Impact of the merger between British Petroleum Southern Africa (BPSA) and Castrol South Africa on Blendcor (A joint venture between Shell Southern Africa (SSA) and British Petroleum South Africa).

By

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Submitted in partial fulfillment of the requirements for the degree of

MASTERS IN BUSINESS ADMINISTRATION

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2nd September 2003

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 be circulated for a period of five years.

Sincerely

R SINDRAJ

DECLARATION

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

Signed..... **(R.SINDRAJ)**

Date..... 11th SEPTEMBER 2003

STATEMENT ONE

This dissertation is the result of my own independent work and investigation, except where otherwise stated.

Other sources are acknowledged by explicit referencing. A bibliography is appended.

Signed..... **(R.SINDRAJ)**

Date..... 11th SEPTEMBER 2003

STATEMENT TWO

This dissertation is being submitted in partial fulfillment of the requirements for the degree of Masters in Business Administration.

Signed..... **(R.SINDRAJ)**

Date..... 11th SEPTEMBER 2003

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Thanks to all my friends, work colleagues, and fellow group members, for their support, inspiration and encouragement over this last three years.

Finally, I would like to express my sincere thanks and gratitude to Professor Elza Thompson, for her guidance, motivation and support during the completion of this dissertation.

DEDICATION

I dedicate this dissertation to my loving and supportive wife, Saras Sindraj, with whom life is much more special, and to my wonderful children, Renolin, Sheremee-Anne and Theolin, who are uniquely wonderful examples to me.

ABSTRACT

Blendcor (Pty) Limited is a joint venture lubricants blending and grease manufacturing plant and equally owned by its shareholders, British Petroleum Southern Africa and Shell South Africa. BP purchased Castrol worldwide in March 2000. The merger of BP and Castrol has created opportunities for consolidation of production at Blendcor. The inclusion of the Castrol lubes portfolio would increase current production at Blendcor to approximately 150 million liters per annum.

The purpose of this research is to establish if the merger between BP and Castrol would have a positive or negative effect on Blendcor. We begin this research by seeking an understanding of the strategy framework and its role in assisting a company to achieve its objectives. The framework starts by explaining how strategy is formulated, the development of a vision, mission statement, the examination of the company's external environment, the company's internal environment, the impact of globalisation, the company's long-term goals, and finally organizational structure and leadership. Emphasis is placed on companies that employ Joint Ventures, Mergers and Alliances as grand strategies.

The history of the Oil industry in South Africa, the history of Blendcor's partners, a brief history and background of Blendcor, followed by a discussion on the merger of BP and Castrol, and its impact on Blendcor, is examined. Blendcor is then evaluated by conducting a SWOT analysis. It's strengths; weaknesses, opportunities and threats are discussed briefly. The current strategy employed by Blendcor is subsequently evaluated against the suitability criteria. The plant is benchmarked against other plants worldwide in terms of cost and production. The strategy development process at Blendcor is then evaluated to determine the synergies of the leadership team. The merger is then profiled using the PIMS model to determine whether the merger was a good or bad decision.

Finally, various recommendations are made to improve the plant and its processes. The replacement of Blendcor's Information system is discussed in length and the lack of a suitable measurement system is highlighted.

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LIST OF ABBREVIATIONS

ABB	Automatic Batch Blending
ABC	Activity Based Costing
ASL	Approved Supplier List
BATNEEC	Best Available Technology Not Entailing Excessive Costs
BBC	Blendcor Bush Camp
BEE	Black Economic Empowerment
CEO	Chief Executive Officer
CSF	Critical Success Factors
DES	Drum Emptying System
EC	Electronic Commerce
EDI	Electronic Data Interchange
EEC	European Economic Community
EIS	Engineering Information System
ERP	Enterprise Resource Planning
GAAP	Generally Accepted Accounting Principles
GM	General Manager
HR	Human Resources
HSE	Health Safety and Environment
IBC	Intermediary Bulk Container
IR	Industrial Relations
ISO	International Organisation for Standardisation
IT	Information Technology
JDE	J D Edwards System
JIT	Just In Time
KSFs	Key Success Factors
LNG	Liquefied Natural Gas
MMS	Maintenance Management System
MSDS	Material Safety Data Sheet
OEE	Overall Equipment Effectiveness
OPEC	Organization of Petroleum Exporting Companies

LIST OF ABBREVIATIONS

PESTEL	Political, Economic, Social, Technological, Environmental and Legal
PIMS	Profit Impact of Market Strategy
PLC	Program Logic Control
R&D	Research and Development
SABS	South African Bureau of Standards
SCADA	Supervisory Control and Data Adaptability
SCM	Supply Chain Management
SKU	Stock Keeping Unit
SLA	Service Level Agreement
SMS	Simultaneous Metering System
SOPAF	Shell Oil Products Africa
SWOT	Strengths, Weaknesses, Opportunities and Threats
TQM	Total Quality Management
UMBONO	Our Vision
VCA	Value Chain Analysis

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CHAPTER ONE

1.1 INTRODUCTION

Blendcor (Pty) Limited is a joint venture lubricants blending and grease manufacturing plant established in 1992 and equally owned by its shareholders, BP Southern Africa and Shell Southern Africa. The site comprising of 1.60 hectare is situated in Island View, Durban, with its frontage on Honshu Road. The property is leased from Portnet (Refer appendix 1 attached).

Both shareholders, BP and Shell, are part of larger international organisations and as such Blendcor is considered an operating unit of these international companies. Blendcor operates as a cost center within these companies. The performance of BP and Shell internationally is measured by the cumulative performances of the individual operating units. Hence, Blendcor is obliged to conform to the requirements of BP and Shell international standards in addition to the statutory, local, regional and national requirements. The Chief Executive Officer (CEO) of Blendcor is the General Manager (GM) who is appointed by the Blendcor Board of Directors. The Board comprises of three appointees from Shell, three from BP and the General Manager.

1.2 BACKGROUND REVIEW

BP purchased Castrol worldwide in March 2000. The transaction became effective in South Africa in August 2000 and BP purchased Castrol as a going concern. The merger of BP and Castrol has created opportunities for consolidation of production facilities between the various production plants in which both BP and Castrol have an interest. Production facilities in which Castrol, BP and Shell have an interest include Castrol Island View Sites 1 and 2 Plants, Castrol Roodekop Plant, Blendcor Plant and Shell CERA Plant. In addition to these facilities, third parties blend and fill various products on behalf of each company. The combined capacity of all these plants results in a production over-capacity and opportunities for consolidation. Coupled with this production over-capacity, are opportunities for synergies to be exploited in the areas of procurement, inbound logistics, production, and distribution. It was proposed by BP with agreement from Shell that all mainstream lubes comprising BP, Castrol and Shell portfolios are consolidated at Blendcor for production and primary distribution. A Blendcor project team was established with the view to investigating the necessary framework to investigate this proposal. The project findings were as follows:

A. The inclusion of the Castrol lubes portfolio will increase current production at Blendcor to approximately 150 million liters per annum. This increase in volume will require the re-introduction of a second shift in blending, the addition of additive tanks to accommodate new additives and finished product storage tanks to buffer finished product prior to filling.

