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Analysis of the South African Automotive Retailers in an Economic Downturn Using the Resource Based View

Hartogh Streicher
84013062

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ABSTRACT

The cyclical nature of the automotive industry has been blamed for many dealership closures as well as thousands of retrenchments. Macro environmental changes like the recent spike in oil prices and the sub-prime debacle can have a detrimental effect on the automotive retailers and be partially blamed for the closures and retrenchments. This results in a continuously changing external environment which might necessitate subsequent internal changes. These changes might involve physical resources like people, demographics, products and materials or non-tangible resources like policies, procedures and the way business is conducted and personnel are treated.

The management style and methodologies of automotive retail are predominantly based on control of annual budgets and are therefore not pro-active and unable to cope with sudden and drastic changes like the recent global economic decline. The primary aim of this research is to do an explanatory study to determine whether senior managers in the automotive retail sector has identified their key resources and if they can leverage the application thereof to enable a sustainable competitive advantage. The secondary aim is to determine if these resources or the application thereof change during an economic decline.

The research was conducted by means of multiple and in-depth semi-structured case studies of twelve dealers in the Gauteng area. This method is generally accepted as a technique to properly diagnose the current scenario and to evaluate the situation according to relevant theory.

The results of this research shows that the automotive retail sector has not yet embraced the resource based view, can not recognise all their key resources, and do not actively cultivate resources for future utilisation. By creating resource awareness the recognition and application of resources might become more dynamic which can make the industry more resilient in future economic downturns which might result in less closures and retrenchments during future economic declines.

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DECLARATION

I declare that this research project is my own work. It is submitted as partial fulfilment of the requirements for the degree of Masters of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Hartogh Streicher Date

84013062

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1 CHAPTER 1: INTRODUCTION

The Resource Based Theory (RBT) which has become popular in the last two decades has been formulated in a period of growth and global expansion. Global economy has, however, changed drastically over the last twelve months due to an energy shortage and other factors. The rapid increase in the price of oil has led to an increase in the price of fuel which in turn has a direct impact on vehicle sales. During the same time the sub-prime crisis erupted in the United States of America and spilled over to the rest of the world to further exacerbate the global financial crisis. South Africa, predominantly an innocent bystander to sub prime, was however also severely affected by the resulting withdrawal of funds from emerging markets.

This study aims to identify some of the important changes that have taken place over the last few years and, in particular the last twelve months, in terms of the South African Automotive Retailers (SAAR). Student also wants to evaluate if the terms Resource Based View (RBV) and RBT are known to managers and if perceptions of critical resources have changed to accommodate the declining economy and lower sales volumes of the last few months. The value of the RBT has been generally accepted, as will be seen from the literature review in chapter two of this document. Whether the RBT is as valid in these declining times, has not yet been investigated in this particular market and, will therefore form the primary focus of this study.

During correspondence with Jay Barney, one of the originators of the RBV, he stated that:" *there is limited theoretical work in this area, but I think it is likely to be more important in declining markets. In such markets, managers are probably more inclined to focus on their core strengths — if they have them and can identify them. Helping managers identify and exploit their valuable, rare and costly to imitative capabilities seems likely to be important in this context."* Barney J. (barney_8@fisher.osu.edu), 23 June 2008. *Re:RBV in declining economic market.* Email to H.Streicher (hartoghs@toits.co.za).

1.1 Relevance of the topic to business in South Africa

The local automotive sector has been one of the best performing sectors of manufacturing in SA, mainly due to the Motor Industry Development Programme (MIDP). From 1995 to 2005, value added by this sector grew at an average rate of 5% per annum while investment increased by 15.4% compared to the 3.1% industry average (Jensen and Sandrey, 2006 Nicanor, Roberts, and Walker, 2006)**.**

Rapid expansion of sales forces, facilities and stock levels followed to accommodate the growing sales numbers. Records were improved month on month and many thought the trend would continue. During 2007 the economy started braking sharply and most retailers sat with inflated stock levels, expensive facilities and monthly deficits. Retrenchments and cost cutting started in earnest to make ends meet.

Business cycles and recessions can severely affect the performance of individual firms, industries and entire economies (Gabisch and Lorenz, 1987). All businesses do however, not perform badly during recessions - some firms even prosper during these times and see it as opportunities to strengthen their business and overtake their weaker competitors. Studies show that marketing investment in recessionary times can improve performance (Venkatraman & Prescott, 1990), and that both business strategy and performance are affected in these times (Mizruchi & Stearns, 1988).

Resources which were critical during the expansion period were now again abundant and might, in certain instances, become a burden and even detrimental to firm survival.

1.2 Research Objectives

A firm's valuable, rare, socially complex and inimitable resources generate a competitive advantage and hopefully, an above normal rate of return. The heterogeneity of resources across firms should therefore explain their comparative differences and competitive advantage in the marketplace (Barney J.; 1991, Porter, 1979; Hamel and Prahalad, 1994). This research will endeavour to determine whether these valuable, rare, socially complex and inimitable resources are known to management and if they remain the same during good and bad economic times. If the resources do not stay the same, this research will endeavour to identify what the changes are and how the resources change to adapt to the bad economic times.

Student will then attempt to determine if this theory is still applicable and to what extent, (if any), the RBV can be used to predict which players are more likely to be sustainable over the long term.

1.3 Scope and limitations of this research

1.3.1 Scope

According to the RBV, firms possess certain resources which enable them to achieve a competitive advantage by deploying these valuable resources and capabilities which are inelastic in supply (Barney, 1986, 1991; Peteraf, 1993).

According to Porter (1979), a firms performance is predominantly determined by the macro and industry environment in which it operates. These broad environmental factors profoundly control the attractiveness position that a firm occupies.

Wernerfelt (1984) elaborated on these views and proposed the RBV. Barney (1991) argues that the RBV consist of four empirical indicators to which a resource must conform in order to enable a company to obtain sustainable competitive advantages (SCA). This research will therefore firstly try to determine if managers know how to identify these key resources whose characteristics make them valuable, rare, imperfectly imitable and non-substitutable (VRIN) for automotive retailers.

The RBV therefore argues that a firms competitive advantage is primarily based on the heterogeneity of the key resources and capabilities it owns and controls, especially those that are difficult to mobilise and copy. The immobility, heterogeneity and inimitability of these resources and core competence eventually lead to supernormal rent (Williamson, 1991).

Economic theory determines that in the normal course, over the long run and in the absence of market imperfections, abnormal economic rent will be nullified by competitors or new entrants to an industry (Mathews, 2002). Most of the competitors in the Chinese and Indian section of new vehicle retailers are recent entrants to the new vehicle retail market (PriceWaterhouseCooper, 2007). It is therefore logical that some of these capabilities might not be intrinsic, which begs the question of how to obtain valuable, inimitable resources if you do not already possess them. A study by Miller (2003) holds that firms can develop asymmetric like skills, processes and assets that a firm's competitors do not and cannot copy at a cost that affords economic rent.

The secondary aim of this research will therefore determine which (if any) of these resources can be developed, based on sequences of path-dependant learning and if it is possible to embed them within organisational design in order to leverage them across market opportunities.

The research will further investigate if these resources stay the same during good and bad economical times and if not how they or their application change with the economy and lastly if the RBV can be used as a forecasting tool in terms of the economic future.

The researcher will therefore aim to determine the "how" and "why" of a relatively complex, social science issue, and not aim to solve the "what' and "how should" issues which correlates with the view of Perry, (2001) and Yin (2003).

1.3.2 Limitations

The limitations of this research can be summarised as follows:

- Retail dealers of passenger and light commercial vehicles (Lcv's) that were operational on the 1st of January 2008.
- The geographical context will be restricted to dealers in South Africa and Gauteng province only.
- The implications for other franchise dealers, not surveyed, will not be dealt with.

1.3.3 Exclusions

This research will exclude the following:

- Heavy commercial vehicles
- Parts and accessories
- Original equipment manufacturers (OEM's)
- Imported vehicles from Korea, Russia and other emerging markets.

1.4 Conclusion

Although this study focuses on the automotive trade in particular the findings might be relevant for other sectors as well.

By identifying and comparing the drivers for both good and bad economical times one will be able to determine the anomalies and congruencies. This might help to plan the changes needed when different economic times loom. When realising which resources was eliminated during the downturn, managers might be cautious not to accumulate these resources in abundantly during good times. Resources which were essential, even for the bad times, might on the other hand receive a higher priority.

History has shown that the SAAM is a volatile market with a high propensity to cyclic phases, often leading the general economy. By identifying the critical ingredients for survival in bad economic times, dealerships might make themselves more resilient in future economic downturns.

2 CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

Porters' competitive strategy framework identifies five industry forces which can determine the profit potential of an industry or segment thereof (Porter,1979; Teece, Pisano and Shuen, 1997). This posits that firms must assess these forces and find a position in the industry to best defend it from or, influence these forces to enable the firm to take advantage of them (Teece *et al*., 1997). This "five forces model" of Porter creates the impression that the firm not only competes against current and potential competitors but against their customers and suppliers as well. Porter himself points out in a later article that the model is useful for analysing industries and not appropriate for analysing a firm (Porter, 1985).

The above view falls within the realm of the Industrial Organisation (IO) models. The traditional focus of this IO models has some shortcomings as it neglects intra industry differences in firms' characteristics. The external environment is therefore the primary determinant of organisational strategy and success rather than internal actions by employees and decissions by managers. All threats and opportunities are therefore presented by the environment and all organisations have equal control or access to resources. Organisational success would therefore be achieved by offering goods or services cheaper than competitors or by differentiating their products. These models take an "outside-in" perspective where "outside" environmental factors solely affect the internal operations of the firm (Oliver, 1997).

The return to the firm, and not the industry as key determinant of profitability is based on the view that superior performance and a sustainable competitive advantage depends on the application of the resources of the firm. Therefore, primary to the RBV is the ability to identify gaps in competitiveness and profitability among firms and the leveraging of own resources to exploit these gaps (Kodama, 2006). The Resource Based Theory (RBT) can therefore be applied as an economical tool to determine which strategic resources are available to the firm, as defined in the scope of the research, and whether the application of this bundle of resources enables the firm to transform their short run competitive advantage to a long term sustainable advantage.

The RBV therefore takes an "inside-out" perspective where the distinct characteristics of resources internal or "inside" the firm and resource market imperfections lead to firm heterogeneity and organisational rents (Oliver, 1997).

The relevancy of the RBT has been criticised and some even contest whether it can be called a theory at all (Priem and Butler, 2001). This argument has hopefully been put to rest with the empirical study done in 2006 on the validity of the RBT by means of a bibliometrical analysis of articles (Acedo, Barroso, and Galan, 2006).

The result in the article of Acedo *et al*. (2006) clearly shows that there are three main trends within the RBT. These trends are:

- The resource based view
- The knowledge based view
- The relationship view

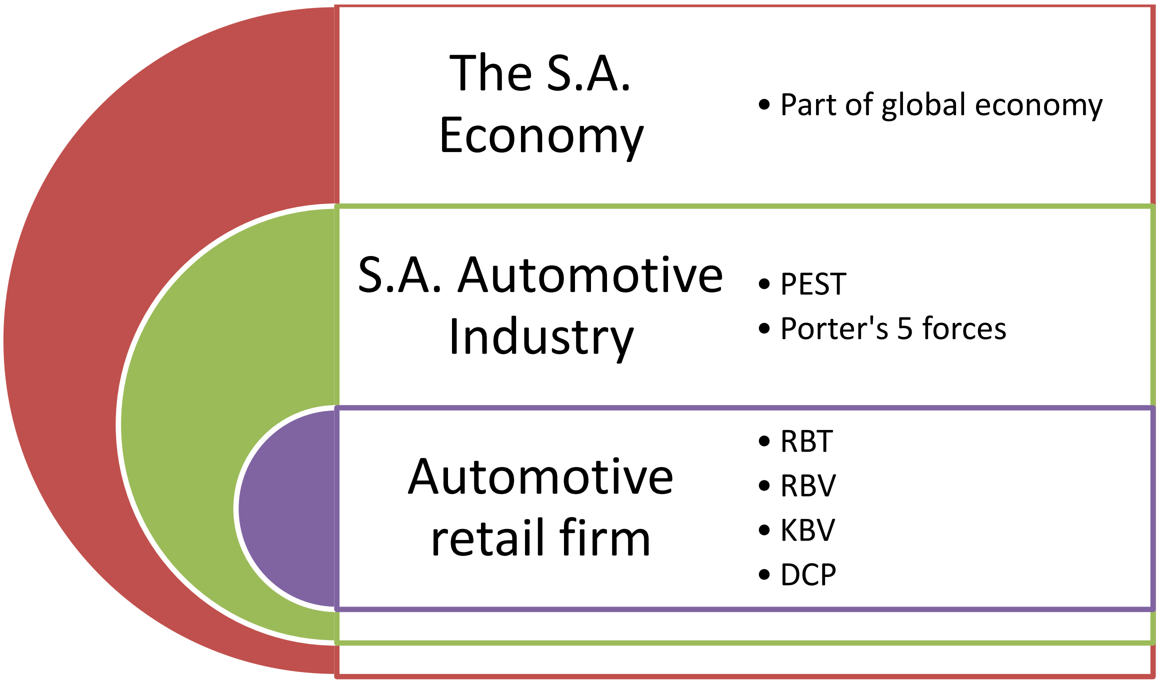
Most of the articles on this trend ise clearly delimited with a few providing linkages between the different trends. Two important articles that provide these linkages are the articles of Teece *et al*. (1997), and Nelson (1982).

The validity of these resources in different economic conditions will be evaluated to determine whether the RBT is valid for both good and bad economic conditions.

In the study done by Acedo *et al.*, (2006) it was clear that the "classic group" within the RBV had high correlation (R= 0.985) with the Dynamic Capability Perspective (DCP). The DCP will be therefore be used to determine if, and how, a firm who does not yet possess these resources, can develop valuable, rare, inimitable and none-substitutable resources in order to stay ahead of its imitators.

The following diagram depicts the focus of the literature study and the methodology used to analyse the automotive industry as well the internal resource focus of the firm.

Figure 1: Depiction of literature review focus



2.2 The South Africa Automotive Market (SAAM)

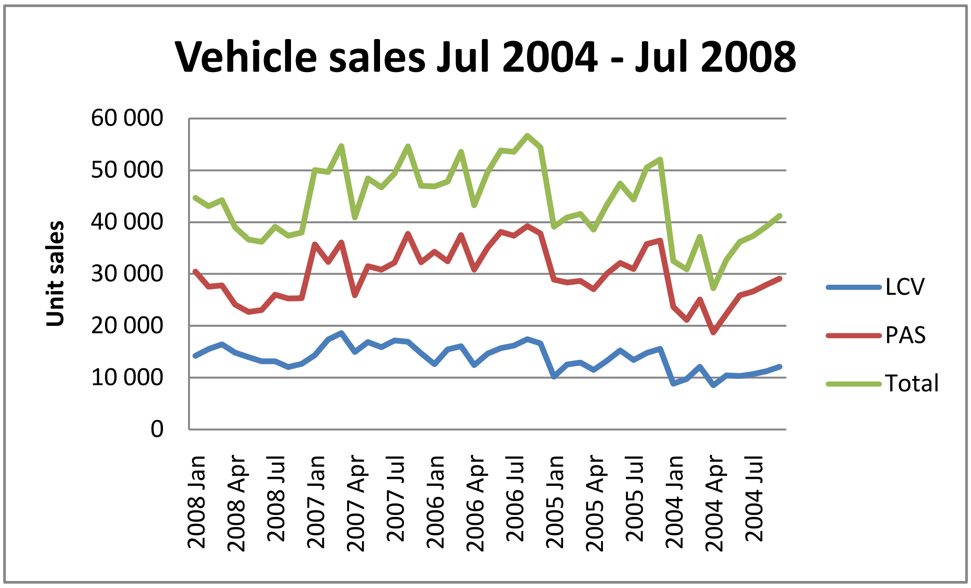
New credit legislation was introduced to S.A. in July 2007. This New Credit Act (NCA) changed the evaluating criteria for obtaining credit to purchase assets. From the first month of introduction, the ability to obtain credit got smaller. Shortly thereafter, the interest rate, due to external and internal reasons, started rising steadily as the reserve bank increased the prime lending rate.

Subsequent to this, the S.A. economy experienced a drastic decline in vehicle sales. To exacerbate matters new and cheaper Chinese vehicles started arriving in South Africa. Stephen Clark, Manager of Shanghai Automotive Industry Corporation (SAIC) in England, says that:” *I could see an automotive tidal wave coming*, (Hargraves, 2007)”. Few local dealers recognised the approaching tsunami and many only recognised it when their sales started to decline drastically. The combination of these factors are primarily responsible for the decline in vehicle sales.

Tony Twine, a motor industry analyst from Econometrix, predicted that the launch of fully imported Chinese vehicles into the local market could lead to a quantum leap downwards in new vehicle pricing. (Business Report, 2006).

Brand Pretorius, CEO of McCarthy Motor Holdings, believes that the SAAM will be stimulated by the host of new entrants and model introductions but also warned that the substantial growth, experienced over the last four years, might be past and predicted a period of consolidation for the local automotive industry (Venter, 2007).

Figure 2: Vehicle unit sales Jul 2004 - Jul 2008; Source NAAMSA

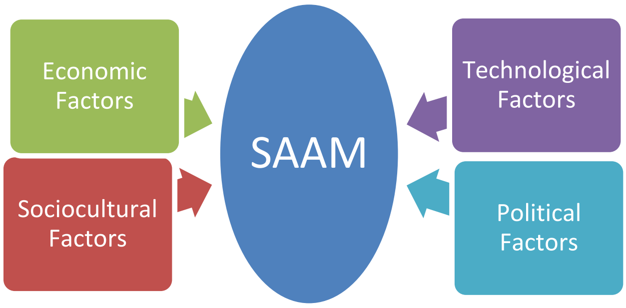


These predictions proved valid when comparing the National Association of Automobile Manufacturers of South Africa (NAAMSA) for the last twelve months. The sharp drop in unit sales had a detrimental effect on dealer viability and sustainability.
"Car dealers, already struggling to stay afloat in a sea of tumbling sales and slashed margins, say scores of businesses are in danger of drowning. Casualties are already piling up on the shores as franchise chains and independents start to close down loss-making dealerships (Furlonger, 2008)."

2.2.1 PEST Analysis: SAAM

The external environment of a company or industry can be analysed in a systematic manner with the help of a PEST analysis. This acronym encompasses an analysis framework for macro environmental factors as listed below. These factors are by definition, usually beyond direct control and or influence by individual companies or the industry and can often indicate threats, but also opportunities.

Figure 3: PEST Analytical framework



This environmental scanning method is practically unlimited and is capable of appraising a company or industry in terms of strategy, position marketing proposal and future business direction (Perreault, McCartney, and Jerome, 2002).

2.2.1.1 Political and Legal Factors

The S.A. retail environment is heavily regulated with the introduction of the NCA, the governments' strict monitory policy and various other regulatory and legal prescriptions like the Financial Advisory and Intermediary Services Act (FAIS) and Financial Intelligence Centre Act (FICA). Importation and homologation of vehicles is also strictly controlled in order to ensure safety and compliance. These political and legal regulations greatly influence the spending power of consumers and also have a direct impact on the way the industry operates.

