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STRATEGY DEVELOPMENT AT LONRHO AFRICA PLC

By

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DECLARATION

This project is my own original work and has not been submitted for a degree in any other university.

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Date: 09/02/2005

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The project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

To my dear parents:
Chrisanto Ondieki Mokua and Pacifica Kemuma Ondieki,
For their wise counsel, love for education and inspiring belief that education will always remain harmless to mankind.

A special dedication to my wife Evelyn Kerubo and children Nicole Bosibori and Nicklaus Nyakundi, who all provide a reason for me to live.

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ABSTRACT

Lonrho Plc was a large multinational having operated diverse businesses in Africa for many years. There was no other London Stock Exchange listed group of similar size operating in sub-Saharan Africa that comprised such a commercially and geographically diversified business. In May 1998, Lonrho Africa de-merged from Lonrho Plc, which became a purely mining operation, and has since been very successful. By mid 1999, it became apparent that Lonrho Africa Plc could not survive on its own and the break up of the Group began in earnest. Lonrho Africa's market value fell from £ 270 million in March 1998 to £ 20 million in 2002. As revenues declined and in search for a core business, management tried a series of radical changes while subsidizing the firm's large losses through working capital liquidations and sale of property holdings.

This study sought to identify principal strategy development practices at Lonrho Africa and how the company confronted business challenges. 15 respondents out of an identified group of 24 senior executives were interviewed, representing a response rate of over 60%. The study found that though there was a conscious attempt to find a core business by developing strategies in a formal and rational manner, the company was in financial distress and strategies were imposed by banks and other stakeholders to conform to covenants agreed with banks.

From the findings of this study, it is recommended that further studies be conducted to explain Lonrho Africa's big appetite for diversification. One may also study aspects of the leadership vacuum created by the ouster of Tiny Rowland.

From a high of 900 operating companies during its day, Lonrho Africa today remains with only 70 companies mainly in hotels. The hotels are still on sale.

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CHAPTER ONE: INTRODUCTION

1.1 Background

The process of strategy development in organizations is often less understood and taken for granted. This is probably because many organizations assume that strategy will be automatically developed by top management and passed down for implementation. It is also assumed that strategy will emerge on its own as organizations carry on with business or that experience and gut feel will replace formal strategies. Some writers have argued that it is unnecessary to develop strategies as the environment changes with speed such that planned strategies will be overtaken by events before implementation (Andrews, 1971).

But the development of strategy need not be taken for granted. Strategy may be developed in a rational and analytical way, which is often taken to be the common method. Johnson & Scholes, (2002) writing on this method, noted that strategy is formulated by top management through careful analysis and planning and implemented down through the organization. It may also be an adaptation of prior strategy as a consequence of people's experience, cultural processes and taken for granted assumptions and ways of doing things. Strategy may also emerge as a variety of diversity and exploration of ideas in and around organizations. This probably explains why some organizations are more innovative than others and why some companies cope better with changing environment than others do.

In the process of developing strategy, certain observable processes in organizations emerge. Such processes may be strategic planning systems, strategic leadership (entrepreneurial and strategic intent), political activity, logical incrementalism, organizational learning and imposed strategy. The formal planning process results in the intended strategy, while realised strategy is an interplay between intended and emergent strategy development processes. But as strategy is implemented, there is a tendency for a strategic drift to occur, in which strategies may loose touch with the changing environment (Johnson & Scholes, 2002).

It is actually very rare to find organizations in which singular explanations are adequate to explain strategic decision making and development. Multiple explanations are usually evident in organizations, and these come with certain ramifications. It must be emphasized at this point that different processes of strategy development may be more or less suitable to different conditions. The pace of change may be stable, dynamic or complex, and as Aosa (1996) proposes, a need arises to factor in context in the strategy development process.

While considering context, the strategy development process often varies with, and depends on the size of the business under review. The entrepreneurial mode is often visible in small business while the rational and analytical mode is practiced in larger organizations. Corporate strategy, often practiced above business unit level is often cited in literature. Johnson & Scholes (2002) contend that there is no "best" corporate strategy, and that what matters is the consistency with which strategy is developed in terms of clarity of the rationale, the logic of the corporate portfolio, the nature and extent of diversity of the portfolio and the nature of corporate control exercised by the holding company. According to Romanelli &Tushman (1994), widely diversified organizations often run into difficulties as business may not be related, have no compatibility and have no similarities. The extent of diversification should also be considered in relation to the rationale of the corporate strategy, diversity of the portfolio and the relationship of the business unit with the parent. One then may conclude that the strategy development process in a highly diversified business will differ significantly from one that is not diversified, and will require more leadership than management.

Various studies have been done on the strategy development process within organizations in Kenya. Aosa, (1992) looked at strategy formulation and implementation within large manufacturing concerns; Karemu, (1993) the retailing sector, Shimba, (1993) the financial sector and Mbaya, (2001) commercial internet service providers. These studies established that organizations are now faced with rapid changes in external and immediate environment and have turned to formal strategic planning activities. Warsame, (2002) found that strategy development in the NGO sector was an outcome of cultural and political processes in and around the organizations. He also found evidence of deliberate managerial input and rational processes.

But strategic management, specifically strategy development, when implemented without control remains largely ineffective. Various control systems including budgets, variance analysis and management by objectives often help to control strategic direction. Ordinarily, a great deal of time elapses between initial development of strategy and achievement of the intended action. During this time, investments are made, projects are undertaken, changes occur in the environment. Strategic controls are necessary to steer the firm through these events. Stiles (1993) found that spectacular collapses in organizations today are a result of lack of preventive measures within corporate control.

In the competitive world of business today, Heifetz and Laurie (1997) have noted that more and more companies are facing serious adaptive challenges that have brought into sharp focus their strategy development methods. Changes in societies, markets, and technology around the globe are forcing them to clarify their values, develop new strategies, and learn new ways of confronting incremental change. Adaptive work is required when deeply held beliefs are challenged, when the values that made organizations successful become both irrelevant and history and when legitimate yet competing perspectives emerge. Adaptive challenges are seen when companies restructure, reengineer, develop and implement strategy and sometimes merge. They are also noted when executives complain that they are not achieving targets.

And the role of strategy and the most important task for leaders in the face of such challenges is mobilizing people throughout the organization to do adaptive work. Yet for many senior executives, strategy development is difficult for different reasons. One reason is that they are accustomed to solving problems themselves. Another is that adaptive change is distressing for the people going through it. They need to take on new roles, relationships, values, and approaches to work.

But both sets of expectations have to be unlearned. Rather than providing answers, strategy developers have to ask tough questions. Rather than protecting people from outside threats, leaders should let the pinch of reality stimulate them to adapt. Instead of orienting people to their current roles, leaders must disorient them so that new relationships can develop. Instead of quelling conflict, leaders should draw the issues out. Instead of maintaining norms, leaders must

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challenge "the way we do business around here" and help others distinguish immutable values from the historical practices that have become obsolete.

1.2 Lonrho Africa: History and Strategy Development

Lonrho was incorporated in 1906 and began operating in Africa in that year with operations focused on mining. However, over the course of the next 90 years its African non-mining businesses expanded organically and by acquisition, into a wide range of activities, including agriculture, media, textiles, property, hotels, and motor vehicle distribution. It comprised of a commercially and geographically diversified business. It had approximately 900 operating companies in 14 countries and the businesses were mainly operated on a geographical basis, with each country being managed by a locally based chief executive reporting to Lonrho's head office in Liverpool (Johnson and Scholes, 2002).

Ahluwalia (2002) noted that there was no other London and/or Johannesburg Stock Exchange listed group of similar size operating in sub-Saharan Africa. On 7th May 1998, Lonrho Africa Plc (Lonrho Africa), de-merged from Lonrho, which became purely a mining operation, and has since been very successful. In its annual report for 1998, published in January 1999, a record loss of a staggering Shs. 5.7 billion for year ending 30th September 1998 was announced. By mid 1999, it became apparent that Lonrho Africa could not survive on its own hence asset stripping and break up of the group began in earnest. Lonrho Africa's market value fell from £ 270 million in March 1998 to £ 20 million in January 2002. As revenues declined, the board tried a series of radical changes while subsidizing the firm's large losses through working capital liquidations and sale of property holdings.

In 1995, Lonrho decided to restructure its African non-mining businesses. A central management team comprising the Vice-Chairman, Managing and Finance Directors, all with substantial experience in Africa was established, and the strategy formulation process got underway.

The Directors completed a strategy and structure review of businesses within Lonrho Africa in July 1995, wherein they concluded that the operations should be managed on an activity basis rather than along geographical lines in order to improve operational and managerial synergies. They also determined that country based head offices be closed, whilst ensuring that local political and business relationships were maintained, saving costs and substantially simplifying the management reporting structure.

They further identified non-core businesses and assets which would be sold in due course with the proceeds to be reinvested in the core business activities. They identified poorly performing businesses which would need to be closed down, sold or actively managed to achieve an improved financial return. They further identified five core activities, each of which would have its own managing director with both management and financial responsibility. The five core activities identified were Motors, Agribusiness, Distribution, Hotels and Property and Construction. The new operating structure became effective on 1st January 1997, with the managing directors of the core activities reporting to the central Lonrho Africa Board based at Nairobi.

Soon the Directors found themselves in a strategic lock, in which there was a conflict between the short-term objectives of generating cash-flows and long-term objective of growth and prosperity. Historically the African non-mining businesses of Lonrho were focused on maximising the operating cash flows that could be returned to Lonrho head office to meet the overall requirements of the group. This resulted in the group having a relatively high level of local borrowings. The Directors believed that following the de-merger, which involved a net capital injection of £48 million into Lonrho Africa, the group would be able to manage better the capital resources for its operations and to pursue investment opportunities as they arose offering an attractive rate of return.

In the medium term the directors had identified a number of growth opportunities upon which they intended to capitalise. In Agribusiness these included increasing the output of the Group's

cotton ginneries through the expansion of cotton out grower schemes and the introduction of the Farmer's Choice food processing operations into other African countries.

The Directors intended to manage the group's core business activities with the objective of maximising the return on capital from each activity. The criterion as set out then was a return on capital of 20% in the case of existing businesses and 25% for new investments. Businesses not capable of meeting these thresholds would be sold, when market conditions and Lonrho Africa's obligations in local markets permitted.

1.3 Statement of Problem

As observed above, Lonrho Africa's market value fell from £ 270 million in March 1998 to £ 20 million in January 2002 and less than £ 10 million in January 2004. The speed at which Lonrho Africa reduced in value can only be compared to very few organizations worldwide, yet most of the companies that were sold off have remained successful in their own right. Presently, only 85 companies are remaining from a high of 700 at the time of the de-merger.

The Group strategy as set out by the directors prior to the de-merger was to rationalise the group's motor vehicle franchises to focus on a small number of key relationships and begin to dispose of land and property, which the directors believed, was surplus to the group's requirements. The proceeds of these disposals would be reinvested in the core activities or used to reduce borrowings (Ahluwalia, 2002).

