

**THE DEVELOPMENT OF A BUSINESS STRATEGY FOR
DPA SPECIALIST CONSULTING ENGINEERS**

By

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CONFIDENTIALITY CLAUSE

TO WHOM IT MAY CONCERN:

Due to the strategic importance of this research, the contents shall remain confidential and not be circulated for a period of ten years.

Sincerely

A handwritten signature in blue ink, appearing to be 'B L JEWASKIEWITZ', with a large, stylized flourish extending downwards and to the right.

B L JEWASKIEWITZ

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Date: 09/09/2003

DECLARATION

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



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ABSTRACT

DPA Specialist Consulting Engineers is a relatively small firm specialising in materials technology in the specialist civil engineering consulting and contracting industry. The organization has experienced many positive and negative changes over its history, and is currently in a precarious position, faced with numerous environmental opportunities and threats, while exhibiting significant strengths but also critical weaknesses. The firm does not have a formally crafted strategic plan from which to base its managerial decision making.

It is widely held that strategic planning is critical for the success of a competitive business in today's turbulent environment. In this study, pertinent theories pertaining to strategy development and evaluation are explored, and relevant models are adapted for the purpose of analysing and evaluating the organization and its circumstances. The facts provided in the case study pertaining to the organization are then analysed through the developed body of theory and the models presented. The theoretical models utilized provide the criteria by which it is possible to determine the areas in which the organization is performing well or poorly. At the same time, strategic options are developed and are evaluated in the context of the case study, and recommendations are provided with respect to the appropriate courses of action.

It is shown that a competitive strategy of focused differentiation will be appropriate for the organisation. An assessment of available grand strategies reveals that the organization will be best served by an initial turnaround strategy, followed by a strategy of concentrated growth and innovation. It is also shown that a strategy of concentric diversification, in terms of the spin-off of the contracting business is appropriate under the circumstances. However, it is also evident that unless the recommendations pertaining to the turnaround strategy are followed, the firm's critical weaknesses and environmental threats will severely threaten the sustained survival and success of the organization.

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CHAPTER 1: INTRODUCTION

1.1. INTRODUCTION

It is widely recognised that for a business to be successful, in terms of maximizing its strengths and neutralizing its weaknesses in order to take advantage of the opportunities presented, a well-crafted strategy is required. DPA Specialist Consulting Engineers, a company that has undergone many changes over the years and has experienced many successes and failures, is a company in need of a strategic direction.

The directors of the firm have to make some critical strategic decisions with respect to averting a potential crisis and restoring the organisation's competitive position in the industry. Research into the organisation's current situation needs to be conducted in order to arrive at a set of appropriate recommendations on which such decisions can be based.

This chapter briefly provides the background behind the proposed research and an outline of the manner in which the research is to be conducted. It is recognised that the research needs to be conducted in line with well-established theories on corporate strategy, and that the qualitative case study approach is required.

1.2. BACKGROUND OF THE RESEARCH

Company Background

DPA Specialist Consulting Engineers is a relatively small company specialising in materials technology in the civil construction industry. The company is relatively well known in the niche market in which it operates and it has developed a well-deserved track record, dating back to the origins of the company in 1981. DPA offers a wide range of specialist services, including concrete diagnostics, assessment and repair, the rehabilitation of architectural structures, waterproofing design, insulation design, steel corrosion assessment and protection, forensic engineering and failure analysis,

contract documentation and management, laboratory testing and materials evaluation and quality control and assurance services.

The company, based in New Germany, Kwa-Zulu Natal, was founded by Patrick Draper, an industrial chemist, and Derek Penhall, a professional civil engineer, both of whom had considerable prior experience in the industry. Pat Draper had a background in corrosion protection technology and specialist materials, and had also been a founder of abe Construction Chemicals and Prostruct, two well-known specialist materials suppliers in the industry. Pat had been instrumental in the development of many specialist materials currently available. Prior to joining Pat, Derek Penhall was the national technical manager for Sika SA, another well-known specialist materials supplier. The two headed the business, along with Wynand Louw, a partner based in Johannesburg, until 1998, when Pat Draper retired and Derek Penhall, the managing director of DPA, brought his brother in law, Shane Harrison, into the company as the financial director. Shane's qualifications as a chartered accountant and his background of running various small businesses effectively stood DPA in good stead, as he came into the business during a period of flux and financial difficulty.

Shane Harrison joined DPA at a point at which it had stumbled along and grown to a stage where important aspects of the business were becoming unmanageable, simply due to a lack of adequately trained personnel. Derek Penhall simply could not run the business on his own and still be effective in the marketing and technical departments. Shane implemented various administrative structures and procedures, resulting in the streamlining and proper functioning of the administrative and financial departments, leading to better reporting and overall management of the business. As Shane's role within DPA developed, he readily took on more decision-making, often basing his decisions on accounting principles. For example, the Johannesburg office was closed in 2001 as it had been making an accounting loss for a period of about five years. However, the management issues that were the cause of the financial problems were not addressed, rather, the symptom was removed.

Brendon Jewaskiewitz joined DPA in 1998 as an engineer with a BSc degree in Civil Engineering. After gaining a few years of experience with DPA, he was appointed to

the board of directors in November 2000. During this time, the focus of the company shifted gradually towards turnkey projects where DPA would handle both the consulting and contracting components of projects. The result was the formation of a separate company, DPA Projects, run by the same board of directors and employing the staff and resources of DPA Specialist Consulting Engineers. In this manner, DPA Projects could also be used as a purely contracting concern, a decision that has proved very successful in light of the apparent reduction in available consulting work and associated downward pressure on professional fees. It is indeed the contracting side of the business that is currently supporting the firm as a whole.

At present, DPA does not have any formal strategic planning and evaluation process in place. Historically, strategic decisions have been made solely and informally by the owner and managing director of DPA Specialist Consulting Engineers, Derek Penhall. More recently, the managing director of DPA Projects, Shane Harrison has played a greater role in terms of decision-making, especially in the contracting field. Such decisions have been entrepreneurial and opportunistic in nature for the most part, based on the company's fields of expertise in specialist civil engineering niche markets. The company experienced reasonable growth in terms of turnover and staff compliment over its initial ten to fifteen years of existence, but the lack of strategic planning ultimately lead to deficiencies in many areas. Even good ideas that were based on strategic thinking were often not implemented or monitored adequately, mostly due to Derek Penhall's over commitment to almost all areas of the business.

It is evident that a genuine lack of delegation and structuring of the business has lead to the current circumstances in which the company finds itself. All too often, it is the case that Derek Penhall's overall enthusiasm in terms of 'getting involved' in anything from equipment maintenance to employment contract writing, results in neglect of the critical success areas of the business. This has ultimately lead to the current strategic situation in which the company finds itself, which could be likened to that of a 'rudderless ship'.

Theoretical Background

It is widely held that strategy development and planning is vital to the success of a business in today's competitive environment. Many theoretical models have been developed for the purpose of strategic analysis and evaluation, and it is necessary to select appropriate models to be applied to the case at hand.

For the purposes of the development of a strategic framework for DPA Specialist Consulting Engineers, the framework for the evaluation and selection of strategies of Johnson and Scholes (2000) will be used in a slightly modified form. Initially, a strategic analysis pertaining to the organization and the circumstances in which it is operating will be presented, followed by the development of strategic options, based on the various forms of analysis. According to the framework of Johnson and Scholes (2000), these options will then be evaluated through various forms of suitability and acceptability analyses, highlighting those areas in which the organization is performing well and those areas in which the organization is weak. An assessment of the financial feasibility of the developed options will be excluded, as this is expected to form the basis of further research in the future.

The strategic analysis will be based on the circumstances of the organization, including strategically relevant internal and external factors. The analysis will incorporate an examination of industry conditions, a Five Forces competitive analysis based on Michael Porter's theory, and a weighted SWOT analysis (Jacobs et al, 1998). The models employed will be used to illustrate the current circumstances in which the organization is operating and will also be used to identify trends in the industry.

Following the development of a company mission and long-term objectives, strategic options will then be developed, based on the findings of the strategic analysis. Michael Porter's model for the selection of generic competitive strategies and the models for grand strategy selection proposed by Pearce and Robinson (2000) will be used for this purpose.

The strategic options developed will be then assessed for suitability, in accordance with the framework of Johnson and Scholes (2000). This will include a life-cycle analysis, an assessment of the positioning of the company's services, a value chain analysis and a portfolio analysis. This will enable the relative merits of the strategic options to be assessed. Following this process, the acceptability of the strategic options will be assessed through a sensitivity analysis and an analysis of stakeholder reactions, with a significant portion of this part of the evaluation focused on the organisation's culture and leadership.

Finally, based on the strategic analysis and evaluation process, appropriate recommendations with respect to strategic action will be provided.

1.3. MOTIVATION FOR THE RESEARCH

DPA Specialist Consulting Engineers does not currently have a formally developed strategic plan. Whereas strategic choice has conventionally been the domain of the managing director of the organization, it has been realized that a more formal process of strategy development based on the available body of theory is necessary.

The organization has a wealth of expertise and competencies, but also suffers from a wide range of weaknesses, hampering the sustained success of the organization. It has been recognised that the current lack formal strategy development is one of the main reasons for the organization not being able to achieve its full potential. In addition, a formal strategy would be extremely beneficial in light of the current environmental conditions facing the firm, presenting both opportunities and growing threats. It is for this reason that research into strategy development for the organization has been deemed necessary.

1.4. VALUE OF THE PROJECT

The study is expected to provide significant value to DPA in terms of the proper guidance of strategic decision-making and strategic planning. At present, the company does not have a formal strategic plan or strategic planning system in place, and it is envisaged that the outcomes of the study will result in a platform from which future planning may take place, ultimately resulting in better decision making by the management team.

The coordination of business activities along appropriately determined strategic guidelines should add significant value to the firm in terms of improving revenues and profitability, while also guarding against potential pitfalls which could irreparably damage the organization.

1.5. PROBLEM STATEMENT

The aim of the proposed research is to derive a formally crafted business strategy for DPA Specialist Consulting Engineers, which it currently lacks.

The problem statement is therefore “What is the most appropriate business strategy for DPA Specialist Consulting Engineers?”

1.6. OBJECTIVES OF THE STUDY

The objectives of the study are as follows:

- To determine the theoretical basis on which the company’s business strategy should be founded.
- To evaluate the company within the framework provided by the developed theoretical models.

- To provide recommendations with respect to strategic options, based on the findings of the evaluation exercise.

1.7. RESEARCH METHODOLOGY

The research methodology will be qualitative and descriptive in nature. The research will be based on a cross-sectional, in-depth case study approach, based on the knowledge and experiences of Brendon Jewaskiewitz, a director of the organization.

All data and information pertaining to the organization provided in the case study will be primary data, based on his knowledge of the firm and internal company records. Secondary data pertaining to the industry in which the organization is operating will be sourced through the internet and relevant journals and publications.

The data and information provided in the case study will be processed through the selected theoretical models, obtained from secondary sources, forming the framework for strategy development. This will enable the identification of positive and negative aspects of the organisation's current environmental situation, internal strengths and weaknesses, and aspects of the business that are being well or poorly executed. The conclusions drawn from this proposed form of analysis will essentially entail the provision of recommendations with respect to improving the performance of the organization and providing strategic guidance.

1.8. LIMITATIONS OF THE PROJECT

It is recognised that a limited strategic study of an organization on a case study basis cannot cover all aspects of the business or the available body of theory. The study will therefore be limited to a theoretical investigation of strategic options and recommendations, to the exclusion of an analysis of sensitive financial data relevant to the company. Further research into this area of the business is, however, recommended in terms of supplementing the findings of this study.

The research is intended to provide strategic insights with respect to the current circumstances of the organization. It must be recognised that the findings of the research will not be valid on an indefinite basis. As environmental circumstances, competitive conditions, and internal organizational aspects change, the identified strategic options and recommendations will also be subject to change. It will therefore be necessary to periodically review the findings of this research and update the research should it be deemed necessary.

1.9. STRUCTURE OF THE STUDY

The subsequent chapters 2 through 5 will cover the proposed research. The chapters will be presented as follows:

- *CHAPTER 2: THEORY IN CONTEXT*

This section of the research will cover the theoretical basis for the research. This will be based on an extensive literature survey and will comprise the compilation of appropriate selected theoretical models within the framework of strategic analysis and evaluation of Johnson and Scholes (2000). This chapter will effectively form the “model” on which the relevant aspects of the case study will be analysed and evaluated.

- *CHAPTER 3: CASE STUDY: DPA SPECIALIST CONSULTING ENGINEERS*

A detailed review of the case study is provided in this section. The case study will be based on the theoretical considerations provided in the previous section, thereby ensuring that the necessary information and data for the analysis and evaluation stage are provided. The aspects to be covered by the case study are the company background and historical overview, products and services offered by the firm, the pressures and trends within the civil engineering industry, the changes in the organization from 1998 to 2003, company employees, marketing, and competitive pressures.

- *CHAPTER 4: CASE STUDY EVALUATION*

In Chapter 4, the case study developed in Chapter 3 is analysed and evaluated against the theoretical models developed in Chapter 2. This chapter will focus on identifying the strategically important factors pertaining to the organization and its circumstances, thereby providing a basis on which strategic options can be developed. This process will also enable the identification of areas in which the organization performs well and those in which it does not.

- *CHAPTER 5: RECOMMENDATIONS AND CONCLUSIONS*

In this final chapter, strategic recommendations based on the findings of Chapter 4 will be presented. The strengths of the organization will be reinforced and the weaknesses of the organization will be targeted with a view to recommending appropriate changes. The manner in which the organization should approach these changes will be addressed, with specific reference to the opportunities and threats currently posed by the external environment. It is expected that, in light of the recommendations provided, the organization will be provided with an appropriate business strategy on which management decisions can be based.

1.10. SUMMARY

In essence, the proposed study concerns the development of an appropriate business strategy for DPA Specialist Consulting Engineers, and recommendations pertaining to changing or improving certain areas of the business. It is proposed that this be carried out through the evaluation of a case study, based on a developed body of theory comprising relevant theoretical strategic models. Such an approach is expected to result in the provision of appropriate strategic options and recommendations pertaining to their implementation.

CHAPTER 2: THEORY IN CONTEXT

2.1. INTRODUCTION

The generation of strategic options and the effective evaluation of these options relies on a number of interdependent strategic thought processes and analyses. A suitable logical framework for this purpose is therefore necessary. For the purposes of this investigation, the framework for the evaluation and selection of strategies developed by Johnson & Scholes (2000) will be used in a slightly modified form.

The framework initially entails a detailed strategic analysis incorporating relevant theoretical models designed to interrogate the organization's internal resources and external environment. The concept of "company mission" and associated long-term objectives are then investigated, resulting in the development of strategic options. Following this process, the proposed strategic options are evaluated for suitability through a life-cycle analysis, an assessment of the positioning of the organisation's products/services, a value chain analysis and a portfolio analysis. The options are finally evaluated for acceptability through a sensitivity analysis and an examination of stakeholder reactions, with specific regard for the organisation's culture and leadership. The generated strategic options will not be evaluated in terms of financial techniques used to determine acceptability and feasibility as this is beyond the scope of this research.

2.2. STRATEGIC ANALYSIS

In an attempt to establish strategic options for an organization for evaluation, it is necessary to carry out various forms of strategic analyses, based on the internal characteristics of the company (its resources) and the environment in which the company operates. To this end, the forms of analysis explored include an analysis of various aspects of the relevant industry in which the organization is active, the Five-Forces Model of Competition of Michael Porter for the assessment of competitive forces acting on the organization, and an assessment of the organization's resource based strengths and weaknesses versus the opportunities and threats posed by the external environment (a SWOT analysis).

2.2.1. Industry Analysis

An analysis of relevant industry conditions is essential in the development of strategic options for an organization. Thompson & Strickland (2003) provide a framework for such an industry analysis, using ‘a tool kit of concepts and techniques to get a clear fix on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, the keys to competitive success, and the industry’s profit outlook’. Thompson & Strickland (2003) further add that the ‘tool kit provides a way of thinking strategically about any industry’s overall situation and drawing conclusions about whether the industry represents an attractive investment for company funds’. The relevant features of the framework suggested by Thompson and Strickland (2003) are explored below, to the exclusion of an examination of competitive forces which is covered separately by the Five-Forces Analysis.

2.2.1.1. The Industry’s Dominant Economic Features

Thompson and Strickland (2003) identify the following factors as being fairly standard in terms of profiling an industry’s economic features:

- The size of the market.
- The geographical scope of competitive rivalry.
- Market growth rate and position in the business life cycle.
- The number of rivals and their relative sizes, providing an indication of the degree of fragmentation or concentration and industry domination.
- The number of buyers and their relative sizes.
- The degree of vertical integration of industry rivals.
- The types of distribution channels used.
- The pace of technological change.
- The degree of product or service differentiation between firms.
- The degree to which companies can realize economies of scale in various functional areas.

- The degree of clustering of industry participants in a particular location.
- The degree to which strong learning and experience effects characterize the industry such that costs decline as cumulative output grows.
- The degree to which capacity utilization plays a role in achieving low-cost production efficiency.
- Capital requirements and the ease of entry or exit.
- Industry profitability.

2.2.1.2. Driving Forces of the Industry

A key aspect in the analysis of a particular industry is 'change', that is, the nature of changes occurring and the speed at which they occur. Some changes may be insignificant in terms of their impact on business operations and profitability, but other changes may have profound influences on various aspects of the industry. Change is the result of various forces at play, the most dominant of which are generally referred to as 'driving forces'. Thompson & Strickland (2003) break down the analysis of these driving forces into two components, 'identifying what the driving forces are and assessing the impact they will have on the industry'. The following common categories of driving forces, adapted from those suggested by Thompson & Strickland (2003), should be investigated and then factored into the strategic decision making process:

- The internet and new e-commerce opportunities and threats.
- Increasing globalisation of industries.
- Changes in the long-term industry growth rate.
- Changes in the types of consumer and how the product/service is used.
- Product/service innovation.
- Technological change.
- Marketing innovation.
- Entry or exit of major firms.
- Diffusion of technical know-how across more companies and more countries.
- Changes in cost and efficiency.
- Growing buyer preferences for differentiated products/services.

- Regulatory influences and government policy changes.
- Changing societal concerns, attitudes and lifestyles.
- Reductions in uncertainty and business risk.

2.2.1.3. Key Success Factors

Lynch (2000) notes that, in terms of trying to consider every part of the organization with limited resources, 'corporate strategy analysis could be overwhelmed by the size of the task', and suggests that 'an analytical process is needed that will examine the many factors that can potentially impact on strategy'. Ohmae (1983) suggests that the company's 'key factors for success that are likely to deliver the company's objectives' be identified, arguing that scarce resources should be concentrated on key business activities crucial to delivering success. Ohmae (1983) classifies key success factors into three main areas, that is, 'Customers', 'Competition', and 'Corporation', and Lynch (2000) further notes that key success factors 'are directed at all companies in an industry'. Each of these three areas is examined below (based on Lynch, 2000).

Customers are important to consider, as the organisation is dependent on them. The organization must identify the types, needs and wants of the customers served, and the reasons for their purchasing behaviour. An understanding of market segmentation on the basis of pricing is important, as is understanding the importance of aspects such as service levels demanded, product or service reliability, quality, technical specifications and branding.

Competitive aspects to consider in determining key success factors include cost and price comparisons between competitors, quality comparisons, an assessment of the degree of market dominance and the possible reasons therefor, service level comparisons and distribution comparisons. The objective should be to identify key areas that are possible reasons for competitive success in the industry.

Aspects pertaining to the 'Corporation' are focused on resource-based competencies required for achieving success. This includes an assessment of whether low-cost operations are required, the importance of economies of scale, labour costs,

production output levels, quality operations, the degree of innovative capability necessary, the importance of labour and management relations, the influence of specialist technologies and copyright, and the importance of skills.

Lynch (2000) further adds that it is important to ensure that the key success factors identified be 'consistent with the company's mission and objectives' and that they be 'selected on the basis of providing significant value added to the organisation'.

2.2.1.4. The Relative Positioning of Organisations in the Industry

Lasher (1999) suggests that 'an industry's structure relates to the relative sizes and strengths of the companies in it', and that it is possible to classify organizations into different categories or segments. These categories or segments can often be seen to behave independently of each other, effectively suggesting that little or no competition between them exists.

Thompson & Strickland (2003), among others, propose that a 'strategic group map' is useful in analysing the structure of a particular industry, with the objective being to identify the relevant competitors to a particular organization. Generally, a strategic group map is constructed with any two relevant industry attributes on the axes, with each organization of group of organizations represented by a circle or sphere proportionate in size to revenue or market share if this is not one of the attributes already considered. The result is a graphical representation of industry segmentation which allows relevant competitors or rivals to be identified. Thompson & Strickland (2003) recommend that, for the purposes of selecting relevant industry attributes on which to base the map, the 'competitive characteristics that differentiate firms in the industry' should be considered. They suggest typical variables as being price/quality range (high, medium or low), geographic coverage (local, regional, national, global), the degree of vertical integration (none, partial, or full), product-line breadth (wide or narrow), use of distribution channels (one, some, all), and degree of service offered (no-frills, limited or full).

Lasher (1999) identifies the most important competitor as either the leader in the organisation's segment or 'another firm that is, in some sense, close by'. He goes on

to suggest that once relevant rivals have been identified, knowledge of their strengths, weaknesses and unusual characteristics should be developed, thereby enabling attempts to be made to predict likely strategic initiatives they might launch.

Thompson & Strickland (2003) assert that some valuable insights can be learned from a strategic group map. For instance, some strategic groups may be favoured by industry driving forces and competitive pressures, while others may be disadvantaged, suggesting that firms will naturally try to make a move to a more advantageous position. In addition, it should be recognised that the profit potential of each strategic group will vary, depending on strengths and weaknesses associated with their relative positioning.

2.2.1.5. Industry Attractiveness and Profitability Prospects

Overall, in the context of an industry analysis, it is important to draw conclusions regarding the attractiveness of the industry considered and the associated profitability prospects. Such conclusions will be important when crafting an appropriate strategy for the organization. The important factors to consider when drawing these conclusions include the following (based on Thompson & Strickland, 2003):

- The growth potential of the industry.
- The degree of profitability governed by current competition and the likely development of future competitive forces.
- The effect of the prevailing driving forces on industry profitability.
- The position of the organisation in the industry with respect to competitiveness and whether its position is likely to improve or deteriorate.
- The potential for the organization to capitalize on the weaknesses of rivals, enabling the organization to take opportunities and realize gains in an otherwise lacklustre industry.
- The ability of the organization to counteract the factors that reduce the attractiveness of the industry.
- The varying degrees of risk and possible uncertainty in the future of the industry.

- The severity of the current problems facing the industry and the likely consequences.
- Whether continued participation in a particular industry is significant in terms of the organisation's ability to achieve success in other industries in which it is active. The concept of synergy will be important to consider here.

For the purposes of strategy formulation, it is an important assumption that other organizations will also react to prevailing industry conditions. In favourable conditions, competing firms will probably try to bolster their competitive standing and market shares. Likewise, in unfavourable conditions, firms will probably proceed cautiously or look for other opportunities. It is therefore important for strategists to realize that even under favourable conditions, pro-active strategic moves must be made to prevent a possible loss of market share, and that under unfavourable conditions, cautious but opportunistic moves must be taken in order to strengthen or maintain the organization's position.

2.2.2. The Five-Forces Model of Competition

Thompson & Strickland (2003) suggest that 'even though competitive pressures in various industries are never precisely the same, the competitive process works similarly enough to use a common analytical framework in gauging the nature and intensity of competitive forces'. The Five-Forces Model of Competition developed by Michael Porter provides such an analytical framework. However, it must be borne in mind that one of the most important shortcomings of the model is that it only provides a "snapshot" picture of competitive conditions in an industry at a particular point in time, not taking future developments or elements of change into account. Lynch (2000) adds that 'the basic assumption of the model is that all organizations will wish to benefit and protect their own interests first'. This is generally accepted to be true for commercial businesses operating in a competitive environment.

Nevertheless, the model is an acceptable means of gauging the forms and varying degrees of the current competitive forces at play. It would be dangerous, however, to base long term strategic planning on the findings of a Five-Forces analysis without

reiterating the process and adjusting strategic plans appropriately at reasonable time intervals, depending on industry conditions and the rate of change experienced in the particular industry.

Lynch (2000) identifies the five competitive forces to be considered by the analysis as follows:

- The bargaining power of suppliers.
- The bargaining power of buyers.
- The threat of potential new entrants (to the industry).
- The threat of substitutes.
- The extent of competitive rivalry.

Thompson & Strickland (2003) further contend that, with respect to the first two forces identified, supplier-seller collaboration and seller-buyer collaboration respectively, are relevant competitive forces to consider.

2.2.2.1. The Extent of Competitive Rivalry

Competitive rivalry generally refers to the continuous jockeying for position of the various competitors in an industry, with each competitor aiming for a greater degree of buyer acceptance and favour. The basis for competitive rivalry can take various forms and is often dynamic, with competitors either engaging in offensive, defensive tactics or a combination of both, depending on the circumstances at the time and the competitive strategies employed. Robbins & DeCenzo (2001) note that 'Porter proposed that management must select a competitive strategy that will give its unit a distinct advantage by capitalizing on the strengths of the organization and the industry it is in'.

The type of competitive strategies pursued by market participants is an important consideration. The three generic competitive strategies proposed by Porter are 'cost leadership, product or service differentiation, and narrow target market focus (pursuing competitive advantage within niche markets)' (Engelbrecht, 2000). Cost

leadership is the basis for competition where organizations in an industry compete on price, with competitors jostling for position as the lowest-cost producer. Thompson & Strickland argue that this type of competitive strategy usually applies to producers of 'standard commodities', where differentiation is difficult or inappropriate. Product or service differentiation, however, is based on product uniqueness in a broad market, with competing organizations basing their competitiveness on differentiating characteristics such as quality, service efficiency and innovation. Such an approach usually enables competing organizations to price their products or services at a premium. The narrow target market focus competitive strategy is based on either of the cost leadership or differentiation strategies, but is applied to a narrow target market or a selected market segment or group of segments. In this case, the competitive strategy is tailored to meet the requirements of the selected target market.

The following factors can be considered in determining the intensity of competitive rivalry (based on Lynch, 2000, Porter, 1980, and Thompson & Strickland, 2003):

- As competitors grow to similar sizes and develop similar capabilities, rivalry can be expected to intensify, as competition for market share may increase. In addition, rivalry can be expected to intensify if the number of competitors increases, as a result of the erosion of market share previously held by larger competitors.
- Greater rivalry may be expected when the demand for a particular product or service diminishes or the market is growing slowly. Competitive firms wishing to continue growing will attempt to erode the market shares of other competitors, leading to intense rivalry.
- Where the cost to customers of switching between products or service providers is low, competitive rivalry will be more intense. In this case, competitors will be forced to employ more competitive tactics to retain customers or expand market share, as they will not enjoy the protection provided by high switching costs.
- Rivalry may be expected to increase when certain competitors embark on expansion activities to improve their market position or react aggressively to a fall in their market share or other adverse conditions.

- The greater the potential gains from successful strategic moves to expand market share or capture new markets, the greater the expected intensity of competitive rivalry will be, as many organizations may pursue the same opportunities with intent.
- In an industry characterised by high exit costs, existing organizations may decide to remain and compete, even in adverse market or financial conditions, leading to a greater intensity of competitive rivalry.
- The greater the diversity of competitors in terms of their resources, strategies and visions, the more volatile and unpredictable competitive rivalry may be expected to be.
- Greater competitive rivalry may be expected when a new entrant or existing competitor acquired by a strong outsider launches aggressive competitive strategies designed to capture market share and bolster market position.
- If it is difficult to differentiate products or services, the intensity of competitive rivalry may be expected to increase.

2.2.2.2. The Threat of Potential New Entrants

The potential entry of new competitors can generally be regarded as a function of industry attractiveness and the number and severity of barriers to entry. Competitive pressures will stem from the reactions of the existing market participants to the entry of these new competitors. Several major sources of entry barriers may be considered (based on Lynch, 2000, Porter, 1980, and Thompson & Strickland, 2003):

- Industries characterised by economies of scale often require large, risky, initial capital outlays and also often dictate that profits may only be realized in the long-term. This may deter would-be entrants to the industry.
- Existing organizations may have a competitive advantage based on cost and resource advantages not available to new entrants. Thompson and Strickland (2003) suggest that this may include ‘partnerships with the best and cheapest suppliers of raw materials and components, possession of patents and proprietary technology, existing plants built and equipped years earlier at lower costs, favourable locations, and lower borrowing costs’.

