookkeeper who comes in every month to handle our books                     |
| C5  | Code 1 | Income statement, balance sheets, Invoices  |
| C6  | Code 1 | Quotation books, Invoices, bank statement   |
| C7  | Code 1 | Income statement, receipts, Books, bank Statements for reconciliation.  |
| C8  | Code 1 | Sales books, Income Statements, Bank Statements   |
| C9  | Code 1 | Income statement, bank statements & Invoices  |
| C10 | Code 1 | Income statements, Bank statement, Balance Sheets   |
| C11 | Code 1 | Bank Statements, invoices & Receipts  |
| C12 | Code 1 | Quotation books, Invoices, bank statement   |
| C13 | Code 1 | Financial books like ledgers, journals, receipts, invoices, which are translated into balance sheets, income statements |

|   |        |   |
|---|--------|---|
| <b>1. What are the drivers for financial performance?</b> |        |   |
| C1  | Code 1 | Definitely sales - with regulated margins, the only way to make more money is to sell more                              |
| C2  | Code 2 | Profit margin - at the end of the day, your performance as a business is reliant on just how much you make in profit    |
| C3  | Code 3 | Not applicable  |
| C4  | Code 5 | Keeping your books in order to actual track has well you doing as a business.   |
| C5  | Code 1 | Sales growth, Sales are a lay driver for financial performance. The more a business sales the better to company profits |

|     |        |  |
|-----|--------|--|
| C6  | Code 4 | Financial performance is reliant and you being able to keep your expenses / cost of opinions lower and hence your profit is always high and hence business performs well                   |
| C7  | Code 1 | Sales are a key driver of performance as well your cost of goods. It is crucial to monitor these as they are important for the success of a business                                       |
| C8  | Code 1 | Increase in sales , Reduce in expenses   |
| C9  | Code 4 | The business must be able to manage its expenses as these can cause a business to fail   |
| C10 | Code 3 | Not applicable   |
| C11 | Code 3 | Not applicable   |
| C12 | Code 1 | The more jobs we get the better the business performs, hence getting more projects on board and managing our expenses allows us to perform and produce a decent profit at the end of year. |
| C13 | Code 3 | Not applicable   |

|  |        |   |
|--|--------|---|
| <b>1. What are the key performance indicators for your business?</b> |        |   |
| C1   | Code 1 | Profit - when we making health profit then I know we doing good business  |
| C2   | Code 3 | Not applicable  |
| C3   | Code 3 | Not applicable  |
| C4   | Code 1 | Profit margin, the more we can make per product as sales, the better our performance  |
| C5   | Code 2 | Maintaining expenses at manageable levels, is one of the key performance indicators for any business  |
| C6   | Code 4 | Sales when you have more projects we have our books, the more money the business generates. The better the performance of the business. This sales are the most important |

|     |        |                |
|-----|--------|----------------|
| C7  | Code 3 | Not applicable |
| C8  | Code 3 | Not applicable |
| C9  | Code 3 | Not applicable |
| C10 | Code 3 | Not applicable |
| C11 | Code 3 | Not applicable |
| C12 | Code 3 | Not applicable |
| C13 | Code 3 | Not applicable |

**1. What areas are the key areas you consider to be the drivers for the success of your business? How do these areas tie into the company's overall goal?**

|     |        |   |
|-----|--------|---|
| C1  | Code 1 | Not applicable  |
| C2  | Code 2 | Sales - everything begins and ends with sales. The more clients we can get in that door, the more our sales and consequently more profit.                   |
| C3  | Code 2 | The more cars we service, the more money we generate, the better the company's performance. We also need to service the cars faster.                        |
| C4  | Code 3 | Service- we work in a service based industry, the service we offer is crucial for the success of our business. Customer care is key to our success as well. |
| C5  | Code 1 | Not applicable  |
| C6  | Code 1 | Not applicable  |
| C7  | Code 1 | Not applicable  |
| C8  | Code 2 | Customer acquisitions and candidate placing - the more clients we take, the more candidates we successfully place, the better the company performs          |
| C9  | Code 1 | Not applicable  |
| C10 | Code 2 | Increase sales, Get better privileges from suppliers, Increase product pocket   |

