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Managing the dilemma of balancing revenue growth and cost containment

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Abstract

The primary objective of any profit-driven organisation is to maximise the share of the economic value or profit it generates. Conventional business theory asserts that this can be achieved by either increasing sales revenues or containing operational costs. However, as firms seek to secure sustainable competitive advantages, the imperative has emerged for managers to find methods of achieving revenue growth and cost containment simultaneously. This presents a dilemma to managers as there are trade-offs between revenue growth and cost containment. The aim of this research is to explore the key factors which influence the manager's ability to find an optimal balance between growing revenues and containing costs, with a view towards maximising economic profits.

In examining the quandary of balancing revenue growth and cost containment, an exploratory, qualitative research study was conducted through a series of 20 in-depth interviews with business leaders and management experts who are actively engaged with the dilemma. The unique insights uncovered during the expert interviews were collected and analysed using inductive content and frequency analysis techniques, designed to extrapolate the emergent themes into a general management framework for navigating the dilemma.

The research results show that managers are able to pursue strategies which simultaneously grow revenues while containing costs, by leveraging the relation between revenue and cost through innovation. Technology and employee engagement were identified as the key enabling factors which drive innovation in a firm, and the resultant productivity gains allow the firm to grow revenues disproportionately higher than costs. As long as the gap between revenue and cost is expanding consistently, the balance between the two is optimised, and the economic profits for the firm are maximised.

Keywords

Profit-maximisation, revenue growth, cost containment, dilemmas, paradoxes

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment 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. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Clinton Macdonald

Date

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Chapter 1: Introduction to Research Problem

1.1 Introduction

The key challenge for today's business leaders is to find ways to simultaneously grow revenues and profits (Kotter, 2012). Rapid changes in market characteristics and the increased pace of technological innovations means companies today face unprecedented challenges in obtaining and sustaining competitive advantages towards meeting this challenge. Yet the demands placed on managers to constantly be driving down costs, while simultaneously growing revenues, is rising. Investors and market commentators alike pour endless streams of counsel through the recommendation funnel, imploring managers to make the simultaneous achievement of the alternatives possible. Headlines such as "The Art of Cutting Costs, While Growing Revenues" (Cudahy, 2011), "Cut Costs and Grow Stronger" (Leinwand, 2009) and "Grow the Business While Cutting Costs" (Vizard, 2010) fill business publications around the world, yet the practical map towards achieving this grail is absent from the business and academic annals. And the result of this void in direction is a regression to mean, where managers revert to focusing either on revenue growth or cost containment at any particular point in time. In a recent business study by Ernst & Young (2015), managers were asked to disclose their anticipated organisational focus for the year ahead. The results of the study shows a clear swing from growth focused strategies which dominated the preceding two years to the study, to cost focused strategies for the year going forward, driven largely by macroeconomic pressures. This finding epitomises the tendency of managers to pursue one strategy over the other, and not the integrated and balanced strategy of simultaneously driving revenue growth and cost containment, which is being demanded.

Businesses devote much strategic currency to the development of differentiators to ensure business success in the marketplace. Yoon & Chae (2012) put forward the idea that one such differentiating characteristic of a successful company is the

efficacy of its management in managing dilemmas and paradoxes. And in a global environment where competing demands are intensified (Holt & Seki, 2012), organisations which can balance these demands are best positioned for success.

Revenue growth is a widely accepted measure of business success (Amat, Renart, & García, 2013) and is a centerpiece on the balanced scorecards of executive management teams. At the same time, firms face increased pressure to minimise costs, particular during economic downturns, in an effort to protect business profits. Consequently, managers face the seemingly incongruent task of balancing the need for revenue growth with the imperative of cost control. The management of these outwardly incompatible objectives characterises a paradox within management practice, and whilst the theoretical and practical knowledgebase is rich in resources on how to achieve each objective independently, the concurrent achievement of both objectives presents new challenges which the current management knowledgebase does little to address.

Management dilemmas are characterised by conflicts which managers are constantly struggling to reconcile in an attempt to enhance overall organisation performance (Gilbert & Sutherland, 2013). However, the payoff for managers who are able to navigate the incompatibilities of such dilemmas is the promise of sustainable competitive advantage (Lüscher & Lewis, 2008). And put simply, competitive advantage “is whatever value a business provides that motivates its customers (or end users) to purchase its products or services rather than those of its competitors and that poses impediments to imitation by actual or potential direct competitors.” (Christensen, 2010, p. 21)

1.2 Purpose

This research study aims to explore the management dilemma of balancing revenue growth and cost containment within a firm. Stewart (1996) calls out the dilemma as one of the nine core leadership challenges facing “any business and any manager” (p. 112), as revenue growth activities generally require investment into additional

resources in order to develop new revenue streams which contradicts the mandate for cost containment. Serretta, Bendixen, & Sutherland (2009) cite the need for corporate boards to simultaneously drive business performance whilst ensuring prudent controls. Moreover, these seemingly divergent objectives have become a firm fixture on the balanced scorecards of executive management (Johanson, Skoog, Backlund, & Almqvist, 2006), yet there is little consensus on how to manage the dilemma or how to achieve the right balance between revenue growth and cost containment within a firm.

This study will attempt to explore the key factors that drive the need for revenue growth and cost containment within the firm and then investigate whether these factors are mutually exclusive in their application, or if there is an optimal balance that can be achieved between them.

The implication for management and business is significant. Understanding the degree to which these seemingly incompatible objectives can be balanced would provide new insights for business managers and owners alike as to the spectrum of available and workable management strategies which exist to maximise business value.

1.3 Research Problem

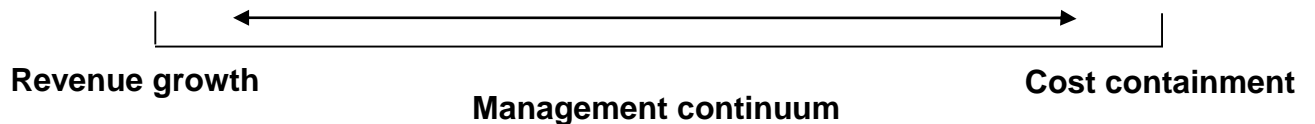
The primary role of executive management in a business is to maximise the value of shareholder interests (Sundaram & Inkpen, 2004). However, management also has a fiduciary duty to its shareholders to hold the business in trust (Serretta et al., 2009) and protect the interests of shareholders. This places an ostensibly incongruent set of expectations on management and raises the question as to whether it is reasonable for the management of a business to grow the business whilst simultaneously minimising the cost and risk activities for the firm.

This research study seeks to identify and explore the factors which drive the revenue growth and cost containment intentions for businesses in the modern corporate

context, and the extent to which these factors are interconnected. This study will then explore whether the simultaneous achievement of a revenue growth and cost containment strategy is feasible, and the degree to which these paradoxical objects can be deployed through management practice.

The management polarity of growing the business whilst simultaneously minimising its cost activities can be represented graphically using the management continuum model (Gilbert & Sutherland, 2013; Naidoo, 2013) displayed in Figure 1 below. This model suggests that instead of an absolute position, the management dilemma under scrutiny can potentially be achieved through different combinations of the two extremities of the dilemma; revenue growth and cost containment.

Figure 1: The management continuum model



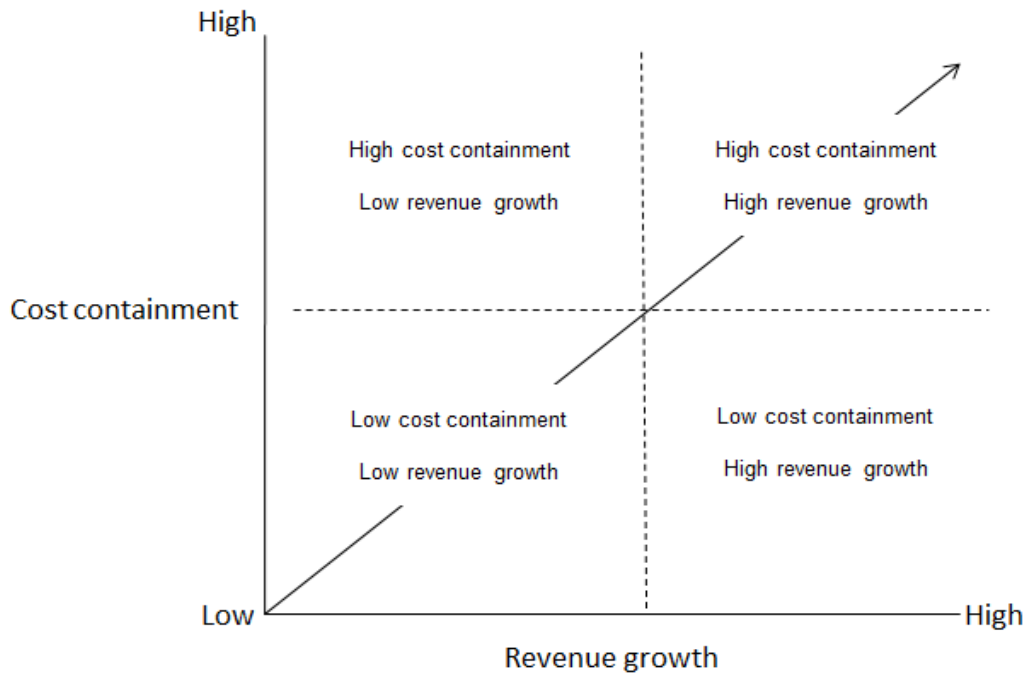
Another perspective of the management dilemma could be modelled using the management dilemma model represented in

Figure 2 below. The model provides four possible combinations of the degrees of revenue growth and cost containment.

Ideally, management teams should strive to position their businesses towards the far right side of the management dilemma model. High cost containment is desirable, as is high revenue growth.

It is expected that through the different growth and progression stages of a firm, the business might be positioned in different quadrants at different stages owing to dynamically changing factors and conditions. It is also possible that different business units within the firm could be located in different quadrants based on their function and strategic mandate. However, this research study will focus at the firm level.

Figure 2: The management dilemma model



Both the management continuum model and the management paradox model suggest that, theoretically, a firm can operate under varying combinations of revenue growth and cost minimisation activities, and therefore the mission for management is finding the optimal combination of each activity which maximises the sustainable competitive advantage of the firm, thereby maximising value for the business. The central objective for this research study is to explore the profile of such a combination.

1.4 Research Objectives

The first objective of this research study is to establish whether a firm can pursue a mutually exclusive revenue growth or cost containment strategy to maximise its economic performance. In assessing the validity of the claim that managers should balance the objectives of revenue growth and cost containment, it is prudent to

consider whether there is in fact a requirement to optimise in both directions. Secondly, the research study seeks to identify the key factors which influence the adoption of a revenue growth or cost containment strategy, and then to analyse the outcomes for the firm in pursuing a mutually exclusive strategy.

The third objective of this research study seeks to establish whether managers can install an integrated business strategy, in which revenue growth and cost containment are optimised simultaneously. The key factors which influence a manager's ability to drive an integrated strategy will be explored and the outcomes of attaining an optimal balance is considered and assessed. And the final objective of the study is to synthesise the findings of the research into a practical management model which can aid managers in navigating the dilemma of balancing revenue growth and cost containment.

Chapter 2: Literature Review

2.1 Foreword to the Literature Review

In the context of the management dilemma of balancing revenue growth and cost containment, six key themes emerged during the theory and literature review for the research, namely:

- Profit-maximisation
- Management and behavioural theory
- Profit theory
- Revenue growth
- Cost containment
- Management dilemmas and paradoxes

In examining the dimensions of the management dilemma under investigation, each of these themes is explored in detail below.

2.2 Profit-Maximisation Theory of the Firm

The purpose of the firm has long been the topic of debate amongst scholars and business practitioners alike. Neoclassical economics, through its theory of the firm (Dorina, Melinda, & Klara, 2012; Spulber, 2009), submits that corporations exist in order to maximise profits for the owners or shareholders of the firm, a supposition that is entrenched in the precursor that profit is the objective motivation of entrepreneurs and the owners of capital (Tulvinschi, 2013). Until recently, this purposive theory of the firm had been widely accepted by the corporate world as the

absolute purpose of business. However, the catastrophic corporate governance failures which plunged the global economy into an unprecedented recession in the aftermath of the 2008-2009 global financial crisis (Kumar & Singh, 2013), has re-ignited a century old debate as to the true nature and purpose of the corporation.

Today, stakeholder views dominate the discourse on the role of the firm in society. Stakeholder theory (Freeman, 1984) posits that the firm should be managed in the interests of all of its stakeholders, and not just its shareholders. The fundamental argument put forward by stakeholder theorists is that the shareholder primacy model is no longer appropriate given the current social and environmental challenges that face business and society today (Harrison & Wicks, 2013; Jones & Felps, 2013) and that businesses need to act in the interests of broader social welfare.

However, the dominant corporate objective of the firm remains the maximisation of firm profits (Gordon, 2007), which is seen as the fundamental driving force of the capitalist economy, and which has persisted largely due to the absence of a clear alternative to the free-enterprise system (Jordi, 2010). Shareholder theorists point to the argument that profit maximisation is also the most efficient way of maximising shareholder value and by implication stakeholder value (Sundaram & Inkpen, 2004). By the virtue of the fact that shareholders are residual claimants to the cash flows of the company, after payments to creditors and other distributions, they will be most incentivised to increase the value of the firm through profit maximisation and profit growth.

The implication of the profit-centric mandate for firm existence is that firm performance is assessed predominantly through its ability to maximise profitability (Dorina et al., 2012; Monica-Violeta, Mirela-Oana, & Ramona-Eugenia, 2010). Moreover, even if a firm has subscribed itself to the stakeholder argument, profitability remains one of the key performance metrics contained in its integrated reporting (Wexler, 2009). It therefore follows that to improve the performance of a firm requires an enhancement, either in full or in part, of its profitability. It is on this basis that the profit-maximisation theory of the firm has been accepted as the

absolute purpose of the firm for the purposes of this research study, and thus serves as the guiding principle for the thesis that balancing revenue growth and cost containment is an optimal profit-maximising approach.

Finally, through their fiduciary duties to shareholders, managers of the firm are tasked with the primary decision-making responsibility which affects the propensity of the firm to maximise profitability towards maximising shareholder value (Boatright, 2010). Equally, shareholders install managers of their choosing to represent and pursue their interests through the principle-agent contract (Berman, Sanajian, & Abouee-Mehrizi, 2012) and it therefore becomes pertinent to consider the nature and characteristics of management and shareholder behaviour in relation to the ability of a firm to maximise economic profits.

2.3 Management and Shareholder Influences on Profit-Maximisation

2.3.1 Management Behaviour and Incentives

Challenging the profit-maximising case are managerial theories of the firm (Baumol, 1962; Williamson, 1963), which puts forward the contrasting view that managers seek to maximise their own utility and may not necessarily act as profit-maximising agents for their principles. In serving their own best interests, managers may in fact be motivated to pursue objectives which are not aligned with the profit-maximisation mandate from shareholders. For instance, O'Byrne and Young (2010) found that managers may be more inclined to pursue revenue growth strategies over profit-maximisation strategies, as their performance incentives were more closely aligned to top-line improvements than bottom-line net gains. This finding supports Baumol's (1962) original assertion that in pursuing self-interest, managers were more incentivised to maximise sales revenues once an acceptable level of profit has been delivered to shareholders. In a separate study, Banker, Huang, and Natarajan (2011) reveal how managers were more likely to execute investment decisions that

maximise the future firm value when their own interests were tied to the outcome of those decisions. Through these observations, it becomes clear that the personal motivations of managers needs to be considered in the context of the profit-maximisation pursuit of the firm, and that managers are key enablers or disablers of this objective. An array of studies has revealed the importance of aligning management incentives with shareholder objectives in ensuring that management behaviours are directed at the employment and attainment of profit-maximisation strategies (Akron & Benninga, 2013; Balsam, Fernando, & Tripathy, 2011; Nyberg, Fulmer, Gerhart, & Carpenter, 2010; Shin, 2013; Zhang & Jiang, 2015).

2.3.2 Management Time Orientation

Another aspect of managerial behaviour which has economic performance implications for the firm is the time orientation of chief executive officers and senior management. In a study looking into the performance implications of short-term and long-term time orientation and decision-making behaviour of chief executives, Brauer (2013) discovered, perhaps unsurprisingly, that short-term orientation had negative impacts on corporate performance in the medium to long term whilst long-term oriented behaviour had positive correlations to firm performance. The researchers suggest that this myopic behaviour is a consequence of shorter CEO tenures which characterise modern corporates, with managers interested only in pursuing profit-maximisation strategies that will deliver returns over their tenures. The research findings support an earlier study by Antia, Pantzalis, and Park (2010) who found that shorter manager tenures resulted in a preference for managers to pursue investments “that offer relatively faster paybacks at the expense of long-term value creation.” (p. 300). Managers are simply not incentivised to consider longer term value maximisation strategies as their performance incentives are not linked to any long-term payoffs. And the resultant implication for firms is that whilst short-term profit maximisation strategies may deliver returns initially, these are usually at the expense of long-term value enhancing strategies that are more sustainable (Brauer, 2013).

2.3.3 Shareholder Objectives and Time Orientation

The time orientation of shareholders, in respect of their investment objectives and expectations on investment returns, has a direct bearing on the type of business model that will ultimately be pursued by the firm (Thanassoulis, 2014). Investors with short investment horizons will drive managers for business strategies that increase equity values in the short run, with these strategies generally focused on increasing the share price of the firm. Numerous studies support this hypothesis (Bolton & Samama, 2013; Graham, Harvey, & Rajgopal, 2005; Thanassoulis, 2013), and reveal how managers running firms with short-term investor horizons will generally sacrifice long-run profitable projects in order to meet short-run earnings targets that increases the market value of the firm in the short-run.

The consequence of this shareholder-driven myopia, is that management teams become less inclined to invest in projects and initiatives which drive innovation and which ultimately may produce superior economic value for the firm in the long run (Bolton & Samama, 2013). Innovations, however, raise the long-term productivity for the firm which is then translated into long term performance improvements (Peters, Roberts, Vuong, & Fryges, 2013). This presents a trade-off between short-term returns and long-term economic value creation, and the nature of the firm's shareholders will largely dictate which economic strategy management is likely to adopt. In firms with a relative balance between short-term and long-term investors, the issue is severely complicated, as managers have to strike a balance between increasing the market value of the firm in the short-run as well as developing the economic value for shareholders over the long term (Thanassoulis, 2013, 2014).

2.4 Organisational Influences on Profit-Maximisation

2.4.1 Organisational Ability and Decision-Making Rationality

The economic performance of a firm is the direct outcome of the decisions taken by its leadership team (Kunc & Morecroft, 2010). Managers must make decisions in complex and uncertain environments, usually involving trade-offs and the balancing of competing forces (Lüscher & Lewis, 2008; Serretta et al., 2009), whilst operating on imperfect information. Through their behavioural theory of the firm, Cyert and March (1963) originally sought to explain how decisions are taken within the firm and argued that in complex and uncertain situations, people are predisposed to exercising bounded rationality when making decisions. This is because decision-making is limited to the quality of the information at hand, the limited cognitive ability of decision-makers and the time available to make decisions (Yao & Li, 2013). According to Cyert and March (1963), rather than maximising a utility or profit function, people tend to satisfy more realistic and attainable goals, a concept the authors refer to as “satisficing” (p. 53). Similarly, melioration theory suggests that people are more inclined to shift their behavioural preferences towards local or short-term rewards due to complexity and uncertainty, and away from decision-making aimed at maximising a long-term utility (Sims, Neth, Jacobs, & Gray, 2013).

These cognitive biases have material implications for managerial decision-making, as business environments are indeed complex and uncertain, and the constraints of bounded rationality, satisficing and melioration need to be considered in the context of the highly complex firm objective of profit maximisation. For instance, Yao and Li (2013) demonstrated empirically how bounded rationality contributes to loss aversion and optimism in marketplaces, which may lead to managerial participation constraints and increased incentive-pay costs (Graham, Harvey, & Puri, 2013). Gavetti (2012) went as far as to intimate that behavioural bounds limit a firm’s ability to compete for superior opportunities in the market. However, managers with superior cognitive abilities seem more readily able to circumvent some of these

behavioural bounds and are more proficient at implementing successful strategies which deliver higher levels of firm performance (Gary & Wood, 2011; Nadkarni & Herrmann, 2010). The research argues simply that decision-makers with superior mental models are better able to navigate the causal relationships in the business environment.

2.4.2 Organisational Culture

Organisational culture has a significant influence in determining the dominant operational mode of employees in a firm (Hartnell, Ou, & Kinicki, 2011). Operational mode refers to the orientation of employees and typically manifests as either a growth focused or cost focused culture (Prajogo & McDermott, 2011). Furthermore, research has shown a strong positive correlation between organisational culture and firm performance (Hartnell et al., 2011; Prajogo & McDermott, 2011). It therefore follows that a firm's stated strategic objectives must be supported by the organisational design and the manifesting culture if it is to be actionable. This idea is supported in the current literature, where Hartnell et al. (2011) recommend that "an organization's culture and strategy should be complementary such that they support the same mission" (p. 688).

In a separate study, Zheng, Yang, and McLean (2010) found that managers can mediate the influence of organisational culture on organisational effectiveness through knowledge management. This is due largely to the finding that culture contributes significantly to knowledge generation and learning within the firm, and presents a useful lever for managers seeking to influence firm performance through organisational culture.

2.5 Profit Theory

2.5.1 Revenue, Costs and Profit

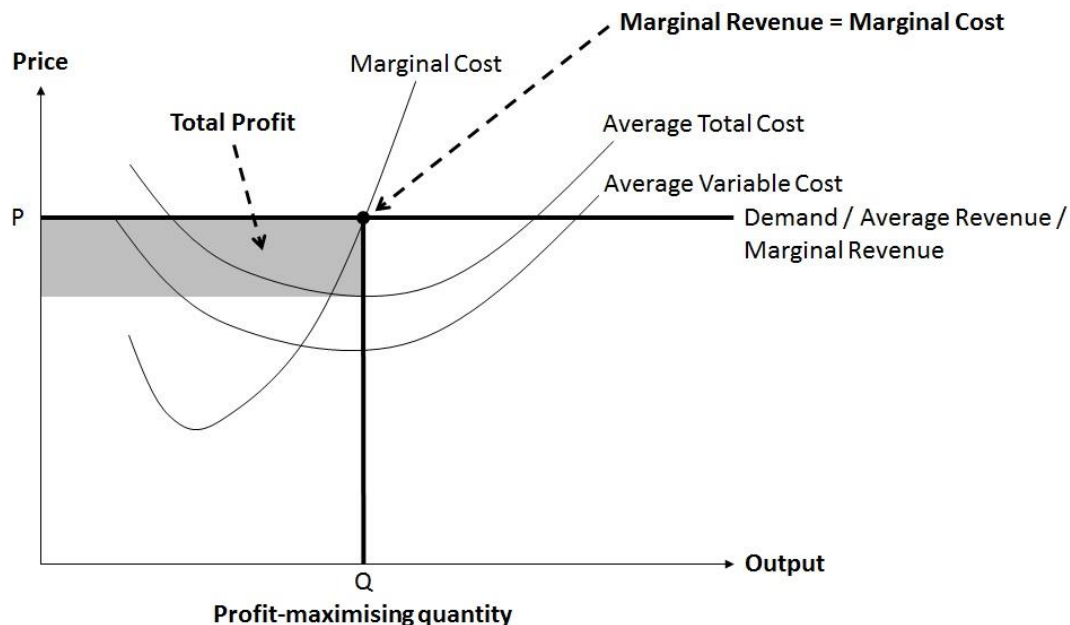
The total profit of a firm is the income or total revenue a firm receives from the sale of its products and services, less the amount or total cost spent on manufacturing and marketing its offerings (Baumol & Blinder, 2015; Baye, 2013). Total revenue is a function of the price of the product and the quantity sold, and therefore to increase revenue, a firm can increase the price of its offerings to the market, or increase the quantity sold, or both. Total cost is the sum of the fixed and variable costs of producing products, where fixed costs represent costs that do change with the levels of firm output, and variable costs represent costs that do change based on the level of output. In the short-run, firms will aim to minimise or contain variable costs in the production of products in pursuit of increased profits, as there is nothing that can be done to adjust fixed costs (Baye, 2013). However, in the long-run, all costs are variable as a firm can vary the level of capital expenditure based on market demand as all the factors of production can adjusted. Therefore, one of the primary functions of a firms management team is to ensure that the firm is optimising the costs it can control in the short term, while at the same time making strategic decisions about its total cost structure in the future in order to position the firm for cost advantages in the long term (Kumar & Kumar, 2011). This ambidexterity is a central management capability which modern firms seek to master in order to sustain firm performance through the lifetime of the business (Smith, 2015), but which is a complex and uncertain undertaking.

2.5.2 The Profit-Maximisation Model

Standard economic theory states that a firm maximises its profit up to the point where its marginal revenue equals its marginal cost (Baye, 2013). That is, for every additional product a firm sells, if the marginal revenue generated by the sale is greater than the marginal cost of the sale, then a firm is maximising its profits.

Marginal revenue is the additional revenue a firm earns from selling an additional unit of product, and marginal cost is the cost of producing the additional unit. Marginal cost decreases initially as production increases but increases at the marginal production rate decreases as production capacity is reached (Baumol & Blinder, 2015; Baye, 2013). The total profit captured by the firm is the surplus produced between the revenue per product, or the average revenue, and the total cost per product, or average total cost. The average total cost is the sum of the average variable cost and the average fixed cost to produce the product (Baumol & Blinder, 2015). Figure 3 below depicts the profit-maximisation model at the point where marginal revenue equals marginal cost for the output quantity of product, denoted as Q. The shaded area indicates the total profit attributable to the firm.

Figure 3: The profit-maximisation model



(Adapted from: (Baye, 2013))

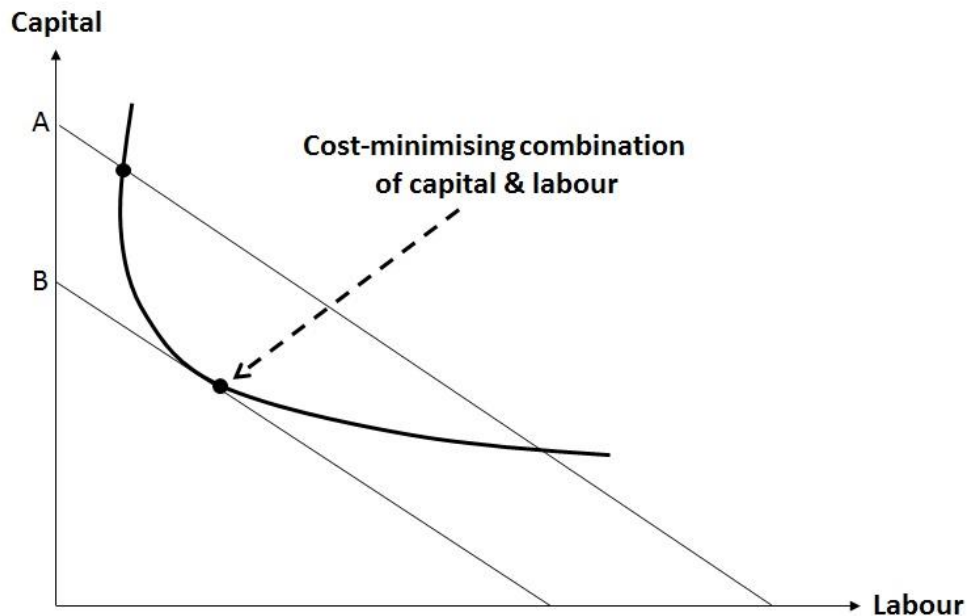
Using the profit-maximisation rule as a basis, it can therefore be intimated that once a firm's profit has been maximised at the current the level of output, in order to increase profits, the firm's management has two levers; it can either increase its marginal revenue more than its average total cost, or it can reduce its average total

cost more than its marginal revenue. However, in practise, this is a complex decision, as fundamental economic constraints limit discretionary price increases, and in the short-run, cost reductions can only be focused on the variable cost component of average total cost which is also subject the economic constraints of the factor input markets (Baumol & Blinder, 2015). For instance, managers of the firm could look to increase prices in order to increase marginal revenue, and indeed this is common practise, but these increases are at the expense of market demand (Baye, 2013). Revenue management practises are designed to aid managers in making optimal pricing decisions which optimises the balance between price increase and demand loss towards an equilibrium between price, quantity and maximum total revenue (Bumas, 2015). From a cost perspective, given that in the short-run, fixed costs are non-adjustable, variable costs are the only lever the manager can control. However, these inputs to the production process are sourced from external factor markets which are also subject to the laws of supply and demand (Baye, 2013; Bumas, 2015), and therefore there is limitation to the influence the manager can have in sourcing these variable cost inputs at cheaper market rates. At some point, the only way to reduce average total cost is to reduce the amount of variable costs consumed, which implies producing less product (Baumol & Blinder, 2015). Lower production, in turn, results in lower total revenue as fewer products are sold to the market. But this is contrary to the profit-maximisation rule as surplus profit would be sacrificed by the firm in the process and is therefore counterproductive.

2.5.3 The Cost-Minimisation Model

To maximise profits, a firm must seek to produce its products and services at the lowest possible cost. Microeconomic theory puts forward the cost-minimising input rule (Baye, 2013) as a method to aid management decision making in minimising the cost of production, and states that marginal product should be equal to all of the inputs to produce at a given output level. This is illustrated simply in Figure 4 below, which illustrates how different combinations (A or B) of the production inputs of capital and labour can be used to generate the same amount of product.

Figure 4: The cost-minimisation model



(Adapted from: (Baye, 2013))

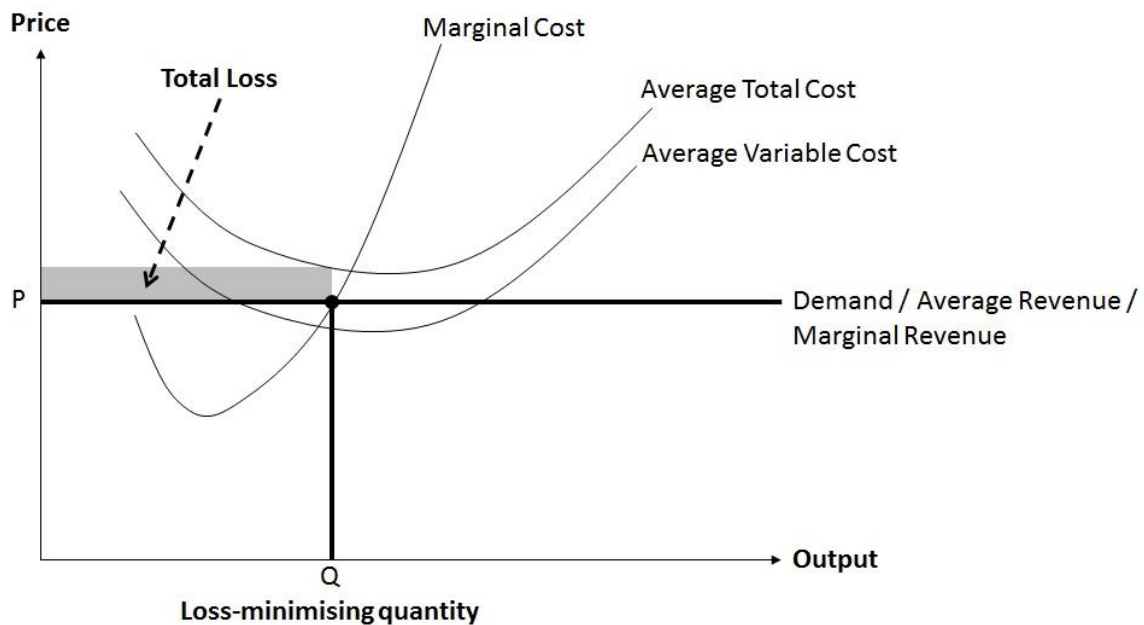
It becomes evident that producing the product with the input mix at B is more cost efficient than producing output using the input mix at A, and therefore becomes the cost-minimising input mix (Baumol & Blinder, 2015; Baye, 2013).