Lonrho Africa's initial success was short lived, as the firm failed to anticipate environmental changes in respect of lifestyle trends, liberalised market, exchange rate movements and competition. Liquidity problems set in due to restrictive covenants in the firm's bank credit line. Management responded by selling excess inventories and property holdings.
All these radical interventions failed to resuscitate Lonrho Africa and in June 2000 the Lonrho Africa PLC board, still in a strategic lock, formally decided to exit from all its business activities and all operating business units were put up for sale.

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Several studies on strategic management practices in various organizations have been completed. Aosa, (1992) looked at strategy formulation and implementation within large manufacturing concerns; Karemu, (1993) the retailing sector, Shimba, (1993) the financial sector and Mbaya, (2001) commercial internet service providers. These studies established that organizations are now faced with rapid changes in external and immediate environment and have turned to formal strategic planning activities. Warsame, (2002) found that strategy development in the NGO sector was an outcome of cultural and political processes in and around the organizations. He also found evidence of deliberate managerial input and rational processes. These studies are broad in character, as none of them dealt with the detail of how strategies are actually developed.

Mwinzi, (1991) found that there lacked a significant difference between the financial performance of low, medium, and highly diversified insurance companies in Kenya. Mwindi (2003) found that unrelated diversification, as practiced by retail oil companies in Kenya was a move towards enhancing customer satisfaction, rather than an attempt to improve financial performance.

Lonrho Africa, a large complex company has always faced challenges. How did Lonrho Africa develop strategy to confront those challenges? How did the company end up being so diversified? Was the growth agenda consistent with a written acquisition strategy and were structures and controls put in place to ensure that all the diversified companies operated as a unit, with some degree of cohesiveness?

1.4 Research Objective

The objective of this study was to inquire into strategy development practices in Lonrho Africa from January 1995 when the decision to de-merge was made to December 2004.

1.5 Importance of the Study

Lonrho Africa was one of Africa's largest companies with a head office in Nairobi. Aspects of strategy development at Lonrho Africa have not been investigated. This study is the first one.

This study will be useful for other organisations that will use it and hopefully learn from the experience of Lonrho Africa. To academicians, this study will add to the currently existing knowledge on strategy development and control practices in Lonrho Africa and hopefully stimulate further research in other areas of strategy. It has been demonstrated earlier that knowledge of any description is often useful. To students of strategy, this case study will, in a single volume, trace the history of Lonrho Plc generally and Lonrho Africa specifically. The management style employed at Lonrho Africa can be cast side by side with current academic literature and be useful in class discussions.

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CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter broadly attempts to explain the concept of strategy. It considers view points on strategy development and control and asks questions on the role of strategic leadership. Issues relating to organizational politics, imposed strategy, logical incrementalism and the learning organization are reviewed, and their implication on strategy development explained.

The chapter concludes by discussing the fact that even with good strategies, a strategic drift may occur. The wisdom of diversification and related empirical studies is visited.

2.2 The Concept of Strategy

According to Bracker, (1980) the word strategy comes from the Greek *stratego,* meaning 'to plan the destruction of ones enemies through the effective use of resources'. The word remained in use in military circles until the nineteenth century when it began to be applied in business, though most writers believe the actual process by which this took place is untraceable (Bracker, 1980; Chandler, 1962). But Chandler (1962) put forward the view that the emergence of strategy in civilian life resulted from awareness of opportunities and needs created by a changing population, income, technology and a need to employ the resources more profitably.

While attempting a definition of strategy, we should note an injunction by one of the founders of the strategy school, Ansoff (1987) who warns that strategy is an elusive and somewhat abstract concept. This is why, perhaps like so many other concepts in the field of management there is no agreed all embracing definition. Ansoff (1965) regarded strategy as concerned primarily with the external rather than internal concerns of the firm. Chandler (1962) looks at strategy as the determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out these goals. Hofer and Schendel (1978) defined it as the basic characteristics of the match an organization achieves with its environment. Mintzberg e*t al* (1988) identified five interrelated definitions of strategy as a

plan, ploy, pattern, position and as a perspective. He does not argue that one definition should be preferred to the others, but sees that they should be considered as alternatives or complementary approaches.

Johnson and Scholes (2002) view strategy as the direction and scope of the organization over the long term, which achieves advantage for the organization through its configuration of resources within the changing environment to meet the needs of the market and to fulfil stakeholder's expectations. Pearce and Robinson (1997) consider strategy as large scale future oriented plans for interacting with a competitive environment to achieve company objectives.

From the work of the writers noted above, strategy is all about actions taken by an organization today to gain competitive advantage over competitors in the long run, to satisfy stakeholder expectations and to increase the value of the firm.

Viewpoints of Strategy Development and Control

The design *lens* of strategy development, as explained by Johnson & Scholes (2002) involves planning, setting objectives, analysing and evaluating options. It is s deliberate positioning of the organization through a rational, structured and directive process.

Although the range of influences on an organization's performance are many, they can be understood through careful analysis so as to identify those that are most likely to affect the business significantly. This analysis permits the matching of organizational strengths and resources with the changes in the environment so as to take advantage of opportunities and circumvent threats. Analytic thinking precedes and governs action, so that decisions about what strategy should be in terms of content come first and are cascaded through to those who implement them. One of the key assumptions is that the organization is a hierarchy with top management who make decisions, middle management and lower level staff who implement. All these being done, objectives must be clear and explicit, so that a thorough analysis of factors both internal and external to the organization that might affect its future and inform management about the strategic position of the organization, and the range of options for the future strategic

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direction are considered and evaluated in terms of objectives and forces at work on the organization.

Since logic is involved, the organization is seen as a rational system, which can be controlled in a rational way. The structure of the organization should be suited to the strategy being pursued (Chandler, 1962). Under the design lens, strategy development is explained in a number of ways. One is that objective setting, planning systems and the use of analytic and evaluative tools are found in most organizations. However, the fact that such systems are present does not mean that they are actually the way in which strategy is managed. The design lens provides a way of managing complexity which is logical and structured, and helps management feel in control.

Once an organization has developed strategy, other strategies grow from it in an adaptive fashion, building on the existing strategy and changing gradually. In this case, strategy is understood in terms of continuity or momentum, so that once an organization has adopted a particular strategy, it tends to develop from within that strategy (Miller & Friesen, 1980). An apparently coherent strategy may not have been pre planned in a grand fashion. It could have been developed from a series of smaller moves, which make sense in terms of previous moves. Quinn, (1995) noted that no organization would function effectively if it were to undergo major revisions in strategy frequently, and whilst changes occur in the environment, it is unlikely that this would be so great that a transformation would be necessary.

The experience lens views strategy development as an outcome of individual and collective experience of individuals and the taken for granted assumption, mostly represented by cultural influence. Individual experience can be explained inn terms of cognitive models people build over time, by having to make comparisons with prior events and then taking a decision. Without such mental models, individuals are not able to function effectively. It must be noted at this stage that the same mental models lead to bias, especially when the context has changed.

But experience may be collective, in which case it becomes a culture. Schein (1992) defines culture as the basic assumption and beliefs that are shared by members of an organization, which

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operate unconsciously and define a basic taken for granted fashion of an organizations view, and that of its environment. Experience is therefore rooted collectively in form of culture, which in itself explains how strategies are developed. Culture is handed down to new entrants in organizations; hence a certain strategy development process is retained. Scott (1995) points to similarities between organizations in terms of assumptions and practices similar and common between them and the strategies they follow. Accountancy firms are similar while legal partnerships are also similar. He alludes to the concept of organizational fields, which represents networks of related organizations which share common assumptions, values and ways of doing things, so institutionalised that it is difficult for people to change or question them.

Such taken for granted assumptions are deeply rooted at organizational level, that they become paradigms, and can be especially important as an influence in the development of strategy (Pfeffer, 1981; Johnson, 1987). Collective experience is about paradigms without which people would have to 'reinvent the world'. The paradigm is not the same as explicit *values* in an organization, nor is it the same as the *strategy*, though it is likely to influence both.

The ideas *lens* sees the development of strategy as the emergence of order and innovation from the variety and diversity which exists in and around organizations. New ideas, and therefore innovation will come from all over the organization. Evidence is that actually innovation comes from the bottom, not top of organizations (Johnson & Huff, 1998). New ideas take place in changing and unpredictable environments, more than stable ones. High degree of control and strict hierarchy are likely to encourage conformity and reduce variety. While new ideas are likely to thrive where they are allowed and encouraged to compete, complexity theorists argue that innovation and creativity emerge when there is sufficient order to make things happen, but not when there is such rigidity of control as to prevent innovation (Brown & Eisenhardt, 1998). They further suggest that adaptive tension helps generate new ideas.

2.3 Strategy Development in Organizations

We have considered explanations on how strategies are developed. These lens are not conclusive, but only provide a way of understanding and interpreting the causes and effects of

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those processes. In organizations today, strategy development is often equated with strategic planning systems. In many respects, organizations manifest the design approach to managing strategy, with processes that take the form of systematised step by step chronological procedures involving many different parts of the organization. Organizations with such formal systems are often populated with managers and leaders who, often only think that a highly systematized approach is the only rational approach to strategy formulation and development. Evidence of the extent to which the formalised pursuit of such a systematised approach results in organizations performing better than others is, however, equivocal (Rhyne, 1986).

But formalised strategy development has its uses. It provides a structured analysis and thinking about complex strategic problems as it gets managers to question the perceived wisdom which they take for granted. It also encourages a longer term view of strategy, than might otherwise occur. It can be used as a means of control, as it has been observed in the background above, that strategy without control is ineffective. This is because performance is measured against agreed objectives or a previously agreed strategic direction.

Strategic planning systems can be useful as a means of coordination, by bringing various business unit strategies within an overall corporate strategy and ensuring that resources within an organization are coordinated to put strategy into effect. Strategic planning also helps to communicate the intended strategy. Owing to the way that it arises, it helps to involve people hence create ownership of the strategy. Finally, strategic planning systems provide a sense of security and logic to the organization, in particular management who believe they should proactively determine the future strategy and exercise control over the destiny of the organization. From the experience lens, strategy actually develops on the basis of informal sensing of the environment, which is based on peoples experience and cultural systems described above.

However, there are dangers arising from the formalization of strategic development. Mintzberg (1994) argues that there are dangers in organizations where line managers cede the strategy development process to specialists and top management, who however do not have the power in organizations to make things happen. The danger is that strategy development becomes an

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intellectual exercise removed from the reality of the operation. The process of strategy development may be cumbersome that individual managers contribute only a part, and do not understand the whole of it. There is a danger that strategy comes to be thought of as a plan, when clearly we know that it is not the same as a plan. Strategy development, especially under the design lens can result in an information overload, information which the management does not know exactly what to do with. Experience in organizations is often ignored, especially when younger managers replace the experienced. Strategy that is formulated and developed in corporate planning departments or by a senior management team may not be owned. Formal planning systems, especially if linked to tight mechanisms of control can result in inflexibility hence stifling and dampening innovative ideas. Planners often become obsessed with a search for the 'right strategy', often in vain.

