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IMPLEMENTATION OF MARKET ORIENTATION: THE SUCCESS OF DE BEERS' 'SUPPLIER OF CHOICE' INITIATIVE

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of

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ABSTRACT

The aim of this study is to close the gap between the theory of market orientation and the practice of implementation by determining the critical success factors of one company's approach, namely De Beers' 'Supplier of Choice', for use by other corporates in similar contexts.

The research was undertaken as a single, explanatory case study to gain an understanding of the specifics of De Beers' approach to market orientation, and was a longitudinal study over a 10 year period. It was completed in two stages, with phase one being qualitative, and comprising documentary research. This was supplemented by a second qualitative phase of three personal, in-depth, and semi-structured interviews. Several different sources of data were used to triangulate corroboration of the findings.

Implementation occurred in steps which concentrated on communicating top managements' vision throughout the organisation using internal publicity and operationalising the objectives, improving the interdepartmental effectiveness of key divisions, and finally by redesigning the performance management system using market-based rewards. The theoretical elements of Kohli and Jaworski's (1990) model are applicable to defining the practice of implementing this type of strategy. Two discrepancies exist between theory and practice. Firstly, that communication of the vision can be on a 'need to know basis', and secondly, across the board market-based reward systems are not critical to managing performance during implementation.

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfillment of the requirements for the degree of Master 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.

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Natasha Gibson

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Date

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CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

1.1 Introduction

Market orientation refers to the outlook a company adopts that allows the needs of customers and potential customers to drive all the firm's strategic decisions. This assists a firm's ability to anticipate, react to, and capitalise on environmental changes, leading to superior performance (Deng and Dart, 1994). In addition to a customer focus, a market-oriented firm also needs to monitor competitor activity, and to disseminate information effectively throughout the firm to realize its strategic goals. The focus is on securing long-term profitability as opposed to short-term gain (Pulendran, Speed, and Widing, 2000). An example of the successful implementation of such a strategy has had on a firm is the 'Supplier of Choice' initiative formally launched by De Beers Consolidated Mines (DBCM) in 2003.

The idea of market orientation contributing to a company's sustainable competitive advantage has been studied in detail across various manufacturing, retail, and service industries in differing stages of growth and maturity, and in numerous countries, but all are snapshots of companies or industries at a given time (e.g. Van Egeren and O'Conner, 1998; Elg, 2003; Kuada and Buatsi, 2005). These investigations have largely been quantitative, based on survey data gathered participating companies using a questionnaire methodology (e.g. Jaworski and Kohli, 1993; Liu and Davies, 1997; Kara, Spillan, and DeShields, 2005). These have focused on identifying and assessing the success factors and moderators of

a market orientation strategy, and how this impacts on various facets of company performance, organisational commitment, and innovation. To date, however, there have been very few focused, qualitative studies that use findings to investigate how a company successfully implements such a strategy.

For most of its history, the modern diamond industry was directly controlled by De Beers as the company itself mining 90% of annual diamond production during the period 1888 to the 1980's (De Beers, 2006). The company entrenched its monopoly by buying up all diamonds on the market, storing these in a stockpile, and only releasing the number of diamonds needed each year to regulate the supply of rough diamonds to ensure price stability and consumer confidence. The success of this strategy is seen in the fact that, until the 1990's, diamonds were the only commodity whose price had increased incrementally since the Depression (Kleingeld, De Sousa-Oliveira, and Penny, 2001). In the late 1990's, De Beers experienced increased competition from new entrants into this highly profitable market, declining profitability, and loss of market share in a situation similar to that facing many once dominant firms in maturing industries. Despite the fact that diamond jewellery sales had doubled from \$24.9bn to \$56.1bn between 1985 and 1995 (Kilalea, 1999), De Beers' market share had fallen from 80% to 60% by the end of the decade (Financial Mail, 2002). The threat for De Beers wasn't simply the decline of profits resulting from the excess supply driving down prices, but a radical change in the market where oversupply of rough diamonds (due to the

combined effect of producers supplying the jewellers directly and decreasing demand for diamond jewellery) could result in dramatic drop in prices.

To combat this possibility, De Beers launched an innovative campaign that re-branded the company as the diamond industry's 'Supplier of Choice'. De Beers recognised that as it only had 60% market share, it no longer could influence price by controlling supply. Instead, increasing demand for an exclusive luxury product was the only way to ensure continued high prices. In other words, De Beers is changing the economics of the diamond industry from supply to demand driven. This initiative aims to increase the demand for diamond jewellery incrementally, not by promoting one form of jewellery at the expense of another since the effect on the bottom line would be negated. This is being done primarily by marketing and branding ventures to increase customer awareness of diamonds in the marketplace, undertaken both by the DTC and its clients. This has resulted in aggressive new marketing campaigns, creation of polished diamond and diamond jewellery brands, and a more integrated production pipeline distribution.

With the 'Supplier of Choice' strategy, De Beers is successfully using market orientation to turnaround its performance in these unfavourable industry conditions. Understanding how to combat similar environmental changes and maintain success using an effective market orientation strategy is thus of relevance to any large corporate facing comparable challenges, and is especially pertinent to South African companies competing in a globalising world economy.

1.2 Research rationale

The problem confronting an organisation wanting to develop a market-oriented culture is how exactly to bring this about, what steps to follow in what order, and over what timeframe. The relationship between market orientation and firm performance has been the focus of extensive investigations (e.g. Greenley, 1995; Pelham, 2000; Elg, 2003; Shoham, Rose, and Kropp, 2005), but there have been few studies or constructs devoted to outlining the process by which a company can implement or improve market orientation. Jaworski and Kohli (1993) and Harris and Piercy (1999) state that upper management support for shaping organisational values is central to the success or failure of this marketing concept. Top management must communicate the desired market-orientation culture on a continuous basis to achieve results (Day, 1994). Payne (1988) contends that market orientation will only take place when management's knowledge, skills, and attitudes are developed and when a management change-master appears. Kirca, Jayachandran, and Bearden (2005) analysed Jaworski and Kohli's (1993) antecedents to market orientation, and found that interdepartmental connectedness and market-based reward systems are important in the implementation process. Kelley (1992) states that implementation is strongly linked to personal and cultural acceptance of a strategy, so success is reliant on influencing employee's values. Day (1994) and Martin and Martin (2005) argue that specific, staged management interventions are needed to change employee's attitudes and behaviours. Only in the last article is there reference to data drawn from an actual implementation action plan in a company.

Many of the articles in the marketing literature conclude by suggest that further research into the process of developing market orientation is required (e.g. Harris and Piercy, 1998; Pulendran *et al.*, 2000; Elg, 2003; Shoham *et al.*, 2005). For “without a proper diagnosis of these specific forces, managers cannot choose the best methods with which to enhance their current position “(Pulendran *et al.*, 2000, p.120). These authors also note that the dynamics of the market orientation constructs could be captured more precisely using a longitudinal approach, suggesting that cross sectional studies do not reflect the uninterrupted transformation that affect the interplay between factors (Pulendran *et al.*, 2000).

1.3 The research problem and objectives

This study therefore sets out to close the gap between the theory of market orientation and the practice of implementing such a strategy by determining the critical success factors of one company’s approach for use by other corporates in similar contexts. The objectives of this study will be to:

- Investigate the circumstances that lead to the adoption of a philosophy of market orientation,
- Understand how this change was formulated, and what mechanisms were used to achieve the desired impact,
- Discuss how the company evaluated the success of its strategy,
- Document the consequences for the company and its overall performance.

The period under review will be from 1995 to 2005 as this documents the situation that led to the 1999 Strategic Review during which the ‘Supplier of Choice’ was first proposed, the diagnosis of the problem and development of the solution, and the immediate impact of the strategy.

In documenting De Beers’ strategy, the notion that the limited theory on implementing a market orientation is or is not reflected in practice will be explored. The suitability of the market orientation paradigm as outlined in the literature will also be evaluated. The aim is to confirm features of the theory of market orientation rather than to document new aspects of this construct.

1.4 Overview of research report

The research report will be structured into eight chapters. This current chapter introduces the research problem, and the rationale behind the study, and outlines the aims of the investigation. In Chapter 2, the theory base of market orientation detailed in the literature will be critically reviewed, as well as the models proposed, and results of previous investigations. A brief overview of the diamond industry and De Beers’ historically dominant role will be presented Chapter 3. The situation that pre-empted the ‘Supplier of Choice’ initiative will also be outlined, along with the key components of the strategy. The research propositions will be detailed in Chapter 4. Chapter 5 will document the research methodology used to undertake the study. The results of the investigation will be presented in Chapter 6, and the findings discussed in Chapter 7. The final chapter will summarise the study, draw

conclusions, and make recommendations for future research based on this investigation.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

This chapter critically reviews the literature pertaining to the concept of market orientation that was introduced in the preceding chapter. The construct is defined, shown to be applicable in numerous contexts, and the two most widely used models of market orientation are discussed, namely those proposed by Kohli and Jaworski (1990) and Narver and Slater (1990). Attributes of the first model are examined; these are the antecedents to, consequences of, and moderators to this view of market orientation in firms. This highlights the positive and negative factors important in developing successful market orientation. Two proposed methods to implement such a strategy are presented. The chapter concludes by summarising the trends in the research and outlining the need for this investigation.

2.2. Outline of the Concept of Market Orientation

Debate about the market concept and the related idea of market orientation has been an important topic in marketing journals for several decades (e.g. Hise, 1965; Barksdale and Darden, 1971; Lawton and Parasuraman, 1980; Kohli and Jaworski, 1990; Narver and Slater, 1990; Jaworski and Kohli, 1993; Day, 1994; Cravens, Greenley, Piercy, and Slater, 1998; Hult and Ketchen, 2001; Im and Workman, 2004). The market, or marketing, concept refers to the “philosophy of doing business that can be considered the central ingredient of a successful organisation’s culture” (Lafferty and Hult, 2001, p.92). The concept stipulates that

achieving sustained success results from a company identifying and satisfying customer needs more effectively than their competitors (Day, 1994).

Market orientation is concerned with operationalisation of the market concept, and relates to the principles that directly affect the firm's performance through the actions of the company as a whole and not just the marketing department (e.g. Kohli and Jaworski, 1990). It reflects the need for an organisation to be market driven, and is often seen as a fundamental aspect in obtaining and maintaining market leadership (Deng and Dart, 1994; Pulendran *et al.*, 2000).

The key attribute of this concept is the firm recognising the value in adapting its structures, roles, and processes to the changing requirements of the market. The underlying premise is that the market-oriented firm listens, understands, and responds to the market and the competition, thus managing customer satisfaction and creating a strong competitive advantage (Cravens *et al.*, 1998).

The ongoing relevance of market orientation results from the number of contexts where it has found to be appropriate. This includes industrial operations (Balakrishnan, 1996) and manufacturing (Bhuiyan, 1998; Matsuno, Mentzer, Bruce, and Ozsomer, 2002; Frambach, Prabhu, and Verhallen, 2003), through to service industries (Egan and Shipley, 1995; Van Egeren and O'Conner, 1998; Sandvik and Sandvik, 2003) as well as the more specialised professional services area (Harris and Piercy, 1998; Gruen, Summers, and Acito, 2000). It applicable to both large

and small retailers (Liu and Davies, 1997; Harris and Piercy, 1999; Harris, 2000; Elg, 2003; Kara *et al.*, 2005), and diverse business such as health care and hospitals (Lonial and Raju, 2001) and secondary education (Kennedy, Goolsby, and Arnould, 2003). Public sector (Graham, 1995) and non-profit organisations (Wood and Bhuian, 1993) also employ the concepts of market orientation.

The construct has also be found to be applicable to a number of countries outside of the U.S. where the idea was proposed and tested, illustrating the robustness and universality of the concept (Shoham *et al.*, 2005). Studies have detailed industries in developed and developing European countries such as The Netherlands (Frambach, Prabhu, and Verhallen, 2003; Lancaster and van der Velden, 2004), Norway (Sandvik and Sandvik, 2003), the U.K. (Liu and Davies, 1997), Spain (Sanzo, Santos, Vazquez, and Alvarez, 2003), France and Germany (Deshpande, Farley, and Webster, 2000), Bulgaria (Marinov, Cox, Avlonitis, and Kouremenos, 1993) and Russia (Ennew, Filatotchev, Wright, and Buck, 1993). Similar investigations have been conducted in established and emerging market Asian countries, for instance, Japan (Deshpande and Farley, 1999a; Steinman, Deshpande, and Farley, 2000), Thailand (Grewal and Tansuhaj, 2001), India (Deshpande and Farley, 1999a), Vietnam (Deshpande and Farley, 1999b), China (Deng and Dart, 1999; Deshpande and Farley, 2000; Sin, Tse, Yau, Lee, Chow, and Lau, 2000; Deshpande and Farley, 2002), Korea (Kwon and Hu, 2000) and Singapore (Ramaseshan, Caruana, and Pang, 2002). In addition, market orientation has been analysed in Australia (Pulendran *et al.*, 2000), Mexico (Felix

and Hinck, 2003), Turkey (Menguc, 1996), and Saudi Arabia (Bhuan, 1998). African countries have not been as well investigated, and have been limited to Nigeria (Mitchell and Agenmonmen, 1984; Winston and Dadzie, 2002), Cote d'Ivoire (Chelariu, Ouattarra, and Dadzie, 2002), Ghana (Kuada and Buatsi, 2005), and Kenya (Winston and Dadzie, 2002). South Africa has not been studied, and similarly, the mining or luxury goods industry have not been analysed in any country or context.

In their meta-analysis of the literature, Shoham *et al.*, (2005) compared and contrasted the link between market orientation and performance in the U.S. against various other nations, and were surprised to find that there is a weaker relationship in the American samples than elsewhere considering that the major conceptualisation and methods of measurement were developed in the U.S. The authors explained this by stating that market orientation may have its greatest effects in countries where high standards of customer service and expectations were still evolving. It follows that in these nations, companies that adopt market orientation strategies may create significant competitive advantage by providing higher levels of service than their competitors.

Though at least five different perspectives have been formulated in the literature, this review will concern itself with the two most popular and widely used constructs (Lafferty and Hult, 2001).

2.3 Models of Market Orientation

Market orientation has been conceptualised from both behavioural and cultural viewpoints (Homburg and Pflesser, 2000). The behavioural perspective concentrates on organisational activities that are related to the generation of market information about current and future customer needs, dissemination of this information across department and individuals within the firm, and organisation-wide responsiveness to this market intelligence (Kohli and Jaworski, 1990). The focus is on markets, customers and the forces influencing them. Research has sought to understand how specific market oriented activities are undertaken and the types of organisational systems that promote such activities (Kuada and Buatsi, 2005). Firm performance is central to this theory, but it also assesses the effectiveness of organisational commitment and 'esprit de corps', which is defined as a combination of employee commitment, satisfaction, and teamwork (Shoham *et al.*, 2005). The focus of this model is however on the organisational aspects of delivering value for customers rather than the individual characteristics (Pulendran *et al.*, 2000).

The cultural (or attitudinal) perspective focuses on organisational norms and values that encourage behaviours that are consistent with market orientation (Narver and Slater, 1990). These are grouped as customer orientation, competitor orientation, and the degree of interfunctional coordination, with all components being of equal importance. The first component reflects the necessary activities for acquiring and dissemination information about customers, the second relates to similar activities

needed to acquire and dissemination information about competitors, and the third involves the firm's collective efforts to create value from this knowledge. Dobni and Luffman (2000) elaborate on this by stating that market orientation is a culture that influences the way employees think and act.

These two concepts are not mutually exclusive as successfully developing market orientation requires a change in employee behaviour as well as attitude (Martin and Martin, 2005). The value of each of these is that they define market orientation in terms of specific actions that organisation should undertake (Pulendran *et al.*, 2005). Both models emphasise the importance of knowledge of the customers and competitors (i.e. the market), as well as departmental cooperation. In each framework, market orientation is considered as a continuum viewed from a business unit level, and contingent on the behaviour of management (Harris and Piercy, 1999). Lafferty and Hult (2001) synthesised this into four important components:

- Emphasis on customer
- Importance of information
- Interfunctional coordination
- Taking action

Despite these similarities, the behavioural construct of Kohli and Jaworski (1990) and Jaworski and Kohli (1993) dominates investigation of market orientation as its aspects are more tangible and hence easily measured in organisations. The

following review and development of the research propositions is biased towards this view as this forms the basis of the existing implementation steps as outlined by Day (1994) and Martin and Martin (2005).

In the following sections, the most important aspects of Kohli and Jaworski's (1990) model are highlighted. These are the factors inherent in a company that determine how market orientation is manifest (antecedents), the expected results of implementing market orientation (consequences), and the factors that inhibit or enhance successful adoption of such a strategy (moderators). The authors proposed theoretical constraints on market orientation which subsequent studies have demonstrated to be valid.

2.4 Antecedents to Market Orientation

Antecedents, or organisational variables relating to structure and management, act either as drivers of or obstacles to the market orientation, and explain why some firms are more market oriented than their competitors (Pulhendran *et al.*, 2000). There are three broad categories of antecedents to market orientation: top management factors, interdepartmental factors, and organisational system (Kirca *et al.*, 2005).

2.4.1 *Top Management Factors*

As top management shapes the values and orientation of the organisation, this group's emphasis on the level of market orientation have a positive or negative impact. This group acts as the interface between the organisation and the environment (Kuada and Buatsi, 2005). Executive management need to stress the importance of all levels of management tracking market changes, of a willingness to share information with others, and to be responsive to needs of the customer (Shoham *et al.*, 2005). Their role is thus to create the context within which other employees work (Kuada and Buatsi, 2005). Management behaviour is suggested to be the key to market orientation and the firm's willingness to take risks (Harris and Ogbonna, 2001). Changing markets often require the development and introduction of new products, refinement of processes, or expansion or contraction in a particular area or segment. Top management need to be tolerant and accepting of the occasional failure, and to create an environment that encourages this form of risk taking and organisational learning (Kohli and Jaworski, 1990). Senior management must also clearly communicate its commitment to change to all employees, and create a sense of urgency for the implementation programme (Day, 1994). To facilitate implementation, leaders need to have identified and understood the key problem areas that need to be addressed, as well as the benefits that change will bring to the organisation (Chelariu *et al.*, 2002). Again, this vision needs to be communicated clearly to all staff, and constantly reinforced to maintain momentum (Pulendran *et al.*, 2000).

