



DURBAN CAMPUS

**A strategic plan for operating in a commercialised environment**

by

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## **CONFIDENTIALITY CLAUSE**

**01 June 2003**

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**RE: CONFIDENTIALITY CLAUSE**

Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not be circulated for a period of five years.

Sincerely

V. Rajpaul

096344



**DECLARATION**

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed..... *V. Rajan* .....

Date ..... *03/06/2003* .....



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**ABSTRACT**

This report evaluates the business plan at Eskom's Matla power station by comparing it to grounded theory to establish whether the strategies selected prepare the station to be competitive in a commercialised environment. It is assumed that the key success factors in a commercialised environment would be low cost operation and service delivery to meet customer demands. It is shown that the business plan is deficient in many regards, but the strategies selected are adequate in preparing the station for operation in a commercial environment. A questionnaire is used to determine management buy-in to the strategies selected to gauge support for the strategies. Reasons for strategies not meeting all objectives are also looked at and recommendations are made to improve the business plan and the implementation of the strategies selected. The question of whether the strategies support corporate strategy is answered by comparing the vision, mission and strategies selected by the station to the vision and mission of Eskom Holdings and Eskom Generation. The findings here were that, although long and awkward, the mission statement supports corporate mission, while the vision contradicts corporate vision. Matla's vision supports growth through diversification while Eskom Holdings and Eskom Generation focus on core business.



## TABLE OF CONTENTS

### Chapter One – Introduction

1.1	<b>Introduction</b>	1
1.2	<b>Background</b>	2
1.3	<b>Motivation for the study</b>	3
1.4	<b>Value of the study</b>	4
1.5	<b>Problem Statement</b>	4
1.6	<b>Objectives of the study</b>	4
1.7	<b>Research methodology</b>	5
1.8	<b>Limitations of the study</b>	6
1.9	<b>Structure of the study</b>	6
1.10	<b>Summary</b>	7

### Chapter Two – Strategy in Context

2.1	<b>Introduction</b>	8
2.2	<b>What is Strategy</b>	10
2.3	<b>Managing Strategic Change</b>	12
2.4	<b>The strategic planning process</b>	17
2.4.1	<b>Vision</b>	21
2.4.2	<b>Mission and Strategic Intent</b>	23
2.4.2.1	<b>Objectives</b>	24
2.4.3	<b>Environmental Scan</b>	25
2.4.3.1	<b>PEST Analysis</b>	26
2.4.4	<b>Forecasting</b>	27
2.4.5	<b>Internal Analysis</b>	31
2.4.6	<b>The Value Chain</b>	34
2.4.7	<b>Industry Analysis</b>	35
2.4.8	<b>Benchmarking</b>	36



<b>2.4.9</b>	<b>Strategy Formulation</b>	<b>38</b>
<b>2.4.10</b>	<b>Strategy Implementation</b>	<b>41</b>
<b>2.4.11</b>	<b>Evaluation and Control</b>	<b>43</b>
<b>2.5</b>	<b>Evaluating the strategy</b>	<b>43</b>
<b>2.5.1</b>	<b>Leadership</b>	<b>44</b>
<b>2.5.2</b>	<b>Culture</b>	<b>47</b>
<b>2.5.3</b>	<b>Analysing the chosen strategy to determine strategic fit</b>	<b>48</b>
<b>2.5.4</b>	<b>What the experts suggest on strategic evaluation</b>	<b>50</b>
<b>2.6</b>	<b>Chapter Summary</b>	<b>55</b>

### Chapter Three – Matla Power Station’s Business Plan

<b>3.1</b>	<b>Introduction</b>	<b>56</b>
<b>3.2</b>	<b>Definitions</b>	<b>57</b>
<b>3.3</b>	<b>Matla Power Station Overview</b>	<b>58</b>
<b>3.4</b>	<b>Business and Strategic Plan 2002 and beyond</b>	<b>60</b>
<b>3.5</b>	<b>Vision of Matla Power Station</b>	<b>61</b>
<b>3.6</b>	<b>Mission statement</b>	<b>61</b>
<b>3.7</b>	<b>SWOT Analysis</b>	<b>62</b>
<b>3.8</b>	<b>Organisational Values</b>	<b>64</b>
<b>3.9</b>	<b>Mission success factors</b>	<b>65</b>
<b>3.10</b>	<b>Culture</b>	<b>66</b>
<b>3.11</b>	<b>Focus Areas</b>	<b>67</b>
<b>3.11.1</b>	<b>Occurrence Management / Human Performance Strategy</b>	<b>67</b>
<b>3.11.2</b>	<b>Operating Capacity Building Strategy</b>	<b>69</b>
<b>3.11.3</b>	<b>Cost minimisation strategy</b>	<b>71</b>
<b>3.11.4</b>	<b>New business development strategy</b>	<b>72</b>
<b>3.11.5</b>	<b>Strategy to nurture and develop the existing innovative culture</b>	<b>74</b>
<b>3.12</b>	<b>Other Strategic Issues</b>	<b>75</b>
<b>3.13</b>	<b>Other issues to be taken continuously on review</b>	<b>77</b>



<b>3.14</b>	<b>MEC leadership development</b>	<b>79</b>
<b>3.15</b>	<b>Chapter Summary</b>	<b>80</b>

Chapter Four – Evaluating the Business Plan and Strategies Selected

<b>4.1</b>	<b>Introduction</b>	<b>81</b>
<b>4.2</b>	<b>Evaluating the Vision</b>	<b>82</b>
<b>4.3</b>	<b>Evaluating the mission statement</b>	<b>82</b>
<b>4.4</b>	<b>Evaluating the SWOT Analysis</b>	<b>83</b>
<b>4.5</b>	<b>Using grounded theory to evaluating the business plan</b>	<b>85</b>
<b>4.6</b>	<b>Evaluating leadership</b>	<b>93</b>
<b>4.7</b>	<b>Evaluating Culture</b>	<b>96</b>
<b>4.8</b>	<b>Benchmarking</b>	<b>97</b>
<b>4.9</b>	<b>Value chain analysis</b>	<b>98</b>
<b>4.10</b>	<b>Scenario Planning</b>	<b>98</b>
<b>4.11</b>	<b>Senior management opinion of the business plan and the strategies selected</b>	<b>99</b>
<b>4.12</b>	<b>Evaluating the strategies</b>	<b>100</b>
<b>4.12.1</b>	<b>Evaluating the Occurrence Management and Human Performance strategy</b>	<b>100</b>
<b>4.12.2</b>	<b>Evaluating the Operator capacity building strategy</b>	<b>102</b>
<b>4.12.3</b>	<b>Cost minimisation strategy</b>	<b>104</b>
<b>4.12.4</b>	<b>New business development strategy</b>	<b>108</b>
<b>4.12.5</b>	<b>Strategy to nurture and develop the existing innovative culture</b>	<b>110</b>
<b>4.13</b>	<b>Do the strategies fall in line with corporate strategy?</b>	<b>111</b>
<b>4.14</b>	<b>Chapter Summary</b>	<b>113</b>



## Chapter Five – Conclusions and Recommendations

<b>5.1</b>	<b>Introduction</b>	<b>115</b>
<b>5.2</b>	<b>Vision</b>	<b>115</b>
<b>5.3</b>	<b>Mission statement</b>	<b>115</b>
<b>5.4</b>	<b>SWOT analysis</b>	<b>116</b>
<b>5.5</b>	<b>The business plan</b>	<b>117</b>
<b>5.6</b>	<b>Leadership</b>	<b>121</b>
<b>5.7</b>	<b>Culture</b>	<b>121</b>
<b>5.8</b>	<b>Benchmarking</b>	<b>122</b>
<b>5.9</b>	<b>Value Chain Analysis</b>	<b>122</b>
<b>5.10</b>	<b>Scenario planning</b>	<b>123</b>
<b>5.11</b>	<b>Occurrence Management / Human Performance strategy</b>	<b>123</b>
<b>5.12</b>	<b>The Operator capacity building strategy</b>	<b>125</b>
<b>5.13</b>	<b>The Cost minimisation strategy</b>	<b>126</b>
<b>5.14</b>	<b>The New business development strategy</b>	<b>127</b>
<b>5.15</b>	<b>The Strategy to nurture and develop the existing culture of innovation</b>	<b>128</b>
<b>5.16</b>	<b>Do the strategies fall in line with corporate strategy?</b>	<b>129</b>
<b>5.17</b>	<b>Summary</b>	<b>130</b>
	<b>References</b>	<b>131</b>
	<b>Bibliography</b>	<b>133</b>
		<b>135</b>
<b>Appendix 1</b>	<b>Questionnaire used to test management buy-in of the business plan and strategies selected.</b>	



<b>LIST OF TABLES</b>
-----------------------

<b>Table 4.1</b>	<b>Summary of senior management support for the strategies selected</b>	<b>102</b>
<b>Table 4.2</b>	<b>Number of human errors versus others in 2001 and 2002</b>	<b>104</b>

<b>LIST OF FIGURES</b>
------------------------

<b>Figure 2.1</b>	<b>The Strategic Management Process</b>	<b>16</b>
<b>Figure 2.2</b>	<b>Inputs into vision formulation</b>	<b>21</b>
<b>Figure 2.3</b>	<b>Illustration of a scenario matrix.</b>	<b>29</b>
<b>Figure 2.4:</b>	<b>The Benchmarking process compared with the Deming Cycle</b>	<b>37</b>
<b>Figure 2.5</b>	<b>Meeting the Challenge of High-Velocity Change</b>	<b>39</b>
<b>Figure 2.6</b>	<b>Understanding a company's strategy – what to look out for</b>	<b>48</b>



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## **Chapter 1: Introduction**

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### 1.1 Introduction

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There is a lot of uncertainty within government organisations on what effects privatisation will have on the business and competitive environments. This study looks at the strategic plan at one power station within Eskom (Matla power station) and establishes whether the current strategic plan will position the station to operate successfully in a commercial environment. It assumes that to be competitive in a commercial environment, the power station should be a low cost producer that is readily available to produce electricity when the customer requires it. The study also looks at the extent to which the current strategies fall in line with corporate strategy and evaluates whether the current strategies are achieving their intended objectives.

In terms of the model presented by Cooper and Schindler [2001: 134], the research question has been crystallised since it involves precise procedures and data source specification. This is therefore a formal study as opposed to an exploratory study. The method of data collection is "interrogation / communication" because personal interviews will be carried out and a questionnaire will be used to test constructs. Since the researcher has no control over the variables in the sense of being able to manipulate them, the research design is "ex post facto" as opposed to experimental. It is a descriptive study and the time dimension is cross sectional as opposed to longitudinal because it will compare the consolidated strategy as at 06 November 2002 to the existing corporate strategy.

This study will be used to identify any shortcomings in the strategic formulation process and to determine if the current strategies are adequate to make the organisation competitive in the future.



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## 1.2 Background

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Like all companies should, Eskom embarks on a strategic evaluation process where the success of the current strategy is measured and new strategies are put in place to position the company to achieve organisational goals to increase shareholder value. Power stations<sup>1</sup> form a part of the hierarchical chain of command and must each form strategies that help the company as a whole, achieve its targets. Like sub-divisions of most other companies, power stations have restraints regarding available resources like financial, human capital, and technological advancement. Presently, power stations are grouped into clusters, with each cluster comprising of two stations. This was part of Generation's attempt in preparing the stations to behave like self-sustaining business units in a commercial environment. Matla power station is in the same cluster as Kriel power station, and together has a generating capacity of 6 900-mega watts (MW).

Eskom is the sixth largest electricity utility in the world and because of the vast quantity of coal that is readily available at low cost, it is the cheapest producer of electricity in the world. Presently, the state is the sole shareholder of Eskom, and government has repeatedly announced its intentions to privatise State owned assets, including Eskom. Trade unions have responded by embarking on several campaigns to express their dissatisfaction and disapproval of the philosophy of privatisation. Their biggest causes for concern are the loss of jobs, and the anticipated increase in electricity prices. The result of the dispute is that participants, including power stations, are uncertain about what their future holds, and what the nature of the competitive environment will be in future. There could be changes to the composition of the clusters, or they could be done away with, completely.

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1: Eskom is divided into three groups: Generation, Transmission, and Distribution. Matla power station is a coal-fired power station that, like all other power stations, falls under the Generation group. It is situated in Delmas in Mpumalanga province.





The general opinion seems to indicate that the government will have its way and privatisation or some form of commercialisation will occur. The market immediately after such commercialisation will be a turbulent, high velocity one with new rivals entering the market place and introducing radical changes to the competitive environment. Power stations could compete with each other, either individually or in clusters in an aggressive manner that could include price wars or poaching of key individuals from other stations. Power stations need to embrace themselves for change. They need to develop strategies now that can position them to out-compete rivals to ensure their long term survival.

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### 1.3 Motivation for the study

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With anticipated changes to the competitive environment, will the current strategy place Matla Power Station in a position for it to maintain competitive advantage in a commercialised environment? Is management being prepared sufficiently to lead the organisation into a new competitive, perhaps cutthroat environment? Are proposed changes benchmarked against changes made in companies (like Sasol and Iscor) that have already been through the privatisation process, to learn from their mistakes and their successes? Are proposed changes benchmarked against international utilities that have been through a similar process? Will the current strategies position Matla power station as a reactor, anticipator and leader of change? Is there a link between the station's strategy and Eskom Generation's corporate strategy? This research project will answer these questions and will make recommendations in areas where it is felt that these are not being addressed.



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#### 1.4 Value of the study

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This study will help Matla power station identify shortfalls in the current business plan by determining whether the current business plan and strategies selected will help position it to operate successfully in a competitive environment in future.

Recommendations will then be made on improvements to the strategic formulation process, and on how to improve implementation in areas where it is felt that the objectives are currently not being met. It will also identify the extent to which the current strategies are in line with corporate strategy and whether it helps Eskom as a whole, in achieving its corporate goals.

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#### 1.5 Problem Statement

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*Does Matla power station's strategic plan position it to operate successfully in a commercial environment?*

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#### 1.6 Objectives of the study

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1. To establish if the power station's strategies position it to operate successfully in a commercial environment.
2. To determine the extent to which the current strategies fall in line with corporate strategy.
3. To evaluate if the current strategies are achieving their intended objectives and if all objectives are not being met, to find out why and to put in place



recommendations to change the implementation process of those objectives that are not being met.

4. To establish the extent to which senior management buys into, and supports the strategies they have selected.

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## 1.7 Research Methodology

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This is a qualitative study using mostly secondary data. The Cluster General Manager (Kobus Steyn), and the power station management advisor, who facilitated the strategic formulation process (Charl vd Merwe) were interviewed and the document on the station's strategy was obtained from them.

These interviews were unstructured and open-ended, and field notes were used. Redestam and Newton (2001, p 97) refer to this as a "low fidelity and low structure" data recording technique and advise against it. However, because most of the information required was contained in the documents, there was no need for a tape-recorded interview or for a paper and pencil test.

A questionnaire was also developed and was personally distributed to all members of the station's senior management team. The purpose of the questionnaire was explained to each member. All questionnaires were returned within two working days. The aims of this questionnaire were to test senior management support of the strategies selected, and to get their opinions on why certain strategies did not meet their objectives.

The business plan and strategies selected were critiqued using grounded theory as reference. Recommendations were made based on the findings of the questionnaire and the deviations from theory.

The final dissertation report will be given to the cluster general manager, who will be given the opportunity to respond to conclusions and recommendations made and to decide whether the report would be open for publication.

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### 1.8 Limitations of the study

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This study is limited to Matla power station's consolidated strategic plans of 06 November 2002. It ignores the current cluster partner, Kriel, and the possible synergies that could be derived from combined resources.

Eskom Generation website was used as a reference to obtain the high level business plan. It is assumed that the information contained therein is the latest, and most up to date.

In deciding whether the station is sufficiently prepared for the future, it will be assumed that some form of commercialisation will occur and the power station will need to act as a profitable, self sustaining organisation that is independent from Eskom Holdings.

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### 1.9 Structure of the study

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**Chapter two** provides a brief introduction of how strategic thinking has developed over time and provides grounded theory of the strategic management process. Also discussed are methods to evaluate a chosen strategy, evaluation of leadership and the effects of culture on the organisation.

**Chapter three** provides an overview of Matla Power Station and presents the business plan of 06 November 2002. Also discussed here are the strategies selected by the station, and the leadership drives undertaken by the station.



**Chapter four** evaluates the business plan described in chapter 3 against the grounded theory presented in chapter 2. The strategies selected are also evaluated to see if they support corporate strategies and goals and to establish if the power station's strategies position it to operate successfully in a commercial environment. Senior management support for the strategies selected is evaluated through a questionnaire developed for this purpose. Also evaluated in this section are the effects of culture, the leadership drives undertaken in 2002 and the extent to which each of the chosen strategies met their objectives.

**Chapter five** reinforces aspects where the company is doing well and makes recommendations on how to change the implementation process of those objectives that are not being met.

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## 1.10 Summary

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This is a formal study that looks at the strategic plan at Matla power station and establishes whether the current strategic plan will position the station to operate successfully in a commercial environment. The study also looks at the extent to which the current strategies fall in line with corporate strategy and evaluates whether the current strategies are achieving their intended objectives. The time dimension is cross sectional as opposed to longitudinal since it evaluates the consolidated strategy as at 06 November 2002. This study will be used to identify any shortcomings in the strategic formulation process and to determine if the current strategies are adequate to make the organisation competitive in the future.





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## Chapter 2: Strategy in Context

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### 2.1 Introduction

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The strategic management or strategic thinking process has developed significantly from its early days of decentralisation, and diversification into attractive but unrelated businesses, to the Boston Consultancy Group's portfolio management where divisions were categorised into four quadrants: Stars, Cash Cows, Question marks, and Dogs. The process then progressed in the mid to late seventies to the development of business unit strategies using micro economic techniques for analysing competitive advantage, and then to the Mintzberg era with the realisation that firms should not derive their strategies scientifically and rigorously but rather on the intuition, adaptation, and creativity of its visionary leaders.

The 1980s saw Michael Porter's extension of the BCG framework of competitive advantage to include industry factors like threats from new entrants, the bargaining power of customers and suppliers, and the threat from substitutes, in a more structured manner. The nineties saw academics like Professors Hamel and Prahalad present their case for reengineering the industry by changing in some fundamental way the rules of engagement in a long-standing industry. They suggested companies seek to redraw the boundaries between industries, and/or create entirely new industries. A capacity to invent new industries and reinvent old ones was seen as a prerequisite for getting to the future first and a precondition for staying out in front.

So what will the company of the future look like? Given the ever reducing global business environment and the rapid rate of technological advance, speed or time will be of the essence and firms will have to be leaner and meaner to get to the market first. Bureaucracy would have to be kept to a



minimum and rewards would have to be performance/outcome based. Many companies would seek to outsource non core activities to focus on key business skills. Campbell and Luchs [1997:166] define a key business skill as “an activity a business needs to do particularly well to succeed with its strategy.” Outsourcing would reduce the impact of HIV/AIDS on the contracting business as the contractors would bear the bigger brunt of managing the disease.

Maintaining a competitive advantage would be essential and would still be achieved by being the lowest cost producer, by differentiation or by focusing on a niche market.

It is envisaged that the strategic planning process would still require some structure, although much emphasis will be placed on visionary leadership and innovation. With improved communication systems available, benchmarking industry leaders locally and internationally would increase in popularity and would find its way into many strategic planning processes.

This chapter puts forward the grounded theory regarding the components of the strategic planning process and presents methods for evaluating a chosen strategy. The chapters that follow will use the concepts discussed in this chapter to evaluate the business strategy at Eskom’s Matla Power Station. Also, the discussions on leadership presented in this chapter will be used later to test how senior management reacts to change and to evaluate the leadership development drives that the station embarked on in 2002.

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## 2.2 What is Strategy

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*Competitive strategy is about being different. It means deliberately choosing to perform activities differently or to perform different activities than rivals to deliver a unique mix of value.* Michael E. Porter

*The essence of strategy lies in creating tomorrow's competitive advantages faster than competitors mimic the ones you possess today.* (Gary Hamel & C. K. Prahalad)

A business strategy is a plan of action that a company embarks on to allow it to sustain competitive advantage and long term profitability or existence, depending on whether it is a commercial enterprise or a non-profit organisation. It is the heart of the business and is a deciding factor in determining whether the company remains in existence in two, five or ten years, or even decades into the future. "A company's strategy is the game plan management uses to stake out a market position, conduct its operations, attract and please customers, compete successfully, and achieve organisational objectives. In crafting a strategy, management is saying in effect, "Among all other paths and actions we could have chosen, we decided to move in this direction, focus on these markets and customer needs, compete in this fashion, allocate our resources and energies in these ways, and rely on these particular approaches to doing business" (Thompson and Strickland 2001: 3).

Bateman and Snell [2002: 115] define strategy as "A pattern of actions and resource allocations designed to achieve the organisations goals. A strategy thus entails managerial choices among alternatives and signals organisational commitment to specific markets, competitive approaches and ways of operating."





However, it is becoming easier by the day to copy the operationally effective company using benchmarking and other tools, thus diminishing the advantage of operational effectiveness. According to Lynch [2000: 271] it was Porter who suggested that value chains and value systems may not be sufficient in themselves to provide the competitive advantage needed by companies in developing their strategies. He argued that competitors could often imitate the individual moves made by the organisation. What competitors have much more difficulty in doing is imitating the special and possibly unique linkages that exist between elements of the value chain and the value systems of the organisation. Keeping these in mind, strategy can now be defined as “the creation of a unique and valuable position involving a different set of activities.” A company that is strategically positioned performs different activities from rivals or performs the same activities in different ways.

Rumelt [Mintzberg: 1999:52], defines strategy as “a set of objectives, policies, and plans that, taken together, define the scope of the enterprise and its approach to survival and success. Alternatively, we could say that the particular policies, plans, and objectives of a business express its strategy for coping with a complex competitive environment.”