- Where learning and experience curve effects are significant, existing competitors are more formidable. Existing firms would have a significant cost advantage based on savings made with incremental production.
- Some organizations in the industry may possess superior technology and specialised know-how not easily available to new entrants. Patents, key skilled personnel, technological know-how and proprietary knowledge are important factors to consider.
- Product differentiation creating brand preferences and customer loyalty often present formidable challenges to new entrants. Existing firms may be in an enviable position, with loyal customers paying premium prices due to their attachment or affinity to their brands and reputations for special levels of service. New entrants would have to invest heavily in promotion and business establishment in order to attract some of these customers.
- High switching costs may present high entry barriers. It may be more convenient for customers to retain the services of an existing organization if switching costs are high.
- High capital requirements involving investment in technology, plant, distribution and service outlets may deter new entrants. There are often significant risks in raising the required capital and financing activities appropriately.
- Access to distribution channels may present a challenge to new entrants. In order to provide a good or a service to customers, suitable distribution channels are necessary. Existing firms may be in a position to control existing distribution channels, often forcing new entrants to create their own.
- Regulatory policies can play a major role in creating entry barriers. International markets can be protected by stringent government policies regarding investment. Certain industries are severely regulated and are therefore extremely difficult to enter successfully. Thompson & Strickland (2003) note that ‘stringent government-mandated safety regulations and environmental pollution standards’ can be significant entry barriers due to the increased set-up costs involved.

2.2.2.3. The Threat of Substitutes

Substitute products or services provided by different industries can often heighten the degree of competition in a particular industry. Competitive pressures can arise when suitable substitutes are found or developed. Technological advances may make this possible. Thompson & Strickland (2003) suggest that three factors should be considered when determining the strength of competitive pressures posed by substitute products:

- Whether attractively priced substitutes are available,
- Whether buyers view the substitutes as being satisfactory in terms of quality, performance, and other relevant attributes, and
- Whether buyers can switch to substitutes easily.

In addition, Lynch (2000) suggests that, from a strategic viewpoint, key issues to be analysed should include:

- The possible threat of obsolescence,
- The costs of providing some extra aspect of the service that will prevent switching, and
- The likely reduction in profit margin if prices come down or are held.

2.2.2.4. The Bargaining Power of Suppliers and Supplier-Seller Collaboration

The relationships that an organization has with its various suppliers can often result in competitive advantage. Porter (1980) suggests that there are certain conditions under which suppliers can be extremely powerful:

- If there are few suppliers to an industry, switching between suppliers may be difficult and costly. In such conditions, lower competition between suppliers results in higher supply prices.
- If no substitutes are available for the supplied products or services, choice is diminished and sellers are at a disadvantage.
- If suppliers' costs comprise a large part of the total costs of an organization, any price fluctuations will have a large impact on value-added and thus profitability.

- If it is possible for a supplier to integrate forward and undertake the organisation's value added process, a real threat to the survival of the organization is posed.

Thompson & Strickland (2003) also contend that a supplier is more powerful when an organization is dependent on that supplier as a major supplier. The opposite also applies, in that suppliers are a relatively weaker force when they rely on major buyers.

Competitive pressures stemming from collaboration between suppliers and rival sellers in an industry are often the result of the formation of strategic partnerships and close working relationships. The result is that suppliers become more cognisant of their customer's requirements and can structure their businesses and processes accordingly, reducing costs overall. In addition, such arrangements eliminate the costs incurred in marketing efforts.

2.2.2.5. The Bargaining Power of Buyers and Seller-Buyer Collaboration

Lynch (2000) suggests that buyers have more bargaining power under the following conditions:

- If buyers are concentrated and there are few of them, the organization is at a disadvantage, mainly due to the lack of alternative buyers.
- If the product or service offered by the organization is essentially undifferentiated, buyers can usually switch to alternatives easily.
- If the potential for backward integration by the buyers is great, the threat of such an occurrence increases the buyers' bargaining power.
- If the selling price of the product or service provided by the organization is fairly insignificant in terms of the total costs of the buyer, the easier it will be for the buyer to select alternatives.

Thompson & Strickland (2003) also suggest the following conditions under which buyers will have greater bargaining leverage:

- If the buyer's costs of switching to competing products or services are low,
- If buyers are well informed about the seller's products, prices and costs, and

- If buyers have discretion in whether and when they purchase the product or service, that is, they are not necessarily dependent on it.

Thompson & Strickland (2003) contend that, with respect to collaboration between sellers and buyers, it is mostly business-to-business relationships that have the potential to generate competitive advantage. This is achieved through seller and buyer firms forming strategic alliances or close working relationships in order to generate greater value added by streamlining processes and linking the firms in various ways in order to improve efficiency and decrease costs.

2.2.3. Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis

Lynch (2000) asserts that ‘a SWOT analysis of the organization – its strengths, weaknesses, opportunities and threats – is a useful way of summarizing the current status of the organization’. This is intended to enable the rational analysis of future possibilities, argued by Andrews (1987) to be essential to strategy development. The objective is to compare the relevant strengths and weaknesses (internal resource based characteristics) of the organization with the opportunities and threats posed by external environmental conditions.

Jacobs et al (1998), confirm the use of a SWOT analysis as a useful analytical tool but also caution against possible pitfalls, including the possibility of generating a long list of observations which provide little overall insight or clarity about required action. In addition, Jacobs et al (1998) caution that care must be taken to ensure the objective evaluation of observations, not to assume that environmental changes are necessarily threats and that strengths and weaknesses identified are based on current strategy rather than intended strategy.

Jacobs et al (1998) suggest the use of a concise matrix for the effective integration of the identified strengths and weaknesses and the environmental opportunities and threats, stating that the objective ‘is to match likely external environmental changes with internal capabilities, to test these out and challenge how an organization can capitalize on new opportunities, or defend itself against future threats’. By assigning scores to the matrix, and weightings of relative importance to the environmental

factors, the relative impact that particular combinations of internal and external factors may have on strategy development can be identified. In this manner, it is possible to highlight areas that require change in order to improve competitiveness or defend the current position of the organization.

2.2.3.1. Internal Resource Based Factors – Strengths and Weaknesses

Resource Based Strengths:

Thompson & Strickland (2003) define a strength as ‘something a company is good at doing or a characteristic that gives it enhanced competitiveness’. They suggest that a strength can take many forms, including, ‘a skill or important expertise, valuable physical assets, valuable human assets, valuable organizational assets, valuable intangible assets, competitive capabilities, an achievement or attribute that puts the company in a position of market advantage, and alliances or co-operative ventures’.

The aspects of competence and competitive capability are important to consider. Thompson & Strickland (2003) suggest that a company competence has to be deliberately and consciously built and developed through experience, accumulative learning over time and the development of ‘real proficiency’ as a result. They suggest that competencies should be seen to be a collection of ‘skills, know-how, resources and technologies’ as opposed to a single element, and further assert that competencies only become a competitive capability when customers deem them to be ‘valuable and beneficial’, and when they are factors of differentiation and competitiveness.

Many organizations may have similar competencies, and it is therefore necessary to define those competencies that give rise to competitive capability, in other words, “core competencies”. Johnson & Scholes (1993) define core competencies as being ‘concerned with identifying those particular strengths which give the company an edge over its competitors, and those areas of particular weakness which are to be avoided’. They further suggest that the strategic importance of core competencies can be tested through determination of the following:

- Ownership of core competencies – In professional service oriented organizations, knowledge and skills are “owned” by individuals and may easily be taken to another firm.
- Durability of core competencies – Where rapid changes in technology occur and product life-cycles are short, competencies may have a limited life-span. Smaller, more flexible and opportunistic firms may have an advantage over larger firms unable to cope with the speed of change.
- Ease of transfer of core competencies – Some competencies may be easily transferred from one firm to another, but others are difficult to transfer, such as brand equity or reputation.
- Ease of replication of core competencies – Some competencies may be easily developed or imitated by competitors.

Prahalad & Hamel (1990) take the argument further, suggesting that a core competence can be classified as a “distinctive competence” if the competence is competitively superior to the capability of competitors, forming the basis of genuine competitive advantage. Thompson & Strickland (2003) suggest that this allows the organization to enjoy ‘competitive superiority’ and assert that the importance of such a competence rests with ‘the competitively valuable capability it gives a company, the potential for being a cornerstone of strategy, and the competitive edge it can produce in the market place’. Further, a distinctive competence must make a differentiable contribution to customer value, be unique and superior to competitor capabilities, and be able to be used to develop new products and services or enter new markets (Hamel & Prahalad, 1994).

Resource Based Weaknesses:

Thompson & Strickland (2003) define a weakness as ‘something a company lacks or does poorly (in comparison to others) or a condition that puts it at a disadvantage. They suggest that such a weakness can relate to ‘deficiencies in competitively important skills or expertise or intellectual capital’, to ‘a lack of competitively important physical, organizational or intangible assets, or ‘missing or weak competitive capabilities in key areas’. Some weaknesses may be more important to

the intended well-being of the organization than others, and some may prove to be critical weaknesses in light of the competitive and environmental conditions the organization is facing. The SWOT analysis is intended to identify and highlight the implications of these critical areas of weakness so that attention to their remedy may be appropriately focussed.

2.2.3.2. External Environmental Based Factors – Opportunities and Threats

Opportunities:

The identification and evaluation of opportunities is critical to strategic decision-making. The future success and prosperity of the organization depends on the existence of such opportunities and the capability of the organization to capitalize on them.

Thompson & Strickland (2003) suggest that ‘the market opportunities most relevant to a company are those that offer important avenues for profitable growth, those where a company has the most potential for competitive advantage, and those that match up well with the company’s financial and organizational resource capabilities’. They also caution that organizations must be particular in selecting appropriate opportunities to pursue, as they may find themselves outclassed by other competitors. In this regard, strategic decision-making should also include an assessment of how the firm’s resources may need to be adapted or extended to enable pursuit of an opportunity.

Threats:

Thompson & Strickland (2003) suggest that certain environmental factors may pose threats to the organization in terms of profitability, competitiveness and market position, adding that it is critical for an organization to assess the relative impact of the various threats identified. This is necessary in order for the organization to co-ordinate the appropriate re-direction of resources in moves to minimize or neutralize the more important threats.

Threats can emerge from a variety of different areas, including the introduction of more cost effective or superior technologies, the introduction of new or improved products or services, the entry of low-cost foreign competitors, the promulgation of new regulations, economic instability including interest rate and exchange rate shifts, unfavourable demographic shifts and political upheaval (based on Thompson & Strickland, 2003). It is therefore vital to ensure that organizations are continuously aware of environmental developments, so that they may be taken into account in strategy decision-making. “Environmental scanning” may enable such awareness.

2.3. THE DEVELOPMENT OF STRATEGIC OPTIONS

Following a detailed strategic analysis of the organization and its circumstances, strategic options may be examined. The findings of the various forms of analysis are used in the development of these strategic options. This process begins with the development of a company mission and long-term objectives. Subsequently, the criteria governing the selection of generic competitive strategies and grand strategies are explored.

2.3.1. The Company Mission

Many strategists agree that the starting point for the development of strategic options is the development of a company mission. David (1986) defines the corporate mission as ‘an enduring statement of purpose that distinguishes one organization from other similar enterprises’, and suggests that ‘a mission statement is a declaration of an organisation’s reason for being’. He further asserts that a mission statement is essential to effectively establishing objectives and formulating strategies.

Thompson & Strickland (2003) suggest that the development of a mission is part of a more important process of developing a ‘strategic vision’ (generally designed to last in excess of five years), identifying three elements constituting the process:

- Developing a mission statement that defines the business the company is presently in and which conveys the essence of “who we are, what we do, and where we are now”.

- Deciding on a long-term course, based on the mission statement, making choices about “where we are going” and mapping out a strategic path.
- Communicating the strategic vision in clear, exciting terms, arousing organisation wide commitment.

With respect to the development of a mission, Thompson & Strickland (2003) suggest that three elements should be incorporated:

- Customer needs, or *what* is being satisfied.
- Customer groups, or *who* is being satisfied.
- The firm’s activities, technologies and competencies, or *how* the organization creates and delivers value to customers and satisfies them.

The strategic vision, based on the mission and the direction in which the organization is headed in the longer term, can provide several benefits if it is well conceived and well worded. Thompson & Strickland (2003) suggest that the benefits include:

- Crystallisation of senior executives own views about the long-term future.
- Reduction in risk of “rudderless” decision-making.
- Conveyance of purpose in ways that motivate members of the firm.
- Providing a baseline on which lower-level managers can base departmental strategies.
- Helping the organization prepare for the future.

2.3.2. Long-Term Objectives

The formation of long-term objectives naturally follows the creation of strategic vision. Hamel & Prahalad (1989) suggest that the existence of meaningful strategic objectives indicates the existence of “strategic intent”. Such intent is necessary should the organization realistically wish to make its mark on the industry in the longer term.

Pearce & Robinson (2000) assert that an approach to achieving ‘sustained corporate growth and profitability’ must be found, and that to achieve such long-term prosperity, long-term objectives in seven areas should be established. These areas include profitability, productivity, competitive position, employee development,

employee relations, technological leadership and public responsibility. Pearce & Robinson (2000) further suggest that the objectives be developed according to seven criteria:

- Long-term objectives should be acceptable to management in terms of their ideals, thereby ensuring their pursuance. In addition, it may be necessary to ensure that these objectives are acceptable to external groups.
- The flexibility of long-term objectives is important to ensure adaptability to unforeseen circumstances, however, it must be ensured that an acceptable level of specificity is maintained.
- The objectives should be measurable over time. Therefore, the objectives must be clear and quantifiable.
- Long-term objectives should be set a level that motivates people.
- The objectives must be suitable, that is, in alignment with the broad aims of the organization.
- The stated objectives must be clear, meaningful and unambiguous in order for proper understanding of the objectives to be achieved.
- It must be possible to achieve the objectives that have been set. However, turbulence in the remote and operating environments may create obstacles, highlighting the need for flexibility.

2.3.3. Generic Strategies

The next step in the strategic options development process is the development of generic strategies. This is necessary to enable the establishment of a basic understanding of the organisation's strategic orientation prior to the development of long-term or grand strategies. Pearce & Robinson (2000) assert that 'a long-term or grand strategy must be based on a core idea about how the firm can best compete in the market place'. This is based on the work of Michael Porter who suggested that any long-term strategy should be based on the method in which the organization seeks competitive advantage.

Based on Barnett & Wilsted (1988), Porter's model suggests that three generic approaches can be taken on the basis of competitiveness, that is, to either aim to

achieve low-cost leadership in the industry, to aim to achieve competitive advantage through differentiation, or to target specific consumer groups or segments through focusing on cost-leadership or differentiation requirements. Pearce & Robinson (2000) suggest that each of these generic competitive strategies could be very successful, but for very different reasons.

2.3.3.1. Low-cost Leadership Strategy

Pearce & Robinson (2000) assert that, for low-cost leadership, some fairly unique capabilities are required to maintain such a position, including, for example, securing suppliers of scarce raw materials, being in a dominant position with regards to market share or having a high degree of capitalization. In general, in a low-cost position, cost reductions and efficiency creation are keys to success, with organizations seeking to exploit economies of scale, cost-cutting technology, experience curve effects, reducing overhead costs wherever possible and using volume sales to achieve incremental cost reductions. Pearce & Robinson (2000) assert that the cost-advantage achieved enables the organization to charge lower prices or enjoy higher profit margins, thereby being able to defend itself in price wars or to attack the market share of competitors on the basis of price.

Based on Thompson & Strickland (2003), possible pitfalls of a low-cost leadership strategy could include excessive price cutting resulting in lower profitability, not carefully considering the sustainability of cost-advantage creating capabilities, and becoming too fixated on cost reduction in a market where buyers may actually develop an affinity for differentiated products or services.

2.3.3.2. Differentiation Strategy

Alternatively, a differentiation strategy is based on appealing to consumers with a 'special sensitivity for a particular product attribute' (Pearce & Robinson, 2000), with the organization aiming to build customer loyalty based on the attributes in question. Such attributes are numerous and could include, for example, a unique taste, multiple features, a wide selection and one stop shopping, superior service, spare parts availability, more for the money, engineering design and performance, prestige and

distinctiveness, product reliability, quality manufacture, technological leadership, a full range of services, a complete line of products, and top of the line image and reputation (Thompson & Strickland, 2003). Pearce & Robinson (2000) suggest that competitive advantage may be achieved through the creation of “perceptual” barriers to entry, with the customer unable to see essentially identical products as substitutes for each other. Small service oriented organizations, such as engineering consulting practices, may therefore benefit extremely well from a differentiation based business strategy.

Based on Thompson & Strickland (2003), certain market situations exist in which a differentiation strategy may work well:

- When the product or service can be differentiated in many ways and the customer perceives such differentiating characteristics as having real value.
- When buyer needs and uses for the product or service are diverse.
- When few rival organizations are following a similar differentiation approach, reducing the likelihood of head-to-head competition.
- When technological change and product innovation occur rapidly, and competitiveness is based on the evolution of product or service features.

However, there are also possible pitfalls associated with differentiation strategies (based on Thompson & Strickland, 2003):

- If buyers actually perceive little value in the unique attributes or capabilities of an organization, very little will be achieved.
- If competitors can easily copy the differentiating characteristics, the basis for competitive advantage will be nullified.

Other possible pitfalls include the following (based on Porter, 1985):

- Not being able to properly identify and understand exactly what it is that buyers consider to be of value.
- Not paying enough attention to the need to emphasise the added value created, relying too heavily on the actual product or service attributes themselves.
- “Overdifferentiating” such that the buyers’ needs are exceeded, often resulting in overpricing relative to competitors.

- Charging too high a price premium, relative to the perceived added value provided.

2.3.3.3. Focussed Competitive Strategies

A focused competitive strategy essentially encompasses either a low-cost approach or a differentiation approach but is based on targeting the particular needs of a specific consumer segment or segments that may not be serviced adequately by the general market. Pearce & Robinson (2000) suggest that focus strategies could entail, for example, servicing isolated geographic areas, servicing customers with special financing, inventory or servicing problems, or servicing the unique demands of smaller customers in the market.

A focused competitive strategy may often be the optimal competitive approach for low-market share businesses. Hamermesh et al (1983) assert that a low-market share business may achieve respectable returns and profitability if it competes in market segments 'where its own strengths will be most highly valued and where its large competitors will be most likely to compete'. They further assert that low-market share companies can improve their performance by spending on research and development in those specific areas most likely to product the greatest benefits to them, and by remaining small, 'emphasizing profits rather than sales growth or market share, and specialization rather than diversification'. Hamermesh et al (1983) also comment that the performance of low-market share businesses pursuing a strategy of focused competitive strategy depends on the influence and involvement of the chief executive, stating that 'the influence of the chief executive often extends beyond formulating and communicating an ingenious strategy to actually having a deep involvement in the daily activities of the business'.

A focused competitive strategy becomes increasingly attractive as more of the following conditions are met (based on Thompson & Strickland, 2003):

- The niche market targeted is large enough to offer growth potential and be profitable.

- Industry leaders and major competitors do not regard targeting the same niche or market segment as crucial to their success.
- It is difficult and costly for larger competitors to meet the specialised needs of the targeted niche or segments, while also keeping their mainstream customers satisfied.
- Many different segments and niches are available in the industry, thereby allowing for the selection of a niche suited to the organization's particular resource capabilities.
- Few rivals are attempting to target the same segment or niche, reducing the risk of "overcrowding".
- The organization can effectively compete with challengers, based on its resource strengths suited to the niche and customer goodwill.

Thompson & Strickland (2003) also caution that certain risks are associated with focus strategies, including:

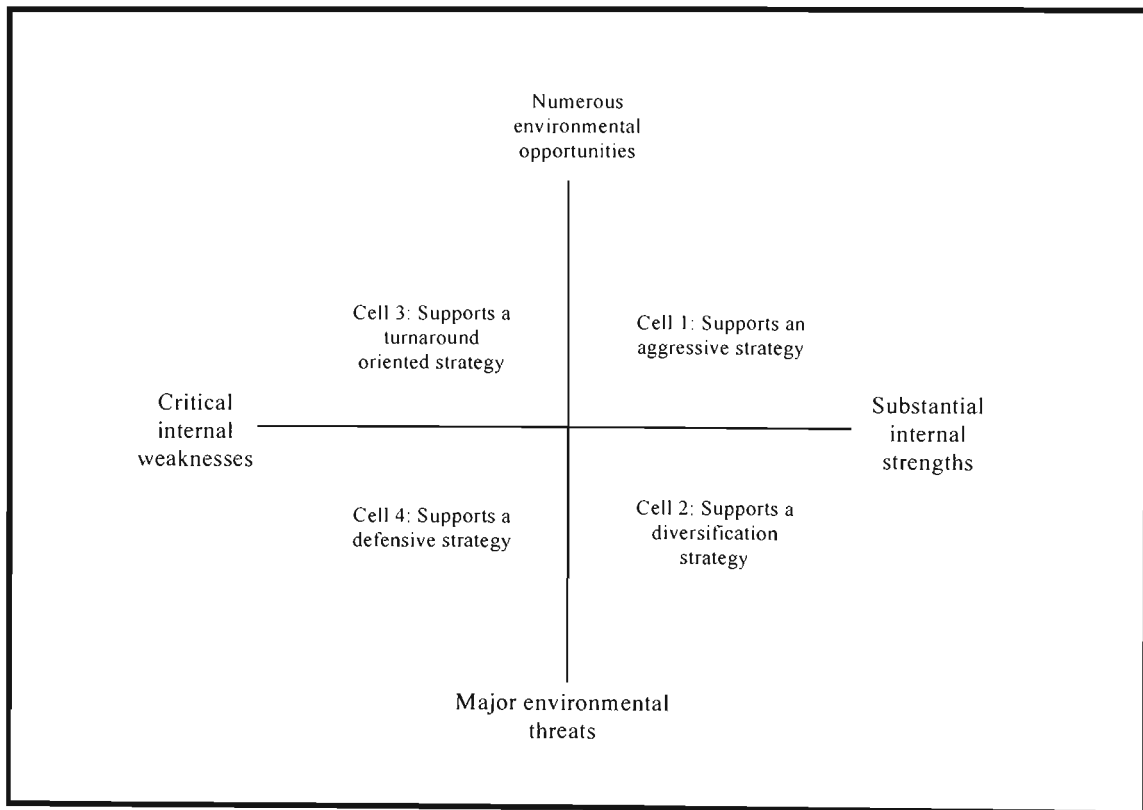
- The chance that competitors will offset the organisation's advantage by matching or bettering its competencies.
- The potential for the needs and preferences of the targeted consumer segment to shift towards mainstream needs and preferences, lowering entry barriers to the niche market.
- The potential for the appeal of the particular market segment or niche to be so great so as to attract many competitors, thereby intensifying rivalry and diminishing the profit potential.

2.3.4. Grand Strategies

Following on from the development of generic competitive strategies, Pearce & Robinson (2000) suggest that widespread agreement exists regarding the importance of "grand strategies" as the basis for providing 'basic direction for strategic actions', or 'co-ordinated and sustained efforts directed toward achieving long-term business objectives'.

On a basic level, the general findings of the SWOT analysis can be used to determine whether the organization should be pursuing an aggressive strategy, a diversification strategy, a turn-around oriented strategy or a defensive strategy, depending on the prevailing degree of internal strength/weakness and environmental opportunity/threat.

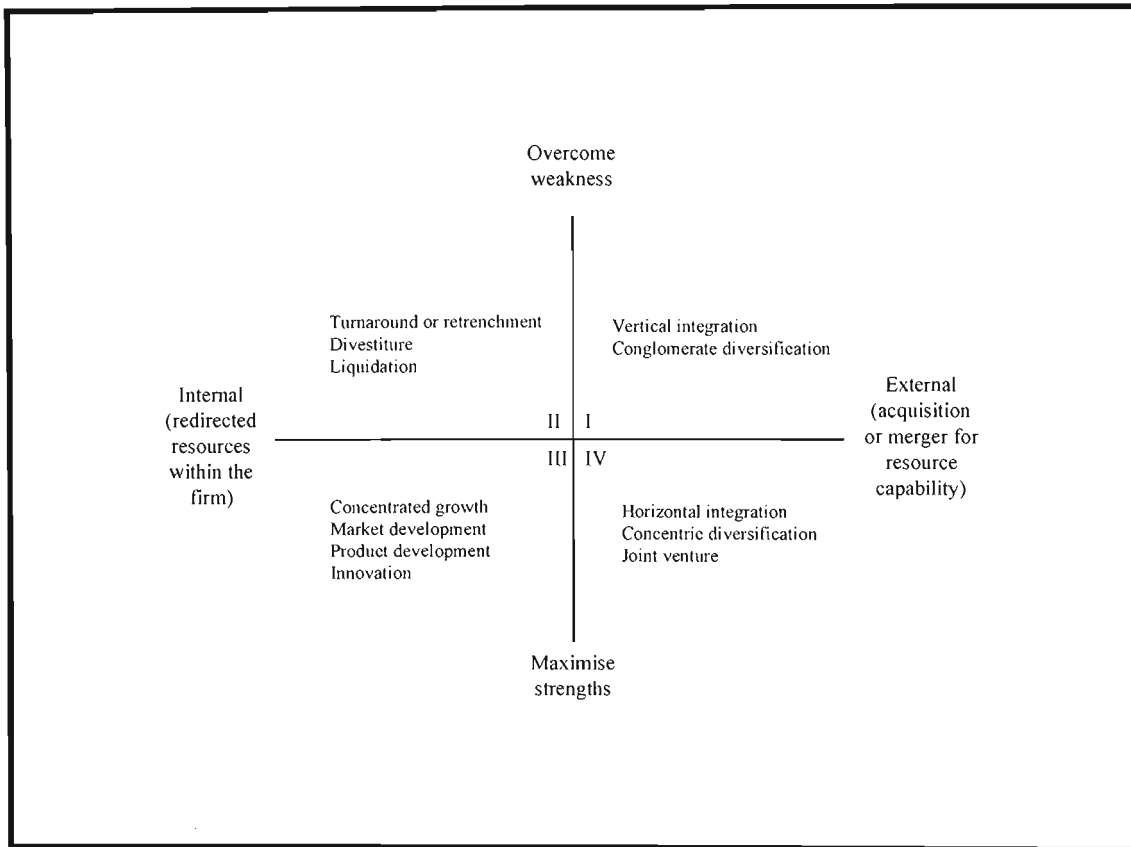
Figure 2.1. SWOT Analysis Diagram



Source: Pearce & Robinson, 2000

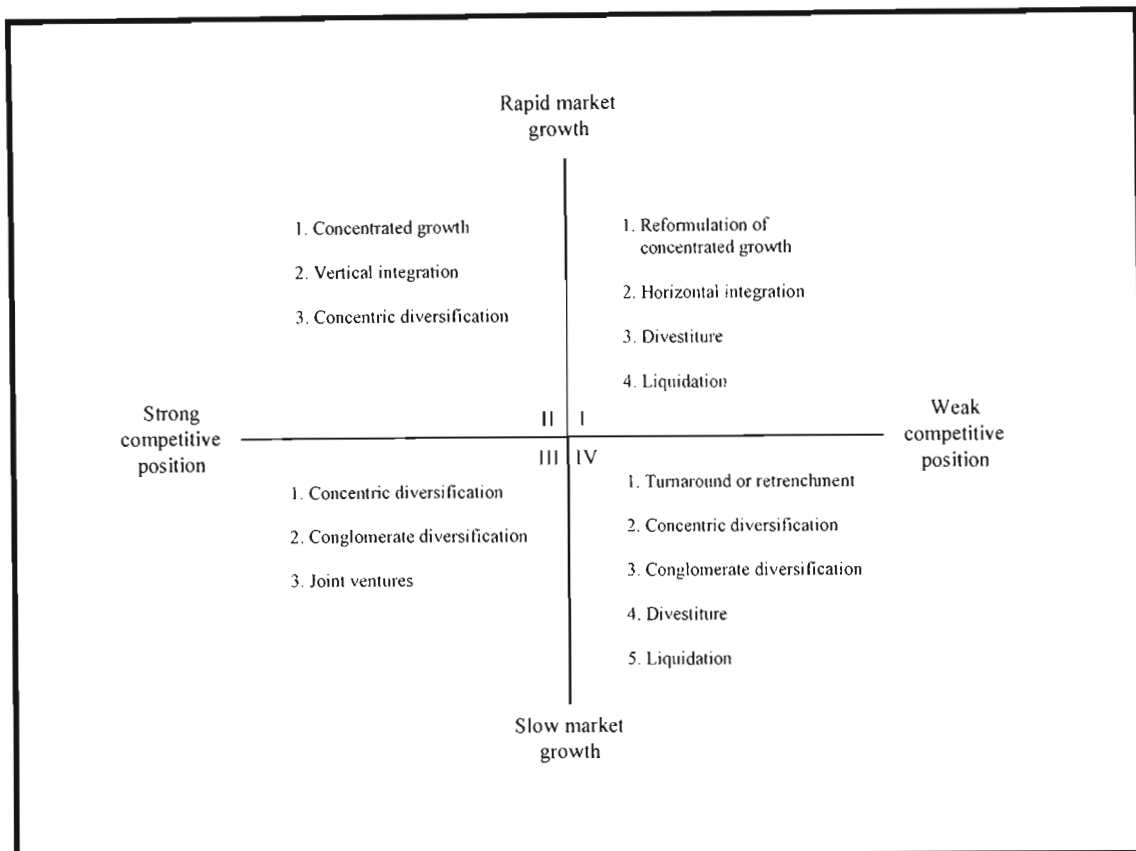
Grand strategy selection can then be based on the 'Grand Strategy Selection Matrix' and the 'Model of Grand Strategy Clusters'.

