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Evaluating the Diversification Strategy of a Semi-State Company in a Declining Market:
A Case Study of An Post

Research dissertation presented in partial fulfilment of the requirements for the degree of
MBA in International Business

Graduate Business School
Griffith College Dublin

Dissertation Supervisor: Justin Keogan

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2014

Candidate Declaration

Candidate Name: Andrew Maher

I certify that the dissertation entitled:

Evaluating the Diversification Strategy of a Semi-State Company in a Declining Market: A Case Study of An Post

submitted for the degree of: MBA in International Business

is the result of my own work and that where reference is made to the work of others, due acknowledgement is given.

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Abstract

Evaluating the Diversification Strategy of a Semi-State Company in a Declining Market: A Case Study of An Post

Andrew Maher

This case study evaluated the diversification strategy of a semi-state company, An Post, operating in a declining market. The objective of this research was to evaluate the process by which diversification may take place. A qualitative methodology, using a phenomological and interpretivist approach was taken. Three in-depth, semi-structured interviews were conducted with senior managers within An Post. This data was complemented with a review of a range of contextual documentary sources. The results of these interviews were then analysed through thematic reduction to ascertain the key issues within the organisation relating to the diversification process. The postal market is regulated, and An Post, as a former monopoly, is subject to a number of controls on its dominant market position. This dominance, and regulation, comes largely from the provision of the loss-making Universal Service Obligation (USO) by the company. In order to continue funding the USO, An Post is engaging in a number of different diversifications, through innovation, partnerships and acquisitions. The company is attempting to lower costs, drive efficiencies and increase revenues in the core mails business. However, mail is still a declining market and these measures can only bring limited benefits. The company does not have an explicit diversification strategy. Management, however, are aware of the need for them to discover new revenue streams which can be used by the organisation to fund the USO. Subsidiaries of An Post are generally run autonomously. Air Business, one of the company’s largest subsidiaries, is largely run by local management, with An Post maintaining oversight through the Board. This is mainly due to the perceived culture within An Post as not being conducive to growth and entrepreneurship. The success of these subsidiaries, and the revenue they generate, has allowed the company to achieve its aim of cross-subsidisation. The commercialisation of the Group as a whole, and growing importance of subsidiaries as a proportion of turnover, has changed the nature of An Post over the last decade; the company is less dependent on mails revenue for overall growth. The utilisation of autonomous subsidiaries has created the means for the organisation to achieve more dynamic growth without affecting the core business. Through this growth, whether it comes from related or unrelated diversification, expansion or innovation, the company can maintain the USO without requiring a government subvention. The lack of a formal strategy does not preclude an organisation from being successful in achieving its goals. In the case of An Post, the lack of a strategy to diversify has not been an impediment to successful diversification. However, where diversification has been undertaken, more emphasis should be placed on evaluation of the factors which led to success. The case of Air Business suggests gaining market share should be the priority in any diversification.

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1. Introduction

Evaluating the Diversification Strategy of a Semi-State Company in a Declining Market: A Case Study of An Post

1.1. Overview

The purpose of this research is to evaluate the planning and implementation of An Post's diversification strategy.

The core business of An Post is the collection and delivery of mail. This core business has reached the "decline" stage of the business life-cycle; mail volumes have been falling steeply and the company is engaged in a policy of related and unrelated diversification in an effort to grow revenue and maintain staffing levels. By exploring the manner by which An Post pursues its diversification strategy, whether formally or informally, it is hoped it can be shown to benefit the company, both through the continuing provision of mails, its core business, and in providing further benefits to the organisation through revenue growth. This revenue growth will serves to fund the company's "Universal Service Obligation", a statutory requirement to provide mail services throughout Ireland. An effective diversification strategy is seen as necessary to An Post for both of these reasons.

1.2. Research Purpose

It could be considered imperative upon a company with a declining core business to diversify. If it fails to do so it could face several problems; while the company might maintain or grow market share, the overall market may be shrinking. Further issues to be addressed include shortages of cash flow and staffing levels which are above current and future needs.

Labour relations are an important factor to consider for the company when engaging in diversification. What level of unit or employee autonomy will be allowed within the diversified area of the business? In deciding this, An Post will have to work closely with the unions which are active within the company (CWU and CPSU) as well as the Irish Postmasters Union who will be responsible for the frontline implementation of retail, customer focussed diversified businesses.

An exploration of specific issues relating to An Post will occur, especially the ability for a semi-state company to effectively diversify within regulatory constraints and under possible political pressures. As the company is an effective monopoly (it lost a legal monopoly in 2012) it is regulated by ComReg, the communications regulator, in relation to the prices it may charge and the services it may offer within the postal service.

There are several questions around the diversification of the company which will be assessed in this case study. Is there a stated diversification strategy? Is the diversification related, unrelated, or limited? Is the diversification proactive or reactive? Is the diversification planned and concentrated or wide-ranging and "scattergun" in approach? How do subsidiaries relate to the organisation as a whole? A number of competing frameworks for diversification will be examined in reaching conclusions related to this aspect of research.

1.3. Significance of the Study

Within An Post, there is a necessity to diversify for the stated reasons of generating revenue growth to fund the Universal Service Obligation in an environment of falling mail volumes. The necessity of the company to diversify justifies examining how it handles its diversification strategy: initiation, planning, implementation and review. The ultimate question of this research is: is it possible for a company to diversify to the extent that it can stabilise and grow its revenue and staffing levels, even as its core business declines?

1.4. Research Objective

The critical objective of this research is to evaluate the diversification strategy of a semi-state company. This will include the evaluation of the process by which diversification may be undertaken. Further to this, where such a strategy does not explicitly exist, to evaluate whether such a strategy exists in practice or whether the company may benefit from the existence of such a strategy.

1.5. Structure of the Study

The study will be structured in three separate parts: a literature review, primary research of the issue, and the discussion of how these two aspects of the subject compare and interact.

The literature review will take an extensive view of the process and role of diversification in enterprise. The need for diversification, the process by which diversification may or may not be undertaken, the changes which may subsequently take place within the organisation and the various ways in which a firm may diversify will be examined and evaluated.

The findings will look at a semi-state company, An Post, and attempt to discover the diversification process within the organisation. This will include: the need for the firm to diversify, the process by which the company may diversify, the effects upon the company of diversification, how the company effectively manages its diversification strategy and how the culture and political environment may influence any diversification strategy.

The evaluation of the strategy in regards to the literature shall be done at the final stages, following the completion of all other stages in the research process. This allows the research to fully engage with all of the information gained during the process and to properly evaluate that information against the literature.

1.6. Conclusion

Having discussed the manner in which the study will be conducted, the next chapter, the literature review, will give a general and extensive view of the diversification process. Exploring the issue of diversification in industry, and in the semi-state arena, to allow for an understanding of the reasons companies engage in the process and the possible outcomes of this engagement.

2. Literature Review

2.1. Introduction

The purpose of the literature review is to analyse and evaluate the existing research on the process of diversification and its implementation as a strategy. The main objective of this research is to evaluate the diversification strategy of a semi-state company in a declining market. Limitations within the literature in relation to the research question, where they exist, will be highlighted.

Previous research on the topic of diversification allow this study to be conducted in a comprehensive manner. The research will follow five main areas of study: Corporate Strategy – Why Diversify?; Competitive Advantage and Cross-Subsidisation; The Core Business and Commercialisation; Related and Unrelated Diversification; and Value Maximisation and Organisational Capabilities.

2.2. Link to Research Objectives

The objective of this research is to effectively evaluate the diversification strategy of An Post, a semi-state company. A semi-state company is one that is wholly owned by the state, with limited liability. The shareholders of An Post are currently the Minister for Finance and the Minister for Communications. An Post was established by the Postal & Telecommunications Services Act of 1983, under which were described the principal objects of the postal company. These objects provided for a wide-range of services, although any expansion or otherwise is largely at the discretion of the responsible government minister.

"The company shall have power to do anything which appears to it to be requisite, advantageous or incidental to, or which appears to it to facilitate, either directly or indirectly, the performance by it of its functions as specified in this Act or in its memorandum of association and is not inconsistent with any

enactment for the time being in force" (Postal & Telecommunications Services Act, 1983, Part II, Section 12).

As the core business, as defined by the Act, continues to decline, this section of the Act will become increasingly important. The diversification of the company, in order to ensure continued profitability, and to grow revenue and maintain employment levels, will become increasingly necessary.

2.3. Outline of the Structure

The structure of the literature review will largely follow the chronology of the diversification process. That is, firstly, the strategic decision to engage in diversification will be examined. The various approaches to diversification will subsequently be evaluated, as well as the benefits that may accrue (as well as the disadvantages to the company that may occur) by undertaking this strategy.

Literature regarding the organisational aspects of growing sub-divisions effectively subsidising the core business will be evaluated, including the possibilities for the core business if the pattern of growth and recession continue in the medium to long-term. Certain specificities relating to the government sector will also be scrutinised in this respect.

Strategic decisions regarding diversification will also be analysed. Empirical data regarding the best method of diversification, and whether a conglomerate should be engaged in related or unrelated diversification, and the effects upon organisational capabilities will also be evaluated.

- **Contextual Literature**

2.4. Choosing Diversification as a Strategy

2.4.1. Industry Life Cycle

"In the final stage [of the life cycle], *strong competitors might aim to be the last remaining player, leaving them the chance to exploit market power through higher prices"* (Johnson et al., 2014, pg. 278). This option may not be fully open to all companies for a variety of reasons. A company which is heavily regulated will be unable to take advantage of such a strategy. In the Irish postal sector, this includes the provision of the Universal Service Obligation and the pricing for mail collected and delivered under this obligation. While there may be some allowance for future price rises, the regulator will prohibit or limit a company from taking full advantage of a dominant (almost to the point of monopoly) position. The regulator will seek a number of remedies (cost-cutting, company efficiencies, etc.) or the fulfilment of certain conditions (minimum quality of service, etc.) before allowing sought after price rises.

2.4.2. Corporate Strategy - Why Diversify?

The views on diversification have changed considerably over the last number of decades. *"Large diversified companies and corporations have been under critical scrutiny for many years. In 1951…such companies were accused of being too powerful, and, in particular, of cross-subsidising their different businesses in order to force competitors from the field"* (Goold and Luchs, 2006, pg. 509).

This view changed considerably over the intervening years. The evidence began to point towards the detrimental effects of diversification as a strategy for many companies. *"The main issue for corporate strategy in the 1990's have therefore emerged as how to identify the businesses that should form a core portfolio for a corporation…Three main alternative answers to these questions have received support in current management thinking:*

1. *Diversification should be limited to those businesses with ‘synergy’;*
2. *The corporate focus should be on exploiting ‘core competencies’ across different businesses;*
3. *Successful diversification depends on building a portfolio of businesses that fit with managerial ‘dominant logic’ of top executives and their ‘management style’”* (Goold and Luchs, 2006, pg. 521-522).

These prevailing theories make sound financial and organisational sense, and have developed due to the large-scale divestment of many diversified subsidiaries by conglomerates, especially in the 1980’s. However, when focussing on a company largely involved in a declining core business, the three answers provided offer limited solutions. Cultural considerations may be taken into account by management, beyond solely capabilities, when considering synergistic ventures.

2.4.3.Gaining a Competitive Advantage Through Diversification

“The general conclusion is that profitability does not play an important role in deciding whether a firm will engage in diversification nor in determining which strategy type will result in the most improvement in performance…High levels of profitability may negatively effect a firm’s desire to diversify. But this unwillingness to diversify may lower or limit the firm’s profitability in the future” (Hall Jr., 1995, pg. 40). A firm which is achieving satisfactory levels of profitability in its core business will lack the motivation to engage in widespread diversification projects. This can negatively impact upon the business in the long-term; the business may begin to attempt expansion into new markets or different offerings just as it can least afford to invest in these new ventures. This may lead to risk averse decision-making processes, limiting potential growth and minimising opportunities.

“Growth in the firm…[and] *Profitability of the firm can be improved mostly by increasing innovativeness in products and services, decreasing self-renewal*

activities, taking more proactive orientations, and focussing on vertical diversification strategies" (Antoncic, 2006, pg. 59). Antoncic (2006) argues that a company can improve its position by moving beyond the core business activities and attempting to expand scope across a number of areas. The ability of the firm to do this will largely depend upon the performance of the core product offering. The ability of management to develop a coherent corporate strategy and allow the freedom of business units to advance their competitiveness and grow market share and profitability could be harmed by becoming more risk averse as overall performance diminishes. Allowing sub-business units the freedom to grow, with the inherent risks of new business ventures, will require a strong corporate strategy and a long-term view regarding returns on investment. This will be less difficult in firms with a strong core business, where cash flow concerns may be less immediately pressing.

2.4.4. Resource Allocation and Portfolio Planning

"Portfolio planning provided corporate managers with a common framework to compare many different businesses. The industry attractiveness-business position matrix developed at GE, the Boston Consulting Group's growth-share matrix, and variations developed at other consultancies were used to classify businesses in terms of their strategic position and opportunities" (Goold and Luchs, 2006, pg. 515). This method of portfolio planning was a significant improvement on earlier resource allocation approaches. Resource allocation meant the corporate centre taking a view on the merits of a large range of investment proposals coming from a wide array of sectors. The varying market conditions, growth prospects and payback times made this system unsustainable. Portfolio planning allowed for corporations to organise themselves in a holistic way, viewing investment opportunities among business units in the overall context of the company.

