IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 18, Issue 1 .Ver. IV (Jan. 2016), PP 01-07
www.iosrjournals.org

A Helicopter View of a Failed Corporate Strategy: Lessons from Tn Diversification Attempts:

[1]Vutete Christopher and [2]Vutete Clever
[1]Director of Research and Innovation at ASca RR,
[2] Lecturer, Zimbabwe Open University ZOU-Harare Region,

Abstract: *This study sought to review and unpack the possible explanations behind perceived failure of a diversified group, TN Holdings in Zimbabwe in the period 2009 to 2015. The diversification experiments were being done between 2008 and 2014. The study unraveled areas which might have been overlooked by the strategic managers. With numerous case studies of failed mergers and diversified groups, one would be tempted to think managers are aware of the problems of diversifying businesses. The study was mainly exploratory, with conveniently sampled respondents being interviewed. The major findings were that leaders were not skilled enough to lead such a hugely diversified group. The management failed to build organizational competencies, failure to manage organizational politics and improper stakeholder mapping to effect diversification success. In addition the macroeconomic environment was perceived as not conducive for spreading resources thinly across many subsidiaries. In addition there was a perceived failure to understand branding concepts on which the diversification attempt was based on. The value of this research is on awakening managers on the need to take more thorough learning on strategic moves before making a merger, acquire a firm or diversify.*

Key Words: *diversified group, diversification strategy, business model, strategists, corporate parenting, leadership, strategic fits.*

I. Introduction

One of the oldest and over-studied concepts in business might be on diversification strategy (Bergh, 2001; Lumpkin and Dess, 2003). With its practical ramifications in business practice, diversification strategy has been tackled from a variety of perspectives and theoretical frameworks (Johnson et al, 2006). It is a result of such diversity that has given rise to conflicting and controversial results in a lot of studies on diversification. In addition, the reasons why firms undertake diversification have been varied (Hyland, 1999). Earlier thinking by Prahalad and Bettis (1986) showed that diversification was a direct result of the cognitive orientation of the top management of the organisation. And studies to diversification have been varied stretching from motives to financial impacts of diversified groups (Chandler, 1962; Bergh, 2001). From the past decade in Zimbabwe, the strategy of diversification has undergone numerous turns and twists. According to the ZSE Handbook, since the early 2000, the local stock exchange has been experiencing decrease of conglomerates. Between 2000 and 2009, some of the conglomerates were delisted, while the others were being created. The fall of conglomerates might have been due to management, investment bankers, management consultants and academics advising companies to focus on core business and its advantages thereon (Barney and Hesterly, 2015). The argument was that firms need to concentrate on core business (Kirchmaier, 2003). In order to properly reflect diversity of product and services, management might create various SBUs. This increases the diversity that a holding company must oversee (Johnson et al, 2011), resulting in more complexity that the parent company has to oversee.

One group that attempted to follow a diversification strategy in Zimbabwe was TN Holdings. TN Holdings operated Zimbabwe's first virtual bank and many other subsidiaries. The subsidiaries of TN Holdings were TN Bank, TN Medical Benefit Fund, TN Financial Advisory Services, TN Asset Management and TN Harlequin Luxuire. Some of the units were added through acquisitions, reverse takeovers and some developed. Among these units, TN Harlequin, the group's furniture division was born out of reverse takeover of Tedco Holdings. The other subsidiaries of TN Holdings are TN Grill which is a division in the fast food industry and TN Mart which is a subsidiary in the consumer goods retail sector. There have been some changes and problems experienced in such a highly diversified group. The TN Holdings group dominated the public media and business news with its founder winning numerous awards for business acumenship. The following descriptions of strategic business units incorporate some findings from exploratory research and highlights continuous coding of how stakeholders viewed each unit (Denscombe, 2007).

Description of TN Holdings Subsidiaries

Just like the Virgin businesses, the description of TN Holdings' units is complex (Johnson et al, 2011). The exploratory study revealed that the parent company to the group was TN Financial Services, which then evolved into an asset management company and lastly into TN Bank. The TN Bank was born from TN Finacial Holdings (Financial Gazette, 2012). TN Holdings was listed on the stock exchange in 2009, heralding the start of diversification which this study seeks to tackle. Using various methods of acquisitions and takeovers, the group grew in the number of SBUs which are briefly described below:

TN Financial Services

This unit started to operate in 2001 offering services in financial advisory and leading in conducting of huge business transactions. Due to its technical nature of business, the unit was not very well known to the public.