2.2.1.2 Economical Factors

Globalisation leads to a continuous integration of goods markets and financial markets around the world (Lipsey and Chrystal, 2006). The implication of this trend is an increasingly shared global business cycle of which South Africa forms an integral part.

The recent hikes in prime lending rates, introduced by the reserve bank in an effort to curb aggregate spend, led to a drastic downturn for the SAAM.

According to Dawar and Frost (1999) multinational companies are rushing in to find new opportunities for growth as protectionist barriers crumble in emerging markets across the world. China has recently started to export vehicles to S.A. and at this point in time various local importers are trying to obtain first mover advantage and establish themselves to obtain a long term sustainable advantage.

The recent growth in new vehicle sales, as per fig.4, created a seemingly economically viable environment for another group of new entrants to the SAAM. Whether this market can accommodate more variables remains to be seen.

2.2.1.3 Social Factors

Several programmes were launched to broaden the S.A. economy and to enable the re-distribution of wealth among the previously disadvantaged people (PDP). These programmes include Growth, Employment and Redistribution plan (GEAR), Growth, Employment and Redistribution plan (RDP) and the Broad Based Black Empowerment Plan (BBBEE). Most of the PDP were accustomed to public transport like taxi's, busses and trains because of affordability. Some of this new found wealth was spend to increase individual mobility.

The sudden entrance of thousands of PDP to the S.A. economy enabled them to purchase vehicles. This is regarded as one of the drivers of the increase in vehicle sales as depicted in Fig. 1. Many of these first time vehicle owners opted to purchase a previously owned vehicle mainly due to affordability.

The purchase price of a new vehicle was still out of reach to many of these PDP. The entrance of cheaper new Chinese and new Indian vehicles however changed the affordability issue and thus broadened the market. Purchasers now have the choice of choosing between a used vehicle and a new Chinese or Indian vehicle.

The perception of these vehicles in terms of value for money will, to a large extend, determine the sales success.

2.2.1.4 Technological and Environmental

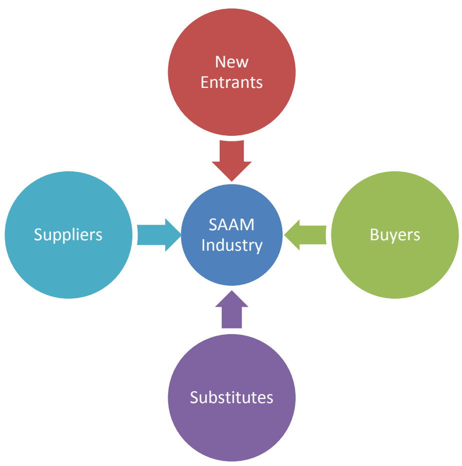
Technological advances in automotive manufacturing methods have created glass barriers in terms of quality and environmentally acceptable products. Older technologies with higher CO^2 emissions are not regarded as environmentally acceptable in responsible countries.

Importers must therefore ensure that their products comply with these and various other specifications by submitting vehicles to a homologation test. During the 2008 GIBS MBA visit to China, Mr Johnson Du, project manager for Geely International Corporation commented on their research in alternative fuel vehicles and projected that China will be the leader in this segment by 2015, thereby setting the new benchmark.

2.2.2 Porters five forces: SAAM

Competition, according to Porter is also rooted in the underlying economic and competitive forces of the external market and not only between the obvious rivals (Porter, 1979). Porter categorizes the five dominant competitive forces and states that they can determine the long term attractiveness of a market or market segment. This framework for industry analysis can be used as a systematic methodology for examining the impact of an industry structure on a firms performance (Collis and Montgomery, 2005).

Figure 4: Porters Five Forces



This model can assist with an industry analysis in order to evaluate the competitive landscape and assess prospects for average long term profitability potential. Further analysis of the South African automotive market as well as the Chinese Car Manufactures (CCM) should clarify the underlying structures or fundamental economic and technical characteristics that drive the individual entities. Overlapping characteristics will enhance the rivalry while diverging characteristics can create opportunities (Porter, 1991).

2.2.2.1 Threat of new Entrants

New entrants to an industry bring new capacity, the desire to increase market share and often substantial resources. Resistance to new entrants will determine on the reaction of current players and the barriers present. An attractive market would, according to theory, consist of high entry barriers but low exit barriers. This would mean that few new players will be able to enter and at the same time, should the entrance not be successful, have the ability to exit with low risk and expense. The opposite of low entry barriers and high exit barriers would mean that competition would be fiercer, margins lower and due to more rivalry, less attractive (Kottler and Keller, 2007).

2.2.2.2 Threat of Substitutes

The relative price of a substitute and the switching cost can be a limitation to obtain the expected price, turnover and profit. This market cap must be analysed from a consumer function point of view and not from physical similarity (Collis and Montgomery, 2005). Market changes within the substitute market, for example, availability, price and technology, can have a significant influence on the original product (kotler & Keller, 2005).

Buyer propensity to the job performed by the product and the substitute can sometimes result in entirely different means to achieve the same end. The difference between new and used vehicles is however, at this moment in time, the major substitute for each other.

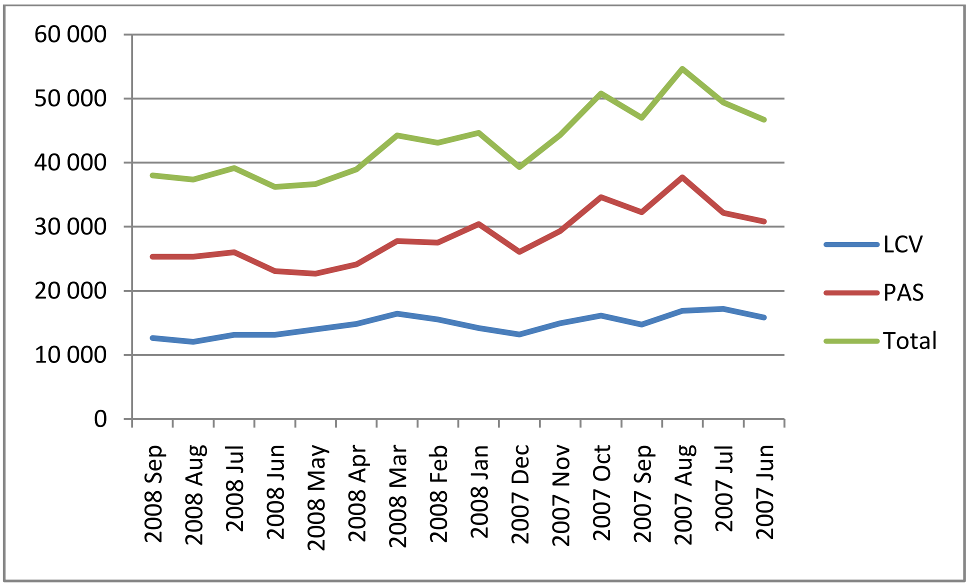
2.2.2.3 Threat from Buyers

Buyer power allows customers to wring industry margins by forcing competitors to reduce prices or to increase the service level without due compensation (Collis and

Montgomery, 2005). This follows that buyers have a two pronged impact on the industry, bargaining leverage and price sensitivity.

Buyer concentration and the size of the market is a determining factor for the SAAM. Political and subsequent economical changes expanded the local market. This is evident from the NAAMSA sales figures for the last five years as per Fig. 4. The automotive sales grew fast due to supplier demand and the sudden change in the NCA resulted in a drastic decline as the market reached a new equilibrium.

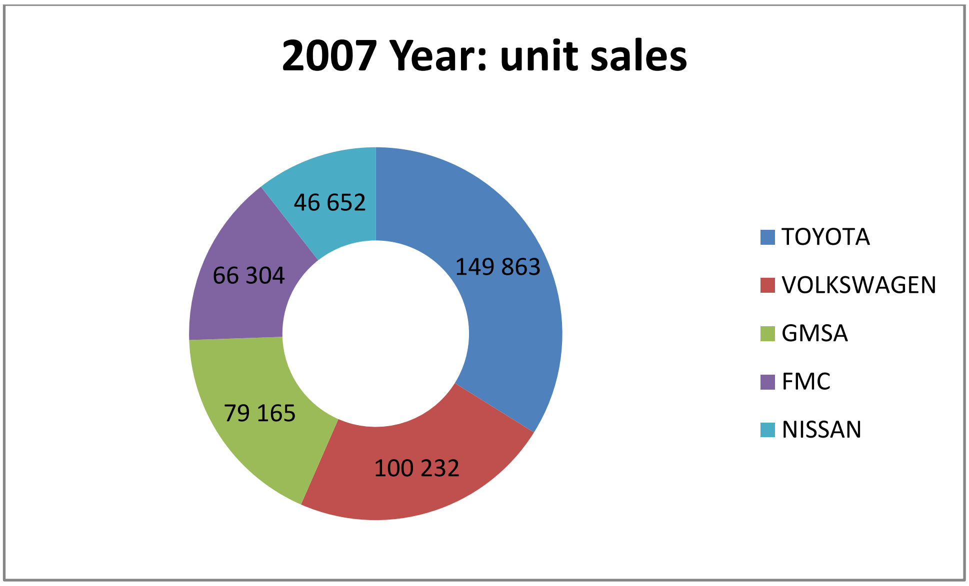
Figure 5: Vehicle sales Jun 2007 – Sep 2008: NAAMSA



Due to the relative high cost of a new vehicle, switching cost can also be high. Most vehicles in S.A. are financed and the resulting finance cost to switch exacerbates the situation.

Given the emergence status of the S.A. economy, price sensitivity plays a big role. Previous introduction of cheaper brands like TATA, Hyundai and Ssang Yong have shown that a certain segment of buyers are willing to risk unknown quality and performance for price. The larger segment of the market are however more brand conscience and place a premium on performance and aftermarket service. This is evident from the small changes in market share of the big five players as illustrated by Fig 5.

Figure 6: Market share of top five automotive retailers: source NAAMSA



Pretorius' comments that the most significant changes to the S.A. market will be in the "value segment" of the market. This affordable car-segment accounted for more than 40% of the 2006 passenger-car market of about 481 000 units (Venter, 2007). This segment is one of the first to be targeted by Chinese imports and according to Jolyon Nash, executive director at McCarthy Motor Holdings, these new contenders will add more choice to the market and intensify the competition even more (Bridge, 2008).

According to the automotive economist Tony Twine, the Chinese entrants will open a whole new affordable segment in the S.A. market. These new cheaper entrants juxtaposed with the superior quality of the traditional players will be substantially significant, in fact enough to prevent a price war which neither can afford (Venter, 2006).

2.2.2.4 Threat from suppliers

Given the relatively small number of imports compared to the total vehicles manufactured in China, it is obvious that the S.A. demand does not form a potentially major market for Chinese automotive exporters. This was again confirmed during visits to Geely and SAIC in China during the 2008 MBA study tour.

The opportunity to learn and gain knowledge of western markets and their unique requirements can therefore be seen as the main gain for Chinese exporters. Several macro factors can therefore have a sudden and dire effect on the S.A. retailers. Some of these would include:

- Political instability
- Global fuel shortage
- Rand / Dollar fluctuation
- Limited Chinese legal and trade system

2.3 The Resource Based Theory (RBT)

Although Wernerfelt named the field of study in a seminal article, A Resource-Based view of the Firm in 1984 the origins of the RBV can be tracked back as far as articles by (Coase, 1937), (Penrose, 1959) and (Stigler, 1961).Two articles from Barney (1986a, 1986b) closely followed Wernerfelt and supplied the resource based framework for a later article by Barney (1991).

The RBV explains a firm’s ability to reach sustainable competitive advantage when different resources are employed and these resources can not be imitated by competitors which then ultimately creates a competitive barrier (Mahoney and Pandian, 1992).

An empirical study done by Acedo *et al.*, showed three distinct trends in three RBT; the resource based view, the knowledge based view (KBV) and the relational view. For the purpose of this research the RBV and the KBV will be further investigated.

2.4 The Resource Based View (RBV)

The RBV argues that a firm possesses resources which can enable them to achieve a competitive advantage. This advantage lies in the application of a bundle of these resources at the firm’s disposal (Wernerfelt, 1984) which, when effectively applied, can lead to superior long term performance and above normal rent (Peteraf and Barney, 2003). It therefore unreservedly defines RBV as an efficiency-based explanation of performance differences rather than a system purely reliant on market power, collusion or strategic behaviour (Conner, 1991).

In order for organisations to be successful in any market, it must create value for their clients or customers. How the initial value is created is not that important, the sustainability of the perceived value, scarcity (rare) and superior use relative to others is, however, critical. Firms must therefore ensure that they can deliver greater benefits to their customers at a given cost (or deliver the same quality at a lower cost). (Peteraf, 2001).

In order to maintain this competitive value advantage, organisations must develop and maintain an engaged, knowledgeable and creative workforce (Afiouni, 2007). An environment conducive to human capital growth, expressed as increased knowledge, increased motivation and increased engagement can become a competitive advantage that can be very difficult for competitors to imitate (Luftman and Kempaiah, 2007)

Barney identified four key criteria that a resource must fulfil in order to be classified as a key resource (Barney, 1991). These factors are commonly referred to as the VRIN criteria:

- Valuable
- Rare
- In-imitable
- Non-substitutable

The RBV therefore integrates the multidisciplinary fields of strategy, management, marketing, organisational behaviour and knowledge management.

2.4.1 Definitions

In order to successfully understand the subsequent review the following definitions will be used:

2.4.1.1 Valuable

A resource must allow a firm to utilize a value creating strategy by reducing inherent weaknesses or outperforming rivals (Amit and Shoemaker, 1993). It therefore follows that the transaction cost coupled to acquire and maintain the resource must be lower than the discounted future rent capable of flowing from the resource (Mahoney and Pandian, 1992)

2.4.1.2 Rare

The more exceptional a resource the higher the perceived value. A resource must therefore be rare to have a high value. The price of a resource should therefore be a reflection of the expected discounted future above-average returns (Dierickx and Cool, 1989)

2.4.1.3 In-imitable

Singular control over a specific resource could become a competitive advantage. Companies who manage to create an isolating mechanism that prohibits competitors to duplicate this asset perfectly will ensure a sustainable advantage (Peteraf, 2001).

Resources which are knowledge based or socially complex are often more difficult to imitate and certain academics even regard knowledge based resources as the essence of the RBV (Conner and Prahalad, 1996).

2.4.1.4 Non-substitutable

The principal of substitution plays an important and central role in resource allocation. Individual firms will respond to changes in relative input prices that are caused by the relative scarcities or factors of production in the economy as a whole. Relatively more of the cheaper resource and relatively less of the more expensive resource will be utilised (Lipsey and Chrystal, 2006). If competitors are able to counter the firm's value product with a substitute, prices will be driven down to the point where the price will equal the discounted future rent with a zero economic profit result (Conner, 1991).

2.4.2 Competitive advantage

A competitive advantage can be obtained if the current resources comply with the VRIN principle and if the current strategy is value-creating and exclusive of implementation by current and future competitors (Barney, 1991).

2.4.3 Resource

Barney (1991,p101) constituted a resource as, *"... firm resources include all assets, capabilities, organisational processes, firm attributes, information, knowledge, etc; controlled by a firm that enable the firm to conceive or implement strategies that improve its efficiency and effectiveness. "*

Distinction was later made between resources and capabilities. Amit and Shoemaker (1993) defined resources as trade-able and non-specific to the firm, while capabilities were defined as firm specific and used to utilise the resources within the firm. This also included implicit processes to transfer knowledge inside the firm. This inclusive view of internal capabilities as resources was accepted by Makadok (2001) as well as Hoopes, Madsen and Walker (2003).

2.4.4 Critical Resource Identification

Differentiation between tangible and intangible resources is important. Intangible resources are often more difficult to imitate due to the non-concrete compilation. The effective implementation and execution of business processes can however also become a critical resource. According to a study done by Ray in the insurance industry, (Ray, Barney, and Muhanna, 2003), it became clear that distinctive advantages observable at the process level are not necessarily reflected in firm performance.

Another study done by Farjoun (1998) showed that "skill" assets can have a positive effect on firm performance. In a declining market, like the current automotive market in

S.A., the critical resources needed earlier might now become the differentiator between survival and bankrupcy. Firm performance should therefore not only be measured in terms of sales or revenue generation. A firm with higher resilience due to a unique resource will have a higher survival potential.

2.4.5 RBV and Economic Theory

Two distinctive mainstream resource economies present unique needs. These differences between service and goods economies are interwoven in the concept of a "resource economy" within which productive resources are produced and exchanged between firms (Mathews, 2002).

The idea that a firm consists of a "bundle of resources" was first coined in 1959 by Edith Penrose in *The theory of the growth of the firm*. She stated that the application of these resources resulted in fundamental differentiation over time. It is therefore the task of management to utilise the correct mixture of these resources to gain a competitive advantage. This, therefore, necessitates a period and process of learning where the eventual outcome can not be precisely predicted. The outcome or resource utilisation is dependant on the management's knowledge, experience, and capacity for imaginative experimentation (Mathews, 2002).

Mathews further states that the most important strategy for firm growth is management's propensity to develop organisational routines which can liberate their attention to investigate further or new opportunities for growth and diversification. This would therefore enable management to identify "excess" resources and either make them productive or dispose of them. In certain instances the combination of synergistically inclined resources can streamline operations to cut cost or to improve productivity without increasing the cost (Mathews, 2002).

2.4.6 RBV and Human Resources (HR) Theory

The role of HR in business performance should be obvious but many managers still battle to justify the importance. In good economic times, firms spend more money on training, staffing, and rewards programmes. These are then justified as motivators to grow sales. In difficult times these same rewards and training "motivators" are often the first line of savings cutbacks.

The role of internal resources as a base for a competitive advantage brought legitimacy to HR's assertion that people are strategically important to firm success. The RBV has therefore, to a certain extent, helped to transform "people" into company assets or resources.

2.5 The Knowledge Based View (KBV)

The current automotive retail market is characterised by increasing competition, decreasing entry barriers and shorter product life cycles. The combination of these factors increase the risk and necessitates the need for knowledge management. Accordingly, Nonaka (1991) notes that in an economy where the only certainty, is uncertainty, the one source of lasting competitive advantage, is knowledge. The view of knowledge as a key resource, which can lead to sustained competitive advantage, is also supported by Dierickx and Cool, (1989); Grant, (1996); Teece, (1998) as well as Cupta and Govindarajan, (2000). The task of generating, combining, transferring and facilitating the storage of knowledge therefore becomes a key task of managers (Knight and Harland, 2005).

Knowledge, the basis of core competencies, arise from the integration of the individual's specialised knowledge of members within the firm (Grant, 1996). This can manifest as procedures, rules, norms, strategies and technologies, and is the result of interrelations between individuals in the firm or individuals acting on behalf of the firm (Nelson and Winter, 1982). The task of the firm and network management therefore becomes the establishment of routines and unique procedures to build and to regularly refresh meta-knowledge about the competencies and abilities that exist within the firm (Evanschitzky, Ahlert, Blaich, and Kenning, 2007).

Organisational knowledge ,which according to Grant (1999), forms the basis for core competancies, arise from the integration of individual's specialised knowledge of members from within the firm. This knowledge arises and appears in the day to day procedures, rules, norms, strategies and technologies and is a result of interrelations between individuals acting on behalf of the organisation (Nelson and Winter, 1982; Weick and Roberts, 1993; Conner and Prahalad, 1996).

