Evaluation of Strategic Outsourcing of the Laboratory at Blendcor

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CONFIDENTIALITY CLAUSE

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TO WHOM IT MAY CONCERN

RE: CONFIDENTIALITY CLAUSE

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

Sincerely

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096346

DECLARATION

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

Signed.....

Date 15 – 09 – 2003

STATEMENT

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Firstly, I am grateful to my supervisor, Prof. Elza Thomson. Thanks for your encouraging and support.

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ABSTRACT

The aim of this study is to evaluate the strategic outsourcing of the laboratory at Blendcor. The organization and the relevant theory have been introduced in the introductory chapter. This also formulated the problem statement and the objectives of the study. The structure of the study is summarized in this section.

The second chapter builds the theory and the model to analyse the strategic problem at hand. This chapter start by defining the key success factors in the hope of identifying the organizational resources that excel on these, thus become core competences.

In the light of this, a discrepancy is identified as a shortfall of company resources. This calls for the need of outsourcing the activity; the theory of contracting is thus discussed. The theoretical review closes off with the organizational culture, which is mostly affected by changes brought to the company by outsourcing. The strategy evaluation model is then developed.

The third chapter takes advantage of the secondary data available, and a case study is formulated on these. The major portion is made from the company magazines and data from a consultant's study. However, observations were included to some extent.

Chapter four evaluates the laboratory outsourcing strategy using the model developed in chapter two. The case study serves as a source of data. The theory from chapter two provides most of the tools used.

The last chapter concludes by giving the possible solutions to the objectives of the study. The outsourcing of the laboratory is disapproved. The poor performance can be attributed to the inefficiencies in the value chain activities and poor organizational culture that does not support strategy implementation. It is thus suggested that turnaround-oriented strategies are implemented and cultural transformation is effected.

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LIST OF ABBREVIATIONS

AAS	Atomic Absorption Spectrophotometer
AIDS	Acquired Immune Deficiency Syndrome
BP	British Petroleum
CCMA	Commission for Conciliation, Mediation and Arbitration
COA	Certificate of Analysis
GQS	Grease Quality System
HIV	Human Immuno-deficiency Virus
HR	Human Resources
ICP	Inductive Coupled Plasma
ISO	International Standard Organization
Lab	Laboratory
LQS	Lubricants Quality System
MPO	Mega Process Owner
OSHA	Occupation, Safety and Health Act
PMA	Povey Mulvenna & Associates
PO	Process Owner
QC	Quality Certificate
QS	Quality Standard
R & D	Research and Development
RM	Raw Material
SABS	South African Bureau of Standards
SAPREF	South African Petroleum Refinery
Shell SA	Shell South Africa
SWOT	Strengths, Weaknesses, Opportunities and Threats
USA	United States of America
VR'd	Vendor Receipted
XRF	X-rays Florescence

CHAPTER 1

INTRODUCTION

1.1 Introduction

The recent acquisition of Castrol by BP has resulted in Blendcor being the third largest lubricants blending plants globally for this oil giant company, in the top ten in the whole world. This places a major focus on this plant to be hyper competitive.

South African labour has been on the forefront for having low productivity. Further the Asian lubricants plants are run more cheaply because of low wage labour in Eastern countries. These are putting more pressure on Shell and BP's Durban lubricants plant.

But the quality requirements are different since South Africa benchmarks itself to Western countries. The quality standards are exotic.

One of the closest plant, Engen's, is more automated compared to Blendcor. It has fewer employees than Blendcor. This small plant is causing sufficient heat to Shell and BP's plant.

Nevertheless, Shell and BP are global brands, and are always preferred over competitors. This is giving sufficient pressure for producing quality products.

On top of these, South Africa is a very young democratic country. The racial discrimination had just been abolished. The carry-over of culture generated by this governing system is still hurting. Blendcor is no exception to this unhealthy culture. The struggle has moved away from 'streets and Pretoria' to 'corridors and boardrooms'.

The disadvantaged, who make mostly the working class, want to catch up. The unions are pressing for higher salaries. And the managers, who mostly use the previous government's unethical approach in disguise, want to run the plant efficiently.

It is clear that Blendcor is under tremendous pressure to improve productivity, thus work efficiently on sources of costs in order to match its Eastern counterparts. This should result in increased of output per capital employed, while the quality standard

remains in place. It is therefore utmost important to have an up-to-standard quality control system for a mostly manual plant like Blendcor.
The creation of strategy supportive strong corporate culture is no exception. The organizational culture must be relevant to the society's transformed culture.

This report will strategically evaluate if the outsourcing of the laboratory can improve productivity. That is, compromising the differing views between stakeholders, and closing the performance gap.

1.2 Background

The Island View lubricants blending plant was constructed in 1956 by Fraser & Chalmers. The plant was in operation in 1957, managed by Shell. The plant was capable of blending two oils. By 1958 the grease plant was also in operation, and Shell officially opened the site.
In 1963 the plant was expanded by the addition of nine 80 tons blending tanks. And in the following year (1964), SAPREF started managing the plant for Shell.

In 1975, a joint venture was formed as BP bought 50 percent ownership of the lubricants blending plant, which was still managed by SAPREF.
Shell and BP decided to separate the lubricants business from the refinery, in 1992. The lubricants plant was then named as Blendcor. Craig Glashin was responsible for the smooth transition as the lubricants plant gained independence from SAPREF.

The first general manager of Blendcor was a British import by the name of Barry Schnabel. He was a BP stalwart. Under his leadership, Blendcor undertook an upgrading Blueprint Project.
The Blueprint Project ran from 1993 to 1997. The project was based on the beginning of the 21st century forecasted demand. Different blending facilities of the 50's were obsolete, thus replaced with modern efficient equipments. The computers were connected, and prism and JDE systems installed. The blending capacity was increased. The overall cost of the project was around R52 million.

In the early 90's Blendcor saw itself receiving the international quality standard, ISO 9002. The quality standards are no longer a key success factor, but a requirement for international trade.

The late 90's saw Blendcor under the leadership of the Shell's Australian import, Robert Grubb. He put health and safety as a key success factor. Under his leadership Blendcor achieved the 4 million man-hours without lost time injury. And Blendcor had been awarded several safety shields by Shell SA.
In the beginning of the millennium Blendcor achieved another international standard. Blendcor was awarded the environmental management standard, ISO 14001 early in 2000.

Among the departments of Blendcor, there is the Quality Services, the laboratory. The laboratory has state-of-the-art equipment. It has both modern instruments, for example, XRF, AAS and ICP, and some traditional instruments like the Timken.
The laboratory had over 15 years injury free working, which is an outstanding achievement.

On approaching the laboratory foyer, the displays of hours worked without injury, and the housekeeping competitions' crowns. The most important achievements that the laboratory personnel's pride, are Shell Lubricant Correlation Schemes certificates.
Shell sends the samples to all its subsidiary companies' laboratories internationally. The results of analysis are sent back to headquarters in London. The laboratory that gets all results correct is awarded a certificate. This tells a story that Blendcor has a world-class laboratory.
The laboratory also participates in the local correlation scheme, where it demonstrates the same standard as in the international scheme. Both these correlations are done quarterly.

The theoretical background starts with different insights of key success factors as described by Lynch (2000), Johnson and Scholes (2002) and Thompson and Strickland (2003). These lay the foundation for the core competencies, which can be developed by excelling in at least one of the key success factors. The discussion of the core competencies revolves around the work of Prahalad and Hamel (1990).

Pearce and Robinson (2003) define the company resources, while Johnson and Scholes (2002) link them to the core competencies.
Quinn (1992) points out that the resources could leave a gap as a result of incompetence. Ambrosini (1998) defines different types of performance gaps. Pearce and Robinson (2003) suggest different strategies that can be applied, depending on the company's SWOT outcomes.
They further talk of Porter's value chain. The value chain can be benchmarked against different performance standards. Pearce and Robinson (2003) also suggest strategies that can be applied by different value chain activities, depending on their stages in the life cycle model.
Johnson and Scholes (2002) talk of different sources of cost efficiency. They list economies of scale, experience curve effects, supply costs and process design.

However, Quinn (1999) suggests that the organization should outsource the activity if it is not the best in the world in that particular activity. Otherwise, it is putting itself under a competitive disadvantage. Domberger (1998) cites three forces driving organizational change. They are globalisation, competition from the low-wage countries and advances in information technology.

Pearce and Robinson (2003) define outsourcing. They state five strategic reasons for outsourcing. These are improved business focus, access to world-class capabilities, accelerated reengineering benefits, shared risks and free resources for other purposes.
However, Thompson and Strickland (2003) warn of outsourcing the activities that could be sources of sustainable competitive advantage. This is in line with the work of Prahalad and Hamel (1990). They cite the Eastern companies that have taken business away from their Western counterparts.

Venkatesan (1992) warns of companies that cannot identify commodity-like activities. They keep former core competencies that have become commodity-like activities, while outsourcing the new and difficult to do activities. The latter activities are sources of future core competencies.
Venkatesan (1992) and Quinn (1992) caution of the importance of organizations to ensure, that they keep the architectural knowledge. The failure to keep this knowledge

leads to what Prahalad and Hamel (1990) affectionately call throwing the baby away with water.
Quinn (1992) suggests different controls of contractors in order to avoid the worse to happen to the organization.

Domberger (1998) compares different types of outsourcing strategies. The classical and relational outsourcing strategies are contrasted of in a table. He further identifies four types of outsourcing strategies. There are specialization, value capture, control and flexibility, and organizational change. Eventually, he talks of advantages and disadvantages of outsourcing.

Pearce and Robinson (2003) define the organizational culture. Johnson and Scholes (2002) talk of national culture since the organization is a subset of the community. Thompson and Strickland (2003) define the forces that are changing the organizational culture. The general forces include the globalisation, and the recent development of information technology, and thus communication.

Hofstede's cultural model is discussed according to the textbooks of Lynch (2000) and Hollensen (2001). The five model's dimensions are discussed. These are power distance, masculinity versus femininity, uncertainty avoidance, collectivism versus individualism, and Confucian versus dynamism.

The organizational field is defined according to Johnson and Scholes (2002), which they state as the industry norms. They further define the layers of culture, thus revealing the importance of peeling off these layers in order to understand the culture thoroughly. This is because the true organizational culture is not visible.
All the published reports, may not reflect the true organizational culture, if they not deceiving.

The strength of the culture is important. The strong culture support or inhibit the strategy, while the weak culture does neither of the two. There are several variables that strengthen or weaken the organizational culture. They are discussed in the theoretical review.

The cultural web is briefly discussed according to the textbook of Johnson and Scholes (2002). Different elements of the web are discussed. The negative impact of the poor compatibility between the paradigm and the strategy is discussed. The authors term the gap that result from cultural hindrance the strategic drift.
The organizational culture ends with the suggested techniques of changing the problem culture. This is mostly based on Thompson and Strickland (2003).

1.3 Motivation of Research

This project is conducted mainly to highlight the causes of problems at Blendcor, therefore suggests possible remedies to the issues at hand. It is utmost important to have a laboratory for manual and semi-manual production processes. The quality is a key success factor, thus it should looked upon closely. And the laboratory is the source of knowledge about the products; therefore it is important to preserve it.

The motive force was thus to get to the cores of problems and save the company's valuable assets, the people. The outcome of this study could save the employees' jobs, and their status. This also save the cost to the community at large as the redundancy of employee results in more unemployment and more dependence on the government. Unemployed personnel could become criminals. It all end in using the society's tax, thus possibly increase of.

There is also a desire to save the company from exposing itself to vulnerable situations. The company could lose its competence and more people lose their jobs. The leaks of formulations could lead to the products becoming commodities. This will result in poor profitability of the industry. This could be beneficial over the short term, but over the long term it will cost the society. On cutting the costs in order to be profitable, the quality of the offerings will drop.

1.4 Value of the Project

It is always difficult to evaluate the intangible assets. But it can be evaluated by looking at possibly outcomes of different actions taken. The company could benefit to the best in the world supplier of service, and become more competent and thus more profitable. Thus the project can be valued the same as the absolute value of this opportunity cost.

The company could lose it core competencies, thus have to try the impossible dream of recovering the loss intangible assets. Turnaround strategy! Otherwise, the company will be closed, a less brainy harvesting strategy. The value of the project can be equated to the absolute value of the total costs of these undesirable results.

1.5 Problem Statement

Will outsourcing of the laboratory improve performance at Blendcor?

1.6 Objectives

- To evaluate the strategic outsourcing of the laboratory.
- To determine possibly causes of poor performance.
- To establish ways of performance improvement.

1.7 Research Methodology

According to the textbook of Cooper and Schindler (2003, p. 152), 'qualitative refers to the meaning, the definition or analogy or model or metaphor characterizing something'. These authors mention different approaches. They include in-depth interviews, subjects' observation, photographs and videotapes, case studies, street ethnography, etc.

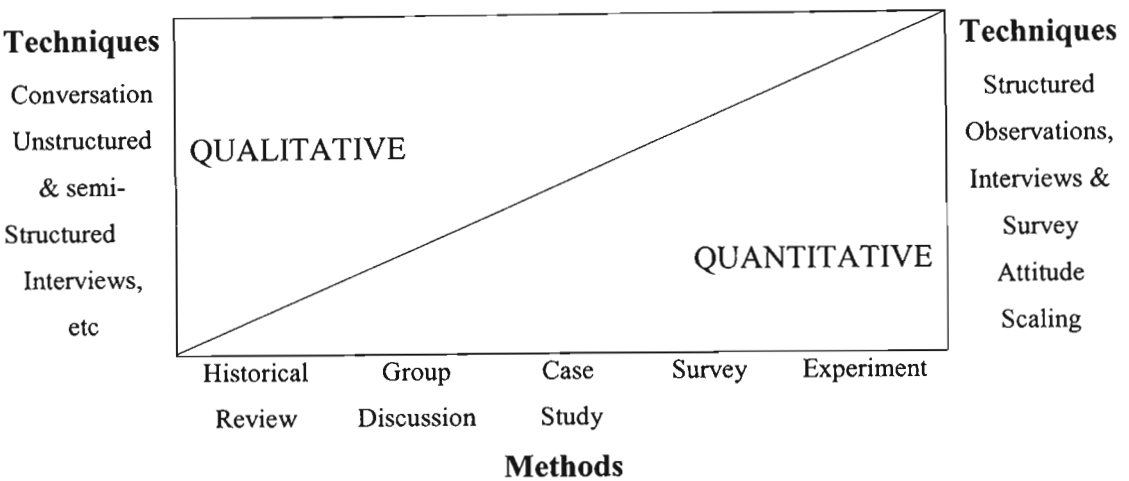
Figure 1.1 The Difference in Emphasis in Qualitative versus Quantitative Methods

Qualitative Methods	Quantitative Methods
Emphasis on understanding	Emphasis on testing and verification
Focus on understanding from respondent's point of view	Focus on facts and/ or reasons of social events
Interpretation and rational approach	Logical and critical approach
Observations and measurements in natural settings	Controlled measurement
Subjective 'insider view' and closeness to data	Objective 'outsider view' distant from data
Explorative orientation	Hypothetical-deductive; focus on hypothesis testing
Process oriented	Result oriented
Holistic perspective	Particularistic and analytical
Generalization by comparison of properties and contexts of individual organism	Generalization by population membership

Source: Ghauri, P; Gronhaug, K; Kristianslund, I; *Research Methods In Business Studies: A Practical Guide*, 1995, Prentice Hall, p.84

Qualitative research is used to uncover a person's experience or behaviour. It is also used where there is a need to uncover and understand a phenomenon about which little information is available. It provides crucial details and understanding. Social and behavioural scientists commonly use it. Therefore it is suitable for studying organizations. This qualitative research takes the form of a case study method.

Figure 1.2 Qualitative and Quantitative Methods and Techniques



Source: Ghauri, P; Gronhaug, K; Kristianslund, I; *Research Methods In Business Studies: A Practical Guide*, 1995, Prentice Hall, p.86

Case study method is used where there is little knowledge about the problem. An intensive study of the subjects is conducted. The method assists in giving an insight of the situation. It is helpful in answering the 'how' and 'why' questions. But it can also assist in setting the hypothesis for quantitative techniques.

A case study is done by reviewing historical data, records and interviews. Direct observation and interaction with the subjects is no exclusion. A case study is rather a hybrid of both qualitative and quantitative techniques, since it can be more qualitative or more quantitative.

Case study is one of the most difficult types of research. The researcher has to be skilled to follow the dynamics of a case. He must take advantages of opportunities that appear during the data collection. While controlling the situation, right questions must be asked. He must be able to adapt to new and unexpected situations as they come. Developing skills in data collection is crucial in a case design, since the whole study depends on it.

Case study method is considered to be useful for studying single organization. But it can be used to study a number of organizations for comparisons purposes. These case

studies are termed comparative case studies. Nevertheless, this case will study a single organization in order to solve a management dilemma.

1.8 Limitations

Small sample was taken, which could not be true representative of the company. This ruins the sample an opportunity of being representative.

The sampling technique concentrated on the individuals who had positions or some kind of prominence. Specifically, the sample consists of only people who are close to the power core rather than the people who experience problems now and then. And these people get sifted information, which will just please their ears.

Therefore further research would be recommended in order to reduce the possible bias of results.

Shareholders buy the raw materials and sell the final products. Therefore Blendcor does not make profit or loss. It is thus difficult to quantify the performance in the absence of proper financial records. This is a difficult limitation to overcome.

1.9 Structure of the Study

The study is segmented into different sections or chapters. With the exception of this introductory chapter, there are several sequential chapters that follow. This chapter will be making a way for the chapter on literature review.

- Chapter Two

This section will cover the theoretical review. It starts by defining the key success factors. These make the way for discussing the resources that excel on delighting the customers and give a competitive advantage over competitors. Poor performance on these will result in the service being outsourced, thus there is broad coverage of contracting. Chapter two also deals deeply with organizational culture. The chapter ends by the model of evaluating the strategy, which is borrowed from Johnson and Scholes (1999), Lynch (2000) and Ambrosini (1998).

- Chapter Three

This is a case study. It is based on information from the company quarterly magazine, Blendcor Beat, intranet and workshops. Some information comes from interviews with some employees and personal observations. The bulk of information about the laboratory is from a consultant's report. He conducted interviews when the company wanted to evaluated the strategic outsourcing of the laboratory. The strategy will be evaluated based on this case study.

- Chapter Four

This chapter will use different strategic analytical tools to evaluate the case study according to the model developed in chapter two. The analysis will give a green light to strategic actions that are contributing positively to the organization. It will also show the amber light for the actions that are self-destruction. The analysis will highlight the missing actions that will improve the state of the company.
The end result will be to know if outsourcing of the laboratory is sound strategy or not.

- Chapter Five

This is a direct outcome of the previous chapter. It recommends all the green lights from chapter four, and it also indicates the unattended green lights (opportunities). This chapter will give the guidance of how the organization is going to improve its current state.

1.10 Summary

This chapter introduces the problem at hand, the company and the theoretical review. The motivation of research and its value are discussed. The problem statement and the objectives are presented. The research method, case study, is discussed, which is qualitative in nature. Lastly the structure of the research is outlined. The next chapter on literature review will start by defining the key success factors.

CHAPTER 2

THEORETICAL REVIEW

2.1 Introduction

In a strategic analysis, there is lot of issues to worry about in an industry. This poses a problem to most companies in an industry, as they don't have all the necessary resources and time to conduct the analysis. Identifying the key success factors in the industry normally narrows this open-ended task down. This result in a more focused analysis, and the company resources can be directed to fulfil the key success factors.

2.2 Key Success Factors

Thompson and Strickland (2003, p. 106) define key success factors as 'those things that most affect industry members' ability to prosper in the marketplace'. Key success factors are likely to be in strategy elements, product attributes, resources, competencies, competitive capabilities and business outcomes that separate winners from losers. As the industry driving forces change, so are the key success factors. They also vary in different industries.

Johnson and Scholes (2002, pp. 151-152) talk of the critical success factors. They define these as 'features of the offering that are particularly valued by the customers, and used to distinguish between potential providers'. This is very parallel to Thompson and Strickland's definition of key success factors, thus this report will treat the two as identical.

Lynch (2000) uses Ohmae's three Cs to classify the key success factors. These are customers, competition and corporation. The first two deals with external environment. They emphasize customer orientation, while studying the competitors. The last class studies the company's capabilities. The important thing is to do the activities better than the competitors.

Understanding of the key success factors of the industry can result in a sustainable competitive advantage. This will be the result of developing the competitively valuable resources. This means having devoted energies to be distinctively better than

competitors on key success factors. Excelling in one of the key success factors leads to stronger market position thus has the potential for competitive advantage. Lynch (2000) cites the importance of identification of key success factors that are likely to deliver the organization's objectives, and thus concentrate on these key activities.

Under normal circumstances, an industry has less than four key success factors. Therefore management should avoid a long shopping list of such factors. This will include the less significant factors, which will dilute the effort of excelling in the critical success factors.

2.2.1 Core Competencies

The core competencies that fulfil the critical success factors requirements must be distinct, in order to give competitive advantage according to Thompson and Strickland (2003). These are the activities that underpin the meeting of critical success factors and hence give competitive advantage. Ambrosini (1998) calls these activities the ***enabling culture***.

Prahalad and Hamel (1990, p.84) cite core competencies as being the 'collective learning in the organization, especially the capacity to coordinate diverse production skills and integrate streams of technologies. They are skills and abilities in the organization. They are communication, involvement and commitment to work across organizational boundaries'.

Prahalad and Hamel (1990, pp. 83-84) mention three tests to identify core competencies. Firstly, they have the potential access to a wide variety of markets. Secondly, core competencies should make a significant contribution to the customer perceived value of the final product. And finally, they should be difficult to imitate.

It is difficult to locate the core competencies; even managers can have problems in identifying their where about. One way of locating them is by unpacking of critical success factors and analysis them in order to truly understand their meaning. Through this process, the core competencies can be understood where they reside.

2.2.2 Company Resources

In order for the organization to execute a strategy, it must have the resources to do so. Pearce and Robinson (2003) cite three basic types of resources.

The **tangible assets** are physical resources of the organization. They can be clearly identified and evaluated. These include the production facilities, raw materials, financial resource and computers.

The **intangible assets** are resources that have no physical presence whilst they are real valuable to the organization. They include brand names, company reputation, organizational morale, technical knowledge, patents and accumulated experience within an organization.

The **organizational capabilities** are actually the skills, routines, management and leadership of the firm. These are the ability and specific way of combining assets, people and processes in order to transform raw materials into finished products.

Company resources can also be classified according to their value as far as Johnson and Scholes (2002) are concerned. A firm can have **inadequate resources**, which result in redundant competencies. This is a recipe for failure; otherwise the company diversifies into different business.

The second types are the **threshold resources**, which provide a room for improvement compared to the prior type that can be hardly revitalized. These result in threshold competencies, which just meet the minimum customer requirements.

The firm can have the **unique resources**, which result in core competencies because they fulfil the critical success factors.

Pearce and Robinson (2003) evaluate the resource against six criteria. Firstly the resource must give the company a **competitive superiority** that is satisfying the customer better than the competitors. The resource must be **scarce** in order to give a distinctive competence. Otherwise the resource becomes a threshold. The resource must be **inimitable**. If the resource is easily acquired, the competitive advantage is short lived. The resource must be **appropriate** that is giving profit to the company. The resource must be **durable**. It should not depreciate so quickly and become a threshold resource. And it must not be **substitutable**, which could give the competitors the room to change the rules of the game.

Quinn (1992, pp. 33-37) points out that 'the true value of a corporation is not in its physical assets, but in the human competencies, databases, organizational capabilities, intangible images, systems and ongoing coalition relationships that it creates'.

The only resources that qualify as valuable are the unique resources. These satisfy the ***critical success factors***.

Quinn (1992) denies the product being the strength, but rather the activities and service. Product is not a competitive advantage since it has no life, unless it is a brand. Therefore the critical skills to develop the best in the world as far as customers' point of view is concerned, is a competitive advantage. Product offers the current profit, while skills result in long-term pre-eminence.