2.4.5. Suitability of Diversification

"Diversification might be chosen for a variety of reasons, some more value-creating than others. Growth in organisational size is rarely a good enough reason for diversification on its own: growth must be profitable…growth can often be merely a form of 'empire building', especially in the public sector" (Johnson et al., 2014, pg. 232).

It is not only a matter of whether a specific individual opportunity is a suitable choice of diversification; but whether or not diversification is a suitable strategy for the corporation overall, and whether each opportunity is similarly suitable, must also be considered.

"Four potential value-creating drivers for diversification are:

- *Exploiting economies of scope…*
- *Stretching corporate management competences…*
- *Exploiting superior internal processes…*
- *Increasing market power…"* (Johnson et al., 2014, pg. 232).

These four drivers continue to consider synergistic growth as the most lucrative for the organisation. However, within the declining market, the opportunities for synergies will be significantly limited. This is even more the case in a highly regulated market, or one in which legislative decisions lead the market to be inherently unprofitable.

- **Theoretical Literature**

2.5. Approaches to Diversification

2.5.1. Managing Different Approaches to Diversification

"The chief of Matsushita decided that the system of divisional autonomy that had catapulted the company to global leadership in consumer electronics had become the principal barrier to change…the head of Siemens, frustrated by the sprawling bureaucracy at headquarters, initiated a major restructuring to split up its seven sectors into a large number of focussed business units with great autonomy…" (Ghosal and Mintzberg, 1994, pg. 8).

There are several strategic options available to companies regarding their diversification strategy. No two companies are the same and, as such, a uniform strategy cannot be imposed upon them. There are three main questions which must be asked to ensure a company sustains a dynamic balance:

"What are the key organisational dimensions that influence overall performance of diversified companies?…What are the major trade-offs that must be considered in managing these forces to develop effective organisational structures and decision-making processes?...How can multi-business enterprises develop the organisational capabilities they need for sustained superior performance?" (Ghosal and Mintzberg, 1994, pg. 8-9)

In answering these questions, the authors of this piece suggest using *"The Spinning Top of the Multi-Business Enterprise"*. This model goes beyond traditional bases of grouping and types of control and contains four basic elements:

"An enterprise is considered diversified when it has moved beyond different products to identifiably different business*…*

The businesses are overseen by a central management*…*

Management generally institutionalises some kind of formal systems of control…through performance planning*…*

There also has to be…some mechanism for autonomous venturing *to develop or acquire new businesses"* (Ghosal and Mintzberg, 1994, pg. 9)*.*

The authors suggest that there is no specific strategy to enable a company to continuously diversify successfully. They state *"there are no formal systems, only good personal decisions"* (Ghosal and Mintzberg, 1994) which suggests that good management, as much as good strategy, plays a great part in the overall achievement of any conglomerate.

2.5.2. Adding Bulk for Stability

"Planning can be elaborated beyond the simple control of performance in two stages. First is the introduction of resource planning…Second is logistics planning…" (Ghosal and Mintzberg, 1994, pg. 11). Resource planning is used to create a loose coupling of business units. This allows the company to create efficiencies in the allocation of resources and create a mechanism of central control. Logistics planning, the second stage, is subsequently used to tighten coupling and central coordination.

"On the level of adapting bulk can likewise be added in two stages. Beyond simple autonomous venturing is what we call competency leveraging*. Here initiatives within the businesses are pursued by drawing on the core competences of the enterprise at large…Beyond that is tighter coupling of* cooperative teamworking*, where people from different businesses work collectively…perhaps linked formally by some kind of matrix structure"* (Ghosal and Mintzberg, 1994, pg. 12). The authors explain that diversification is a constant process, with every company constantly reviewing the amount of autonomy allowed to each of its subsidiaries and the amount of central control which should be exerted. This is especially important for all conglomerates to remember, with a large number of diversified businesses possibly requiring varying levels between stages one and two.

A major issue for the organisation is to decide the level of coupling that will be implemented; this is the trade-off between autonomy and synergy. The three key areas to decide the level of coupling are in the level of managerial direction (loose coupling of opportunistic decisions or tight coupling of a widening vision), planning systems (performance planning, resource planning or logistics planning), and the level of adapting mechanisms related to teamworking and business unit autonomy.

"A key challenge for managers in mature multi-business enterprises is to layer the increasingly integrative capabilities along all three levels" (Ghosal and Mintzberg, 1994, pg. 15). The vertical trade-off refers to the level of decentralisation favoured by the enterprise; this means is planning imposed upon businesses by central management or is it achieved within the individual units.

"In one case, formal programming is the key to coordination, in the other, it is the mutual adjustment among coordinating partners" (Ghosal and Mintzberg, 1994, pg. 17). The level of control vs. initiative is fundamental to how the company works. A company must recognise what the culture within the organisation is and adjust the levels of proscription accordingly.

"…As a new leadership comes in and begins to change all sorts of things, established procedures break down, and even despite a new integrated vision, the net result can be less coordination and a loss of synergy" (Ghosal and Mintzberg, 1994 pg. 18). The culture of the organisation is important when considering the level and degree of diversification which the company can withstand. It is important to recognise the culture and how it will react under different management conditions. This is important to consider when developing the company's strategy and also when evaluating successes and failures of the strategy.

"The task of balancing managerial thrust with cultural integrity is a key responsibility of top management. In normal times, it requires a subtle and

patient process of continuous and incremental adjustments" (Ghosal and Mintzberg, 1994, pg. 19).

"The effective organisation must…have sufficient bulk over a good base-strong businesses and sufficient synergy among them. After that, it can begin to attend to substitutions between stronger businesses, on the one hand, and stronger mechanisms to connect and manage them, on the other" (Ghosal and Mintzberg, 1994, pg. 20). Companies must look beyond financial results. Although they are important, without a solid base of businesses, the structural weakness in the company will continue and lead to the next round of performance decline and restructuring. The businesses must be strong independently in order for the synergies created by integrating them to be truly beneficial to the company. *"…Integrating a number of weak businesses creates an even weaker company…"* (Ghosal and Mintzberg, 1994).

2.5.3. Building and Balancing Capabilities

According to Ghosal and Mintzberg (1994), there are eight main ways that companies may diversify in their pursuit of *"dynamic equilibrium"*. There are: acquirers, venturers, visionaries, crystallisers, controllers, heavies, ideologues and holders. A company may place itself in such a way so as find a relatively stable position, in no need of sudden or dramatic changes. The authors outline the steps a company should undertake to find this equilibrium.

- *"Strengthening the Base:*
  The first step in building balance requires an unrelenting drive to improve the performance of each business-to strengthen the base" (Ghosal and Mintzberg, 1994, pg. 23).

- *"Reinforcing the Core:*
  To rebuild the base, it is usually necessary to strengthen each of the elements in the core of the spinning top" (Ghosal and Mintzberg, 1994, pg. 23).

- *“Adding Bulk:*

  For companies with a sound core-with strong business, distributed entrepreneurship, disciplined performance control, and effective managerial decision making-the challenge is to build bulk of systems of planning and mechanisms of adapting” (Ghosal and Mintzberg, 1994, pg. 24).

- *“Providing Spin and Skin:*

  Many companies have assumed the creation of a unique vision and shared culture to be the first step in a process of corporate transformation” (Ghosal and Mintzberg, 1994, pg. 25).

The authors provide a practical framework for companies, which should provide balance where businesses may be in a constant state of flux. By recognising corporate culture, organisations can act towards an equilibrium in which companies can grow and continue to diversify without, to follow the spinning top metaphor, toppling over.

2.6. Innovation as Diversification

“Growth and diversification are generally based on the exploitation of existing competencies in new product markets, but a corporate venture can also be used as an opportunity for learning new competencies. Organisational learning has four components: knowledge acquisition; information interpretation; information distribution; organisational memory” (Tidd et al., 2005, pg. 435).

Many companies have seen diversification as a process of *“identifying and buying companies whose assets were worth more than their stock market price and less on the application of sound, underlying general management principles…”* (Goold and Luchs, 2006, pg. 512). This is only viewing a fraction of the potential available to companies. Gaining knowledge and developing new organisational skills and competencies can be of huge benefit throughout the corporate structure, beyond the base financial benefits associated with successful diversification.

"Whilst competitive advantage can come from size, or possession of assets, etc. the pattern is increasingly coming to favour those organisation which can mobilise knowledge and technological skills and experience to create novelty in their offerings and the ways in which they create and deliver those offerings" (Tidd et al., 2005, pg. 5). Attempting to grow a business, while the whole market declines, is a Sisyphean task. For a company, especially one that already has many of the hallmarks of a conglomerate, the option of further innovation, especially innovating into new businesses (although possibly related to an existing business) will be attractive. However, this must be done for the benefit of the overall organisation. The development of new skills and knowledge can create growth throughout the firm.

- **Empirical Literature**

2.7. Cross-Subsidisation of Business Units Through Diversification

"Governance is about deciding the basic organisational building blocks that constitute the diversified firm, as well as the processes and values that govern the performance demanded by the units, strategic and operational priorities, inter-unit relationships, and the appropriate internal dialogues and behaviours. Internal governance defines how the asset portfolio is managed and conditions the capacity of the firm to create wealth" (Prahalad and Doz, 2006, pg. 536-537).

The development of a multi-SBU (sub-business unit) company requires a strong corporate strategy, with *"top managers…now expected to create their own logics-to explain how their particular configuration of business and governance process will create value"* (Prahalad and Doz, 2006, pg. 536). This added value placed on top management, and the subsequent divergence from previously common norms in diversification strategy, should lead to a more dynamic and situational development of internal logics and strategies.

"Creating value from an unrelated corporate portfolio is easier when the businesses share common strategic and managerial characteristics…the parenting advantage: the capacity of corporate management to add value to the business units based on a common set of corporate capabilities" (Prahalad and Doz, 2006, pg. 539). There is a need for top management to have a clear strategy for diversification. This is especially true when firms engage in unrelated diversification, introducing new competencies and cultures to the organisation. Management must ensure it grows value while avoiding potential areas of conflict in the firm. Beyond this, a plan must be created for managers to generate value or economies of scope from sub-business units for which they are responsible.

"What is the value of a bundle of assets and businesses as compared to the value of these businesses as independent units? The portfolio must benefit the business units, and the business units must add to the portfolio…which underlying value creation logics are at play (from the selection of well-positioned businesses to the discovery of new opportunities through the complex strategic integration)?" (Prahalad and Doz, 2006, pg. 541). The value of cross-subsidisation can, however, go beyond financial benefits. The benefits arising from enduring relationships between business units *"provides firms with rich formal and tacit information about each other, which offers benefits in terms of uncertainty reduction, contract enforcement, and opportunity identification"* (Carney et al., 2011, pg. 441).

The converse may also be true in certain cases; the ability of a conglomerate to shield sub-business units from harmful or unwanted aspects of corporate culture can provide for more dynamic subsidiaries. The growth potential can, therefore, be exponentially greater in new subsidiaries, with the underlying business allowed to develop a unique corporate culture.

2.8. Changing the Core Business

"Because moves into new domains are due to expectations of significant and lasting deviation in future performance, they must often be made without the lapse of much time" (Bhardwaj et al., 2006, pg. 255). The new core business must be due to decisive management action, the result of strong long-term corporate strategy. The business unit generating the greatest share of corporate revenue may be described as the core business. However, this does not mean that what was previously the core business must operate on a degraded level.

The cross-subsidisation of business units, and holistic approach to financial management, can provide for the continued operation of mandated services, whilst also acknowledging the new business growth derived from diversification. Funding a public service through the development of new financial centres may be a necessity for a semi-state company in a declining market. The creation of new revenue streams which may be used to fund the service, thereby allowing the company to avoid seeking subsidies from government, will offer an incentive to the government to allow such activity.

2.9. From Government Service to Commercial Enterprise

"If a business can have both financial and good market performance only when share is established, the management implication is clear: a venture's objective for its early years should be to build share, regardless of short-run financial performance" (Biggadike, 1979, pg. 108). The ability of a company to delay payback in the interest of growing market share is subject to a number of pressures. The overall cash flow and profitability of the company is relevant. Additionally, in the case of a semi-state company, there is a political consideration. Although this may be similar to any shareholder consideration in a private limited company. Debt, or large ventures, will usually require ministerial approval from a number of ministers. This adds an additional aspect

to the management of expectations and the probability of short-term financial returns.

"We maintain that a firm's product scope depends not only on its product relatedness but also its institutional relatedness, which refers to the degree of informal embeddedness with the dominant institutions in the environment that confer resources and legitimacy on the focal organisation" (Peng et al., 2005, pg. 623). The development of new businesses, outside the traditional organisational scope, can be an option totally unavailable to certain enterprises. However, by focussing on institutional relatedness, as well as, or instead of, market or product relatedness, the company can enjoy a significant increase in potential scope.

"…managers know that they have to build a balanced corporate product portfolio…to improve the odds and build the portfolio is to commit substantial resources to each venture and to defer immediate financial performance in favour of market position. Launching new businesses takes large entry scale and continual commitment; it is not an activity for the faint-hearted" (Biggadike, 1979, pg. 111). The possible changes in culture required in accepting this kind of risk and this sort of long-term corporate strategy (sacrificing financial results for market growth) could be too much for a semi-state organisation to overcome. As well as the changes in corporate culture, there is a further need for change in the political culture, permitting the government, as sole shareholder, to allow the firm to undertake a strategy such as this.