Management behaviour that is overly formalized, conflictual, or politically motivated was found to be negatively associated with the extent of market orientation (Harris and Ogbonna, 2001). Leadership style was found to account for 27% of variance in market orientation development and subsequent effectiveness in Harris and Ogbonna's (2001) study of UK firms. These authors noted that participative and supportive leadership styles were strongly linked to market orientation, whereas an "instrumental" style was not. "Instrumental" leadership is typified by managers who specify expectations, allocate tasks, and establish procedures. Participative leadership is characterized by managers who allow subordinates to influence decision making by requesting input and contributions, and supportive leaders are viewed as being sympathetic, amicable, and considerate of subordinates' needs (Harris and Ogbonna, 2001). Supportive and participative leaders provide a favourable environment in which market-oriented culture change can occur. Appropriate selection and training of future leaders is thus an essential supporting function in developing market orientation (Harris and Ogbonna, 2001). Lancaster and van der Velden (2004) further state that a leader ideally should be a combination of pathfinder, coach, and artisan, and create positive work environments, inspire team members to achieve self-defined goals, define boundaries so that staff can make their own decisions, and remove obstacles to achieving objectives.

2.4.2 Interdepartmental Factors

Interdepartmental connectedness is defined as the extent of formal and informal contacts among employees across various departments (Kirca *et al.*, 2005). This enhances market orientation by leading to greater sharing and use of the information gathered. This connectedness encourages interdependency within the organisation and facilitates employees to act in a concerted fashion in the processes of knowledge generation and utilization (Jaworski and Kohli, 1993). In contrast, interdepartmental conflict inhibits responses to market needs, thus diminishing market orientation (Jaworski and Kohli, 1993). This conflict has the potential to contribute to breakdowns in communication, to build secrecy and reinforce silos, and to generate destructive competition (Pulendran *et al.*, 2000). Kuada and Buatsi (2005) point out that task-related conflicts can however be constructive as they help employees recognize and define problems, identify solutions, and understand the underlying issues involved. These can improve team dynamics by strengthening cohesiveness and focus when the organisation faces external threats.

2.4.3 Organisational System

The organisational systems that can be used to effect market orientation positively or negatively are formalization through rules and procedures, centralization, market-based reward systems, and market-oriented training. Rigorous or inflexible definition of roles, procedures, and authority managed through rules tends to reduce effective market orientation because it inhibits information utilization and

response time to changes in the external environment (Jaworski and Kohli, 1993; Harris and Ogbonna, 1999; Harris, 2000). However, formalizing procedures may help in the initiation stage of market orientation as employees and management rely on existing modes of adoption of new concepts, and established, effective engagement protocols (Chelariu *et al.*, 2002). Similarly, if the rules maintain that employees meet and discuss customer needs and complaints at regular intervals, this then enhances the development of market orientation (Kuada and Batsui, 2005).

Centralisation refers to the degree of decision making responsibilities that is made by a core, head office function, as apposed to delegation throughout the firm (Shoham *et al.*, 2005). This can impact negatively on the development of market orientation because it inhibits a company's information utilization (Harris, 2000; Matsuno *et al.*, 2002). Decentralisation permits flexibility and variety in the choice of information gathering methods and the interpretations that employees make of the knowledge generated (Kuada and Batsui, 2005). However, the effect of centralisation can be mitigated through top management emphasis of the importance of knowledge sharing, if there is interdepartmental connectedness, and appropriate reward systems are in place (Kirca *et al.*, 2005).

Reward systems and incentives that use market-orientation behaviours as metrics will obviously enhance those actions that favour market orientation (Signauw, Brown, and Widing, 1994). This type of reward system also significantly reduces

role conflict and job ambiguity (Signauw *et al.*, 1994). The focus should be on customer satisfaction and service levels rather than sales volume, short term profitability, and rate of return as the former encourage active generation and dissemination of market intelligence and responsiveness to market needs (Pulendran *et al.*, 2000). In some instances, formal systems do not have to be put into place. Chelariu *et al.*, (2002) discovered that in Ivorian firms informal mechanisms were largely responsible for disseminating information and coordinating these activities across departments. Employees did not feel that they needed to be rewarded to communicate amongst themselves as this process occurred naturally as part of normal human interaction. Market-orientation training will increase sensitivity to customer needs and result also in actions that enhance the effectiveness of market orientation (Kirca *et al.*, 2005).

2.4.4 Other Factors

Additional barriers to developing an effective market orientation are either people related or system related (Harris and Piercy, 1999). The people factors that have to be countered are self-interest, resistance to change, overturning traditional practices, or result from congruent values, beliefs, and assumptions of the organisation. High levels of political manoeuvring, weak management skills, and executive inexperience were linked to low levels of market orientation (Harris and Ogbonna, 2001). Limited time resources, or the perception of such, are also seen as a significant constraint (Harris and Piercy, 1999). One-way communication of a new strategic direction often inhibits market oriented changes (Lancaster and van

der Velden, 2004). Convincing staff to believe in the corporate vision can only be achieved through dialogue (two-way communication) and participation as this breaks people out of individual thinking, and insights are gained by sharing views and opinions (Lancaster and van der Velden, 2004). The presence and strength of the outlined antecedents to market orientation influence the levels of employee commitment and morale in relation to the firm and strategy. As motivation and commitment are core to job satisfaction, increasing these usually improves customer satisfaction (Lancaster and van der Velden, 2004).

Inappropriate organisational systems and control mechanisms act to impede adoption of an effective market orientation strategy. For instance, limited vertical communication in an organisation hampers the dissemination of collected market intelligence and thus a timely market-focused response. Lack of appropriate skills and training is also important as lower levels of staff that are not educated about market orientation may impede the development and effectiveness of such at the immediate customer interface (Harris and Piercy, 1999; Harris, 2000). Limits set by available financial resources constrain market orientation, as do unclear marketing objectives, and a departmental preoccupation with the own functional problems (Harris and Piercy, 1999).

2.5 Consequences of Implementing a Market Orientation Strategy

There are four outcomes of market orientation: organisational performance, customer consequences, innovation consequences, and employee consequences (e.g. Jaworski and Kohli, 1993; Hult and Ketchen, 2001; Im and Workman, 2004).

2.5.1 Organisational Performance

The literature suggests that market orientation provides firms with market-sensing and customer-linking capabilities that lead to superior organisational performance. This positive impact can be assessed on cost-based measures such as profit ratios (e.g. return on investment, return on assets, profitability), revenue-based measures like sales and market share, new product development and success, and global measures encapsulated in the comparison of organisational performance with company objectives or competitor performance. Several researchers have demonstrated strong empirical links between market orientation and business performance, amongst these are studies by Kara *et al.*, (2005), Matsuno *et al.*, (2002), Kwon and Hu (2000), Desphande and Farley (1999a) and Greenley (1995). Narver and Slater (1990) and Slater and Narver (1994a, 2000) found that there is a positive relationship between such a strategy and return on assets as well as sales growth, with one of the principal success factors being a business' relative size advantage. Kumar, Subramanian, and Yauger (1998) further demonstrated that size was a predictor of strong performance because larger companies had the advantage of economies of scale where they could purchase in volume and spread fixed costs over a larger base. Appiah-Adu and Ranshod

(1998) indicated that market orientation is significantly correlated with growth in market share and profit margin. In their studies of small firms, Pelham and Wilson (1996) and Pelham (2000) found that market orientation positively influenced the level of profitability, growth share, and sales effectiveness. Kirca *et al.*, (2005) showed that market orientation typically enhances profits, and though the implementation of such a strategy may demand resources and capital, it generates returns that offset this cost while also growing revenues. However, the one disadvantage of using these objective measures is that there is usually a time delay between action and reaction, and “thus cross-sectional research, which is the norm in market orientation studies, may not capture the true strength of market orientation’s impact on performance “(Shoham *et al.*, 2005; p.440).

A minority of researchers however reported that these measures did not support a direct positive relationship between firm performance and market orientation (Jaworski and Kohli, 1993; Han, Kim, and Srivastava, 1998; Grewal and Tansuhaji, 2001; Sandvick and Sandvick, 2003). These authors suggested that business performance is a multidimensional construct and further work needed to be done to determine the complexities of the relationship with market orientation. Matsuno and Mentzer (2000) suggested that the impact of market orientation on a firm’s performance may be moderated by the strategic direction of the organisation, and Grewal and Tansuhaj (2001) showed that this was also effected by extreme economic volatility.

Subjective measurements have also been used to determining the link with market orientation. These are usually managers' assessments of the performance of the firm or business unit relative to their expectations (e.g. sales growth) or competitor's performance (e.g. relative profitability). The advantage of this method is that managers can account for the effects of competitive and environmental conditions when detailing these measures, and the particular strategies of the company (Shoham *et al.*, 2005). The downside is that perception can differ from reality, as Schlegelmilch and Ram (2000) found in measures of return on investment (ROI). Market orientation tends to have a positive impact on subjective performance.

2.5.2 Customer Consequences

Customer consequences include an impact on the perceived quality of the firm's products or services through to customer loyalty, all of which are increased with market orientation by the creation of superior customer value and anticipation of customer needs with modified offerings (Kirca *et al.*, 2005). Customer loyalty and satisfaction have positive associations with organisational performance as they increase repeat purchase behaviour and are associated with lower levels of complaints and negative word of mouth (Szymanski and Henard, 2001). This in turn can translate into higher prices, higher market share, and lower costs (Slater and Narver, 1994b).

2.5.3 *Innovation Consequences*

Market orientation also increases innovativeness and new product performance as it drives a proactive attitude towards meeting customer needs. In anticipating customer needs, innovativeness strengthens information use (Han *et al.*, 1998). Greenley (1995) and Pelham and Wilson (1996) documented a positive relationship with new product success (in terms of market share, sales, ROI, and profitability).

2.5.4 *Employee Consequences*

By instilling a sense of camaraderie, market orientation enhances organisational commitment, job satisfaction, and reduces role conflicts. These have been defined by Sigauw *et al.*, (1994) as the incompatibility of communicated expectations that hamper employees' role performance. These positive effects of market orientation improve customer orientation, namely the motivation of employees to satisfy customer needs, as well as increase understanding of the tasks to be performed. Market orientation provides employees with a sense of belonging, direction, and feelings of contributing towards achieving the firm's goals. This is summed up in the notion of 'esprit de corps' (Shoham *et al.*, 2005) and provides psychological and social benefits to employees. Increasing team spirit and employee pride in the company can serve as a socialisation mechanism for the workforce, enhancing organisational commitment indirectly (Shoham *et al.*, 2005). Committed employees are less likely to be absent from work and to resign, and are more likely to go above and beyond their assigned roles to attain the company's goals. Less

committed employees are less likely to share and to accept sacrifices for the good of the firm (Gruen *et al.*, 2000).

2.5.5 Measuring Consequences

When investigating the impact of market orientation on performance, it is important to use measures that are aligned with the firm's goals (Shoham *et al.*, 2005). For instance, a company's strategy may be to enhance sales growth, customer retention, and overall performance rather than ROI or market share growth. Sin *et al.*, (2000) found that market orientation had no impact on these last two measures, but positively influenced the first three in the sample of Chinese organisations they studied. Additional information should be provided on the firms' overall programme goals in accessing the impact of market orientation. One area that is poorly understood or documented in the literature is the long term impact on a firm's performance of a market orientation strategy (Kirca *et al.*, 2005).

2.6 Moderators on the Effectiveness of Market Orientation

Moderators are factors external to the company that impact both positively or negatively on that firm's market orientation. The three most important moderators of the link between a company's market orientation and performance are market/environmental turbulence, technological turbulence, and competitive intensity (Greenley, 1995; Grewal and Tansuhaj, 2001; Kirca *et al.*, 2005). Market turbulence and competitive intensity enhance the impact market orientation can

have on performance as responsiveness is more important when the company is facing an evolving mix of customers and increasingly aggressive competitors (Jaworski and Kohli, 1993). It is imperative that organisations be highly market oriented in such conditions to gain and maintain advantage, and have the flexibility to shift resources and adapt to potentially viable market trends (Pulendran *et al.*, 2000). The focus thus is on listening and responding to customer needs. In contrast, technological turbulence diminishes this impact as research and development (R&D) becomes more important to a firm's performance than the customer-focused innovation that comes from market orientation.

The relative strengths of each of these factors operating in tandem are however not well documented as research has tended to focus on each of these factors in isolation. Slater and Narver (1994a) studied how the competitive environment influences the form and effectiveness of a firm's market orientation and found that the benefits derived from this strategy are generally long-term and the environment is only a transient factor. In other words, being market oriented is cost effective despite the short term moderating environmental effects. They identified additional potential moderators on performance, namely supplier and buyer power, and seller concentration. Inflexible organisational learning may impact negatively on market orientation's effectiveness in terms of a company's performance (Shoham *et al.*, 2005).

Manufacturing firms exhibit a stronger relationship between market orientation and performance than service firms (Kirca *et al.*, 2005). This is due to the fact that services are less tangible than goods, less separable in production and consumption, and more perishable. The fulfillment of customer needs thus involves more intense levels of customisation in services than manufacturing (Anderson, Fornell, and Rust, 1997). It follows that the higher degrees of customisation that service firms need to implement market orientation necessitates targeting smaller customer segments, and this constrains the company's ability to increase sales and market share (i.e. revenue-based performance measures). The higher degree of customisation could increase costs due to lower production efficiencies, as well as the need to hire and train qualified and motivated employees (Anderson *et al.*, 1997). This increased cost base may generate lower levels of profit (i.e. cost-based performance measure) in service firms as compared to manufacturing firms. This relationship however does not mean that market orientation is lower in service firms, but may rather be a "hygiene" factor in service companies rather than a success enhancing strategy as in manufacturing firms (Kirca *et al.*, 2005). In other words, market orientation in service firms may be an underlying necessity, but in manufacturing may provide greater competitive advantage that leads to superior performance.

Day (1999) found that a company can become misaligned with its market in two ways; firstly, by an inclination to focus inwardly and become remote from its customers and thus increasingly unresponsive to competitive challenges; and

secondly, through changes in the external marketplace, technology, and/or competitive pressures (Day, 1999). This misalignment produces triggers that can lead an organisation to revising its market-driven strategy (Day, 1999). This can be market disruptions such as the entrance of new competitors, new channels, or change in customer preferences that threaten the firm's existing business model. Another force could be the erosion of competitive advantage relative to market oriented competitors, and may require a complete rethink of the company's merchandising focus. Another trigger arises from strategic necessity, such as the shift a company will undergo in operating model away from a start-up mode to maintaining growth in a mature fashion. The last trigger is intolerable opportunity costs, and requires an organisation to tailor its product offering or distribution channel to meet untapped customer needs.

2.7 Implementing Market Orientation Strategies

As noted previously, there are few articles that outline how a market orientation strategy could or should be implemented. Harris (2000) notes that firms interested in developing market oriented change first need to understand the organisation's culture. Harris and Piercy (1999) stress the significance of actively managing internal communications to implement important strategies, as well as specifically designed approaches to developing market orientation. "To believe that market orientation will simply "happen" because of its obvious advantage ..., or that it can be easily achieved because others have achieved it, is to fall into a major trap which may have undesirable consequences "(Harris and Piercy, 1999, p.127). Day

(1999) studied four companies that successfully used market orientation to satisfy and retain customers, and found that though each solution was tailored to fit the firms' heritage, competitive position, market strategy, and leadership personality, these had key success factors in common. The market orientation transformations involved the whole organisation from top to bottom, and the focus was on creating conditions that enabled people to produce appropriate results. Top management created a sense of urgency, resulting in culture change that followed from behavioural change. And finally, the programs were monitored and results used to modify the progress. These programs begin with leadership commitment, and a deep understanding of the need for change. Management needs to effectively communicate the vision, then mobilize commitment on all levels, ensure an alignment of structures with systems and incentives, and lastly, take steps to reinforce the change. The most significant aspects were that all the firms made fundamental changes in the culture, capabilities, organisation, and systems, and designed programs that were sustained over many years (Day, 1999).

Day (1994) developed a six component programme for the implementation of market orientation, with the underlying premise that a comprehensive change program aims to increase market sensing and customer linking capabilities. He based design of an implementation strategy on the principals of Total Quality Management (TQM), and envisioned the following stages:

- 1) Diagnosis of current capabilities,
- 2) Anticipation of future needs for capabilities,

- 3) Bottom-up redesign of underlying processes,
- 4) Top-down direction and commitment,
- 5) Creative use of information technology,
- 6) Continuous monitoring of progress.

Techniques such as root cause analysis, process mapping, and the Balanced Scorecard could also be used as tools to assist in implementation (Kirca *et al.*, 2005).

Martin and Martin (2005) used an internal customer-internal supplier perspective as a link between the organisation's employees and its external market. The premise is that you start by satisfying internal customers to increase the ability to satisfy external customers and thus align employees with the strategic goals of the company. The core of this construct is a performance management system that rewards appropriate behaviours that establish a market oriented culture. They build on Kohli and Jaworski's (1990) framework and suggest the following steps based on their research of a company that instituted market orientation:

- 1) Employee education on the need to internal and external customer focus,
- 2) Employee education regards the dissemination of market intelligence,
- 3) Communicating a system to reward responsive behaviour,
- 4) Encourage gathering of market information for every employee,
- 5) Encourage dissemination of market intelligence,
- 6) Reward responsive behaviour.

The outcomes of the implementation need to be monitored and early successes (the “quick wins”) be widely communicated and celebrated. This openness would enhance employees’ trust in top management’s competence, as well as give them a sense of pride and ownership in the organisation’s accomplishments (Chelariu *et al.*, 2002).

2.8 Conclusions

The literature has primarily focused on understanding the characteristics and underlying philosophy of market orientation. The studies have identified and quantified the success factors and inhibitors of this construct. The applicability and robustness of the idea has been demonstrated in a variety of working environments, industries, and countries. The research has established how many different variants there are of success market orientation strategies, and what commonalities exist. The literature documents in great depth the impact of market orientation, and the various measures to track and determine success.