2.5.4 The Loss-Minimisation Model

When a company experiences a decrease in its market prices, usually related to a decrease in the market demand for its products and services, the focus on loss minimisation is heightened (Kumar & Kumar, 2011). This is particularly pervasive in industries where firms are price-takers and have little to no control over price levels (Baumol & Blinder, 2015). Firms typically move to remove as much cost as possible from the firm's average total cost (Gandolfi & Littler, 2012) in order to protect profits and ensure marginal revenue remains greater than average total cost. However, as discussed in the previous section, there is a practical limit to the amount of cost a firm can remove from average total cost in the short-run without impacting on total revenue. Moreover, profit protection measures designed to drop average total cost

below marginal revenue can sometimes result in unintended consequences for the firm later. For instance, firms can find themselves behind the curve when market conditions improve if costs related to product innovation and development, for example, are removed in the short term (Bromiley & Washburn, 2011). At this point, firms are better off minimising total losses in the short term by adhering to the profit-maximisation theory of the firm as long as marginal revenue is greater than average variable cost (Bumas, 2015). As depicted in Figure 5 below, by maximising profits towards the point where marginal revenue equals marginal cost, the losses are minimised. In fact, the firm is better off continuing to operate under the loss-minimisation rule, as opposed to shutting down, until market conditions improve and it is able to raise its marginal revenue above average total cost. However, the loss-minimisation rule is only valid in the short-run as losses are minimised and not removed entirely (Baye, 2013).

Figure 5: The loss-minimisation model

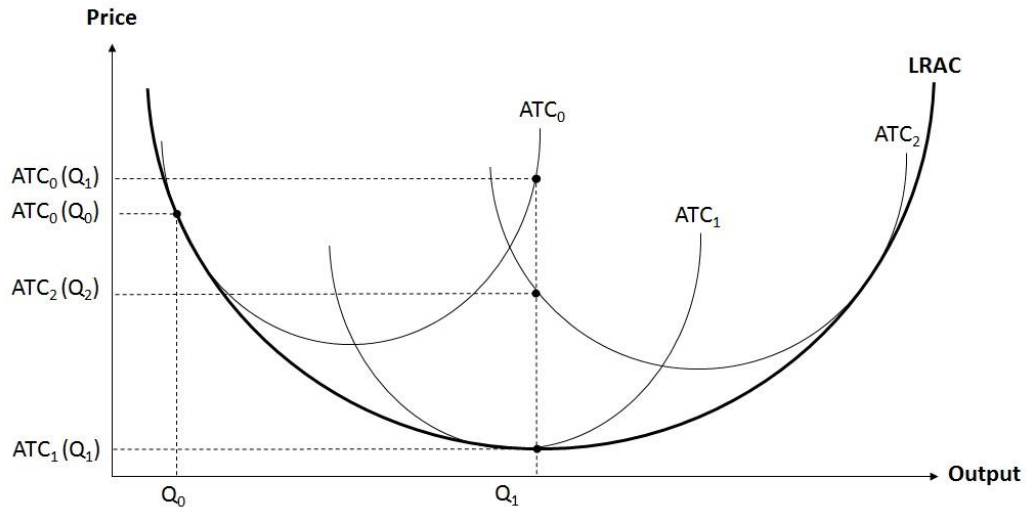


(Adapted from: (Baye, 2013))

2.5.5 Long-Run Costs

In the long-run, all costs in a firm are variable because the firm's management can adjust the level of inputs to the production of products and services (Baye, 2013). The optimal level of fixed and variable costs can be selected based on the predicted levels of output the firm anticipates and is commonly referred to as the cost structure of the firm (Shepherd, 2015). Figure 6 below depicts how firms can adjust their cost structures in the long term to reduce their average total cost. For example, the fixed costs for a firm with a certain cost structure, denoted as ATC_0 , is unchanged in the short term, as the quantity the firm produces increases from Q_0 to Q_1 . The result is an increase in the average total cost at the new output level Q_1 . However, in the long-run, the firm can adjust its fixed and variable cost structure to optimise the scale of its operations to ATC_1 , which will result in a reduction in the ATC for the output level Q_1 .

Figure 6: The long-run average cost curve



(Source: (Baye, 2013))

If a firm is able to reduce its long-run average costs as it grows its output, then it is said to have economies of scale (Baumol & Blinder, 2015; Shepherd, 2015). Economies of the scale are particularly valuable to firms which operate in price-sensitive industries, as it creates a barrier to entry for new firms entering the market

(Baye, 2013) as these firms cannot produce at the same cost efficiencies as the incumbent firms. Conversely, if a firm's long-run average costs increase as it grows its output, it then experiences diseconomies of scale (Baumol & Blinder, 2015).

In order to maximise the profitability of the firm in the long-run, managers need to make strategic decisions that seek to reduce the firm's long-run average costs (Eriotis, Frangouli, & Ventoura-Neokosmides, 2011), through capital investments and operational efficiencies, in order to achieve the necessary economies of scale. Once more, the time orientation of managers is called into question, as long term cost reduction strategies are only likely to be implemented if management incentives are tied to long term firm performance (Brauer, 2013).

2.5.6 Normal and Abnormal Profits

The sustainability of superior, or abnormal, profits has long been the fundamental pursuit of strategic management (McGahan & Porter, 2003). Conventional economic theory explains that competition erodes abnormal profits, as more firms are attracted to the market (Cheng, Man, & Yi, 2013; McGahan & Porter, 2003). Porter (2008) reinforced this theory and proposed that the competitive forces of the industry in which the firm operates are the key determinants of the levels of firm profitability. In protecting or sustaining profit levels, the author goes on to propose tactics for firms to exploit weak competitive forces or reshape the changing forces in favour of the firm.

Resource-based theorists (Kraaijenbrink, Spender, & Groen, 2010; Makadok, 2011) challenge Porter's (2008) competitive forces perspective on superior profits and submit that abnormal profits can be sustained by firms adopting an inward focus on profit-maximisation, by examining the internal sources of a firm's sustained competitive advantage (Kraaijenbrink et al., 2010; Makadok, 2011). The main proposition of resource-based theorists is that for a firm to sustain a competitive advantage and earn superior profits, the firm needs to acquire and apply heterogeneous and perfectly mobile resources, which are rare, inimitable and non-

substitutable (Makadok, 2011). Resources refer to both tangible and intangible resources, as well as the internal capabilities that constitute unique abilities (Kraaijenbrink et al., 2010). Costa, Cool, and Dierickx (2013) refer to these types of resources and capabilities as unique resources.

Whilst the industry-based view and the firm-based view of sustainable abnormal profits still enjoy endorsement in the most current literature (Bhattacharyya & Jha, 2015), there is an emerging body of knowledge which calls into question the idea of sustainable superior profits (D'Aveni, Dagnino, & Smith, 2010) and puts forward empirical evidence to suggest that sustainable competitive advantage is rare and is subject to increasingly complex complexities. Moreover, there is no consensus in the current literature as to the significance with which industry or firm-level drivers influence profitability (Hawawini, Subramanian, & Verdin, 2003). Paradoxically, some researchers go as far as to surmise that no one strategy can substitute another and rather an integrated perspective is needed to drive superior competitive advantages (Ritala & Ellonen, 2010).

2.5.7 Falling Rate of Profit

The aggregate corporate profit rate has followed a downward trend over the last decade (Giacché, 2011). The most stark example of this decline in the rate of corporate profit is in the United States, where “the rate of profit fell from a peak of 25.0% in 2006 to 17.9% in 2008” (Kliman, 2009, p. 14). In fact, between the early 1960s and the beginning of twenty-first century, the rate of profit has halved in the industrialised nations (Giacché, 2011).

The predominant explanation put forward in the current theory towards explaining the falling rate of corporate profits is centred on the concept of capital accumulation (Giacché, 2011). Marx (1904) controversially posited his theory of the tendency for the profit rate to decline as the basis for the failure of capitalism. According to Marx, the accumulation of capital would attract labour, thereby forcing wages upwards and pushing profits downwards. Although modern economists continue to reject Marx's

theory on the basis that it cannot be proven (Kliman, Freeman, Potts, Gusev, & Cooney, 2013), recent studies seem to support the capital accumulation hypothesis (Giacché, 2011).

2.6 Revenue Growth

2.6.1 The Growth Imperative

The growth of firms in an economy is a major instigator for macroeconomic growth through its contributions to employment and productivity growth (Du & Temouri, 2015). Recent studies investigating the economic contributions of high-growth firms (Daunfeldt, Elert, & Johansson, 2010; Stangler, 2010) found that these firms provide disproportionately positive contributions to economic growth, with one study reporting that 40% of new job creation came from high growth firms (Stangler, 2010). Therefore, the imperative for firm growth is well entrenched in the corporate capitalist system and is a key indicator of firm performance (Amat et al., 2013; Ylitalo, 2010). From a shareholder perspective, firm growth is essential to the sustainable growth of profits and returns on equity (Ahlstrom, 2010), with capital markets rewarding firms that grow and punishing those that stagnate.

2.6.2 A Definition for Growth

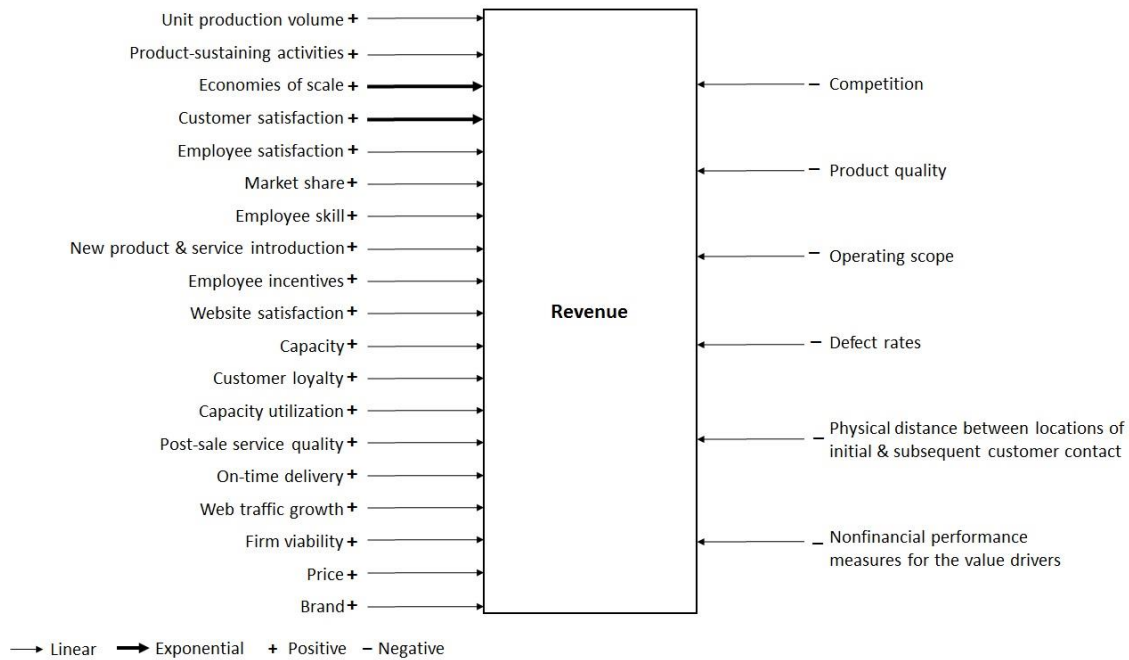
It is prudent at this point to clarify the definition of firm growth. While there is some debate around which corporate metrics to use for empirical measures of growth (Achtenhagen, Naldi, & Melin, 2010), sales or revenue growth remains the dominant concept of firm growth (Achtenhagen et al., 2010; Amat et al., 2013; Schimke & Brenner, 2014). This is largely due to the uniformity of the metric across countries and industries, and the fact that revenue is an intrinsic initiator of profit generation (McKelvie & Wiklund, 2010).

2.6.3 Revenue Drivers

The rate at which a firm can grow is directly dependant on the level of resources it has at its disposable and the efficacy with which it can capitalise on market opportunities (Deo, 2013). Ristovska (2013) provides further support for this proposition by concluding that “resources and their allocation are those which decide the success of the company and its market share” (p. 240). The firm’s management is tasked with acquiring and allocating the resources of the firm as optimally as possible, towards activities, or revenue-drivers, which will drive profitable revenue growth for the business (Lévesque, Joglekar, & Davies, 2012). The acquisition and employment of resources incurs expenditure costs for the firm and therefore the revenue generated by those investments must be maximised in order to maximise the economic returns for the firm. However, the understanding of the relation between revenue-driver and cost is incomplete (Shields & Shields, 2005). Much is understood at the product and customer level of the relationship, but little at the organisation and industry level. And the impact on the quality of managerial decision-making is evidenced through the plethora of companies which, in an effort to manage or cut costs in the business, inadvertently eliminate the very costs which support revenue-drivers (Luan, Tien, & Chi, 2013; McKinley, Latham, & Braun, 2014; Muñoz-Bullon & Sanchez-Bueno, 2010), sending the business into a downward spiral of profit decline as decreases in revenue spur on further cost reductions.

In a comprehensive review of the main revenue-driver models (Activity-Based Costing, Strategic Cost Analysis, Balanced Scorecard and Nonfinancial Performance Measures) in the current accounting literature and based on empirical evidence, Shields & Shields (2005) identified 25 direct and indirect variables or drivers of sales revenue in a firm. For each revenue driver, several characteristics were considered in describing the nature of the relation between the revenue-driver and sales revenue, such as the linearity of the relationship as well its positive or negative influence on revenue. Figure 7 below provides a graphical representation of the 25 revenue-drivers identified by Shields & Shields (2005).

Figure 7: Revenue-driver model



(Adapted from: (Shields & Shields, 2005))

2.7 Cost Containment

2.7.1 The Cost Containment Imperative

Cost containment is vital to the total profitability management of a firm, as its primary objective is to foster efficiencies in the value delivery process so that the firm is producing its products and services at the lowest possible cost and is thereby maximising its profitability (Guni, 2014). Cost containment becomes a core corporate function, as competitive pressures erode margins over time and firms are therefore incentivised to find cost efficiencies in order to protect profitability (Onat, Anitsal, & Anitsal, 2014). Moreover, to achieve the long run average cost advantages associated with economies of scale, cost containment becomes essential in the long range planning of the firm to ensure sustained profitability (Baumol & Blinder, 2015).

Another key constraint which motivates the need for cost containment in a firm is the increasing cost of acquiring capital (Guni, 2014). As cost containment is primarily a method of directing expenditure at the core business needs (Aruomoaghe & Agbo, 2013), capital allocation is streamlined through the cost management process in order to optimise the returns to capital.

2.7.2 A Definition for Cost Containment

Cost cutting strategies are commonplace during economic downturns as businesses seek to lower operating costs in order to protect profit margins (Deo, 2013). However, this highly developed corporate survival skill can result in short term cost controls being implemented which can have a negative effect on the ability of a company to generate profits in the future (Douglass, 2012; Guni, 2014), as essential revenue generating resources are reduced or eliminated. Cost cutting is distinguished from cost control or cost management, as its primary objective is the elimination of excess costs whereas cost containment is geared rather towards cost policies (Guni, 2014).

Cost containment, on the other hand, seeks to protect or improve profitability without damaging the future growth prospects of the company (Douglass, 2012). However, cost containment is by definition a profit-oriented strategy and consequently promotes profit protection over riskier growth strategies (Zhou, Park, & Ungson, 2013) and may therefore operate contrarily to growth-oriented strategies to achieve its primary aim. Increasingly, however, businesses are expected to continue pursuing cost containment strategies while at the same time look for innovative new avenues for growth (Accenture, 2011; Cudahy, 2011; Leinwand, 2009; Vizard, 2010). This expectation is being driven largely as a result of the renewed focus on risk management by corporations in light of the unprecedented corporate failures of the 2008-2009 global financial crisis (Kumar & Singh, 2013), as companies seek to better position themselves for fluctuating business cycles.

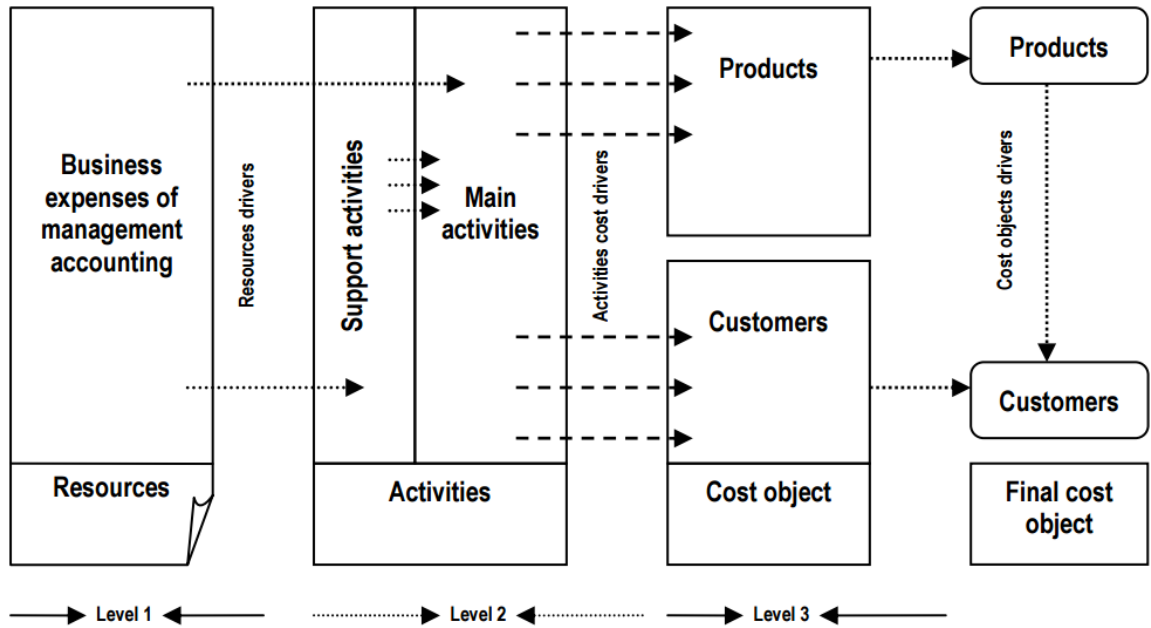
Cost containment has evolved from being primarily concerned with cost impact (traditional cost management) to looking simultaneously at cost, value and revenue (strategic cost management) with a view towards improving the strategic position of a company (Kumar & Kumar, 2011). However, the existing strategic cost management approaches are conceptual and broad in their interpretations, and therefore provide little in the way of guidance for businesses searching for tangible techniques or methodologies on cost containment tactics which do not endanger revenue growth.

2.7.3 Cost Drivers

Cost drivers are activities or factors which cause a change in the cost level of a capacity or resource being consumed (Cokins & Capusneanu, 2010) and are identified through their relationship with the direct and indirect costs of the business. Cost drivers can be broadly classified into three categories which form a typology for cost identification:

- **Resource level cost drivers** – which measure the consumption of work activities on resources, such as salaries and raw material supplies.
- **Activity level cost drivers** – which measure activities which consume resource level cost drivers.
- **Cost object level cost drivers** – represent the total combination of the resources and activities involved in the consumption of the resource or capacity.

Figure 8: Cost identification topology



(Source: (Cokins & Capusneanu, 2010))

Activity-based costing is a prominent cost-driver model which measures the consumption of resource (or capacity) costs by the cost objects identified by the cost identification topology above. Recent research into activity-based costing has shifted from studying the relations between main cost drivers and costs, towards examining the effects of cost drivers on revenue (Shields & Shields, 2005). This shift seems to acknowledge the importance of understanding cost drivers in relation to revenue drivers when positing a complete profit-driver model. However, Shields & Shields (2005) point out that although much is known regarding the drivers of cost, the literature is incomplete on the factors which drive revenue in the profit-driver models commonly used by businesses.

2.7.4 Sticky Costs

A rapidly growing literary field has emerged which is concerned with the short-run asymmetric cost response to changes in activities from short-term managerial choices, commonly referred to as sticky costs (Anderson, Banker, & Janakiraman, 2003). Costs become sticky “if the increase in costs associated with an increase in the activity driver is greater than the decrease in costs associated with an equivalent decrease in the driver” (p. 48). In a recent study, Guenther, Riehl, and Rößler (2014) found that sticky costs occur as a result of the inappropriate adjustment of committed resources in the firm to changes in levels of firm activity. The authors cite the necessity for managers to make trade-offs between the costs of retaining capacity and the costs of reducing capacity, and raise various challenges for managers in achieving the optimal balance, including the legal and social constraints of employee downsizing, as well as demand and financial uncertainty (Qin, Mohan, & Kuang, 2015). Moreover, Qin et al. (2015) found that managerial behaviour, and in particular managerial overconfidence, was a significant predictor of cost stickiness.

Nevertheless, sticky costs may be avoided (Banker & Byzalov, 2014; Guenther et al., 2014) through effective cost planning and cost accounting practises designed to either help predict future activity requirements for the firm, or identify unused resources and their magnitude on the organisation (Guenther et al., 2014). However, most management accounting practises ignore cost stickiness and instead assume symmetric cost behaviour with linear cost functions (Guenther et al., 2014).

2.8 Revenue Growth and Cost Containment Trade-Offs

The two dimensions which drive a firm’s profitability, and therefore shareholder value, are revenues and costs. Sustainable business growth (including sustainable profit growth) is achievable when a firm can grow its sales revenues and limit its expenses simultaneously (Zhou et al., 2013). In practice, this objective is difficult to achieve for most businesses as growth-oriented strategies differ from profit-oriented strategies in terms of the type of resources and capabilities required by each (Zhou

et al., 2013). Revenue growth-oriented strategies are typically externally focused whereby a business seeks to exploit new opportunities in the market, whilst profit-oriented strategies are internally focused at improving business efficiency as a path to profit growth. The consequence of these divergent strategies is that firms ultimately end up pursuing either a predominantly growth-oriented business model or profit-oriented business model at a particular point in time.

Zhou et al. (2013) suggest that the decision to follow a particular value strategy requires that the business makes a trade-off between sacrificing profits in order to grow market share in anticipation that profits will catch up once the business has matured or reached its growth targets, or forgoing growth opportunities in favour of maintaining profit levels. The researchers go on to explain that the nature of the trade-off is largely governed by the economic climate prevalent at the time of the decision, claiming that a change in climate can induce a corresponding change in strategy, as firms seek to sustain profit growth over time. This proposition is supported in the current business literature which discusses how firms which have generally pursued profit protecting, cost containment strategies in the recessionary business climate, which has persisted since the 2008-2009 global financial crisis, have a renewed appetite for growth (Accenture, 2011).

Revenue growth versus cost reduction is seen as a strategic trade-off by many firms (Aghion & Stein, 2008). Limits on financial and capital resources means that companies generally consider that an increased focus on one dimension requires less focus on the other. However, the ability to balance revenue growth and cost containment has emerged as a potential key differentiator for companies seeking a competitive edge (Gannon, 2007; Serretta et al., 2009; Stewart, 1996).

2.9 Management Dilemmas and Paradoxes

As the complexities and dynamics of the modern corporate environment deepen, companies will increasingly find themselves in a state of dynamic equilibrium (Smith & Lewis, 2011), whereby the competing business forces are continuously balancing

and re-balancing by adapting to a “continuous pull in opposing directions” (p. 386). The intensification of this veracity places increased pressure on business managers to make choices and trade-offs between poised but apparently opposite alternatives (Serretta et al., 2009; Smith & Lewis, 2011; Yoon & Chae, 2012) to manage these forces and even exploit them. Skilled managers are those that are able to develop the ability to deal with these types of management paradoxes in such a manner which makes the simultaneous achievement of the alternatives possible (Peters, 2012). This assertion is confirmed in the literature exploring the simultaneous achievement of management paradoxes, such as exploitation versus exploration (Andriopoulos & Lewis, 2009; Gielink, 2014), autonomy versus control (Gilbert & Sutherland, 2013), organisational stability and change (Farjoun, 2010; Nasim & Sushil, 2011), collaborating with competitors (Rijamampianina & Carmichael, 2005) and competition versus collaboration (Naidoo, 2013).

Although it is common place to use the terms “paradox” and “dilemma” interchangeably when referring to contradictory forces or alternatives, research suggests that there are subtle but significant differences between the terms (Lüscher & Lewis, 2008; Smith & Lewis, 2011). Understanding these differences may have tangible implications for managers seeking guiding principles when dealing with either concept.

Typically, a dilemma refers to a difficult choice between equally alternative but dissimilar propositions which will generally have a negative outcome (Lüscher & Lewis, 2008). Paradoxes, on the other hand, refer to interrelated but contradictory propositions which on the surface seem illogical but upon deeper inspection can be found to exist simultaneously and cannot function independently (Smith & Lewis, 2011). In other words, a manager facing a dilemma has a possible path to a resolution by choosing one alternative over another (Lüscher & Lewis, 2008) whereas a manager facing a paradox needs to address both sides of the proposition to find a reasonable middle ground between them. There are very significant implications for management in its ability to accurately distinguish dilemmas and paradoxes, as each constraint involves a different approach to manage. Conversely,

the inability to break or solve a dilemma could result in the dilemma being transformed into a paradox and vice versa (Lüscher & Lewis, 2008). One of the main objectives for this research study is to help clarify whether the management of revenue growth and cost control is an issue of dilemma or paradox.

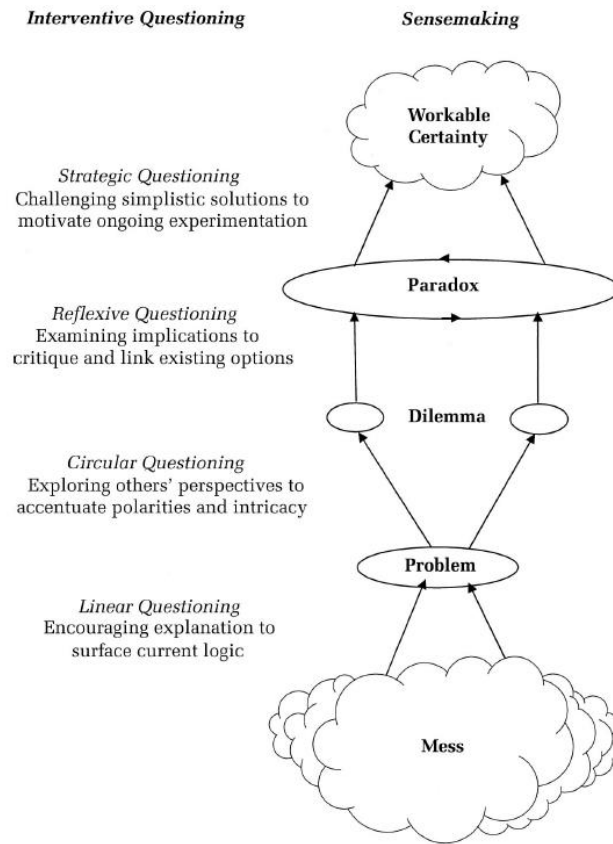
2.9.1 Managing Dilemmas and Paradoxes

Yoon and Chae (2012) provide empirical evidence to support the new epoch of modern day business which challenges managers to “do more and spend less, focus and diversify, and delegate and know the details” (p. 3516). The evidence found significant correlation between firms that were able to deploy paradoxical managerial practises and those that had successfully accomplished both innovation and efficiency objectives.

Fredberg (2014) found that CEOs of global organisations seemed to solve paradoxes through “the invention and conscious combination of opposites” (p. 179). This contextual ambidexterity was found to be achieved through the employment of certain organisational practises and capabilities, a notion supported by Smith & Lewis (2011) as being that which is achieved through managerial action.

Lüscher and Lewis (2008) propose a more prescriptive five-stage, collaborative process to assist managers with working through paradox (see Figure 9 below).

Figure 9: A collaborative process of working through paradox



(Source: Lüscher & Lewis, 2008)

The process is driven by interventive questioning which is designed to challenge the manager to experiment with alternative framings and approaches in order to disaggregate the seemingly paradoxical issue into its intrinsic characteristics. This collaborative approach of sensemaking is, however, not designed to solve the paradox for the manager, but rather to guide the manager through a process towards unearthing new understandings about the contradictions at play. The stages of the sensemaking process take the manager from mess, where an imprecise issue of concern is stated, through to problem definition and dilemma analysis, where the horns of the dilemma are explored towards discovering links between the horns, with the view of abandoning the “either/or” mind-set in favour of “both/and”. Each stage

encourages deeper analysis of the intricacies of the issue and towards a more workable certainty on which a decision can be taken.

2.10 Summary to the Literature Review

In framing the relevance of managing the dilemma of balancing revenue growth and cost containment, the literature review first set out to validate the theory of the firm and its widely accepted profit-maximisation objective (Dorina et al., 2012; Spulber, 2009). The review then turned to explore the current economic and management thinking on the factors which influence the ability of a firm to grow its revenues while containing its costs in order to maximise its profits. The emergent tensions, contradictions and fissures in the existing literature steered the review into the emerging field of dilemma and paradox management and highlighted its unexplored potential as a profit-maximisation lever for managers.

A review of the current management and behavioural theory revealed the propensity for managers to maximise their own utility over that of the firm (O'Byrne & Young, 2010). The literature points to the time orientation (Antia et al., 2010; Brauer, 2013) and cognitive limitations (Sims et al., 2013; Yao & Li, 2013) of managers as the main instigators of the bias. Similarly, the behaviour and time orientation of shareholders is shown to influence management decision-making in terms short-term versus long-term value creation strategies motivated by their investment objectives (Bolton & Samama, 2013; Graham et al., 2005; Thanassoulis, 2014). The implication for the profit-maximisation maxim is significant as the managers of the firm are tasked with the primary decision-making responsibilities which affect revenue growth and cost activities, and they therefore occupy a pivotal role. And while the current literature is clear in the need to align manager incentives with firm objectives (Akron & Benninga, 2013; Balsam et al., 2011; Nyberg et al., 2010; Shin, 2013; Zhang & Jiang, 2015), the literature does not adequately address the cognitive challenges which managers encounter when operating in dynamic and complex business environments, which continually requires managers to make decisions involving trade-offs which affect revenues and costs, and which ultimately have consequences for firm profitability.