Hamel and Prahalad took the definition of strategy one step further by referring to strategy as “creating the future.” They argue that to create the future, a company must also be capable of reengineering the industry. To do this, the company must change in some fundamental way the rules of engagement in a long-standing industry. They must also redraw the boundaries between industries, and/or create entirely new industries. A capacity to invent new industries and reinvent old ones is a prerequisite for getting to the future first and a precondition for staying out in front.

There seems to be as many definitions of strategy, as there are writers on the subject – each being as eloquent and appropriate as the other. In searching for the purpose of strategy, though, none is as striking as Robert Grant’s in his book *Contemporary Strategy Analysis*. The primary purpose, according to Grant [1997:4], “is to confer success through guiding management decisions

toward establishing and sustaining competitive advantage for the firm.” Competitive advantage is in essence, the core of strategy formulation, and by guiding management to gain advantages over competitors, it is essentially guiding them to be the best in their chosen markets, and to provide maximum returns to their shareholders.

“Some commentators, such as Ohmae suggest that a corporate strategy is really only needed when an organisation faces competitors: no competitive threats mean no strategy. This is a rather narrow view of strategy and its environment: even a monopoly without competitors could need a strategy to defend its position. With a general move to privatise nationalised monopolies around the world, corporate strategy may be required for this reason alone” [Lynch: 2000: 9].

So when exactly is strategic planning a requirement? According the Mintzberg [1994:11], “it is required when the future state that we desire involves a set of interdependent decisions: that is, a system of decisions. This implies that the principal complexity in planning derives from the “interrelatedness of the decisions rather than from the decisions themselves.” He concludes: “this view of planning finally takes us into the realm of strategy making, since that process also deals with the interrelationships among decisions (important ones) in an organisation.”

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### 2.3 Managing Strategic Change

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The strategic management process is dynamic and continuous. A change in one component can necessitate a change in the entire strategy. As such, the process must be repeated frequently in order to adapt the strategy to suit environmental changes. Throughout the process the firm may need to cycle back to a previous stage and make adjustments.



“Any company that is a bystander on the road to the future will watch its structure, values and skills become progressively less attuned to industry realities” Hamel and Prahalad (Harvard Business Review Jul-Aug 1994). It is therefore crucial for the companies to put in place the necessary infrastructure to allow it to influence the rules of the game to suit itself. Given the rarity of constant environmental conditions, companies must constantly embark on the process of change management to keep ahead of the pack.

Richard Lynch [2000: 935] refers to work done by Pettigrew and Whipp in an empirical study of strategic change at four companies: Jaguar cars, Longman publishing, Hill Samuel merchant bank, and Prudential life assurance. Their conclusions were that there were five interrelated factors in the successful management of strategic change. These are:

- Environmental assessment,
- Leading change,
- Linking strategic and operational change,
- Strategic human resource management,
- Coherence in the management of change.

Psychologist Kurt Lewin [Dessler: 2001: 293] formulated the classic explanation of how to implement change. To Lewin, all behaviour in organisations was a product of two kinds of forces – those striving to maintain the status quo and those pushing for change. Implementing change thus means either reducing the forces for the status quo or building up the forces for change.



The ten points delineated below was adapted from the list provided by Dessler [2001: 294] for organisations involved in the process of organisational renewal or change.

1. **Establish a sense of urgency.** Forecasting techniques like scenario planning can be used to describe possible future events and their impact on the business, thereby improving the decision making process. Scenario planning can be used to create this sense of urgency by painting a picture to senior management of what the future could look like, thereby motivating them to react sooner to either promote certain actions or to avoid them.
2. **Mobilise commitment to change through joint diagnosis of business problems.** This could include the establishment of task groups to diagnose different business problems to produce a shared understanding of what can and must be improved and thereby mobilise the commitment of those who must actually implement change.
3. **Create a guiding coalition.** No leader can implement change alone. Many therefore create a guiding coalition of influential people, who act as missionaries or implementers. Such a coalition should include people who individually have the influence to lead such a change.
4. **Develop a shared vision.** To transform an organisation, a new vision is usually required. According to Thomson and Strickland [2001:6], “a strategic vision reflects management’s aspirations for the organisation and its business, providing a panoramic view of where we are going and giving specifics of its future business plans. It spells out long term business purpose and moulds organisational identity.” For change to be successfully implemented, it is vital that senior management buys into the strategies and the vision and supports it 100 %. It is therefore important for a visionary leader to create a shared vision that is understood and supported by all.
5. **Communicate the vision.** According to John Kotter, change expert and perhaps the world’s best-known author on leadership, “the real power of a vision is unleashed only when most of those involved in an enterprise or activity have a common understanding of its goals and





directions. Communicating the vision down to line and lower level managers and employees is therefore as important as setting the organisation's long term direction. Ideally, the vision should be presented in a language that reaches out and grabs people, that create a vivid image in their heads, and that provokes emotion and excitement. All these add to the motivational value of implementing the strategy, and if communicated effectively, can arouse a committed organisational effort in which people live the business instead of just pitching up at work.

6. **Enable employees to facilitate change.** Organisational policies, procedures, and hierarchical red tape should not hinder employees, or make it difficult for them to facilitate the changes required. Skills levels should also be looked at to ensure that those tasked to implement the strategy are positioned to do so. Failure to do this will almost certainly ensure the failure of strategy, even if it is a good one.
7. **General short term wins.** Transforming a company can take time, but employees need reinforcement periodically to give them something tangible to work towards. That's why creating short-term wins is so important.
8. **Consolidate gains and produce more change.** The company can use the credibility of short-term wins to change all the systems, structures and policies that don't fit well with the company's new vision.
9. **Anchor the new ways of doing things in the company's culture.** Most organisational change requires a corresponding change in the employees' shared values. To lead change in organisational culture, values that are consistent with the vision of the company need to be crystallised and then the desired values need to be taught and communicated.
10. **Monitor progress and adjust the vision as required.** Progress made in the implementation phase should also be constantly monitored to ensure that different levels of urgency are suitably addressed. Crafting the future and creating a strategic plan is a dynamic process that constantly changes as internal and external factors change. In turbulent environments, companies that don't monitor these often



chase strategies that are outdated before the implementation process is complete. Timing is perhaps one of the more important factors in the strategic planning process and many good strategies failed because they were introduced too early or too late.

The hardest part of managing change is overcoming resistance to change, which stems from various sources like habit, fear of the unknown, resource limitations, threats to power and influence, and altering employees' 'personal compacts.' Dessler's [2001:313] proposed methods for dealing with resistance include education and communication, facilitation and support, participation and involvement, negotiation and agreement, manipulation, and coercion.

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## 2.4 The strategic planning process

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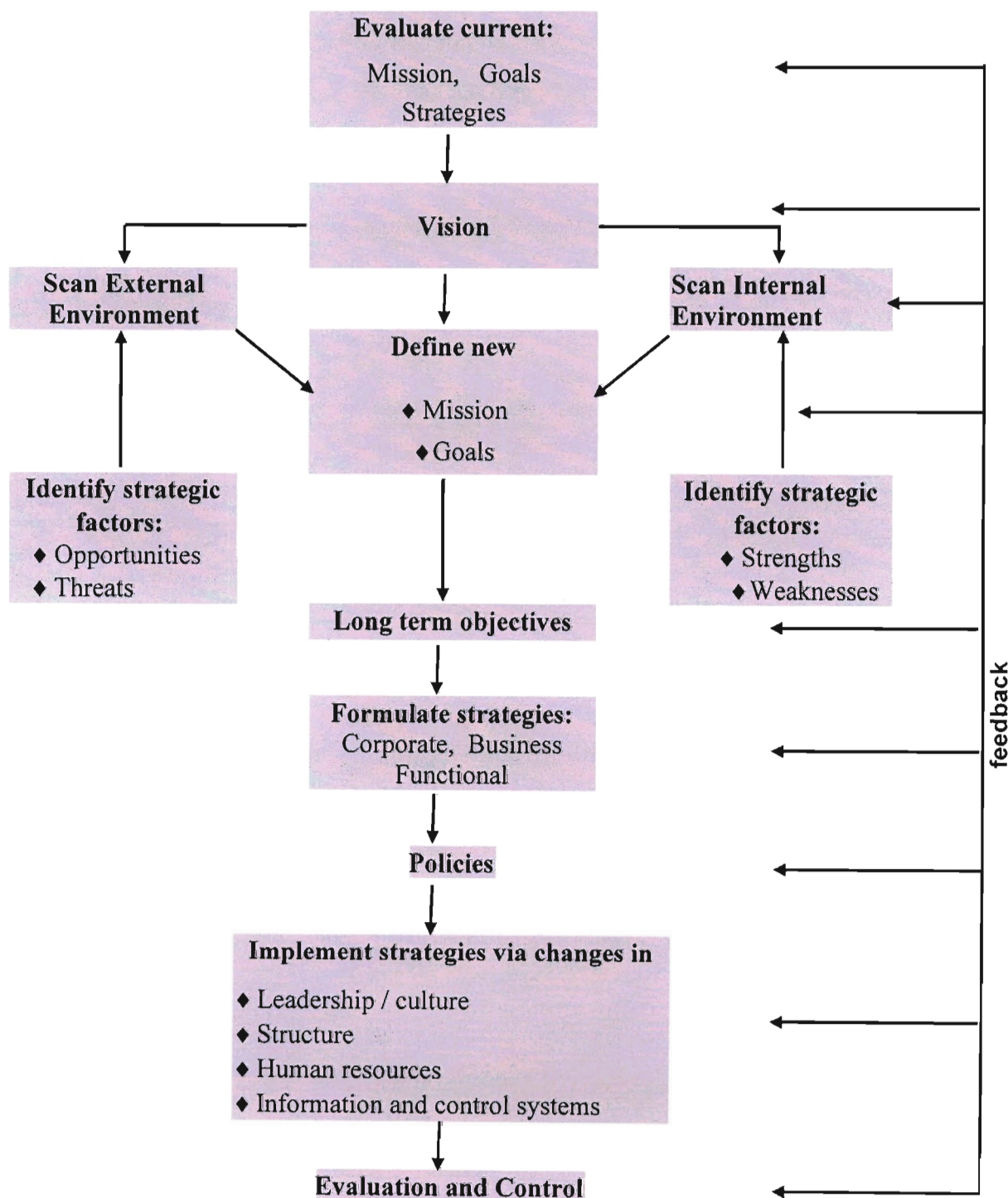


Figure 2.1:- The Strategic Management Process

The overall strategic management process illustrated in fig 2.1 begins when executives evaluate their current position with respect to mission, goals, and strategies. With the vision in mind, they then scan the organisation's internal and external environments and identify strategic factors that may require change. Internal or external events may indicate a need to redefine mission or goals or to formulate new strategies. Once a new strategy is selected, it is implemented through changes in leadership, structure, human resources, or information and control systems. An interesting observation is that writers like Pierce and Robinson [2000:2], and Wheelen and Hunger [1987:12] don't even include the company's vision in the strategic formulation process, while part of the first task in Thompson and Strickland's [2001:7] "Five tasks of strategic management" is to develop a strategic vision.

The process detailed in fig 2.1 was adapted from various textbooks and other sources, and provides the "classical" representation of the strategic management process. It should be borne in mind that this and other textbook representations of the process has the potential to create the impression that strategic management is a mechanised process where, if followed properly, would yield the answers to all strategic issues. Unfortunately, the process is not this simple, and amidst anxious calls for 'some vision around here' short sighted managers turn to the strategic management process and planning, as if the formal systems will do what their brains starved for information cannot. To quote Mintzberg [1994:270] "learning and visionary approaches appear to be superior to planning as a means for creating strategy."

***"Strategic learning is an inductive process; it cannot take place in the absence of detailed intimate knowledge of the situation. And strategic vision depends on the ability to see and feel; it cannot be developed by people who deal with little more than words and numbers on pieces of paper." [Mintzberg 1994:270]***

Mintzberg's [1994:271] conclusion is that, "managers who relied on formal strategic planning cannot be effective strategists."





He goes on to quote Langley in her analysis of three organisations to substantiate the point that a formal process cannot generate a strategist. “The call for strategic planning is really a plea for leadership and direction. Because strategic planning is universally viewed primarily as a means of making strategic decisions, people imagine that a mere formal process can generate a strategy. ... But this is the wrong solution to the problem. The CEO may agree to do it, but this will not transform him or her into a person capable of making strategic decisions”

Strategic vision from above is crucial to the planning process in organisations. Strategic planning cannot provide strategic vision on its own, and is totally useless without it. “If the senior managers cannot think strategically – and the organisation at that point really does need such thinking (not always a foregone conclusion, since strategies are often fine just the way they are) - then there is but one viable alternative and that is to find other people who can think that way. Either the managers must be replaced, or others with that capability must be found in the organisation, perhaps lower down where people are in closer touch with the operations” [Mintzberg: 1994: 273].

Although critical of strategic planning, Mintzberg concedes that planning does fulfil a useful function within limits (Lynch [2000: 783]). “He recommends that planning is undertaken by the line manager responsible for implementing the strategies, rather than by a separate planning department. He argues that it is only line managers who have the detailed knowledge in advance and the commitment afterwards to carry out the strategy decisions. The role that he sees for strategic planning is therefore one of staff advisor, rather than one of major line responsibility” [Lynch 2000: 783].

Another criticism of the process came from Robert Hayes [HBR: 1985: 111-119] in what he called the “ends-ways-means” approach to strategic planning. He questioned whether managers should decide on a strategy before deciding on the means of implementing the strategy. His advice to managers was to not develop plans and then seek capabilities, but to build capabilities and then to encourage the development of plans to exploit the capabilities.



Table 2.1 summarises the major criticisms and reasons for the failure of some forms of strategic planning, as developed by Lynch [2000: 782].

<i>Poor direction from management</i>	<i>Need for greater flexibility</i>	<i>Political difficulties</i>	<i>Corporate culture</i>
<ul style="list-style-type: none"> <li>• Planning replaced the flexibility and uncertainty needed in some environments</li> <li>• Deep strategic thought replaced by planning formulae</li> <li>• Short term focus and deep financial emphasis</li> <li>• Poor discussion on key issues</li> <li>• Inadequate resources allocated for plans</li> <li>• Whole process of resource allocation</li> </ul>	<ul style="list-style-type: none"> <li>• Annual budget took priority</li> <li>• Accepted existing industry boundaries</li> <li>• Overemphasis on procedures and form filling</li> <li>• Tests for fit between resources and plans rather than stretches for new resources</li> <li>• Better to introduce improved systems to cope with flexibility rather than stick with rigid plan</li> </ul>	<ul style="list-style-type: none"> <li>• Planning was controlled by specialist staff and not by line managers who have the responsibility</li> <li>• Power of some managers threatened by new procedures</li> <li>• Ability of entrenched interests to delay decisions</li> </ul>	<ul style="list-style-type: none"> <li>• Need to develop organisation that can cope with uncertainty</li> <li>• Short-termism</li> <li>• Overemphasis on financial results</li> <li>• lack of risk taking and financial flair</li> <li>• Little toleration for the occasional failure</li> </ul>

**Table 2.1: Major reasons given for the failure of some forms of strategic planning**

*Source Richard Lynch, Corporate Strategy, Second Edition, 2000, Financial Times Prentice Hall. p 782*

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### 2.4.1 Vision

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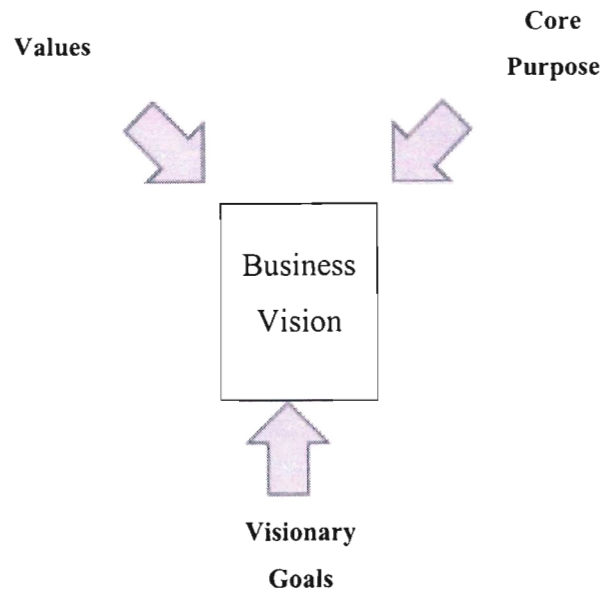
*“A strategic vision points an organisation in a particular direction and charts a strategic path for it to follow.”* Thompson and Strickland.

*“Vision without action is just a dream. Action without vision is just an activity. Vision and action together can change the world.”* (Joel Parker, President, Infinity Ltd)

Thompson and Strickland [2001:6] define vision as “management’s aspirations for the organisation and its business, providing a panoramic view of “where we are going” and gives specifics about its future business plans. It spells out long term business purpose and moulds organisational identity.”

A strategic vision generally has a much greater direction setting and strategy making value than a mission and companies whose managers neglect the task of thinking strategically about the company’s future business path or who are indecisive in committing the company to one direction or another are prone to drift aimlessly and lose any claim to being an industry leader.

Figure 2.2 shows the general inputs in the creation of the company’s business vision. Formal processes can be used to define values and core purpose, but visionary goals would come from visionary leaders, and this is what would differentiate companies with similar resources competing in the same industry.



**Figure 2.2: inputs into vision formulation**

Source: <http://www.quickmba.com/strategy/vision/>

Visionary goals are a direct result of visionary leadership. Visionary leadership goes beyond charisma – it is the ability to create and articulate a realistic, credible, and attractive view of the future that grows out of and improves upon the present. “Vision, if properly selected and implemented, is so energising that it in effect jump starts the future by calling forth the skills, talents, and resources to make it happen. .... A vision has clear and compelling imagery that offers an innovative way to improve, which recognises and draws on traditions, and connects to actions that people can take to realise change. Vision taps peoples’ emotions and energy. Properly articulated, a vision creates the enthusiasm that people have for sporting events and other leisure time activities, bringing the energy and commitment to the work place ” [Robbins 2000:475].

People in the organisation should believe that the vision is attainable. It should be perceived as challenging yet doable, and most importantly – visions that have clear articulation and powerful imagery are easily grasped and accepted.

Vision should be concrete, not abstract. It should be based on facts, not speculation. Equally important, if the vision is to produce results, it must be

widely understood and enthusiastically embraced throughout the organisation. So where does one start to build a vision? According to Frisch [1998:12] “far too many companies begin by looking internally, while keeping one eye on the competition. But neither your internal capabilities nor your competitors’ actions are the ultimate arbiter of your fate.” Building a vision starts with innovative, creative visionaries who can anticipate changes in the industry and realign the business to get there before the competition does.

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## 2.4.2 Mission and Strategic Intent

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*“A strategic intent is as much about the creation of meaning for employees as it is about the establishment of direction” Hamel and Prahalad.*

While the principal concern of a strategic vision is with “where we are going,” the term mission statement, as it is commonly used, tends to deal with a company’s present business scope – “who we are, what we do, how we do it and for whom it is done” The mission statement describes the company’s business vision, including the unchanging values and purpose of the firm, and forward-looking visionary goals that guide the pursuit of future opportunities. Guided by the business vision, the firm’s leaders can define measurable financial and strategic objectives.

Pierce and Robinson [2000:27], define seven outcomes that a company mission is designed to accomplish. These are:

1. To ensure unanimity of purpose within the organisation.
2. To provide a basis for motivating the use of the organisation’s resources.
3. To develop a basis, or standard for allocating organisational resources.
4. To establish a general tone or organisational climate: for example, to suggest a business like operation.

5. To serve as a focal point for those who can identify with the organisation's purpose and direction and to deter those who cannot do so from participating further in its activities.
6. To facilitate the translation of objectives and goals into work structures involving the assignment of tasks to responsible elements within the organisation.
7. To specify organisational purposes and the translation of these purposes into goals in such a way that cost, time and performance parameters can be assessed and controlled.

The mission statement should clearly identify:

- The customers to be served,
- The needs to be satisfied (company's, stakeholder's, individual's and others),
- The means – products and technologies by which these will be achieved.

Just as important as those noted above, the mission must be differentiated from competitors' missions. It must be unique and inspiring and must offer employees the enticing spectacle of a new destination. "We are all seduced to one degree or another by the opportunity to explore the unfamiliar. Thus it is not surprising that when a company's mission is largely undifferentiated from that of its competitors, employees may be less than inspired" [Hamel and Prahalad, 1996: 145].

#### **2.4.2.1 Objectives**

The mission provides a framework for the organisation's objectives, and the objectives should be consistent with, and promote the mission. Organisations will have multiple objectives, both long term and short term, which need to be prioritised along Pareto principles where the 20 % that gives 80 % of the results need to be concentrated on. The yard sticks by which objectives are measured must be carefully chosen and defined to make them meaningful.



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### 2.4.3 Environmental Scan

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*“An organisation does not exist in a vacuum; it interacts with its environment. A business offers its goods or services in the market place – usually against competition – while the environment provides sources of labour, energy, raw materials, finance, information, etc., over which it has little control.”*

**Ronald Rosen**

“If the environment were relatively unchanging, an organisation might, after a period of adaptation settle down to a fairly stable relationship with its customers, suppliers, competitors, channels of distribution and investors. There would be little motivation to make major changes to the objectives or strategies if all parties more or less accepted the status quo. However this stable condition is rare” [Rosen 1995: 11].

It is therefore important to begin an analysis of the environment with a general consideration of the degree of turbulence in that environment. According to Lynch [2000:109] there are two measures of turbulence: changeability i.e. the degree to which the environment is likely to change; and predictability, i.e. the degree to which such change can be predicted. When turbulence is high, the organisation will need to structure itself so that it can respond rapidly to changing events.

In any consideration of the factors surrounding the organisation, two techniques can be used to explore the general environment. These are PEST analysis and forecasting techniques like scenario analysis.

### 2.4.3.1 PEST Analysis

The acronym **PEST** (or sometimes rearranged as "STEP") is used to describe a framework for the analysis of the macro environmental factors.

- **Political Factors.**

The direction and stability of political factors is a major consideration for managers on formulating company strategy. Political factors define the legal and regulatory parameters within which firms must operate. Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate. These include Tax policy, Legislation, relations between the government and the organisation, Government ownership of the industry and the attitude to monopolies and competition, Employment laws, Environmental regulations, and Trade restrictions.