TN Bank

TN Bank was one of the many indigenous banks, was founded in 2009. It was The bank provided many services that include cash card account, fixed deposit and commercial banking products. The bank offered servings accounts and other specialized banking services. Some of the major competitors of TN Bank during that period were Trust Bank, Standard Chartered Bank, CBZ Bank, ZB Bank and ZABG Bank. TN Bank had managed to whether the storm in the unstable banking environment which saw many banks going under curatorship and some closing down. The banking sector might be very sensitive as it was undergoing numerous challenges. For example, the RBZ changed the minimum capital requirements, reserve ratios and becoming the major change driver in the banking sector. Both customers and employees believed that TN Bank was very strong in its segment until it was taken over into the Econet Group in 2013.

TN Harlequin Luxaire

This is the subsidiary of TN Holdings that produces and market furniture products. The company can be traced back to 1955 when it existed as Federation Furnishers. It grew through acquiring other furniture business until it became TN Harlequin Luxaire. Some of the competitors of TN Harlequin Luxaire include Max Office Furnishers, Teecherz Furnishers, Pelharms, and a host of indigenous businesses. The main products produced in this sector include sofas, chicken furniture, beds, coffee tables, cabinets and office desks and wooden chairs. Both customers and employees responded on the TN Harlequin Luxaire' s strengths in its sector as they observe it. Both employees and customers rated the furniture unit as very strong in its sector between 2009 to 2013. However there were respondents indicating that TN Harlequin was weak and needed to grow to a sustainable mass.

TN Asset Management

The asset management business was not known to the majority of people. It was a business in the financial services sector where the company managed shares and stock of other corporates. Some of the prominent players in this sector included Imara Edwards, FBC Asset Management, ZB Asset Management and Kingdom Asset Management. The major drivers in this sector are the various legal instruments that deal with the stock exchange business, money laundering and investment laws. The sector was a highly controlled segment of the financial services. The employees and customers' view was that this unit was very strong during the period 2009-2013.

TN Mart

TN Mart started operating in 2011 with the official opening of the 4th Street mall in March 2011. There were 5 branches of TN Mart with some shops in Kuwadzana 5, Dzivarasekwa, Glenview and Highfields. The unit sold groceries such as bread, milk, fruit and vegetables, floor and biscuits. The unit competed with other large retail businesses such as Spar franchises, Ok Mart and TM to name a few. Both customers and employees were in agreement of the salient weakness of TN Mart. Though the idea of selling groceries through virtual and online models was new, TN Mart had to scale a huge barrier in the retail sector. The business model was not well supported. Some experts felt there was overemphasis on TN Mart branding at the expense of the business model that would make the subsidiary more competitive. The responses who indicated that TN Mart was very strong could be doing so out of branding experiences rather than the business model.

TN Grill

TN Grill was in the fast foods industry. It was opened in 2011 and has many branches in Harare. The unit competes with companies such as Chicken Inn and Chicken Slice. It is clear that TN Grill occupied third position in the fast foods sector. TN Grill manufactured and sold pizzas, chips, meat and soft drinks. The findings from respondents indicated that at first customers viewed this unit as very strong. A group of customers interviewed around the premises of the unit indicated that TN Grill was very weak. There was lack of focus on TN Grill's business model. The unit could possibly have captured the fast food business and occupy number two in market share. Instead, the company launched numerous, small TN Grill outlets when a single well resourced outlet could have done the trick. In the end, there was lack of scale advantages from these small grill outlets. The ideas used and the lack of focus caused TN Grill to trail behind Chicken Slice and Chicken Inn.

TN Pharmacy

Within the banking hall and service centres, management created a tiny counter to sell some pharmaceutical products. This small unit began to compete in the medicines retail line and compete with other established pharmacies such as Geddes, QV and Meditech Pharmacy among a host of other small players. TN Pharmacy operated as a small cubicle and the branches were found inside a bank or a furniture shop. As such, this subsidiary was always shielded by bigger subsidiaries.