2.4 Role of Strategic Leadership

Johnson and Scholes (2002) contend that development of strategies is often directly linked to the role of a strategic leader. They define a strategic leader as an individual upon whom strategy development and change are seen to be dependent. Leadership is the process of giving meaningful direction to collective effort and causing willing efforts to be expended to achieve collective goals. Leadership creates a climate in which strategies are implemented with success, and is key to the survival of any organization. Leadership is important in understanding the strategic position of the organisation, strategic choices for the future and turning strategy into action.

It has been a long held belief that the major factor that distinguishes successful organizations with their less successful counterparts is the presence of dynamic and effective leadership (Yukl, 1994). Though literature and available evidence suggests that organizational strategy is not always driven by senior managers, it is certainly the case that they are held responsible for its success or failure. They are formally charged with taking decisions, directing others and creating a framework of rules, systems and expectations within which the organization operates. This is what leadership is all about.

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It is however surprising to find that leadership is such an elusive concept. Bennis (1959) commented: *"Always it seems the concept of leadership eludes us or turns up in another form to taunt us again with its slipperiness and complexity. So we have invented a proliferation of terms to deal with it ... and still the concept is not sufficiently defined."*

Leadership theorists have been separated into three main groups. One group is for those who focus on the personal characteristics and process of leadership. Another group represents those who concentrate on the leader follower situation, while the third group embraces those who attempt to relate leadership styles to the overall organizational context and climate.

Initial investigations into leadership tended to concentrate on certain factors as personal qualities (intelligence, age, experience) or personality traits (extroversion, dominance). Consequently, regardless of the task or situation, if a person did not possess the personal attributes, then he was deemed to be unlikely to be a good leader. Gibb (1969) and other studies failed to reveal any consistent pattern of traits.

In the late 1950's, new attempts were made to view leadership as a process, and the focus moved to examining the interaction between leaders and followers, and how leaders influence groups to pursue achievement of individual goals. This advanced the view that leadership behaviour, rather than attributes may predict success more effectively.
In the 1950's and 1960's, researchers hence began to argue on 'one best way'. Universal theories by McGregor (1960), Argyris (1964), Likert (1967) and Yukl (1994) postulated that the same style of leadership is optimal in all situations.

One weakness of leadership literature is that it tends to concentrate on the traits of individual managers and their relations with subordinates. The assumption, implicit and explicit is that effectiveness is an attribute of the individual manager, moderated by the leader-subordinate situation i.e. that a good leader in one organization will be good in all organizations.

This approach is a variant of the situational approach. Instead of focusing on leader behaviour, it focuses on leadership style, and instead of the narrow leader follower situation, it focuses on the

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overall organizational context and climate. It incorporates change as a variable and considers the importance of leaders varying their style and approach to changing circumstances.

But given that leadership is particularly important during periods of rapid change, Aosa (1996) contends that there is need to synchronize the management and implementation of change with the context in which change is being carried out. This is especially true within the African Context where management has been shown to be different.

Strategic management will require leadership that is focused on both the external environment and internal resources. This is critical because the organizational capability has to be continually aligned to the changes in the environment in order to take advantage of new opportunities and advantages. Hence, organizational change is inevitable, and that is where leadership becomes critical.

Organizational change has become a way of life as a result of three forces, globalization, information technology and industry consolidation. Change is created constantly and on many levels in an organization. There is the occasional earthshaking event often induced by outside forces, there are also the everyday actions of people engaged in their work. Mastering deep changes calls for being first with the best services, anticipating and then making new customer requirements and applying new technology. It requires that the organization be fast, intuitive and innovative

To do this effectively, an organization requires leaders who are attentive to early signs of discontinuity, disruptions, threats or opportunities in the market place. They also need to create open channels of communication and encourage feedback and participation from all levels. The most important things that a leader can bring to a changing organization are passion, conviction and confidence in others. Too often executives announce a plan, launch a task force and then simply hope that people will find the answers, instead of offering a dream stretching their horizons and encouraging people to do the same. That is why it is said that 'leaders go first'.

Leaders set the directions, define the context and help produce coherence for their organization. Leaders manage the culture or at least the vehicle through which that culture is expressed. They set the boundaries for collaboration, autonomy and the sharing of knowledge and give meaning to events that otherwise appear random and chaotic. They also inspire voluntary behaviour, which is the degree of effort, innovation and entrepreneurship with which employees serve customers and seek opportunities.

Leadership and management are two distinct and complementary systems of action. They are both necessary, but have different purposes. Management is concerned with coping with complex modern organizations. Good management brings a degree of order and consistency to key dimensions like the quality and profitability of products. Leadership, in contrast is about coping with change.

Leadership involves setting a direction within which planning exercises can be effective, leading to the saying of "managers lead within paradigms while leaders lead between paradigms". This is because managers engage themselves in planning and budgeting while leaders set directions. Another distinction is that managers engage in organizing and staffing while leaders align and empower people around a common vision.

Leaders motivate people by satisfying their needs for achievement, sense of belonging, self esteem and recognition. Where managerial process helps people perform routine tasks successfully over time.

2.5 Organizational Politics and Imposed Strategy

Managers often suggest that strategy development in an organization is the result of bargaining and power politics that go on between executives. Buchanan & Boddy (1992) argue that the political view of strategy development is an outcome of processes of bargaining and negotiation among powerful internal and external interest groups. Political activity gets on the way of thorough analysis and rational thinking, and presents an inevitable negative influence on strategy

development. When people in organizations are rooted to different experience, they will always seek to protect their view, and with different views, comes the need to exercise power. Further, when managers come in with different experience, it becomes necessary to strike a compromise, but compromise may not necessarily be the correct strategy. This compromise leads to incremental and adaptive strategy development as the managers deviate from the original strategy as they cannot implement what they do believe in. Still under experience, the analytical process that goes with planning may not be entirely neutral.

Political activity has to be taken seriously in strategy development. Political activity is also seen as a manifestation of competing ideas in an organization. External stakeholders often hold sway in strategy development, leading to situations where managers face what they see as an imposition of strategy by agencies external to the organization like banks. The government may also impose a particular strategic direction, especially in the public sector. It has been argued that while an imposed strategy may not be developed by managers in the organization, it has been developed elsewhere, but this could be sub-optimal to the organization in question. But governments have often argued that imposed strategy helps reduce inertia seen in certain organizations, and that the existence of a general strategic direction may provide impetus for creativity and innovation. This is because it creates an overall declaration of intent and provides sufficient principles and guidelines to create 'adaptive tension' and competition for new ideas.

2.6 Logical incrementalism and the Learning Organization

Logical incrementalism is the development of strategy by 'learning through doing' or the 'crafting'. Quinn (1980), in a study of major multinational organizations concluded that the management process could be described as logical incrementalism, meaning that managers know where and what the organization should be years to come and move towards this position incrementally. He concluded that managers develop a solid, secure but flexible core business, and experiment with 'side bet' ventures. Managers see their job as 'strategists' as being that continually, proactively pursuing a strategic goal, countering competitive moves, and adapting to the environment whilst not 'rocking the boat'. This aspect of strategy development does not fit a neat sequential design, but every 'incremental' aspect is rationally thought through taking into

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account issues in the environment. Sensing the environmental changes is done through sub systems that draw on experience of people in different roles in the organization. Strategies developed incrementally offer immense benefit. Continual testing offers quality information for decision making and enables better sequencing of events. Since change is gradual, it offers better chances of acceptance in the organization. The implications of strategy development are continually tested, which makes sense in a continually changing environment.

The concept of the *learning organization*, popularized by Senge (1990) in more respects than one corresponds to aspects of logical incrementalism, as environmental change cannot be fully be described with analytical tools. With a turbulent and unpredictable environment, traditional methods of strategic management become inappropriate, and there is little to be gained from formalised planning. There is need for continual challenge, to develop *pluralistic* organizations in which different ideas are offered accommodation, and experimentation becomes the norm. This however is likely to take place where *informality* of working relationships is found. New ideas emerge through social networks, than through hierarchies (Granovetter, 1973). The job then is to create an organization allowing enough *organizational slack* and teams that are continually ready to change.

The learning organization, then can be seen as one capable of continued regeneration from the variety of knowledge, experience and skills of individuals within a culture that encourages mutual questioning and challenge around a shared purpose or vision.

2.7 Implications of Strategy Development

One may conclude the strategy development process by arguing that there is no one right way in which strategies are developed. The way strategies are developed in a fast moving environment is not and should not be the same as in one where there is little change. Secondly, it is likely that the way strategies are developed will be seen differently by different people. Managers in the government sector tend to see strategy as imposed than those in private sector, while those in family business tend to see evidence of powerful individuals who may be owners. It is very unlikely that one process as described above can explain the strategy development character of

organizations. If a planning system exists, it may have some political influence, and certain elements may be imposed.

Typically, strategy is developed by the organization in an *intended*, planned fashion. Intended strategy is seen as an expression of a required strategic direction formulated by managers, or by a strategic leader. The implementation of this strategy is planned in terms of resource allocation, control systems and structure. However, this does not necessarily explain how the *realised* strategy, that is, the strategy actually being followed by the organization comes about (Mintzberg and Waters, 1985). But there ate reasons why the intended strategy never materialises. Plans laid out may be unworkable, the environment changes after plans have been drawn; managers decide that plans as drawn should not be implemented and people in the organization and influential stakeholders do not go along with the plan. New strategies may as well be imposed in the organization.

But considering that strategy is long-term, it may as well be *emergent.* Pettigrew (1985) wrote that as the management of an organization depends a great deal on the experience of those involved, individual or collective. Managers typically resolve view through negotiation, political activity, power or by falling back to routines that make up the culture of the organization. So strategy could develop in an emergent fashion as an outcome of cultural and political processes. This kind of strategy takes the form of logical incrementalism and learning, where strategy is not set out by a master plan, but grows from interpretation by people in the organization. The implications of the emergent strategy is that there may be a gap between what managers think strategy is, or should be and what is actually going on in practice. Organizational effort may be going into developing and designing the intended strategy when more effort needs to be spent on attending to the processes that give rise to the realised strategy, especially if strategic change is needed.

2.8 Strategic Drift

Historical studies in organizations have shown prevalence of processes leading to emergent strategy (Mintzberg and Waters, 1985). There are usually long periods of continuity with

incremental changes and also a period of *transformational* change leading to a *punctuated equilibrium* as discussed by Romanelli and Tushman, (1994), where strategies change incrementally, but with some transformations.

However, it must be noted that in some occasions, environmental change may not be gradual enough for incremental change to keep pace, which leads to a need for a transformation from time to time. In situations where such transformation has not taken place, a strategic drift arises when the organizations strategy gradually moves away from relevance as a result of the forces at work in the environment. Indeed, there is a tendency for organizations to become victims of their own past, a tendency which is now known as the Icarus Paradox (Miller, 1990)

2.9 Corporate Strategy Selection: The Wisdom of Diversification

The nature of diversity and the degree of relatedness of business units in a portfolio are important issues to consider. Johnson and Scholes (2002) define diversification as a strategy that takes the organization away from its current markets, products or competencies. Related diversification is strategy development beyond current products and markets, but within the value system, or industry in which the organization operates. This type of diversification may be vertical integration, backward integration, forward integration and horizontal integration.