- **Economic Factors**

Economic factors affect the purchasing power of potential customers and the firm's cost of capital. Some examples of factors in the macro economy include Economic growth, Disposable income, Energy costs, Interest rates, Exchange rates, and Inflation rate

- **Socio - Cultural Factors**

Socio - cultural factors include the demographic and cultural aspects of the external macroenvironment. These factors affect customer needs and the size of potential markets. Some social factors include Health consciousness, Population growth rate, Age distribution, Career attitudes, Emphasis on safety, and "Green" environmental issues.





- **Technological Factors**

Technological factors can lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions. Some technological factors include R&D activity, Speed of change and adoption of new technologies, Automation, Technology incentives, and Rate of technological change.

The PEST factors combined with external micro environmental factors can be classified as opportunities and threats in a SWOT analysis.

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#### 2.4.4 Forecasting

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Environmental scanning provides reasonable hard data on the present situation and current trends but intuition and luck are needed to accurately predict if these trends will continue. Another drawback of the top-down approach as illustrated in fig 2.1, is that it may not be responsive enough for rapidly changing competitive environments. In times of change, some of the more successful strategies emerge informally from lower levels of the organisation, where managers are closer to customers on a day-to-day basis. In an uncertain world, long-term trending cannot be relied upon with a high level of confidence. In this respect, many firms have turned to forecasting techniques to assist in the decision making process

Various techniques are used to forecast future situations. Each has its proponents and critics. Wheelen and Hunger suggest extrapolation as the most widely used form of forecasting, followed by scenario planning. Other popular forecasting techniques include Brainstorming, Expert opinion, and Statistical modelling. Extrapolation rests on the assumption that the world is reasonably consistent and changes slowly in the short run and is simply the extension of present trends into the future. Traditional forecasting techniques often fail to predict significant changes in the firm's external environment, especially when the change is rapid and turbulent or when information is

limited. Consequently, important opportunities and serious threats may be overlooked and the very survival of the firm may be at stake. "Scenario planning is a tool specifically designed to deal with major, uncertain shifts in the firm's environment" [Internet 1].

According to this website "scenario planning has its roots in military strategy studies. Herman Kahn was an early founder of scenario-based planning in his work related to the possible scenarios associated with thermonuclear war ("thinking the unthinkable"). Scenario planning was transformed into a business tool in the late 1960's and early 1970's, most notably by Pierre Wack who developed the scenario planning system used by Royal Dutch/Shell. As a result of these efforts, Shell was prepared to deal with the oil shock that occurred in late 1973 and greatly improved its competitive position in the industry during the oil crisis and the oil glut that followed."

"Scenarios are specially constructed stories about the future. Each scenario represents a distinct, plausible world. The purpose of scenario planning is not to predict the future; but rather, to show how different forces can manipulate the future in different directions. It is very important to realise this, for this procedure helps to identify these forces if and when they happen. The utility of scenario planning lies in its ability to anticipate the future. When this is accomplished, the ability to better respond to future events is increased" [Internet 4].

Scenario planning usually takes place in a workshop setting of high-level executives, industry leaders, and technical experts. The idea is to bring together a wide range of perspectives in order to consider scenarios other than the widely accepted forecasts. The scenario development process should include interviews with managers who later will formulate and implement strategies based on the scenario analysis - without their input the scenarios may leave out important details and not lead to action if they do not address issues important to those who will implement the strategy.

Some of the benefits of scenario planning include:

- Managers are forced to break out of their standard world view, exposing blind spots that might otherwise be overlooked in the generally accepted forecast. This is usually referred to as tunnel vision.
- Decision-makers are better able to recognise a scenario in its early stages, should it actually be the one that unfolds. They are therefore in a better position to react to change before competitors do, since they are familiar with the scenario and the outcomes.
- Managers are better able to understand the source of disagreements that often occur when they are envisioning different scenarios without realising it.

The process of developing scenarios, as described by Wheelen and Hunger [1998:75], is as follows:

1. Examine possible shifts in the societal variables globally,
2. Identify uncertainties in each of the six forces in the task environment,
3. Make a range of plausible assumptions about future trends. Note that faulty underlying assumptions are the most frequent cause of forecasting errors,
4. Combine assumptions about individual trends into internally consistent scenarios,
5. Analyse the industry situation that would prevail under each situation,
6. Determine the sources of competitive advantage under each scenario,
7. Predict competitors behaviour under each scenario,
8. Select the scenarios that are most likely to occur, or most likely to have a strong impact on the future of the company. Use these scenarios in strategy formulation.

To analyse the interaction between the variables obtained from the scenario planning process, a matrix of scenarios using the two most important variables and their possible values must be developed. Each cell in the matrix then represents a single scenario. For easy reference in later discussion it is worthwhile to give each scenario a name that is relevant, catchy, and descriptive. If there are more than two critical factors, a multidimensional matrix can be created to handle them but it would be difficult to visualise beyond 2 or 3 dimensions. Alternatively, factors can be taken in pairs to generate several two-dimensional matrices. A scenario matrix might look something like that illustrated in figure 2.3.

		VARIABLE 1	
		Outcome 1A   V	Outcome 1B   V
VARIABLE 2	Outcome 2A -->	Scenario 1	Scenario 2
	Outcome 2B -->	Scenario 3	Scenario 4

**Figure 2.3: Illustration of a scenario matrix.**

*Source: <http://www.netmba.com/strategy/scenario/>*

One of these scenarios most likely will reflect the mainstream views of the future. The other scenarios will shed light on what else is possible.



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### 2.4.5 Internal Analysis

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*“The greatest mistake managers make when evaluating their resources is failing to assess them relative to their competitors” Thompson and Strickland*

The internal analysis considers the situation within the firm itself, such as:

- Company culture
- Company image
- Organisational structure
- Key staff
- Access to natural resources
- Position on the experience curve
- Operational capacity and efficiency
- Market share
- Financial resources
- Exclusive contracts
- Patents and trade secrets

According to Robbins [2000:144] “the essence of any strategic planning effort is referred to as SWOT analysis because it requires managers to assess the organisation’s strengths, weaknesses, opportunities, and threats in order to identify a niche that the organisation can exploit. Because an organisation’s environment, to a large degree, defines management’s options, a successful strategy will be one that aligns well with the environment.” The assumption here is that management has an accurate grasp of the environment and is aware of important trends that might affect its operations. According to this assumption, it is then ready to identify internal strengths and weaknesses and external opportunities and threats and it is then able to specify a niche that the organisation can exploit.



The problem with this line of thinking is that what may be a strength in one context may be a weakness in another. Since every strategic change involves some new experience and a step into the unknown, no organisation can be sure in advance whether an established capability will prove to be a strength or weakness, and ultimately a help or a hindrance in making that change. Mintzberg [1994:276] uses an analogy of an individual who is six feet tall to support this point. One cannot determine whether this is a strength or weakness until one specifies what the tall individual is supposed to do – play basketball or ride a race horse. Strengths and weaknesses therefore have to be defined in the context of a problem or in terms of some frame of reference.

Mintzberg [1994:276] reports on a Howard Stevenson study entitled “Defining Corporate Strengths and Weaknesses”. Stevenson found that there is greater optimism at higher organisational levels, which might reflect the kind of people that move up in the first place, or else a detachment of senior managers from the operating details. He also found that few members of management agreed precisely on the strengths and weaknesses exhibited by their companies. The overall impression left by Stevenson’s study, as reported by Mintzberg [1994:277] is that “the detached assessment of strengths and weaknesses may be unreliable, all bound up with aspirations, biases and hopes. More seriously, these distortions seemed to be greatest at the senior managerial levels, where strategies are supposed to be formulated.”

Therefore the assessment of organisational strengths and weaknesses cannot be just a detached cerebral exercise, where managers and planners sit around a table listing strengths, weaknesses and distinctive competencies. It must be an all empirical one, in which implications and behaviour are learned by being tested in context.





According to Rosen [1995:78] a strength is potentially of strategic importance if it provides one or more of the following benefits, while weaknesses inhibit, prevent, or nullify them:

- An anti competitor advantage
- Perceived value in the value chain
- Above industry - market average profit or revenue, efficiency or effectiveness
- Increased security or reduced risk in the market place.

For a particular company resource to qualify as the basis for sustainable competitive advantage, it must pass four tests of competitive advantage as described by Thompson and Strickland [2001:123]:

***Is the resource hard to copy?*** The more difficult and expensive it is to imitate a resource, the greater the competitive value – provided the resource results in a distinctive competence.

***How long does the resource last?*** The longer the resource lasts, the greater its value.

***Is the resource really competitively superior?*** Whether a company's core competence represents a distinctive competence depends on how good the competence is relative to what competitors are capable of. The company must ask itself whether it is a competitively superior competence or just a standout internal competence.

***Can the resources be trumped by the different resources/capabilities of rivals?*** Even if companies don't possess competitively superior resources, the potential for competitive advantage is not lost. A company can sometimes derive significant vitality and even competitive advantage, from a collection of good to adequate resources, which in combination have competitive power in the marketplace.



From a strategy making perspective, a company's resource strengths are significant because they can form the cornerstones of strategy and the basis of creating competitive advantage. Therefore, a company's strategy should be tailored to fit its resources, taking both strengths and weaknesses into account.

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#### 2.4.6 The Value Chain

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To better understand the activities through which a firm develops a competitive advantage and creates shareholder value, it is useful to separate the business system into a series of value-generating activities referred to as the value chain. Introduced by Michael Porter in his 1985 book *Competitive Advantage*, a generic value chain model comprises a sequence of activities found to be common to a wide range of firms. Porter identified primary and support activities, the goal of which is to offer the customer a level of value that exceeds the cost of the activities, thereby resulting in a profit margin.

It is in these activities that a firm has the opportunity to generate superior value. A competitive advantage may be achieved by reconfiguring the value chain to provide lower cost or better differentiation. The value chain model is a useful analysis tool for defining a firm's core competencies and the activities in which it can pursue a competitive advantage. A firm may create a cost advantage either by reducing the cost of individual value chain activities or by reconfiguring the value chain. A differentiation advantage may be achieved either by changing individual value chain activities to increase uniqueness in the final product or by reconfiguring the value chain. There are several ways in which a firm can reconfigure its value chain in order to create uniqueness. It can forward integrate in order to perform functions that once were performed by its distributors. It can backward integrate in order to have more control over its inputs. It may implement new process technologies or utilise new distribution channels. Ultimately, the firm may need to be creative in order to develop a novel value chain configuration that increases product differentiation.

A thorough value chain analysis can illuminate the business system to facilitate outsourcing decisions. To decide which activities to outsource, managers must understand the firm's strengths and weaknesses in each activity, both in terms of cost and ability to differentiate. Managers may consider the following when selecting activities to outsource:

- Whether the activity can be performed cheaper or better by suppliers.
- Whether the activity is one of the firm's core competencies from which, stems a cost advantage or product differentiation.
- The risk of performing the activity in-house. If the activity relies on fast-changing technology or the product is sold in a rapidly-changing market, it may be advantageous to outsource the activity in order to maintain flexibility and avoid the risk of investing in specialised assets.
- Whether the outsourcing of an activity can result in business process improvements such as reduced lead time, higher flexibility, reduced inventory, etc.

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#### 2.4.7 Industry Analysis

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An Industry analysis looks at trends concerning the industry as a whole, competition within the industry, technologies employed, what it takes to succeed, the key success factors, and compares the firm, its products its systems, its technology and so on with others in the industry, particularly the most successful. This process, referred to as benchmarking is increasingly being adopted by organisations in many industries to identify areas for improvement.

An industry analysis can be performed using a framework developed by Michael Porter known as 'Porter's five forces.' This framework evaluates entry barriers, suppliers, customers, substitute products, and industry rivalry. Wheelen and Hunger [1998:60] adds a sixth force to be evaluated – namely



the relative power of other stakeholders. This, they added to reflect the power that governments, local communities, and other groups from the task environment wield over industry activities. The stronger each of these forces, the greater the limitations on companies to raise prices and earn greater profits. On the other hand, the lower the strength of these forces, the greater the opportunity to earn larger profits.

The five forces model may be fine for static competitive environments, but in turbulent environments, the strength of each force may change more rapidly than the model can show.

In spite of its many critics, many commentators agree that it is a useful starting point in analysing the industry. It has merit because it raises issues in a logical and structured framework. Lynch [2000:131] recommends the five force model as a useful first step in corporate strategy development.

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#### 2.4.8 Benchmarking

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“The underlying reason for benchmarking is to learn how to improve business processes and increase competitiveness. More than any other quality practice, it can deliver returns quickly to the bottom line. The premise is simple: companies choose to benchmark outstanding companies whose business processes are analogous to their own. Benchmarking identifies those practices that have enabled successful companies’ superior performance and that can be adapted to the benchmarking companies’ business applications. Thus benchmarking is an operational process of continuous learning and adaptation that results in the development of an improved organisation” [Watson 1993: vii].

Watson [1993:3] provides an overview of the benchmarking process. It follows a basic four step approach: Plan, Do, Check, and Act. In planning the benchmarking study, it is necessary to select and define the process that is to



be studied, identify the measures of process performance, evaluate one's own capability, and determine which companies should be studied.

The first step can be reduced to answering two fundamental questions

1. What should we benchmark?
2. Whom should we benchmark?

The second step in benchmarking is to conduct primary and secondary research, which includes investigation of public disclosures about the particular process at target companies. Watson stresses the importance of learning as much as possible before making any direct contact because many companies are completely unaware of what has been written about them in the press and trade publications. Direct communication with companies may consist of telephone surveys, written questionnaires, or site visits to make detailed observations. Watson's third step in the benchmarking process is analysis of the gathered data to determine study findings and recommendations. The analysis consists of two aspects: determining the magnitude of performance gaps between companies; and identifying the process enablers that facilitated the performance improvements at the leading companies. Watson's final step in the benchmarking process involves the adaptation, improvement, and implementation of appropriate benchmark process enablers.

The objective of benchmarking is to change an organisation in a way that increases its performance. Thus benchmarking is a process with a built in bias for action. The process is illustrated in Figure 2.4.



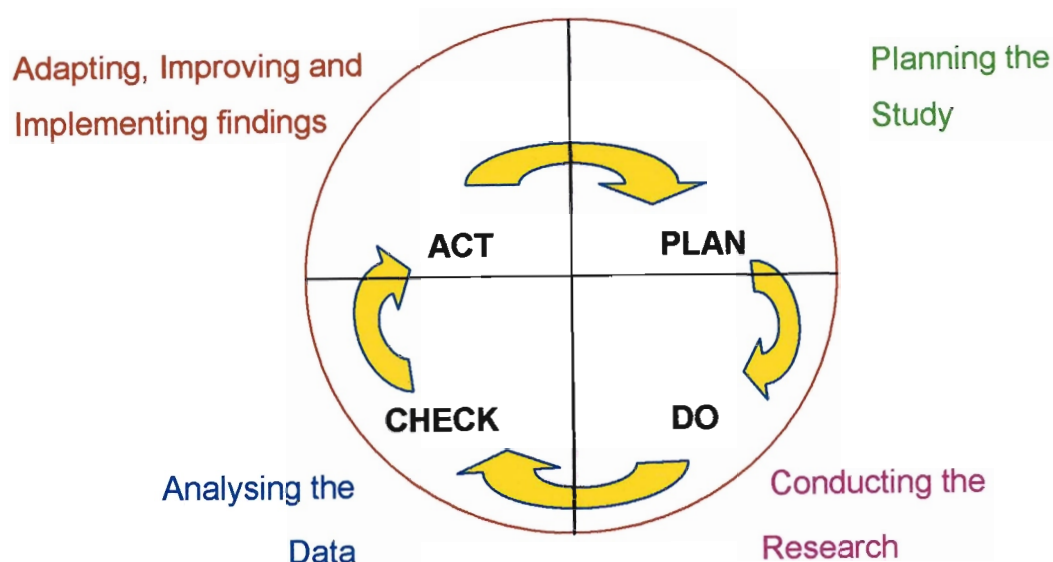


Figure 2.4: The Benchmarking process compared with the Deming Cycle

Source: Gregory Watson, *Strategic Benchmarking*, 1<sup>st</sup> ed, 1993, John Wiley & Sons, p 4

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#### 2.4.9 Strategy Formulation

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“Once a clear picture of the firm and its environment is in hand, specific strategic alternatives can be developed. While different firms have different alternatives depending on their situation, there also exist generic strategies that can be applied across a wide range of firms. Michael Porter identified cost leadership, differentiation, and focus as three generic strategies that may be considered when defining strategic alternatives. Porter advised against implementing a combination of these strategies for a given product; rather, he argued that only one of the generic strategy alternatives should be pursued” [Internet 2].

Given the information from the environmental scan, the firm should match its strengths to the opportunities that it has identified, while addressing its



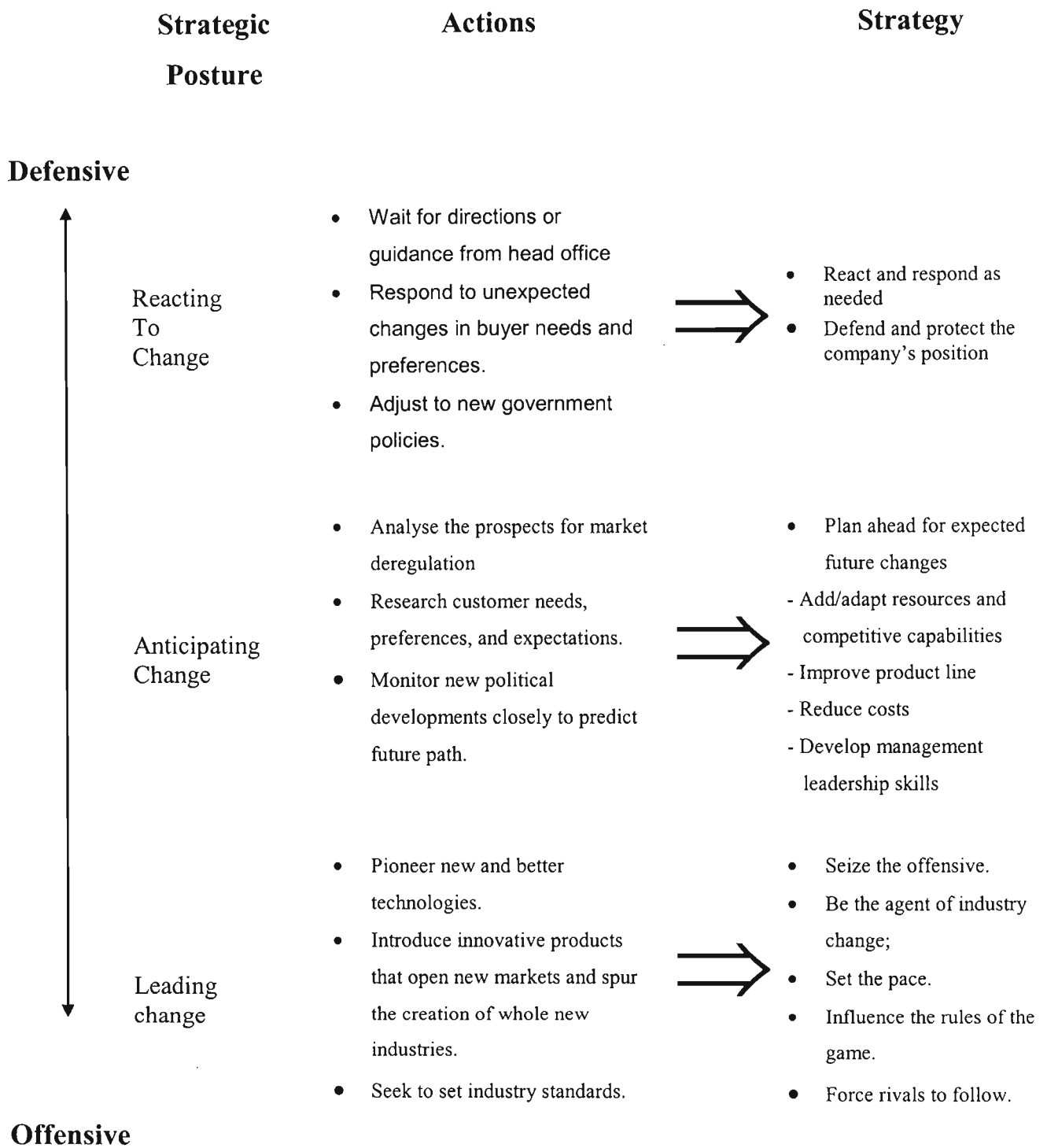


weaknesses and external threats. Thompson and Strickland [2001: 253] suggest three strategic postures that a company can assume in dealing with high velocity change.

- It can react to change
- It can anticipate change
- It can lead change.

The best performing companies in high velocity markets consistently seek to lead change with proactive strategies, although they should, to some extent, incorporate all three postures, not necessarily in the same proportion. In rapidly changing markets, it would be in the best interest of the company to anticipate change now and to put in place the necessary structures and resources to plan ahead for the expected future changes. When changes do occur, the ones that are ready will be in a better position to lead changes and set the pace for the industry.

The Thompson and Strickland [2001:254] model for meeting the challenge of high-velocity change has been adapted for a power station environment and is shown in Figure 2.5.



**Figure 2.5: Meeting the Challenge of High-Velocity Change**

*(Source: Adapted from Thompson & Strickland 2001, p. 254)*



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### 2.4.10 Strategy Implementation

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The strategy will most likely be expressed in high-level conceptual terms and priorities. For effective implementation, it needs to be translated into more detailed policies that can be understood at the functional level of the organisation, at which level it will most likely be implemented. Effective communication is the key to such understanding and implementation. The implementation might not succeed if the strategy is misunderstood or if lower-level managers resist its implementation because they do not understand why the particular strategy was selected. The expression of the strategy in terms of functional policies also serves to highlight any practical issues that might not have been visible at a higher level.

Pierce and Robinson [2000:357] describe three characteristics of strategy that are crucial to the successful implementation of strategy.