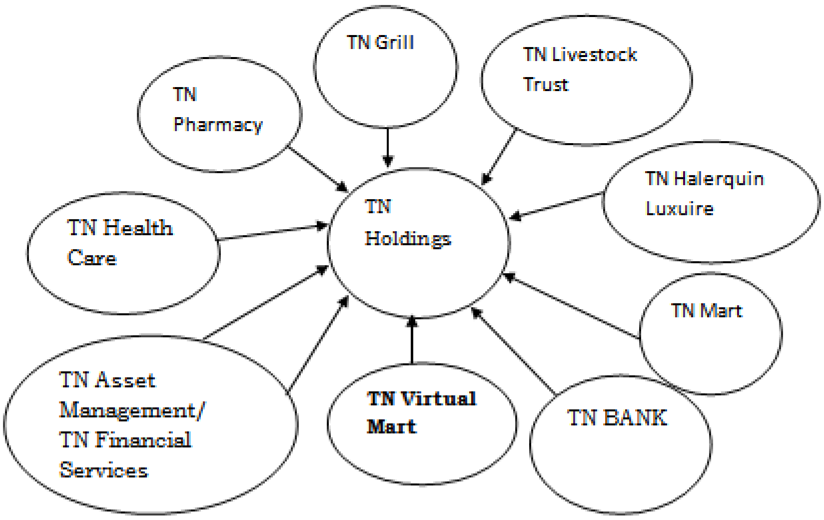
TN Medical

TN Medical was established in 2006 as a subsidiary of TN Financial Holdings. Its major thrust was on provision of health funding to customers. This unit has been acquired and absorbed into the Econet units and is currently known as Steward Health.

TN Livestock Trust

This unit was established to assist in mobilization of funds for farmers through borrowing from banks using livestock as security (Herald, 2013). The business model involves farmers making deposits into the bank of value equivalent to a cattle with farmers having option to receive cash or cattle. This unit was perceived to be in the agriculture and food security sector. The state of the unit indicates that the business model struggled to attain a critical mass in Zimbabwe.

The Presentation of TN Holdings and its SBUs



The major thrust of this research is to analyse the factors and reasons that could have led to the fall of the TN empire.

II. Literature Review

The concept of diversification received seminal recognition from the works of Ansoff around end of 1950s. From its original conception, diversification strategies have been known to promote growth of a business in terms of return on investment, increasing profitability and wealth for the stakeholders (Ansoff, 1957). For example, American companies like Textron where built by acquiring unrelated businesses, often owned thirty to forty subsidiaries operating in all sorts of markets and industries (Lumpkin and Dess, 2003). The main aim was to benefit the shareholder through the diversification of these companies thus reducing the risk of the business as a whole. The other reason for creating strategic business units (SBUs) was to improve creation and implementation of generic strategies (Porter, 1980, Thompson and Strickland, 2005), enabling product strategies and innovation (Lumpkin and Dess, 2003). In all these, each SBU has some strategy options to pursue in its mission (Faulkner and Bowman, 1995).

While the benefits of a diversification strategy look attractive, the practical efforts to conceive and lead diversified groups have met with high rates of corporate failures. Innovations and changes in the business environment meant that it is now difficult to define industries and boundaries across such are blurring (Thompson et al, 2012). The key concept that has withstood diversification success might be the resource-based view of strategy. For example, Chandler (1990) describes a firm's organizational capabilities as the collective physical facilities and skills of employees, especially the abilities of the top and middle management which create some advantage in the market. More specifically, organizational capabilities can be thought of as marketing skills, distribution skills, product development skills, organization skills, innovation skills of the whole economy (Porter and Kettel, 2003), and human resources competencies (Cartright and Cary, 1996). Some writers think managers can manipulate industry conditions to ensure success of diversification strategy (Knecht, 2014). But since industry conditions are complex and varied, the efforts required to ensure success of diversification maybe hard for many managers (Goold et al, 1994). In addition, corporate diversification might be a corporate strategy that demand success at all cost (Montgomery, 1994). Due to technological developments and innovations, diversification can no longer be clearly demarcated as unrelated or related (Johnson et al, 2011). Pursuing a diversification strategy presents corporate managers with complexity such as the appropriateness nature of diversification, industries to enter, type of entry and how to create competencies (Thompson et al, 2012). One difficulty is on choosing the basis of diversification attempt. For example, Virgin Group seemed to have mastered the use of a "well known and potent brand name" as a base for diversification (Thompson et al, 2013:273). The development and search for strategic fit might result in success of diversification for unrelated SBUs (Johnson et al, 2011, Thompson et al, 2012). The resource-based view postulates that the success of a diversified group depends on the resources that the parent company can deploy to its subsidiaries (Wernerfelt, 1984). With the changes in the business sector, industry boundaries might no longer be as rigid as yesteryear (Thompson et al, 2012). As such, a firm might still be able to offer a range of products and services without creating a new business unit. The existence of Virgin Group might provide some temptation on leaders in other parts of the world on related and unrelated diversification attempts. Some attempts to benchmark using Virgin Group might fail as leaders copy outcomes rather than the underlying business models (Pfeffer and Sutton, 2006).