"…uncertainty is inherent in the search process, some experiments will fail" (Kwak, 2002). While this may be true in the private sector, where the funding of losses in one venture may be accounted for with profits from another, the public sector may be significantly more risk averse. This could be due to a number of reasons, but the significance is that organisations may only invest in the surest investments, accepting low returns, and therefore low growth, in the interest of avoiding failure. The consequences of this for generating enough revenue growth to maintain and grow the organisation (and, within the

organisation, employment and profitability) can be long-lasting and have negative affects long into the future.

- **Review of the Debates**

2.10. Related and Unrelated Diversification

"Relatedness…is not based on product-market configuration, nor technology similarities, but on shared competencies and knowledge assets. Different businesses…demand different parenting skills from the parent…but all share a common set of core competencies" (Prahalad and Doz, 2006, pg. 540). The ability of the company to deploy resources in the best way to complement the diversified unit is the key to growth and success in diversification. This does not necessarily mean that the diversification follows what was traditionally seen as related diversification. The capabilities of the organisation may be specialised in ways other than towards the product. Large firms will have varied capabilities which can be leveraged in aid of the diversification strategy.

"The conglomerate movement of the 1960s, involving extensive diversification across a wide variety of industries, seemed to demonstrate that the specialised skills and practices of corporate general managers enabled them to manage ever greater complexity and diversity" (Goold and Luchs, 2006, pg. 512). The ability of the manager to manage ever larger and ever growing businesses, to become a manager of managers, as opposed to a manager of the business, has increased as managers become increasingly specialised. The diversification of the firm into related or unrelated markets is less significant as the scope of the organisation as a whole, and the capabilities which it possesses, become more specialised and cover a wider array of general management and business practices.

2.11. Value Maximisation and Organisational Capabilities

"…companies can be seen as collections of organisational capabilities…that are transferable across products and industries to a certain degree. Because such capabilities have value, companies facing a decline in their core business should not simply shut down. Instead, they can maximise shareholder value by trying to find a new industry that offers a good match for their skills" (Kwak, 2002). Large organisations, no matter their specialisation, will have a wide range of capabilities. These capabilities can be utilised in a number of different markets, for a number of different outcomes. Properly recognising organisational capabilities and emphasising and promoting the correct skills in the correct situations will significantly impact on the business in the search for positive outcomes.

"…firms consist of organisational capabilities…that are to some degree transferable across products and industries. Because these capabilities are valuable, it may not be optimal for a firm to go slowly out of business as sales of its products decline. Rather it may be better to try to find a new product or industry" (Matsusaka, 2001, pg. 410). The idea that a firms capabilities are limited to the scope of the specific industry in which it is active does not stand up to scrutiny. Organisations, especially conglomerates or other highly diversified firms, will enjoy significant economies of scope the further diversified they become. The internal market for business services will also allow the skills within the organisation to develop further, increasing the overall value of diversification.

2.12. State Initiatives to Spur Innovation and Encourage Growth

"Public venture capital…is very different from private venture capital. It is willing to invest in areas with much higher risk, while providing greater patience and lower expectations of future returns" (Mazzucato, 2013, pg. 19). This is only true in certain cases, where the political will exists. It is also more true of central or local government, wherein agencies with a specific remit may provide grants

or loans to small businesses, or universities may engage in research and development. In the case of semi-state companies, the ability to invest and innovate can often be hampered by the very same government officials due to the perceived inefficiency of government enterprise.

"There is nothing in the DNA of the public sector that makes it less innovative than the private sector…by dismissing the ability of the public sector to be an innovative force from within, most thinkers on strategic management and organisational change have focussed more on the private sector, leaving the public sector to simply focus on 'creating the conditions' for innovation to happen in the 'revolutionary' private sector…this has become a self-fulfilling prophecy…" (Mazzucato, 2013, pg. 197). The organisational capabilities present in an enterprise should not be entirely dependent on the shareholders, whether those shareholders are private investors or the government. Whether the firm can innovate, diversify and grow, or not, is dependent upon the conditions it creates (or is allowed to create) for itself, through developing the right people and the right culture.

"Successful 'winning' State investments should be able to cash in so as to cover losses when they arise, as well as fund the investments of the future…" (Mazzucato, 2013, pg. 197). The ability of a semi-state company to manage its own resources, with minimal government interference (beyond normal shareholder oversight) can empower management to create a bold corporate strategy. This strategy should provide for the growth and innovation of the organisation away from a declining market. The nature of the business, with profit being secondary to providing a basic service, should not be forgotten. Equally, nor should the fear of loss be the overriding concern of the corporation; the losses will accrue as the core market further declines. The ability to continue to provide the state-mandated service without recourse to subsidy will require a brave and inventive plan with backing from all stakeholders.

2.13. Conceptual Framework

The literature influenced data collection in several ways. It is important to focus data collection on a specific area within the research; this is important to remember when examining the diversification strategy, as analysis could be led into the business areas themselves, as opposed to focussing on the strategy.

It is vital to compare and contrast the analyses available within the theory and academic literature with the analysis completed within the research process. This enabled the research to identify areas in which the theory may not match reality and allow the company to recognise this and adjust its diversification strategy accordingly.

The literature already available within the subject area provides direction to the questions asked within the research. This literature also allows the research to focus upon specific areas within which to collect documentary evidence. It also provides an angle through which to analyse this evidence, although this is also influenced by other factors. The research is required to determine if the diversification strategy, insofar as one exists, focusses on related, unrelated or limited diversification. The importance of this is in ascertaining how far from the declining core business the company feels it should move in order to maintain revenue and staffing levels.

Following on from this, the purpose of diversification stated within any available diversification strategy would be significant, if such an explicit statement were to be found. However, through the collection of primary data the question which may be specifically answered is, is the purpose of diversification: operational economies of scope, financial economies of scope, anticompetitive economies of scope, due to employee and stakeholder incentives for diversification, or a mixture of all of these, or in fact none of them?

A number of things can be learned from the studies on the subject of diversification. The decision to diversify and the manner in which the company will choose to follow this strategy, is a complicated one, with many possible outcomes. Judging whether the strategy is the correct one for the business is an important task for management.

"Portfolio planning helped corporate executives sort out the contribution of each of their businesses to the corporate portfolio, but it did not answer the other critical question confronting a diversified company: what contribution should the corporation make to each of its businesses?" (Goold and Luchs, 2006, pg. 517) The ability of management to determine this is also a key question in the identification of the contribution of different business units within an organisation as *"cash cows performed better in an organisational context of autonomy while fast growing businesses benefited from more control"* (Goold and Luchs, 2006, pg. 517). The ability of the organisation to apply the correct level of oversight and adapting their organisation (which may be in a mature or declining market) to the needs of a fast-growing business is crucial in determining profitability and success.

"Growth in organisational size is rarely a good enough reason for diversification on its own: growth must be profitable…" (Johnson et al., 2014, pg. 232). Once the decision has been made to follow a strategy of diversification, the impetus upon management is transferred to the maintenance and growth of the diversified organisation.

"Managers need to face the complexity-not deny the difficult balancing tasks. Any simplification of this complexity, however seductive, is diversification*. Organisations are inherently unstable, especially diversified ones…At best…they have to achieve a dynamic equilibrium, maintaining their performance by periodic adjustments to their delicate balances"* (Ghosal and Mintzberg, 1994, pg. 26). Companies have engaged in different kinds of diversification for different reasons for a number of years. Diversifying to maintain *"perpetual corporate youth"* or to foster intrapreneurship or to create strategic business units have all been fashionable at some time or another among academics and companies over the last several decades.

“Growth and diversification are generally based on the exploitation of existing competencies in new product markets, but a corporate venture can also be used as an opportunity for learning new competencies” (Tidd et al., 2005, pg. 435). The strategy followed by the organisation may allow it to learn and grow as it engages in new market areas. The autonomous structure (as described by Goold and Luchs (2006)) for *‘cash cow’* subsidiaries, could lead to the successful and innovative cultures in existence from failing to influence and invigorate the organisation as a whole, or vice versa.

“…successful firms will be relatively large since their success will allow them to expand quicker than their competitors…Due to large market share firms may be precluded from expanding within the current industry. There are two principle reasons why this may occur…laws may prohibit firm expansion within the industry, or cost/benefit analysis may render further expansion within the industry uneconomical when compared with the alternative of entering another industry” (Hall Jr., 1995, pg. 28). The expansion of scope can create conditions whereby the firm can gain an advantage within its core industry. The development of a coherent corporate strategy, allowing business units freedom to advance their competitiveness and grow market share could be harmed by becoming increasingly risk averse as overall corporate performance diminishes.

“The goal here is to create a portfolio that is capable of internally generating new businesses; yielding a capacity for self-revitalisation…value creation in such a portfolio is as much about growth and proactively reinventing the business portfolio based on core competencies as about rationalising existing assets or defending existing businesses” (Prahalad and Doz, 2006, pg. 541). Deploying resources to complement and grow all areas of the organisation is the key task for management in a diversified firm. There may exist capabilities within the organisation which, while beneficial to the core business, could be equally well utilised in the pursuit of other markets and other goals. This may lead to the reorientation of the firm, away from the previous core (as the market matures or growth slows) to a new business, providing a fresh impetus to growth and leading to greater profitability for the organisation as a whole.

"Venturing by established companies…is much less risky than venturing by individuals. Some of the problems of individual ventures, such as acquiring capital, a brand reputation, and economies of scale, are less severe for established companies" (Biggadike, 1979). The need for the organisation to accept the inherent risk present in any new business venture is clear. However, management should also recognise that many of the things that make individual ventures especially risky hardly apply. The re-evaluation of risk, even within the context of a risk averse firm, could lead to a more realistic, and ultimately more successful, approach to diversification.

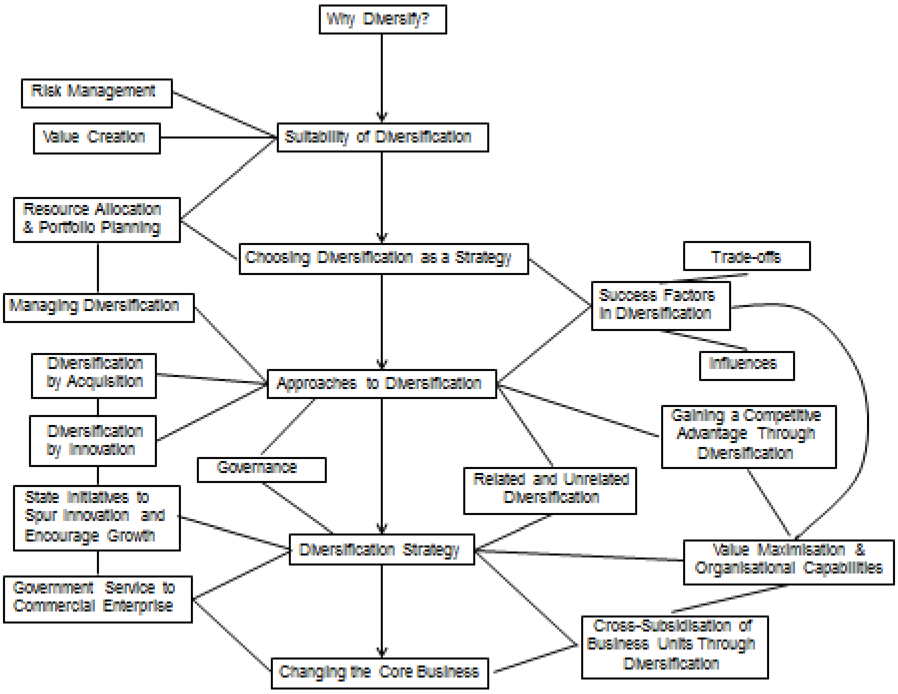

Fig. 2.1. Interrelatedness of Themes of the Literature Review

2.14. Conclusion

This chapter provided an overview of the literature in relation to diversification. The context within which diversification can occur, the process by which it may occur and the ways in which successful diversification can be pursued, were described and examined. The challenges inherent in the diversification process were highlighted in the Conceptual Framework and this framework allowed for an overview of the interrelationships involved in the process. Using the context provided by the literature, the next chapter will outline the research design for the dissertation and describe the methodology used in gathering the primary data in pursuit of the research objectives.

3. Methodology and Research Design

3.1. Introduction

This methodology chapter outlines my research philosophy and how it has influenced the selection of the approach to the research. The chapter also explains the research strategy and the methods used in collecting and analysing the primary data, which will support me in addressing the research objectives. The critical research objective of this study is to evaluate the planning and implementation of the diversification strategy of a semi-state company, specifically An Post. Furthermore, where such a strategy does not explicitly exist, to evaluate whether such a strategy exists in practice or whether the company may benefit from the existence of such a strategy.

This research is conducted as a case study and has been aided by my employment by, and resultant access to, An Post. The review of the literature presented in the previous chapter, provides the background to the primary research subsequently carried out. It informed the questions asked of the three interviewees and also provided context to the analysis of their answers.

3.2. Research Philosophy and Approach

This research is largely phenomological in nature because this research has been conducted as a case study. This approach requires a theoretical point of view that advocates the study of direct experience taken at face value. There are several assumptions that must be made when using this particular research paradigm. Data collection cannot be entirely value free, nor can the researcher be totally objective. This is due to the effects of people upon the processes being studied. The analysis being undertaken will be mainly of the qualitative type, based on my observations as an employee, reviews of documents and archives, and interviews.