B. Additional filling equipment is required to accommodate the different grade pack mix of the Castrol portfolio. Most of this equipment could be sourced from Castrol.

C. Demand management - Seasonal peaks, product launches, promotions and normal demand variances will be covered by overtime or ad hoc shift work as appropriate.

D. Capital requirements for additions to buildings and purchase of new tankage are estimated to be around R16 million .The total costs associated with this project is an estimated R20 million.

The following benefits were identified by the project team as savings attributable to this proposal:

- Operating cost savings including fixed and variable are estimated in the table 1.1 below
- The removal of core production activity at the Castrol site releases the storage capacity and factory space for alternative uses.
- Duplicated activities and supplier/service provider contracts are eliminated.
- Opportunities for consolidation of the value chain activities i.e. the support activities of procurement, technology development and Human Resources management, and the primary activities of inbound logistics, outbound logistics, operations and third party storage are enhanced by operating from one location with one point of contact.

Table 1.1 Savings Per Annum

	Castrol Current	Blendcor Current	Combined Portfolios
Volume (ML)	53	100	153
Costs (cents per liter)	133	131	124
Attributable Savings Per Annum (R million)	5	7	12

However, in addition to the above the following concerns were raised:

A. Prior to proceeding with any changes, the effects of the merger on the joint venture needed to be clarified. BP will now hold a 65% shareholding and Shell a 35% shareholding in Blendcor. The implications of this unequal partnership or dominance of one shareholder over the other is unknown. The current service level agreement will have to be reviewed to cater for this new anomaly.

B. Portfolio complexity - the findings above are premised on the assumption that sufficient formulation harmonization (use of common blend formulations) and portfolio rationalization

(reduction in Stock keeping unit's) is effected to ensure that service levels are not compromised by facility constraints.

C. Demand Management - streamlining, preferably migration to a common demand management process, will lower the risk of increased complexity of plant planning and scheduling activities. Poor demand and associated inefficient planning will cause increased working capital to support desired service levels.

D. Industrial Relations (IR) - implementation of the proposed changes will require a carefully thought through IR implementation plan. The restructuring process of Castrol will necessitate the transfer of 20 Castrol staff to Blendcor. The competency levels of these staff are below the required levels required by Blendcor and they will therefore have to undergo extensive training.

E. Prior to the BP acquisition of Castrol, Castrol operated, as a single entity lube oil-manufacturing unit, therefore Castrols' lack of technical ability to optimize and exchange economic data for joint venture success is a cause for concern.

In December 2001, with due consideration of the above findings, benefits and concerns, the Shell and BP board of directors approved the funding of the project for consolidation of production at Blendcor. The current project team was assigned the task to manage the project implementation and address the management issues.

1.3 PROBLEM STATEMENT

Prior to the BP acquisition of Castrol, Castrol operated, as a single entity lube oil-manufacturing unit, therefore Castrols' lack of technical ability to optimize and exchange economic data for joint venture success, is a cause for concern. Hence, will the merger between BP SA and CASTROL SA have a positive or negative impact on the joint venture ship of BLENDCOR (PTY) LTD and what are the likely strategic management decisions that the Blendcor management should effect in the light of these changing conditions?

1.4 RESEARCH OBJECTIVES

The purpose of this research is to establish if the merger between BP and Castrol has a positive or negative impact on the joint venture ship of Blendcor. It also seeks to ascertain the strategic management decisions that have to be made to accommodate the integration process. It further seeks to establish the impact of the unequal shareholding of the merger and if the merger will realize cost savings due to economies of scale.

1.5 SCOPE OF THE RESEARCH

This study aims to analyze the various factors that impact on the integration process. It will include a full assessment/evaluation of the current Blendcor business processes, its people, its methodology of doing business, its strategic management practices and as well as the optimization of its assets and the new equipment required to facilitate the additional volumes. Furthermore it will look at product harmonization and product rationalization to ensure that service levels are not compromised by facility constraints. The study will conclude by looking at the positive and negative results, both on Blendcor and the Shareholders, with specific reference to learning points that would need to be kept in mind, should similar mergers be considered by the Shareholders in the future.

1.6 LITERATURE REVIEW

"Chemical companies do it. Engine makers do it. Even oil companies are doing it. They all form joint ventures or alliances with competitors. Who would have predicted that tough competition would foster so much cooperation among rivals? Although no one keeps tabs on joint ventures and alliances between companies that compete against one another, it appears that the practice, which used to seem almost unthinkable, is becoming commonplace" http://www.findarticles.com. The term "joint venture" is most commonly applied to an arrangement whereby two or more corporate bodies each provide capital, assets or other resources to a joint venture limited liability company in exchange for shares in that company, with a view to its carrying on a business commonly involving expertise provided by each of them. Joint ventures and corporate alliances have in recent years become an increasingly important business form because it allows firms to take mutual advantage of complementary expertise, technology and business resources. A joint venture can turn under-utilized resources into profit, create a new profit center, and help enter untapped markets, quicker and at a lesser cost than trying it alone. However, while joint ventures can introduce tremendous opportunities, they can also present significant pitfalls. By their nature, Joint Ventures have to satisfy more than one master. Differences in corporate culture might affect how each party measures and rewards success and how management deals with undesirable outcomes. Such differences often create stumbling blocks and can exacerbate problems. Partners may attempt to subvert the joint venture to their own, unfair advantage, or over time, the parties' business objectives may change such as to become inconsistent with the initial purposes of the joint venture or to dampen the parties' enthusiasm for it. For example, "an alliance between Northwest Airlines and KLM Royal Dutch Airlines linking their hubs in Detroit and Amsterdam resulted in a bitter feud among the top officials

of both companies and precipitated a battle for control of Northwest Airlines engineered by KLM. The dispute was rooted in a clash of business philosophies (the American way versus the European way), basic cultural differences, and an executive power struggle" (Thompson, 2001:215). The car industry is the world's largest manufacturer and the most global. In May 1998 Daimler Benz and Chrysler Corporation announced their coming together as "a coming of equals". Their fusion created a company with a $132 billion revenue and approximately 440 000 employees. One-year later sales had improved by 12% and profits had grown by 39 %. A phenomenal success for two such diverse companies. "After the honeymoon is over, you sort out the easy things first", (Thompson 2001:66). Castrol has operated, as a single entity lube oil-manufacturing unit, therefore their lack of technical ability to optimize and exchange economic data for joint venture success is limited. Their corporate culture and diversity is different from BP and it might have a impact on Blendcor, hence the fusion of these cultures is imperative for joint venture ship success in the South African oil industry.