1. The strategy must be translated into guidelines for the daily activities of the firm's members,
2. The strategy and the firm must become one – that is, the strategy must be reflected in the way the firm organises its activities and in the firm's values, beliefs, and tones,
3. In implementing the strategy, the firm's managers must direct and control actions and outcomes and adjust to change.

The functional areas for which the strategy should be translated into specific policies include:

- Marketing
- Research and development
- Procurement
- Production
- Human resources
- Information systems



In addition to developing functional policies, the implementation phase involves putting into place the necessary organisational changes. The selected strategy is implemented by means of identifying the required resources, programs, budgets, procedures and possibly revising the firm's reward system, and could involve reorganisation of the firm's structures but definitely involves motivation of the staff to achieve objectives. Note that Wheelen and Hunger [1998:187] report on work done by Alfred Chandler in a classic study of large U.S. corporations such as DuPont, General Motors, Sears, and Standard Oil, and conclude that structure follows strategy – that is, changes in corporate strategy leads to changes in organisational structure. He also concluded that organisations follow a pattern of development from one kind of structural arrangement to another as they expand.

In the selection of a strategy is it is also important to consider the ability of each alternative to satisfy agreed-on objectives with the least resources and the fewest negative side effects. It is therefore important, to develop a tentative implementation plan so that the difficulties that management is likely to face are addressed. This should be done in light of social trends, the industry, and the company's situation based on the construction of scenarios" [Wheelen and Hunger 1998:171 - 172].



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#### 2.4.11 Evaluation and Control

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Once implemented, the results of the strategy need to be measured and evaluated, with adjustments made as needed to keep the plan on track. Control systems should be developed and implemented to facilitate this monitoring. Evaluation and control would typically consist of the following steps:

1. Define parameters to be measured,
2. Define target values for those parameters,
3. Perform measurements,
4. Compare measured results to the pre-defined standard.

Standards of performance should also be set, the actual performance measured, and appropriate action taken to ensure success.

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#### 2.5 Evaluating the strategy

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Evaluating a strategy would be incomplete without an evaluation of the leadership abilities of those tasked with crafting the strategy, and those tasked with the implementation thereof. Also, the likelihood of success is extremely low if there is incompatibility with corporate culture. The next two sections explore the impact of each of these on the chosen strategy.

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### 2.5.1 Leadership

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The strategic evaluation factors presented in the previous section are useful in evaluating an existing or planned strategy. They do not fully take into account the evaluation of the leadership qualities and abilities, and the time spent by those tasked with formulating and driving strategies in competing for the future. Hamel and Prahalad [HBR: 1994: 123] address the issue of time spent on strategic thinking with three questions asked to senior management.

1. What percentage of your time is spent on external rather than internal issues – on understanding, for example, the implications of a particular new technology instead of debating corporate overhead allocations?
2. Of this time spent looking outward, how much do you spend considering how the world may change in five or ten years rather than worrying about winning the next big contract, or responding to a competitors' pricing move?
3. Of the time devoted to looking outward and forward, how much time do you spend working with colleagues to build a deeply shared, well-tested perspective of the future as opposed to a personal and idiosyncratic view?

Hamel and Prahalad's experience is that about 40 % of a senior executive's time is devoted to looking outward and, of this time about 30 % is spent peering three, four, five or more years into the future. Of that time spent looking forward, no more than 20 % is devoted to building a collective view of the future (the other 80 % is spent considering the future of the manager's particular business). Thus on average, senior managers devote less than 3 % of their time building a corporate perspective on the future. In some companies, the figure is less than 1 %. With such little time spent contemplating the future or thinking strategically, it is clear that the majority of senior executives rely solely on the strategic management planning process to do their thinking. How then can they be effective as strategists?





Michael Roberts' article in the volume 14, May 1998, edition of *MANAGEMENT TODAY*, entitled *Strategic thinking: domination for winning companies*, define "strategic thinking" as the type of thinking that attempts to determine *what* the organisation should look like, while operational planning or strategic planning is the thinking of *how* to get there. This corroborates Mintzberg's concerns about strategic planning being used as a substitute for visionary leadership and about senior management relying on the strategic planning process to solve strategic issues. The company's visionary leadership abilities and time spent on strategic issues must therefore be seen as important inputs into the strategic plan and must be considered when analysing the strategic fit between "where you are" and "where you should be" as opposed to "where you want to be."

Many text books refer to gap analysis as the steps taken to get a company from "where it is" to "where it wants to be." However, is where it wants to be really where it should be? Given the same resources, and business environment, would new leadership be able to extract more output, business efficiency and shareholder value when compared to the existing leadership? As Michelangelo once said, "the great danger for most of us is not that our aim is too high and we miss it, but that it is too low and we reach it."

Unless it is blatantly obvious, proving that new leadership would do better than the existing ones would be an extremely difficult task, because the new leadership would have to be exposed to the same internal and external environmental factors at the same time. Using Hamel and Prahalad's [HBR 1994] questionnaire to establish whether senior managers in an organisation have a clear and shared understanding of how the industry may be different ten years from now and whether a company's point of view about the future is unique among competitors would provide a useful test to evaluate the senior management time spent on strategic thinking, but is deficient in identifying the visionary aptitude of its leaders.



It is important to identify the leadership characteristics required for a given set of circumstances and to select the leaders to match those circumstances to create an environment in which people can work in a dynamic group and where information is shared to promote a sense of belonging and relationship building. Rothschild [1993:79] identified three factors that are fundamental to strategic leadership.

1. Leader and life cycle phase must be matched.
2. Each strategic differentiator requires a different leader and implementation team.
3. Just as strategies changes, so must leadership.

Rothschild also identified four types of leaders namely Risktakers, Caretakers, Surgeons, and Undertakers, and matched them to the four stages of the life cycle namely Embryonic, Rapid growth, Slow growth, and Decline respectively. For a strategy, and in turn a company to prove successful, it is vital that there is a match between the leader and the business. This is done by making sure the leader has the right risk profile and time horizon.

The Thompson and Strickland [2001:254] model (shown in figure 2.5) for meeting the challenge of high-velocity change can also be used as a tool to evaluate leadership based on their strategic posture of being defensive or offensive. For a given strategy, and actions chosen, senior management can be divided into three strategic postures – those that react to change, those that anticipate change and those that lead change.



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### 2.5.2 Culture

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An organisation's values, practices, policies, philosophical beliefs, traditions, and ways of doing things combined together to form the company culture. If a strategy is incompatible with corporate culture, the likelihood of success is extremely low. In evaluating the strategic alternatives, the strategy makers must consider corporate cultural pressures and assess the strategy's compatibility with the corporate culture. A strong culture is likely to shape a company's strategic actions, sometimes even dominating the choice of strategic moves. If managers ignore corporate culture, foot-dragging and even sabotage will result as employees fight to resist radical change in corporate philosophy. On the other hand, restricting a corporation to only those strategies that are completely compatible with its culture might eliminate from consideration the most profitable alternatives. According to Wheelen and Hunger [1998: 175], if there is little fit, management must decide if it should:

1. Take a chance on ignoring the culture
2. Manage around the culture and change the implementation plan,
3. Try to change the culture to fit the strategy,
4. Change the strategy to fit the culture.



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### 2.5.3 Analysing the chosen strategy to determine strategic fit

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*“Competitive success in fast changing markets tends to hinge on a company’s ability to improvise, experiment, adapt, reinvent, and regenerate as market and competitive conditions shift rapidly and sometimes unpredictably.”* Thompson and Strickland

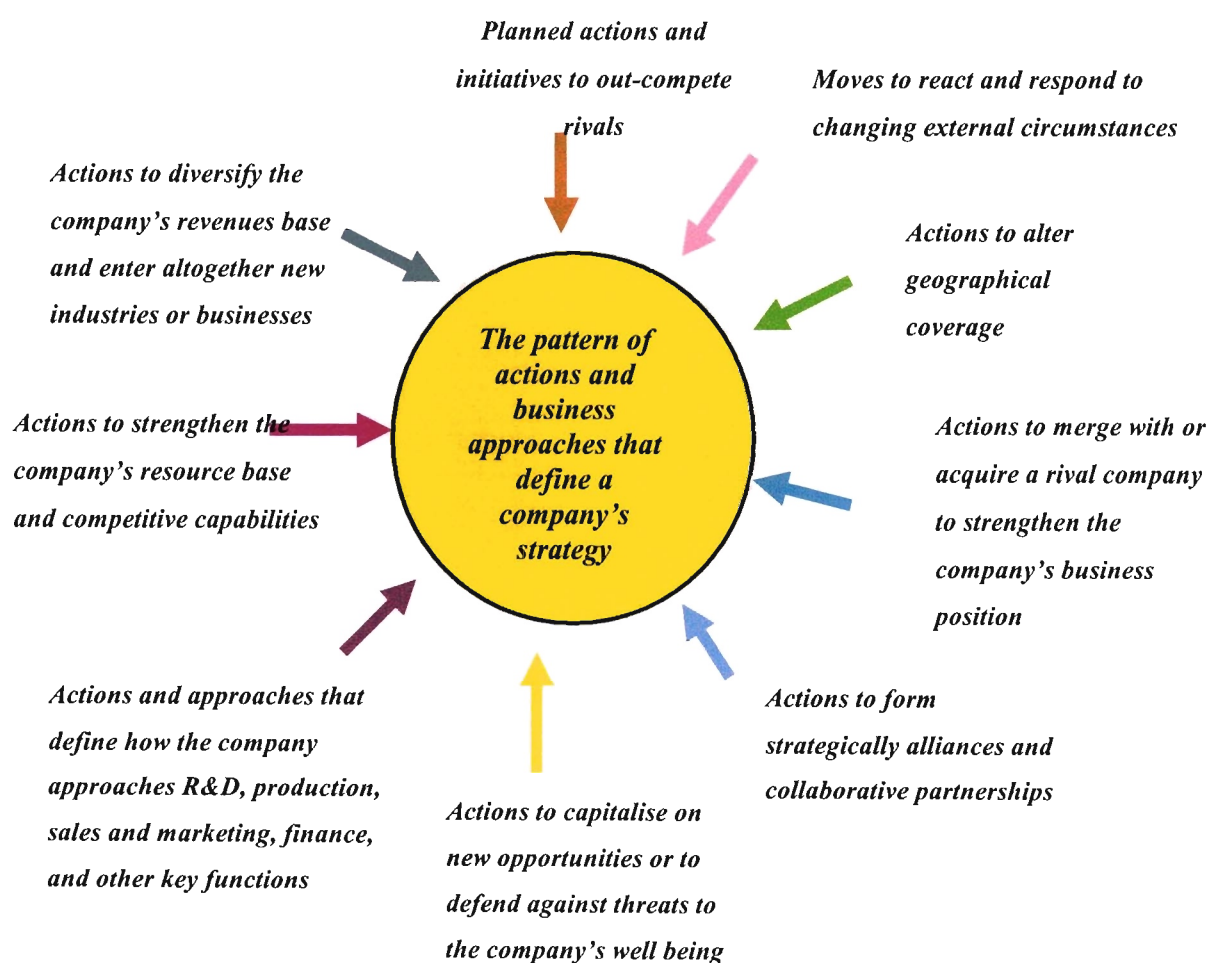
“Company strategies concern *how*: how to grow the business, how to satisfy customers, how to out-compete rivals, how to respond to changing market conditions, how to manage each functional piece of the business and develop needed organisational capabilities, how to achieve strategic financial objectives. The ‘hows’ of strategy tend to be company-specific and customised to a company’s own situation and performance objectives” Thompson and Strickland [2001:12]. The mission statement would incorporate how the company plans to convert the company vision into shareholder value, and how the company strengths will be exploited with the threats avoided. The mission statement would therefore be a good starting point when evaluating the strategy.

Perhaps the most important criterion (in determining the best strategy) is the ability of the proposed strategy to deal with specific strategic factors developed earlier in the SWOT analysis. If the alternative doesn’t exploit environmental opportunities and corporate strengths, neutralise environmental threats and avoid internal corporate weaknesses, it will probably fail. “To date, the development of tools for analysing environmental opportunities and threats has proceeded much more rapidly than the tools for analysing the firm’s internal strengths and weaknesses” [Barney:1995:1].

Another important consideration in the selection of a strategy is the ability of each alternative to satisfy agreed-on objectives with the least resources and the fewest negative side effects. It is therefore important, to develop a tentative implementation plan so that the difficulties that management are likely to face are addressed. This should be done in light of social trends, the

industry, and the company's situation based on the construction of scenarios" [Wheelen and Hunger 1998:171 - 172].

Figure 2.6 provides a framework indicating the kinds of actions and approaches that reflects a company's overall strategy. It can be used to compliment the other tests presented elsewhere in this document, when evaluating a company's strategy to determine strategic fit. The information contained in this diagram can be used to assess whether the strategy can take the company from where it is to where it wants to be.



**Figure 2.6 Understanding a company's strategy – what to look out for**

Source Thompson and Strickland, *Crafting and executing strategy- text and readings, 2001, 12<sup>th</sup> ed, McGraw Hill, p13*





Interestingly, figure 2.6 makes no reference to shareholders, or other stakeholder requirements, or the impact of decisions on such requirements. The attractiveness of a strategic alternative is affected by its perceived compatibility with the key stake holders in a corporation's task environment. Wheelen and Hunger [1998: 174], suggest four questions that managers should ask in assessing the importance of stakeholder concerns in a particular decision:

1. What stakeholders are the most crucial for corporate success?
2. How much of what they want are they likely to get under this alternative?
3. What are they likely to do if they don't get what they want?
4. What is the probability that they will do it?

A company has a duty to shareholders, who justifiably demand a return on their investments. Even though individual investors may differ in their objectives for short term profits versus long term growth in revenues and business sustainability, business executives have a moral and ethical responsibility to pursue profitable management of the owner's investment. The four questions proposed by Wheelen and Hunger are therefore important ones and must be considered when assessing whether the strategy provides for shareholder value.

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#### 2.5.4 What the experts suggest on strategic evaluation

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Rumelt [1999, 54] suggests four broad criteria that could be used to test a company strategy, where failure to meet one or more of these criteria would imply that the organisation fails to perform at least one of the key functions that are necessary for the survival of the business. These criteria are:

**Consistency:** The strategy must not present mutually inconsistent goals and policies,



**Consonance:** The strategy must represent an adaptive response to the external environment and to the critical changes occurring within it,

**Advantage:** The strategy must provide for the creation and/or maintenance of a competitive advantage in the selected area of activity,

**Feasibility:** The strategy must neither overtax available resources, nor create unsolvable sub-problems.

Lynch [2001: 617] proposes six possible criteria for evaluating strategic content. These are:

1. **Consistency** with the mission and the objectives.
2. **Suitability** (to establish how well each strategic option matches the environment, resources and how well does it deliver competitive advantage. A pivotal strategy shaping internal consideration is whether the company has or can acquire the resources, competencies, and capabilities needed to execute a strategy proficiently. It would be just as foolish to craft a strategy that cannot be executed with the resources and capabilities a firm is able to pull together, as it would be to craft a strategy whose success depends on activities which the company performs poorly or has no experience in performing at all).
3. **Validity** (to test the assumptions made about the future to see if they are logically sound and reasonable).
4. **Feasibility** of options (how practical and attainable options are).
5. **Business risk** (to assess the risks to the business).
6. **Attractiveness** to stake holders

Aaker [1988:23] provided a similar set of criteria, in question format, to evaluate a proposed business strategy. The only difference is that Aaker also included a check for adequate flexibility for the business and the firm, to cope with strategic surprises and fast developing threats and opportunities emerging from a very dynamic environment. Aaker [1988:25] points out that flexibility can be enhanced in one of three ways: by diversifying, by investing in underused resources, and by reducing commitment of resources to a specialised use.

Johnson and Scholes [1999:353] break the evaluation criteria down to three types: *suitability, feasibility, and acceptability*. These were already covered previously by Aaker and Lynch.

Interestingly, most authors seem to cover a similar scope when recommending evaluation criteria, or tests for suitable strategies but none have included benchmarking to check if the strategy has been benchmarked against leaders in the industry or against those internationally that have been through similar transformational changes that the business is currently embarking on. Another deficiency in most of these models is that the leadership qualities are not fully integrated into these tests of suitable strategies. There is a significant difference between “where the company wants to be” and “where the company should be” given its resource levels and environmental exposures. Surely innovative, visionary leadership would be able to better position the company than unimaginative executives that rely on the planning process to come up with competitive strategies.

Wheelen and Hunger [1987:191] in their book, *strategic management*, provide twenty questions to use in evaluating strategy. These questions are repeated below.

1. Does the strategy conform with the basic mission and purpose of the corporation? If not, a new competitive arena may be entered with which management is not familiar.
2. Is the strategy consistent with the corporation's external environment? Will the strategy be supported by an emerging opportunity, or will it help neutralise a merging threat?



3. Is the strategy consistent with the internal strengths, objectives, policies, resources, and personal values of managers and employees? A strategy may not be completely in tune with all of these, but major dissonance should be avoided.
4. Does the strategy reflect the acceptance of minimum potential risk, balancing it against the maximum potential profit consistent with the corporation's resources and prospects?
5. Does the strategy fit a niche in the corporation's market not now filled by others? Is this niche likely to remain open long enough for the corporation to return capital investment plus the required level of profit? (Niches have a habit of filling up fast.)
6. Does the strategy conflict with other corporate strategies? To consider each of the firm's many strategies in isolation can lead to missed opportunities and unwisely used resources.
7. Is the strategy divided into substrategies that interrelate properly?
8. Has the strategy been tested with appropriate criteria (such as consistency with past, present, and prospective trends) and by the appropriate analytical tools (such as risk analysis, discounted cash flows, and so on)?
9. Has the strategy been tested by developing feasible implementation plans?
10. Does the strategy really fit the life cycles of the corporation's products?
11. Is the timing of the strategy correct?
12. Does the strategy pit the product against a powerful competitor? If so, re-evaluate carefully.



13. Does the strategy leave the corporation vulnerable to the power of one major customer? If so, reconsider carefully.
14. Does the strategy involve the production of a new product for a new market? If so, reconsider carefully.
15. Is the corporation rushing a revolutionary product to market? If so, reconsider carefully.
16. Does the strategy imitate that of a competitor? If so, reconsider carefully.
17. Is it likely that the corporation can get to the market first with the new product or service? (If so, this is a great advantage. The second firm to market has much less chance of high returns on investment than the first.)
18. Has a really honest and accurate appraisal been made of the competition? Is the competition under- or over-estimated?
19. Is the corporation trying to sell abroad something it cannot sell locally? (This is not usually a successful strategy.)
20. Is the market share likely to be sufficient to assure a required return on investment? (Market share and return on investment generally are closely related but differ from product to product and market to market.) Has this relationship of market and product been calculated?

Thompson and Strickland [2001:68] recommend three tests to be used to evaluate the merits of one strategy over another: *the goodness of fit test*; *the competitive advantage test*; and *the performance test*. It is interesting to note that each of the twenty questions in the Wheelen and Hunger model presented above can also be classified into one of these three "categories." In



fact, the Thompson and Strickland three test evaluation technique encapsulates most of the criteria proposed by other writers and should be used as the basis of the evaluation process, while the other methods supplement and promote it.

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## 2.6 Chapter Summary

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A good strategy has to be well matched to industry and competitive conditions, market opportunities and threats, and other aspects of the enterprise's external environment. At the same time it has to be tailored to the company's resource strengths and weaknesses, competencies and competitive capabilities. Unless a strategy exhibits tight fit with a company's external situation and internal circumstances, it is suspect and is likely to produce less than optimal results. This is what Thompson and Strickland refer to as the "Goodness of Fit" test. At the same time the strategy must lead to sustainable competitive advantage and boost the company's performance through gains in profitability and gains in the company's competitive strength and long term market position. Thompson and Strickland refer to these as "the competitive advantage test" and "the performance test" respectively. These three tests summarise the key requirements of a winning strategy and are recommended in evaluating the chosen strategy. Company leadership ability to craft and implement strategy is also important and should also be evaluated.



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## **Chapter 3: Matla Power Station's Business Plan**

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### 3.1 Introduction

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This chapter presents an overview of Matla power station and describes the latest available business plan that was compiled on 06 November 2002. In describing the strategy, the information content remains unchanged with the exception of certain additions to explain the jargon used at power stations, for the benefit of those not familiar with power station terminology. The format or structure of the original business plan was also changed to comply with the requirements of figure 2.1 in chapter 2 and to make for easier reading.

For the sake of completion, well known strategies that were adopted by the power station but not included in the business plan of 06 November 2002 were mentioned in this chapter. These will be expanded on in the next chapter during the evaluation process.





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### 3.2 Definitions

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1. C- Uppers: Eskom uses a Patterson man grade system, comprising of A, B, C, P, M, S, E, F bands, in order of seniority.
2. GWh: Giga Watt Hours = 1 Million kilowatt hours
3. UAGS: Unplanned automatic grid separation – occurs when a generating unit is removed from the transmission grid without prior notification. It results in a sudden frequency drop, depending on the size of the generating unit.
4. UCLF: Unplanned Capability Loss Factor: an indication of unplanned plant down time.
5. UCF: Unit Capability Factor: an indication of the availability of a generating unit
6. EUF: Energy Utilisation Factor –a percentage of the MWh actually sent out compared to what the plant is designed to send out.
7. PCLF (Planned Capability Loss Factor – an indication of plant down time for planned maintenance).
8. CAPCO: Chief Air Pollution Control Officer – sets limits for allowable emission levels.
9. LOT/USO – Units (GWh) sent out.
10. OPS: Operators that physically operate the plant and the supervisors.
11. OAR: Occurrence Action Report: is the form that gets filled when actions from an investigation gets completed.
12. OIR: Occurrence Investigation Report – is the report that is filled when an incident investigation is complete.
13. HV: High Voltage
14. PTW: Permit To Work
15. PFFR: Pulverised fuel firing regulations – Consists of operating instructions to prevent furnace explosions.
16. DWA&F: Department of Water Affairs and Forestry.
17. DIIR: Disabling Injury Incident Rate
18. KPIs: Key Performance Indicators



### 3.3 Matla Power Station Overview

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Matla Power Station was the first of the giant 3 600 MW coal-fired power stations to be commissioned during the 1980s. It therefore richly deserves its name, which means "strength" or "power" in Sotho. It is one of a few power stations in the world with a concrete boiler house superstructure, giving it a robust outward appearance very different from other stations in South Africa. Construction started late in 1974 and by July 1983 the station was fully commissioned.