|     |        |   |
|-----|--------|---|
| C11 | Code 2 | The more business we get the better we perform - sales increased , we make sure we do more profit |
| C12 | Code 1 | Not applicable  |
| C13 | Code 1 | Not applicable  |

|  |        |  |
|--|--------|--|
| <b>1. What measures do you put in place to ensure that the company's overall goal is achieved?</b> |        |  |
| C1   | Code 1 | Not applicable   |
| C2   | Code 2 | Marketing and advertising aggressively through pamphlets, publications, facebook, twitter, etc to just get our word out there. We also do promotions to entice patronage loyalty points program. Do a treatment and get the 10th free, hampers and gifts. Competitions like bring a friend and get discount on all treatments. |
| C3   | Code 1 | Not applicable   |
| C4   | Code 3 | Training our employees and ensuring that we understand what we are all about as a company  |
| C5   | Code 1 | Not applicable   |
| C6   | Code 6 | We look out for new business including participating in any tenders for projects. We liaise with a lot of construction companies that recommend us for business on their sites   |
| C7   | Code 5 | We carefully monitor our expenses and try to keep a lap our spending. We work with a budget to ensure we don't overspend or underutilize the available resources   |
| C8   | Code 3 | We invest in training as all directors are currently studying towards several qualifications. I am doing my MBA. We also including in resources to give us the edge and allow us to reach the next level.  |
| C9   | Code 1 | Not applicable   |
| C10  | Code 1 | Not applicable   |
| C11  | Code 2 | We invest a lot in marketing to entice people to do business with us. To allow people to know about us and what we are able to do.   |



|     |        |   |
|-----|--------|---|
| C12 | Code 4 | We have targets of how many new projects we hope to get, and go out securing these projects. I also keep track of how many projects we undertake or have at any given time. My wife who acts as a marketing person, strives on getting more customers in, and is also responsible for all front desk responsibilities. This allows us have a professional front office aspect and goes a long way in ensuring we get more new clients and retain all our other customers. |
| C13 | Code 1 | Not applicable  |

|   |        |   |
|---|--------|---|
| <b>1. Have you ever heard of value-based management? How would you describe value based management?</b> |        |   |
| C1  | Code 1 | Not applicable  |
| C2  | Code 2 | I have very limited knowledge of VBM. I assume it is based on making the delivery of value to the clients the focus of a business through innovation, new products, better comparable pricings  |
| C3  | Code 1 | Not applicable  |
| C4  | Code 1 | No  |
| C5  | Code 2 | Yes. It is when business create operations around providing value for their client  |
| C6  | Code 1 | Not applicable  |
| C7  | Code 1 | Not applicable  |
| C8  | Code 2 | Yes I think so. It is creating a proposal that centres around creating a competitive that provides customers with excellent service & quality product services  |
| C9  | Code 1 | Not applicable  |
| C10   | Code 1 | Not applicable  |
| C11   | Code 1 | Not applicable  |
| C12   | Code 2 | I have heard a little bit about value based management and I think it all about ensuring that your business provides its clients/customers with the best value for money. Whether it be a product or service, value based management is all about |

|     |        |   |
|-----|--------|---|
|     |        | making you customer the main focus of your business. Ensuring they get the best product, the best quality at the best price possible. |
| C13 | Code 1 | Not applicable  |

|   |        |  |
|---|--------|--|
| <b>1. Can you briefly describe how VBM can be used and implemented within a business?</b> |        |  |
| C1  | Code 1 | Not applicable   |
| C2  | Code 2 | By investing in innovation to constantly create better products for the market and deliver on the requirements of customers' demands.  |
| C3  | Code 1 | Not applicable   |
| C4  | Code 1 | Not applicable   |
| C5  | Code 1 | Not applicable   |
| C6  | Code 1 | Not applicable   |
| C7  | Code 1 | Not applicable   |
| C8  | Code 3 | It can involve turning a business inside out, focusing all business operations towards value. It involves training people , changing perceptions, mind-sets of the business towards maximization of the ultimate customer experience   |
| C9  | Code 1 | Not applicable   |
| C10   | Code 1 | Not applicable   |
| C11   | Code 1 | Not applicable   |
| C12   | Code 4 | A business can look to implement VBM by ensuring that all of its internal processes are geared towards providing the client with a decent quality product or service. A company can also invest in making its processes more streamlined to reduce costs and ultimately provide a decent saving which can be transferred to its customers. |
| C13   | Code 1 | Not applicable   |