1.7 IMPORTANCE / BENEFITS OF THE STUDY

The changes in the share holding by each business partner means that there has to be a revision of the service level agreements between shareholders. An opportunity now exists to draw up a well drafted, written joint venture agreement, which will specify the mechanics of how the venture is to be operated and how certain likely eventualities are to be dealt with. A precise, clear and well-structured service level agreement will sustain a long and successful relationship between all parties. The restructuring process of Castrol will necessitate the transfer of 20 Castrol staff to Blendcor. The competency levels of these staff are below the levels required by Blendcor and they will have to undergo extensive training. Blendcor has a Learner Directed Training program for all its operators and these individuals would have to comply with this process. The Learner Directed Training Program consists of theoretical and practical training on the operation of Blendcor's plant and equipment, and most of the practical training is on the job training with the shop floor supervisor. The challenge here is that training of this magnitude has not materialised before and the management and supervision skills of the shop floor supervisors will be tested to its limits. The stock portfolio of both shareholders is huge and rationalization is a key to accommodate additional volumes and optimizing the use of the Blendcor facility. The tail end of the portfolio including Castrol volumes is approximately 40 % of the total portfolio. In optimizing the use of a production plant there must be a mixture of long and short production runs. Too many short runs are expensive, however due to the nature of costing on total cents per liter across all product lines, the short runs are subsidized by the long runs. This method of costing will have to change in the future to reflect actual costs. The

agonizing tasks of harmonizing and shedding the "tail" reside with the technical and marketing department. This highlights the need for the marketing division to manage their brands and product line extensions on an ongoing basis. Another aspect of this study is the current managements ability to cope and to manage this change. With this merger, Blendcor management will be exposed to Castrols' aggressive style of management as compared to the Blendcor's easy going and participative management style. Will there be a blend of these management styles or will one supercede the other? Only time will tell.

1.8 RESEARCH DESIGN

The research design is the case study method. Due to the nature of the research and the number of the variables impacting on the study, an in depth analysis of Blendcor will be presented. We will begin by examining the history of the Oil industry in South Africa, the history of Blendcor's partners, a brief history and background of Blendcor, followed by a discussion on the merger of BP and Castrol and its impact on Blendcor and finally present Blendcor in its present day form.

1.9 LIMITATIONS

This study is limited to Joint Venture ship in South Africa with specific reference to the oil industry only, hence findings cannot be generalized elsewhere.

1.10 BUDGETS

There are no significant funds required to execute this study. The time spent on this study is the researchers own time and the costs of incidentals are minimal.

1.11 ETHICAL CONSIDERATIONS

Information will be drawn from the companies information systems and project findings and is deemed highly confidential. South Africa is the first country to actually implement the merger between BP and Castrol and its findings would be used to facilitate the efficient transition or migration to a single BP SOLUTIONS COMPANY worldwide. Blendcor management does not wish to make the findings public and the researcher is obliged to grant the confidentiality requested.

1.12 STRUCTURE OF STUDY

Chapter two – Understanding Strategy

This chapter covers the understanding of strategy and its role in assisting a company to achieve its objectives. The aim of this chapter is to build on a strategy framework to emphasize the role of

strategy in organizations, more especially emphasis will be placed on companies that employ Joint Ventures, Mergers and Alliances as grand strategies.

Chapter three – Presenting Blendcor

This chapter begins by examining the history of the Oil industry in South Africa, the history of Blendcor's partners, a brief history and background of Blendcor, followed by a discussion on the merger of BP and Castrol, and its impact on Blendcor, and finally present Blendcor in its present day form.

Chapter four – Evaluation of Blendcor's strategy

In this chapter we will evaluate Blendcor strategy by conducting a SWOT analysis and examine Blendcor's current strategy based on the suitability analysis.

Chapter five – Recommendations and Conclusions

This chapter makes recommendations based on the findings of the evaluation in Chapter four.

1.13 SUMMARY

Chapter one has given an overview of Blendcor and the background to the BP and Castrol merger. The problem statement, " will the merger between Castrol and BP have a positive or negative impact on Blendcor the joint venture" is highlighted and the scope of the research is defined. The literature review expands on similar mergers involving companies around the world and examines the pro's and con's of Joint Ventures. The importance and benefits of the study is briefly touched upon and the research design is explained. Finally the limitations and ethical considerations are highlighted and the structure of the dissertation is outlined.

Chapter two looks at the understanding of strategy and its role in assisting a company to achieve its objectives. The aim of this chapter is to build on a strategy framework to emphasize the role of strategy in organizations, more especially emphasis will be placed on companies that employ Joint Ventures, Mergers and Alliances as grand strategies. The framework starts by explaining how strategy is formulated, the development of a vision, mission statement, the examination of the company's external environment, the company's internal environment, the impact of globalisation, the company's long-term goals, and finally organizational structure and leadership.

CHAPTER TWO: UNDERSTANDING STRATEGY

2.1 INTRODUCTION

There is no single, universally specific definition of strategy. Different authors, managers, and military leaders use this term differently; some include goals and objectives as part of strategy, while others make firm distinctions between them. Initially strategies referred to a role (a general in command of an army). Later it came to mean "the art of the general," which is to say the psychological and behavioural skills with which he occupied the role. By the time of Pericles (450 B.C) it came to mean managerial skill (administration, leadership, oration, and power). And by Alexander's time (330 B.C.) it referred to the skill of employing forces to overcome opposition and to create a unified system of global governance (The strategy processes, 3rd. ed., by Henry Mintzberg 1996:2).

Today, strategy is defined by Johnson and Scholes as (1999:10) "the direction and scope of an organization over the long term: which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and to fulfill stakeholder expectations." Based on this, the aim of this chapter is to look at the understanding of strategy and its role in assisting a company to achieve its objectives. The aim of this chapter is to build on a strategy framework to emphasize the role of strategy in organizations, more especially emphasis will be placed on companies that employ Joint Ventures, Mergers and Alliances as grand strategies. The framework starts by explaining how strategy is formulated, the development of a vision, mission statement, the examination of the company's external environment, the company's internal environment, the impact of globalisation, the company's long-term goals and finally organizational structure and leadership.

2.2 NATURE AND VALUE OF STRATEGIC MANAGEMENT

Pearce and Robinson (2003:3) state that "managing activities internal to the firm is only part of the modern executive's responsibilities. The modern executive also must respond to the challenges posed by the firm's immediate and remote external environments. The immediate external environment includes competitors, suppliers, increasingly scarce resources, government agencies and their ever more numerous regulations, and customers whose preferences often shift inexplicably. The remote external environment comprises economic and social conditions, political priorities, and technological developments, all of which must be anticipated, monitored, assessed, and incorporated into the executive's decision making". According to Thompson and Strickland (2001), it is the

responsibility of the company's' management team to adjust to unexpectedly tough conditions by undertaking strategic defenses that can overcome diversity. Hitt, Ireland and Hoskisson (2003) further state that the 21st century competitive landscape has changed and managers must adopt a new mindset that is global in nature. The globalization of industries and their markets, and rapid and significant technological changes are the two primary factors contributing to the 21st century competitive landscape. Firms and managers must learn how to compete in these highly turbulent and chaotic environments. To deal effectively with these changes and everything that affects the growth and profitability of a firm, executives employ management process techniques to analyse the environment and negate the adversarial effects.