III. Methodology

The research paradigm was interpretivism, as researchers used their experience as customers and stakeholders of TN Holdings subsidiaries to analyse the themes (Saunders, et al, 2009) collected using qualitative research design. The time horizon of the study was cross-sectional covering the 2009 to 2013 period. Structured and semi-structured interviews were done with some experts in business strategy to hear what they perceive to be the reasons for struggling of TN Holdings. In line with qualitative study, there was repetition of data collection and analysis until clear codes were established. Further data collection from experts was done to distil the codes into more discernible themes. The respondents all came from Harare, where the numerous branches of TN SBUs were operating from. The respondents were first asked about their knowledge of TN Holdings and any two subsidiaries.

IV. Findings And Discussion

The study sought to interrogate some possible causes of crumbling of a promising group. The aim was to distil any knowledge and lessons that future business practitioners can possibly learn from what happened at TN Holdings. The views and comments by respondents and experts was analysed and presented as major themes. The themes are critically reviewed below.

(i) Lack of Proper Corporate Culture

Analysis of qualitative responses from the focus group showed that lack of proper corporate culture could be a major cause of failure of diversified groups in Zimbabwe. This is in agreement with Beer and Eisenstat (2000), who cited lack of cross functional systems as the major killer of corporate strategy implementation. There was no history of corporate success in the group, as all the SBUs were relatively young. Bate (1984) cultural dimensions towards innovation and business excellence points to the organizational behavior that ensure success. For example, it was not clear whether TN Holdings was extrovert or introvert. The increase in branch network and acquisition; was it a result of intuition or careful environmental awareness? Markides (2002) might be right in advocating development of corporate parenting skills for effective diversification.

(ii) Leadership Challenges

Some of the raw responses from interviews are:

"we did not have strong managers to create and sustain a business model"

"Managers lacked clarity of where the group and its units were heading towards"

"people need serious training to manage diversified companies"

"Leaders had to see which SBU had to be divested and which one to build up"

The theme of poor corporate leadership was cited as a major factor contributing to corporate failure in Zimbabwe. There was general agreement that the senior management team lacked experience in handling diversified group. There was no top executive of sufficient caliber to lead such an accelerated diversification strategy. Bass and Bass (2008) see the presence of transformational leadership as a guarantee of organizational success.

(iii) Brand Based Causes

"Brands are brands. Companies are companies. There are differences. Brand names should almost always take precedence over company names".

"….too much effort was spent on painting buildings and branding of company spaces at the expense of an enduring business model, processes and resources"

Some experts indicated that TN Holdings brand-extended itself to extinction (Ries and Ries, 2002). Failure by corporate parent to develop and raise viable SBUs can be attributed to leadership failure. The easiest way to destroy a brand is to put its name on everything. In the TN Holdings group, the owners seemd like they chose to turn every product and service or Zimbabwe into a TN something. Some of the comments pertaining to branding issues are:

(iv) Failure to Manage Politics

There were statements showing that that failure to manage politics may be a cause of failure of diversified groups. CEO had to own the strategy (Johnson et al, 2011). Though the CEO might not be the major source of failure. Collins (2001) support the critical role of CEOs in strategy success, but take exceptions to celebrity CEOs.

"Different SBU began to compete for recognition while the corporate headquarters was silent".

"managers from acquired units began to fight for recognition"

"Could have been a manifestation of internal problems on what to prioritise" "Boards and teams might have avoided internal questioning and interrogation"

"it was difficult to assess the business model of TN Groups, knowing that the largest SBU was TN Bank"

The question that stakeholders are left with is does corporate diversification add value to corporate. TN Holdings has been accused by customers and analysis of being over-diversified.