Matla Power Station is one of Eskom's big ten power generators with a staff complement as at 31 December 2002, of 903 – a reduction from 1054 in December 2001. The staff compliment of 903 includes 37 external trainees and comprises of 122 staff of C-Uppers<sup>1</sup> and above where affirmative action is measured. The year-end AA results were 55.7 %, a drop from 57.6% the previous year and an impressive 23.7 % gender equity number, a rise from 13.6% the previous year. Both the AA component and the gender equity component exceeded their target values of 50 % and 23 % respectively.

On a financial base the organisation enjoyed revenue of R2.144 billion giving a gross margin of 55 % and a return an asset of 22.94 %. In the course of this success the company managed to spend R 93 million on black empowerment enterprises. The operating profit for 2002 was R 768.5 million before interest, depreciation and finance costs, and the net profit was R 482 million.

This was achieved while at the same time production was one of the best year ever in terms of technical performance. Some of the highlights in this arena were:

- A Year-end availability figure of 95.03 %,
- Unplanned plant down time (UCLF) of 1.08 %
- Planned plant downtime (PCLF) of 3.89 %,
- Total units generated 26 630.72 GWh<sup>2</sup>, Matla's highest ever
- An environmental contract performance of 100%
- A zero incident rate of exceeding dust emissions

This means that 12.9 million tons of coal were consumed (Matla's highest ever) and in the process 3.0 million tons of ash was produced or generated for disposal on the ash dam. An approximate amount of 120 000 tons was recycled to the cement and construction industry.

These excellent performance figures came on the back of a year when Matla power station won the Jan H Smith award, an award internal to Eskom that uses very strict criteria to recognise the most outstanding power station within the Generation business. Matla expects to win the award again for the overall performance in 2002.

In January 2003, Eskom Generation revised the constituency of its clusters as a prelude to an expected progression towards privatisation. This move saw Matla and Kriel power stations grouped into one cluster, under the control of one cluster general manager. The formation of clusters creates an intense competition both to maintain a competitive position within the cluster and between the clusters. Until the end of 2002, power stations were essentially cost centres, despite the competition introduced through trading and bidding. In the new dispensation, clusters are seen as profit centres and the general managers will have to produce a single set of financial statements at cluster level. They will also now be required to identify revenue sources and to improve the profile of the cluster in a competitive environment, taking



operational responsibility for trading and bidding, and interfacing with primary energy suppliers (fuel and water). The implication is that the cluster general manager would now be more responsible for strategic management of the cluster, which gives the power stations that are geared up to thinking strategically, an advantage in being able to influence the cluster as opposed to Generation, as a whole previously.

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### 3.4 Business and Strategic Plan for 2002 and beyond

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*“The main aim for 2002 and beyond is to ensure reliable low cost energy. It is thus of utmost importance that Matla needs to be both effective and efficient to survive and grow. It needs to be effective in a sense that the actions are reflected in Matla’s ability to anticipate changes in the environment and to develop competitive strategies in advance of such changes and thus to be in a position to grow profitable in a changing world of tomorrow. Efficiency on the other hand is all about the business ability to perform according to the stated standards and to generate corrective actions whenever there are unaccepted deviations – thus continuously improve productivity along the learning curve. The catch is to initiate change in order to turn the station from stagnation to innovation and to guide the energy that is driving change into beneficial channels, taking those forces (including psychodynamics) working against change into account. We must ensure we all focus on the same issues, remain disciplined and implement successfully”*

(Kobus Steyn – Matla Power Station manager 1999-2002)



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### 3.5 Vision of Matla Power Station

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To be the leading global provider of green and affordable energies in support of maximising resource utilisation and investor confidence. We will achieve this by diversification to remain 'Simply the Best'.

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### 3.6 Mission statement

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We aim to be simply the best by generating affordable and clean electricity.

- With our focus towards customer orientation the key elements are excellence, quality, consistency and innovation.
- In striving towards profitability, integrity and discipline form the pillars of our business.
- In striving towards customer excellence environmental factors are our key considerations.
- We will strive to ensure that knowledge management remains our priority.
- We will appropriately adapt to new technological advancements.
- We undertake to ensure in all processes that the community will be considered.
- We will strive to create an environment conducive to a learning culture.
- We will act with integrity and honesty with our stakeholders to foster sound relationships in all our internal / external dealings.
- With our focus towards customer orientation the key elements are excellence, quality, credibility, consistency, profitability and innovation.
- We strive towards the perfection of a learning culture through placing emphasis on personal growth, norms and values.
- We will promote participation in Group Dynamics for the development of the individual and the team.



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### 3.7 SWOT Analysis

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#### **STRENGTHS**

- Plant
- Management Team
- Technical Performance
- Coal Supply
- Sustainable Performance
- Adherence – Policies & Procedures
- Environmental Control System
- Low Cost Generator
- Supervisory Development
- Management Structure
- Outsourcing
- New Business Development Portfolio
- Bursary Support
- Good Skills
- Cost Management

#### **WEAKNESSES**

- Cash flow and Financial Management
- Lack of Technical Competencies (Engineering)
- High turnover (Qualified People)
- Communication Structures
- Boiler Plant Performance
- Demographic Position
- Discipline
- Community Involvement
- Literacy
- Reward & Recognition System
- Procurement





- Lack of Introspection
- Employment Equity
- Loss of Experience
- Water Management
- Unplanned automatic grid separation (UAGS)<sup>3</sup>
- Adherence to Values
- Learning Culture
- More Role Orientated between departments

### **OPPORTUNITIES**

- Minimize UCLF <sup>4</sup>/UAGS - 90:07:03
- Maximize UCF <sup>5</sup>,LTPH, Load Factor (EUF<sup>6</sup>)
- Maintenance Philosophy/ Systems
- Sound fiscal management
- Increase Revenue
- Cost Control
- Project Management
- Cash Flow Management
- Procurement Processes
- Asset Management
- Property
- Fleet
- HR
- Skill Mix
- Enhance Incentive System
- GARP
- Ops Skill Enhancement
- Horizon Project
- Employment Equity



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### 3.8 Organisational Values

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- **Integrity:**

We consistently act in a manner that promotes trust, dependability and honesty.

- **Excellence:**

We passionately exceed expectations and are the best in whatever we do.

- **Innovation:**

We nurture a mindset of creating novel / new solutions.

- **Customer Satisfaction:**

We delight our customers with our services / products.

Notes:

- It is very important to have congruence between Matla Power Station values and its strategic plan.
- All organisational decisions are based on values.
- The choices senior management make, reflects their view of reality – values, beliefs and norms.
- This will be the operating philosophy, which explains how it approaches work, how internal affairs are managed and how it relates to the external environment, including customers and clients.

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### 3.9 Mission success factors

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- **Critical performance areas:**
  - UCF (Unit Capability Factor – an indication of plant availability).
  - UCLF (Unplanned Capability Loss Factor – an indication of plant down time due to unforeseen events).
  - PCLF<sup>7</sup> (Planned Capability Loss Factor – an indication of plant down time for planned maintenance).
  - UAGS (Unplanned automatic grid separation – when a generator is removed from the national grid without prior notification to national control).
  - LTPH (Long Term Plant Health – an index indicating the long term health of the plant).
  
- **Financial**
  - ROE (Return on Equity).
  - ROA (Return On Assets)
  - CASHFLOW
  - REVENUE
  - OPEX (Operating expenditure)
  - CAPEX (Capital Expenditure)
  
- **Human Resources**
  - Employment Equity
  - Culture and Climate
  - HR Sustainability Index
  - Reward and Incentive Schemes



- **Environmental**
  - CAPCO<sup>8</sup>
  - ISO 14001 Adherence
    - LOT/USO<sup>9</sup>
    - Rehabilitation plan / budget
    - Environmental accounting
  
- **Diversification**
  - New Business Development  
(Measured in Rand)
  
- **Stakeholders**
  - Re-work
  - Guarantees
  - Condition Based Maintenance

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### 3.10 Culture

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At Matla Power Station we:

- Evoke energy (the capabilities a person brings to the workplace) through shared commitments
- Share a sense of urgency in attaining worthwhile goals and values
- Feel that we are working for something higher than ourselves
- Feel stronger and better for being a member of the group – it raises self esteem
- Manage ourselves, doing voluntarily what we see is necessary
- Rules and regulations are not allowed to get in the way of doing the work
- We work long hours without complaints
- Have a morale, a sense of camaraderie

- Have a sense of being special and different with special myths and jargon

The achievement culture is based on self-expression:

- Growth
- Success
- Distinction

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### 3.11 Focus Areas

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- Occurrence Management / Human Performance
- Operator Capacity Building
- Cost Minimisation
- New Business Development
- Develop and nurture a culture of innovation

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#### 3.11.1 Occurrence Management / Human Performance Strategy

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Occurrence Management / Human Performance priorities will, if implemented successfully, have a direct impact on the business performance. Thus these priorities will have a direct link and impact on the key performance indicators, as stipulated in the generation contract, Matla Power Station contract, PSM (Power station manager) contract, and HR sustainability index. *(In this regard all employees with a man grade of C upper and above had occurrence management and human performance form 40 % of their performance compacts.)*

##### 3.11.1.1 Purpose of the occurrence management (OM) system

- To investigate and implement preventative and corrective actions so they never reoccur.
- To learn from mistakes so they are not repeated.
- To evaluate trends and eliminate problems before they occur.

- To identify organisational latent weaknesses and eliminate them.

#### **3.11.1.2 Purpose of focusing on Human performance (HP)**

- Initiatives to reduce plant events caused by human errors
- Excellence in human performance implies excellence in power station performance
- Distinguish between an error and a violation, and implement appropriate actions to reduce human vulnerability.

#### **3.11.1.3 Occurrence Management / Human Performance key priorities for 2002**

- OPS<sup>10</sup> skill enhancement programme
- Investigator training
- Leadership development
- Implement new occurrence management system
- Optimise and roll out occurrence management process
- Establish business partnerships to ensure HP integration to all Matla's business processes
- Event preventative techniques / tools to be rolled out
- Human error free culture.

#### **3.11.1.4 Human Performance compact indicators**

- Event free day count (number of days between events)
- Error rates (number of human error per department per 1000 man-hours worked)
- Personnel error rate (number of errors per 10000 hours worked)
- HP related events two years rolling average
- Recurring causal factors
- Number of human related errors on UAGS trips
- Time to implement corrective actions (days)
- Number of employees or supervisors trained in human performance months versus number of generating units.



### 3.11.1.5 Occurrence management technical indicators

- Number of UAGS trips
- Mean time to trip days
- Investigations (Occurrence investigation reports %)
- Recommendations implemented (OAR's<sup>11</sup> %)
- Lead time OIRs<sup>12</sup> and OARs (number of days outstanding – classified per department).

To achieve the necessary business results and increase in production, several programmes were held during 2002. These included: a Human Performance week, an Occurrence Management drive, an Ops Challenge, an Ops Skill Enhancement Drive and Supervisory Development, to mention a few.

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### 3.11.2 Operating Capacity Building Strategy

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One of the reasons for focusing on operator skills enhancement was to reduce the station's vulnerability to error. Since operators are responsible for operating the plant, this area was seen as the most likely place where human errors would occur. Another reason was to reduce the average of operators by recruiting and training young operators.

The strategy consisted of two phases for 2002, where phase 1 focused on the Human Performance ethology / Ops challenge score sheet competencies etc, and phase two comprised of technical skill enhancement.



### **3.11.2.1 Operational aspects to phase 1 plan**

- Manuals – technical and non technical
- Pocket manuals (white card system)
- Human Performance symbols in each control room
- Experiential learning games
- Post Program (phase 1) service and care on the job (control rooms), to the key customers
- Incentives/ symbolic -windbreakers for students in 2002
- OPS personnel spouses relevant training and development.

### **3.11.2.2 Operational aspects to phase 2 plan**

- Technical simulator training on pre identified scenarios
- Analytical mental development
- Reinforcement of phase 1 learning.
- “Mini psycho dynamic’ intervention for operators.

### **3.11.2.3 Operating competency index**

The following indicators were included in operator’s performance compacts for 2002.

- Supervisory development
- HV<sup>13</sup> and PTW<sup>14</sup> authorisation
- PFFR<sup>15</sup> authorisation
- CBA for job (CBA is a measure of job competency)
- Retraining
- Simulator training
- Incident recall
- Human performance attendance

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### 3.11.3 Cost minimisation strategy

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The main strategy adopted was to reduce numbers through natural attrition and not through retrenchments. Packages were also offered to people as incentive to form their own companies that either contracted to Eskom or worked completely independently. Those who left the organisation were not automatically replaced, and all vacancies were scrutinised thoroughly and only vacancies crucial to the business were filled. The manpower numbers dropped from 1054 to 866, excluding external trainees, in the year, which was below the forecasted 874.

The station manpower cost increased from R 145 million in 2001, to R 176 million in 2002 as a result of the selected strategy. The 2002 manpower cost includes R 22.2 million in separation packages, R 3.3 million in hostel payments, and R 5.4 million in performance bonuses, which the 2001 cost omits. Excluding these imply that the 2002 manpower costs reduced to R 142.3 million. Discounting this to 2001 Rands using a discount rate of 8 % implies that the 2002 manpower cost reduced by 9.85 % in real terms, when compared to 2001 manpower costs.

There were other actions pursued under the cost minimisation strategy but not included in the business plan. These included the sale of Eskom houses, moving people out of hostels, selling of non core assets, and revision of working hours to get all non shift workers' start and stop times to coincide. These strategies are expanded further in chapter 4 where the strategies are evaluated.

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#### 3.11.4 New business development strategy

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A forth business strategy, pursued by the station but not covered in detail in the business plan was the New Business Development Strategy. The prime motivator for establishing this portfolio was to promote maximum return on investment for future share holders / business partners. It is envisaged that this will prepare the way for future business developments with regard to organisational change, privatisation and re-structuring of the overall business towards a more competitive environment. The organisational structure was changed to include a senior manager dedicated to exploring all options available for diversifying the business. Some of the new business opportunities looked at includes:

- **Fly Ash:** This product is an extraction from the furnace gas and is in the form of a very fine powder. It is envisaged that ash will in future become a sort after product in the construction industry as an additive to cement. It is already being used in the cement industry, but to a limited degree. One of the current limitations on expanding this market is transportation. The South African railway organisation is not in a position to transport the large quantities as required for example at the new harbour at Koega / Port Elizabeth. Expansion in the use of fly ash increases income, but more important is the minimized volume of ash having to be stored on ash dams at the power station.
  
- **Aluminium from ash:** The aluminium content in ash is between 20 and 30 %. It is in an aluminium oxide form. Current research indicates that it could be recovered cheaper than the conventional recovery of aluminium from ore. Further research is still required, but the concept appears to be very promising. The establishment of such a factory will increase the demand for electricity and therefore sales and revenue. Additionally there will be income from aluminium sales as well as

reduced expenditure from reduced volumes of ash to be handled on ash dams.

- **Water de-salination:** A new method for removing salts from water has been identified. This method, if the mechanical research is successful, will be a very cost effective way of removing dissolved salts from water. Current indications are that costs could be as much as 50% less than that of the cheapest current method applied to remove salts from water. The successful development of this invention could lead to revenue earnings of millions of Rands.
  
- **Water recovery from mines:** Many mines in the area have problems with underground water. This water is regularly transferred from one area to another to allow for continuation of underground operations, which is an expense added to operating cost and eventually the cost of coal. Also the water usage at a conventional power station is high in relation to a country with a low rainfall. This leads to a high operating cost to generate electricity due to a high water account. The mine water could be recovered to be used at the power station as cooling water and in this manner the surface water as stored in dams could be saved. Also the cost to the mines for transferring water as well as the cost to the power station for buying water could be reduced and thereby reduces the cost of electricity.
  
- **Ash backfilling:** This term means the filling up of underground mined areas with ash. The benefits of this will be a reduced cost for having to store smaller ash volumes on an ash dam as well as the stabilisation of the undermined areas from subsidence. By preventing subsidence future cost for repairs to roads and other private properties could be avoided.
  
- **Geothermal electricity generation:** With this method of electricity generation heat from beneath the earth's surface is used to generate steam which is used to drive turbines for electricity generation. The



additional motivation for doing research in South Africa is the availability of old mineshafts which are already at depths of 2000m. This means that no drilling is required for the first 2000m. This method of electricity generation requires initial capital expenditure and thereafter limited maintenance expenditure, but no expenditure on fuel. The expected benefits are a large saving on operating expenditure and eventually the cost of electricity.

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### 3.11.5 Strategy to nurture and develop the existing culture of innovation

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The Matla management team suggested that a strategy to nurture and develop the existing innovation culture within Matla be formulated and communicated to employees. Such a strategy should include the following:

1. Recognise people for suggestions and share information about successes.
2. Increase our leaders' risk appetite.
3. Streamline existing processes to encourage innovation:
  - a. Modification system
  - b. Safety suggestions
  - c. Occurrence management.
4. Develop a set of criteria for measuring innovation.
5. Market the new innovation drive internally, indicating the applicable procedures and processes involved in the innovation process.
6. Optimise (innovation + risk + value), where value = price – cost.
7. Create opportunities in which people create innovative solutions.
8. Remove blocks for making suggestions – do not use defence mechanisms like “It’s against policy” etc.
9. Channel innovation without killing creativity.





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## 3.12 Other Strategic Issues

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### 3.12.1. Strategic intent

- Core business focus – electricity generation
- Positioning of Matla – such that people can own shares in the future company
- Creation of flexibility in the organisation through outsourcing of non-essential services
- More investment in future required skills
- To be the most cost effective in our business
- Consistent, sustainable, excellent performance

### 3.12.2 Strategic Exposures

The management team felt that Matla in particular was exposed in the following areas and therefore carried a certain amount of risk that had to be addressed:

- Succession planning
- Knowledge capital retention
- Rigid structures
- Pricing structures
- Inflexible product
- Water availability
- National Energy Regulator (NER):
  - Legislation restrictions
  - Determined that Matla is a wholesaler and not a retailer
  - Dictates our competition and on what grounds we can compete
  - Places limitations on our licenses
- Rules and regulation pertaining to the industry not yet clearly defined or finalised
- Future ageing of the plant
- Environmental demands in terms of emissions, water usage and land
- Stability of the Southern African region



### **3.12.5 Major actions with existing staff must be taken within the next year to implement the major proposals**

#### **3.12.5.1 Management**

- Communication to power station
  - GroupWise, bulletins, team briefs, meetings, PA's s/s, walk and talk, mass briefs (Electronic information booth, cost maintenance)
- Discipline
  - Abdication of responsibility by supervisors (Strategy)
  - Schedule Fridays for disciplinary
  - Supervisors to take ownership
- Lack of introspection
  - Post mortem of projects to be captured by project leader
- Adherence to values
  - Re-enforce values
  - Re-address values at Mass Briefing
- Change from a role to achievement culture
  - Multi functional team across borders
  - Culture change
- Outsourcing – Formalise / Labour Got

#### **3.12.5.2 PLANT**

- Technical performance
  - Performance monitoring centralised under Engineering
  - Re-visit feasibility LTPH forum
  - RCM – Reliability centred Maintenance plan
- Boiler Plant Performance (4,5,6)
  - Replace boiler tubes
  - Visit Duvha



### 3.12.5.3 PRIMARY ENERGY

- Coal supply
  - Source high quality coal for blending purposes
  - Washing plant
- Water management
  - Introduce as KPI
  - Daily statistics to management in logs

### 3.12.5.4 Scenario planning (Productivity Development PTY/LTD)

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## 3.13 Other issues to be taken continuously on review

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### 3.13.1 Leadership

- Assessment and development to ensure effective and efficient leaders. Section 3. 14 provides a list of courses that the management team completed.
- MEC (Matla Executive Committee) , MPS band and supervisory development
- Teambuilding
- Organisational values
- Leadership roles
  - Change Agent
  - Facilitator
  - Visionary
  - Negotiator
  - Coaching - mentoring
  - Communicator
  - Diversity manager
  - Leader
  - Opportunity seizer
  - Persuade people and guide them



### 3.13.2 Human Resources

- Strategic alignment and change management
- Performance management and job descriptions
- Development
- Transport subsidy
- ABET (Adult Basic Education Training)
- Equity training, Maintenance & Operating Training
- Coaching and mentoring
- Ops Enhancement and capacity building
- “A band” development
- Employee wellbeing/wellness
- Succession management-pipelining
- Communication-information sharing

### 3.13.3 Business processes

- Optimising of Operating / Maintenance quality
- Assurance
  - DIIR<sup>17</sup>
  - High Voltage Regulations Authorisation
- Ash Plant
- Financial Management – cost minimisation strategy
- Matla Challenge
- Role of Engineering (including Production, Plant and Process engineers’ issue).
- Master indicator model - KPI's<sup>18</sup> – to be re-assessed
- Occurrence mgt / Human performance



### 3.13.4 Management

- Scenario planning
- Strategic issues
- Implementation of ideas -discipline
- Communication: business posters
- Sound values reflected decision making (Decision support systems)
- Management trust
- Basic housekeeping

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### 3.14 MEC leadership development

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#### List of competency training completed

1. Self management (Personal motives and insight),
2. Interpersonal relationships,
3. Change management,
4. Facilitation of leaders,
5. Mentoring and coaching – new generation leaders,
6. general business appreciation workshop (Business skills),
7. Business presentation skills,
8. Leadership in a global economy,
9. Persuasiveness skills,
10. Planning and organising,
11. Delegation and control,
12. Information processing & analysis,
13. Situational leadership,
14. Strategic planning,
15. Business simulation,
16. Problem solving and decision making,
17. Human performance,
18. Freeway innovation,



19. Strategic visioning and thinking,
20. Relevant reading material distributed, coaching and mentoring,
21. Team building and team bonding sessions,
22. General management.

