

DETERMINING WHICH MANAGEMENT LEVEL MAKES DECISIONS WHEN OUTSOURCING THE DISTRIBUTION FUNCTION

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Abstract

Outsourcing is one of the widest used methods of facilities management employed by organisations for doing business in today's global economy. The main purpose of the research is to evaluate consensus amongst the different levels of management to outsource the distribution function at a South African steel retailer. The research survey was done in the form of a questionnaire utilising statements with a quantitative. The population selected was the first three levels of management across all six of the business units. Analysis of the data was done with the statistical package of social sciences SPSS and the applied pedometric techniques such as Chi-square and ANOVA. Findings and results from the analysis indicate that management are positive towards adopting outsourcing.

Keywords: Outsourcing, Distribution Function, Retailer, Different Levels of Management, Top, Senior and Middle Management Levels

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1 Introduction

Driven by political and economic dynamic changes, facilities management was borne to enable reacting to change. Doing business in today's global economy requires exceptional skills from management in order to be competitive and to have a specific competitive advantage over competitors are even more demanding. One of the widest used methods of facilities management deployed by organisations is that of **outsourcing** in various forms (i.e. I.T., H.R., Distribution, Warehousing, etc.) for various different reasons (i.e. reduce costs, improve quality, focus on core business, etc.). In order for outsourcing to be successful, it needs to add benefits to profits, efficiency or effectiveness ethic. Outsourcing assists management to gain a competitive advantage over competitors within their specific industries as part of their organizational strategies and developing or strengthening core competencies at the same time (Taplin, 2008). Outsourcing the distribution function involves hiring a third party to store and distribute your products through its national or international distribution network; this party provides the staff, warehouses, and distribution centre and transportation fleet. Distribution is not the core competency for this steel retailer therefore management decided to outsource this function to allow them to focus on your mission-critical activities. However it seems that there are differences in consensus amongst the different levels of management to outsource this function.

This research aims to determining the management level which makes decisions when outsourcing the distribution function at South African steel retailer. The steel company is a privately owned industrial management group. The group is represented in the UK, Australia, USA and South Africa where it manages a diverse portfolio of small-to-medium sized enterprises focussed on addressing niche segments.

2 Problem statement

Following the changes in the South African political dispensation and the launch of the Broad Based Black Economic Empowerment policy, organizations were forced to revisit their structures and policies. A score card was devised whereby organizations earn points in different categories of the company, i.e. shareholding, management structure, supply partners, development & training programs, upliftment programs, welfare participation contributions, etc. This will categorise an organisation in terms of what level of Black Economic Empowerment contributor the company is for doing business. Fuelled further with the economic recession globally, organizations faced downscaling, retrenchments and restructuring the way they used to do business in order to create sustainability and compliance. These changes forced the steel retailer to outsource some of the non-core functions to stay competitive. One of the various outsourcing options implemented by the steel retailer

was to break down the head office structure by relocating the finance related functions resources to business units for better control and optimisation and also outsourcing of the distribution function to an external company. This was however left to the demise of each business unit manager's own decision instead of a group strategy to which company they will be outsourcing and on what basis this will be structured.

3 Aim and Objectives

The main purpose of the research is to evaluate differences in consensus amongst the different levels of management to outsource the distribution function at a South African steel retailer. The objectives are:

- Determining the management level which makes decisions when outsourcing the distribution function
- Gathering perceptions on views of the top, senior and middle management on outsourcing the distribution function

The following hypotheses were formulated:

- H_1 = There is a positive correlation between the general importance of outsourcing and the opinion of the retailer toward outsourcing of distribution.
- H_2 = There is a positive correlation between the retailer's opinion toward outsourcing and the potential improvement that outsourcing can bring.