Vertical integration describes either forward or backward integration into adjacent activities in the value system. Backward integration relates with inputs into the value system, while forward integration relates to activities into outputs. Horizontal integration is strategy development into activities which are competitive with or complementary to an organizations present activities. Reasons for related diversification would be to control supplies, markets, access to information, cost savings, building on core competencies and technology, spreading risk and resource utilization.

Unrelated diversification involves an organization moving beyond its current value system. A firm may diversify to new markets and new products to exploit its current competencies. The corporate rationale, especially for global business should be to build companies where 'synergy

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management' may apply, and also shared competencies of the 'parental developer'. This type of may involve creation of genuinely new markets. The most extreme form of diversification occurs where new competencies are developed for new market opportunities. Unrelated diversification may take place to exploit underutilized resources and competencies, escape from present business, spread risk, even out cyclical factors in a given sector, use excess cash to safeguard profits and personal values and objectives of powerful figures.

Mwindi (2003) found that unrelated diversification, as practiced by retail oil companies in Kenya was a move towards enhancing customer satisfaction, rather than an attempt to improve financial performance.

Empirical Studies: Diversification and Financial Performance

A number of studies have been conducted to investigate the relationship between choice of diversification as a strategy and the performance of an organization in financial terms. Mwinzi, (1991) found that there lacked a significant difference between the financial performance of low, medium, and highly diversified insurance companies in Kenya. Rumelt (1974) suggested that firms that developed through related diversification outperformed both those that remained specialised and those that developed through unrelated diversification. Montgomery (1982) questioned these findings and argued that the sum total of all research work linking patterns of diversification to financial performance remains somewhat unclear, since many studies rely on measures of relatedness, yet it is difficult to be clear on what related and unrelated really means. The balance of evidence is that relatedness of diversification is financially beneficial in so far as it allows an organization to build on and leverage common resources and competencies (Markides and Williamson, 1994)

There are however limits to which diversity is advantageous. The costs and complexity of managing diversity are considerable. Mangers struggle to understand what the entire spectrum of business is all about. So while profitability increases with diversity, this happens only up to a *limit of complexity*, beyond which the relationship reverses (Grant, Jammine and Thomas, 1998).

Hitt, Hoskisson and Kim (1997) found a similar pattern in international diversification. While geographical diversification tends to increase profitability, the combination of diverse locations and diverse business units gives rise to a level of complexity beyond which benefits are not gained. This is because the level of innovation internal to the firm declines, as the focus becomes more and more coordination and control of the portfolio.

The extent to which diversification is likely to enhance performance will also depend on whether the nature and extent of diversification are compatible with other challenges of the corporate strategy like corporate parenting, logic of the corporate portfolio, and the nature of corporate control exercised by the parent.

In conclusion, one may say that the objectives of the concept of strategy may be well understood in organizations today. Development of strategy comes from various levels in the organization and should be participatory for ownership and communication purposes. Formal strategic planning systems remain the most favoured, yet leadership, as a climate remains crucial in periods of rapid change. But while all organizations must continue learning, it becomes necessary to recognize that strategy could be imposed by players in the environment, leading to a strategic drift, hence making strategic development a political balancing act.

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CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the steps undertaken in executing the study. It describes the research design as that of a case study, explains sampling and data collection methods and describes how the data was analysed.

3.2 Research Design

This research was conducted through a case study. This method was chosen because it enables the researcher to probe and obtain an in-depth understanding of a case such as at Lonrho Africa, that was the subject of the study.
This design is valuable for detailed analysis. Young (1960) and Kothari (1990) concur that a case study often provides focussed and valuable insights to a phenomena that may be vaguely known and less understood.

3.3 Data Collection

In-depth interviews were conducted with available executives who served in Lonrho Africa. An interview guide questionnaire was administered by the researcher, with questions posed depending on the executive's category. Questions were issued in advance to help respondents recollect facts, or make reference as necessary. The researcher obtained secondary data and material especially from magazines and journals that have been published. Further material was obtained from the annual report and accounts of the company.

The executives who participated were divided into categories. The first category of executives served in the Lonrho Africa board. This comprised the Non-executive Chairman, Chief Executive, Executive Deputy Chairman, Finance Director, three non-executive directors and the company secretary. The second category comprised divisional managing directors for motors,

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agribusiness, distribution, Hotels and Property & Construction. The final category was drawn from finance directors of the various divisions and finance managers for bigger companies within those divisions.
Depending on availability and time constraints, other senior executives who do not fit descriptively in the categories described above were also interviewed.

Category one executives were included in the study because strategy was driven and lead at board of director's level. Category two featured because divisional managing directors had the responsibility of coming up with the strategy itself, with respect of their divisions. The category of finance directors was critical as most of the control instruments were under their care.

Of the 24 executives identified, 15 of them (representing a response rate of over 60%) selected on a judgemental and availability basis were interviewed either face to face or through the telephone. Viewed against other previous studies, Karemu (1993) 55%, Shimba (1993) 56% and Aosa (1992) 15%, the response rate was considered reasonable. Interviews were discontinued when they no longer yielded new information.

3.4 Data Analysis

Considering the kind of data envisaged as per the questionnaire, a conceptual and qualitative content analysis was used. Nachmias & Nachmias (1996) define content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate trends. Mbogo (2003) who employed this kind of approach argued that it is useful in gaining fresh material in even what was thought to be unknown.

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CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents and discusses the findings of the study. The results are presented to highlight the convergence of ideas from respondents. Incorporated into the body of the research findings is supplementary data gathered from other sources.

4.2 Lonrho Africa's Businesses

The Group operated in 14 sub-Saharan African countries and had five core activities as explained below and in table 4.a that follows. Turnover reduced from Stg. £532.6 million in 1995 to Stg. £267 million in the year 2000. Table 4.a below shows the movement in turnover, net profit and earnings per share over the same period.

Motors:

The Motors division held a wide range of distributorships and dealerships in ten African countries, importing, selling and servicing motor vehicles, motorcycles, generator sets and small aircraft. The division operated in Kenya, Uganda, Tanzania, Malawi, Zambia, Zimbabwe, Angola, Namibia, South Africa and Swaziland. Given its size and geographical diversity, the Motors division was managed under three regions: East Africa, Central Africa and Southern Africa. A managing director in each region was responsible for the development of all of the Group's franchises in that region, with the exception of Toyota East Africa which, due its importance was managed by a separate managing director. Each regional managing director reported to the Motors managing director.

Agribusiness:

Operating in seven African countries, the Agribusiness division carried out principally the downstream processing of primary agricultural products, complemented by its cotton merchanting business based in the UK. Its main focus was on products that could be exported and also where Lonrho Africa could take raw materials, process it and sell the finished products

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at more favourable margins than the primary products. The export of these products was to provide Lonrho Africa with access to world markets and "hard" currency revenues. Implementation of this strategy since early 1995, led to the disposal of tea and coffee estates, cattle ranches and arable farms.

Agribusinesses four principal activities included cotton ginning and merchanting, timber processing, food processing and brewing of opaque beer.

Cotton.

Lonrho Africa operated nine ginneries in Zambia, Mozambique, South Africa and Uganda. The geographical spread of cotton ginneries helped minimise the impact of unfavourable weather conditions on the division's activities. In addition Baumann Hinde, based in Southport, UK, acted as the group's international cotton merchant and provided the group with expertise in cotton classification and marketing. The cotton ginneries separated seed cotton into cotton lint and fuzzy seed. The cotton lint was sold for processing into yarn and the fuzzy seed sold for animal feed and oil. The profitability of the cotton activities was dependent on international cotton prices and the division's ability to source sufficient seed cotton at an acceptable price.

Timber processing.

The Group had two principal timber operations. Growing and processing wattle bark to make a leather tanning extract in Kenya and Zimbabwe, and growing and processing pine timber in Zimbabwe. All plantations were owned by the Group, as third party raw materials were generally not available for processing.

Food processing.

Farmer's Choice, the Group's food processing operation based in Kenya, was a fully integrated meat processing business, involved in the processing and distribution primarily of pork and game products for both the Kenyan and export markets.

Brewing.

Lonrho Africa's brewing operations were based in Zambia and Malawi and produced an opaque beer from maize "Chibuku". Chibuku with a shelf life of approximately five days, was sold to

taverns and retail outlets in bulk containers or one-litre cartons. The products principal competition came from the clear beer at the upper end of the market and domestically brewed products, principally for self-consumption, at the lower end of the market.

Distribution:

The principal activity of the Distribution division was the purchase of goods from international and local suppliers for sale through the group's extensive distribution network in Nigeria. The division also arranged trade finance for the Group from its UK office. The division was managed through John Holt Group Ltd, based in Liverpool, UK. In 1997 the UK office of the John Holt Group became responsible for the financing and shipping of all the Group's motor vehicle imports, with the exception of products from Toyota. This was expected to result in significant savings for the Group.

Hotels:

The Group operated 11 hotels and lodges at the higher end of their respective markets in Kenya, Ghana, Mozambique, Mauritius, Zambia and Zimbabwe. The hotels in Mauritius and Zimbabwe were operated under management contracts. At the time of writing this paper, the group still operates six hotels in Kenya and one in Mozambique.

Property and Construction

The property and Construction division was responsible for the development and management of the group's property interests throughout Africa. In addition, the division developed and managed third party property. The establishment of a separate division in 1995, with a newly appointed property management team, led to the identification of a large portfolio of property owned by the Group, which was not required for its operating activities. The Lonrho Africa management team intended to dispose of these properties. The group carried out the development and management of property not owned by the company, partly through its South African subsidiary, Matrix Projects. The company also owned construction interests in Zimbabwe, Zambia and Swaziland.

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Table 4.a Operating data for the years 1995 to 2000

Year	1995	1996	1997	1998	1999	2000
Sales (£ millions)						
Motors	258.7	260.3	288.5	194.0	155.2	88.4
Agribusiness	142.7	157.9	158.1	112.7	44.2	35.6
Distribution	53.8	68.1	62.1	77.7	149.0	111.5
Hotels	15.1	17.2	18.8	17.2	13.0	13.8
Property & Construction	13.0	14.6	14.5	9.3	2.0	0.0
Other	49.3	53.5	41.0	14.2	20.1	17.7
	532.6	**571.6**	**583.0**	**425.1**	**383.5**	**267.0**
Operating Profit/(loss) (£ millions)						
Motors	22.3	20.2	17.8	10.3	2.2	-4.4
Agribusiness	13.8	19.4	17.1	3.1	-0.4	0.7
Distribution	7.4	10.1	8.1	8.4	2.5	4.6
Hotels	2.6	4.5	4.7	2.9	1.5	1.2
Property & Construction	1.6	1.6	1.8	-2.5	-0.3	0.0
Other	4.5	5.8	4.1	0.1	1.6	1.2
Central costs	-6.0	-6.9	-3.9	-5.0	-6.5	-3.4
	46.2	**54.7**	**49.7**	**17.3**	**0.6**	**-0.1**
Profit/(loss) for the year (£ millions)	22.0	27.1	10.4	-11.3	-40.5	-57.4
Earnings/(loss) per share	11.1p	13.6p	6.6p	(7.2)p	(36.4)p	(25.7)p

Source: Data extracted from management accounts and annual reports for fiscal years ended Sep. 30

4.3 Group Strategy Development

As observed above in chapter one above, the African non-mining businesses of Lonrho were focused on maximising the operating cash flows that could be returned to Lonrho head office to meet the overall requirements of the group. This resulted in the Lonrho Africa having a relatively high level of local borrowings. The Directors believed that following the de-merger, which involved a net capital injection of £48million into Lonrho Africa, the group would be able to

manage better the capital resources for its operations and to pursue investment opportunities as they arose offering an attractive rate of return.