2.2.3 Performance Gaps

Clever management set objectives of achieving the critical success factors, which the organization has to accomplish in order to be successful. At the end of the period, the organization has partially fulfilled the objectives. This implies achieving less than 100 percent in critical success factors. The difference between the projected and the actual performances is the gap, which is the extent to which current strategies would fall short of meeting the organization's aspirations.

There are three actions the manager can take if he identifies such a gap (Ambrosini et.al. 1998, p. 222):

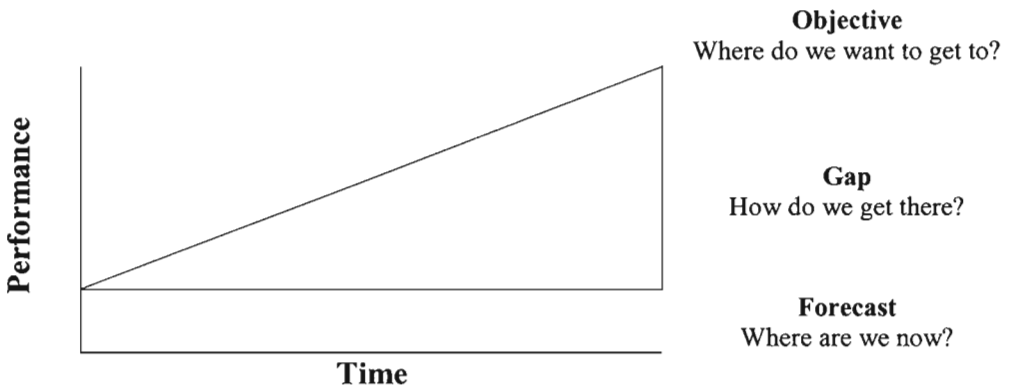
- ***Redefine the objectives*** if he found them unrealistic and unachievable.
- ***Do nothing*** because people could be change-weary and start reacting negatively.
- ***Change the strategy*** and try alternative option.

The performance gaps can be segmented into three;

- ***Improvement gaps***, which calls for improving internal weaknesses.
- ***Expansion gaps***, which calls for growth in order gain economies of scale.
- ***Diversification gaps,*** if there is still a gap the manager may by in different industry.

Ambrosini (1998, p. 221) quantify this discrepancy using the gap analysis.

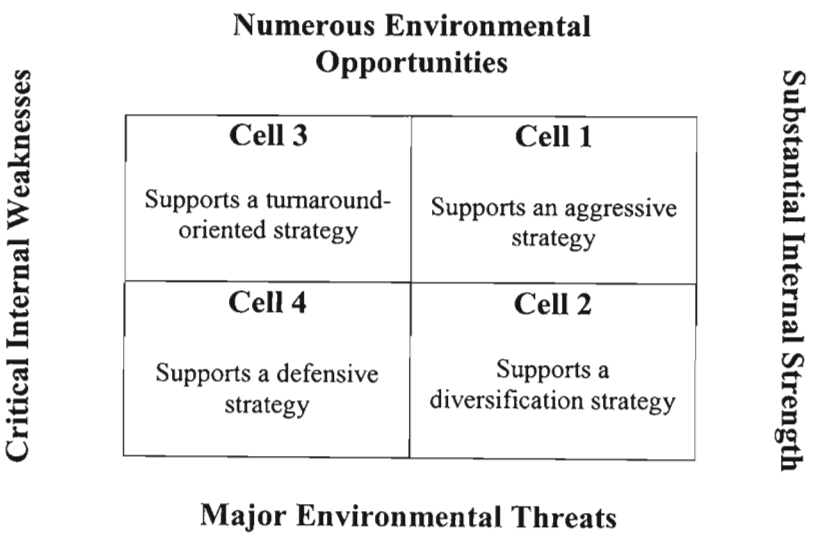
Figure 2.1 Performance Gap Analysis



Source: V. Ambrosini, *Exploring Techniques of Analysis and Evaluation in Strategic Management*, Pearson Education, 1998, p. 221

This analysis also shows the critical internal weaknesses that could cost the company the core competencies. However, Pearce and Robinson (2003) suggest some grand strategies in their SWOT analysis diagram.

Figure 2.2 SWOT Analysis Diagram



Source: J. A. Pearce, R. B. Robinson, *Strategic Management: Formulation, Implementation and Control*, McGraw-Hill, 2003, 136

2.3 Porter's Value Chain

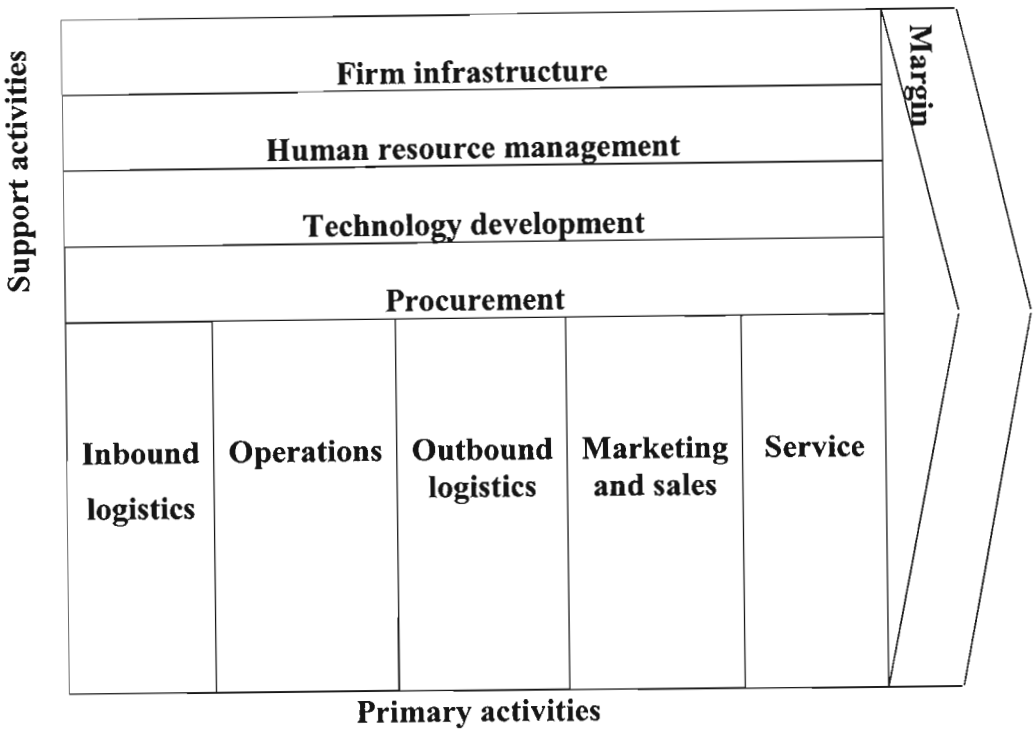
According to Pearce and Robinson (2003, p. 137), the value chain analysis is described as a way of looking at a business as 'a chain of activities that transform inputs into output that customer value'. The Porter's value chain can be extended to include a fully vertical integrated value chain for an entire industry. This includes the supply and distribution value chains, and customers' value chains. The extended version is termed the value system according to Lynch (2000).

The activities of the value chain can divided into primary and support activities. **Primary activities** are directly concerned with the creation or delivery of an offering, while **support activities** help to improve the effectiveness and efficiencies of the prior. Support activities add value to the organization, similarly to primary activities, but their added value cannot be associated with one particular part of the company.

The activities of the value chain take two parallel and interconnected routes. Firstly, they add value if the net difference in value of immediate inputs and outputs is positive. The overall difference in value of the costs of inputs and the market value of outputs is the **margin**. It could either be positive (profit) or negative (loss).

Secondly, if the corporation perform any of the value chain activities better than the competitors, that activity will source of the competitive advantage. The organization could excel in more than one activity, but not necessarily all of them.

Figure 2.3 The Value Chain



Source: R. Lynch, *Corporate Strategy,* 2nd Edition, Pearson Education, 2000, p. 267

Primary activities include the following:

- ***Inbound logistics*** are concerned with receiving, storing and distributing the inputs to the offering.
- ***Operations*** transform these inputs into final offering.
- ***Outbound logistics*** deals with collecting, storing and distributing the offering to the customers.
- ***Marketing and sales*** communicate the customers' needs to the organization, and the company offering to the customers.
- ***Services*** enhance and maintain the value of the offering.

Support activities include the following:

- ***Procurement*** acquires the resource inputs for operations of the company. This department must ensure to source good quality ingredients at low price.
- ***Technology development*** deals with product design, research and development, process development and also materials improvements.
- ***Human resources management*** is concerned with recruiting, managing, training, development and rewarding people in the organization.

- ***Infrastructure*** consists of the structures and routines of the organization that sustain its culture. These include planning, finance, quality control and information management.

2.3.1 Basis of Value Chain Analysis

Pearce and Robinson (2003) state that the initial step in the value chain analysis is to divide the operations into specific **identified business processes.**

Allocate costs. The next step is to allocate costs to the activities. There are two methods, ***traditional cost accounting*** and ***activity-based accounting.*** The latter is favoured since it gives more meaningful categorizations of work the business process actually does, instead of just analysing the employees and charges.

Examine the value chain. Key value adding activities and costs involved are identified. It is important to know the activities that are critical to customer satisfaction and market success.

2.3.2 Comparisons

The results of the value chain analysis can be compared to different standards:

Past Performance. Managers use historical data to evaluate internal factors. It is easier because they are most familiar with the internal capabilities and problems of the firm. An assessment of whether a certain internal factor is strength or a weakness will be strongly influenced by the manager's experience in connection with that factor.

But this could be detrimental to the complacent organization whose technology can become obsolete with new innovation of the competitors, which change the rules of the game.

Stages in life cycle. The industry success factors change with the stages of the life cycle. The organization should adapt to the relevant stage, and use it as a framework for identifying and evaluating the firm's strengths and weaknesses.

Pearce and Robinson (2003) proposed a matrix that suggests sources of distinctive competence at different life cycle stages.

Table 2.1 Sources of Distinctive Competence at Different Stages Industry Evolution

Functional Area	Introduction	Growth	Maturity	Decline
Marketing	Skills to create widespread awareness & find acceptance from customers; advantageous access to distribution	Ability to establish brand recognition, find niche, reduce price, solidify strong distribution relations, and develop new channels	Skills in aggressively promoting products to new markets & holding existing markets, pricing flexibility; skills in differentiating products & holding customer loyalty	Cost-effective means of efficient access to selected channels & markets; strong customer loyalty or dependence; strong company image
Operations	Ability to expand capacity effectively, limit number of designs, develop standards	Ability to add product variants, centralize production, lower costs; ability to improve product quality; seasonal subcontracting capacity	Ability to improve product and reduce costs, ability to share or reduce capacity; advantageous supplier relationships; subcontracting	Ability to prune product line; cost advantage in production, location or distribution; simplified inventory control; subcontracting or long production runs
Finance	Resources to support high net cash overflow and initial losses; ability to use leverage effectively	Ability to finance rapid expansion, to have net cash outflows but increasing profit; resources to support product improvements	Ability to generate and redistribute increasing net cash inflows; effective cost control systems	Ability to reuse or liquidate unneeded equipment; advantage in cost of facilities; control system accuracy; streamlined management control
Personnel	Flexibility in staffing & training new management; existence of employees with key skills in new products or markets	Existence of an ability to add skilled personnel; motivated & loyal workforce	Ability to cost effectively, reduce workforce, increase efficiency	Capacity to reduce & reallocate personnel; cost advantage
Engineering and R & D	Ability to make engineering changes, have technical bugs in product and process resolved	Skills in quality and new feature development; ability to start developing successor product	Ability to reduce costs, develop variants, differentiate products	Ability to support other grown areas or to apply product to unique customer needs
Key functions/ Strategy focus	Engineering: market penetration	Sale: consumer loyalty; market share	Production efficiency; successor products	Finance; maximum investment recovery

Source: J. A. Pearce, R. B. Robinson, *Strategic Management: Formulation, Implementation and Control*, McGraw-Hill, 2003, pp. 146-147

Benchmarking. This means studying the competitors, both existing and potential, and comparing. The managers should compare the firm's key capabilities with those of rivals, thus identifying its key strengths and weaknesses. Significant favourable differences from competitors are potential cornerstones of differentiation. But obtaining the required information from the competitor can prove difficult.
Benchmarking can be performed on a firm in a different industry that excel at the common activity between the two.

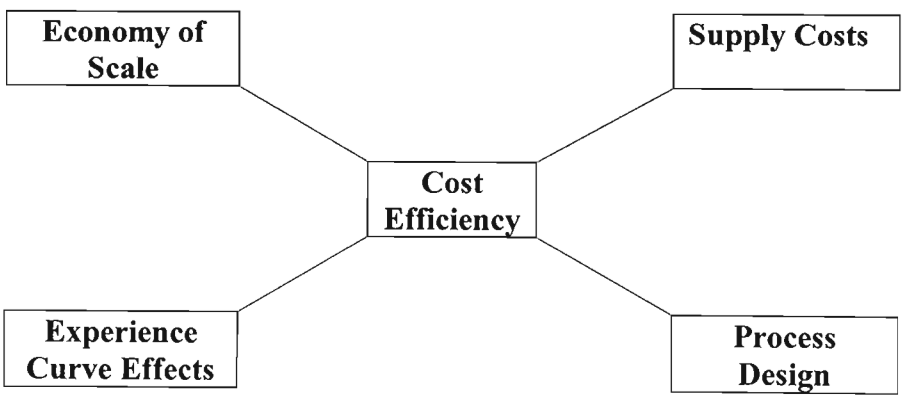
Industry success factors. As previously discussed, the aim is to measure the performance against the critical success factors. If the company excels in these factors, it has core competencies; otherwise it must improve its business processes.

All these four indicators can set the calibration points on which managers evaluate the company activities, and set long term objectives to at least meet the minimum requirements in order to survive. But the winning organizations excel in the key activities.

2.3.3 Cost Efficiency

Johnson and Scholes (2002, p. 166) define cost efficiency as 'a measure of the level of resources needed to create a given level of value'. They further identify four sources of cost efficiency.

Figure 2.4 Sources of Cost Efficiency



Source: G. Johnson & K. Scholes, *Exploring Corporate Strategy: Text and Cases*, Pearson Education, 2002, p. 166

The **economies of scale** can be achieved through standardization of production processes and products, or by standardizing the marketing message in a target market. Economies of scale are of vital importance in operations that have high level of fixed costs. The advantage is derived from reduced unit cost.

Supply costs are a major portion of the organization's overall costs. Location can affect the cost of supply. The longer the distance from the supply the more costly it is to get the supply. Buying in bulk also affects the supply costs by giving bargaining power to the firm. Such huge regular buying can result in agreements on better terms and discounts.

Some companies will buy the supplier (vertical integration) in order to control the cost of the raw materials. In some cases forming an alliance with the supplier will suffice. These are sometimes called relational contracts. Both vertical integration and alliance will save the time costs. It makes it feasible to practice the just-in-time.

Process design influences the cost of the company. Thus process design must ensure maximum capacity utilization, enhance labour productivity, improve yield from the supply and better working capital utilization.

Experience curve effect suggests that an organization undertaking any activity learns to do it more efficiently over time. It is this learning that develops core competencies in the activity. It is thus a key source of cost advantage.

These are some of the tools of ensuring performance that is better than competitors. The organization must try to take advantage of. But the experience curve effect can take a great deal of time in order to develop the required competencies immediately. The economy of scale can also be a problem to achieve, thus the activity enhances the costs.

Quinn (1999) suggests that the organization outsource the activity in order to get the best in the world and at a cost advantage. He cautions that an organization is disadvantaging itself by in sourcing an activity that can be produced better outside. Quinn (1992, p. 37) mentions that 'any activities performed internally, unless they provide a positive synergy with the core competence, will tend to reduce the company's potential competitive edge'.

2.4 Driving Forces of Organizational Change

There is lot of speculation about the forces that make the companies transform themselves. Domberger (1998) suggests the following common suspects:

Globalisation. Competition on a global scale means less room for inefficiencies. The search for greater efficiency in turn leads to greater degree of specialization, and outsourcing is central manifestation for this trend. These developments had led to enhanced specialization, both geographical and technological in many production activities.

Competition from Low-wage Developing Countries. New sources of cheap labour can render manufacturing in high-wage economies unprofitable. Contract manufacturing has been a direct response to this development, which resulted in the Western companies being vulnerable to the Eastern companies.

Advances in Communications and Information Technology. Technological change affects the demand for services such as the mobile telephony in telecommunications. Demand shifts are accompanied by changes in expenditure patterns, and firms may find their traditional sources of revenue shrinking. Technological change affects production methods, requiring the implementation of new processes in order for companies to stay competitive.

These are suggested sources of corporate fragmentation, which had led to greater degree of specialization. This seems to verify Adam Smith's hypothesis of improved productivity by specialization. His invisible hand seems to be pushing toward specialization.

2.5 Outsourcing

The Concise Oxford Dictionary defines outsourcing as contracting the work out. Pearce and Robinson (2003, p. 288) define outsourcing as 'simply obtaining work previously done by employees inside the company from sources outside the company'. This assists in concentrating their energies on a narrower portion of the value chain. This is in accordance with Adam Smith's proposal of increase productivity as result specialization. The organization specializes in its strong activities while it buys other services from outside specialists.

Pearce and Robinson (2003) mention **top five strategic reasons for outsourcing**:

Improve business focus. Most of the non-core activities take off huge amounts of management's resources and attention, thus this forces management to consider outsourcing. This gives the company sufficient time to concentrate on its core business and excel o critical success factors.

Access to world-class capabilities. Contractors (outsourcing providers) tend to be specialists, and thus bring world-class resources to satisfy the customers. That is, they can perform the activity better, and even more cheaply since they get economies of scale from broad coverage.

Accelerated reengineering benefits. Outsourcing allows the company access to already reengineered to the world-class standard processes. The organization saves, as reengineering is costly in terms of money and time.

Shared risks. Outsourcing reduces the company's risk exposure to changing technology and changing buyer preferences. It helps the company to be more flexible, more dynamic and better able to adapt to changing opportunities.

Free resources for other purposes. Resources are limited, thus outsourcing allows the organization to redirect its resources from non-core activities toward activities that have greater return in serving the customer.

Thompson and Strickland (2003, p. 183) warn that 'the activity should be outsource only if it is not crucial to the firm's ability to achieve sustainable competitive advantage, and won't hollow out its core competencies, capabilities and technical know-how'. That is throwing away the baby with water. Prahalad and Hamel (1990, p. 84) warn that 'outsourcing can provide a short cut to a more competitive position, but it contributes less to building the people-embodied skills that are necessary to sustain competitive advantage'. They cite that a company surrenders its core competencies when it cut internal investment in favour of outside suppliers. They use examples of Eastern companies that skimmed off their Western counterparts during the process of outsourcing.

According Prahalad and Hamel (1990, p. 85), 'a company that measures competitiveness based on price or performance of end product is likely to leave its core competencies degrading'. Prahalad and Hamel (1994), caution about the use of the return on investment, or return on capital employed, as a sole appraisal of top

management. Since it is difficult to grow revenues, they start cutting costs. These authors term this managing the denominator. It is simply a way to surrender market share. It is a harvesting strategy, which is not very clever. Most USA and European companies had sold their market share to the Eastern companies in this manner.

Venkatesan (1992) points out that managers avoid outsourcing for the desire to preserve jobs. He warns of managers who don't realize the core activities from commodity-like activities. This simply implies that managers miss out the change of critical success factors, and continue to concentrate on eroded competencies that have become threshold requirements.

He advises organizations to subcontract commodity-like activities to the best suppliers, and focus on activities that are pivotal to product differentiation. Most organizations get this wrong by outsourcing new activities and activities that are difficult to make. These are actually source of future core competencies. And the organization remains inflexible and stuck in the commodity-like activities. The companies have no firm basis for distinguishing core activities from commodity-like activities.

The organization must concentrate on the difficult to make and infant technology in order to develop future core competencies. Prahalad and Hamel (1994) point out that the organizational transformation must be driven by a point of view about the future of the industry.

2.5.1 Architectural Knowledge

There is an important distinction between actually performing an activity and controlling its design and manufacture, by remaining an expert. This is termed ***architectural knowledge.*** Venkatesan (1992, p. 102) defines this as 'the intimately detailed and specialized power of translation required to capture customer requirements, and reproduce them in the language of subsystem performance specifications'.

According to Quinn (1992, p. 33), 'most of the value-added in manufacturing companies is created by knowledge-based service activities such as research and development, market research, product design, customer information functions, advertising and distribution'.

Quinn (1992) acknowledges that knowledge-based service activities are critical to most companies' value chains. These activities when developed strategically around customer needs, provide the foundation for;

- Differentiation in the marketplace
- Creating entry barriers for competitors

He continues that knowledge and service based strategies are most effective when the organization develops the 'best in world' capabilities around a few selected competencies that satisfy the critical success factors. The organization must consequently keep conscientious prominence in all these competencies fully. Concentrating its own resources on these selected areas and benchmarking other areas to guarantee comparability with or access to the best available suppliers can attain a distinct strategic position.

Quinn (1992) cites the number of ways that knowledge and service based strategy leverages resources. Most efficient supply of activity is hired, which lowers the costs. It helps in reducing the dilution of internal efforts, and helps to dissolve away bureaucracies and their inefficiencies. The momentum is coordinated towards the core activities, which strengthen the competitive edge.

As organization get leaner, it is easier to flatten it. This assists in improving response time and customer focused strategies. The firm moves away from traditional management of overlooking employees and equipments, but it rather leverages its true assets, that is the intellect, knowledge bases and human skills.

But it is worth noting that carelessly executed; the outsourcing of activities can result in the destruction of architectural knowledge within a single product generation. And it is always difficult to get the lost knowledge back. This creates fear of losing the skills that they outsource, and becoming overly dependent on the contractor. There is also concern of losing control over timing and quality of the offering. The contractor could sell or leak the company's solutions to the competitors, and could possibly become the competitor.

Quinn (1992, p. 384) identifies 'effective management of outsourcing as perhaps the critical success factor in many industries and companies'. According to Quinn (1999,

p.19), 'successful organizations carefully develop and implement certain management controls'. These include the following:

Ensuring goal and value congruence. In their agreements, both parties often jointly develop written goal statements for the relationship, specific agreed-on output measurements, incentives to ensure that goals stay aligned, and ways to periodically review that alignment. With congruence the benefits multiply, while without it the costs become excessive.

Building a much more professional and highly trained procurement and contract management group. 'As the number and complexity of outsourcing arrangements increase, there is a need for a highly skilled corporate-level office capable of evaluating both in sourcing and outsourcing options objectively', (Quinn, 1999, p. 19). It should capture the knowledge, successes, and patterns of problems from past outsourcing. The office should develop the strategic and operate monitoring skills and systems needed for effective outsourcing. Lastly it must stay at the frontier of outsourcing management techniques.

Developing a greatly enhanced strategic and operations information system at both the strategic and operational levels. 'Strategic monitoring ensures that the supplier is not moving in directions inimical to the buyer's interests', (Quinn, 1999, p. 19). The company develops detailed knowledge-based operations data systems that collect, evaluate and ride circuit on changes that the best possible outside suppliers and experts are making.

Including all in sourcing transaction costs and actively measuring the benefits intended from the outsourcing relationship. Companies ignore the internal costs of non-innovation, missed opportunities, delays, management time expenditures and inefficiencies due to internal suppliers' having an ensured customer. This will fairly compare the cost of outsourcing, rather than exaggerate the cost.

Developing feedback systems to leverage and share knowledge and innovation in both directions. Innovation occurs when two previously distant matrices of thought

intersect for the first time. Some of the greatest values of outsourcing are opportunistic ideas that the company otherwise would never see.

Creating a mutual three level contact system. Organizations carefully design and implement three levels of information exchange and personal contacts. These personal contacts include ***top managers*** who solve misunderstandings that occur at lower levels, ***champions on both sides*** whose careers depend on the success of the relationship, and ***numerous operating-level personnel*** who develop relationships and knowledge that solve problems prior to occurring.