- H_3 = There is a positive correlation between the improvement of the retailer and the financial and revenue implications to the retailer.
- H_4 = There is positive correlation between the financial and revenue reasons and the cost of outsourcing distribution.
- H_5 = There is a positive correlation between the cost and the risks associated with outsourcing.
- H_6 = There is a positive correlation between the risks and the level of satisfaction with the current situation.
- H_7 = There is a positive correlation between cost driven reasons to outsource and level of satisfaction with current situation

4 Research Methodology

A quantitative approach was used with a survey questionnaire as the method for collecting the data between 15 October and 15 November 2010. The design for this research will be a quantitative approach and the instrument available for data collection will be a survey questionnaire. The population for the research survey is the South African steel retailer and the sample consists of the three different levels of management classified as Level 1, Level 2 and Level 3 as per the Organogram of the organization. Table 1 represents a breakdown of the management classification, the total participants involved in the research and the number of respondents within the three different levels.

Table 1. Research Participants and Classification

Management Classification	Total Participants	Number of Respondents
Level 1 (Top Management)	7	7
Level 2 (Senior Management)	21	21
Level 3 (Middle Management)	33	33
Total	61	61

Source: The steel retailer S.A. Outsourcing Survey

Level 1 participants consists of top management in the Group (all directors on the board) whose responsibility mainly relates to strategic decision-making within the Group and/or business unit.

Level 2 participants represent the top management within the business units (directors and senior managers at business unit level) and whose responsibility mainly relates to strategic and/or operational decision-making for the specific business unit.

Level 3 participants represent the senior management within the business units and whose responsibilities mainly relates to operational decision-making for those business units.

The questionnaire comprises 37 statements that revolve around six important aspects of the outsourcing phenomenon. The 37 statements of the

questionnaire measure the opinion of the three levels of management based on a 5-point balanced Likert-type scale.

5 Literature Review

Different organizations will outsource different operations which could include mostly noncore functional areas i.e. I.T., Distribution, Warehousing, etc. relevant to their specific organizational needs. There is different models available in order to assist management in their decision making process for the specific function to be outsourced. *Outsourcing* is the process of purchasing goods or services on specification from an external supplier that were previously produced in-house (Mol, 2004:585). Outsourcing can involve the transfer of an entire

business function to a supplier or the transfer of some activities associated with the function whilst some are kept in-house. Wisner, Tan and Leon (2009:116) use the term *co-sourcing* for the partially outsourcing of functions or activities. We also find that vertical integration or disintegration is associated with outsourcing. *Vertical disintegration* is concerned with the decision on whether to perform an activity internally or source it from outside. Another term that is often used in a manufacturing context is 'make-or-buy' (McIvor, 2005:7).

Outsourcing

There is no certainty as to when outsourcing (the concept of employing specialized skills from outside the company to perform a specific function for the organization for a period of time or indefinitely) started, but this term was invented by the Information Systems Trade Press during the late 1980's. The term was used to describe the trend that developed amongst large organizations to transfer their information systems to external service providers (Greaver, 1999). According to Roman Seidl (2007) emerging research was seen to have examined several aspects of outsourcing and its impact on "why" and "how". The primary reason for outsourcing is found to have changed from cost cutting to focussing on their core business. A possible assumption is that today's companies analyse and categorise their processes according to core and non-core processes, consequently the sharpened company focus has become the main reason for outsourcing.

One of Porter's Generic Strategies (Porter, 1980) is access to lower costs; which can be achieved through optimal outsourcing and vertical integration if executed smartly with the necessary research, investigations and careful selection of sourcing partners. Porter (Porter, 1998) also recognises the value chain as useful in outsourcing decisions. By

understanding the linkages between activities it can lead to more optimal make-or-buy decisions that can result in either a cost advantage or a differentiation advantage. Readings from Bendor-Samuel (2000) makes it clear that all over the world companies are facing increasingly competitive markets and need to improve organizational operations to stay ahead of competitors and he maintains that outsourcing of non-core activities is the main alternative management tool available to achieve this goal.

Reasons to Outsource

From the researcher's various readings, Greaver (1999), Badenhorst-Weis and Nel (2008), Rosenberg & Macaulay (1993), IAOP (2009a), Dimension Data (2009), Atos Origin (2004), Think180 (2008c) & Seidl (2007), the following summary of reasons were identified but are not limited to these:

- Focusing in-house resources on more strategic business issues and/or new technology and systems;
- Increased competition, need to improve competitive advantage;
- Globalization of markets;
- Reorganization and streamlining;
- Availability of necessary skilled workforce;

Different organizations will have different needs and in-house skill sets for variation in reasons and methods for outsourcing. Some organizations will also make use of insourcing as appose to outsourcing for a period of time depending on the requirements and the level of in-house skills.