The need for a well researched and detailed implementation plan for companies aiming to improve their performance using market orientation has been established in the literature. Various authors have identified the success factors needed in implementing such a plan, but only two have proposed a series of actionable steps. Kirca *at al.*, (2005) state that future research should identify profiles of best practise to implement market orientation in service and manufacturing firms, and in different cultural contexts.

This study aims to increase the understanding of a workable plan by documenting the highly effective implementation of such a strategy in one company. This research will also document market orientation in environments that have yet to be studied, namely the mining and luxury goods industries. The investigation will also provide additional detail of the impact of market orientation over time, and the how the relationship between this and firm performance develops, as the study is longitudinal and qualitative (Kirca *et al.*, 2005). This longitudinal approach also details the moderating influence of environment and market characteristics which Shoham *et al.*, (2005) identified as a topic for future study. Multiple measures of performance, both subjective and objective, are used to judge the most appropriate method of tracking the various aspects of market orientation according to its strategic thrust (Shoham *et al.*, 2005; Pulendran *et al.*, 2000). This approach also takes into account the evaluation of market orientation from the customers' perspective rather than the company alone (Pulendran *et al.*, 2000).

CHAPTER 3: DE BEERS' ROLE IN THE DIAMOND INDUSTRY

3.1 Overview of the diamond industry

This chapter outlines the modern diamond industry, and the role that De Beers played in shaping the marketplace through its dominance as the controller of supply. De Beers' historic use of innovative marketing and advertising to increase customer demand for certain types of diamond jewellery is discussed. Then follows a brief introduction to the changes in the business environment that preempted the 'Supplier of Choice' initiative. Finally the key points of this initiative are outlined, with mention of the underlying reasons for each focus area, and concluding with a summary of the aims of 'Supplier of Choice'.

3.2 Overview of the diamond industry

World natural diamond production was estimated at 156 million carats for 2004, with a value of US\$11.8bn (Northwest Territories Canada, 2005). Approximately 10% of this volume are gem quality stones, and 55% are near-gem quality. When polished, this production is valued at US\$16.7bn, and this ultimately became US\$61.5bn in worldwide diamond jewellery sales (Northwest Territories Canada, 2005). Currently, just under half of all diamond jewellery is sold in the US (De Beers, 2006).

The De Beers controlled mines in South Africa, Botswana, Namibia, and Tanzania produce 30% by volume but 42% by value of the total (De Beers Annual Report,

2005; Northwest Territories Canada, 2005). De Beers' main competitors are Rio Tinto (4% by value) and BHP Billiton (6% by value) (De Beers, 2006). Alrosa (21% by value), the Russian diamond company, has had a turbulent history of sporadic partnerships with De Beers, but currently a US\$700m agreement is in place for De Beers to buy a portion of the Russian production. This gives De Beers' a 48% control of the market (Northwest Territories Canada, 2005).

3.3 De Beers' dominance of the industry (1870-1990's)

De Beers Consolidated Mines was established on 12th March 1888 with the merger of Cecil John Rhodes' De Beers Company with the Barnato Diamond Mining Company (De Beers, 2006). Control of the company passed into the hands of the Oppenheimer family in 1929 with the appointment of Ernest Oppenheimer, the founder of the Anglo American Corporation (AAC), as the chairman. In 1926, AAC became the largest single shareholder in De Beers (De Beers, 2006). The company's core business is the mining of diamonds, and the distribution of rough diamonds. Since the late 1940's, generic marketing of diamond jewellery by De Beers has augmented the sale of rough diamonds (De Beers, 2006). Essentially, diamonds have little intrinsic value, their price is dependant almost entirely on their rarity, and their image of desirability. De Beers managed the industry either by regulating supply through aggressive control of production, or by altering the perception of diamonds through marketing.

The modern diamond industry was established in the 1870's with the discovery and exploitation of the kimberlite pipes of South Africa. Until the 'Supplier of Choice' initiative, De Beers regulated the supply of rough diamonds by only releasing the number of diamonds needed each year, and by buying up all diamonds on the market and storing these in a stockpile. This monopoly was set up initially with the consolidation of Kimberley producers by Rhodes, and then by subsequent acquisition of other mines in South Africa and Tanzania (De Beers, 2006; Kretschmer, 1998). Buying offices that purchased artesian diamonds (i.e. small scale and informal mining) were established in West and Central Africa in the 1950's, and these entrenched the company's increasing dominance through the purchase of competitors' supply, and also produced a culture of low tolerance of new entrants (Kretschmer, 1998). De Beers' internal supply of diamonds increased dramatically with the discovery and opening of the large Botswana mines, Orapa (1971), Letlhakane (1977), and Jwaneng (1982), as well as South Africa's Venetia mine (1992). These added about US\$2bn to De Beers' revenue a year, and reinforced De Beers pre-eminence in the industry (De Beers, 2006). For most of the history of the modern diamond industry, the company has controlled 90-80% of the world's diamond supply (De Beers, 2006; Northwest Territories Canada, 2005).

The supply-control business model was refined by Ernest Oppenheimer's single channel marketing of the Central Selling Organisation (CSO). This arm of De Beers was formed in London in 1938, and established a structure that secured an

income stream for De Beers through the trading of diamonds (Kretschmer, 1998). The CSO function was to sell rough diamonds produced by De Beers, diamonds bought from other producers on a contractual basis, and those purchased on the open market (De Beers, 2006). Ernest Oppenheimer stated that “only by limiting the quantity of diamonds put on the market, in accordance with the demand, and by selling through one channel, can the stability of diamond trade be maintained” (De Beers, 2006). The restricted system of distribution consisted of “sights’ where only selected clients, the “sightholders”, were given boxes of diamonds whose content was determined by the CSO. The contents of the box were not negotiable, and it was on a” take it or refuse it” basis, but what this meant was the CSO could off-load stocks of unpopular or low-quality diamonds (Kretschmer, 1998).

The strength of this supply-driven system was displayed during the Great Depression and late 30’s when depressed business conditions resulted in poor sales of diamond jewellery (Kretschmer, 1998; De Beers, 2006). With rough diamonds in oversupply, De Beers took the dramatic step of closing all of its mines. Non-De Beers mined production was purchased by the CSO and the excess stored in order to ensure the industry’s survival. Full-scale production from De Beers only resumed after the 2nd World War (De Beers, 2006). When the Williamson mine, the Mir mine in Yakutia, and Argyle in Australia came on-line in 1940, 1959, and 1983 respectively, exclusive or near exclusive selling agreements were concluded with these producers, thus ensuring the pricing stability of diamonds (Kretschmer, 1998; Financial Mail, 2002). Producers that tried to circumvent the CSO were

undermined by the company's release of similar sized stones onto the market, which resulted in falling prices and reduced revenues which De Beers could absorb but smaller producers could not (Financial Mail, 2002). This unsubtle policy is was used against the Zairian miners in the 1980's and Ashton Mining (operator of the Argyle mine in Australia) in 1986, when both tried to sell their diamonds on the open market (Kretschmer, 1998).

3.4 Use of marketing to control the industry (1930's to 1990's)

To offset the doldrums of the 1930's, Harry Oppenheimer recommended that De Beers employ the New York advertising agency N.W. Ayer to design an advertising campaign to stimulate demand. The agency's market research indicated that $\frac{3}{4}$'s of diamonds were bought by men as engagement rings, and their campaign accordingly exploited the concept of timeless love (De Beers, 2006). The phrase "A Diamond is Forever" was coined by Francis Geharty of N.W. Ayer agency in New York in 1948 and has become once of the most recognised slogans in history (Advertising Age, 1999, as quoted in De Beers, 2006). Initially, there was resistance by the more senior directors to advertising diamonds as they thought that this would somehow cheapen them and have an adverse effect on sales (De Beers, 2006). Instead, this advertising "democratised" the idea of diamond jewellery from what had been a luxury most people believed only the very rich could afford, and in two years this campaign increased diamond jewellery sales by 55% (Epstein, 1982). An indirect consequence of the idea was that as a diamond was "forever" it was not to be resold, further increasing each stone's uniqueness.

One estimate is that 500 million carats of diamonds are kept as family heirlooms (Epstein, 1982). A similar campaign in Japan from the 1960's onwards achieved comparable success, and Japan is now the largest market after the US for engagement rings with a retail value of \$8.5 billion in 2002 (Terazono, 2004).

De Beers was to utilise the strength of advertising throughout its history. When in the early 1960's the Russians began to supply the CSO with their production, most of which was under a half carat, a large market for the small stones between a tenth and a quarter of a carat didn't exist (Epstein, 1982). De Beers had sold women on the idea that an engagement ring was at least a half carat (Epstein, 1982). De Beers devised the "eternity ring" which comprised as series of small diamonds set in a band to symbolise recaptured love, and sold this to older married women. Another idea was the tennis bracelet consisting of a series of small diamonds arranged along a thin wrist band. These promotions were so successful that supply could not keep up with demand (Epstein, 1982). Advertising was used to counter the economic recession in the early 80's when De Beers' sales were halved in 1981 and the company cut their dividend in 1982 for the first time since 1944. The company propped up diamond prices by drawing on its cash reserves, and heavily increased its spending on the generic advertising campaign in the US, Europe, and Japan, as well as expanding its marketing into East Asia (Kretschmer, 1998). This stimulated demand just as the supply of diamonds increased with Jwaneng's and Argyle's production came into the marketplace.

3.5 Changing business environment – late 1980's and 1990's

The situation for the diamond industry and De Beers began to change in the late 1980's and 1990's. The irony was that the CSO was doing such a good job of protecting the diamond business that it was attracting increasing numbers of entrants. There was an increasing oversupply of diamonds outside of the CSO's direct control as stones were flooding in from Angola during a cease-fire in the civil war, from Russia whose industry was becoming unregulated, and from Ekati, the first Canadian mine to come into production (Kilalea, 1999). The problem was twofold for De Beers, loss of market share as well as the threat that this oversupply would result in a fall in prices. In addition, the supply-control business model was seriously weakened by Ashton (then operator of the Argyle mine) who terminated the sales contract with the CSO and provided its production direct to cutters in India (Kretschmer, 1998).


De Beers' profitability, which had been bolstered by dramatic sales in Japan throughout the 1980's, was hit hard by loss of sales due to the Asian financial crisis (Kleingeld *et al.*, 2001). Other factors also began to affect the diamond business. There was the emerging issue of conflict diamonds, namely diamonds used to fund Central and West African civil wars. De Beers was accused of supplying diamonds to cutters in India that employed child labour (International Labour Organisation, 1998; Roberts, 2003). And finally De Beers was charged by the US Department of Justice with anti-trust practices which blocked the company from operating directly in its largest marketplace (Dombey and Reed, 2004; Mining Journal, 2004).

The 'Supplier of Choice' initiative was thus precipitated by this change in the external business environment. In combating eroding market share and declining profitability, De Beers embarked on a radical shift in the company's philosophy of doing business. The firm went from a monopolistic stance of controlling the market place by limiting supply to increasing demand by influencing customers' preferences. The success of this marked change in strategy lies at the core of the effectiveness of market orientation, and study of De Beers' tactics imparts practical knowledge of how to successfully devise and implement such a business practice.

3.6 'Supplier of Choice' marketing initiative

De Beers formally launched its "Supplier of Choice" initiative in July 2003 to transform the diamond industry from supply driven to demand driven. The ideas behind Supplier of Choice were developed during the 1999/2000 Strategic Review, and announced on 12 July 2000. De Beers formally notified the European Commission (EC) of the strategy in May 2001. After modifications were made to the distribution procedures, the EC issued approval in December 2002 that allowed De Beers to implement the 'Supplier of Choice' (DTC publicity material, as quoted in De Beers, 2006).

Four focus areas were identified for specific action to improve diamond sales through this initiative; distribution, advertising, branding, and confidence. Through its selling arm in London, De Beers undertook to (DTC publicity material, as quoted in De Beers, 2006):-

1. Increase the operating efficiencies of De Beers and stream-lining the distribution channels in the industry. The CSO was restructured to form the Diamond Trading Company (DTC),
2. Work closely with the sightholders and require them to drive consumer demand by their own marketing and branding ventures. The aim is to encourage the industry to develop internationally recognised diamond brands to stimulate customer demand,
3. Strengthen the De Beers brand potential through its own marketing campaigns, the “Forevermark” , and the establishment of the joint venture with Louis Vuitton Moet Henessy (LVMH),
4. Maintaining customer confidence in the integrity of the industry by introducing Best Practise Principles.

There is a very complex system of distribution between points of rough supply and retails sales, which is best illustrated using the diagram below (Fig.3.1) :-

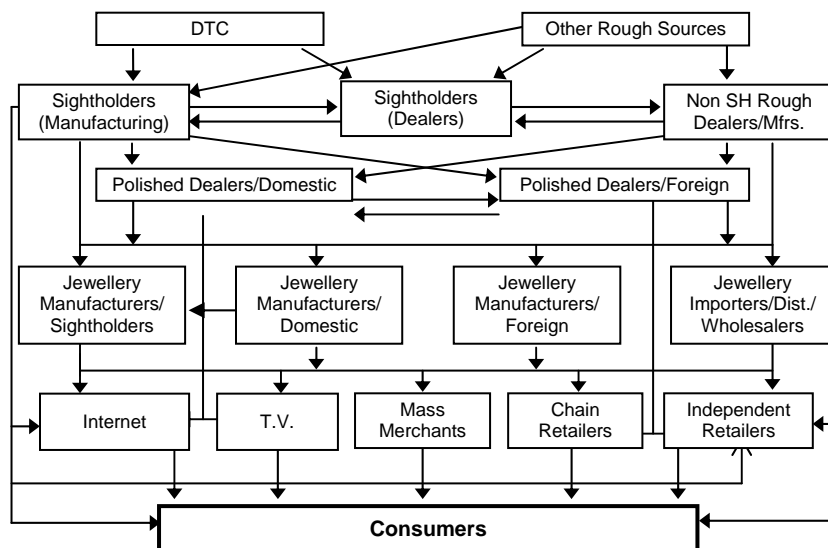


Figure 3.1 Schematic representation of the diamond pipeline distribution network (Diamond Trading Company, 2003).

This creates problems for planning and efficiency as the route and timing to market for rough is opaque and obscure (Wisden, 1999). This also characterises a steadily commoditising industry which has too many transactions that rely purely on price and availability, and don't ultimately add value to the product (Diamond Trading Company, 2003). In other luxury good industries, there is much more direct connect between the supplier or the vendor of the product and the consumer than in the diamond industry (Palmer, 2004).

The rationale behind aggressive marketing and advertising campaigns was De Beers' proven success in altering the consumer's perception of diamonds to increase diamond jewellery sales. The industry needs to stimulate advertising and marketing investment to the levels similar to other luxury products. Whereas luxury

goods companies typically spend 10% of turnover on advertising, the ratio for the diamond industry is closer to 1.5% (DTC publicity material, as quoted in De Beers, 2006). Diamond jewellery sales had risen by only half of GDP increase since 1990, and had only outperformed GDP in two of the last 12 years, in 1988 and 1999 (DTC publicity material, as quoted in De Beers, 2006). Diamonds faced strong competition from other luxury goods which grew above GDP. This is illustrated in the following graph (Fig.5.2) which shows compound annual growth, indexed to 1980, for diamond jewellery, GDP (a weighted average from the main diamond consuming markets), and other luxury goods. This De Beers identified as an opportunity gap in the marketplace. The challenge was to change customers' perceptions that diamond jewellery was too exclusive an item to be worn daily, moving away from the idea that diamond jewellery solely signified a life event such as engagement or birth of a child, to "fashion" jewellery.

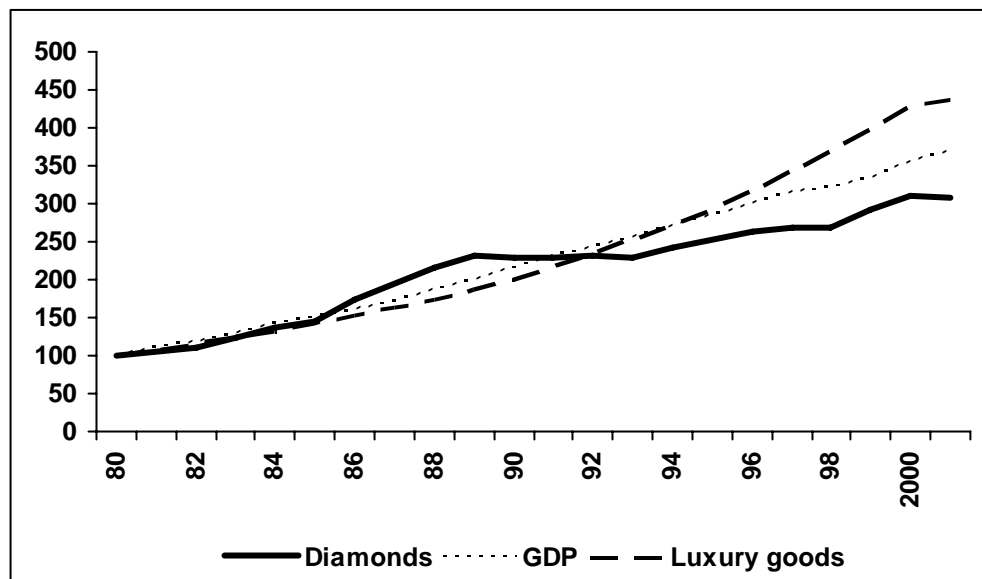


Figure 3.2 Opportunity gap for diamond jewellery sales growth (Diamond Trading Company, 2003)

Branding of diamond jewellery further establishes the concept of a unique product in the customer's mind. The diamond jewellery industry has relatively low brand power where the top 16 brands in only accounted for 13% of sales. In contrast, 13 brands account for 80% of perfume sales, and 50% of watch sales result from 16 brands (Diamond Trading Company, 2003). Successful luxury goods companies were targeted by De Beers to assist in this transformation as they "are very focused on innovative product development, good consumer marketing and creating energy around their products. To develop innovative concepts you need to be able to fund that investment with a higher margin for differentiated stones" (Steven LUISER, DTC Marketing Director, as quoted in The Sunday Times, 2003; p.58).