(v) Failure to build core competencies by corporate parent

Some responses from the interviews could be summarized into a theme of core competencies. The option of failure to build core competencies by companies was found to be a factor leading to failure of diversified groups. Though there could have been a corporate level strategic intent (Hamel and Prahalad, 1994), its impact might have been diluted by other factors. The subsequent complains from TN Bank shareholders show that the parent corporate caused confusion to judgment by external parties (Johnson, et al, 2011). The parent company might have failed to provide expertise to its fledgling subsidiaries (Johnson et al, 2011). It appears the managers were excited on branding issues at the expense of business models (Pfeffer and Sutton, 2006). There was noticeable support towards subsidiaries through sharing infrastructure (Johnson et al, 2011). The typical TN banking hall had all other subsidiaries.

(vi) Improper Stakeholder Mapping

The theme on stakeholder mapping was also pointed as a contributing factor to corporate failure. It was found out that bank shareholders have been complaining about acquisitions which had effects of diluting shareholding. There was discord on which industry to concentrate on. Some stakeholders favoured furniture sector, while others wanted the group to concentrate on the financial sector. Responses showed that some of the SBU opened were a surprise to key stakeholders. The stakeholder issues were not resolved and management and the main shareholder never attempted to hear the views of other critical stakeholder. Some experts pointed out to a lack of clarity on the part of shareholders as to how the TN Group would compete in numerous fronts.

TN Bank was established and it was well supported by TN Assert Management and TN Financial Advisory Services in its early days. The group continued to grow adding other business units to the mix. Lack of understanding of these organisations by the market (thus including the shareholders) and asymmetry of information which is greater causes them to be viewed with mistrust as people expect a break away any time. This brings about undervaluation of diversified group, thus bringing in the conglomerate discount. All the factors tend to reduce shareholder value in one way or the other hence the proposition that demerging or unbundling will enhance shareholder value.

(vii) Unfavourable Economic Environment

Respondents noted that the unfavourable economic macro-environment could be a factor in the failure of diversified groups in Zimbabwe. Other fall back factors which then led to these conglomerates being dismantled include; heavier structural costs, misallocation of resources to inefficient divisions and creation of free rider subsidiaries which do not perform or are loss makers but siphon from viable or profitable subsidiaries (Johnson et al, 2011). There was a general falling of disposal incomes, resulting in decrease in aggregate demand for goods and services. In addition, liquidity challenges and high cost of borrowing have been hampering diversification attempts. As a result, there has been a general atmosphere of business failure in Zimbabwe.

V. Conclusion and Lessons Learnt

The worldwide economic recession, shortages of capital and changing business environments has called for innovative strategies to save corporates from collapse. The same experts and dealers who sold to the world that mergers and acquisitions would create value are now telling investors that there is value to be gained in breaking up these companies. This showed that TN Holdings' diversification strategy could not be successful due to unsuitable organizational culture, leadership challenges, branding aspects, organizational politics, lack of organizational skill (core competence), stakeholder issues, and macro-economic environment. These factors might need to be analysed in detail to find out to what extent they were responsible for struggling of the TN Holding group. In addition the correlation and variances between these factors might need to be investigated for this group or any other group. It might be more critical for TN to build an "ecosystem of businesses based on future strategy" rather than increasing the mass as the era of heavy business conglomerates is gone (Ma, 2015).

Lessons:

1. Don't mistaken opening more branches and acquiring more subsidiaries as an indication of business success.
2. The business leaders must take corporate branding seriously, not just as a surface phenomena, painting more buildings with your corporate colours.
3. Corporate diversification examples such as Virgin Group might be correctly viewed as exceptions rather than the norm.
4. There is need to invest in strategic leadership in organizations.
5. Value adding capabilities are more important than brands in sustaining a diversified group.

References

[1]. Ansoff, H. I. (1957). Strategies for diversification . Harvard Business Review . (35) (5): 113 24.

[2]. Barney, J.B. and Hesterly, W. (2015) Strategic Management and Competitive Advantage: Concepts and Cases. 5th Edition, Prentice-Hall.