The economic literature regarding profit-maximisation and its drivers is mature and fairly prescriptive. Profit-drivers can be external to the firm (Porter, 2008) or can be sourced from within the firm (Kraaijenbrink et al., 2010; Makadok, 2011), with both theories purporting the need for the firm to secure a competitive advantage in order to protect superior profits. At the firm level, microeconomic theories (Baumol & Blinder, 2015; Baye, 2013) prescribe optimal production functions for profit maximisation in the short-run and the long-run, and deal adequately with the recommended revenue and cost-drivers. However, the prevalence of sticky costs (Anderson et al., 2003) is indicative of the narrow production focus of these theories and therefore their inadequacy of encompassing the complex nature of costs within a firm. Moreover, the transference of theoretical economic ideas to practical business scenarios appears to be problematic due to the over-simplification of economic models which do not align with business realities. Consequently, the economic literature is incomplete in factoring in the convolutions of costs and its relation to revenues, and therefore does not provide a complete management framework towards maximising profitability.

In considering revenue growth versus cost containment strategies, a review of the current literature revealed that firms generally view growth-strategies and cost-strategies as trade-offs, with a focus on one dimension meaning less focus on the other (Zhou et al., 2013). Consequently, the current literature deals with cost-driver and revenue-driver models independently but fails to postulate adequate middle grounds which incorporate both dimensions. Strategic cost management has surfaced as a potential bridge between the horns of the dilemma of revenue growth and cost containment (Kumar & Kumar, 2011), however the current literature is broad and conceptual, and offers little in the way of guidance to business practitioners.

Finally, the management of dilemmas and paradoxes is rapidly becoming the next frontier in management practice and managers will need to master the art of negotiating ambiguities (Fredberg, 2014; Lüscher & Lewis, 2008; Yoon & Chae, 2012). Literature dealing with specific management dilemmas has begun to emerge

and further insights into these and other critical management dilemmas (Gielink, 2014; Gilbert & Sutherland, 2013; Serretta et al., 2009) is required in order to provide management teams with the guiding principles to traverse the complex arena of dilemma management. There is currently no evidence of any research into the management of revenue growth and cost containment through the lens of dilemma or paradox management. Given the relevance to firm profit-maximisation, this study therefore aims to explore the apparent dilemma of balancing revenue growth and cost containment, by investigating the management, behavioural and economic factors which influence the trade-offs between the two horns of the dilemma.

Chapter 3: Research Questions

3.1 Introduction

This research study seeks to explore the issue of managing the dilemma of balancing revenue growth and cost containment. A review of the current literature in Chapter 2 revealed the current understanding of management dilemmas and paradoxes and their significance in the context of firm performance and competitive advantage. The literature review also exposed the dominant factors driving both revenue growth and cost containment, and highlighted the tensions between these factors which constitute the management dilemma under scrutiny. And whilst there is consensus in academia, as well as amongst business practitioners, that managers need to find a balance between growing the business and managing costs to maximise firm value, there is no consensus on how this could be achieved.

Accordingly, this research study aims to provide insights into the management dilemma of growing revenues and containing costs, through the effective discourse and discovery of the practical factors which influence the dilemma, and thereby derive a meaningful and workable framework for managers confronted with the dilemma. To achieve this outcome, the research will seek to answer the following questions:

3.2 Research Questions

3.2.1 Research Question 1

Are managers able to pursue a mutually exclusive revenue growth or cost containment strategy to maximise economic profits and what are the outcomes of each of these strategies?

3.2.2 Research Question 2

What are the key factors which influence a manager's decision to pursue a mutually exclusive revenue growth or cost containment strategy?

3.2.3 Research Question 3

Are managers able to optimise revenue growth while simultaneously optimising cost containment to maximise economic profits and what are the outcomes?

3.2.4 Research Question 4

What are the key factors influencing a managers ability to simultaneously optimise revenue growth and cost containment to maximise economic profits?

Chapter 4: Research Methodology

The importance of selecting and following an appropriate research strategy or methodology for the study is to ensure that outcomes and results from the study can be generalised (Adams, Khan, & Raeside, 2014). This chapter explains the rationale behind the research strategy and ensuing research design that was adopted in studying the management dilemma of revenue growth and cost containment, and serves to outline the methods and techniques that were employed during the research stage of the study.

The research study followed a qualitative, exploratory approach and was conducted through a series of in-depth, semi-structure interviews with industry and academic experts. Qualitative data analysis techniques were then administered to the data collected during the interviews in order to identify common themes and observations in context of the research questions which explored the main thesis of how revenue growth and cost containment may be optimised to maximise firm performance.

4.1 Research Strategy and Design

A review of the current literature revealed that much is understood about the economic science of growing revenues and containing costs in the context of profit maximisation, however the understanding of the relation between revenue and cost is superficial at best. This becomes evident when firms, in an attempt to preserve profits, unintentionally cut costs which support revenue generating activities. Therefore, in order to deepen the understanding of the revenue-cost relationship, the research aims to delve into this connection by uncovering new insights and understandings through the experiences and perspectives of the people charged with making decisions that impact revenue and cost in the business. Ritchie, Lewis, Nicholls, and Ormston (2013) suggest that when researching a subject that is underdeveloped or complex, a more qualitative research strategy is recommended to help explore and define new concepts and phenomena. Zikmund, Babin, Carr, and Griffin (2012) support this assertion and put forward qualitative research as a

way to “discover true inner meanings and new insights” (p. 132) in interpreting market phenomena. This is contrasted with quantitative research strategies which are used primarily to measure and test pre-defined theories (Zikmund et al., 2012) as opposed to observing and interpreting phenomena. Therefore, the primary investigative strategy adopted for this research was qualitative in nature and was driven predominantly by the need for the research to expose new insights into how revenues and costs are intrinsically related in the context of adopting a management strategy that seeks to leverage both constructs towards maximising firm performance.

The decision to pursue a revenue growth and/or cost containment strategy falls within the responsibility line of senior management and therefore understanding the factors and influencers on management decision-making, in the specific context in which management operates, is essential to unearthing new observations for the study. Ritchie et al. (2013) posit that the aim of qualitative research is to provide an in-depth understanding of a social context by exploring the social and material circumstances, experiences and perspectives of people who act in the specific context. Silverman (2013) notes that observable features of the social world depend on how the social organisation around that world is structured. And finally, Merriam (2014) opines that a qualitative design focuses on understanding the perspectives of those being studied and is therefore appropriate for research where a practical outcome is sought.

The research design employed for the study was highly exploratory in nature. The choice of research design is inherently governed by the nature of the research question(s) under investigation (Adams et al., 2014). Research seeking to simply describe or quantify an observed phenomenon and which does not aim to explain its characteristics and properties lends itself to a more descriptive research design (Adams et al., 2014; Saunders & Lewis, 2012). However, in order to help explain the nature of an observed phenomenon, we need “a deeper understanding of the interaction between variables, which constitute the basis of peoples’ behaviour” (Adams et al., 2014, p. 64) and therefore an exploratory analysis of the behaviour is

required. Zikmund et al. (2012) further assert that exploratory studies are conducted to “clarify ambiguous situations” (p. 52) and is useful when the researcher is seeking to gain a firm understanding of the situation being studied.

The apparent complexity and tension between the two horns of the dilemma inherent in the research thesis under review, namely the management challenge of balancing revenue growth and cost containment to maximise firm value, which was emergent during the literature review in the study, suggests that there is still much to be understood in terms of the relation between revenue and cost, and how this relationship should be managed. By implication, any study seeking to add to the literary body of knowledge about the relation under scrutiny would ideally need to unearth new insights about how each construct affects or is affected by the other, and the management implications thereof. Saunders and Lewis (2012) submit that exploratory studies are useful for studying topics that are not clearly understood and require investigation to glean fresh insights and to assess topics in a new light.

Semi-structured, face-to-face interviews were used as the primary data collection method for the study. According to Saunders and Lewis (2012), interviews with experts on a subject being studied is an effective method in exploratory research. The use of semi-structured interviews as a data collection method allowed the researcher the unique flexibility of addressing the specified dimensions of how managers can balance revenue growth and cost containment, whilst also “leaving space for study participants to offer new meanings to the topic of study” (Galletta, 2013, p. 2). This flexibility complements the research design which seeks to understand the complex phenomena of the research topic through exploration and which “describes reality as experienced by the respondents” (Adams et al., 2014, p. 6). This is contrasted with the structured interview method in which a standard set of questions is posed to all participants in order to maintain data uniformity (Saunders & Lewis, 2012). Structured interviews are appropriate for descriptive as opposed to exploratory studies in which data needs to be collected from a large number of participants, usually by way of a standardised questionnaire. Unstructured interviews provide a third option for collecting data from participants but is not considered

suitable for this research design given the time constraint of the study. With unstructured interviews, there is no predetermined list of questions and participants are encouraged to direct the conversation (Saunders & Lewis, 2012).

The use of face-to-face interviews allowed the researcher to drill into the individual perspectives of each interviewee and thereby attain deeper subject coverage (Ritchie et al., 2013). This type of interview is useful to explore subjects that require considerable thought and where responses need to be clarified (Easterby-Smith, Thorpe, & Jackson, 2012). Rubin and Rubin (2011) explain in-depth interviewing as a way to “explore in detail the experiences, motives and opinions” (p. 3) of those who have experience or knowledge of the problem of interest, in an effort to see the problem from their perspective. Furthermore, face-to-face interviews afforded the researcher the opportunity to capture additional, non-verbal clues that were used to help verify and interpret data responses (Easterby-Smith et al., 2012).

One of the key outcomes of the research was the formulation of an empirical framework or theory, derived from the collected observations, and which as Adams et al. (2014) explain, is one of the aims of exploratory research as it seeks to link factors and elements of issues into general statements and building, testing or revising a theory. Reinforcing the selected research design, grounded theory was adopted as a philosophy in developing an empirical theoretical framework or *post hoc* theory for the study. Grounded theory is an inductive research approach which seeks to develop a generalised theory from data collected by a series of discussions or interviews (Adams et al., 2014; Saunders & Lewis, 2012). This inductive approach was consistent with the qualitative, exploratory nature of the research design and was congruent with the underlying research strategy which sought to place emphasis on developing new understandings in context of the research problem and which can be generalised to the real-world managerial challenge of balancing revenue growth and cost containment in a business.

4.2 Population

When considering the population for the study, and ultimately the constituency from which a sample would be drawn for research purposes, it was pertinent to consider which population was best positioned to provide the richest and most relevant information towards answering the research question (Ritchie et al., 2013). Therefore, the population deemed to have met this criteria for the research study were leaders in the area of strategic business management, including executive managers who occupy strategic decision-making roles within their organisations, as well as knowledge experts (consultants and academics) who specialise in the fields of business strategy and dilemma management. The total size of the population is unknown as there are no known or reliable data sources of data on the nominated population for the study.

The executive managers selected for the research study were regarded as having extensive exposure and experience in leading and managing business units which pursue a profit directive, and who were most likely to have encountered the dilemma of having to manage revenue growth and cost containment. Executive managers represent the business practitioner's perspective on the dilemma and their applied experience in the management domain was drawn upon to provide valuable practical insights to the thesis under review. For the purposes of research study, the population constituted managers in strategic decision-making roles who are responsible for determining the strategic policies and tactics for the business that affect revenue growth and/or cost containment activities. Consequently, the following management roles were targeted and form part of the research:

- Chief Executive Officer
- Chief Finance Officer
- Finance Director or Vice President Finance
- Chief Marketing Officer
- Managing Director
- Marketing/Sales Director or Vice President Marketing/Sales

In order to obtain a comprehensive perspective of the dilemma under scrutiny and to consider the latest developments in the fields of strategic business and dilemma management, it was pertinent to consider the opinions and perspectives of experts and academic thought leaders in the respective fields of business management, namely strategy and dilemma management. Accordingly, the following knowledge expert roles were included in the research:

- Management Consultants (specialising in the fields of strategic management, finance and marketing)
- Academics (specialising in the fields of strategic and dilemma management)

4.3 Sample

Congruent to the exploratory nature of the elected research method for this study, purposive, non-probability sampling was used to sample 20 participants from the research population. Purposive sampling is a non-probability sampling method which is typically employed to collect qualitative data in scenarios where the researcher's judgment is used as the basis for selecting the members of the sample and is generally based on some pre-determined criteria (Saunders & Lewis, 2012). The sample selection for the research was judgemental in nature and the researcher made an active decision as to who in the population was best positioned to provide insights to the research topic and could help answer the research questions. The criteria that was used to select the research sample was based on the level of experience and perceived knowledge levels of the targeted sample members, as well as their proximity to the research questions. Ritchie et al. (2013) point out that purposive sampling is useful to ensure all constituencies relative to the research topic are considered, as well as to purposely include enough diversity in the sample to motivate a generalisation of the research findings.

Furthermore, a homogenous varietal of purposive sampling (Saunders & Lewis, 2012) was employed in order to allow the characteristics of the management dilemma to surface. The homogenous sub-groups identified for the study were

executive managers in strategic decision-making roles and knowledge experts in the domains of strategic business and dilemma management. In addition, given the exploratory nature of the research, the minimum sample size was unknown and therefore the use of homogenous purposive sampling allowed for the emergence of a natural saturation point in the sample data, which was the point at which no new ideas or themes emerged from the data, and where the sample size was considered adequate and representative (O'Reilly & Parker, 2013). The saturation point was reached within the 20 interviews, which is evidenced in Figure 26 in Appendix 3, at which point the emergent themes, ideas and insights were convergent and became repetitive.

A complete description of the sample of 20 participants is detailed in Table 1 below. It should be noted that the order of the participants depicted in Table 1 is random and is in no way associated with the order in which the interviews were conducted. Furthermore, the participant order in Table 1 is used to simply quantify the number of participants in the study and is not used to tag or identify participant comments or quotations that are included in the analysis of the results of the data collection phase of the study, which is detailed in Chapter 5 of this research report.

Table 1: Sample description: list of participants

Participant Name	Designation/Role	Company	Industry
Brand Pretorius	Chief Executive Officer	McCarthy Limited	Motor retail
Ian Fuhr	Chief Executive Officer	Sorbet Group	Beauty
Michael Van Straaten	Chief Executive Officer	Verimark Holdings Limited	Retail
Richard Farber	Chief Financial Officer	Discovery Group	Insurance

Participant Name	Designation/Role	Company	Industry
John Ferreira	Chief Executive Officer	Metorex Group	Mining
Ashley Cohen	Chief Executive Officer	CQS Technology Holdings	Information technology
Alistair Mokoena	Managing Director	Ogilvy & Mather	Advertising & media
Sydney Mbhele	VP Group Marketing	Nedbank	Banking
Charl de Villers	Chief Financial Officer	Stellar Capital Partners Limited	Financial services
Johan Nel	Chief Executive Officer	Iemas Financial Services (Co-Op) Ltd	Financial services
Tom O' Connell	Chief Financial Officer	Iemas Financial Services (Co-Op) Ltd	Financial services
Madelein Barkhuizen	VP Marketing	Iemas Financial Services (Co-Op) Ltd	Financial services
John Ford	Associate Professor of Finance	Gordon Institute of Business Science	Executive education

Participant Name	Designation/Role	Company	Industry
Richard Tait	Chief Executive Officer	Mine Restoration Investments	Mining
Marc Ramsay	Vice President	Schneider Electric	Electrical distribution
Tertia Barrett	Consultant	Private	Management consulting
Graham Wackrill	Chief Executive Officer	Metrofile Holdings	Information technology
Stacey Brewer	Chief Executive Officer	eAdvance Group	Education
Mike Wood	Managing Director	EOH Employee Benefits	Employee benefits
Greg Fisher	Assistant Professor of Management and Entrepreneurship	Indiana University	Education

The sample set for the research included executives and knowledge experts sourced from a diverse and broad set of industries, as well as from a range of business sizes and structures so as to reduce any bias associated with any particular industry or business structure.

4.4 Unit of Analysis

The unit of analysis in this study is the perceptions of executive managers and knowledge experts with regard to the dilemma of balancing revenue growth and cost containment in the context of firm economic performance maximisation. The analysis

phase of the research thus focused on making inferences and drawing conclusions from participants' comments.

4.5 Data Collection

4.5.1 Data Collection Process

Data for the research study was collected through 19 face-to-face interviews and one interview which was conducted via video conference. The average duration of the individual interviews was approximately 45 minutes, with the shortest interview lasting 36 minutes and the longest lasting an hour and six minutes. The interviews were facilitated through the use of an interview guide (Adams et al., 2014), which is documented in Appendix 1 of this research report, and which comprised 11 semi-structured questions designed to explore the individual research questions for the study, as well as the central thesis. Each participant was requested to provide consent to being interviewed and recorded. Participant interview consent was captured using an interview consent form, which is documented in Appendix 2 of this research report. All interviews were recorded with the permission of the participants and later transcribed for the purposes of data analysis. Participant body language and other non-verbal clues were noted and used to help verify and interpret data responses (Easterby-Smith et al., 2012). Probing techniques (Easterby-Smith et al., 2012; Saunders & Lewis, 2012) were used to delve deeper into participant comments in order extract added detail to clarify participant comments.

4.5.2 Interview Guide

An interview guide was used to ensure consistency through the interview process, as well as to maintain interviewer neutrality and not influence the participants in any way (Richards, 2010). The interview guide is included in Appendix 1 of this research report. The questions included in the interview guide were designed to direct the

semi-structured interviews towards answering the four main research questions in the study, while at the same time allowing a degree of freedom for participants to explore the main research topic more deeply in order to allow participants to give expert opinion on the research topic. Rubin and Rubin (2011) refer to this technique as responsive interviewing. Furthermore, the interview guide was subjected to a pilot test, prior to the commencement of the interviews and data collection process for the research, in order to verify the clarity of question content with the pilot test participants, as well as to detect the presence of leading or biased questions.

4.5.3 Pilot Test

Preceding the commencement of the interviews for the study, two pilot interviews were conducted to test the clarity and effectiveness of the interview questions contained in the interview guide in addressing the research questions (Ritchie et al., 2013). The pilot interviews also provided the researcher with an opportunity to attain a greater level of familiarity and comfort with the interview process in terms of being able to recognise relevant participant comments that require further exploration, while simultaneously picking up non-verbal clues from the participants (Easterby-Smith et al., 2012).

During the pilot interviews, it was noted that certain of the questions included in the interview guide were close-ended and did not sufficiently stimulate discourse on the subject being explored. These questions were altered from direct question formats to probing and indirect question formats (Saunders & Lewis, 2012) to encourage participants to support question responses with experiential narratives. However, the nature and content of the interview questions were not radically altered and therefore the data collected from the pilot interviews was included in the analysis dataset for the research (Ritchie et al., 2013).

4.5.4 Data Collection Observations

Each participant in the research sample was observed during the interview process and their body language and other non-verbal clues were noted in order to discern discomfort or puzzlement with any of the research questions (Adams et al., 2014). The researcher established a sense of trust with the participants, allowing the participants to feel at ease with exploring their perceptions of the research questions and thereby enhancing the quality of the responses (Easterby-Smith et al., 2012; Rubin & Rubin, 2011). All participants displayed openness and ease with the nature of the questions and were fully engaged in delving into the subject matter. Galletta (2013) points out that generating engagement during the interview process is essential to leading participants to generate meaning from their individual experiences.

The sequence of questions in the interview guide for each participant varied based on the responses of the interviewee, which is a distinctive characteristic of a semi-structured interviews and is designed to allow the participant to delve into questions they feel most prepared to answer (Saunders & Lewis, 2012). Additionally, some questions were omitted from interviews that were not relevant to the participant based on their roles or level of knowledge of the subject matter.

Participants demonstrated high levels of interest in the research questions and it was emergent at the beginning of each interview that balancing revenue growth and cost containment was a common management challenge and one that all participants had grappled with in varying degrees. As each interview unfolded and participants were asked to delve deeper into the management issue, it became evident that the management dilemma under scrutiny was highly complex and that there was no clear recipe to balancing revenue growth and cost containment in a firm. Participants became increasingly contemplative about their own perceptions of the dilemma and as the interview progressed, participants explored their own ideas and opinions of how a balance between the horns of the dilemma could be achieved. Rubin and Rubin (2011) refer to this unravelling of the topic as “a process of discovery” (p. 7).

4.6 Data Analysis

4.6.1 Qualitative Data Analysis

Data analysis is “the art of collecting and interpreting data” (Huber, 2012, p. 9) and qualitative data analysis, in particular, is concerned with classifying and interpreting data towards being able to make implicit and explicit inferences about the structures and dimensions of the data in an effort to extract social meaning (Flick, 2014). The aim of the data analysis phase was to, firstly, describe the phenomenon of the management dilemma under study, by comparing the knowledge and experiences of the experts being interviewed, and then develop a theory from the empirical data which could be generalised to the management problem. Flick (2014) supports this approach to analysing social phenomena as a method to move from data to representation to meaning.

The data analysis process was recursive between data collection and data analysis which allowed the researcher to explore insights gathered in earlier interviews during later interviews (Saunders & Lewis, 2012). Miles and Huberman (1994) argue that a third component of the iterative process is data reduction, which involves summarising data through aggregation. Furthermore, oscillating between different themes and components allowed a level of experimentation and learning which Easterby-Smith et al. (2012) suggests allows the researcher to obtain a deeper understanding of new insights and ideas.

4.6.2 Content Analysis

Content analysis was used as the primary data analysis method for the research study given its strengths in exploring large amounts of textual information in search of trends and patterns that can be used to identify relationships in the data collected from the interviews (Grbich, 2012). The interviews conducted during the research study were transcribed into textual records in preparation for content analysis, after

which enumerative analysis was performed on word and category frequency, and the co-occurrence of words and ideas was noted. This is commonly referred to as frequency analysis (Saunders & Lewis, 2012). Thematic analysis was achieved using qualitative coding techniques, which groups and labels data into logical constructs or themes (Grbich, 2012). Thematic analysis also “permits mining down much deeper into this documentation to provide other levels of interpretation and theorising” (p. 198). The aggregated themes were then mapped to the research questions in the study and was aimed at providing insights and/or answers to the main questions posed in the study. Computer-aided qualitative data analysis software (CAQDAS) was used to perform the coding for the content analysis on the collected sample data, allowing the researcher to track every decision made during the analysis which enabled increased transparency during the research process (Seidman, 2013). The content and thematic analysis process was iterative and exhaustive to ensure grouping consistency and validity. An extract from the coding process is displayed in Appendix 3 and of this research report.

Content analysis is also an important technique to ensure that objectivity is applied to the analysis of the data in order to neutralise any bias inherent in the researcher’s interpretation of the data (Zikmund et al., 2012). This is primarily because content analysis is a non-reactive measurement technique where “the messages are separate and apart from the communicators and receivers” (Riff, Lacy, & Fico, 2014, p. 30).

4.7 Reliability and Validity

Achieving reliability and validity in the research process is an important criterion to ensuring rigor in the research process in order to support the credibility of the research findings (Morse, Barrett, Mayan, Olson, & Spiers, 2008; Saunders & Lewis, 2012). Reliability measures the extent to which the chosen research design and analysis produces a consistent set of findings, and validity is concerned with the degree to which the research methods measure the expected phenomenon (Saunders & Lewis, 2012). For this research study, the issue of reliability was

addressed through the iterative process of data collection and data analysis (Saunders & Lewis, 2012) where the fit between the collected data and conceptual analysis was consistently monitored and corrected (Morse et al., 2008).

4.8 Research Limitations

The following potential limitations were identified for the study:

- A purposive sampling methodology was used to identify the sample set for the research. Given that purposive sampling relies on the judgement of the researcher, the collected data sample may have been subject to sampling bias based on the views, beliefs and opinions of the researcher and therefore the risk of sample representability is acknowledged.
- The inherent limitation of the non-probability sampling methods that were employed in this study means that samples are not statistical representations of their populations and therefore do not represent an absolute generalisation of the population set (Saunders & Lewis, 2012).
- The researcher had no formal training or experience in conducting social interviews for research purposes. Galletta (2013) states that interview skills develop over time through “one’s reflection of the interview process” (p. 107). The potential implication for the study is that the researcher’s ability to effectively manage the interview process and apply the required probing techniques to solicit the desired expert insights may have been constrained to the researcher’s limited skill and experience in conducting expert interviews.
- The sample data set for the research comprised business executives and experts sourced mainly from organisations operating predominantly in South and Sub-Saharan Africa. Consequently, the views and opinions of business executives and experts may have been subject to contextual biases inherent in the immediate operating environment for the represented organisations.

4.9 Conclusion

A qualitative, exploratory research design was followed for this study in order to discover new insights into the dilemma of balancing revenue growth and cost containment in a firm. A qualitative methodology was appropriate given the dynamics and complexities of the research topic which was not adequately addressed by the current literature. Data for the research was collected via semi-structured, face-to-face interviews with business leaders and knowledge experts in the areas of strategic and dilemma management. The perceptions of the participants were analysed using qualitative content analysis techniques, which sought to draw inferences from the collected data with the objective of forming a general theory or *post hoc* theoretical model around the observed dilemma phenomena. To help ensure the rigor of the research findings, methods to assess the reliability and validity of the research design and analysis were applied to the respective data collection and analysis stages of the study, the results of which are discussed in the next chapter of this research report.

Chapter 5: Research Results

The results of the data collection process outlined in Chapter 4 of this report are presented in the sections below. The results are presented in alignment with the research questions posed in Chapter 3 and the main observations are discussed for each question with a view towards closing down or answering the research questions for the study. A discussion of the results, and insights gleaned from the collected observations, follows in Chapter 6.

5.1 Introduction

A total of 20 face-to-face interviews were conducted over period of three months. The interview process and flow was designed to guide participants towards considering the main thesis of the research, namely whether managers are able to simultaneously optimise revenue growth and cost containment to maximise economic profits. The interview process was directed with the aid of an interview guide, which is included in Appendix 1 of this research report.

At the beginning of each interview, participants were encouraged to share their personal experiences on whether balancing revenue growth and cost containment was a management challenge they had confronted previously. This initial participant engagement was intended to aid participants in framing the dilemma under review as well as affording participants room to grapple with the idea. Participants were then taken through a line of questioning that explored the factors and outcomes of scenarios where the revenue and cost decisions are not considered concurrently. Finally, the interview questioning converged back on to the main theme of balancing revenue growth and cost containment, with participants being asked to consider whether a firm could simultaneously balance revenue growth and cost containment in order to maximise economic profits, and what factors affected the manager's ability to pursue an integrated strategy.

Participants were observed to be highly engaged with the dilemma under review and after considering the management issue initially, became increasingly contemplative about the complexities of managing in both directions of growth and cost. When finally probed for a substantive response to the main thesis of whether revenue growth and cost containment could be balanced to maximise economic profits, although resolute on their initial opinions, participants, in general, seemed less certain on the practical factors that lead managers towards achieving the optimal balance.

Participant body language was also observed during the course of each interview and a general trend was detected amongst the participants. At the beginning of the interviews, participants appeared comfortable and relaxed with the nature of the questioning. As the interviews progressed and converged on the main thesis, participant body language generally became increasingly pensive as participants unearthed the complexities of the management dilemma.

Common themes and insights emerged from the collected data responses, which were coded and condensed using the content analysis methods outlined in Chapter 4 of this report. Frequency analysis was then used to cluster the data into the relevant research questions and the respective results are presented below. The researcher asserts that data saturation was reached and a satisfactory respondent data set was achieved.

5.2 Data Characteristics

The participants in the study were selected from a broad spectrum of industries with large, medium and small firms being represented in the study. A total of 20 participants, comprising 18 senior managers and two knowledge experts, were interviewed for the study. The breakdown of participants per role type is detailed in Table 2 below.

Table 2: Sample data characteristics: participants by role type

Participant Role Type	Number of Participants
Chief Executive Officer / Managing Director	12
Chief Finance Officer / Finance Director or Vice President Finance	3
Chief Marketing Officer Marketing Director / Vice President Marketing / Sales Director	3
Knowledge Expert / Management Consultant / Academic	2
Total Number of Participants	20

A majority of the participants have extensive experience in senior management or leadership roles, which are characterised by their strategic decision-making responsibilities. The average experience level of the chief executive officer/managing director role of the participants in the study is 19 years, with five of the participants possessing over 20 years' experience at the chief executive officer/managing director level in their organisations. Three participants have experience levels greater than 30 years at the chief executive officer/managing director level. A description of participants' level of experience per role type is detailed in Table 3 below.

Table 3: Sample data characteristics: experience level in years by role type

Participant Role Type	Min	Ave	Max
Chief Executive Officer / Managing Director	3	19	39
Chief Finance Officer / Finance Director or Vice President Finance	1	11	20
Chief Marketing Officer Marketing Director / Vice President Marketing / Sales Director	8	14	17
Knowledge Expert / Management Consultant / Academic	10	20	30
Total Participants	1	17	39

In recording individual participant responses, participants were coded with random identifier tags or numbers in order to safeguard the confidentiality of the interviewees. The participant comments or quotations which are included in this research report are anonymous and are included to enrich the analysis of the data.

5.3 Research Question 1

Are managers able to pursue a mutually exclusive revenue growth or cost containment strategy to maximise economic profits and what are the outcomes?

During the interviews, participants were asked to consider whether it is possible for a firm to pursue either, a revenue growth strategy with cost containment as a secondary objective, or a cost containment strategy with revenue growth as a secondary objective, with each option constituting a revenue growth strategy or a cost containment strategy respectively. Frequency analysis was then used to aggregate the responses into three categories which reflect each of the possible outcomes to the proposition, namely:

- Managers are able to pursue a revenue growth strategy with cost containment as a secondary objective
- Managers are able to pursue a cost containment strategy with revenue growth as a secondary objective
- Managers are not able to pursue a mutually exclusive revenue growth or cost containment strategy to maximise economic profits

The results collected from the individual responses were recorded in Table 4 below. Participants were able to offer multiple responses for the propositions.

Table 4: Ranking of responses to pursuing a mutually exclusive strategy

Ranking	Are managers able to pursue a mutually exclusive revenue growth or cost containment strategy to maximise economic profits and what are the outcomes?	Number of Participants
1	Managers are able to pursue a cost containment strategy with revenue growth as a secondary objective	11
2	Managers are able to pursue a revenue growth strategy with cost containment as a secondary objective	9
3	Managers are not able to pursue a mutually exclusive revenue growth or cost containment strategy to maximise economic profits	7

Participants felt that it is possible for a firm to pursue either a revenue growth or cost containment strategy at any given time to maximise the profits of the firm, but that the decision to adopt a mutually exclusive strategy was mostly influenced by external forces on the business, forcing the firm to react to those forces. Participants also noted that following a mutually exclusive revenue growth or cost containment strategy was usually a temporary reaction to either an opportunity or threat in the market. In particular, there was a clear opinion that firms typically followed cost containment strategies in response to depressed market conditions, while revenue growth strategies are adopted in order to capture market share in an expanding market.