De Beers established its own brand with the "Forevermark". The "Forevermark" is not for use in its retail stores, but is designed for sightholders who have the required chain of warranties to inscribe the icon on stones that are guaranteed natural, conflict free, and have been sourced ethically and responsibly (De Beers Annual Report, 2001). The limited release millennium stones were inscribed with "De Beers" and a name of a star (De Beers Annual Report, 2001). The JV with LVMH was established as an independently managed and operated company to unlock the value of the De Beers licensed name as a premier consumer brand, and put the De Beers LV in the same league as Tiffany, Cartier, and Bulgari (Financial Mail, 2002). The first store was opened in London in December 2002, and the plan

is to open 100 stores in the next decade (De Beers Annual Report, 2001; De Beers Annual Report, 2002).

The Best Practice Principles aims to “ensure the diamond industry is beyond reproach, maintain the image of diamonds, and increase consumer confidence” (Diamond Trading Company, 2003). The aim is to ensure high standards of corporate governance and risk management (De Beers Annual Report, 2002). This means that De Beers and its partners and clients have to supply documentation to verify the conflict and child-labour free origin of stones, to show that environmentally and culturally sound practices are in place, and to demonstrate that all diamonds are natural and have not been “treated” (i.e. artificially modified to hide flaws or change colour) in any way (De Beers Annual Report, 2005).

The aims of ‘Supplier of Choice’ are not limited to De Beers, rather are to the benefit of the diamond industry. The measurable objectives of this initiative are to (Wisden, 1999):-

- 1) to increase diamond jewellery sales 2% above GDP growth,
- 2) to increase rough diamond sales between 10% and 30%,
- 3) to implement new sales planning processes with clients resulting in the industry investing US\$200 million by 2004,
- 4) to increase diamond jewellery brands and new innovations in design.

The 'Supplier of Choice' is a long-term strategy designed to produce significant change throughout the diamond pipeline. The aims above are to be measured in years rather than months as term as the company views this as an evolving process rather than a limited event (De Beers Annual Report, 2002). A number of marketing schemes are being undertaken by De Beers and its customers, each with unique ideas and involving a different combination of trade partners and ideas, the common purpose is the creation of incremental consumer demand for diamonds (De Beers Annual Report, 2001).

CHAPTER 4: RESEARCH PROPOSALS

This previous literature and research suggests the following propositions to be investigated in order to understand why a previously highly successful firm would use a new business approach employing market orientation, how a company can successfully develop and implement such a strategy, and what the consequences are of this and how can these be measured.

In the literature reviewed, the factors (“moderators”) external to an organization that were identified as important in determining how well a firm developed market orientation were competitive intensity, market/environmental turbulence, and technological turbulence (Greenley, 1995; Grewal and Tansuhaj, 2001; Kirca *et al.*, 2005). Competitive intensity and marketplace turbulence and improved the impact market orientation has on performance, whereas technological turbulence diminishes this effect (Jaworski and Kohli, 1993; Pulendran *et al.*, 2000). In other words, the increasing mix of discerning customers and increasingly aggressive competitors mean that to succeed, you have to be highly attuned to the marketplace. In contrast, technological turbulence results the firm relying on in-house scientific/industrial/mechanical solutions to a changing environment in preference to listening to customers’ needs.

The previous research investigated companies at a point in time of after implementation of market orientation strategies, and usually focused on the current

situation. The logical question is then what type of external environmental conditions lead a company to developing market orientation? Day (1999) had suggested that a firm becomes misaligned with its environment with changes in the external marketplace, technology, and/or competitive pressures, and that these produce triggers that lead an organization to remodel its market-driven strategy. As noted earlier, a limitation of these the previous work is that the factors tend only to be studied isolation from each other. In line with this thinking then, the following is proposed:

- *Proposition 1:* A combination of the three factors (increased competition, market and environmental turbulence, and technological turbulence) precipitated De Beers' drive to improve company performance using market orientation.

In Kohli and Jaworski's (1990) model, antecedents were defined as the factors within an organisation that assist or hinder the effective development of a market orientation strategy (Pulendran *et al.*, 2000). The key aspects relate to top management factors, interdepartmental factors, and organisational system (Kirca *et al.*, 2005). This broadly means the actions and attitude of senior management in driving the strategy, the cohesiveness of interactions within and between departments, and the rigidity of formalized structure in the firm (Harris and Ogbonna, 1999; Pulendran *et al.*, 2000; Kirca *et al.*, 2005); Kuada and Buatsi, 2005). Again, the literature defines and documents the influence of each of these factors, but is limited to the current situation and does not elucidate how these are

used to successfully implement a market orientation strategy. Only two implementation plans were documented in the literature (Day, 1994; Martin and Martin, 2005) and these state that specific interventions must be used to implement the policy. Determining how De Beers implemented its strategy is the key aim of this study, which leads to the proposal:

- *Proposition 2:* De Beers' market orientation strategy was rolled out in a sequence of steps by focusing on:
 - communicating top management's vision,
 - improving interdepartmental effectiveness,
 - and development of a market-based reward system,

The outcomes of a market orientation initiative impact on organisational performance, and have innovation consequences, customer consequences, and employee consequences. Organisational performance can be measured using objective measures such as financial indicators (either profit or revenue based), or subjective measures such as managers' perception of departmental performance. Innovation is characterised by changes in existing products or brands, or the introduction of new products or brands. Customer consequences translates into opinions of the quality of goods or services offered by the firm, and hence into brand perception. Employee consequences are seen in a firm's 'esprit de corps', or sense of belonging and direction, and feelings of contributing to achieving the corporate goals. This leads to the development of:

- *Proposition 3:* Success of the market orientation strategy was shown by:
 - De Beers' improved organisational performance, including accomplishment of the aims outlined for the 'Supplier of Choice',
 - the proliferation of diamond jewellery product and brand innovations,
 - enhanced brand perception of De Beers by consumers,
 - increased 'esprit de corps' within the company.

These propositions cover the most important aspects of Kohli and Jawoski's (1990) model of market orientation as they determine the moderators, antecedents, and consequences of the strategy. The ultimate aim of this analysis is to be able to draw up an implementation recommendations for use by other companies.

CHAPTER 5: RESEARCH METHODOLOGY

5.1 Introduction

The purpose of this chapter is to detail the research methodology used by the author to gather and analyse the data. It begins with a justification of the qualitative approach used, and selection of a case study methodology. The specific sampling parameters, i.e. the unit of analysis, population of relevance, and sampling method and size, are then all detailed. The research instruments, and data gathering process, and analytical approach are defined next. The chapter concludes with discussion of the research limitations.

5.2 Research methodology

The research was two staged, with phase one being predominately qualitative, consisting of documentary research. This was supplemented by a second qualitative phase of personal, in-depth, and semi-structured interviews (Welman and Kruger, 2001). The research followed a single, explanatory case study methodology to gain an understanding of the specifics of De Beers' approach to market orientation, and was a longitudinal study over a 10 year period (Yin, 2003; Mason, 2002; Welman and Kruger, 2001). Several different sources of data were used to triangulate corroboration of the findings (Welman and Kruger, 2001).

Qualitative research is typified by the use of documentary sources as well as small samples to inductively and holistically understand events and human experiences

in context-specific situations (Amaratunga, Baldry, Sarshar, and Newton, 2002; de Ruyter and Scholl, 1998). Because it is limited to a small sample size, it attempts to understand particular phenomenon and contextual conditions rather than uncover casual relationships (Yin, 2003). The phenomenon can be described in depth and provide the detail that otherwise would be overlooked if another, quantitative methodology such as a survey was employed.

A qualitative approach was used primarily because this was suggested in the literature as a means of overcoming some of the limitations of a survey-based quantitative approach by gaining deeper understanding of the subject (e.g. Schein, 1996 as quoted in Harris and Ogbunna, 2001). Several authors had indicated that one direction future research should take is in-depth, longitudinal studies of specific companies to understand the practical implications of market orientation and the required detail of behavioural activities (e.g. Harris and Piercy, 1998; Harris and Ogbonna, 2001; Pulendran *et al.*, 2001; Elg, 2003; Shoham *et al.*, 2005). Furthermore, the aim of this research was to understand how and why such decisions are made and implemented rather than purely document the attributes and impact (i.e. the “what” or “how many or much” type of questions; Yin, 2003). One of the limitations of cross sectional analysis is that it shows associations but can only imply causal relationships. For instance, market orientation is anteceded by management behaviours, but such analysis does not determine the direction of this link, and the behaviours may be a consequence and not an antecedent (Harris

and Piercy, 1999). This current study also did not aim either to be predicative using the information gathered (Mason, 2002).

Surveys are largely time dependant, usually investigating the current situation, and so don't trace the evolution of a strategy and how the impact may change over time. The study was wider than the company under investigation as the 'Supplier of Choice' markedly changed the diamond industry and affected the behaviour of De Beers' competitors. A quantitative approach would not be able to cover these aspects as much of this evidence is drawn from industry analysts' reports, press releases, and media articles (Mason, 2002). Another objective of the research was to examine those cultural factors important in success market orientation strategy that are harder to quantify, and were evidenced from semi-structured personal interviews of leading participants in the strategy. A limited amount of quantitative research in the form of financial ratio analysis allowed for data-based findings to be explored.

The advantages of a case study methodology is that it can be used to examine contextual conditions that at the outset are thought to be highly pertinent to the events under study rather than just the outcomes. The investigation "benefits from the prior development of theoretical propositions to guide data collection and analysis" (Yin, 2003, p.14). The method is able to deal with operational links that need to be explored over time rather than frequencies or incidents (Yin, 2003) in answering the question of why such an event occurred. The methodology is

flexible as it deals with multiple sources of data, such as documents, artifacts, interviews, and observations (Mason, 2002), and this allows information to be verified by triangulation. And as the author doesn't have direct control of data generation and hence subject's behaviours as a survey collection would, one form of sampling bias is removed from consideration (Yin, 2003).

The rationale for use of a single case study methodology was made for three reasons (Yin, 2003). Firstly, as the investigation is centered on only one company's highly successful transformation, it satisfies the criteria for being a unique or extreme case. It also is revelatory as it is analysed the diamond industry in South Africa and worldwide, which has not previously been documented. And finally, it fulfills the criteria for a longitudinal study as it examines the company at several different points in time and how certain conditions changed over this period.

5.3 Unit of analysis

There were four types of unit of analysis in this study (Welman and Kruger, 2001). The first unit consists of organisations within De Beers Consolidated Mines, namely the two most relevant business units:

- the Mining and Exploration Division (based in Johannesburg, South Africa,
- Diamond Trading Company (DTC; based in London, U.K.), formally known as the Central Selling Organisation before 2000.

The second unit of analysis was an event, namely the introduction of the “Supplier of Choice” initiative. The third unit of analysis was human products or outputs, comprising internal and external reports from the company as well as media articles and publications relating to the topic over the specified 10 year period. The fourth unit of analysis was individual people, namely four high-level employees of De Beers.

5.4 Population of relevance

The population of relevance was all stakeholders in De Beers’ business, namely its shareholders, employees, clients or “stakeholders”, downstream jewellery manufacturers, competitors such as BHP Billiton, Rio Tinto, and Alrosa, and consumers of luxury goods. Only one company was under review as the research aimed to document specific, quantifiable, and actionable steps to successfully implement a market orientation strategy.

In addition, this study was of relevance to any large company that is facing significant challenges in a marketplace due to the pressures of increased globalisation and competition. And as all levels in organisation are involved in the ensuring the success of this market orientation, it is of importance to employees who affected the various aspects of such a strategy.

5.5 Sampling method and size

The sampling method for the first phase was accidental, in that it depends on the survival and accessibility of documents (Welman and Kruger, 2001). Data was obtained from primary and secondary sources such as Annual Reports, internal company reports and presentations, as well as press releases and industry analysts' reports and media articles. As most of this material is a matter of public record, it was collected either from libraries or the internet. The internal reports were downloaded from the Company's intranet or obtained from the DTC's Sales department (permission was granted to use this material).

Non-probability purposive sampling was used in the second phase of this study as the previous research findings exposed issues that are best studied using a unit of analysis that is regarded as being representative of the relevant population (Welman and Kruger, 2001). As noted before, the qualitative approach's use of a limited sample size means that specific phenomenon and contexts can be examined in detail. These interviews were scheduled after the primary analysis in order to study certain issues raised from this in more depth.

Two of the people selected for interviews were individuals who were instrumental in developing the "Supplier of Choice" initiative, and were also involved in the analysis of the company's historical performance and position within the diamond industry. These individuals were also responsible for implementing areas of the strategy in South Africa and London. Individual A holds a more senior position,

and was leader of one of the groups designing an element of the strategy. Individual B was a member of a different team, and later was promoted to a position of responsibility for certain aspects of the strategy. The third person, Individual C, is a senior Human Resources practitioner who had in-depth knowledge of the more subtle and less well documented changes in the company's culture. The problem with this type of sampling is that the sample may not be representative of the relevant population as the people who interviewed were selected on the basis of their accessibility and availability.

5.6 Research Instruments

The research instrument used in the first phase consists of mass media material, official statistics and archival sources (Welman and Kruger, 2001). The second phase made use of personal visits and communication by telephone during the semi-structured interviews (Welman and Kruger, 2001).

5.7 Data gathering process

Qualitative and limited quantitative data was obtained from a variety of sources within the company and industry, in particular:

1. De Beers specific data :

- De Beers Annual Reports as a point of reference throughout the period under investigation,
- the Company's internet and intranet profiles,

- internal Sales and Marketing reports,
- internal presentations on the Company's strategic direction, and 'Supplier of Choice' initiative,
- press releases detailing De Beers' performance,
- interviews with two key players of the Strategic Review of 1999/2000
- interview with one senior HR practitioner

2. Diamond industry analysts reports :

- "Diamond Briefs" monthly newsletter detailing industry news,
- "Diamond Net" website detailing industry news,
- Diamond Industry Fact Books for each year,
- "Professional Jeweller" documenting industry sales and marketing trends,

3. Media articles from the publications such as the following :

- "Financial Mail", Johannesburg
- "Financial Times", London
- "Mining Journal", London
- "Mining Weekly", London

5.8 Analysis approach

The primary and secondary documentary data from the publications and reports listed above was analysed according to its content to provide qualitative and quantitative data and trends to support the propositions. This data elucidated the reasons precipitating the use of market orientation, the success factors of the

implementation method, how the 'Supplier of Choice' was measured by the company, and what were the consequences of this strategy for De Beers and the industry. Corporate finance ratio analysis using the figures reported in the Income and Balance Sheets of the Annual Reports provided additional quantitative data to track the company's performance before, during, and after the introduction of the 'Supplier of Choice' initiative.

Primary data collected during the interviews was analysed by its content to provide insights into contributing factors, explanations, and logic that are not readily sourced in the written documentation.

5.9 Research Limitations

The most significant limitation of this case study was the fact that only one company within one industry will be considered, and the unique monopolistic position of De Beers (between 50-60% of market share in period under review) must be borne in mind when interpreting and extrapolating the findings. The critical success factors, methodology, and impact of this market orientation may not therefore be representative of feasible practices of implementing market orientation, and thus not be readily applicable to other industries and other companies. The period under review was also limited to 10 years to allow the study to be completed within the time allowed, and the full consequences of the "Supplier of Choice" initiative may have not yet developed. As the study concentrated on the rollout of the strategy, the focus was on certain specific

projects and actions of the implementation and as a result some aspects of the overall programme were not investigated. One significant area not examined was the iterative feedback process on the progress of the initiative.

Every attempt was made in this single case study to minimize the chances of misrepresentation using a variety of data sources, and to maximize the access needed to collect the evidence (Yin, 2003). These were addressed both in the design and execution phases of this investigation.

Using business units of one company is also a major limitation to this study. For this reason, every attempt was made to evaluate the aspects of market orientation throughout the diamond industry pipeline, from exploration and mining through to the end customer. The effect on the overall industry was considered, as well as the impact on competitors.

With regards to the three interviews, the inexperience of the interviewer may have introduced a bias in the process of data collection and interpretation that was taken into account when interpreting the results. For this reason, the responses to the questions asked in the semi-structured interviews have been carefully cross-checked with the other data collected. The participants asked not to be identified, and as certain aspects of the interviews were not to be disclosed, transcripts have not been included to preserve this anonymity and confidentiality.

CHAPTER 6: RESULTS

6.1 Introduction

The purpose of this chapter is to detail the evidence collected that support or oppose the three proposals that were outlined in Chapter 4. The facts are presented by proposal by each subheading, and then the findings are briefly summarized at the end of each section. A conclusion is then made as to whether the evidence supports the proposals or not. The implications of each proposal are discussed in the following chapter.

6.2 Proposition 1

This states “a combination of the three factors (increased competition, market and environmental turbulence, and technological turbulence) precipitated De Beers drive to improve company performance using market orientation”.

6.2.1 Increased competition

As mentioned in Chapter 3, the success of the diamond business in the 1980's and 1990's attracted an increasing number of producers and new sources of diamonds. This resulted in an increasing excess of supply, leading to commoditisation of diamonds and declining margins for all players (Kilalea, 1999; Northwest Territories, 2000). Diamond production had nearly trebled since 1980 to over 110 million carats by the end of 1999, with about 14% of this increase occurring in the years after 1995 (Kilalea, 1999). This is illustrated in Figure 6.1.