[3]. Bass, B.M. and Bass, R. (2008). The Bass Handbook of Leadership: Theory, Research and Managerial Applications. Free Press, New York

[4]. Bate, P. (1984) The Impact of Organisational Culture on Approaches to Organizational Problem-Solving. In Salaman, G.(ed) Decision Making for Business. Sage Publications, pp 192-208

[5]. Beer, M. and Eisenstat, R.A. (2000) The Silent Killers of Strategy Implementation and Learning. MIT Sloan Management Review

[6]. Bergh, D.D. (2001) Diversification Strategy Research at a Crossroad: Established, Emerging and Anticipated Paths.

[7]. Cartright, S. and Cary, L.C. (1996) Managing Mergers, Acquisitions and Strategic Alliances. 2nd Edition, Butterworths-Heinemann, Oxford

[8]. Chandler, A. (1962). Strategy and Structure: Chapters in the History of American Industrial Enterprise . Cambridge, MA: MIT Press

[9]. Denscombe, M. (2007) The Good Research Guide, Buckingham: Open University Press.

[10]. Dess, G.G. and Lumpkin, G.T. (2003) Strategic Management: Creating Competitve Advantages. McGraw-Hill Boston.

[11]. Faulkner, D. and Bowman, C. (1995) The Essence of Competitive Strategy, Prentice Hall.

[12]. Financial Gazette (2012). TN Holdings: Rome was not built in a day. August 3 Issue. www.fingaz.co.zw. Accessed in 2013.

[13]. Goold, M., Campbell, A. and Alexander, M. (1994) Corporate Level Strategy. Wiley

[14]. Hamel, G. and Prahalad, C.K. (1994), Competing for the Future: Breakthrough Strategies for Seizing Control of Your Industry and Creating the Markets of Tomorrow. Boston, MA: Harvard Business School Press.

[15]. Hyland, D. C. (1999). Why firms diversify: An empirical examination. Unpublished manuscript.

[16]. Johnson, G., Scholes, K. and Whittington, R. (2006) Exploring Corporate Strategy, 7th Edition, Prentice Hall Financial Times.

[17]. Kirchmaier T (2003), De-mergers or is divorce attractive? The logic and performance of European de-mergers.

[18]. Knecht, M. (2014) Diversification, Industry Dynamism and Economic Performance. Springer Publising, USA.

[19]. Ma, K. (2015) "A Letter From Executive Chairman" ar.alibabagroup.com/2015/letter.html

[20]. Markides, C (2002) 'Corporate strategy: the role of the centre' in Pettigrew, A., Thomas, H. and Whittington, R.(eds) Handbook of Strategy and Management, Sage.
[21]. Montgomery, C. A. (1994). Corporate diversification . Journal of Economic Perspectives . (8) :163 78.
[22]. Pfeffer, J. and Sutton, R. (2006). Hard Facts, Dangerous Half-truths and Total Nonsense: Profiting from Evidence-Based Management. Harvard Business Press.
[23]. Porter, M. E. (1980). Competitive Strategy . New York: Free Press .
[24]. Porter, M.E. and Ketels, C.H. M. (2003) UK Competitiveness: moving to the next stage. Institute of Strategy and Competitiveness, Harvard Business School. ESRC, May 2003.
[25]. Prahalad, C.K. and Bettis, R.A(1986) "The Dominant Logic: A new linkage between diversity and performance" Strategic Management Journal Vol.7 No.6 pp485-501
[26]. Ries, A. and Ries, L. (2002) The 22 Immutable Laws of Branding: How to Build a Product or Service Into a World-Class Brand.
[27]. The Herald, June 24, 2013. "TN Bank Establishes livestock trust"
[28]. Thompson, A.A. and Strickland, A.J. (2005). Strategic Management: Cases and Readings. McGraw-Hill. India.
[29]. Thompson, A.A., Peteraf, K., Gamble, J.E., and Strickland, A.J. (2012) Crafting and Executing Strategy. 18th Edition, McGraw-Hill
[30]. Thompson, Arthur A., Jr., Strickland, A. J. and Gamble, J. E. (2008) Crafting and Executing Strategy: The Quest for Competitive Advantage – Concepts and Cases. 16th Edition, McGraw-Hill Irwin,
[31]. Wernerfelt, B. (1984). A resource-based view of the firm . Strategic Management Journal . (5) :171 80.
[32]. www.tn.co.zw/tnharlequinluxaire. -