The group strategy as set out by the directors prior to the de-merger was to rationalise the company's motor vehicle franchises to focus on a small number of key relationships, and begin to dispose of land and property, which the directors believed was surplus to requirements. The proceeds of these disposals would be reinvested in the group's search for a single core activity, or used to reduce borrowings.
In the medium term the directors had identified a number of growth opportunities upon which they intended to capitalise. In Agribusiness these included increasing the output of the group's cotton ginneries through the expansion of cotton out grower schemes and the introduction of the Farmer's Choice food processing operations into other African countries.

The Directors intended to manage the Group's core business activities with the objective of maximising the return on capital from each activity. The criteria set was in the case of existing businesses, the rate of return on capital of 20% and for new investments, the rate of return on capital of 25%
Businesses not capable of meeting these thresholds would be sold, when market conditions and Lonrho Africa's obligations in local markets permit.

4.4 Rational Strategy Development: The Budget and Accounts Review Process

As observed in chapter two above, the process of strategy development under the design *lens* may be rational in character, which involves analysing and evaluating options. This involves matching the organizational strengths and resources with the changes in the environment so as to take advantage of opportunities and circumvent threats.
The researcher sought to establish to what extent rational strategy development took place at Lonrho Africa and captured information by asking respondents to discuss in detail how analytic thinking preceded and governed actions and how this cascaded to the rest of the organization. The explanations given by the respondents are captured below, and have been supplemented by information from other sources.

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The budget exercise was the only time in each year when the whole Group reviewed its operations and an integrated operating plan was put together and approved by management and directors at all levels. The areas covered included overall policy and direction of operations, capital expenditure, dividends payable and other remittances to/from Lonrho Africa head offices, key assumptions such as interest rates, inflation rates and exchange rates.

The strategic planning Process: The operating units started preparing the detailed budgets in March and were presented to the Lonrho Africa management in early June. Any amendments as proposed by the Lonrho Africa management were incorporated into the budget and then resubmitted to group accounts for consolidation in July. The consolidated budget was presented to the Board in August for the financial year beginning 1st October and was always approved.

The budget review process took one to two working days per division. The amount of time spent depended on the operating profit budgeted by the division. The higher the operating profit the less time spent on the review. For example the review of the Food Processing operations took only two hours as they always achieved good operating profits (ROCE – 30%). Approximately 95% of the time spent was on reviewing the profit and loss account and the rest of the time was spent on reviewing the capital expenditure spend, balance sheet and cash flows. The divisional management knew of this and always overstated the budgets.

There was no change made to the overall policy of operations as submitted by the divisions from 1995 to 1999. The only analysis of the business plan was based on the technique of SWOT analysis. This analysis was not comprehensive enough. PEST analysis, Porter's five forces framework (competitive advantage), Porter's generic strategic matrix (competitive strategies) and the simple BCG's growth share matrix were never used.

Generally, some of the factors impacting the environment in Africa like regulation and monopolies were not considered in the rational strategy development. Imported goods were becoming available at cheaper prices which was a critical factor considering the low per capita income in all African countries. Generally gross margins dropped from a high of 70% to as low

as 15%. This forced industries to become more efficient. Many were unable to as they had no experience on how to operate in a competitive global environment. As technological and customer expectations changed, customers became more aware of what was available and what was happening in the world. Communication had improved significantly over the last twenty years, a factor that was not fully integrated in the rational approach used at Lonrho.

Governments became more aware of the environment and started imposing stringent controls, basically replicating what was going on in the west. The IMF and World Bank amongst others started forcing the governments to do away with protectionism, and the majority of the countries in which Lonrho Africa operated promptly followed.

Key assumptions such as interest rates, inflation rates and exchange rates were not reviewed in detail. Each division manipulated these assumptions so as to boost its operating profit. It was strange to note that different businesses in one country used different inflation and interest rates. Only the exchange rates used were consistent as Lonrho Africa management supplied these.

The budgets were prepared and reviewed in sterling, as this was the reporting currency. Management held the view that since Lonrho Africa was a UK company, all reports should be prepared in sterling. Translation exposure was not adequately addressed, as Africa was considered one “country”.

In view of the above, the budgets were obsolete before the financial year started. All the budgets were prepared on spreadsheets and a considerable amount of time was spent by the operating units finance staff and the divisional finance directors in preparing these budgets. These budgets were never used as the reviews were carried out on the basis of reviewing current actual results against previous year’s results.

The only items used from the budget process, was the approved capital expenditure spend. Even when the Group was losing money there were no restrictions placed on capital expenditure as this was already “approved”.

Accounts and Management Review Process: Lonrho Africa management reviews took place in the third week of each month covering the previous month and year to date results. The people involved were the Lonrho Africa management team, the divisional managing and finance director and the group financial controller who prepared the chief executive officers report for the month to the board. Full year forecasts were also always prepared. As with the budget all reviews were carried out in sterling. Local currency results were never looked at, and translation exposure was not adequately addressed. A maximum of one day was set aside per division in the review process. The time spent on the reviews was not adequate especially as the budgets were not used. Reviews covered events, which occurred during the month, and how they impacted on profit. A detailed financial review was prepared every month providing the following details: balance sheets, cash flows and reasons for major movements, working capital and reasons for movements in working capital covering previous month, year to date and forecast full year movement, capital expenditure spent to date and to be spent for the remainder of the year compared to budget, trade finance provided by the group, details of any dividend receipts/payments

In addition a treasury report was produced giving details of all types of borrowings and guarantees by bank and giving details on security provided and interest rate charged.

Most of the executives who discussed this area in detail found the process to be a ritual rather than a conscious strategy development approach. This is explained by the fact that after the review, no paper was written to firm an agreed strategy going forward.

4.4.1 Rational Strategy Development: The One Minded Search for Core Business

The researcher sought to establish the rationale and justification for diversification, especially as Lonrho Africa did not seem to have a core business. Respondents explained that as revenues declined, management tried a series of radical changes to sustain revenues, mainly directed at investing in new projects. These acquisitions and investments were funded from the sale of business units, which were considered surplus to requirement, liquidation of property holdings, cash earnings when the company was doing well and from the capital injection received at the

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time of the de-merger. It was expected that eventually, a core business would be developed, and Lonrho Africa would concentrate on it

In evaluating the viability of projects, Lonrho Africa's strategy was that new business projects must be capable of achieving a pre-tax return on capital employed of 25% per annum. Ongoing businesses must be capable of earning a 20% return. In reality the only businesses achieving the above return were the food processing, brewing and Lonrho Motors Malawi businesses. Unaware to top management, the group strategy had already drifted.

On new projects and investments, figures were made up to achieve the required return. The decision on the projects was always pre-determined and based on a "good feel" and experience factor of executives who believed that one of their core competencies was that they were experts in African affairs. In evaluating the projects inflation was ignored or the price was increased by the inflation amount hence increasing the gross profit and exchange rate movements were only taken into account when it increased the rate of return. The assumptions made for different projects, even within the same country were not consistent.

The Net present value (NPV) technique was only used when the projects NPV was positive and conveniently ignored when it was negative. NPV involves the discounting of future cash flows to present value and summing them together. In many cases the discount rate used for the NPV calculations was manipulated. Internal rate of return (IRR) i.e. the discount rate, at which the NPV of the investment is zero, was also sparingly used. The decision rule being to accept the investment/project if it's IRR was greater than the cost of capital.

The payback period i.e. time taken for a project to recover its initial investment was an important factor in decision-making. The rule of thumb used was that the payback period should not exceed two years. The payback rule usually gives answers different from the net present rule because the payback rule ignores all cash flows after the cut off date. It gives equal weight to all cash flows before the cut off date and future cash flows, in themselves, do not indicate increased wealth

Reaction from respondents on tools of analysis was mixed, though it emerged that country and political risk analysis was not adequately carried out as top management considered Africa as one country. The economic risk or business risk e.g. the structure of the market and the industry, the rate of change of taste and technology, and the exposure to macroeconomic variables, were not adequately addressed. Comparisons with similar businesses were considered, but not in detail. It was more of a case of "we know best, as we are the experts in running businesses in Africa", a factor believed to be a source of competitive advantage for the group. Sensitivity analyses were looked at only in terms of quantity sold and price. Again these analyses were not exhaustive. The projects and the data presented were not independently verified. The Lonrho Africa management team relied totally on the divisions managing and finance director to provide the data.

Respondents agreed that there was a flaw in Lonrho Africa's policy of financial investments especially with a single minded and prejudiced approach to move into cotton as a core business. This had a significant negative impact on its cash flows. We sought to establish some of the significant acquisitions or investments made by Lonrho Africa in search for a core business, and present some in a little more detail below.

Motors

Lonrho Motors East Africa Ltd (LMEA): An amount of £1million was spent in establishing the ford franchise in Kenya. The assumptions made were that LMEA would have a combined market share of 80% of the vehicle market in Kenya, which was fairly unrealistic, as all the major manufacturers were represented in this market. It was further assumed that prices would go up by the inflation rate. The new vehicle market was in decline (19,000 units in 1993 to 6,000 units in 2000). This was due to the increase in second hand car sales, which were more affordable. All manufacturers reduced their margins by approximately five percent. The initial appraisal showed that the return on capital employed (ROCE) would be 4%. The assumptions were altered to achieve the required ROCE. This was done on the insistence of the of Lonrho Africa management team.

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Theoretically, LMEA was achieving a high ROCE (28%) before exceptional items. The exceptional items were considered as one off items but in reality occurred every year - £15.4 million from 1997 to 2000.

Companies in similar businesses were breaking even while LMEA was reporting huge profits before exceptional items. This was brought to the attention of the Lonrho Africa management team. Respondents believed that the LMEA senior management had manipulated financial results since 1993. This was brought to light in February 2000. Gearing in the year 2000 stood at 100%. Lonrho Africa had directly invested an amount of £7.2million between 1995 and 1998 into this business. In addition the group had financed LMEA to the tune of £17million in respect of trade finance to purchase vehicles and spare parts from 1997 to 2000. No significant repayments were made during those years.