Although this might sound simple the reality is not as simplistic. Despite the large number of studies on this subject and the effects of knowledge on compettitive advantage, it is still not clear how knowledge is "created" in a firm (Eisenhardt and Santos, 2002).

2.5.1 Locus of knowledge

The level at which knowledge is created has been an ongoing debate. Some Grant, (1996); Nahapiet and Ghoshal, (1998) have argued that the individual is the locus of knowledge while most have focussed on a more collective locus of knowledge (Kogut, 2000; Adler, 2001; Winter, 2003). This debate is important to determine if new knowledge creation is fundamentally about the organisational processes and procedures or about the attributes and capabilities of certain individuals. This is extremely important from a strategic perspective and one must determine if knowledge-based advantages are the result of a firms ability to aquire and build strategic assets or, if these advantages are the underlying results of the the individuals' abilities to make astitute resource acquisition decisions (Felin and Hesterly, 2007).

From the collective perspective, knowledge is essentially a social occurrence which differs from the aggregation of individuals (Nahapiet and Ghoshal, 1998). Nelson and Winter, for example, stated that: *"the possession of technical knowledge is an attribute of the firm as a whole, as an organised entity, and is not reducible to what any single individual knows, or even to any simple aggregation of competencies and capabilities of all the various individuals, equipments and installations of the firm"* (1982: 63).

This perspective is later supported by Kogut and Zander who point to a distinctive collectivist view by posing that: "*firms exist because they provide a social community of voluntaristic action structured by organising principles that are not reducible to individuals"* (1992: 384).

Researchers have even alluded that the firm possesses a "collective mind" which has the ability to "know" independently to the individuals concious reasoning (Weick and Roberts, 1993).

Contrary to the main stream of theory, Simon (1991) and Grant (1996) holds a more individualistic theory and poses that the individual is the primary locus of knowledge and should be the basis for understanding new value creation and organisational outcomes. Simon also argues that "*all organisational learning takes place inside human heads; an organisation learns in only two ways: (a) by the learning of its members, or (b) by ingesting new members who have knowledge the organisation didn't previously have"* (1991: 125).

The crux of the debate of individual versus collective as a locus in explaining and predicting social outcome was described as micro-micro versus macro-macro by Kincaid (1997). Felin and Hesterly (2007) enhanced the previous study and came to the conclusion that knowledge based theory research must begin with the individual rather than the collective in understanding new value creation. This research also showed that: *"a collective approach that does not account for individual-level heterogenity simply cannot rule out individuals as an alternative explanation in explaining new value and knowledge creation"* (2007: 214).

For the purpose of this research the importance of both the individual as well as the collective will be investigated and it is supposed that the sum of the collective will be greater than the sum of the individuals per se. The challenge is therefore to promote the social interactions among individuals to facilitate, not only the transfer of explicit knowledge, but also the creation of both explicit and tacit knowledge (Nonaka, 1991; Hansen and Haas, 2001).

2.5.2 KBV and knowledge creation

In the KBV of a firm, an organisation's ability to create knowledge is a source of competitive advantage (Conner and Prahalad, 1996; Grant, 1996; Kogut, 2000). The sustained utilisation of the knowledge is, however, more important. The knowledge-based literature identifies two dissimilar dimensions of knowledge management. The first is activities that aim to increase a firms accumulation of knowledge and is referred to as "exploration" (March, 1991) or "knowledge generation" (Spender, 1992). The second type are those activities which deploy existing knowledge in order to create value. March (1991) calls this "exploration" and Spender refers to this as "knowledge application".

Hamel (1991, p. 84) notes that: "*the crucial distinction between aquiring such skills in the sense of gaining access to them … and actually internalising a partner's skills has seldom been drawn".* The mutual beneficial relationship between individual worker and firm therefore becomes an alliance to share and multiply knowledge for their mutual benefit. It therefore follows that the development or exploration of knowledge will be greater when the people involved have diverse knowledge and skill sets (Un and Cuervo-Cazurra, 2004).

The creation of knowledge, in contrast to the unidirectional transfer from source to recipient, requires multidirectional interaction among people with different knowledge sets. This will enable each participant to become both the source and the recipient of knowledge. This process will result in the transfer of explicit knowledge as well as tacit knowledge which is only possible through personal interaction (Nonaka 1994; Nonaka and Takeuchi, 1995).

Interaction as described above, have two pre-requisites; the willingness to share and understanding among the individuals who share the knowledge (Un and Cuervo-Cazurra, 2004). The willingness to share knowledge sets to create new knowledge need some type of incentive for example an economic incentive (Milgrom and Roberts, 1990) and/or a social incentive (Nahapiet and Ghoshal, 1998). These individuals, according to Un and Cuervo-Cazurra, (2004), must also be able to understand each other, share a common code, common knowledge (Grant, 1996) or overlapping knowledge (Nahapiet and Ghoshal, 1998); Tsai, 2002).

It is essential that both these factors are present since neither can be sufficient on its own. Without the willingness of the individuals to interact, little sharing can be facilated and without understanding among the individuals, knowledge can not be exchanged in a meaningful manner without the possibility of misunderstandings and wrong interpretations arising. Coexistance of both factors is therefore a pre-requisite for succesfull knowledge creation and management must ensure that both drivers are engaged to succeed (Un and Cuervo-Cazurra, 2004).

2.6 Dynamic Capability Perspective

Mere access to a resource, even if it fulfils all the criteria as stipulated by Barney, is in itself insufficient to create a sustainable competitive advantage (SCA) (Teece, et al., 1997).

Optimum market performance is developed when market orientation can be bundled together with internal complementary resources as described by the RBT (Menguc and Seigyoung, 2006). This complements one of the fundamental propositions of marketing theory; "*Effective implementation of market orientation results in a superior competitive advantage"* (Jaworski and Kohli, 1993).

This ability to generate competitive advantage capabilities was also investigated by Narver (Narver and Slater, 1994). Porter (1991) found that a competitive advantage is a combination of firm's operating environment and its internal dynamic capabilities.

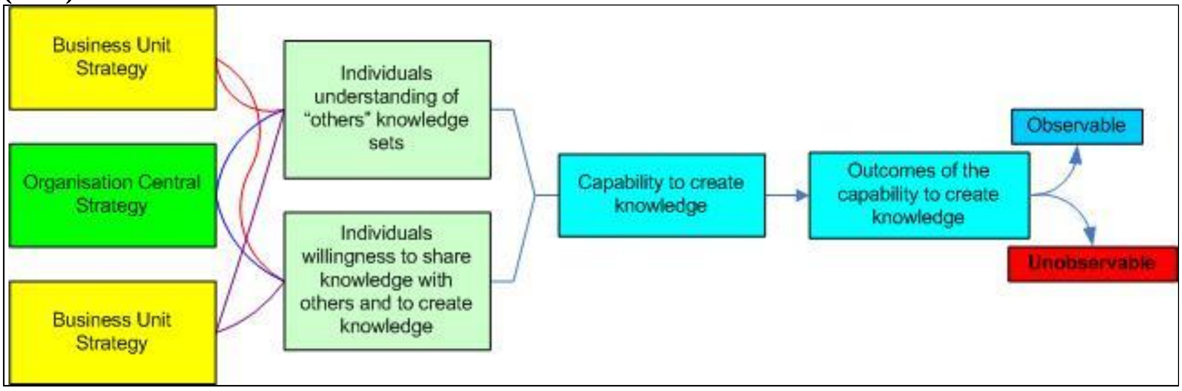
Teeche *et al.* defined dynamic capabilities as: "*the firm's ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments"* (Teece, et al., 1997).

Un and Cuervo-Cazurra (2004, p.29) intergrated strategy in knowledge management and said that: "*The term "strategy" is defined as a set of integrative management* *practises that facilitates interactions for knowledge creation among individuals by influencing the drivers of these interactions."*

These integrative management practises referred to by Un and Cuervo-Cazurra (2004) can therefore be seen as a subset of practises that a firm uses to recruit, organise, train and reward their employees. Through continous development, the action should focus on facilitating the integration of knowledge sets of individuals by promoting their interactions towards knowledge creation.

Each team or separate business unit in the firm can and often will have a separate strategy and it is the aim of integrative management practises to compose a strategy that encompasses all the different strategic dimensions in a single firm strategy, thus complementing and reinforcing each other (Holmstrom and Milgrom, 1991).

Figure 7: Theoretical framework for capability to create knowledge: Un and Cuervo-Cazurra (2004)



Integrative organisational routine communication, which includes formal and informal communication, forms the basis of the above framework. This communication must not only be lateral and vertical in the same business unit, but must be encouraged across business units and among different disciplines. According to Nelson & Winter, (1982) the establishment of routines leads to automatic behaviours, which require less subsequint effort.

Organisational level integrative routine communication will, over time, improve the willingness and understanding among individuals as they become used and acustomed to the interaction of people from different parts of the firm and with different cultural and other backgrounds (Un and Cuervo-Cazurra, 2004). In order for this strategy to be cost-effective, the employment base of the firm has to be stable in order to avoid continuously applying integrative management practises to new employees who might leave before the benefits are realised.

Academic literature has evolved to such an extend that dynamic capabilities are considered a business asset of the highest order (Lopez, 2005). Dynamic capabilities are complex, higher order organisational processes which provide sufficient conditions for the adaptation and regeneration of the firm's stock of business assets (Collis, 1994). This concept evolved from a natural and dynamic process of individuals to learn within organisations (individual learning) as well as from organisations themselves (organisational learning) (Teece *et al.*, 1997; Zollo & Winter, 2002).

Dynamic capabilities therefore form a subgroup of a firm's capabilities which allows the creation of new product and / or process which enables a firm to respond to changing environmental conditions (Lopez, 2005). Dynamic capabilities therefore help the firm achieve a complex fit between activities that assure good short term results while at the same time enabling long term sustainable profit. Ranft and Lord (2002) stated that firms who posess stock of organisational knowledge, associated with the creation of value that could be described as uncommon or idiosyncratic, stand a good chance of generating and sustaining high returns. Hence, knowledge capabilities become the critical capabilities under a knowledge based view of the firm (Casselman and Samson, 2007).

2.7 Strategic Human Resource Management

Human resources are defined as the "pool" of human capital under the firms' control in a direct employment relationship (Wright, McMahan, and McWilliams, 1994). Human resource managers (HRM) generally consider this pool to be the primary source of sustained competitive advantage. Strategic Human Resource Management (SHRM) on the other hand prefers to classify human capital as a resource and under the resource based paradigm (Teece, *et.al*, 1997).

The benefits of a strategic approach to HR management are:

- Facilitates development of a high quality workforce through focus on types of people and skills needed.
- Facilitates cost effective utilisation of labour, particularly in service industries where labour is generally the greatest cost.
- Facilitates planning and assessment of environmental uncertainty and adaptation of organisation to external forces.

The competitive advantage derived from the above is often not based on individual assets or practises that can easily be duplicated, but rather on a series of practises or high level routines that produce significant outputs as a collective (Winter, 2000; Nohria, 2004). A 1996 study showed that firms using various operation strategies, (even limited but effective and appropritate ones), perform better than those not working according to any strategy (Ahmed, Montagno, & Firenze, 1996).

Peteraf & Bergen, (2003) developed a combined RBV and IO model for scanning complex competitive fields to show that both theories are complimentary and combine to affect the firm’s outcomes. Lowson, (2003) also demonstrates that the basic decissions involved in formulation of operational strategy reflect both the IO and RBV properties. A firm is therefore basically a factor of production and to sustain a competitive advantage the firm needs to view itself as an integrated bundle of the IO and RBV applications that align closely with the organisational goals (Hitt, Ireland, & Hoskisson, 2001).

2.8 Chapter Conclusion

According to the above literature a firms performance can be determined by the external market orientation as proposed by Porter and by internal factors and their reaction to market turbulence as suggested by the RBT.

The external market conditions should be near exactly for all competitors at a given point in time. The major differentiators for firms should therefore be sought internally to the organisation. This research should therefore aim to identify the internal resources in different automotive retailers prior to and during the economic decline. By comparing the different VRIN resources for individual retailers and changes, if any, before and after the economic decline with the RBT literature the student hopes to identify the key VRIN resources for the industry. The RBT enabled further specialisation areas namely the RBV and KBV.

The ability to develop dynamic capabilities evolved from the theory of the RBV and the KBV (Lopez, 2005). These dynamic capabilities centres its attention on all aspects of knowledge and abilities which generate the firm’s core competences. It therefore becomes an exceptional instrument of strategic analysis for managers.

Strategic management therefore becomes a key aspect of generating dynamic capabilities by constantly modifying organisational skills, resources and competencies in an effort to adapt to the unfolding business landscape. The key task therefore becomes how or what a manager must do in order to organise individuals to generate the knowledge that the firm seeks (Nickerson and Zenger, 2004).

3 CHAPTER 3: PROPOSITIONS

3.1 Introduction

This research project accepts the interaction between market orientation and the RBT. The proposed propositions aim to determine whether the compilation and interaction of VRIN resources changes when the economic environment changes, for example the current economic downturn in the automotive retail environment.

People and internal processes are often the foundation for resources which can lead to a long term sustainable advantage. Smaller organisations regularly have stronger interrelations with their staff which begs the question whether it gives them an advantage. If so it would mean that larger organisations must be at a disadvantage.

3.2 Proposition 1

Resources regarded as critical (VRIN) for the automotive retailers changed during the last twelve months.

The economic downturn experienced since the first quarter 2007 has led to the rapid decline in sales of new and used vehicles. Due to the decline in sales many automotive retailer groups have closed and scaled down some of the dealerships in order to survive and remain competitive.

This consolidation results in a more concentrated staff compliment and better control of semi fixed expenses. The huge capital outlay in fixed assets is, however, not so easy to cut down. Large facilities which where erected or refurbished during the previous years now have huge repayments which can strain cash-flow and trade ability.

According to the RBV, the ability of a firm to develop distinct capabilities enhances the ability to adapt to a changing competitive environment and its survival prospects (Esteve-Perez & Manez-Castillejo, 2006).

3.3 Proposition 2

Larger dealerships can have an advantage in terms of cost and contribution.

Larger dealerships mostly belong to large group with a diversified interest like McCarthy, Unitrans, Imperial and the Super group. Due to their diversified portfolios they can cross subsidise individual divisions during an economical downturn.

These larger organisations are based in the metro areas and cover large demographic areas which account for most of the sales of automobiles (Dierickx and Cool, 1989; Priem and Butler, 2001).

Larger organisations invariably have larger staff compliments and larger facilities to house these people and larger organisations should in theory also have more resources to rely on to help them get through the difficult time. According to the RBV the ability of a firm to develop distinct capabilities largely determines their survival prospects (Barney J. , 1991; Wernerfelt, 1984). The financial ability to generate firm specific assets is dependent on factors like R&D and advertising behaviour (Esteve-Perez & Manez-Castillejo, 2006).

Due to the large sales volume and the broad income generated from the after sales departments these organisations should therefore have more cash reserves to help them cope in difficult times.

Larger organisations also have more specialised employees and should therefore include a dedicated human relations person or department to ensure that all staff issues are handled promptly and correctly.

3.4 Proposition 3

Smaller dealerships have an advantage in terms of esprit de corpse and motivation to save the firm.

Larger organisations invariably have larger staff compliments and larger facilities to house these people. In periods of economic downturn smaller organisations might be more nimble to adapt quicker to the changing environment. Larger organisations on the other hand have more resources to rely on to help them get through the difficult time.

According to the RBV the ability of a firm to develop distinct capabilities largely determines their survival prospects (Barney J. , 1991; Wernerfelt, 1984). The financial ability to generate firm specific assets is dependent on factors like R&D and advertising behaviour (Esteve-Perez & Manez-Castillejo, 2006).

Firm size can also lead to a larger demographical foot print and enhanced customer service which, in itself, can become a differentiator (Dierickx & Cool, 1989; Priem & Butler, 2001).

In smaller organisations people know each other more intimately and would therefore tend to care more for each other than in large organisations where the individuals do not know each other. The smaller firm often takes on an identity of its own and the founder or owner is often personally involved in the management and daily operations. The firm often mimics this individuals values and this then becomes "the way things are done here".

Larger firms develop an organisational culture over an extended period of time. Due to demographics and the large number of people, individuals often don't even know that they work in different divisions of the same organisation and therefore do not care as intensely for each other.

3.5 Proposition 4

In terms of RBV human resource management and organisational development becomes more important in an economical downturn.

Salespeople's selling skills and their inter- and intra-unit collaborative skills can be regarded as a VRIN resource (Capron & Hulland, 1999; Menuc & Barker, 2005). According to the RBV this should enable the firm to generate above normal and sustainable economic rent (Priem & Butler, 2001; Menguc & Seigyoung, 2006).

Technical people are currently in high demand. The average training period for a master technician is about seven years. These highly skilled people are also well paid and during an economic downturn firms might be inclined to retrench some of these people. Contrary to sales staff which can be recruited and trained rapidly when the economy picks up, these technical people are often lost forever. Several countries in Africa, as well as Australia, are actively headhunting qualified master technicians. Any level of insecurity at work might be the final motivator to get security somewhere else.

Administration and financial people have often been multi-skilled as they move through the ranks of the different departments. In times of economical difficulty some of them might be expected to multitask in order to save cost. Irrelevant of the department the *esprit de corpse* will be a major factor in survival determination.

3.6 Proposition 5

The ability of recognising and developing non-strategic asymmetries can lead to inimitable resource capabilities.

Some companies, despite the relatively rare resource they possess, are unable to transform it into a long term sustainable advantage (Barney J., 1991; Peteraf M., 2001). Other companies, often newly formed, are able to develop VRIN resources faster than these more established companies.

These advantages are often developed from, (or due to), internal processes and procedures commonly referred to as: “the way we do things around here”. This combination or bundling of resources then forms a VRIN resource.

3.7 Conclusion

The above propositions will enable the student to determine the level of management’s knowledge and understanding in terms of the RBV, RBT and KBV in order to achieve a SCA.

If the dealers who agreed to participate in this study have an understanding of the above theories and if they have identified their VRIN resources it would be possible to compare the bundle of resource application before and during the economic decline.

The comparison between the resource bundles would highlight the gap and therefore determine which resources are more critical in an economic decline. These critical resources could then form the basis for future strategic planning and severe pressure on these resources could be a predictor for future economic declines.

4 CHAPTER 4: RESEARCH METHODOLOGY

4.1 Research Design

The research design used for this study can be described as exploratory research by means of multiple in-depth and semi-structured case studies. According to Stake (2005, p443), "case studies are a common way of doing a qualitative inquiry". This view is supported by Leedy and Ormrod (2001) when required to dig deeper to uncover the real drivers. The purpose of this research is to properly diagnose the current scenario, evaluate the situation according to relevant theory as per chapter 2, and to determine if the RBV is as relevant in a declining economy as in a growing economy. This method is therefore applicable to the type of research being done.

According to Zikmund, exploratory research helps diagnose the dimensions of problems so that successive research projects will be on target. It helps set priorities for research and is a useful preliminary step (Zikmund, 2003). This method of qualitative research is also proposed when attempting to interpret a certain phenomenon which might need "deeper digging", in order to unearth the real issue at hand (Leedy & Ormrod, 2001).