2.5.2 Types of outsourcing

There are two types of contracts these are classical and relational. The relational can also be called partnering or alliance. The former is rather explicit, while the latter is being implicit. But the contract can be partly explicit and partly implicit. The following table will compare the characteristics of the two types.

Table 2.2 Characteristics of Classical and Relational Contracts

Characteristic	Classical	Relational
Contract duration	Variable between 3and 7 years, depending on the activity.	Variable between 10 and 15 years, generally longer than classical type.
Contract document/ Specification	Detailed, formal and highly specific. May be very long for complex services.	Agreement between parties spells out general purpose and objectives of the relationship. Not formal.
Control	Contract contains detailed performance provisions including monitoring systems, penalties and guarantees.	Control is achieved through high level of cooperation, which include monitoring. Includes sharing benefits, omitting penalties.
Flexibility	Limited, but contract may specify that additional services may be required based on agreed schedule of rates.	It is the hallmark of the relationship, based on rapid and full sharing of information. Adjustments of scope of activities are negotiated in this spirit.
Dispute resolution	Mechanisms spelled out in contract document, including the provision of special arbitrators.	Expectation is that potential disputes are resolved before they reach adversarial level. No formal mechanisms specified.

Source: S. Domberger, *The Contracting Organization: A Strategic Guide to Outsourcing*, Oxford University Press, 1998

2.5.3 Outsourcing Strategies

Domberger (1998) cites four strategies that the organization has to master in order to proceed successfully with outsourcing. Each of the strategies will be discussed concisely below.

Specialization

Outsourcing has two distinct elements. The first being the shrinking of the value chain as activities formerly performed in-house are handed over to the contractor. The contractor increases its market share by acquiring additional client, thus its degree of specialization gets extended as well.

The second being the growing trend toward specialization, that is the increase of the degree of reducing the scope of the organization's internal functions and concentrating on its core activities.

This redefinition of organizational boundaries is not necessarily driven by demand, but rather suppliers. The range of service functions that can be purchased from the market is continually extended, which leads to enhanced specialization in production.

This allows the activities to be undertaken on a much greater scale, which leads to economies of scale. The economy of scale is the result of the specialist's investment in developing its capabilities, which is a fixed set-up cost as it uses the same capabilities for new customers. This indivisibility of fixed capital inputs is enhanced by the increased productivity of labour through specialization.
The competitive nature of outsourcing adds more value by raising productivity, improving quality and innovation. This in contrast to the in-house specialist, who stay complacent because of lack of competition.

Value Capture

Generally the contract prices determine how the value generated by a transaction is distributed between the contractor and the client organization. The higher the price, the more value is captured by the contractor at the expense of the outsourcer. But both sides gain from the process if value is created by means of innovation, specialization or cost cutting. And usually the organization saves between 10 and 30 percent.
Competitive tendering involves three steps:

- Compiling detailed minimum requirements specification
- Publicizing or advertising the tender
- Selecting the contractor that meet the minimum requirements and offers the economical acceptable rates

In order to avoid contractor who will not deliver, certain information is requested from the bidder. This includes financial standing, experience of the job, nature of services offered and the current clients. There are other techniques of avoiding the risk of selecting a service provider who will be incapable of delivery.
Pre-selection is common, which eliminate the incompetent contractors before the real bidding takes place. The organization could select a provider, which it believes can deliver. Then after observation period it bid for the contract. The alternative

technique is multiple or parallel sourcing. More than one contractors supply the service, this provides the buffer for incapable contractor and is a competitive process.

Contract price. Good contract should provide a formula or mechanism for unforeseen occurrences or changes. This has led to the gain-sharing contract. This is where the contract also shares from increased productivity.

Expensive bids are uneconomic, but cheap bids can be costly as well. It could be a winner's curse, where the contractor undermines the work resulting in under pricing. The contractor could terminate the contract when he realizes this. The loss leader offers an unbelievable cheap bid in order to make a market entry. This is a toehold that becomes a foothold. This potential competitor is likely to migrate the value away from the organization.

The fact is that it is crucial to evaluate the capabilities of the contractor, and aim for the standard saving of between 10 and 30 percent. Excessive savings could be a trap to devalue the organization.

Control and Flexibility

The organization normally loses control of inputs of the outsourced activity. The organization can monitor the performance of the contractor. Lot of effort is put on performance management, which requires credible and up-to- the minute performance information.

But the cat-and-mouse game must be avoided as it leads to sour relationships. Narrowly focus on key performance indicators can be detrimental. The contractor may concentrate on these while other activities are deteriorating. This leads to focus on the symptoms, rather than the causes of problems.

Risk controlling. The major risk is non-performance. Controlling this type of risk and performance is rather like the opposite sides of the same coin. The commonly used controls are incentive and penalties, the former being preferred.

There are other types of risks, which could cost the organization. The contractor has to show in the bid plans in place to protect such risks. But the party that has more control over the risk, and the side that has the potential to bare the risk will be more responsible.

Flexibility. The contract is more flexible to changes as it can transfer its workers from (or to) other clients. This is not necessarily free, but costs less than the organization adjustments.

Organizational Change

Focusing on the benefits for outsourcing, and forgetting to recognize the organizational challenge involved can be detrimental. Neglected organizational and staff issues can render the outsourcing strategy fruitless. Therefore it is utmost important to understand the sources of conflict and develop countermeasures accordingly.

There are three possibly outcomes for employees in an outsourcing organization. They could be transferred to the contractor, redeployed by the organization or be redundant.

Good communication will ease the transition, although it won't change the nature of change. The management should address the fear and uncertainty by giving clear information about the planned proceedings as early as possible after the announcing the decision to outsource. The timing of events should be given as well. This prevents the employees from losing trust from the management. The transition ends when the contractor takes over the employees and the value chain activity.

There are two types of staff transfer, clean break and negotiated transfer. In the clean break, the employee becomes redundant and gets the payments. The contractor or other employer could employ him.

The negotiated transfer involves the employee being transfer to the contractor, normally on different terms and conditions. This is cheaper for organization compared to clean break. But the double dipping is the most expensive to the organization. The employees get both the terms of clean break and negotiated transfer.

2.5.4 Advantages and Disadvantages of Outsourcing

There is merit in separating the positive from negative outcomes of outsourcing, but it is always difficult to achieve. It is because many concepts can be benefits and costs, depending on the circumstances. Hence benefits and costs are two sides of the same coin.

Advantages

Outsourcing tends to be more fruitful when it is composed of market discipline with longer-term and cooperative relationships. Relationship contracting is a fair description of these transactions as opposed to simple spot transactions.

Domberger (1998) groups these benefits under four subheadings:

Specialization. Organization concentrates on activities that it does best, thus performing them more efficiently. This tends to maximize the total value added. The balance of activities is performed by outside specialists who are more efficient than the organization in those activities. This enhances the achievement of economies of scale.

Market Discipline is defined as the condition in which the purchaser is separated from the provider, and a formal transaction takes place under contract. The interface between the two parties is the centre of innovation, since the tender is contestable. It also allows focus as the purchaser's interest is in outputs, while the supplier is into inputs.

Flexibility. Cooperative relationships adjust more quickly, and at lower cost, to changing market environments compared to integrated organizations. The suppliers can be changed in times of technological change, rather the costly replacing of in-house technology.

Cost Savings. Significant cost saving are achieved by outsourcing, ranging from 10 to 30 percent. Competition reduces the price of service provided, and efficiency is enhanced. Lower competitive pricing need not result in inferior quality.

Disadvantages

Outsourcing offers demonstrable economic value and benefits. But there are some significant costs associated with contracting. Each of the disadvantages outsourcing will be briefly discussed below as identified by Domberger (1998).

Transacting costs. The costs start with the search and selection of the service provider. Negotiations and writing of contracts add to the costs. Contracts are always amended prior to finalizing. This involves changing specifications and possible the price. The integration of services can be costly.

Monitoring costs. The organizations tend to intensify the monitoring of the contractor's performance. Monitoring is more costly compared to in-house activity supervision. Organizations monitor because they lack trust in contractors, and they are risk averse. This is to ensure that organization has additional safeguard.

Control. The organization could lose skills that have the potential of being future core competencies. There is also a chance of losing functional skills, which are essential for supporting design projects and joint developments. There is a potential of losing control of crucial activities to contractors. Further they could master the skills, then bypass the company and go directly to the marketplace.

Additional contracting costs. Besides the above costs, companies have the potential of being subjected to the following types of costs. They include hollowing out, loss of skills, and loss of corporate memory, weakened innovative capacity and transition costs.

However, if the outsourcing is strategically executed, conditions will be selected where net value of the contract is positive. That is the benefits outweigh the costs.

2.6 Organizational Culture

Pearce and Robinson (2003, p. 298) define 'organizational culture as the set of important assumptions (often unstated) that members of the organization share in common'. An organization's culture is similar to an individual's personality. As much as the society has great influence in shaping up the individual's personality, so it is in building the organizational culture.

Johnson and Scholes (2002) talk of the national culture, which emphasize the importance of the context. They also point out that as the values of the society change and adjust over time, and therefore the strategies that were acceptable twenty years ago may not be so today.

2.6.1 Forces Changing Organizational Culture

There are several forces that change the cultures. Thompson and Strickland (2003) point the ***information technology*** as one of the powerful drivers of reshaping the cultures. People are learning different lifestyles and their needs are changing so fast. ***Globalisation*** is another force that brings different products and services to people, which eventually change the cultures of the societies. The cultures of the world are believed to be converging to a common global culture as a result of the above forces.

The South African context has been transformed dramatically as a result of ***political transition*** of the early 1990's. Several events had changed the South African culture. The writing of the new Constitution had a tremendous influence. The first ever, inclusive and democratic elections of 1994 took a step into new cultural development. While these are re-moulding the whole society, but there had been direct impact more specifically to the work environment. The re-writing of the labour law really changed the working society's culture. The introduction of affirmative action, employment equity and skills development as legal rights is re-shaping the workplace culture. And deviations from the expectations cause confrontations in the workplace.

2.6.2 Hofstede's Model

In his (4 + 1) culture model, Hofstede identified five cultural dimensions, (Hollensen, 2002). The changing environment, in South Africa especially by the political transition, has affected most of these variables.

The ***power distance*** defined as the extent to which those who were poorest in a society were willing to accept their position. It is likely to have been shortened. The traditional South Africa had a White employer and a non-White employee, who had different rights in the eyes of the law. The common rights for both parties and the presence of the CCMA had changed the power distance from long to medium, as the employees perceive themselves as important stakeholders in the organizations. And most of the new labour legislations are aimed to empower the employees, which shorten the power distance.

Masculinity versus Femininity. This defines the degree to which a country is placed on a spectrum from masculine to feminine. The male cultures place a sharp distinction between the role of the two sexes play in the society and in the workplace. The

employment equity act is driving the culture from masculinity to faminity in the work place. This has lot of implications, such as the introduction of sexual harassment plans. The language has to be inclusive and accommodating. The language that emphasizes the men's strengths and superiority has to be replaced with unisexual language. The food in the canteen has to cater for women's special needs.

Uncertainty avoidance is the extent to which people feel threatened by the unknown. People are risk averse. They had experience lot of retrenchments and criminal activities, like not being paid their pension funds. People want security from their jobs. However, unfavourable conditions force them into uncertainties. One of the causes of uncertainty avoidance is lack of skills; it is difficult to get a job without a certificate.

Collectivism/ Individualism defined as the extent to which society is collection of individuals or are bound together as a cohesive whole. Similarly to Asian or Eastern cultures, the African cultures are collective in nature. The Labour Relations Act encourages this through enhanced collective bargaining. Nevertheless, this cultural dimension had not experienced much drift.

Confucian versus dynamism. This last dimension discriminate cultures according to their time horizons, either long-termism or short-termism. People no longer involve in job for lifetime, till-death-do-us-apart contracts. Privatisation of government works is the major cause of skills transfer, since its jobs were mostly lifetime. Retrenchments and outsourcing cause people to be always in search for better opportunities. The international opportunities offer better economic gains.

2.6.3 Organizational Field

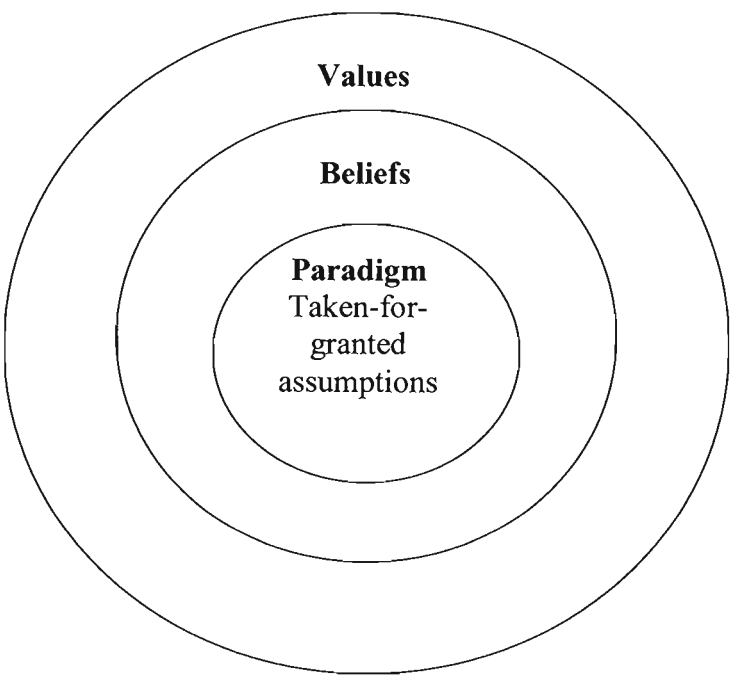
Johnson and Scholes (2002, p. 126) also talk about the organizational field, which they define as 'a community of organizations that partake of a common meaning system and whose participants interact more frequently with one another than with those outside the field'. These organizations seem to have common norms and values. They all share common assumptions about acceptable or wise practices. The organization has to conform to these assumptions in order to be recognized in the field.

'A recipe is a set of assumptions held in common within an organizational field about organizational purposes and a 'shared wisdom' on how to manage organizations', (Johnson and Scholes (2002, p. 225). These cultural influences are advantageous in maintaining the standards and consistencies of products. But they can be disastrous as managers could find it difficult to adjust their management styles to different traditions and expectations of their new organization or new environment.

2.6.4 Layers of Culture

Organizational culture has three layers according to Johnson and Scholes (2002). The visible culture is just the top of the iceberg. In order to get the core organizational culture, one has to peel off the top layers.

Figure 2.5 Culture in Three Layers



Source: G. Johnson & K. Scholes, *Exploring Corporate Strategy: Text and Cases*, Pearson Education, 2002, p. 228

Values are 'easily identified because they are often written down as statements about organization's mission, objectives or strategies', (Johnson and Scholes 2002, p. 228). . They are clear, but verifiable knowledge. They are the feelings of whether 'good' or 'bad', 'likable' or 'dislikable', 'want' or 'don't want', etc.

Beliefs are more specific and people can talk about them. They are some kind of understanding, which is somewhat fuzzy, judgmental and less scientific.
Taken-for-granted assumptions are the core of the organization's culture. They are difficult to identify and explain. They are things people share. They are learned from experience, and become more or less unconscious as the understandings, institutions and customs are acted out in different behaviour over time. Thus taken for granted. They are interconnected and consistent.

Johnson and Scholes (2002) warn about the publicized statements of values, beliefs and purposes in annual reports, mission statements and business plans, they cite the danger of taking these as useful and accurate description organizational culture. This could be partially accurate description and may even be deceitful. These statements are likely to aim at making good name in public relations.
The true culture is evidenced by the actual behaviour of people in the organization. The taken-for-granted assumptions about 'how you run an organization like this' and 'what really matters around here' are what make the organizational culture.

These taken-for-granted assumptions are termed the ***paradigm***, (Johnson and Scholes, 2002, p.48). Therefore, 'a paradigm is the set of assumptions held relatively in common and taken for granted in an organization'. The values tend to be explicit, whilst the paradigm is implicit.

2.6.5 Strength of Culture

Culture can differ in functional departments or divisions of the same organization. Mergers and acquisitions come with new cultures. According to Thompson and Strickland (2003, p. 422), 'global and multinational companies tend to be at least partly multi-cultural'. These tend to dilute the organizational culture.
The strength of culture can either be strong or weak in controlling the behaviour of the members. Thompson and Strickland (2003, p. 425) identify three factors that contribute to the development of strong cultures.

- 'A strong leader who establishes values, principles and practices that is consistent. These must be sensible to customer needs and favour conditions that create competitive advantage'.

- 'A sincere, long-standing commitment to run the business according to these established traditions. This creates an environment that support decision-making based on culture'.
- 'A genuine concern for the well being of customers, employees and owners, who are the organization's biggest constituencies'.

The strength of culture depends on a number of variables:

- ***Homogeneity of membership.*** The entrants have similar characteristics to the substance of culture. And the older members have been socialized to have compatible knowledge, beliefs and values.
- ***Stability of membership.*** The members have been together for a relatively long time.
- ***Length of shared experiences.*** The members have long experience coping with numerous problems.
- ***Intensity of shared experiences.*** The members have coped with really difficult, extended, survival and achievement problems.
- ***Promotion from within*** also strengthens the culture, while hiring outsiders weakens the culture.

Thompson and Strickland (2003) point out that the organization's strong culture can either supports or hinders the strategy. The culture will promote the strategy that fit in it and hinders the one that does not fit in. If there is an alignment between strategy and culture, there are two ways the culture will support the strategy:

- The work environment will provide a system of informal rules and peer pressure of how to conduct business internally and how to do one's job competitively.
- The culture will nurture and motivates people to do their jobs in a strategy supporting direction. It will provide structure, standards and a value system to operate in. the employees will identify themselves to the organization's vision, performance targets and strategy.

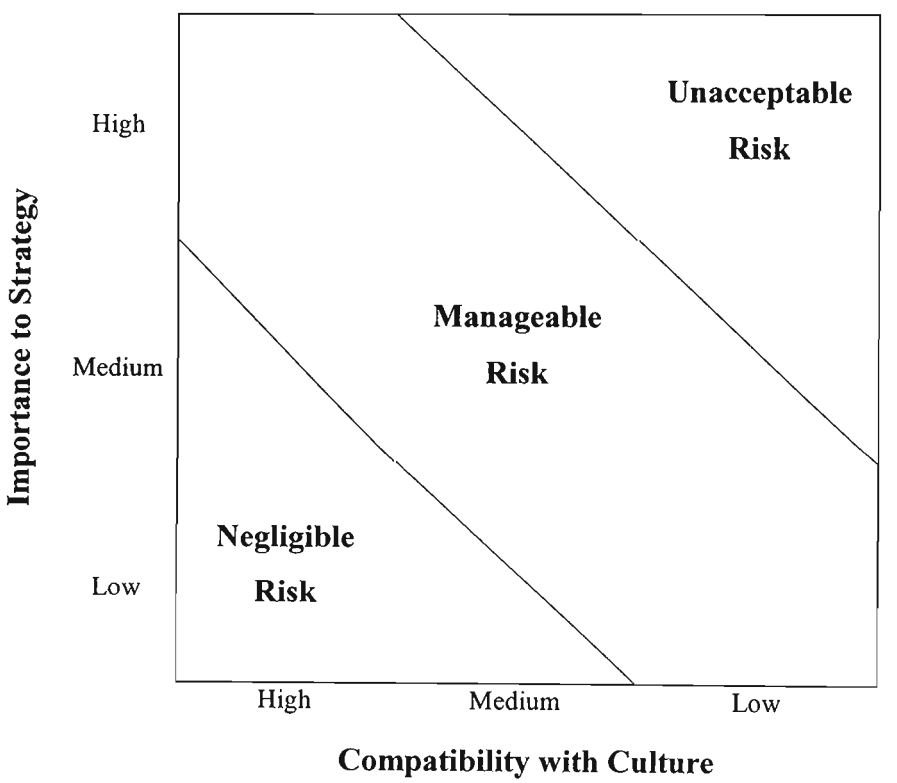
As mentioned earlier that a strong culture can have a positive or a negative impact on the strategy, but the real problem is the difficulty in changing it. To have a weak,

easily changeable culture doesn't solve the problem either, since it has a diluted, usually more or less neutral impact on strategy.

The matrix below qualitatively evaluates the risk that management takes when they try to implement a strategy that is not compatible with the culture. The risk could be so enormous that it is intolerable when there is a big mismatch between the strategy and culture. The risk could be small enough to be tolerable. In order words there is a high compatibility between the culture and the strategy. Therefore the strategy concerned could be implemented successfully.

The matrix is demarcated into regions that can be used to assess whether the strategy implementation is feasible or not. The strategy that falls within an unacceptable risk region will not practical to implement, while implementation in the other two regions is practical.

Figure 2.6 Assessing Cultural Risk

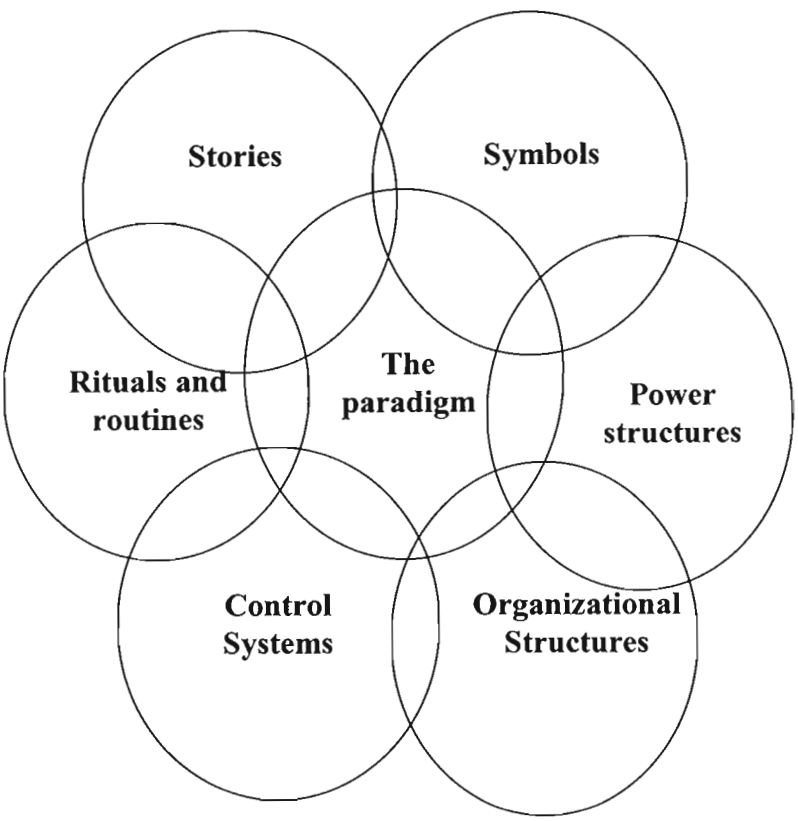


Source: S. M. Davis, *Managing Corporate Culture*, Ballinger Publishing Company, 1984, p. 15

2.6.6 Cultural Web

Johnson and Scholes (2002, p. 230) define cultural web as 'a representation of the taken-for-granted assumptions, or paradigm, of an organization and the physical manifestations of organizational culture'. It distinguishes between official events such as press release and unofficial events. The latter includes the grapevine stories, e-mail messages and office parties. The following section will briefly define the elements of the cultural web as defined in Johnson and Scholes text.

Figure 2.7 Cultural Web



Source: G. Johnson & K. Scholes, *Exploring Corporate Strategy: Text and Cases*, Pearson Education, 2002, p. 230

- **Routines** indicate the behaviour of the organization's employees towards each other, and towards outsiders. They make up 'the way we do things around here'. They include the normal ways and the procedures, which are not always written down. It could be a competence, but difficult to change when necessary to do so.
- **Rituals.** These are special events that emphasize the important things to the organization. They also enforce 'the way we do things around here'. They also

include formal organizational processes, but informal processes are no exclusion.