Table 4.b LMEA trading results from 1995 to 1999

	1995	**1996**	**1997**	**1998**	**1999**
	£m	£m	£m	£m	£m
Turnover	60.8	73.4	62.3	51.4	39.6
Operating profit *	10.2	12.4	1.6	0.1	-3.3
Interest	-2.5	-6.3	-6.1	-8.3	-6.6
Profit/(loss) before exceptionals	7.7	6.1	-4.5	-8.2	-9.9
Exceptionals	0.6	0.2	-0.2	-0.2	0.0
Profit before tax	8.2	6.3	-4.7	-8.4	-9.9

* Includes operating exceptionals

Source: Annual Accounts 1995 to 1999

The artificial profits made in 1995 and 1996 were paid out as dividends in full. The senior country management at that time were evaluated on the amount of dividends paid to head office in the UK. The managing and finance directors of Lonrho East Africa became the managing and finance directors of Lonrho Africa Plc.

LMEA had ventured into the hire purchase business in 1994. Hire purchase debtors were financed by bank debt. In order to get the bank debt off its books, so as to lower gearing, this business was sold off in 1997. This was top priority given the pending de-merger. The condition

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of the sale was that all bank debt taken over by the new owners would be guaranteed by LMEA with no conditionalities. The Lonrho Africa management team agreed to this arrangement. These guarantees cost LMEA £11million.

As will be restated under imposed strategy in the next section below, banks started considering LMEA a high risk in 1997 and increased their interest rates by approximately 5%. Standard Chartered Bank withdrew their facilities in 1998 and the facilities were replaced with another bank at much higher interest rates. There was no interest cover. The Lonrho Africa management team again ignored this warning sign. LMEA was eventually placed under receivership in July 2000. The group debt of £17million could not be recovered and in addition, any shortfall to Barclays was paid by Lonrho Africa as they held a UK guarantee. The syndicate loan agreement stated that no bank would be given preferential treatment. Commercial paper holders sued Lonrho Africa for £4million.

Cotton

A detailed analysis done to justify Lonrho Africa's entry into cotton was based on wrong assumptions and insistence by top management that the search for a core business was finally over. Lonrho Africa purchased its first cotton ginneries in Zambia in a government privatisation initiative at far below market valuations. Initially the returns were approximately 60%, using initial cost of investment and not market values. The management team interpreted this to mean that cotton was an excellent business to invest in and took the decision to invest in other countries to mitigate country risk. The world cotton price was at its peak but it was assumed that this would increase further over time even though the statistics showed that cotton prices peaked every 10 years and the prices were at the peak in 1996. The discount rate used in evaluating these investments was the dollar interest rate of 8%. The argument was that it was a dollar related business as 85% of its sales were US dollar denominated. The problem was that 85% of its costs were in local currency. Local inflation was significantly higher that the rate of devaluation of the dollar.

In total, Lonrho Africa invested £18.3million in the cotton businesses, which was eventually all lost. Total exceptional items for the years 1999 and 2000 amounted to £11.5million and the loss

on disposal or closure of the cotton operations amounted to £6.5million. In view of the fact that cotton was to be Lonrho Africa's core business, we probed the strategy development in cotton further.

Lonrho Cotton Zambia:

The Zambian ginneries processed an estimated 68% of the cotton ginned in Zambia in 1997. Clark Cotton from South Africa set up more ginneries in Zambia and offered the farmers a higher price than Lonrho Cotton. Even though Lonrho Cotton gave cottonseed and technical advice to over 80,000 out growers, this did not guarantee that the farmers would sell to Lonrho. In an impoverished country the seed cotton was sold to the highest bidder. Further investments were made by Lonrho Africa even though the inflation rate and hence the local costs were rising at a significantly faster rate than the rate of devaluation of the local currency on which the sales were based. Zambia was considered to be hyperinflationary. In addition the world cotton price started to drop and the company started making large losses as shown in the table below. As noted above the discount factor used in evaluating this project was 8%. Total investment was £6.6million.

Table 4.c Lonrho cotton Zambia trading results for the financial years 1996 to 1999

	1996	**1997**	**1998**	**1999**
	£m	£m	£m	£m
Turnover	25.7	23.2	18.1	18.6
Operating profit/(loss)	4.0	0.8	-1.3	-5.3
Interest	-0.4	-0.7	-1.0	-1.5
Profit/(Loss) before exceptionals	3.6	0.1	-2.3	-6.8

Source: Annual Accounts 1995 to 1999

Lonrho Cotton Uganda Ltd:

The ginnery was built 200km away from the cotton growing areas. The cost of transporting the cotton to the ginnery made the operation expensive. The ginnery was supposed to gin 15,000 tons of seed cotton a year. The breakeven point was 12,000 tons a year. The capacity of the gin

turned out to be 8,000 tons per year. Other ginners who were based in the cotton growing areas increased their capacity and moped up all the excess seed cotton. Hence this operation could only purchase 7,000 tons of seed cotton per year at above market values. No proper feasibility was done for this project. Total investment was £3.9million.

Lonrho Cotton South Africa Ltd:

The ginnery was running at 50% of capacity and commanded a 19% share of the South African cotton market in 1997. At this capacity the operation would break even. Prices were set in Rand. Lonrho Africa thought that by developing an out-grower scheme they would be able to increase their capacity. They thought that such a scheme could be developed in one year. This scheme never went ahead as there was no guarantee that the farmers would sell their cottonseed to the company, as had been experienced in Zambia. Out-growers would sell to the highest bidder. There was an ongoing dispute on the price of cottonseed between the farmers and ginners. When Lonrho Africa purchased this gin they were not aware of this. The farmers were awarded a 12% price increase for their cottonseed. This immediately made the operation unprofitable and was eventually sold in the year 2000. Total investment was £5.3million.

Lomaco – Mozambique:

The cotton operations in Mozambique were carried out through Lomaco, a company the group managed on a day-to-day basis and in which it had a 50% stake. Lomaco operated three ginneries under concession from the Mozambican government who were the owners of the remaining 50% interest. Historically Lonrho Plc had financed this business to the tune of £10million. This amount had been fully provided for at the time of the de-merger. Lonrho Africa wanted to convert this debt to equity through a rights issue and effectively take majority shareholding of the company in 1998. In anticipation of this Baumann Hinde a wholly owned Lonrho Africa company provided trade finance to this operation even though they were aware that Lomaco was not in a position to repay this amount. In addition Lonrho Africa funded part of the losses to the amount of £0.8million, which was treated as cost of investment in 1997. The Mozambican government was not aware of the financial position of the company, as the financial reports were not sent to them and the board meetings, held once a year were only attended by junior officials. The Mozambican government resisted the rights issue as the restructuring of the company involved large redundancies, which was not considered politically

correct. The Mozambican government refused to put in any money into the company to finance its losses. Eventually Lonrho Africa gave its 50% interest to the Mozambican government for a nil consideration. An amount of £3.8million had to be written off by Baumann Hinde in respect of trade finance provided and the investment in the books of Lonrho Africa of £0.8million was written off.

From the above cotton analysis, one may conclude that though strategy development in the search for a core business in cotton was rational and analytical, other factors came in and conspired to ensure it was not a success.

Timber processing

Wattle Co. Ltd (Zimbabwe):

The company produced wattle mimosa extract, a resin, produced from the bark of the wattle tree and used in the tanning of leather. Due to competition from vegetable tanning products and leather substitutes, the world market for the resin was limited and very competitive. 98% of the resin was sold to India and Pakistan. The other major players in this industry were from Brazil. The producers in Brazil moved into the India and Pakistan market and cut their prices by 20%. This had a drastic impact on the profitability of the company. In 1997 Lonrho Africa had an opportunity to sell this company at above net asset value (£10 million) but decided to expand the company and re-capitalized it in 1998. A total amount of £5.4million was invested in this business between 1996 and 1998. At the beginning of 1998 the government in Zimbabwe announced its intention to compulsorily acquire land within that country. Lonrho Africa was however aware of this of this programme in 1997, though it was ignored. Once the government began its programme, the value of the company plummeted by £7.5million. The company was eventually sold for £3.5million. The Lonrho Africa management, as observed earlier did not consider country and business risk, though its strategy was based on rational numbers.

Property and Construction

Borrowdale Brooke Ltd (Zimbabwe):

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This was a large project, which began in November 1996 and involved the development of a golf course estate. The investment was £6.3million and completion time was 24 months. Estimated profit before tax was £3.5million. By the end of end of 1998, the project was £ 1.5million over budget and only 50% complete. The relevant government approvals for the project were not forthcoming and the properties, which were ready, could not be sold due to the delay in getting title deeds. Lonrho Africa took a substantial loss on this project. The Property and Construction management team, based in Kenya, had failed to plan this project properly and ignored certain important factors of doing business in Zimbabwe. There were constant problems on the ground with contractors, as several contractors and sub-contractors walked away from the project because of the way it was handled. Lonrho Africa handled the problem by closing down the division in September 1999.

From the discussion above, it is evident that formal and rational strategy development took place at Lonrho Africa, though with mixed results. The implication of this finding is that though formal strategy development is necessary, it needs to blend well with the turbulence in the environment and a detailed PEST analysis is often extremely necessary. Figures only do not give a complete picture as figures tend to be manipulated.

4.5 Imposed Strategy: Debt covenants and Policy Constraints

It has been noted that the process of strategy development in organizations may be influenced by organizational politics, where compromise gets in the way of thorough analysis and rational thinking. External stakeholders also sometimes get in the way of strategy development and impose strategies in organizations.

The researcher endeavoured to establish the extent to which strategy was imposed by external agencies at Lonrho Africa and captured information by asking respondents to discuss in detail how banks, financiers and other stakeholders derailed rational and formal strategies. The explanations given by the respondents, all of whom were directly involved in financing negotiations are captured below, and have been supplemented by information from other sources.

Although Lonrho Africa generated sufficient cash to meet its interest obligations, debt covenants remained an ongoing source of disciplinary constraint throughout its period of protracted distress. As is shown in table 4.d below, Lonrho Africa relied heavily on short-term bank borrowings. At the time of the de-merger, gearing after taking into account the £48million net capital injection was estimated to be 29%. In reality it was 43% due to the losses incurred and the slow pace of the working capital reductions. The capital injection had little impact on the gearing levels.

The above had a major impact on the banks as the company remained encumbered. In March 1999, three UK banks (Barclays, Standard Chartered and HSBC) agreed to provide committed facilities of £60 million until 30 June 2001, subject, inter alia, to compliance with certain financial covenants, which required the company's gearing to reduce over the period of the facilities and its net assets to exceed a specific amount. Table 4.d below shows that although assets of the company far much exceeded the borrowings taken from the banks, amounts falling due for repayment remained consistently high.

These financial covenants were set in the light of the disposal programme discussed with the three UK banks at that time. The Company's borrowing exceeded the committed back up facilities which were substantially provided under uncommitted on demand facilities from the three UK banks and other banks in the short term. Lonrho Africa was dependent upon its ability to utilise these uncommitted facilities. Lonrho Africa was instructed to reduce their exposure to the banks. The only way to do this was by liquidating working capital, selling property holdings and selling business units.