Perry (2001, p305) defines case research as "an investigation of a contemporary, dynamic phenomenon and its emerging (rather than paradigmatic) body of knowledge". The experiential knowledge of the case and the various influences from social, political and other factors therefore becomes the main focus (Stake, 2005). It is therefore important that case study research be used correctly. The researcher should therefore aim to determine the "how" and "why" of a relatively complex, social-science issue, and not aim to solve the "what' and "how should" issues (Perry, 2001, Yin 2003). They elaborate on the above sentence by adding that the "why" question is not based on an experiment that shows a casual link between A and B, because in social science there often is no link between A and B.

No academic journal or methodology of multiple case studies hve been formalised and according to Yin (1993), the result is that case study research is often frowned upon by serious academics. Others like Denzin (1989) agree with Yin and ads that it has been limited in use, even by qualitative methodologists.

Perry (2001), on the other hand, argues that case studies can in fact be a powerful research methodology and states that there is evidence that supports the view that managers and researchers will benefit from "rigorous, structured procedures to research complex, contemporary topics relevant to their current or future work – e.g. marketing" (p304). Stake (2005) supports this view and ads that case studies relies largely on subjective data like testimonies of knowledgeable individuals which gains credibility due to a continuous process of triangulation of the descriptions and interpretations that attempt to make the data more objective.

Primary data will be obtained through experience interviews. These interviews will be in-depth and structured with top executives in the automotive vehicle retail sector and related business areas. Three executives from four different companies will be interviewed and the answers will be compiled in a matrix for further discussion. During in depth interviews, contrary to projective techniques, the subject matter is undisguised (Zikmund, p. 130).

Secondary data analysis will be done on relevant trade and econometric data. Secondary data is gathered and recorded by someone else prior to (and for purpose other than) the current needs of the researcher. Secondary data are usually historical, already assembled and do not require access to respondents or subjects (Zikmund, p. 136). Secondary data will only be used for industry and trend comparisons and not for research in this project.

Secondary data can be compromised, not pertinent, out-dated or in the wrong unit of measurement. All data from NAAMSA, Trendline and Econometrics, and Sewells were found to be timely, and adequate and relevant for fact finding.

4.2 Unit of Analysis

Zikmund (2003) defines the unit of analysis as the members or elements of a population and states that the researches must specify the level of investigation. The people interviewed will therefore all be senior managers or Dealer Principals (DP's) who are directly involved in the strategic planning and execution of their firms or dealerships.

4.3 Population of Relevance

The population frame for these interviews will be the South African Automotive Retail Industry (SAARI). The secondary population are experts in the SAARI. The common denominator of all the people is their connection and involvement with the strategic planning and management for their dealerships in terms of automotive retail.

In order to qualify as an expert for the purpose of this project the following criteria was used:

- Must be a senior manager in an automotive retailing company (i.e. a Dealer Principal (DP)).
- Or a senior manager in automotive retail company.
- Or a senior manager at an automotive manufacturer that deals with dealer development.

Table 1: Table of respondents position, franchise and size

NR.	POSITION	FRANCHISE	SIZE
1	CEO Large Group	Toyota, Nissan, Volkswagen, Mercedes etc.	L
2	Director	Nissan	L
3	Dealer Principal	Nissan	M
4	Dealer Principal	Nissan	S
5	Dealer Principal	Fiat and Alfa	M
6	Dealer Principal	Fiat and Alfa	S
7	Dealer Principal	Fiat and Alfa	L
8	Dealer Principal	Ford	L
9	Dealer Principal	Ford	M
10	Dealer Principal	Ford	M
11	Dealer Principal	Volkswagen	S
12	Dealer Principal	Volkswagen	M

Key: L = Large, M = Medium, S = Small

4.4 Sample Size and Sampling Method

Three senior managers in four different but related companies were interviewed. The semi-structured interviews will be compared against the propositions in a matrix as per **Appendix 1**. These interviews lasted an average of an hour to an hour and a half. Of the twelve interviews eleven were conducted as face-to-face interviews, while one was done telephonically due to time limitations. Three of the interviews were recorded digitally and during the remaining nine notes were taken due to the request of not being recorded.

4.5 Details of Data Collection

4.5.1 Literature Search

An extensive literature research was done on the major topics as set out in the introduction of Chapter 2.

4.5.2 Primary Data

The research process consisted of a qualitative case study utilising open ended, semi structured interviews with senior managers in automotive retail. The aim was to understand their perception on RBV, the resources at their disposal and the ability to bundle them in a package to ensure a sustainable competitive advantage. The effect of the current economic downturn was juxtaposed with the previous boom period in order to determine what, if anything, changed and what was implemented or is planned to be implemented due to the downturn.

Interviewees were invited to voice their opinions on the subject spontaneously. Due to the deductive nature the need to confirm or disconfirm prior theory, probe questions were prepared in case the subject wasn't raised spontaneously. This, according to Perry, (2001) is allowed.

The twelve interviews form the basis of this research project. The interviews lasted between 60 and 90 minutes. Most respondents preferred to remain anonymous. This is supported by Stake (2005), who proposed that it is vital to follow a code of ethics and to respect the disclosure of views and the request for anonymity in certain instances.

4.5.3 Secondary Data

Secondary data was only used for industry and trend comparisons and not for research in this project. Secondary data was obtained from Sewells and NAAMSA.

4.6 Process of Data Analysis

The data of the four cases were analysed separately, using the preferred strategy for case research of "relying on theoretical propositions" which required the researcher to follow the theoretical propositions that led to the research (Yin, 1995, p111). Perry (2001) agrees with this method and concurs that it is better to first analyse the individual cases before attempting to cross analyse.

Data collected was evaluated and transcribed to a matrix in order to rank and compare key words and concepts. This, according to Miles and Huberman (1991) is where the real skill lies. The ability to make cross case comparisons with the help of content analysis, coded key words or themes is the basis of a good research report.

Content analysis was done by scanning the content of each interview in a systematic manner and by recording the incidences and ways that the themes were portrayed. This is acceptable according to Huysamen, (2001). This enabled the researcher to collapse the various answers into a few but meaningful themes or categories which is displayed as the matrix attached as **Appendix 1.** This tabulation ensures easy reference of the similarities or differences (Gillham, 2005).

The purpose of case research according to Stake (2005, p460) is to represent the case and not the world and the author tried to remain true to this philosophy.

4.7 Telephone interviews

One interview was done telephonically due to time constraints. According to (Zikmund, 2003, p207) the quality of data obtained by telephone may be comparable to data collected in personal interviews. Zikmund proposes that telephonic data might even be superior in certain instances due to the distance and unfamiliarity with the researcher.

4.8 Data Validity

The level and stature of people chosen to be interviewed is of such a high level and industry profile that the validity of their opinion should be considered as true. The process of compilation of answers should point any serious anomalies out which can then be set aside for further investigation. It is, however, expected that there should be a general trend of consensus between the interviews.

The general validity of the data was to a certain extent triangulated by sharing the questionnaire and responses plus some of the preliminary findings with two of the most prominent people in the automotive industry, the CEO of the largest franchise group and a previous director of one of largest manufacturers and distributors in South Africa.

Research experiments are judge by two measures namely internal and external data validity (Zikmund, 2003)

4.9 Internal validity

Internal validity indicates whether the dependant variable was the sole cause of the change in the dependable variable. According to Zikmund (2003) there are six major types of extraneous factors that may jeopardise the internal validity: history, maturation, testing, instrumentation, selection and mortality. The only real influence on this study was the selection effect which the researcher tried to eliminate by selecting respondents from different franchises as well as franchises of different sizes as per table 1.

4.10 External data validity

External validity indicates the extent to which the results of the experiment are applicable to the real world. The relatively small sample size of this research might jeopardise the external validity and the concentration of respondents to the greater Gauteng area might also have an effect on the outcome. However the researcher is of the opinion that the results should be applicable to the greater South Africa as well as to certain other industries.

4.11 Data Reliability

Transcriptions and the original recordings, where possible, will be available for evaluation.

4.12 Proposition Testing

Due to the nature of the research and the interviews empirical testing will not be possible. It is, however, suggested that further research and empirical testing be done in a later study.

The three cases per brand will firstly be analysed separately using the preferred strategy for case research of "relying on theoretical propositions" which requires the researcher to follow the theoretical propositions that led to the research (Yin, 2003). Perry (2001) agrees and advises that individual cases must be analysed before cross case analysis is done. The real skill according to Miles and Huberman (1994) however lies in the ability to become analytical, to identify and recognise similarities and differences during cross case comparisons.

Content analysis by means of coded words and concepts enabled sorting of data according to the categories determined by the research issue. Certain probing questions and answers were applicable to more than one proposition and were used as such. After scanning the responses critically and systematically the essential occurrences were counted in order to reduce the variety of answers into few and meaningful categories.

Triangulation was also achieved by cross referencing the data with multiple external sources as discussed above.

The four brand case summaries were tabulated for ease of reference and to compare the similarities and differences. This was then compiled and the complete matrix is attached as **Appendix 1**.

4.13 Limitations of the Research

No empirical tests were done to substantiate the validity of the research. The results can therefore not be inferred to the broader population nor be quantified. Further research should be undertaken if quantification is deemed necessary.

The subjective nature of the interview in itself is therefore a limitation to the research.

The researcher has been working in the automotive environment for the past twenty years and might, therefore, despite an attempt to remain objective, have a bias. It is therefore possible that some preconceived perceptions could have been passed on while some other relevant information might have been omitted. If this occurred it was however unintentional.

The methodology of the case is cross-sectional and no longitudinal changes in perceptions or economical conditions have been taken in consideration. Since the economical environment is continuously changing a longitudinal study should be commissioned if it is deemed necessary.

The author is a novice in research as well as case study research and procedural errors might unknowingly have slipped in. The ability to do good case studies, according to Yin (2003), is not a skill that can be measured prior to commencement. The researcher however, did the research to the best of his ability and remained as neutral as possible.

4.14 Conclusion

The purpose of this research is to properly diagnose the current scenario, evaluate the situation according to relevant theory as per chapter 2, and to determine if the RBV is as relevant in a declining economy as in a growing economy. Thus, case analysis by means of in-depth case studies is therefore appropriate.

This research will be done according to the above methodologies and should help to diagnose the dimensions of the problem so that successive research projects can be on target. The researcher therefore aimed to investigate a contemporary, dynamic phenomenon and its emerging (rather than paradigmatic) body of knowledge with the main focus being the experiential knowledge of the case and the various influences from social, political and other factors (Stake, 2005).

5 CHAPTER 5: RESULTS

5.1 Introduction

The interviews provided an insight into the different views and methodologies followed by different franchises as well as rich and meaningful data about the way each dealership is managed. In most cases it was obvious that the respondents hardly knew about the phrases and concepts and did not actively plan or manage the concept of resource management or cultivate dynamic capabilities. In this chapter the student will present the data as collected.

The facts, as represented below, are the views of the individuals and do not reflect the official view of any franchisor. The franchisors, however, guides the franchisee and also guide the Dealer Principal's on how to manage and portray their dealerships. The following statement from one of the DP's reflects the general positioning terms of the RBV and the creation of sustainable dynamic capabilities:

"*The RBV* must *be something new*, *I never heard of the resource based view during the last twenty years in the motor trade*" and "*nothing is sustainable in the motor trade".*

Of the twelve interviews eleven were conducted as face to face interviews while one was done telephonically due to time limitations. Three of the interviews were recorded digitally and during the remaining nine, notes were taken due to the request of not being recorded.

The consolidated matrix of all twelve interviews is attached as **Appendix 1** for overall reference. The findings for each question are presented in a collated and collapsed view for easier understanding.

5.2 Findings

The following findings, displayed by proposition, represent the outcome of research.

5.3 Proposition 1:

Resources regarded as critical (VRIN) for the automotive retailers changed during the last twelve months.

5.3.1 What do regard as your core strength?

Table 2: Core strength

RANK	CONSTRUCT	FREQUENCY
1	People	9
2	Name or Brand Gearing	4
3	Customer relationships	3
4	Location Internal Relationships	2
5	Processes	1

According to the results it is clear that people are regarded as the most important resource for a dealership. This correlates with the findings of (Barney, 1986) and (Teece, 1998) who both said that the abilities and skills of the workforce is the differentiator between companies.

5.3.2 How has your core strength changed in the last twelve months?

Table 3: Changes in core strength

RANK	CONSTRUCT	FREQUENCY
1	Personnel Processes	5
2	Cash cycle focus	4
3	Gearing	3
4	Location Management	2
5	More customer focussed	1

The focus moved from finance to people and processes due to the bad market conditions. The financial gearing of the companies was still crucial but given the dire economic circumstances, it is imperative to develop and maintain an engaged, knowledgeable and creative workforce (Afiouni, 2007).

5.3.3 How did your internal processes change over the last twelve months?

Table 4: Changes in internal processes

RANK	CONSTRUCT	FREQUENCY
1	Cost cutting	6
2	More focussed staff	4
3	More customer focussed	3
4	Better cash control	2
5	Management change Better corporate governance No change at all	1

Most of the dealers cut cost and placed more focus on staff delivery and customer satisfaction. Internal processes are implicitly included as a VRIN resource as per Makadok,(2001) and Hoopes *et al* (2003) and any changes due to changes in the external environment are therefore applicable to this study.

5.3.3.1 What plans / processes have you or do you plan to put in place to weather the economic storm?

Table 5: Changes in plans or processes

RANK	CONSTRUCT	FREQUENCY
1	Cost cutting	7
2	Retrenchment	5
3	Non replacement of staff	4
4	Better cash control Better people management	3
5	More customer focussed	2
6	Related expansion	1

Most of the dealers interviewed implemented serious cost cutting which included retrenchments and non replacement of non critical personnel.

5.3.4 Summary: Proposition 1.

Although the resource ranking changed during the current economic downswing, very few of the managers made a conscious effort to restructure or reorganise the VRIN resources. In fact, few of the managers interviewed knew what their VRIN resources were.
These findings also correlate with Matthews (2002), that management must identify "excess" resources and either make them productive or dispose of them.

5.4 Proposition 2:

Larger organisations can be an advantage in terms of cost contribution and location.

5.4.1 How do you measure cost allocation?

Table 6: Measurement of cost allocation

RANK	CONSTRUCT	FREQUENCY
1	Per Department	10
2	Per head	8
3	High head office fee	6

Most of the dealers interviewed belonged to the Sewell's dealer management system and therefore measure cost in a similar way. The breaking down of cost to an employee level greatly helps with curbing unnecessary expenditure and also pinpoints if any abnormal expense occurs.

An unexpected finding was the anonymous agreement of high head office or management fees. Dealers who didn't mentioned were not asked about their opinion but this warrants further investigation.

5.4.2 In your opinion, which dealers, (large, small, rural etc) have a better chance to survive the economic storm?

Table 7: Correlation: Dealer type and survival

RANK	CONSTRUCT	FREQUENCY
1	Large	1
2	Medium	2
3	Small	9
4	Rural	11
5	Metro	4

It is clear that most interviewee's agree that rural and small dealers have a better chance to survive the economic storm.

5.4.3 What plans have you made to improve the contribution per individual in your company?

Table 8: Proposed plans to improve individual contribution

RANK	CONSTRUCT	FREQUENCY
1	Process improvement	6
2	Retrenched Performance Appraisals	4
3	Decreased stockholding	3
4	Cost cutting	2
5	Non replacement of staff	1

The modification and design of new processes to better manage resources and assets is an improvement forced on the industry due to the poor economy. Matthews (2002) comments that one of the most important factors for a firm's growth is management's ability to improve productivity without increasing the cost.

5.4.4 What role does demographic footprint play in your organisation?

Table 9: Role of demographic footprint

RANK	CONSTRUCT	FREQUENCY
1	Big	2
2	Small	5
3	None	3
4	Unsure	2

Demographic footprint does not appear to play a major role in the current environment due to mass advertising and electronic media.

5.4.5 Summary Proposition 2

According to the data received from the interviewees it is evident that dealer size is an important factor and those small and rural dealers have a survival advantage over large and rural dealers.

Due to current technology like internet and e-mail, the advantage enjoyed from demographic positioning seems to be eroding. All dealers have access to these relatively cheap technologies.

Evidence found during the interview, therefore, supports the fact that larger organisations can have an advantage in terms of cost contribution but not in terms of location.

5.5 Proposition 3:

Smaller organisations can have an advantage in terms of esprit de corpse and motivation to save the firm.

5.5.1 Does your company have a unique character or culture?

Table 10: Unique character assessment

RANK	CONSTRUCT	FREQUENCY
1	Yes	5
2	No	4
3	Don't know	3

According to (Jaworski and Kohli, 1993) a unique character of an organisation can increase the chances of survival in difficult times. The lack of unique cultures in more than half the respondents is a possible subject for further research.

5.5.2 Has the amount of people employed by your company changed over the last twelve months?

Table 11: Change in number of people employed

RANK	CONSTRUCT	FREQUENCY
1	Yes	11
2	No	1

Except for one dealer which increased due to the fact that they are a relatively new dealer and that they specialise in the commercial range, all dealers had a decline in the number of people employed. This is in corresponds with the current economical downturn.

5.5.3 Does your company have a regular communication method with all your employees?

Table 12: Presence of regular communication

RANK	CONSTRUCT	FREQUENCY
1	Yes	1
2	No	11

Lack of communication, according to Un and Cuervo-Cazurra, (2004), can be detrimental to company viability and their framework, depicted as Fig 7shows that formal and informal communication forms the base for integrative organisational routine communication.

5.5.4 Have you had any retrenchments or similar procedures over the last twelve months?

Table 13: Recent retrenchments

RANK	CONSTRUCT	FREQUENCY
1	Yes	4
2	No	7
3	Non replacement	4

The retrenchment process is quite cumbersome and has the possibility of future claims if procedural errors are made. The option of non replacement after resignations is much safer. Although seven respondents said that they have not had any retrenchments, some of them have indicated that they have “helped” certain individuals to resign and have also opted not to replace them after resignation.

5.5.5 Do you currently plan any retrenchments?

Table 14: Possible future retrenchments

RANK	CONSTRUCT	FREQUENCY
1	Yes	3
2	No	4
3	Unsure	5

The possibilities of future retrenchments are evident and only four interviewees could definitely say that there is no possibility of future retrenchments

5.5.6 What effect did the retrenchments have on the company morale?

Table 15: Effect of retrenchments

RANK	CONSTRUCT	FREQUENCY
1	Good	0
2	Bad	6
3	None	6

The effects of retrenchments can reasonably be expected to have a negative effect on staff self-esteem. Some of the respondents even had consequences from other companies in the group that have retrenched. The indirect or spill-over of negative emotions from other business units shows the strong feelings that are evoked from retrenchments. The break of trust between employer and employee can, according to Adler, (2001) and Afiouni, (2007) have serious consequences on organisation survival.

5.5.7 Have you implemented any plans to manage the effect?

Table 16: Implementation of mitigation plans after retrenchments

RANK	CONSTRUCT	FREQUENCY
1	Yes	3
2	No	3
3	Not applicable	6

Although the effect can be severe as shown in table 14, few of the dealerships interviewed implemented any plans to mitigate the effect. Some of the interviewees did not even think that retrenchment can have a severe negative influence on staff performance.

5.5.8 Summary Proposition 3

It can therefore be concluded that smaller organisations which employ fewer people have closer interaction between the individuals. The effect is that informal communication takes place more often and that the flatter management structure enables them to know what is going on. The opposite happens in large organisations where employees rarely see the top management of the organisation. Managers might have a weekly meeting where they are informed to a certain extent but they seldom pass this information on.