6 Research Findings

Overall summary of Management Mean Score analysis:

Table 2. Overall Summary of Management Mean Score Analysis

Statement	Survey Questionnaire Factor	Levels of Management			
		Middle	Senior	Top	Total
1 - 4	General importance of outsourcing.	3.648	3.524	3.143	3.546
5 - 9	Organizationally driven reasons to outsource.	3.819	3.848	3.743	3.820
10 - 15	Improvement driven reasons to outsource.	3.630	3.389	3.024	3.475
16 - 19	Financial and Revenue driven reasons to outsource.	3.742	3.607	3.321	3.646
20 - 22	Cost driven reasons to outsource.	3.542	3.810	3.191	3.594
23 - 32	Reasons not to outsource and risks associated with outsourcing.	3.680	3.571	3.543	3.626
33 - 37	Level of satisfaction with current situation.	3.350	3.029	2.829	3.177

Source: The steel retailer S.A. Outsourcing Survey

Table 2 reflects the overall situation with the seven grouped categories (Factors) pertaining to the outsourcing concept at a South African steel retailer, displaying the mean averages obtained by each management group for each of the seven factors and an overall measure for the factors. From the data in

Table 2 it becomes evident that Top Management is the least positive with outsourcing but not at any significance levels. Further investigation will explore more in-depth analysis to interpret these summarised results more intensely.

Table 3. Cronbach's Alpha coefficient
Summary of Quantitative Data
Cronbach's Alpha Coefficient

Statement	N	Cronbach's Alpha Coefficient	Factor	Overall Cronbach's Alpha Coeff
1	60	0.469	F1	0.657
2	60	0.467		
3	60	0.711		
4	60	0.631		
5	60	0.433	F2	0.556
6	60	0.474		
7	60	0.44		
8	60	0.537		
9	60	0.574	F3	0.633
10	60	0.533		
11	60	0.633		
12	60	0.625		
13	60	0.633		
14	60	0.521		
15	60	0.563	F4	0.624
16	60	0.454		
17	60	0.586		
18	60	0.594		
19	60	0.559	F5	0.68
20	60	0.514		
21	60	0.711		
22	60	0.506	F6	0.834
23	60	0.807		
24	60	0.821		
25	60	0.808		
26	60	0.806		
27	60	0.808		
28	60	0.8		
29	60	0.85		
30	60	0.821		
31	60	0.818		
32	60	0.828	F7	0.831
33	60	0.807		
34	60	0.755		
35	60	0.776		
36	60	0.789		
37	60	0.856		

Source: The steel retailer S.A. Outsourcing Survey

Statistically spoken, a Cronbach value of between 0.6 and 0.8 is of an acceptable level (the internal consistency is adequate) and a value of between 0.8 and 1.0 is considered good. From table 3

it is apparent that factor 2 of the data analysed is just below the minimum requirement due to the low mean scores of questions 5 to 7 which is a concern for this research results.

Table 4. Correlations between the 7 Factors

Correlations between the Seven Factors:

In the table below the 7 factors were correlated with each other in an attempt to determine the existence of linear relationships.

		Correlations						
		F1	F2	F3	F4	F5	F6	F7
General importance of outsourcing	Pearson Correlation	1	.238	.481**	.303	-.092	.056	.174
	Sig. (2-tailed)		.067	.000	.019	.486	.672	.184
	N	60	60	60	60	60	60	60
Organizationally driven reasons to outsource	Pearson Correlation	.238	1	.365**	.170	-.054	-.185	.159
	Sig. (2-tailed)	.067		.004	.194	.684	.156	.225
	N	60	60	60	60	60	60	60
Improvement driven reasons to outsource	Pearson Correlation	.481**	.365**	1	.445**	.179	-.091	.287*
	Sig. (2-tailed)	.000	.004		.000	.172	.489	.026
	N	60	60	60	60	60	60	60
Financial and Revenue driven reasons to outsource	Pearson Correlation	.303	.170	.445**	1	.176	.055	.351**
	Sig. (2-tailed)	.019	.194	.000		.178	.674	.006
	N	60	60	60	60	60	60	60
Cost driven reasons to outsource	Pearson Correlation	-.092	-.054	.179	.176	1	.041	-.016
	Sig. (2-tailed)	.486	.684	.172	.178		.755	.906
	N	60	60	60	60	60	60	60
Reasons not to outsource and risks associated with outsourcing	Pearson Correlation	.056	-.185	-.091	.055	.041	1	-.082
	Sig. (2-tailed)	.672	.156	.489	.674	.755		.534
	N	60	60	60	60	60	60	60
Level of satisfaction with current situation	Pearson Correlation	.174	.159	.287*	.351**	-.016	-.082	1
	Sig. (2-tailed)	.184	.225	.026	.006	.906	.534	
	N	60	60	60	60	60	60	60