Strategic management is a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. It comprises nine critical tasks, Pearce and Robinson (2003:3):

- Formulate the company's mission, including broad statements about its purpose, philosophy, and goals.
- Conduct an analysis that reflects the company's internal conditions and capabilities.
- Assess the company's external environment, including both the competitive and the general contextual factors.
- Analyze the company's options by matching its resources with the external environment.
- Identify the most desirable options by evaluating each option in light of the company's mission.
- Select a set of long-term objectives and grand strategies that will achieve the most desirable options.
- Develop annual objectives and short-term strategies that are compatible with the selected set of long-term objectives and grand strategies.
- Implement the strategic choices by means of budgeted resource allocations in which the matching of tasks, people, structures, technologies, and reward systems is emphasized.
- Evaluate the success of the strategic process as an input for future decision-making.

These nine tasks indicate that strategic management involves the planning, directing, organizing, and controlling of a company's strategy-related decisions and actions. A strategy is a company's game plan that is used to stake out its market position, conduct its operations, attract customers, compete successfully and achieve its organizational objectives.

2.2.1 HOW STRATEGIES GET CRAFTED

Pearce and Robinson (2003:3) define strategic management as "the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives". Because it involves long term, future oriented, complex decision making and requires considerable resources, top management participation is essential. At the other extreme however, strategy making is a team or group exercise involving managers and other key personnel. There are several approaches to the methods of crafting strategy and Thompson and Strickland (2001) suggest that most companies tend to take one of the following forms:

1. The Chief Architect Approach – here one person functions as strategic visionary and chief architect of strategy, personally orchestrating the process.
2. The Delegation Approach – here large parts of the strategy making process is trusted to middle managers, supervisors and subordinates in charge of departments or business units.
3. The Collaborative or Team Approach – here a manager with strategy making responsibility enlists the assistance and advice of key peers and subordinates.
4. The Corporate Intrapreneur Approach – here top managers encourages individuals and teams to develop proposals for new business ventures.

2.2.1.1 COMPARING THE APPROACHES

According to Thompson and Strickland (2001) each of the four basic strategy making approaches has strengths and weaknesses, and each is workable in the "right" situation:

- Chief Architect approach works fine when the strategy commander-in-chief has a powerful, insightful vision of where to head and how to get there, however its weakness is that the caliber of the strategy depends so heavily on one person's entrepreneurial acumen and strategic judgments.
- The weakness of delegating strategy making to down-the-line-managers is the potential lack of sufficient top-down direction and strategic leadership on the part of senior executives.
- The collaborative approach is conducive to political strategic choices as well, since powerful departments and individuals try to build consensus for their favored strategic approach. It also suffers from slower reaction and response times, as group members meet to debate the merits of what to do.

- The Corporate intrapreneuring approach encourages people at lower organizational levels to be alert for profitable market opportunities, to propose innovative strategies to capture them, and to take on responsibility for new business ventures. A weakness of the corporate intrapreneuring approach is that top executives may be more prone to protect their reputations for prudence and risk avoidance than to support revolutionary strategies, in which case innovative ideas can be doused by corporate orthodoxy.

2.2.2 STRATEGIC MANAGEMENT IN DIFFERENT CONTEXT

According to Johnson and Scholes (1999), the strategic issues faced by managers in different organizations depend on their business context.

2.2.2.1 THE SMALL BUSINESS CONTEXT

These are small firms that are mostly private and operating in single markets. Their ability to raise capital for strategic development is limited and strategic decisions are normally driven by the founder or owner.

2.2.2.2 THE MULTINATIONAL CORPORATION

The multinational firm is likely to be diverse in terms of both products and markets. The firm may be in a range of different types of business in the form of subsidiaries or divisions, therefore, issues of structure and control are a major strategic issue. The allocation and coordination of resources among the different business units based on their diverse and competing demands, is a significant strategic issue for multinational firms.

2.2.2.3 MANUFACTURING AND SERVICE ORGANIZATIONS

In this instance organizations compete on the basis of services that it provides. Competitive advantage is based on the extent to which customers view less tangible aspects of the firm, e.g. advice etc. In manufacturing organizations, competitive strategy is based on the physical product and brand image.

2.2.2.4 THE INNOVATORY ORGANIZATION

There are an increasing number of organizations that claim to depend substantially on innovation for their strategic success, and still others which argue the importance of becoming more innovatory. Innovation is seen as the ability to " change the rules of the game". The successful innovatory

organization is likely to be the one which is acutely aware of, but likely to challenge, its traditional competences so as to be able to "stretch" these into new opportunities (Scholes, 1999:32).

2.2.3 BENEFITS OF STRATEGIC MANAGEMENT

High performing companies are nearly always the product of astute proactive management. Strickland and Thompson (2001) state that the advantages of good strategic management include:

- Providing guidance to the entire organization on "what it is we are trying to do".
- Making managers and organization more alert of environmental changes.
- Help unify the organization.
- Create a more proactive management posture.
- Promoting the development of a constantly evolving business model that will ensure success for the company.
- The rationale for steering budgets into strategy supportive, results producing areas.

Pearce and Robinson (2003) on the other hand state that several behavioral effects of strategic management improve the firm's welfare. These behaviors are:

- Strategy formulation activities enhance the firms ability to prevent problems.
- Group based interactions generates a greater variety of strategies to choose from.
- The involvement of employees in strategy formulation improves the productivity reward relationship and heightens motivation.
- Resistance to change is reduced as most of the decisions are their own.

The quality of managerial strategy making and implementing has a significant impact on organization performance. Companies that lack clear-cut direction and the ability to execute its strategy competently is a company whose performance is suffering and whose management is lacking. High performance companies often initiate and lead, not just react and defend. They often launch strategic offensives to out maneuver rivals and secure sustainable competitive advantage, then use their market edge to achieve superior financial performance. It is these companies that truly deserve a reputation for talented management.

2.2.4 THE CHALLENGE AND RISKS OF STRATEGIC MANAGEMENT

The goals of achieving strategic competitiveness and earning above average returns are challenging not only for large firms, but also for small firms as the local dry cleaner. Thomas J. Watson, Jr., formerly IBM's chairman, stated, "corporations are expandable and that success – at best- is an

impermanent achievement which may always slip out of hand". Firms must continuously evaluate their environments and decide on an appropriate strategy. Strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and to gain a competitive advantage, however the key challenge for companies that compete in the 21st century landscape is to try and do the impossible, i.e. to anticipate the unexpected. Pearce and Robinson (2003) advises that management must be trained to guard against three types of negative consequences of strategy formulation, namely:

- Managers must be trained to schedule their duties to allow the necessary time for strategic activities.
- If the formulators of strategy are not intimately involved in its implementation, they may shirk their individual responsibilities.
- Trained to anticipate and respond to disappointments over unattained expectations.