It is therefore evident that smaller organisations can have an advantage in terms of esprit de corpse and motivation to save the firm.

5.6 Proposition 4:

Human resource management and organisational development (OD) becomes more important in an economical downturn.

5.6.1 Does your company have any plans to manage your HR in the current economic downturn?

Table 17: Special HR plans to manage HR

RANK	CONSTRUCT	FREQUENCY
1	Yes	2
2	No	10

Lack of implementation of any special plans to manage people, a critical resource, can have an immediate and future negative impact on the dealership. It appears as if dealerships and DP's do not see the importance of mitigating risk and protecting their human resource in this difficult time.

5.6.2 How has the economic downturn affected your technical training schedule and budget?

Table 18: Effect on technical training

RANK	CONSTRUCT	FREQUENCY
1	Good	0
2	Bad	1
3	None	11

Technical training has not been drastically affected by the economic decline. A possible reason is the drastic shortage of qualified technical personnel. A secondary reason might be the long training period of at least four years. The lack of investing in training during the last twelve months, if any, will therefore only become evident in the next three to four years.

People currently in the training pipeline have, however, not been affected as per table 17.

5.6.3 How has the economic downturn affected your sales training schedule and budget?

Table 19: Effect on sales training

RANK	CONSTRUCT	FREQUENCY
1	Good	0
2	Bad	3
3	None	9

Sales staff is less scarce than technical staff and also have a shorter training period. The availability of sectoral crossing, example a furniture salesman starting to sell vehicles, is also a possibility, whereas an automotive technician is job specific.

The bigger effect on sales staff is therefore evident from a comparison between tables 17 and 18.

5.6.4 What was your approximate staff turn over the last 12 months?

Table 20: Approximate staff turn over percentage

RANK	CONSTRUCT	FREQUENCY
1	0 – 10 %	2
2	11 – 20%	4
3	21 – 30%	1
4	30% +	5

Staff retention is paramount in the creation of knowledge. (Lopez, 2005) From table 19 it is clear that nearly half the people interviewed had a change in staff numbers of greater than thirty percent.

The fact that only two dealerships interviewed had less than a ten percent staff turn over shows that the industry had excess staff employed and that staff creep might have happened during the good times.

5.6.5 How does your company manage retrenchments?

Table 21: Management of retrenchments

RANK	CONSTRUCT	FREQUENCY
1	Good	3
2	Poor	4
3	Not applicable	5

Only three dealerships felt that they manage retrenchments well. This is an important section of labour law and might also have far reaching effects on the company's ability to attract suitable people for future needs.

Other sectors like the mining industry have implemented large retraining plans to enable their retrenched people to be re integrated into society. Nothing simular has been done for employees in the automotive trade and employers often hide behind the law in order to comply with the minimum severance packages.

5.6.6 Summary Proposition 4

Given the importance of the human component in the automotive retail environment one would expect that the employers would protect and cultivate this often rare resource. The opposite is however evident from the dealers interviewed.

It is therefore not possible to say that human resource management and organisational development (OD) becomes more important in an economical downturn.

5.7 Proposition 5:

Recognising and developing non-strategic asymmetries can lead to inimitable resource capabilities.

5.7.1 How does your company evaluate resources to determine their worth?

Table 22: Resource evaluation

RANK	CONSTRUCT	FREQUENCY
1	Important	1
2	Not important	2
3	Unknown concept	9

The concept of resource management and resource evaluation seems to be foreign to the industry. The importance of resource recognition and development, is therefore a huge opportunity to explore in future research.

5.7.2 How often do you re-evaluate your resources?

Table 23: Resource evaluation frequency

RANK	CONSTRUCT	FREQUENCY
1	Monthly	3
2	Quarterly	1
3	Annually	1
4	never	7

Although some of the interviewees mentioned that they regularly evaluate their resources it was clear that they had a misconception of what resources are, according to the definition on page 23 of this document. Their perception of resource evaluation consisted mainly of financial and budget evaluation and comparisons.

5.7.3 How do these resources impact on your strategic planning?

Table 24: Resource impact on strategic planning

RANK	CONSTRUCT	FREQUENCY
1	Greatly	1
2	Little bit	1
3	Do not do strategic planning	10

Strategic planning also seemed to be a foreign concept amongst most of the dealers interviewed. Dealership management is mostly done by efforts to achieve a budget, often done four months ahead of implementation. In times of stable growth it might be possible to achieve these budgets. In turbulent economic times and especially in a global economic crisis like the current one, optimistic budgets construed a year ago are not achievable and often demoralising.

5.7.4 Is your company actively cultivating resources?

Table 25: Resource cultivation

RANK	CONSTRUCT	FREQUENCY
1	Yes	4
2	No	8

The ability to cultivate resources will only be possible if the resources are identified and ranked according to importance. Table 1 and 21 both showed that DP's do not really know what their core resources are and can therefore not cultivate an unknown resource.

5.7.5 How does your company actively cultivate VRIN resources?

Table 26: Methods of resource cultivation

RANK	CONSTRUCT	FREQUENCY
1	None	7
2	Multi skilling staff	4
3	Budget management	3
4	Recruitment	1

The only resource identified in terms of cultivation is the people. Although multi skilling of staff is a form of cultivation and improvement this is only one aspect. Only one respondent mentioned succession planning. Evaluation by means of KPI and KPA assessment has also increased. The reason, however, might be to expel unwanted staff and not primarily to identify and minimize gaps between ideal and current performance.

5.7.6 Summary Proposition 5

The recognition and development of non-strategic asymmetries can lead to inimitable resource capabilities (Miller, 2003). During the interviews, it became clear that the concept of resource development is not yet recognised in the automotive retail environment.

The current dilemma and poor financial performance of many dealers might therefore be due to the inability to recognise and cultivate the relevant resources. This is a field that beckons further research.

5.8 Conclusion

These findings were collected during the twelve interviews held over a two month period. The data provided an insight into the different views and methodologies followed by different franchises as well as rich and meaningful data about the way each dealership is managed.

It became clear that the concept of resource based management is still foreign to most DP’s and that budget and fiscal control are the primary management tools. Management of dealerships is done with a historical view and it is virtually impossible to make swift and radical changes as necessitated by poor and rapidly declining economic circumstances.

6 CHAPTER 6: DISCUSSION OF THE RESULTS

6.1 Introduction

The collective findings of the data collected in chapter five as presented in **Appendix 1** has been clustered to facilitate a cross section comparison for the four franchises to enable a discussion, relative to the original propositions. The five propositions are used as sub headings for this chapter and are discussed in view of the research done as per the theory of chapter two and the methodology described in chapter four.

Table 27: Abbreviated findings of research propositions

Dealer Nr.	Proposition 1	Proposition 2	Proposition 3	Proposition 4	Proposition 5
1	✔	*	✔	±	✔
2	✔	±	✔	*	✔
3	✔	±	✔	*	±
4	✔	*	✔	±	±
5	✔	*	✔	*	±
6	✔	*	✔	±	✔
7	✔	*	✔	*	±
8	✔	±	✔	±	✔
9	✔	±	✔	*	✔
10	✔	*	✔	±	✔
11	✔	±	✔	✔	✔
12	✔	±	✔	✔	±

Key: ✔ = supported, * = not supported, ± partially supported ≠ not applicable to dealer

6.2 Proposition 1:

Resources regarded as critical (VRIN) for the automotive retailers changed during the last twelve months.

6.2.1 What do you regard as the core strength of your company?

Table 1: Core strength

RANK	CONSTRUCT	FREQUENCY
1	People	9
2	Name or Brand Gearing	4
3	Customer relationships	3
4	Location Internal Relationships	2
5	Processes	1

The core strength of the company according to the twelve respondents is depicted in table 1. According to the results it is clear that people are regarded as the most important resource for a dealership. This correlates with the findings of (Barney, 1986) and (Teece, 1998) who both said that the abilities and skills of the workforce is the differentiator between companies. It was noticeable that none of the respondents included their unique organisational processes as a unique resource. Many of the firms alluded at the difference in “their way of operating” but didn’t regard it as VRIN resource like Barney (1991, p101).

The leverage of internal resources and in particular the knowledge of the individual about their customers and their preferences was often acknowledged by the people interviewed. The ability of the individual to use trust and relationships in difficult times is more pronounced in difficult times according to several interviewees. This is evident from the comments from some of the respondents:

“The sales executives with large customer bases and regular contact seem to do a lot better than those who didn’t care to follow up regularly after the initial purchase.”

"The new salesman without a customer base is the first to exit in the bad times."

According to Peteraf, (2001) organisations must create sustainable value for their clients or customers in order to be successfull in any market. Since the individual employee, be it sales service or admin, is the interface between the customer and the dealership, the individual can be regarded as the generator or conveyor of the value. The trusting relationship that developes between employee and customer can therefore become a differentiator between companies operating in the same space. This correlates with the view of Afiouni, (2007) who proposes that organisations must develop and maintain an engaged, knowledgable and creative workforce. Luftman & Kempaiah, (2007) poses that such a motivated and engaged workforce can be very difficult to immitate.

6.2.2 How has your core strength changed in the last twelve months?

Table 2: Changes in core strength

RANK	CONSTRUCT	FREQUENCY
1	Personnel Processes	5
2	Cash cycle focus	4
3	Gearing	3
4	Location Management	2
5	More customer focussed	1

The focus shifted from expansion, growth and hard business issues to focus more on staff and customer needs; predominantly due to the bad market conditions. This correlates with the literature as per Peteraf and Barney, (2003) and Conner & Prahalad, (1996) which stated that resources which are socially complex are often more difficult to imitate, thus aiming to create a differentiator between dealerships.

According to the managers interviewed, the current economic downturn forced them to actively focus on their core strength and to eliminate non essential activities, positions and expenses. One interviewee summed it up as a "back to the basics" wake up call.

The main focus also shifted from external to internal as well as sustaining of current advantages rather than developing new competencies.

6.2.3 How did your internal processes change over the last twelve months?

Table 3 Changes in internal processes

RANK	CONSTRUCT	FREQUENCY
1	Cost cutting	6
2	More focussed staff	4
3	More customer focussed	3
4	Better cash control	2
5	Management change Better corporate governance No change at all	1

More focus on the individual transactions and effective implementation and execution of business processes can form a critical resource (Ray, Barney, and Muhanna, 2003). The curbing of expenses and shortening of the cash cycle forms a critical part of the business process changes. These "hard nosed tactics" is in line with the findings of Mathews, (2002) who states that the most important base for firm survival and growth is management's propensity to develop organisational routines which can enable management to identify "excess" resources and either make them productive or dispose of them.

6.2.4 What plans / processes have you or do you plan to put in place to weather the economic storm?

Table 4: Changes in plans or processes

RANK	CONSTRUCT	FREQUENCY
1	Cost cutting	7
2	Retrenchment	5
3	Non replacement of staff	4
4	Better cash control Better people management	3
5	More customer focussed	2
6	Related expansion	1

Most of the interviewees have downsized their staff compliment either by way of retrenchments or by not filling posts that became vacant due to natural attrition. Remaining staff members are made more productive and in some instances undergo courses or on-the-job training to learn new skills. The increased multi skilling correlates with the development of dynamic capabilities as mentioned by Teece *et al*.(1997), as ”*the firms ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments”.*

The multiskilling in itself might also become an integral part of knowledge creation in the sense that people who had no previous exposure to certain jobs or positions are now exposed to multiple cross-work experiences which can lead to a new set of integrative management practises. This view is also supported by Un and Cuervo-Cazurra, (2004).

According to Kodama (2006) the primary intend of the RBV is the ability to identify gaps in competitiveness and profitability among firms and the leveraging of own resources to exploit these gaps. Cross-training and the shedding of excess staff fits in both these catagories and will improve the leverage of own resources. The scope and scale of implementation, compared to competitors, will determine if the changes are big enough to create a gap.

6.2.5 Summary for Proposition 1

The unique application of the firm's resources with the aim to gain a competitive advantage is illustrated in the changes made by the managers of the firms interviewed. This correlates with the view of Wernerfelt (1984), who describes the application of the bundle of available resources as the differentiator and Peteraf and Barney (2003), who sees the application of this bundle as the source of achieving superior long term performance and above normal rent.

It must however be stated that none of the interviewees knew the theoretical base of the RBV, KBV or DCP. The concept of VRIN resources was therefore also foreign to them and the concurrence with literature on these subjects must be seen as coincedental or as good business practises. None of the interviewees have made or plan a regular identification and evaluation of VRIN resources. This might be detrimental to current and future business and might also be the driver for staff creep in good financial times.

The forced multi-skilling of staff can lead to higher productivity. This is enhanced by the individuals propensity to perform better in order to retain their jobs and stay abreast of the retrenchment process. The economic downturn in itself might therefore become a driver of unintended recognition of VRIN resources as well as the enhancement of these resources which will lead to future increases in productivity.

Proposition 1 therefore holds true that resources regarded as critical (VRIN) for the automotive retailers have changed during the last twelve months. Some of these changes might have been more un-intentional or by instinct rather than by recognition of the RBV theory base.

6.3 Proposition 2:

Larger organisations have an advantage in terms of cost and contribution.

6.3.1 How do you measure cost allocation?

Table 5: Measurement of cost allocation

RANK	CONSTRUCT	FREQUENCY
1	Per Department	10
2	Per head	8
3	Exorbitant head office fee	6

Cost allocation is shared among departments in some pre-determined manner. Few of the interviewees knew how or who determined the split. Some mentioned that they were going to investigate the split formula as this could make a difference between inter departmental profitability. The overall profitability should not be affected but allocation of cost to the point of where the cost is incurred can help to manage cost.

Larger groups have head office departments which can hide inefficiencies. Cost breakdown is seldom specified and therefore difficult to manage. Large groups use the head office function to implement best practises across dealerships and benchmark individuals and departments against each other to find novel operational methods.

Smaller dealerships are predominantly privately owned and the owner is often the manager as well. This eliminates the head office admin cost and can be an advantage. This stand alone status however doesn't exclude the independent dealers from the same, if not better, benchmarking practises. Sewells is a financial institution which currently caters for about seven hundred independent dealers and a few groups across many franchises. Up to date monthly benchmarks against category, demographics and franchises are available for all subscribers. The subscription fee is often much lower than the average head office management fee.

According to Porter (1979) a firm's performance is predominantly determined by the macro factors and industry environment in which it operates. The rapid expansion of certain dealers during the good economical period incurred costs that are difficult to sustain in an economical downturn. The increased cost base therefore becomes detrimental to maintaining a sustainable competitive advantage as proposed by Wernerfelt (1984) and Barney (1991).

6.3.2 In your opinion, which dealers, (large, small, rural etc) have a better chance to survive the economic storm?

Table 6 Correlation Dealer type and survival

RANK	CONSTRUCT	FREQUENCY
1	Large	1
2	Medium	2
3	Small	9
4	Rural	11
5	Metro	4

The agility and faster response rate of smaller and rural dealers appears to give them an edge over the larger and more cumbersome metropolitan dealers according to the interviewees. Mathews (2002) states that economic theory determines that in the normal course and over the long run, in the absence of market imperfections above normal rent, will be impossible. It therefore follows that revenue received from operations should be similar unless certain internal factors among the dealerships are different.

Factors influencing the perceived advantage of smaller and rural dealers are customer loyalty, lower overheads and the low sales base of these dealers.

Customer loyalty has become the holy grail of automotive viability. Smaller and rural dealers are often isolated and might be the only franchise dealer in the town or district. This enhances the customer dependability and therefore loyalty. Personal acquaintance in smaller communities can also have a positive influence on customer loyalty. Larger dealers in metropolitan areas often share customers in the demographic area. Unhappy customers are therefore able to migrate between dealers. Lack of personal acquaintance also enhances the chance of switching dealerships and even franchises when their value perception becomes skewed.

Lower cost structures makes smaller dealers more nimble and enables them to contract and expand at a faster rate than larger dealers who are usually part of large groups. Given the lower cost base, small changes in either income or expenses of a small dealer, can have a larger impact than the same small change in a large dealership.

Large rural dealers have huge sales targets which must be realised before the second tier income from manufacturers gets paid over. In a declining market like the current market it is difficult to constantly maintain sales numbers in excess of fifty units per month. Smaller dealers often have a sales target between eight and twelve units per month. Although they are also hampered by the same macro economical situations as the metropolitan dealers, they can drastically improve their position by selling a few units out of their area. Given their lower overhead structure they can often undercut the larger dealers in order to maintain their sales volume to obtain manufacturer and other second tier benefits.

6.3.3 What plans have you made to improve the contribution per individual in your company?

Table 7: Proposed plans to improve individual contribution

RANK	CONSTRUCT	FREQUENCY
1	Process improvement	6
2	Retrenched Performance Appraisals	4
3	Decreased stockholding	3
4	Cost cutting	2
5	Non replacement of staff	1

Staff reductions by retrenchment or non replacement appear to have happened in most dealerships. None of the people interviewed mentioned an increase in sales or profit in order to raise contribution per individual.

The notion to calculate contribution per individual and not only per department allows better insight into each department and highlights inefficiencies. The fact that nearly all dealers had staff reductions and still cope with the current load begs the question if they were right sized for the good times. Staff creep invariably occurs during good times when profits flow easily and when managers reach sales and profit targets with little effort. By measuring contribution per total heads employed to the current Sewells benchmark of thirty five thousand rand (R35 000) nett profit, a department will always be right sized. It is however envisaged that this benchmark will also improve over time as more inefficiencies are eliminated.

A few people also mentioned that performance appraisals are done more regularly and more rigorously. This might be a method to improve job fit and performance but due to the tone of the conversation it was clear that performance management could also become a pruning method. The long term consequence of this practise might be detrimental to the overall trust relationship between employer and employee.

6.3.4 What role does demographic footprint play in your organisation?

Table 8: Role of demographic footprint

RANK	CONSTRUCT	FREQUENCY
1	Big	2
2	Small	5
3	None	3
4	Unsure	2

Most of the people interviewed felt that demographics do not play a dominant role in dealership success any more. Web based advertising and internet capability have, according to one interviewee; "*flattened the playing field for dealers*".

6.3.5 Summary for Proposition 2

In conclusion then, this proposition is supported in as far as small and rural dealers have a survival advantage due to their low cost structure, their often better gearing and the higher level of customer support.

Smaller dealers were seen to be more flexible and able to adjust faster to changing environments. The perceived advantage once enjoyed by large and metropolitan dealers seems to have been eroded by mass advertising due to cheap and omnipresent internet.

The personal involvement of the owner / manager in small companies also seems to have a positive and bonding effect on staff.

The perceived advantages enjoyed by large organisations have proved to become a burden in an economic downturn due to the high finance cost and the resulting impact on gearing and liquidity.

Proposition 2 is therefore not supported in that no evidence was found to suggest that larger dealerships have an advantage in terms of cost contribution and location.

6.4 Proposition 3:

Smaller organisations have an advantage in terms of *esprit de corpse* and motivation to save the firm.

6.4.1 Does your company have a unique character or culture?

Table 9: Unique character assessment

RANK	CONSTRUCT	FREQUENCY
1	Yes	5
2	No	4
3	Don't know	3

A major finding in terms of culture is that the employees are the custodians of the company culture. Retrenchment procedures have a direct negative impact on company culture and, as several interviewees mentioned, it can even kill the prevalent culture (Barney, 1986).