The specific factors which influence the decision to pursue an exclusive strategy is discussed in the analysis of the results for research question 2 below. Participants supporting the assertion that a firm could follow either a revenue growth or cost containment strategy to maximise the profits of the firm reported the following specific insights:

- ❖ “You would be pursuing one strategy over the other at any given moment. So when you’re attacking the market you may have a high propensity to spend...to invest.” – Participant 1
- ❖ “Depending on the context in any point in time, one or the other may have higher priority.” – Participant 3
- ❖ “There is more pressure to look at costs when the business is under pressure.” – Participant 5

5.3.1 Revenue Growth as the Primary Objective

Nine participants highlighted revenue growth as strategy with cost containment as a secondary objective as a viable strategy to increase firm profitability. Most participants felt that the primary objective of business is to grow and that a failure to pursue a revenue growth strategy over cost containment would result in declined market share. A number participants cited scenarios where the business had a

competitive advantage that it could exploit over its competitors as a legitimate reason to prioritise revenue growth over cost containment. Most participants also qualified the decision to follow a revenue growth primacy on the basis that the business had a higher variable cost versus fixed cost component to its cost base. Indicative responses to the question are reported below:

- ❖ “Yes. When you maybe have very little market penetration or high market demand or a competitive advantage you want to leverage and you have a low fixed cost base and high variable cost component. In this scenario, you don't care if your costs go up because it tracks revenue.” - Participant 1
- ❖ “The success of any business is determined by its ability to grow.” - Participant 8
- ❖ “Even though times are tough, we are looking at expanding our marketing team. I would take that risk and optimise it as far as possible.” - Participant 8

5.3.1.1 Outcomes

Table 5: Ranking of outcomes of pursuing a revenue growth strategy

Ranking	The outcomes of pursuing a revenue growth strategy with cost containment as a secondary objective	Number of Participants
1	Revenue and cost become disjointed	5
2	Overtrading	4
2	Revenue growth masks operational inefficiencies	4

Most participants agreed that a major consequence of pursuing an exclusive revenue growth strategy was that revenue and costs would become disjointed over time and that the decision making around revenue and cost would become disconnected. The implication, which participants explained, was that managers eventually make revenue and cost decisions in isolation, without considering the net effect of those decisions on firm profitability.

Five participants cited the risk of overtrading as an outcome of following an exclusive revenue growth strategy where aggressive growth strategies that are not accompanied with sufficient growth capital, risked expanding the firm faster than its natural growth rate, which could result in cash flow challenges that could threaten the firm as a going concern. Additionally, five participants explained that, typically, businesses allocate additional resources to secure new sources of revenue and end up over-servicing new prospects. One participant went as far as to say that when management, in its pursuit of revenue, does not know how to make a business profitable, it tends to direct even more resources to the issue in hopes of solving the problem.

Participants also felt that rapid growth in a business can mask operational inefficiencies which could later impact the effectiveness of the business when growth slows. Firms then attempt to rectify these inefficiencies during cost sensitive periods, when capital expenditure is being constrained. Individual responses to the question of outcomes is details below:

- ❖ "As businesses grow, the relationship between revenue and cost is to a lesser extent analysed" – Participant 1
- ❖ "The business grew too quickly and lost a high level perspective on what they were spending money on." – Participant 1
- ❖ "The challenge in good times is that your inefficiencies get hidden away." – Participant 8
- ❖ "And if you focus too much on revenue, then you will eventually have to spend more to grow again." – Participant 11

5.3.2 Cost Containment as the Primary Objective

Eleven of the 20 participants felt that cost containment could be pursued as a strategy to sustain or protect business profits during economic contractions. Some participants felt that in the aftermath of a restructure to the business, it almost always makes sense to contract the business until it completely understands the drivers of

revenue and cost in the business. One participant stated that it made sense for a business to follow a cost containment strategy if the efficiency of its business processes were not sufficient to optimally deal with the addition of new customers and that taking on additional customers may in fact harm the business in the long run. Participants reported the following comments on pursuing a cost containment strategy with revenue growth as a secondary objective:

- ❖ “If your business is not efficient, adding a new customer could increase your loss if you are not making profits or if you have declining efficiencies.” – Participant 1
- ❖ “Right after a restructure, it’s probably always a better idea to first contract the business because you don’t understand what is driving revenue and what is driving cost.” – Participant 1
- ❖ “Once growth starts to taper and the investment required to generate additional growth starts to get out of control (marginal or incremental contribution), then it’s time to look at the costs. The cost management process would take priority.” – Participant 3
- ❖ “I think there is a point beyond which you shouldn’t be looking to drive revenue growth without optimising what you have.” – Participant 4
- ❖ “There is more pressure to look at costs when the business is under pressure.” – Participant 8

5.3.2.1 Outcomes

Table 6: Ranking of outcomes of pursuing a cost containment strategy

Ranking	The outcomes of pursuing a cost containment strategy with revenue growth as a secondary objective	Number of Participants
1	Cutting into the muscle not the fat	8
2	Increased costs	7
3	Diminishing returns	4
4	Missed opportunities	3
5	Short term thinking	2

The majority of participants felt that when a business sought to reduce costs as a business objective, and it followed an exclusive cost containment strategy without understanding the impact on its ability to generate revenues on the back of those costs, it risked constraining the business in the future by reducing the capacity of the business to pursue additional revenues.

- ❖ “..the cost cutting becomes so aggressive that service levels suffer..” – Participant 4
- ❖ “What often happens is that costs are cut arbitrarily across the range and as a result your ability to actually generate revenue is negatively affected.” – Participant 5
- ❖ You could cut too far and then you will struggle to reactivate your sales as and when things improve.” – Participant 8

The second most significant outcome of a cost containment focus, identified by participants, was that delayed costs or investments would eventually have to be affected but would amount to greater costs to the business as interim measures are unravelled in preparation for the new expenses. One participant captured the implication of delayed costs by commenting that “we have to get contractors to keep up with the existing business which costs us more” – Participant 4.

Four participants felt that eventually an overly focused cost containment strategy was not sustainable and that any initial gains would diminish over time given that costs cannot be eliminated entirely.

- ❖ “You could put the organisation into a downward spiral that it won’t escape from.” – Participant 2
- ❖ There comes a point where you have cut too much, where you have cut to the bone that you end up in a negative spiral.” – Participant 4
- ❖ “You risk cutting to the point where you can’t get going again.” – Participant 8

Three participants warned that a business which focuses on cost containment risked not being able to take advantage of opportunities in its market because of the inherent lack of capacity which would ultimately exist.

- ❖ “In some cases you do and then when the market turns you take years to capitalise on that opportunity because you’ve...you’ve got limited capacity.” – Participant 2
- ❖ “And if we only focus on costs, we might deny ourselves the potential for future business or support.” – Participant 5

Two participants felt that an exclusive cost containment strategy would result in the business adopting a short-term perspective on firm value and would hinder its appetite to invest in the business in order to grow.

- ❖ “If you are incentivized on profits, you make take short term decisions not to invest in the business.” – Participant 7

5.3.3 Revenue Growth and Cost Containment as Balanced Objectives

Seven of the 20 participants rejected the idea that a firm could pursue a mutually exclusive revenue growth or cost containment strategy in a sustainable way. These participants believe that revenue growth and cost containment are dual strategies that need to be implemented simultaneously to increase profitability. By holding one objective higher than the other, participants felt that over the long-term, the relationship between revenue and cost would continue to diverge, and that the intricacy involved in correcting this diversion would worsen over time, resulting in increased costs to the firm which would eventually impact on the long-term profitability of the firm. Specific responses to the proposition are reported below:

- ❖ “Unfortunately you don’t have the luxury in real life to optimise first before moving to the next problem, you need to do everything simultaneously.” – Participant 6
- ❖ “Cost containment must not be ahead of your income.” – Participant 7
- ❖ “The answer you will find does not lie in either of the extremes.” – Participant 15

5.4 Research Question 2

What are the key factors which influence a manager's decision to pursue a mutually exclusive revenue growth or cost containment strategy?

Inductive content analysis was used to extract the key factors which influence a manager's decision to pursue a mutually exclusive revenue growth or cost containment strategy. Participants identified numerous factors which would likely influence the decision to follow one strategy over another at any given time. From the collected responses, some factors were identified as having more power than others in influencing the decision, with some factors intrinsic to the nature of the leadership making the decision, and other factors being related to contextual and other external forces acting on the business.

Sixteen factors emerged from the interview responses and were ranked based on the frequency of responses identifying each factor. The higher the ranking for each factor, the more likely the factor is a key influencing element on the decision by the business leader to follow either a revenue growth or cost containment strategy. The factors, and their rankings, are listed in Table 7 below. One again, participants were able to offer more than one response per factor.

Table 7: Ranking of key factors influencing a mutually exclusive strategy

Ranking	What are the key factors which influence a manager's decision to pursue a mutually exclusive revenue growth or cost containment strategy?	Number of Participants
1	Market conditions	13
2	Industry structure	11
2	Cost structure	11
2	Time orientation	11
2	Nature of leadership team	11
3	Cost allocation complexity	9
3	Business lifecycle	9
4	Organisational design	8
4	Artificial constraints	8
4	Value drivers not known	8
4	Market share	8

Ranking	What are the key factors which influence a manager's decision to pursue a mutually exclusive revenue growth or cost containment strategy?	Number of Participants
5	Operational efficiency	6
5	Firm survival	6
6	Business function silos	5
6	Organisational culture	5
6	Employee morale	5

5.4.1 Market Conditions

The prevailing and forecasted market conditions was cited as a major influencer of a manager's decision to adopt either a revenue growth or cost containment strategy. Participants believed that managers are responsive to changes in the operating environment and adapted business strategies accordingly. In depressed business cycles, managers tend to adopt more defensive approaches, and are therefore more inclined to pursue cost containment strategies in order to preserve profitability. In growing business cycles, managers are far more likely to pursue aggressive revenue growth strategies to capture market share. The implication is that market conditions force managers to adapt a short term view aimed at aligning the business to the current and anticipated market dynamics. Some illustrative participant responses were as follows:

- ❖ “You...in the real world of business with some...when times are tough you have to make a call. In some instances you're going to attack more strongly and in other instances you're going to defend very aggressively.” – Participant 2
- ❖ “What happens in a declining market, to ensure that costs do not exceed income, the business looks at the biggest fixed cost and looks to cut there.” – Participant 7
- ❖ “The current economic conditions force us to think about the next five years and distracts our ability to think for the long term.” – Participant 15

5.4.2 Industry Structure

Eleven participants believed that the business model is dependant in the type of industry the business operates within and its structure. Participants reported that a firm's profitability is determined foremost by the industry forces, such as the power of buyers and suppliers, as well as the level of competition and rivalry. These forces then dictate which lever, revenue or cost, a firm can maximise in order to increase performance. One participant illustrated the point by explaining that in commoditised, manufacturing environments, competition is based on price, and therefore managers are focused on cost efficiencies, rather than revenue growth, to drive profitability. Participants expressed the following general views:

- ❖ “Depends on what kind of business, the sector and the type of cost.” – Participant 7
- ❖ “It's completely industry dependent.” – Participant 14
- ❖ “The business model is dependent on the industry and therefore cost could be more of a consideration.” – Participant 19

5.4.3 Cost Structure

Participants felt that the cost structure of the business was a major determinant or factor in its decision to follow a revenue growth or cost containment approach to increasing firm value. Cost structure refers to the proportion of fixed cost to variable cost in context of the total cost of providing saleable goods and/or services for the business. Participants agreed that businesses with higher variable cost components of their total costs were more likely to respond well to cost containment strategies given that even slight improvements to variable costs could have significant effects on gross margins and thus profitability. Participants cited manufacturing firms as examples of businesses with higher variable cost components as a proportion of their total costs, referring to these types of organisations as cost-oriented businesses. Cost-oriented businesses are also typically high volume, low margin

producers and therefore would seek to contain cost as far as possible to affect gross margins.

Conversely, participants suggested that firms with high fixed costs as a proportion of their total costs were more likely to respond well to revenue growth strategies. The cost base in these types of firms is fairly fixed and therefore the business would be more focused on maximising operational efficiencies, through productivity improvements in human and capital resources, to generate disproportionately more revenues from the existing cost base. Participants termed these types of businesses revenue-oriented business and put forward professional service industries as examples of firms which typified businesses with this type of cost structure. Within these firms, salaries were identified as the single largest fixed cost component and therefore a focus on productivity improvement is necessary to generate increased revenues from the same cost base.

Illustrating the factor of cost structure as a determinant of the propensity of a business to follow a revenue growth or cost containment strategy, the following specific responses were recorded from the interviews:

- ❖ “We have a fixed cost base that can deliver many times what it’s currently producing, depending on market potential. And as you scale revenue, the operating margin changes.” – Participant 3
- ❖ “As a business grows, its cost base grows and if it is fixed, if revenues decline you will still sit with the fixed cost.” – Participant 1
- ❖ “There are points within your cost curve environment that you can maximise” – Participant 10

5.4.4 Time Orientation

Another major influence of a manager’s inclination to adopt a revenue growth or cost containment strategy is their time orientation with the business. Time orientation refers to the time constraint placed on managers, either directly or indirectly, to produce business results. Direct constraints take the form of performance incentives,

quarterly reporting cycles and shareholder objectives, where a manager is expected to produce pre-defined deliverables within a specified time frame. Indirect constraints are more subtle, and can include expected employment tenure and manager self-interest. Eleven participants felt that both direct and indirect time constraints affected a manager's decision-making criteria when making strategic and tactical business decisions. Participants reported the following insights:

- ❖ Depends on your strategic objectives (from your shareholders) – the need for short term profitability versus the need for medium term profitability. Private equity has very specific time horizons which will dictate growth aspirations and profitability requirements.” – Participant 3
- ❖ “Shareholders/directors play a large role in initiating tactics in driving revenue or costs.” – Participant 10
- ❖ “If you are being measured daily in the papers, you will have a different mind-set.” – Participant 12

5.4.5 Nature of Leadership Team

The key intrinsic factor identified during the interviews as an important contributor to the decision to pursue a revenue growth or cost containment strategy was the nature of the business' leadership team in terms of their natural inclination towards being either revenue growth or cost containment oriented. Many participants felt that the personality and risk appetite of the leadership team was a powerful force in explaining the tendency towards either strategy. Growth oriented leaders are typically business-development minded and will therefore lean more towards revenue growth strategies that fall within their natural competencies, while turnaround specialists and other more conservative leaders typically focus on operational efficiency and cost management strategies. Participants reported the following specific insights:

- ❖ “So you know they...they spend time at company A and then come to company B. They achieved remarkable results but they implemented a “slash

and burn” approach and it worked because the situation, both situations called for a “slash and burn” approach. But then they arrive at challenge number three and they implement the same approach and they ruin the company. Because the circumstances are different.” – Participant 2

- ❖ “Depends also on the nature of the leadership team. If you have a growth oriented team, they will be much better at growth than containing costs.” – Participant 3
- ❖ “My priority is revenue growth - cost management will always be secondary to me.” – Participant 4
- ❖ “It all depends on your CEO.” – Participant 7

5.4.6 Cost Allocation Complexity

Cost allocation emerged as a central topic in most interviews and nine participants specifically identified the complexity associated with allocating costs to revenue generating activities as a major hurdle for managers. Participants were generally averse to the usefulness of common cost allocation methods, such as activity-based costing and absorption costing, and revealed that such methods were difficult or costly to implement and had questionable levels of accuracy. As a result, participants believed that cost allocation complexity deterred managers from actively trying to link revenue to cost, the consequence of which is evident when managers implement broad cost cutting measures that also affect revenue generating abilities. General participant comments were as follows:

- ❖ “Allocating fixed costs is a very contentious issue.” – Participant 6
- ❖ “ABC – there is too much creativity when it comes to allocating the cost. Then there is too much debate about the cost allocation that people take their eye off the ball.” – Participant 10
- ❖ “I don’t think we understand the relationship between revenue and cost – we understand cost in isolation.” – Participant 17

5.4.7 Business Lifecycle

Nine participants stressed that the lifecycle of the firm had a significant influence on the manager's ability to pursue a revenue growth or cost containment strategy. Participants cited that managers in start-up firms were pressed to adopt aggressive growth strategies to rapidly capture market share in order to scale effectively. As firms grow and reach maturity, the market stabilises and consolidates around the main market players, at which point growth opportunities diminish and firms turn their attention to cost efficiencies in order to maximise profits. The following participant comments are illustrative:

- ❖ “When you're a start-up, you don't have time to optimise. You must as quickly as possible make enough money to cover your fixed cost as well as your variable costs. But when you have a stable income, you can devote time to improving your business processes.” – Participant 7
- ❖ “As you move from start-up to more mature, you are probably focusing less on revenue and more on cost as a relative balance.” – Participant 11
- ❖ “A mature business would be focused on cost containment.” – Participant 13

5.4.8 Organisational Design

Eight participants reported that the design of the organisation needed to be aligned with its strategy, whether pursuing a revenue growth or cost containment approach. Misaligned organisational designs would influence a manager's effectiveness at pursuing any specific strategy due to the emergence of cost inertia which results due to over-capacitated or inappropriate human capital structures. Group structures, in particular, were highlighted by participants as sources of organisational design inefficiency due to their propensity for role and function duplication, as well as overhead burden. Moreover, the probability of disconnect between corporate management and operations management was identified by participants as being more likely in group structures.

Participants also cited hierarchical structures as a key consideration for managers in terms of cost containment. Firms with deeper hierarchical organisational structures are forced to incur management and overhead costs that may not be productive from a profitability view point. Moreover, participants called out many businesses in which the organisational design simply did not support the stated strategy of the business, whether growth or cost oriented, and therefore that achievement of the strategy would be compromised.

Participants expressed the following specific views:

- ❖ “Head office focus is different to what the focus of the branch might be and there may be a disconnect between that.” – Participant 5
- ❖ “The hierarchical nature of organisational designs means you need a chief for five little Indians which eats up costs.” – Participant 12
- ❖ “Our group structure means that there is duplication of roles.” – Participant 15

5.4.9 Artificial Constraints

Participants highlighted the presence of artificial constraints to managers that would affect their ability to fully pursue either a growth or cost related strategy. Eight participants were in agreement that these constraints were artificial in nature due to the manager not having control over the constraints as would be the case in normal business operation. Examples of artificial constraints include regulatory or compliance road blocks, such as preventative competition laws that thwarted mergers that could deliver cost savings on inefficiencies, or even restrictive labour laws that prevented managers from exercising effective cost control measures. Economic empowerment and other employment equity regulatory requirements were cited by participants as the main artificial cost elements that managers were obliged to incur and had little to no control over. Similarly, the regulatory costs associated with being a publicly listed organisation were specially identified as onerous. Participants were of the view that these types of artificial constraints, which in the normalised business sense could be eliminated from the business, presented

managers with inefficiencies which hampered their ability to effectively implement a balanced strategy.

The following specific views were captured during the interviews:

- ❖ “M&A, which in a way, was a mechanism for growing. You shed a whole lot of duplicated functions to achieve a real improvement. This is being thwarted to some extent by the competition commission, which says - I will let you merge but you must keep the same level of staff for five years or whatever.” – Participant 5
- ❖ “The local business environment impacts your ability to cut costs, for example the USA versus South African in terms of the labour unions.” – Participant 7
- ❖ “Regulatory and compliance costs are high for listed companies. We devote around two weeks a month on investor relations.” – Participant 13

5.4.10 Value Drivers Not Known

When managers do not clearly understand the main drivers of value in their businesses, any adopted strategy to enhance profitability is highly likely to be ineffective and unsustainable. Eight participants shared this view and suggested that managers, who do not have a firm grasp on the firm’s value drivers, are more inclined to implement broad strategies that ultimately have unintended consequences. For example, many participants called out the broad cost cutting tactics employed by managers to defend firm profitability, which are later found to have a negative effect on the firm in the long-run as key revenue generating activities have also been removed. Participants felt that managers who do not understand their businesses simply do not know which strategies are more effective and therefore end up oscillating between different strategies. The consequence of this oscillation is that managers become singularly focused on revenue growth or cost containment. The following participant comments were captured during the interviews:

- ❖ “Management tends to overreact to the problem and doesn’t seek to understand the cause of the decline.” – Participant 7

- ❖ “I can end up cutting the thing I absolutely need to do well in.” – Participant 9
- ❖ “There’s no understanding of what to spend to develop the business.” – Participant 17

5.4.11 Market Share

Eight participants felt that when a firm has low market share and is actively seeking to grow that share, it is more likely to adopt a revenue growth strategy at the expense of increased costs. Participants agreed that when a firm is attacking the market, it has a higher propensity to spend and therefore cost containment is a secondary concern. Participants expressed the following specific insights:

- ❖ “..it is safe to assume you would be pursuing one strategy over the other at any given moment. So when you’re attacking the market you may have a high propensity to spend...to invest.” – Participant 2
- ❖ “Growing a business with a top five market share is different to growing a developing business.” – Participant 9
- ❖ “In the early stages you have to have high revenue to get into the market and get yourself known.” – Participant 13

5.4.12 Operational Efficiency

Six participants cited the level of operational efficiency as an influencer of the firm’s choice of approach to maximise profits. Participants felt that firms which could enhance profitability through operational efficiencies were more likely to pursue cost containment policies. Some participants even raised the risk that firms which do not have acceptable levels of efficiency, and which pursue aggressive revenue growth strategies, could actually negatively affect profitability, as increased business would simply accentuate the inefficiencies to a point where the firm is no longer able to deliver at acceptable service levels. The following participant views were captured:

- ❖ “It makes sense if you haven't refined your business processes to an extent where you are operating efficiently enough to service your existing business. If your business is not efficient, adding a new customer could increase your loss if you are not making profits or if you have declining efficiencies. So we may say to our businesses stop adding new customers until you have refined your business process.” – Participant 1
- ❖ “I think there is a point beyond which you shouldn't be looking to drive revenue growth without optimising what you have.” – Participant 4
- ❖ “Because we are not effective operationally – but more so strategically.” – Participant 9

5.4.13 Firm Survival

Six participants felt that a firm was highly likely to follow a strong cost containment strategy in periods of depressed business activity and where the survival of the firm was at stake. In these particular scenarios, managers would be more focused on cost removal measures, with growth objectives becoming a secondary objective. One participant also suggested that following a restructure, a firm was better off first contracting its business until it understood the drivers of revenue and cost. Once managers understand which areas of the business are most profitable, they can then move to grow the more effective business units. Participants shared the following opinions:

- ❖ “When restructuring a poorly performing business, a manager needs to determine the bear minimum that a company needs to survive. You can then have a base from which you can grow and any additional revenue would not be immediately be wiped out by the existing cost base.” – Participant 1
- ❖ “You have to cut costs for business survival.” – Participant 8
- ❖ “I don't believe in retrenching staff unless it's for absolute survival.” – Participant 19

5.4.14 Business Function Silos

Five participants raised the issue of business function silos as a contributor to the lack of integration between revenue and cost at the firm level. When firms segment or divide their revenue and cost activities, silos or barriers are created between the two activities. Each silo or business function is then managed in isolation, creating a different set of objectives for revenue and cost, which impedes a holistic management of firm profitability. Participants felt that the level of communication between functional silos was insufficient to support an integrated view of revenue and cost management and therefore internal firm politics would emerge to govern the direction of the firm when determining whether it should pursue a revenue or cost model as its primacy. The following participant perspectives were captured:

- ❖ "You have a procurement head with a budget for the year which is not necessarily linked to what your sales manager is seeing on the sales side" – Participant 1
- ❖ "But you don't have that communication and that's at the root of the problem." – Participant 5
- ❖ "Our different functions have different focuses and KPIs". – Participant 13

5.4.15 Organisational Culture

The culture prevalent within the organisation was identified by five participants as an inducing factor of firm strategy adoption. Participants opined that managers tend to instil either a growth or cost mind-set within the business. For high growth businesses, employees are accustomed to the creative business development process and therefore struggle with cost containment measures which may threaten the incumbent culture. Similarly, a cost sensitive culture, which is more comfortable with an efficiency oriented mind-set, may not adapt well to the need for a growth strategy, and may reject the strategy. Participants agreed that the organisational culture was difficult to modify, but that it is a critical component of a manager's

propensity to adopt a growth-oriented or cost-oriented strategy. Participants expressed the following opinions during the interviews:

- ❖ “There are certain costs which we deem sacrosanct because they are part of our DNA and we won’t cut them.” – Participant 4
- ❖ “Culture is everything. To try and change the culture is very difficult.” – Participant 13
- ❖ “Our culture is not too cost focused which is also a problem – you need to find the balance.” – Participant 19

5.4.16 Employee Morale

Five participants raised the issue of employee morale as a consideration for managers in determining the dominant business strategy. Managers are likely to be influenced by the negative consequences on the morale of employees when implementing cost containment measures designed at eliminating non-essential expenditure in the firm. The expenses which are removed are typically designed at enhancing employee experience, such as office luxuries or business travel perks, and therefore the removal of which is generally met with negativity and disengagement if not managed appropriately.

More serious cost containment measures, including employee retrenchments, introduce significant pressure on managers in terms their effect on employee morale. Participants felt that managers are more likely to avoid retrenchments because of their psychological consequences on both the manager and the employees, and only tend to implement staff reductions in times of crisis. Participants expressed the following specific views about the influence of employee morale on management decision-making:

- ❖ “If you stop training the same thing will happen. Productivity and efficiency will suffer. People will get demotivated. You will lose your talented young mobile people.” – Participant 2

- ❖ “But I agreed with the board that I will agree to grow revenues and not cut the people.” – Participant 6
- ❖ “Cutting costs on material things, such as marketing or product development, often puts more pressure on people.” – Participant 14

5.5 Research Question 3

Are managers able to simultaneously optimise revenue growth and cost containment to maximise economic profits and what are the potential outcomes?

Participants were unanimous in their responses that managers are indeed able to simultaneously optimise revenue growth and cost containment to maximise economic profits. Only three participant felt that managers were not able to balance the two objectives optimally and suggested that market forces would ultimately determine the focus of a firm at any point in time.

Once more, frequency analysis was used to aggregate the responses into two response categories which reflect each of the possible outcomes to the proposition, namely:

- Managers are able to simultaneously optimise revenue growth and cost containment to maximise economic profits
- Managers not are able to simultaneously optimise revenue growth and cost containment to maximise economic profits

The results collected from the individual responses were recorded and is displayed in Table 8 below.

Table 8: Ranking of responses to pursuing an integrated strategy

Ranking	Are managers able to optimise revenue growth while simultaneously optimising cost containment to maximise economic profits and what are the outcomes?	Number of Participants
1	Managers are able to simultaneously optimise revenue growth and cost containment to maximise economic profits	17
2	Managers not are able to simultaneously optimise revenue growth and cost containment to maximise economic profits	3

All but three participants were of the strong opinion that managers need to simultaneously drive revenue growth whilst containing costs in order to sustain firm performance, and that pursuing one objective over the other was simply not a luxury that management could afford. The skill of business management is to adopt a dual strategy; contain costs and optimise sales. However, in reality, achieving this balance appears to be a real challenge for managers, with participants reporting that realising an equilibrium is extremely difficult.

Participants shared the following comments:

- ❖ “You need to drive top line growth whilst being sensitive to costs – I think those two things live together.” – Participant 4
- ❖ “I have no doubt that there is an optimal balance, but how you achieve that is difficult.” – Participant 6
- ❖ “Management should consider revenue and cost simultaneously but in practice, they don’t get it right.” – Participant 7

5.5.1.1 Outcomes

Firms that are able to achieve an optimal balance between revenue growth and cost containment stand to benefit from a number of positive outcomes. Participants identified an array of potential benefits that would flow from adopting an integrated

strategy. Frequency analysis was conducted on the nominated outcomes in order to extrapolate the main benefits and is listed in Table 9 below.

Table 9: Ranking of outcomes of pursuing an integrated strategy

Ranking	The outcomes of simultaneously maximising revenue growth and cost containment	Number of Participants
1	Disproportionate growth in revenue to cost	8
2	Reduce costs without negatively impacting revenues	4
2	Cost management becomes a part of the business process	4
3	Gain a competitive advantage	3

Most participants believed that the main outcome of successfully balancing revenue growth and cost containment would be the firm's ability to grow revenues disproportionately to costs. Participants were of the opinion that if managers could find the optimal balance between revenue growth and cost containment, and isolate the main factors which instigate the balance, then the balance can be maintained or enhanced to optimise in both directions, namely revenue and costs. In order to achieve this balance, participants suggested that managers need to adopt growth milestones which use the existing cost base to reach revenue targets, after which new investments can be made to push growth further. The main objective here for managers is to drive the ratio of investment to revenue down.

Four participants also suggested that once managers are able to balance the revenue growth and cost containment outcomes of the firm, they will better understand the dynamics of the relationship between revenue and cost. The implication of this new found understanding is that managers will be better placed to identify costs which can be eliminated legitimately and which do not erode the revenue generating ability of the firm. Another four participants opined that once a successful balance had been sustained over a period, that cost management could be systemised and become part of the business process.

Three participants felt that the ability of management to strike the balance between growing the business optimally, while simultaneously containing costs, would provide the firm with a competitive advantage that would be difficult to replicate by competitors. This competitive advantage is the outcome of management skill and ability in determining the complementary and opposing forces of revenue and cost, and then employing the factors which drive both in an optimal mix.

5.6 Research Question 4

What are the key factors influencing a manager's ability to simultaneously optimise revenue growth and cost containment to maximise economic profits?

Certain factors, identified by the participants, influenced the ability of managers to simultaneously optimise revenue growth and cost containment. Some factors are more pronounced than others in affecting management decision-making and the context in which the firm operates may amplify or reduce the effect of any particular factor.

Content analysis techniques were employed to extract the key factors that were linked to participants' views on the outcomes of balancing revenue and cost in a firm. These factors were then ranked according to their prominence in the aggregate interview responses using frequency analysis techniques and a list of key factors influencing a manager's ability to simultaneously optimise revenue growth and cost containment to maximise economic profits is presented in Table 10 below. In total, 18 factors emerged during the qualitative analysis phase of the study.