| <b>1. How would you manage value within a business? What role do you think management plays towards creating value within a business?</b> |        |   |
|---|--------|---|
| C1  | Code 1 | Not applicable  |
| C2  | Code 3 | Management plays a valuable in growing that the company puts value creation at the focus of the business management to respectable for setting policies as well as allocating the necessary resources.  |
| C3  | Code 1 | Not applicable  |
| C4  | Code 5 | Get good pricing from suppliers through negotiating, keep expenses low and increase your sales through marketing and advertising, management plays a crucial role in creating value for its customers.  |
| C5  | Code 4 | Make client the centre of the business, and always aim to provide quality products at comparable prices.  |
| C6  | Code 2 | It is always important to look out for competitors, to always ensure you prices are competitive and affordable  |
| C7  | Code 4 | Try and also answer your customers get the most for their money through promotions, specials and entice them to save more. It is also important to offer good service as it forms part of the product   |
| C8  | Code 3 | Management plays a pivot role in value management, it is responsible for selling the tone of the business, creating a setting that allows employees to strive and ultimately provide best value for its customers.  |
| C9  | Code 3 | Management decisions plays a crucial role in creating value. As a business we manage  |
| C10   | Code 1 | Not applicable  |
| C11   | Code 2 | By ensuring your business is selling and providing for its clients the best products at affordable prices.  |
| C12   | Code 3 | Management plays a key role in managing value within a business. It is management decisions that affect the bottom line of a business. It is thus important for a company to have a good management in place to dictate the direction of the company and thus ensure that the business performs well. If a business fails, it fails |

|     |        |  |
|-----|--------|--|
|     |        | not because of its employees but it does so because of the people at the top as they are the ones responsible for the direction the company takes. |
| C13 | Code 1 | Not applicable   |

**1. Are there any other management or business principles you know? If so, can you describe one of them?**

|     |        |   |
|-----|--------|---|
| C1  | Code 1 | Not applicable  |
| C2  | Code 1 | No  |
| C3  | Code 1 | Not applicable  |
| C4  | Code 1 | Not applicable  |
| C5  | Code 1 | Not applicable  |
| C6  | Code 1 | Not applicable  |
| C7  | Code 1 | Not applicable  |
| C8  | Code 1 | Not applicable  |
| C9  | Code 2 | Value by producing our products at affordable prices. |
| C10 | Code 1 | Not applicable  |
| C11 | Code 1 | Not applicable  |
| C12 | Code 1 | Not applicable  |
| C13 | Code 1 | Not applicable  |

**1. What elements do you consider to be important for the continued success of any business?**

|    |        |                |
|----|--------|----------------|
| C1 | Code 1 | Not applicable |
|----|--------|----------------|

|     |        |  |
|-----|--------|--|
| C2  | Code 2 | Innovation is the order of the day. To continually improve yourself as a business and improve yourself as a business and improve on your service to your clients   |
| C3  | Code 1 | Not applicable   |
| C4  | Code 3 | Sales  |
| C5  | Code 3 | Reduction of costs - Increase sales - Maximize of product offering   |
| C6  | Code 3 | Sales, like before, the more sales / projects the better the company performs.   |
| C7  | Code 3 | Sales, Advertising, Marketing. They form part of ensuring customers are aware of your company & the products, services you offer.  |
| C8  | Code 1 | Not applicable   |
| C9  | Code 1 | Not applicable   |
| C10 | Code 1 | Not applicable   |
| C11 | Code 3 | Sales & Advertising - The more people you can get to do business with you, the more sales you have and the better a company performs   |
| C12 | Code 4 | I think customer service is a key area of growth for any business. By ensuring that company treats its customers well, more customers return and the business grows. The better you treat your customers the more they will be willing to do business with you. In my industry, customer satisfaction means customers will remember you and recommend you to their friends and call on you when next they need to do a renovation. |
| C13 | Code 1 | Not applicable   |