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### 3.15 Chapter Summary

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This chapter presented the business plan of 06 November 2002. The vision of Matla power station is “To be the leading global provider of green and affordable energies in support of maximising resource utilisation and investor confidence. We will achieve this by diversification to remain ‘Simply the Best’.” The mission statement is “We aim to be simply the best by generating affordable and clean electricity.”

The strategies selected are:

- Occurrence Management / Human Performance strategy
- Operator Capacity Building strategy
- Cost Minimisation strategy
- New business development strategy
- Strategy to Develop and nurture innovation

Strategies not included in the business plan due to their sensitive nature are mentioned in this chapter but are expanded on in chapter 4, where they are evaluated.



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## **Chapter 4: - Evaluating the Business Plan and Strategies selected**

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### 4.1 Introduction

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This chapter evaluates the business plan described in chapter 3 against the grounded theory presented in chapter 2. The strategies selected are also evaluated to see if they support corporate strategies and goals. It is found that the business plan is deficient in many aspects but the strategies, if implemented properly, have the potential to position Matla as a strong competitor in a commercialised environment. Senior management support for the strategies selected is also evaluated through a questionnaire developed for this purpose. It is shown that all the chosen strategies do not enjoy the full support of senior management, and there are many shortcomings in the implementation of strategies. Also evaluated are the culture and the leadership. Even though the strategies are all good in their own right, more could have been done to prepare management for operating in a commercialised environment. All strategies selected support the corporate strategies selected by Eskom holdings and Eskom Generation, with the exception of the new business development strategy, which is a diversification strategy, which takes the focus away from core business.

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## 4.2 Evaluating the Vision

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The vision is misleading and ambiguous. It is unclear whether the station wants to expand globally and provide affordable energies to the international market, or whether it wants to measure itself against some global standards. It also specifies diversification as the strategy to achieve the vision, but the entire business plan is very vague about how the station plans to diversify its business. Section 3.11.4 (New Business Development Strategy) was compiled from information provided by the new business development manager and was not taken from the business plan itself. Another source of ambiguity is the strategic intent (3.12.1), which states that the focus is on core business which is electricity generation. If the focus is on core business, how will the vision be achieved through diversification? The ambiguities in the vision reduce the chances of the company achieving this vision and make proper communication of the vision a nightmare.

Eskom's strategic intent is "to be the pre-eminent African energy and related services business of global stature," while Eskom Generation's vision is "to be the preferred energy and related services supplier in chosen markets." Both specify "related services" yet the power station specifies diversification as the means of achieving the vision. The vision is therefore not in line with corporate vision.

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## 4.3 Evaluating the mission statement

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The mission statement places great emphasis on the customer, (which is good) but is too awkward in describing the company's present business scope (who we are and what we do). Included in the mission statement are statements like "we aim to be ...." , "we will....." and "we strive towards...." These all reflect future business scope, which is usually incorporated in a strategic vision. The business plan therefore appears to combine the concepts



of company mission (or mission statement) and strategic vision into a single statement describing where it is now and where it is going. This is not common practice among large organisations since there is pragmatic relevance in distinguishing between company mission and strategic vision.

The mission statement does, however, incorporate some aspects of how the company plans to convert the company vision into shareholder value, and how the company strengths will be exploited, but makes no mention of how the threats will be avoided.

The mission statement is also seen as too long. It has thirteen bullets, and still does not cater for all aspects the company's present business scope. On the other hand, Eskom Generation's mission has only 11 words "To satisfy customers' energy needs in order to promote shareholder's value." Eskom (the holding company) also has a simple mission "Eskom will grow shareholder value by exceeding its local and international customers' needs for energy and related services."

Assessing the gist of the mission statement indicates that it does support the holding company's mission statement, which was described before.

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#### 4.4 Evaluating the SWOT Analysis

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The SWOT Analysis done lists Strengths, Weaknesses, and Opportunities, but no mention is made of Threats encountered by the station. If threats are not recognised in a SWOT analysis, how will the business plan assist the station in steering away from the threats or neutralising them?



There are numerous contradictions in the SWOT analysis, some of which are listed below:

- “Technical performance” and “sustainable performance” are listed as strengths, while “lack of technical competencies (engineering)” is identified as a weakness. This is contradictory since technical performance and sustainable performance are the results of adequate and suitable maintenance strategies which take into account long term plant health, for which engineering is responsible.
- “Adherence to policies and procedures” is listed as a strength, but when describing the culture, the statement “rules and regulations are not allowed to get in the way of doing the work” is made.
- “Management team” and “Cost Management” are listed as strengths, but “Cash flow and financial management” is listed as a weakness.

“Outsourcing” is listed as a strength. What exactly is the strong point here? Is it the fact that Matla can outsource, do outsource, or out sources better than their competitors? If Matla can outsource better than its competitors, what is it that gives Matla this competitive advantage? There are other instances where just one word is used to describe a strength, weakness or opportunity. This makes evaluation very difficult, unless the individuals involved in the process are available to explain the gist of the discussion at the time. This should not be the case since the business plan should be a self standing document, without ambiguities and misinterpretation, and without the need for constant explanation. This is seen as a weakness, not just in the SWOT analysis, but throughout the document.

Also in the SWOT analysis, “Reward and recognition system” is referred to as a weakness, and “Reward and incentive schemes” is referred to as a mission success factor, yet there is no strategy to suitably address this. Given that there was a corporate drive to change the reward and incentive schemes in 2001 and 2002, it is unclear why this is referred to as a weakness.



The assessment of organisational strengths and weaknesses cannot be just a detached cerebral exercise, where managers and planners sit around a table listing strengths, weaknesses and distinctive competencies. It must be an all empirical one, in which implications and behaviour are learned by being tested in context of competitive advantage, perceived value in the value chain, increased security and reduced risk in the market place. Strengths and weaknesses have to be defined in the context of a problem or in terms of some frame of reference. Simply stating single words without defining a reference has the potential to mislead one into believing that a certain aspect of the business operation is a strength, when it is actually a weakness, and vice versa. This not only misleads the company into a false sense of wellbeing, but it also defeats the purpose of a SWOT analysis.

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#### 4.5 Using grounded theory to evaluate the business plan

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Rumelt's [1999:54] criteria for evaluating a strategy were discussed in chapter 2. Applying these to Matla power station's business plan of 06 November 2002 yields the following:

**Consistency:** Several contradictions were discussed earlier in the SWOT analysis. Perhaps the biggest contradiction of all is the fact that the vision specifies growth through diversification, but the strategic intent is to focus on core business. These are seen as mutually inconsistent goals and policies, and the business plan's failure to meet this criterion implies failure to meet one of the key factors necessary for the success of the business plan.

**Consonance:** The SWOT analysis does not incorporate an analysis of the threats faced by the company. Since threats are external to the business environment, the strategy cannot represent an adaptive response to the external environment and to the critical changes occurring within it. Such changes would include a faster drive towards privatisation, changes in environmental legislation, or some catastrophic event at the mine supplying



fuel to the power station. The business plan does not adequately address these possibilities.

**Advantage:** The business plan does not provide for the creation and or maintenance of a sustainable competitive advantage in the selected area of activity. All strategies can easily be adapted or copied by competitors. There is nothing that differentiates the business strategy of 06 November 2002 from that which could be easily copied by competitors. However, the timing of the strategies chosen should allow Matla to remain ahead of the competition, and force the others to play catch up. All the strategies chosen should start to payback within the next three years, which is when the industry should be competing in a purely commercialised environment. If the other stations have not embarked on similar strategic planning, their focus on competition could reduce because they would be trying to reorganise their organisations while they are fending off competition at the same time – thereby giving Matla competitive advantage.

**Feasibility:** The strategies selected have not overtaxed available resources, neither have they created unsolvable problems. The three main focus areas namely, human performance/occurrence management, operator capacity building, and cost minimisation are all practical and attainable. However the new business development strategy is exploring some new products and some new technologies to seek alternative means of manufacturing existing products. Since some of these technologies are not proven, time will tell whether the strategy will be feasible.

In conclusion, the business plan fails to meet all criteria required for the survival of the business, as specified by Rumelt, and most other experts in the field.



Wheelen and Hunger's twenty questions for evaluating a strategy were discussed in chapter 2. Adapting these questions to Matla power station's business plan of 06 November 2002 yields the following:

1. *Does the business plan conform to the basic mission and purpose of the corporation?* The first line of Matla's mission states "we aim to be simply the best by generating affordable and clean electricity." This shows that the mission conforms to the basic mission and purpose of the holding company.
  
1. *Is the business plan consistent with the corporation's external environment?* The business plan does support emerging opportunities by the creation of a position for a new business development manager to identify and exploit new business opportunities. However it does neglect to neutralise merging threats by not identifying threats in the SWOT analysis. This oversight implies the strategy cannot properly prepare the station to identify and counter potential threats.
  
2. *Is the business plan consistent with the internal strengths, objectives, policies, resources, and personal values of managers and employees?* The business plan places high emphasis on alignment between strategy and culture and even dedicates a strategy to nurture and develop the existing innovative culture. The strategy is also consistent with the internal strengths identified in the SWOT analysis. As an example, one of the strategies is on cost minimisation and one of the strengths is being a low cost generator. Another example is the new business portfolio being listed as a strength and a mission success factor and having a strategy dedicated to this. The fact that new business development is listed as a strength and a mission success factor is quite surprising, since there isn't much support for the new business development strategy among senior managers. This will be explored later in this chapter.



3. *Does the business plan reflect the acceptance of minimum potential risk, balancing it against the maximum potential profit consistent with the corporation's resources and prospects?* The new business portfolio could be classified as a risk, since no other station has a portfolio of this nature and new businesses are traditionally driven from Eskom Generation. The risks appear to be low, but so are the potential profits when compared to the revenues generated from the sale of electricity. The strategy does therefore accept minimum potential risk but does not (cannot) balance this against maximum potential profit just yet. Only time will tell if the strategy will yield profits high enough to make the strategy worthwhile.
  
4. *Does the business plan fit a niche in the corporation's market not now filled by others? Is this niche likely to remain open long enough for the corporation to return capital investment plus the required level of profit? (Niches have a habit of filling up fast.)* Since electricity generation is a focused business, it would be considered a niche. The strategy does have the potential to fill a niche if it can make Matla the lowest cost producer.
  
5. *Does the business plan conflict with other corporate strategies?* The contradictions in the vision of diversification or focusing on core business have been dealt with before.
  
6. *Are the strategies divided into substrategies that interrelate properly?* There are substrategies and they do interrelate. Examples of substrategies under the cost minimisation are the transport restructure and the working hour's revision, where both strategies needed to be coordinated properly since one affected the other.



7. *Have the strategies been tested with appropriate criteria (such as consistency with past, present, and prospective trends) and by the appropriate analytical tools (such as risk analysis, discounted cash flows, and so on)?* There is no evidence of testing using analytical tools or with any other criteria.
8. *Have the strategies been tested by developing feasible implementation plans?* Changes required to implement the strategies are discussed but no feasible implementation plans have been developed to get the organisation from where it is to where the strategy wants it to be. The business plan is void of implementation plans, except for the Human Performance/Occurrence Management strategy, where a lot of effort was put in to implementation.
9. *Does the business plan really fit the life cycles of the corporation's products?* The product is electricity, so the life cycle would be directly related to demand as a result of growth in the economy. The best form of strategy in this situation would be cost minimisation, which was selected as one of the focus areas.
10. *Is the timing of the strategies correct?* Generally, the timing is correct, but more emphasis could be placed on improving the cost minimisation and leadership development now.
11. *Do the strategies pit the product against a powerful competitor?* This question is not really relevant here since all competitors generate the same product. The level of competition for most of the products under the new business development strategy is not known.
12. *Does the strategy leave the corporation vulnerable to the power of one major customer?* It does, but altering this is beyond the scope of a power station in the current Eskom setup.



13. *Does the strategy involve the production of a new product for a new market?* The answer would be affirmative for some of the products covered in the new business development portfolio, but these are small in terms of risk and reward and should not expose the power station drastically should one, or a few of them not pan out.
14. *Is the corporation rushing a revolutionary product to market?* Again, the new business portfolio might have some products that could be considered revolutionary, but the risk of failure is not very high
15. *Do the strategies imitate those of a competitor?* Koeberg Power station has placed high emphasis on Human Performance and Occurrence Management, and on operator capacity building. This strategy therefore does not make Matla power station unique among competitors. Also none of the other strategies contained in the business plan of 06 November 2002, can not be copied by competitors.
16. *Is it likely that the corporation can get to the market first with the new product or service?* If more emphasis is placed on the new business development strategy, there is a good chance that the station would get to the market first, which would be of great advantage as it would give Matla a better chance of earning high returns on investment than an imitator. However, this would need full support from management, which it currently does not enjoy.
17. *Has a really honest and accurate appraisal been made of the competition? Is the competition under - or over estimated?* The business plan of 06 November 2002 makes no mention of the competitive environment and as such fails to make any sort of appraisal of competitors.
18. *Is the corporation trying to sell abroad something it cannot sell locally?*  
No



19. *Is the market share likely to be sufficient to assure a required return on investment? (Market share and return on investment generally are closely related but differ from product to product and market to market.) Has this relationship of market and product been calculated?* There is no evidence that the new products targeted has been subjected to any form of market evaluation, discounted cash flow appraisals, or evaluation of the relationship between market and product.

Using Figure 2.6 (Understanding a company's strategy – what to look out for) to evaluate the business plan yields the following:

- *Planned actions and initiatives to out-compete rivals:* There is no mention of competition and no plans to out-compete rivals in the business plan.
- *Moves to react and respond to changing external circumstances:* Changing environmental regulations and legislature are addressed with actions to reduce emissions and water consumption; however targets and implementation plans for all environmental actions are deficient in the business plan. Also, the most important change in the external environment is the possible change to a commercialised or even privatised organisation. The business plan only caters for these changes, to a limited extent.
- *Actions to alter geographical coverage:* This is not expected to be covered in the business plan since the product is supplied to a national grid and there is nothing that the station can do to control this.
- *Actions to merge with or acquire a rival company to strengthen the company's business position.* This is not considered as an option in the business plan but is not seen in a negative light given the current business arrangements in Eskom.
- *Actions to form strategic alliances and collaborative partnerships:* This is not considered as an option in the business plan even though there are many avenues open to the power station in this regard. One is to get a key supplier to manage aspects of stores management and to promote a just in time delivery system to reduce stock holding costs. In





this way the supplier would hold critical stock and only deliver when required to do so by the station. This refers to components with big holding costs, like turbine spares.

- *Actions to capitalise on new opportunities or to defend against threats to the company's well being:* Capitalising on new opportunities is addressed with the new business development portfolio. Threats are not taken into account and are not included in the SWOT analysis.
- *Actions and approaches that define how the company approaches R&D, production, sales and marketing, finance, and other key functions.* All these except R&D and marketing are addressed in the business plan. R&D and marketing are addressed at corporate level rather than at station level.
- *Actions to strengthen the company's resource base and competitive capabilities:* Some aspects are adequately addressed while others are not. One of the actions regarding coal supply is to source a high quality coal for blending purposes. No targets in terms of desired coal quality or time is set, and most importantly – at what cost should the higher quality coal be sought.
- *Actions to diversify the company's revenue base and enter altogether new industries or businesses:* This is addressed in the new business initiatives undertaken by the power station, and incorporated in the business plan.

The business plan does not assess the importance of stakeholder concerns. However the important stakeholders would be the customers, employees, people that live in the vicinity of the power station, and the holding company. Each of the strategies selected addresses each of their requirements. Customers want uninterrupted power supply and the human performance/occurrence management, and the operator capacity building strategies addresses this need. The business plan lists environmental issues as an action and this would address the concerns of those who live in the vicinity of the power station. The holding company would want maximum return on investment and long term sustainability and the station financial and technical performance address these. Employees wanting security would be





satisfied with the plans for long term sustainability. The business plan should have catered for issues like “what will stakeholders do if they don't get what they want,” and the probability of them doing it.

In summarising the business plan, it is evident that it is deficient in many regards and fails to meet all key functions that are necessary for the survival of the business. However, when testing senior management opinion (see Appendix 1 for questionnaire used) on whether it sufficiently prepares the station to out-compete rivals in a commercial, cut throat environment, eleven felt that it did, one felt that it did not and two were neutral, implying that there was a general lack of understanding of the principles of strategic management. This was confirmed when management was asked whether they should be purely operational, purely strategic, or a have combination of the two. One opted for purely strategic, two opted for purely operational, and eleven opted for a combination of the two, with the average ratio being 70 % operational and 30 % strategic. Those that felt that management should be purely operational noted that the strategic issues and guidance should now come from cluster management level and not from the station. In spite of the inclination towards operational management, nine respondents agreed that the time spent on the strategic planning process was a fruitful exercise and was beneficial to the company. Two disagreed and three were neutral.

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#### 4.6 Evaluating leadership

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Chapter two discussed the importance of identifying the leadership characteristics required for a given set of circumstances and of selecting the leaders to match those circumstances. Rothschild's three factors fundamental to strategic leadership and four types of leaders were also identified in chapter 2. The importance of matching the leader and the business, and making sure the leader has the right risk profile and time horizon were recognised by the power station manager, and in this regard the station has spent vast sums of money on leadership development and assessments during 2002. The Matla



management team covered the complete Eskom leadership model and other individual specific development, through courses which addressed 2-4 competencies simultaneously during specific interventions, team development programs, team bonding programs, peer pairing (on request and voluntary basis, PSM development feedback sessions (one on one discussions), mentors (voluntary basis), and the distribution of literature and other reading material on specific pre-identified topics. Various assessments were done as part of a development program (courses had their own built-in assessment batteries).

The assessments were done with 2 year intervals in mind and were used to determine cognitive ability, leadership style, conflict style, negotiation style, selling style, subordinate style, personality, management ability, team and individual leadership profiling, and team dynamics.

The leadership styles of the management team were found to be a mixture of directive, delegative, participative, consultation, and negotiation styles. It is interesting to note that of the sixteen members of the management team; only one had the potential to operate in a pure strategic environment. Source: Margaret Viviers and Associates – management consultants – Report on Matla leadership assessments - No document reference number quoted.

Other conclusions drawn from the assessments were that seven members needed development on strategic visioning and leadership skills, nine needed development on decision making skills/problem solving skills, two on business skills training, eight on planning, organising, delegation and coordination skills, and six on assertiveness, sensitivity and persuasiveness skills training. With the results of the assessments available to the power station manager, he changed the organisational structure and management responsibilities to match leadership characteristics with the given set of business circumstances at the power station. He also continued with the leadership development to address the shortcomings identified from the assessments.



The majority of the competency training completed consisted of the softer issues like interpersonal relationships, self management, business presentation skills to name a few. Section 3.14 provided a complete list of competency training provided.

If the future of power generation in South Africa is a commercialised one where power stations either individually or in clusters compete against one another, managers need to be trained in understanding the implications of operating in a business environment as opposed to in a governmental environment. The same management team could in future sit on the board of directors of the company. In this regard, the leadership development is deficient in providing training on corporate governance and on the legal issues of managing and directing in such an environment. Business Leaders need to be fully conversant with Legislation and changes thereto. They are also obliged legally to conform to certain leadership practices. The leadership development must address these issues by providing such training.

In conclusion, the leadership development drive in 2002 was extensive and covered the complete Eskom leadership model and other individual specific development issues. From the survey discussed in section 4.11, and with reference to the Thompson and Strickland model [Fig 2.5, p 40] there is a split between managers who anticipate change and those who lead change. They all prefer to find innovative ways to improve business efficiency, while 8 of the 14 surveyed prefer not to introduce innovative products that open new markets and spur creation of whole new industries. The conclusion drawn from the survey is that six are leaders of change, while eight anticipate change. None of those surveyed prefer to react to change.

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## 4.7 Evaluating Culture

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The business plan recognises achievement as the predominant culture at Matla. It recognises long hours worked without complaints and a sense of camaraderie that exists among employees at all levels of the organisation. It also acknowledges the general belief that “we are working for something higher than ourselves.” The achievement culture is based on the growth, success and the distinction that Matla enjoys. Winning the 2001 JH Smith award and the overall station performance in 2002 endorses this claim.

One of the strategies chosen is to nurture and develop the existing innovation culture at Matla power station by creating opportunities in which people create innovative solutions and by developing a set of criteria for measuring innovation, among others. This was recognised as a weakness in the SWOT analysis. It is therefore positive to note an organisational weakness being addressed in the strategy.

The Wheelen and Hunger model from chapter 2, p 47 is therefore not relevant here since the strategy chosen is to develop an existing culture, implying that there is strategic fit between the corporate culture and the strategy chosen.

The values identified (Integrity, Innovation, Excellence, and Customer satisfaction) are the same as Eskom Generation's values and supports the culture of achievement identified at Matla. The business plan acknowledges the impact of culture in the organisation with statements like “We will strive to create an environment conducive to a learning culture” in the mission statement and “It is very important to have congruence between Matla Power Station values and its strategic plan” in the discussion of the values selected. It is therefore felt that the business plan adequately caters for the cultural aspects in the organisation.

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## 4.8 Benchmarking

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As noted in chapter 2, most authors seem to cover a similar scope when recommending evaluation criteria, or tests for suitable strategies but none have included benchmarking to check if the strategies have been benchmarked against leaders in the industry or against those internationally that have been through similar transformational changes that the business is currently embarking on. The business plan under review is deficient in determining best practices not only in South Africa, but also at other utilities throughout the world. Many utilities in the US and UK have been through the commercialisation and privatisation processes already, and as such would have been a haven of information.

A Credit Suisse - First Boston equity research report entitled "*Utilities efficiency: identifying the overweights*" dated 26 September 2002 found that the best measure of operating efficiency is employees / GW. This report found 139 employees / GW to be the optimal number for maximum operational efficiency for coal fired utilities, implying that Matla being a 3.6 GW station would have to reduce employee compliment to 500 people to maximise operational efficiency. If benchmarking was done, information like this would have come out in the business plan. Also, crucial information like how companies went about reducing employee numbers would have also been picked and utilised.