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Source: The steel retailer S.A. Outsourcing Survey

Correlation is a measure of linear association between 2 variables. A correlation coefficient of 1 indicates perfect correlation, and a correlation coefficient of 0 indicates a total lack of any linear association. In Table 4 the highlighted correlations indicate where the correlation is significant between two factors of the analysis i.e. the correlation between Financial and Revenue Driven Reasons to outsource and that of General Importance of Outsourcing is 0.019 which is below the level of 0.05 and is therefore significantly different from "0".

Hypotheses Testing

$H_1 =$ There is a positive correlation between the general importance of outsourcing and the opinion of the organization toward outsourcing of distribution.

General Importance of outsourcing (F1) \rightarrow Organizationally Driven reason to outsource (F2) = 0.067

The correlation between F1 and F2 is closer to zero and indicates a lack of linear association.

This indicates that the organization as a whole does not deem outsourcing to be of general importance. The results show that the H_1 hypothesis was rejected and the alternative is accepted. $Ha_1 =$ There is a Negative correlation between the general importance of outsourcing and the opinion of the

organization toward outsourcing of distribution. Middle and senior management agree more than top management to the general importance of outsourcing, because middle management especially has to handle the distribution function.

$H_2 =$ There is a positive correlation between the organizations opinion toward outsourcing and the potential improvement that outsourcing can bring.

Organizationally Driven reason to outsource (F2) \rightarrow Improvement driven reasons to outsource (F3) = 0.004

The correlation between F2 and F3 is closer to zero and indicates a lack of linear association.

Generally the organization feels that outsourcing won't improve their business. The results show that the H_2 hypothesis is rejected, thus accepting the alternative. $Ha_2 =$ There is a negative correlation between the organizations opinion toward outsourcing and the potential improvement that outsourcing can bring.

Middle and senior management believes that outsourcing is important but won't improve the organization.

Middle and top management are more involved with the distribution and believes that outsourcing the distribution function will definitely improve the organization.

H_3 = There is a positive correlation between the improvement of the organization and the financial and revenue implications to the organization.

Improvement driven reasons to outsource (F3) → Financial and revenue driven reasons to outsource (F4) = 0.000

The correlation between F3 and F4 is at the lowest point of the scale, indicating a total lack of linear association, indicating that there is a complete lack of association between the improvement of the business and the financial and revenue implications. This indicates that the H_3 hypothesis is rejected and the alternative is accepted. Ha_3 = There is a negative correlation between the improvement of the organization and the financial and revenue implications to the organization. Top management obviously wants to improve the state of the organization but they are not willing to spend money on outsourcing distribution.

Top management's opinion is very neutral towards the statement that outsourcing will cause general improvement, while middle management believes that it will make a significant difference. Top management is involved with the management of the resources (financial and other) and they are not involved with the operational functions.

H_4 = There is positive correlation between the financial and revenue reasons and the cost of outsourcing distribution.

Financial and revenue driven reasons to outsource (F4) → Cost driven reasons to outsource (F5) = 0.176

The correlation between F4 and F5 is closer to zero and indicates a lack of linear association. There is little linear association between the cost and the financial and revenue driven reasons. Therefore the H_4 hypothesis is rejected and the alternative is accepted. Ha_4 = There is negative correlation between the financial and revenue reasons and the cost of outsourcing distribution. Middle management is of the opinion that there are positive financial consequences to spending money on outsourcing distribution, while top management is not willing to spend money on outsourcing as they believe that it is better to spend the money on something else.