2.3 THE DIMENSIONS OF STRATEGY DEVELOPMENT

"The process of strategy development cannot always be characterized as intentional and planned. Strategy can come about through a number of different influences or processes. The framework here uses six dimensions to describe such processes," Ambrosini (1998: 182):

1. **The planning dimension**. Strategy is developed through an analytic, evaluative, intentional and sequential process of planning. It also helps to communicate intended strategy and is used to involve people in strategy development to create ownership of the strategy.
2. **The incremental dimension.** Strategy is developed in an evolutionary but purposeful manner, by learning through doing. Here, managers engage in constant environmental scanning and then make changes in small steps. The formulation of strategy in this manner means that the implications of strategy are being continually tested out and managers learn from each other about each course of action.
3. **The cultural dimension.** Strategy is directed and guided by the cultural aspects of an organization, the taken for granted assumptions and routines of its members.
4. **The political dimension.** Strategy is developed through a process of bargaining, negotiation and influence among powerful internal or external interest groups or stakeholders.
5. **The command dimension.** Strategy is defined and determined by a particular powerful individual or groups within an organization.

6. **The enforced choice dimension.** Strategy is developed as a result of external forces, which limit an organization's ability to determine its own strategic direction.

Each dimension and its characteristics is highlighted in Table 2.1 below:

Table 2-1 Characteristics of the six dimensions –adapted from Ambrosini (1998:83).

DIMENSIONS	CHARACTERISTICS
PLANNING	Strategies are the outcome of rational, sequential planned and methodical procedures. Strategic goals are set by senior organisational figures. The organisation and environment are analysed. Definite and precise objectives are set. Precise plans for implementation are developed. The strategy is made explicit in the form of detailed plans.
INCREMENT-ALISM	Strategy is continually adjusted to match changes in the operating environment. Strategy options are continually assessed for fit. Early commitment to a strategy is tentative and subject to review. Strategy develops through experimentation and gradual implementation. Successful options gain additional resources. Strategy develops through small-scale changes.
CULTURAL	A 'way of doing things' in the organization impacts on strategic direction. Strategies are evolved in accordance with a set of shared assumptions that exist in the organization. A core set of shared assumptions based on past experience and history guides strategic actions. Organizational history directs the search for and selection of strategic options. Strategy not in fit with the culture is resisted.
POLITICAL	Strategies are developed by negotiation and bargaining between groups. The interest groups seek to realize their own desired objectives. Influence in strategy formulation increases with power. Power comes from the ability to create or control the flow of scarce resources. Interest groups form coalitions to further their desired strategy. The control and provision of information is also a source of power. A strategy acceptable to the most powerful interest groups is developed.
COMMAND	An individual is the driving force behind the organization's strategy. Strategy is primarily associated with the institutional power of an individual or small group. The strategy represents the aspirations for the organization's future of this individual. The individual becomes the representation of the strategy for the organization. An individual has a high degree of control over strategy.
ENFORCED CHOICE	Strategies are prescribed by the operating environment. Strategic choice is limited by external forces which the organization is unable to control. Strategic change is instigated from outside the organization. Organizations are not able to influence their operating environments. Barriers in the environment severely restrict strategic mobility.

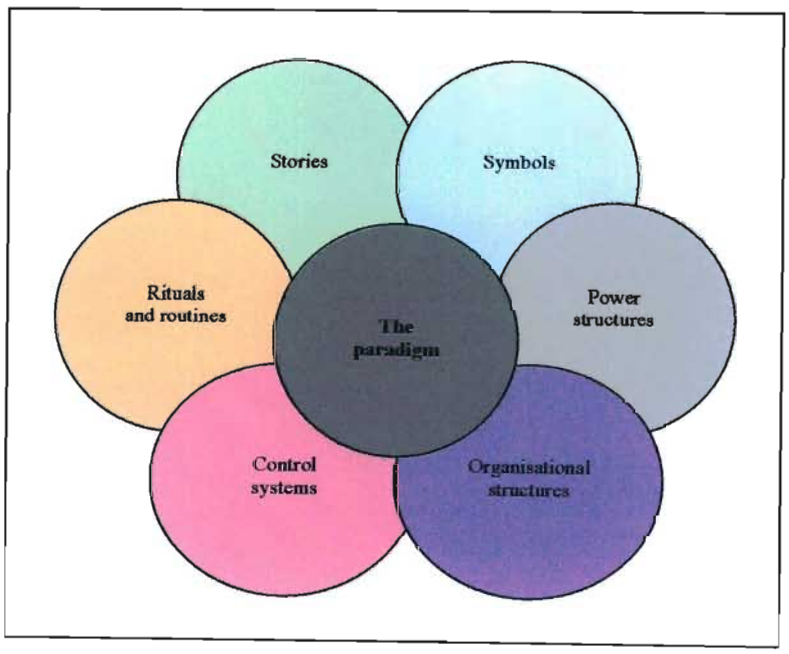
2.3.1 CHALLENGES FOR STRATEGY DEVELOPMENT

According to Johnson and Scholes (1998), there are two key challenges for strategy development. The first is the influence of managerial experience within a political and cultural organizational context and an understanding of how such influences come about. The cultural web, which provides this understanding, is introduced. The implications are then discussed in terms of the risk of strategic drift in organizations. The second key issue is the difficulty organizations face in developing strategies in turbulent and chaotic environments, and that traditional approaches to strategic management are simply not appropriate and inadequate especially in organizations, which seek to innovate. The notion of the learning organization is then discussed.

2.3.2 THE CULTURAL WEB

Johnson and Scholes (1998:73) state, "The **cultural web** is a representation of the taken-for-granted assumptions, or paradigm, of an organization and the physical manifestations of organizational culture". Ambrosini (1998) explains that culture is often taken for granted in an organization and this 'taken for grantedness'acts as a filter by which members of the organization makes sense of their world internally and externally.

Figure 2.1 - The Cultural Web of an Organization adapted from Ambrosini (1998: 138)



The other elements of the cultural web include the following: Johnson and Scholes (1998:74-8).

- The **routine** ways that members of the organization behave towards each other, and towards those outside the organization, make up 'the way we do things around here'. At its best, this lubricates the working of the organization, and may provide a distinctive and beneficial organizational competence. However, it can also represent a taken-for-grantedness about how things should happen which is extremely difficult to change and protective of core assumptions in the paradigm.
- The **rituals** of organizational life are the special events through which the organization emphasizes what is particularly important and reinforces 'the way we do things around here'. Examples of ritual can include training programs, interview panels, promotion and assessment procedures, sales conferences and so on.
- The **stories** told by members of the organization to each other, to outsiders, to new recruits and so on, embed the present in its organizational history and also flag up important events and personalities. They typically have to do with successes, disasters, heroes, villains and mavericks who deviate from the norm.
- **Symbols**, such as logos, offices, cars and titles, or the type of language and terminology commonly used, become a shorthand representation of the nature of the organization.
- **Power structures** are also likely to be associated with the key assumptions of the paradigm. The paradigm is, in some respects, the 'formula for success' which is taken for granted and likely to have grown up over years. The most powerful managerial groupings within the organization are likely to be closely associated with this set of core assumptions and beliefs.
- The **control systems**, measurements and reward systems emphasize what it is important to monitor in the organization, and to focus attention and activity upon.
- **Organizational structure** is likely to reflect power structures and, again, delineate important relationships and emphasize what is important in the organization.