Granted the workforce and trade union behaviour and conduct are different when comparing US and UK utilities to South Africa, benchmarking would have nevertheless provided useful information on how to achieve operational efficiency and on how to properly gear up for a commercial or privatised environment. When looking at a South African context, benchmarking companies like Iscor and Sasol (that were once parastatals and are now public listed organisations) would have given the relevant information on how to reduce numbers and how to deal with a different level of trade union activity when compared to US and UK utilities.





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#### 4.9 Value chain analysis

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The benchmarking exercise mentioned earlier would provide useful information on value chain optimisation. This would help in identifying core business and activities that can be outsourced. The business plan under review makes reference to outsourcing but does not identify activities to be outsourced. No value chain analysis was done to identify which activities give the firm its competitive advantage. Winning the Jan H Smith award implies that the station is better than the rest. A value chain analysis would indicate which aspects of the station stand out, where improvements are required, and which activities can be outsourced.

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#### 4.10 Scenario Planning

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Scenario planning is mentioned as one of the “major actions to be taken to implement the major proposals.” Scenario planning is not an action to implement a proposal but rather a forecasting technique that is used in the development of strategies. Scenario planning is a tool specifically designed to deal with major uncertain shifts in the firm’s environment. It is therefore done at the beginning of the business planning process and with managers who will later formulate and implement strategies based on the scenario analysis. Therefore, developing strategies before doing proper scenario planning is analogous to putting the cart before the horse.





### 4.11 Senior management opinion of the business plan and the strategies selected

Often, a big problem with selecting strategies is that even senior management does not fully support the strategies selected. A strong leader or certain manipulative or influential members of management can steer the process to suit personal agendas or to head the organisation in a direction that they think best. Successful implementation of a strategy relies on buy-in from senior management and the organisation as a whole. If senior management does not fully support a strategy, there will always be resistance and difficulties in the implementation thereof. To test senior management's buy in of the strategies selected, a questionnaire was developed and distributed to all fourteen members of the power station senior management team. There was a 100 % response rate within two working days. The questionnaire is attached at the end of this document as appendix 1. Some of the results are shown in table 4.1. Note section 4.6 referred to sixteen members being assessed in the leadership development drive. The two other people are not permanent members of management and were not involved in this business planning process.

Strategy	Number that support the strategy	Number that do not support the strategy	Neutral
Human performance / occurrence management	13	1	
Operator capacity building	13	1	
Cost minimisation	11	3	
New business development	6	7	1 neutral
Innovative culture	14	0	

Table 4.1 summary of senior management support for the strategies selected

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## 4.12 Evaluating the strategies

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The previous sections evaluated the business plan against the grounded theory presented in chapter 2. This section and the next evaluate the strategies chosen by the power station and, using the grounded theory from chapter 2, determine whether they support the corporate strategy, be it from Eskom Holdings or from Eskom Generation. The future state of power generation is assumed to be a commercialised one. In this regard, the key success factors are assumed to be low cost sustainable production with minimum plant down time. Compliance with strict environmental legislation and strict corporate governance would also be critical to success. The selected strategies are evaluated in the light of a commercialised environment to determine whether they sufficiently prepare the station to out-compete rivals in such an environment.

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### 4.12.1 Evaluating the Occurrence Management and Human Performance strategy

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The occurrence management / human performance strategy is the most comprehensive of all strategies in the business plan and lists details that all the other strategies fail to. There is great emphasis on preventing recurrence of incidences by learning from mistakes and identifying trends and organisational weaknesses. This strategy focuses on the human elements of plant performance by taking away the human error aspect of plant operation. This is a continuation of an existing strategy that began in 2001. Comparing human related errors to trips that occurred due to technical reasons indicates that human related unit trips have increased from 40 % since implementation in 2001 to 50 % in 2002, indicating that the strategy is not achieving its objectives. Table 4.2 reflects the results over the two years since implementation.



Cause of plant downtime	2001	2002
Human error	4	6
Technical	6	6
Unknown	0	1
Under investigation	0	1
Test	2	1
Total number of trips	12	15
Ratio: $\frac{\text{human error}}{\text{technical} + \text{human error}}$	4/10 or 40 %	6/12 or 50 %

Table 4.2 Number of human errors versus others in 2001 and 2002

Source: Human performance summary report – April 2003

Using Thompson and Strickland’s [2001:68] tests of a winning strategy yields the following:

**The goodness of fit test:** The strategy is well matched to industry and competitive conditions because it helps provide long term sustainability. By focusing on reducing human error, the plant down time is reduced, which is a key success factor. The strategy exhibits a tight fit with the company’s external situation (reducing plant down time in a commercialised environment) and the internal circumstances (improving employee morale by reducing human error.)

**The competitive advantage test:** The strategy leads to competitive advantage, by improving plant availability through reduced human error. However, this is not a sustainable advantage since it can easily be copied by others. The strategy itself was copied from Koeberg Nuclear power station.

**The performance test:** A good strategy boosts performance. The intention of the human performance / occurrence management strategy is to boost company performance by reducing unnecessary plant down time, which



would both increase company profitability and improve the company's competitive strength.

When senior management was asked whether the human performance / occurrence management strategy was achieving its objectives of reducing human errors, five believed it did, four believed it did not, and five were neutral. This mixed response raises questions about communication among management, since it is clear from table 4.2 that there was an increase in human related errors between 2001 and 2002. In spite of the mixed response, seven respondents felt that the strategy was not being implemented effectively; two felt that it was, and five were neutral. The biggest reason for the strategy's failure to meet objectives is the lack of proper implementation. Chapter 5 will present recommendations on options to improve the implementation of the strategy.

In conclusion, this strategy is a good one because it aims to reduce the human error aspect of plant operation, thereby reducing plant down time and boosting company performance to enhance the competitive position. However, it is clear from table 4.2 that the strategy is not meeting its objectives of reducing human error.

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#### 4.12.2 Evaluating the Operator capacity building strategy

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The business plan under review does not specify the reasons for focusing on operator capacity building or the background to the problem. It merely lists a few actions to build operator capacity. Operators are tasked with running the plant and have a huge responsibility in ensuring that the plant is run within the original design parameters to minimise damage to the plant, which could have serious long term implications to the station. It is therefore crucial that suitably qualified and motivated individuals are given the task of operating the plant. The problem that Matla experienced was that the average age profile of the existing operators was between 47 and 51 years, with some up to 64 years.





There were insufficient people in the system to fill these positions when the current operators reached retirement. Also, based on the 5 shift cycle adopted at Matla, there should be five operators per unit. Some units had four, while others only had three. In 2002, there was a major drive to build the operating capacity at Matla. In this regard, 15 bursaries were awarded to fast track people to fill the positions. These people should be developed and ready to independently operate the plant by the end of 2003.

The business plan separates the strategy into two phases. Both phases address both the training and motivational aspects around the job. Training is covered by technical and non technical manuals, pocket manuals, experiential learning games and through technical simulator training on pre-identified scenarios, while the motivational aspects are covered by incentives, motivational training and development, and relevant training to OPS personnel's spouses. None of the aspects covered in the operator capacity building strategy is sensitive enough that they should be excluded from the business plan. The strategy is a very good one in that it would prepare the station to operate to the correct standards in the future, but the business plan is deficient in that it should have contained more information in this regard. The strategy prepares the station for the future by addressing a requirement of sustainable production with minimum plant down time.

Using Thompson and Strickland's [2001:68] tests of a winning strategy yields the following:

**The goodness of fit test:** The strategy is well matched to industry and competitive conditions because it helps provide long term sustainability. It ensures that in the long term, operators are able to operate the plant within the required parameters. It also addresses a threat (although not covered in the SWOT analysis) by reducing the average age of operators. The strategy exhibits a tight fit with the company's external situation (being able to operate in a commercialised environment) and the internal circumstances (being the high average age of existing operators.)



**The competitive advantage test:** The strategy leads to competitive advantage, by ensuring a constant supply of capable operators for years to come. Capable operators ensure plant availability or reduced plant down time, which is a key success factor in a commercialised environment. However, this is not a sustainable advantage since it can easily be copied by others.

**The performance test:** A good strategy boosts performance. The intention of the operator capacity building strategy is to boost company performance by reducing unnecessary plant down time, which would both increase company profitability and improve the company's competitive strength.

In conclusion, this strategy provides the resources for long term sustainability and boosts company performance and competitive position.

When senior management was asked whether the operator capacity building strategy was achieving its objectives of reducing the average of operators, nine believed it did, three believed it did not, and two were neutral. When asked whether it was being implemented effectively, one strongly agreed, six agreed, two strongly disagreed, two disagreed, and three were neutral. How is it possible that people who communicate with each other so frequently can have such differing opinions on implementation of a strategy that affects the long term sustainability of the plant? This raises serious questions about the communication between managers in the organisation.

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#### 4.12.3 Cost minimisation strategy

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It is intuitive that the ability to cut costs would be a key driver in gearing a company for commercialisation. The cost minimisation strategy chosen by Matla is therefore an all important one in gearing the company for the future. However the business plan is deficient in identifying areas where value can be created through cost cutting. This does not mean that there were no cost cutting strategies undertaken. It simply means that the cost cutting measures





undertaken by the power station were excluded from the business plan document. The possible reason is that some of the strategies are considered classified and if the business plan document were accidentally leaked out, the implications would have been major trade union resistance and possible industrial action.

The key cost inputs into electricity generation are fuel costs, capital costs, and labour costs. The commodity nature of fuel prices and the fact that the power station management has little control over mining costs makes the scope for price reduction, in this regard, small. Capital costs, like cost of capital and depreciation, are prescribed at corporate level and as such, the station has little control over them.

Labour costs on the other hand are more controllable at power station level since the power station management can decide on organisational structure and the levels of outsourcing at any given time. Labour costs are more significant in segments that have lower capital requirements and are more labour intensive, as in the power generation industry. The business plan recognises reduction of manpower numbers as a key driver in minimising costs and details of forecasted manpower numbers and the manpower costs per internal business unit are provided. The station was also successful at reducing manpower numbers by 151 in 2002. It is felt that the station could have done more to reduce the manpower numbers even further, by targeting non performers with bigger incentives packages to leave.

Another major drive under the cost minimisation strategy for 2002 was to focus on outsourcing non core functions. In this regard, the station spent R3.3 million on getting people out of the Eskom hostels and into private dwellings. There was also a concerted effort to sell the Eskom properties in Kriel (where most of the staff reside) to reduce the administration fees and overheads in this regard. To help accomplish this, the station offered a significant 20 % discount on the market value of each property. The savings from this are already starting to be realised and the maintenance budget has dropped from R 16.2 million to R14.6 million – a saving of 10% in one year.



As a result of the above, the manpower numbers at the Properties maintenance department reduced from 102 to 68 - a 32 % reduction. The resultant annual savings of R 3.06 million was offset against a separation cost of R 10.8 million, implying a payback of 3.5 years. Given that the power station still has 30 years to run, this was a good decision and one that makes sound financial sense. Also, the payback period of 3.5 years means that the full benefits of this strategy will be seen at or around the time the full commercialisation process begins. The timing of this strategy is therefore perfect.

Another action that was omitted from the business plan, but was carried out under the cost minimisation strategy was the selling of non core assets at the transport section. Matla got rid of 43 big Eskom vehicles and leased 15 new smaller vehicles by optimising the business. Income from the sale of the vehicles was R 700 000. The 15 leased vehicles cost R 1 200 per vehicle per month including maintenance. Savings realised were maintenance, running costs, licensing costs and the staff that are no longer required to perform maintenance. The savings are immediate.

Also not mentioned in the business plan was the changed working times (to improve the situation of underutilisation of company transport) to get staff and artisans to use the same transport. With the previous arrangement, different working times meant that busses travelled at 50 % their capacity. Getting all non shift worker's working hours to coincide meant that there was an increase in utilisation of company transport. This action, together with the use of minibus taxis on less utilised routes, and forcing contractors to provide their own transport resulted in a saving of approximately R 150 000 per month. Unforeseen at the time was the impact of the additional transport (from contractors) on site and the impact of all working the same hours, on the traffic congestion on site. This has forced the station to contract an outside expert to look at the traffic problems and come up with some suitable alternatives.



Using Thompson and Strickland's [2001:68] tests of a winning strategy yields the following:

**The goodness of fit test:** The strategy is well matched to industry and competitive conditions because it helps the company to reduce operating costs, thereby increasing profitability. The strategy exhibits a tight fit with the company's external situation (being able to be profitable in a commercialised environment) and the internal circumstances (increasing operating efficiency).

**The competitive advantage test:** The strategy leads to competitive advantage, but this is not sustainable because it can easily be copied by others. Reduced operating cost is also one of the key success factors in a commercialised environment, but the power station can still do more to reduce costs even further.

**The performance test:** A good strategy boosts performance. The intention of the cost minimisation strategy is to boost company performance by improving operating efficiency, which would both increase company profitability and improve the company's competitive strength.

The cost minimisation strategy is the all important strategy chosen by the power station because it identifies the most important success factor for operation in a commercialised environment, and puts in place actions to address it. However this strategy does not include all possibilities for cost reduction. Manpower numbers could be driven down further to the 500 figure the First Boston Credit Suisse report used as a benchmark figure. Driving down these numbers would require large capital outlays for separation packages, and early retirement packages. The payback on projects like these is usually several years, so now would be the best time to implement actions to drive these numbers down. Also, power station functions like management awards and the function for winning the Jan H Smith award, could be toned down to reduce costs. The station could also look at stricter financial hurdle rates to be imposed on modifications and other projects, to ensure that they produce higher rates of return than presently.



When senior management was asked whether the cost minimisation strategy prepares the station to out-compete rivals in a commercial, cut throat environment, eleven believed it did, and three believed it did not. When asked whether it was being implemented effectively, four agreed, seven disagreed, and three were neutral. Many comments were made on ways to improve the implementation of the strategy, some of which are included in the recommendations in chapter 5.

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#### 4.12.4 New business development strategy

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The main benefit of a diversification strategy is that the risk is spread over more income sources. If a catastrophic failure occurs to one or two of the six electricity generating units, the power station would still be able to maintain an income until the damaged plant is repaired and returned to service, thereby maximising shareholder wealth. The actions chosen under the strategy are all related to finding alternative uses for the by-products of the primary cycle. Sasol, by comparison, started their operations with the core business being the manufacture of fuel from coal. Chemicals were not even considered a viable business at the time. Today, Sasol is known internationally as a chemical company and locally as a petrol producer. The potential profit from a diversification strategy like this is huge and the strategy has the potential to become a good one that maximises shareholder wealth. The timing of the strategy may be a bit of a contentious issue since many senior managers in the organisation are still not fully supportive of such diversification, and feel that the station should focus on core business. Some benchmarking should have also been done before committing to a strategy like this. Other utilities worldwide should have been benchmarked to see if they attempted diversification and what success rate they had with diversification. Important information like what products to attempt and what to avoid would have come out of such a benchmarking exercise.



Using Thompson and Strickland's [2001:68] tests of a winning strategy yields the following:

**The goodness of fit test:** The strategy is well matched to industry and competitive conditions because it helps the company expand the business and minimise risk, thereby increasing shareholder wealth. The strategy exhibits a tight fit with the company's external situation (maximising shareholder wealth in a commercialised environment) and the internal circumstances (spreading the risk of full dependence on one product).

**The competitive advantage test:** The strategy has the potential to lead to a sustainable competitive advantage, by giving the station the benefits of first mover advantage, where the one to market first reaps the biggest benefit.

**The performance test:** A good strategy boosts performance. If successful, the new business development strategy will boost profitability and improve the company's competitive strength.

When senior management was asked whether the new business development strategy prepares the station to out-compete rivals in a commercial, cut throat environment, six believed it did, four believed it did not, and four were neutral. When asked whether it was being implemented effectively, none agreed, eight disagreed, and six were neutral. No one felt that the strategy was achieving its objectives. Five were neutral. Only six of the fourteen managers surveyed supported the strategy.

In conclusion, this strategy has the potential to boost profitability by spreading the risk of dependence on one product (electricity). The timing is a concern. Benchmarking should have been done first and all senior managers should have complete buy in for this to be a success. There are obviously shortcomings in the implementation of the strategy and it is definitely not meeting its objectives.



#### 4.12.5 Strategy to nurture and develop the existing innovative culture

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The intention of this strategy is good but it fell flat on the implementation phase. There are no criteria for measuring innovation as specified in the business plan and the action to increase leaders' risk appetite never materialised – hence the resistance to the new business development strategy. The main reason for the failure of this strategy is the fact that the business plan only stipulates actions but there was no one tasked to drive this, or follow through on the actions.

Using Thompson and Strickland's [2001:68] tests of a winning strategy yields the following:

**The goodness of fit test:** The external situation in a commercialised environment would demand resourceful management that can exploit opportunities and overcome threats. The decision to nurture the existing culture of innovation shows that the strategy is well matched to industry and competitive conditions, and market opportunities and threats. There is therefore a tight fit with the external situation (requiring innovative use of resources) and internal circumstances (the existing culture of innovation).

**The competitive advantage test:** The strategy has the potential to lead to competitive advantage if management can utilise resources in a more innovative, original way. Innovative management can help find innovative ways to reduced operating cost, which is one of the key success factors in a commercialised environment.

**The performance test:** A good strategy boosts performance. The intention of the strategy to develop and nurture the existing innovative culture is to boost company performance by finding innovative ways to overcome problems, which could both increase company profitability and improve the company's competitive strength





When senior management was asked whether this strategy prepares the station to out-compete rivals in a commercial, cut throat environment, three strongly agreed, ten agreed, and one was neutral. When asked whether it was being implemented effectively, none agreed, nine disagreed, and five were neutral. Only three agreed that the strategy was meeting its objectives. Two disagreed and nine were neutral.

In conclusion, the strategy to develop and nurture the existing innovative culture is a good one in that it fosters innovative use of resources and promotes resourceful management to exploit opportunities and overcome threats which could both increase company profitability and improve the company's competitive strength. However it is falling flat in the implementation phase and is not meeting its objectives.

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#### 4.13 Do the strategies fall in line with corporate strategy?

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Presently, the state is the sole shareholder of Eskom, and government has repeatedly announced its intentions to privatise state owned assets, including Eskom. It is expected that such privatisation would include the sale of some power stations but not all. The details are very sketchy at this stage and there are as many arguments to sell a station like Matla, as there are not to. One argument for selling the station is that it is a very good performer so it would be able to attract a very good price. The main argument against selling Matla is that it is one of the better stations and Eskom should not get rid of its best assets because this would hinder Eskom's future competitiveness.

The most likely scenario at this stage is that Matla and a few other key base load stations would be kept by Eskom, and smaller power stations would be sold off. The future state of the industry would be different though, with a much higher level of competition and more emphasis on profitability and shareholder wealth. In this regard, the stations that survive the new era of



commercialisation would be the ones that produce at the lowest cost and are readily available to generate electricity when the customer demands it.

Corporate strategy is to get power stations aligned and attuned to operating in a commercialised environment. Power stations with the least operating costs in the long term and short term will be the ones that attract maximum market share. Matla's cost minimisation strategy therefore falls in line with corporate strategy in making the station think and behave commercially and even making it attractive to possible investors, should there be additional pressure to sell the station. The operator capacity building strategy also falls in line with corporate strategy in that it provides for the long term sustainable operation of the plant. Any potential investor would obviously demand that the operating staff be well trained and capable of operating the plant with long term plant health in mind, so that they can earn sustained income and returns from the business. The operator capacity building strategy therefore supports the corporate strategy.

The human performance / occurrence management strategy is also intended to prevent recurrence of incidents and to protect the long term health of the plant. It also focuses on short term operational aspects of the plant like trips related to human error and those related to technical problems. Increasing performance figures also makes the power station more competitive or attractive to investors and will help draw a big price tag should the station be targeted for sale. The human performance and occurrence management strategies are therefore in line with corporate strategy of gearing up towards privatisation.

The new business development strategy is a diversification strategy, while Eskom Generation's mission is to focus on satisfying customers' energy needs in order to promote shareholder's value. Eskom Holdings' mission states "Eskom will grow shareholder value by exceeding its local and international customers' needs for energy and related services." This strategy is therefore not in line with corporate strategy. It could however be argued that investors in general want maximum returns for the least risk. The new



business development strategy could therefore be seen as a good way of maximising share holder value, and a possible draw card for potential investors should the decision to sell the station be made. However the current corporate focus is on energy and related services. The strategy is therefore not in line with corporate strategy.

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#### 4.14 Chapter Summary

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The business plan is deficient in many regards. The ambiguity in the vision, the contradictions between the vision and the strategic intent, and the exclusion of “threats” in the SWOT analysis are some examples that support this statement. There is no mention of competition and no plans to out-compete rivals in the business plan. There are many one word statements made that are not substantiated. There are many actions but no targets and delegated responsible persons. No benchmarking is done to compare the business plan to other utilities around the world that have been through the same process. The business plan under review makes reference to outsourcing but does not identify activities to be outsourced. No value chain analysis was done to identify which activities give the firm its competitive advantage. Scenario planning is mentioned as one of the “major actions to be taken to implement the major proposals.” But this should be done at the beginning of the business planning process and with managers who will later formulate and implement strategies based on the scenario analysis. Scenario planning is not an action to implement proposals.

In spite of the deficiencies in the business plan, the strategies selected are seen as adequate in preparing the station for competing in a commercialised environment. The human performance / occurrence management strategy is a good one because it aims to reduce the human error aspect of plant operation, thereby reducing plant down time and boosting company performance to enhance the competitive position. The operator capacity building strategy provides the resources for long term sustainability and



boosts company performance and competitive position. The cost minimisation strategy is the all important strategy because it identifies the most important success factor for operation in a commercialised environment, and puts in place actions to address it. However this strategy does not include all possibilities for cost reduction. The new business development strategy has the potential to boost profitability by spreading the risk of dependence on one product (electricity). The timing is a concern and benchmarking should have been done first. The strategy to develop and nurture the existing innovative culture fosters innovative use of resources and promotes resourceful management to exploit opportunities and overcome threats which could both increase company profitability and improve the company's competitive strength.