Figure 2.2. Grand Strategy Selection Matrix



Source: Pearce & Robinson, 2000

Figure 2.3. Model of Grand Strategy Clusters

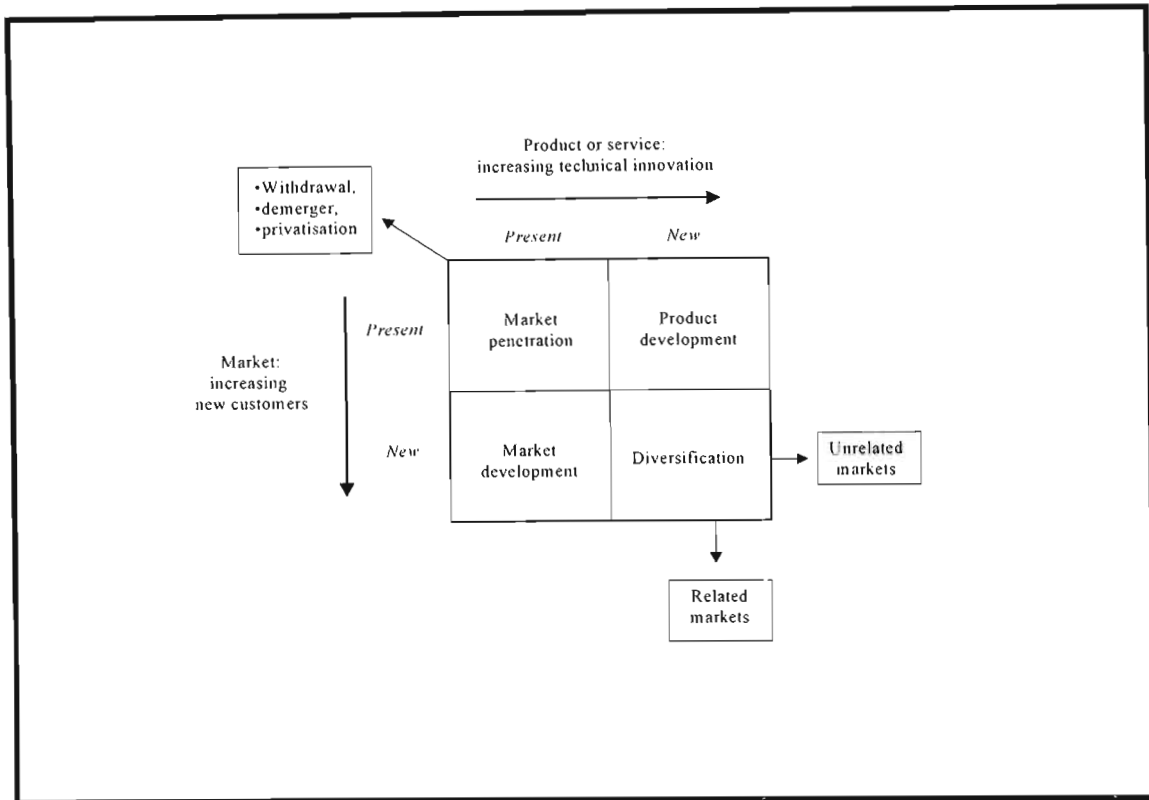


Source: Pearce & Robinson, 2000

Pearce & Robinson (2000) note that the selection of an optimal grand strategy from the available alternatives must be carefully considered, and that for firms involved in ‘multiple industries, businesses, product lines or customer groups’, a combination of grand strategies may form an optimal solution. The different grand strategies are now explored in further detail.

The first four grand strategies, namely, concentrated growth, market development, product development and diversification are based on options with respect to “product” and “market”. The ‘market options matrix’ provided by Lynch (2000), based on the market/product matrix of Ansoff (1989), illustrates these relationships.

Figure 2.4. Market Options Matrix



Source: Lynch, 2000

Concentrated Growth:

Concentrated growth is also often referred to as market penetration, and is based on the organization's current markets and products. Pearce & Robinson (2000) define concentrated growth as a grand strategy where a firm 'directs its resources to the profitable growth of a single product, in a single market, with a single dominant technology', and as a strategy that leads to enhanced performance. Lynch (2000) asserts that the underlying motive for market penetration is to attract customers away from directly competing products, in order to gain market share. Day (1987) suggests that the strategy should begin with existing customers, as an attack on competitors is likely to result in retaliation. Following this, Buzzel & Wiersema (1981) suggest that, if attacks are to be undertaken against competitors, a combination of activities is more likely to be successful, reducing the threat of neutralization.

Pearce & Robinson (2000) assert that the core capabilities of the organization are more important determinants of 'competitive market success than are the environmental forces faced by the firm'. They confirm that concentrated growth of a firm should entail 'building on its competencies', achieving a 'competitive edge by concentrating in the product-market segment it knows best'.

The following conditions can be considered to favour concentrated growth (Pearce & Robinson, 2000):

- Where the industry is resistant to major technological advancements, usually occurring in the late-growth and maturity stages of the industry life-cycle, and in product markets where demand is stable and barriers to entry are high.
- Where targeted markets are not saturated, allowing for the capture of market share as opposed to direct attacks on competitors' market shares.
- Where the firm's product markets are sufficiently distinctive to dissuade competitors in adjacent product markets from invasion.
- Where the firm's input costs and quantities are stable and available as and when required.
- Where the market is stable, without seasonal or cyclical swings in demand.
- Where the firm enjoys competitive advantages based on efficiency
- Where 'market generalists' succeed by using 'universal appeals', specialists can enjoy concentrated growth in market segments overlooked by such an approach.

However, Pearce & Robinson (2000) caution that high risks may be faced when embarking upon a concentrated growth strategy under unstable conditions, with slowed growth or economic changes in the targeted segment jeopardizing the success of the firm. In addition, new developments or trends that could possibly present a real threat in the future may not be detected under a very focused approach. Care must also be taken to avoid over commitment to a specific product or technology that would hinder the pursuit of lucrative new opportunities. Finally, Pearce & Robinson (2000) note that, despite the various risks, concentrated growth may often be the most viable option, due to the premise that only limited additional resources, if any, are

required, with the firm basically attempting to 'get the most out' of its existing resources.

Market Development:

Lynch (2000) asserts that, under a strategy of market development, 'the organization moves beyond its immediate customer focus into attracting new customers for its existing product range', noting that the firm may seek new market segments, geographical expansion, or new uses for its products or services.

Pearce & Robinson (2000) suggest that market development may be considered to be a form of concentrated growth, is also relatively inexpensive, with the organization marketing its present products with only minor modifications designed to appeal to customers in 'related market areas'. Engelbrecht (2002) notes that forms of market development could include expansion into export markets, the development of a broader range of product pack sizes (or the manner in which the product or service is "packaged"), the creation of new distribution channels and differential pricing to attract new markets.

Product Development:

Lynch (2000) asserts that product development entails 'significant new product developments, not a minor variation on an existing product' to be marketed to existing customers. He also provides some reasons for embarking on such a strategy, namely, 'to utilize excess production capacity, to counter competitive entry, to exploit new technology, to maintain a stance as a product innovator, or to protect overall market share'.

With respect to important product development issues to consider, Baker (1992) notes the significant contribution to sales and profits as a result of new product introductions across a wide range of industries, and Davidson (1987) advises that, if new products are to be successful, a genuine improvement in performance is vital. Engelbrecht (2002) also notes that, under a successful product development strategy, competitors are forced to innovate and new entrants to the industry are discouraged,

but cautions that development costs may prove to be prohibitive and that very successful products may also erode the market share of the existing product mix offered by the organization.

Diversification:

Lynch (2000), among others, distinguishes between diversification into related markets and diversification into unrelated markets, confirming that, ‘when an organization diversifies, it moves out of its current products and markets into new areas’. Engelbrecht (2002) notes that diversification is often fraught with risk due to a lack of experience, but comments that risk can be lowered when surplus funds exist, that it may be the most attractive option due to the potential of new products and markets and that it may provide a more comprehensive service to customers, thereby building loyalty.

Pearce & Robinson (2000) confirm that strategies involving diversification ‘represent distinctive departures from a firm’s existing base of operations’, and that a possibility includes the acquisition or internal generation (spin-off) of a separate business with ‘synergistic possibilities’. A distinction between concentric and conglomerate diversification is made. These two forms of diversification are explored below.

Concentric Diversification:

Pearce & Robinson (2000) define concentric diversification as involving ‘the acquisition’, or spin-off, ‘of businesses that are related to the acquiring firm in terms of technology, markets or products’, suggesting a high degree of compatibility between the firms. In addition, it is suggested that the optimal result should be an overall increase in combined strengths and opportunities and an overall decrease in combined weaknesses and risk exposure.

Conglomerate Diversification:

Generally, conglomerate diversification is undertaken principally on profit considerations, with financial synergy being sought in order to minimize risk (based

on Pearce & Robinson, 2000). This form of diversification is usually undertaken in the form of acquiring businesses for the investment opportunity that they present.

Innovation:

Pearce & Robinson (2000) suggest that in many industries, consumer and industrial markets have come to expect periodic changes and improvements in products on offer. In such conditions, it may be necessary to embark on a grand strategy of innovation, whereby the initially high profits associated with new product demand are sought, in addition to ensuring that the organization is not left behind by the competition. Pearce & Robinson (2000) state that the 'underlying rationale is to create a new product life cycle and thereby make similar existing products obsolete'.

Horizontal Integration:

Horizontal integration can be defined as the 'acquisition of one or more similar firms operating at the same stage of the production-marketing chain' (Pearce & Robinson, 2000). It is commonly stated that the main advantages of such a grand strategy include the elimination of competitors and the creation of access to new or expanded markets. In addition, synergies can be created through the merging of the organizations.

Vertical Integration:

Thompson & Strickland (2003) define vertical integration as extending the competitive scope of the firm within the same industry, involving extending the firm's activities backwards (towards the sources of supply) or forwards (towards end users of the final product). The organization may either develop its own in-house competencies in this regard, or may elect to acquire an existing organization performing the necessary functions.

Many benefits may be derived from vertical integration (based on Thompson & Strickland, 2003):

- The bargaining power of suppliers/buyers can be nullified.

- Dependency on suppliers/buyers can be nullified.
- Significant cost savings may be realized through the integration of the value added activity into the organisation's value chain.
- Product enhancement can be achieved if the organization can improve on the particular product, process or service, resulting in competitive advantage based on differentiation.

Vertical integration also has its drawbacks (based on Thompson & Strickland, 2003):

- Outsourcing may provide greater cost reductions due to specialization and volume output.
- Substantial capital may be tied up, increasing business risk and constraining development of the core business.
- The organization could become locked in to its in-house supplier/buyer, presenting flexibility problems.
- Balancing capacity at each stage of the value chain can be difficult.
- Radically different business skills and competencies may be required for the different parts of the vertically integrated organization, often resulting in a loss of focus.

Thompson & Strickland (2003) suggest that vertical integration should only be pursued when:

- The performance of strategy critical activities can be enhanced (lower cost, build expertise, or increase differentiation,
- The impact on investment costs, flexibility and administrative overheads associated with coordination of the value chain across more stages is favourable, and
- Competitive advantage is created.

Turnaround:

Thompson & Strickland (2003) assert that 'turnaround strategies are needed when a business worth rescuing goes into crisis', and that 'the objective is to arrest and reverse the sources of competitive and financial weakness as quickly as possible'.

It is commonly suggested that the starting point in a turnaround strategy should be the identification of the root causes of the organisation's poor performance, as any recovery strategies should take these factors into account. Thompson & Strickland (2003) suggest a few possible reasons for poor performance, including taking on too much debt, overestimating sales growth potential, ignoring the profit depressing effects of "buying" market share through price cuts, being burdened with heavy fixed costs, failing to produce effective innovations, betting on technological long shots, being too optimistic about the ability to penetrate markets, making frequent strategic changes, and being overpowered by more successful rivals. The possibility of important resource deficiencies and the inappropriate use of resources should also be considered.

Once the problems have been identified, action needs to be taken on the basis of a plan, resulting in what is commonly referred to as a "recovery strategy". Thompson & Strickland (2003) suggest that this can involve any of five actions, namely, selling off assets (asset reduction), strategy revision, boosting revenues, cutting costs, or using a combination of these efforts when fast action is required 'on a broad front'.

Asset reduction is normally carried out in order to generate cash under critical cash-flow circumstances. Thompson & Strickland (2003) assert that the choice of which assets to sell is often based on the disposal of non-core business assets to support the turnaround strategy based on the organisation's core-business. This is carried out through the sale of physical assets and the retrenchment of personnel, products and services.

The revision of strategy is required when the existing strategy is inappropriate and the root cause of poor performance. Thompson & Strickland (2003) suggest that this may be carried out through the following paths, and that successful strategy revision must be tied to the firm's strengths, short-term competitive capabilities and directed towards its best market opportunities:

- Revising the competitive approach to rebuild market position.

- Overhauling internal operations and functional strategies to better support the overall business strategy.
- Merging with another firm in the industry and revising strategy to take advantage of the newly merged firm's strengths, or
- Retrenching into a reduced core of products and customers more closely matched to the firm's strengths.

Should the short-term objective be to increase revenue, efforts to increase sales volumes may be deemed necessary. Thompson & Strickland (2003) assert that this is necessary when cutting expenses will probably not result in breaking even, and when increased utilization of capacity is seen as the key to restoring profitability. They suggest that methods for achieving this objective could include cutting prices, increasing promotion, using a larger sales force, providing added services and rapidly creating product improvements.

Thompson & Strickland (2003) advise that cost-reducing turnaround strategies work well when the value chain and cost structure are flexible enough, when operating inefficiencies are easily correctable, when obvious savings can be achieved in many areas, and when the firm is close to break-even. They suggest that cutting costs could include reducing administrative overheads, the elimination of non-essential and low-value added activities, the modernisation of plant and equipment to achieve greater productivity, delaying non-essential capital expenditure, and debt restructuring.

Divestiture:

Pearce & Robinson (2000) define a divestiture strategy as involving 'the sale of a firm or a major component of a firm' and comment that this is an option when retrenchment fails to accomplish the required turnaround or when a non-core business achieves an unusually high market value. However, it is necessary to find a prospective buyer sufficiently interested in the business for this to present a viable option.

Liquidation:

This grand strategy typically involves the sale of a firm 'in parts, only occasionally as a whole – but for its tangible asset value and not as a going concern' (Pearce & Robinson, 2000). The reasoning behind such a strategy is the admission of failure and an attempt to minimize losses to shareholders. Pearce & Robinson (2000) suggest that this process should be planned and orderly in order to generate as much cash in the sale of assets as possible, while slowly relinquishing market share at the same time.

Bankruptcy:

Declaring bankruptcy as opposed to going into liquidation could essentially provide the organization with more time to re-organise strategic initiatives and restore the viability of the business. This would depend on whether or not creditors and other stakeholders can be convinced that this is a workable solution to the problems plaguing the organization.

Corporate Combinations:

Engelbrecht (2002), among others, suggests that relationships between organizations can become important growth factors. Three such combinations are joint ventures, strategic alliances and consortia. Pearce & Robinson (2000) advise that these strategies should be carefully considered by organizations operating in 'global, dynamic and technologically driven industries'.

Joint Ventures and Strategic Alliances/Partnerships:

Thompson & Strickland (2003) state that 'joint ventures typically entail forming a new corporate entity owned by the partners, whereas strategic partnerships represent a collaborative arrangement that usually can be terminated whenever one of the partners so chooses'. Pearce & Robinson (2000) assert that strategic alliances are often partnerships that exist over a defined period of time, and that in such a situation, partners will contribute their separate skills and expertise to a co-operative project.

Pearce & Robinson (2000) suggest that such relationships between businesses may be appropriate when 'a necessary component for success in a particular competitive environment' may be lacking. The combination of the businesses may overcome this problem through the exploitation of synergies created by the partnership.

Doz & Hamel (1998) suggest three situations in which a joint venture or strategic alliance may be used to gain access to a new business:

- If an opportunity exists that is too complex, uneconomical or risky for a single organization to pursue,
- Where a wider range of competencies and knowledge is required than that which a single organization can provide, and
- Where access to a foreign market is determined by requirements regarding partnering a local organization.

It is generally accepted that certain risks are involved when deciding to pursue a grand strategy based on organizational partnerships – conflict can arise and in addition, certain organizations may use the opportunity to enhance their own competencies and acquire new competitive skills, finally breaking away and becoming a direct competitor to its original partner.

Pearce & Robinson (2000) suggest that the concept of outsourcing, or the engagement of sub-contractors to replace certain in-house functions, falls under the category of strategic alliances and may provide significant advantages. Such advantages could include improved business focus, access to world-class capabilities through specialization, accelerated re-engineering benefits, shared risks, and the release of company resources for other purposes.

Consortia:

Pearce & Robinson (2000) define consortia as 'large interlocking relationships between businesses of an industry'. Such relationships may prove fruitful when undertaking very large projects with numerous aspects and responsibilities, where the co-operation of many organizations is required.

2.4. SUITABILITY ANALYSIS

Johnson & Scholes (2000) suggest that the first step in the evaluation of strategic options or choices is a suitability analysis. They define suitability as ‘a broad assessment of whether the strategy addresses the circumstances in which the organization is operating’, ‘for example, the extent to which new strategies would *fit* with the future trends and changes in the environment; or how the strategy might exploit the core competencies of the organization’.

A suitability analysis is seen to be a qualitative assessment of the rationale of the strategic options and can lead to the screening of these options. The analytical techniques explored here include a life-cycle analysis, an assessment of the positioning of the organisation’s products/services, a value chain analysis and a portfolio analysis.

2.4.1. Life-Cycle Analysis

Johnson & Scholes (2000) state that a ‘life-cycle analysis assesses whether a strategy is likely to be appropriate given the stage of the product life-cycle’. This could be extended to include the stage of the “service” life-cycle for service oriented organizations. Faulkner (1998) proposes the use of the Arthur D. Little life-cycle matrix for this purpose.

Figure 2.5. The Life-Cycle Matrix

		Stages of industry maturity			
		Embryonic	Growth	Mature	Ageing
Competitive position	Dominant		Fast grow	Defend position	Defend position
		Fast grow	Attain cost leadership	Attain cost leadership	Focus
		Start-up	Renew	Renew	Renew
			Defend position	Fast-grow	Grow with industry
	Strong	Start up	Fast grow	Attain cost leadership	Find niche
		Differentiate	Catch-up	Renew, focus	Hold niche
		Fast grow	Attain cost leadership	Differentiate	Hang-in
			Differentiate	Grow in industry	Grow with industry
	Favourable	Start-up	Differentiate, focus	Harvest, catch-up	
		Differentiate	Catch-up	Find niche, hold niche	Retrench
		Focus	Grow with industry	Renew, turnaround	Turnaround
		Fast grow		Differentiate, focus	
	Tenable		Harvest, catch up	Grow with industry	
		Start-up	Hold niche, hang in	Harvest	
		Grow with industry	Find niche	Turnaround	Divest
		Focus	Turnaround	Find niche	Retrench
Weak		Focus	Retrench		
		Grow with industry			
	Find niche	Turnaround	Withdraw		
	Catch-up	Retrench	Divest	Withdraw	

Source: Faulkner, 1998

‘Competitive position’ is used as a measure of the strength of the organization and this is mapped against the ‘stages of industry maturity’, indicating that different appropriate strategies exist for each stage of industry maturity. Faulkner (1998) advises that the matrix should be used for guidance purposes only, due to the ‘very limited range of ‘natural’ strategic thrusts’ recommended, and the fact that the rate of industry maturation process is not taken into account.

Johnson & Scholes (2000) suggest that the position within the life-cycle can be determined through an evaluation of eight descriptors, namely ‘market growth rate, growth potential, breadth of product’ (or service) ‘lines, number of competitors, spread of market share between these competitors, customer loyalty, entry barriers and technology’. They suggest that, for example, an embryonic industry displays rapid growth, changes in technology, fragmented market shares and the pursuit of new

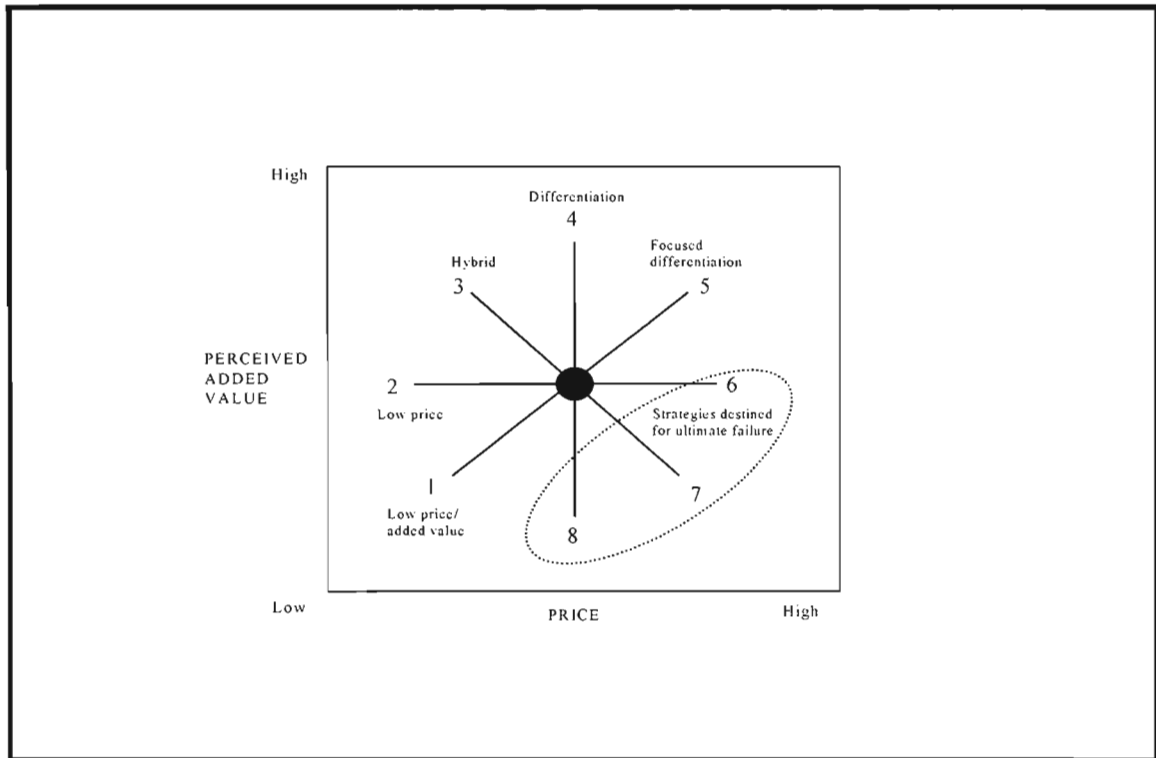
customers, and that ageing industries often display falling demand, the exit of a number of competitors and narrow product lines.

With respect to competitive position, Johnson & Scholes (2000) suggest that a “dominant” position is indeed rare in the private sector, except under monopolistic conditions, that “strong” organizations can follow their own strategies relatively unimpeded by competition, and that a “favourable” position is where no particular competitor stands out, but where industry leaders are relatively better placed. In contrast, they suggest that a “tenable” position can be maintained by specialization or focus and that a “weak” position is indicative of small organizations unable to exist independently in the long-run.

2.4.2. Positioning

In terms of a suitability analysis, it is important to determine the viability of present and future positioning based on market conditions dictating the nature and levels of demand. Competitive conditions will dictate whether a positioning based on low-price or differentiation is appropriate, depending on which option the organization can realistically support. Therefore, as Johnson & Scholes (2000) suggest, the ‘key resources and competencies underpinning the strategy’ must be investigated in terms of their potential contribution to the proposed strategy. The ‘strategy clock’ provided by Johnson & Scholes (1993) is a good starting point.

Figure 2.6. The Strategy Clock: Competitive Strategy Options



Source: Johnson & Scholes, 1993

The strategy clock essentially enables the key resources and competencies identified to be examined in terms of reasoning behind the particular product/service or market strategy being assessed. Strategies concerning cost-reduction will be important for positions 2 and 3 in the strategy clock, with the creation of greater perceived added value being critical for positions 3, 4 and 5.

Based on the strategy clock model, Johnson & Scholes (2000) suggest that the organization's resources and competencies should be classified as either leading to cost-reduction or greater perceived added value (differentiation strategies), and then revisited to establish whether they are 'sustainable or difficult to imitate'. In this manner, it can be established whether the key resources and competencies match the strategy under consideration and whether they will contribute to sustainable competitive advantage. However, Johnson and Scholes (2000) caution that the real sources of competitive advantage may well be the linkages between the resources or activities of the organization and the 'tacit knowledge' of the organization as opposed to the resources and competencies in their own right. This is important to consider in this form of analysis.

2.4.3. Value Chain Analysis

Lynch (2000) asserts that ‘the concept of value added can be used to develop the organisation’s sustainable competitive advantage’ through the ‘value chain’ of an organization and the ‘value system’ consisting of linkages between organizations. Porter (1985) proposed that two areas be examined, being the added value that each part of the organization contributes to the organization as a whole, and the contribution to the organisation’s competitive advantage that each part makes.

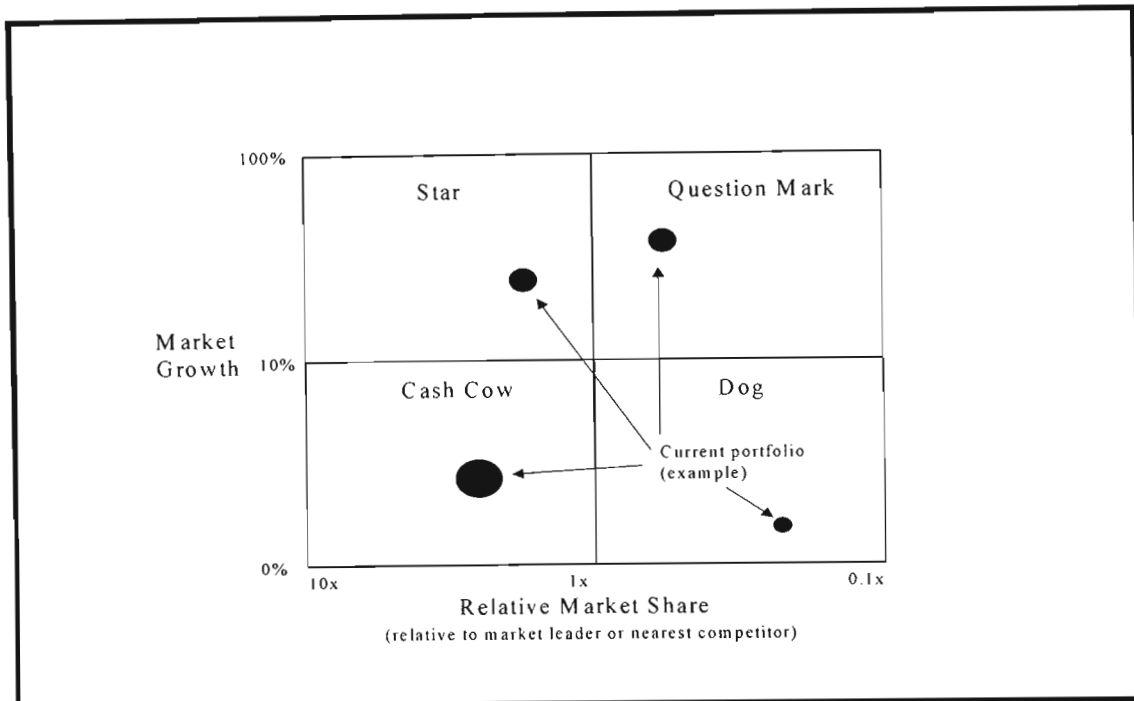
Johnson & Scholes (2000) suggest that a value chain analysis is a useful tool to establish the suitability of strategic options, noting, in addition to the contribution to value added and competitive advantage made by each part of the organization, that the configuration and linkages between value activities are just as important. Suitability is therefore tested on the basis of re-configuration of the value chain proposed by developed strategies. Any changes should improve value-added, the competitiveness of the organization, or both.

The concept of ‘synergy’ is important to consider in a value-chain analysis. Johnson & Scholes (2000) assert that synergy entails the creation of greater value for money by reconfiguring the linkages in the value chain, and that synergy is often used as justification for product or market diversification strategies.

2.4.4. Portfolio Analysis

Ambrosini (1998) states that ‘portfolio analyses can facilitate an organisation’s assessment of the balance of its mix of services, products or businesses’. Johnson & Scholes (2000) assert that the evaluation of ‘specific options for the future’ can be carried out by plotting these options onto a matrix, thereby highlighting the long-term rationale of the proposed business development. In practice, many matrices designed for portfolio analyses are used, the most common of which is the BCG matrix or “Boston Box” designed by the Boston Consulting Group (Faulkner, 1998).

Figure 2.7. The Boston Box



Source: Faulkner, 1998

The Boston Box attempts to relate the market attractiveness with the internal strength of a particular business unit. Grant (1991) suggests that the matrix ‘provides clear predictions as to the pattern of profit earnings and cash flow associated with the different cells’, and that ‘it also provides recommendations as to appropriate strategies: Milk the cows, invest in the stars, divest the dogs, and analyse the question marks to determine whether they can be grown into stars or will degenerate into dogs’.