|  |                    |   |
|--|--------------------|---|
| <b>1. In the modern era and business environment, what should businesses focus on?</b> |                    |   |
| C1   | Code 1<br>& Code 3 | Meeting Demands & outlasting competition, this in most case employing sound business processes - maintain expenses and generate enough sales to remain profitable and sustainable |
| C2   | Code 1             | Customer service is now of paramount importance, understanding what your clients wants and delivery - packaging your products / service to meet the market request.               |

|     |        |  |
|-----|--------|--|
| C3  | Code 2 | Not applicable   |
| C4  | Code 1 | Customer care  |
| C5  | Code 1 | Creating a customer entered business, educating customers as well as delivering good quality products and source   |
| C6  | Code 2 | Not applicable   |
| C7  | Code 1 | Creating a lasting service based on experience for customers. To make them feel appreciated and valued. This ensures they will always keep coming back & build loyalty and return sales                      |
| C8  | Code 2 | Not applicable   |
| C9  | Code 2 | Not applicable   |
| C10 | Code 1 | Customer satisfaction it is important to ensure customers get the best service at affordable prices to ensure that they get the convenience they are looking for and then they will be willing to come back. |
| C11 | Code 1 | The customer is always the focus of the business and the more you can please the clients the more likely they will do business with you as at least recommended you to other clients.                        |
| C12 | Code 2 | Not applicable   |
| C13 | Code 2 | Not applicable   |

## APPENDIX C STATISTICAL DATA

### SECTION 1

|                  | Q1                 | Q2         | Q3          | Q4                                 | Q5                                    |
|------------------|--------------------|------------|-------------|------------------------------------|---------------------------------------|
| <b>SECTION 1</b> | <b>Title</b>       | <b>Sex</b> | <b>Race</b> | <b>Highest Education</b>           | <b>Previous working experience</b>    |
| <b>C1</b>        | Owner              | Male       | Indian      | Eng                                | SASOL Fractionation                   |
| <b>C2</b>        | Manager<br>Owner   | Female     | White       | Cosmetology<br>NFQ 12              | Cosmetic Sales                        |
| <b>C3</b>        | Manager<br>Owner   | Male       | Indian      | Matric                             | Insurance & Policy Sales              |
| <b>C4</b>        | Franchise<br>Owner | Male       | Indian      | Diploma                            | Motor Mechanics                       |
| <b>C5</b>        | Manager            | Male       | White       | Diploma                            | Mechanical , Vehicle motor background |
| <b>C6</b>        | Owner              | Male       | Black       | NFQ 6<br>Diploma                   | Construction Welding, Fittings        |
| <b>C7</b>        | Owner              | Female     | White       | Diploma                            | Secretarial & Admin                   |
| <b>C8</b>        | Owner              | Female     | Black       | Bachelor &<br>Masters              | HR, Payrol , Systems, Management      |
| <b>C9</b>        | Owner -<br>Manager | Female     | Indian      | Matric                             | None                                  |
| <b>C10</b>       | Owner              | Male       | Indian      | High School<br>Education<br>Matric | Rail road - Coach Driver              |

|            |                                 |        |       |                                   |                                    |
|------------|---------------------------------|--------|-------|-----------------------------------|------------------------------------|
| <b>C11</b> | Marketing<br>Manager -<br>Owner | Female | White | Matric- Interior<br>Design Course | Cashier - Retail Shops             |
| <b>C12</b> | Owner -<br>manager              | Male   | White | Diploma                           | Insurance sales, banking<br>retail |
| <b>C13</b> | Manager –<br>owner              | Female | Black | Diploma                           | Line operations,<br>manufacturing  |