The link between understanding and action is considered ancillary, complex and not necessarily clear. This link between understanding and action can be seen, therefore, as indirect because of this potential complexity; the reasons for diversification may vary. The various stages in diversification outlined in the Conceptual Framework add several layers of potential complexity: the reasons for diversification, the manner by which diversification is conducted, the outcomes of the diversification process, etc., can all affect the link between understanding and action. By using dialogue structures with participants, based on their observations and experiences, the research can deal with these complications.

There are several influences upon this research. The main influences are the culture of the company and the academic literature (especially the literature review). The company culture is both a subject and an influence. This is often the case in research of this type (evaluating change management, specifically diversification strategy) and necessitates the use of an interpretivist approach. My observation of the company in the course of this research will also be affected by working for the company. The research will also be complemented by the personal perspective I can bring, with my observations reasoned by my MBA studies. The case study involves utilising multiple sources, all of which will provide varying levels of influence. These influences may affect the evaluation of the diversification strategy of the company and how it exists in practice.

3.3. Research Strategy

The purpose of this study is to evaluate the diversification strategy of An Post in relation to its subsidiaries, using a case study method of phenomological design resulting in a description of patterns and practices implemented within the company. The diversification strategy will be defined generally as the means by which An Post enters new business areas outside its core business of collection and delivery of mail. This may be by means of acquisition, partnerships, joint ventures, innovation, expansion of current business offerings etc.

3.4. Collection of Primary Data

3.4.1. Sources

Three managers within An Post were identified, with whom interviews could be conducted. One of the interviewees is also on the board of a subsidiary of An Post, allowing him a dual perspective on the issue. The interviewees were chosen for a number of reasons: these managers are responsible for strategic decisions, especially in the areas of strategy, diversification and innovation. These interviews endeavour to further explain how diversification strategy is understood within the company.

I conducted all interviews in person. I recorded interviews in order to be able to create a full transcript. I also took notes during the interview to record thoughts which were elicited by specific answers at the time and any other observations. I wrote up the results of the interview to record the most accurate observations possible and to have the most up-to-date results possible available for further interviews.

The questions which were asked attempted to understand the diversification process within An Post allowing for the processes description and evaluation. The interviews were conducted in a semi-structured manner, with open answers encouraged. The following questions formed the basis of the interviews:

1. How are potential diversification projects identified?
- **1.1.** Are both internal and external opportunities evaluated?
- **1.2.** What options are available to external companies seeking to partner with the company in a diversification project?

2. Is there a stated diversification strategy?
- **2.1.** Does this show a preference between related or unrelated diversification?
- **2.2.** At what point might it be decided that a new project is kept in-house as a single business unit or converted into a wholly/partially-owned subsidiary?

3. Who is responsible for deciding which projects are approved or denied?
    3.1. Are there a set of rules for how large a project should be before the decision is taken at a corporate level as opposed to within a department or directorate?
4. What level of oversight is given to new projects?
    4.1. Does this level increase or decrease based on time and performance levels?
    4.2. Do you feel this is an appropriate level of oversight based on the opportunity explored (and potential risk/reward factors)?
5. Is there an identified set of capabilities within the company which are considered when deciding whether or not a new business unit can or will add value?
6. How long is given to diversification projects before a final (success/failure) evaluation is made?
7. What is the measure used to determine success or failure?
    7.1. Is it a purely financial decision or are there other factors (level of employment, value added to other product offerings, etc.) which are considered?

These questions were expected to achieve an understanding of the process involved in diversification within An Post. The decision to diversify, the reasons behind such a decision, the overall benefits to the organisation and the internal processes for evaluating success or failure were all key areas for the research and were, therefore, queries to which answers were sought in the interviews.

The primary data that was collected included company reports and financial statements, which were used to inform interview design as well as the discussion of the findings. The reports and financial statements are public record, as An Post is a semi-state company. The use of newspaper reports, magazine articles and trade journals has also provided additional useful material to be used in the discussion.

Resources available from the Irish government, regulators and the European Union, as well as foreign governments and regulators to provide comparisons have also been used to ensure there is complete overview of the subject matter and the context in which it exists, which is essential for a case study.

3.4.2. Access and Ethical Issues

Some of the data being collected was considered to be potentially commercially sensitive by the company. Therefore, efforts have been made to ensure the confidentiality of the data, and these efforts were communicated to the participants. Any fears were allayed by allowing interviewees answer in a confidential manner, ensuring they feel able to speak candidly. Unfortunately, due to the ongoing nature of development of some new business ventures, some information was unable to be included in this research.

As an employee of the company, access was not a major issue. Certain issues occurred in gaining access to subsidiary or third party agreements, although An Post itself holds the data related to the diversification strategy involved in the foundation of the subsidiary. This initial data is, in a general sense, largely available in the company's Annual Report. This study focusses on the data which was collected for the purposes of evaluation of the company's diversification strategy; the identities of the interviewees, whilst important in gathering the correct information during the research, are not important in the evaluation of that research in the context of the organisational strategy. During all interviews I refrained from putting forth my own opinions or taking part in a discussion of the issues in a bid to not influence the outcomes of the research.

3.5. Approach to Data Analysis

The research paradigm, in this case, being phenomological, a great deal of the research was qualitative in nature. Interviews were a main source of primary data gathered during the course of this research. The use of thematic reduction in the analysis of this data provided a number of advantages; themes such as related and unrelated diversification or process identification were used during this process. There are a number of steps involved in critically analysing data using this method which provided credibility and dependability to the information gathered from the interviews. Through the analysis, the compatibility of the primary data with the literature and theory around the subject of diversification strategy will verify the conclusions drawn by this research.

There are a number of issues to recognise when considering the research being undertaken in this study. Collection of data, maintaining objectivity in qualitatively analysing that data and reflecting on the overall conclusions, especially in relation to the available literature, each creates a set of issues. An initial data analysis strategy was employed whereby the transcripts of the interviews were read several times to identify relevant themes and to find where consistencies or inconsistencies existed. As part of the process of extracting themes from the data, recognisable concepts were organised together to allow patterns to emerge. Although these patterns are subjective and open to question, consideration was given to any other possible meanings emerging from the discussion and whether this might differently impact upon the interpretation of the data.

The unbiased analysis of primary research will provide the greatest challenge due to the nature of the information collected. Allowing management to describe the company culture will provide an overview of how the organisation operates. Rigorous analysis of all the data (including interviews, company reports and accounts, as well as other sources) will provide the necessary solidity to the conclusions drawn. Once the data collected during the interview stage was analysed and categorised, it was organised within the stated themes of the interviews to allow for discussion of the results. All attempts were made to limit the subjectivity of the analysis, or to recognise where influence over the results of the analysis occurred. The result of the analysis of these interviews was then used in the findings and the discussion of those findings.

3.6. Conclusion

The purpose of this study is to evaluate the diversification strategy of a semi-state company operating in a declining market. Thematic reduction allowed the data gathered during interviews to form coherent compositions and develop into valid findings, presented in the next section. The use of government publications, company publications and other primary sources of this kind allowed for the development of comprehensive support, or not, of the themes discovered through the process of analysing the interviews. The critical analysis done of the various sources allows for the findings in the following chapter to be considered valid and reliable. Taking into account the possibility of biases in the analysis of the interviews, the use of numerous primary sources has allowed for a balanced evaluation of the diversification strategy.

4. Presentation and Discussion of the Findings

4.1. Introduction

This chapter presents and discusses the findings generated through the primary research, which was collected and analysed based on the research design outlined in the previous chapter. A number of interviews were conducted within An Post to ascertain the diversification process within the company, and how it was viewed by management. Thematic reduction allowed this data to form coherent compositions and develop into valid findings. Through these findings, a discussion of the process of diversification within An Post can be analysed and discussed. The interviews are used to form the basis of opinions within the findings. However, whilst the views of the interviewees are reflected in the findings, I have refrained from using direct quotes in the findings due to the importance of the issue to the organisation and the public nature of the company involved. The findings are presented in a manner which has endeavoured to follow the process of diversification. This is then followed by a discussion of these findings and, finally, the implications of the findings.

4.2. Overview

An Post and its subsidiary businesses are currently undergoing major changes for social, economic and political reasons. The company remains one of the largest employers in Ireland, with almost 10,000 full and part-time staff. However, due to declining revenues, the company has engaged in a number of cost-cutting measures over the last number of years. This has been coupled with significant investment to improve efficiency, such as a €40 million investment in mails automation (An Post, 2014a).

The motivation for efficiency is driven by the company, the regulator and the government. The company is currently seeking to cut costs and increase revenue. The government seeks to maintain a universal service, whilst also meeting requirements as set by the European Union, specifically Directives liberalising the postal market over the past number of years. The Irish government has been keen during this time of great upheaval in the market, to continue to manage this service without the need for a subvention to the company; this is a situation with which the company is currently happy to collaborate. Finally, the regulator, ComReg, wishes to hold An Post to the highest standards, and European market norms. This includes a number of measures; for example, An Post was unable to raise prices until it began to provide an acceptable level of service (a minimum of 94% next-day deliveries for products covered by the Universal Service Obligation) (Hogan, 2012). This two-sided approach to regulation forces the company to provide statutory services as efficiently and cost-effectively as possible.

As the postal market has further declined, both within Ireland and in Europe more generally, An Post has had to continue investing in achieving efficiencies in the mails delivery market. The company is required to provide a collection and delivery to every address in the Republic of Ireland from Monday-Friday (subject to certain conditions as enforced by ComReg). This service is loss-making for the company. As such, An Post has been forced to grow revenues in a number of related and unrelated businesses, through its retail network and its subsidiaries. This model allows for the cross-subsidisation of loss-making business units by those subsidiaries operating in more profitable markets.

Through diversification within the core mails business and the development of new, but related, businesses within the retail segment, the company has continued to grow income over the last number of years, despite the fall in mail volumes. This has been done through a mixture of price rises on Universal Service Obligation (USO) business and engaging in higher margin businesses, such as parcels. In retail, the company has increased the number of services it offers, including government payments, savings products, banking services, insurance services and other products which are conducted by post offices on behalf of An Post subsidiaries, such as the Gift Voucher Shop. Furthermore, the company has engaged in diversification through acquisition, purchasing emerging companies and growing revenues in profitable markets, including internationally.

The continued preference for related diversification, and innovation within the core business, allows the company to focus on a set of capabilities and avoid development of new skills. The company maintains a large number of functions, although there is a lack of fully realised development in many of them for a number of reasons. Maximising value for the organisation through further development of competencies which may exist, or could exist, within the organisation and utilising them throughout the Group will provide a greater dynamism to the company and help the company in future diversification and innovation attempts.

The manner in which the development, or lack thereof, has been established within the company is further discussed in the findings. Where new capabilities have been found, or value more fully realised, the possible reasons for this are explained. In the following section, the process by which the firm diversifies and the reasons for the diversification strategy are also discussed.

4.3. Findings

4.3.1. Industry Life Cycle

“The single largest challenge has been the continued decline in traditional mail. The Company has experienced an unprecedented reduction of 30% in volumes since the peak of 2007” (An Post, 2014b, pg. 13). The volume of mail, according to An Post’s Annual report, actually peaked in 2007. This was quite late for a Western European nation; for example, Norwegian mail volumes peaked in 1999 (Leonard, 2014) (although they also faced a further sharp decline in 2008).

“Value decline is certainly challenging the basis of postal economics; the Company has lost 30% of its core mails business over the last five years” (An Post, 2014b, pg. 13). This loss of core business has been offset somewhat by an increase in parcel volumes, certainly from a revenue standpoint (An Post, 2014b) but there continues to be pressure placed on turnover and employment levels. The company has received permission from the regulator to raise prices in regard to services offered under the Universal Service Obligation over the next three years, also providing a boost to financial projections.

“In the final stage [of the life cycle], *strong competitors might aim to be the last remaining player, leaving them the chance to exploit market power through higher prices”* (Johnson et al., 2014, pg. 278). However, price rises have been difficult for An Post to negotiate with ComReg, the communications regulator. Between 1991 and 2001, there was not a single rise in the basic domestic rate permitted by the regulator (An Post, 2002, pg. 4). Following a number of price rises proscribed by the regulator, which were subject to improvements in quality of service, in 2014, the regulator approved the introduction of a price-cap mechanism:

“In accordance with the 2011 Act, as there is no effective competition for the universal postal services, and following two public consultations, ComReg has made a price cap decision. This price cap decision sets an upper limit on the amount by which An Post may adjust its prices for its universal postal

services, during the 5 years of the price cap control (June 2014 – June 2019). The price cap decision therefore does not set actual prices for An Post's universal postal services but only sets an uppermost limit on the extent to which An Post may adjust its prices" (ComReg, n.d.).

For the Group as a whole, analysis of the turnover shows the changing nature of the business. The peak year for mail volumes was 2007, with the latest available Annual Report being for 2013; 2001 has been added for context as it is over a similar time period:

Year	**Mails**		**Retail**		**Other**		**Total Turnover**
2001	477.5	*(76.4%)*	107.5	*(17.2%)*	39.9	*(6.4%)*	**624.9**
2007	646.3	*(73.8%)*	154.3	*(17.6%)*	75.4	*(8.6%)*	**876**
2013	511	*(63.8%)*	169	*(21.1%)*	121	*(15.1%)*	**801**

Table 4.1. (€millions, as per 2001, 2007 & 2013 Annual Reports percentages are of turnover for the year, see Appendix A)

The declining importance of income from mails operations, and the increasing significance of other revenue streams (from subsidiaries especially) shows the benefit of growing non-mails revenue for the company. The manner by which the company does this will determine the long-term success and direction of the organisation.