However, Faulkner (1998) notes that market growth rate can only approximate market attractiveness, due to the fact that many other factors also play a role in determining market attractiveness. In addition, the model assumes that growth is important – this depends on whether the business unit examined has a strategic advantage in terms of the competencies and resources required for growth to lead to improved performance and results. Faulkner further notes that ‘relative market share’ is an approximation of company strength, with the model assuming that strength is directly related to market share to the exclusion of other influences. In addition, another weakness of the model is the fact that declining markets are not allowed for.

Grant (1991) further notes that the relationship between market growth, market share is contentious and ambiguous, and importantly, that the model's assumption that each business unit is entirely independent must be carefully considered. Faulkner (1998) also comments that, in many industries, the concept of a 'cash dog' can be found in situations where good profits are made under conditions of low market share and slow growth. It would be unwise to simply divest such businesses without careful consideration of their contribution. In addition, Faulkner (1998) suggests that opportunities may exist in specific segments or niches in slow-growth markets, and that well-focused organizations directing their resources towards these segments or niches may be very profitable.

Despite the various shortcomings of the Boston Box, cautionary use of the model can provide realistic and uncomplicated insights into the rationale for a strategic approach towards diversity. The following approach should be taken (based on Johnson & Scholes, 2000):

- It should be determined whether or not the proposed strategy will improve the dominance of the organization in its various markets, with the focus being on strategies able to move "question marks" through to "stars" and eventually to "cash cows". It should be noted that the "question marks" often require a high level of innovative capability.
- It is important to ensure that sufficient capital (profit) is generated by "cash cows" to allow for the investment required in the development of "stars" and "question marks". This is of extreme importance when considering potentially lucrative opportunities requiring significant initial expenditure.
- Should an acquisition strategy be examined, care should be taken to match resources and competencies with opportunities. "Question marks" and "dogs" may in fact be excellent targets if the organization is able to develop these appropriately.

2.5. ACCEPTABILITY ANALYSIS

According to Johnson & Scholes (2000), 'acceptability is concerned with the expected performance outcomes, such as risk or return, if a strategy is implemented'. It is necessary to explore these issues in order to establish whether or not the proposed strategies will be acceptable to management. Although many techniques are available for the analysis of acceptability, and due to the exclusion of financial data analysis in this research, only two forms of acceptability analyses are investigated, namely, a sensitivity analysis and an analysis of stakeholder reactions (which includes an investigation of the culture and leadership of the organization).

2.5.1. Sensitivity Analysis

Johnson & Scholes (2000) suggest that a sensitivity analysis is useful for 'incorporating the assessment of risk during strategy evaluation', allowing 'each of the important assumptions underlying a particular strategy to be questioned and changed'.

Essentially, the sensitivity analysis involves testing the sensitivity of predicted outcomes with respect to the assumptions made during strategy development. This is facilitated by the weighted SWOT (impact) analysis carried out as part of the strategic analysis process. Johnson & Scholes (2000) assert that the sensitivity analysis enables management to understand the risks involved in a particular strategy and the degree of confidence that can be assigned to decision making.

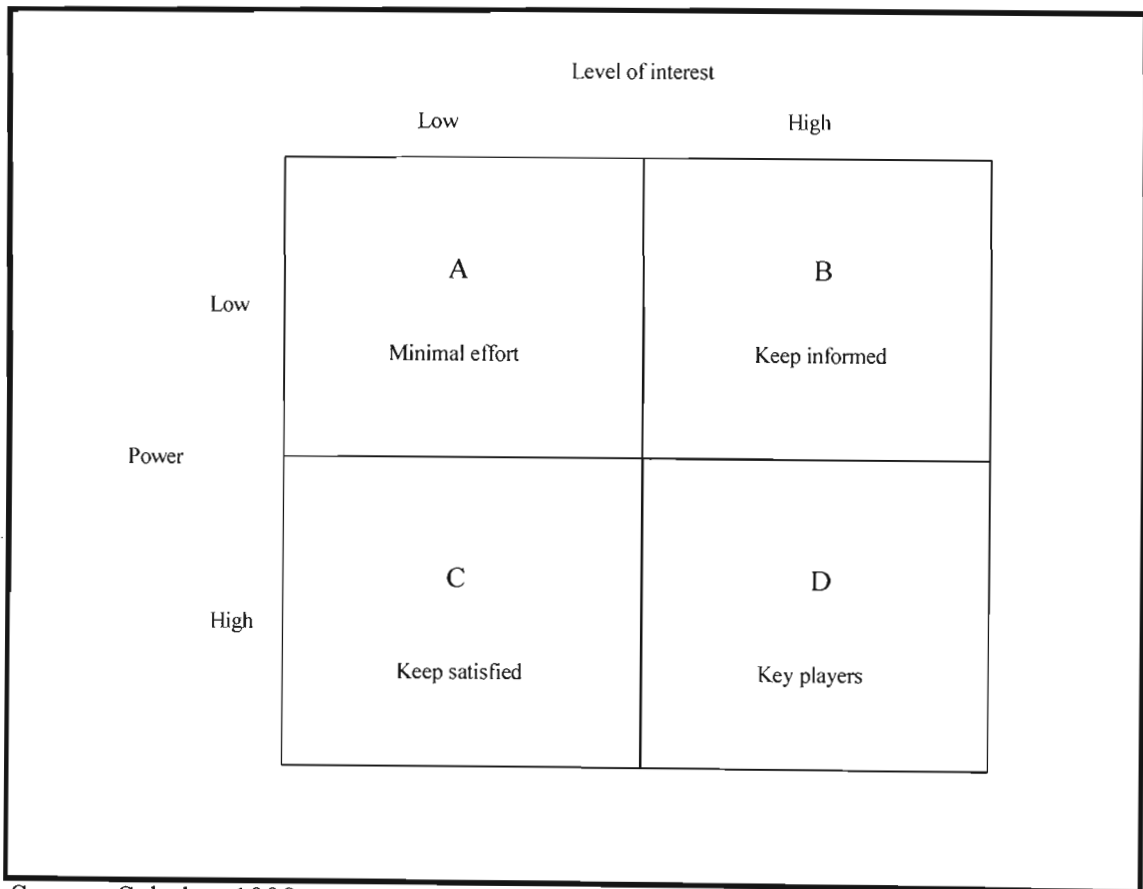
2.5.2. Analysing Stakeholder Reactions

Johnson & Scholes (2000) recommend that the stakeholders in the organization should be carefully considered in terms of the degree of interest that they are likely to exhibit towards or against the proposed strategy, and their ability or power to assist or hinder the adoption of the strategy.

Scholes (1998) asserts that 'purposes and priorities emerge from the political interplay between different stakeholder groups' and that 'strategic managers must both

understand this political context in detail and be able to develop and implement strategies which are politically viable as well as rational'. He suggests the use of a "stakeholder mapping" exercise to illustrate the level of importance of the relevant stakeholders. This is carried out through plotting a power-interest matrix in which the relevant stakeholders can be positioned. The matrix can then be used to determine who the 'key players' are that can potentially champion or detract from the strategy. A course of political action can then be decided upon.

Figure 2.8. The Power-Interest Matrix



Source: Scholes, 1998

Johnson and Scholes (2000) assert that there are many situations in which the correct judgement of stakeholder reactions could be crucial, for example:

- A new strategy requiring the issue of new shares may be unacceptable to powerful shareholders.
- A new strategy concerning a merger with another company or trade with new countries may be unacceptable to unions, government or customers.

- A new strategy involving the removal of channels could result in a backlash.
- A new strategy may upset the current market conditions to such an extent that competitors retaliate in a damaging manner, such as engaging in a price war. This would undermine the assumptions on which the strategy was based.

Leadership:

The type of leadership of the organization should also be carefully considered when assessing the suitability and consequent acceptability of a proposed strategy. The existing leader of the organization may, in fact, not be the appropriate individual for the position. Rothschild (1993) asserts that there is ‘no leader for all seasons’, meaning that a different type of leader is required for the different stages of the business life cycle. He proposes that essentially four broad categories of leader exist, with each one suited to the four main stages of the business life cycle. It becomes evident that a mismatch between leadership and the business life cycle stage could have disastrous consequences.

Firstly, the “risktakers” are leaders exhibiting revolutionary business talent in developing and leading new businesses. Rothschild (1993) asserts that such leaders have ‘a vision and a commitment that allow them to gamble their entire career and personal wealth on making their dreams a reality’, and that such leaders are required when the business is in its infancy or youth – a rapid growth period. Secondly, the “caretakers” are leaders that take the business through the stable growth phase. Rothschild (1993) suggests that such leaders are required to ‘nurture a more orderly, evolutionary growth and long-term prosperity’, adding ‘structure and stability’ to the organization. Certain leaders may become “evolutionary caretakers”, that is, they are able to fuel new growth spurts during the maturing process, thereby renewing the upward trend of business growth and prosperity.

When the business matures and eventually slows, as businesses often do, Rothschild (1993) asserts that a “surgeon” leader is required, someone able to ‘focus on those parts that can survive and grow, while discarding the weak pieces that need to be pruned’. Such a “surgeon” needs to be skilled enough to ensure that the business

survives the degree of change implemented. Finally, should it be necessary to close down the ageing organization during a period of irreparable decline, Rothschild (1993) suggests that the “undertaker” leader is required, an individual able to harvest the remains of the business while gracefully and compassionately assisting the final demise of the organization.

The Culture of the Organisation:

In determining the acceptability of strategies, consideration of the culture of the organization is important. The culture must suit the direction proposed by the strategy for it to be successful. Alternatively, certain aspects of the organisation’s culture may require adaptation or change.

Johnson (1998) proposes that a ‘cultural web’ be constructed in order to illustrate the important cultural aspects to be considered, and as a consequence, their ‘fit’ with the proposed strategy. The following elements should be considered (based on Johnson, 1998):

- **Paradigm:** The set of assumptions about the organization which is held in common and taken for granted.
- **Routine:** The ways in which the members of the organization behave towards each other, in other words, “the way we do things around here”.
- **Rituals:** Aspects such as training programmes, promotion and assessment, reinforcing the routine aspects.
- **Stories:** The tales told by members of the organization to each other, to outsiders, and new recruits, embedding the present in organizational history, flagging important events, personalities and mavericks.
- **Symbols:** Aspects such as logos, offices, vehicles and titles, the type of language and terminology commonly used.
- **Control Systems:** Formalised systems that focus attention and activity, based on control, measurement and reward systems that monitor and emphasise what is important.

- Power Structures: The aspect of powerful managerial groupings that are likely to be the ones most associated with core assumptions and beliefs of what is important.
- Organisational Structure: The formal or informal ways in which the organization works, reflecting power structures and delineating important relationships.

2.6. CONCLUSION

The overwhelming existing body of evidence suggests that strategic analyses, strategic options development and evaluation can employ many different forms of analyses. A review of available literature based on the subject matter highlighted the important aspects to consider and provided a theoretical basis on which a model for the purpose of a case analysis could be constructed.

CHAPTER 3: CASE STUDY: DPA SPECIALIST CONSULTING ENGINEERS

3.1. INTRODUCTION

The case of DPA Specialist Consulting Engineers illustrates a number of common problems associated with the growth and development of a small business, and the various available avenues of opportunity. The case involves an initial exploration of the company's background and history, followed by a discussion relating to the nature of the business and the services it offers. To place the case in context, a discussion of the pressures and trends associated with the civil engineering industry is then presented. The main body of the case follows, and is presented in the format of a discussion of the activities and happenings pertaining to the organization during the period of 1998 to 2003, a period characterised by dramatic change. Pertinent aspects of the organization are then investigated, specifically the issues surrounding employees and marketing. Finally, the competitive arena in which the organization is active is discussed.

3.2. COMPANY BACKGROUND AND BRIEF HISTORICAL OVERVIEW

DPA Specialist Consulting Engineers is a relatively small company specialising in materials technology related to the civil engineering construction industry. It has, however, grown considerably as a practice since the amalgamation of two long-standing corrosion consultancies in 1992, namely Eric Duligal and Associates and Draper Penhall and Associates.

In 1981, Patrick (Pat) Draper, an industrial chemist, began consulting in Natal, South Africa, under the name of Patrick Draper and Associates, after twenty-five years of experience in laboratory development, manufacturing and contracting in the coatings and corrosion industry. In the same year, Eric Duligal formed a practice in Johannesburg, South Africa, after forty years of experience in the coatings and corrosion industry, culminating in eleven years of specification writing for the South African Bureau of Standards. Derek Penhall joined Patrick Draper and Associates, leaving his previous position as National Technical Manager for Sika SA, and became a partner in 1990, forming the consultancy of Draper Penhall and Associates (DPA).

The initial focus of Draper Penhall and Associates was in the areas of corrosion protection, waterproofing, and specialist remedial work pertaining to deteriorated reinforced concrete structures, bringing together the skills and experience of both partners. The firm's head office was based in Pinetown, Kwa-Zulu Natal, and opened a Johannesburg office in the early 1990s.

Pat Draper specialised in corrosion and coatings technology and systems development due to his background in industrial chemicals. He was originally one of the founding members of Pro-Struct and ABE, two of the largest domestic materials suppliers in the civil engineering industry today, and was responsible for the development of many materials and systems currently in use.

Derek Penhall specialised in waterproofing technology and reinforced concrete remedials, leading on from his experience gained as National Technical Manager of Sika SA, one of the largest and most successful multi-national material suppliers in the civil engineering industry. While at Sika SA, Derek travelled to Switzerland, Germany and the UK, and gained extensive training and experience in the diverse and highly specialised fields of operation of the Sika group.

Pat Draper formally retired in 1997, leaving Derek Penhall as the owner and managing director of the company and Shane Harrison, Derek Penhall's brother-in-law, as the financial director. He still acts as a consultant to the company from time to time and involves himself in product development and other projects where clients request his input. He is also currently involved in materials development in the company's laboratory.

Other relevant long-standing employees of the company, besides some of the administrative staff include Lanic Devananan, Brownlee Barry and Brendon Jewaskiewitz. Lanic and Brownlee have both been employed by DPA for over ten years, with Lanic originally joining the company as a relatively inexperienced laboratory technician and progressing to project manager status and Brownlee joining the company with an architectural drafting qualification. Both Lanic Devananan and Brownlee Barry were effectively trained in the business by Pat Draper and Derek

Penhall, and are now fairly influential in the firm, able to implement most projects on their own, but still with a large degree of involvement on the part of the directors. Brendon Jewaskiewitz joined the firm in 1998 with a BSc in Civil Engineering and was appointed as a director in 2000, after gaining some experience in the firm's various fields of expertise, and successfully managing a number of projects.

3.3. PRODUCTS AND SERVICES OFFERED BY DPA

Since inception, DPA has offered a wide range of specialist consultancy services in the field of civil engineering and construction. These services include concrete diagnostics, assessment and repair, the rehabilitation of architectural structures, waterproofing design, insulation systems design, steel corrosion assessment and protection, forensic engineering and failure analysis, contract documentation and management, laboratory testing and materials evaluation, and quality control and assurance services. On occasion, Pat Draper and Derek Penhall are appointed to legal teams as expert witnesses and to provide independent technical advice. Such appointments often involve forensic investigations into material failures.

To illustrate the different types and the nature of the projects pursued by DPA, a few major projects in which the company has been involved are listed below:

- Lining of the wave pool, coatings to the Cascades and hotel structures, and waterproofing at the Lost City (the first successful major epoxy based coating applied to a dynamic reservoir in South Africa).
- Specialist below ground and water table waterproofing at the International Conference Centre, Durban (the first of its kind to be used in Africa and the largest of its kind internationally at that time).
- Specialist waterproofing application to the suspended swimming pool at the Hilton Hotel, Durban (involving an elastomeric bonded waterproofing lining incorporating directly bonded ceramic tiles).
- Advanced waterproofing system to a 35m deep water tower at the Hulett's Aluminium Rolling Mill, Pietermaritzburg (the deepest water retaining

structure lined with a fully bonded elastomeric crack-bridging lining in South Africa).

- Coatings and corrosion consulting to the Burj Al Arab Hotel in Dubai for Murray and Roberts International.
- Design and project management of fast track waterproofing and paving of 42 000m² parking deck at Eastgate Shopping Centre, Johannesburg.
- Design and project management of waterproofing of 45 000m² parking deck at Sandton City Shopping Centre, Johannesburg.
- Design and project management of innovative and robust insulation and vapour barrier system to cold pressure vessels at Richards Bay Bulk Storage, Richards Bay.
- Concrete diagnostic survey by abseil of 130m high operational chimney stack and subsequent rehabilitation and protection thereof at Lonhro Platinum Mine, Rustenburg.
- Concrete diagnostic survey of external concrete windshield of operational 300m high chimney stack and subsequent rehabilitation and protection thereof at Sasol Synthetic Fuels, Secunda (the tallest structure in the southern hemisphere).
- Concrete diagnostic survey and waterproofing investigation of 16 unit 40m high Silo complex, Port Louis, Mauritius undertaken by abseil techniques. The report was used successfully as legal document.
- Concrete diagnosis, rehabilitation and protection of a highly sulphate contaminated concrete chemical plant for DOW chemicals, Sasolburg. This included complete removal and replacement of structural columns and beams whilst maintaining full operation of the facility.
- Concrete investigation and diagnosis of a 2,5 km sea bridge to Portuguese Island, Mozambique for the World Bank.

The nature of these projects indicates that DPA is a specialist, technology driven firm, focusing on 'specialist solutions' to engineering problems.

DPA serves a wide range of clientele, including national and local government departments, property managing agents, developers, industrial plants, chemical plants, large contractors, and even private individuals, depending on the size and nature of the project. Practically, any person or organization with a need for the specialist services provided by DPA is viewed as a potential client.

DPA has a definite advantage in its array of specialised instruments and proprietary techniques. Since DPA's inception, Derek Penhall has ensured that the procurement and development of specialised equipment has been of paramount importance. This is due to the fact that the forensic nature of detailed concrete investigations and the optimisation of remedial designs often requires in-depth data analysis. As a result, state of the art equipment and computer software are necessary tools. Most of the equipment and software in use by DPA, especially in the field of concrete diagnostics, was developed by DPA in-house, or in conjunction with the relevant suppliers, specifically to DPA's requirements. This was made possible through a thorough understanding of the workings of the required equipment (mostly electronics based), almost entirely on the part of Derek Penhall. In addition, over the years, Derek has sought out new technology overseas, keeping in contact with and visiting key people in the UK and the middle-east.

For example, detailed concrete diagnostic investigations often require the capturing of thousands of scanned data units. DPA has the necessary data-logging equipment enabling the rapid and efficient capture of such data, which can then be downloaded onto DPA's computer systems for processing. The data can then be manipulated, resulting in in-depth statistical analyses and the development of a meaningful computer model. As a result, investigations and assessments can be refined to high levels of accuracy, thereby enabling effective remedial decision making and budgeting.

In addition, most of the laboratory testing pertaining to specialist investigations is carried out in the company's laboratory. However, the laboratory at present is not fully equipped in terms of compliance with the required conditions of constant, regulated temperature and humidity. This would require the installation of expensive

environmental control systems. In addition, most of the laboratory equipment is old, often requiring costly maintenance or repair.

The company's management believes that the services offered, although diverse, often complement each other through various combinations. For example, an insulation design may require the additional design of a corrosion protection system and a quality assurance programme. However, some staff members have expressed concerns with respect to the apparent lack of focus on any particular field of expertise, and the degree to which this lack of focus may or may not be impacting on the company's success. The situation appears to have been exacerbated by the directors' decision to diversify into and concentrate on specialist contracting activities, thereby spreading key company personnel even thinner, and resulting in a significant decline in consulting revenues. This has especially been the case over the period of 2001 to 2003, with the main specialist contracting focus being on waterproofing and concrete remedial work.

Derek Penhall's philosophy with respect to the company's 'product' lies in an intense commitment to provide the deliverables to the client on time and at a high level of quality. Company employees are often put under pressure to 'get the job done on time' which often results in overall client satisfaction and pride in the company's work. This is seen as the key to client retention and repeat business – a formula which has worked well on many occasions. In addition, Derek Penhall has always impressed upon staff the importance of delivering 'value-added' services, or something extra that the client is not expecting and will add value to the overall service provided. Unfortunately, with staff members being thinly spread and due to mounting commitments at times, this philosophy has become distorted and has often lead to extreme situations of over-commitment and under-delivery. In an industry where reputation and track-record forms the basis for marketing efforts, such a stigma has, in the opinion of various staff members and management, unfortunately resulted in a large, unquantifiable amount of lost business and clientele. On occasion, some relatively important clients have voiced their dissatisfaction to employees directly, thereby creating an impression among employees that a tainted image of DPA has been generally created throughout the industry.

DPA's recent diversification into specialist contracting is explored in further detail below, as this strategic move was seen to be an integral part of the changes experienced between 1998 and 2003 and the future strategy of the organisation. However, to place the case in context, it is first necessary to explore the relevant current pressures and trends in the civil engineering industry as a whole.

3.4. THE CIVIL ENGINEERING INDUSTRY – PRESSURES AND TRENDS

It is a widely known fact that the levels of competition in the civil engineering consulting and contracting industry have constantly risen over at least the last decade, the main causes of which have been adverse economic circumstances and cyclical reductions in spending in this area. The situation where consultants rarely competed on the basis of price has now become commonplace, especially when private sector work is competed for, with clients attempting to stretch their budgets as far as possible. In addition, the larger public sector projects are becoming more competitive, with consultants now having to tender for work. Many observers believe that, as a result, clients and engineers are tending to sacrifice quality for price, causing long term damage to the industry – borne out by the apparent increase in engineering failures occurring.

“Black economic empowerment” or “BEE” is also rapidly becoming a serious issue in the civil engineering industry. Whereas previously non-black owned consultancies and contracting organizations were able to operate freely, the situation has changed dramatically. Almost all national government and local government work requires BEE compliance, with points systems often being applied to tenders, severely penalizing those not in compliance. At present, BEE compliance entails at least 25,1% ownership of the organization by “previously disadvantaged individuals”, whereas a “black owned enterprise” entails at least 50,1% ownership. Various other classifications exist, such as a “black women owned organization”. Depending on the particular requirements applied to a specific contract, often at least BEE compliance is necessary. Recently, the procurement policies of many larger private sector organizations have been amended to include BEE compliance requirements.

Many consulting and contracting organizations in the industry have reacted positively to BEE requirements, either forming new black empowered companies or forming strategic alliances or joint ventures with black empowerment partners. However, this has proved very difficult for the smaller businesses, due to the lack of suitable available partners. As a result, many businesses have also decided to seek work elsewhere, mostly outside South Africa's borders. Alternatively, some businesses have closed, with the owners emigrating to countries such as the UK or Australia. In addition, some companies previously exercising empowerment policies at their own free will have been severely disadvantaged as a result of skilled, trained employees leaving to set up their own practices.

Recently, BEE has been under the spotlight, with government committing itself to the promulgation of suitable legislation, enforcing certain guidelines currently in place. In addition, a "scorecard approach" is intended, with the focus not only on ownership, but also on 'management, employment equity, skills development, procurement, corporate social responsibility, investment and enterprise formation' (Extracts from President Mbeki's State of the Nation address, 2003). This is due to the many loopholes having been exploited by various organizations. For example, some smaller contractors have been known to literally set up businesses, registering their domestic workers or gardeners as shareholders, and carrying on as if it was business as usual.

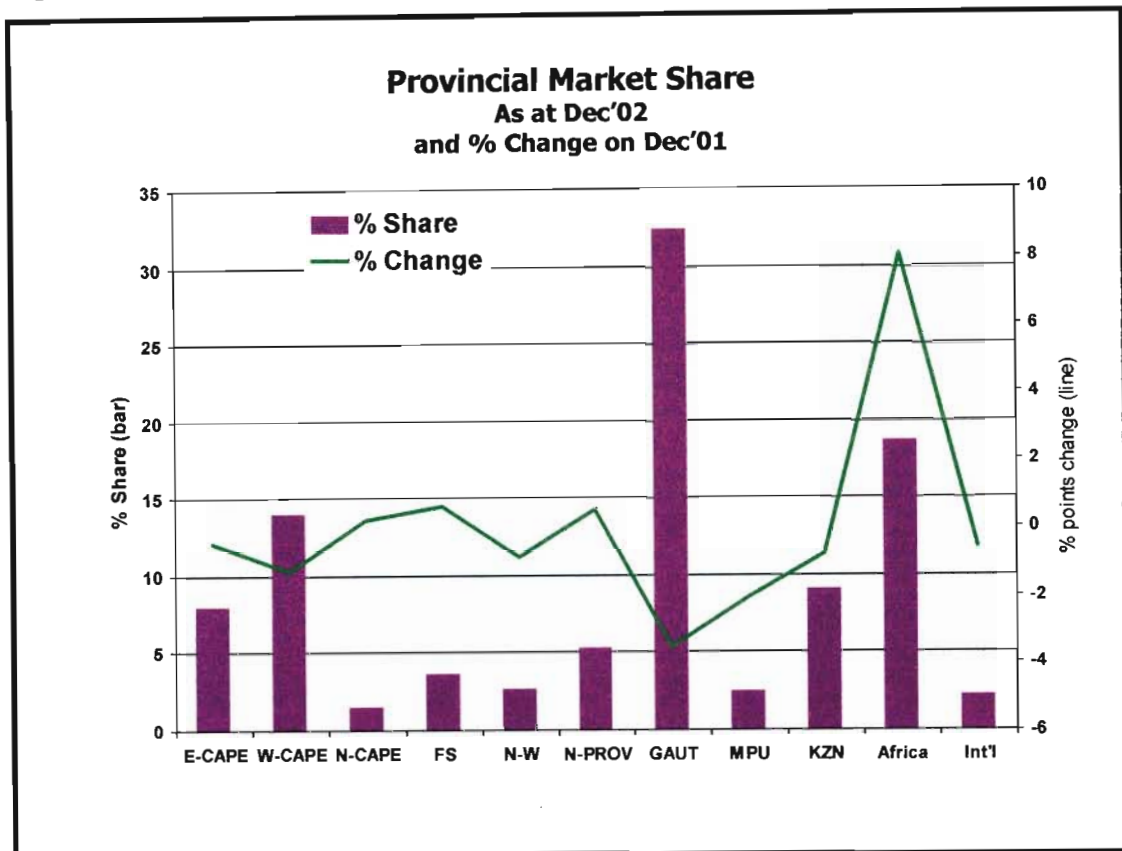
In general, however, certain trends have become apparent, resulting in a positive outlook in some areas. The Management Information Survey undertaken by the South African Association of Consulting Engineers (SAACE) during the last six months of 2002 yielded some interesting results (Consulting engineering industry more upbeat, *Building*, July 2003). Graham Pirie, the SAACE executive director, asserts that the 'business mood' indicator (calculated upon pre-determined guidelines) is expected to remain above 90% for the next twelve to eighteen months, 'signalling an overall improvement in conditions'. Other findings of the survey were as follows:

- Annual turnover for the civil consulting industry is approximately R 4,5 billion, with the civil contracting industry roughly on par, after lagging behind for a few years.

- Despite negative expectations, fee income increased in real terms. Compared with the last six months of 2001, nominal fee income rose by 16,6% or by 3,2% after inflation adjustments.
- The government is playing a larger role in fee income earned by the consulting industry, with government funding comprising just over 62% of earnings, compared with an average of 56% in 2000. This is attributed to the governments continuing commitment to infrastructure investment in areas such as 'housing and municipal infrastructure, hospitals and clinics, schools, roads, water, electricity and government facilities'. This highlights the importance of BEE policies within service provider firms.
- The private sector, making up the remaining 37,7% of fee income, showed a decrease in value of 1,45%. This is attributed to prevailing high interest rates, negatively influencing investment spending.
- Total fee income earned outside South Africa's borders is growing and is estimated at over R 1,3 billion per annum.
- Mainly concentrated in African countries, average foreign earnings as a percentage of total fee income rose from 6% in 1998 to 15,2% for 2002.
- Non-payment or the delayed payment of fees is a problem, with 21% of fee income earned from foreign clients outstanding for over 90 days.
- Despite a 'severe shortage' of black engineers, the employment of black partners or directors rose by 41% in 2002, with black staff at all levels accounting for 25% of total employment.
- Less than 5% of professional engineers are black.
- The civils consulting sector is operating at almost full capacity, and a skills shortage is impacting on the desired employment levels. This is contributing to the difficulty experienced in employing appropriately trained personnel.

For the civils consulting industry, SAACE has measured the market shares between provinces in South Africa and the African and international markets, represented on the following chart.

Figure 3.1. Provincial Market Share



Source: SAACE Management Information Survey, 2003

The issue of consulting fee levels has been a highly debated topic in recent years. It is commonly known that engineers have “undersold” themselves for years, willing to accept the risk involved in engineering projects and being paid poorly in return. The engineering fraternity is constantly under the impression that a severe shortage of engineers exists, and yet, they still keep cutting their fee income. Fees can be calculated on the basis of established fee scales issued by the Engineering Council of South Africa (ECSA), but more often than not, large discounts are provided either by choice or client pressure. The general opinion in the industry is that civil engineering consultants are poorly paid in relation to other professionals in other disciplines, such as attorneys.