|     |                           |                                 |   |                    |                       |                         |
|-----|---------------------------|---------------------------------|---|--------------------|-----------------------|-------------------------|
| Q11 | Shareholders              | 1                               | 3                                       | 4                  | 2                     | 3                       |
| Q10 | Debt                      | Credit line                     | Credit card<br>R60K loan                | None               | None                  | None                    |
| Q9  | Others sources of revenue | Government Subsidy              | Product Sales                           | None               | None                  | None                    |
| Q8  | Market share              | unknown                         | Unknown                                 | Unknown            | Unknown               | Unknown                 |
| Q7  | Total capital investment  | R3.6million                     | R70K                                    | R100K              | R110K                 | Undetermined            |
| Q6  | Main source of revenue    | Fuel Sales, Charge, Kiosk Sales | Service charges, Tips, Sales -Gifts     | Service Commission | Tyres Sales , Fitment | Sales                   |
| Q5  | Sales/Revenue             | R 10,000,000.00                 | R 350,000.00                            | R 49,000.00        | R 600,000.00          | Undisclosed             |
| Q4  | Years of service          | 9                               | 4                                       | 8                  | 14                    | 18                      |
| Q3  | Industry/Sector           | Petrochemical                   | Cosmetics                               | Service            | Motor Industry        | Vehicle / Moto Industry |
| Q2  | How many departments      | None                            | 2 departments & Front desk & Operations | None               | None                  | None                    |
| Q1  | Number of staff           | 12                              | 7                                       | 18                 | 7                     | 6                       |
|     |                           | C1                              | C2                                      | C3                 | C4                    | C5                      |

## SECTION 2

|                             |   |                                      |                   |                                       |                                 |   |   |
|-----------------------------|---|--------------------------------------|-------------------|---------------------------------------|---------------------------------|---|---|
| 1                           | 2   | 3                                    | 1                 | 2                                     | 2                               | 0   | 4   |
| None                        | Credit card                                     | None                                 | None              | None                                  | None                            | None  | None  |
| Sales of Electrical         | Bakery  | Consulting fees                      | Catering services | None                                  | None                            | Debt – none                                     | Debt: R250k                                 |
| Unknown                     | Unknown   | Unknown                              | Unknown           | Unknown                               | Unknown                         | Market share –                                  | Market share:                               |
| R50K                        | R80K  | Approximately R60K                   | Approx R10 K      | R120K                                 | Unknown                         | Total capital investment:                       | Total capital investment:                   |
| Commission, Labour payments | Postal services, Printing, Stationery, Internet | Recruitment Sales Commission         | sales             | Sales                                 | Commissions & Service Provision | Main source of revenue – service sales: company | Main source of revenue –                    |
| R 400,000.00                | R 299,000.00                                    | R 499,000.00                         | Undisclosed       | R 3,500,000.00                        | Undisclosed                     | Undisclosed                                     | R 799,000.00                                |
| 8                           | 6   | 5                                    | 5                 | 14                                    | 3                               | 5   | 3   |
| Electrical Welding &        | Service ( Postal & Stationary)                  | Recruitment services                 | Manufacturing     | Retail                                | Catering Services               | Manufacturing                                   | Service – Fast Food &                       |
| None                        | None  | Front Sales Office , 2 Sales Admin & | None              | Counters, Warehouse / Shelves /Stores | None                            | No departments                                  | Kitchen staff, Front Staff & Backroom staff |
| 6                           | 3   | 7                                    | 3                 | 8                                     | 2                               | 6   | 6   |
| C6                          | C7  | C8                                   | C9                | C10                                   | C11                             | C12   | C13   |

## APPENDIX D LETTER OF LANGUAGE EDITING

### DECLARATION OF LANGUAGE EDITING

The mini-dissertation entitled '*Measuring the understanding of value-based management in small businesses in Gauteng*', submitted by RM Mafirowanda, student number 24709158, in *partial* fulfilment of the requirements for the degree *Master in Business Administration* at the Potchefstroom Business School, Potchefstroom Campus of the North-West University

has been edited by

Dr Barbara Basel

D.Litt. University of Pretoria, MA Potchefstroom University, BA UNISA  
Executive Member of English Academy of Southern Africa  
Lecturer in English Literature, Linguistics and Communication at CTI/Midrand Graduate Institute. Cape Town Campus.  
Academic Editing – MBA Theses, MEd Theses, Master in Graphic Design Thesis, External Examiner for MEd Thesis.

1 Six Oaks,  
5, Adelaide Road  
Plumstead  
Cape Town 7800  
Tel: 021 761 4289  
Cell: 082 651 1659  
[barbara.basel@gmail.com](mailto:barbara.basel@gmail.com)



2 December 2015