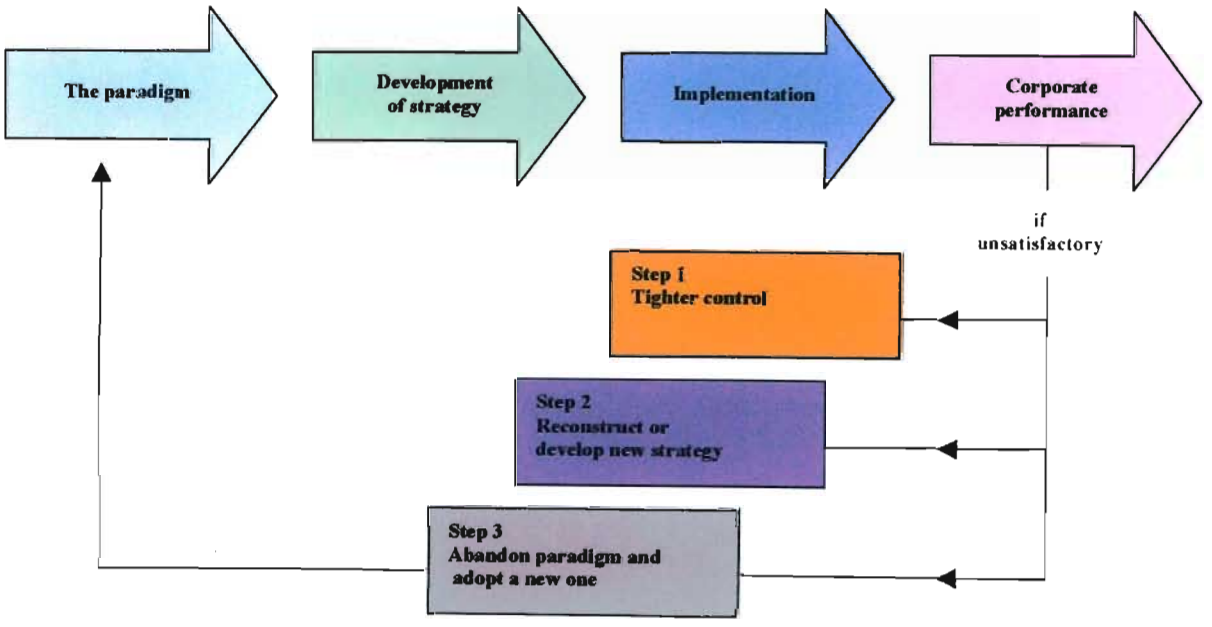
The cultural web is, a useful tool for understanding the underlying assumptions, linked to political, symbolic and structural aspect, of an organization.

2.3.3 THE RISK OF STRATEGIC DRIFT

Figure 2.2 below demonstrates how strategic drift might occur. Faced declining performance, managers first seek means of improving the implementation of existing strategy through tightening controls and improving the accepted way of operating. If this is not effective, a change of strategy

may occur which is in line with the existing paradigm and 'ways of doing things here'. For example, managers may seek to extend the market for their business and assume that it will be similar to their existing market, and therefore control and manage the new venture in the same way. Even where managers know intellectually that they need to change, they fined themselves constrained by organizational routines, assumptions or political processes. This is likely to continue until there is, perhaps dramatic, evidence of the redundancy of the paradigm and its associated routines. Over time this may well give rise to **strategic drift** in which the organization's strategy gradually moves away from relevance to the forces at work in its environment. Johnson and Scholes (1998:81) state that "in positive terms, organizational culture can be thought of as encapsulating distinctive competences; more dangerously, it can also be a conservative influence, likely to prevent change, stifle innovation and result in a momentum of strategy which can lead to strategic drift. Identifying when an organization is at risk of, or in state of, strategic drift is a challenge to the manager of strategy. There is a fine dividing line between the organization which is running smoothly and effectively, building on competencies embedded in its culture, and an organization which is at risk of drift".

Figure 2.2 - The Dynamics of Paradigm Change: Source Adapted from P. Grinyer and J-C. Spender, Turnaround: Managerial recipes for strategic success, (1979: 203).



2.3.4 THE LEARNING ORGANISATION

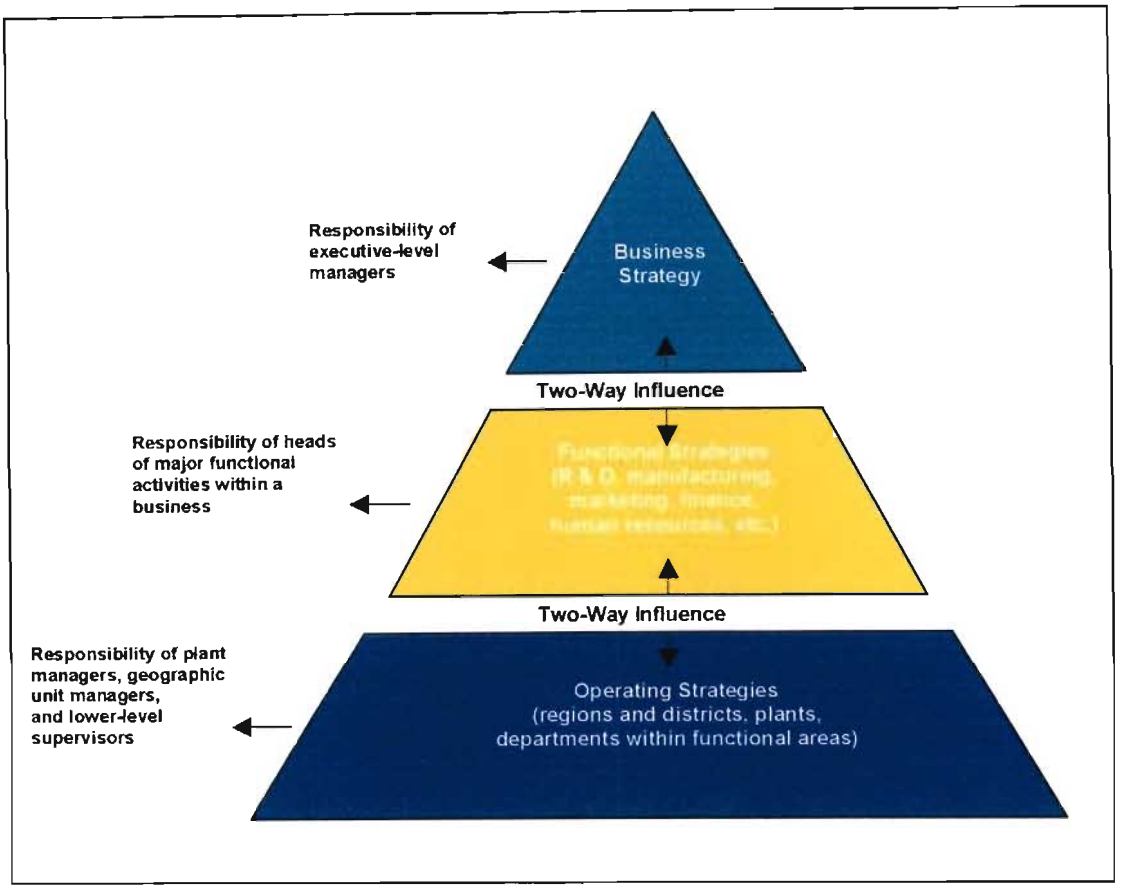
Johnson and Scholes (1998) defines the **learning** organization as one that is capable of benefiting from the variety of knowledge, experience and skills of individuals through a culture which encourages mutual questioning and challenge around a shared purpose or vision. Traditional approaches to strategic management are simply not appropriate and inadequate especially in organizations, which seek to innovate. To do this they need to develop organizations, which are pluralistic, where different, even conflicting ideas and views are welcomed and become the basis of debate. Experimentation must also be the norm. This is more likely to take place where informality of working relationships is found and new ideas emerge more through networks of working relationships than through hierarchies. Rather than formal analysis, there should be more dialogue and even storytelling. The job of top management is to create this sort of organization by building teams and networks, by allowing organizational slack and time for debate and challenge, and by releasing control rather than holding onto it.