- **Stories** told by members to outsiders and new comers. They are distilled essence of the organization's history. They encourage some types of behaviour and convey the message of the organization's priorities. They identify success from failure.
- **Symbols** are logos, offices, cars and titles or language and terminology used. They also include travelling class, either business or economic class.
- **Power structures** are often associated with key assumptions. The power could be based on seniority or importance of function. These identify the delegation, influence on and decision-making.
- **Control systems** are measurements and rewards systems that emphasize on key performance indicators.
- **Organizational structure** reflects power structure and important relationship. It is the organ gram of the organization.
- **Paradigm** is the synergy of all the above elements of the cultural web. It links and preserves the elements of the cultural web.

2.6.7 Strategic Drift

The paradigm will have great effect when management is faced with pressures for change, especially the changes in the environment. The influence of the paradigm and 'the way we do things around here' are likely to lead to management trying to minimize the ambiguity and uncertainty by looking for familiarity.

But this could be detrimental as the paces of incremental change and environmental change may be different. This will result in the organization losing touch with the environment.

The difficulty is managing the strategic change because the required action is outside the scope of the paradigm. Thus the organization has to change substantially its core assumptions and ways of doing things.

But the management normally tries to deal with the situation using the existing paradigm that is better understood. They could try to improve the implementation of the current strategy, or change the strategy, but maintain the existing paradigm.

However, the environmental forces will have effect on performance. This results in ***strategic drift***. Johnson and Scholes (2002, p. 81) state that 'it occurs when the organization's strategy gradually moves away from relevance to the forces at work in the environment'.

2.6.8 Changing the Problem Culture

An established culture is difficult to change. The first step to change culture is normally to revise policies and procedures in support of the proposed culture. Paying incentives, praising and recognizing people who display the desired cultural behaviour, will assist cultural change.

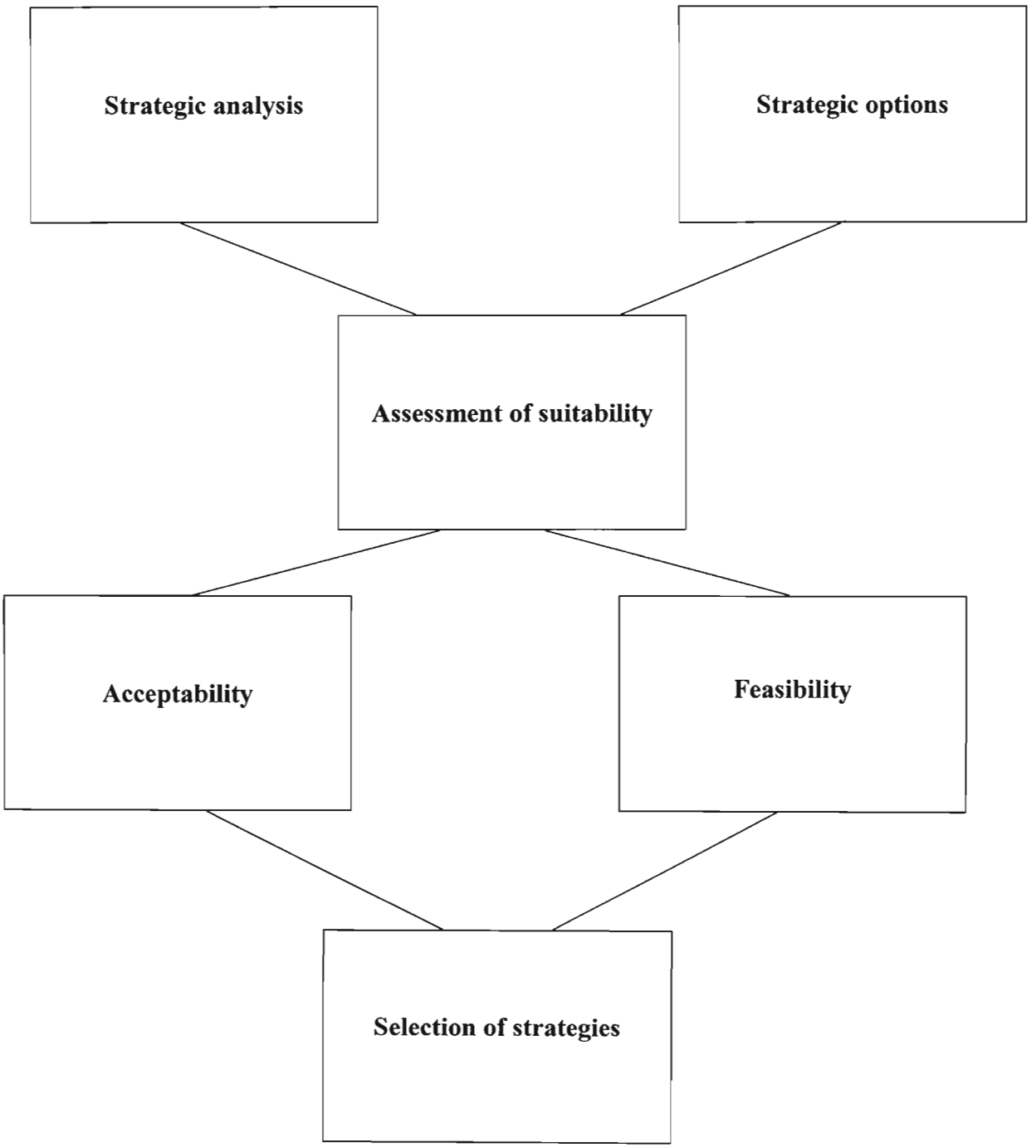
Managers tend to have fixed leadership styles. Therefore it is advantageous to replace key executives who are strongly stuck in the old culture. Recruiting and hiring new managers and employees who have the desired cultural values, and can serve as role models for the desired cultural behaviour, will enhance the cultural change. The cultural change and its benefits should be well communicated. The senior officers must 'walk the talk', that is, they should practice what they preach.

Cultural change is a task that management cannot delegate to subordinates. The top managers have to in front establishing a strategy-supportive culture. They should spend the time personally leading the cultural adjustments as necessary.
Cultural change needs a lot of power, which normally resides only with the top management. The power and influence should be used to transform the culture, and they must lead by example as well.
Similarly, the code of ethical behaviour cannot be forced without the commitment of the top management.

2.7 Evaluation Model

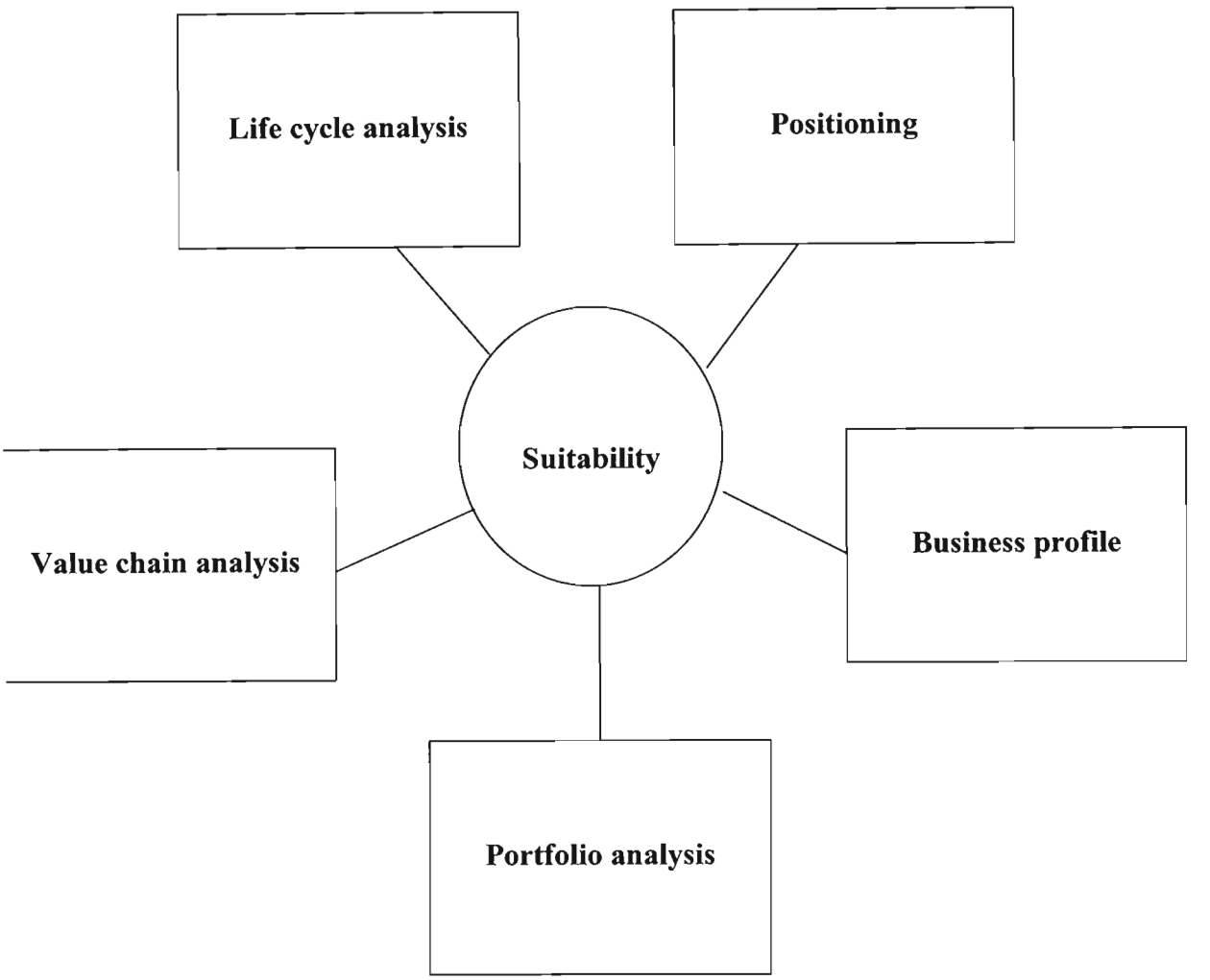
The model that will be used to evaluate the case study will be a sequential combination of different analysis tools.
The evaluation of strategic outsourcing of the laboratory will be based on the textbooks of Johnson and Scholes (1999), Lynch (2000) and Ambrosini (1998). The framework of the analysis is based on chapter 8 of Johnson and Scholes.

Figure 2.8 Framework for the Evaluation and Selection of Strategies



Source: G. Johnson & K. Scholes, *Exploring Corporate Strategy: Text and Cases*, Prentice Hall, 1999, p. 354

Figure 2.9 Testing Suitability



Source: G. Johnson & K. Scholes, *Exploring Corporate Strategy: Text and Cases*, Prentice Hall, 1999, p. 356

2.8 Summary

Companies are limited in terms of resources and time; therefore they concentrate on analysing the key success factors. This section restricts itself to these factors. The company resources that satisfy the key success factors are evaluated, which are termed the core competencies. They are often intangible resources.

If an organization recognizes a performance gap in its processes it may be advisable to outsource some party of the value chain. This gives access to the best practices in the world. Value chain analysis is defined, which could assist in pointing out weakness.

Different sources of competence at different stages of the life cycle, and sources of cost efficiency are discussed. Forces that drive companies to outsource are highlighted. The outsourcing strategy is defined, and the rational for it is defined.
However, most authors of strategy warn about ensuring that the core competences are not contracted. The controls, types, advantages and disadvantages of outsourcing are explained as well.

The section also defines the organizational culture. Different models are discussed that are used to analyse culture. These include Hostede's and the cultural web models. Outcomes of culture are explained as well, which include strategic drift and hindering or supporting of strategy during implementation process.
Lastly the strategy evaluation model is adopted, which is used to assess the outsourcing of the laboratory at Blendcor. This model largely use the theory developed in this chapter, and it is a skeleton for analysing the case study in the following chapter.

CHAPTER 3

CASE STUDY

3.1 Introduction

Blendcor, situated in Durban's Island view, was formed in 1992. It is a joint venture of Shell SA and BP Southern Africa. BP includes the newly acquired Castrol brand. The main customers of Blendcor are Shell and BP. Blendcor manufactures greases and lubricants according to its customers' specifications and demands. In turn these products are supplied to most countries of the Southern Africa.

3.2 Company Vision

We aim to be and be seen as leaders among the world's lubricants plants.

3.3 Mission Statement

Manufacture and distribute lubricants safely, economically and with minimum impact on the environment and meet our shareholders' service and quality requirements.

3.3.1 Blendcor Commitments

We strive and commit to:
• Put safety first • Live our values • Delight the customer • Work and communicate as a cohesive and effective team • Recognize, respect and value each other's contribution to our success • Implement appropriate information and process technology • Maintain continuous improvement in our management of quality, occupational health, safety and the environment

Blendcor offers a testing service to its customers. The end users of the products send complain samples to either Shell or BP, who in turn send it to Blendcor laboratory for analysis. Blendcor has a contract of testing fuels for SAPREF, another joint venture of the couple.

SAPREF is a major supplier for Blendcor. All base oils are major components (70 to 100%) are from the refinery. Independent and shareholders' companies supply additives. These are very expensive as some are imported from the strong currencies countries.

But the shareholders pay for these, and they sell the products as well. Blendcor neither make profit nor loss, although it is supplied with the budget to operate. The performance is measured in terms of volume of lubricants and mass of greases produced. The slops volume or mass is an indicator of waste or inefficiency.

Another indicator of performance is the success of the shareholders. But this is a poor indicator as it involves their inefficiencies.

Shell and BP are global brands; their products are highly differentiated. They demand quality products from Blendcor as a supplier. As a result Blendcor has to comply with the customers' needs. Blendcor is ISO 9002 and QS 9000 certified, which is are now licenses of competing internationally.

3.3.2 Quality Policy

It is the policy of Blendcor (Pty) Limited to conform to lubricant manufacture and supply standards that meet the requirements of Shell and BP, and their customers.

In order to realise the quality we value and strive to maintain the following:

- ***Importance of Quality***- quality standard shall not be compromised by consideration of costs or production demands.
- ***Quality Competitiveness***- is a world-class lubricants manufacturer producing quality product at competitive costs.
- ***Internal and External Customers***- recognise that receivers of our work are "customers" whose needs we must fully understand and strive to satisfy.
- ***Work Force Involvement***- work and communicate as a cohesive and effective team thereby fostering a spirit of pride among the employees regarding the company's quality performance.
- ***Continuous Improvement***- applies continuous improvement principles to raise the quality standards of our people, products, and services and improve our performance against these standards.

- ***Vendors (Suppliers)***- work closely with our suppliers to achieve and improve common quality goals.
- ***Training***- provides appropriate quality awareness training for our employees and contractors.
- ***Business Processes***- identifies and measure quality in all core and support business processes.

As an international player, it is utmost important to follow the global trend of being environmental soft. It is therefore not surprising that Blendcor was ISO 14001 certified in year 2000.

3.3.3 Environmental Policy

Blendcor stores, manufactures and distributes lubricating oils and greases. These products are manufactured from base oils and additives according to formulations and quality standards provided by our principals.

Blendcor is committed to conducting its activities in such a manner as to limit our impact on the environment through a systematic approach to ***environment management***, which will ensure:

- Compliance with relevant environmental legislation, regulations and other requirements to which Blendcor subscribes,
- Training and awareness of staff and contractors in environmental matters, including the ***policy*** and the ***environmental management system***,
- Targets are set for improvement in ***environment performance*** and progress is monitored, measured and reported,
- Prevention of pollution through initiatives designed to eliminate incidents and, where incidents occur, procedures to clean up and re-mediate environmental damage,

Continuous improvement in environmental improvement.

Blendcor has superior security. All company assets, including employees, are well protected from all source of danger. Bags are checked in and out of the premises in

order to prevent theft and weapons. There are random alcohol checks to ensure a secure working place.

3.3.4 Security Policy

Blendcor will provide a secure working environment by protecting its employees and assets from loss damage as a result of criminal, hostile or malicious acts.
We will assess the security risks facing us and ensure that they are properly managed.
We will monitor our security performance on a continuing basis against set targets and expectations.

Blendcor meets the minimum requirements of the OSH act. It has an excellent clinic. It got safety representatives as per act specification. Safety and health meetings are held weekly in all departments. Most departments had trained first-aiders. Special speakers are invited to train employees about the epidemic of HIV/ AIDS.

Safety has been a key success factor at Blendcor. It is therefore not surprising that the company has a record of 4 million man-hours without lost time injury. The laboratory is a safety haven; it has a minimum of 16 years injury free. This is a remarkable achievement for hazardous working environment like the laboratory.

3.3.5 Health and Safety Policy

Blendcor stores, manufactures and distributes lubricating oils and greases. These products are manufactured from base oils and additives according to formulations and quality standards provided by our principals.

Blendcor is committed to conducting its activities in a responsible manner to ensure that ***health and safety*** of employees, contractors and visitors are not adversely affected.

Blendcor will pursue a policy of continuous improvement in its activities to protect the ***health and safety*** of all its employees, contractors and visitors by:

- Never accepting that accidents are unavoidable.
- Measuring our ***health and safety*** performance.
- Developing and implementing ***health and safety*** training and awareness programmes for staff and contractors.
- Eliminating unsafe practices, actions and conditions.

Compliance with ***health and safety legislation.***

3.4 Swelling of Production

The Island view blending facilities throughput has been increasing over the years. Between 1956 and 1958, the output increased from 50 000 tons per year to 80 000 tons per year. Blendcor started with the throughput of 175 000 tons per year in 1992, while year 2000 throughput swelled to 210 000 tons per year.

The year 2000 throughput consists of 11 000 tons of base oil and 100 000 tons of finished lubricants. The output is sold in different sizes, 64% bulk, 23% drums and 13% small packs. This implies that the major customers of Shell and BP are rather companies.

The greases output was sitting at 4000 tons in year 2000.

Blendcor makes 400 grades of Shell and BP products, which form 1600 grade pack combinations.

3.5 Restructuring and Downsizing

Meanwhile the output increases; the downsizing strategy has been applied especially in the laboratory. The laboratory staff had decreased from 27 to 16 members. Some positions had been frozen. The strategy had been poorly implemented. The laboratory is caught up with surprises.

The technicians found themselves overcrowded with work. They found themselves using in-service trainees to do the work, and new recruits don't have sufficient time to be trained. They have to start to be productive immediately.

These new personnel become very inflexible because they specialize in certain parts of the laboratory where they were able to kick-start. They can't work in other sections.

This is one of the problems that cause products that do not meet the minimum specifications to reach the end users. The company had mostly poorly trained people.

If the laboratory had staffing problems, they were just the tops of the iceberg. The plant and the filling departments have serious problems as a result of restructuring, if not rightsizing. The company underwent the strategy of redefining the jobs, and possibly minimum requirements. The senior operators flocked away from Blendcor. These employees had a combined service of 500 years. The laboratory personnel who joined during these years had witnessed the knowledge and dedication of these employees. They would tell the junior technician which the tests are required, and knew how much to flush based on the result given by the technician. And lastly they would warn the new laboratory recruit as parents if a time warning activity was observed.

The company employed mostly the youth who can understand the business language. The irony is that these folks may understand English, but may not understand the business principles.

This dramatic change came with lot of troubles. The wrong labelling of samples became a common practice. Lot of time wasted while the laboratory personnel test the wrong samples and try to solve the Sherlock's problem, which is identifying the unknown samples.

Sampling and flushing became a problem as the laboratory had to test and test again. Carelessness is another problem, where the laboratory tests the finished blend, only to find when it is failing that the blending team left out an additive.

As far as the labelling is concerned, there is a sickening habit of cheating the laboratory personnel, which is rather company destruction. If the line sample is failing, the operator takes a tank sample and purposefully labels it the line sample.
The same thing applies to the grease plant which took the passed batch and label it with the same batch number as the failing sample. It is either difficult for new personnel to detect this behaviour or lot of time is spend reconciling the very different result from the 'same batch'.

Mostly these cheating exercises are results of not knowing how to do the work properly, which require training. The other problem is some people in critical positions, who believe in quantity rather than quality. They blindly want to outperform the planned production in order to achieve incentives and better increases. They tend to forget that the customer has to get the correct products that meet the specifications.

These restructuring and downsizing strategies are part and parcel of cutting the costs of the company. The new recruits start at a low salary. This had been the outcry of the new laboratory recruits who are perceived to be paid far too low compared to their older colleagues. The older employees refer to those who joined the company before the laboratory came out of the bargaining unit.
This led to the unionisation of the laboratory in 2001. The management understood one dimension of the problem, as it replied by giving a guide to pay and benefits. But it must be admitted that Blendcor has an above industry average gross package.
Eventually the laboratory was to be outsourced since it was perceived to cause all types of problems to the company. Above all it is believe to be not part of the core business, and is costly to run. This led to calling a consultant to evaluate the outsourcing of the laboratory.

3.6 Quality Services

It must acknowledged that most of the discussion about the laboratory is based on the report by the Povey Mulvenna & Associates report.

The needs of manufacturing that are currently not satisfied by the laboratory are:

- Raw materials are not passed for consumption on time.
- In process quality testing takes too long.
- Laboratory pass of finished product takes too long.
- The laboratory service does not support continuous improvement.

The major reason that these needs are not being met is due to clash between the physical and administrative requirements of receiving, producing and shipping product. The laboratory is the natural convergent point for both these requirements, and appears to be the reason why the needs are not being met.

The fatigue standby implications that arise when supplying the SAPREF service have a significant and negative impact on the laboratory's ability to deliver the required service to manufacturing. The needs of other customers that are currently not satisfied by the laboratory are:

- The after hours service supplied to SAPREF can be improved.
- The quality system (GQS and LQS) requirements are not being met.

SAPREF appears to be very happy with the Blendcor laboratory service from both a quality and cost perspective. Both Manufacturing and the Laboratory itself judge themselves far more harshly than SAPREF does.

The laboratory has recognized but not acted on the reasons that force them to concentrate on supplying short-term needs at the expense of long-term requirements. This has resulted in sufficient sequence testing being done to assure product quality, but at the expense of the GQS and LQS requirements. Another negative effect is that proactive efforts to improve internally are also sacrificed.

The effectiveness of the laboratory is compromised by low morale and it's status as a 'non-core' part of Blendcor. The perception that the laboratory causes many of the delays in Manufacturing combined with the assumption that the laboratory can be

outsourced results in low morale. There appears to be a small negative element within the laboratory that is taking advantage of the low morale. Note that a 'negative' element within a system is often an excellent indicator of an unresolved conflict which when resolved delivers considerable benefits. The efforts of the majority of the laboratory personnel within this low morale situation are commendable, particularly in view of the additional responsibilities assumed by the laboratory to ensure the effective supply of product by Blendcor.

3.6.1 Manufacturing Needs

The laboratory is the custodian of quality assurance within Blendcor, and quality is a key issue for Shell and BP (includes Castrol). The quality requirements are specified in the Grease Quality System (GQS) and the Lubricants Quality System (LQS). These systems are issued by Shell, and used for BP and Castrol as they cover their requirements as well. The manufacturing needs that the laboratory must fulfil are both routine testing and longer term proactive tests.

Day-to-day quality assurance of incoming materials, work-in-progress, finished product

The laboratory impacts the flow in three key areas. The first is the adjustment of standard formulations to compensate for fluctuations in the properties of the raw materials. Materials are procured and when received on site these are tested by the laboratory. The results are input into the information system, which calculates the new formulations. Where materials are supplied by bona-fide quality assured suppliers, for example additives, these are supplied with a certificate of analysis (COA). The laboratory tests some properties and if the results agree with the COA values the other properties on the COA are accepted and input into the system.

The complaints in this area relate to the laboratory being inflexible, usually in two aspects- acceptance of product delivered without a COA, and fast-tracking urgent materials. In the case of no COA, the laboratory appears to co-operate if this occurs infrequently, and refuses only when this happens too frequently. The procurement complaints that the testing is not required are invalid, as these are dictated by the GQS and LQS quality systems.