Table 10: Ranking of key factors influencing an integrated strategy

Ranking	What are the key factors influencing a manager's ability to simultaneously optimise revenue growth and cost containment to maximise economic profits?	Number of Participants
1	Understand the value drivers	16
1	Growth-based investments	16
2	Capacity utilisation	14
3	Leadership	13
3	Organisational planning	13
4	Benchmarking	12
4	Cost structure	12
5	Employee engagement	10
5	Business model-market alignment	10
5	Innovation	10
6	Operational efficiency	8
6	Organisational culture	8
6	Organisational design	8
7	Decision making flexibility	7
7	Incentives	7
7	Technology	7
8	Clear strategic objectives	6
8	Consistency	6

5.6.1 Understanding the Value Drivers

It is imperative for managers to have a deep understanding of the key drivers of value in their businesses. Sixteen participants identified the manager's understanding of the firm's value drivers as a major, internal factor that will influence the ability of the firm to simultaneously grow revenues and contain costs. Participants expressed strong views towards the need for managers and leadership teams to develop mechanisms which expose and monitor the main levers of business value which managers can pull on in order to affect profitability. Once understood, managers are then able to identify legitimate areas for investments that are likely to produce superior returns for the business. At the same time, non-core activities can be reduced or eliminated without impacting the firm's ability to generate revenues.

Participants expressed the following specific views during the interviews:

- ❖ “..you need to know exactly, you know, if you want to increase revenue you need to pull the following levers. If you want to reduce cost you’ve got different categories of expenses and you apply sound judgment by saying in this instance I’ve got to cut heavily but here I’m going to be generous.” – Participant 2
- ❖ “It’s about understanding the critical value drivers in the business – both in terms of front office, customer facing stuff, as well as back office and delivery stuff. There is always potential to cut non-value add activities.” – Participant 3
- ❖ “It doesn’t help you spend money on making the gardens pretty. You need to identify the key drivers of the business.” – Participant 6
- ❖ “Inside my product range, I have some dependencies. If there is a compelling case to cut a product range, it is complicated by the fact there may be some dependencies or strategic reasons why I can’t do that.” – Participant 9

5.6.2 Growth-Based Investments

A second key influencing factor affecting the propensity of managers to achieve an optimal balance between revenue growth and cost containment is their ability to re-invest growth proceeds and time those investments with growth milestones. Sixteen participants were in agreement that growth milestones would be the most effective method of timing firm investments which supported further growth, as firstly, the market demand is somewhat established before the investment is made, and secondly, investment is funded from new revenues and is therefore not reliant on the existing cost base. The implication is a tighter link between investment cost and revenue, which is desirable, and the nature of growth best investment means that revenues are raised disproportionately to costs, thereby enhancing firm profitability.

The following comments were collected from the interviews to illustrate the growth-based investment factor:

- ❖ “If we can work that out properly, it allows us to invest as we grow. Tie the expenditure to specific growth milestones.” – Participant 3
- ❖ “We are very cost conservative – we will invest in new resources only once the business volumes pick up.” – Participant 7
- ❖ “How do you link investment to revenue? You keep looking at the market.” – Participant 9

5.6.3 Capacity Utilisation

Fourteen participants identified the utilisation of organisational capacity as a crucial enabler of optimised revenue growth and cost containment. Two perspectives emerged from the interviews. The first is the requirement that firms measure capacity utilisation effectively in terms of the utilisation physical and human resources. Participants believed that the utilisation of machines and other physical assets was relatively straight forward for firms to calculate and manage, but that most firms struggled with constructing accurate utilisation statistics for their employees. Participants also went to some lengths to stress that utilisation did not refer simply to the capacity utilisation of people in terms of output per unit of time, but rather to the idea of creative output per employee. Participants felt that employees should be measured on their capacity to deliver innovative solutions to the firm which may leverage investments to produce superior returns.

The second perspective on capacity utilisation put forward by participants was the determination of excess or unutilised capacity. Most businesses seek to remove under-used capacity in order to save costs. However, participants in the study were of the opinion that firms should look to employ excess capacity at developing new revenue streams through innovative and new channels. Participants shared the following opinions:

- ❖ “If my staff is only 50% occupied, that means that they are being cross subsidised by somebody else in the business by 50%.” – Participant 4
- ❖ “We have got some spare capacity, how else can we use it? We’ve got some resources that are underutilised, can we develop some skills and get them to do something else?” – Participant 5
- ❖ “There are some really clever ways to do it. Use excess capacity to attract longer term business.” – Participant 16

5.6.4 Leadership

Thirteen participants felt that leadership was a critical intrinsic factor influencing the firm’s likelihood of being able to balance revenue growth and cost containment. Participants felt that the business leadership occupies the central perspective on revenue and cost, and therefore the ability of managers to marshal employees towards a culture that activity seeks to maximise economic profits is the chief task of the firm’s lead strategist. The following individual perspectives were recorded:

- ❖ “The role of the CEO or leadership team is to keep both functions on track to meet their objectives so that they are hitting revenue goals which means that they can invest and ideally the ratio of investment to revenue is going down.” – Participant 3
- ❖ “The biggest lever to get there is leadership.” – Participant 10
- ❖ That’s the biggest challenge we have - to get people to buy into our philosophy. It’s all about leadership.” – Participant 19

5.6.5 Organisational Planning

Participants identified the quality and process of organisational planning as another key contributor to the optimisation of revenue growth and cost containment at the firm level. The strategic intent of the firm is delivered through the operational plan, typically implemented through the budgeting process. Therefore, alignment between the strategy and operational plan is essential for the firm to achieve its stated

intentions. Organisational planning becomes the departure point for the profit-maximising firm and therefore the effectiveness of the planning process, as well as the quality of the plan, becomes a crucial inflection point for all related revenue growth and cost containment activities. Inputs to organisational planning require the firm to have a high sense of market awareness in order to determine the market demand and level of investment required into the future. Participants highlighted the following concepts related to organisational planning:

- ❖ “Strategic objectives gets translated into some kind of financial plan and that dictates everything. And the financial plan has to deliver a result that makes sense to shareholders.” – Participant 3
- ❖ “Why does strategy not happen? Because we do the budget and then we do the strategy. How can it be implemented when the budget should be a strategy implementation mechanism?” – Participant 5
- ❖ “Companies panic and turn to the biggest cost driver which is usually salaries. The panic that sets in is a result of poor planning...” – Participant 16

5.6.6 Benchmarking

The benchmarking of firm-level revenue growth and cost containment performance indicators against competitors, as well internally among different business units, emerged as a key management tool in the pursuit of optimal and balanced revenue and costs. Virtually every interview conducted in the study touched on the subject of performance metrics and ratios that related to revenue and cost, such as cost-to-income ratios, profitability trends and investment-to-revenue indicators. However, twelve participants specially cited the use of benchmarking as a key enabling factor to help managers identify areas of revenue or cost inefficiency. Some managers acknowledged the challenge of relying too heavily on metrics that cannot be accurately measured, but for the most part agreed that benchmarking business processes and activities was the most effective means of determining areas for revenue enhancement or cost containment.

The following perspectives were recorded during the interviews:

- ❖ “The most important thing is to look at your ratios – nothing is absolute.” – Participant 4
- ❖ “You should benchmark against something. Even if you do it internally.” – Participant 6
- ❖ “One of the biggest levers we use is benchmarking when determining if we are cutting to the bone.” – Participant 10
- ❖ “We are half the size of our competitor but spend the same on marketing.” – Participant 15

5.6.7 Cost Structure

Twelve participants felt that structure of fixed and variable costs affected a manager’s ability to, firstly control costs, and secondly to link revenue and cost activities. Consequently, in examining cost structure as a factor to induce an optimal balance between revenue growth and cost containment, participants suggested that managers need to find creative ways to convert fixed costs to variable costs. Various options were put forward by the participants, including the outsourcing of non-core business activities, as well as converting business functions in value centres from pure cost-centres. By treating business functions as micro businesses within the business, participants felt that managers could encourage an entrepreneurial mind-set by forcing functions to become creators of value rather than mere shared service producers. Participants expressed the following opinions on the topic of cost structures as factor towards balancing revenue growth and cost containment:

- ❖ “You want to have as much of your costs variable as possible which you can manage when revenue goes up or down.” – Participant 1
- ❖ “We negotiate with suppliers to move more fixed costs into variable costs. For example, rent that includes an electricity generator as a fixed cost versus paying only when the generator is running.” – Participant 7

- ❖ “It also comes down to what your fixed and variable costs are. Intuitively it might seem like it’s a variable cost but in reality you have to deal with mostly fixed costs” – Participant 12

5.6.8 Employee Engagement

Ten participants felt that a firm’s management needed to engage at a more sophisticated level with the firm’s employees, as people hold the creative power to produce innovations which help companies become more productive. Participants cited numerous business scenarios where employees were tasked with seemingly impossible objectives targeted at producing superior results with the same or even fewer resources. In most of these instances, participants reported that employees generally found methods to bolster productivity levels if they were appropriately incentivised. The following participant views on employee engagement were noted:

- ❖ “We also don’t allow innovation within our staff to come up with ways to do things differently. This might be a wonderful way of reducing costs because we might be duplicating or doing something that’s totally irrelevant and sitting where we are, we don’t see it.” – Participant 5
- ❖ “Your people also need capacity to think. To think of new opportunities and to be creative.” – Participant 14
- ❖ “If you employ the right people, they understand the relationships between revenue, costs and profits – that will come naturally” – Participant 16

5.6.9 Business Model-Market Alignment

The alignment of the firm’s business model with the market it serves was raised as another important influencing factor on its ability to optimise the balance between growth and cost containment. Market oriented firms are attuned to the needs and demands of their customers, as their business models are designed entirely around serving their markets better than their competitors. For firms that understand their market requirements, but do not have appropriate business models to serve the

market efficiently will inevitably expose inefficiencies due the misalignment of intent and execution. Participants shared the following views during the interviews:

- ❖ “It’s ultimately about one’s go-to-market strategy – how do you promote the product or service to customers and be able to engage post-transactionally to fulfil whatever promise has been made.” – Participant 3
- ❖ “We did extensive market research to find out what our value proposition was and based our strategy on that.” – Participant 6
- ❖ “As a business, you need to feel directly connected to the market you are pursuing.” – Participant 9

5.6.10 Innovation

Ten participants signalled the clear role for innovation as a game changer in the context of diverging revenues and costs disproportionately and thereby maximising economic profits for the firm. Innovation is widely cited at the key to enhancing the productivity of the factors of production. The problem of the diminishing returns associated with the addition of physical and human capital is mitigated through innovations in technology as well as in business models. Participant shared this view and placed particular focus on the potential for innovation around business processes. The following individual perspectives emerged from the interviews:

- ❖ “It’s about communicating more with our customers and suppliers. For example, by understanding what volumes would work or what time of year suppliers have additional capacity. By working with our suppliers means he can better utilise their capacity and their savings can flow through to us potentially.” – Participant 5
- ❖ “You need to either be more efficient than you were the year before or utilising out-of-the-box type methods to try to not grow as fast as your revenues.” – Participant 9
- ❖ “You cannot just stay as you are, you have to be continually innovating.” – Participant 13

5.6.11 Operational Efficiency

Eight participants expressed the imperative for firms to adopt lean and efficient operating modes as a prerequisite to optimising the balance between revenue growth and cost containment. The rationale behind the need for efficiency lies in the notion that lean business operations eliminate wastes and are therefore primed for real enhancements to productivity levels, which are not masked by waste elimination. When discussing the factor of operational efficiency, participants highlighted the following views:

- ❖ “The effectiveness comes when the operating efficiency serves the top line growth agenda.” – Participant 3
- ❖ “If you are wasting, if you are inefficient, you are undermining all of your growth efforts.” – Participant 4
- ❖ “You need to be creating systems for efficiency.” – Participant 18

5.6.12 Organisational Culture

Eight participants posed the impact of organisational culture on the firm’s propensity to balance revenues and costs. Most participants felt that any management interventions would need to be sewn into the organisational culture in order to sustain those interventions. Participants felt that managers need to model the desired behaviour and continually re-inforce the culture of value creation in order to drive the required outcomes of revenue growth and cost containment. The following views were captured during the interviews:

- ❖ “Cost containment has to be a part of your culture.” – Participant 4
- ❖ “Embedding a culture of cost containment begins with management leading by example. Employees are very sensitive to the behaviours of management.” – Participant 7
- ❖ “Cost reduction is a way of thinking and a way of doing.” – Participant 10

5.6.13 Organisational Design

The design of the organisation is an important factor that managers need to consider in pursuing the stated business strategy. Eight participants highlighted organisational design as a key factor which managers need to consider when designing balanced strategies, as the appropriateness of the design in enabling the firm to deliver on its strategic intent will determine the efficacy of the strategy implementation. Participants shared the following views on organisational design:

- ❖ “Long serving employees, receiving inflation linked increases – you land up with a very heavy salary bill. You can introduce lower paid resources that are at the start of their careers that can start taking over some of the more senior staff’s responsibilities. As senior staff move up the ladder, they need to shed some of their tasks to the new generation. But it requires a very mature recruitment and training strategy.” – Participant 9
- ❖ “Each business unit is different and has its own cost pressures and margins.” – Participant 13

5.6.14 Decision-Making Flexibility

Seven participants highlighted the flexibility of key decision-makers as an enabler of firm agility and therefore its ability to course-correct when required. Participants felt that decisions should be taken closest to the operational control centre of the business process as these decision-makers were best equipped to consider the cost-benefit implications of their decisions. This requires a flexible organisational design and a culture which promotes autonomy. The following individual opinions were captured regarding decision-making flexibility:

- ❖ “We made some decisions that turned out to be incorrect and we have been slow to respond.” – Participant 9
- ❖ “We try to put as much control of the costs in the managers hands” – Participant 11

- ❖ “We will make a decision on a case by case basis which may be different to what we did previously. It comes down to understanding your business and knowing how to act.” – Participant 13

5.6.15 Incentives

Seven respondents stressed the importance of aligning management incentives with revenue, cost and profitability targets. However, participants advised that incentives based purely on the individual elements of profitability may encourage undesirable management behaviour, such as removal of expenses in the short term to enhance profits but that jeopardise long term firm growth. Instead, participants suggested that a more effective incentive scheme is to have specific revenue incentives and specific cost incentives that are designed to give managers more autonomy but less space to manoeuvre in terms of the artificial engineering of firm profitability. Participants shared the following views:

- ❖ “Managers must be incentivised to think long term for the business.” – Participant 12
- ❖ “We use incentive schemes to manage revenue incentives as well as cost incentives.” – Participant 14
- ❖ “It’s also about incentivising staff and giving staff more autonomy.” – Participant 18

5.6.16 Technology

Seven respondents highlighted technology as an important enabler of productivity enhancements for firms seeking to maximise profitability. Participants agreed that the initial investment into information and knowledge technologies held significant benefits in the medium to long term in terms of diverging the relationship between revenue and costs through cost savings gained from the increased operational performance. Participant’s shared the following views:

- ❖ “Investment in CRM is significant but ultimately brings your cost-to-serve down and allows you to scale more cost effectively.” – Participant 3
- ❖ “CRM gives the business the capability to do things even faster than they did last year.” – Participant 9
- ❖ “In today’s digital world, you can reach consumers without spending a lot of money.” – Participant 15

5.6.17 Clear Strategic Objectives

The definition and organisational alignment of the key strategic objectives of the firm is a pre-requisite for managers seeking to balance revenue growth and cost containment. Without a clear strategic vision, participants agreed that organisational effectiveness would be compromised and would therefore undermine the co-ordinated management of revenues and costs. Six participants expressed the following thoughts:

- ❖ “It’s very important to be clear what the objective is and then to be able to manage it very tightly, even though managing it tightly means you are spending a lot of money.” – Participant 3
- ❖ “There is a big difference between opportunity and temptation.” – Participant 7
- ❖ “Tensions only happen when the right hand doesn’t know what the left hand is doing.” – Participant 15

5.6.18 Consistency

Six participants believed that consistency in the application of a business strategy was essential to its success. Participants felt that a firm’s leadership should be the catalyst of the corporate message driving the adopted strategy and that consistency of application between business units could be achieved through servant leadership and consistency of communications. The following individual views were captured from the interviews:

- ❖ “Be consistent right through the business when it comes to cost containment – don’t treat business units differently.– Participant 7
- ❖ “There always needs to be a continuous impetus or drive to manage the cost base.” – Participant 10

5.7 Conclusion

The results from the data analysis stage of the research unearthed valuable insights into the factors which drive managers to adopt a either revenue growth or cost containment strategy. These factors may be intrinsic to the organisation or may stem from external influences, such as market conditions or industry structure. Participants agreed that a mutually exclusive strategy is possible, but only in response to temporary or short-term conditions, after which the balance between revenue growth and cost containment would need to be restored. The data collected from the interviews demonstrated that in order for managers to fully integrate revenue and cost decisions, a number of important factors need to be managed. In the next chapter, the results from the interviews will be discussed in context of the reviewed literature in Chapter 2.

Chapter 6: Discussion of Results

6.1 Introduction

The research findings detailed in Chapter 5 are explored in more detail in this chapter and are related to literature review in Chapter 2 in terms of the findings which support or contradict the current literature, as well as any new insights which have been gleaned from the interviews and which the current literature does not consider. The research questions, which formed the basis for exploring the thesis of this study, namely whether an optimal balance between revenue growth and cost containment could be achieved towards maximising economic profit, were explored through in-depth interview questions which were constructed in the context of the existing literature pertaining to the dilemma of growing revenues while simultaneously containing costs, and sought to unearth new dimensions to the current theoretical understanding of the proposed dilemma.

The paradox of revenue growth and cost containment is not an entirely elusive concept; the research results discussed in this chapter contribute to a deeper understanding of paradox in context of the existing literature published to date on this subject. The relevance of the research results to the current literature will be explored in this section.

6.2 Research Question 1

Are managers able to pursue a mutually exclusive revenue growth or cost containment strategy to maximise economic profits and what are the outcomes?

Research question 1 sought to clarify whether in practice, managers are able to adopt either a revenue growth or cost containment strategy to maximise economic profits for the firm. The results of the interviews, which is summarised in Table 4, revealed that managers are able to pursue mutually exclusive revenue growth or

cost containment strategies, with 11 of the 20 participants supporting the view that cost containment could be pursued as a primary strategy to maximise economic profits, and nine participants supporting the idea that revenue growth could be pursued ahead of cost containment as a viable strategy. However, in both scenarios, participants qualified their views by stating that managers were only able to pursue a mutually exclusive strategy in the short-term and that over the long-term, a balance would need to be restored in order to sustainably maximise economic profits. There was a strong view from seven participants that a mutually exclusive revenue growth or cost containment strategy was not in fact possible. The results from the in-depth interviews, data coding and analysis stages of the research showed the following results;

6.2.1 Revenue Growth as the Primary Objective

Approximately half of all participants in the research felt that pursuing a revenue growth strategy as the primary firm objective was a viable business strategy, as classified in Table 4. Participants supporting the revenue growth primary approach cited the imperative for firms to continually grow in order to survive and maintain or grow market share. This philosophy has significant support in the current literature, where Ylitalo (2010) and Amat et al. (2013) point to market penetration as the dominant driver of growth oriented firms.

Further support for revenue growth primacy as a firm strategy was provided by participants highlighting the presence of a temporary competitive advantage that a firm may be seeking to exploit. Participants felt that managers would be validated in their decision to exploit such a competitive advantage by aggressively capturing revenue opportunities up to the point where the advantage is eventually eroded by market competition. Kraaijenbrink et al. (2010) and Makadok (2011) explain the idea of competitive advantage and how firms seek to exploit advantages for superior profits. For these decisions, participants supported the notion that cost containment may be legitimately subordinated to the revenue growth objective. Sims et al. (2013) explain this management decision-making rationality through melioration theory,

where the authors describe how managers shift their behavioural preferences towards short-term rewards, away from long-term utility maximising tactics. In the same section of the literature review, Yao and Li (2013) suggest that the complexity of the decision may influence the manager's inclination to satisfy more realistic and attainable goals. The theory may explain why participants support the pursuit of a short-term objective without consideration for the long-term impact on firm performance. While the exploitation of an advantage may seem a logical course of action, without empirical evidence to support the decision, the impact on the sustainable economic performance of the firm remains in question. The complexity associated with weighing up the pursuit of a short-term gain over the longer-term impact may contribute to the bounded decision-making rationality, a phenomenon classified by Yao and Li (2013).

Participants highlighted that firm performance, and therefore management efficacy, was measured by the ability of a firm to grow. Ylitalo (2010) reports that "Growth is one of the most utilized dimensions of firm performance..." (p. 7), and Ahlstrom (2010) points to how "capital markets insist that firms grow." (p. 11). It thus becomes clear that management performance incentives play a key role in determining the dominant firm strategy that managers pursue. The relevant literature (Akron & Benninga, 2013; Balsam et al., 2011; Nyberg et al., 2010; Shin, 2013; Zhang & Jiang, 2015) provides significant support for the impact of manager incentives on firm strategy development and supports the findings in the research when considering the response to research question 1.

6.2.1.1 Outcomes

The main outcomes of pursuing a revenue growth objective as the primary strategy is ranked and detailed in Table 5 in the previous chapter. The research clearly shows that a revenue oriented strategy, with cost a secondary concern, raised the risk of the relationship between revenues and costs becoming disjointed over time. Understanding of the cost driver elements of revenue activities allows a manager to assess the cost-benefit impact of decisions. Cokins and Capusneanu (2010) explain

that cost drivers are identified through their relationship with the direct and indirect costs of the business. When the causal relationship between the indirect and direct expenses of sales become inaccurate, the firm risks regressing to broadly allocating costs to revenue generating activities, the result of which is an incorrect reflection on the cost drivers for those activities (Cokins & Capusneanu, 2010).

Additionally, the data shows that a singular focus on growing top line sales may mask operational inefficiencies, as when the firm is experiencing a favourable period of growth, there is no pressure on the firm to improve efficiencies as firm performance is likely satisfactory. However, when sales decline, the cost of inefficiencies becomes more prominent, at which point managers are presented with the dual challenge of growing revenues as well as improving efficiencies. Zhou et al. (2013) provides an explanation for this outcome by suggesting that revenue growth strategies are generally externally focused and therefore do not consider internal business efficiency as a focus area. Contrasting this strategy to a profit or cost containment approach, which is more internally focused and is therefore more likely to focus on operational efficiencies as a path to profit maximisation.

Finally, the research highlights the risk of overtrading as an outcome of a revenue growth primacy focus. Deo (2013) points out that that rate at which a firm can grow is dependent on it's the resources it has at its disposal. The author posits that there are weaknesses in the revenue growth objective in that it "it does not incorporate any balance sheet information" Deo (2013, p. 69), the consequence of which is that firms can grow too fast and become bankrupt. The literature therefore highlights the components and pre-requisites for sustainable growth, but does not cover cost containment as a method of managing growth. And given the premise of this research that cost containment should counter revenue growth in an optimal way, this provides a significant finding in favour of balancing the horns of the dilemma of revenue growth and cost containment.

6.2.2 Cost Containment as the Primary Objective

Based on the frequency and ranking of responses to research question 1, the results of which are detailed in Table 4, participants felt that a cost containment strategy would be the most likely approach adopted by managers in maximising economic profit in the short-term, with eleven of the 20 participants in the study agreeing with the statement, and therefore constituted the most significant finding to research question 1. Participants cited the need for managers to protect firm profits as the main instigator for the likelihood of management to resort to a defensive strategy. The reaction to protect profits is driven largely by the economic cycle the business finds itself in, with cost containment generally being the central business objective in depressed business cycles. In the current literature, Deo (2013) describes how cost containment is a common corporate survival skill during economic downturns.

Another aspect supporting the profit protection maxim is the erosion of margins due to increased competition. As competitors are drawn to profitable industries, firms are incentivised to find cost efficiencies, as evidenced in the literature review where Onat et al. (2014) argue that efficient costing is key to improving stagnant profit margins.

The research data shows that when the drivers of profitability in the firm are not fully understood by management, it is better for the firm to intentionally contract so as to mitigate any unforeseen consequences from actions that may exacerbate value destruction in the firm. Additionally, firms with inefficient business processes may experience adverse effects on profitability due to increased revenues as service qualities decline. Both of these aspects, identified during the interviews, point towards management inefficacy, as the cost containment objective is pulled forward as the primary business objective in order to reduce or mitigate uncertainty risk. The literature concerning management decision-making rationality can once again be called upon to describe the observed risk aversion phenomena in the data for research question 1. Yao and Li (2013) describe how managers are more inclined to avert losses when they do not have complete information to make decisions. This observation explains participants' opinion that managers should contract the firm when the drivers of value are not understood or are inefficient. Moreover, the

complexities associated with understanding the drivers of value in the firm may well contribute to this view, as the cognitive boundaries of managers, as described in section 2.4.1 by Gavetti (2012) may be a deciding factor in the managers ability to consider a more balanced approach to profit maximisation as opposed to simply focusing on reducing costs.

6.2.2.1 Outcomes

In Table 6, the main outcomes of pursuing a cost containment strategy with revenue growth a secondary objective is detailed and ranked. The main finding from the interviews, with eight participants in agreement, is that a cost containment primacy focus would result in the firm inadvertently curtailing future revenue generating activities and thereby limiting the potential growth of the firm. This finding is not surprising and is confirmed in the literature review, where Douglass (2012) and Guni (2014) discuss how excessive cost controls can limit the future revenue generating capabilities of the firm.

Delayed investments in the short-term will result in increased costs to the firm later. Participants reported that myopic practices meant that firms would simply delay necessary investments, which when finally employed, would result in increased costs to the firm as interim positions are unraveled. The short time orientation of managers is driven largely as a result of expected tenure (Antia et al., 2010) and means that short-term objectives will be pursued at the expense of longer term value creation. Furthermore, Brauer (2013) concludes that longer term value strategies deliver sustainable performance statistics for firms and will ultimately be sacrificed.

Participants report that a focus on cost containment as a strategy risks leading the business into a spiral of diminished returns as cost curtailment has a practical limit and without growth in revenues, the firm is destined to erode its profitability. In Figure 4, Baye (2013) presents the cost-minimisation model, which clearly shows how the production input mix has a practical limit, the point at which cost-minimisation has reached its optimal limit.

6.2.3 Revenue Growth and Cost Containment as Balanced Objectives

Seven of the 20 participants in the study were of the strong view that an exclusive revenue growth or cost containment strategy was not possible as managers are compelled to consider both aspects of firm profitability simultaneously in order to sustainably drive firm profits over the long-term. Participants were of the view that by prioritising one strategy over the other instituted a short-term perspective which risked discentivising long term value creation strategies and therefore sustainable economic profits. The literature supports this finding in principle, where Zhou et al. (2013) advance that firms which can grow sales revenues and limit expenses simultaneously are likely to produce sustainable levels of profitability growth. However, in practice, the literature is not prescriptive on how managers can actually achieve an optimal balance between growing revenues and containing costs. For instance, Zhou et al. (2013) found that there are multiple ways for a firm to attain profitable growth over time but different paths can be taken towards the same objective. This finding is indicative of the current literature dealing with the dilemma of balancing between revenue growth and cost containment, as evidenced by Gannon (2007) and Serretta et al. (2009), where the imperative is established but the mechanisms towards achieving the objective are vague.

Participants rejecting the idea that a mutually exclusive revenue growth and cost containment strategy can be adopted to maximise economic profits, were unanimous in their opinion that the primary function of a firm's management is to balance both aspects of profitability, namely revenue and cost. This finding points to management skill and ability as an important enabling factor if this premise. The literature supports the proposition that management ability is correlated with firm performance, where Gary and Wood (2011) and Nadkarni and Herrmann (2010) demonstrate how the superior cognitive abilities of senior business leaders result in superior firm performance on average. In particular, managers that understand the "causal relationships in the business environment achieve higher performance outcomes." (Gary & Wood, 2011, p. 586).

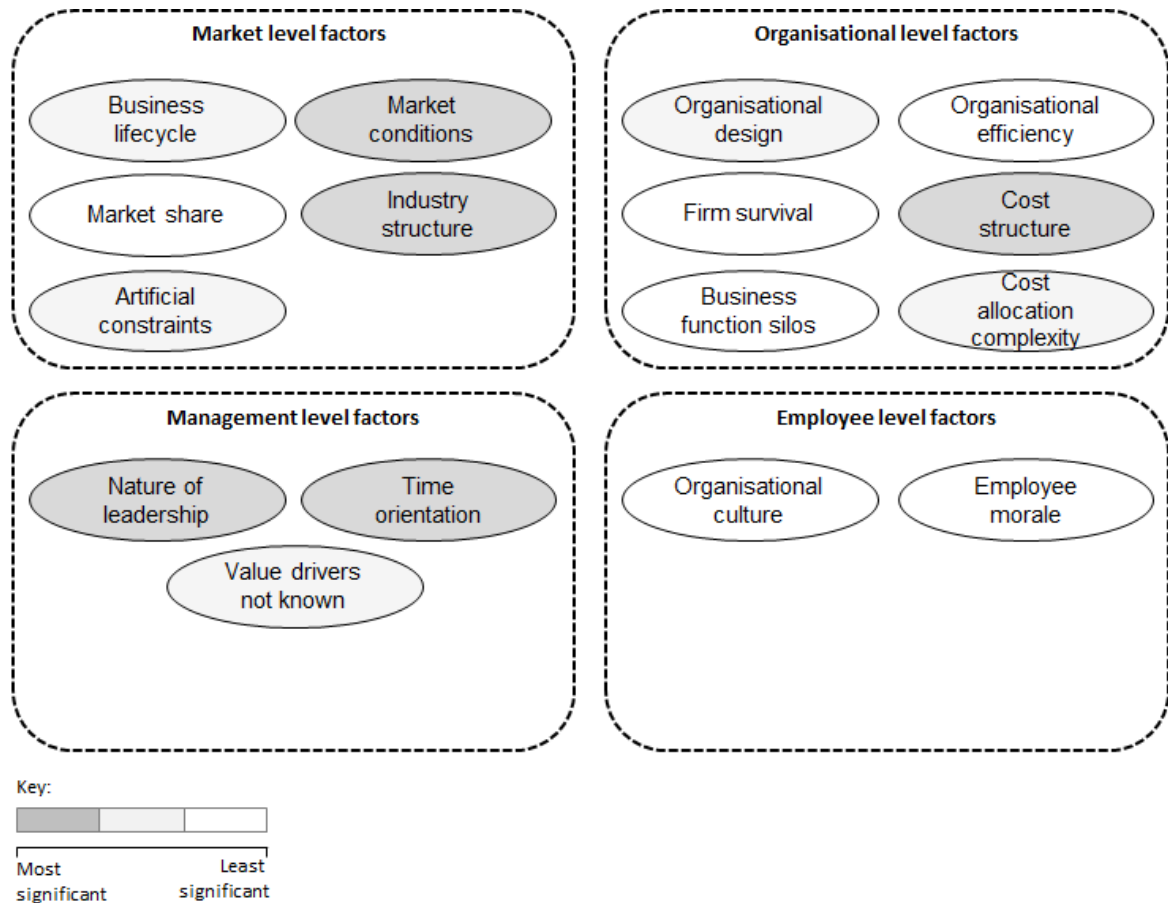
The dynamic and complex nature of modern business environment gives rise to competing business forces which are constantly re-balancing, as is the case with the imperative for managers to find optimal methods of growing the firm while simultaneously growing profits. The literature highlights this dynamic as a set of management dilemmas and paradoxes (Serretta et al., 2009; Smith & Lewis, 2011; Yoon & Chae, 2012), which call on management skill to simultaneously achieve the possible alternatives towards developing advantages that are difficult to imitate. The findings for research question 1, and in particular the notion that managers should manage revenue growth and cost containment simultaneously, support the literature and motivate the need for deeper guidance as to how this may be achieved in practise.