This correlates with the view of Simon (1991) and Grant (1996) who suggests that the individual is the primary locus of knowledge and should therefore be the basis for understanding new value creation and organisational outcomes. By retrenching some individuals the historical culture repository is damaged and a negative emotion of distrust is sowed in the collective culture. Since the basis of core competencies arise from the individual's specialised knowledge of members, managers must therefore ensure that the establishment of routines and unique procedures are regularly refreshed to enhance the competencies and abilities of the dealership (Evanschitzky *et. al.*, 2007).

6.4.2 Has the amount of people employed by your company changed over the last twelve months?

Table 10: Change in number of people employed

RANK	CONSTRUCT	FREQUENCY
1	Yes	11
2	No	1

All the respondents reported a decline in the number of employees. The severity of the decline is evident with an estimation of close to a thirty percent reduction in employees. Only one dealer mentioned that they have increased their "below the line activity" and they have had an increase in staff, compared to the massive decrease of the rest.

Most other dealers have been doing the same type of advertising and marketing than before which clearly isn't effective in the current circumstances. The application and the compilation of the bundle of resources must therefore be adjusted in order to realise above normal returns.

6.4.3 Does your company have a regular communication method with all your employees?

Table 11: Presence of regular communication

RANK	CONSTRUCT	FREQUENCY
1	Yes	1
2	No	11

Very few companies had a regular formal communication method between employer and employees. Both vertical and horizontal communication must be encouraged within and across business units. The establishment of such routines lead to automatic behaviour which requires less subsequent effort (Nelson and Winter, 1982). Interactive routine communication will over time improve willingness and understanding amongst individuals, lower cultural and other barriers and create a cohesive unit, resilient against forces that endangers the organisation (Un and Cuervo-Cazurra, 2004).

Regular communication between employer and employees as well as between employees is an important form of knowledge creation and sharing. According to Nonaka, (1991) and Hansen and Haas (2001) the promotion of social interactions and regular communication amongst individuals is an important step in the transfer of knowledge. This informal and formal communication also forms an integral part in the creation of both explicit and tacit knowledge. This, according to Lopez, (2005) can become a creator of dynamic capabilities and therefore a business asset of the highest order.

The lack of effective and regular communication, especially vertical communication, is a serious factor which can jeopardise dealership survival.

6.4.4 Have you had any retrenchments or similar procedures over the last twelve months?

Table 12: Recent retrenchments

RANK	CONSTRUCT	FREQUENCY
1	Yes	4
2	No	7
3	Non replacement	4

Retrenchment of staff is a fast and effective short term method to curb variable expenses. Over the long term it might, however, be very expensive to replace people and skills that are now employed by other dealers and companies. A secondary impact is the processes procedures and knowledge that are unique to your dealership that is now shared amongst many other dealers.

Barney (1991,p101) constituted a resource as, *"... firm resources include all assets, capabilities, organisational processes, firm attributes, information, knowledge, etc; controlled by a firm that enable the firm to conceive or implement strategies that improve its efficiency and effectiveness. "* Every retrenched individual has memorised and internalised certain aspects of the dealerships VRIN resources and due to retrenchment often wants to share this knowledge in an effort to get even.

The secondary effect of retrenchment might therefore be even bigger than the primary loss of the resource. The best is therefore to effectively manage the appointment of people and to make sure that only the right type and amount of people are employed in a sustainable manner.

6.4.5 Do you currently plan any retrenchments?

Table 13: Possible future retrenchments

RANK	CONSTRUCT	FREQUENCY
1	Yes	3
2	No	4
3	Unsure	5

Although most replied negative, it became clear during most conversations that a further decline in the sales might necessitate some form of further staff reduction. This will again exacerbate the situation as shown by table 12 (6.4.4) above.

6.4.6 What effect did the retrenchments have on the company morale?

Table 14: Effect of retrenchments

RANK	CONSTRUCT	FREQUENCY
1	Good	0
2	Bad	6
3	None	6

This correlates with section 6.4.4 above and shows that none of the respondents showed any positive effect gained by retrenchments except the cost saving. The negativity amongst employees was high according to the interviewees. Negativity was not only restricted to the dealerships but also spread to other dealerships within the group.

6.4.7 Have you implemented any plans to manage the effect?

Table 15: Implementation of mitigation plans after retrenchments

RANK	CONSTRUCT	FREQUENCY
1	Yes	3
2	No	3
3	Not applicable	6

The lack of plans to mitigate the effect of retrenchments and the general poor economic situation was surprising. The obvious effect of retrenchments on company morale should be mitigated by effective plans to help the retrenched obtain other work or in enhancing their skills bases.

6.4.8 Summary for Proposition 3

The data shows that most dealers do not have a regular communication method like a newsletter or electronic letter that informs all personnel of current and future events and trading information about the dealership. This method of communication is especially important to convey the correct and complete message from top management to the whole organisation (Hansen and Haas, 2001). Most dealers mentioned that they do talk to all their staff regularly but not simultaneously. The discrepancies in the message and omissions might negate the whole action and even enhance the silo effect often found in dealerships.

The cost and effort to manage such a newsletter is minimal but the rewards can be enormous. The combined negative effect of previous and current retrenchments might be toned down if all staff knew the reasons why and what the procedures and timing.

Lack of effective HR departments seems to further exacerbate the negative effect that retrenchments have on the industry in general and the affected dealers in particular. This can have a serious effect on current and future knowledge creation and sharing (Nonaka, 1991). The long term negative effect and emotional negativity towards the company will have a more pronounced effect on groups due to the collective view.

Smaller dealers are usually single enterprises where groups can own hundreds of outlets. This is therefore an important aspect that groups should address in order to ensure they become the employer of choice and attract the best available talent in both good and bad economical times.

Smaller dealerships mostly have daily interaction between the manager and owner, have very flat management structures and more loyalty due to the smaller and more dependant interrelations between individuals. Both the horizontal and vertical communication line are therefore shorter and stronger and more effective resulting in a stronger motivation to save the firm.

Proposition 3 is therefore fully supported by the findings of this research.

6.5 Proposition 4:

Human resource management and organisational development (OD) becomes more important in an economical downturn.

6.5.1 Does your company have any plans to manage your HR in the current economic downturn?

Table 16: Special plans to manage HR

RANK	CONSTRUCT	FREQUENCY
1	Yes	2
2	No	10

The lack of formal HR systems in the dealerships might be one of the reasons for the nomadic nature of automotive staff. Poor HR management might have little effect in good times when profits are in abundance and when sales and technical staff earn large salaries.

In a declining economy, sales and services are not as plentiful and staff, who mainly earn commission, soon battle to make ends meet. The best and core people of a dealership must be protected and retained in order to preserve the knowledge repository and *esprit de core*. The best people are also those who can most easily find new employment and therefore usually leave first, which leaves the dealership with all the second rate and poor staff. Couple this with a negative and undermining spirit and eminent failure faces the dealership as a result of poor HR management.

6.5.2 How has the economic downturn affected your technical training schedule and budget?

Table 17: Effect on technical training

RANK	CONSTRUCT	FREQUENCY
1	Good	0
2	Bad	1
3	None	11

The long training term and serious skills shortage has not affected the technical training of dealership staff. The minimum training period to qualify is four years with a further three years to become a master technician. This means that the technical pipeline is about seven years long.

Although the effect on training does not seem evident now, it might have a negative effect in three to four years due to the limited amount of apprentices taken in during this period. Dealerships who had excess capacity and who retrenched qualified and master technicians might battle to replace them. Opportunities in several Middle East. European and other countries immediately absorbed the superbly trained individuals, often for larger packages and incentives that they earned locally.

Few of these individuals wanted to leave South Africa but circumstances presented an opportunity and the already dire skills shortage was immediately enlarged.

6.5.3 How has the economic downturn affected your sales training schedule and budget?

Table 18: Effect on sales training

RANK	CONSTRUCT	FREQUENCY
1	Good	0
2	Bad	3
3	None	9

Sales training was affected more severely than technical training mainly because of the shortened lead time, less complex learning and the possibility of migrating personnel from other industries.

Sales executives are not yet seen as a separate profession and some DP's still think that it takes limited skill to become a sales executive. The average units sold per sales executive has declined from an average of eight units to approximately 5.2 units per sales executive. This drop is larger than the drop in vehicle sales, which points to a decline in the quality of sales executives.

6.5.4 What was your approximate staff turn over the last 12 months?

Table 19 Approximate staff turn over percentage

RANK	CONSTRUCT	FREQUENCY
1	0 – 10 %	2
2	11 – 20%	4
3	21 – 30%	1
4	30% +	5

The huge staff turn over can be attributed both to the economic decline and poor HR management. Managers should firstly look at saving cost elsewhere since most other resources can be replaced easier that complex human resources. The cyclical nature of the automotive industry is well known and the protection of your "pool' of human talent is therefore critical. According to Teece D, (1998) and Wright, *et. al.*,(1994) this "pool" is the primary source of sustainable advantage for the firm. The retrenchment of thirty percent of the dealerships sustainable advantage can therefore jeopardise the future of the firm.

On the retail side, the people employed by individuals are not adequately represented by unions and are not aware of all their right and legal procedures. The result is that employers often side step the legal requirements and use evaluation processes to get rid of unwanted staff. The reality is therefore a higher percentage than depicted above.

6.5.5 How does your company manage retrenchments?

Table 20: Management of retrenchments

RANK	CONSTRUCT	FREQUENCY
1	Good	3
2	Poor	4
3	Not applicable	5

The predominantly poor method of handling retrenchments definitely damages the industries image and will have long term negative effects. Unions in the manufacturing side are well organised and do regular collective bargaining. During retrenchments they form coalitions with other powerful unions and ensure fair and meaningful packages for their members.

Retrenchments in the retail side are usually quick and dirty. Due to the individualistic nature of retail branches, no critical mass can be formed to pressurise employers for better packages or for retraining assistance. The motor trade therefore trains thousands of people in sales and other disciplines only to lose them during the next cyclical decline.

6.5.6 Summary for Proposition 4

Managers should not regard retrenchments as a fast and automatic option to facilitate short term savings but should rather evaluate the abilities and skills of each individual and determine which resources could effectively be redeployed in the current situation and which could effectively be retrained for future business needs.

According to Huselid, Jackson, & Schuler, (1997) companies and individuals that market and promote more during an economic decline create a sense of trust and send out a message of confidence to concerned customers about their staying power and provide an incentive for customers to switch from brands or firms that they perceive weak (Hillier & Baxter, 2001).

Proposition 4 is therefore well supported by literature but in the automotive retail trade human resource management and organisational development (OD) does not become more important in an economical downturn. This proposition must therefore be rejected.

6.6 Proposition 5:

Recognising and developing non-strategic asymmetries can lead to inimitable resource capabilities.

6.6.1 How does your company evaluate resources to determine their worth?

Table 21: Resource evaluation

RANK	CONSTRUCT	FREQUENCY
1	Important	1
2	Not important	2
3	Unknown concept	9

Assessing the profile of core resources and capabilities of firms is one of the most compelling challenges for strategy scholars, practitioners and managers (Carmeli, 2004). Stalk, Evans, & Shulman, (1992) holds that firms should focus more on how they compete, than on where and with whom they compete. This implies the importance of the internal side of the firm and correlates with Penrose, (1959), Barney J. ,(1986) and Barney (2008). As such identification and recognition of resources and capabilities are essential components of strategic investment decisions for firms (Canals, 2000).

During the various conversations, it became obvious that DP's does not generally know what their VRIN resources and capabilities were and therefore they could not rank or evaluate the importance or worth.

6.6.2 How often do you re-evaluate your resources?

Table 22: Resource evaluation frequency

RANK	CONSTRUCT	FREQUENCY
1	Monthly	3
2	Quarterly	1
3	Annually	1
4	Never	7

The ranking depicted in the above table refer mainly to comparisons with budget figures and Sewells data. Human resource evaluation by means of KPI and KPA evaluations have also increased but, as mentioned before, this might be more of a stick than carrot approach as proven by the next quote:

"We seldom have to retrench people, we manage them out. If you regularly manage performance it becomes easy to get rid of unwanted people".

Proper resource evaluation could only be established at one dealer who proudly showed his development pipeline on which his staff and managers were plotted showing what they agreed to do in order to achieve their personal goal for the next two years. This philosophy is clearly illustrated by the respondents remark below:

"Everybody has the same chance to improve themselves and as long as their personal goal is aligned with the organisational goal, I will help them. I can only achieve my goal if they all achieve their goals"

The evaluation frequency depicted above is therefore not representative of the type of resource evaluation that the researcher wanted and due to improper resource evaluation can not be accepted as typical resource evaluation frequencies.

6.6.3 How do these resources impact on your strategic planning?

Table 23: Resource impact on strategic planning

RANK	CONSTRUCT	FREQUENCY
1	Greatly	1
2	Little bit	1
3	Do not do strategic planning	10

As stated previously most dealerships are run by means of a budget. None of the DP's interviewed did or was involved in strategic planning with alternative scenarios for their dealerships. In a dynamic environment like the motor retail industry, the real source of competitive advantage is underlined by the organisation's ability to consistently meet environmental changes, as well as changes to the local and global economic environment that might impact on all levels. This can only be gained by identification, development and preservation of strategic capabilities (Bartmess and Cerney, 1993).

Gaining and preserving sustainable competitive advantage (SCA) and earning above normal rent is therefore a function of the core strategic resources, and capabilities that each organisation possesses (Barney J. , 1995). Without the knowledge of what your resources are, it becomes impossible to determine or utilise the impact thereof in strategic planning.

6.6.4 Is your company actively cultivating resources?

Table 24: Resource cultivation

RANK	CONSTRUCT	FREQUENCY
1	Yes	4
2	No	8

The same answer as for table 23 applies for table 24.

6.6.5 How does your company actively cultivate VRIN resources?

Table 25: Methods of resource cultivation

RANK	CONSTRUCT	FREQUENCY
1	None	7
2	Multi skilling staff	4
3	Budget management	3
4	Recruitment	1

Table 25 gives credibility for the response given to tables 22 – 25. The only resources that dealers feel that they manage and cultivate are the human resources. Some of the dealers do well, while some of them still see people as an expense and see KPI and KPA as a method of pruning unwanted staff.

In terms of budget management, the researcher does not regard it as a resource but as a tool for financial control and therefore don't see how it can be cultivated.

6.6.6 Summary for Proposition 5

Since dealerships have not yet invested time and effort to determine what their bundle of resources comprise of, it can not be evaluated, ranked or prioritised for effective deployment as economic times and the landscape changes.

The only definite concept in the automotive retail sector is that the change and the propensity of change will increase at a near exponential rate. The traditional methods of dealership management have sufficed until recently but global exposure and shrinking of the business globe has put South Africa in the same business environment as dealers from all the other continents.

In order to maintain a sustained competitive advantage, South African dealers must endeavour to identify their valuable, rare, inimitable and non substitutionable resources. Times have changed and the South African Automotive Retailers must start creating a personal map to navigate the global automotive environment. Without that, we will be swamped by large manufacturers who seek a dumping ground for their products.

Automotive retailers must implement value creating strategies and include their human resource in the plan or will suffer the consequence. Resources are the very essence of a SCA because a firm's ability to gain and preserve its profitability depends on its ability to defend its advantage position, which, basically, relies on its resources (Conner, 1991).

Proposition 5 is therefore well supported by literature but the theory has not yet permeated the automotive retail industry. Awareness of the theory might however create an urge to investigate and implement the theory. It would therefore be interesting to do a longitudinal study and to monitor if the dealers who recognises and implements a resource based management study perform better in different economic times.

In terms of the current responses proposition 5 can however only be partially accepted.

6.7 Role of management

From the interviews conducted it became evident that the role of the dealer principal (DP) plays a vital role in the welfare of the organisation. The ability to interpret the available information and to affect the best possible outcome is crucial for the financial survival as well as the emotional wellbeing of the staff. The automotive retail sector has always been a volatile environment but since the economic downturn, the situation has been exacerbated by rising expenses, retrenchments and increased stock levels due to poor sales.

Previous business maps have proven to be of little help in current times and DP's often find themselves in unchartered waters resulting in them having to draw new maps in order to navigate the ever changing business environment. Budgets used to be the compass to which each department was managed. Due to the rapid decline, the budgets, (which were developed in 2007), for 2008 are totally unrealistic and of little value.

In the current situation, monthly scenario planning with a quarterly review might be a much better management methodology. The balance between vehicle sales, stockholding, parts sales and workshop loading was described by one of the interviewees as "*balancing a marble on a beach ball*".

The absence of a proper HR specialist in most of the dealerships places an extra burden on the management and the DP in particular. This is evident from the amount of problems experienced during the retrenchment processes. Another indicator of the necessity of a dedicated HR, is the sudden increase in KPI and KPA assessments. According to the interviews it seemed as if the need to improve productivity and efficiency necessitated the sudden increase in performance appraisals. This begs the question whether a more permanent HR function would not have delivered the same improvement in previous times, thereby generating even higher returns for the good times.

During these bad economic times DP's must focus on the balance sheet and the generation and application of cash. Asset management becomes cardinal and resource management critical due to the absence of surplus cash to cover mistakes.

6.8 Business model

Many dealerships seem to be in limbo. Like a ship on the ocean, they float from crest to crest during the good times without a proper plan of action or direction. During the bad times the stormy economic sea has deeper troughs and wider crests. The range of vision is seriously impaired and a proper plan is needed to guide and steer the ship to safety.

Business also needs a more robust business model to guide them in these stormy times. It is critical to ensure that the cost of money is covered at least twice in order to stay liquid. Ratios become even more important and a few like return on net assets (RONA), stock turn, days stock and stock ageing are critical.

Lessons from previous bad times are important but should not be become a plug and play exercise. Each downturn has its own primary and secondary causal factors which must be isolated in order to understand why things are happening. A proper business model will segregate the drivers or levers that affect the model and any relationship between causal factors and drivers of the model needs to be addressed in order to compensate.

Without a proper business model no manager can predict or plan alternatives in the ever changing landscape. The popular business mantra of Covey (2004), "*Start with the end in mind"* is even more applicable in the current changing landscape environment. Once an appropriate business model has been selected, it becomes important to work the plan and to allow for the invariable changes that will crop up.

6.9 Dynamic interaction of key drivers

During the interviews a number of key drivers were identified which are important for sustainable success in a dealership. The correct interaction between key resources and key drivers must be obtained for optimal success. The following key drivers will be discussed:

6.9.1 Gearing

Gearing refers to the term used to describe the relationship between company's debt and equity shareholders funds. Gearing is usually expressed as a percentage and is calculated by dividing the company's debt by its equity. A highly geared company is one where there is a high proportion of debt to equity, and can be considered a risky investment as there is a higher likelihood of the company being unable to pay its debt.

In good economical times more cash is generated and the effect of gearing is therefore less pronounced. With bad economic times, cash becomes scarce and poor gearing is exacerbated. The effect is evident in the many dealership closures and retrenchments that have been ongoing for the last few months.

The effects of gearing can be minimised by:

- Minimal parts stock value
- Optimising parts inventory management and minimising of dead stock
- Minimal floor plan for new vehicles
- Minimal new vehicle stock

- Minimal floor plan for used vehicles
- Minimal used stock
- Ageing of new and used stock
- Collection period of debtors
- Payment period of creditors
- Prompt collection of outstanding cash

6.9.2 Customer retention

Several customer retention packages are available over and above the modules incorporated in the primary dealership management programmes like ADP Kerridge and Automate. Smaller dealers even use excel as a platform to keep track of customer concerns. The customer retention programs can be a powerful tool in the arsenal of customer relationship management. Customer retention is important to all dealerships because the cost of acquiring a new customer is far greater than the cost of maintaining a relationship with a current customer.