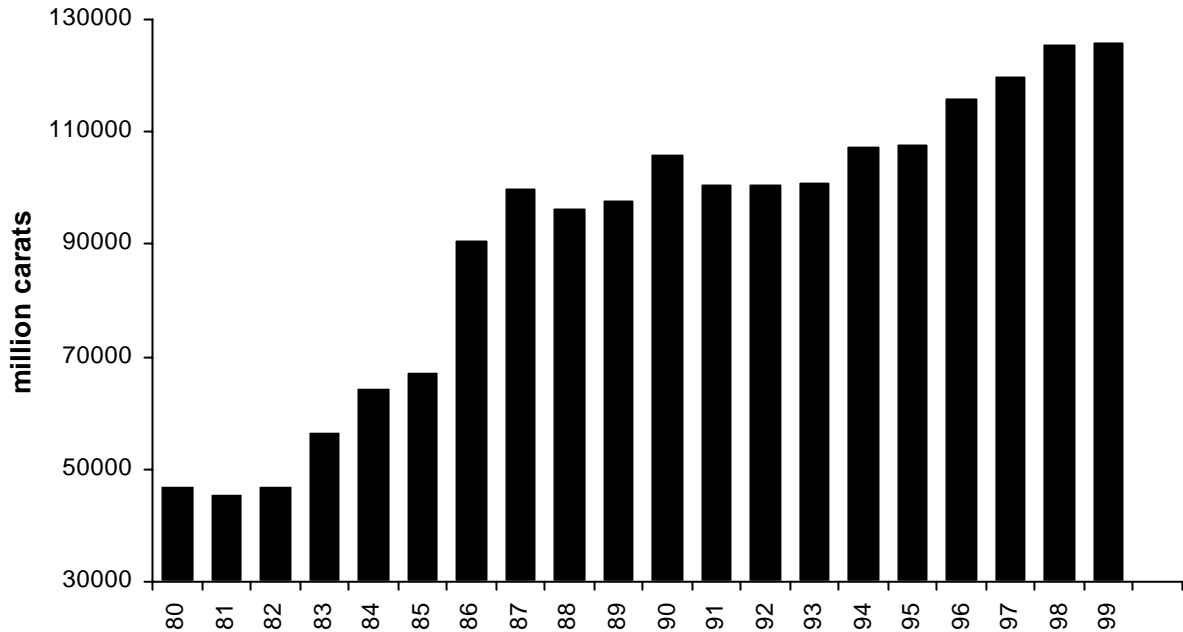


Figure 6.1: Rough diamond production by year (Kilalea, 1999)

The major sources of new production were Angola, Russia, and Canada. In Angola, a cease-fire in the long running civil war allowed UNITA to sell diamonds from the Cuango valley between 1995 and 1997, increasing production to \$600m by 1999 (Gilbert, 2000; Northwest Territories, 2000). Although De Beers had an exclusive sales agreement with Alrosa, the Russian state producer, the political situation in that country was allowed the local industry to become unregulated, and rough diamonds were appearing on the open market in increasing quantities (Kilalea, 1999; Northwest Territories, 2000). The first Canadian mine, Ekati, came into production in October 1998, increasing diamond supply by an estimated 3 to five million carats per annum (Northwest Territories, 2000). De Beers was forced to impose production quotas on its own mines as supply was exceeding demand (De Beers Annual Report, 1998, 1999). In 1999, the CSO's "intake" would have

been US\$5.1bn if quotas were not in place, and sales were only US\$4.8 (Kilalea, 1999).

This period also saw an increasing percentage of rough diamonds sold outside of traditional channels of distribution and hence the CSO's control (Northwest Territories, 2000). The supply-control model was seriously weakened by Ashton (then operator of Argyle) who terminated the sales contract with the CSO in 1996 and provided its production direct to cutters in India (Kretschmer, 1998). The irony was that the CSO was doing such a good job of protecting the diamond business that it was attracting increasing numbers of entrants, but De Beers' inflexibility and often ruthless tactics were driving these producers away from the cartel structure (Kretschmer, 1998). Alrosa and Miba Mine in the Democratic Republic of the Congo (DRC) were to follow suit (Northwest Territories, 2000).

6.2.2 Market and environmental turbulence in the late 1990's

Several different external factors negatively impacted on De Beers' performance and position in the diamond marketplace in the late 1990's. The first of these has been discussed already, the increasing oversupply of diamonds from sources not under De Beers' control. The primary effect of this was that De Beers' market share had fallen from 80% to 60% by 1999 (Financial Mail, 2002). This meant that De Beers role of the industry's "custodian" inappropriate and expensive. This policy worked when De Beers controlled in excess of 80% of the market, but if, as one senior London-based executive who was interviewed noted, other producers' policy

is “mine it and flog it” then the CSO becomes the “supplier of last resort”. You then only buy from the CSO what you need to make up your manufacturing needs. This situation was perversely underpinned by the CSO’s policy of not having a client depending too much on CSO supply.

This supply excess also produced a drop in the price of rough diamonds, which is illustrated in Figure 6.1 (Kleingeld *et al.*, 2001). This shows the overall level of price changes applied to the CSO rough diamond price book in real terms after correction for inflation by being deflated by the US Consumer Price Index (Kleingeld *et al.*, 2001). Diamond prices rose as the global economy and consumer demand expanded in the latter part of the 1980’s, plateaued at the end of that decade, and then started dropping in 1990 and steadily decreased throughout the decade.

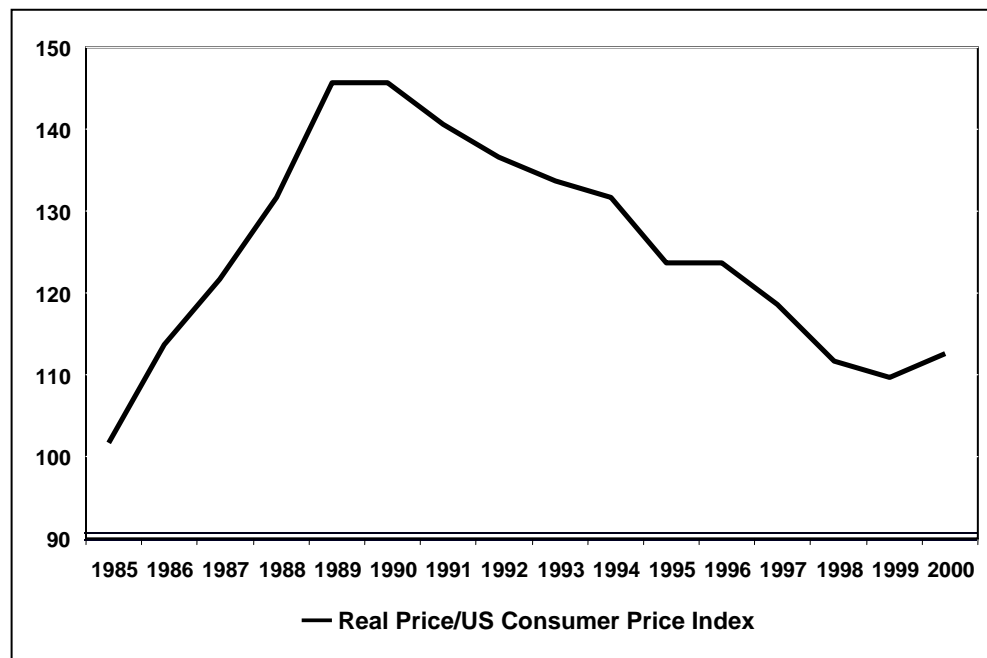


Figure 6.2: CSO Price Index from 1985-2000, Real measured against US Consumer Price Index (Kleingeld *et al.*, 2001)

To manage this problem, the CSO absorbed this amount by buying up excess production, but in doing so, the CSO diamond stockpile grew from US\$2.5bn in 1990 to over \$5bn in 1998 (De Beers Annual Report 1999). Up to another \$1bn was held in producer stockpiles (De Beers Annual Report 1999). As a senior executive in London stated, investors saw this inventory as an impediment and not an asset as too much capital was employed. This translated into falling returns over the 90's, and De Beers's shares trading at a 35% discount to its intrinsic worth in 1999 (Kilalea, 1999; Kleingeld *et al.*, 2001). The share price decreased from \$US35 in 1997 to US\$15 in 1999. (Kilalea, 1999; Kleingeld *et al.*, 2001). The offset of the growth in the CSO stockpile (bars on graph) and diamond Return on Equity (ROE: line on graph) is illustrated Figure 6.2, with the period after 1992 showing the largest congruity. The diamond ROE is calculated as the cost of acquiring rough stones relative to their eventual selling price, and calculated by the CSO.

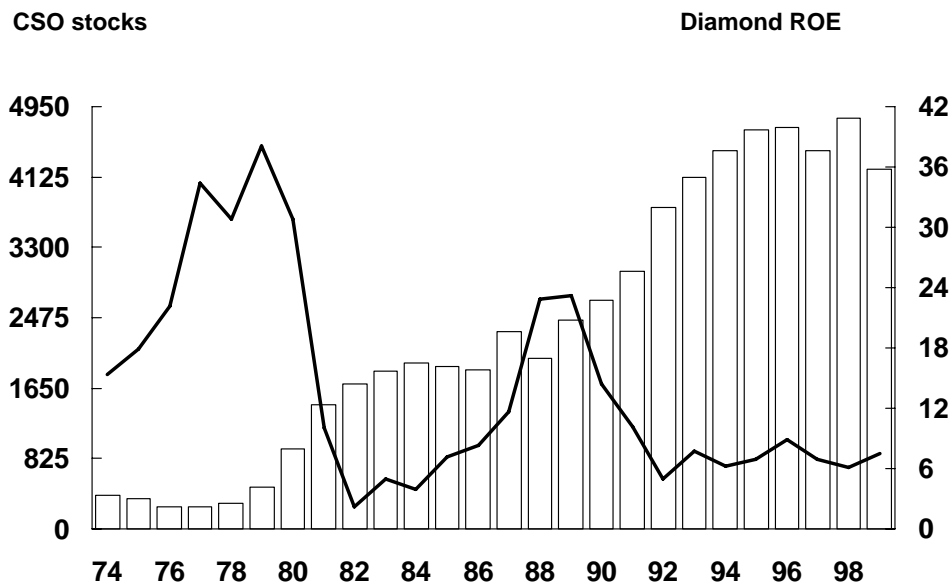


Figure 6.3: Growth of the CSO stockpile and decrease of the Diamond Return on Equity from 1974-1999 (Kilalea, 1999)

To add to this situation, the Asian financial crisis (1997-98) drastically eroded the markets that De Beers had developed over the previous decade. The company had enjoyed spectacular growth in sales from 1982 to the 1990, increasing from \$1,3bn to nearly \$4bn (Kilalea, 1999; Kleingeld *et al.*, 2001). This was primarily due to Japanese market with the benefits of a strong yen to the US dollar, economic growth, and CSO advertising produced strong diamond jewellery demand (Kilalea, 1999; Kleingeld *et al.*, 2001). But with the economic downturn, the Japanese market share fell from 33% in 1996 to 20% in 1998 (De Beers Annual Report, 1998). The CSO immediately cutback its sales by 28% to allow a “de-stocking” of the diamond pipeline, which resulted in a drop in headline earnings in 1998 by 40% (De Beers Annual Report, 1998).

In 1998, the issue of conflict diamonds emerged as serious threat to the image of the diamond industry as a whole. Conflict or “blood” diamonds are either rough diamonds that are mined, or stolen, by rebels in opposition to the internationally recognised government of a country, or rough diamonds whose trade is prohibited by the United Nations Security Council (UN resolutions 1173, 1176, 1306, 1343) because that trade is fuelling conflict (affected areas included Angola, the DRC, and Sierra Leone). Though only 2.5% to 3% of world production at that time could be classed as such, the increasing awareness of these diamonds that were used to fuel civil wars in Africa was potentially catastrophic for the delicate image of diamonds - the symbol of love and purity (Gilbert, 2001). To counteract allegations that De Beers was allowing this trade to continue by buying diamonds from those

areas, the company ceased to purchase any Angolan diamonds on the open market in October 1999. By December 1999, De Beers had closed down all of its open market buying offices world-wide, and now the DTC only buys diamonds from known mines with a legal contract, along with own mines (De Beers Annual Report, 1999). In March 2000 De Beers began providing guarantees with its Sight boxes that the diamonds were conflict free, and initiated formulation of the Best Practice Principles to further address consumer confidence in the source of its diamonds (Gilbert, 2001). The closing of buying offices worldwide is significant as this weakened De Beers' supply-control model as it could no longer buy up excess production to stabilise prices.

Another problem that tarnished De Beers' image was the allegations that the CSO was supplying diamonds to cutters in India that employed child labour (International Labour Organisation, 1998; Roberts, 2003). When investigated by the International Labour Organisation, De Beers stated that the prevalence of child labour in the Indian diamond cutting industry was slightly over 3% (roughly 24,000 children), and were mainly employed in the traditional rather than modern sector of the industry (International Labour Organisation, 1998). The issue was important enough for the company to have been questioned in South African parliamentary hearings (International Labour Organisation, 1998). The CSO was able to show that the diamonds it supplied were not being sold to cutters who employed underage workers (De Beers Annual Report, 1998). Questions about labour practices which require supporting documentation now form part of the Best

Practice Principles assessment programme for upstream and downstream suppliers and partners of De Beers (I. Watson, Group Exploration Best Practice Principles Compliance Officer, *pers. comm.*, 30/06/2006; De Beers Annual Report, 2005).

In 1994, De Beers' affiliate Diamant Boart and General Electric Company were charged by the US Justice Department with charges that in 1991 and 1992 they conspired to fix the prices of some classes of industrial diamonds (Dombey and Reed, 2004; Mining Journal, 2004). The result of this was that De Beers could not trade in the U.S., and was forced to sell its diamonds in the US using intermediaries, thus losing some portion of control over its largest market (Mining Journal, 2004). These charges also negatively affected the company's image especially as De Beers had previously been charged with anti-trust violations in 1945 (Mining Journal, 2004; Dombey and Reed, 2004).

6.2.3 Technological turbulence

By the late 1990's, the technology had improved to the point where it was possible to economically produce gem quality diamonds in a laboratory. Synthetic diamonds have been manufactured by General Electric and De Beers since the 1950's, but these have been industrial grade (Davies, 2003). Only recently has De Beers grown gem quality stones (Creamer, 2004). Two firms in the US were posed to begin marketing their goods, Gemesis who manufacture gem quality yellow diamonds, and Apollo Diamond Incorporated who can produce gem quality

white diamonds for 30-35% less than a natural diamond of the same quality (Webb Pressler, 2004). Martin Rapaport, a respected diamond industry analyst, has speculated that the natural diamond prices may collapse to the level of man-made diamonds (Davis, 2003). Synthetic diamonds were also conflict and child labour free, and environmentally friendly as they are produced in a laboratory rather than by mining (Davies, 2003). De Beers' challenge was to firmly establish in the customer's mind that only a natural stones embody the romantic image for which people buy diamonds, and to see the cheaper synthetics as completely separate products (Muller, 2004b). "Natural diamonds are the "real thing", differentiated by two millennia of human sentiment that attributed commitment, purity, and eternity to the stones" (Gary Ralfe as quoted in Creamer, 2004). If however synthetics are positioned as a differentiated product category, the interest they generate may benefit the natural diamond industry as they inspire demand for natural diamonds (Rapaport, 2003).

In 1996, De Beers' Gem Defense Unit began to develop instruments that could detect synthetics, and has since produced two devices, DiamondSure and DiamondView (De Beers Annual Report, 2004). DiamondSure shines light through a stone and analyses its refractory characteristics. A suspicious stone is then analysed with DiamondView, which uses ultraviolet light to determine the crystals internal structure (Davies, 2003). De Beers has provided these to many of the world's diamond grading labs so that they are in a position to detect stones that are being passed off as natural diamonds (Creamer, 2004). Disclosure and detection

of synthetics also forms are part of the Best Practice Principles programme (De Beers, 2006).

6.2.4 Summary

The marketplace in the late 1990's was becoming increasingly competitive and turbulent with the entry of new players to the industry, and with issues of image around conflict diamonds and child labour. De Beers' performance was being negatively impacted by the changes caused by the increased supply of diamonds, as well as the Asian financial crisis. Its once dominant position had been eroded significantly, and its historic supply-control business model was under threat. Synthetic diamonds were a potential threat to the whole natural diamond industry as improvements in technology enabled these to be produced at a fraction of the cost.

The evidence presented here supports the proposition that a combination of competitive intensity, marketplace turbulence, and technological turbulence produced an unfavourable business environment which pre-empted De Beers' change to a market orientation strategy.

6.3 Proposition 2

This states “De Beers’ market orientation strategy was rolled out in a sequence of steps by focusing on:

- communicating top management’s vision,
- improving interdepartmental effectiveness,
- and development of a market-based reward system”.

Most of the information in the next three subsections was gathered from the three semi-structured interviews with the three senior De Beers employees unless otherwise stated or referenced.

6.3.1 Communicating top management’s vision

From the outset, ‘Supplier of Choice’ involved all aspects of the business in developing the vision. The 1998-99 Strategic Review, undertaken by the executive management in conjunction with Bain and Company, recognized that as the market conditions had changed markedly, a new strategic direction was needed and the ‘Supplier of Choice’ was developed (Bingham, 2005). Interestingly, none of the people interviewed were familiar with the theory of market orientation, it had not been used to underpin the strategy, and has never been referred to as such. The composition of the teams that designed this initiative represented all business units of the company. The strategy formulation was sponsored by Gary Ralfe, the Managing Director, and managed by Gareth Penny, the Marketing Director. Individual A stated that Ralfe drove the process along and assisted in getting

senior management to buy-in, whereas Penny was the “ideas” man. The various teams are shown below in the schematic diagram below (Fig.6.4) that illustrates the key areas of responsibility and the key players (Penny, 1999).