2.3.5 STRATEGY MAKING PYRAMID FOR A SINGLE BUSINESS COMPANY

In most organizations, decisions about what business approaches to take and what new moves to initiate involve senior executives in the corporate office, heads of business units and product divisions and the heads of major functional areas (manufacturing, marketing and sales, finances and human resources). According to Thompson and Strickland (2001), in single business organizations, there are three levels of strategy making (see figure 2.3):

- business strategy
- functional strategy and
- operating strategy.

Figure 2.3 - The Strategy – Making Pyramid for a Single Business Company (Adapted from Thompson and Strickland: 2001:53).



2.3.5.1 BUSINESS STRATEGY

Hitt and Hoskisson (2003) believe that business level strategy is an integrated and coordinated set of commitments and actions the firm uses to gain a competitive advantage by exploiting core competences in specific product markets. For a single business company, corporate and business strategy are the same. Fig 2.4 outlines key issues the firm must address when choosing a business level strategy include:

- What goods or services to offer the customers, how to manufacture or create it, and how to distribute it to the market place.
- Responding to changes in the industry, economy at large, the regulatory and political arena and other relevant areas.
- Developing competitive strategies and market approaches that will lead to sustainable competitive advantage.

- Building core competences and capabilities.
- Unifying the strategic initiatives of functional departments.
- Addressing specific strategic issues facing the organization.

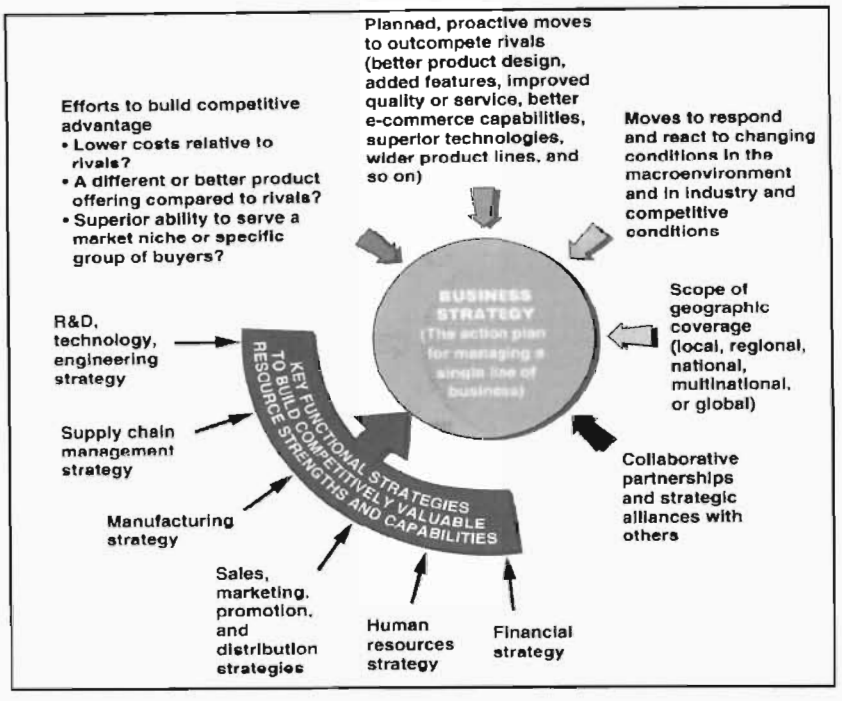


Figure 2.4 - Identifying Strategy for a Single Business (Adapted from Thompson and Strickland: 2001:54).

Thompson and Strickland (2001) argue that a business strategy is powerful if it produces a sizeable and sustainable competitive advantage and it is weak if it results in competitive disadvantage. It is the strategist's ability to forge a series of moves, both internally and in the market environment, that are capable of producing sustainable competitive advantage, is what separates a powerful business strategy from a weak one. Having superior internal resource strengths and competitive capabilities is an important way to out compete rivals. Distinctive competencies will result in leading-edge product innovation, higher technological process know how, expertise in defect free manufacturing, specialized marketing and merchandising competence, potent global sales and distribution capability, superior e-commerce capabilities, better customer service, or anything else that constitutes a competitively valuable strength in creating, producing, distributing, or marketing the company's product or services. The responsibility of business strategy falls in the hands of the leader of the business and he must ensure the following:

- That the supporting strategies of the major functional areas of the business are well conceived and consistent with each other.
- Getting major strategic moves sanctioned by higher authorities (Board of Directors) and keeping them informed of the latest developments.

2.3.5.2 FUNCTIONAL STRATEGY

According to Thompson and Strickland (2001:56), functional strategy refers to "the managerial game plan for running a major functional activity or process within a business – research and development (R&D), production, marketing, customer service, distribution, finance, human resources and so on: a business needs as many functional strategies as its major activities". Functional strategy aims to establish or strengthen specific competencies that will enhance the company's market position. Functional strategies must support the company's overall strategy and competitive approach. The responsibility of developing and conceiving functional strategy lies in the hands of the various functional department heads and process managers who must work closely with key subordinates. If functional or process managers plot strategies independently of each other, they open the door for uncoordinated or conflicting strategies. Compatible, collaborative, mutually reinforcing functional strategies are essential for the overall business strategy to be successful.