In addition to saving profitable customers, retention programs allow companies to collect data about their customers. This data can be used to better understand, target, market to, and communicate with customers or to customize future interactions with customers. Retention programs can be a relatively inexpensive means of making customers feel special, increase their purchases and recommend prospects.

Brand loyalty in the middle and lower segments are low and customers switch between brands fairly easily. In difficult economic times brand switching increases due to customers purchasing down in order to save cost. Regular communication between customer and dealership creates a trusting relationship which in itself forms a barrier to change whereas a bad or no relationship might become a motivator to change brand.

The ultimate aim of customer retention is to increase the share of customer wallet and the chance to increase the customer lifetime value.

6.10 Balance in business

An automotive dealership is unique in the sense that the one business comprises of four separate and unique entities. In terms of vehicle sales it is split into new and used vehicles, after sales is split between the service and the parts departments. None of these four departments in isolation can make a franchised dealer profitable and equilibrium must be sought where each department contributes a fair percentage of the overheads. Most franchisors advocate that parts, service and used cars should cover all fixed cost in order to mitigate the capricious nature of new vehicle sales.

Location and other business factors enable each business to determine its own equilibrium. Some dealers rely more on parts due to good relationships with panel beaters while others excel at service. A good after sales base ensures perpetual income since vehicles have regular service intervals. DP does however have to focus on all four sections and know the different levers that can be manipulated to maximise results.

The balance between productive and non productive staff is crucial and non productive and support staff should never exceed fifty percent. Continuous measurement of all outputs will ensure that each action is performed optimally to result in optimal performance and eliminate waste.

Performance appraisals should be used as a tool to improve individual performance and to align the individuals to the company goal. Part of the performance appraisal must be the monitoring of conversion rates. In sales, for example, the conversion between leads, demonstrations, finance applications and deliveries are meaningful because it can help to pinpoint deficiencies in either the individual or the system.

Due to the cyclical nature of the industry there will be tough times like currently. The old motto of "when the times are tough the tough gets going", is applicable to the automotive retail because tough times don't last … but tough automotive people do!

The secret of a good automotive retailer does not lie in one or two single achievements or management actions or in-depth knowledge of a single department but in the combination of the different ingredients. This correlates with the general assumption of the RBV argues that a firm poses resources which can enable them to achieve a competitive advantage. This advantage lies in the application of a bundle of these resources at the firm's disposal (Wernerfelt, 1984) which, when effectively applied, can lead to superior long term performance and above normal rent (Peteraf and Barney, 2003). It therefore unreservedly defines RBV as an efficiency-based explanation of performance differences rather than a system purely reliant on market power, collusion or strategic behaviour (Conner, 1991). It is the DP's job to determine the mix in the bundle.

7 CHAPTER 7: CONCLUSION

7.1 Introduction

The aim of this research was to identify some of the important changes that have taken place in automotive retail over the last years and in particular the last few months, since the global economic downturn. This was done against the academical theory base of Porter which looked at the "outside-in" approach and the RBV which looked at the "inside-out" approach.

During preliminary e-mail correspondence with Jay Barney he noted that the RBV should be more important in a declining economy and that managers would have to focus more on their core strengths, provided they could identify it.

During the twelve interviews, it became clear that DP's were not clear on what their core strengths were and that they could not identify or rank their resources in any particular manner. The RBV concept was also foreign to most of the respondents which made it difficult to determine if any of the resources could be developed based on a sequence of path dependant learning.

The research could however determine that the few resources that were identified do change during severe changes in the economic environment.

7.2 Knowledge gained

The automotive retail environment was severely affected by the economical downturn in 2008. This resulted in many dealers having to cut back drastically on expenditure to survive.

Few dealers anticipated the sudden and drastic decline in sales volume and turn over. Some dealers had already committed to certain fixed asset expansion and upgrade programmes which could not be cancelled. This placed severe strain on cash flow and survival. The easiest area to cut cots is in staff employment and, staff retrenchments increased dramatically and might continue to do so for some time to come.

The procedures and legal requirements were mostly followed, but in some instances the employees were not treated fairly. The dispersed sales force, in particular, has limited bargaining power and no evidence of any alternative employment or re-training programmes could be found. In other sectors, like mining, the employers endeavour to retrain and utilise people during retrenchment. Skilled sales people who know their brand should be retained and not allowed to migrate to other industries. Due to the huge unemployment rate thousands of people are available to fill the vacancies at lower wage rates. This however impacts negatively on the industry because of the time and cost of continuously training people as well as the sales loss during the training period.

Technical staff were less affected by the economic downturn. This might be due to the relative stability in the after sales market and the large vehicle park in existence that needs regular maintenance. A secondary reason might be the long training period and the compulsory contract that locks the parties in for the training period. The current economic slum might therefore only impact on the number of qualifying technicians in about 2012. This is, however outside the scope of this research and was therefore not investigated further.

Technical staff and especially master technicians are globally in high demand. The global restructuring and manufacturing consolidation resulted in some local models being exported to several African and European destinations. Our technical staff is therefore excellently skilled and deployable in all these countries. Given the decline of the rand they are also willing to work for companies who are prepared to pay in Euro or Dollars.

Financial gearing of the business is still very important. High gearing can suddenly inflate the monthly cost when interest rates climb. All aspects of financial control must be monitored closely. Financial management was found to be well controlled, mainly due to franchisor requirements. Sewells assist dealers by issuing regular updates and benchmarks that dealers can compare themselves to.

Internet and websites have, to a large extent, diluted the advantage offered by dealership location. All dealers try to maximise sales by deploying virtual showrooms which serves any person with access to the internet. The percentage of local sales derived from the internet is still low in comparison with the American and European market but it is expected to increase steadily as people get more access to internet.

The data also showed that more focus is placed on companies' personnel when the market declines. According to Peteraf, (2001) organisations must create sustainable value for their clients or customers in order to be succesful in any market. Since the individual employee, be it sales service or admin, is the interface between the customer and the dealership, the individual can be regarded as the generator or conveyor of the company value. Dealers should therefore build a strong core of staff that are motivated, experienced and skilled to help the dealership survive.

Cost management in good times should be improved. The highest ranking in internal process changes occurred in the area of cost cutting. This means that the processes were not optimal and that the sudden cash squeeze forced managers to relook at and redesign processes in order to improve efficiency. Redesign of business processes can be a critical resource as per Ray *et. al.*, (2003). During the interviews, it also appeared as if HR practises were neglegted and as the market declined became a focus point again. Continuous measurement of staff against pre determined goals must be done vigilantly for two reasons, firstly to ensure a unvarying quality and efficiency and secondly to plan and fill your employee pipeline.

A slightly worrying point is highlighted in table 7. None of the dealers had any plans to increase income or gross profit in order to improve the individual contribution. All the actions were centred around retrenchment and shrinking of operations. Every crisis can be a brilliantly disguised opportunity when looked at creatively. From the research, it appeared as if most of the dealers were so focused on retracting that none were able to see the opportunities. As per the study done by Srinivasan, Lilien, and Rangaswamy, (2002) it is strongly recommended that marketing and promotional activity is maintained during recession periods to boost trust and improve performance. These results were supported by other separate studies like (Fields, 2000; Porter M. , 2002 Rigby, 2001).

Lack of formal communication in the automotive retail sector also needs to be addressed urgently. The employees need to be informed of what is happening and be reassured by the employers. Honesty and openness will increase the resilience and the will to help save the dealership. The results that shows that smaller dealers, who often deal directly with the owner, have better understanding of what is going on in the business and are more inclined to help save the business. Managers must realise that effective communication is important and that employees are the prime resource that can make a difference provided they are involved in the planning.

The deficiencies highlighted above might look disastrous but are mostly the symptoms of an industry that grew too fast and collected excess resources along the way during the good times. The fundamentals are sound and should be used as a foundation and reference point to start the next growth wave of the industry. As the world evolves from a service industry to a knowledge industry the automotive retail sector will have to adapt and realise that the locus of knowledge is in the collective minds of the employees. Those dealers and managers that are brave enough to form partnerships with their key employees will be the dealers and managers who will survive and prosper in the near future.

7.3 Recommendations

The recommendations to industry are to enable their franchisees with the methodologies and procedures to analyse their businesses in order to determine their resource bundles. Recognition of the unique resources of each dealership will enable them to plan and implement a sustainable competitive strategy. Such a value creating strategy can only be advantageous if it is not simultaneously implemented by any other current or potential competitor. Resources form the substance of the dealer’s strategy, the very essence of a sustainable competitive advantage (SCA).

Resources are the very essence of the any SCA because the firms’ ability to gain and preserve its profitability depends on its ability to defend its advantageous position, which, basically, relies on its resources (Conner K. , 1991). Dealers must plan a strategy to migrate from the current method of pure asset management to a more strategic and long term management model. One respondent highlighted this journey with a quote from one of his drivers:

" My king, the farm is burning but we have to eat and therefore can not douse the fire at the same time."

If we do not douse the fire now, there might not be anything to eat in the near future. We need to prioritise the actions needed to safeguard the industry against the changing times as well as future cyclical changes.

Industry must face facts and see the signs and hard realistic facts and not allow the emotion of a “winning streak” to cloud their judgement. Economic data shows that rapid increases in the interest rate that total more than two percent indicate a cyclical decline. Owners and senior management must be brave enough to acknowledge the reality and must not allow testosterone or fear to forecast or maintain unrealistic budget projections. Responsible managers know that your first knock is the smallest knock and small changes in the beginning stage of the downturn might save the entity in the end.

Many owners handled their operations like cash cows and used cash to finance luxuries, unnecessary expansion and other business ventures. Without retaining enough cash to help during cyclical fluctuation, owners gamble with the future of their business. This is especially true of the newer entrants to the industry that rapidly expand during the good times, unaware of what happens in cyclic downturns.

During the good times new managers get promoted fast as the market expands and this often hides the inefficiencies of managers and staff. The research has shown that KPI and KPA evaluations are currently done more regularly to try and improve efficiency. Better management in the good times and organisational developmental plans must be designed to enable a cultural change that will make efficiencies a way of life.

Stakeholders in retail must be aware of the changing times and move with industry to synchronise actions. Attention must be given to develop the skills of management and especially DP’s to be more in sync with global changes and the changing economic landscape.

This change must start with recruitment and employment selection to ensure the placement of round pegs in round holes with scientific assessment a prerequisite.

7.4 Future research

As stated in chapter four, this research was undertaken to help diagnose the dimensions of the problem in order for successive research to be on target. It is therefore suggested that further research be undertaken to help the industry and dealers to recognise and rank the resources critical to industry. By determining the critical resources and ranking them in an order of importance, effective plans to smooth out cyclical changes can be developed.

Given the importance of core (strategic) resources in creating sustainable competitive advantage and leading to superiority, it is important to assess the resource profile of superior performers, and compare it to less successful firms. Though there is a strong case for using quantitative approaches, it is suggested that a combination of quantitative and qualitative be used in order to gain deeper insight.

7.5 Conclusion

This study helped to identify some of the changes that have taken place within the industry over the last few months as the automotive market and the economy declined. It was also reiterated that most dealerships are run by managing assets and that dealerships are managed with a short vision of monthly budgets that flow into an annual expectation.

Resource management and strategic planning has not yet become the preferred method of managing a dealership and as such is virtually unknown. The global challenges to the South African Automotive Market have only begun and will intensify in the near future. Other South African industries like the textile and garment industry did not act proactively and history shows that it has been relegated into near extinction. The automotive industry stands before a crossroad and must decide if it wants to continue on the current path or whether it wants to evolve into a change leader to earn above normal rent and a sustainable competitive advantage.

Due to the concept of resources and resource management being unknown to the respondents, the possibility of actively cultivating resources based on sequences of path-dependant learning could not be determined. This concept should be investigated further and new academic research in the field of resource cultivation must be monitored and applied to enable the South African automotive retailers to maximise their resilience and opportunities for growth.

Although this research was done on the automotive retail sector the basic principles of this research should be applicable to many other sectors. Most retail businesses extend credit and would therefore experience a similar credit squeeze effect as the automotive sector. Many other business models are also based on the same remuneration principal of a small basic salary with large incentive or profit share schemes. Industries like the property sales market might therefore also experience the same effect of personnel creep and the responding negativity during a retrenchment due to a declining economy. The level of applicability might differ but it is reasonable to expect similar findings from most retail industries.

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9 APPENDICIES

9.1 Answer Matrix

	FRANCHISE 1			FRANCHISE 2			FRANCHISE 3			FRANCHISE 4		
	RESP. 1	RESP. 2	RESP. 3	RESP. 1	RESP. 2	RESP. 3	RESP. 1	RESP. 2	RESP. 3	RESP. 1	RESP. 2	RESP. 3
PROPOSITION 1	Resources regarded as critical (VRIN) for the automotive retailers changed during the last twelve months.											
1.1 What do you regard as the core strength of your company?	The people that work in the company and the relationships that they have build with the customers. Our managers are taught to look for opportunity.	Our name and reputation as portrayed by the workers when and how they deal with customers. We have a strong CRM system which collates all customer data and interactions.	Strong retail brand build up over 30 years As well as our people. We used to have very little debt but in the last few years this has increased to a point where it is now cripling us.	Yes it changed drastically. Our brand and reputation. The relationship between myself and the Sales executive.	We are a small player as far as brand is concerned in S.A. We therefore have to rely on our service as delivered by our staff. They are our core assets. We take our CSI very serious especially our service CSI.	The vision of our directors - extremely strong financial background and his understanding of the trade and their ability to communicate with us. Our staf must continiously prove why we need them. Nothing is taken for granted. We try try to do the right things right. Nothing unneccesary must be done...conserve energy (resources)	Financial Gearing and good people.	Our location meaning the area of sales responsibility in in a predominantly rural and mining area making us a prefered supplier to the mines. Our financial ratios are sound and our debt level is low.	We have an excelent location, a pasionate owner and willing staff	Good multiskilled people	Our product and our people and their passion for what they do	Me. Just a joke. Propably my workers
1.2 How has your core strength changed in the last twelve months?	We focus more on the individual person and the value we can derive from the individual. Previously we didn't focus on the minute detail. Minimising outstanding revenue became a core focus.	Our reputation changed. We became a follower instead of a leader due to lack of leadership, lack of advertising and lack of vision. We have multitask our staff where possible	As a result of management change the company has declined to the state where the existence of the co is at stake	110% More involved. We try to get outstanding cash in within the 30 day period. Our people must fill two or three positions.	We have appointed a person especially to monitor and manage our CSI. We hope that it will help us in these difficult times to grow our cust. Base. Our admin procedure was enhances and WIP and cash cycle shortened.	We relocated to a better position, our H/o function is more involved, we split from a multi franchise to a single outlet where we focus on the brand.	The method of gearing made us more tradeable i.t.o staff (low), cash riched, no intrest. All credit was re-evaluated. Non performers are stopped and pressured to pay before their acc. Is closed.	Our location did not change but our debt decreased.	We are more outcomes focussed and need to see results on each and every action	Less stability overall. We improved our management processes.	W e have some new products and a few less people	Times are very tough. We had to cut cost everywhere.The remaining people know that they must perform. We work on FIFO
1.3 How did your internal processes change over the last twelve months?	Each deal is scritinised to maximise the potential of first and second gross. Second tier income from parts and workshop is "sold" up front since that might be our salvation in the long run.	Drastically; from spending money to grow and improve to saving to survive. The two models are very different and I do not think we understand the drivers of the current model	Changes were done due to top management changes and not due to changes in the economical environment. We cut cost where we can.	Unfortunately it didn't. This is a serious problem dragging us down but the shareholders doesn't believe the facts.	We are more customer centric and have cut all costs to the bare minimum. We try to maximise profit on each transaction while improving customer service to make customers feel they get value for their money.	When times are tough we don't stagnate we think out of the box. 90 % of people around will notice a new display rather than a "special" In these times advertising is blunted.	Increased focus on customer satisfaction and end result as well as increased focus on customer contacts. We cut all non essential cost	Got rid of excess people and did a lot of cost cutting	We eliminated all duplication and waste. We only replace critical positions when they become vacant. We manage cash prudently	more focussed on good corp covernance. Think twice before spendin	We trimmed some fat and made people more accountable from the bottom upwards.	Not much. We all work more and try to get mony in faster. Non neccesary cost eliminated
1.4 What plans / processes have you or do you plan to put in place to weather the economic storm?	We retrenched all non core personel. We closed down non essential business units and monitor our cash cycle closely. We do not replace people.	I expanded into non automotive but related business to try and assist with covering overheads. We cut all cost to the bone and have restructured and retrenched where possible.	new top management experience of current crisis let to a crisis management mode. This had a direct negative impact on the company viability. We also retrenched some people and cut cost where possible.	The people I have is my core. I must motivate them to go out and meet the customer out there . I can not wait for them to sit and wait here. They must go and find business. I do not replace people if I can help.	We focus more on the customer and belief that perception becomes reality. We create the perception of better service and deliver it at a premuim. The drop in sales / services must be exploited to our benefit. We relief people and save cost where we can.	We advertise below the line and concentrate on "bums in seats ' to sell cars. We focus on family not newspapers. Our sales staff must change their actions to fit the new plan	My people are made more multiskilled and improved CSI. Can not change the economy therefore focus internal saving and different but more focussed sales actions and procedures. Resignations are not replaced if we can help it	Our marketing to fleet customers was increased. We spend less on above the line advertising and more on below the line advertising to help save cost.	We look at each customer interaction and try to maximise it. All unecesary cost and action is eliminated.	not replacingb staff. Revised stock policies. More concervative ito purchase, debt, creditors. Total bussiness more service orientated	We are multiskilling more people in order to mitigate the risk of resignations with the lean staff we have. We save where we can on all expenses.	less people therefore everybody must do more of the same or something else.