6.3 Research Question 2

What are the key factors which influence a manager's decision to pursue a mutually exclusive revenue growth or cost containment strategy?

Research question 2 sought to understand the key factors which influence a manager's decision to pursue an exclusive revenue growth or cost containment strategy in any particular situation. A number of factors were identified by participants during the interviews, which were ranked according to their frequency, and thus level of significance, in Table 7. Based on the research data, each of the factors identified can be further classified into either a market level, management level, organisational level or employee level influence, as depicted in Figure 10 below.

Figure 10: Key factors influencing a mutually exclusive strategy



(Adapted from: Table 7)

The nature of the classification suggests that factors can be external and internal to the firm. When analysing the significance of these internal and external categorical factors on a manager's propensity to adopt either a revenue growth or cost containment primacy, the market level and management level factors emerge as the most influential, as these categories hold the individual factors which were identified as having the strongest level of influence over management decision making. This suggests that a firm's dominant strategy at any particular time is likely to be governed by the dynamics of the market it operates in, of which market conditions and industry structure are the main considerations, and management's reaction to these market

dynamics which is ultimately reliant on the characteristics and nature of the business' leadership, as well as their time orientation in relation to the business strategy.

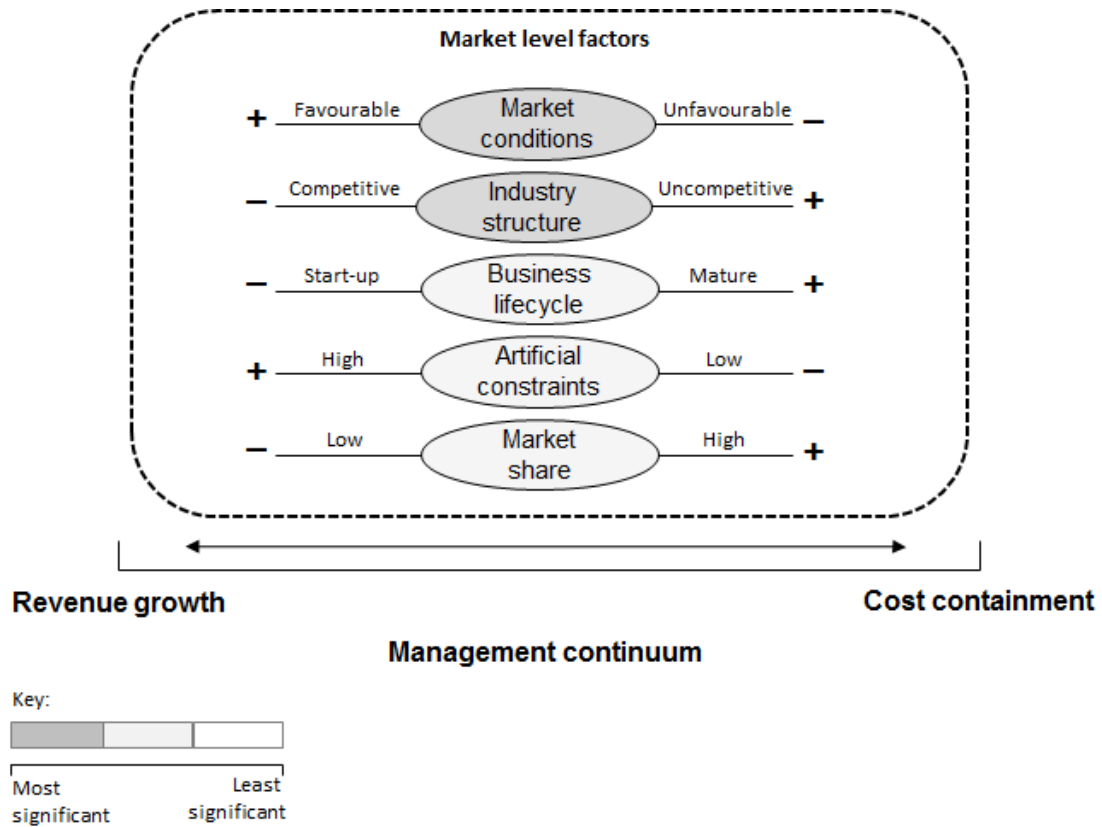
Organisational level factors have important, albeit, less significant influences on management decision making. The nature of the organisation's cost structure, which simply refers to the proportion of fixed costs to variable costs in the firm's overall cost base, is the most significant organisational factor influencing management decision making. In this context, the complexity of allocating direct and indirect costs becomes a major deliberation within the firm as it seeks to adopt either a revenue or cost focus.

Finally, employee level factors, namely organisational culture and employee morale, signal the least significant categorical influencers on the manager's decision to pursue a mutually exclusive revenue growth or cost containment strategy. However, culture and morale within an organisation are largely determined by the firm's leadership, (Hartnell et al., 2011), which therefore suggests that employee level factors are consequences of management level factors.

6.3.1 Market Level Factors

Market level factors are classified based on their proximity to the firm and the degree to which the firm can influence these factors. For instance, market conditions can be stirred by the prevailing macroeconomic climate, which the firm has little control over. Similarly the level of competition within an industry is the product of all the firms which constitute the industry and therefore individual firm influence may be less substantial. The impact of the identified market level factors on the forces which influence the revenue growth or cost containment balance is detailed in Figure 11 below. The outcome of each factor steers the forces either in favour of or against the two sides of the management continuum.

Figure 11: Market level factors influencing a mutually exclusive strategy



As an illustration, favourable market conditions are likely to tilt the scale towards a more positive revenue growth mind-set for the firm, while unfavourable conditions typically illicit a more conservative cost containment response. Similarly, a low market share may force the firm to adopt more aggressive growth strategies to gain market share while high levels of market share may prompt defensive strategies in order to protect the firm’s share of the market. The impact of each factor on the revenue growth and cost containment balance is enumerated and discussed in detail below;

6.3.1.1 Market Conditions

The research shows that the most powerful factor influencing a manager's decision to adopt either a revenue growth or cost containment strategy are the market conditions in which the firm is operating under. Positive or strong market demand is likely to induce an optimistic perspective from management and thus a revenue growth strategy may be considered the appropriate strategy, as the firm seeks to capture market potential. Conversely, weak market demand is likely to drive a more conservative strategic mind-set, prompting managers to seek profit protecting strategies, including cost containment practises. Kumar and Kumar (2011) notes how the focus on loss-minimisation is heightening in times of declined market demand. Gandolfi and Littler (2012) provide further support by stating that firm's typically react to declining economic cycles by removing as much cost as possible from the business in order to protect profits.

6.3.1.2 Industry Structure

The specific industry will be a significant factor which will determine the strategy pursued by management. The structure of the industry determines the general level of profitability for the firm and will therefore influence a manager's propensity to adopt a more aggressive growth approach or a cost efficiency approach when aiming to improve economic profits. Porter (2008) puts forward the industry forces model to explain the competitive forces that shape the level of profitability in an industry. Porter's (2008) model proposes that the best that firms can do is to exploit changes in the competitive forces which surface as weak forces when the industry dynamics shift.

6.3.1.3 Business Lifecycle

The stage of business maturity was identified as an importance influencer on management decision-making when considering the business model design. Start-up firms place less emphasis on profitability initially, with the focus being on growth

and scale, while mature firms seek efficiencies to maximise profits. The literature supports this finding, where Thanassoulis (2014) stresses the need for firms to strike a balance between growing the value of the firm and developing the economic value for shareholders.

6.3.1.4 Artificial constraints

Artificial constraints are limitations imposed on the firm that, under normal business conditions, would not be present. The finding from the research has indicated that artificial constraints affect the manager's intention to pursue an exclusive revenue or cost strategy in order to mitigate these constraints. More emphasis might be placed on either component, depending on the nature of the constraint. For example, restrictive labour laws which prevent flexible hiring and firing practises may encourage cost containment controls in other parts of the firm in order to counter their effects. Conversely, regulatory constraints on revenue growth may induce movement into auxiliary business lines which require aggressive growth strategies to counter the loss opportunity in the core business.

The impact of artificial constraints as an important influencing factor on a manager's decision to pursue a revenue or cost primacy business model is not addressed in the current literature and therefore constitutes a new finding from the research. While artificial constraints are generally considered operating license costs, their significance to the thesis of balancing of revenue growth and cost containment for profit maximisation contributes a significant attribute to the study.

6.3.1.5 Market share

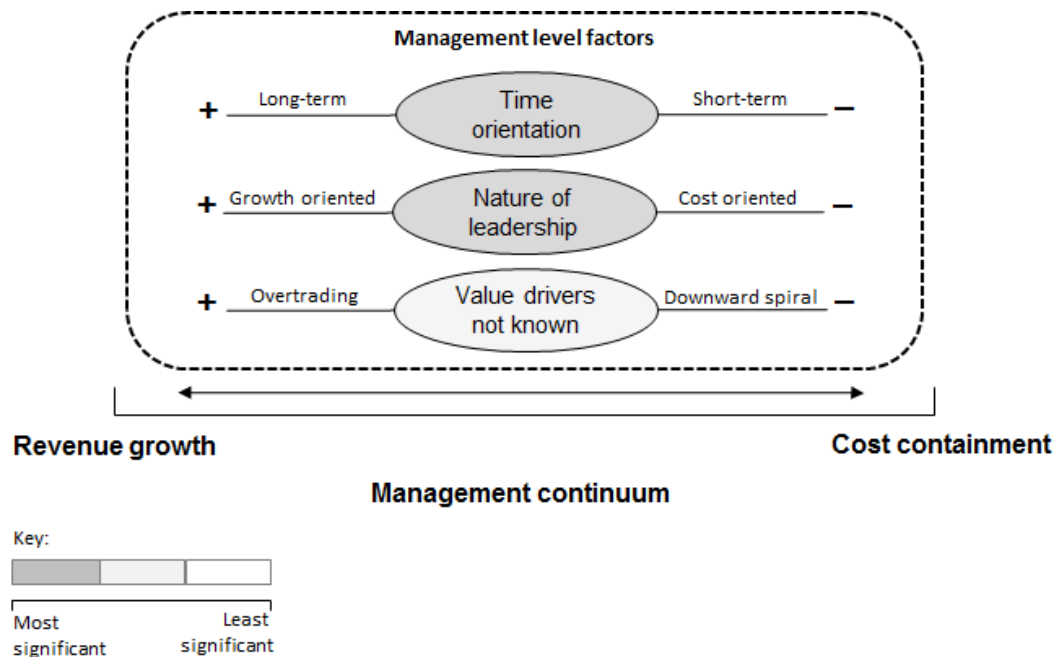
When a firm seeks to expand its share of the market, it is likely to sacrifice profitability in exchange for growth. Start-up firms will initially seek to capture as much market share as possible and will subordinate cost decisions to this objective. Similarly, mature businesses, seeking to steal market share from competitors, will expense growth tactics. The literature review provides an explanation for the objective of

growth at the expense of profitability. Amat et al. (2013) and Ylitalo (2010) reveal the corporate obsession with growth and how it has been re-enforced through its assessment of firm performance. Ahlstrom (2010) strengthens this argument by submitting that firm growth is essential for sustainable growth in order to drive returns to equity.

6.3.2 Management Level Factors

The research clearly demonstrates that management level factors constitute the most significant internal affecting the firm’s propensity to adopt either a revenue growth or cost containment mind-set. The research finds that managers are predominantly growth or cost oriented by nature, and together with their time orientations towards the organisations in which they lead, construe the most likely determinants of the prevailing economic strategy. Figure 12 below summarises the key managerial level factors which emerged in the study and their influences on the revenue growth and cost containment balance.

Figure 12: Management level factors influencing a mutually exclusive strategy



6.3.2.1 Time Orientation

The time orientation of managers is a major influencing factor on the implementation of a revenue growth or cost containment model to maximise economic profits. Time orientation is fostered through direct and indirect pressures on the manager. Direct pressures take the form of performance expectations which are placed on the manager by shareholders, whereas indirect pressures are more subtle and can take the form of manager self-interest or expected employment tenure. The literature provides comprehensive insight into management and shareholder time orientation. Brauer (2013) summarises the position succinctly by stating that when management incentives are driven by the short term objectives of shareholders, the manager is encouraged to pursue profit maximisation strategies that deliver results initially, but usually at the expense of more value enhancing, longer term strategies.

6.3.2.2 Nature of Leadership Team

The nature, personality and characteristics of the installed management or leadership team has a significant influence on the overarching business strategy which is adopted for the firm. And given that the leadership team is charged with spearheading the adopted strategy, employees are likely to model their behaviours based on the behaviours and attitudes of the leadership team. The research reveals that growth managers are far more likely to align their firm's with riskier and aggressive revenue growth strategies, while more conservative managers are more inclined to pursue risk averse, cost containment strategies. Ylitalo (2010) found that the growth orientation of management was strongly correlated to firm growth. Additionally Yao and Li (2013) report how loss version or optimism is linked to the strength of the manager's mental models and thus the inclination to pursue optimistic or conservative strategies.

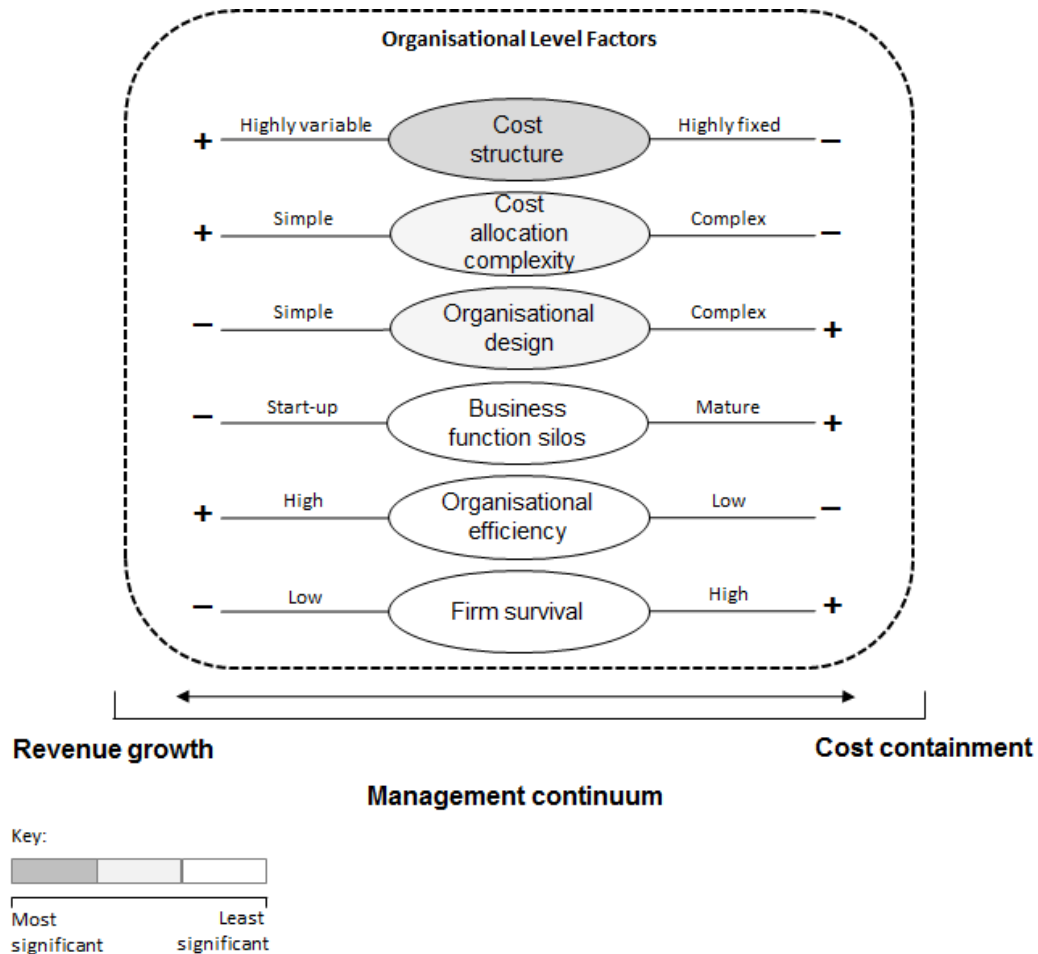
6.3.2.3 Value Drivers Not Known

When the value drivers of the firm are not clearly understood by the firm's management, the manager tends to oscillate between revenue growth and cost containment strategies on a reactive basis. The results of the research suggest that managers react to external factors, such as market demand and shareholder pressures, by implementing broad, non-targeted strategies that are inefficient. By switching between strategies, the manager becomes focused exclusively on revenue or cost at any given moment. Kunc and Morecroft (2010) show how management decisions are reflected in the firm's economic performance. And due to the complex nature of business decisions, which typically involve making trade-offs between competing forces, as discussed by Lüscher and Lewis (2008), managers will resort to "satisficing" (Cyert & March, 1963, p. 53), which refers to the practise of satisfying more realistic and attainable goals.

6.3.3 Organisational Level Factors

Organisational level factors are those factors which are under the direct control of the firm and are the consequences of the organisational design. As a category, organisational level factors are less influential in affecting a manager's inclination to adopt a revenue growth or cost containment focus, however holds some of the most significant individual factors identified in the study. These factors are depicted in Figure 13 below and are discussed in detail.

Figure 13: Organisation level factors influencing a mutually exclusive strategy



6.3.3.1 Cost Structure

The research clearly demonstrates that the cost structure of the firm has a significant bearing on a manager's propensity to pursue an exclusive revenue growth or cost containment strategy. Cost structure refers to the proportion of fixed cost to variable cost in the overall cost base of the firm. Firms with a large fixed cost base are drawn towards business practises that enhance the contributions to overheads, and therefore have more affinity to revenue growth strategies. A firm with a larger variable cost component of total cost is likely to respond favourably to cost containment measures, particularly during depressed economic cycles. Baumol and

Blinder (2015) and Baye (2013) discuss how firms can maximise profits by producing output where marginal revenue is greater than the average total cost. The average total cost comprises the average total variable cost and the average total fixed cost. In the short-run, the average fixed cost of a firm is considered static (Baumol & Blinder, 2015) but in the long-run, both fixed and variable costs can be adjusted. The finding that cost structure is major influencing factor on the manager's affinity for pursuing a revenue or cost primacy business model is thus supported in the literature.

6.3.3.2 Cost Allocation Complexity

The complexity associated with accurately allocating costs to cost drivers has a significant impact on the firm's ability to consistently assess the relationship between revenue and cost. The implication for firms is that if resource allocation and planning is inaccurate, it may result in adverse effects on revenue and cost when managers attempt to modify either component. If a cost containment strategy is adopted, the manager runs the risk of removing revenue generating activities from the firm when cost drivers are eliminated. Equally, when revenue activities are added, the cost implication is not adequately understood. The consequence for the firm is a suboptimal profit affect. Shields and Shields (2005) investigated the typical cost-driver models firms implement and concluded that these models do little to consider the revenue-driver aspects of the firm and the literature is therefore incomplete. The authors stress the need for cost-driver models to understand the relation between revenue and cost towards profit-driver modelling.

6.3.3.3 Organisational Design

The alignment of the organisational design and the adopted business strategy emerged as a key finding in the research. Managers would be influenced by the nature of the organisational structures in the firm. For instance, growth strategies require more flexible structures which seek to promote creativity while cost

containment strategies are better suited for control structures, which seek to constrain cost drivers.

The finding is not covered in the literature review in context of the consideration of a manager in adopting either a revenue growth or cost containment strategy and therefore emerges as a significant contribution to the existing body of knowledge. A manager may be forced to adopt a singular revenue growth or cost containment focus based exclusively on the current organisational design.

6.3.3.4 Operational Efficiency

The level of operational efficiency has a material influence on the potential for a firm to realise profitability gains through adopting a mutually exclusive revenue growth or cost containment policy. The research results demonstrate how firms with inefficient business processes, which pursue growth oriented tactics may find that the increased business activity actually harms the overall profitability of the firm, as inefficiencies create bottlenecks which eventually manifest in the decline of service levels. These firms are better suited to cost containment strategies which seek to optimise efficiency levels through increased asset utilisation levels. The cost-minimisation model (Baye, 2013) prescribes a methodology for managers to minimise the cost of production along a cost-minimisation curve, where the marginal product is equal to all of the inputs to produce at a given output level. Inefficient combinations of inputs will result in the firm moving up the cost curve, whereas a perfectly efficient cost curve is one that derives maximum efficiency from the inputs to the production process, allowing the firm to produce at a cost-minimising level.

6.3.3.5 Firm Survival

When the survival of the firm is at stake, managers are pressurised to deliver immediate actions to protect the profitability of the firm and thereby it's going concern status. This is typically characterised by cost cutting tactics which seek to eliminate as much non-essential cost as possible and as rapidly as possible. The research

results suggest that managers in these scenarios believe that they have little option but to pursue a cost containment strategy, and purposely relegate revenue growth. Kumar and Kumar (2011) confirm how loss minimisation is heightened in firms experiencing decreased economic activity. And as Bumás (2015) explains, firms move to remove as much cost from the cost base as possible in order to minimise losses.

6.3.3.6 Business Function Silos

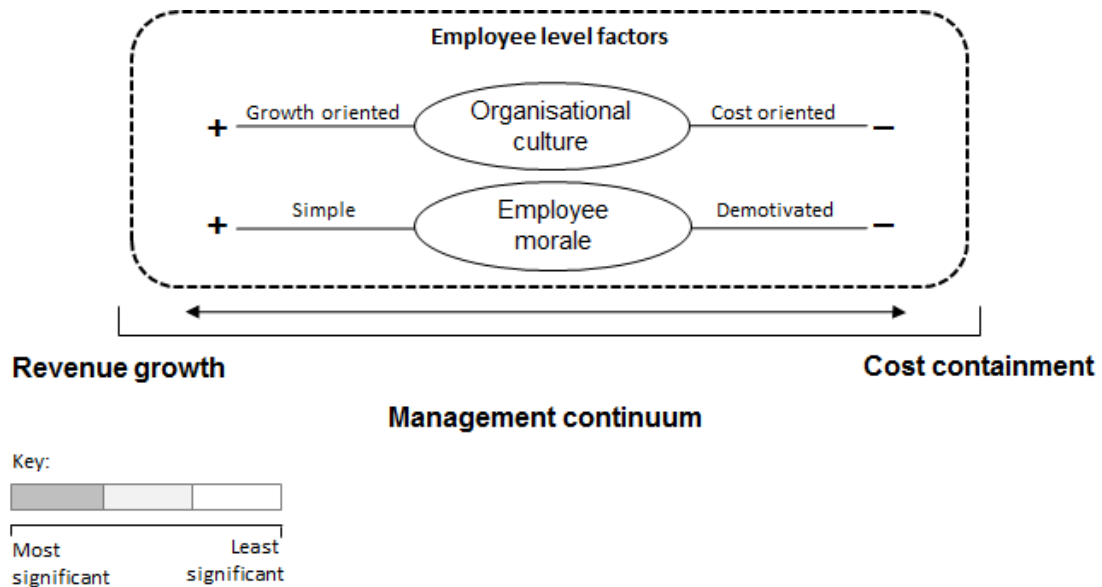
Smaller firms tend to have less organisational complexity and therefore the relationship between revenue and cost is more transparent. As firms become larger, and the complexity to manage is deepened, the common management response is to compartmentalise business functions in order to manage this complexity. The unintended consequence of these business silos is that different functions may have differing revenue or cost objectives, which resist one another. If the manager is not skilled at managing this conflict, the inevitable power dynamics which surface will ultimately determine the firm's dominant strategy. Cyert and March (1963) put forward the idea of bounded rationality, in which people tend to simplify situations in order to make decision-making less complex, but in the process are subject to certain biases due their limited cognitive abilities. By dividing business functions into silos, the objective of each silo is seemingly simplified, however, the holistic impact on the business is not considered. It is the manager's responsibility to synchronise these silos into a central business strategy. However, as explained by Yao and Li (2013), bounded rationality may lead to managerial participation constraints which has an eventual impact on firm profitability.

6.3.4 Employee Level Factors

Organisational culture and employee morale comprise the employee level categorical factors that influence management decision making. In the context of the management continuum, which reflects the balance between revenue growth and

cost containment, the effects of these factors on that balance is summarised in Figure 14 below.

Figure 14: Employee level factors influencing a mutually exclusive strategy



6.3.4.1 Organisational Culture

Largely governed by the nature of the leadership team, the organisational culture in a firm brands the risk mind-set of the workforce. A growth oriented culture is generally characterised by creativity and liberal business processes, while a cost sensitive culture is subjugated to cost controls and an efficiency ethos. If a manager applies an incompatible business strategy to the prevalent organisational culture, the incumbents may struggle with the new ethos and in turn may move to reject the strategy. Research by Hartnell et al. (2011) and Prajogo and McDermott (2011), confirms the finding that organisational culture and firm performance are positively correlated. The same research argues the need for the firm to align the organisational culture with its intended strategy and cites the strength of organisational culture in dictating the dominant corporate dogma.

6.3.4.2 Employee Morale

Managers may resist legitimate cost containment measures in order to preserve employee morale. This is particularly pervasive when cost containment measures involve the downsizing of employees. The argument put forward by managers is that the employees who survive downsizing exercises become demotivated, which then ultimately has a negative impact on the revenue generating ability of the firm. McGrath (2012) refers to this phenomenon as sticky costs, in which a decrease in an activity driver results in a lesser decrease in the costs associated with that driver. The author specifically points to the inappropriate adjustment of committed resources by the manager to changes in levels of firm activity. Qin et al. (2015) goes as far as to single out the challenge for managers in managing the social constraints of employee downsizing.

6.4 Research Question 3

Are managers able to simultaneously optimise revenue growth and cost containment to maximise economic profits and what are the potential outcomes?

Research question 3 sought to understand whether managers are able to adopt an integrated and balanced revenue growth and cost containment strategy for maximising the economic profits for the firm. The significance of the proposition being tested is that if managers are able to optimise in both directions simultaneously, namely optimising revenues while at the same time optimising cost efficiencies, the profitability of the firm is maximised as an outcome.

The research clearly demonstrates that managers are indeed able to combine the benefits of revenue growth and cost containment to achieve an optimal balance.

Table 8 highlights the overwhelming opinion by managers and experts in the study that management's role is to optimise in both directions. Vital elements of both constructs contribute to firm profitability levels, however, there is an inherent tension between the two, as investments are required before revenues can be realised, and the recognition of revenues requires the recognition of the direct and indirect costs which generated the revenues. It is essential for managers to grow revenues on a compounded basis to ensure the sustainability of the concern. It is equally essential for managers to grow the profitability rate of the firm to satisfy returns to shareholder equity in order to secure capital for the future expansion of the firm. The common denominator between revenue and profit is cost and therefore it is the central task of the firm's leadership to decrease the cost base of the firm in the long-run. The research demonstrates that the two critical profitability levers are not mutually exclusive, but are rather both simultaneously crucial, and they can and must co-exist. This finding is consistent with the current literature where Peters (2012) points to the need to achieve the alternatives simultaneously as a mechanism for navigating the complexity associated with modern business. Zhou et al. (2013) echo this sentiment and prescribe the management approach as a mechanism to drive sustainable business growth. Finally, Fredberg (2014) highlights the combination of opposites as the mechanism to solve paradoxes.

The management approach towards this dilemma should therefore not be a singular focus on either revenue or cost, but rather a focus on leveraging its relation. The complexities associated with allocating direct and indirect costs to revenue generating resources and activities, coupled with the inaccuracy of current cost allocation mechanisms (Cokins & Capusneanu, 2010) means that an absolute management of the relationship is not practical. The insights gathered from the research, in response to research question 3, suggests that in order to effectively balance and optimise the opposing forces of revenue and cost, managers should focus their efforts on diverging the relationship between the two forces by creating a leverage effect. Put simply, for every cost input into the firm, the revenue generated from that cost must be disproportionate. As long as the distance between revenue and cost is growing, the profit maximisation objective will be realised and the trade-

off between revenue and cost is diminished. A number of factors must be present in order for managers to achieve this outcome and is discussed further in relation to research question 4.

6.4.1 Outcomes

As summarised in Table 9, the research finds that there are significant benefits to firms for managers who are able to optimise revenue growth and cost containment simultaneously. The most significant gain is the leverage effect generated from costs or investments on revenue. Optimising revenue and cost simultaneously assumes that the distance between revenue and cost is constant or expanding. For every unit of cost incurred by the firm, the revenue generated from that unit is disproportionately higher than the cost of that unit. Similarly, a retraction in a unit of cost results in a disproportionate retraction in revenue or income. The net effect of this divergent outcome is a positive drive on profitability. This finding validates the current literature, in which the profit-maximisation model (Baumol & Blinder, 2015; Baye, 2013) projects that profits are maximised where marginal revenues remain greater than marginal costs.

Another significant outcome of optimising revenue and cost simultaneously is the ability of the firm to shed unnecessary costs when required without impacting its ability to generate revenues in the future. Douglass (2012) refers to this phenomenon as enlightened cost management, which seeks to improve profitability without damaging the future growth prospects of the company. The author cites strategic clarity and targeted cost controls as mechanisms to achieve better alignment between revenue and costs, and thus a means to aid in the prevention of broad cost reduction measures which are not targeted and therefore which may contradict this imperative.

The research finds that the expected net effective of successfully optimising revenue and cost decision simultaneously is the natural entrenchment of a cost containment culture within the business. Cost containment is distinguished from cost reduction

through its primary objective of supporting value creating activities in the firm over simple cost elimination (Douglass, 2012). When the culture becomes value driven rather than revenue or cost driven, the overreliance on cost controls is diminished.

Finally, for managers that are able to optimise revenue growth and cost containment simultaneously, the promise of competitive advantage looms. Kraaijenbrink et al. (2010) and Makadok (2011) provide support for this finding through their assertion that the path to competitive advantage lies in the firm's acquisition and possession of unique resources or abilities. The management skill required to manage a dilemma or paradox constitutes a unique ability, a notion reverbed by Yoon and Chae (2012) who found a significant correlation between firms that were able to deploy paradoxical managerial practises and those that had successfully accomplished both innovation and efficiency objectives.