4.3.2. Corporate Strategy - Decision to Diversify

Although there is not a formally stated strategy within An Post, there is a widely held acceptance among management of the need for the company to engage in diversification. There has been a marked decline in the company's core business of collection and delivery of mail since the peak of 2007. Although mails accounted for 73.8% (€646.3 million) of total turnover in 2007, this figure was only 63.8% (€511 million) in 2013 (see Table 4.1.). Total volumes in 2013 showed a 2% decline on the previous year and a 30% decline since 2007 (An Post, 2014b, pg.12). There are a number of reasons for this dramatic fall in revenue. A large reason is the decline in advertising spending due to the prevailing economic conditions; this has adversely affected mail volumes. Further, e-substitution has added to the decline, the prevalence of email and other forms of electronic communication diminishing the importance of postal services.

The European Union, through a number of Directives over the last number of years, has created a fully liberalised postal market in the EU. ComReg, as the regulator of An Post and the postal market in Ireland, has been responsible for enforcing these changes. The opening of the market to competition at all levels during a large decline in overall volumes, while An Post continues to provide a universal service without subsidy, has created the need to search in other areas for revenue and profitability.

The financial returns shown above show that the company has embarked on a significant reorientation of its business; while mails remains the most significant source of revenue for An Post, the declining and loss-making nature of the Universal Service Obligation has forced the company to grow; this growth has come in the traditional secondary business of retail (the Post Office network), and has been significantly contributed to by new and emergent subsidiary companies.

4.3.2.1. Approach to Diversification

"Diversification might be chosen for a variety of reasons, some more value-creating than others. Growth in organisational size is rarely a good enough reason for diversification on its own: growth must be profitable…growth can often be merely a form of 'empire building', especially in the public sector" (Johnson et al., 2014, pg. 232). An Post has followed a number of strategies in the development of the company towards becoming a conglomerate, capable of making enough profits as a group to service the losses created by providing a

universal postal service, as proscribed by the *Communications Regulation (Postal Services) Act, 2011*.

The first part of the firms' strategy sees the company continuing to innovate within the core mails business. It has seen significant growth in the parcel deliveries sector; there was a 22% increase in contract parcel volumes in 2013 (An Post, 2014b, pg. 12). Both rationalisation and innovation are seen as key elements in developing the mails business. The need for this area to maintain stability and profitability is hampered by falling volumes, although, through increased automation and growth of non-USO services, the company may find a balance between cost reductions and revenue growth.

The more significant means by which An Post has achieved growth has been through the development of its subsidiary businesses. These businesses are in a variety of different sectors; however, they could mainly be described as related diversification, due to their relationships to the company's two main business areas: mails and retail. The acquisition of smaller, emergent, companies has been a mainstay of An Post's diversification strategy for a number of years. The utilisation of core capabilities within An Post, as well as an autonomous subsidiary structure, has allowed the company to develop a model of cross-subsidisation (An Post, 2014b, pg. 13).

The decline of An Post's mails business, coupled with the saturation of An Post retail outlets (over 1,100 in Ireland) has meant that any significant growth must be generated in new business arenas. Post Offices, and An Post's retail network, have seen continued revenue increases, helped by the numerous offerings provided by the company's contracts for service: Social Welfare Payments on behalf of the Department of Social Protection; banking services; electronic bill payments; and savings products offered on behalf of the National Treasury Management Agency; among others.

However, to ensure the profitability of the company, An Post has acquired a number of new businesses over the last decade which has allowed it to stabilise. There are a number of processes used within An Post to allow the company to identify potential new business ventures.

Benchmarking against other postal operators throughout Europe and other comparable markets (e.g. New Zealand) has allowed the company to identify several potential business areas into which it can move. An example of this is the partnership between An Post and Fortis which led to the creation of Postbank. A number of other European postal companies, namely Poste Italiane and Deutsche Post, had utilised their post office networks for banking services for a number of years. An Post, after due diligence, engaged in a similar arrangement. The timing of this venture was, however, unfortunate; Fortis was badly affected by the banking crisis of 2008 and was eventually sold to BNP Paribas. This led to the closure of Postbank in 2010. Benchmarking has also led to successful joint ventures with both Western Union and The Gift Voucher Shop. In the latter case, the venture proved so beneficial to the company that they purchased a large stake in the company (as further discussed below).

An Post have purchased several companies over the last number of years, with these companies largely providing the profitability required to offset losses in other areas of the business. This can be seen in the growth in significance of ‘Subsidiaries’ as a percentage of turnover and in overall revenues in the company’s Annual Reports. The Gift Voucher Shop and Air Business have been two of the most significant contributors to this growth in income.

An Post bought a majority stake The Gift Voucher Shop in 2009, allowing it to maximise the already successful partnership between the two companies (One4All Gift Cards had been sold through post offices for a number of years prior to the purchase). *“An Post chief executive Donal Connell said the deal is a long-term strategic investment, in line with the company’s ongoing drive to broaden its revenue base and build new channels for future product development”* (Hennessy, 2014).

A further acquisition involved the purchase of Air Business in 2002 (Aughney, 2014). Air Business provides services, including international and domestic mailing and distribution, mail-house and data processing and warehousing and fulfilment to publishers in the United Kingdom and elsewhere. This company was profitable at the time of purchase, and has continued to grow its business through both client growth and a widening range of offered services, which is discussed further in *Section 4.3.4.1*.

4.3.3. Gaining a Competitive Advantage Through Diversification

An Post is the largest operator in the postal market in Ireland. It is wholly-owned by the Irish government and operates across the country, providing a service to every residence and commercial property. The company has a network of post offices throughout the nation and a delivery service which reaches every property in the state five days of the week. Much of this is done under the Universal Service Obligation, which is a loss-making service for An Post, one which it must provide until 2023, subject to Ministerial discretion ("Communications Regulation (Postal Services) Act 2011," Chapter 4, Section 17).

An Post, as an internal function, operates an Innovation Board, which it utilises in an attempt to develop any ideas, both internal and external, which it hopes can positively affect the business. The Innovation Board processes both internal and external opportunities and ideas. The Innovation function within the company is utilised to process and sort ideas and to ensure only those prospects with the most potential reach the Innovation Board. The board is a measure introduced to bring a more formal process to the company's diversification and, as such, is part of what is a multi-step programme. This involves an Innovation Forum, involving the staff under the Innovation function within the company. This forum sifts through opportunities which arise with the aim of finding those with the best prospects. The ideas are accepted and returned to the department (internal) or potential partner (external) for further development of a full business case. This business case can then be presented to the Innovation Board which may decide to accept or reject the idea, or ask for further investigations to be made. If the Innovation Board accepts an idea, it may then proceed to the Board of Directors.

4.3.4. Cross-Subsidisation of Business Units

An Post provides a five-day Universal Service Obligation (USO), and will do so for at least five more years. They *“provide this service at a significant loss, however and in practice it is cross-subsidised by other commercial activities within the Group”* (An Post, 2014b, pg. 13). The company has found new partners to increase overall group revenue, identifying profitable and emergent businesses with which to create partnerships which can be mutually beneficial.

Whilst the company has no formally stated diversification strategy, the statement from the Chief Executive shows that the company will search for profitability where it can be found, in order to maintain minimum service standards. The core business of mails creates naturally related opportunities for market development; collection and delivery of parcels, a growing market, and direct mail (advertising) are two areas in which the company can enhance revenue and fund the loss-making USO.

The retail operations of the company, the post office network, allows the company to create associations with organisations (both commercial and governmental) to offer services which are profitable in themselves and also create footfall to generate business for An Posts core business. This drive to create sustainable retail partnerships has led to the company developing relationships with a number of large clients within Ireland, for whom post offices can provide a variable-cost model, reducing costs for the client whilst driving revenue growth for An Post. An Post continues to offer services on behalf of: AIB and KBC banks; Aviva Insurance, in partnership with An Post’s wholly-owned subsidiary, One Direct; and One4All Gift Cards, a partnership which began with An Post selling the cards on behalf of Gift Voucher Shop before eventually buying a majority stake in the company.

An Post has engaged in further diversification away from these traditional areas associated with the company. Within Ireland, as previously mentioned, the company owns One Direct, an insurance company. Internationally, another An Post subsidiary is Air Business, a company based in the United Kingdom. Air Business is a distributor of magazines by post for a number of publishers. This company became further internationalised and diversified following its purchase of Quadrant, a subscription database management company.

4.3.4.1. Diversifying the Diversified – Air Business

Air Business was purchased by An Post in 2002 (Aughney, 2002). The company had been profitable; however, there was a need for it to diversify in order to grow. At the time of purchase, one client was responsible for almost fifty percent of volume, and this was seen as the first issue to resolve for the new owners. Once this had been achieved, the search was started to find complementary businesses which could be acquired. The benefits of this would be two-fold: increasing the client base and increasing the offerings available to those same clients. These benefits are evident in the growth in revenues for the company in the 6 years to 2011, from £8 million to approximately £40 million (Post & Parcel, 2011). This increase followed a change in management at Air Business, instigated by An Post.

An Post, as a semi-state company, must be a strategic buyer, buying emergent companies which can develop into larger, more profitable businesses. The company has a policy of allowing subsidiaries to run relatively autonomously. This policy allows management of the subsidiary firms to react quickly within their own markets. An added benefit of this policy is that it can insulate these subsidiaries from the worst aspects of An Post’s corporate culture; where An Post may be slow to react and bureaucratic, subsidiaries can be entrepreneurial and innovative.

An example of this is the purchase of Quadrant from Reed Business Information (RBI). Quadrant offered a number of synergies to Air Business, and also allowed the company to offer a value-added service to existing clients. This acquisition was a case of strategic purchasing by Air Business; RBI were seeking to scale back and focus on their core business, offering Air Business the chance to expand into a new but related business. Quadrant also offered the potential for Air Business to hedge against a potential decline in physical mail volumes; Quadrant's offering of subscription management services could equally be used for e-magazines and other online subscription based services.

The diversification of Air Business, under the supervision of An Post, is evidence of the expanding nature of related diversification. Had An Post purchased Quadrant directly, it would have been difficult to describe it as an example of related diversification. However, through An Post's purchase of Air Business, a business which An Post was able to help develop and grow, the organisational capabilities expanded to such an extent that a firm such as Quadrant was a logical expansionary purchase.

4.3.5. Changing the Core Business

The core business of An Post, as measured by revenue generated, is the collection and delivery of mail. In 2013, mails accounted for 63.8% of total turnover (An Post, 2014b, pg. 12). This figure includes services offered under the USO, which are often loss-making, and services such as parcel delivery, which are higher margin businesses and therefore offer greater potential for profitability. Parcel delivery, due to an increase in online retail, will continue to make clear the need for a nationwide network. This segment saw volume growth of 22% in 2013, and this may become a more significant segment of mails delivery than traditional USO services as letter volumes continue to decline.

Further to changes within the core offering, the An Post Group, overall, has seen a significant change in the makeup of its business in the last decade.

Diversification, although not a stated strategy, has clearly become an important area of revenue generation for the company. The retail network continues to offer a greater number of services. This is especially true of banking; where a number of banks have scaled back the amount of branches, or moved to cashless branches, An Post has won contracts to offer services on their behalf. This is an important aspect of revenue growth for the firm and allows the retail network to maintain its economic logic.

An Post has a number of subsidiary businesses, which are generally profitable as a group. The company already engages in cross-subsidisation, as profitable businesses contribute, more so than loss-making activities cause harm to the Group's bottom line. If growth in subsidiaries is to continue at the current pace while mail volumes decline, An Post may not have a core business at all; the organisation could become a true conglomerate, with a number of revenue generating centres.

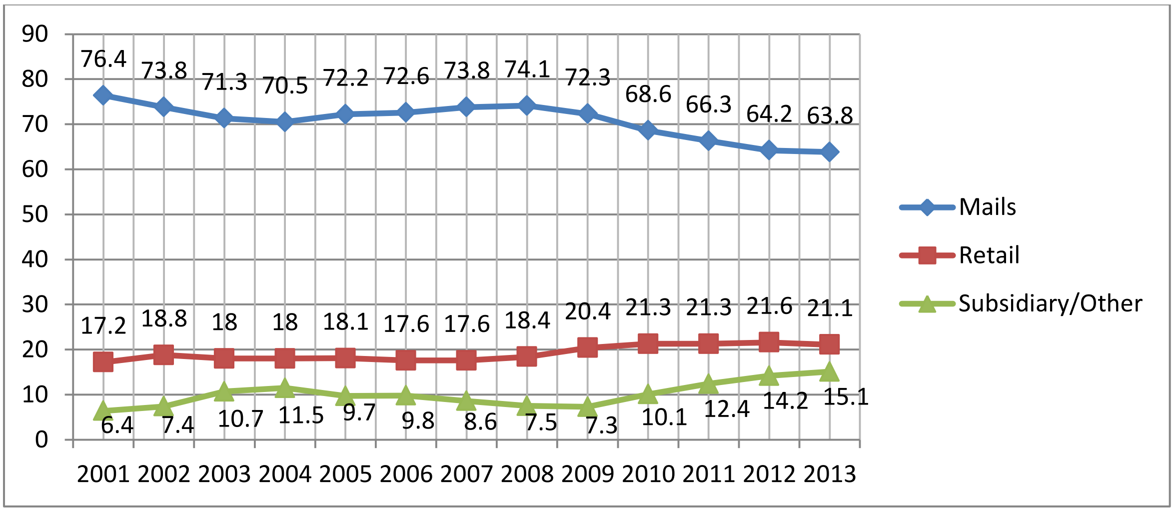

Fig. 4.1. The respective share of turnover generated by each business segment, 2001-2013 [See Appendix A]

As can be seen in the above graph, the percentage of overall turnover generated by mails has declined in recent years, as the share generated by subsidiaries has begun to increase. The retail segment of the business has maintained a fairly steady share. This shows clearly that the diversification activities of An Post have contributed to the increase in turnover, especially between 2012 and 2013. Between 2012 and 2013 revenue generated by mails increased by €10 million, a 1.9% increase; this increase was matched by a €10 million increase in revenue generated by subsidiaries, an increase of 9%.