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PROPOSITION 2	Size of the organisation can be an advantage in terms of cost and contribution.											
2.1 How do you measure cost allocation?	Admin and non specific cost are split across departments in a pre determined percentage… I wonder who determined it. In terms of vehicle sales and workshop jobcards the cost is on the transaction. Our management fee frm head office is exorbitant	Per department on actual expenses. Where possible we work on detail breakdown but this is not always possible, eg cleaning. Directly proportional cost like tel. is precisely debited. The H/o fee is a great cost that we don't controll	refering to the change in top management cost allocation was changed from highly centralised to fully desentralised. This had a direct increase in cost and increase in insufficiencies. This with the decline in economic activity depleted company reserves ...a major contributor to viability. mostly per department.	I disagree.We measure income per deptnt. And per head. Our current structure is way to much people. We pay unnecesary fees as a management service to head office.	We allocate cost to each department.. This was calculated by the beancounters. I'm not sure what the base for the calculation is.	Bigger H/o helps to share ideas on many things. We are part of the Sewells dealers and we get allocation per head /item / brand. Sewells give us a three month overview every three months which we take very serios. The H/O fee which covers certain admin and management fees is beyond my control and often make up a large amount	This is a good time to invest. Assets are cheaper and available. Per department i.t.o. absorbsion. 100% covered by used , parts and w/shop. Sales new is therefore profit. We pa H/O fees which often make up a large amount that we can not control. We try to break it doen per head.	Per deptmt and per head. We use the Sewells benchmarking to check against other dealers. Our head office fee is more that the average as per Sewells	Per department and per contribution per individual.	income per head per department. I must retain 25%.	Where it occurs. Per department and sometimes even per action. i.e. how much soap do we average per car that we wash. Since measuring the small expenses the big ones have also come down. We monitor per person	Each department have their own cost account
2.2 In your opinion, which dealers, (large, small, rural etc) have a better chance to survive the economic storm?	I think rural and small because they can change their cost structure easier. They can poach a deal or two from the large dealers which will make a bid difference on their income. They also tend to have more loyal customers.	I think small and rural because they have a smaller infrastructure, more loyal customers with less choise and less competition	Small & rural dlrs focussed on maintaining a low overhead structure and has the best change of survival. Metro and metropolitan can only survive if sales are high & cthey are debt free, A further proviso is that used cars must not be on floor plan and are monthly re-evaluated to book value. Prof contrib from a/sales and u/cars must be maximised.	In my opinion location is most important. Smaller dealers can maneuvre faster and I think rural has an advantage	In our franchise there is no real rural dealers. We measure size according to the units sold. The people who will weather the storm are those that can differentiate themselves by some means or another and who can shrink their cost. We chose service.	Most Rurals are privately owned while Metro are groups which often have bigger resources. Unfortunately more access to credit which in these times can be a problem. In metro the plug takes long to be pulled which increases the loss.	Depends on the bussiness per se and the structure, I think rural can migrate to cities easier but metro still has an advantage	I think rural and small / meduim	Rural and small to meduim. Their income / expense ratio is historically the best.	Metropolitan and meduim. The larger groups have more resources but flagships have to much expenses. The small dealers have too little volume	Rural have more loyalty and less expense, they are mostly small	small rural
2.3 What plans have you made to improve the contribution per individual in your company**?**	We never measured contributions per individual per department but due to the economical situation started doing it. We learned that measuring per individual increased contribution per individual. We now concentrate more on the SE inputs than on his outputs.	We retrenched and restructured untill we had our cost in line. We are however now struggling to make ends meet. We lowered our stockholding and manage people better	The crisis management approach by current management has had a detrimental impact on effective performance management processes. Wedecreased new and used vehicles stock and have limited parts stock	We have not retrenched yet but should have done so a few moths ago. We have not implemented any specific plans. Resignations have not been replaced. We improved our processes.	we decreased our staff in all non essential positions by retrenching and non replacement. Managers must ensure that their staff achieve their goals. Non performance is immediately (at month end) addressed and performance reviews are held every month end.	We reduced staff count early due to reduction in sales volume. We cut demo fleet cos in half. Telephone and computer cost cut by 40%. Stockholding decreased by 40%.Instead of spending 40k on print advertisingdo a mall exibition at spar / woolies, golf, ride and drive. It last longer and builds relations.	decreased headcount, changed and improved the methodology and intensity of KPI. We relooked our internal processes and streamlined them	We do performance appr. More regularly and make sure people follow the new processes we introduced	We measure daily activity like applications per salesman, hours per technician and rands per head per day and per month. This led to chanching am few processes	Achieve what you measure. Only critical posts replaced. All non prod must be multiskilled. We decreased all stockpaterns to cary only the essentials.	Cost curbing where we can and we try to make our people more productive	We cut cost and incentivise them to perform better. We carry less parts an vehicle stock to minimise interest

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2.4 What role does demographic footprint play in your organisation?	We concentrate around our area. I can however imagine that if a few dealerships advertise together it will become cheaper. More money also means more repitition. Money is however not that important in advertising due to internet.	I am unsure if demographics are still important. My market is the greater Gauteng and our website make me a national company.	During the economic upswing multifranchise and multibrand franchises were highly beneficial due to the a/sales backup to all customers in the area. The fact that this was centrally controlled enhanced the bennefits. The steep econ decline and lack of timeously reduction measures. cancelled the initial bennefit and became a liability.	Larger groups can advertise more and carry less stock. Currently this is a drawback..	We used to have two branches in Pretoria. We closed the one down and kept only the best staff. We now do better, sales and profit wise. I therefore feel that if somebody wants this product he is prepared to go the extra mile. They are more interested in quality than demographics. All dealers have websites that advertise the same product. The personal touch ensures the deal.	We are located at a busy intersection. 45 - 60 vehicles per 3 minute cycle. I know which companies are around me and make sure we know what they want. We change our daylie display according to the traffic direction at the crossing.	No role, we act as individuals. The smaller and more independent can act faster than larger ones. Small dealers can have the same or even better (more current) websites than larger dealers	Internet sales and advertising has flattened the playing field for all dealers. It creates a foot in the door but the S/E must then follow up and conclude.		My location is very prominent and helps with my comercial focus		
PROPOSITION 3	Size of the organisation can be a disadvantage in terms of *esprit de corpse* and motivation to save the firm.											
3.1 Does your company have a unique character or culture?	We used to have but since the retrenchments it seems that the trust relationship has been harmed. We are trying to re-establish the trust and revive the previous culture. Some of the old people who we retrenched now seems to have been custodians of this culture.	We used to have but since the restructuring is has pewtered out.	The company had this for almost ten years which directly led to expansion of size and profit. The entire ESP & culture changed with management and was replaced with a short term crisis management model.	Yes, we are a small part of a big firm and my small team is much better motivated than the rest of the group.	Yes we are a classic vehicle with superior Italian styling. All our models appeal to the more individualistic "european". We now aim to enhance this caracter with our service, personnell and advertising.	Yes, we are small and most of us started the business. We are so small I am in touch with each of my staff members.	Not yet but it is one of the main aim. The ford brand however have a brand , a strong one.	I think we had one but it has declined over the last few months	No not yet	yes Lindsey saker went through special focus and established "all for one" programm that gives us values. We focus on values	We try to be a family…sometimes we sucseed and sometimes not. I have however seen that in trying times the staff stick together…I would therefore say yes.	Not much. We all work more and try to get mony in faster
3.2 Has the amount of people employed by your company changed over the last twelve months?	Yes, we retrenched about 20% and have only filled vacancies were essential. We might however be forced to retrench a further 10% to survive.	Yes, drastically reduced (about 25%)	Yes we initially increased the amount of people and was then / now drastically downscaled… unfortunately to late. We are not geared / positioned for the current decline.	Yes, drastically	Declined drastically due to the closure of one branch and the non replacement unless essential	Yes we reduced and also replaced mainly due to non performance, natural attrition and people who left the industry due to economical downturn. Management also changed 100% excluding me.	Yes, less in the technical sections but overall about 25%	A little bit	We decreased about 10%	staff increased with 12 from 22to 34 due to startup and comercial	not much. A few resignations	we allowed and helped about 20% to resign
3.3 Does your company have a regular communication method with all your employees?	No. There used to be a monthly newsletter but when we retrenched the responsible lady the newsletter was canned to save costs.	No. we we used to but didn't see any reason to continue. We can send a mail to all if we want to let them know something	no.None what so ever. Management is partially informed during the weekly meeting. Incomplete picture of direction	No,	No, I don't think we need it. It is a nice to have that somebody must do for the show. If I want to say something I walk over to the person or department and say it now, I can not wait till month end.	We are so small we talk every to each person.	Weekly management meeting with management, daily sales meeting, monthly aftersales meeting.	No… I talk to them regularly	No not yet. We are small enough to talk with each other	Due to size no. We have a monthly awards and feedback session. LS have a quaterly newsletter	no not yet. I still want to do it.	no
3.4 Have you had any retrenchments or similar procedures over the last twelve months?	Yes.	Yes	yes. One complete branch was closed on very short notice due to the facts above. A retrenchment process were instituted and then withdrawn due to legal incompliance.	We let a few people go…sometimes with help but no formal retrenchments yet.	yes, as I explained we closed a branch.We retrenched about twenty people.	No formal retrenchments. We manage people out by using company policy and procedure	No, natural attrition	No	No, just resignations	This branch not but the group yes	no	No we help them to leave without retrenchments

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3.5 Do you currently plan any retrenchments? If yes what influence did it have on morale?	As per the above maybe another 10% if natural atrition does not solve our problem.	Not at the moment but it migh be necesarry again if the economy and especially sales doe not soon pick up.	Yes for the one remaining branch in PTA due to a strong possibility of branch being sold…if not we must scale down to income levels.	I don't but the shareholders are looking into it. We are already negative… this will be the straw that will break the camels back.	No, we are down to the bare necesseties.	No	No.	No	no	No	no	no
3.6 What effect did the retrenchments have on the company	The disbelief when we announced soon killed the positive vibe we had. Th distrust between management and staff is high and we noticed that some staff are now "splitting" and badmouthing others to make themselves look good.	It was very demoralising. The workers did not understand why we retrenched and reacted negatively. Their opinion was that there was plenty money and that this is a racist plan to get them down. Better procedures and	Due to incorrect prosedure followed a lot of agresion was released over and above normal …. This also spilled over to three other branches in the co. A number of key employees also resigned due to this.	Bad	Terrible. Even some people that we were going to retain resigned. They felt that tey were betrayed and could not trust the owners and managers.	N/A	N/a	n/a	n/a	N/a	N/a	N/a
3.7 Have you implemented any plans to manage the effect?	No. We hope that it will rectify itself. I don't have money to start a new plan now.	Communication was circulated after the initial retrenchment notice as per law but the damage was already done.	Departmental managers focussed on operational requirements and stepped up performance management to reach goals.	No, the shareholders, see people as an expense and not important. I try to be a filter between them and the people.	We thought that if we leave it it would go away. We under-estimated the effect, both in size and duration.	We are so small we talk every to each person.	N/a	n/a	N/a	N/a	N/a	N/a
PROPOSITION 4	Human resource management and organisational development (OD) becomes more important in an economical downturn.											
4.1 Does your company have any plans to manage your HR in the current economic downturn?	No. HR was the first department that we closed down to save cost. In hindsight it was a huge mistake.	The HR is like military intelligence… a contradiction in terms.	this aspect of the business was neglected over the last two years. This has had a direct negative influence on the lack of performance over a wide spectrum of employees.	No, we do not have an Hr any more.	I, as DP handle the HR as well. We saw this as a saving when the lady resigned. I only share a lady wit other franchises in the group to make up the payroll. I don't have time for wiping tears, I am also under pressure	H/O are looking after the "stars" while streamlining every part of the business, expense, cost and KPI / KPA	No as per above	Yes. The franchiseholder have implemented a regular KPI evaluation plan.	We do not have a dedicated HR. I handle the sticky stuff and the admin staff is responsible for the repettive stuff.	We have a group HR. Only essential replacements. They keep all informed via e-mail to DP and branch visits.	No I do not see the necessity.	Nothing special.
4.2 How has the economic downturn affected your technical training schedule and budget?	Not at all. We are forced to train and the cost of training are carried by the manufacturer.	The budget was / is available but due to the few people left I can not afford to send them on training, not even new model training. I need to sell every available hour.	Sales training has been influenced by franchisor requirements more so tha economic and bussiness requirements. Aditional training has been identified as a shortcoming and has only been adressed on an ad hoc basis.	Not at all.	Not really, we have to train in order to service the new models. It is becoming more and more specialised and computerised.	The manufacturer has planned for the whole year and they pay for it.. No change I think it is the ideal time to train because it is quiet.	We aimed to get the mech. As qualified as possible to lift their income bracket.	Not at all	not at all	Not at all. He actually trained more due to increased need	not at all	no, the manufacturer caries the cost
4.3 How has the economic downturn affected your sales training schedule and budget?	Not at all. We are forced to train and the cost of training are carried by the manufacturer. The problem however is that the older people that left also took the knowledge with. This is especially a problem in the used vehicle department.	No. We were forced to attend new model training in order to get allocation of new models. New models are initially profitable and we need all the profit we can get.	Not at the moment	The franchisor cancelled all training to save cost	No sales training at the moment. I suppose we have to do it ourselves…For which I don't have time. We will again get sales training when the new models get launched next year.	Franchisor has rationalised their training to nearly nul. We do sales training inhouse and use the road to a sale. I now oversee all trng	Not at all If training is essential we do it regardless of budget.	Not at all	not at all	Not at all. He actually trained more due to increased need	not at all	no, the manufacturer caries the cost

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4.4 What was your approximate staff turn over the last 12 months?	It differs from department. In sales about 100%, service about 30% and admin about 20%.	About 50%.	Company historically had a high staff t/o which declined over last twelfe months to about 18%	More than 100% in sales and about 20% in service.	Huge, including the retrenchment and closure more than 100%	Average 48% : especially on sales more than 100%. A/ sales is about 10%	17%	22% (10/45)	10%	22 to 34 we had some resignations …about 12 %	less than 10%	about 20%
4.5 How does your company manage retrenchments?	We follow the law and involve the union where neccesary. The aim is to pay as little as possible to curb our cost.	Minimum legal severance. Procedure not that well. They could have assisted with finding other jobs or by helping with essential things like medical for 3 months…	badly. Did not follow legal requirements and only consulted with labour lawyers after first round of negotiations was challenged.	Poorly and unprofessionally like amatures.	We have an outside company SEESA who handles the actual legal process.	We have a central HR function who handles every hearing , dismissal etc.	N/a	Not applicable	N/a	HR group handles it	N/a	N/a
PROPOSITION 5	Recognising and developing non-strategic asymmetries can lead to inimitable resource capabilities.											
5.1 How does your company evaluate resources to determine their worth?	We never regarded people as assets. They reflect as an expense on the balance sheet and are regarded as such. We focus on achieving budgets (which does not happen any more).	Resources in our view is money and floorplan. Other assets are vehicle and parts stock. Our main asset was our name which has now diminished…nearly non existent, in fact I now regard our name as an obsticle when it comes to recruitment of new people.	This is one of the key shortcoming of the company …resource management is a reactive approach instead of a pro-active one.	We do not know what our coe resource are. We are driven by two accountants that doesn't understand the industry.	The first thing I see every morning when I walk in is the bank statement and then the D.O.C. (daily operating control). I manage it every day	Each Dp manage his patch. We look at pure performance of each sbu and each person in the SBU. No space for error. No place to hide. Is each individual justified to stay the next month???? R35k per head… how do you cover your positiong.	In ww it is instantanious. We sell time and know what we need the following days. Parts need a certain amount to handle the throughput. In sales it is more instantanious. I apply what I need when I need it where I need it.	Our location is prime and our people. We measure contribution per head and our gearing and other ratios as per the Sewells report	We have quaterly formal evaluations with each person and informal talks every month end. Our location is stationary but we change the appearance and displays every fortnight.	People start with recruitment. Full assesment. Must have a definate aanbeveling. Right people for right job. Continious management of human resource. Monthly 1:1 with all my managers. They have same with their people. Quaterly KPI and annual succession planning	We do not really think in terms of resource management per se. We manage assets and maintain buildings and equipment.	I have not thought about management in that way yet
5.2 How often do you re-evaluate your resources?	Whe never did. The economic change however made us focus on more detail per job and per employee. When things get better it will make us more compettitive.	We have weekly performance to budget meetings where sales performance is measured to target and we have monthly performance to budget meetings where we look at sales and expenses to budget. We have never had an "asset" meeting.	It is again very reactive based on crisis management and crisis management	We look at the resources daily but no effort is made to build / strenghten the vrin resources.	Like I just said I look at it every day.Question: What about people? Well.. Like I said we have lack of performance talks every month end.	Every day. What does not fit today must go today. If any part of the chain is ill it affects the whole chain.	Monthly. Any changes must have time to settle in. Viability focus on the wellfare of each individual. If they make money, I make money.	Monthly	I suppose quaterly	Monthly, Quaterly and annual succession	N/a	People monthly with the other financial data. My day to day progress is reflected on the daily operating controll.
5.3 How do these resources impact on your strategic planning?	I cant say that we really do strategic planning because we don't! We do a budget a few months befor the new year and try to pad the expenses to enable us to make a profit. This time we were caught with our pants down because the drop in sales was very bad and we budgeted for a growth of about 8% on last year. Currently we are about 50% behind our budget.	Strategic planning is done by the owner. We do not know what his long term expectations are. We are held accountable for short term performance to budget (also set by him). This is what I get paid upon and what I try to achieve. Currently it is impossible.	No strategic planning is taking place in this company. Maximising cash flow on short term base is the overriding . Very high gearing has necessated this approach.business principle.	Strat planning is done by the accountants who do not have a passion and understanding for the industry	We have a budget to which I and my dept. managers are held accountable. We plan weekly to see how we can reach the budget or at least make the loss as small as possible.	Strat. Planning is a quaterly exersize for the group. First on group level then on franchise. We do scenario planning ito resourcese, income and expense every day.	We focus on making money rather than saving money.	Be try to balance income and marketing to budget and economic circumstances	We do 0 budget from a per capita base with the previous average plus a percentage that the owner decides.	When budgeting we allokate specific fleets to specific sales people. Each person has a specific area of responsibility and they get measured accordingly	We don't do strategic planning. We focus on financial growth and soundness.	

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5.4 Is your company actively cultivating resources?	No. We are trying to save cost and to minimise our losses.	No. It is not part of his plan and we are not renumerated for it.	No. Company Is winding down due to current economic decline	No. No budget for it.	Yes we revisit the budget every six months to see how we can twitch it to get to the promised nett operating profit. That is what we get our incentive on.	Yes. We help those who help themselves.	There is a constant focus on people development and financial improvement.	People are trained where possible. Due to economic situation not currently	I don't think so.	Yes, we do succession planning and performance management interviews. We co design each persons future. We develop a positive work environment where people want to be.	Not yet because we do not think resource yet	no
5.5 How does your company actively cultivate VRIN resources?	N/A	N/a	N/a	N/a	Like I said we regularly look at the budget. We multiskilled some people to save cost	We multiskill our people 150%. This means everybody must be able to do another job. This goes inter SBU as well.	Better recruitement employ those who can rather than those who want to. Motivation is VIP. Most people must multiskill managers ar in particular all equally responsible	No we manage other outputs and hope that they are the drivers ti increase our V...Important resources. Most of our staff are multiskilled	We manage what we have but do not actively grow resources.	We cross trained all poss	N/a	we don't. If I need something I buy it
GENERAL COMMENTS	I wonder why nobody knew that we were going to have such a bad economy...If I knew I could have done a few thing differently last year that would have helped this year.	The way you make me think is that the main resource we should cultivate is people.	This is a very sad demise of a once prosperous business... a classic MBA study of how not to do it.	One of my black drivers commented:" My king, the farm is burning but we have to eat and therefore can not douse the fire at the same time."	"Back to Basics"	It is tough out there. There is a difference between an operator and a manager. I now have t operate to stay afloat	Focus was to much on sales and not enough on the aftersales.	RBV must be something new, I never heard of the Resource Based View during the last twenty years in the motor trade.	How do you cultivate resources?			I told them as an incentive they can keep their jobs if they perform well. That's a good incentive, not so?
2	I think we took too long to respond to the decline	If we retained our best people we would have done better. When the retrenchment started the best left first, even though they knew they would not be retrenched.				manage every sent of expense.. Manage the bleeding.	We need to focus on second gross and aftersales.					
3	I think we saved on the wrong things	When we started this business a few years ago the owner had regular (at least monthly) training sessions. At these sessions the best performers were acknowledged and rewarded. That created a culture to be recognised and rewarded. As we grew it fizzled out.					We are here to make money.					
4		The best performers were regulars at these events.										