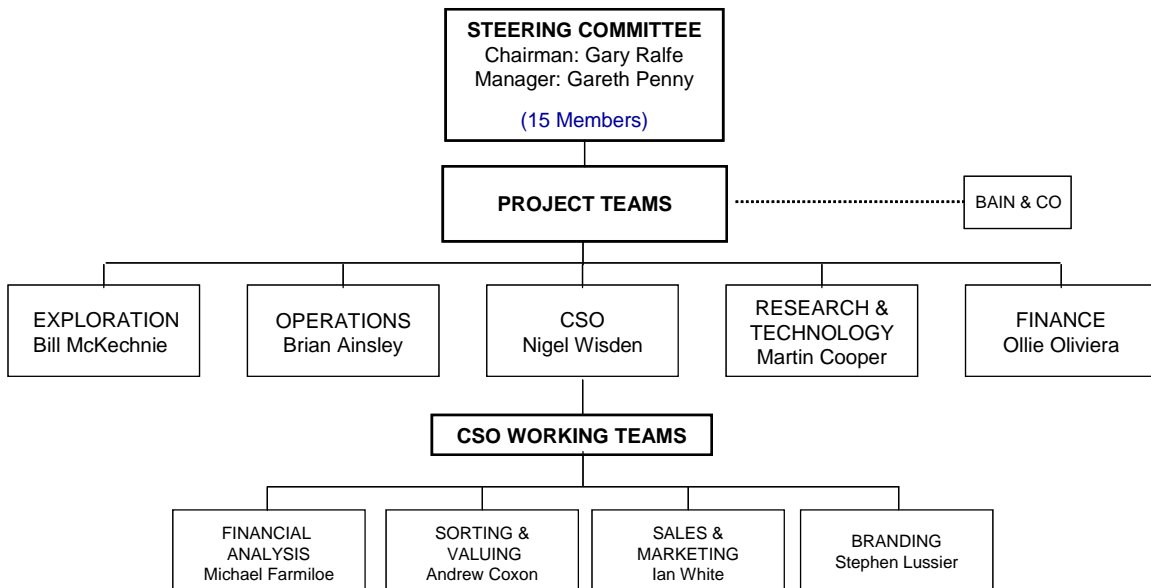


Figure 6.4 ‘Supplier of Choice’ development team (Penny, 1999)

The teams were all assisted by Bain, with the split between consultants and staff being one quarter to three quarters. Individual A pointed out that this ensured that the programme was seen as an in-house initiative rather than a project fostered on the company by external consultants. Similarly, the implementation aspect was lead and undertaken by De Beers staff, with Bain as advisors and mentors. This increased the buy-in from employees, and also ensured that there was some accountability. In other words, the team that developed the proposal had ownership of the successes and failures rather than the consultants.

Once the core vision of ‘Supplier of Choice’ had been formulated, specific focus areas were defined and projects commenced in 2000 to support the overall programme. Examples of these specialized projects were the redesign of the Allocations system of goods that were offered to sightholders; scoping of downstream partnerships such as the JV with LVMH; development of the Supply/Demand model to predict future growth; and forecasting and “footprinting” the mine production to characterise what diamonds came from which mines and adapting production to demand (Kleingeld *et al.*, 2001). Two of the interviewees recalled the overall vision of the market orientation strategy was clear as each project’s outcome was defined in the total scheme, and the inter-relationships with other projects was also detailed. Thinking “outside of the box” was encouraged, as was risk taking and “rewarding the rebel” as Individual B recalled. Updates were often made to more than one team, and results often distributed widely within the working groups. The teams were highly motivated, with Individual A suggesting it was because the members were all senior staff who were keen to make a difference, as well as a good impression on the new management.

To assist with rolling out and implementing the aims of the ‘Supplier of Choice’ two approaches were followed. The first was an extensive information and education campaign that was initiated in 2001, informing employees about the aims of the initiative. This consisted of a formal launch at the DTC, publicity material being circulated, presentations being made to staff, and reading material being posted on the intranet and internet (De Beers, 2006). The only drawback to the web hosted

information, recalls Individual C, is that staff often did not have the time to browse through the material so it was not reaching its target audience. A “Village of Learning” was roadshowed to all operations in 2002 to showcase corporate projects and initiatives and inform and involve managers and staff (Gatherer, Sheldon, Crawford, Steadman, and Grobler, 2003). Internal press coverage began in 2001 with articles and updates being featured in the in-house newsletter/papers such as “Facets”, “Brilliant News” and “Geoexpress”. As significant events and milestones occurred, personalized emails were sent to all staff by Nicky Oppenheimer or Gary Ralfe. This had an initial positive impact on employee motivation, stated Individual C, as many people were impressed to receive an email from the Chairman or Managing Director.

Individual C who worked both in London and Southern Africa noted however that the “buzz” and publicity about ‘Supplier of Choice’ was greater at the DTC than in Southern Africa, and was surprised that many of the advertisements and marketing material that De Beers developed was not shown in the divisions outside London. This could have been a powerful motivational tool, linking people in the Operations with the downstream product. This person’s view was that the hype around ‘Supplier of Choice’ generated pride for the DTC employee about working for the company which was absent elsewhere.

The second approach was to formalise the process by embedding it in company practices and procedures. The concept of the ‘Troika of Excellence’ was

developed in 2000 and 2001 (De Beers Annual Report, 2000; De Beers Annual Report, 2001). This supports the 'Supplier of Choice' as De Beers aims to attract and maintain the best talent ('Employer of Choice') and be the most cost effective and efficient diamond producer ('Miner of Choice'; De Beers, 2006). Similar reviews of the Operations and Human Resources side of the company were carried out in 2000 and 2001, and initiatives planned to revitalize the company to support the aims of the 'Supplier of Choice'. Senior management realised that leadership skills were necessary to change the culture of the organisation, and to guide the company through the emerging global challenges to success. The "Stargate" programme was developed in 2001 "to support the achievement of De Beers strategic objectives....through creating opportunities for capacity and competence development resulting in transformational leadership" (Gatherer *et al.*, 2003; p.1). The underlying concept was that the "right kind of leader creates the right kind of culture (mobilising, enabling, and inspiring) and these two factors working together drive high performance" (Gatherer *et al.*, 2003; p.4). The programme was rolled out globally, and consisted of a series of workshops and self examination through gap analysis, internet-based personality assessments, and 360 degree competency assessments with individual feedback from outsourced psychologists. The aim was to allow each participant to embark on a personal journey of self-discovery and mastery, focusing on determining their own knowledge gaps, talents and developmental areas.

Each of the business units developed its own unique vision and mission statements to support the overall vision of the 'Supplier of Choice'. These often did not refer to the strategy, recalls all interviewees, but encapsulated the essence of market orientation as they emphasised the creation of customer value, the monitoring of customer needs (including internal customers), and effective knowledge sharing. However, Individual C noted that the problem with developing individual mission statements is that it diluted the overall vision for 'Supplier of Choice', and caused some confusion as it appeared that each business unit was solely concentrating on its aims.

Balanced Scorecards were developed for each division and for the company as a whole. These were introduced in 2001 remembers Individual C. These were drilled down into departmental and site specific levels, with the Key Result Areas (KRA) of each quadrant initially encompassing the strategic aims of 'Supplier of Choice'. As these were cascaded down the organization, the vision of this market orientation strategy was in theory aligned throughout the organisation. "These scorecards provide a shared understanding of what is needed to add value to the company's strategy and also how each individual can play a part in achieving the strategic initiatives " (Gatherer *et al.*, 2003; p.12). In practice however, this was often diluted and modified to suit each business units' circumstances. Both individual A and C said that those divisions more removed from the DTC in the pipeline often developed Scorecards that bore little resemblance to the aims of the 'Supplier of Choice'.

The strategy was further personalised with the drafting of individuals' Key Performance Indicators (KPI's) directly in alignment with the KRA's of the Balanced Scorecard. Again, this worked well in the DTC and divisions closely associated with it, and less well in the business units that were removed from the immediate outcomes of the 'Supplier of Choice'. Individual C also said that in the Operations, 'Supplier of Choice' was never explained in a way that you could see what impact you personally were having on the overall goals, so it is clear that these KPI's may not have been effective in supporting the market orientation initiative.

All the individuals interviews also commented on the role that managers played in implementing these measures. The rollout was successful when the managers were open to new ideas and practices, and allowed subordinates a degree of freedom in developing and adapting the initiative to their circumstances. In contrast, it was ineffectual when managers paid lip service to the changes, or simply enforced the new business rules without engaging in dialogue with their departments. Gary Ralfe observed that "the hardest thing in bringing about these changes in De Beers was getting my senior colleagues to take ownership of the strategic shift towards a much more market and customer focus in the company" (Gary Ralfe, Managing Director of DCCM, as quoted in Leadership Magazine, 2002). Other behaviours that inhibited the process were the "silo" mentality, the limited spread of knowledge (i.e. on a "need to know" basis), and cynicism about the overall programme.

By far the most problematic internal issue in communicating top management's vision is maintaining the sense of urgency and momentum throughout the company. In the "silo" mentality of De Beers characterised by poor internal interaction, the further from the market your job, the worse the understanding was of the need for change. Individual A actually stated "it is difficult to communicate the strategy when 90% of the organisation doesn't even know what a shareholder does!" This makes implementation very difficult, because although the strategy is focused outwards, many of the changes needed to make it work have to be done internally. Individual A went further to say that "the problem with communication and implementation has therefore been one of persuading someone to change or scrap the existing system because someone in London has imposed a strategy that hasn't been communicated effectively".

6.3.2 Improving interdepartmental effectiveness

All three people interviewed agreed that De Beers historically had a 'silo mentality' where departments and divisions operated independently of each other and were not encouraged to communicate freely. Secrecy and transfer of knowledge on a 'need to know' basis was the norm. The limited interactions and understanding of processes within the pipeline from mine to sales meant, as Individual C put it, "that people selling diamonds in London that were still in the ground". Ineffectual communication between the CSO's Sales and Marketing departments resulted in marketing initiatives that were not specifically aligned with the Sales Department's aims of moving areas of high stock. Individual B stated that little effort was going

into generating downstream demand for high-stocked goods. The campaigns instead often promoted sales of low-stocked diamonds, generating a demand that couldn't be fulfilled, as in the case of the eternity rings outlined previously in Chapter 3. This was exacerbated by a lack of detailed understanding of what type of polished stone was generated by what type of rough stone notes Individual B. This is problematic as the CSO was essentially selling goods with assumed potential.

One of the aims of the 'Supplier of Choice' is to increase pipeline efficiencies, and within the company this means improving internal communications and interdepartmental interactions. "It is a matter of getting the right diamonds into the right hands at the right price" (Penny and Lussier, 2000; p.42). To achieve this goal, one key change was amalgamating the Sales and Marketing departments in 2000 (De Beers Annual report, 2001). The Sales department allocated rough diamonds to sightholders, and the Marketing department was responsible for all downstream marketing activities. The CSO historically has advertised diamonds generically, namely developing material that promoted the desirability of all diamond jewellery to encourage purchase of such and not just De Beers diamonds.

The new department's aim is to achieve one of the stated objectives of the 'Supplier of Choice' and drive demand for diamonds to 2% higher than global GDP growth (De Beers Annual Report, 2001). It is instrumental in creating competitive advantages for DTC's diamonds, and is responsible for assisting its downstream

partners to create marketing opportunities that correspond more closely to customer needs (Wisden, 2000). The value-added support services that the DTC offers including account management, an extranet for clients, training and e-learning, marketing support, and access to market research (Zhuwakinyu, 2003). The Planning and Research department was formed from the merging of the Research and Information department and part of the Marketing department. Its function is to deliver enhanced forecasting and drive the planning behind the DTC's generic marketing initiatives as well as those marketing initiatives entered into jointly with clients (De Beers Annual Report, 2001). The department has also developed information systems to gather, analyse and distribute all market information and data to ensure that the sales and marketing teams to maximize their effectiveness (De Beers, 2006).

The other key change to achieve interdepartmental effectiveness was the development of an integrated stock and pipeline reporting system (Kleingeld *et al.*, 2001). This was initiated in 2000 and is constantly updated. This meant that current and predicted availabilities are reported as close to "real time" as possible (De Beers, 2006). This has been coupled with substantial changes to the forecasting system to predict more accurately expected availabilities (Kleingeld *et al.*, 2001). This reduces the "turnaround time", namely the time to market of the diamonds. The DTC has also improved communications with the mines so that changes to production (volume, grade and "footprint" or types of diamond mined in a given area) are communicated up the pipeline as quickly and as accurately as

possible. This Integrated Stock Management System (ISMS) reinforces transparency and auditability of all the goods in De Beers pipeline for the benefit of outside auditors, governments, the UN and other parties interested in the conflict diamond issue (Muller, 2004a). Individual A summed it up “Supplier of Choice has impacted, in information terms at least, on every aspect of the business”.

6.3.3 *Market based reward system*

The system of managing employee performance was completely revised in 2000 after the Strategic Review and with the formulation of ‘Supplier of Choice’. Performance management in the company has evolved from a once-off performance appraisals approach to one of strategic, integrated people development with a focus on continuous improvement (De Beers, 2006). “The mandate of the performance management process is to drive strategic intent, design systems and structures that activate our strategies and, in the process, add value to them” (Gatherer *et al.*, 2003; p.12). Remuneration and reward is closely tied to performance and pay at senior levels, and is used to motivate managers to focus their behaviour on new strategies encapsulated in the ‘Supplier of Choice’ and reward actions that favour market orientation (Gatherer *et al.*, 2003). The KPI’s are designed to empower and motivate the individual employee to achieve the overall goals of the company. The process is a dynamic one requiring constant renewal to keep alignment with the change in strategic priorities and routine deliverables (Gatherer *et al.*, 2003). The company is also encouraging

intrapreneurship and creativity by aligning wealth with value creation and rewarding high performers with significant bonuses (De Beers, 2006).

The interviewees, however, noted that many senior policy makers are using efficiency and effectiveness arguments linked to KPI's to gain commitment rather than try to explain the overall high-level strategy of 'Supplier of Choice'. Individual C said that 'Supplier of Choice' was never explained in a way that we could see what impact that we could have on it". They also stated that the market-based reward systems that were in place were actually based on talent retention, remunerating people well to keep them, rather than appropriately rewarding people for market oriented behaviours.

6.3.4 Summary

Communicating the vision of 'Supplier of Choice' throughout De Beers was executed in a variety of ways. The initial design of the initiative involved all division of the company, and the message was communicated through a variety of events and internal media. The vision was then operationalised by developing similar programmes in the 'Troika of Excellence' and by incorporating it into divisional and performance management procedures. Interdepartmental effectiveness was recognized as a key component of implementing the initiative, and efficiencies were improved significantly by merging the Sales and Marketing departments, and also by designing an information management system linking the mine's production

with sales. Market-based reward systems were developed out of the objectives of the 'Supplier of Choice'.

The evidence presented here shows that De Beers' market orientation strategy supports the proposition that this was rolled out in a sequence of steps, but that these were not comprehensively implemented across the board. The key components of the implementation were found to be focused on communicating top management's vision throughout the firm, on improving interdepartmental effectiveness in key areas, and developing a market-based reward system. The opinions collected from the individuals however suggest that some of these activities were less effective than others, especially in divisions that were removed from the end stage customer. This contradicts the notion of market orientation which is defined as a company-wide strategy. Another important finding is that at no stage did De Beers define this initiative as market orientation, and in fact designed the programme without being aware of the theoretical basis for this type of strategy.

6.4 Proposition 3

This states that “success of the market orientation strategy was shown by:

- De Beers’ improved organisational performance, including accomplishment of the aims outlined for the ‘Supplier of Choice’,
- the proliferation of diamond jewellery product and brand innovations,
- enhanced consumers’ perception of the De Beers brand,
- increased ‘esprit de corps’ within the company.

6.4.1 Organisational performance

De Beers’ improved financial performance can be highlighted using four indicators that the company commonly uses to measure its operations (e.g. De Beers Annual Report, 2005). The DTC’s rough diamond sales and De Beers’ operating cash flow are revenue-based measures of performance, whereas headline earnings and return on capital employed are cost-based measures derived from profit figures. The change in each of these indicators is given in the figures below for the period from 2001 when the majority of the projects under ‘Supplier of Choice’ had been launched.

In the period from 2001 to 2005, the DTC’s rough diamond sales increased by 40%. The year-on-year increases are illustrated below in Figure 6.5, with the average increase in sales volume being 8%. Sales increased by 15.7% and 15% respectively in 2002 and 2005. These results mean that one of the stated aims of the ‘Supplier of Choice, to grow rough sales by 10-30%, is beginning to be realised.

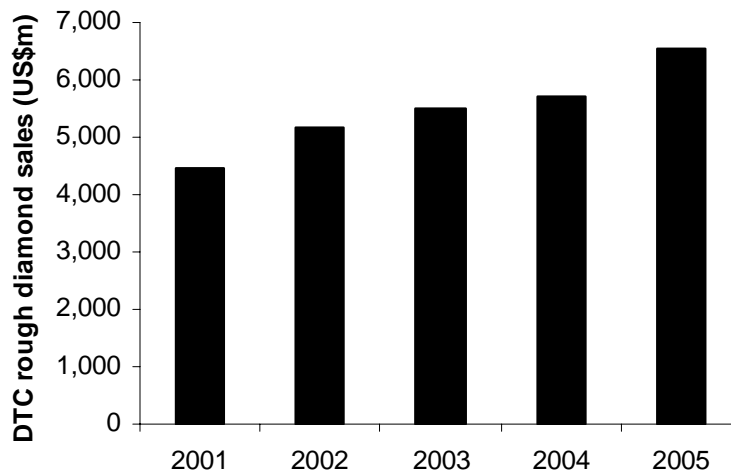


Figure 6.5 DTC rough diamond sales for the period 2001-2005
(De Beers Annual Reports, 2001-2005)

De Beers operating cash flow (Figure 6.6) increased markedly in 2002 and 2003 with the stockpile release of 1 billion and 700 million carats respectively. This freed up US\$450m in working capital (Ryan, 2004). This strong cash flow enabled De Beers to repay in two years much of the US\$3.5 billion loan resulting from the privatisation of the company (McKay, 2005). The results for 2005 are acknowledged to be lower than expected due to increased working capital requirements and the Kimberley mines closure costs (De Beers Annual Report, 2005).