H_5 = There is a positive correlation between the cost and the risks associated with outsourcing.

Cost driven reasons to outsource (F5) → Reasons not to outsource and risks associated with outsourcing (F6) = 0.755

The correlation between F5 and F6 is close to one and therefore indicates a more perfect linear association.

The belief is that it costs more not to outsource. This indicates that it is more cost effective to outsource distribution than to handle internally. The results show that the H_5 hypothesis was accepted. Middle, senior and top management's opinions are very close together and are above average toward the cost involved not outsourcing distribution.

H_6 = There is a positive correlation between the risks and the level of satisfaction with the current situation.

Reasons not to outsource and risks associated with outsourcing (F6) → Level of satisfaction with current situation (F7) = 0.534

The correlation between F6 and F7 is close to the halfway mark, but indicates a closer to perfect linear association. There is an above average opinion toward the risks involved with outsourcing and the level of satisfaction with the current situation. They are a little hesitant to take on risks to improve their current situation. This indicates that the H_6 hypothesis can be accepted. Top management is not satisfied with the current situation but is a little hesitant to take on risks associated with outsourcing. The two factors that have the most perfect linear association with each other are F7 and F5.

H_7 = There is a positive correlation between cost driven reasons to outsource and level of satisfaction with current situation

F5 = Cost driven reasons to outsource → F7 = Level of satisfaction with current situation = 0.906

The general feeling is that they want to improve the current situation but keep the costs to a minimum. The two factors with the most lack of linear association with each other are F3 and F4.

Analysis pertaining to the three levels of Management

Ideally the mean scores should have a low standard deviation; the Levene Test bigger than 0.05 and the ANOVA bigger than 0.05.

Table 5. General Importance of Outsourcing Analysis by Management Level

Descriptives

General importance of outsourcing

	N	Mean	Std. Deviation	Std. Error	95% Confidence		Min	Max
					Lower Bound	Upper Bound		
Middle Management	32	3.6484	.65334	.11550	3.4129	3.8840	2.00	4.75
Senior Management	21	3.5238	.62202	.13574	3.2407	3.8069	2.50	4.75
Top Management	7	3.1429	.86431	.32668	2.3435	3.9422	2.00	4.75
Total	60	3.5458	.67568	.08723	3.3713	3.7204	2.00	4.75

Test of Homogeneity of Variances

Levene Statistic	df1	df2	Sig.
.153	2	57	.859

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.484	2	.742	1.661	.199
Within Groups	25.453	57	.447		
Total	26.936	59			

Post Hoc Tests**Multiple Comparisons**

General importance of outsourcing Bonferroni

(I) Management level	(J) Mngt level	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence	
					Lower Bound	Upper Bound
Middle Management	Senior Mngt	.12463	.18766	1.000	-.3383	.5875
	Top Mngt	.50558	.27883	.225	-.1822	1.1934
Senior Management	Middle Mngt	-.12463	.18766	1.000	-.5875	.3383
	Top Mngt	.38095	.29164	.590	-.3384	1.1003
Top Management	Middle Mngt	-.50558	.27883	.225	-1.1934	.1822
	Senior Mngt	-.38095	.29164	.590	-1.1003	.3384