6.5 Research Question 4

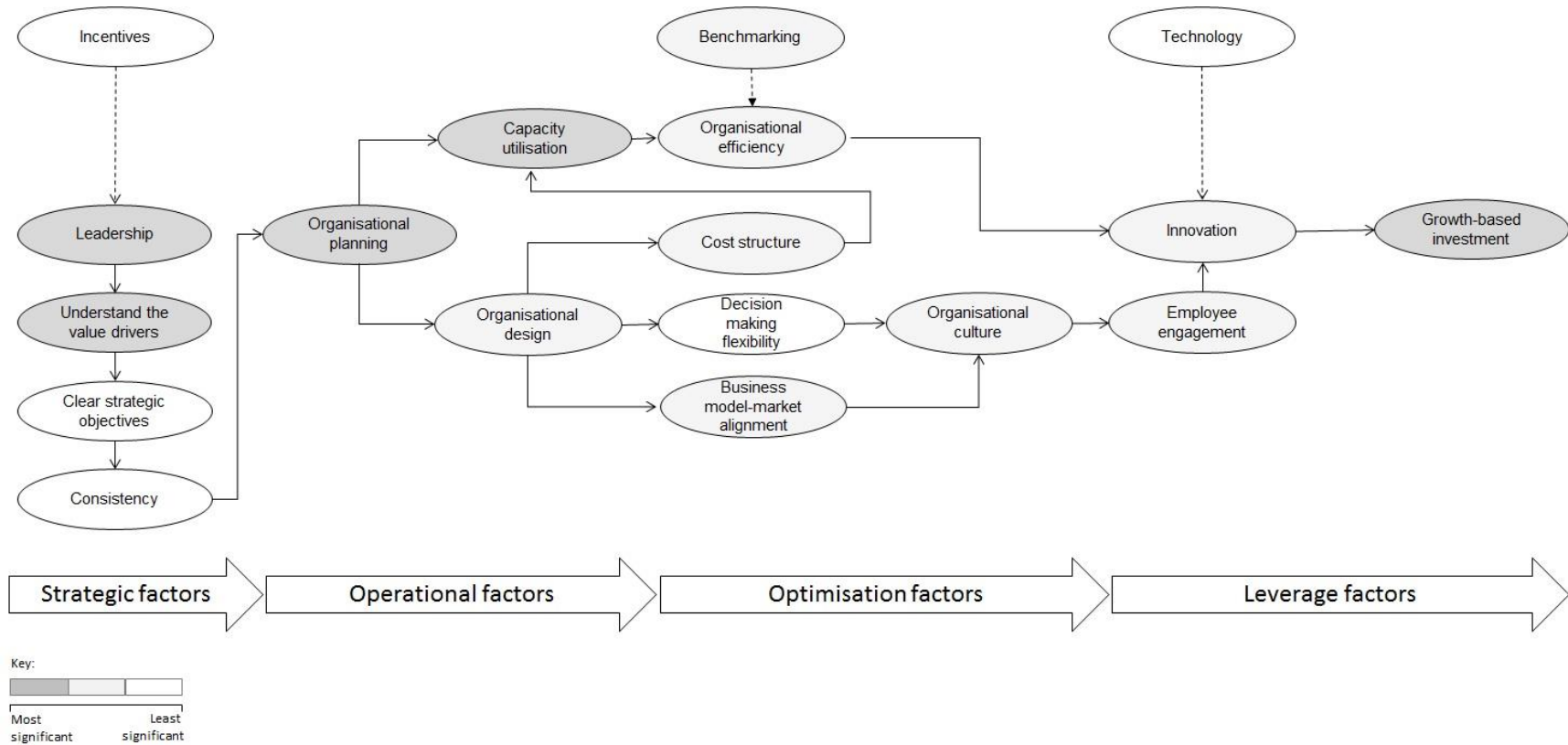
What are the key factors influencing a manager's ability to simultaneously optimise revenue growth and cost containment to maximise economic profits?

Finally, research question 4 sought to understand the key factors which influence a manager's ability to simultaneously optimise revenue growth and cost containment to maximise economic profits. The research data summarised in Table 10 clearly shows that these factors are internal to the organisation, with none of the factors identified relating to the environment or market in which the firm operates. This generalisation of the findings suggests that the locus of control in successfully managing the relationship between revenue growth and cost containment resides within the organisation. This is contrasted to the market level factors, discussed in results analysis for research question 2, which form the dominant factors for why firms generally oscillate between revenue growth and cost containment. This finding is consistent with the current theory, in which both Yoon and Chae (2012) and Fredberg (2014) point to organisational and managerial capability as the key

success factors to dealing with paradoxical situations. Yoon and Chae (2012) highlights the embracement of dynamic management practises as a mechanism to manage competing objectives, while Fredberg (2014) correlates organisational performance to its ability to manage paradoxes.

The factors identified in the research can be associated with one another on a relational basis using qualitative content analysis techniques, the output of which is detailed in Appendix 3. The research finds that certain factors are pre-requisites for others, while some factors are outcomes of their predecessors. In analysing these relationships, four distinct categories emerge which describe the features between factors. These are namely strategic factors, operational factors, optimisation factors and leverage factors. The categorical factors are summarised in Figure 15 below.

Figure 15: Key factors influencing an integrated strategy



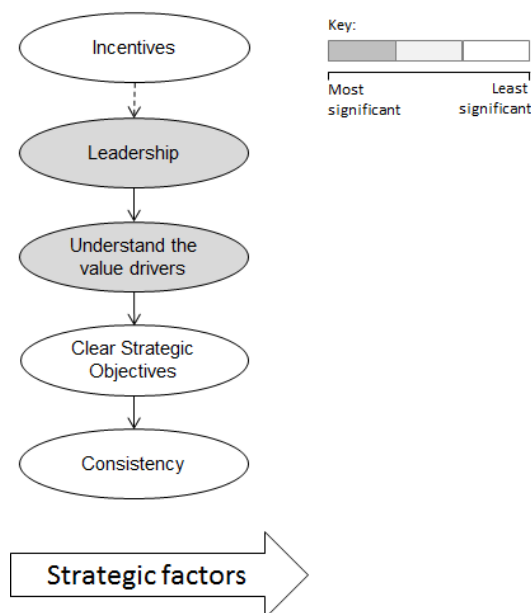
(Adapted from: Table 10)

When connected, the factors form an integrated process flow which begins with the consideration of strategic factors, which in turn drive a collection of operational and optimisation factors towards a set of leverage factors. The research clearly shows that the most significant factors are centred at the core of the process, with the strongest factors occurring in the strategic, operational and leverage zones. The research thus finds that the factors enabling the simultaneous optimisation of revenue growth and cost containment are interdependent and should therefore be considered as an integrated set of factors and not as individual properties.

6.5.1 Strategic Factors

Strategic factors are concerned with setting the strategic direction and intent for the firm. It is the central task of the firm’s leadership team to understand the drivers of value in the firm in order to set clear strategic objectives which are communicated consistently. The relationship between these strategic factors is detailed in Figure 16 below.

Figure 16: Strategic factors influencing an integrated strategy



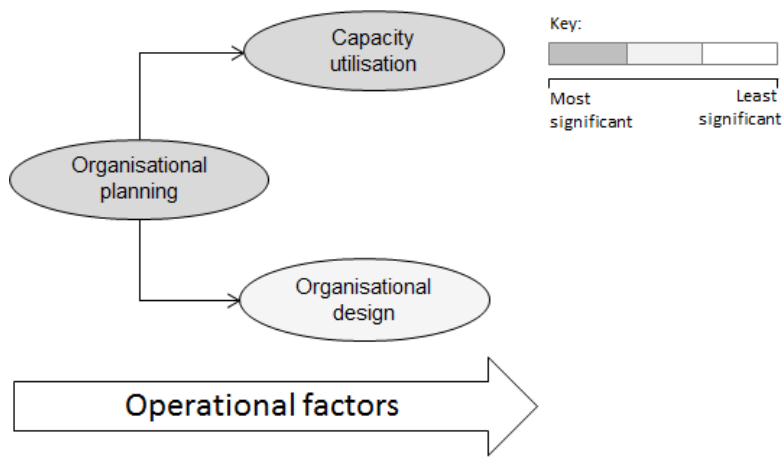
A significant management level contributor, depicted in Figure 12, contributing to the oscillation between a revenue growth and cost containment focus, is the lack of this intrinsic understanding of the where value is derived in the firm. When managers are able to construct clear mental models of the firm's strategic intent, they can position their firms to deliver higher levels of firm performance. This assertion is supported in the current managerial theory, in which Douglass (2012) points to strategic clarity as the pre-requisite for defining the critical success factors for the organisation, and Gary and Wood (2011) suggest that managerial ability is a source of heterogeneity in firm strategy and performance.

A key enabler for management in implementing these strategic factors will be the level of incentivisation towards them. The idea of incentivising managers based on strategic targets, in addition to operational targets, is not a new concept, as is evidenced in the current literature (Akron & Benninga, 2013; Balsam et al., 2011; Nyberg et al., 2010; Shin, 2013; Zhang & Jiang, 2015). However incentives becomes a critical mediator in the steering the manager's behaviour towards long-term value creating strategies.

6.5.2 Operational Factors

The next step in positioning the firm to optimally balance revenue growth and cost containment is to operationalise the firm's strategy. The research finds that the operational planning activities within the firm are critical connectors of the firm's strategic intent to its operational reality. Operational planning is concerned with matching the human and capital resources of the firm with its strategic intent. Through effective organisational planning, discrepancies between plan and capability can be detected before further resources are committed. Capital resources are assessed through analysing the firm's current and potential operational capacity, while human resources are considered through the firm's organisational design to deliver on the strategy. These operational factors are summarised in Figure 17 below.

Figure 17: Operational factors influencing an integrated strategy



By considering the human resource requirements in conjunction with the operational capacity of the firm, managers can overcome certain factors which would cause the revenue and cost relationship to become unbalanced. The most importance of these factors is the cost structure and cost allocation complexity, as detailed in Figure 13 which lists the key organisational level factors which drive an exclusive revenue or cost focus for the firm. An organisation which is designed around its operational capacity becomes flexible and scalable. When operational capacity is added or removed, the capital and human resources tied to that capacity is explicit, simplifying the cost allocation complexity issue. The cost structure for the firm becomes virtually variable with the level of organisational capacity, which allows the manager to regulate the cost drivers based on output demand.

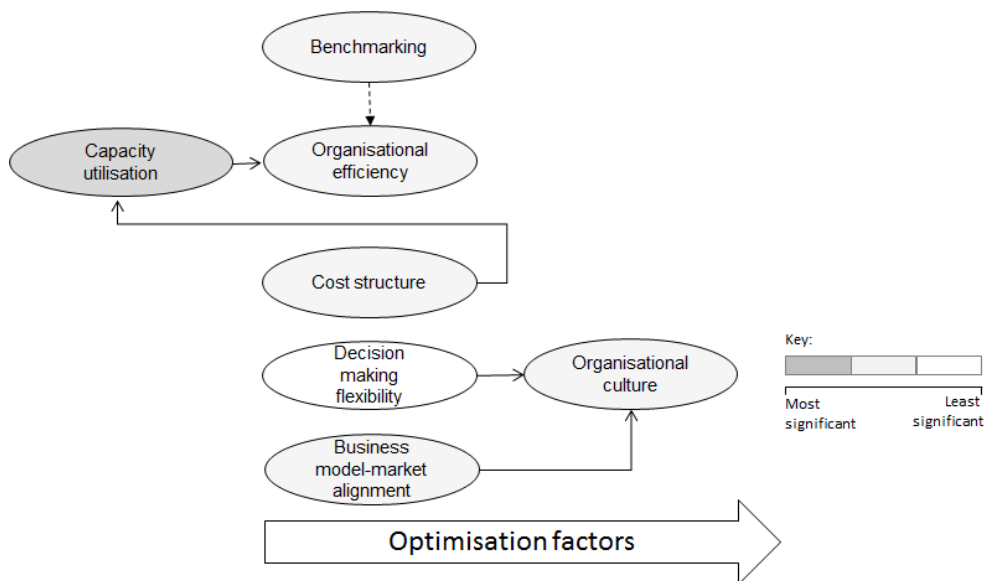
This finding from the research is significant and is not covered in the current literature. Whilst there are various cost allocation models in use, including activity-based costing and absorption costing which are designed to tie cost drivers to cost objects in order to link costs to revenue (Cokins & Capusneanu, 2010), the literature is incomplete on the factors which drive this relationship in the profit-driver models commonly used by businesses (Shields & Shields, 2005). Organisational planning, which seeks to link organisational design with operational capacity therefore provide

a new insight into how this relationship may in fact be linked in the context of developing profit-driver models.

6.5.3 Optimisation Factors

Optimisation factors emerge as pivotal elements to enabling the firm to grow revenues while simultaneously containing costs. The main premise supporting optimisation as an enabling construct is centred on the notion that a firm should generate maximum utility with its existing cost base before committing additional firm resources. Yoon and Chae (2012) echo this finding and provide empirical evidence to support the new epoch of modern day business which challenges managers to “do more and spend less, focus and diversify, and delegate and know the details” (p. 3516). The research finds that operational inefficiencies negate performance gains and should therefore be extracted as far as possible. Inefficiencies can surface in both the human and operational domains and should therefore be managed holistically. Figure 18 below depicts the key optimisation factors which, if managed optimally, can generate optimisation gains for the firm.

Figure 18: Optimisation factors influencing an integrated strategy



Benchmarking emerged as a key optimisation factor during the research. Managers rely on benchmarking in order to assess reasonable cost-benefit efficiencies in all aspects of operations. Benchmarking can be achieved through external comparisons to industry peers or even through internal departmental metrics. However, the key contribution to the management of revenue growth and cost containment is through its application to reconciling the trade-offs between revenue and cost. Zhou et al. (2013) suggest that the decision to follow a particular strategy requires that the business makes trade-offs between growth and cost. However, the research does not provide tangible guidance as to how the required trade-offs can be achieved or even measured. Benchmarking therefore emerges a possible answer to this conundrum.

Fixed or overhead costs in a firm's cost structure are typically the most complex costs to manage. Fixed costs do not contribute directly to the firm's output and therefore linking fixed costs to revenue is a complex undertaking, the consequence of which is that fixed costs become disjointed from operational or variable costs over time. Then, when costs are removed from the business, there is no understanding as to which costs support revenue generating activities and therefore there is a risk to the business that costs are removed which are essential. Douglass (2012) and Guni (2014) highlight how this fundamental misunderstanding can cause businesses to implement short-term cost measures which have a negative effect on the ability of a company to generate profits in the future. However, by optimising the organisational design around the operational capacity, the cost structure becomes intrinsically linked to the capacity utilisation of the firm, which can be adjusted based on the required firm output. The need to link fixed and variable costs to product output is diminished as the total capacity drives the main cost drivers.

The alignment of the business model to the market being served by the firm is a key input to the organisational design in order to identify unused resources and their magnitude on the organisation (Guenther et al., 2014). This allows the firm to adjust the organisational design at the organisational planning stage and thereby prevent

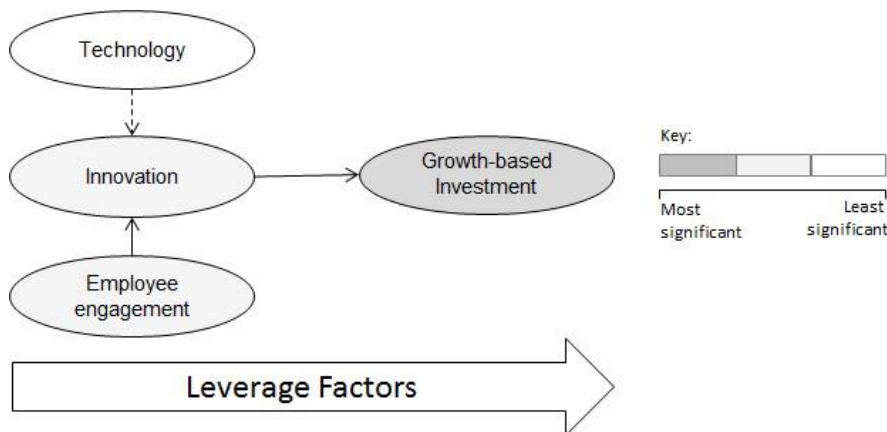
sticky costs from emerging at a later stage which become difficult to remove (Banker & Byzalov, 2014; Guenther et al., 2014).

Finally, decision-making flexibility was highlighted as key operational planning lever to ensure that operational decisions are taken as close to the operational problem as possible, thereby removing inefficient and non-valuable business processes. Flexibility in decision making is also considered to foster a culture of ownership and accountability which leads to increased employee engagement. Gilbert and Sutherland (2013) provide support for this assertion through their findings that varying degrees of employee autonomy, when tempered with indirect management controls, fosters a collective engagement that enhances company performance.

6.5.4 Leverage Factors

Leverage factors constitute those factors which are directly concerned with generating the leverage effect between revenue and cost. The main leverage factors identified in the research are summarised in Figure 19 below.

Figure 19: Leverage factors influencing an integrated strategy



The key factors which create this leverage effect can be distilled into technology and employee engagement elements. When technology is applied to improve efficiencies and productivity, product and business process innovations emerge

which reduce the production costs for the firm. Similarly, a heightened level of employee engagement, fostered by an inductive and empowered organisational culture, leads to further innovations and therefore exerts further downward pressures on cost and creates positive momentum for productivity. Technology and employee engagement therefore surface as key enablers of innovation within an organisation and innovation, in turn, drives gains in cost efficiencies and productivity. The literature is clear on the role of innovation as a lever for increased rates of productivity in organisations. Bolton and Samama (2013) and Peters et al. (2013) reveal how innovations raise the long-term productivity for the firm which is then translated into long term performance improvements, with technology established as the main instigator of innovation. However, the current literature does not give weighting to employee engagement as a lever for driving innovation. The research finding therefore provides new insight into an alternative, yet equally powerful means to harness new gains in innovations which drive firm productivity.

The research clearly demonstrates the need for managers to make growth-based investments in which new investments, and thus costs, are made based on the firm achieving certain growth milestones which are designed in such a way as to extract maximum utility from the existing cost base before new costs are added. Yoon and Chae (2012) provide empirical evidence to support this epoch of modern day business which challenges managers to “do more and spend less, focus and diversify, and delegate and know the details” (p. 3516). By linking the trigger for new investments to stretched growth targets, firms can ensure that the distance between revenue and cost is always expanding and costs can never exceed revenues. Additionally, if the business contracts due to unfavourable market conditions, the buffer created between revenue and cost can absorb the contraction and the imperative to cut costs is diminished. Innovation becomes the clear the voltage behind the capability of a firm to make growth-based investments. Growth-based investments, through their intrinsic design, require a disproportionate revenue growth achievement before new investments are executed and the net effect being that revenue growth and costs are optimised simultaneously. And according to Zhou

et al. (2013), firms that are able to achieve this dual objective are positioned for sustainable business performance.

6.6 Conclusion

The research clearly demonstrates that managers are able to pursue mutually exclusive revenue growth or cost containment strategies to maximise economic profits in the short-term, and organisations tend to oscillate between a revenue and cost focus which is driven by specific market, management, organisational and employee level factors. Market and management level factors emerged as the most significant factors influencing management decision-making in terms of strategy direction. Additionally, the organisational level factors of artificial constraints and organisational design were highlighted by the research as new insights into the drivers of managerial behaviour with regard to strategy adoption. However, the research also demonstrates that a revenue growth or cost containment primacy is a short-term reaction to opportunities or threats facing the firm at any given moment, and that the imperative for sustainable profit growth means that in the long-term, a balance strategy is essential to ensure stable firm performance.

Moreover, the research finds that managers are able to combine the benefits of revenue growth and cost containment to achieve an optimal balance towards the sustainable growth of economic profits over time. The research data reveals that the management's approach towards the dilemma should not be a singular focus on either revenue or cost, but rather a focus on leveraging its relation. To achieve this, managers should focus their efforts on diverging the relationship between the two forces by creating a leverage effect between revenue and cost. A number of key relational factors were identified in the research, which together provide an integrated management process model to drive a balanced approach to managing growth and cost within the firm. The research finds that certain strategic factors drive operational factors at the firm level, and optimisation factors enable leverage factors, which together permit innovations which lead to cost efficiencies and productivity gains. Critically, it is through these leverage factors that a firm is able to make

growth-based investments which, by its intrinsic design, optimises the growth and cost objectives simultaneously. In the next chapter, the research findings are synthesised and the practical implications for management is discussed.

Chapter 7: Conclusion

7.1 Introduction

The main aim of the research was to establish whether an optimal balance between revenue growth and cost containment can be achieved towards maximising the economic performance of a firm. The motivation for the research stems from the challenge placed on business managers today to find ways to simultaneously grow revenues and profits (Kotter, 2012). However this requires managers to make trade-offs between sacrificing cost reductions in order to make the necessary investments which stimulates revenue growth, and curtailing growth in favour of gaining cost optimisations to maximise profitability. And as highlighted by Holt and Seki (2012), these competing demands are intensified in the global environment, and organisations which can balance these demands are best positioned for success.

Yoon & Chae (2012) suggest that the skillful management of dilemmas and paradoxes is a differentiating characteristic which enables managers to strike the required balance. Lüscher and Lewis (2008) prescribe a five-stage, collaborative process to assist managers with working through paradox which seeks simply to aid managers in framing the problem as either a dilemma or paradox, and then guiding decision-making to a “both/and” mind-set instead of an “either/or” mind-set. However, the current theory is not prescriptive on how revenue growth and cost containment can be managed specifically, yet the dilemma constitutes perhaps the core management challenge facing any manager in any organisation, and has arguably the most significant impact on the success of the organisation.

To explore the dilemma under scrutiny, the research set out with the objective of firstly establishing whether a firm could maximise its economic performance by pursuing a mutually exclusive revenue growth or cost containment strategy. A series of 20 semi-structured, in-depth interviews was conducted with business leaders and management experts who are actively charged with managing the revenue and cost decisions for their firms, or who act in an advisory capacity to the decision makers.

The use of expert interviews as the data collection method was appropriate given the limited knowledge coverage in the current literature, as the interviews facilitated necessary discourse on the topic of revenue and cost management in order to unearth new insights into the problem (Galletta, 2013). The interviews were used to explore the proposition and identify the key factors which influence a manager's ability to pursue a mutually exclusive revenue growth or cost containment strategy. The outcomes in following a revenue or cost primacy was extrapolated from the interviews in order to analyse the potential effect on the firm's economic performance.

Finally, the main hypothesis of the research was explored, namely whether managers are able to adopt an integrated business strategy, where revenue growth and cost containment is optimised simultaneously. Zhou et al. (2013) confirms that firms that can grow sales revenues and limit expenses simultaneously achieve superior results. The research data gathered from the expert interviews was analysed to produce a set of interrelated factors which influence a manager's ability to adopt an integrated strategy for maximising the economic performance of the firm. The potential outcomes of successfully balancing the revenue and cost objectives for the firm were extrapolated from the interview data.

The main findings and insights gathered from the expert interviews are synthesised in the next section to address the original research aims and objectives. A management model is constructed on the basis of the research findings and serves to aid managers navigate the complexities of successfully managing revenue growth and cost containment towards maximising the economic profits for the firm. Finally, the implications for both theory and practice are discussed.

7.2 Synthesis of the Principle Research Findings

In examining whether firms are able to maximise economic profits by pursuing a mutually exclusive revenue growth or cost containment strategy, the research findings confirm that firms generally oscillate between the two strategies (Table 4),

with either a revenue primacy or cost primacy forming the dominant firm objective at any point in time. This finding is consistent with the current literature, where Zhou et al. (2013) explains that the decision to follow a particular strategy requires that the business makes trade-offs between alternatives and therefore it is highly likely that these trade-offs fall out of balance resulting in a bias towards either strategy. This finding also reflects the current business practises, which is illustrated in a recent report on organisational confidence (Ernst & Young, 2015) which reveals how firms adjust their revenue growth or cost reduction focus based on the prevailing economic climate.

Additionally, the research data summarised in Table 4 confirms that firms are able to maximise economic profits in the short-term by adopting an exclusive strategy. The research identified a number of key factors influencing this short-term reaction to strategy adoption, which surfaces as either a market, management, organisational or employee level influence. The research highlighted that market and management level factors are the main drivers behind management decision making in adopting either a revenue growth or cost containment strategy. This suggests that a firm's dominant strategy at any particular time is likely to be governed by the dynamics of the market it operates in, of which market conditions and industry structure are the main considerations, and management's reaction to these market dynamics which is ultimately reliant on the characteristics and nature of the business' leadership, as well as their time orientation in relation to the business strategy. The current literature supports these findings, where Deo (2013) reveals empirically how cost cutting strategies are commonplace during economic downturns, whereas revenue growth strategies are favoured in growing markets in order to maximise the potential market share for the firm (Ristovska, 2013). Alongside these market level factors, managerial level factors are also considered in the literature, where O'Byrne and Young (2010) and Banker et al. (2011) reveal how managerial motivations can conflict with firm objectives.

Notwithstanding the adequacy of the current theoretical knowledgebase in addressing the influence of most of the market, management, organisational and

employee level factors recognised in the study, and which is summarised in Figure 10, the research contributes to the current literature through the identification of specific, individual factors which influence manager decision making. Firstly, the presence of artificial constraints, which are limitations imposed on the firm that under normal business conditions would not be present, can impact the ability of a manager to fully realise either a revenue or cost strategy. A second factor, which emerged from the research, and which influences manager decision making, is organisational design. The research finds that the organisational structure of the firm must be designed around its operational capacity and should be flexible in response to changes in the firm's activity requirements. Only when the firm can seamlessly adjust its human capacity in line with its operational capacity, can it overcome the challenges associated with current cost allocations systems which are inadequate.

More importantly, the research study validates that by simultaneously optimising revenue growth and cost containment, a manager can steer the firm onto a path towards maximising its economic profits (Table 8). This finding validates the current theoretical view that the ability to balance revenue growth and cost containment has emerged as a potential key differentiator for companies seeking a competitive edge (Gannon, 2007; Serretta et al., 2009; Stewart, 1996). The significant contribution from this study, however, lies in the identification of the key strategic, operational, optimisation and leverage factors, summarised in Figure 15, which influence the ability of a manager to achieve the balance between revenue and cost. The relative significance of each factor is ranked in the study and the interdependence between factors revealed a sequential order to the implementation of the enabling and driving factors. Strategic factors drive operational ones, and optimisation factors are enabled through their operational predecessors. Finally, the main leverage factors, namely technology and employee engagement, emerge as the chief leverage points which enable growth-based investments, which the study identifies as the primary mediator of balancing revenue growth and cost containment. And while technology is well documented in the literature as a key enabler of innovation which drives productivity improvements, the research cites employee engagement as an unexplored factor which can drive similar gains in innovation and thus productivity.

Thus employee engagement, in the context of its ability to foster innovation which drives growth-based investments, emerges as an important contribution to the current theoretical knowledgebase.

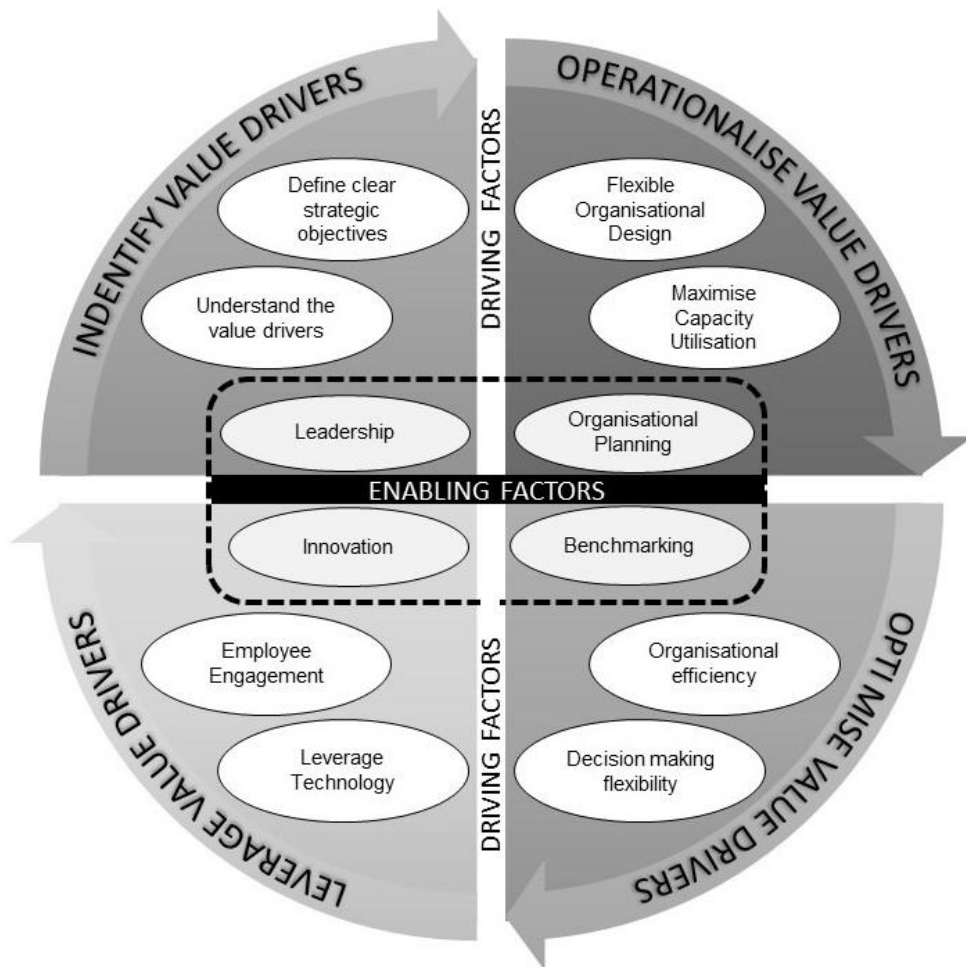
Finally the research affirms the current literary view that managers which are able to successfully navigate management dilemmas, such as the dilemma under scrutiny in this study, are well positioned to gain competitive advantages in their markets (Lüscher & Lewis, 2008). The outcomes of successfully balancing the revenue growth and cost containment objectives for the firm, which is summarised in the research findings in Table 9, confirms this position through the identification of outcomes that currently do not characterise the typical profit-driven corporation.

7.3 The Revenue-Cost Optimisation Model

The findings and insights gleaned from the research provided the basis for the development of the revenue-cost optimisation model, which is depicted in Figure 20 below. The revenue-cost optimisation model serves as a prescriptive management framework for managing and balancing the revenue growth and cost containment relationship in a firm. The key factors enabling an integrated revenue growth and cost containment strategy, which is summarised in Figure 15, provided the foundation for the model. These factors arrange to form a circular event chain of a sequence of factors which need to be activated in order for the firm to achieve an integrated approach.

The central tenant of the model is the concept of value. The research has revealed that the management approach towards this dilemma should not be a singular focus on either revenue or cost, but rather a focus on leveraging its relation. As long as the distance between revenue and cost is growing, the profit maximisation objective will be realised and the trade-off between revenue and cost is diminished. A measure of this distance thus becomes value and a firm creates value when its revenues exceed its costs. Moreover, when revenues consistently exceed costs, the balance between revenue and cost is optimised.