Current growth rates could see a combination of retail services and subsidiaries making a contribution to An Post Group turnover equal to that of mails within a decade, even accounting for expected increases in pricing of USO mails services, approved by ComReg. The impetus upon the company to increase non-mails revenues will only increase as mail volumes continue to decline. The company is undertaking a number of initiatives to slow the decline in mail, but the current level of decline indicates a structural change in the industry. In order for the company to continue to provide the USO, a labour intensive and expensive undertaking, it must find growth in other businesses and markets and attempt to move its core revenue generation activities away from mails and into other, possibly counter-cyclical, industries.

4.3.6. From Government Service to Commercial Enterprise

An Post is a private limited company, wholly owned by the Irish government. The two shareholders are the Minister for Communications and the Minister for Finance. The company had held a monopoly since its creation in 1984, although this monopoly was eroded over a number of years until the present situation was established in January 2011, when an EU Directive led to the full liberalisation of the postal market. Despite this liberalisation, An Post maintains its position as a dominant market player, and has been assigned as the Universal Service Provider until at least 2019. This dominance in the market, as the incumbent provider, means that the company is heavily regulated, especially in relation to the USO. This involves price-fixing and constant monitoring of quality and service by ComReg.

The company itself is run as a commercial company. It does not receive a subsidy from the government for the public service it provides. It is required to generate its own revenues and make a profit in order to fund investments in efficiency creation and future revenue generation. However, any large spend, as in many other private companies, requires the agreement of the two main shareholders, both of whom are government ministers. There are a number of issues with this; the company must attempt to maintain a level of secrecy around commercially-sensitive undertakings, which is made difficult by the need to inform government departments of large undertakings. The ability to act with speed is also compromised by this process.

At management level, the company is run, day-to-day, as any commercial enterprise. The process of changing An Post from a government department (Department of Posts and Telegraphs) into a private enterprise has been going on for three decades. This process has seen the company attempt to manage legacy issues, such as certain staff retaining the pay and conditions of civil servants after the creation of An Post. This has led to staff accounting for approximately two-thirds of overall costs (although the postal market is a labour intensive one).

It is the cultural effects of being an integral part of government until relatively recently that can now be most acutely felt within An Post. It is this culture that has necessitated the system by which the company manages subsidiaries. An Post subsidiaries are run as autonomous businesses, under the supervision of An Post as a shareholder. This means that, although an Executive Director of An Post will sit as Chairman on the board of a subsidiary (as well as other Executive Directors holding other roles on the board, if necessary), the culture and practices of the subsidiary are maintained. This leads to An Post gaining a lot of benefit from entrepreneurial and innovative new businesses; businesses which can grow apace in markets which An Post would not otherwise be able to enter. This is especially the case with Air Business, a fast-growing company operating in several markets throughout the globe. Quadrant, a subsidiary of Air Business, has operations in the UK, USA and the Philippines.

An Post has been able to develop its core competencies to an extent that it can compete within Ireland with even the biggest global players. Several international courier companies operate within Ireland; however, An Post, through management, development and investment in its core business has continued to compete profitably in the parcel business, growing contract volumes by 22% in 2013 (An Post, 2014b, pg. 12). This containment has allowed the business to create a sense of urgency among employees and management within mails, showing the need for cost cutting measures and efficiency drives. Meanwhile, the ring-fenced subsidiaries have created revenue growth which allows the Group to stay profitable and invest in necessary modernisation programmes.

The company is run as a commercial company. The legacy of being a government bureaucracy still affects the company; however, the effects are being diminished through reductions in staff numbers and efficiency programmes at every level of the mails segment. The probability that the government would be unwilling to offer a significant subsidy to the company in the event of losses creates an incentive to develop as a fully commercialised company not reliant on such a subvention. The company has striven to remain profitable throughout a period of decline in the core business. It has done this through growing revenues where possible and cutting costs and investing in efficiency where necessary. These can be described as the actions of an organisation with a profit motive, not those of a government department.

4.3.7. Related and Unrelated Diversification

As previously discussed, there is no stated diversification strategy within An Post overall. However, there is a strong strategic impetus given to related diversification and innovation within the mails business. There is, beyond this segment, a strong preference for related diversification. This is mainly led by the level of risk aversion which exists in the organisation. Unrelated diversification may be undertaken, as the company has traditionally been opportunistic in its approach to acquisition. However, the company is not currently proactively seeking opportunities for acquisition and, therefore, current unrelated diversification intentions cannot be thoroughly evaluated.

An Post has engaged in a number of diversification projects, most of which could be considered related; namely related to mails and related to retail. In relation to the mails segment, An Post has acquired businesses in courier services, a segment of the postal market in which the company previously did not operate. The company previously had established SDS, a parcel delivery company. However, due to poor performance, this business was discontinued and any parcel deliveries once again became part of the core collection and delivery service.

Many changes occurred within the company in the early part of the 21st Century. The 2003 Annual Report was entitled *"Strategic Recovery Plan"* as the company was enduring significant losses (See Appendix A). The company formulated a strategy to divest any unrelated businesses in an attempt to gain access to capital which could be used to fund a restructuring of the company (An Post, 2004, pg.12). This divestiture, including sales of a top-up business to Alphyra for a gross consideration of €80 million, scaled back the operational scope of the company.

Related businesses, however, were maintained. Air Business was purchased and allowed to grow, both organically and through its own programme of acquisitions. This business was more closely related to the mails business which is the core revenue generator for An Post. Relatedness was a key indicator of future viability during this time. Conversely, unrelated yet profitable businesses were seen as a key source of necessary liquidity during a time of crisis for the company.

While the company is now in a slightly better position than it was in the period 2000-2005, when massive operating losses were generated, there is still an acute awareness of a need to restructure the business. This restructuring will include bringing costs into line with potential revenue generation, especially in mails. However, attempting to grow volumes, and therefore revenue, will be pursued through highly related diversification into areas such as direct mail promotion and management of direct mail campaigns. An Post holds a great deal of knowledge in this area and can help clients target mailings. However, the competitive advantage which An Post holds in this area may be diminished with the introduction of a national postcode system (Tuohy, 2013) (Capita, 2014).

The retail sector does not demand such a restrictive definition of related diversification. Any product or service which a company may offer ‘over the counter’ can be considered related diversification in this sector. An Post offers a wide array of financial services on behalf of a number of clients, including the Irish government. The expertise developed through offering these services has allowed the company to offer its own services; the company offers foreign exchange and retail insurance products at post offices. The development of these services has involved an evolution for the company. Previously, the geographic spread of the retail network, with a post office in every town, could make it an attractive partner for companies wishing to outsource certain functions. This led to the development of certain capabilities within the retail business. The development of these capabilities through providing services to others allowed the company to gain the ability to improve its own offering. Although it failed, the decision to establish Postbank can be seen as the extension of this change.

The acquisition of Air Business is further evidence of An Post’s preference for related diversification. Air Business utilised postal services throughout its market area, and the business requires familiarity with logistics and delivery solutions, which is knowledge which exists within An Post. However, it also shows the increase in operational scope which can occur within a slowly emerging conglomerate. Air Business, as it grew and sought new opportunities, further developed into the subscription management business with the acquisition of Quadrant. This purchase effectively moved a large proportion of Air Business into IT and would help protect against the rapidly growing effects of e-substitution in the magazine market.

The threat of e-substitution to the remainder of An Post's business remains significant. The movement away from physical products, and the physical delivery of services in-store, could cause a large decline in all aspects of the industry. Electronic social welfare payments, for example, would significantly diminish customer interactions with post offices and could impact upon other services offered by the company. The company is attempting to become less dependent upon government contracts (NTMA and Department of Social Protection especially) by engaging in partnerships with commercial operations. However, this fails to address many of the key concerns regarding e-substitution which have been confronted in other European countries. The creation of electronic mailboxes in other countries, with the service provided by the postal operator, has proven popular among consumers whilst also lowering costs (Posti, 2012) (Leonard, 2014).

4.3.8. Value Maximisation and Organisational Capabilities

An Post has been successful in developing core capabilities and remains innovative and responsive to the mails market. Attracting and retaining staff in other areas of the business, or in potential growth areas has been more difficult. This is due to a number of factors, which the organisation has attempted to address, to some extent. The semi-state sector can have difficulty attracting and retaining the best talent. There are a number of reasons for this; the pay and rewards available are often less than those on offer in the private sector and there is a perception of the culture within these organisations as resistant to change. There is no obvious solution to bringing the best talent directly into the organisation for full utilisation.

The creation of wholly-owned autonomous subsidiaries can solve these problems quickly. Although there may remain cost controls on wages, the culture can be vastly different; entrepreneurial businesses which are receptive to market requirements and opportunities and open to change are more able to create the conditions in which industry-leading talent may wish to work. Additionally, the ubiquity of An Post can be leveraged in tendering for contracts.

This makes it an attractive partner for private firms who may have the knowledge, skills and core capabilities, but lack the scale necessary, to win large tender competitions.

An Post, through the processes already described, will, firstly, identify a customer need or gap in the market. The company will then identify whether the required capability already exists within the organisation, and, if so, whether that capability can be utilised for the particular opportunity. If the capability cannot be utilised, the company will proceed to search for an external partner to ensure the company is not forced to surrender the opportunity. This willingness to search externally is consistent with the manner in which the company may acquire external businesses and run them completely separately from An Post. However, this particular approach can lead to the company sacrificing potential economies of scale and prospective synergies which may be developed through integration.

The further development of non-core competencies, through the identification of future business opportunities is required to further hedge against predicted falls in revenue in the core business. This will allow the company to continue to grow and evolve in the future, lowering the need for partnership agreements (especially in tendering for contracts) and allow the organisation to fully benefit from such contracts or other business opportunities. This development will require a strategic plan for training and development, as well as a more proactive approach to diversification.

4.4. Discussion

4.4.1. Corporate Strategy

The postal market is a highly regulated one. An Post, as a former monopoly, is subject to a number of controls on its dominant market position by the regulator, ComReg. In January 2011, following a number of European Union Directives, the postal market became fully liberalised. The period of liberalisation also coincided with a huge contraction in the postal market, within

Europe generally, and within Ireland (a 30% fall in mail volumes between the peak of 2007 and 2013) (An Post, 2014b, pg. 12). The subsequent fall in turnover for the company has led to an imperative upon management to cut costs. This has been done while ComReg, the communications regulator, has continued to demand a higher quality service from the company (Hogan, 2012). The increased automation introduced to the mails system has helped the company achieve both of these aims. However, this does not help the company realise its long-term strategic imperatives.

In order to continue to fund the Universal Service Obligation (USO), An Post is engaging in a number of diversifications, through partnership, joint venture and acquisition. However, the company does not have a stated aim of diversifying. It is, though, generally viewed as a necessity within the company. Management are aware of the requirement upon them to discover new revenue streams which can be used by the organisation to allow it to continue to fund the mails service. However, *"responding to market decline is one common but doubtful driver for diversification"* (Johnson et al., 2014, pg. 233). The theory suggests that it is best to allow shareholders to find new growth investments, rather than let management of a declining business invest spare, and shrinking, funds themselves. Finance theory in this area is less influential in the case of a privately held company, especially one where the government is the sole shareholder.

New income is more usually planned to come from innovation within the collections and delivery side of the business: increasing margins on parcel deliveries, further increasing automation of sorting to further lower staff costs, etc. *"Whilst competitive advantage can come from size, or possession of assets, etc. the pattern is increasingly coming to favour those organisations which can mobilise knowledge and technological skills and experience to create novelty in their offerings…"* (Tidd et al., 2005, pg. 5). However, mail is still a declining market, and automation can only create a certain level of savings as revenue continues to fall. Parcel delivery is a more lucrative sector of the postal market, and can be used to maintain the rationale for maintaining a nationwide network, making this a crucial market for An Post, albeit a highly competitive one.

Subsidiaries of An Post are generally run as autonomously as possible. Air Business is based in the United Kingdom, and whilst An Post monitors and guides the company, it is largely run by local management. This is also true to a large extent of One Direct (an insurance company which is wholly-owned by An Post) and The Gift Voucher Shop (a payment and gift card company in which An Post holds a majority stake). *"Management generally institutionalises some kind of formal systems for control…through* performance planning*…There also has to be…some mechanism for* autonomous venturing *to develop or acquire new businesses"* (Ghosal and Mintzberg, 1994, pg. 9). The maintenance of successful companies as autonomous subsidiaries makes sense to the organisation. *"Growth and diversification are generally based on the exploitation of existing competencies in new product markets, but a corporate venture can also be used as an opportunity for learning new competencies"* (Tidd et al., 2005, pg. 435). An Post, as a former government department, is not felt by management to have a culture conducive to entrepreneurship and the result of a higher degree of integration may be to stifle these growth companies, rather than encourage a more enterprising culture in the organisation as a whole.