Materials are managed to hold minimum levels, and poor communication from planning often results in urgent orders. Consumption of consignment stocks is calculated from the Lube-Cell system and the opening and closing stock levels for the period, usually one month. Deliveries cannot be receipted into the system, and the stock in the system is deliberately overstated to enable material to be reserved for orders. Receipts for non-consignment materials are often not vendor receipted into the system promptly. The result is that stock levels in the system do not match the actual stock on hand. This impact is felt downstream when the laboratory requires a lot number before quality release can be made for a product.

The other instance where the laboratory impacts the process is quality assurance of work-in-progress and finished product. For grease the test is relatively straight forward, and a modified in-plant test that delivers on-specification product has been developed. This test cannot be used for final pass of grease, as the penetration test is only valid after the 16-hour settling time specified by the GQS. The final test is performed in the laboratory and the grease plant is happy with the laboratory day-to-day service.

The lube oil tests are not so straight forward, and discussions with the Laboratory Manager suggest that these should be performed in the laboratory. The plant is very reliable and 95 percent of tests pass first time. Furthermore, most of the remaining 5 percent pass after minor adjustment, such as additional mixing. The typing reasons for failure include poor flushing of the blending vessel between blends, incomplete mixing cycles, and similar process issues that suggest inadequate skills and/ or efforts to maximise production output.

The majority of complaints relate to blends that will be filled immediately, as opposed to blends scheduled for a holding tank. Filling cannot begin before the product is passed as a lot number (required for product trace-ability) can only be generated after the laboratory pass of the blend. Observations and records indicate that samples are often delivered in batches to the laboratory, and that even then the physical test is completed by the laboratory well before the lot number can be generated. The reason for delays in the lot number generation can usually be traced back to a logistical issue, and very rarely due to the laboratory.

The information system requires material reservation to a blend for two reasons in particular. One is to ensure that the blend does not commence without all the required material. This is vital, as the bottleneck operation appears to be in blending and any delays caused by lack of materials would delay the whole plant. The other reason is to ensure that each lot can be traced back to source materials. This is a quality requirement for both the LQS and ISO 9002.

It is possible for the planning department to release a blend note (work order) without the material reservations, and this occurs very frequently in order not to delay production. The back-up feature of this arrangement is that the final blend cannot be passed without a lot number, and that the reservations should be complete by then. In the majority of cases this does not happen and the progress chaser in the laboratory traces back through the process to identify the reason and expedites the process to enable a lot number to be generated.

The main reason the material reservation cannot be done is that the material is on site, but not available on the system. Reasons for this are materials delivered without a purchase order, for example base oils, vendor receipts not captured promptly on the system, materials delivered without a quality certificate (COA), and materials not transferred to a consumption on time.

The irony of the complaints is that the laboratory appears to be the reason for the delays while in reality the laboratory goes to great lengths (even violating policy) to eliminate the delays. The progress chaser has been specifically authorised to 'steal' material from other blends to speed up the lot generation process. Where stocks do not exist on the system the raw material personnel are authorised to write values into the system. For consignment stock this is standard procedure.

The laboratory also provides a 24-hour service to SAPREF and the after hours requirements are handled by the laboratory staff on a roster basis. Technicians are often called out very late and the resultant fatigue shift means that the laboratory is under-staffed the next day and there are considerable delays. To compound matters the effect of delivering the samples to the laboratory in batches results in idle periods

followed by a rush of tests, followed by idle time, etc. this wastes capacity and creates the impression of idle time in the laboratory.

The combined outcome of all the above issues is that there is a lot of pressure on the laboratory to pass tests by ignoring procedures, and to work overtime when order are late. The laboratory focuses on providing the immediate needs of manufacturing as the testing requirements are dictated by the GQS and LQS policies, and they already work between 100 and 200 hours of overtime per month. As a result the laboratory consider themselves under-staffed and their tools (equipments) as ineffective.

The laboratory complement has been systematically reduced over time, and in order to complete the required workload students and contractors are used for routine testing. There are also a number of new members of staff that have not developed sufficient flexibility to operate in all areas. As a result key skills are not always available to meet the immediate needs of manufacturing. When combined with the perception that the delays are caused by the laboratory, manufacturing personnel believe that the laboratory is not delivering the required service.

Longer-term activities to develop new products, improve existing products, and on-going process improvement.

Recently there have been considerable changes in plant and personnel within Blendcor. The plant reliability has been significantly increased and the validity of many quality requirements is questioned in many areas of the organization. Even laboratory personnel agree that certain policies and procedures are outdated and restrict improvement. At the same time the changes in personnel have resulted in many operational staff that still receiving training in the daily operation of the plant, and this reinforces a belief that policies and procedures are only changed if supported by rigorous analysis.

There are a number of sequence tests that, if done, will provide sufficient data for analysis to support a change in policy or procedure. There are a number of elements that contribute to sequence tests not being done. These include lack of manpower (due to ineffective utilization and a shortage of skilled personnel), reluctance to work overtime (already working lot overtime, and the samples inevitably pass the tests),

and no automatic trigger to identify when the tests due (the system default setting calls for sequence testing of every sample).

When the obvious need for sequence testing is combined with an inability to perform the tests the laboratory is perceived as inflexible by most areas in the organization. The laboratory personnel are very much aware that these tests are required, and the LQS and GQS requirements demand that they are done. The inevitable rebuke when quality audits are performed, the lack of key skills, the negative perceptions of the rest of the organization, and the fact that the majority of the laboratory personnel are trying to do a good job, results in very low morale. Again the irony of the matter is that the laboratory personnel still act beyond their area of responsibility in order to protect the product flow through the plant.

3.6.2 Other Customer Needs.

SAPREF is the only major external customer for the laboratory, and their complaints usually relate to poor response times from standby personnel. The urgent nature of the SAPREF requirements (particularly in the case of fuel testing) and the combination of low laboratory morale, lack key skills, and the late hour of many call outs results in no long-term resolution of their issues.

It should be noted that although the SAPREF service estimated a need for 60 hours overtime per month, in reality they require between 100 and 200 hours of overtime from the laboratory to cover their needs. Further more, although certain SAPREF personnel complain about the Blendcor laboratory service, the head of the SAPREF laboratory rates it of very high quality and very reasonable cost.

3.6.3 Laboratory Effectiveness

Observations of the laboratory personnel activities suggest that routine tests are performed within reasonable time, and there is widespread acceptance that the quality of the tests is very good. The delays experienced by the plant are rarely due to testing, and in the rare case of a late test this is usually due to further testing prompted by a product failure. The main reasons for delays are batch deliveries of samples to the laboratory, and manipulation of the computer system to generate lot numbers. Observations reveal delays of one to four hours due to batching, and that more than half of all blends have no lot number.

An area of considerable concern is the lack of progress in resolving the issues highlighted by the investigation. The organization has undergone considerable and rapid change, and other areas of the plant appear to have embraced this change better than the laboratory. It is unclear whether this is a result of the negative impact on the laboratory of changes in the plant, or perhaps that issues that arose in the laboratory have not been accepted and addressed.

It is clear that the impact on the organization is considerable, and that a negative reaction has occurred in the laboratory, where a positive (or at worst neutral) reaction was expected. Even more surprising is that the plant personnel consider their colleagues in the laboratory as competent and well intentioned.

The following table shows some sections of the value chain that the consultant identified as under performing and thus suggested the improvement as per weaknesses.

3.6.4 The Laboratory- the Heart of Blendcor

It is easier to conclude without analysing that the laboratory service is a non-core activity. But currently the laboratory is the heart of Blendcor. And that's why it suffers the blame of other activities' inefficiencies.

The laboratory passes all ingredients. It corrects and passes failing batches. And it approves the finished products to go to the customers.

Further the laboratory controls the specifications of the products according to marketers' international specifications and local authorities (SABS) specifications.

Table 3.1 Job Improvement Suggested and Responsibility

Job Improvement Suggested	Responsibility
All material on site is available on the information system	***Procurement***
Material receipts are captured promptly and accurately	Procurement
Additives are transferred to the consumption locations on time	Procurement
All materials are delivered with a purchase order	Procurement
A COA accompanies all inbound material samples to the lab for testing	Procurement
Skills shortages in inventory control are identified and addressed	Procurement/ HR
Additives are transferred to consumption locations in line with manufacturing needs	Procurement
Procurement receives the production schedule in time to supply materials and follow order priority	Planning
The lab performs all testing requirements quickly and accurately	***Laboratory***
There is no pressure on the lab to pass tests by ignoring procedures, working overtime, etc	Laboratory
The 'negative element' in the lab is identified and the source of the negativity is resolved	Laboratory/ PMA/ HR
The lab capacity available to deliver all testing is identified	Laboratory
The scope and frequency of all testing requirements is identified	Laboratory
The availability and cost of relevant external test services is identified	Laboratory
An optimal plan for operation of the laboratory is complete	Lab/ PMA/ Finance
Internal and external resource are subordinated to the laboratory plan	Laboratory
The laboratory provides the routine test performance required by Manufacturing	***Manufacturing Dir.***
Very few blend notes are printed without material reservations	Planning
Material reservations are done before the blend is complete	Planning
A lot number is generated as soon as blends are complete	Planning
Samples are delivered to the laboratory shortly after taken	Production
The lot number does not delay laboratory pass	Planning
Laboratory receives the production schedule in time to plan capacity and follow order priority	Planning
Skills shortages in production control are identified and addressed	Planning/ HR
A holistic methodology is used to manage the supply chain logistics of Blendcor	***Manufacturing Dir.***
The internal logistical control mechanism of Drum-Buffer-Rope is implemented	Planning/ Production/ PMA
The external logistical control mechanism of Replenishment is implemented	Planning/ Procurement/ PMA

Source: Adopted from Povey Mulvenna & Associates report

3.7 Interviews

The following section will highlight the views of some key personnel interviewed as an attempt to evaluate the outsourcing of the laboratory. It is arranged as per value chain section of the interviewee. It must be noted that these interviews are used as secondary data since the Povey Mulvenna & Associates consultant conducted them.

3.7.1 Planning

Planning MPO: Lenny Munsamy
Routine testing of line samples takes too long.
Suggests that testing equipment should be put on the line. Lines have their own qualified technicians who could do routine tests. Laboratory claim in the past was that on-line equipment is too expensive. Biggest customer complaint: Product not shipped on time. Inability to ship on time is mainly due to no truck (bulk) or packaging (filled). Very rare that the laboratory service causes delays in shipping on time. Laboratory has no way of knowing which sample has higher priority. Laboratory does not provide after hours service when plant works overtime. Laboratory staffs don't help out when one technician is overloaded- operated separately. Why do additives need testing when they come with certificate and failure is very rare? Why do base oils need testing? They are tested by SAPREF on dispatch and on arrival. Shift will resolve the problem, as the laboratory will work the same hours as the plant. Planning stick to their weekly plan 94%. Email the plan to the laboratory for priorities? Line rewarded for breaking records. If the plan is completed staff go home early. [Grease plant appears to be the only one who can meet their target].

3.7.2 Procurement

Procurement MPO: Paul Taylor
Laboratory personnel are inflexible
Each and every delivery of additives is tested, even from common batches. Suppliers are bona-fide, supply test certificates, and failures are very rare- once per year? Sometimes additives are not actually tested, but kept for reference if necessary. The laboratory justifies their actions as demanded by procedures, but not believed by others. The procedures are not realistic, e.g. 3-year-old in-house stock is considered good for use. The laboratory makes no proactive effort to change the procedures.

Laboratory personnel have no desire to improve, and may even see change as a threat. Laboratory personnel are not stimulated, and don't respect their leadership.

Buyer: Jack Chaithram
Communication between Planning and Purchasing causes late RM
Consignment stocks of additives are receipted on the system monthly, after reconciliation. Consignment stocks of additives are not supplied with a COA per delivery. There are many, small deliveries of additives, with plans to allow deliveries 24 hours per day. The system stock value is deliberately overstated to ensure additives are reserved. Additives are usually issued to the 'addit' locations in batches of full drums. The balance that is not used remains in the 'addit' location, and stock counted monthly. The RM warehouse stock accuracy is very high, over 97 percent. The 'addit' warehouse stock accuracy is very low, around 27 percent. The lance can suck out an exact small amount of additive, and rinses the drum with blend oil. There are plans issue the plant with the exact amounts required per batch. Additives can only be consumed from 'Blend.addit' or 'Grease.addit' locations. Many times these locations 'run out of stock' on the system, while the stock actually exists. These locations are required in order to allocate additive consumption correctly. Manufacturing co-ordinate the run-down with SAPREF, and then advise Purchasing. There is a separate PO for every base oil run-down from SAPREF, raised <u>after</u> the run-down. Separate PO's are raised because the price changes monthly. The expected consumption (forecast) rarely matches the actual consumption. After the PO is raised the run-down is VR'd (vendor receipted) into the system. The oil flows through the plant faster than the paperwork. Many times there are urgent requests to process invoices.

3.7.3 Manufacturing

Manufacturing Manager: Nigel Rees
The laboratory is not delivering the service required by Manufacturing
Tests are not done timeously, preventing release of the product. This is most serious in bulk loading, as it holds up the truck. When blending to a holding tank, the time taken to test is not critical. The manufacturing need is 'the test must be completed

within the blend cycle time'. Manufacturing is moving to 24-hour shift for 4 days a week. The laboratory staff is unlikely to agree to work shift hours. It may be required to hire more people to cover the manufacturing need. There are very few problems associated with the quality of the test. The laboratory is an expensive service, and a lot of staff idle time is observed. If all staff are on site the service level is good, but absenteeism means big delays. There are much smaller manufacturing batches-requiring more testing. The additives are purchased in much smaller batches-requiring much more testing.

Blending MPO: Kilbourne Mwandla
The laboratory is a 'handbrake' in the system we cannot avoid
The lab is a 'necessary evil'? Laboratory quality standards are very good, i.e. stringent. Sometimes it seems that these standards are too stringent. In the Johannesburg plant, calcium specification for gear oil is 8ppm maximum. The same oil in Durban has a calcium specification of 4ppm maximum. If the Durban sample measures 6ppm, there is a major process to accept or reject the oil. It is imperative that the laboratory provides a good (quick) service to the plant. Production is sometimes guilty of not advising the laboratory of overtime requirements. Not intentional, just lost in the pressure of getting out and urgent blend. Having a laboratory technician in production is a big advantage.

Grease MPO: P. Appanna
The laboratory does not provide timeous technical support when tests fail, or GQS tests (sequential tests required by Shell)
Routine testing performed by the plant- modified penetration test to compensate for settling time. Plant test is approximate, but accurate-specification is 30 points & they hit midpoint, more or less 4 points. Product is packed if it passed the plant tests, and tested for release after 24 hour settling time. Laboratory delivery on release tests is fine- Appana and Raj both happy with the grease technician. About 12 release tests of 10 minutes per day are required. Should be complete by lunch? Raj willing to come in after hours to train the laboratory technician to do sequence tests (each afternoon). Sequence tests should be performed every 10 batches, 20 for high volume products. Current technician in the laboratory does not know to perform the sequence tests.

Sequence tests are required for the GQS system, and laboratory does not provide these tests. Laboratory does not provide technical and R&D support- only pass or fail, and trend is not actioned. Result is the plant can produce for a long time before a problem is detected and actioned. Seems to be a 'rotten apple' in the laboratory that causes many problems. Appana and Raj both believe the people in the laboratory are good, with excellent potential.

Blending Process Technician: Selves Naidoo
The Blendcor change process was quite radical, and the new people still require a lot of on-the-job training
Marketers are very quality conscious- sometimes quality queries go all the way to London. The laboratory testing is very good, and assures the required product quality. Suppliers are ISO 9002 and supply QC with their products. Plant repeatability and reliability is very good. The current level of testing appears to be appropriate and excessive. No sequence testing is done to support a decision whether to reduce or increase testing. Laboratory personnel are not proactive or willing to 'go the extra mile'. Laboratory personnel works in isolation- idle colleagues do not assist overloaded colleagues. Tests are pass or fail- no analysis why. No initiative to produce fast accurate answers. Laboratory does not seek priorities when unsure which test is urgent. If an urgent order is identified, the laboratory will 'come to the party'.

3.7.4 Outbound

Outbound MPO: Cyril Sindraj
Laboratory does not release product on time
Greases not passed on time- always late, sometimes even three days. Lubricants oils not passed- filling cannot proceed until test is done. Third party tests often result in outbound tests not done. Laboratory personnel are not co-operative, e.g. urgent delivery, won't work overtime. Had service level agreements, they have passed away. Excuses: No technician due to call out, too many samples at once, equipment, no sample. Have found the sample lying in the chute. [Chute system doesn't work very well]. Tests specified by Shell are too extensive, and take too long. Used for BP and Castrol as well. Do we need additives to be tested? They are supplied with a test certificate. Filling is the plant bottleneck and the laboratory is not subordinated to the

bottleneck. Laboratory could meet the plant's needs if there was no impact from call-outs. Laboratory has good people- they have good potential to be great team.

3.7.5 Laboratory

Lubes Chemist: Emmanuel Buthelezi
The laboratory is under-staffed
Equipment needs modernizing- especially lubes equipment. Laboratory is under-staffed, particularly in Greases. (No mention of increased batches?) The GQS reporting requirements are not being met at present. Contractors currently fill two positions. Students are used for routine work, and are not getting training. Not enough data is collected to statistically predict output quality. Contractors are not flexible in terms of skills and meeting standby needs. SAPREF requires a high level of after hours work. Average amount of after hours call-out = 60 hours per month (reality = 100 to 200 hours). Splitting the laboratory team into shifts will reduce synergies and hence effective capacity. When plant moves to a shift system the laboratory will also have to have people on shift. There is a clash in the laboratory due to the differing Blendcor and SAPREF operating modes. Flexibility of skills in laboratory permanent staff is very good.

Market Services Chemist: Lyle Lazarus
The laboratory equipment is ineffective
Equipment is out of date and ineffective, and breaks down often. The laboratory is understaffed, and needs increasing by three people in lubes, one in greases. Routine batch pass tests are done, but many sequential tests are not done. Sequential tests are not critical and done to check the integrity of the blend. Statistical evaluation of sequential test results may enable testing interval to be increased. Students are used for production, not training. Laboratory supervisors do a lot of administrative work, e.g. costing of market services. Laboratory has been systematically downsized over the years. Laboratory loses synergy when departments are managed separately. Perception that laboratory personnel idle- load fluctuates, tests take specific times. The plant drives laboratory load. Normal load is 25 blends, and overload is 40 blends. Overload should be handled by overtime, as outsourcing is very expensive. Delays are usually due to

blend failure, laboratory equipment failure, not test taking too long. Truck filling test takes 5 minutes, may be small delay in the laboratory, usually not by laboratory.

Progress Chaser: Ronnie Pillay

Laboratory passes are delayed while the progress chaser 'cheats' the system in order to generate a lot number.

Grease priority is set by Appanna or Raj, and generally not a problem. Approval is required to waive procedure for urgent grease orders (made today). Production want settling time to be waived for urgent orders due to past performance. Supervisor (Emmanuel) can waive the settling time. Problem if this happens too often. There is poor communication between Production and the Supervisor.
If the priority for order is not known, the technician will guess and carry on testing. Better communication would make a big improvement in greases. Technicians batch tests in order to be efficient.

Lubes priorities come from the bulk-loading gantry, filling lines and pipe pumping points. Laboratory pass requires the test to be complete, and a lot number to be generated. Testing is usually complete a long time before the lot number is generated. The progress chaser traces back why the lot number cannot be generated. The lot number cannot be generated unless certain requirements have been met. In the case of additives the cause is usually no VR. Usually corrected easily by the store man. The quality certificate for additives is required, as the values need to be input into the system. The laboratory 1-2 values on the QC, and if passed then accepts the other values as within specifications.
There is a separate PO for every run-down from SAPREF. In the case of base oils the root cause for no lot numbers is usually the absence of purchase order. Usually the PO is delayed because the price is not finalized (price changes daily).

Sometimes the PO exists, but the run-down is not VR'd or VR'd into the wrong tank. Usually the responsible person corrects this fairly promptly.
The gantry lot number can be 'cheated' as there are multiple lots in the tank. Cannot 'cheat' the filling lines because the lot number is printed on labels and applied on-line.

Additives can only be consumed from 'Blend.addit' or 'Grease.addit' locations. Many times these locations 'run out of stock' on the system, while the stock usually exists. These locations are required in order to allocate additive consumption correctly.

Blend notes should not be printed unless raw material has been reserved on the system. In order to produce, many blend notes are printed without material reservations. The lot number cannot be generated without the relevant material reservations. If samples for release test have a lot number, no problem. Passed 95 percent first time. If the test fails, the adjustment is usually easily done via some heating and mixing. This type of failure is usually due to a plant fault, or shortcutting to meet their blend target. After this adjustment the pass rate is 99 percent.

Samples brought to the laboratory on foot are batched, delaying testing by 1 to 3 hours. If samples for release test have no lot number, a major problem. Delayed 100 percent of time. Progress chaser and two others are authorized to 'steal' reservations to generate lot numbers. A lot of skill 'system cheating' is done in order to run the plant on a day-to-day basis. This process causes major delays. Test requirements have to be entered by hand, etc. If the lot number were available when the release test is due, there would be no problem. The most common cause for no lot number is policy and / or discipline with PO's and VR's.
Night shift will be a disaster if the lot number problem is not remedied. The effect of system back-ups/ crashes on lot number generation during shift needs checking. Seems to be an individual in the laboratory that causes many conflicts.

Sequence tests are not done on greases due to manpower shortage. Raj now fully occupied with plant duties. Sequence tests are not done on lubes due to equipment and manpower. Foam test is done on every sample. Flash point only done on base oils- always passes. Sequence tests were stopped as they were done on overtime, and always passed.
Market Services Chemist uses flash point equipment most of the time, spare one is broken. If there is a flash point problem it will be picked up in the numerous Market Services tests. System does not allow sequence tests to be prompted- calls for all tests every time. Many tests are redundant and could be eliminated. Emmanuel has been

tasked to do this.

Management Services Specialist & Engineering Manager: Wendy Holcroft & Franco Forno
There is rapid change occurring within Blendcor, and the big picture is lost within a large number of conflicting, department-specific issues.
Departments are acting independently, and clashing due to their inherent dependency. The measurement system may be driving potentially harmful behaviours. The organizational focus is on production- service functions are considered a necessary evil. In the absence of an effective way to deal with conflict, power wins over reason. The core problem is not in the laboratory- they are merely weaker than production.

3.8 Blendcor Culture

The homogenizing of multi-racial countries had proved to the problem. The USA, which gained freedom sometime ago, is still not over with racism. The political racism may cease, but the economical racism persists. The Gini coefficient of Brazil is roughly equal to the South Africa's. This indicates the prolong problems that can be experienced after political freedom.

A senior manager, from advantaged group, described the relationship between the employees and management as being very good, since the last CCMA case was in 1998.

Values
Blendcor as an organization values and celebrates diversity in individuals. We seek to work as a team with all members being of equal stature, communicating openly and honestly. We will be guided by the spirit of trust, holding responsibility in high esteem and treat all stakeholders with dignity and fairness, recognizing and respecting everybody's contribution. We believe that creativity and innovation will bring about overall continuous improvement in our business and address our organizational short and long-term

goals.

A senior employee sees the imbalances of the past not yet fully corrected. He points out that the different sectors are moving at different paces. He attributes this to 'carry-over' of previous management at the top, thus the change is slow.
Another senior employee defined the relationship as a cordial one full of mistrust between both parties. Management would fight very hard to give in employee's (union) suggestion no matter how practical it may be. But they find no problem in putting forward their suggestions 'dress in threats', if found unpalatable by employees, are implemented all the same.
The employee sees no change in the future, unless the situation that existed previously is restored. The employees were treated as a very important cog in the running of the business, and were prepared to sweat 'blood' carrying out their duties.

All the three people were asked a common question separately. The question was to describe the relationship between management and employees (union).
Both the last two interviewee had a common feeling of employees not buy-in the company strategies. They see it as their (management's) company. And employees feel in a vulnerable and insecure position as a result of all the changes. The replacement of permanent employees with contractors, which had prune all the power of employees. This has effectively diluted their collective strength.