The South African Association of Consulting Engineers (SAACE) is an association to which various consulting firms can belong, the objective being that the Association will protect their interests, one of them being to assist in maintaining fees at

acceptable levels. The Association regularly publishes an updated “Form of Agreement” which can be used as the basis for engineering appointments, and coupled to this are fee scales, to which member organizations are expected to adhere. The fee scales issued by SAACE are similar to those issued by ECSA, but are specifically for the use of Association members. It is relevant to note that the Competition Board of South Africa has recently intervened, condemning the SAACE fee scales and policies as a form of price fixing. Following legal advice, SAACE has subsequently issued an advisory notice to member firms to the effect that the latest form of agreement and fee scales will not be published, referring members to the ECSA fee scales. As ECSA is a statutory body, these recommended fee scales are deemed to be acceptable at present. However, the result of this action is that SAACE, often seen to be a ‘toothless’ organization, has been dealt a significant blow.

A further unfortunate and significant problem often encountered in the civil engineering industry is that of corruption. This is not only limited to public sector organizations but is rife in the private sector as well. DPA has had many opportunities snuffed out, possibly due to suspected underhanded activity – in many instances, the outcomes of various situations could only be explained through such suspected activity. Unfortunately, not much can really be done under such circumstances.

3.5. DPA FROM 1998 TO 2003 – A RAPIDLY CHANGING ORGANISATION

Derek Penhall employed Shane Harrison in February 1998, realising that competent financial management of the company was lacking. Historically, the financial affairs of the company were jointly managed by Patrick Draper and Derek Penhall, often resulting in difficult financial circumstances, due to their lack of experience and expertise in financial management matters. Derek had also been known to be an extravagant spender, both in the business and in his personal capacity. Shane Harrison’s qualification as a chartered accountant and his background of running various small businesses, together with the family connection, effectively meant that, at the time, he was an ideal candidate for the position of financial director. Shane Harrison immediately set about reforming the financial well-being of the company and developed various financial and administrative systems which were previously lacking. He also cut back severely on unnecessary costs over a short period of time –

an aspect of business he is still good at today. In the mean-time, Derek Penhall concentrated most of his efforts on marketing and projects in Durban, Richards Bay and Johannesburg.

At the time that Shane Harrison joined DPA, the Johannesburg office was an integral part of DPA, headed up by Wynand Louw, a partner in the business. Various technicians and quantity surveyors were employed through the Johannesburg office, and Johannesburg based projects were handled by the team, with Derek Penhall keeping track of the business on an ongoing basis and providing his marketing capabilities to both the head office in Kwa-Zulu Natal and the Johannesburg operation.

At the age of twenty-two, Brendon Jewaskiewitz joined the company at head office in November 1998, following the completion of his studies as a civil engineer and a stint of ten months at the Department of Water Affairs and Forestry. He was involved in various projects and spent time on site as a resident engineer, gaining technical experience related to the company's areas of specialization. He was appointed to the board of directors in November 2000.

Over the years of 2000 to 2003, DPA Specialist Consulting Engineers experienced fluctuating cycles of business activity and income. The company was often in a cash-flow crisis, with the payment of salaries being delayed in some months, especially when a few large clients did not pay their accounts on time and when the company was dependent on a few large projects as opposed to many smaller ones. An extreme crisis was experienced in December 2000, when a large client terminated the company's services with approximately R1,5 million in fees still outstanding. The company had effectively worked solidly on the project concerned (the Phase 1 waterproofing for the Melrose Arch development), with the majority of its resources including staff involved, for about four months. With no sign of payment, the financial strain was immense. However, the company endured, and through exposure to personal financial risk, Derek Penhall managed to get the company back on track. The effects of the shock, however, were felt long afterwards, with staff salaries and bonuses being negatively affected for the next two years.

The Johannesburg office was closed in 2001, following intense debate on the matter between Derek, Shane and Brendon. Shane, basing his judgement on the financial data, and the fact that no-one resident in Johannesburg was willing or capable to go all out to ensure success in terms of maintaining turnover and securing new clients and projects, was adamant that the office should be closed down, and Brendon was in agreement. The operation had incurred successive losses, year on year for the past five years and was taking its toll on the overall health of the company. Wynand Louw had left under a cloud in 1999 as a result of his and the operation's poor performance (and carefully calculated internal politics designed to remove him) and had set up his own small consulting business in competition with DPA. Derek Penhall had assumed the management of the Johannesburg office, and as a consequence, spent his time travelling between the Durban and Johannesburg offices for approximately two years.

During this period, many staff members came and went, and no suitable candidate for the management of the Johannesburg operation was found. In the end, it was felt that the cost of keeping a fully functioning "office" open was unjustified, as most projects were already being handled by essentially Durban staff and management who were travelling to Johannesburg regularly. It was decided that only Brownlee Barry would remain in Johannesburg and work from home, effectively ensuring that someone would at least be based in the region and would be able to act under instruction from Durban. Further, it was decided that involvement in Johannesburg would be limited to project specific opportunities and that such opportunities would continue to be serviced from Durban.

Around the same period, the directors took the decision to diversify into specialist contracting. The reasoning was that DPA had the expertise and skills necessary to implement specialist contracts, and that many clients were requiring a full-service approach, from design to construction. In addition, it was perceived that the contractors involved on projects where DPA were the appointed consultants were making good profits while DPA effectively 'trained' them and earned substantially less. As a result, DPA Projects was incorporated and commenced trading in tandem with DPA Specialist Consulting Engineers, headed up by the same directors. Derek Penhall remained the sole shareholder of DPA Specialist Consulting Engineers, and shared the ownership of DPA Projects 50/50 with Shane Harrison.

The intention was for the two businesses to benefit each other, with DPA Specialist Consulting Engineers providing the technical expertise and market experience to the projects undertaken by DPA Projects, in addition to an injection of start-up capital. The intention was to provide clients with the assurance that all projects would receive the necessary degree of technical expertise and attention to detail and the quality standards associated with DPA's standing in the industry. It was decided that Shane Harrison, who had become frustrated with the mundane activities of managing the company's finances and the lack of incoming work, would be the managing director of DPA Projects, with Derek Penhall remaining as managing director of DPA Specialist Consulting Engineers.

Initially, the contracts undertaken by DPA Projects were mainly based on a project management approach, with DPA Specialist Consulting Engineers carrying out quantity surveying, design and engineering functions, DPA Projects carrying out project management functions and other sub-contractors carrying out the physical contract works under the guidance of DPA Projects. Alternatively, DPA Projects would implement the work itself. Such turnkey projects were extremely successful and lucrative, and are often considered to be the "saving grace" of DPA during a time of extreme financial adversity.

For all intents and purposes, the personnel involved in DPA Specialist Consulting Engineers and DPA Projects were the same – the companies only differed on paper and in terms of the services covered under the respective appointments. The client effectively still saw DPA as one party, responsible for the project from beginning to end. This created problems of its own, with anonymous complainants forcing the South African Association of Consulting Engineers (SAACE) to request that the DPA Projects name be changed, in order to remove the association with the name DPA Specialist Consulting Engineers. Technically speaking, membership of SAACE entails adherence to a set of ethical guidelines, and in the engineering industry, consultants are not supposed to have any interests in contracting activities, as this is seen as creating a conflict of interests. The directors managed to convince SAACE that the activities of the two companies are indeed completely separate, and that situations where a conflict of interests may arise would be avoided. On this basis,

SAACE agreed to a name change as opposed to closure of DPA Projects or the resignation of DPA Specialist Consulting Engineers from the association.

It was decided to re-name the contracting company eThekweni Civils, presenting a complete departure from the originally positive marketing association that existed between the previous name and the consulting firm's name. In addition, the new name was meant to represent the company's commitment to black empowerment, a loose plan that was meant to enhance the company's ability to secure government work. Brendon Jewaskiewitz disagreed with the name change for the sake of SAACE membership on the basis that he did not believe that SAACE membership was that important. The most SAACE could do was revoke the company's membership of the Association, having no effect on projects pursued by DPA. Along these lines, SAACE is often seen as being 'without teeth' as there are numerous unethical dealings in the industry that they seem unable to deal with, especially due to the fact that SAACE board members are industry leaders themselves, also with various interests and political agendas. In any event, the name was changed and business was carried out just as it was before, barring the use of the original company name. In the early months of 2003, the directors decided to revert to the DPA Projects name, primarily for the reason of maintaining recognition of the DPA name and market understanding and associations. To date, SAACE has not made any further comments. The directors are also currently considering resignation from the association.

Prior to the name change debacle, under the leadership of Shane Harrison, DPA Projects tendered for a R40 million contract in Port Elizabeth, for the repair and rehabilitation of bridges. The client was the South African National Roads Agency. This represented a different approach to that which DPA Projects had originally employed, in that the company was now tendering for work alongside the conventional, established contractors in the industry. This had major ramifications. Some of the existing competitors were not at all happy with the entry of a new competitor. They were also wary of the fact that it was widely known that DPA possessed superior technical capabilities, providing them with a competitive edge based on differentiating characteristics, including the reputation for superior quality. However, many competitors and other onlookers in the industry did not view DPA Projects as a serious competitor and threat in the contracting business.

DPA submitted the lowest tender price overall – the other competitors who had conventionally had an oligopolistic grip on the industry had expected DPA to pull out – they submitted extremely high prices within a fairly narrow margin of each other. Unfortunately, this only heightened the client’s concerns with respect to DPA’s ability to complete the project within the time constraints and to an acceptable standard of quality. The result was that from January to July 2002, the company was interrogated with queries and audits undertaken by the client, amongst obvious political jockeying by disgruntled competitors. In the end, the contract was not awarded, and the client signalled his intention to split the contract into two portions, with the first to be opened for tender in November 2002. During the waiting period, however, DPA had taken its eye off the ball in terms of active marketing, and the level of work had declined drastically. It was estimated that DPA had effectively lost over R 1 million in reserves during the first six months of 2002, thereby negating all growth prospects achieved towards the end of 2001, following the simultaneous completion of three very successful and very profitable turnkey projects.

During the period of decline, some employees became disillusioned and resigned, depleting the company’s complement of technical staff to the lowest levels ever experienced. Staff morale was at a low ebb – it seemed that all the effort that had gone into re-building the firm after the events of December 2000 had come to nought. Although there were a few projects continuously providing income, company revenues were down drastically and new projects were required to revitalize the firm.

When the first revised bridge repair and rehabilitation contract was put out to tender in September 2002, Shane Harrison submitted DPA Project’s tender as planned. Again DPA’s price was the lowest at around R 15 million, compared to the next lowest price of approximately R 17 million. The other competitors’ prices had been reduced drastically and were considered by the client to be more in line with what they should have been. DPA Projects were eventually awarded the 18 month contract in November 2002. Unfortunately, this came at a price – the award stipulated that Derek Penhall would have to be present on site on a full-time basis throughout the contract – effectively removing him from marketing and as technical head of the organization.

The Burman Road bridge rehabilitation project was in full swing by mid-January 2003. This was a time of extreme stress, requiring careful management to ensure the proper coordination and execution of the works. The establishment of the site and all associated resource requirements, including labour was handled between Derek and Shane, with reasonably competent site supervision being performed by Lanic Devananan and Deloshnan Naidoo (a draftsman/site supervisor), both of whom had been with the company for over ten and five years respectively. Shane relocated to Port Elizabeth permanently, with Derek commuting to Durban for a weekend on an average of once every two to three weeks. Brendon Jewaskiewitz effectively remained in Durban, responsible for Durban and Johannesburg based projects overall.

It is relevant to note that the BEE requirements of the contract were satisfied through an internal arrangement whereby DPA created a black owned company, “LDN Specialist Waterproofing and Concrete Repair”, under the ownership of company employees Lanic Devananan and Deloshnan Naidoo. Therefore, for the purposes of the contract, LDN were officially sub-contracted to DPA Projects for a portion of the works.

In June 2003, Lanic Devananan officially resigned from LDN (but not from DPA), stating his dissatisfaction with the manner in which the relationship between DPA and LDN was being handled. The main problem, as far as Lanic was concerned, was a lack of transparency as far as financial handling was concerned, and the resultant unknown risk to which he was being exposed. Deloshnan technically then took over LDN on his own, and subsequently resigned from DPA shortly afterwards for similar reasons, effectively leaving DPA without a black owned “partner” business. Life on site was being made very difficult by what the firm perceived to be an unreasonable and inexperienced resident engineer, a common factor in many specialist contracting projects. This contributed to the general despondency and crisis at the time, requiring Derek Penhall to become even more involved to ensure that the DPA’s contractual position was not compromised.

Both Lanic and Deloshnan, inexperienced in commercial and financial matters, stated that the main problem was a lack of suitable communication from Shane and Derek

regarding the “proper workings” of LDN. A feeling of mistrust had developed, with Lanic and Deloshnan having become very uncomfortable under the circumstances of such a large commitment proceeding at a rapid rate. In addition, they cited the autocratic tendencies of Shane and especially Derek as being problematic. For example, whereas Deloshnan was devoutly religious and family oriented, needing to travel home for short periods on occasion, he claims that he was often blankly turned down and instructed to remain in Port Elizabeth. The arrangement was for Durban based personnel to travel home for a long-weekend roughly every three weeks, but often disagreement with respect to the timing and coordination of these trips took place. In any event, shortly after Deloshnan resigned, Lanic returned to Durban to handle a few other projects and has not been back to Port Elizabeth since. He has since stated that he never had a problem with the LDN concept, and in fact agrees with it wholeheartedly in principle, but that he had a problem with the way in which it was handled by Derek, and Shane in particular.

Derek subsequently took on more and more of the overall management of the contract, getting involved in almost everything, from equipment maintenance, to getting vehicles serviced, to programming, scheduling and the implementation of the works. Frequently, Derek and Shane were at loggerheads over certain issues, with Shane eventually deciding to relinquish authority over almost all but the financial aspects of the contract. Shane would complain that Derek interfered with almost everything, overriding decisions made by others and generally creating chaos and affecting morale. Derek, on the other hand, would complain that Shane was not handling his responsibilities effectively. For example, upon the employment of new site staff to replace Lanic and Deloshnan, Derek spent an entire weekend drafting a new contract of employment, as the old one was outdated and Shane had neglected to finalise the matter. As a result of taking everything on, Derek has, for all purposes, effectively been removed from the rest of the organization and works over sixteen hours a day. Fortunately, Derek was able to employ a reasonable site foreman based in Port Elizabeth, but had to train him from scratch due a lack of specialist experience.

By July 2003, it appeared as though DPA were finally “getting on top” of the contract, with a significant quantity of work completed, and the work teams functioning well for the most part. However, with Shane having turned over more

responsibility to Derek, Derek remained tied up in Port Elizabeth. Shane has since voiced his intentions to remain with the company for as long as a significant project, such as the Burman Road project, is available and can accommodate him, and has confirmed that he does not feel that he has any further contribution to make to the consulting side of the business.

Derek has since recognised the need for an effective company strategy, due to the apparent availability of opportunities, but the company's seeming inability to capitalize on them. He has admitted that the status quo is unacceptable, and also to the fact that he has not even carefully reviewed the company's financial statements for the last two years. He has stated his desire to begin distributing shares in the business to Brendon and Lanic, and to appoint Lanic to the board of directors. Shane has effectively removed himself from the decision making forum on such issues, leaving Derek, Brendon and Lanic to finalise matters.

3.6. COMPANY EMPLOYEES

Personnel issues have constantly been at the heart of DPA's success or failure at various points in time during the company's existence. Unfortunately, this area is probably one of the worst in terms of strategic planning and strategy implementation, mostly due to the fact that insufficient attention is paid to addressing pressing matters concerning personnel.

When Shane Harrison joined Derek Penhall in the management of the business in 1998, it was decided that all personnel issues be removed from Derek and handled by Shane. It seemed that this was an appropriate move, considering the fact that Shane would be handling the company's financial affairs, including remuneration packages and contracts of employment. Unfortunately, by Shane Harrison's own admission, he is not a 'people's person' and he did not like being responsible for hard issues such as discipline. That is not to say that he was unsuccessful in this role. What had to be done was done, including handling an occasional warning to setting up legal documentation relating to employment contracts and other similar matters. However, Shane became someone to avoid, as often happens to many management personnel responsible for such matters. In addition, what made matters worse, is that Derek was

seen as a soft target for employees with problems that needed to be discussed. Derek often took it upon himself to meet with disgruntled employees, occasionally spending hours in discussion. The results were often undesirable, with Derek often not having the heart to turn down requests that Shane otherwise would have. In addition, it often transpired that Derek had made various unreasonable promises to employees that were not or could not have been delivered. This was probably done as an attempt to motivate employees, but often ended in disaster when disillusionment crept in and poisoned various internal relationships.

Over a period of five years, between 1998 and 2003, twenty-eight employees resigned from DPA. Of these, a total of twenty-five had been employed by DPA for less than four years, nineteen for less than three years, and no less than fifteen for less than two years. Although there were a few that were dismissed or left for other reasons, many left the company under a cloud, citing their inability to “work with Derek” or dissatisfaction with the manner in which they had been dealt with as employees of the company. As a result, these former employees have assisted in spreading negative sentiment towards DPA throughout the industry, as they move on to other competing firms in some instances. On many occasions, such as at functions and presentations, DPA staff have in fact been cynically questioned by various people as to the reasons behind the company’s high staff turnover rate. Many clients have also expressed a feeling of uneasiness on occasion, especially where the high turnover rate impacts directly on specific projects, disrupting the continuity of operations.

At present, excluding the Port Elizabeth operation, the staff complement of DPA is at one of its lowest levels ever. Besides the three directors, only Brownlee Barry and Lanic Devananan provide significant input to the company’s operations in terms of technical proficiency and project management. With Brownlee Barry being the only employee based in Gauteng and Lanic Devananan and Brendon Jewaskiewitz based in Durban, the once busy and vibrant Durban head-office is almost empty, with Shane Harrison and Derek Penhall spending almost all of their time on site in Port Elizabeth. Other staff resident in the Durban office include the laboratory technician, the company bookkeeper, and three secretaries (currently on rotation between Durban and Port Elizabeth for the duration of the Burman Road contract). Deloshnan Naidoo, an experienced CAD (Computer Aided Design) draftsman and site assistant, recently left

the organization to take up a drafting post at a local structural consulting firm, leaving the firm without a suitable replacement. The current situation is considered by many staff members to typify the problematic approach whereby DPA relentlessly pursues, is awarded, and focuses on a large project, devoting almost all its resources to that project, thereby foregoing other opportunities that could sustain the firm's turnover in years to come.

3.7. COMPANY MARKETING

Since the inception of DPA, Derek Penhall has recognised that effective marketing is crucial to the success of the business, and in the past has been instrumental in marketing the company to a wide range of clients, including private to public sector clients of different sizes.

The marketing initiatives undertaken by Derek have essentially included “keeping an ear to the ground” or networking, direct calling on potential clients, and keeping in touch with existing clients. Historically, consultants were legally unable to advertise their services, but are now at liberty to do so. To date, DPA has not advertised at all, but is considering doing so in various magazines distributed to the industry.

To a certain degree, both Brendon and Lanic contribute to marketing activities, depending on the nature of the client or potential project concerned. Brownlee Barry does his best in Johannesburg, but really is not considered to be an effective marketer. It has been recognised that, at this stage, Derek is by far the best marketer in the firm due to his enthusiasm and technical know-how, being able to convince clients of the company's expertise and capabilities. This is crucial in an old-fashioned industry that associates age with competence.

The fact that Derek is presently engaged in Port Elizabeth is especially problematic. Due to his commitment to the contract, he is not able to review proposals or follow up on leads for new work, often resulting in frustrated clients abandoning DPA. In accordance with Derek's “do all” philosophy, he often holds on to such information instead of passing it to Brendon in Durban for rapid follow up and action. By the same token, this philosophy also results in some ludicrous situations, for example, an

important proposal not being done due to Derek spending the weekend servicing equipment on site. Various attempts have been made to formalize a marketing system and database of clients and projects, but these have had limited success so far.

3.8. COMPETITORS AND COMPETITION

DPA faces a number of competitors in both the consulting and contracting fields of business the company is active in. However, due to the specialist and diverse nature of the company, very few competitors, if any, offer the same range of services or combination of services as DPA. Rather, DPA often faces different competitors in the consulting fields of concrete diagnostics and repair, structural rehabilitation, forensics, waterproofing, laboratory testing, and corrosion protection. A similar situation exists in the contracting industry, with different contractors often targeting specific types of projects. The more notable competitors are discussed below.

3.8.1. Competition in the Consulting Field

DPA's competitors in the consulting field have tended to be small specialist firms with interests in similar markets, mostly in the area of concrete and structural investigations and remedials.

Structural Diagnostics is a relatively minor competitor of DPA, essentially comprising a "one man band", run by Garth Gamble, a professional technician. The company essentially offers specialist consulting services relating to structural integrity, testing and diagnostic investigations. Garth Gamble has had many years of experience in the industry and is well known. His basis for success is often the relationships he has formed with suppliers, clients and other consulting engineers over time. For example, when BKS (a well known large civil consulting company) requires these specialist services, Structural Diagnostics is called upon, purely due to the good working relationship enjoyed over the years. In addition, the company's overheads are extremely low, enabling them to compete on the basis of low-price. Although Garth Gamble is experienced and understands the basic technology involved, he does not possess specialised equipment and even prefers to plot his drawings and graphs by hand, admitting that he prefers not to use computer technology. He often succeeds in

convincing clients that a comprehensive approach to an investigation is not required, probably based on the fact that he does not have the necessary capabilities and clients prefer cheaper alternatives, irrespective of deficiencies.

Bell and Associates was formed by Rob Bell, an engineering technician and previous employee of DPA Specialist Consulting Engineers. Rob Bell left DPA in 1997 after a major fall-out with Derek Penhall. As this occurred prior to DPA instituting an employment contract containing certain prohibitions, Rob Bell immediately set up his own company, specialising mainly in concrete diagnostics and repair, based on DPA's technology. He has subsequently dabbled in other areas of DPA's expertise, including waterproofing and forensic investigations. Bell and Associates is particularly problematic for DPA in the market place, due to Rob Bell's apparent personal vendetta against Derek Penhall, resulting in continuous assaults on DPA's image and reputation in the industry. In addition, in 2001, Rob Bell succeeded in poaching Michel de Rauville from DPA, a skilled technician in the implementation of concrete diagnostic investigations. Bell and Associates also enjoy good relationships with certain clients such as Mondi, and Kynochem, previous clients of DPA. Rob Bell has also gained a degree of credibility in the industry, recently becoming chairman of the Durban division of the Concrete Society of Southern Africa.

Wynand Louw & Associates was founded by Wynand Louw after he left DPA's Johannesburg office and his position as Partner. He had a solid background in concrete technology, having previously completed a Master of Science degree in this field. Wynand Louw & Associates is essentially Johannesburg based and mainly focuses on concrete diagnostics and remedials, occasionally competing with DPA in this area of business. Being another "one-man band", Wynand Louw does not have the specialist equipment and technology of DPA, but also has much lower overhead costs and enjoys good relationships with certain clients.

Contest is a specialist company focusing on concrete technology. The firm is run by Bruce Raath and Jim Horton, two very well known and respected experts in the industry. Bruce Raath has a very high profile and good reputation in the industry, often lecturing or presenting at seminars and writing articles for various publications. The firm's main line of business involves specification writing and laboratory testing,

with diagnostic investigations and forensics forming a supplementary service. Due to the high profile of the firm, Contest is often called in to provide services on legal cases, with Bruce Raath having had extensive experience as an expert witness. On occasion, Derek Penhall has been the expert witness for the opposition in cases involving Bruce Raath.

Spec-Con is in fact a contracting company specialising in concrete and structural repair, offering diagnostic investigation services as well. Based in Gauteng, they often have the advantage of offering clients “the full service”, whereby the bulk of the work is in the remedials and the investigations are provided as a value-added service.

In addition, over the last few years, some of the larger mainstream civil consulting organizations have also set up small specialist divisions to complement their standard design teams. They have recognised that the specialist market presents favourable opportunities in an era of increased spending on maintenance and rehabilitation as opposed to the large scale construction of new structures. This has proved particularly problematic for DPA, due to the fact that DPA does not have the size and structural design capabilities of the larger, well-established firms. The fact that these large, well established firms have such capabilities, extensive histories and track records in the industry, and are seen as reliable mainstays, often creates favourable impressions on some of the larger and public sector clients. Unfortunately, many of these firms have no specialist experience and expertise whatsoever, often resulting in botched or inappropriately designed and implemented projects, creating unfavourable impressions of the industry overall.

For example, in 2000, the South African National Roads Agency embarked on a nationwide campaign to rehabilitate existing bridge structures located along the national routes, in various centres around the country. They specifically insisted on and appointed well-established structural consultants with bridge design capabilities, even though Derek Penhall had spent a considerable amount of time marketing DPA’s capabilities to the Agency in previous years, with a view towards assisting in the development of a long-term plan. The reality was that the majority of the appointed consultants were not specialists in remedial techniques, often resulting in inappropriate specifications and unsuitable quality assurance on site. In a few

instances, the initial diagnostic investigation work was sub-contracted out by the consultants, with DPA successfully tendering on a few of these sub-contracts. However, the majority of the work and associated fee income was allocated to the larger consultants – work that the management of DPA believed was more suited to DPA’s capabilities and expertise in materials technology. This situation continues to play an ever increasing role in DPA’s competitive arena.

3.8.2. Competition in the Contracting Field

Contractors often present an unexpected and sometimes insurmountable degree of competition, not only in the specialist contracting market in which the organization is active, but in the specialist consulting field as well. This has been prevalent in recent times, occasionally resulting in critical business and financial circumstances and legal action. Interestingly, such situations often develop in the waterproofing market, among others, where specialist contractors are numerous and often employ cutthroat tactics. DPA is also encountering similar threats in the organisation’s other areas of specialization, and is considered to be one of the motivating factors for diversification into the specialist contracting field.

The crux of the matter is that many clients simply cannot be convinced of the “intangible” benefits provided by a specialist consultant, often feeling that the payment of professional fees is an unnecessary expense. Coupled to this is the fact that contractors understandably prefer not to work under the scrutiny of engineers, and often do not have the competencies required for the proper implementation of a contract. In addition, most contractors, especially in the waterproofing industry, specialize in a particular type of system and would prefer to carry out a contract based on their offerings, not wishing to compete on a tender basis. As specialist consultants, DPA would design the optimum system, fit for purpose, and then issue the tender based on this. Disgruntled contractors then approach the client independently and provide the client with the advice he wants to hear, that is, that he does not need to spend money on a consultant, that the contractor has the perfect system for the project, and that the contractor has all the experience and expertise necessary to complete the contract satisfactorily. Such an approach is especially successful when clients are ready to seize any opportunity to save money and when they do not fully

comprehend or understand the benefit of engaging the services of a consultant. With respect to quality assurance and risk management during a contract, as Derek Penhall has stated, with reference to legal arguments justifying fee income, “It is impossible to prove what the outcome of the contract would have been had DPA not been involved. The contractor may or may not have produced work to the standard that has been achieved. As such, the actual monetary value of the influence on risk management that DPA had on the achievement of a high quality final product is impossible to determine”. Many clients do not see any value in engaging consultants, often settling for the (often false) sense of security provided by guarantees provided by the contractors. These so-called guarantees are often riddled with “escape clauses” and are often difficult to enforce, due to the contractor concerned going bankrupt or employing legal delaying tactics. As a result, the responsibility for defective workmanship may take years to resolve, with the client having no recourse in the interim. In addition, the consequential damage can be significant in terms of the cost of repair.

The elimination of specialist consulting services is occurring on a greater scale throughout the industry, and appears to be increasing. For example, corrosion protection coatings suppliers are writing specifications for clients free of charge, in the understanding that their products will be used for a particular application. In this case, specialist corrosion consultants can only hope for limited involvement in terms of an appointment to provide quality assurance services.

In the areas of specialist concrete repair and waterproofing contracting, DPA encounters many different types and sizes of competitors.

In the larger, multi-million Rand concrete repair projects, a few well established contractors normally make up a consistent base of competition, with new competitors hanging around the fringes and attempting to enter the market. The well established firms generally have a large base of resources and financial backing, often posing significant barriers to entry, enabling them to manoeuvre strategically in their tendering, depending on their motives at the time. Such competitors include the likes of Steffanutti and Bressan, Erbacon, Group Five, WBHO Construction, Civil and Coastal and Karrena Africa. Generally, these competitors are not limited

geographically and pursue most available projects. The nature of competition is often governed by strategic decision making and can tend to be oligopolistic in nature. It is often suspected that collusion takes place in some instances in order to spread the available work between the contractors, depending on individual commitments and capabilities at the time.

Other competitors include smaller contractors, including Concrete Repairs and Restoration (CR&R), Siyavusa, Gen-Rep, Gaia Holdings, Structural Maintenance and Spec-Con. These tend to be mostly locally based, with CR&R, Siyavusa and Structural Maintenance being limited mostly to Kwa-Zulu Natal, Gen-Rep to the Eastern Cape and Spec-Con to Gauteng. Gaia Holdings tends to move around the country, operating on an opportunistic basis. Besides Gen-Rep and Spec-Con, the more well established companies, the other smaller contractors are often termed “the rats and mice” by DPA. This is due to the fact that they seem to compete on the basis of cutthroat pricing, eventually ending up bankrupt in the process. It is apparent that the motive is to secure as much work as possible, but in the process, resources are thinly stretched and any error in tendering or unforeseen change could result in financial losses. In addition, many of these businesses are set up by individuals that have mostly worked with each other at some time in the past, resulting in substantial transmission of competencies and know-how. DPA’s management have often commented on the absurdity of the situation, due to the belief that the competitive situation need not be determined on price, resulting in a “race to the bottom”. Unfortunately, these competitors do pose a problem for DPA, as they often secure good projects on the basis of large price discounts. In addition, they occasionally form consortia or joint ventures for the purposes of targeting larger projects in the league of the large contractors. However, some clients have been adversely affected on some of these projects doomed for failure, and are now placing these contractors under close scrutiny or do not even invite them to tender on future work.