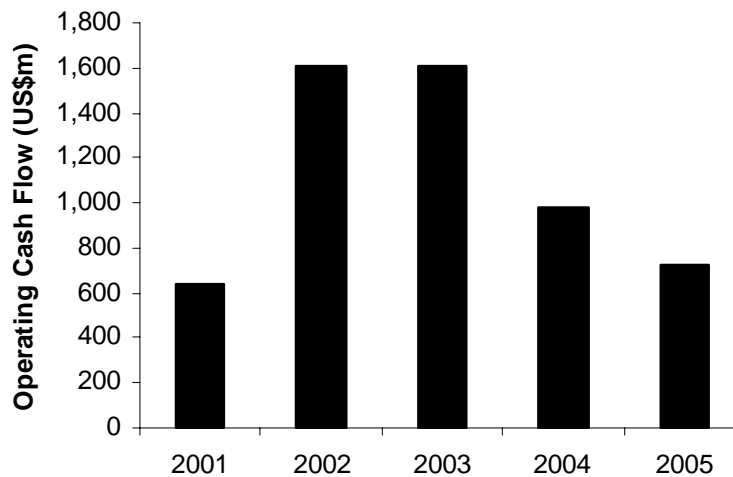


Figure 6.6 De Beers operating cash flow for the period 2001-2005
(De Beers Annual Reports, 2001-2005)

Headline earnings (Fig.6.7) show a steady 10-15% increase for the years between 2001 and 2004, with a marked rise of 26% for 2005. Return on capital employed, steady in the last two years. The aim is to increase this to 20% by 2009 (Creamer, illustrated in Figure 6.8, increased to around 14% in 2003 and has remained 2005).

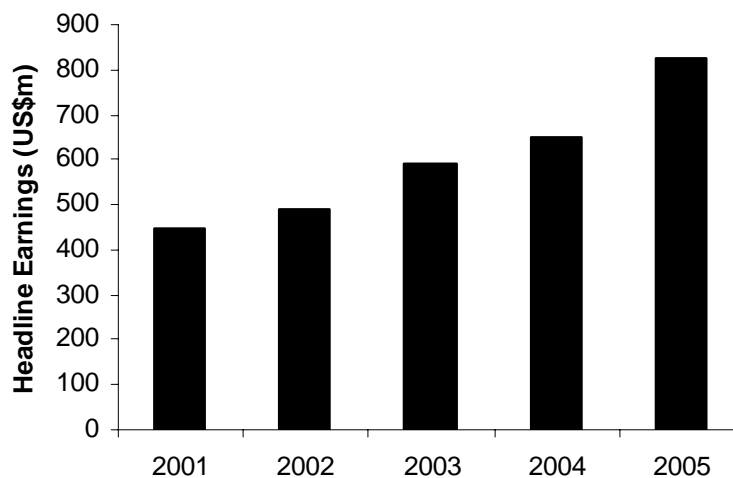


Figure 6.7 De Beers headline earnings for the period 2001-2005
(De Beers Annual Reports, 2001-2005)

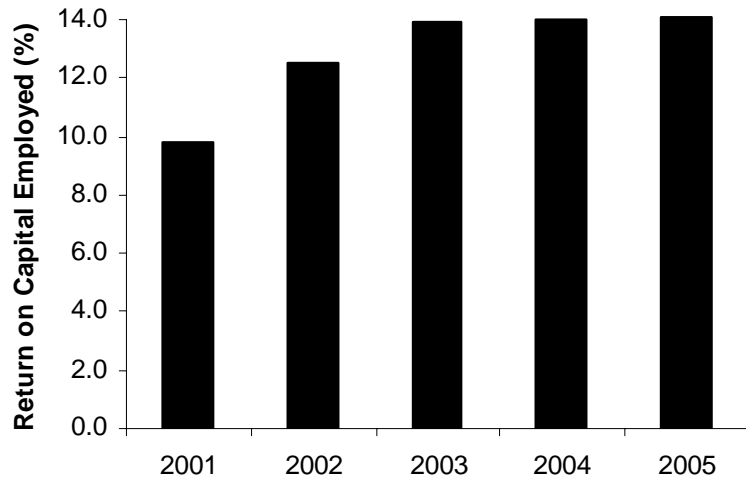


Figure 6.8 Return on capital employed for the period 2001-2005
(De Beers Annual Reports, 2001-2005)

The growth in consumer demand resulted in the DTC raising rough diamond prices three times in 2003 for a cumulative total increase of 10% (De Beers Annual Report, 2003). In 2004, prices were also raised three times to produce a 14% increase, and in 2005 two hikes resulted in prices being 9.5% higher at year end (De Beers Annual Report, 2004; De Beers Annual Report, 2005).

Global diamond jewellery sales were increased by 3.6% in 2001, by 4% in 2002, a further 7% in 2003, then 8.7% in 2004, and finally 6% in this last year (Northwest Territories Canada, 2001; Northwest Territories Canada, 2002; Northwest Territories Canada, 2003; Northwest Territories Canada, 2004; Northwest Territories Canada, 2005). This means that retail sales have met or exceeded

global GDP growth four times in the last five years (De Beers Annual Report, 2005). The 'Supplier of Choice' has met another of its stated aim of increasing diamond jewellery sales by 2% above annual GDP growth.

The last financial aim, to encourage industry to invest US\$200 million in advertising by 2004, has also been met. In 2001, the trade spent US\$48 million on advertising, whereas the DTC invested US\$180 million (De Beers Annual Report, 2001). In the next year, spending by third parties outside De Beers had increased to US\$177 million, nearly matching the DTC's spending of another US\$180 million (De Beers Annual Report, 2002). In 2003, industry's investment in advertising had grown to US\$272 million, in contrast to the DTC's remaining constant at US\$180 million (De Beers Annual Report, 2003). Spending by the trade decreased slightly to US\$270 million in 2004, and remained at around the same level in 2005 (De Beers Annual Report, 2004; De Beers Annual report, 2005). The DTC's investment had remained US\$180 million (De Beers Annual Report, 2005).

The last measure set for the 'Supplier of Choice', to increase diamond jewellery brands and new innovations in design, is dealt with in the next section.

6.4.2 Diamond jewellery product and brand innovations

Through its use of advertising (discussed in Chapter 3), De Beers found that consumers reacted very favourably to new ideas and trends in diamond jewellery, such as engagement and eternity rings (Epstein, 1982). In order to stimulate

demand for diamond jewellery, the DTC developed new concepts for traditional pieces such as the millennium diamonds, right-hand ring, and trilogy ring (Jeweller's Circular Keystone Magazine, 2006). 'Supplier of Choice' also encouraged the development of brand names for jewellery as they "create excitement and bring new consumers to the market" (Zhuwakinyu, 2003: p.2). This strategy included the development of two branded identities for the De Beers name.

The millennium branding concept comprised the limited release diamonds that had been were inscribed with "De Beers" and a name of a star (De Beers Annual Report, 2001). The "right-hand ring" was developed in 2000 and targets single women who are buying significant pieces of jewellery for themselves rather than waiting for a man to buy it for them (Associated Financial Press, 2004). The advertising slogan captures this sentiment as "your left hand says 'we', you right hand says 'me'" (Lau, 2004). This segment of the market accounted for an estimated 48% of volume and 40% of value of diamonds sole in 2003 in Britain (Associated Financial Press, 2004).

De Beers developed and launched the "trilogy" ring in 2000, consisting of three diamonds set in a band to represent the past, present, and future. In the US, this targeted the mature married couples in the same way the eternity ring had so successfully with the idea of maturing love. In the US alone, the "trilogy" ring has generated sales of more than US\$1.5bn in 2000-2002 with an advertising outlay of

US\$50m (Muller, 2002). By 2004, sales of this ring had grown 35% to account for retail sales of over US\$3 billion (Northwest Territories Canada, 2004). In Japan, to be successful, it needed a different focus, targeting the older women who bought it themselves as an expression of self-affirmation in generation that only now is expressing themselves (Terazono, 2004). In Japan, sales accounted for 13% of the Japanese market (Northwest Territories Canada, 2004).

Elsewhere in Asia, markets have shown strong sales with buying focused around major festivals. In China and Taiwan, diamond jewellery sales outperformed platinum and gold because of the retailers' concept of Valentine's Day "Love Gifting" diamond "messages" successfully drove up total sales for the 2004 Chinese New Year season (I-Net Bridge, 2004). Diamonds are the most popular jewellery item in China due to aggressive marketing campaigns carried out by the DTC and independent retailers, growing disposable incomes, and innovative products such as diamond-studded mobile phones (Lau, 2004). Chinese women more often receive diamonds on special occasions than gold, jade, or pearls, and an increasing number of them are following their Western counterparts and buying them for themselves (Lau, 2004). The diamond market grew from US\$500 million in 1993 to US\$1.2 billion in 2004 (Lau, 2004).

The creativity and variety of sightholder initiatives has increased dramatically, and by the end of 2003, sightholders were involved in over 200 separate marketing initiatives to grown consumer demand for diamond jewellery (De Beers Annual

Report, 2002). It was estimated that these absorbed a quarter of the DTC's rough sales for that year (De Beers Annual Report, 2002). These initiatives consisted of advertisements for jewellery design pieces in fashion magazines, branded loose diamonds, branded set diamonds, retail "co-brands", branded treatments, new ways to present diamonds, new occasions to give them, revived old cuts, and new cuts such as the 66 faceted Leo Schachter cut (Jeweller's Circular Keystone Magazine, 2006; Sunday Times, 2003; Thomas, 2004). The fashion houses that have started investing in diamond jewellery to augment their collections include Gucci, Chanel, Vera Wang/Rosy Blue, Hermes, and Christian Dior (Jeweller's Circular Keystone Magazine, 2006).

Industry analysts observed that "the 'Supplier of Choice' is delivering new innovative products to the marketplace, resulting in an increase in marketing expenditure and rising polished prices" (I-Net Bridge, 2004). The DTC's Marketing Director succinctly sums this up this trend, stating that "for the first time, diamonds are competing on other things than price or weight – now its beauty and brand" (Steven Luisser, DTC Marketing Director, as quoted in Sunday Times, 2003, p.59).

De Beers has developed two new brands to "unlock the potential of the De Beers name as a global luxury brand" (De Beers Annual Report, 2001; p.14). The DTC launched a new identity for use in business-to-business context, and for use by all sightholders. This features a new icon, the 'Forevermark', which is a seal of integrity that symbolises adherence by the DTC and its clients to the highest

professional standards and to the Best Practice Principles (De Beers, 2006). “The mark represents our promise of ‘forever’ to consumers, providing the ultimate trail of assurance from discovery to sales” (De Beers Annual Report, 2005; p.37). Sightholders can inscribe the message, which is invisible to the naked eye, “DTC Diamond: Natural, Treatment and Conflict Free” on their polished diamonds and/or etch the ‘Forevermark’ on the “table” (the large surface on the top of the stone) of the diamonds larger than 0.3 carats (De Beers Annual Report, 2004). A unique serial number is also cut into the diamond, with an accompanying certificate of authenticity (Botha, 2004).

De Beers is also developing its own brand which is distinct from the DTC business-to-business identity, and the company’s name been licensed to the independently managed and operated De Beers LV company (De Beers Annual Report, 2001). This is the company formed by the joint venture with LVMH which aims to retail diamond jewellery under De Beers name and utilise LVMH’s marketing experience of the luxury goods industry. To allay concerns about monopolistic control and preferential treatment, the company is not sourcing diamonds from the De Beers Group and is rather buying diamonds on the open market in the same way as its competitors (Agin, 2005). It is new customer in the marketplace and is thus creating a new source of demand for the industry (De Beers, 2006). The stores are aimed at a young, trendy clientele, and stocks items for formal occasions (“premium jewellery”) as well as “fashionable pieces that follow trends and can be worn casually” (Alain Lorenzo, CEO of De Beers LV as quoted in Financial Mail,

2002, p.10). The hope is to create the same pattern of impulse buying and self-purchases in high-end jewellery that is found in other luxury segments such as high-end fashion and shoes (Financial Mail, 2002). The ultimate aim is to be one of the top three players in the luxury jewellery business (Financial Mail, 2002).

6.4.3 Consumers' perception of the De Beers brand

Use of the 'Forevermark' was piloted in 2003 with a US\$38 million marketing campaign in Hong Kong to evaluate the benefits in terms of increased consumer confidence by providing a simple, secure, and cost effective method of identifying natural, untreated and ethically sourced and polished diamonds (Lau, 2004; De Beers Annual Report, 2004). "Consumers are expected to pay an added premium on the diamonds that bear the 'Forevermark', but ultimately the 'Forevermark' brings added value to the customer" (Tim Devitt, Sales and Marketing Director, DTC, as quoted in Botha, 2004, p.30). The serial number provides additional security against counterfeiting as well as insurance identification and tracking of diamonds in transit (Botha, 2004). This proved to be successful, and use is being expanded to markets in Japan, China, India, and the Gulf States (De Beers Annual Report, 2005). Another indicator of the success of the 'Forevermark' is the fact that De Beers' competitor BHP Billiton has, in conjunction with the Canadian government, developed the Aurorus and CanadaMark (Northwest Territories Canada, 2003).

The De Beers retail brand has also proven to be successful. The first De Beers LV store in London's Bond Street was hailed as "arguably the best retail shop in the world" by the highly influence industry magazine "Retail Jeweller" (De Beers Annual Report, 2002; p.39). The store sells over 400 items of diamond jewellery and other diamond based products such as diamond-studded leather chokers, with its most famous design being the 203 carat, D-colour, and flawless 'Millennium Star' (Financial Mail, 2002). Initial sales had average purchase values above industry standards, and this led to new stores being opened in Tokyo in 2003 (Agins, 2005). By the end of 2003, De Beers LV has established itself as "a brand which has acquired a reputation for wearable luxury" through the selection of the most beautiful stones in jewellery with a strong design element (De Beers Annual Report, 2003; p.38). The company experienced a 61% growth in sales in 2005, which justified the opening of additional stores in and New York, Beverly Hills, Paris, London, and Osaka in 2005 (De Beers Annual Report, 2005; Agins, 2005).

6.4.4 *'Espirt de corps'*

De Beers and Anglo American Corporation have historically had a close managerial relationship because both Ernest and Harry Oppenheimer held positions as chairman of DBCM at the same time as being the chairman of Anglo American Corporation. These parallel management and resultant operational links remained in place until 1998 (De Beers, 2006). The consequence for the company, stated all of the interviewees, was that a unique and universal De Beers culture was not strongly developed, operational and reporting structures were

complicated, and communication was inefficient. DBCM was perceived to be the Oppenheimer's "personal" company and ran with a "family" mentality stated Individual C. And because the CSO in London was not an operational venture, it was not identified with DBCM, and an internal "north-south" divide developed. Individual A pointed out that the diamond trading business is traditionally suspicious and secretive, being composed of small often family-run trading and/or polishing businesses that are highly competitive, and this distrust infused De Beers, resulting in sanctioned separation between ventures and divisions (the 'silo' mentality alluded to earlier).

The implementation plans discussed in the preceding section have been instrumental in establishing a new culture within De Beers that is enabling the achievement of the goals of the 'Supplier of Choice'. In June 2003, McKinsey and Company was commissioned to undertake a survey of De Beers' Southern African operations to understand De Beers' cultural transformation (De Beers Annual Report, 2003). The Global Performance Leadership Initiative used an organisational performance profile questionnaire, as well as Barrett's value survey, and deep structured interviews to detail and understand the company culture (De Beers Annual Report, 2003). The survey results indicated that the leadership-lead initiatives such as 'Stargate' have impacted positively on the transformation of the De Beers culture. In particular, the vision of 'Supplier of Choice' and shared values are well articulated, and an effective culture of operational and financial control has been entrenched (Gatherer *et al.*, 2003). Additionally, the survey found "that De

Beers is delivering on its employee value proposition, particularly creating a high sense of belonging, an increasing open and trusting environment, and providing sound personal growth opportunities” (Gatherer *et al.*, 2003; p.15). The challenges going forward are be to broaden the organizational buy-in around “walking the talk”, building empowerment and trust, and minimizing hierarchy and bureaucracy which impact negatively on levels of motivation (Gatherer *et al.*, 2003).

6.4.5 Summary

De Beers' organisational performance, as measured by various financial indicators, improved in the years after the introduction of many of the initiatives associated with the market orientation strategy of the ‘Supplier of Choice’. This period also saw an increase in the number of diamond jewellery brands, and a proliferation of new diamond jewellery products developed by the DTC and by retail jewellers. The company launched two branded identities, one for retail use by the De Beers LV joint venture, and one for the DTC and its sightholders to guarantee the source of rough diamonds. Both of these proved to be successful, indicating the consumers’ positive acceptance of the De Beers brand. The projects associated with implementing the market orientation strategy throughout the company resulted in a more positive, co-operative culture within De Beers.

The evidence presented here supports the proposition that the success of the market orientation strategy is seen in De Beers’ improved organisational performance (including achievement of the aims outlined for the ‘Supplier of

Choice'), the proliferation of diamond jewellery product and brand innovations, the enhanced consumers' perception of the De Beers brand, and increased 'esprit de corps' within the company.

CHAPTER 7: DISCUSSION OF RESULTS

7.1 Introduction

The implications of the findings presented on each of the three proposals are discussed in this chapter. Each proposal is dealt with separately in the following sections. The discussion consists of a summation of the evidence, a statement of whether or not it supports the proposal, and then a discussion of what can be concluded from the results. The discussion is grounded in the relevant literature base. The conclusion of the chapter refers back to the objectives of the research outlined in Chapter 1, and a statement about whether or not these have been met.

7.2 Proposition 1

The evidence for this proposition supports the idea that increased competitive intensity, in addition to marketplace and technological turbulence, resulted in significant changes to the business environment that De Beers was operating in. Stated briefly, the analysis the natural diamond industry in the 1990's found that there were many new entrants into the marketplace, some of whom were directly supplying the open market rather than selling through De Beers' CSO. Oversupply and resultant commoditisation of diamonds threatened prices. De Beers' monopolistic control of the industry had slipped, and in trying to maintain its position and supply control business model, had built up a stockpile of diamonds that investors saw as a liability rather than an asset. De Beers' profitability was drastically reduced with the Asian financial crisis as Japan, one of its major

markets, was in recession. The integrity of the diamond industry and De Beers' practices were called into question with increasing interest in conflict diamonds and child labour exploitation in the Indian cutting industry. And the whole natural diamond industry was facing the potential threat of a cheap, controversy-free substitute in synthetic diamonds.