This put a clear picture of the culture at Blendcor, where the minimum job requirements could change yearly to accommodate certain employees. This has become a 'joke' to some employees. 'If you want to be promoted, don't do your work, rather do what you were not employed to do'.
Finger pointing and inefficiencies characterize the culture of Blendcor. And it is also characterized by last minute rushing. Employees protect themselves at the expense of co-employees, and interdepartmental communication is poor.

These are diversion points between the employees and management. Senior employees who started 15 years ago is fine because he had been experiencing this kind of treatment for most of his working life.

But unfortunately, most of the old employees left the organization. The young employees want to see practical freedom, not the theoretical one. They have been the cause and part of democratisation of the country.
And this makes the need for management. The strategies become obsolete and management has to formulate new ones to replace the ones that worked 20 years ago. Otherwise if the strategies were fixed, there would be no need for management.

3.9 Summary

This chapter gives a snapshot of the company situation when the problem statement is evaluated. Different sources of information have been used to construct a case study. These include the wall charts, Blendcor's quarterly magazines, interviews, observations, workshops, and Povey Mulvenna & Associates consultant's report.
The case study covers the general direction the company is heading and some company policies. The policies try to address the customers' requirements and regulations. The increase of the output of the company is contrasted with the rightsizing strategy that is implemented.

The case study thoroughly discusses the activities of the laboratory, which highlights the importance of this section. The open-ended questions interviews responses are included towards the end in order to assess the causes of inefficiencies. The corporate culture of Blendcor is eventually discussed, which is rather different from the advertised wall charts decorations. The case study closes off with the performance data from Blendcor intranet, which is inserted as an appendix. This case study will serve as an input to chapter four, which tries to prove or disapprove the problem statement.

3.10 Appendix

Blendcor Performance Report as at - December 2002

Health, Safety & Environment	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Ytd	Yr Plan	% Plan
Lost Time Injury	0	0	1	0	1		
Hrs Worked Since Last LTI	0	0	5064	710	5774		
Total Recordable Cases	1	2	3	2	8		
First Aid Cases	0	5	8	2	15	8	187.50%
Non-Injury Incidents	6	9	13	18	46	45	102.20%
Potential Incidents	12	17	26	14	69	80	86.30%
Spills > 100 Ltrs	9	6	4	4	23	15	153.30%

Delivery To Promise Demand Vs Production Capacity					Ytd	Yr Plan	% Plan
Lubes							
Drums Shell	0%	0%	125%	116.30%	60.30%	95%	63.50%
Drums BP	0%	0%	89.70%	153.70%	60.80%	95%	64.00%
20L Shell	0%	0%	153%	153.70%	76.70%	95%	80.70%
20L BP	0%	0%	73.70%	117.30%	47.80%	95%	50.30%
5L Shell	0%	0%	139.30%	163.70%	75.80%	95%	79.70%
5L BP	0%	0%	14.30%	24.30%	9.70%	95%	10.20%
500ml Plastic Shell	0%	0%	133.30%	123.30%	64.20%	95%	67.50%
500ml Plastic BP	0%	0%	35.70%	140.70%	44.10%	95%	46.40%
Sealed Cans Shell	0%	0%	80%	74.30%	38.60%	95%	40.60%
Sealed Cans BP	0%	0%	55.70%	29.70%	21.30%	95%	22.50%
Grease							
Shell	0%	0%	160.70%	143.70%	76.10%	100%	76.10%
BP	0%	0%	113.70%	116%	57.40%	100%	57.40%
Plan Vs Actual							
Lubes							
Drums Shell	0%	0%	70.70%	84.30%	38.80%	95%	40.80%
Drums BP	0%	0%	75.70%	84.70%	40.10%	95%	42.20%
20L Shell	0%	0%	82.70%	86%	42.20%	95%	44.40%
20L BP	0%	0%	73%	81.30%	38.60%	95%	40.60%
5L Shell	0%	0%	62.70%	80%	35.70%	95%	37.50%
5L BP	0%	0%	63.70%	76.70%	35.10%	95%	36.90%
500ml Plastic Shell	0%	0%	63.30%	86.30%	37.40%	95%	39.40%
500ml Plastic BP	0%	0%	84%	85.30%	42.30%	95%	44.60%
Sealed Cans Shell	0%	0%	76%	95.70%	42.90%	95%	45.20%
Sealed Cans BP	0%	0%	85%	100.30%	46.30%	95%	48.80%
Blended Bulk Shell	23%	52.70%	84.70%	91%	62.80%	95%	66.10%
Blended Bulk BP	24.70%	54%	86%	80%	61.20%	95%	64.40%
Base Oil Bulk Shell	19%	46.70%	49.30%	78.70%	48.40%	95%	51.00%
Base Oil Bulk BP	31.70%	64.30%	59.30%	83.70%	59.80%	95%	62.90%
Grease							
180Kg Shell	0%	0%	94.30%	100%	48.60%	95%	51.10%
180Kg BP	0%	0%	91%	100%	47.80%	95%	50.30%
50Kg Shell	0%	0%	98.30%	100%	49.60%	95%	52.20%
50Kg BP	0%	0%	88%	100%	47%	95%	49.50%
18Kg Shell	0%	0%	93%	100%	48.30%	95%	50.80%

18Kg BP	0%	0%	97.70%	100%	49.40%	95%	52.00%
15Kg Shell	0%	0%	91.70%	100%	47.90%	95%	50.40%
15Kg BP	0%	0%	91.70%	100%	47.90%	95%	50.40%
Repacks Shell	0%	0%	100%	100%	50%	95%	52.60%
Repacks BP	0%	0%	91.70%	100%	47.90%	95%	50.40%
Rock Drill Shell	0%	0%	84.70%	86%	42.70%	95%	44.90%
Rock Drill BP	0%	0%	97.30%	80.30%	44.40%	95%	46.80%
Customer Back Orders							
Shell A Grade	0	0	4182	2201	6383		
Shell B Grade	0	0	1270	1534	2804	200	1402%
Shell C Grade	0	0	3889	4557	8446	300	2815.30%
BP A Grade	0	0	0	0	0		
BP B Grade	0	0	0	0	0	400	
BP C Grade	0	0	0	0	0	600	
Schedule Changes							
Shell Deletions Vs Plan Wk1	0%	0%	0%	0%	0%	5%	
Shell Deletions Vs Plan Wk2	0%	0%	9.30%	1.70%	2.80%	5%	55.00%
Shell Emergencies	0%	0%	0%	0.70%	0.20%	5%	3.30%
BP Deletions Vs Plan Wk1	0%	0%	0%	0%	0%	5%	
BP Deletions Vs Plan Wk2	0%	0%	44.30%	17.70%	15.50%	5%	310%
BP Emergencies	0%	0%	17.70%	1.70%	4.80%	5%	96.70%
%Deletions for Month							
Shell	0%	0%	0%	41.70%	10.40%	5%	208.30%
BP	0%	0%	0%	19.30%	4.80%	5%	96.70%
Transporter Availability, Plan Vs Actual							
Shell Packed	32%	32%	93%	76.30%	58.30%	98%	59.50%
Shell Bulk	31.30%	60%	95.30%	83.70%	67.60%	95%	71.10%
BP Packed	31.30%	31.30%	95.70%	91%	62.30%	98%	63.60%
BP Bulk	30%	61%	89.30%	81.70%	65.50%	95%	68.90%

Production					Ytd	Yr Plan	% Plan
Main Plant							
Volume Blended(Kl)	25256	26565	27114	38923	117858	11850	994.60%
Volume filled, incl base oil(Kl)	41465	44362	40382	55540	181749	208700	87.10%
Volume filled, bulk(Kl)	0	0	7936	9376	17312	92200	18.80%
Volume filled, packed(Kl)	0	0	20108	28594	48702	89500	54.40%
Number of Fills	1023	1065	1182	1177	4447	4900	90.80%
Number of Average Kl per Fill	123	128	59.5	78.2	388.7	30	1295.70%
Specials							
Volume Blended(Kl)	0	0	0	0	0		
Volume filled(Kl)	0	0	0	0	0		
Number of Fills	0	0	0	0	0		
Average Kl per fill	0	0	0	0	0		
Grease							
Grease Manufactured(Tonnes)	906	1001	1576	1669	5152	4500	114.50%
RD Grease Manufactured(Tonnes)	784	822	1085	664	3355	2500	134.20%
Dispatched							
Base Oil Transfer (incl pipeline sales)	9078	3446	2832	2877	18233	27000	67.50%
Grease	1525	1946	2639	2724	8834	7000	126.20%
Bulk : Base oil	16600	18815	13234	12754	61403	63200	97.20%
Bulk : Finished	5849	7625	7794	8829	30097	29000	103.80%
Drums	12083	12029	13122	19943	57177	57500	99.40%
Small Pack	6711	7371	6837	10456	31375	32000	98.00%

TOTAL	42768	47786	43626	54706	188886	188700	100.10%
Supplier Reliability							
Base Oils	0%	0%	16.70%	5%	5.40%	100%	5.40%
Additives	0%	0%	21%	38%	14.80%	100%	14.80%
Packaging	0%	0%	24%	49%	18.30%	100%	18.30%
Productivity					Ytd	Yr Plan	% Plan
Operational Hours							
Blending	9282	9497.8	9508	12331	40618.8	35000	116.10%
Filling Packed	17199	19275.5	17263	27626.3	81363.8	68200	119.30%
Filling Bulk	3423	4603	5318	5319	18663	15400	121.20%
Outbound Logistics	5206	7744	8088	8480	29518	40280	73.30%
Specials	0	0	1488.2	0	1488.2	13200	11.30%
Grease	6425	7311.3	8369	8735.3	30840.5	35200	87.60%
RD Grease	0	0	5636	6108	11744	24200	48.50%
Productivity (kl/manhr;ton/manhr)							
Blending	2.72	2.86	2.23	3.16	2.74	3.37	81.38%
Filling Packed	2.36	2.35	1.38	1.07	1.79	1.37	130.78%
Filling Bulk	7.83	7.72	1.52	3.12	5.05	5.99	84.27%
Outbound Logoistics	2.53	2.72	3	3.19	2.86	2.4	119.13%
Specials	0	0	0	0	0		
Grease	0.27	0.27	0.11	0.13	0.2	0.13	151.28%
RD Grease	0	0	0.07	0.07	0.04	0.1	35%
Quality					Ytd	Yr Plan	% Plan
Customer Complaints							
Shell	7	6	2	18	33	15	220.00%
BP	8	5	4	6	23	15	153.33%
Cost of Non-Conformance							
Shell	8.5	0	0	0	8.5		
BP	390.58	27.04	5.86	18.95	442.44		
Supplied material quality, no. of CAR`s							
Base Oils	0	0	0	3	3		
Additives	0	0	0	1	1		
Packaging	11	12	14	8	45	30	150%
Finished Goods	0	0	0	0	0		
Laboratory					Ytd	Yr Plan	% Plan
Failure Rate							
Lubes	1.10%	1.10%	0.40%	0.40%	0.80%	1%	76.00%
Grease	0.40%	2.60%	0.90%	1.10%	1.20%	2%	62.20%
Scheduling							
No. of Blend Notes Reformulated	0	0	0	779	779	3800	20.50%
Blending							
No. of Blends Validated	0	0	0	779	779	3800	20.50%
No. of Blends Passed	0	0	0	773	773	3800	20.30%
No. Passed on Resample	0	0	0	24	24	95	25.30%
No. Passed after Correction	0	0	0	5	5	40	12.50%
% Right First Time	0%	0%	0%	62.70%	15.70%	96.50%	16.20%
Filling							
No. of Samples Tested	0	0	0	2660	2660	12250	21.70%
No. of Resamples	0	0	0	129	129	600	21.50%
Additives							
No. Tested	0	0	0	188	188	1680	11.20%

No. of Failures	0	0	0	0	0	4	
Grease							
No. of Blend Notes Approved	0	0	0	522	522	3400	15.40%
No. of Batches Passed	0	0	0	522	522	3400	15.40%
No. Passed on Resample	0	0	0	25	25	170	14.70%
No. Passed after Correction	0	0	0	29	29	70	41.40%
% Right First Time	0%	0%	0%	60.60%	15.20%	90%	16.80%
No. of Bitumen Blends Tested	0	0	0	3	3	25	12%
Castrol Rockdrill							
No. of Batches Passed	0	0	0	35	35	200	17.50%
No. of Resamples	0	0	0	33	33	100	33%
No. Passed after Correction	0	0	0	26	26	50	52%
% Right First Time	0%	0%	0%	26.50%	6.60%	75%	8.80%
Lab Turn Around Time(engine oils)(min)	0	0	0	150	150	75	200%

CostControl					Ytd	Yr Plan	% Plan
Board Measures							
Direct(c/lt) Excl One Offs	13.8	12.7	14.2	15.1	13.9	13.7	101.90%
Indirect(c/lt) Excl One Offs	9.8	8.7	11.6	10.8	10.2	9.6	106.90%
Total Cents/Litre Incl One Offs	24.6	22.9	26.5	27.3	25.3	24.2	104.70%
Cents/Litre: Base Oil (Rec and St)	1.3	1.2	1.2	1.6	1.3	1.3	99.90%
Cents/Kg Grease	97.7	76.2	66.6	79.6	80	94.5	84.70%
Training Days %	9.70%	1.70%	2.30%	0.30%	3.50%	3%	116.70%
Stock Accounting (value)	-1501	-293	-677	-1342	-3813	-3642	104.70%
Stock Holding Days: Additives	32	27	37	28	28	20	140%
Stock Holding Days: Packaging	22	22	13	9	9	25	36%
Stock Holding Days: Fin. Packed	4	5	2	0	0	2	
Activity Costing (c/lt;c/kg)							
Blending	5.73	5.49	5.87	7.86	6.24	5	124.75%
Receipt and Storage (base oil)	1.44	1.52	1.27	1.6	1.46	0.98	148.72%
Filling	5.44	5.08	5.82	6.66	5.75	4.78	120.33%
Outbound Logistics	5.09	4.6	5.16	2.17	4.25	5.44	78.20%
Specials	0	0	0	0	0		
Grease	95.54	74.71	67.09	85.16	80.63	103.53	77.88%
RD Grease	0	0	55.93	66.5	30.61	70.29	43.54%
Bitumen	54.66	31.24	70.69	0	39.15	27.71	141.28%
Total Direct	13.8	12.7	14.23	15.24	13.99	13.69	102.21%
Total Indirect	9.77	8.68	11.55	10.82	10.21	9.55	106.87%
Overtime							
Rands	358	318.9	420	701.4	1798.3	1173	153.30%
% of Hours	7.30%	8%	10%	16.70%	10.50%	7%	150%
Boiler Efficiency							
Cost (boiler fuel)	579.3	247.3	502.4	709.7	2038.7	2403	84.80%
Usage (kl)	238.4	193.2	278.8	273.4	983.7	1680	58.60%
Combustion Ratio : stream/fuel	9.9	9.3	9.6	9	9.4	11	85.80%
Losses							
Flushings/Slops							
Slops oil (kl)	42.1	31.7	115.2	21.5	210.5	100	210.50%
Downgrading (kl)	296.6	344.2	377.2	821.5	1839.5	1050	175.20%
Slops Grease (kg)	4297	2246	9412	6056	22011	15000	146.70%

Reblended (kl)	**374.5**	**353**	**274**	**272.7**	**1274.2**	**11050**	**11.50%**
Costs(R000s)							
Total	**-1501**	**-293**	**-677**	**-1342**	**-3813**	**-3642**	**104.70%**
Procurement	**54**	**-82**	**188.4**	**-205**	**-44.6**	**-20**	**223.00%**
Lubes	**-1259**	**103**	**-649.4**	**64.1**	**-1741.3**	**-1902**	**91.60%**
Grease	**-2**	**30**	**23.9**	**210**	**261.9**	**-20**	**-1309.50%**
Outbound	**-294**	**-344**	**-13.3**	**-22**	**-673.3**	**-20**	**3366.50%**
Downgrading	**0**	**0**	**-226.5**	**-1446**	**-1672.5**	**-1680**	**99.60%**

Stock					Ytd	Yr Plan	% Plan
Additives							
Volume	**729**	**576**	**770**	**650**	**650**		
Cost(R000s)	**13469**	**12883**	**18123**	**15607**	**15607**	**11000**	**141.90%**
Number of days	**32**	**27**	**37**	**28**	**28**	**20**	**140%**
Containers							
Costs(R000s)	**3709**	**4100**	**2334**	**1808**	**1808**	**4000**	**45.20%**
Number of days	**22**	**22**	**13**	**9**	**9**	**25**	**36%**
Baseoils							
Volume	**17277**	**14508**	**15422**	**24645**	**24645**		
Cost(R000s)	**31264**	**31761**	**38231**	**53835**	**53835**	**30000**	**179.50%**
Number of days	**30**	**32**	**37**	**46**	**46**	**31**	**148.40%**
Finished Goods : Bulk							
Volume	**2349**	**2223**	**1864**	**2691**	**2691**		
Cost(R000s)	**10528**	**11889**	**6922**	**10220**	**10220**	**10500**	**97.30%**
Number of days	**6**	**7**	**4**	**5**	**5**	**7**	**71.40%**
Finished Goods : Packed							
Volume	**18**	**12**	**23**	**2.6**	**2.6**		
Cost(R000s)	**7756**	**8638**	**3738**	**576**	**576**	**3500**	**16.50%**
Number of Days	**4**	**5**	**2**	**0**	**0**	**2**	

Engineering					Ytd	Yr Plan	% Plan
Key Performance Indicators							
% PM Schedule Attainment	**62.70%**	**74.30%**	**58.70%**	**58.70%**	**63.60%**	**95%**	**66.90%**
Backlog/Artisian	**29.2**	**52.4**	**65.9**	**72.7**	**55.1**	**7**	**786.50%**
% Hours Captured on CMMS	**83.30%**	**79.30%**	**69.70%**	**66.30%**	**74.70%**	**70%**	**106.70%**
% Planned vs Unplanned Work	**22.70%**	**58%**	**75%**	**53.70%**	**52.30%**	**60%**	**87.20%**
% Breakdown vs Total Work	**22.70%**	**15.30%**	**5.70%**	**6%**	**12.40%**	**10%**	**124.20%**

People					Ytd	Yr Plan	% Plan
Staff Compliment							
Planning / Scheduling	**6**	**7**	**7**	**7**	**7**	**7**	**100%**
Inbound / Procurement	**10**	**9**	**10**	**9**	**9**	**10**	**90%**
Blending	**20**	**13**	**13**	**16**	**16**	**16**	**100%**
Filling	**24**	**21**	**24**	**25**	**25**	**21**	**119.00%**
Grease	**15**	**15**	**16**	**19**	**19**	**16**	**118.80%**
Outbound Logistics	**9**	**10**	**9**	**11**	**11**	**10**	**110.00%**
Laboratory	**17**	**18**	**15**	**15**	**15**	**17**	**88.20%**
HSEQ	**0**	**0**	**4**	**4**	**4**	**4**	**100%**
Technology	**3**	**1**	**1**	**0**	**0**	**1**	
Engineering	**12**	**12**	**9**	**10**	**10**	**11**	**90.90%**
Finance and Systems	**7**	**9**	**9**	**8**	**8**	**12**	**66.70%**
Human Resources	**3**	**3**	**3**	**3**	**3**	**3**	**100%**
Management	**6**	**6**	**7**	**7**	**7**	**7**	**100%**

Cor-Contract Labour	**6**	**87**	**114**	**123**	**123**	**88**	**139.80%**
Staff Total	**0**	**211**	**249**	**257**	**257**	**222**	**115.80%**
Training/Sick Days							
Days Training	**564**	**123**	**224**	**87**	**998**	**1050**	**95.00%**
% Training Days	**7%**	**1.70%**	**2.30%**	**1%**	**3%**	**5%**	**60%**
Days sick	**86**	**164**	**189**	**108**	**547**	**400**	**136.80%**

CHAPTER 4

STRATEGY EVALUATION

4.1 Introduction

This chapter evaluates the strategy of outsourcing the laboratory at Blendcor, using the model developed in chapter 2. Strategic tools and theory developed under theoretical review will be used to conduct the analysis.

4.2 Strategic Analysis

This section identifies the company's situations. The industry will be scanned, and then the analysis will penetrate into the organization. Eventually the department concerned will be evaluated as well.

4.2.1 Industry's Dominant Economic Features

This section explores the South African lubricants industry's dominant economic characteristics, which determine the major sources of competitive pressure and strength.

Dominant Economic Features
Market Size: It is close 250 million litres, which is about to R1 500 million.
Scope of Competition: The competition is mainly national, and slightly international.
Stages in Life Cycle: Mature.
Number of Rivals: There are at least six companies (brands), and no name brands that have insignificant market share. The market is almost evenly distributed, although Shell and BP just edge the competitors.
Customers: Mainly the private companies and minor portion from franchisees.
Vertical integration: Partial backward integrated, but almost fully forward integrated.
Innovation: Companies are highly differentiated, thus product innovation is crucial. Modern automatic plants are more economic to operate.
Economies of Scale: It is important to ensure centralized product development, maximum capacity utilization and standardized marketing.

Learning and Experience: This is quite important as the experienced personnel learn to do things better and efficiently.

Companies: They are clustered on the Durban cost for easy access to base oils from refineries and ships.

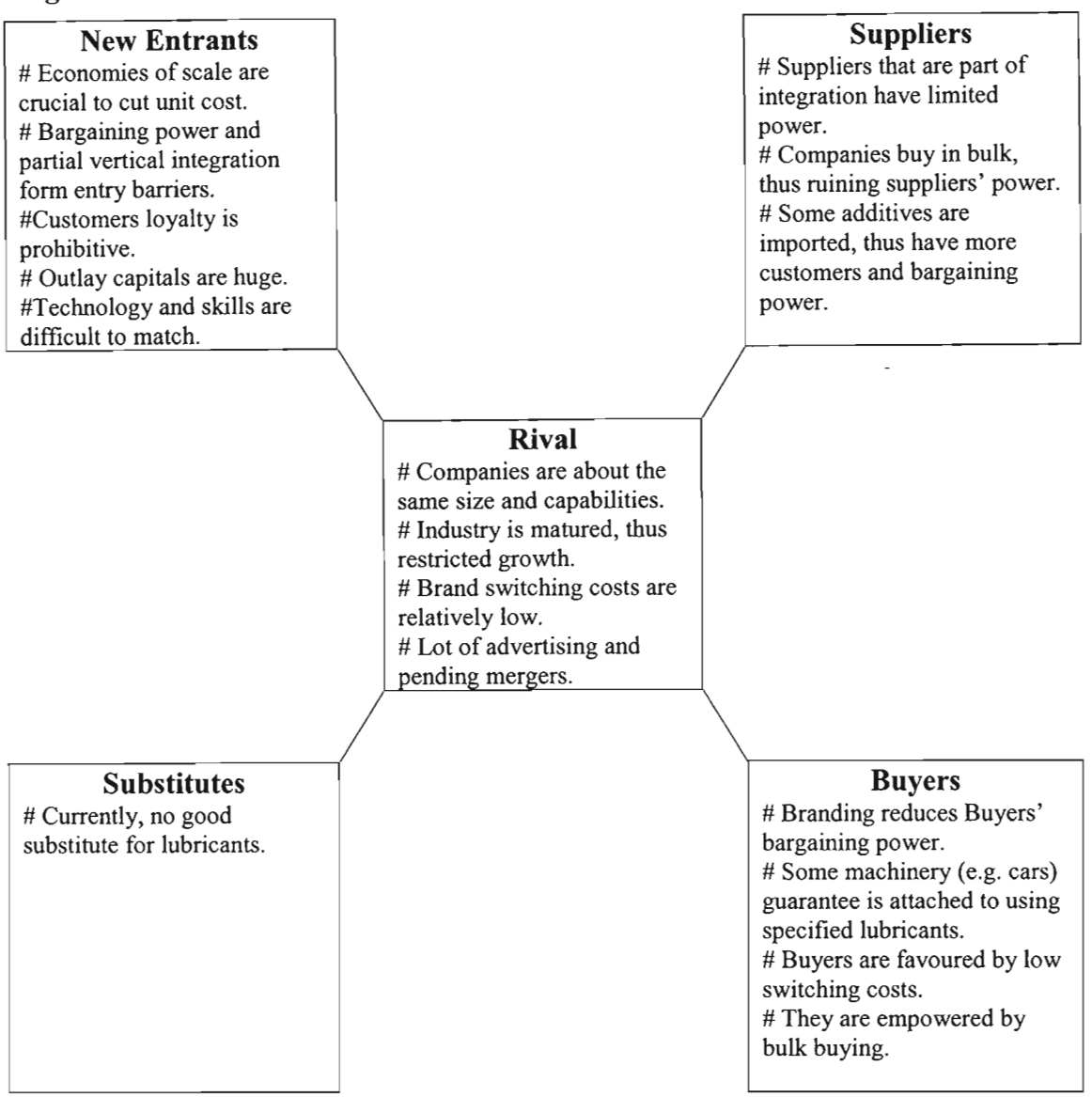
Capital Requirement: Lot of machineries is required to run a lubricants plant, which make entry and exit difficult.