Source: The steel retailer S.A. Outsourcing Survey

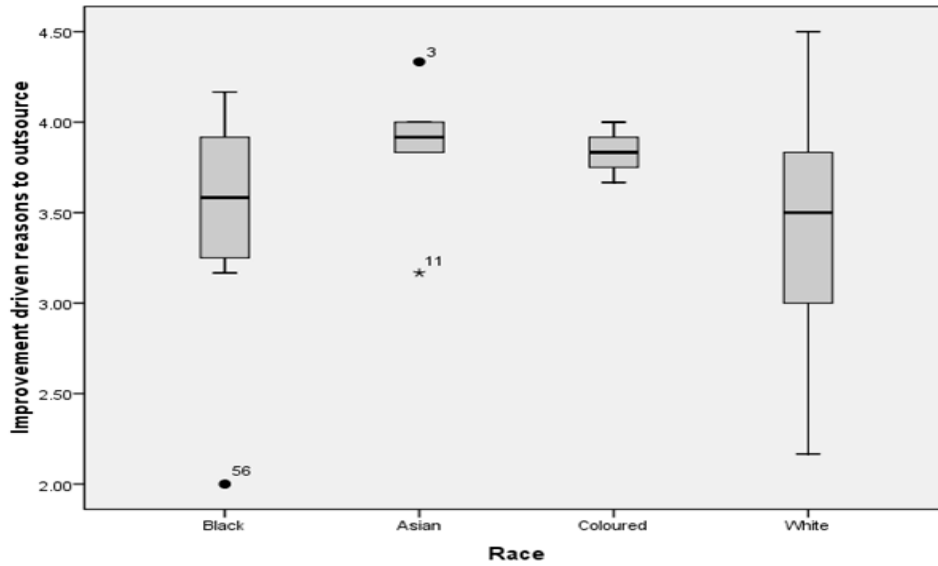
The data in Table 5 reflects an overall mean score of 3.5458 with a standard deviation of 0.67568; Levene's test for homogeneity of variances with $P=0.859$ versus 0.05 (no significant differences in variances) and ANOVA significance value $P=0.199$

versus the alpha value of 0.05 (Management Level has no significance upon the mean score of Factor 1). The level of dispersion within the management levels are however not good, standard deviation too high—difficult to come to any conclusions.

Table 6. Data analysis of Factor 3 by Race classification within Management

Improvement driven reasons to outsource

Stem-and-Leaf Plots

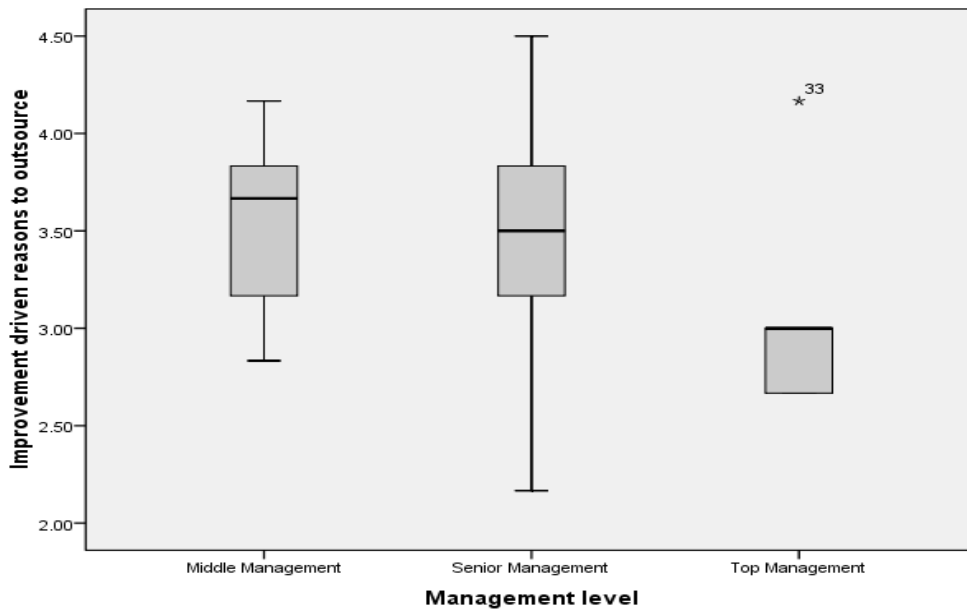


Source: The steel retailer S.A. Outsourcing Survey

Table 6 shows that apart from three outliers, the non-white box-plot analysis indicates a narrow spread between the 100% and nil % margins, but with the

White management there is a too wide spread and needs to be further analysed.

Table 7. Data analysis of Factor 3 for Whites by Management Level



Source: The steel retailer S.A. Outsourcing Survey

Table 7 indicates a fairly good spread with Middle Management and Top Management apart from the outlier, but with Senior Management we see a too wide spread. There is thus significant statistical difference with White Senior management. Taken into

account that there are 17 people in Senior Management from a total of 43, they can have a statistical influence on the results of White Management in general.