The Hotels division was selected, as it was considered not possible to expand the division due to the large cash outlay required. The sale of Hotels division was expected to raise £30 million, the proceeds of which would have been used to reduce bank debt and hence gearing. The sale was expected to be completed in mid 1999. The Hotels to date have not been sold. This put pressure on Lonrho Africa management as the liquidation of property holdings and working capital was not proceeding at the pace agreed with the banks. The banks then imposed further constraints on Lonrho Africa's operations. All business transactions over £1 million first had to be approved by

the three UK banks before they could be implemented. Due to these constraints Lonrho Africa was forced to sell its other business units and the break up of Lonrho Africa began in earnest in late 1999. This was not done in an orderly way as expected. It became public knowledge that all the business units were up for sale and that Lonrho Africa was in financial problems, even though the company could meet all its financial obligations.

Table 4.d Balance Sheet at 30th September

	1995	1996	1997	1998	1999	2000
Fixed assets						
Intangible - goodwill	0.0	0.0	0.0	0.8	0.9	0.0
Tangible	104.8	110.8	194.1	147.8	115.6	74.6
Investments	9.8	9.5	4.0	4.3	3.7	1.6
	114.6	**120.3**	**198.1**	**152.9**	**120.2**	**76.2**
Current assets						
Stocks	145.8	161.0	141.8	137.2	86.0	41.3
Debtors	104.3	127.0	120.3	104.8	69.9	34.7
Cash at bank	13.0	21.5	21.7	27.6	10.8	7.2
	263.1	**309.5**	**283.8**	**269.6**	**166.7**	**83.2**
Creditors: amounts following due within one year	-202.3	-239.4	-277.6	-217.0	-151.4	-86.7
Net current assets/(liabilities)	**60.8**	**70.1**	**6.2**	**52.6**	**15.3**	**-3.5**
Total assets less current liabilities	**175.4**	**190.4**	**204.3**	**205.5**	**135.5**	**72.7**
Net assets	**146.0**	**160.3**	**182.4**	**190.6**	**122.8**	**65.8**
Capital and reserves						
Share capital	31.5	31.5	31.5	31.5	31.5	31.5
Profit and loss account	65.4	75.4	66.7	31.7	4.2	-39.2
Other reserves	20.6	27.7	53.7	105.0	75.2	64.8
	117.5	**134.6**	**151.9**	**168.2**	**110.9**	**57.1**
Minority interests	28.5	25.7	30.5	22.4	11.9	8.7
	146.0	**160.3**	**182.4**	**190.6**	**122.8**	**65.8**

Respondents were unanimous that there were several instances whereby prospective purchasers made offers well in excess of net asset value in a tendering process, and being the highest bidder expected the purchase to be completed. However the management of Lonrho Africa rejected these offers and told the prospective purchasers to increase their bids even though their initial bid was above the minimum tender price. All these purchasers refused as they rightly considered this to be unprocedural and withdrew their original offers. The other bidders took advantage of this and reduced their original offers, which the management of Lonrho Africa were forced to accept due to the time pressure exerted by the banks. The sale of Farmers Choice Ltd is a case in point. Lonrho Africa eventually received £2 million less for this disposal due to the reasons noted above. The flagship of the Motors Division, the Toyota franchise was sold at way below market value as Toyota Motor Corporation of Japan refused to sanction any purchaser. They had a right to do this under the franchise agreement. Eventually a subsidiary of Toyota Motor Corporation Japan purchased all the Toyota franchises from Lonrho Africa. In most other cases, offers received were way below market value as buyers looked for deals from a company in distress. The loss on sale or termination of operations for the financial years 1997 and 2000 amounted to £32.8 million. In addition losses on disposal of subsidiaries for the year 2001 were £11.9 million. Lonrho Africa's debt covenants consistently curtailed the company's ability to sell assets at market value. These constraints are commonly believed to curtail manager's ability to engage in unproductive risk shifting or asset substitution during financial distress as is evidenced in this study.

Lonrho Africa's initial success after the de-merger was short lived, as the firm failed to anticipate changes in respect of lifestyle trends, operating in a liberalised market, exchange rate movements and competition. This engendered liquidity problems due to restrictive covenants in the firm's bank credit line.

As noted above, the reduction in the value of stock from £ 270 in March 1998 to £ 20 million in January 2002 was enough evidence that though strategy development was a continuous process, little was working during implementation. Lonrho Africa bled large amounts of cash from mid 1998 from its operating activities. During 1996-1999, the management unsuccessfully tried a

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number of new initiatives, including an emphasis on cotton, which was meant to become a core business.

According to published accounts, Lonrho Africa's revenues declined from £583 million in 1997 to £267 million in 2000. Operating profit in 1997 was £49.7 million as compared to an operating loss of £0.1 million in 2000. In mid 1999 Lonrho Africa struggled to meet its bank's covenants and was forced to dispose its operating businesses so as to comply with these covenants.

In June 2000 the Lonrho Africa Plc board formally decided to exit from all its business activities and all operating business units were put up for sale.

Lonrho Africa's relatively liquid structure and the cash injection of £48 million is the key factor that enabled the firm to meet its debt obligations and keep operating for three years despite making large losses. Initially, the firm held only a modest amount of cash when its financial troubles began, and its ability to sustain losses was by liquidating working capital and selling its vast property holdings.

4.5.2 Imposed Strategy: Environmental Changes

Lonrho Africa's inventory problems stemmed from strategic adventures. As from January 1995 Lonrho Africa operated independently from Lonrho Plc and financed its own operations. The operating divisions had to finance the costs of the Head Offices in the United Kingdom and Kenya and also the cost of the expatriates. These amounts were substantial. Initially this was achieved by keeping a percentage of the profits and purchase of goods, by transfer pricing, offshore. For example in the motors division, the vehicle manufactures paid a percentage of the cost price to Lonrho Africa in the UK. This had a knock on effect on the overall cost of the vehicles due to the higher duties payable. As the markets changed, mainly due to diminishing income and liberalisation, Lonrho Africa did not.

From 1993 onwards, buyers started switching from purchasing new vehicles to used vehicles, as they were one-third the cost. Lonrho Africa's policy was not to deal in used vehicles. To meet its offshore obligations the operating units carried on purchasing more vehicles assuming that the

market would change. This did not happen and inventories kept on increasing. The situation was made worse as over time the manufacturers released new vehicle models and the older models had to be disposed off at below cost. In many cases the purchasers of the older models requested for extended credit terms for up to 180 days, the terms of which they did not honour, resulting in significant write-offs. Management's response to sell the vehicles at cut-rate prices was to dramatically lower the company's gross margins. Gross margins for the motors division fell from 8.6% in 1995 to minus 5.0% in 2000. The trading arm of Lonrho Africa, John Holt Ltd based in Liverpool funded these vehicles. The operating units were unable to repay John Holt who had to write-off £30 million in the years 1998 to 2001. This was partly funded by the capital injection of £48 million received at the time of the de-merger. The other divisions, apart from Hotels, faced the same predicament.

Lonrho Africa's operating performance declined significantly from 1997 onwards. Sales fell from £583 million in 1997 to £267 million in 2000, with decreases in all divisions apart from Distribution (which was due to the inclusion of results of I&E Ltd in Malawi – which became a subsidiary in 1999). Overall gross profit margins fell from 8.5% in 1997 to 0% in the year 2000. Lonrho Africa incurred a net loss every year from the year 1998 onwards. The losses were attributable to declining sales and profit margins and increased selling and administration (S&A) expenses. The net loss for the three years from 1998 to 2000 amounted to a staggering £ 109.2 million. This impacted negatively on the share price. The company's audited accounts for the fiscal year 1999 released in March 2000 highlighted the uncertainties surrounding the adequacy and continuation of the company's borrowing facilities, which raised doubt as to the applicability of the going concern basis. This was the time when the banks enforced their debt covenants. The share price plummeted and has never recovered again.

From the discussion above, it is evident that strategy development at Lonrho Africa was largely imposed in order to try and restore financial discipline. The implication of this method of strategy development is that proper strategies useful for the long term benefits of the organization may be shelved in favour of short term financial based strategies that are tailor made to take care of the interest of stakeholders. We also notice a case in which strategies are imposed by the environment, in our case the move by LMEA to begin dealing in used vehicles.

4.6 Entrepreneurial Mode. Perceived influence of Tiny Roland

The researcher attempted to establish whether the departure of Tiny Roland in the early 90's impacted on the strategy development process at Lonrho Africa after the de-merger. Lonrho Plc had grown from strength to strength from the early sixty's under his stewardship. He had the knack of identifying and taking advantage of opportunities in Africa. He had built up relationships with a majority of the African leaders for whom he did favours in order to get trading and other concessions. He was a charismatic leader and a wheeler-dealer. Under him Lonrho Plc invested in a vast number of different businesses and the company was classified as a diversified industrial in London.

After his ouster as CEO in early 1993 plans were drawn to separate the mining operations from the rest of the operations. This was mainly due to the mining operations funding the loss making operations. Lonrho Africa was formed in January 1995 and was finally de-merged from Lonrho Plc, which became a purely mining company. Lonrho Plc subsequently changed its name to Lonmin Plc and its share price has since soared. Lonrho Africa struggled to survive without the backing of Lonrho Plc. The share price of Lonmin went up from 327p at the time of the de-merger to 1165p in March 2002 and has consistently outperformed the market (FTSE All Share Index) and industry. Lonrho Africa's share price declined from 79p at the time of the de-merger to 12p in March 2002 and consistently under performed as compared to the market (FTSE All Share Index).

Though none of the respondents attributed Lonrho Africa's problems to the departure of Tiny Roland, it is apparent that the problems of Lonrho plc started soon after his departure. One may conclude that there is a "secret weapon" that went missing at his departure hence the emerging problems.

4.6.1 Influence of Organisational Structure and Experience

Respondents at unit or country management level viewed the organization structure as "tall" with very formal lines of communication that had to be strictly followed. There was very little two way communication between the Lonrho Africa management team and the operating units. All communication was through the divisional Managing and Finance Directors. What was happening at the operating units was not always communicated to the management and vice versa or was distorted along the way for example the cotton projects in Uganda and South Africa. Strategic plans originated from the top management in Nairobi and Liverpool without consensus and discussion with the operating units. A top down approach was used. Decision-making became formalised and very predictable. This was especially so in the "seen it all before" attitude that prevailed, and repeating what was done in the past as solutions to today's problems. The only other people involved were the divisional managing and finance directors who in some cases had their own plans. Strategic decision making was more about rule following than rule bending practice.

The local staff at the operating units viewed the senior management with suspicion. The plan was not theirs and so did not buy into it hence causing motivational problems. This was a serious issue when looked at in conjunction with the pay structure and basis of promotion. Culture issues varied from country to country.

The implication in this case is that strategy development took two forms. It was most likely rational and formal at the top, and imposed at unit management level.

4.6.2 Impact of Strategies Developed Prior to the De-Merger.

Respondents reported that in several cases, strategy development was stuck in the past, as a result of decisions taken in earlier years. A strategic review of all businesses within Lonrho Africa had earlier been carried out by management, which concluded that operations should be managed on an activity basis rather than along geographical lines to improve operational and

managerial synergies. This, to a large extent became a burden in the long run. In the section below, we look at selected business units in turn.