DPA occasionally encounters obstructive behaviour and competition from materials suppliers themselves. Besides often giving potentially lucrative business leads to opposition firms, some materials suppliers have opted to explore the turnkey contracting route as well. For example, Ivory Industrials manufactures a wide range of specialist flooring and waterproofing materials, but also competes directly with

conventional contractors, for both the supply and installation of their systems. This often proves to be a very successful approach, but also tends to alienate the contracting fraternity. In addition, with respect to materials pricing, a crucial component of tendering, materials suppliers often provide selected contractors with more favourable prices than others. The price differences are usually significant, often effectively dictating the outcome of the tender process. Although this may be somewhat underhand, it is practically impossible to prove and to really have any influence in the matter. The only real solution is to develop favourable working relationships with the various materials suppliers.

3.9. CONCLUSION

It is apparent that DPA is a reasonably successful firm in terms of project profitability and its ability to pursue opportunities successfully, displaying some significant strengths. However, it is also evident that DPA is suffering from a range of weaknesses, some appearing to be critical in terms of hindering growth and sustained financial success in the marketplace. The firm experiences varying degrees of competition, and appears to be experiencing difficulties in maintaining a positive market image in an industry characterised by change and opportunity. Therefore, it is necessary to carefully analyse the relevant aspects of industry concerned, and the situation of the organization, in order to arrive at appropriate recommendations for a strategic course of action.

CHAPTER 4: CASE STUDY EVALUATION

4.1. INTRODUCTION

In this chapter, the facts and issues presented in the case study are analysed and evaluated through the use of the developed theoretical framework discussed in Chapter 2. Initially, a strategic analysis is presented, followed by the development of a company mission, long-term objectives and the development of strategic options. The proposed strategic options are then evaluated for suitability and then for acceptability through the selected models. This evaluation focuses on both the positive and negative aspects of the organisation, thereby enabling the effective generation of an appropriate strategy.

4.2. STRATEGIC ANALYSIS

In an attempt to establish strategic options for DPA Specialist Consulting Engineers for evaluation, it is necessary to carry out various forms of strategic analyses, based on the company's resources and its operating environment. Based on the framework developed in Chapter 2, and the case study provided in Chapter 3, the analyses explored include an analysis of various aspects of the civil engineering industry (specifically the specialist sector of this industry), the Five-Forces Model of Competition of Michael Porter for the assessment of competitive forces, and an assessment of the firm's resource based strengths and weaknesses versus the opportunities and threats posed by the external environment (a SWOT analysis).

4.2.1. Industry Analysis

For the purposes of analysing the relevant aspects of the organization at hand, the industry considered is the civil engineering industry, as opposed to just the consulting component of the industry alone. More specifically, the specialist sector of the industry in which the organization is active is focused on, as this is effectively the definitive "industry" the organization is involved in.

4.2.1.1. The Industry's Dominant Economic Features

- *Market size:* At present, the South African civils consulting market is estimated at approximately R 4,5 billion in total revenues (Consulting engineering industry more upbeat, *Building*, July 2003), indicating that the industry is a sizable one. The civils contracting market is of similar size. The size of the specialist market is impossible to determine on its own.
- *Scope of competitive rivalry:* More consulting and contracting companies are expanding their competitive scope beyond old geographical boundaries, although most competition in the specialist market is locally based. Generally, the larger the company, the larger the scope of activity. International revenues are playing a larger role than they did in the past.
- *Market growth rate:* Although the civils industry in general is cyclical in nature, the latest findings, discussed in Chapter 3, are that the market is growing, even if it is doing so slowly. The specialist market is growing rapidly, due to a greater emphasis now being placed on the rehabilitation and protection of physical assets that are reaching critical stages in their life-cycles.
- *Stage in business life cycle:* The civils industry as a whole is in a mature stage, but the specialist segment could be described as being in a growth phase.
- *Number of companies in the industry:* Literally hundreds of consulting and contracting organizations are present in the civil engineering industry, varying in size from small "one-man" operations to large multinational organizations with offices throughout the world. Due to the segmented nature of the civils industry, certain competitors tend to dominate specific segments, depending on their field of expertise and their size.
- *Number of buyers and their relative sizes:* Again, hundreds of clients exist, ranging from the private individual to large public and private organizations backed by significant capital.
- *Degree of vertical integration:* A few large multinational organizations display a degree of vertical integration, for example, large turnkey organizations handling significant projects such as airport construction. Generally, very few firms are vertically integrated, with consultants focusing

on consulting and contractors on contracting activities, due to the specific skills required. However, some large client bodies have developed their own in-house “engineering” departments or even separate companies to provide services that consultants would normally provide. The specialist capabilities of such organizations are limited though.

- *Technology/innovation:* Technological advancement generally occurs slowly in mainstream civil engineering, but much more rapidly in the specialist sectors. The constant development of new investigative equipment, techniques, materials and remedial systems is notable.
- *Degree of product or service differentiation among firms:* Generally, the nature of engineering services requires standardization and conformance with generally accepted principles and design codes. However, especially in specialist segments where such standards and codes do not necessarily exist, competitors attempt to differentiate their services on the basis of technological proficiency, quality of service and track record.
- *Scale economies:* Scale economies exist in consulting insofar as the full utilization of staff and office resources is concerned. In contracting, scale economies play an important role with respect to equipment use, production and the purchase of large quantities of materials at discount prices for many projects with similar requirements. In addition, in both arenas, fixed overhead costs can be distributed over the various projects being executed.
- *Clustering:* Clustering does occur to a certain extent, with most major consulting firms being located in an around main cities, such as Johannesburg, Cape Town and Durban, with branch offices in smaller cities or towns. Large contractors are spread throughout the country. Smaller contractors can be very mobile, but tend to cluster around cities and depend on certain industries, for example, Sasol in Secunda, Mpumalanga.
- *Learning and experience effects:* In the civil consulting and contracting industry, costs most definitely decline as cumulative output grows. Learning and experience are key aspects of the industry, with firms constantly developing more efficient ways of doing things.

- *Capacity utilization* is important in the contracting field, with the cost of equipment playing a major role. The costing of different types of projects can differ drastically, depending on how efficiently equipment can be utilized.
- *Capital requirements and entry/exit*: Consulting firms generally require little start-up capital, unless costly specialised equipment is required. It is generally easy to enter or exit the industry, although, aspects such as qualifications, experience and credibility are important for success. The contracting field generally poses high capital requirements on start-ups, due to the equipment required. It is relatively easy to exit the industry, unless current contractual commitments prohibit this, such as performance sureties. Entry is also difficult, due to the experience and know-how of existing competitors enabling them to be more competitive.
- Generally, *profitability* in the consulting industry is considered by many to be sub-par to average, with fees being determined on scales or time costs. In the contracting field, profitability can be very high, especially in the specialist market segments.

4.2.1.2. Driving Forces of the Industry

Many forces of change are constantly at play, although, some are considered to be more dominant than others.

Probably the most significant driving force is the *country's economy as a whole*. The performance of the civils industry is known to be primarily determined by the prevailing economic conditions. At present, greater spending by the public sector on the maintenance and rehabilitation of civils structures and infrastructure is occurring, making this specialist sector more attractive, and insulating it from the adverse conditions in the general industry.

Significant *changes in the long-term industry growth rate* are occurring. In the consulting field, it is becoming more apparent that the traditional structures are changing, with the more opportunistic and entrepreneurial firms prospering. As the growth of the general industry is slowing down, the older, well-established firms are

finding it difficult to maintain earnings, with smaller, more flexible organizations able to adapt to changing circumstances. Contractors are becoming more threatening as a greater number of clients are favouring the “turnkey” or full-service approach (especially in specialist segments), negating the need for consulting input in such cases.

In the specialist sector, *product/service innovation and technological change* is a significant driving force. New technologies are constantly re-shaping the landscape, with firms employing the older technologies gradually fading into obscurity. It normally takes firms a few years to catch up with the more “pioneering” firms. The provision of both contracting and consulting services could be seen to be innovative.

The *entry of major consulting firms into the specialist sector* is changing the competitive conditions. No longer are small firms competing against only each other, but against larger firms with more resources and financial backing.

The *diffusion of hard won technical know-how* between companies and even countries is a problem, especially due to the increasing mobility of more junior staff.

In an industry characterised by “standardization”, more buyers of services are looking for *differentiated* firms, especially in the areas of technical superiority and all round service. For example, many contractors do not handle their accounts very well, causing client frustration. Those firms that go just “that extra mile” tend to be viewed very favourably and develop lasting relationships with their clients.

Black economic empowerment (BEE) is causing major ramifications in the industry. Firms simply have the choice of whether to comply or rapidly disappear. It is critical to formulate a workable strategy that includes BEE. Preferential procurement often delivers the result that black economically empowered firms are awarded projects of a specialist nature. This is occurring more frequently, even though it is often perceived that they do not have the necessary expertise, and as a consequence, do not price the projects correctly and fail.

As *societal attitudes and concerns* tend to be leaning towards environmental awareness and care, all aspects of civil engineering are becoming affected. Especially in the specialist materials sector, more “environmentally friendly” materials are replacing the previous ones. In this sector, where issues such as chemical containment and the protection of structures are critical, environmental issues are of prime importance. In both the consulting and contracting fields, the focus is on developing environmentally appropriate techniques and procedures.

4.2.1.3. Key Success Factors

Although many factors are responsible for success in varying degrees, key success factors in the industry include the following:

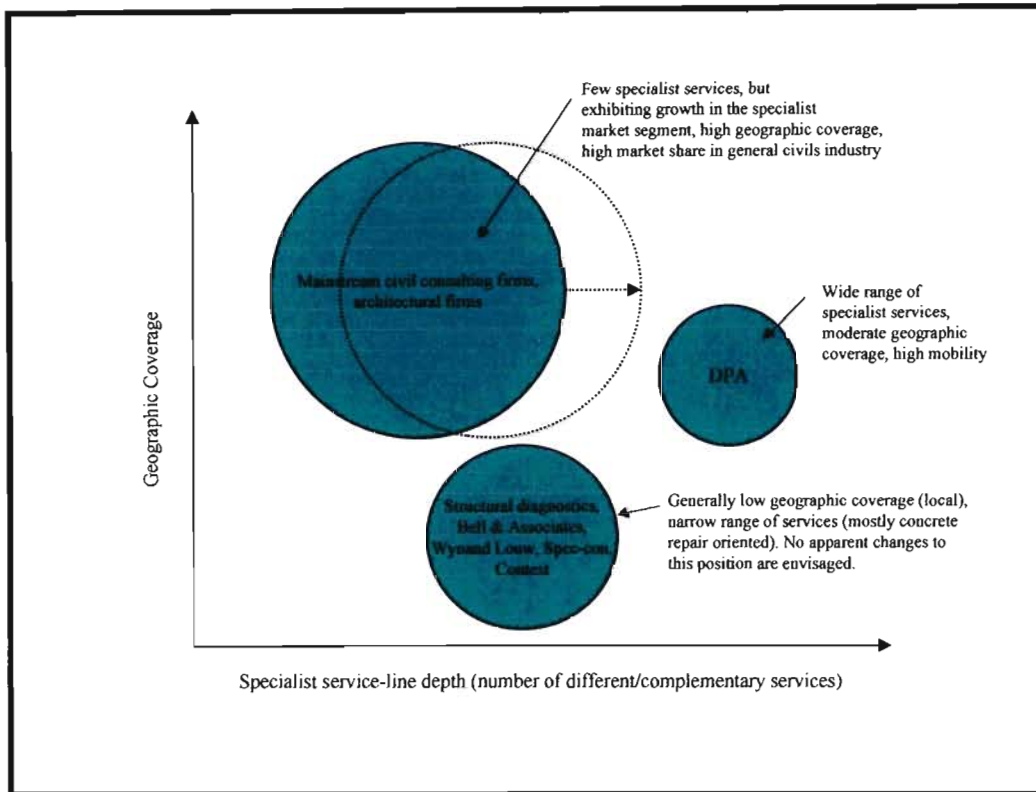
- Being able to meet the client’s expectations of *high quality of service and technical ability* is a key factor in both the consulting and contracting field.
- In addition, it is vital that the client’s requirements are met at *a competitive price*. Pricing must be realistic and based on industry accepted norms.
- Contractors need to be able to *accurately cost projects* in order to be competitive, and also be able to *source cost-effective suppliers*.
- In consulting, it is critical that the organization possesses the *expertise* relevant to its field of operation, for example, firms in specialist segments. A similar scenario exists in the contracting field.
- It is important for organizations to employ a “critical mass” of *skilled and trained employees* with different abilities, for example, quantity surveyors, engineers and technicians, to enable project execution.
- In the specialist market segment, the ongoing ability to procure *new specialist knowledge and technology* is vital in order to develop and sustain credibility.

4.2.1.4. The Relative Positioning of Organisations in the Industry

Careful consideration of the relative positioning of the various competitors in the specialist consulting and contracting industries highlights the fact that DPA is set apart from conventionally identified clusters of competitors. A strategic group map

showing the relative positions of competitors in the specialist consulting field on the basis of geographic coverage and service line depth illustrates this.

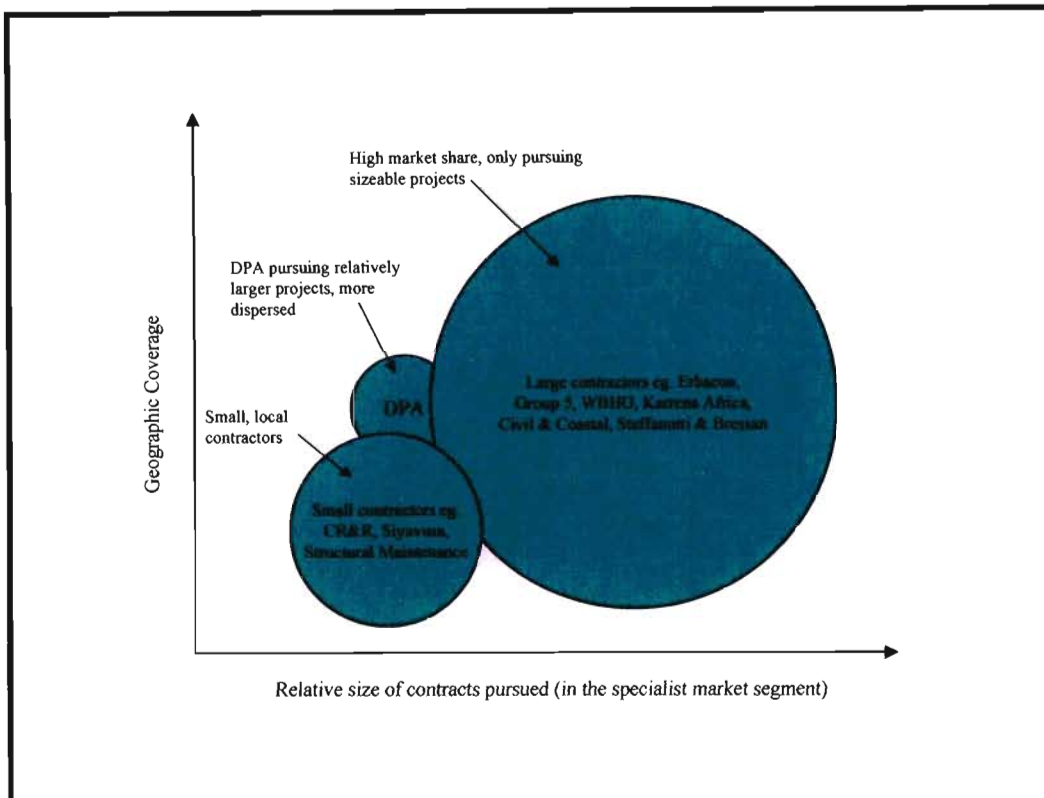
Figure 4.1. Strategic Group Map: The Specialist Consulting Industry



It can be clearly seen that although the larger, more well established consulting firms do not offer the specialist service line depth of DPA, they exhibit high geographical coverage and are developing more specialist divisions to broaden their service range. The smaller, more focused firms are generally more locally based, in and around major centres. The majority of these firms focus on specific concrete related services such as testing, diagnostics and repair, or alternatively, specifically on corrosion protection. DPA stands out as offering a wide range of services and having a relatively wide geographic reach.

A strategic group map based on the specialist contracting industry illustrates the effect that the relatively recent entrance of DPA has had as a market challenger, and is indicative of the fierce level of competition experienced in general.

Figure 4.2. Strategic Group Map: The Specialist Contracting Industry



The map illustrates the fact that although DPA is relatively small by industry standards, the firm is willing to challenge both the smaller and larger contractors for fairly sizeable projects (up to approximately R 15 million), not being interested in the lower end of the market, or small contracts (below R 200 000). It further illustrates that again, DPA tends to be more mobile than the smaller contractors, extending its geographic reach when appropriate. However, it is worth noting that this may in fact disadvantage the firm if its resource capabilities cannot support such mobility, resulting in difficulty pursuing further work and sustaining existing business in the main centres of Durban and Johannesburg.

4.2.1.5. Industry Attractiveness and Profitability Prospects

Attractiveness and profitability are key industry aspects on which to base a strategy. Growth prospects in both the specialist consulting and contracting industries are above average, with a greater number of clients requiring specialist services in an age characterised by the preservation of assets. The degree of profitability is fairly limited in the consulting field, and is expected to remain so, except in situations where rare

specialist knowledge and ability is required and competition is low or absent. Profitability levels are variable in the contracting field, depending on the size and nature of the projects and the terms under which they are awarded, that is, tendered or negotiated. Some contracts are potentially very lucrative, especially turnkey contracts. However, due to so many factors being beyond control, the risks involved in the industry in general are significant, with management often being held personally responsible for engineering failures.

The impact of the prevailing driving forces on profitability is mixed. The profitability outlook is grim and uncertain during periods of reduced spending by government and private sector firms, after all, during economic downturns, the construction or maintenance of assets is of lower importance than other business areas. The result is that prices and service levels drop, with many contractors going out of business as a consequence.

In addition, the entry of more consulting firms into the specialist field reduces profitability, as does preferential procurement (also adding to increased risk) and the diffusion of technical know-how across the industry. However, the greater need for differentiation, the development of new technologies and services, and the increasing desire for single-point responsibility through turnkey contracts has a positive impact on profitability prospects.

The position of the organization in both the consulting and contracting fields appears to be favourable. Although the larger firms are competing well and may pose a greater threat to the specialist sector in the future, and fierce competition may be expected from the smaller, local competitors, DPA is almost on its own with respect to the range of services offered and its mobility. In the contracting field, competition is rife, but DPA has the advantage of synergies created by its technical expertise developed through the consulting side of the business and its practical contracting abilities. In addition, there is sufficient potential for DPA to capitalize on the weaknesses of its rivals. In both the consulting and contracting fields, DPA has the advantage of mobility and flexibility, able to offer clients a wider range of specialist services and expertise than rival firms.

The organization is relatively well prepared to counteract the factors that reduce the attractiveness of the industry. DPA is relatively small in size, able to carry fewer overheads than the large firms, although, at present, the overheads are still quite high for a small firm. In addition, management is flexible enough to react and change under adversity. For example, when the Melrose Arch crisis threatened to destroy the firm, management were able to take stock of the situation and guide the firm through it. Not many similar firms have been as successful.

4.2.2. The Five Forces Model of Competition

Although the industry is dynamic, Porter's Five Forces model is useful for illustrating the current competitive forces at play. It is recognised that these forces will be subject to change in the future, and that the model provides a 'snapshot' of current conditions.

4.2.2.1. The Extent of Competitive Rivalry (*a moderate to very strong force*)

Competitive rivalry in the specialist consulting field can range from almost non-existent to very strong, depending on the type of projects pursued, and the specific client involved. In the specialist market, competitors are generally diverse in terms of resources and strategies, making the degree of rivalry unpredictable. In concrete diagnostics and repair, rivalry is quite fierce, with many small firms competing territorially, as they are often locally based. When a consulting firm manages to secure a large client, they will zealously guard the relationship by whatever means possible. Some firms also attempt to dislodge other firms from such a favourable position. No single firm really dominates the specialist market, and many are able to provide similar services. Rivalry has increased over the last few years, mainly due to the sluggish performance of the civils industry as a whole, causing new competitors to seek other business avenues in the specialist market. As a result, more firms are developing specialist capabilities, increasing the level of rivalry. Client switching costs are virtually non-existent, so where many firms can provide similar services, rivalry is intense.

Rivalry in the specialist contracting field is fierce, especially at the level of the small, local contractor. Here, rivalry is centred on price, as almost all of the smaller

contractors have identical capabilities and they are unable to differentiate themselves. Rivalry between the larger competitors has increased recently, partly due to the impact that DPA had upon entry into this market. However, in the larger, more complex projects, rivalry is tempered by the fact that relatively fewer competitors are present and that superior skills, knowledge and practical ability are required to be competitive. Such attributes can also be used to differentiate a firm, especially where additional or complementary services can be offered. However, switching costs are non-existent, due to the fact that contracts as opposed to permanent appointments are used.

4.2.2.2. The Threat of Potential New Entrants (*a weak to moderate force*)

In both the specialist consulting and contracting fields, the inherent attractiveness of the industry compared with the general civils industry raises the threat of potential new entrants. However, the specialist industry is fairly difficult to enter, mainly due to the advantages existing firms enjoy in terms of cost and resource advantages, superior engineering skills, technology and know-how, and inherent learning and experience curve effects. Successful firms have clearly differentiated themselves in terms of superior service levels, track record, and reputation, resulting in solid organization-client relationships. Access to the client base is restricted, due to the many existing organization-client networks in the industry. Entry into the specialist contracting field requires high capital investment in technology and equipment. Regulatory policies, such as BEE policies, are rendering the industry less attractive, raising the existing barriers to entry.

4.2.2.3. The Threat of Substitutes (*a weak to moderate force*)

In the specialist field, there are no real substitutes for specialist services. However, one may consider one type of service being replaced by another, for example, an engineer or contractor may decide that a structure must be rehabilitated by conventional techniques (concrete repair), and another engineer may substitute this with a more cost effective approach (say, cathodic protection, or an electrochemical technique). This situation relies on the engineer's ability to properly consider all

available options in the specialist field. Therefore, those organizations focusing purely on a specific specialist technology may find themselves at risk, due to the threat of substitute technologies or obsolescence. In addition, the fact that contractors are encroaching on the consulting market may be seen to be a substitution issue, as specialist consulting services are being substituted by contracting services that encompass the services originally provided by consultants.

4.2.2.4. The Bargaining Power of Suppliers and Supplier-Seller Collaboration

(a weak to moderate force)

Suppliers to specialist consultants are generally insignificant, due to the fact that consultants are usually at the beginning of the service value chain. In the contracting field, suppliers usually take the form of materials and equipment suppliers. Many suppliers and substitutes are usually available, weakening the bargaining position of suppliers. Where specific materials or systems are specified for a particular project, all the contractors are limited to the corresponding suppliers. However, where contractors enjoy preferential relationships with certain suppliers, or are even able to produce their own materials, alternative and more cost effective tenders can be submitted. In addition, some material suppliers have integrated forward, started their own turnkey divisions. However, in many such cases, they have stood the risk of losing their customers as they are now competing with them.

In the specialist field, some proprietary specialist systems and techniques are available and cannot be substituted. In these cases, the suppliers display monopolistic tendencies and can literally 'name their price'. This can have a large impact in the contracting field where materials costs already form a significant part of the total costs of the operation.

4.2.2.5. The Bargaining Power of Buyers and Seller-Buyer Collaboration

(a moderate to strong force)

Generally, clients have significant bargaining power, both in the consulting and contracting field. Their costs to switch to alternative service providers are very low, and generally, firms are undifferentiated. Many client organizations are so large and

powerful that they are able to successfully manipulate small service providers. However, in the specialist field, the number of suitable service providers is often limited, especially in areas of new technology. Unfortunately, as more firms become active in the specialist market, greater competition is benefiting the client base from a bargaining perspective.

Many clients are very familiar with the make-up of costs, especially in the contracting field, and in consulting, the fee scales are often seen as a starting point for negotiations. In addition, due to the fact that specialist services are often auxiliary to the main purpose of client organizations, the procurement of such services can be delayed or postponed at any point in time, depending on whether or not the work is critical to the ongoing operation of the client organization. Many clients have also realized the advantages involved in forming strategic alliances with certain service providers. Such collaborative arrangements are formidable bargaining tools.

4.2.3. Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis

A SWOT analysis is necessary to determine the significance of the relationships between the organization's resource based characteristics and the prevailing environmental conditions.

4.2.3.1. Internal Resource Based Factors – Strengths and Weaknesses

Resource Based Strengths:

- Derek Penhall is an industry leader, and forms the foundation of the firm's technical competencies with his wealth of experience.
- DPA has a lengthy track record of successful projects, including some world firsts.
- Derek Penhall is an extremely successful marketer.
- The firm has a good balance between technical and commercial ability.
- The firm has the entrepreneurial ability to continue to pursue new technologies and avenues for growth and to adapt to rapidly changing circumstances.

- DPA can differentiate itself on the basis of superior technological expertise and know-how.
- DPA has both the technical engineering background and the practical ability to provide both consulting and contracting services.
- DPA currently employs a core of competent and technically experienced staff members.
- The firm owns a wide range of specialist equipment.

Resource Based Weaknesses:

- Derek Penhall does not focus on those areas of the business where maximum return could be generated from his abilities, resulting in significant opportunity costs being incurred.
- Derek Penhall has difficulty in delegating tasks and responsibility, wanting to be involved in everything.
- The poor handling of staff or human resource matters has resulted in high employee turnover and a general loss of competent, skilled personnel.
- Staff do not receive enough technical guidance due to Derek Penhall's unavailability.
- DPA currently does not employ enough skilled and able staff members that can be used to further the consulting and contracting concerns of the business.
- The firm currently has no formal BEE strategy and does not qualify as an empowered organization.
- Marketing is inconsistent and there is no marketing strategy.
- Internal political issues, such as the clashes between Derek Penhall and Shane Harrison, or between Shane Harrison and Lanic Devananan, are preventing the firm from benefiting from effective teamwork, with individuals carrying on in their own directions.
- Although administration systems are in place, these can be improved, are often poorly adhered to and are not monitored. For example, Derek Penhall hardly ever submits a time sheet, reflecting his involvement in projects.

- Management are hardly ever provided with relevant commercial information on which to base strategic or functional decisions, having to rely on guesswork.
- The firm is heavily reliant on debt financing.

4.2.3.2. External Environmental Based Factors – Opportunities and Threats

Opportunities:

- The specialist market is growing more rapidly than the general civils market, with the preservation of assets becoming of prime importance. As a result, more clients and more projects are becoming available.
- Government is increasing spending on the repair and maintenance of infrastructure, such as bridges.
- There is an increasing tendency for clients to prefer a full turnkey type service, including the provision of both engineering and contracting services.
- There is an increasing need for differentiated services, on the basis of technical competence and service efficiency.
- South African firms are gaining a greater degree of access to international markets, such as the rest of Africa and the Middle East.

Threats:

- The general state of the South African economy poses a constant threat, with fluctuations in industry activity and spending being caused by interest rate and exchange rate movements.
- Political uncertainty is hampering investment in the South African economy.
- Competitive levels are increasing and market shares are decreasing in the specialist consulting field, especially due to the entry of larger, well-established civils consulting firms.
- More consulting and contracting competitors are competing on the basis of low-cost, effectively reducing profit potentials.

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- Regulatory changes with respect to BEE are threatening the survival of non-BEE organizations.
- Contractors are continuing to supplant consulting services.
- Successful firms that are appealing employers for tend to attract valuable employees away from small organizations, especially where those employees are experienced in certain technologies and processes.
- The entry of DPA into the contracting market has resulted in retaliatory actions from market competitors. This is expected to intensify rivalry.

The weighted SWOT analysis (impact SWOT) illustrates the fact that the company has some significant strengths and core competencies, but also some critical weaknesses. The two highest scores pertaining to strengths were found for “entrepreneurship and ability to adapt and change” and “Derek Penhall’s marketing ability” respectively. The three worst scores for weaknesses were found for “insufficient staff resources”, “poor handling of human resource matters and staff turnover” and “poor commercial feedback to management” respectively. Staff resources were listed as a key factor for success, and the findings of the SWOT analysis are therefore extremely alarming. The findings are especially significant in that DPA does not rate well at all in terms of being able to take advantage of the available opportunities, with negative scores being obtained for most opportunities. The seeming inability of the firm to take advantage of a growing market is especially disturbing. In terms of being able to neutralize threats, DPA is at an even greater disadvantage, with significant negative scores being obtained for the impact of black empowerment regulatory changes and the threat of employee mobility and outside job opportunities.