6 Conclusion

Management consensus and perceptions on outsourcing the distribution function

General Importance of Outsourcing

An average mean score of 3.5458 (table 5) indicates that management in general realizes the importance of outsourcing and acknowledges that outsourcing should and will form part of the organization's business strategy. The middle management reflects the strongest opinion of 3.65 versus that of senior management at 3.52 and top management less convincing with a score of 3.14 (a 'not sure' per the Likert scale).

Middle management who is closer to the action on the floor realises the benefits of outsourcing and top management should take note of this and investigate why middle management is so much more positive towards outsourcing. This is reflected in statement 3 (table 5) with the highest mean score of 4.1 towards freeing up management time to focus on core competencies whilst developing current or new competencies.

Organizationally Driven Reasons to Outsource

The analysis indicates an even stronger sense of importance of outsourcing and also a much higher cohesiveness amongst all three levels of management with senior management the most positive towards organizationally driven reasons to outsource with a mean score of 3.85 versus middle management of 3.83 and top management of 3.74 (see table 5).

The highest mean score of 4.0 attained for factor 2 reflective in statement 7 (see table 6) in that management should consider outsourcing in order to obtain specialized services to ensure flexibility within the organization. This reinforces management's seriousness of the role that outsourcing can play in the organization's business strategies.

Statements 5 and 8 representing focussing on customer needs attracted the lowest mean scores (3.733 & 3.567 per table 5) but still indicating management is convinced that outsourcing can improve customer relations or service levels to customers.

Indications are present that management agrees that outsourcing will enhance organizational effectiveness by focussing on core activities, obtain specialised services through outsourcing to ensure flexibility within the organization and should they not be able to attract the correct skills to perform a specific function.

Improvement Driven Reasons to Outsource

From the data in Table 4 it becomes evident that factor 3 has the lowest mean score rating of all the

factors (excluding factor 7) of 3.475 and very low level of Levene (0.056) and unacceptable level of ANOVA (0.016) versus significance level of 0.05 as minimum standard.

Indications from Table 5 is that statements 10, 13, 14 and 15 have very low mean scores ('not sure') indicating management is less positive towards outsourcing improving the organization's image by linking to credible providers in the market place, improving the quality factor regarding services provided to customers, broadening the existing skills base within the organization and improving the risks management function by transferring certain functions to service providers.

Further analysis per Table 6 and Table 7 indicates that White Management and in particular Top Management are less convinced towards improvement driven reasons to outsource. From the graph (see Table 18) top management's 50th percentile is below Likert scale of 3 ('not sure') and although senior management's 50th percentile is just below 3.5 of the Likert scale, the 100% and nil% is at the 4.5 and 2.2 ratings respectively with an outlier at 2 indicating high levels of difference in opinion amongst senior management. The research indicates that the individuals in the age bracket 25 – 35 yrs are mostly convinced towards outsourcing for improvement with age bracket 36 – 45 yrs also more than 3.5 per the Likert scale indicating a high positive attitude towards outsourcing for improvement. The research study revealed that the three levels of management in general 16.77% of the statements per the outsource questionnaire were answered negative towards outsourcing, 15.58% "not sure" and overwhelming 67.75% in agreement with utilising outsourcing as a management tool. This indicates that the management team of steel retailer recognizes the importance of outsourcing and the implementation therefore regarding non-core activities associated with the organization and the impact thereof on operational aspects of the business strategy.

The aim of the research was to establishing whether there is consensus between top, senior and middle management on outsourcing the distribution function. The research concluded that there is no consensus between top, senior and middle management on outsourcing the distribution function. The research reflects that middle management is overall far more inclined to outsourcing than that of top management in all of the 6 factors pertaining to the questionnaires. Top Management is 'not sure' about four of the six factors leaving the impression that they are not in favour of outsourcing. The average mean score for all management is inclined to outsourcing for five of the six factors and middle management six out of the six factors. This leaves the situation with a big gap between top and middle management regarding outsourcing as a management tool improving business processes and strategies.

It would thus appear that Top Management is too far removed from the operations and lost touch with the rest of the management team and are not acting responsibly towards the long-term future of the Group.

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