Motors:

All markets in sub Saharan Africa were different. Even though most of the franchises were the same, the models of the vehicles were different hence there were no synergies in purchasing like bulk discounts, nor were there any operational synergies. For example the managing director for Motors Malawi who was running an extremely successful operation was transferred to Motors Zambia an under-performing unit and was given the mandate to emulate the success he achieved in Malawi. He was unsuccessful and was eventually dismissed after two years in Zambia.

Agribusiness:

Apart from cotton, the rest of the businesses were unrelated e.g. pork processing, wattle extracting to cattle and game ranching. In cotton the individual units were run independently and only the results were consolidated.

Property and Construction:

There were no synergies within the division i.e. managing properties in Kenya to constructing dams and road works in Zimbabwe to developing property in South Africa to small-scale construction in Zambia and Swaziland. The businesses were diverse.

Country based head offices to be closed, saving costs and substantially simplifying the management reporting structure.

There were no savings as activity based head offices replaced the country based head offices. The activity head offices cost more as expensive expatriate staff staffed them. The reporting structure was simplified but the Lonrho Africa management team became more distant from the individual operating units.

Identified five core activities, each of which would have its own managing director with both management and financial responsibility.

The Lonrho Africa management team only consulted the country-managing directors in arriving at their decision. The objective was to have as many businesses within Lonrho Africa as possible in order to give it "size" which were then all conveniently grouped together to form a division. The viability or potential of these businesses were not looked at. The country managing directors who were involved in this process were all given senior positions within the new structure.

Identified non-core businesses and assets, which would be sold in due course with the proceeds to be reinvested in the core business activities.
There were very few businesses, which were not considered as core businesses, and their value was insignificant. The brewing business, considered non-core soon after the de-merger was sold because South African Breweries (SAB) invested in Zambia and Malawi where Lonrho Africa had breweries. Lonrho did not want to compete with SAB even though they were competing in different markets - SAB in clear beer and Lonrho Africa in opaque beer. The brewing businesses were cash rich and were achieving a return on capital employed of 30%, well above the benchmark of 20% set by the directors. Surplus property assets were significant and the Property and Construction division was given the responsibility to dispose of these assets. Due to the inefficiencies within this division and conflict it had with the other divisions who "owned" these assets, very few of these assets were sold at or above market value. In addition it took two to three years to dispose some of these assets. All the sale proceeds were either used to pay head office costs, reduce bank debt or fund the losses.

Identified poorly performing businesses which would need to be closed down, sold or actively managed to achieve an improved financial return. This process to a large extent was successful even though the timescale was not achieved resulting in large losses.

Respondents were in consensus that strategies developed in the earlier years were weighing heavily in the development and implementation of new strategies. The implication of this is that instead of developing strategies going forward, management spent too much time correcting mistakes of the past, which easily leads to a situation where they may not keep up with changes in the environment.

CHAPTER FIVE: SUMMARY AND CONCLUSION

5.1 Introduction

In this chapter, the findings of the study are discussed. The implications and limitations encountered in the study are highlighted and recommendations and suggestions for further research are made.

5.2 Summary

Lonrho Africa's strategy development, budget and management review process, though ineffective, appeared geared towards turning the business around. The most effective way to carry out this process is open to debate, but what is clear is that the process did not yield desired results and should have been changed or reviewed.

The strategy development process employed by the management failed to turn it around. Lonrho Africa was and still remains a complex organisation with diverse businesses. Lonrho Africa chose to search for a core business on the assumption that single-business involvement would lead to synergies that would outweigh the extra costs of managing a more complex organisation. As Porter put it, "corporate strategy is what makes the corporate whole add up to more than the sum of its business unit parts." In the portfolio perspective, responsiveness is strongly emphasized over synergy. Each business unit has its own unique characteristics and demands. Firms operating in different businesses across diverse environments must therefore develop a specific strategy for each business and assign the responsibility for each business strategy to a strategic business unit. In this manner, the business units can be highly responsive to the competitive dynamics in the business, while having a clear unit of accountability towards the corporate centre. High responsiveness, however, requires freedom from corporate centre interference and freedom from cross-business coordination. Hence, a high level of business unit autonomy is required, with the corporate centre's influence limited to arms length financial control. This is a strong point that should have been considered by Lonrho Africa board.

The major task of the corporate headquarters is to manage the allocation of financial resources over the business units and to achieve the highest returns at an acceptable level of risk. However, Prahalad and Hamel dismiss the portfolio perspective and disagree that it is a viable approach to corporate strategy. In their view, corporations should be built around a core of shared competences and that business units should use and help further develop these core competences. The consequence is that the role of corporate level management is much more far-reaching than in the portfolio perspective.

Lonrho Africa did not adequately address the impact of culture on organizational structures, systems, and processes. Hofstede identified four "value" dimensions on which countries differed as power distance, uncertainty avoidance, individualism/collectivism, and masculinity/femininity. None of these were adequately addressed by Lonrho Africa. The lesson to be learnt is that companies must not lose sight of the impact of national culture in their search for a model of organization that can respond best to the demands of the rapidly changing business context, and the pressures for internationalisation. While the "best models" are not necessarily "home grown", other ways of organizing may be equally, if not more, effective.

Lonrho Africa did not react to the globalisation of markets, especially the powerful force of technology that drives the world toward a converging commonality.

5.3 Conclusion

In view of the findings discussed in chapter 4, it may be concluded that the strategy development at Lonrho Africa was initially rational and later imposed by banks, financiers and other stakeholders as the company continued making losses and having difficulties finding and concentrating on a core business. Although the rational approach to strategy development is evident, it emerges that it was more of a ritual than a conscious method of strategy development. The managers who took part in it were more focused on a successful presentation of figures, rather than how the figures will shape the business direction in the long run, or whether or not they believed in the figures themselves.

It can also be concluded that strategies and targets were set by top management and imposed on subsidiary company management for implementation, without SBU management being requested for their input on what was achievable or not. It may also be concluded that asset liquidity is an important determinant of managerial discretion, the scope of possible agency problems, and corporate capital structures. In this case, working capital, property holding liquidations and sale of business units yielded sufficient cash to subsidize operating losses and meet all required payments to creditors and banks. As the losses continued the interest cover came down significantly and the banks imposed restrictive covenants, even though the company was able to meet all its obligations.

The Lonrho Africa case shows that so long as a business has assets and cash, management can buy time to experiment with new operating strategies in adverse conditions. Although asset liquidity had negative consequences for Lonrho Africa shareholders, it can be beneficial if the time it buys enables management to implement a successful turnaround. This case illustrates that debt covenants lead to imposed strategies that always constrain managerial discretion to an extent that management may be left helpless.

5.4 Limitations of the Study

Though most of the executives interviewed were willing to discuss the subject, a number of them not want to divulge so much detail as they were the same people who developed the strategies and often tended to shift blame to others. Some seemed to be more comfortable giving a history of the company as opposed to its strategy development process. Executives interviewed over the phone were not free to disclose full details for fear of the discussion being recorded, and also the fact that telephone interviews lack facial expression that is important for information release. Existing executives exercised caution because they are still in the company, and expressed fear that their comments could be published.

5.5 Suggestions for Further Research

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There are many conceptual issues that arise from a study of Lonrho Africa. Considering that strategies are as good as the result they bring forth, one may study, in detail, reasons for the collapse of Lonrho Africa. It will also be interesting to focus on the financing issues relating to the company and how the ouster of Tiny Rowland and subsequent leadership issues impacted on the company. One may also consider the role of the board against a background of all the related issues.

Studies have been completed on the role of diversification in business and whether or not diversification leads to success of a business. Considering that Lonrho Africa was an extremely diversified business, one may wish to investigate the role of diversification in the collapse of Lonrho Africa.

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APPENDIX I

INTERVIEW GUIDE QUESTIONS

To be administered by the Researcher

SECTION A. STRATEGY DEVELOPMENT & LEADERSHIP

1. Briefly discuss the history of Lonrho Africa PLC
2. What do you remember about Tiny Rowland and what was his greatest achievement in your view? How about Dieter Bock?
3. What would you say was the main motivation behind the de-merger from Lonrho PLC
4. Did the Board of Lonrho Africa have an own business strategy or was it imposed?
5. Describe the process by which strategies are/were developed in Lonrho.
6. What management tools were used in strategy development? SWOT, PEST, BCG, Porters 5 forces?
7. Did Lonrho Africa at any time attempt to concentrate on one core activity?
8. How did Lonrho become so diversified, and what was the motivation behind this diversification?
9. Did the business have the same strategy across Africa? How was context factored in?

SECTION B. MANAGEMENT ISSUES

10. How did banks get involved in Lonrho Africa and how were they selected? Did debt covenants with banks reduce management discretion, and did management have this in mind when making strategy?
11. What was the contribution of the group "head offices" in various countries and did they add value?
12. Against the background of reducing revenues and profitability, why, in your view did the company continue making acquisitions?

SECTION C. CONTROL ISSUES

13. What were the methods employed in evaluating viability of new projects? ROCE, NPV, IRR, payback period, sensitivity analysis, other?
14. Was the feel good factor used in evaluating projects
15. How was country and political risk measured and analyzed?
16. Kindly describe your funding methods. Loans (short/long term, overdrafts)

SECTION D: PERSONAL ISSUES AND OPINION

17. Take me through your background briefly before joining Lonrho Africa. How many years have/did you serve Lonrho?
18. What, in your view would Lonrho have done differently, that would have kept the company successful?
19. Given a chance, how would you organize Lonrho Africa, Business or geographical?
20. Would Lonrho have been better off without diversification?

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APPENDIX II

Name	December 1999	Current Status/Location
Category one: Board of Directors		
Bernard Asher	Non-executive Chairman	Retired (UK)
Mark Newman	Chief Executive	Private Business (Kenya)
Christopher Parvin	Executive Vice Chairman	Business (Zimbabwe/SA)
Keith Atkinson	Finance Director	Retired (France)
Christopher Mills	Non-executive Director	Current Chairman
Michael Wilson	Non-executive Director	Non-executive Director
Richard Wilkinson	Non-executive Director	Non-executive director
John Garnett	Company Secretary	Retired (UK)
Category two: Divisional Managing Directors		
Kevin Gilks	Motors	Retired (UK)
Gavin Barnes	Agribusiness	Private Consultant (UK)
James McLardy	Distribution	Business (Nigeria)
Jonathan Lee	Hotels	MD, Hotels
Geoffrey Dys	Property and Construction	Business (SA)
Category three: Divisional Finance Directors:		
Allan Walmsley	Motors	Business (Kenya)
Joan Green	Lonrho Motors E. Africa	Returned to USA
Peter Corrish	Lonrho Motors C. Africa	Business (Zimbabwe)
Bob Russell	Agribusiness	
G D Hefer	Lonrho Cotton S. Africa	
P Faulkner	Lonrho Cotton Zambia	
B Wood	Wattle Co Zimbabwe	
I Gibson	Farmers Choice Ltd Kenya	Farmers Choice Kenya

John Garnett	Distribution	Retired (UK)
D Howe	John Holt Nigeria	
Ken Kirkpatrick	Hotels	Finance Director, Hotels
Mark Charleson	Property and Construction	Director, Ol Pejeta Ranching