Figure 4.3. Impact SWOT analysis for DPA

<i>Environmental change (opportunities & threats)</i>	Growth of the specialist market segment or niche	Increased government spending on infrastructure rehabilitation	Growing preference for turnkey services	Growing need for differentiated services - technical & quality	Access to international markets	Economic fluctuations in South Africa	Political uncertainty hampering growth	The entry of large, well established civils firms	Competition on the basis of low-cost	Black economic empowerment regulatory changes	Contractors supplanting consultants	Employee mobility and job opportunities	Retaliatory actions of established contractors	+	-
Strengths															
Derek Penhall's experience & expertise	+2	+2	+2	+3	+3	0	0	+3	+3	0	+1	0	+1	20	0
Excellent track record	+3	+3	+3	+3	+3	0	0	+3	+1	0	+1	0	0	20	0
Derek Penhall's marketing ability	+3	+1	+3	+3	+3	+3	0	+2	+3	0	+3	0	+3	27	0
Good technical / commercial balance	+3	+2	+2	+2	+3	+3	0	0	+2	0	+2	0	+2	21	0
Entrepreneurship & ability to adapt & change	+3	+3	+3	+2	+3	+2	+2	+3	+2	+3	+2	+1	+2	34	0
Differentiation through technical expertise & know-how	+2	+2	+2	+3	+2	+2	0	+3	+1	+1	+2	0	+1	21	0
Technical competence with practical ability	+1	+2	+3	+1	+2	+3	0	+3	+1	0	+3	0	+1	20	0
Core of competent & experienced staff	+3	+1	+2	+3	+2	+1	0	+2	+1	0	+1	+2	+2	20	0
Wide range of equipment	+3	+1	+2	+2	+1	+1	0	+3	0	0	+2	0	+1	16	0
Weaknesses															
Lack of focus by Derek Penhall	-3	-2	-2	-2	-3	-2	0	-3	-1	-1	-2	-1	-2	0	-24
Derek Penhall unable to delegate effectively	-3	-2	-3	-1	-3	0	0	-1	-3	0	-1	-3	-1	0	-21
Poor handling of HR matters, staff turnover	-3	-2	-2	-2	-3	-2	0	-3	-1	-3	-1	-3	-2	0	-27
Lack of technical guidance of staff	-3	-2	-2	-3	-2	-1	0	-2	-1	-2	-2	-3	-1	0	-24
Insufficient staff resources	-3	-3	-3	-3	-3	-1	0	-3	-1	-2	-1	-3	-2	0	-28
Lack of BEE status	-3	-3	0	0	0	-2	0	-3	0	-3	0	0	0	0	-14
Inconsistent marketing	-2	0	-2	-2	-2	-3	0	-3	-2	0	-3	-1	-1	0	-21
Internal politics	-2	-2	0	-1	-1	-1	0	-2	0	-3	-1	-3	-2	0	-18
Poor administration & monitoring	-3	-1	-1	-2	-2	-3	0	-2	-2	0	0	-1	-1	0	-18
Poor commercial feedback to management	-3	-2	-2	-2	-2	-2	0	-3	-3	-1	-1	-3	-2	0	-26
Heavy reliance on debt	-2	-2	0	0	-2	-3	0	-2	0	0	0	0	-1	0	-12
Environmental Impact Scores	+23	+17	+22	+22	+22	+15	+2	+22	+14	+4	+17	+3	+13		
	-30	-21	-17	-18	-23	-20	0	-27	-14	-15	-12	-21	-15		
TOTAL	-7	-4	+5	+4	-1	-5	+2	-5	0	-11	+5	-18	-2		

+3	is a very good advantage in such a situation
+2	is a good advantage in such a situation
+1	is an advantage for such a situation
0	no impact
-1	is a disadvantage in such a situation
-2	is a large disadvantage in such a situation
-3	is a very large disadvantage in such a situation

4.3. THE DEVELOPMENT OF STRATEGIC OPTIONS

Following the detailed strategic analysis of the internal resource based characteristics of the organization and its environmental circumstances, various strategic options may be examined. The findings of the various forms of analysis may be used in the development and assessment of these strategic options. This process begins with the development of a company mission and long-term objectives. Subsequently, generic competitive strategies and grand strategies are selected, based on the criteria discussed in Chapter 2.

4.3.1. The Company Mission

DPA does not have a company mission statement at present. It is necessary to develop an appropriate mission statement on which the development of strategic options can be based. The company is in the business of satisfying existing customer needs for specialist services, be it corrosion protection, waterproofing, concrete repair and so forth. In other words, the company is in the business of providing specialist solutions to problems, either on a consulting basis, a contracting basis, or a turnkey basis. The customer groups being targeted are broad, ranging from private individuals to large multinationals and government departments. The manner in which the firm creates and delivers value to customers tends to be through a professional, quality oriented approach, employing advanced technology and experience.

Based on the above, the company mission statement could be: “Our business is providing high quality specialist engineering solutions. Our mission is total customer satisfaction through professionalism, efficiency, superior technology and experience”.

4.3.2. Long-Term Objectives

Long-term objectives are required to indicate the existence of strategic intent. Based on the strategic analysis, suggested long-term objectives might include the following:

- *Profitability:* The organization should maintain a profit margin of at least 15% on costs, and revive consulting turnover to approximately R 5 million per annum (the level it was at prior to diversifying into specialist contracting).
- *Productivity:* In the consulting/engineering part of the business, the productivity of employees should be at least 75%, that is, at least six hours out of an eight-hour day should be billable time, or time spent productively on projects.
- *Competitive Position:* DPA should seek to retain its status as competitive on the basis of service differentiation and its range of specialist services.
- *Employee Development:* DPA should seek to develop a highly skilled and flexible team of core managers (approximately five people), providing them with career opportunities and the company with enhanced prospects. DPA should double its current complement of technically productive personnel within a year.
- *Employee Relations:* The objective should be to reduce staff turnover, and to improve the current system in place for handling employee-company relations.
- *Technological leadership:* The company should be seen to be a leader in specialist technology.

4.3.3. Generic Strategies

Based on Porter's model of basic competitive strategies, DPA should orientate its overall strategic approach according to a focused competitive strategy, with the emphasis on differentiation. The firm has a low-market share in the overall civil engineering industry, but may achieve good returns if it remains competing in the specialist segment where its strengths will be highly valued. DPA can remain small, focus on profitability and improve competitive performance through specialist development and technological leadership. The niche market lends itself to service and technological differentiation as customers perceive value in these attributes, many different applications are found, and few rivals use this approach. It is necessary, however, to ensure that the firm properly understands what it is that requires differentiating and contributes to value added, and to ensure that overdifferentiation and overpricing does not occur.

The focused differentiation strategy is attractive due to the size and growth potential of the specialist market, large mainstream firms are more focused on mainstream civils type work, it is fairly costly to enter the specialist market, and the market is not overcrowded with firms. In addition, DPA has significant resource strengths suited to the niche market. However, the niche market is attractive to new firms, and unless DPA remains focused, other rivals may develop similar or superior competencies.

4.3.4. Grand Strategies

On the whole, the impact SWOT Analysis tends to indicate that DPA has numerous environmental opportunities, but also has critical internal weaknesses hindering its success. Therefore, a combination of grand strategy elements will probably be appropriate. Based on these factors, the SWOT analysis diagram suggests that a “*turnaround oriented strategy*” is appropriate. Taking this further, based on the Grand Strategy Selection Matrix, the firm should pursue internally focused strategies through redirection of its resources. Overcoming its weaknesses will certainly require elements of a turnaround strategy, while maximizing its already significant strengths would probably be served best by a *concentrated growth* type strategy with elements of an *innovation* strategy. With respect to the Model of Grand Strategy Clusters, DPA should find itself in sector II. Despite critical weaknesses preventing the firm from making the most of opportunities, the firm is still currently in a relatively fair competitive position. This should reaffirm the firm’s position as a strong competitor in a growing market, leading to a concentrated growth strategy. With respect to sector II, DPA has already *diversified concentrically* through the formation of the specialist contracting business, and has *integrated backwards* through the manufacture of its own materials for certain specialist contracts.

Turnaround: Although DPA is currently in a fair competitive position, it is clear that this will not remain the case unless certain aspects are “turned-around”. The business is worth rescuing, and a potential crisis needs to be avoided. It is apparent that the ‘strategy revision’ route should be followed, as the firm does not have the problem of large costly assets or a large inefficient workforce. However, the retrenchment of services could be considered, with the strategy being revised to concentrate on core

activities. For example, the laboratory imposes costly overheads, and only serves as a support function as opposed to an actual cost centre. Core clients should also be concentrated on, as many of the smaller clients take up a lot of valuable time and resources, yielding lower returns. A cost-reducing strategy is not expected to yield the results that strategy formulation would, as costs are generally well managed.

Strategy revision should probably concentrate on rebuilding the position of DPA in the consulting market and overhauling internal operations and functional strategies, thereby neutralizing critical weaknesses. Such revisions would possibly include developing a suitable human resource management and employment strategy, a proper management information system, a marketing strategy, a black empowerment strategy and channelling the strengths of the managing director, Derek Penhall, more appropriately. The strategy could involve the distribution of shares to certain staff members, in accordance with Derek Penhall's stated plans.

Concentrated growth and innovation: Based on the core capabilities of the firm, concentrated growth should be focused on building on these competencies and concentrating on the specialist market segment – the area of the firm's expertise. The market favours this approach, since it is not saturated with competitors, barriers to entry are fairly high, and a high demand for the specialist services of the firm exists. DPA essentially needs to regain the consulting earnings it was once capable of, while also penetrating the specialist contracting market with the advantages of technical ability and efficiency. The competitive stature of the firm can be maintained through innovation, thereby continuously creating new service 'life-cycles' and staying ahead of the rest of the industry.

Concentric diversification: The decision to form a specialist contracting company was a decision to diversify concentrically. This spin-off was achieved through compatibility between the technologies and markets involved. The rationale was that synergies would be created, effectively as a result of the combination of the original firm's latent practical abilities and technical engineering expertise.

Backward integration: The management of DPA took a decision to manufacture materials for certain projects where cost-effectiveness would enable competitive

alternative tenders to be submitted. This was very successful on a few select projects, especially where projects were over-specified and cheaper alternative materials were appropriate.

4.4. SUITABILITY ANALYSIS

The developed strategic options (and current strategies) should be evaluated for suitability in order to determine whether they actually address the circumstances in which the firm is operating.

4.4.1. Life-Cycle Analysis

Based on the Life Cycle Matrix, if one considers the civil engineering industry as a whole, it may be classified as mature, in which case, a firm in a favourable competitive position should pursue niche and differentiation type options. This is exactly what DPA have done in terms of targeting the specialist market segment. In the specialist market itself, the stage of industry maturity can be classified as “growth” as opposed to “mature”. Despite its weaknesses, DPA may be considered to be in at least a “favourable” competitive position, in which case the matrix provides the options of “differentiate, focus, catch-up, and grow with industry”. This is in line with the generic and grand strategy options discussed, except that focus may mean getting rid of certain aspects of the business, such as the laboratory and materials development, to concentrate on core business activities. Effective differentiation should enable the firm to propel itself to a stronger competitive position.

4.4.2. Positioning

With respect to the strategy clock, DPA tends to operate in the region of positions 3, 4 and 5, with the contracting activities around position 3, with the consulting/engineering activities around positions 4 and 5. Turnkey projects are often positioned around 4 to 5 on the clock, depending on the circumstances.

These positions on the strategy clock indicate that the creation of greater perceived value added is critical to success. The firm is charging high prices for its services,

especially on the consulting front, and needs to maintain a suitable level of differentiation, as suggested by the developed strategic options. DPA has the key resources and competencies to sustain this positioning, including Derek Penhall's marketing and technical ability and experience, both technical and practical abilities, and flexibility. A distinct competitive advantage is most certainly realized through the linkages between resources and competencies, and the 'tacit knowledge' of the firm.

However, the strategy clock also illustrates the danger currently facing the firm. The impact of the firm's weaknesses illustrated in the impact SWOT analysis is such that the realization of the potential advantages is being severely compromised. Critical weaknesses are outweighing the firm's competencies, negatively impacting on perceived value-added. In this case, there is a real danger of the firm's positioning being pushed down into the region of 6, 7 and 8 on the clock, ultimately spelling disaster, with clients effectively being charged high prices for little perceived added value, if any. The firm's problem of "over commitment and under delivery", (Giuliani, 2002), is a serious one in this regard.

4.4.3. Value Chain Analysis

A value chain analysis is essential to consider, especially due to the fact that DPA is operating in both the specialist engineering/consulting field and the specialist contracting field. The firm's strategy and proposed strategic changes should improve value-added and competitiveness, and synergies should be realized through the concurrent operation of consulting and contracting activities.



Inbound Logistics

DPA must purchase materials and equipment to effectively maintain a healthy contracting organization. Basic supplies are required for the consulting activities, in addition to specialist equipment required for carrying out investigation work and the like. This is important for a strategy concerning innovation and differentiation on the basis of technical superiority. Therefore, increased spending in this area is necessary, and for a relatively small firm, the cash flow and liquidity implications will be important. The current financial situation is not allowing for this to the extent that it should. Value could be added through in-house materials development, based on the

expertise of key staff members. However, greater value added may actually be achieved through outsourcing such non-core activities, or through developing favourable supply channels.



Operations

DPA is effectively involved in two forms of production, the first being the production of consulting/engineering services and the other being the physical implementation of contracts. Strategic options should be concerned with creating operating efficiencies and “doing the right things” as opposed to diverting efforts towards unproductive activities. People should be doing the things that they do best, and sufficient skilled personnel need to be placed in operating positions suited to the needs of the firm. Synergies could be created through the use of technical staff to develop effective and innovative ways of doing things in the construction side of the business. A differentiation based strategy dictates that mediocrity simply is not good enough – the firm needs to execute its functions better than other firms do. This will require the turnaround actions suggested.



Outbound logistics

In the case of DPA, outbound logistics would cover the manner in which the services are carried out or ‘presented’ to the client. A differentiation strategy requires that clients are kept well informed and that their needs are integrated into the service as far as possible, in order to develop the desired level of perceived value added. The strategy should result in the achievement of a high level of quality of work, reinforcing the requirement for skilled personnel and effective management and guidance.



Marketing & Sales

Marketing of the firm on the basis of concentrated growth and innovation requires a carefully designed and well implemented marketing strategy. Value-added and competitiveness here depends on the ability of DPA to channel marketing efforts in the right direction and to turn around the current weakness of Derek Penhall’s lack of marketing focus and delegation. Clients do not just arrive on the organisation’s doorstep – they have to be sought out and won-over. The ability of the marketers in the firm to effectively develop a market perception of high added

value and differentiation on the basis of technology, skills and expertise is critical in light of the strategic options and the firm's current strategic approach.



A relevant attribute of the strategic options on the table is enhanced customer service. Greater value-added can be provided on the basis of turnkey services, with the client benefiting from single-point responsibility. DPA's strategy could include the provision of follow up maintenance services after contract completion, thereby ensuring a lasting relationship with the client. Again, for service to contribute to value added and competitiveness on the basis of differentiation, efficiency and quality are of utmost importance. DPA has the ability to fulfil these requirements, but can only realistically hope to do so after turning around its critical weaknesses.

Support activities are also important to consider. It has already been stated that the current human resource management infrastructure needs to be revised in line with the requirements of the turnaround element of the strategic options. This is critical to ensure that the requirements of the primary value chain activities are met. Likewise, strategy needs to take the development of technology into consideration, as this contributes to value added in terms of the proposed differentiation strategy. This means that the relevant personnel need to be given the time and resources to ensure that this aspect of the business does not fade into obscurity.

4.4.4. Portfolio Analysis

The Boston Box can be used to analyse the firm's strategic approach towards diversity. On both the consulting/engineering and contracting sides of the firm, the different services offered can be allocated to a specific quadrant. For example, corrosion protection services could be classified as a 'dog'. Here, the firm has a low relative market share, and the market is not really growing. Similarly, the firm's laboratory activities could be placed in this quadrant. Waterproofing and concrete investigations and remedials could be considered to be 'cash-cows', with more specialist applications in these fields (for example, chemical resistant or industry specific applications requiring new or advanced technology) being the 'stars'. The turnkey engineering approach could also fit into the 'star' category. The 'question

mark' in the firm at the moment is the potential to capitalize from a viable black empowerment strategy – the market is wide open for compliant firms, and even more so for compliant specialist firms.

Naturally, the objective of the selected strategic options should be to manage and sustain the waterproofing and concrete related activities of the firm, in order to generate funds for technological development and innovation, propelling new ideas or concepts to 'star' status, and then managing these to fall into the 'cash-cow' category in due course. The potential of the question mark is obvious – the strategy should include black empowerment plans. Finally, the 'dogs' need to be addressed. Corrosion protection services, although forming a very small part of the businesses, should probably be kept, due to the occasional project being awarded to DPA, the fact that related costs are insignificant and due to the complementary nature of the service on waterproofing and concrete related projects. The functioning of the laboratory is questionable, however. This is a costly exercise in terms of equipment maintenance and consumes large amounts of management time. It may be effective to divest this part of the business and to outsource laboratory activities.

4.5. ACCEPTABILITY ANALYSIS

It is necessary to establish whether or not management will accept the proposed strategic options and changes. This is assessed through a sensitivity analysis and an analysis of stakeholder reactions.

4.5.1. Sensitivity Analysis

A great deal of emphasis has been placed on certain environmental changes. It may be possible that, for whatever reason, the specialist market segment will not grow as expected, or may even remain stagnant. In addition, government may suddenly halt spending on infrastructure rehabilitation if other budgetary constraints so dictate. In addition, procurement policies may change to such an extent that turnkey services are not as preferred as initially thought. In any event, most government projects stipulate the separate existence of a consultant and contractor. The sensitivity analysis therefore excludes the factors relating to these issues. However, other identified changes are

Figure 4.4. Sensitivity analysis for DPA

<i>Main strategic options/initiatives</i>	Focussed differentiation based on technology & expertise	Turnaround based on strategy revision & core competencies	Concentrated growth & innovation	Concentric diversification into contracting	Backward integration - materials manufacturing	Attain black economic empowered status
Strengths:						
Derek Penhall's experience & expertise	+3	+3	+3	+3	+2	+3
Excellent track record	+3	+2	+3	+3	0	+3
Derek Penhall's marketing ability	+3	+3	+3	+3	+1	+3
Good technical / commercial balance	+1	+3	+3	+3	0	+3
Entrepreneurship & ability to adapt & change	+3	+3	+3	+3	+2	+3
Differentiation through technical expertise & know-how	+3	+2	+2	+3	+3	+3
Technical competence with practical ability	+2	+3	+3	+3	+3	+3
Core of competent & experienced staff	+2	+3	+3	+3	+1	+3
Wide range of equipment	+2	+3	+3	+3	0	+3
Weaknesses:						
Lack of focus by Derek Penhall	-2	-3	-3	-2	-3	-2
Derek Penhall unable to delegate effectively	-2	-3	-3	-3	-3	-3
Poor handling of HR matters, staff turnover	-3	-3	-3	-3	-2	-3
Lack of technical guidance of staff	-3	-3	-3	-3	-3	-3
Insufficient staff resources	-2	-2	-3	-3	-3	-3
Lack of BEE status	-1	-1	-3	-3	0	-3
Inconsistent marketing	-3	-3	-3	-1	0	-2
Internal politics	-1	-3	-3	-3	0	-3
Poor administration & monitoring	-1	-2	-2	-3	-2	-3
Poor commercial feedback to management	-2	-2	-2	-3	-2	-3
Heavy reliance on debt	-1	-1	-1	-3	0	0
Environmental change:						
Growing need for differentiated services technical & quality	+3	+3	+2	+1	+2	0
Access to international markets	+1	0	+1	0	0	0
Economic fluctuations in SA	+2	+2	+2	+2	+1	0
Political uncertainty hampering growth	+1	+2	+2	+1	0	0
The entry of large, well established civils firms	+3	+2	+3	+3	+2	+2
Competition on the basis of low cost	+3	+2	+3	-2	+3	0
Black economic empowerment regulatory changes	+1	+1	+1	-3	0	+3
Contractors supplanting consultants	+2	+2	+3	+2	+2	0
Employee mobility & job opportunities	0	+1	-1	-1	0	+1
Retaliatory actions of established contractors	+2	+1	-2	-3	0	0
Aggregate (+) score	+40	+41	+43	+36	+22	+33
Aggregate (-) score	-21	-26	-32	-39	-18	-28

+3	is a very good advantage in such a situation
+2	is a good advantage in such a situation
+1	is an advantage for such a situation
0	no impact
-1	is a disadvantage in such a situation
-2	is a large disadvantage in such a situation
-3	is a very large disadvantage in such a situation

fairly well grounded, such as the growing need for differentiated services based on quality and technical proficiency and increasing access to international markets.

Under these circumstances, the sensitivity analysis matrix yields some interesting results. It suggests that even under conditions of slow or stagnant industry growth and reduced spending DPA should perform well under a concentrated growth strategy, based on a competitive strategy of focused differentiation, following a successful turnaround strategy. The negatives marginally outweigh the positives under the strategy concerning concentric diversification into specialist contracting, suggesting that this strategy is risky and should be approached with caution. However, should the turnaround successfully deal with the firm's critical weaknesses, the negatives would be reduced considerably. Even so, this strategy appears to be sensitive to the environmental changes originally assumed. The black economic empowerment strategy only yields an overall marginally positive score, mainly due to the effect of the firm's weaknesses. This strategy is more concerned with compliance with procurement conditions as opposed to industry growth. Again, a successful turnaround of critical weaknesses would boost the likelihood of success of this strategy. The strategy concerning backward integration into materials manufacturing also presents a difficult call, but is also not that sensitive to the assumed environmental changes.

4.5.2. Analysing Stakeholder Reactions

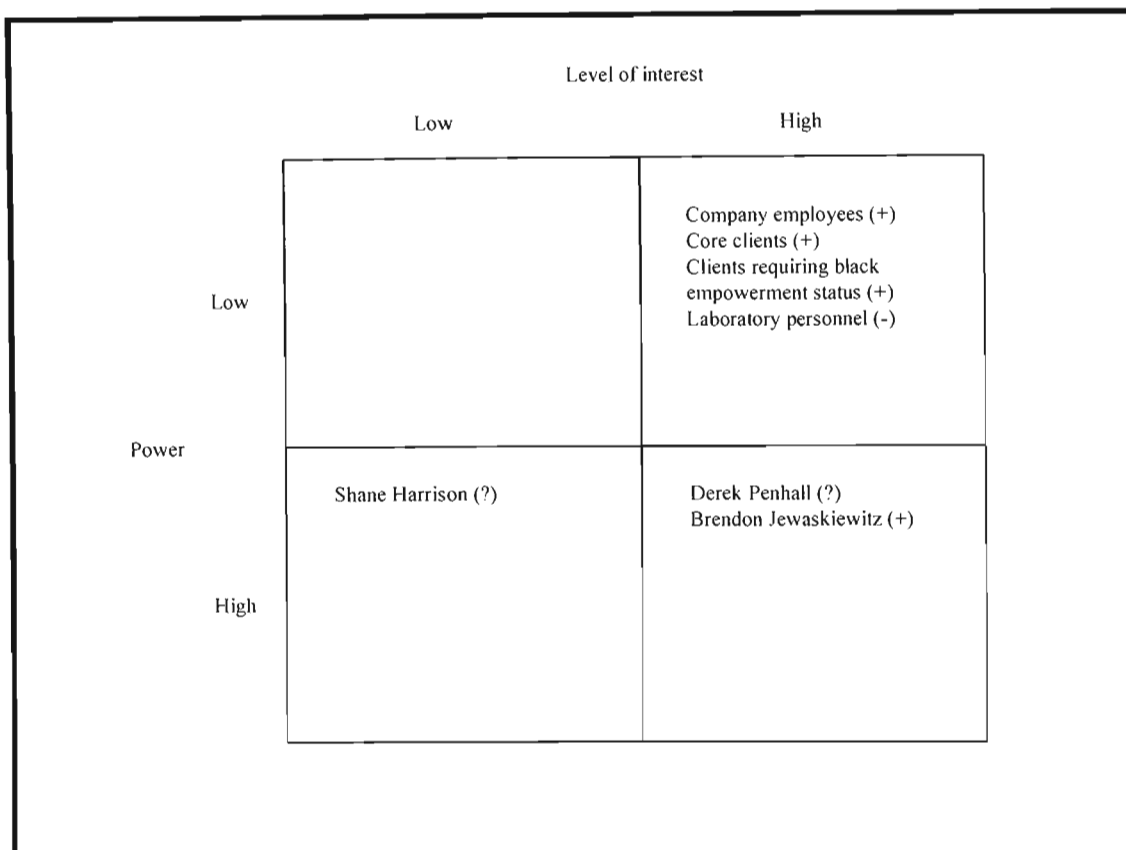
The political viability of the developed strategic options is important to consider in the context of the power and influence of key players. The Power-Interest Matrix is a useful tool. The proposed initial turnaround strategy (the critical starting point) is important to consider in terms of the proposed actions, including focusing on core clients, closing the laboratory, revising the current approach to human resources, improving the administrative and marketing functions of the firm, adopting a black empowerment plan, distributing shares to certain staff members, and re-directing the efforts of Derek Penhall to those areas better serving the firm. All the other strategic options essentially follow from the success of the turnaround actions. The Power-Interest Matrix below reflects the potential political situation.

Based on the stakeholder mapping reflected in the matrix, it is evident that many positive stakeholders are located in the high-interest and low-power quadrant. These supportive stakeholders will have to rely on the decisions stakeholders in the high-power, high-interest quadrant and the degree to which they are empowered by them. All stakeholders in this quadrant need to be kept informed of developments. Derek Penhall is probably the most powerful player and has been allocated a question mark, due to the expectation that although he will agree to most of the elements of the turnaround strategy, he will probably be reluctant to close the laboratory (which he was instrumental in developing) and to agree to the re-direction of his efforts, as he is already doing what he believes is best for the firm.

It would be necessary for Brendon Jewaskiewitz to champion the strategy by means of participation and communication, attempting to foster interest from other stakeholders. The potential situation of the ‘political battleground’ needs to be avoided, as this would essentially result in stakeholders pulling the firm in different directions.

Shane Harrison is also an unknown quantity, having expressed a loss of interest in the strategic direction of the firm. This is a potential ‘political trap’ and care must be taken to keep him satisfied and involved, lest he decide to reposition himself and oppose elements of the strategy. After all, he is a powerful player and would be involved in a major part of the strategy – that is the revision of functional strategies concerning administration, management reporting and human resource management.

Figure 4.5. Power-Interest Matrix – Proposed turnaround actions



With respect to the subsequent strategic options concerning concentrated growth and concentric diversification (the spin-off of the firm’s contracting business), it is clear that no real opposition exists. All high-interest, high-power quadrant members are positive about the elements of these strategies, which can therefore be considered to be acceptable. This is notable, considering the fact that the sensitivity analysis has shown that the turnaround strategy could be extremely beneficial and relatively risk free, while the concentric diversification strategy could be relatively risky. This probably has much to do with the influence of the type of leadership and the culture of the organization, discussed below.

Leadership:

Upon examination of the leadership characteristics of Derek Penhall and Shane Harrison, it is apparent that two completely contrasting characters emerge. Derek is a “risktaker” type leader, having been prepared to put everything on the line to start the business, and having been prepared to do so again during periods of financial

difficulty. He has a talent in developing new business avenues and being able to market extremely effectively, constantly promoting his way of thinking and new ideas. He has based his career on DPA and its success in the market place, and therefore, at this point, is the individual with the most at stake. Unfortunately, Derek's leadership style also carries some negative and damaging attributes, including autocracy and a seeming inability to delegate and empower people. He wants to be involved in everything, and almost always has a "better" way of doing things, no matter what it is. This is one of the main reasons why so many people cite their inability to work with Derek, as he practically takes over. The reality is that in doing so, he neglects the aspects of business development and management the firm desperately requires. Staff have also cited the problem of Derek making certain "promises" or commitments to them, only to eventually reach the realization that it was all "talk".

Shane Harrison is effectively a "surgeon" type leader – able to cut costs in key areas and to make rational financial decisions. This was the main reason for Derek originally bringing him into DPA. Shane was very effective in restoring some organizational capabilities, such as administrative systems and management reporting mechanisms, which by all accounts were a complete shambles at the time. However, Shane gets bored quickly, and having done so much good work in the beginning, has let it slip. According to Shane, this is due to his efforts not having the desired impact – Derek being one of the main culprits in terms of not adhering to the systems and setting a poor example for other employees. Shane effectively lost interest, and as a result, pursued the specialist contracting work.

One of the major problems is that the firm has never had a "caretaker" type leader, someone capable of managing the business as it grows, making sure of the proper functioning of functional business areas, and maintaining the overall healthy state of the firm. It is clear that neither Derek nor Shane will be able to lead the business in this manner. It is possible that Brendon Jewaskiewitz could fill the gap and add the desired balance to the firm, but that would require the acceptance of Derek Penhall and Shane Harrison, who, for all intents and purposes, "run" the firm and make most strategic decisions on their own.

As a result, under the current leadership, the firm may experience difficulty in the acceptance and implementation of the proposed turnaround strategic options, depending on whether the key players can be convinced to ‘buy into’ the plan. In any event, the turnaround options require the exploitation of the relative strengths that all three directors have to offer.