The conditions were sufficiently unfavourable to the company and its existing business model to warrant a substantial examination of its position and practises. This occurred with a nine month long Strategic Review in 1998-99, and resulted in the formulation of the 'Supplier of Choice' initiative. The details of the programme are given in Chapter 3. This incorporates the philosophy of market orientation as it seeks to improve the company's performance through closer alignment and anticipation of customer needs. The timing of this review and adoption of a completely new business direction strongly indicate that the three parameters under investigation were directly responsible for this radical change. This conclusion supports Day's (1999) suggestion that companies change their market orientation strategy when they become misaligned with their market. This can result from external changes either in the marketplace, due to technology, or due to competitive pressures. The findings are in line with other previous investigations that have noted that competitive intensity, market/environmental turbulence, and technological turbulence are instrumental in determining the impact a market orientation strategy has on a company's performance (Greenley, 1995; Grewal and Tansuhaj, 2001; Kirca *et al.*, 2005).

The studies undertaken by previous researchers have found that market orientation produces a positive effect on a company's performance when the environment is in flux, and/or when there is a high degree of competition (Kirca *et al.*, 2005). The reasoning is that firms that are actively monitoring their customers' needs and their competitors' activities are able to adjust to changing conditions more readily, and this translates to better business performance (Jaworski and Kohli, 1993; Pulendran *et al.*, 2000). Similarly, the literature demonstrated that poorly market oriented firms show poor results (Kirca *et al.*, 2005). This finding is borne out by the evidence presented here about the decline in De Beers' corporate performance as well as the erosion of its eroding marketplace position under such conditions. Technological turbulence however diminishes the impact of market orientation on organisational performance as firms tend rely on their in-house technical resources to compensate for changing circumstances rather than being attuned to customer needs (Kirca *et al.*, 2005). Again, the evidence presented here supports this finding. De Beers' response to synthetic diamonds is not to develop their own rival product but rather to instruct the research division to design instrumentation to detect man-made stones. The company makes the assumption that consumers will logically prefer natural diamonds for sentimental reasons but does not present any evidence of customers' opinions or even comparative sales figures to back this up.

One limitation noted of the literature reviewed was that these moderating factors have been studied in isolation. There has been no indication of the relative impacts of all three factors operating in tandem (Jaworski and Kohli, 1993; Pulendran *et al.*, 2000; Kirca *et al.*, 2005). Though a more in depth study would have to be done to determine the exact weighting, the evidence presented here suggests that market and environmental turbulence have the most impact on the need to develop the market orientation strategy. The increase in competitive intensity is able to be managed by the company by buying up excess supply as it had done in the past, but the situation becomes critical for De Beers when the other marketplace issues come into play. The break away of Argyle from the cartel structure appears to be significant, as does the negative publicity about conflict diamonds, as both are situations that the company has not faced before. And both of these relate to customer orientation; Argyle could only act if there was a ready waiting market for their production, and the conflict diamond issue is only a threat because of the potential that customers will be put off buying natural diamonds. An economic downturn such as that caused by the Asian crisis had been experienced by De Beers before, and the US Justice Department charges of 1994 simply added to the pre-existing anti-trust charges. In this example, technological turbulence has the least significant effect on the company. However, this may be because effective means of detecting synthetic stones were quickly developed and deployed. One conclusion that may be able to be made from De Beers' example is that all three factors have to be a negative influence for a company to modify its market driven philosophy.

7.3 Proposition 2

The evidence presented in the preceding chapter shows that the market orientation strategy was rolled out throughout the company in a series of steps that concentrated on communicating top managements vision, on improving key interdepartmental effectiveness, and on developing a market-based reward system. The implementation of these key components was not however uniform across the company. In brief, the vision was formulated with input from all aspects of the company as management recognised that the strategy is a company-wide initiative. The programme was expanded to include human resources and the operations divisions to form a 'Troika of Excellence'. The new strategy was communicated through a variety of in-house media, and embedded in the organisation by incorporating it in divisional visions and mission statements, and in the performance management system by use of balanced scorecards and personal KPI's. Communications and effective interactions between departments were recognised as key to improve pipeline efficiencies to achieve the goals of the strategy. Two departments that handled customer interactions were merged to form the Sales and Marketing department. An integrated stock management system was developed between the Mines and the Sales department to better manage information about what diamonds were available at what stage in the pipeline. Another step in the process was to overhaul the performance management system to reward actions that favour market orientation.

Some broad conclusions can be made about implementing a market orientation strategy from this study. The strategy has to be formulated after an extensive review of the company and its external environment, and management must be prepared to take risks with a new direction. Involving the whole company in development ensures that all views are represented and that buy-in is built from the outset. More than one set of activities are need to communicate and further develop the vision and implement the necessary actions. The majority of projects to support implementation of the strategy are carried out within the same time frame, i.e. not as a sequence of activities that feed into each other. Incorporating the vision throughout the company is done by communicating the message using several different channels as well as by embedded it into formal systems. Improving interactions between the separate parts of the company is essential to gathering and disseminating information about customer demands. Rewarding behaviours that improve market orientation however has the least impact on successfully implementing the strategy as in this case it appears to have been poorly developed.

The interesting observation that came out of this study was the anecdotal evidence to suggest that the implementation plans were often diluted or misrepresented the further away from the origin that the division or individual sat. However, this appeared not to affect the overall positive impact of the strategy on the company, and suggests that some of the steps, in particular communication and reward system, are not as important for implementation in a large organisation. In other

words, not all people need to know the finer details of ‘Supplier of Choice’ to carry out the changes needed to implement the strategy, and consequently, didn’t need to be rewarded for appropriate behaviour if other motivators could be used. Another surprising fact found was that the architects and practitioners of the ‘Supplier of Choice’ did not define the programme as market orientation, and did not draw upon the extensive literature in designing the initiative.

These conclusions are more closely aligned with Day’s (1994) implementation model than Martin and Martin’s (2005). The underlying premise of ‘Supplier of Choice’ is to increase market sensing and customer linking capabilities as Day (1994) suggests. The stages he outlined correlate closely with the process of development and implementation found in this study, namely, a diagnosis of nine months followed by the outlining of necessary future capabilities needed to change the diamond marketplace from supply to demand driven. Top-down direction and commitment is evident throughout the process, where the lack of managerial support impacts negatively on the rollout. Information technology forms the basis of the stock management system. One area not examined was the continual monitoring of progress or to measures to reinforce the changes so no conclusion can be drawn about this. The bottom-up redesign of the underlying process is not supported in this case as the changes needed for implementation were driven and decided upon from top-down. The Balanced Scorecard was used effectively to assist in implementation, which is in line with the suggestion made by Kirca *et al.*

(2005) for tracking progress of the impact of market orientation on performance using such a strategic process-measurement framework.

Top management did create a sense of urgency, and the aim of the 'Stargate' programme was to create a culture change resulting from behavioural change (Day, 1999). Implementation involved the whole organisation, though to varying degrees, and did focus on creating enabling conditions that produced results (Day, 1999). The 'Supplier of Choice' began with leadership commitment and a deep understanding of the need for change, with the vision communicated on many levels, but the alignment of structures with systems and incentives was less well developed (Day, 1999).

The facts collected are supportive of the idea that management's behaviour is the key to market orientation, as seen in the attitudes of managers to 'Supplier of Choice' and the outcome this has on the acceptance and translation of the process into the workplace (Harris and Ogbonna, 2001). Senior management also encouraged risk taking with the development of the radical new ideas and business processes behind the market orientation strategy (Harris and Ogbonna, 2001). The leadership had identified the key problem areas that needed to be addressed, and had quantified the benefits that the change would bring to the firm before undertaking the transformation (Chelariu *et al.*, 2002). The reflections of the interviewees suggest that leadership style is important to the effectiveness of

market orientation, and this supports the motivation behind 'Stargate' to develop participative and supportive leaders (Harris and Ogbonna, 2001).

7.4 Proposition 3

The evidence presented previously supports the proposition that the success of the market orientation strategy is evident in De Beers' improved organisational performance (including the fulfillment of the aims outlined for the 'Supplier of Choice'), in a marked increase in the number of diamond jewellery products and brand, in the enhanced consumers' perception of the De Beers brand, and finally in the positive 'esprit de corps' that developed within the company. In summary, various revenue and profit based financial indicators reported by the company improved, rough diamond prices increased, diamond jewellery sales grew above global GDP, and marked increases in advertising spend by the downstream industry resulted from De Beers market orientation strategy to grow consumer demand. These last three were specific aims outlined by De Beers as measures for determining the success its 'Supplier of Choice' initiative. During this time, the DTC and many retailers developed new concepts in diamond jewellery and launched new brands. De Beers developed two new brands to guarantee the source of its rough diamonds and as a retail identity, and these were successfully received by consumers. The projects undertaken by the company to implement the market orientation strategy improved the culture within the company.

The results presented here affirm previous studies which found that market orientation can be positively correlated with improved company performance, and that this can be quantified in terms of cost and revenue based figures (Kara *et al.*, 2005; Matsuno *et al.*, 2002; Kwon and Hu, 2000; Pelham, 2000; Appiah-Adu and Ranshod, 1998; Desphande and Farley, 1999a; Greenley, 1995). The growth in the DTC's rough diamond sales, and the improvement in the return on capital employed correlate with Narver and Slater's (1990) and Slater and Narver's (1994a, 2000) studies which conclude that these specific measures are positively influenced by the adoption of this type of business strategy. These authors, as well as Kumar, Subramanian, and Yauger (1998), also observed that the larger a firm, the stronger this relationship. This current study would suggest that the size and dominance of De Beers in the diamond industry was a significant success factor in producing these positive results. The evidence presented here also confirms Kirca *et al.*'s (2005) observations that market orientation enhances profits and generates returns whilst growing revenues. The use of a longitudinal study methodology is justified as it is able to document the evolving impact and true strength of market orientation on a company's performance (Shoham *et al.*, 2005).

The observation that market orientation increases innovativeness is supported here because of the number of new products and brands that were developed after the introduction of the 'Supplier of Choice'. Innovativeness and new product performance are driven by proactive attitudes to meeting customer needs, part of which is improved market intelligence gathering and utilisation of this knowledge

(Han et al., 1998). De Beers development of new jewellery products and new brand strategy is evidence of the company's shift to market intelligence rather than the market manipulation seen historically. The company is targeting customers' needs to grow consumer demand rather than developing products to use up excess supply of a type of diamond. This growth products and brands as well as increased sales, profitability, and return on capital employed supports Greenley's (1995) and Pelham and Wilson's (1996) findings of a positive relationship between all these performance indicators.

The success of the 'Forevermark' and the De Beers LV stores is proof of the positive impact that market orientation can make on improving customers' perceptions of a company's brand, products, or services (Kirca et al., 2005). The evidence presented here supports the idea that positive customer sentiment has an association with improved company performance which in turn is translated into higher product prices (Szymanski and Henard, 2001; Slater and Narver, 1994b).

The improvement in the internal cohesiveness, employees' sense of belonging, and increasing open and trusting environment support the conclusions found in the literature reviewed that market orientation significantly improves a company's 'esprit de corps' (Shoham et al., 2005). It is reasonable to suggest that some of the rapid success of the 'Supplier of Choice' may have resulted from motivated employees who were becoming increasingly committed to the attainment of the company's goals (Gruen *et al.*, 2000).

7.5 Conclusion

The stated aim of this research was to determine the critical success factors of one company's approach to implementing market orientation strategy in order to close the gap between the theory and practice of market orientation, with the findings adaptable for use by other corporates in similar contexts. The objectives of this research have been met as the study has investigated the circumstances that lead to De Beers' adoption of a philosophy of market orientation, the research has determined how this change was formulated, and has documented what mechanisms were used to achieve the desired impact. Furthermore, there has been discussion of how the company evaluated the success of its strategy, and the dissertation has highlighted what the consequences were for the company and its overall performance.

From this investigation of De Beers strategy, it can be concluded that the theory about implementing market orientation detailed in the literature is feasible in practice. This theory has been derived from studies of market orientation, and the key aspects discussed in this chapter mostly correlate closely with what was observed in this company. The market orientation paradigm outlined in the literature is supported by the observations and findings of this study.

CHAPTER 8: CONCLUSION

8.1 Introduction

The purpose of this chapter is to summarise and draw together the findings of the research, then to discuss the implications of the conclusions to the relevant stakeholders, and finally to make recommendations about future research directions based on the limitations of this study.

8.2 Summary and conclusions

The study of De Beers' 'Supplier of Choice' market orientation strategy investigated and documented the key components of the implementation of a successful market orientation strategy. The factors that lead to the adoption of such a strategy and cessation of the historic supply-control model were determined to be the increased competitive intensity due to new entrants into the marketplace, market and environmental turbulence due to financial causes and emotive issues, and technological turbulence resulting from the viability of synthetic substitutes. The implementation occurred in steps which concentrated on communicating top managements' vision throughout the organisation using internal publicity and operationalising the objectives, improving the interdepartmental effectiveness of key divisions, and finally by redesigning the performance management system using market-based rewards. The success of the strategy is seen in the markedly improved financial performance of the company, and in the realisation of the stated objectives of the 'Supplier of Choice', namely growth in retails sales of 2% above

global GDP, increase in rough diamond prices by 10-30%, increase in trade advertising to levels above US\$200 million, and innovation as shown by the proliferation of new brands and diamond jeweller products. The success of the strategy is also evident in the positive perception of the two De Beers branded identities, and in the improved 'esprit de corp' of the company.

The main findings of this study have been the documentation of the stages, and methods employed, of a successful implement of market orientation strategy. The theory of market orientation outlined in the literature has been found to be valid in an organisation over a time period of 10 years. In particular, the theoretical elements of Kohli and Jaworski's (1990) model, the antecedents, consequences, and moderators, were found to be applicable to defining the practice of implementing this type of strategy. The two discrepancies between theory and practice are firstly that communication of the vision can be on a 'need to know basis' without comprising the overall effectiveness of the implementing the strategy. Secondly, across the board market-based reward systems are not critical to managing performance when implementing a market orientation strategy. De Beers' implementation methodology more closely followed Day's (1994) model that that outlined by Martin and Martin (2005). The success factors detailed here should be applicable to other large, geographically dissipated organisations facing similar problems in a maturing industry, but De Beers' unique position and dominance of the diamond industry may limit extrapolation to other situations. The

participation of the shareholders in achieving the aims of the 'Supplier of Choice' may also limit the universal applicability of these observations.

One observation made is that a company can successfully develop and implement a market orientation strategy without using the theoretical background to the concept. The 'Supplier of Choice' was designed without reference to any of the literature reviewed here, and yet the team involved developed the same critical success factors that are detailed in the extensive body of research on the subject. In other words, there is a serious disconnect between the academics who have researched the subject, and the practitioners who develop and implement the strategies.

These findings lead to the development of recommendations for practitioners and suggestions for further research directions for the academics.

8.3 Recommendations

To more effectively devise a market orientation strategy, practitioners of the subject should access the vast academic literature that already exists to avoid having to reinvent critical features. The academic research details normative models and frameworks that can be extrapolated to suit the specific circumstances that the organisation is facing.

The findings suggest the following stages to implement a market orientation strategy successfully :

1. undertake an honest analysis of the internal and external environments to understand the need for change,
2. encourage 'out of the box' thinking and risk taking in developing solutions, and allow for trial and error,
3. gain the buy-in of executive and senior management,
4. prioritize the focus of the strategy, and communicate the details to those employees who are most directly affected by the new strategy,
5. operationalise the objectives and measures in formal organisational systems for the remainder of the company,
6. design an iterative feedback mechanism to evaluate the success of the strategy and feedback any learnings to the strategic design.

8.4 Further research directions

The conclusions drawn and the limitations of this research suggest the following areas to be investigated in the future:

- similar case studies across other industries to triangulate and compare the findings made in this case study,
- additional qualitative research within De Beers to explain some of the observations made here, for instance a series of semi-structure interviews with a larger compliment of De Beers employees from other divisions of the

company to determine how market orientation was rolled out elsewhere in the company,

- a case study examining how this strategy was implemented by the shareholders,
- a quantitative survey of De Beers to compare the observations and results of this case study with those made using a different methodology.

The aim of these studies would be to grow the literature base on practical methods to successfully implement a market orientation strategy.

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APPENDIX A : OUTLINE OF QUESTIONS AKSED IN PHASE TWO, SEMI-STRUCTURED INTERVIEWS

Questions asked to Individuals A and B

1. Were you involved in the design and/or implementation of the 'Supplier of Choice'? Please describe your role in the programme.
2. Are you aware of the theoretical marketing concept of 'market orientation'? Please explain what the term means?
3. What were the circumstances (internal and external) that led to the Strategic Review ?
4. Why was Bain and Co. contracted to assist with the review ? What role did they play in developing the 'Supplier of Choice'?
5. How was the 'Supplier of Choice' developed and who were the key players?
6. What were the most critical aspects of the 'Supplier of Choice'?
7. What were the main stumbling points to developing and implementing the strategy and how were these resolved?
8. How was the initiative rolled out in the divisions that you worked in?
9. How was top management's vision communicated to the company?
10. How did 'Supplier of Choice' improve interdepartmental effectiveness?
11. How were the aims of "Supplier of Choice" measured? How were successes rewarded?
12. Was a market-based reward system developed to support the objectives of the 'Supplier of Choice'? Please describe what form this took?
13. How did 'Supplier of Choice' change the culture of the company or the division that you work in? Was there increased team spirit or camaraderie or a greater sense of corporate commitment?

Questions asked to Individual C

14. Were you involved in the design and/or implementation of the 'Supplier of Choice'? Please describe your role in the programme.

15. Are you aware of the theoretical marketing concept of 'market orientation'?
Please explain what the term means?
16. What were the HR projects that supported the implementation of the 'Supplier of Choice' in southern Africa and in London?
17. How did the various supporting projects differ in the divisions and site that you worked in?
18. How well communicated were the objectives of 'Supplier of Choice' and the supporting HR projects?
19. How well aligned were these projects to top managements' vision of the objectives of the 'Supplier of Choice'?
20. How did 'Supplier of Choice' and the supporting HR projects improve interdepartmental effectiveness?
21. How were the aims of "Supplier of Choice" and the supporting HR projects measured? How were successes rewarded?
22. Was a market-based reward system developed to support the objectives of the 'Supplier of Choice'? Please describe what form this took?
23. How did 'Supplier of Choice' change the culture of the company or the division that you work in? Was there increased team spirit or camaraderie or a greater sense of corporate commitment?