Profitability: The industry is profitable.

4.2.2 Porter's Five Forces Model

This is another industry study tool, which analyses and grades the competition forces. However, it must be stated that the model only works in a stable environment. But it is worthy using.

Figure 4.1 Five Forces Model



Source: A. A. Thompson & A. J. Strickland, *Strategic Management: Concepts and Cases*, McGraw Hill, 2003 p. 81

Implications. The competitive situation of the industry is favourable. There are some protection and vulnerability of the industry participants. The circumstances are in favour of the already developed companies. This outcome can be deduced from both dominant economic factors and the five forces model.

4.2.3 Industry's Key Success Factors

The key success factors are determining whether the company is going to prosper or fail in the marketplace. These are sources of competitive advantage; the company

should excel in any one of them. There are usually three or four key success factors for a particular industry at a given time. The following section will discuss the top four success factors in the lubricants industry in South Africa.

Brand. It is utmost important to have good brand name. Quality products and clever advertising back up the brand. Quality ensures that the products perform, thus delight the customer. The laboratory as a quality control vehicle at Blendcor is a source of core competency.

Low unit cost. In order to make profit it is important to produce the lubricants cost effectively. This is achieved through economies of scale and the experience effects. The joint venture of Shell and BP ensures the maximum capacity utilization. The latest improvement has been the result of BP expansion through acquisition.

Reliable delivery. It is important to have the product that the customer wants, at the right place and on time. Therefore the outbound logistics must be in good order, and the transport available on request. The transport must be in good working condition so that it can deliver the promise to the customers.

Good service. Flexibility and solving customers' problems are the main factors of success. Flexibility means rapid response to special and urgent orders. The latter means good relationships with customers, and clarifying uncertainties.

Implications. The shareholders, also customers, are very interested in these factors. Their outcry is to see Blendcor excelling in these factors. The role played by the laboratory in these factors is invaluable. The laboratory tests the raw materials, sometimes-immediate products, finished products, on filling of products and the customer complaint products. Therefore the laboratory is a core part of the lubricants production, except for automated production.

4.2.4 Gap Analysis

There are three types of performance gaps that the organization must attempt to minimize. They are briefly applied to Blendcor below.

Improvement gaps. As it will appear later on, Blendcor suffers from internal weaknesses that need to be addressed. The value chain analysis will verify this.
Expansion gaps. This is almost irrelevant for Blendcor, as a joint venture that capitalize on maximum capacity usage. The recent BP expansion has a positive effect on the unit cost.
Diversification gaps. This is not applicable to Blendcor since it has not minimized the improvement gaps.

Performance report shows lot of short falls, which calls for improvement gaps analysis. The performance measure of delivery to promise was planned to achieve a minimum of 95 percent. But the lubricants actual performance ranged between 37 and 66 percent. This is a poor performance, which deserves a radical improvement. It calls for big step improvement rather than small continual increments.
The grease performance with respect to this measure was also discouraging. It is only about 50 percent of the planned 95 percent, which need a major improvement.

The availability of transport is a major issue when it comes to delivering the products on time. The planned performance was in a range of 95 to 98 percent. Blendcor's actual performance ranged between 60 and 68 percent of the plan. This is bad news as well, thus the company needs to develop a strategy to improve such lousy performance.

The customer complains were also excessive. The company planned for 15 percent customer complaints. However, there were more than 150 percent complaints from BP and 220 percent complaints from Shell. This calls for quality improvement. This has negative impact on the brand images of the marketers, which could thus leads to market share surrender.
And lastly the company performance on cost control was not impressive. The blending exceeded the planned 5 percent by over 125 percent of this. This could be due correcting failed samples. The feeling exceeded its set standard by more than 120 percent. Although the company gains from economies of scale, there is still lot of improvement that need to be done to eliminate inefficiencies.

4.2.5 SWOT Analysis

This tool attempts to match the company resources to the environment. But since the strategy was going to be applied to one department, this SWOT analysis will be perform to that particular section. The following is the Blendcor laboratory SWOT analysis.

Figure 4.2 SWOT of Blendcor Laboratory

Strengths	**Weaknesses**
• Knowledge based service • Winning culture • Balance of old & experienced and young & qualified personnel • Modern equipments	• Lack of teamwork • Inflexibility of new personnel • Poor communication skills • Old equipments
Opportunities	**Threats**
• Contract testing • Offering training about quality • Process improvement • Recycle and reducing waste	• Outsourcing • Automation of production • Inefficient value chain activities • Organizational culture

Table 4.1 Weighted SWOT

	Opportunities				Threats				
	Contract Testing	Quality Training	Process Improv.	Recycle Waste	Out-source	Auto Prod.	Infe-ciency	Organ. Cultur.	**Net Impact**
Strengths									
Knowledge Service	+3	+3	+2	+2	-3	+2	+2	0	**+11**
Winning Culture	+2	0	+1	+1	-1	+1	+2	-3	**+3**
Balance Personnel	+3	+1	+3	+2	-2	+1	+2	-2	**+8**
Modern Equipments	+3	0	+1	+1	-1	-1	+1	0	**+4**
Weak-nesses									
Lack of teamwork	-2	-1	-1	-1	+1	0	-2	-3	**-9**
Inflexible Employees	-2	-1	-1	-1	+1	0	-2	-1	**-7**
Poor Comm.	-2	-1	-1	-1	+1	0	-3	-2	**-9**
Old Equipments	-2	0	-1	0	+1	+1	-2	0	**-3**
Net Impact	**+3**	**+1**	**+3**	**+3**	**-3**	**+4**	**-2**	**-11**	**-2**

Implications. The important observation from the weighted SWOT analysis is that the highest scores come the people related issues. They are either positive or negative impact.

This indicates the importance of people to the business. The organizational culture is still forming the bulk of the problem. The organization must improve the culture in order to gain the knowledge of employee. It will also gain from the balance of the experienced and the educated youth.

One the corporate culture is sorted out it will be easier to improve the departmental culture. Therefore teamwork and communication can improve easily.

4.3 Strategic Options

This section serves as the standard on which to approve strategies. The strategies can be suggested based on the company situation. Some tools will be used to discover the list of strategies applicable to Blendcor.

4.3.1 SWOT Diagram Analysis

The SWOT diagram (figure 2.2) suggests the application of the ***turnaround-oriented strategies*** for a company faced with numerous environmental opportunities, but has critical internal weaknesses. As the analysis will reveal later, Blendcor is in the same boat. The value chain will highlight the weaknesses.

4.3.2 Life Cycle Matrix

Table 2.1 also suggests several strategies applicable to a company in different life cycle stages. Blendcor, an operation branch of Shell and BP, is in a matured industry. The following strategies are applicable to operations and personnel management. The matrix includes ability to improve product and reduce costs, ability to share capacity, advantageous supplier relationships and subcontracting. The strategies that reduce workforce and increase efficiency are recommended.

The research and development strategies are costs reduction, develop variants and differentiate products.

Blendcor has done exceptional well in most of these strategies, except the improvement of efficiencies. However, the matrix does not specify outsourcing of research and development as it clearly state in the operations case.

4.4 Suitability Testing

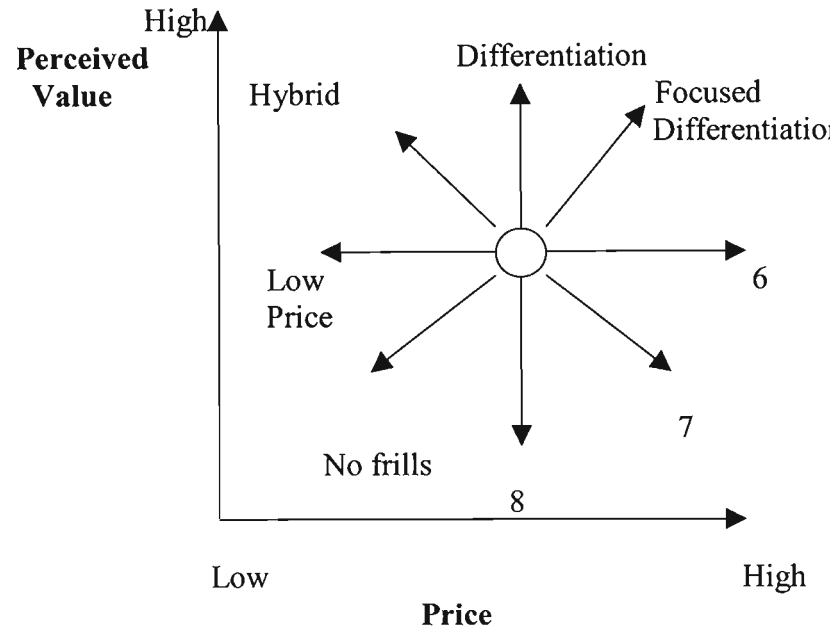
This section is concerned whether the strategy addresses the circumstances of Blendcor. The extent to which the strategy matches the company's resources to the environment in order to deliver a competitive advantage will be assessed.

4.4.1 Positioning

Positioning is the most important element of suitability. Based on future demand forecast, positioning is used to assess if the current and future positioning are

sustainable. The uniqueness of the competencies will determine the suitability of a positioning of differentiation.

Figure 4.3 Positioning Clock



Source: G. Johnson & K. Scholes, *Exploring Corporate Strategy: Text and Cases*, Pearson Education, 2002 p. 320

The products manufactured by Blendcor are positioned on differentiation, which is viable for mature industry. Should the industry undergo the decline stage, the hybrid positioning will make a better sense. But this is unlikely, since there are no good substitutes.

However, outsourcing is good since it will save 10 to 30 percent of the laboratory budget. If this production element can save, more funds will be available for marketing. The life cycle matrix supports this course of action.

4.4.2 Business Profile

This subsection is concerned about the financial performance as the result of implementation of the new strategy.

On a ***short-term*** period Blendcor is likely to save on cost, as the tender is contestable. But there would be quality problems, as employees would be de-motivated by poor employment contracts of new employer. The employees could even be interested in proving the management wrong by making the strategy a failure. This will result in

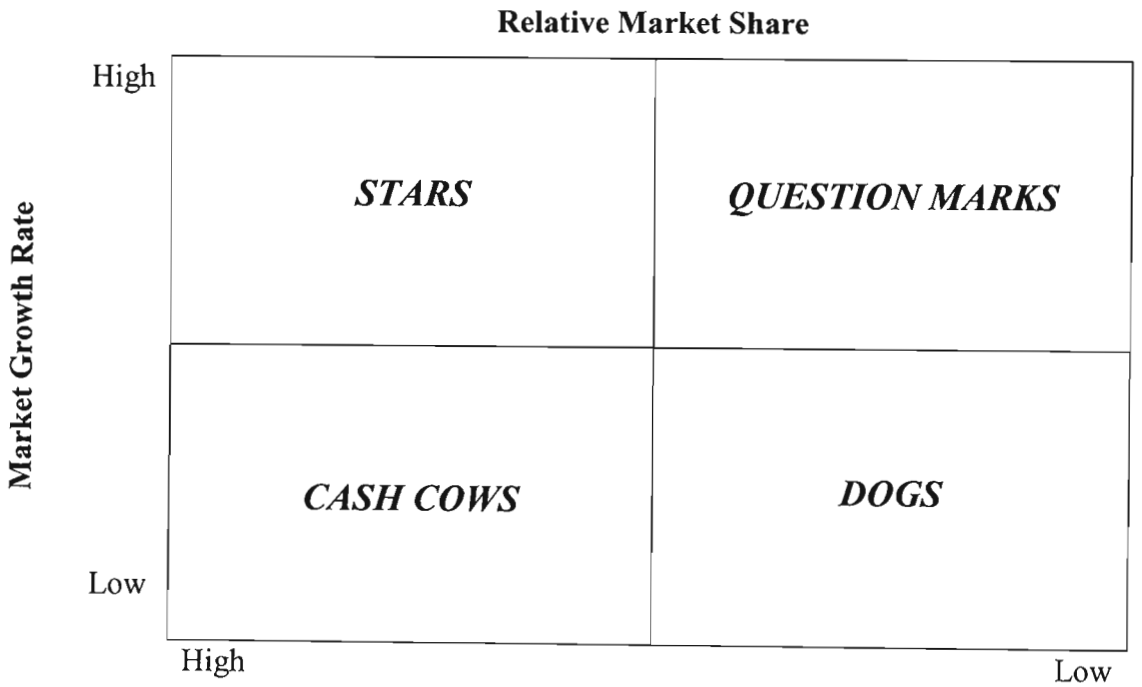
poor sales, and reduction of market share. The contractor could resign because it recognized its loss leadership.

But such loss leadership could purposely be aiming at migrating the company value to the contractor over the ***long-term***. The company is vulnerable of losing its competences over the long-term period. Further, the contractor could increase the price when the company is more dependants on it, which makes the strategy less soundly.

4.4.3 Portfolio Analysis

The portfolio analysis is concerned about the stages of different products in the lifecycle. The products must be scattered almost evenly throughout the lifecycle in order to balance the activities. The organization should avoid the situation where it has only the matured products. As these products simultaneously enter the decline stage, the company will shut down. Therefore a company with cash cows only should not be complacent, and enjoy profits. It needs to develop the future stars and cash cows.

Figure 4.4 Boston Consulting Group's Growth-Share Matrix



Source: P. Kotler, *Marketing Management*, Prentice-Hall International, Inc; 2000 p. 69

The outsourcing of the laboratory will have a negative impact on generating new products. On long-term basis this could be an expensive task to do. And the coordination of products and process developments can prove difficult under different companies. There could also be larger time lag to bring new products to the marketplace.
This will deteriorate the balance of products, and eventually leads to the surrender of the market share.

4.4.4 Value Chain Analysis

The value chain identifies the separate business activities that are performed in designing, producing, marketing, delivering and supporting the offering.
Showing how the outsourcing of the laboratory will strengthen and improve the value chain activities will test the suitability of the strategy. The analysis will exclude the activities that are out of control of Blendcor, like sales and marketing.

The analysis shows that the outsourcing of the laboratory will not have tremendous positive effects. As mush as the quality of the final product depends on the quality of raw materials, so are the laboratory activities. The garbage in, garbage out principle holds.

Inbound Logistics.

This department is not very efficient. It should be working with the suppliers on reliability. The unavailability and late delivery of additives are having negative impact on meeting production schedules.
The laboratory can negotiate with parties concerned as far as testing of additives is concerned. But the responsibility lies with inbound logistics to source quality, tested additives that are accompanied by the certificates of assurance.

Operations

There are different types of costly and time-consuming activities that are going on in this department. The biggest problems are not following of procedures and cheating in order to increase production.

Grease Plant. It is a noticeable practice that if a sample fails, a passed sample is presented as a resample instead. As mentioned earlier, the poor recording of passed samples, thus returning passed samples for re-testing. These are unnecessarily leading to the duplication of work in the laboratory. They also enhance customer complaints, thus further re-testing by the laboratory.

Lubricants Plant. Time elapsed is more than expected between the end of product mixing and the sample arrival in the laboratory. This put pressure on the laboratory to test quickly. Time is wasted as the laboratory tries to figure out which additive has been insufficiently, or not, added that is causing product failure. After the suggested correction, the laboratory has to re-test the sample again.

Filling. There is a problem of poor coordination between the plant and this section. When they run out of work, they push the laboratory to pass anything.
It is uneconomic to have dedicated lines for each and every product. But family products and related dedication could save the testing time and flushing. The use of common lines for metal free grades and metal containing lubricants seems to generate lot of waste and repeated testing.
Sometimes there are problems with new personnel who don't follow the procedures.

Outbound Logistics

This department is better than most departments, but the use of chute is a problem. It is very inefficient. And their organization of transport also delays the products.
But it must be noted that some lines are dedicated to specific products, and are mostly bulk loading. Therefore the switching over delays is minimized.

The Laboratory

The laboratory does contribute to the delays because of unavailability of priorities. Every now an then, some personnel will pop in the laboratory and make special request of urgent blends. This disturbs the work-in-progress.
There are bottlenecks because both the plant and filling personnel prefer to economically bring the samples simultaneously. They accumulate the samples in order to avoid shortage of the workforce.

The laboratory itself could be short of personnel as a result of different reasons. Some instruments are old they often malfunction. This adds to poor time management.

The laboratory also conducts the product development. Although the shareholders have their centralized research and development centres Blendcor still have to customize the products for the South African context. The laboratory optimises products to meet both the shareholders' and SABS specifications.

The laboratory also offers service by analysing customer complaints samples. And it has to identify the causes of discomfort.
All these are sometimes subjected to delays because of shortage of personnel or malfunctioning of apparatus.

Procurement

There are several problems that link on procurement. The additives samples are sometimes sent to the laboratory without certificate of assurance. The samples have therefore to be tested thoroughly in order to avoid feeding the additives that are off-specification. As mentioned in the case study, the additives could be physically available, not on the prisms.
These poor activities create unnecessary work for the laboratory, and thus delay production.

Human Resources Management

One of the works of human resource is to train the workforce. Therefore it is still their duty to train the people after all the reshuffling in order to improve performance. Training also gives people the confidence in their jobs.

Labour relation is not necessarily measured by the CCMA cases. The acts, like the Labour Relations Act, are there to provide guidance. Therefore the onus is on human resource department to create good relationship between stakeholders in the workplace.
Compensation and career path must be clear and consistent. There shouldn't be inconsistencies, which leads to employees demanding transparency.

Compensation and career path are great motivators for employees. Where there is no clear direction, the employees are de-motivated. And the performance drops.
In fact, in a dynamic environment like Blendcor employees need assurance. They are not certain if they are next to losing their jobs through rightsizing and outsourcing. Honest communication and motivation are needed the most at Blendcor.

General Administration

There is a problem with the planning and scheduling of production. The priorities are usually not available. It is rare to reserve the ingredients of a product. This affects different departments. Therefore the procurement cannot ensure availability of additives on the prisms as per priorities. The worse of all is when the additive is not physically available on premises.
Special requests of urgent products also exhaust the testing capacity of the laboratory. Eventually, the samples get tested and wait for incomplete paper work. Proper planning can eliminate all these undesirable anxieties, and result in well coordinated value chain activities. Time costs could be saved.

Implications

If the cost per sample tested is followed, it could prove the management wrong. There are lots of the so called the first time passes that come to the laboratory for checking prior to the final sampling. The poor control of the greases will be cost contributing. The passed grease samples will come over again for testing, creating unnecessary duplication of work for the laboratory.
Therefore the best way to save cost will be to have a fixed price over a certain period. This does not necessarily strengthen the value chain activities, but allows for inefficiencies to be less costly to Blendcor.

4.4.5 Life Cycle Analysis

The aim of this analysis is to found out if the strategy fit in with the organizational circumstances. The lubricants industry can be classified as matured, and Blendcor is in a favourable position. The matrix suggests different strategies, including catch-up, renew, turnaround and growing with the industry.
Outsourcing could be a catch up, if the contractor is more competent than the in-house laboratory.

Table 4.2 The Industry Life Cycle/ Portfolio Matrix

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

Source: V. Ambrosini, *Exploring Techniques of Analysis and Evaluation in Strategic Management*, Pearson Education, 1998 p. 209

4.4.6 Suitability of the Strategy

Outsourcing of the laboratory uses the opportunity of availability of lower cost service supplier. But it certainly creates a threat in the long term, since the value can migrate to the contractor. The strategy has a high probability of trading the core competencies. The laboratory contributes to the satisfaction of key success factors since it plays a major role in ensuring the quality of products.

The value chain analysis identifies numerous weaknesses that require remedies. The company should rather support a turnaround-oriented strategy, since it appears as if outsourcing will not improve the situation. It is certainly not suitable in this case.

4.5 Acceptability Testing

It is important for an organization to think of all constraints before choosing a strategy. Therefore the strategy must be acceptable. Johnson and Scholes (1999, p. 370) define acceptability as a concern with the expected performance outcomes provided a strategy is implemented. There are three general ways to analyse acceptability of strategies; these are return, risk and stakeholders reactions.

4.5.1 Return Analysis

Outsourcing always comes with costs of transferring the activities. There would be also a price for the contract over the specified period. However, the contractor will only win the tender provided that the price is less than the laboratory budget over the same period.

According to Domberger (1998), the normal saving on outsourcing is in the range of 10 to 30 percent. Therefore Blendcor is likely to save an average of 20 percent on the laboratory budget. This is a substantial reduction in costs, thus has a positive impact on return.

4.5.2 Risk Analysis

Blendcor is not likely to have cash flows problems, since it is backed by the multinationals. Most of the problems could be rather sensitive in nature.

Most contractors employ the some of the customer organization's employees in order to capitalize on the experience. This may inhibit the proposed productivity improvement, since the employees know their limited scope of work. The contractor usually reduces the salaries, which de-motivates the workforce even further. And finally, the employees could be on a mission to prove that outsourcing does not improve the situation. In fact they could try to make it worse.

There could be a problem of below standard performance. This could result in quality problems and increasing of customer complaints. Lost leader contract could face this situation because of undermining the work. The result is withdrawal from the tender or inferior performance.

However, it must be noted that some loss leading are purposeful. The contractor could be indirectly 'paying' the market entry fee. It is learning and is aiming to go directly into the market.

The value could just migrate from the company to the contractor. When the organization is over dependant on the contractor, then the service price will swell. And the client organization's formulations could be leaked to the competitors.
This is too risky to accept! Should the worse happen, the organization's existent is on the line.

4.5.3 Stakeholder Reactions Analysis

Most strategies mean different things to different people, so is outsourcing of Blendcor laboratory. The reactions of different groups could be forecasted.
Management. The favourable style of management at Blendcor is cost cutting. They are likely to favour outsourcing since it is a form of managing the denominator. The strategic saying, leaner is meaner, will apply when retrenching employees and possibly some laboratory physical assets.
However, this management practice most favoured by the Western oriented managers who find it difficult to increase the numerator, output. This is the easy way of increasing the return on capital employed. But unfortunately it surrenders market share.

Customers are likely to be concerned with quality implications of the products. It could be insignificant otherwise the products performance drops.
Shareholders are likely to reject the strategy because of the vulnerability of their brands. They rejected SAPREF's proposal to outsource fuels testing to an independent contractor. The fuels are less branded compared to lubricants, thus certainly they will show the red light to this strategy.

Employees are going to reject the strategy. They fear losing their jobs since the contractor may employ a few of them. The terms of employment will change, which means lower salaries for increased responsibilities. They will lose lot of benefits, and are even vulnerable of losing their jobs should the contract not be renewed.

4.5.4 Acceptability of the Strategy

The outsourcing of the laboratory is not acceptable as far as Shell and BP are concerned. The employees and customers alike will not buy into the strategy.

Therefore the strategy is not acceptable to most stakeholders although it is to management.

4.6 Feasibility Testing

According to Johnson and Scholes (1999, p. 383), feasibility is concerned with whether the strategy could be put into practice. It assesses the availability of resources and strategic capability. Feasibility will be tested below, three subheadings will be considered.