The Culture of the Organisation:

The culture of the firm can be illustrated through the use of the “cultural web”:

- *Paradigm:* Common assumptions include the idea that “Derek will solve the problem”, that clients are generally ignorant, and that the company’s services are always the best. This can be problematic, especially when the company’s services are clearly not the best and where Derek should be delegating responsibility.
- *Routines and rituals:* Members of the organization generally behave casually towards each other, even between top management and lower level staff, with an emphasis on socializing. Training is informal, as is assessment and promotion. This casual approach can be problematic, especially when trying to enforce authority and when trying to get things done.
- *Stories:* Stories tend to be centred around the past successes of DPA, how the firm bettered its rivals, how the firm won court cases against previous employees and clients, how Derek and Pat Draper used to work together, and Derek’s maverick nature of doing business. Such stories are often motivating to employees.
- *Symbols:* Symbols normally consist of status symbols for the directors of the firm (such as luxury vehicles). Generally, the atomic symbol used by DPA is the universal organizational symbol, and is used everywhere, from the office, to site vehicles, to signboards and on the letterhead of the firm. Technical jargon permeates the language used by employees – even the secretaries take pride in their understanding of such language.
- *Control Systems:* Control systems effectively only include timesheets on which employees record their involvement in various projects or activities. Otherwise, there are no real systems focused on measurement and reward.

This is done informally and subjectively, creating tension among staff members who feel that they have “fallen out of favour” and those that are perceived to be favoured by either Derek Penhall or Shane Harrison.

- *Power Structures:* Derek Penhall effectively dominates the organization, reinforcing his core assumptions and beliefs in what is important. This could be potentially harmful to the proposed strategic options.
- *Organisational Structure:* The firm is generally informally structured, with no real hierarchical structures. Below the three directors, the organisation’s structure is fairly flat. This may pose problems with respect to developing an effective reporting or delegation system to remove Derek Penhall from involvement in everything, as the turnaround strategy requires that he re-focuses his attention and efforts.

Overall, the culture of the firm should be generally supportive of the proposed strategic options, however, some aspects need to be changed. For example, the degree of staff / management relationship informality is concerning, especially with respect to the assessment of performance and reward. The firm requires formal systems in order to be successful, and management need the credibility and respect to be able to enforce them.

4.6. CONCLUSION

The theoretical framework has illustrated that DPA is a fairly unique organization with formidable strengths and excellent opportunities. However, it was also illustrated that DPA is “its own worst enemy”, as a result of some critical weaknesses. Given the situation of the organization, realistic strategic options were developed and then assessed for suitability and acceptability. Whether or not the proposed strategies will work depends almost entirely on whether or not the key players in the firm are able to realize the potential benefits through their involvement and participation in the proposed strategies. Specific recommendations based on these proposed strategies can now be made.

CHAPTER 5: RECOMMENDATIONS AND CONCLUSIONS

5.1. INTRODUCTION

The industry and organizational analysis and evaluation presented in Chapter 4 provided many useful insights pertaining to the positive and negative attributes of DPA's current strategic position and elements of the firm. These insights can be used to develop a set of appropriate recommendations with respect to a strategic course of action, through reinforcement of the firm's strengths and neutralization of its major weaknesses. The recommendations address the four strategic areas of the turnaround, concentrated growth and innovation, concentric diversification, and backward integration, and the issue of organisational culture.

5.2. THE TURNAROUND STRATEGY

The turnaround strategy proposed as a result of the evaluation of DPA's current situation should be regarded as critical to the future success of the firm. This is the turning point on which the future of the company may be determined, regardless of whatever opportunities the management of the firm decides to pursue. The "do-nothing" strategic option is not viable, since although DPA is currently in a reasonable competitive position and not yet in a deep crisis, it is evident that the combination of the firm's critical weaknesses and growing environmental threats is at a point where the potential future success of the firm is being jeopardized.

The recommendations pertaining to the turnaround strategy are based on attacking and neutralizing the major weaknesses of the firm, thereby enhancing the ability of the firm to pursue the opportunities presented and to overcome environmental threats currently facing the firm.

Dramatic and visible actions must be taken in order for the employees of the firm to realize that management are genuinely committed to the recommended turnaround actions. Such actions should be symbolic of management's commitment to change. Whatever actions are decided upon should be based on the particular recommendations provided, and it must be ensured that the strategic vision is clearly

communicated throughout the firm and backed up with action. With so much emphasis placed on the power and past actions of Derek Penhall within the firm's culture, such action should inevitably start with him.

5.2.1. Human Resources

Firstly, some major organizational changes have to be made. It was identified that the major problems in this regard were the poor handling of human resource matters, staff turnover, and insufficient staff resources. It was also identified that one of the key factors for success in the industry is a "critical mass" of skilled and trained employees. It is clear then that these shortcomings are critical weaknesses that must be resolved as a matter of priority and urgency.

The management of the firm needs to change their approach towards human resources, viewing the sourcing of enthusiastic and skilled employees as an investment as opposed to an unnecessary expense as has often been the case in the past. This will be necessary to realize the objective of at least doubling the number of technically productive employees within a year. The firm requires young, educated employees with training in the fields of civil engineering, quantity surveying, drafting and architecture – employees that can effectively be trained by Derek Penhall and the other technically experienced personnel in the firm.

A properly managed human resource system needs to be designed and properly implemented, with the removal of the subjective and casual performance assessment and reward system currently in place. In fact, a lot of the tension currently permeating staff relations is based on the perception that certain staff members are favoured over others. It will be especially necessary to ensure that racial or sexist prejudices are absent from the process, due to the multi-cultural and gender-equity stance of the firm. People need to be treated differently, and ways in which to measure and reward co-operation need to be found. All too often, employees are expected to "fit in" with Derek Penhall's or Shane Harrison's expectations for the culture of the firm, without consideration for other cultural norms and expectations. Those that do "fit in" are often treated differently to those that do not. This attitude needs to change to allow for the re-alignment of the organisation's culture with that of its employees.

All of the directors should be involved in this process, and those in management positions need to be integrated into the system. This process should be seen as the first step in assuring that the firm has the human resources necessary for effectively implementing a strategy of focused differentiation, where skills, experience and teamwork are core features. In this regard, the implementation of a suitable reward system should be seen as a key factor in the development of employee contributions to the success of the firm. Bonus payments should be seen to be a major portion of the overall remuneration package, resulting in a greater emphasis on performance – the attribute that effectively defines DPA’s competitive approach. Not everyone should receive a standard increase at year end – those that have contributed well should be appropriately rewarded, and those that have not should realize that their own welfare is linked to their input and effort and the overall welfare of the firm.

5.2.2. Administration and Commercial Issues

The administrative and monitoring systems need to be revised and commercial feedback to management needs to be drastically improved. Shane Harrison is presently responsible for this and needs to be convinced of the benefit to the overall operation of the organization. At present, he believes that most of this is a “waste of time” due to the lack of feedback or participation by other management members.

Such improvements are expected to improve management efficiency and result in a greater awareness of current or pending problems and also areas of success, such that management are more sensitive to the real issues surrounding the organization and can make appropriate strategic decisions. Directors meetings should be held at least once a month in order to ensure solidarity and agreement on strategic issues of importance. The directors need to be continuously updated as to what it is that the firm is doing well and what it is that the firm is doing poorly, so that strengths can be reinforced and problems rectified timeously.

Although the financial aspects of the business are excluded from the evaluation, it is relevant to note that improvements should be made in terms of planning and reporting – thereby removing speculation as to the financial well-being of the firm or otherwise.

Derek Penhall has often commented that he “doesn’t have a clue” as to why it seems that the business is achieving high income levels while still having cash-flow and profitability problems. The managing director of the firm should have his finger on the pulse at all times. This can only be achieved through better communication from Shane Harrison and the existence of administrative systems able to provide such information quickly, accurately and efficiently. Such a system should also be able to provide reports on individual projects, including the status of the project, expenses, anticipated cash flows and other relevant financial information. This would also facilitate the management of projects in real time, so that appropriate corrective action can be taken timeously, should problems become evident.

A relevant aspect to consider here is also the fact that the same directors are running two completely separate companies as far as registrations and legal implications are concerned – the specialist consulting business and the specialist contracting business. The effective development and implementation of administrative and financial systems and associated reporting could be facilitated by officially combining the two firms, especially in light of Derek Penhall’s desire to distribute shares to Brendon Jewaskiewitz and Lanic Devananan. This is complicated by the fact that officially, Derek Penhall owns 100% of the consulting business and shares the contracting business equally with Shane Harrison. It is envisaged that major complications could arise in allocating costs and profits to the two separate companies correctly, due to the fact that the resources are essentially shared, and employees work on both consulting and contracting activities, depending on the circumstances. It is recommended that the two businesses be combined and operated as one company, trading either as DPA Specialist Consulting Engineers or DPA Projects, making use of the DPA name and reputation in the industry. In light of the turnkey type work pursued by the firm, requiring both consulting and contracting input, this seems to be the most viable option. Should the two firms remain as separate entities, the danger would be that they start pulling in opposite strategic directions, thereby destroying the synergies on which the arrangement was originally based. This has already happened to an extent, and is borne out of the fact that the consulting revenue of the organisation has dropped drastically. The combination of the businesses would also serve to prevent the current situation of a powerful player such as Shane Harrison deciding to abandon certain aspects of one side of the business, in this case, the consulting side.

The recommendation that the two firms be combined and operate under the recognised name of DPA will require resignation from the South African Association of Consulting Engineers (SAACE), as continued membership would require abandonment of contracting activities or complete separation of the consulting and contracting firms, with different leadership and structures. In fact, the current situation is not really in compliance with the rules of the Association anyway, as a consulting firm is not supposed to have an interest in a contracting organization, in terms of the rules. As this organization has never contributed anything worthwhile to the success of DPA and has no real power in influencing the future of the business (or the specialist industry for that matter), it is recommended that the benefits of pursuing the recommended course of action will far outweigh any benefits associated with continuing membership of SAACE.

5.2.3. Derek Penhall's Contribution

Derek Penhall himself is at the centre of some of the proposed turnaround actions. His lack of focus on areas in which his expertise, marketing abilities and technical leadership qualities is especially crippling to the organization. Significant opportunity costs are being incurred, and furthermore, his involvement in terms of marketing and technical guidance for the rest of the firm is recognised to be critical for the organization to effectively differentiate itself. Derek needs to develop his delegation and communication abilities, helping and thereby empowering employees to carry out their functions within the firm, as opposed to simply taking over their responsibilities as he currently tends to do.

Derek needs to re-focus on his strong points, even if it means that the firm spends a little more money on outsourcing certain activities (such as equipment servicing). Surely spending a few hours on a proposal worth a few hundred thousand Rand in consulting fees is better spent than a few hours saving a couple of thousand Rand by servicing a piece of equipment. Even employing a full-time mechanic dedicated to site equipment maintenance would be more cost-effective. With Derek currently removed from the business altogether as a result of his commitment to the Port Elizabeth contract, the firm is rapidly losing ground and is finding it difficult to take

advantage of other available opportunities. The managing director of the organization should not be a site agent on one of its major projects. By the same token, Derek Penhall would be able to re-focus and delegate more effectively if the firm took a different view on the procurement and management of human resources, as described above, and if Shane Harrison provided more backup in this regard.

Importantly, the changes and turnaround actions focussed on Derek Penhall will have to be carefully thought out and implemented, as unfortunately it is doubtful as to whether he has the necessary credibility at this point to enforce change on the rest of the firm. Due to his past approaches and actions, change may in fact be viewed with suspicion and mistrust by employees, as many of them regard him as being “the biggest culprit” when it comes to a lack of adherence to systems and rules. He does, however, yield significant power within the firm, and should he consciously agree with and decide on the proposed course of action, the result will more than likely be successful. A challenge would be to keep the plan on track, as Derek’s personality dictates that he does tend to deviate from plans at times.

5.2.4. Black Economic Empowerment

Without a doubt, the organization requires a black empowerment policy, and needs a strategy to achieve black empowered status in order to take advantage of the opportunities available to black empowered firms. Due to the likely reluctance of the current shareholders to distribute at least 25% of the business to a “black partner”, the most appropriate course of action at this point would probably be to revive LDN Specialist Waterproofing and Concrete Repair, headed up by Lanic Devananan. This company could then trade together with DPA under a 26%/74% joint venture agreement for the purpose of targeting specifically nominated contracts requiring black empowered status, with a long term vision of eventually integrating LDN into DPA, as Derek Penhall gradually hands over control of the business over the next ten years, as he heads towards retirement.

Lanic Devananan has considerable experience in the firm, and Derek has stated that he wants to include him in the future ownership plans of the business anyway. This black empowerment strategy may also be a way of ensuring Lanic’s ongoing

commitment to DPA, under current conditions which seem to favour the breakaway of “black” employees to form their own companies which automatically qualify as black owned organizations. This situation would be extremely detrimental to DPA, and in any event, Lanic Devananan is a valuable asset to the firm.

Lanic Devananan has always maintained that he is in agreement with the LDN concept, but that proper communication with respect to administrative and commercial issues was the major problem contributing to his resignation and the company’s subsequent demise. It is recommended that a detailed formal joint venture agreement be compiled by an independent attorney, to the satisfaction of all parties concerned, and that Shane Harrison adopts a more communicative approach in terms of everyday commercial and financial issues. It is recommended that this will be the only realistic approach to restoring the level of trust required in the running of the joint affairs of LDN and DPA.

As far as preferential employment is concerned, DPA needs to be cognisant of the long-term goals of the firm. Such goals need to be pursued in accordance with changing legislation and environmental threats. Therefore, it is recommended that DPA actively seek out qualified, skilled and trained PDI’s (Previously Disadvantaged Individuals) that can be strategically incorporated into key positions within the business, and developed according to the firm’s long-term objectives. If this is achieved, the firm will find the transition to a fully empowered firm a much easier requirement than would otherwise be the case.

5.2.5. Retrenchment of Services and Clients

It has been shown that the ongoing operation of the laboratory is undesirable from the perspective of generating very little return while requiring ongoing investment and the employment of a laboratory technician. In addition, in terms of the organisation’s core business activities, the laboratory provides only a supplementary service, but nevertheless, takes up a disproportionate amount of managerial time which could otherwise be more productively focused on core business areas.

Most of the regular testing carried out in the laboratory can be outsourced at very competitive costs. It is recommended that the laboratory be closed and the redundant equipment sold off. The alternative would be to invest a large sum of money into the laboratory to develop it to the standard required of a formal laboratory. At present, it has no proper ventilation and temperature control, and the humidity is variable. As a separate cost centre or business unit, the operation is sure to fail.

However, it is relevant to consider that some strategically important specialist services are occasionally processed through the laboratory. For example, forensic investigations requiring DPA's expertise and specialised equipment do form part of the firm's core business and cannot simply be discarded. Overall, however, this still does not warrant keeping the laboratory running. When such specialist services are required, it would still be possible to carry out these services without needing a fully functioning laboratory. Most forensic work requires very expensive and specialised equipment which is outsourced anyway, and whatever else is required can be performed in the office, by the appropriately skilled personnel. It is only really the "wet" chemical work that the laboratory is needed for, but this can also be outsourced at a lower overall cost to the company.

Another consideration is that Derek Penhall has maintained that the laboratory is a useful marketing tool. He suggests that many clients view the existence of an in-house laboratory as a sign of the company's expertise and that it is therefore a differentiating factor. However, it is argued that this consideration is misplaced, and that the physical existence of a laboratory should not be punted as a differentiating feature, but rather the technical ability of the firm to determine what procedures are necessary and how to properly interpret the results. The actual testing should not be seen to be the source of competitive advantage.

With respect to the client base and the nature of the specialist work pursued, DPA should focus on clients most suited to the firm's core business activities, and to those areas of the business generating the best returns, mainly concrete related work and waterproofing (the cash-cows of the business). More specialist applications and turnkey projects (the stars) can then be pursued opportunistically, with a view to

developing some of these applications into standard services, should the circumstances at the time be favourable to such an approach.

New technologies and ideas should be vigorously pursued, enabling the firm to continuously differentiate itself on the basis of being technology leaders in the industry. The firm has had a habit of trying to be “everything to everyone” in the past. This is detrimental to the firm's core business and to the competitive advantage provided by its strengths and core competencies. For example, the management of the firm should seriously re-consider undertaking low-paying body corporate type work. In addition, clients that have a reputation for occasionally trying to squeeze as much information out of the firm as they can without actually contracting the firm should be avoided, with better clients receiving quality attention and professional service.

5.2.6. Marketing

DPA needs to concentrate on its numerous market strengths, including its marketing ability. It is imperative that the firm's management takes some time to consider what it really is that its clients really want in terms of service and deliverables. It has been shown that there is a growing need for differentiated services on the basis of technical proficiency and quality, and that turnkey services are becoming more popular. It has also been shown that DPA is operating in a region of high perceived value added and high price (around positions 3,4 and 5 on the strategy clock). It is therefore critical for the management of the firm to develop a well thought-out marketing plan. The inconsistent approach currently being implemented is simply not good enough.

The marketing plan should be developed jointly between the three people effectively engaged in active marketing activities, Derek Penhall, Brendon Jewaskiewitz and Lanic Devananan, thereby ensuring continuity and commonality of purpose. The plan should initially concentrate on identifying and re-approaching key clients that have been disappointed with DPA's services in the past, and re-convincing them that the organization is now able to satisfy their needs and requirements better than the competition. The ability to perform both engineering and contracting services should be emphasized, along with the technical strengths of the firm.

The marketing plan should also include advertising, and measures to enable the effective monitoring of client contact and potential opportunities, so as to ensure that come clients are not periodically ignored by mistake, and that good opportunities are identified and pursued timeously by the appropriate personnel. All too often has DPA passed over fantastic opportunities due to Derek Penhall simply being unavailable or unfocussed. The system should be designed so as to obviate such occurrences. It should be noted that this can only be effective if Derek Penhall is able to adjust his focus, as discussed.

It is relevant to note just how important Derek Penhall really is to this process, besides the impact that his experience and marketing ability can have. The engineering industry generally provides much more credibility to older, more experienced people, regardless of whether or not a young engineer or technician is equally as capable in a particular situation. At a certain point in the marketing process, Derek could hand the project over to Brendon Jewaskiewitz for implementation and general management of the project, after satisfying the initial marketing needs of the client. This has been successful in the past, but it is also relevant to note that Brendon Jewaskiewitz should be involved in the particular project from the initial stages, so as to ensure the development of his own marketing abilities.

The marketing plan must be realistically based on the firm's differentiating features, with care being taken not to "over promise" and also not to overdifferentiate. Offering clients specialist services incorporating expensive new technologies is not always the best approach, and can result in many hours of frustrated marketing efforts. It is important to remember that clients are, more often than not, operating with fixed budgets, and a low-cost but technically sound approach may often be the most appropriate. DPA has been guilty of over designing and overdifferentiating in the past, thereby losing touch with the client's actual needs and opening the door for other competitors. This situation needs to be avoided at all costs, and the aim should be to provide added value in the areas in which clients need it and perceive it to be necessary.

5.3. CONCENTRATED GROWTH AND INNOVATION

DPA has significant internal strengths that need to be developed and nurtured in order to benefit from concentrated growth in the specialist industry. It has been shown that such concentrated growth is possible, and that DPA has the ability to succeed on the basis of focused differentiation. The most significant strengths probably reside in the managing director, Derek Penhall. His experience, expertise and marketing abilities are core competencies of the firm, and need to be deployed in the appropriate form and directions, while also being passed on to the other key players, Brendon Jewaskiewitz and Lanic Devananan. This is the key to continuing the organisation's status as a differentiated firm through technical expertise and know-how, and the development of new technical competencies.

With respect to concentrated growth, it should be reinforced that the contracting side of the business is indeed a spin-off from the original consulting side of the firm, and should remain as such. The original success of the contract work undertaken by the firm was the result of the practical deployment of the firm's engineering expertise and professional ability. At this point, DPA needs to reassert its position in the consulting field, through marketing and growing the capacity of the consulting side of the business to its previous levels. At present, the firm does not even employ a draftsman, having not yet replaced Deloshnan Naidoo. In addition, the firm's only quantity surveyor is currently in Port Elizabeth and is fully committed to the Burman Road contract. The re-capture of consulting business market share is therefore inextricably linked to the recommended strategy revisions regarding human resource management and employment.

The technical and commercial balance of the firm needs to be maintained for the firm to remain successful in this area of the business. In this regard, Shane Harrison and Brendon Jewaskiewitz will have important roles to play, freeing Derek to focus on technical and marketing functions. This will also be expected to enhance the entrepreneurial ability and capacity of the firm and its ability to adapt and change, with the focus of the directors being appropriately determined.

DPA's core of technically competent staff is one of the organisation's major strengths. It must be ensured that this core is grown, maintained and developed in accordance with the company's objectives. It is recommended that appropriate members of this core should be specifically assured of good career development options and financial benefits, in tandem with the development of DPA as a successful and competitive business. This will probably be achieved through Derek Penhall's plans to distribute shares in the organization and to develop a cohesive team of key players, besides the current combination of himself (the risktaker leader) and Shane Harrison (the surgeon leader). A balance of leadership styles is appropriate under the circumstances of a growing business. Brendon Jewaskiewitz and Lanic Devananan could assist in achieving this balance.

DPA needs to maintain and grow its current equipment base and ensure that it does not find itself in a situation in the future of owning a range of obsolete items. It is critical that the directors maintain focus on the fact that specialist equipment forms the basis of the specialist services provided by the firm and that constant investment in new equipment is necessary to reinforce the firm's basis of differentiation.

The key players in DPA should occasionally be sent on technical "missions" to other regions and countries so as to ensure the ongoing viability of DPA's technologies and to procure new technologies, processes and equipment otherwise unavailable in South Africa. This was originally the basis for the procurement of much of DPA's founding technology and know-how by Derek Penhall, leading to the competitive stance of the organization today. International conferences on the relevant areas of technology should be attended and participated in, thereby spreading awareness of the capabilities and expertise of the organization, and further developing the knowledge and expertise of the firm. The publication of technical articles in engineering periodicals could enhance this process, as well as providing a form of advertising for the firm.

The technical knowledge of the firm should be jealously guarded, and pride should be taken in the superior capabilities of the organization. This will be congruent with the firm's existing culture. In addition, formal training programmes should be implemented, designed to bring the technically oriented staff up to date with the firm's technology and to allow for open discussion and debate on various matters.

This approach has been successfully used in the past, with staff teams spending time with material suppliers, getting to know the available products from a practical perspective.

Specifically, with respect to the markets in which the firm is active, serious consideration should be given to re-establishing an office in Gauteng, following a successful turnaround. It is evident that the size of the Gauteng market is significantly larger than that of Kwa-Zulu Natal and the Eastern Cape. This is important if the firm is going to be serious about a concentrated growth strategy – other firms entering the specialist market niche will have similar objectives. However, DPA will need to find suitable staff and management based in Gauteng for the decision to be viable. This was a problem before, but, in light of the proposed turnaround actions, specifically with respect to the re-focussing of Derek Penhall, and the proposed changes with respect to the management of human resources, it will be more probable that the venture would prove successful.

Innovation should be seen to be one of the keys to success. In order for the firm to remain differentiated on the basis of service and technological expertise, it will be necessary to keep moving ahead of the competition. In this context, innovation will mean bringing ideas into the marketplace in a practical form. It will not be enough to just have good ideas – these ideas must be converted into tangible benefits for the firm's clients. For example, Derek Penhall recently developed a superior system for concrete crack injection, enabling the process to be carried out more efficiently and with less waste. This is now being used on a number of projects in which DPA is involved, and can be seen to be contributing to value added and to competitive advantage. It will be important that such contributions by management or staff members are not overlooked. Experimentation is important in this regard, and employees should be encouraged to “get their hands dirty”.

5.4. CONCENTRIC DIVERSIFICATION

It has been recommended that the spin-off business of specialist contracting should remain as such and that the consulting side of DPA be revived. That is not to say that the parallel development of the contracting business should not take place. Specialist contracting is a lucrative avenue of growth for the firm, and it was for this reason that the opportunity was pursued. As long as the professional and technical contribution to the specialist contracting work provided by the consulting side of the business remains to be recognised as a key success factor, the expected synergies between engineering and practical abilities will be achieved. This will especially enable the successful pursuit of lucrative turnkey projects. It is in this area that DPA really experiences little competition, if any.

Shane Harrison has stated that he prefers being involved in the contracting side of the business. This should remain the case, as he is very capable of managing the logistical set up of contracts, procurement, accounts and the like. Derek Penhall should only get involved from a technical perspective, providing advice with respect to the way things are done, and as the managing director, making sure that responsible personnel provide the required deliverables on time. The danger is that Derek may become tied down as he gets more involved in the day-to-day operations. This will present the greatest challenge.

Inbound logistics are important to consider in terms of the financial impact the contracting side of the business has on the firm as a whole. Due to the small but growing nature of the firm, the high costs of equipment and materials severely impact on cash flow and liquidity. As the firm grows, it is important to consider the role that outsourcing could play. Certain high cost-low return activities should be sub-contracted out, with DPA capitalizing on those areas in which its expertise and practical capabilities generate the highest value added. The firm has been guilty of dismissing this option on occasion. Relationships with materials suppliers should be developed and nurtured, with a view to possibly developing preferential supply conditions and prices.

5.5. BACKWARD INTEGRATION

DPA has integrated backwards on occasion through the manufacture of its own materials for specific applications, where the alternatives supplied by well-known materials suppliers have been “over specified” and are extremely expensive. This approach has enabled DPA to win specialist contracts that otherwise would have been awarded to a low-cost competitor. On occasion, such projects have been of strategic importance to the firm, being a “foot in the door” with certain new clients, and as a way of displacing other competitors with established relationships with the clients concerned.

It is recommended that this form of backward integration be treated as a low priority when compared to other recommended actions. This strategic move is not core to the well-being and competitive capability of the organization, and could actually be detrimental due to the additional pressure it places on certain resources and management input. A certain degree of risk is involved, as the firm becomes responsible for not only workmanship, but also the quality and performance of the applied materials. This can be problematic if the required degree of quality control is not achieved in the mixing or packaging of the products or components.

However, the manufacture of certain materials may be advantageous on occasion. As discussed, this can be used as a strategic weapon when the opportunity presents itself, and can be very effective, boosting the firm to a better strategic position. This is also a manner in which clients can be convinced of the technical capabilities of the firm, and could also be seen as a favourable contribution to reducing the overall cost of a particular project.

The backward integration into the manufacture of materials should therefore only be considered on an opportunistic basis, and where the firm has the potential to realize significant strategic and financial gains, thereby warranting acceptance of the risk involved and the commitment of resources required. This is by no means to be considered to be integral to the firm’s competitive success in the specialist contracting market. There are far too many other aspects of the business requiring urgent attention.

5.6. ORGANISATIONAL CULTURE

It is recommended that various aspects of the overall culture of the firm need to be changed in order for the proposed strategic remedial actions to achieve the desired degree of success.

- *Paradigm*: The general assumption that “Derek will solve the problem” needs to be destroyed. This is effectively handing everything back to Derek Penhall, one of the pitfalls to be avoided at all costs. Employees need to be empowered to solve their own problems.
- *Routines and Rituals*: The overly social approach to staff relations should be toned down somewhat, enabling a healthy respect for authority to be developed.
- *Stories*: Stories for the future should centre around the dramatic changes implemented by the firms current leadership, and the degree of success enabled by these changes.
- *Symbols*: The atomic symbol of DPA should pervade every aspect of DPA’s operations, from decals on vehicles to company clothing, such as site jackets.
- *Control Systems*: These need to become more formalized and enforced. The recording of commercial data in the form of timesheets is critical for record purposes and invoicing.
- *Power Structures*: The power structure of the future should be more evenly distributed between the directors and shareholders of the firm.
- *Organisational Structure*: The flat organizational structure is likely to serve the firm well, adding to its flexibility. However, some degree of structure will be required for effective delegation to be successful. The optimal arrangement should be considered carefully.

5.7. CONCLUSION

DPA is a reasonably well-placed competitive firm displaying a number of significant strengths that have been developed over many years of operation in the specialist civils industry. Many of these strengths are attributed to the abilities and experience of Derek Penhall, the managing director. However, the firm also exhibits a number of critical weaknesses, most of which are currently severely hampering the sustained success of the business.

It has been shown that the majority of the organization's strategic moves have been worthwhile and that the organization is worth saving from a potential crisis. The majority of the recommended strategic actions lie in a proposed turnaround strategy, focusing on neutralizing the identified weaknesses of the organization. Following this approach, it was recommended that a concentrated growth and innovation strategy is appropriate, based on the organisation's strengths. It was also determined that the decision to diversify concentrically into specialist contracting was of strategic importance, and that these activities should form an integral part of the business in the future. One of the most important issues identified was that the management of the organization desperately need to focus on core business issues in order to realize the potential gains the specialist market has to offer.

Overall, the potential is still there for the organization to capitalize on the available opportunities, however, it will be essential for the directors of the firm to show visible commitment to the principles of the proposed strategies and to agree on a unified course of action. Given the organisation's history, current leadership and culture, this may be a difficult task, and may in fact require a change in leadership. It will therefore be of vital importance that the process is planned carefully from the outset, ensuring the necessary "buy-in" and commitment from all concerned.

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