Figure 20: The revenue-cost optimisation model



The application of the model begins with identifying the primary value drivers in a firm. The levers which drive value then need to be operationalised through organisational planning to ensure tactical alignment. The third phase of the revenue-cost optimisation cycle is concerned with the optimisation of the value drivers in order to ensure maximum utility of firm resources. And finally, value is leveraged when a firm can employ innovations to generate disproportional revenues with fewer costs. Each stage in the revenue-cost optimisation cycle is composed of driving factors and enabling factors. Driving factors constitute the dependent activities for each stage while enabling factors are the key factors which mediate the stage. The significance

of each stage of the revenue-cost optimisation model in managing the revenue growth and cost containment objectives is discussed below.

7.3.1 Identify Value Drivers

The departure point for the revenue-cost optimisation model is to identify the value drivers for the firm. When managers understand the fundamental sources of value, they are better positioned to assess the impact of revenue and costs decisions in terms of whether value will be created or destroyed upon execution of a decision. In particular, the risk of removing costs from the business which support revenue generating activities is diminished when managers are acutely aware of the costs supporting the main value drivers.

The revenue-cost optimisation model cites the need for effective leadership to, firstly, identify and understand the business drivers of value, and secondly to articulate the strategic intent into a clear, consistent set of strategic objectives for the firm. Leadership is therefore an enabling factor in the first step towards balancing revenue growth and cost containment at the firm level.

7.3.2 Operationalise Value Drivers

The second stage of the revenue-cost optimisation model involves the operationalisation of the strategy defined in the first stage. The premise supporting the operationalisation stage is rooted in the need for the organisation to position itself tactically to deliver on the strategy. It is during the operationalisation stage that the cost structure for the firm is ultimately formulated, which means that failure to execute the operationalisation stage adequately may result in the firm establishing an inappropriate cost structure which is difficult to modify at a later stage. This is evidenced thoroughly in the research study where cost structure emerges as a significant factor influencing the oscillation between a revenue or cost focus.

The key factors which drive the operationalisation of the strategy comprise two interrelated aspects, namely organisational design and capacity utilisation. When a firm can design a flexible human capital organisation around the operational capacity of the firm, it can better scale its resources and activities in response to market demand. In order to achieve this alignment, organisational planning must encompass a flexible organisational design, which is tied to the strategic value drivers defined in the first stage of the model. This ensures that managers are systematically prompted to allocate human resources which help maximise the operational capacity of the firm. Organisational planning therefore constitutes the enabling factor for effect operationalisation of the business strategy.

7.3.3 Optimise Value Drivers

The third stage of the revenue-cost optimisation model seeks to remove any inefficiencies from the system which may absorb the productivity gains from the operationalisation stage. Inefficiencies occur both in the operational domain as well as at the organisational level, and are defined as wasted resources in the production of the firms output. The research revealed that many firms have difficulty in determining the optimal levels of cost inputs in order to generate the required revenues.

The research finds that benchmarking can be used to overcome this problem. By benchmarking the physical and business processes of the firm, either with industry peers or other business units, a manager can quickly measure and assess the firm's own efficiencies against similar and comparable benchmarks. Similarly, the manager can benchmark the costs associated with human organisational resources and their efficacy in generating the required returns, against other departments within the organisation as well as at the aggregate firm level. Once again, because the model is rooted in supporting the value drivers of the firm, benchmarking activities in the optimisation stage are focused on value as opposed to pure cost or revenue benchmarks. In other words, in order to optimise the value drivers for the firm, the

value generated by the firm's human and capital resources as assessed against the value generated by a comparable entity's human and capital resources.

7.3.4 Leverage Value Drivers

Once the manager understands the drivers of value in a firm, and has designed an organisation to deliver the maximum operational capacity of the firm, and which is operated in way that removes unnecessary non-value add activities, the relationship between cost and revenue can be leveraged. The key enabling factor which can lever this relationship is innovation. Innovation allows the firm to generate disproportionately higher revenues than the costs involved in generating those revenues, primarily through the benefits gained from productivity enhancements to existing physical or organisational resources, which allows managers to extract expanded value from the same resource base.

Technology is well entrenched as the key driver of innovation within a firm. The application of technology facilitates the replacement of lesser productive resources with resources that deliver superior levels of productivity. As a driving factor, technology therefore remains a major lever for managers seeking to leverage the revenue-cost relationship.

The research has highlighted the significance and potential of employ engagement as an additional driver of innovation within a firm. Similar to technology, engaged employees are more likely to search for better work methods towards optimising production and business outcomes. Yet, unlike technology, employee engagement does not enjoy the same level of literary support in academia as an equal to technology in fostering innovation.

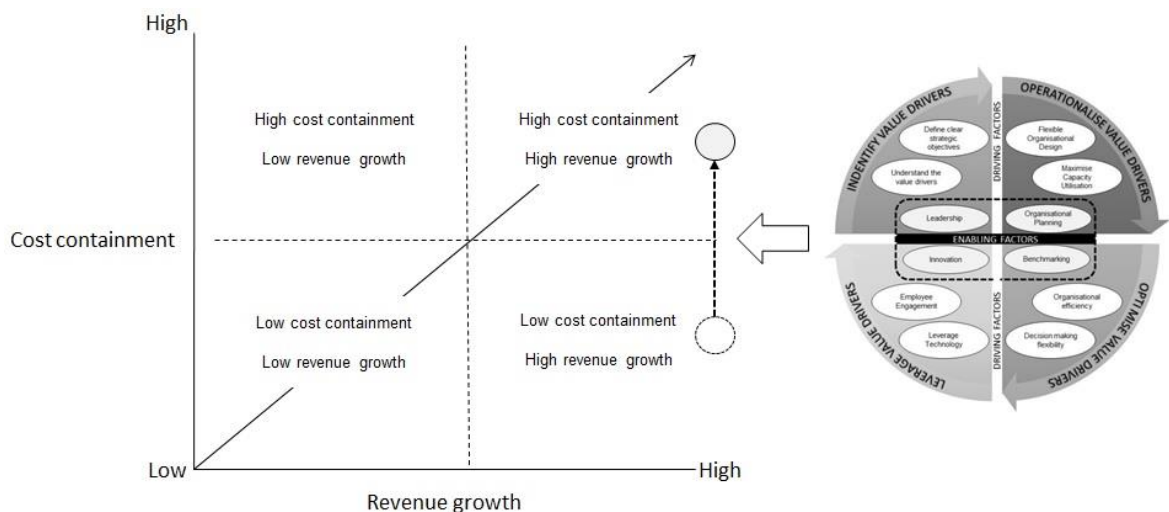
Once the firm has established the necessary driving factors towards innovation, it is finally in a position to make growth-based investments, which is characterised by the triggering of new investments, and thus costs, based on stretch revenue growth targets. In this way, costs can never exceed revenues and revenues are generated disproportionately to costs. And based on the findings of this study, the optimal

method of ensuring revenue growth and cost containment is balanced is to ensure that the gap between the two objectives is consistently expanding.

7.4 Implications for Management

For managers in practice, the study highlights sixteen significant factors (Table 7) which will likely result in an oscillation between economic strategies for the firm, and which are highly likely to be instigated by market level forces and managerial reaction to those forces. Managers can identify the factors active in their firms and thereby diagnose the dominant strategy pervasive in the organisation. Only once a diagnosis is reached can the manager assess the path towards installing an integrated strategy in order to drive the long term economic benefits for the firm.

Figure 21: Moving from a revenue growth strategy to an integrated strategy

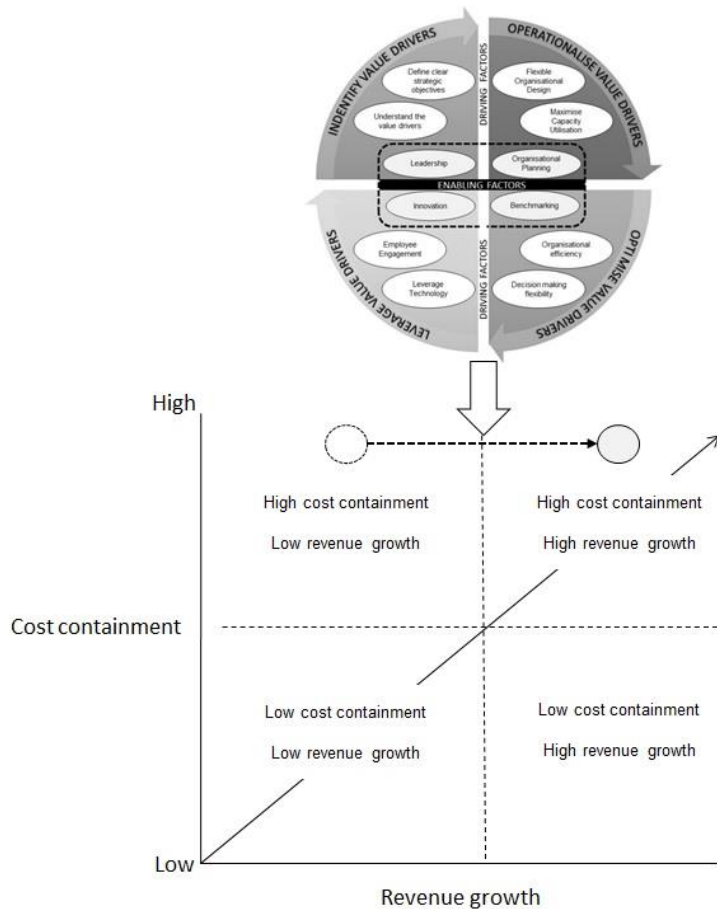


For managers of firms that fall into the high revenue growth, low cost containment quadrant of the management dilemma model depicted in Figure 21, the manager may seek to rectify the imbalance between revenue growth and cost containment by employing the revenue-cost optimisation model to counter the weighted focus on growth. Specifically, the model will aid the manager in identifying the unnecessary

costs which do not support the value drivers in the firm, and which the manager can remove immediately to optimise profitability for the firm without negatively impacting its revenue performance.

For managers of firms in the high cost containment, low revenue growth quadrant of the management dilemma model depicted in Figure 22 below, the imbalance between cost and revenue can once again be normalised through the stages prescribed by the revenue-cost optimisation model. These types of firms are generally characterised by risk aversion or stagnant industry growth constraints.

Figure 22: Moving from a cost containment strategy to an integrated strategy



Through the revenue-cost optimisation model, risk management can actually be enhanced as the firm is more likely to generate returns to investments when those investments are targeted at revenue drivers which support value drivers. At the same time, the revenue growth profile of the firm can be expanded, thereby expanding the value created by the firm and thus its economic profits.

7.5 Implications for Theory

This research study contributes to the fields of managerial theory, and paradox and dilemma management. For managerial science, although the extant literature provides sophisticated coverage of the specific management factors which affect firm performance, including self-interest (Brauer, 2013; O'Byrne & Young, 2010), management incentives (Akron & Benninga, 2013; Balsam et al., 2011; Nyberg et al., 2010; Shin, 2013; Zhang & Jiang, 2015) and agency problems (Brauer, 2013), the contribution from the research highlights the significance of inertial factors, which fall outside of the immediate control boundaries for managers, as important factors which may impact the economic performance of the firm. Specifically, this research calls out artificial constraints and organisational design as factors which may counter managerial actions that seek to maximise the economic profits for the firm.

In the developing field of dilemma and paradox management, the research validates the extant theoretical proposition that by embracing the contradictions which typify the dynamic business environment (Smith & Lewis, 2011), managers are able to develop the ability to deal with these types of management paradoxes in such a manner which makes the simultaneous achievement of the alternatives possible (Peters, 2012). And while a number of management paradoxes and dilemmas have been specifically explored, including the exploitation versus exploration (Andriopoulos & Lewis, 2009; Gielink, 2014), autonomy versus control (Gilbert & Sutherland, 2013), organisational stability and change (Farjoun, 2010; Nasim & Sushil, 2011), collaborating with competitors (Rijamampianina & Carmichael, 2005) and competition versus collaboration (Naidoo, 2013), the current literature does not delve into the ambiguous management objective of simultaneously balancing

revenue growth and cost containment. The contribution from this research is therefore a deeper understanding of the factors which enable the management of the two horns of the dilemma and the potential outcomes for managers that are able to successfully navigate the dilemma.

7.6 Limitations of the Research

The following potential limitations were identified for the research:

- A purposive sampling methodology was used to identify the sample set for the research. Given that purposive sampling relies on the judgement of the researcher, the collected data sample may have been subject to sampling bias based on the views, beliefs and opinions of the researcher and therefore the risk of sample representability is acknowledged.
- The inherent limitation of the non-probability sampling methods that were employed in this study means that samples are not statistical representations of their populations and therefore do not represent an absolute generalisation of the population set (Saunders & Lewis, 2012).
- The researcher had no formal training or experience in conducting social interviews for research purposes. Galletta (2013) states that interview skills develop over time through “one’s reflection of the interview process” (p. 107). The potential implication for the study is that the researcher’s ability to effectively manage the interview process and apply the required probing techniques to solicit the desired expert insights may have been constrained to the researcher’s limited skill and experience in conducting expert interviews.
- The sample data set for the research comprised business executives and experts sourced mainly from organisations operating predominantly in South and Sub-Saharan Africa. Consequently, the views and opinions of business executives and experts may have been subject to contextual biases inherent in the immediate operating environment for the represented organisations.

7.7 Recommendations for Future Research

The research explored the uncharted areas in the current literature which deals with the management dilemma of growing revenues while simultaneously containing costs. Consequently, an explorative study was employed to discover new insights into the topic in order to gain a deeper understanding of the themes and constructs which characterise the dilemma under review. Areas for further research could therefore be focused on quantitatively validating the findings from the research. In particular, the statistical significance of the 16 factors which influence a manager's ability to pursue a mutually exclusive revenue growth or cost containment strategy could be measured in order to empirically confirm their level of influence. Similarly, the 18 factors which influence a manager's ability to pursue an integrated revenue growth and cost containment strategy, which were identified in this study, could be empirically tested.

Another suggestion for future research would be to delve deeper into the potential of employee engagement as management tool to drive operational efficiencies. Technology is seen as game changer for driving step changes in firm productivity, however this research suggests that a heightened engagement of employees' cognitive abilities may present significant opportunities for managers seeking the next step change in driving innovation towards increased firm productivity.

Finally, future research could be targeted at investigating the factors which may foster the skill of ambidexterity in managers, which allows them to successfully navigate the complexities associated with management dilemmas and paradoxes. Given that this research has provided support to the proposition that managing through dilemma or paradox may constitute a competitive advantage (Yoon & Chae, 2012), further clarification into the developmental aspects of management skill as it relates to dilemma management will provide valuable contributions to the current managerial theory.

7.8 Conclusion

In this research, the management dilemma of growing revenues while simultaneously containing costs was explored. The research follows similar studies concluded on other management areas, including exploitation versus exploration (Andriopoulos & Lewis, 2009; Gielink, 2014), autonomy versus control (Gilbert & Sutherland, 2013), organisational stability and change (Farjoun, 2010; Nasim & Sushil, 2011), collaborating with competitors (Rijamampianina & Carmichael, 2005) and competition versus collaboration (Naidoo, 2013). The study set out to, firstly, establish whether or not a manager could adopt a mutually exclusive revenue growth or cost containment strategy to maximise the economic performance of the firm, and what factors influenced the manager's propensity to pursue an unbalanced strategy. Secondly, the research study then delved deeper into identifying the factors which influence a manager's ability simultaneously optimise revenue growth and cost containment, and to what degree manager's felt that an integrated strategy was a viable path to maximising the economic performance of the firm.

The research found that managers are able to pursue mutually exclusive revenue growth or cost containment strategies to maximise the economic profits of the firm, but only in the short-term. The motivation for pursuing one strategy over the other at any given time in the business cycle is driven mainly by a response to market level factors which constitute either a temporary opportunity or threat. However, the study found that over the long-term, managers typically oscillate between a revenue growth and cost containment focus, largely as a result of not understanding the core value drivers for the firm. The main outcome of alternating between strategies means that the relationship between revenue and cost becomes disjointed over time, making it difficult for a manager to predict the impact of decisions which affect revenue and cost.

In exploring the main thesis, the research found that simultaneously balancing the objectives of revenue growth and cost containment was a central management function and 18 factors emerged as key influencers which enable a manager to achieve an integrated strategy. The findings and insights gleaned from the research

were then collated into the revenue-cost optimisation model, which serves as a prescriptive management framework for managing and balancing the revenue growth and cost containment relationship in a firm.

The results of this research have material implications for practitioners and academics alike. For managers, the research exposes 16 key factors which generally sway a firm between either a revenue or cost focus. Managers can search for these factors in their firms and thereby diagnose the prevalent strategy operating in their firms. Managers can then apply the revenue-cost optimisation model, which employs the key factors influencing the adoption of an integrated and balanced revenue growth and cost containment strategy, to install an optimal balance between revenue and cost, and thereby maximise the economic profits for the firm.

The study also contributes the theoretical understanding of management dilemmas in practice. The study validates the extant theoretical proposition that successfully managing through a dilemma provides the firm with a distinct set of abilities which may manifest as competitive advantages (Peters, 2012). Moreover, the research provides a deeper understanding of the factors which enable the management of the specific challenge of balancing revenue growth and cost containment, and thereby forms a significant addition to managerial theory.

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Appendices

9.1 Appendix 1: Interview Guide

Interview Guide Questions	
No.	Question
1	Have you had to grapple with the dilemma of growing revenue whilst at the same time containing or cutting costs in a business? Can you please share the experience and outcome with me? (5 minutes)
2	What would you suggest are the main revenue generating activities within your business and why? (3 minutes)
3	What would you suggest are the main cost incurring activities within your business and why? (2 minutes)
4	Which factors of both revenue growth and cost containment are mutually exclusive and which are complementary? (5 minutes)
5	What do you believe are the trade-offs between revenue growth and cost containment? (5 minutes)
6	In what areas do you believe the organization could legitimately contain costs without having a negative impact on revenue growth or the business in general? (2 minutes)
7	Under what circumstances does it make sense for a company to pursue a revenue growth strategy with cost containment as a secondary objective? What factors drive this? What are the outcomes? Have you ever experienced this scenario – if so, can you please share the experience and outcome with me? (5 minutes)
8	Under what circumstances does it make sense for a company to pursue a cost containment strategy with revenue growth as a secondary objective? What factors drive this? What are the outcomes? Have you ever experienced this scenario – if so, can you please share the experience and outcome with me? (5 minutes)
9	Which strategy do you consider most effective and why? (5 minutes)
10	Consider the possible combinations of revenue growth and cost containment in a business, depicted in the figure below.

Interview Guide Questions	
No.	Question
	<p>High</p> <p>High Cost Containment Low Revenue Growth</p> <p>High Cost Containment High Revenue Growth</p> <p>Cost Containment</p> <p>Low Cost Containment Low Revenue Growth</p> <p>Low Cost Containment High Revenue Growth</p> <p>Low</p> <p>Revenue Growth</p> <p>High</p> <p>Is it possible for a business to simultaneously achieve high revenue growth and high cost containment? What would it take to get there? (5 minutes)</p>

9.2 Appendix 2: Informed Consent Form

Participant Informed Consent

I am conducting research on managing the dilemma of balancing revenue growth and cost containment in a business. I am trying to uncover new insights into whether revenue growth and cost containment are opposites or whether an optimal balance can be achieved.

Your personal views and experience on the subject will be invaluable in helping us understand how best to balance the apparent conflicting objectives of revenue growth and cost containment. The interview will last approximately forty five minutes and will be recorded with your consent. All data will be kept confidential and no comments will be linked back to any interviewee.

Your participation is voluntary and you can withdraw at any time without penalty. If you have any concerns, please contact me or my supervisor. Our details are provided below.

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Signature of Participant: _____

Date: _____

Signature of Researcher: _____

Date: _____

9.3 Appendix 3: Content Analysis Extracts from CAQDAS (ATLAS.ti)

Figure 23: Content analysis thematic coding extract from ATLAS.ti

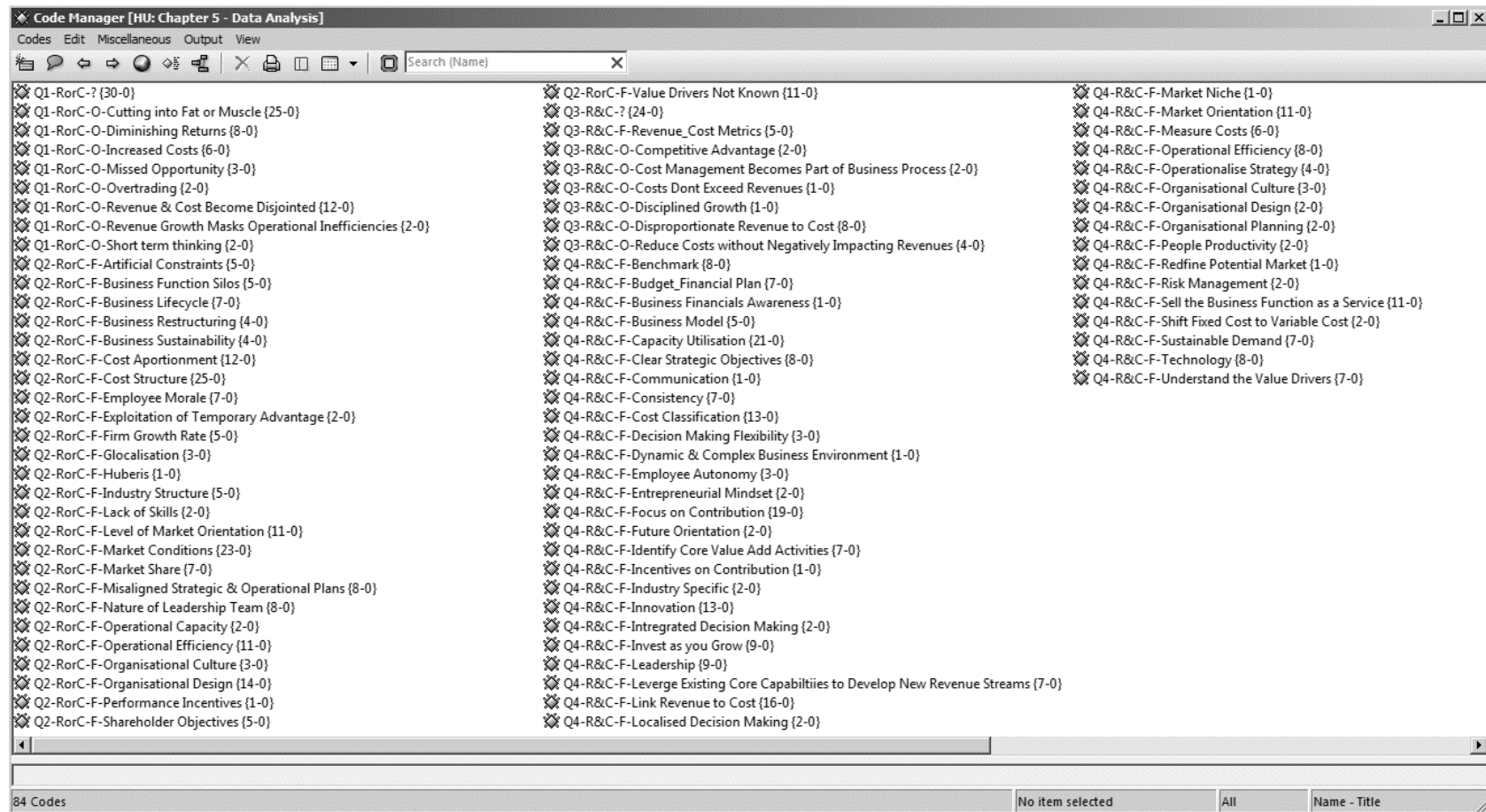


Figure 24: Thematic coding extract of interview transcript from ATLAS.ti

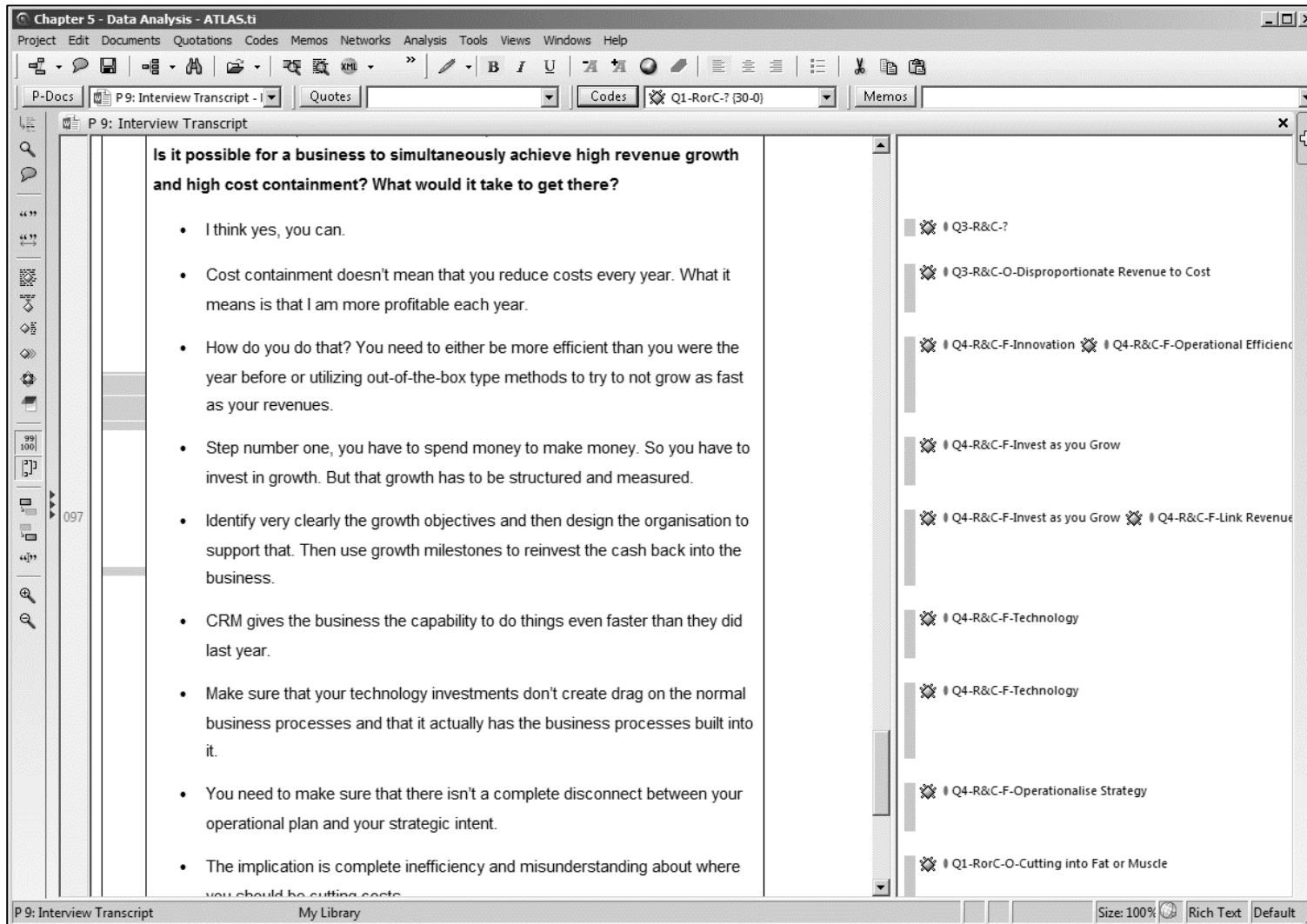


Figure 25: Coding network diagram extract from ATLAS.ti

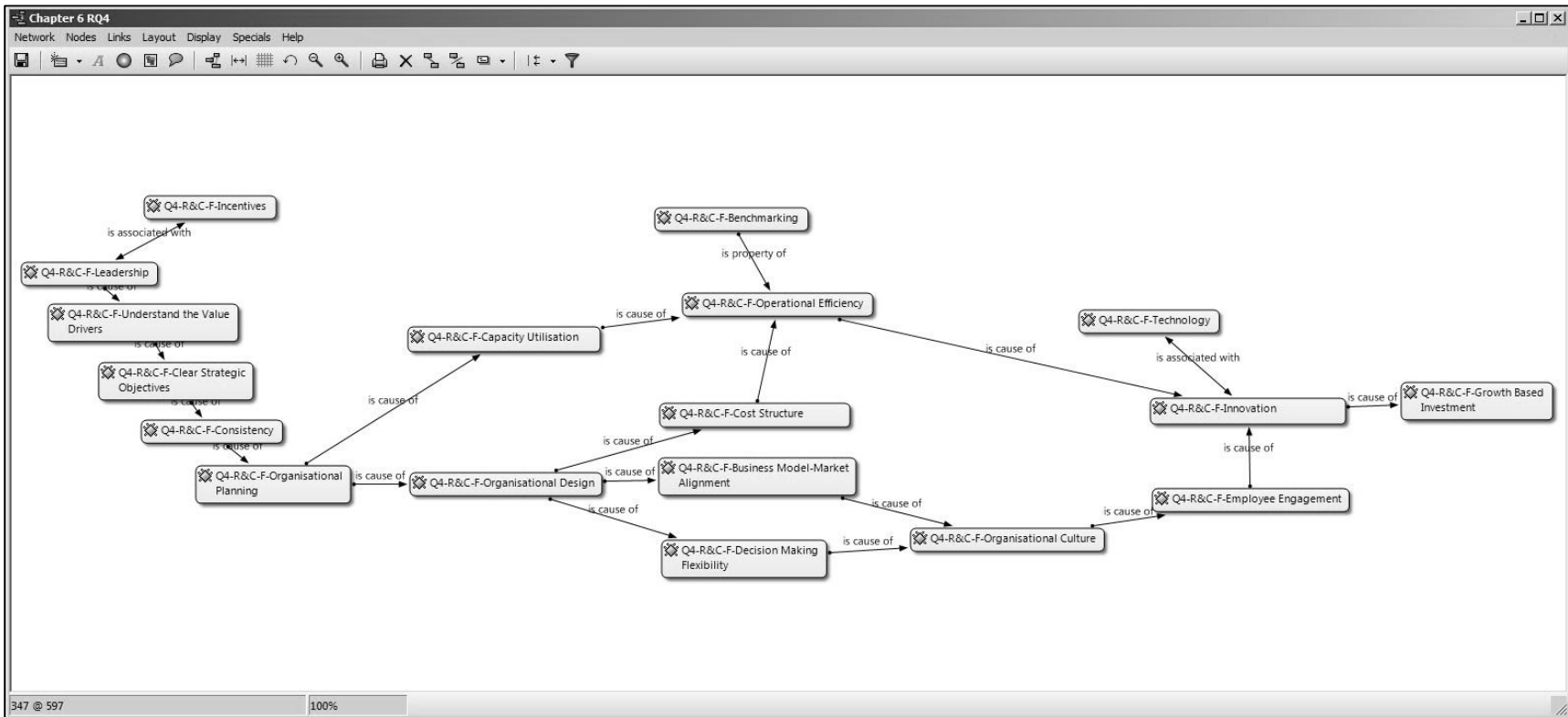


Figure 26: Coding saturation chart from ATLAS.ti