4.6.1 Funds Flow Analysis

Blendcor will not have problem with capital investments, since it will take the contractor that will cost less than the in-house laboratory. Therefore the working capital requirements will be satisfied. In fact, the 10-30 percent saving on outsourcing will enhance the profitability.

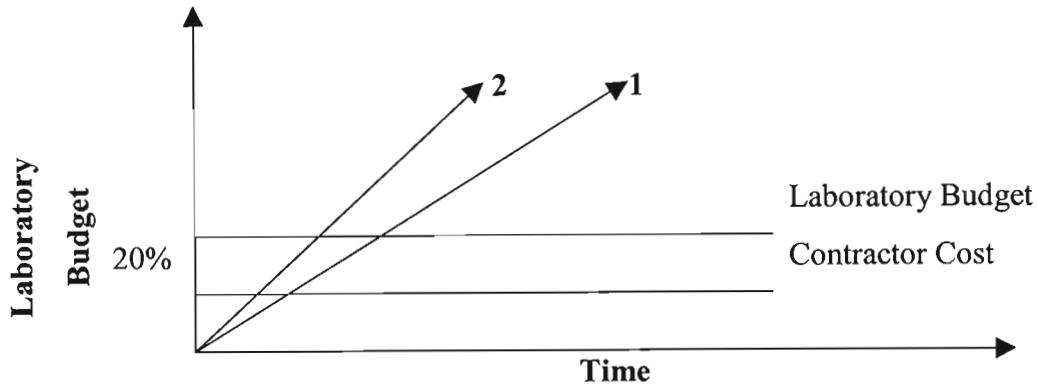
The company will be able to cope with the costs of redundancy, since it had retrenched a far bigger number than the total of the laboratory staff. Thus Blendcor will be able to absorb the costs of redundancy.

4.5.2 Breakeven Analysis

There is no direct analysis of the breakeven point since the internal transactions are not recorded and charged. That is, the in-house laboratory does not charge for the service it offers to other departments.

However, it is rational that the breakeven point will shift to a smaller value since the laboratory budget is expected to drop anywhere between 10 and 30 percent. And more than 30 percent can be saved if the productivity of the contractor workers is more than the current laboratory staff.

Figure 4.5 Pictorial Representation of Breakeven Analysis



Line 1 represents normal productivity of laboratory. The 20 percent saving is indicated by line 1 cutting contract cost line prior to crossing laboratory budget.

Line 2 represents an improved productivity, which could result in further savings on top of the average 20 percent normal saving.

4.6.3 Resource Deployment Analysis

Blendcor is in a good position to hold on its architectural knowledge since it can keep some of its supervisors to manage this. However, after this the technical expertise will slip away as the company will not groom new experts. Instead, the contractor will have the experts to formulate the products. This is a direct migration of value to the contractor.

This likely to has negative impacts on brands of Shell and BP. The customers' perception of superior products from Shell or BP will diminish. They will perceive the products to be identical to the competitors'. Therefore the perception of inferior products may prevail, which will destroy brands images and equities.

The product development will be a difficult issue since the contractor will be in charge of it. The shareholders will be reluctant to introduce new products for the fear of formulation leakages. Therefore this will result in poor performance in the market place. They could even opt for developing their products in other blending plants in Southern Africa.

4.6.4 Feasibility of the Strategy

This is a financially viable strategy, which will enhance the profitability of the company in the short run. However, strategically it is a surrender of the market share. Therefore, outsourcing of the laboratory is not a feasible strategy to do when considering the long-term impact on the business. The going concern of the organization may cease to exist.

4.7 Strategies Selection

This section looks at different considerations that management pay attention to when selecting strategies. Ambrosini (1998) mention six dimensions that need management's attention. Each one of them will be discussed below as they apply at Blendcor.

4.7.1 Deliberate Aspect

Blendcor strategies have an element of prescription. Every year management go for strategic planning if February. They plan the strategies for the year. The yearly goals and objectives are set.

After this corporate planning, the functional objectives are set to contribute towards the common company objectives. These objectives go hand in hand with the target performance.

Eventually at the end of the year, the management compares the actual performance with the planned. This forms the basis of appraisal and performance incentive bonus for the workforce.

4.7.2 Emergent Aspect

There is an element of learning through in strategic planning at Blendcor. There is some uncertainty as far as the optimal workforce is concerned. Sometimes positions are frozen in order to experiment with the existing employees. Some old positions are re-introduced. There are cases where not everyone is aware of other employee's responsibilities or duties.

The employees are asked to take leave if there is a drop in demand, while working overtime is requested during picks periods.

4.7.3 Command Aspect

There is an element of command in strategy formulation, but not necessarily from the general manager. There appears to be some different loci of controls. The management division can be easily sensed. For example, some managers avoid saying 'we decided', instead they would insist on saying 'the management decided'. Some will say they are not talking on behalf of management, while they are actually taking the position of a representative figure of Blendcor. This reflects their lack of power, thus being pulled by the strategy commanders.

The commanders portray exactly the mighty image. They will really ask in an employee is opposing them. They use too much coercive power. It thus forms part of culture to the employees as they whisper. There are grapevine stories of who actually run the company, but not the general manager.

4.7.4 Cultural Aspect

The general culture is not supportive to the strategies. There is no attempt to create a single, strategy supporting culture. There is therefore no surprise that the company is lagging behind the national transformation. As the theoretical review reveals the impact of the latest version of Labour Relations Act on the organizational culture, Blendcor seems to be moving slower than the average speed of transformation. Less attention is paid to the change of Hostede's model's dimensions. Some of these have changed dramatically, for example, power distance and masculinity versus femininity.

According to the theory developed on chapter two of this report, management cannot delegate moulding of the culture. At Blendcor, the management is rather passive to the cultural change. In general management would prefer the past apartheid culture, thus it is not surprising if they are dragging their feet when it comes to transformation. According to Employment Equity Committee, the manager who sits in it simply defends the status quo.

The culture is fragmented by the different application of rules to the employees. There are at least three different classes of employees at Blendcor. There is a super race, Euro-Africans. A position is created for this class of employees at Blendcor, even if there is no need for it.

There is a middle race, Asio-Africans, which enjoy the alteration of job descriptions and minimum job requirements. The conditions of a position are altered to suit this class of employees.
The last class of employees is the lower race, Afro-Africans, which are denied positions. It can be altered to suit a less qualified candidate of the upper races at the expense of a suitable qualified applicant of this class. Or the position is dissolved or frozen.

These are the divisions that dilute the culture at Blendcor. They are direct result of the Group Areas Act.
To emphasize these divisions, the functional heads try to create departmental culture. These strategy commanders weaken the organizational culture even further.

This analysis indicates an urgent need to transform the culture. Therefore the management face must reflect the new country. Chapter two suggests that the company must transform the management, and employ the people who are willing to change the corporate culture. The organizational culture must reflect the national cultural trend.

4.7.5 Enforced Choice Aspect

To some extent the strategy is enforced at Blendcor. It has become one of the largest blending plants of Shell or BP. Therefore there is a pressure to cut the costs, and achieve economies of scale that are comparable to the best blending plants of the world. There is also a pressure of comparison to the plants of the Eastern countries, which have low-wage labour.

Competition is putting an upper limit to the pricing strategy, thus has to reduce the costs in order to be profitable. Engen is semi-automated, but the concept is not acceptable to the government. Therefore manual operation is enforced to some degree.

4.7.6 Political Aspect

The bargaining power of employees is greatly reduced by contracting strategy. Therefore management takes advantage of this, and enforces any strategy that is not suitable as far as employees are concerned.

There is quite a lot of time spend by management to dilute the union power. They will go an extra mile in order to prevent the union from gaining the majority. And this has a direct impact on poor organizational culture.

4.8 Evaluation of the Organization

Having evaluated the strategic outsourcing of the laboratory, now it is the time to evaluate the organization in general. For an organization to propose a non-recommendable strategy does not necessarily mean everything it does is bad. There are some merits and flaws as well.

4.8.1 Blendcor Merits and Flaws

The following passage will evaluate Blendcor based on Table 2.1, which identifies the sources of distinctive competence at different stages of the life cycle.

Operations. Blendcor has managed to reduce cost of production. The retrenchment and downsizing strategies has assisted in this achievement. The employment of youth who still have low salaries is a plus in costs reduction; however, there is a trade off as far as experience effect is concerned.

Subcontracting of certain portion of production is recommendable, but there should be a limit to outsourcing.

The shareholders have assisted a lot in ensuring maximum capacity utilization. The joint venture and the recent acquisition of Castrol by BP are great plus in reducing capacity. This is easily observed in stable unit costs of a lubricant produced. If inflation is taken into consideration, this a reduction in unit costs. Therefore these also contribute in costs reduction, which matches the mature lubricants industry of South Africa.

As far as suppliers are concerned, Blendcor has god relationship with them. This is a real advantage, but it is rarely used. The company has not cultivated the conditions of

on time delivery. There are problems of late delivery of products ingredients. Therefore the company has not taken advantage of the good relationships with the suppliers.

Research and Development. This should be attributed to the marketers. They have managed to reduce the costs by centralizing the research and developments. They each have a single research and development. The other laboratories ensure that the products meet the marketers' specifications and local authorities'.

Personnel. As mentioned above that Blendcor has applied retrenchment and downsizing strategies, there is no need to repeat the same discussion. However, this section will deal with efficiency.

This is a real weakness at Blendcor. As the value chain analysis indicated, there are numerous inefficiencies in this company. The organization has not done sufficiently to improve efficiencies. After retrenchment and downsizing is complete, there is a need for a project to improve efficiencies.

People are different from machinery assets in that they possess emotions. They also have needs. Although this looks costly, they are sources of core competencies. The machinery assets are not since every organization can buy them, and the suppliers are more than willing to sell their equipments in order to increase profits.

The organization has not catered for emotional appeal of human resources. The organizational culture has been ignored. Blendcor is not proactive in developing an environment that promotes strategy implementation.

Maybe it is time to change along with the country's developments. It could be a time for Blendcor to catch up the pace of national transformation. Dwelling too much on the long won political fight could prove detrimental later on, if not now. It is time to cultivate a culture that is up to date and enhances the strategy implementation.

4.9 Summary

This chapter strictly follows the strategy evaluation model developed in chapter two. The model is applied to analyse the case study presented in chapter three. The model

is common to strategic analysis in that it starts from outside of the organization, and moves into the company.
The industry analysis tools used are the dominant economic features, five forces model and the key success factors. And the company's capabilities are evaluated using the gap and SWOT analyses. SWOT and life cycle matrixes present some strategies that are applicable to the company's circumstances.

The three strategy evaluation criteria are performed in order to access the outsourcing of the laboratory at Blendcor. Suitability covers different aspects such as positioning, business profile, portfolio, value chain, and life cycle analyses. Value chain analysis reveals critical internal weaknesses that need to be overcome.
Acceptability includes return, risk and stakeholder reactions analysis. The strategy is financially sound, but it is risky and unpalatable to most stakeholders. The last criterion is feasibility, which includes funds flow, breakeven and resource deployment analyses. The feasibility is testing positive in short-term, but could prove negative over the long-term period.

Lastly the model suggests the consideration of six dimensions when selecting the strategy, which are deliberate, emergent, command, cultural, enforced choice political aspects. Cultural transformation has been largely ignored at Blendcor, which in fact is a very important in implementing the strategies.
These are all the analyses that lead to this chapter five rejecting the outsourcing of the laboratory at Blendcor.

CHAPTER 5

CONCLUSION

5.1 Introduction

In this concluding chapter, the emphasize will concentrate on the weaknesses. However, this does not suggest that the strengths are less or less important. The organization should enforce the strengths, while neutralizing or improving on the weaknesses.

This section will start by making recommendations, and eventually concludes the report.

5.2 Recommendations

This section will suggest corrective actions that could help to correct the weaknesses identified throughout this report. However, it must be stated that these will be mostly direct outcomes of the previous chapter. That's where the strategy was evaluated.

5.2.1 Transformation of Management

The leadership style is fixed since a person hardly changes. That's why certain leadership styles fit certain life cycle stages. It is rare to find a manager who can transform himself along different stages of the life cycle.

The theory suggests that the organization changes the leadership in order to get proper management. Otherwise the change will not be successful since the management would like to maintain the status quo.

Blendcor is a classic textbook case, where management from advantaged population group would like to retain their status. The management should be a change agent, and therefore lead the change. However, the management delegates the change and slows it down. The change is even inhibited.

Therefore it is utmost important to change the leadership body of the company in order to facilitate the change. The company must increase the presentation of the

disadvantaged in the senior positions. They must be empowered to transform the organization according to the national trend.
It is not effective to have few managers from the disadvantaged groups forming a minority. They become dummy buttons since their colleagues on decision-making out vote them.

5.2.2 Creation of Favourable Culture

Organizational culture is one of the key issues for effective operating of a company. Theory suggests that management should harmonize the relationship between strategy and culture. Failure to do so could result in superior strategies that could not be implemented. Blendcor is hard stricken by dwelling too much in the past. It is a slave of expired culture. But this is a common flu for countries that were formally racial segregated. The business sector always lags behind, thus hindering economic freedom.

Blendcor is too much in money motivation. It is a perfect truth that people are motivated by financial incentives. However, people will not operate at an optimal level in a poor work environment. The climate must be favourable in order to get maximum benefits from financial motivation.
Putting company money in a mystery culture is more like gambling with performance. Money is the only hope to get the employees to work. But favourable working conditions are essential since people are emotional creatures.

The teamwork synergy is lost because of different treatment among different races or groups of employees. This really kills the team spirit. People cannot work happily together if some are receiving superior treatment.
Seeing poor performers being promoted will not motivate people. People must be promoted based on their distinct capabilities as far as job is concerned. The salary increase must reflect an observable job performance. There is no need for any mysteries in payments and promotion, since these are climate conditioners that could motivate people to excel in their jobs when used in a justified manner.

Blendcor need a strong leader to transform the organizational culture to reflect the current state of the country. The leader should be fully supportive of the

transformation. He must have a vision of a democratic culture. The organization should have a single corporate culture in order to avoid the multicultural dilution effect. Lot of cultures tends to neutralize each other. Thus the net effect is a weak culture and possibly conflicts.
It is utmost important that all the different functional cultures be fused into a single culture, heading in a single direction. Therefore he must gobble the strategy commanders in order to prevent diverse sub corporate cultures; otherwise he should get rid of them. The leader must be a commander himself.

In order to be successful in this cultural transformation, the leadership should not delegate the new cultural formulation process. It should rather prioritise it and make it part of key performance indicators. Employees should get credits toward contributing positively in the new culture, while negative credits should be awarded as well for those who are living in the past.

5.2.3 Partnerships with Suppliers

There is an option to keep a supplier at an arm's length, or work closely with the supplier. The latter always prove to be more effective than the first.
Blendcor is a large-scale operation, thus deserves a good treatment from its suppliers. The company has to cultivate advantageous relationships with the suppliers. It must assist the suppliers to perform at optimal levels. If Blendcor is to be seen as a leader among the worlds leading blending plants it must have world-class suppliers.

The company has to work with the suppliers closely to make on-time delivery of additives a reality. This is a minimum requirement for evaluating a supplier. The company should not be working on this, but it should be rather working to achieve a just-in-time delivery.
The shipment of products with quality certificates is a start practice today; Blendcor has to work with the suppliers to meet this threshold performance.

Working together with the suppliers will assist in avoiding delays that are sometimes caused by late delivery of ingredients, and lack of information about the additive that leads to time wasting as well.

Forming partnership is the only way forward to assist the suppliers to upgrade their service. It is often not fruitful to work with suppliers when there is a problem only. Christmas gifts cannot replace the ongoing relationship that should occur throughout the year.

5.2.4 Partnership with Transport Agents

This is another cause of delays, and sometimes contamination. As discussed above, a partnership works perfectly well. Continuous communication and well-known minimum standard of performance will go an extra mile to reduce transport inefficiencies. On time delivery and cleanliness are key success factors for the transport agents.

The company must work with the service providers in order to help them meet these requirements. They must understand the implications of transport poor transportation. Lot of important information a transport agent can gain from the company, which include environmental and quality awareness.

5.2.5 Quality and Environment Training

The quality is not a one-department issue. The laboratory is not a policeman for quality, but rather an enhancer of quality. The company should not be looked as a collection of functional departments. It should be looked as a single process where every department fit in.

The common thing between quality and culture is the commitment of management. It is thus important for management to understand quality. Eventually the relationship between quality and the brand positioning should be well understood. The marketers are well differentiated, thus quality products are necessary for enhancing the brand image. The products must perform as expected.

If management and all employees could be exposed to such training, return of complaint samples will be highly reduced. It will be a great plus for managers to learn some technical knowledge about the products.

This will assist in removing the perception of seeing the laboratory as obstruction. The cheating or deceiving of the laboratory will be reduced in this manner. The customers are not ridiculous; they observe a bad quality product.

This will not only lead to minimum duplication of work, but will reduce waste. The company will not have lot of contaminated product to get rid of, which reduces loss financially. And the final gain is the minimum impact on the environment.

The company must make use of the opportunity to train the young employees it has, which are still capable of assimilating lot of information.

5.2.6 Improvement of Efficiencies

There are lots of inefficiencies at Blendcor. SWOT strategy matrix suggested turnaround-oriented strategies. The life cycle matrix also confirms revival strategies. However, it is worthy saying that Blendcor is getting smaller faster than it is getting better. According to Prahalad and Hamel (1994, p. 126) this is recipe for surrendering today's business. Getting better without changing sells tomorrow's business.

Nevertheless, there has been an outcry for lack of a winning team. The company has to engage in a training project where employees can do the minimum job requirements thoroughly.

The laboratory SWOT analysis has highlighted the problem of inflexibility. The new personnel have not been exposed to all sections of the laboratory. Further, because of limited number of staff it is difficult to train the people. The situation favours those who are self-starters and can learn easily.

This calls for training so that people can work confidently in all sections of the laboratory. This will also enhance productivity.

The production areas are major sources of incompetence. And it is not always true that people behave dishonestly in order to increase their departments' outputs only. Among the factors that influence the work behaviour is the knowledge or skill of the job. Employees took the wrong samples because they don't know how to sample correctly.

Therefore it is important to train them, which gives them some confidence about their jobs. In the process of training the inefficiencies are reduces.

The outcome of properly following the procedures is the reduction of duplication of work. Testing one batch several times will be minimized. This creates time for doing more work, thus improves productivity.

The theory of looking at the process instead of people holds true. There are lot of delays that are caused by the process, rather than by the laboratory. Some of these are economically rational. For example, it does not make economical sense to send a single sample to the laboratory every time it is completely blended. But this is a major cause of bottlenecks and delays in the laboratory.

It is therefore suggested that an effective sample carrier be installed. The current chute facility is very ineffective since the samples some times get stuck on the way. An effective carrier will make economical sense. It will also improve rate of testing by easing bottlenecks.

5.2.7 Effective Communication

The laboratory SWOT analysis reveals the problem of poor communication. However, this is not a laboratory exclusive problem. It is a general problem of the company, and it is interwoven with the organizational culture and inefficiencies.

The communication here is defensive and finger pointing. It is important that people see the company as a single entity with interdependent departments. People see fellow employees as family members, thus behave as if they are communicating with their families. They must treat each other with dignity and respect.

This could sound like an impossible dream, but proper training can instil it. Organizational culture plays a major leading role. Language delivers the mode of culture. This could even improve the telephone manners. But the way employees treat customers depends a great deal on the way the employer treat the workers.

5.2.8 Effective Planning and Prioritising

The planning needs to improved. The production and the laboratory personnel must know the priorities of the day early in the morning. There is no need for employees stop test-in-progress because the priorities have been known late. They should be freely available in order to enhance the process flow.

Improved planning will prevent rushing and making lot of mistakes. This could result in surrendering of market shares. The pressure will be relieved. All the poor communication and finger pointing will lose grounds at Blendcor. Working at Blendcor will be enjoyable and injury free.

5.2.9 Replacement of Old Equipments

Old equipments that break down now and then must be replaced with new ones. It may be costly to repair instruments than purchasing new ones. The time cost that is contributed as the employee tries to trouble shoot the result needs some considerations. The product delay could cost as much as losing a customer.

Sometimes the equipments that break frequently are used without calibration. Therefore the results recorded are not up to standard. They can lead to costly customer complaints. And the marketers could lose business as a result of delivering inferior product to the customers. Therefore it is always better to buy new, predictable equipments.

5.3 Strategies Well Executed

The previous section has concentrated on the weaknesses of Blendcor that must be turned around into strengths in order to survive. This report has talk more about weaknesses as if there were no strengths at Blendcor. There are far more strengths than weaknesses in this company.

As briefly discussed in chapter four, this section will also scan the well-done strategies of Blendcor. This is just to balance the debate, but there is no need to dwelling and celebrating today's success. Today's triumph is tomorrow's history, but tomorrow's success is what still being under investigation.

The strategies that were executed well are retrenchment and downsizing. However, it has been mentioned earlier that the change has to come to an end in order to groom a winning team. This will assist in gaining cost efficiency as a result of learning curve effects.
Subcontracting is another plus since it improves productivity. There is also an average of 20 percent saving associated with contracting. But the gain revolves around the contestable nature of tenders. The competition results in customer bargaining as always. In this case the customer is Blendcor.

Since the aim of the research was to improve the state of the company, all other flying colour strategies will not be discussed here. The research has no intention to repeat yesterday's success, but rather to create tomorrow's success. The time constraint is another cause of not saying everything about Blendcor.

5.4 Conclusion

The analysis has proved the outsourcing of the laboratory to be inappropriate for improving efficiency at Blendcor. The laboratory is not a major cause of problems in the company according to this study. The conclusion has come about logical analysing the case study using the model developed in the theoretical review section. The following passage will summarize the analysis of the strategy.

The analysis firstly identifies the circumstances of the organization. The competitive environment was scanned in order to identify possibly opportunities and threats. The organization capabilities were evaluated as well in order to match them with the environment. The theory suggested some applicable strategies depending on the organization's stage in the life cycle and its competitive position. The SWOT matrix compliments the life cycle model by suggesting more suitable strategies to the organization.
Given all these possibilities, the strategy in question could not be directly linked to the situation at hand. Therefore it is not a standard theoretical practice.

Nevertheless, the aim of this report is to rationally evaluate the strategy, not just to check it on the list of applicable standard strategies. Three evaluation criteria were used to assess the strategic outsourcing of the laboratory at Blendcor.

The first criterion is to test the goodness of the strategy, that is suitability. This does not yield positive results. The elements of suitability do not support the strategy. The strategy does not necessarily fit in with the life cycle stage. Laboratory outsourcing could even weaken the product portfolio by hindering the introduction of new products in the market.

Value chain analysis revealed a number of critical internal weaknesses. Most of the value chain activities are done inefficiently. And this calls for turnaround strategies to strengthen the weakness. Further the strategy has a potential of selling out the core competences.

The second criterion is acceptability, which does not favour the strategy either. The strategy is too risky as it put core competences at stake. This makes the strategy unpalatable to the shareholders. The customers are also likely to develop a negative perception as a result of implementation of this strategy. The employees are guaranteed to hate the outsourcing strategy.

The last criterion is feasibility. Financially, the implementation of this strategy is feasible. However, the unbearable risk associated with possibility of value migration from the company to the contractor. Implementation of this strategy can imply surrendering the market share in the long-term. Therefore, strategically outsourcing of the laboratory is not feasible.

Lastly the model looks at different perspectives that are considered when selecting the strategy. Different aspects were analysed, these include planning, learning, enforcement, commanding, political and cultural dimensions.
The cultural aspect appears to be the most trouble some. It has lagged behind the general national transition, and now is affecting the organization negatively. The organizational culture is simply unhealthy and unfavourable to implement strategies.

This analysis therefore concludes that the laboratory outsourcing will not close the performance gap. Instead it calls for a turnaround-oriented strategy in order to improve the inefficiencies of the value chain activities. The company must also

cultivate a favourable organizational culture, which will support strategy implementation. Change of leadership may be appropriate in order to get the drivers of cultural transformation.

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