There is general senior management support for the strategies selected, with the exception of the new business development strategy, where only six of the fourteen managers surveyed support it. Most commented that the station should be focusing on core business. Most of the strategies are failing in the implementation phase, and there is a lot of confusion among senior management whether strategies are meeting their objectives.

Even though the strategies are all good in their own right, more could have been done to prepare management for operating in a commercialised environment. The leadership development could have included training on corporate governance and on the legal issues of managing and directing in such an environment. The leadership development strategy could also include training to ensure managers are fully conversant with Legislation and changes thereto.



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## **Chapter 5: - Conclusions and Recommendations**

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### 5.1 Introduction

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This chapter concludes the study and makes recommendations on how to improve the various aspects of the business plan and the implementation of the strategies selected. The sequence used in chapter four is used here to provide uniformity.

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### 5.2 Vision

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The vision is misleading and ambiguous. It must be revised to make it achievable and to remove the ambiguity between the strategic intent, which proposes focusing on core business and the vision which specifies achieving goals through diversification. The ambiguities in the vision reduce the chances of the company achieving this vision and make proper communication of the vision a nightmare.

The new vision selected must tap peoples' emotions and energy, and if properly selected and implemented, must be so energising that it in effect jump starts the future by calling forth the skills, talents, and resources to make it happen.

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### 5.3 Mission statement

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The business plan under review combines the concepts of company mission (or mission statement) and strategic vision into a single concept describing where it is now and where it is going. There is pragmatic relevance in distinguishing between company mission and strategic vision and the mission statement must be revised to specify only present business scope.

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Statements like “we aim to be ....” , “we will.....” and “we strive towards....” must be removed and the mission statement must be reduced in length to conform to the general norm of not more than twenty five words. The mission must be made short enough for people to remember but should still ensure unanimity of purpose within the organisation and establish a general tone or organisational climate.

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#### 5.4 SWOT analysis

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The SWOT analysis has various contradictions and more importantly, it ignores the analysis of threats. The SWOT analysis must be redone to incorporate the threats faced by the organisation. Various contradictions in the SWOT analysis must also be addressed to give any credibility to the business plan. There are also instances where just one word is used to describe a strength, weakness or opportunity. This makes evaluation very difficult, unless the individuals involved in the process are available to explain the gist of the discussion at the time. This should not be the case since the business plan should be a self standing document, without ambiguities and misinterpretation, and without the need for constant explanation. The one word descriptions must therefore be removed and replaced with proper descriptions.

Strengths and weaknesses must be defined in the context of a problem or in terms of some frame of reference since a strength in one context may be a weakness in another. The assessment of organisational strengths and weaknesses must be an all empirical one, in which implications and behaviour are learned by being tested in context of competitive advantage, perceived value in the value chain, increased security and reduced risk in the market place.





## 5.5 The business plan

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With reference to the criteria laid out by Rumelt, the business plan fails to meet all key functions that are necessary for the survival of the business. The inconsistencies result in mutually inconsistent goals and policies. The business plan fails the Consonance test because it cannot represent an adaptive response to the external environment and to the critical changes occurring within it, without incorporating a full analysis of the threats faced by the company. The business plan does not provide for the creation and or maintenance of a sustainable competitive advantage in the selected area of activity since all strategies can easily be adapted or copied by competitors. It fails the feasibility test because some of the technologies explored under the new business development strategy, are untested and unproven. The recommendation is that senior management sit down and decide whether the best way forward for the company is through diversification or through focusing on core business, keeping in mind the corporate intention of focusing on core business. During this session, all managers involved must remove personal agendas and be completely honest, so that the leader of the organisation gets maximum support after the strategy is decided upon. Matla should also seek external assistance from a consultancy firm to assist with the business planning process, since the internal attempts have obviously failed.

There is no mention of competition and no plans to out-compete rivals in the business plan. The recommendation is that a Porter five force analysis is done during the next business planning session to include an evaluation of the competitive threats faced by the power station. The Wheelen and Hunger sixth force— namely the relative power of other stakeholders should also compliment the Porter five force analyses to reflect the power that governments, local communities, and other groups from the task environment wield over industry activities.

Another deficiency noted in the business plan is the lack of complete implementation plans for the strategies and actions decided on. As an



example, changing environmental regulations and legislature are addressed with actions to reduce emissions and water consumption; however targets and implementation plans for all environmental actions are deficient in the business plan. This was seen as the main reason that most of the strategies failed to meet their objectives. The recommendation is to include feasible implementation plans with targets in the business plan and to specify individuals responsible for certain actions and feedback, the form the feedback should take, and the date when the feedback is required. These should be included in the manager's performance appraisal, which is linked to his or her performance bonus. The strategies must also be translated into guidelines for the daily activities of the firm's members, and the strategies and the firm must become one – that is, the strategies must be reflected in the way the power station organises its activities and in the station's values, beliefs, and tones. In implementing the strategies, the managers must also direct and control actions and outcomes and adjust to change. It is therefore recommended that a tentative implementation plan be developed so that the difficulties that management is likely to face are addressed. This should be done in light of social trends, the industry, and the company's situation based on the construction of scenarios.

The business plan does not consider actions to form strategic alliances and collaborative partnerships; even though there are many avenues open to the power station in this regard. One recommendation is to get a key supplier like Alstom, on the turbine spares, to manage aspects of stores management and to promote a just in time delivery system to reduce stock holding costs. In this way the supplier would hold critical stock and only deliver when required to do so by the station.

The business plan does not fully explore all actions to strengthen the company's resource base and competitive capabilities. One of the actions regarding coal supply is to source a high quality coal for blending purposes. Again, no targets in terms of desired coal quality or time is set, and most importantly – at what cost should the higher quality coal be sought. This action cannot be considered as complete if there are no criteria to measure it



against. Again the recommendation is for management to set realistic targets, measurable goals and to identify people responsible for the implementation of the strategy.

The business plan under review makes reference to outsourcing but does not identify activities to be outsourced. No value chain analysis was done to identify which activities give the firm its competitive advantage. It is recommended that before decisions are made to outsource, management takes into consideration the following:

- Whether the activity can be performed cheaper or better by suppliers.
- Whether the activity is one of the firm's core competencies from which, stems a cost advantage or product differentiation.
- The risk of performing the activity in-house. If the activity relies on fast-changing technology or the product is sold in a rapidly-changing market, it may be advantageous to outsource the activity in order to maintain flexibility and avoid the risk of investing in specialised assets.
- Whether the outsourcing of an activity can result in business process improvements such as reduced lead time, higher flexibility, reduced inventory, etc.

The business plan is also fraught with single word actions that are meaningless unless complete minutes of the discussions are kept, which is not the case. The recommendation is that single word descriptions be avoided and complete descriptions used to avoid future ambiguity and misinterpretations.

When considering the changes that could occur in the industry in the near future, a comprehensive assessment of the business status needs to be executed and a revised, realistic, practical business plan needs to be developed, in terms of:

- What could actually happen?
- What is the likelihood that it will happen?



- When is it most likely to happen?
- Who will be responsible?
- What will be the most likely cost?
- Who will fund the plans?
- What will the returns be?
- What are the potential profits & rewards?
- What will the competitive arena look like then?
- Will the business plan position the company to out-compete rivals?

In developing the new business plan, the power station manager should:

1. Establish a sense of urgency, by using forecasting techniques like scenario planning.
2. Mobilise commitment to change through joint diagnosis of business problems. The power station manager should establish task groups to diagnose different business problems to produce a shared understanding of what can and must be improved and thereby mobilise the commitment of those who must actually implement change.
3. Create a guiding coalition of influential people, who act as missionaries or implementers. Such a coalition should include people who individually have the influence to lead such a change.
4. Develop a shared vision to get maximum buy in from management and employees.
5. Communicate the vision in a language that reaches out and grabs people, that create a vivid image in their heads, and that provokes emotion and excitement.
6. Enable employees to facilitate change by removing organisational policies, procedures, and hierarchical red tape that hinder employees.
7. Provide periodic reinforcement by creating general short term wins.
8. Use the credibility of short-term wins to consolidate gains and produce more change.
9. Anchor the new ways of doing things in the company's culture.
10. Monitor progress and adjust the vision as required.



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## 5.6 Leadership

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The majority of the competency training completed consisted of the softer issues like interpersonal relationships, self management, and business presentation skills to name a few. The leadership development drive was found to be deficient in providing training on corporate governance and on the legal issues of managing and directing in such an environment. Business leaders need to be fully conversant with legislation and changes thereto. They are also obliged legally to conform to certain leadership practices. The leadership development must address these issues by providing such training.

A point of concern is the lack of support most managers exhibited for some of the strategies they selected. The new business development strategy enjoyed minimum support. Also, many managers felt that strategies were not being implemented properly. If the senior management in the organisation doesn't fully support the strategies selected, how can the company expect to get buy in from the rest of the employees? It is no wonder that these strategies are not achieving their objectives. The leader of the organisation, in this case, the power station manager, should firstly, improve shared understanding through improved communication and secondly, not allow manipulative individuals to steer the strategic planning process to further personal agendas.

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## 5.7 Culture

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It is felt that the business plan adequately caters for the cultural aspects in the organisation. The achievement culture is based on the growth, success and the distinction that Matla enjoys. Winning the 2001 JH Smith award and the overall station performance in 2002 endorses this claim. Methods for improving the implementation and effectiveness of the strategy to develop and nurture the culture of innovation will be discussed later in section 5. 15.





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## 5.8 Benchmarking

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The business plan under review is deficient in determining best practices not only in South Africa, but also at other utilities throughout the world. Companies like Sasol, Iscor and Telkom should be benchmarked to see how they managed to transform from parastatal organisations to independent profitable organisations. International utilities should be benchmarked to see how successful diversification strategies have been, and to determine best practices in the power generation industry. The benchmarking exercise would reveal important information like optimal manpower numbers and information on how companies went about reducing employee numbers to improve operational efficiency.

The benchmarking exercise must be planned properly to establish exactly what should be benchmarked and who should be benchmarked. The station should also conduct primary and secondary research on the target companies and learn as much as possible before making any direct contact. It is crucial that the lessons on improvement from the benchmarking exercise be converted into actions through proper implementation plans; otherwise the benchmarking exercise would become a wasteful exercise.

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## 5.9 Value Chain

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No value chain analysis was done to identify which activities give the firm its competitive advantage. A value chain analysis would indicate which aspects of the station stand out, where improvements are required, and which activities can be outsourced. It is recommended that the station does a value chain analysis to help supplement the cost minimisation strategy and the human performance/occurrence management strategy. It is also recommended that the station consider partnering with major spares suppliers and outsource the





management of all spares to these suppliers, to move to a “Just in Time” delivery system.

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### 5.10 Scenario planning

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Scenario planning is a tool specifically designed to deal with major uncertain shifts in the firm's environment. It is therefore done at the beginning of the business planning process and with managers who will later formulate and implement strategies based on the scenario analysis. The recommendation is that scenario planning be incorporated into the next business planning process, but that it gets done at the beginning of the process to allow for the crafting of strategies to avoid threats and exploit opportunities based on the scenarios.

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### 5.11 Occurrence Management / Human Performance strategy

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This strategy has good intentions because it aims to reduce the human error aspect of plant operation, thereby reducing plant down time and boosting company performance to enhance Matla's competitive position. Successful implementation would help the station to be more competitive in a commercial environment. Comparing human related errors to trips that occurred due to technical reasons indicates that human related unit trips have increased from 40 % since implementation in 2001 to 50 % in 2002, indicating that the strategy is not achieving its objectives. Most respondents to the questionnaire felt that this strategy was not being implemented properly.



Recommendations to improve the implementation include:

- Improvements to the reports produced from the system to make them more extensive showing trends and risk areas.
- Adopt the EPRI model, which is proven, rather than trying to reinvent the wheel.
- Perform some psycho- dynamic tests to establish whether there are personal conflicts in the department responsible for implementation.
- Improve communication by making the process more structured to instil the required culture and increase awareness of lessons learned.
- Introduce third parties to help with the implementation, and thereafter maintain it internally.
- Increase the focus of those tasked to implement the strategy.
- Establish a close out committee to review major incidents.
- Include human performance / occurrence management indicators on management's and operators' performance appraisals.
- Improve management buy in and support by instilling more discipline and improving communication.
- Change the driver of the process to a non HR person, since there is currently too much focus on theory and too little on the practical side of human performance.
- Improve communication to change the perception that human performance is a witch-hunting exercise. Don't send contradicting messages by punishing for errors that have been committed – only punish when there is clear evidence of negligence or if the error is of a repetitive nature.
- Identify a few high impact areas and focus on these.
- Engage more involvement in the lower levels of the organisation through improved communication and increased responsibility.
- Communicate the actions from the investigations widely.

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## 5.12 The Operator capacity building strategy

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It is crucial that suitably qualified and motivated individuals are given the task of operating the plant. The intention of this strategy to provide the resources for long term sustainability and to boost company performance and competitive position by increasing the number of suitably qualified individuals to operate the plant, is a good one. Three respondents are of the opinion that the strategy is not meeting its objectives, while nine feel it is. Also, seven believe that it is being implemented effectively, while four believe it is not. Looking at the number of bursaries granted, the strategy is achieving the objective of reducing the average age of operators, but perhaps not fast enough.

Recommendations to improve the implementation include:

- Update the training methods to make them more applicable to the higher standard of intakes. The training programmes were developed a long time ago to suit people with low academic qualifications. The new recruits have much higher credentials and should learn a lot faster, but the same training methods and durations are used for them.
- Instead of having separate operating departments per internal business unit, return to having a single operations department. This would help maintain a common shift cycle throughout the station, and allow the station to draw from a bigger pool of people.
- Place a high focus on career path development for operators to make operating a more desirable career.
- Review the remuneration strategies for operators to make operating a more rewarding career.
- Keep the strategy alive and not allow it to lapse after the present backlog has been addressed.
- Focus more on the practical aspects of the job, and try to get the theoretical training done at a much quicker pace.
- Place more emphasis on the performance of trainees to shorten the programme.



- Target operators from other power stations to shorten the training time even further.
- Improve the level of professionalism of the training provided to instil the same behaviour in the trainees.
- Get operator mentors to adopt learner plant operators to share experiences.
- Management must be more patient with learner operators because experience and skills can only come with time and practice.

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### 5.13 The Cost minimisation strategy

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The cost minimisation strategy is the all important strategy chosen by the power station because it identifies the most important success factor for operation in a commercialised environment, and puts in place actions to address it. However the business plan is deficient in identifying areas where value can be created through cost cutting and this strategy does not include all possibilities for cost reduction.

There is general support among managers with the exception of two individuals who feel that the cost minimisation is being done to the detriment of plant health. There was mixed response on whether the strategy was being implemented properly (four felt it was being implemented properly, three were neutral, and seven felt it was not being implemented properly)

Recommendations to improve the implementation include:

- Analyse the value chain to identify areas where costs can be cut.
- Benchmark best practices and implement cost saving practices.
- Reduce manpower numbers to 500 employees.
- Use discounted cash flow analysis, and other scientific project appraisal techniques for the projects proposed under the new product development strategy, and for any modifications done to the plant.



- Perform proper business risk analysis so that well informed decisions on where to cut costs can be established.
- Be more transparent in the budgeting process to remove the “fat” and focus more on cost reduction. The linkage to the performance bonus system might be a hindrance to this strategy since it promotes artificially inflated budgets.
- Change management’s performance contracts to be more targets oriented and drive down costs through stricter targets.
- Refocus on costs associated with “life of plant plans (LOPP)” issues, and use the LOPP as a basis for budgeting and expenditure on technical aspects in the medium to long term.
- Implement plans at cost centre level through strict targets for cost centre managers.
- Educate all to recognise wastage in contracting, materials, and time.
- Provide training on better outsourcing / contracting out to develop better negotiators.
- Improve the forecasting skills at all levels down to supervisory level to allow for more accurate budgeting.

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#### 5.14 The New business development strategy

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This strategy has the potential to boost profitability by decreasing the risk of dependence on one product (electricity). The timing is a concern. Benchmarking should have been done first and all senior managers should have complete buy in for this to be a success. Other utilities worldwide should have been benchmarked to see if they attempted diversification and what success rate they had with diversification.

Management’s response on whether they support the strategy was mixed, with six indicating that they do support it, and seven indicating that they did not. Many comments were made on the questionnaire indicating that those that supported it only did so, on a cluster level and not at power station level.



Many felt that it was beyond the scope of the power station, and the station should focus on core business. The questionnaire used was found to be deficient in that it should have specified whether support was at station level, or at cluster level. The conclusion is that there is minimum support for the new business development strategy in its current form at power station level.

Recommendations regarding this strategy include:

- Make it more practical and obtainable, as opposed to a dream or a “nice to have”.
- Get a workable strategy in place with a formal structure and not let only one person drive the strategy.
- Remove the red tape that hinders innovative thinking and new business development.
- Communicate its benefits again to the senior management, and if full senior management support cannot be obtained, it should be scrapped before any more money is spent on it.

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### 5.15 The Strategy to nurture and develop the existing culture of innovation

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This strategy is a good one in that it fosters innovative use of resources and promotes resourceful management to exploit opportunities and overcome threats which could both increase company profitability and improve the company’s competitive strength.

There is maximum support for this strategy, with all respondents indicating that they supported it. However there were mixed feelings on whether it was meeting its objectives and on whether it was being implemented properly.



Recommendations to improve the implementation include:

- Improved communication to capture responses and drive the initiative throughout the organisation.
- Formalise innovative initiatives in terms of all aspects of the business.
- Recognise innovative solutions with special gifts and communication in the company monthly newsletter.
- Place more focus on just rewards.
- Get some external assistance to help drive the strategy, since the internal attempts have thus far failed.
- Free power station business units from absolute regulation, to allow more flexibility and innovation.
- Decentralise decision making since only senior management make decisions currently. This has the potential to demotivate middle managers and restricts free thinking.
- Remove the red tape that restricts innovation.

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#### 5.16 Do the strategies fall in line with corporate strategy?

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The cost minimisation strategy falls in line with corporate strategy in making the station think and behave commercially and even making it attractive to possible investors, should there be additional pressure to sell the station. The operator capacity building strategy also falls in line with corporate strategy in that it provides for the long term sustainable operation of the plant. The human performance and occurrence management strategies are intended to prevent recurrence of incidents and to protect the long term health of the plant. It also focuses on short term operational aspects of the plant like trips related to human error and those related to technical problems. The human performance and occurrence management strategies are therefore in line with corporate strategy of gearing up towards a commercialised business environment.



The new business development strategy is a diversification strategy, while Eskom Holdings and Eskom Generation's mission and vision speak of energy and related services. This strategy is therefore not in line with corporate strategy.

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### 5.17 Summary

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All objectives of this study as laid out in Chapter one have been met.

It is shown that the business plan is deficient but the power station's strategies position it to operate successfully in a commercial environment. The extent to which the current strategies fall in line with corporate strategy were also explored and it was found that all but one supports corporate strategy. The strategy that did not support corporate strategy was the new business development strategy. The study also looked at whether the current strategies were achieving their intended objectives and recommendations were made to change the implementation process of those objectives that were not being met. It was also shown that all strategies do not enjoy maximum senior management buy in, and support, and recommendations were also made in this regard.



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Appendix 1 Questionnaire used to test management buy-in of the business plan and strategies selected.

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## Memorandum



To Matla MEC  
From V. Rajpaul  
TPE Manager

Date 30 April 2003

Ref No: UND/MEM/001

Enquiries  
Vikesh Rajpaul  
Tel + 2717 612 6330  
fax + 2717 612 9227

**Subject: Questionnaire for MBA dissertation**

Sir/Madam

Please find attached a questionnaire surveying how you view the business plan generated on 06 November 2002, and your support for the strategies developed in the business plan. This document has been sent to all members of the MEC. The results will be used to determine the buy in from senior management, of the strategic planning process and the strategies selected. It will also be used to assist me in completing a dissertation, which is the final requirement for my MBA studies. In completing the questionnaire, simply tick the point you feel is most applicable.

The results of this survey will be made available to the Cluster general manager and the Power station manager, who will in turn pass it on to you if they see fit. All respondent names will be withheld and the responses will be treated with the utmost confidence.

I thank you for your time and look forward to your response. It would be appreciated if you would return the questionnaire to me before 10 May 2003.

Yours Sincerely  
Vikesh Rajpaul









16. The new business development strategy is being implemented effectively.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

17. The new business development strategy is meeting all its objectives.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

18. What in your opinion should change to improve the implementation of the new business development strategy?

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19. Do you support the new business development strategy?

Yes	<input type="radio"/>	No	<input type="radio"/>
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20. The strategy to develop and nurture the culture of innovation prepares the station to out-compete rivals in a commercial, cut throat environment.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

21. The strategy to develop and nurture the culture of innovation is meeting its objectives.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>





22. The strategy to develop and nurture the culture of innovation is being implemented effectively.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

23. What in your opinion should change to improve the implementation of the strategy to develop and nurture the culture of innovation?

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24. Do you support the strategy to develop and nurture the culture of innovation?

Yes	<input type="radio"/>	No	<input type="radio"/>
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25. The time spent on the strategic planning process is a fruitful exercise and is beneficial to the company.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

26. The business plan is complete in terms of exploring all reasonable options to get Matla to out-compete rivals.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



27. The business plan is in line with Generation vision and mission.

- Strongly agree      Agree      Neutral      Disagree      Strongly disagree
- 

28. In your opinion, are there any other actions that could have been pursued to help Matla out-compete rivals?

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29. Do you believe that Matla MEC should be more operational, strategic or have a combination of the two?

- Operational                                            Strategic                                            Combination

30. If you think members of the MEC should be both strategic and operational, what ratio –strategic to operational –would you say would be optimal?

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31. In crafting the station strategy, do you think Matla should:

- Wait for directions or guidance from head office                            Introduce innovative products that open new markets and spur the creation of whole new industries.

32. In crafting the station strategy, do you think Matla should:

- Wait for directions or guidance from head office                            Be innovative in finding ways to improve business efficiency