4.4.2. Competitive Advantage and Cross-Subsidisation

The company maintains dominance in the mail delivery sector of the postal industry, as it is the only operator licensed as a Universal Service Provider (USP) in Ireland (O'Doherty, 2011). Any competitive advantage which the company can derive from the mails sector will be incremental as it already has a dominant (near monopolistic) position. *"Growth in the firm…* [and] *profitability of the firm can be improved mostly by increasing innovativeness in products and services, decreasing self-renewal activities, taking more proactive orientations, and focussing on vertical diversification strategies"* (Antoncic, 2006, pg. 59). However, due to its dominance, An Post must be aware of the likelihood of ComReg ruling against any anti-competitive practices. The company can attempt to solidify its position within the market and maintain as much market share as possible in order to ensure the economic viability of the mails network.

However, as the volume of mail continues to drop, the company must ensure that it has sufficient cash flow to fund the USO. There are a number of ways in which this can be done. There is a mechanism under the legislation by which the USP can seek the creation of a fund by the regulator into which all companies licensed to deliver mail (that mail which is covered by the USO) must pay. This fund can be used to ensure that where companies may deliver letters in highly profitable areas (e.g. urban centres), the USP is not at a significant disadvantage by being forced to deliver to all addresses without prejudice. However, the creation of such a fund would be politically difficult for the regulator. The second option for the company is to engage in diversification, to create income from growing markets. This will allow An Post to cross-subsidise various business units. In so doing, the company can maintain itself as a profitable conglomerate whilst also continuing to provide the public service for which it was established.

The successful diversification into magazine subscription management with Air Business shows what can be achieved. *"Internal governance defines how the asset portfolio is managed and conditions the capacity of the firm to create wealth"* (Prahalad and Doz, 2006, pg. 537). Without the revenue growth generated by subsidiaries in 2013, it is doubtful whether the company would have been able to generate an operating profit of €5.7 million. *"If a business can have both financial and good market performance only when share is established, the management implication is clear: a venture's objective for its early years should be to build share, regardless of short-run financial performance"* (Biggadike, 1979, pg. 108). Following the acquisition of Air Business, this is the strategy which An Post followed; seeking a diversification of clients (having taken over a situation where one client was responsible for approximately 50% of sales) and acquiring related businesses in the market to grow the customer base and increase market share. This has led to Air Business becoming the best current example of diversification within the An

Post Group, returning a profit to the Group. It is the expansion into these higher margin businesses which will allow the company to remain viable into the future, even in the absence of a stated strategy to diversify. The manner in which they should do this is clear from Air Business: *“build share, regardless of short-run financial performance…building capacity ahead of demand…the biggest risk is entering too small”* (Biggadike, 1979, pg. 108).

4.4.3.The Core Business and Commercialisation

The share of turnover generated by each of the three main operations (mails, retail, and subsidiaries) of An Post has changed dramatically in the last decade. In 2003, mails accounted for 71.3% of turnover, with retail and other operations accounting for 28.7% (An Post, 2004). Compare this to 2013 where mails accounted for just 63.8% of the company’s income, while retail and subsidiaries made up the remaining 36.2% (see Appendix A). This shows there has been a move in the organisation away from a dependence on mails. Whether this move has been as part of an overall strategy to diversify and generate new revenue streams, or just as a consequence of the fall in mails volumes is debateable, although subsidiaries are creating a higher turnover than in 2007 (the year of peak volumes in mails). *“These patterns result because the entrepreneurial pursuit of long-term growth involves distant returns. Decisions have to be made in the face of high uncertainty and causal ambiguity…decisions cannot be deferred until the uncertainty is resolved”* (Bhardwaj et al., 2006, pg. 248).

Mails delivery must always be considered the core business of An Post. The company was originally established to provide a service, rather than to generate a profit. This is not to say that it does not now need to make money; however, producing income should be seen as being in the service of fulfilling and funding the original public service of the company. However, *“Successful ‘winning’ State investments should be able to cash in so as to cover losses when they arise, as well as fund the investments of the future…”* (Mazzucato, 2013, 197). While mails, and to a certain extent the retail network of post

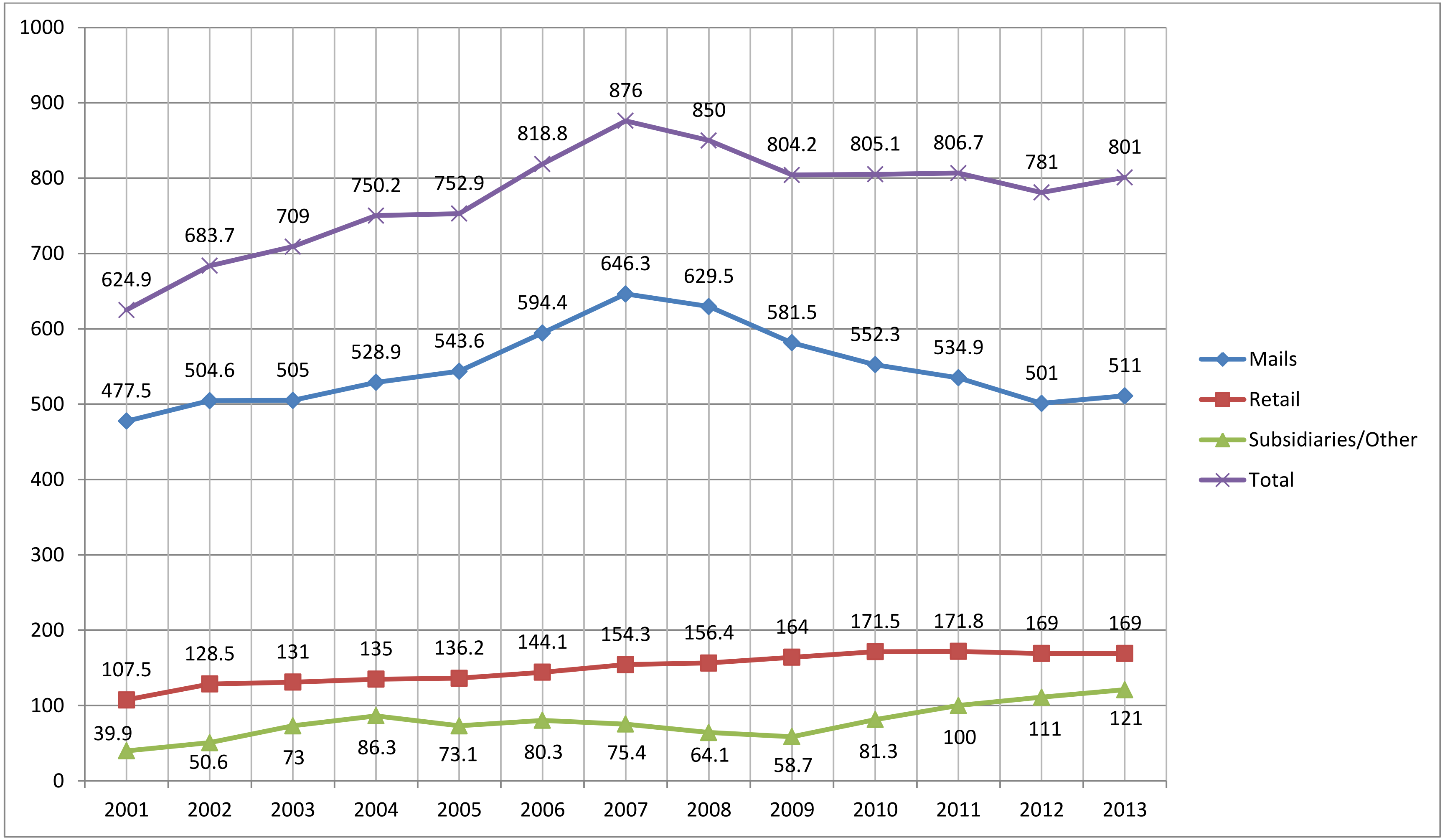

Fig. 4.2. Showing the turnover generated by each business segment 2001-2013 [See Appendix A]

offices, may diminish in economic importance to the company, they should continue to be seen as the core business of An Post. Diversification should be carried out to a strategic plan, recognising the necessity to continue to support the core operations of the company.

4.4.4. Related and Unrelated Diversification

There is a level of risk aversion within An Post which means that management, in an effort to avoid failure, continue with a policy of highly related diversification. This may cause problems as the company operates in a largely declining market leading to a diminishing return, no matter how many efficiencies or cost cutting measures, allied with price rises, the company may engage in. The easy availability of low-cost, electronic substitutes to mail mean that the company must remain competitive in mails, whilst, however, not being too heavily reliant upon it for income. *"What is the value of a bundle of assets and businesses as compared to the value of these businesses as independent units? The portfolio must benefit business units and the business units must add to the portfolio"* (Prahalad and Doz, 2006, pg. 541).

Where the company has engaged in diversification, it has allowed its subsidiaries to continue largely autonomously. The company does not engage in the purchase of poor performing businesses which it believes it will be able to turn into profitable enterprises. Instead, An Post is more opportunistic in its acquisitions, searching for value and allowing the subsidiary to achieve growth through the implementation of a solid business plan, while the organisation provides the required support. This has led to a great deal of growth in subsidiary revenues since 2007 and, if a strategy could be formulated in an attempt to repeat this success, it could be highly advantageous to the organisation.

4.4.5. Value Maximisation and Organisational Capabilities

Ultimately, as the designated Universal Service Provider, An Post must maximise the value available to it from its mails business. This includes finding the optimum price (after all possible cost-cutting efforts have been made and efficiencies have been found) so that the company can generate the maximum available volumes. *"In the final stage* [of the life cycle]*, strong competitors might aim to be the last remaining player, leaving them the chance to exploit market power through higher prices"* (Johnson et al., 2014, pg. 278). However, the business that can be generated in an easily substitutable declining market will be limited.

The organisation, as a government enterprise, continues to have difficulty attracting talent in certain operational areas. The company has worked around this by engaging in partnerships with companies, especially in IT, to deliver services and to win tenders. *"The task of balancing managerial thrust with cultural integrity is a key responsibility of top management. In normal times, it requires a subtle and patient process of continuous and incremental adjustments"* (Ghosal and Mintzberg, 1994, pg. 19). This method allows the company a great deal more flexibility in dealing with staffing issues, although maintaining the cultural integrity of both the organisation as a whole and of the subsidiary units, will be an increasingly difficult task as the growth rates of these segments diverge.

The company searches for new business in which to engage by benchmarking. Through this process, the company looks at other postal operators in any comparable country, and looks for business they currently undertake which may be suitable for An Post. *"Because organisational capabilities are the source of a company's value, it is not always optimal to liquidate them when existing businesses begin to decline. Instead it may be better to attempt to deploy them in a new business…"* (Matsusaka, 2001, pg. 428). If any potential area for expansion is found, a review of whether the customer demand exists is undertaken. It is through this process that the company may find itself engaging in a business for which it lacks capability.

This is the advantage of partnership. However, it also means that the organisation is not developing capabilities beyond its core, and this creates problems as the core declines and the business becomes more diversified.

4.5. Implications of Findings

4.5.1. Implications of Findings for Theory

The ability of businesses to engage in a strategy without formally defining that strategy creates a number of issues for the literature. Much of the literature takes for granted that a decision to diversify is a conscious and predetermined one, taken at a corporate management level. However, in evaluating the evidence from the research, the ability of a large organisation to engage in opportunistic behaviour remains.

There is a lack of literature discussing diversification in the state or semi-state arena. While government as an enterprise has been studied to an extent, the ability of those enterprises to arrest a decline, or pivot away from declining industries, has not been fully evaluated. The additional impediments to these organisations to achieve such changes (often political more than cultural, which could be the case in similar, private organisations) could prove inordinate obstacles to overcome. However, the case here shows that innovative strategic initiatives, such as autonomous subsidiaries (even those established by the semi-state company) can create a means for the organisation to achieve more dynamic growth without affecting the core business. The agreement of political bodies in following such strategies may be difficult to obtain and is a further shortfall in the theoretical discussion thus far.

4.5.2. Implications of Findings for Industry

The postal industry in Ireland, for much of its existence, consisted solely of the governmental organisation, in whichever incarnation (Department of Posts & Telegraphs or An Post). This monopolistic state was the same in much of the world, where the postal service was seen as a necessary government utility. The incremental introduction of competition throughout the developed world, but especially in the European Union, in the last number of decades has dramatically changed the dynamics of the industry.

These changes have increased competition in the mails market, just as the market has fallen into terminal decline. Electronic substitution, coupled with economic trouble, has led to a much diminished industry. However, parcel deliveries, a more profitable area of mails deliveries, has grown substantially for many of the reasons traditional mail has declined (e-substitution). This has led to a situation whereby the Universal Service Provider in many countries is in a unique position against private courier and postal companies.

The industry must adapt as competition increases over a diminishing volume of business. The cross-subsidisation of businesses through growing retail revenues (where the postal service still operates or is in control of the post office network) and further diversification will help to create a viable business in former state-owned postal companies. Through related and unrelated diversification, expansion and innovation, these companies may generate enough revenue to allow them to maintain a universal service throughout Europe without requiring government subvention.

4.5.3. Implications of Findings for Policy

Governments, especially those in the European Union, are driven by a need to further privatise former government services and open them to competition. This has resulted in the liberalisation of many markets and attempts to create single markets across the EU in many industries. While this has resulted in better services and lower prices for consumers, many governments have struggled to ensure universality of service. In Ireland, Eircom are the designated Universal Service Provider in telecoms, requiring them to ensure service is available to the entire population, even in uneconomic, sparsely populated rural areas (Irish Independent, 2014). The creation of a fund is an option open where such cases create undue economic hardship upon the designated company. Attempting to avoid the requirement for such a fund should be a key part of any strategic decisions regarding the postal industry.

4.6. Conclusion

The findings suggest there are a number of reasons behind the decision to diversify. In the case of An Post, the need to offset the implications of a declining core business is the clear reason. However, the reasons behind the decision may not have a direct bearing upon the strategy which the company develops in undertaking diversification. This chapter has discussed many of the findings and the implications of those findings for theory, industry and policy. The following chapter will discuss the conclusions which can be drawn from the findings and their implications in relation to the research objective. The limitations of the research, recommendations for future research and differences which were discovered between the literature and the primary data, will also be discussed.

5. Concluding Thoughts on the Contribution of the Research and its Limitations

Evaluating the Diversification Strategy of a Semi-State Company in a Declining Market: A Case Study of An Post

5.1. Introduction

The previous chapter discussed the findings of the primary research on the diversification process within An Post. There was an evaluation of the process by which diversification is undertaken and how this is done within the context of the organisation. The following chapter discusses the implications of these findings for the research objective. The findings are also discussed in the context of the existing literature on the topic. Furthermore, this chapter examines the possible limitations of the research done as part of this study and discusses possible areas for future study.

5.2. Implications of Findings for the Research Questions

There can be very little difference found between the actions of a commercial semi-state company and that of a privately held business. Any company driven by a profit motive will, inevitably, act in a way which will ensure it can gain the greatest profits. An Post, by engaging in cost cutting measures, including reducing employee numbers, can be seen to be acting as any commercial enterprise might in such circumstances.

The lack of a formal strategy does not preclude an organisation from being successful in achieving its goals. An Post does not have a formal strategy for diversification; instead, there is a tacit understanding among management that diversification is necessary for the growth and survival of the company. As such, management search for many ways in which to ensure the long-term survival of the organisation and diversification is just one of these ways.

Companies may struggle, even following expansion into new markets, to expand the application of competencies available to its core business. These capabilities may be lost to other organisations, or may be quarantined in the subsidiary business, unable to help the organisation as a whole. The fear that the core culture of the organisation may adversely affect subsidiaries should be measured more carefully against the potential benefits of the enterprising culture of those same subsidiaries providing an impetus to change in the organisation as a whole.

5.3. Summary of Differences Between the Findings and the Literature

The findings suggest that diversification can be a significant factor in the renewal and growth of a company in a declining market. This is in contrast to the literature which can suggest that diversification should only be undertaken by growing companies (Goold and Luchs, 2006) or in some cases that diversification should not be done at all, instead allowing shareholders to choose where to invest their money while the organisation manages the decline (Hall Jr., 1995).

There is a significant difference between the suggestion of this research, that diversification is a process used to enhance and grow the organisation and the converse suggestion that diversification is merely a means by which management grow their own power base (George, 2007). Management must act in the greater interests of the organisation as a whole, especially when the core business is in decline; otherwise, there may no longer be an organisation. Good corporate structures and a solid framework within which management can work will counterbalance possible empire building.

Diversification requiring constant management (Ghosal and Mintzberg, 1994) is not evident in the findings. While management monitor subsidiaries, these subsidiary businesses are allowed to run largely autonomously, with local management left to their own devices, to a certain extent.

5.4. Contributions and Limitations of the Research

There is a paucity of research on state enterprise available. This is especially true of commercial, largely profit driven state-owned companies. The research provides an insight into the particular drivers of change and development in a semi-state organisation. However, the study has a narrow scope, using a single example in a case study. The possible applications to other state-owned organisations and in other countries or industries facing similar issues may be limited.

In this case, the use of diversification to provide growth and cash flow to an organisation has been shown to be of significant benefit. The company has been able to use its own cash reserves and growing revenues from non-core businesses to allow it to avoid government subvention and act in a way any commercial enterprise would be required to act. However, the company was granted a monopoly for many years and is still operating in a highly regulated market. An Post has a significant advantage over many new entrants to the Irish postal market as they have a fully functioning nationwide mails network.

5.5. Recommendations for Practice

An organisation does not necessarily require a clearly defined strategy to achieve its goals if management are aware of the challenges facing the business. In this case, the lack of a strategy to diversify, or a diversification strategy, have not been an impediment to successful diversification. However, when diversification is undertaken successfully, more emphasis should be placed on evaluation of the factors in that success to ensure the firm can develop and grow with more certainty in future acquisitions or company launches. The case of Air Business would suggest the previous research (Biggadike, 1979) indicating that market share be gained before seeking payback is correct.

The current trend towards privatisation of many government services, especially in Scandinavia and Anglo-Saxon countries, may be unnecessary in some instances. The provision of services for profit can be done at low cost, with the government being the beneficial shareholder and services not being forced to unduly suffer. Therefore, through the creation of a state enterprise, the service may improve (with effective regulation) without the need for the state to give up on long-term strategic interests.

A good framework within which management and subsidiaries can work can be a suitable replacement for an explicit strategy. A strategy may lead to proscription and inhibit innovation and intrapreneurship. By setting clear goals and providing good corporate governance and support, growth and success can be achieved with minimal direct oversight.

5.6. Recommendations for Future Research

The further application of this research to other state enterprises should be explored. There are a number of different state enterprises in Ireland alone operating in various markets with varying levels of competition and regulation. The implications of this research for these organisations could be limited, or may heavily influence future strategy. Through the study and application of these organisations, there is a possibility for the development of diversification strategies, leading to further growth. This is also true in other countries which may face similar dilemmas for both governments contemplating privatisation of services and existing state-owned enterprises.

Further study of the effects of an organisation's culture on its subsidiaries following acquisition should be undertaken. There are implications for the autonomous subsidiaries studied in this research. Furthermore, the possibility of subsidiary culture positively influencing the parent firm should be explored. Both could impact upon the manner in which subsidiaries are run autonomously in An Post.

The ability of a company to expand core capabilities should also be subject to research. The research may be complementary to that mentioned above. Acquiring new capabilities, and then segregating those capabilities from the organisation as a whole, does not allow the firm to fully benefit from the acquisition. The two-way flow of culture and capabilities between parent and subsidiary should be beneficial to both parties, and where it is not, how can the organisation ensure that only a positive influence accrues.

5.7. Final Conclusion and Reflections

Effective state enterprise can be achieved. The conversion of an integral government service into a private limited company, operating in such a way so that it can achieve profit and efficiency, is an achievable goal. An Post has been quite successful in managing a severe downturn in its core business. It has done this through managing prices and cutting costs while investing in growth businesses to ensure the long-term viability of the Group. This is management as it would occur in any commercial organisation.

As well as the ability to pursue innovative development of product and service offerings, a successful diversification strategy requires a skill of acquisition. The ability of the organisation to find a company which they may be able to purchase for less than its full potential value is important; this may be due to a short or medium term cash flow issue, an issue which a large organisation can manage effectively while it grows its new subsidiary. The diversification strategy should have clear and well-defined goals and measures for success before being undertaken. These goals and measures can be re-evaluated at regular intervals as the process develops and the business matures. The pursuit of market share and a return on investment allows the organisation to receive a benefit from its subsidiaries while it attempts to manage the serious decline in its core business.

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Appendices

Appendix A

Development of Revenue Streams for An Post 2001-2013

2001	*%*	*€ millions*	*Operating Profit/Loss (€ millions)*
Mails	76.4	477.5	
Retail	17.2	107.5	
Subsidiary/Other	6.4	39.9	
Total	100	624.9	-6.7

2002	*%*	*€ millions*	*Operating Profit/Loss (€ millions)*
Mails	73.8	504.6	
Retail	18.8	128.5	
Subsidiary/Other	7.4	50.6	
Total	100	683.7	-17.4

2003	*%*	*€ millions*	*Operating Profit/Loss (€ millions)*
Mails	71.3	505	
Retail	18	131	
Subsidiary/Other	10.7	73	
Total	100	709	-42.9

2004	*%*	*€ millions*	*Operating Profit/Loss (€ millions)*
Mails	70.5	528.9	
Retail	18	135	
Subsidiary/Other	11.5	86.3	
Total	100	750.2	1.8

2005	*%*	*€ millions*	*Operating Profit/Loss (€ millions)*
Mails	72.2	543.6	
Retail	18.1	136.2	
Subsidiary/Other	9.7	73.1	
Total	100	752.9	16.2

2006	*%*	*€ millions*	*Operating Profit/Loss (€ millions)*
Mails	72.6	594.4	
Retail	17.6	144.1	
Subsidiary/Other	9.8	80.2	
Total	100	818.7	14.7

2007	*%*	*€ millions*	*Operating Profit/Loss (€ millions)*
Mails	73.8	646.3	
Retail	17.6	154.3	
Subsidiary/Other	8.6	75.4	
Total	100	876	29.1

2008	*%*	*€ millions*	*Operating Profit/Loss (€ millions)*
Mails	74.1	629.5	
Retail	18.4	156.4	
Subsidiary/Other	7.5	64.1	
Total	100	850	31.2

2009	*%*	*€ millions*	*Operating Profit/Loss (€ millions)*
Mails	72.3	581.5	
Retail	20.4	164	
Subsidiary/Other	7.3	58.7	
Total	100	804.2	5.7

2010	*%*	*€ millions*	*Operating Profit/Loss (€ millions)*
Mails	68.6	552.3	
Retail	21.3	171.5	
Subsidiary/Other	10.1	81.3	
Total	100	805.1	5.8

2011	*%*	*€ millions*	*Operating Profit/Loss (€ millions)*
Mails	66.3	534.9	
Retail	21.3	171.8	
Subsidiary/Other	12.4	100	
Total	100	806.7	2.2

2012	*%*	*€ millions*	*Operating Profit/Loss (€ millions)*
Mails	64.2	501	
Retail	21.6	169	
Subsidiary/Other	14.2	111	
Total	100	781	-17.5

2013	*%*	*€ millions*	*Operating Profit/Loss (€ millions)*
Mails	63.8	511	
Retail	21.1	169	
Subsidiary/Other	15.1	121	
Total	100	801	5.7

Note 1: All figures rounded to one decimal place and as per Annual Report 'Commentary' or, where unavailable, Financial Report.

Note 2: SDS has been combined with 'Mails' where relevant and necessary for consistent comparison throughout.

Appendix B

Analysis of Interviews

1. How are potential diversification projects identified?

1.1. Are both internal and external opportunities evaluated?

1.2. What options are available to external companies seeking to partner with the company in a diversification project?

(i) The main means of diversification is through acquisition.

(ii) Acquisitions are not currently being actively sought although the company will always remain open to opportunities that may be presented.

(iii) Benchmarking against other Postal Operatives is carried out routinely.

(iv) Innovation Board.

(v) There has been success in unplanned ventures.

2. Is there a stated diversification strategy?

2.1. Does this show a preference between related or unrelated diversification?

2.2. At what point might it be decided that a new project is kept in-house as a single business unit or converted into a wholly/partially-owned subsidiary?

(i) There is no stated strategy to diversify.

(ii) There is a general recognition of the need to diversify.

(iii) There is a strong bias towards related diversification.

(iv) The organisation is risk averse for cultural and corporate governance reasons.

(v) The company could justify more unrelated diversification, and may be forced to explore this option further.

3. Who is responsible for deciding which projects are approved or denied?

3.1. Are there a set of rules for how large a project should be before the decision is taken at a corporate level as opposed to within a department/directorate?

(i) The company uses the ‘Three Horizons’ approach.

(ii) Formulaic process for developing smaller new products and services within existing business areas (New Product Introduction Process)

(iii) Larger changes go through the Chief Executive and the Board of Directors.

(iv) There are no set rules for larger projects. These are largely allowed to progress based on the judgment of the Board of Directors, using a variety of measures.

4. What level of oversight is given to new projects?

4.1. Does this level increase or decrease based on time and performance levels?

4.2. Do you feel this is an appropriate level of oversight based on the opportunity explored (and potential risk/reward factors)?

(i) Subsidiaries are run separately/autonomously of An Post.

(ii) Subsidiaries have their own Board of Directors with an An Post Executive Director acting as Chairman.

(iii) Financials and other key inputs are regularly reported to the An Post Board.

(iv) Horizon 1 implementation lacks review unless there is a significant problem, which can hinder the ability to continuously improve in existing business areas.

5. Is there an identified set of capabilities within the company which are considered when deciding whether or not a new business unit can or will add value?

(i) Identify the customer need first, then identify if the capability exists within An Post to meet that need. If it does not, An Post will search for the required capabilities externally, usually through a partnership agreement with another firm.

(ii) The company will acquire a well-managed business and run it autonomously while continuing to offer support. There will be very little cross-over between the subsidiary and the parent company.

(iii) The company is good at building and matching core capabilities, but there can be less consideration for capabilities beyond the core.

6. How long is given to diversification projects before a final (success/failure) evaluation is made?

(i) Entirely dependent on the situation, with the timeline usually determined by the original proposal and allowance made for any subsequent changes in market conditions.

7. What is the measure used to determine success or failure?

7.1. Is it a purely financial decision or are there other factors (level of employment, value added to other product offerings, etc.) which are considered?

(i) The main measure is profitability and payback time, which will be considered with regard to the original proposal for each.

(ii) A change of focus may be necessary to allow the business to innovate and grow, with a greater allowance for risk and failure.