2.3.5.3 OPERATING STRATEGY

Pyecraft, Singh and Phihlela (1998), define operations strategy as the total pattern of decisions and actions which set the role, objectives and activities of the operation so that they contribute to and support the organization's business strategy. Thompson and Strickland (2001) state that the operating strategy concerns the even narrower strategic initiatives and approaches for managing key operating units (plants, sales districts, distribution centers) and for handling daily operating tasks with strategic significance (advertising campaigns, materials purchasing, inventory control, maintenance, shipping). Responsibility for operating strategies is usually delegated to front line managers, which are subject to review and approval by higher-ranking managers. Operating strategy is of great importance in manufacturing organizations. Failure to achieve production volumes, unit costs and quality targets, could adversely impact on the company's strategic efforts to build a quality image with their customers. Finally management's direction setting is not complete until the separate layers and pieces of strategy are unified into a coherent, supportive pattern. Thompson and Strickland (2001) state that to achieve this unity, the strategizing process has to proceed more from

the top down than from bottom up. Direction and guidance have to flow from the corporate level to the business level and from business level to the functional and operational levels.

2.3.6 WHAT MAKES GOOD STRATEGY?

Richard Lynch (2000) said that three tests are available to assess whether a strategy is good.

1. The value – added test. A good strategy will deliver increased value added in the market place. This might show itself in increased profitability, market share, innovative ability and satisfaction for employees.
2. The consistency test. A good strategy will be consistent with the circumstances that surround a business. It will take into account its ability to use its resources efficiently and its ability to cope with the circumstances of that time.
3. The competitive advantage test. A good strategy will increase the sustainable advantage of the organization. It will be well matched to industry and competitive conditions, market opportunities and threats, and at the same time tailored to the company's resource strengths and weaknesses and competitive capabilities.

2.4 ESTABLISHING COMPANY DIRECTION THROUGH VISION, MISSION AND SETTING OBJECTIVES

Visionary leaders are important catalysts in their organizations. Their successes however, are not based simply on strong personalities. Each of these executives has been able to build teams, systems and managerial processes to leverage and add substance to his vision and energy. It is this interaction of charisma, attention to systems and process, and widespread involvement at multiple levels that seem to drive large system change. According to Thompson and Strickland (2001), there are three major tasks in formulating a strategic vision:

- A mission statement that defines what business the company is presently in and conveys "who the company is", "what they do" and "where they are now".
- Using the mission statement for the long-term direction of the company, mapping a strategic pathway for the company and making choices about "where we are going".
- Communicating and articulating the vision in clear terms that arouse organization wide commitment.

2.4.1 BUILDING YOUR COMPANY'S VISION

We shall not cease from exploration

And the end of all our exploring

Will be to arrive where we started

And know the place for the first time

TS Elliot

According to James C Collins and Jerry I. Porras (Built to last 1994) companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world. This rare ability to manage continuity and change is closely linked to the ability to develop a vision. Vision provides guidance about what core to preserve and what future to stimulate progress toward. A well-conceived vision consists of two major components: **core ideology** and **envisioned future** (See Figure 2.5 "Articulating a Vision"). Core ideology defines what we stand for and why we exist. The envisioned future is what we aspire to become, to achieve, to create, something that will require significant change and progress to attain.

Figure 2.5 – Articulating a Vision - Adapted from Thompson and Strickland (2001: 443).

2.4.1.1 IDEOLOGY

Core ideology defines the enduring character of an organization – a consistent identity that transcends product or market life cycles, technological breakthroughs, management fads, and individual leaders. Core ideology provides the glue that holds an organization together as it grows, decentralizes, diversifies, expands globally, and develops workplace diversity. Any effective vision must embody the core ideology of the organization, which in turn consists of two distinct parts; core values, a system of guiding principles and tenets; and core purpose, the organization's most fundamental reason for existence. Core values are the essential and enduring tenets of an

organization. A small set of timeless guiding principles, core values require no external justification: they have intrinsic value and importance to those inside the organization. Core purpose, the second part of core ideology, is the organization's reason for being. An effective purpose reflects people's idealistic motivations for doing the company's work. It doesn't just describe the organization's output or target customers; it captures the soul of the organization.

2.4.1.2 ENVISIONED FUTURE

The second primary component of the vision framework is envisioned future. It consists of two parts: a ten-to-thirty-year audacious goal plus vivid descriptions of what it will be like to achieve the goal. All companies have goals. But there is a difference between merely having a goal and becoming committed to a huge, daunting challenge, such as climbing Mount Everest. A true GOAL is clear and compelling, serves as a unifying focal point of effort, and acts as a catalyst for team spirit. It has a clear finish line, so the organization can know when it has achieved the goal. Finally, in thinking about the envisioned future, beware of the "We've Arrived Syndrome", a complacent lethargy that arises once an organization has achieved one GOAL and fails to replace it with another. After you've landed on the moon, what do you do for an encore? Building a visionary company requires 1 percent vision and ninety nine percent alignment. When you have superb alignment, a visitor could drop in from outer space and infer your vision from the operations and activities of the company without ever reading it on paper or meeting a single senior executive (Built to Last: Successful habits of Visionary Companies by James C Collins and Jerry I. Porras, 1994).

2.4.2 TRANSFORMING THE VISION INTO A MISSION STATEMENT

According to Pearce and Robinson (2003), a mission statement is a message designed to be inclusive of the expectations of all stakeholders for the company's performance over the long run. One of the roles of a mission statement is to give the organization its own special identity, business emphasis, and path for development, one that typically sets it apart from other similar situated companies. Thompson and Strickland (2001), state that a company's business is defined by what needs it is trying to satisfy, by which customer groups it is targeting , and by the technologies and competencies it uses and the activities it performs. Only if a firm clearly articulates its long-term intentions can its goals serve as a basis for shared expectations, planning, and performance evaluation. Pearce and Robinson (2003) states that a mission statement that is developed from this perspective provides managers with a unity of direction, promotes a sense of shared expectations amongst all levels of employees and consolidates value over time across individuals and interest groups. It projects a

sense of worth and intent that can be identified and assimilated by its customers, suppliers, competitors and the general public. Finally, a well-crafted mission statement is a key element of an effective strategic planning process which guides the business in times of turbulence to create competitive advantage.

2.4.3 COMMUNICATING THE STRATEGIC VISION

An effectively communicated vision results in job satisfaction, commitment, loyalty and clarity about the company's values, productivity and long term objectives. Thompson and Strickland (2001) states that a well conceived, well stated vision has several benefits:

- Senior executives views of the company's long-term direction is crystallized.
- It reduces the risk of directionless decision-making.
- Organization members are motivated to go all out to achieve the vision.
- Serves as a beacon for lower level departments to set their objectives and departmental strategies that are in sync with the overall strategy.
- Helps the organization prepare foe the future.

Many companies have put their strategic visions in writing and use them as vehicles to communicate with employees and other parties. A crisp clear inspiring strategic vision has the power to turn the company's strategic goals into reality.

2.4.4 ESTABLISHING OBJECTIVES

According to Lynch (2000) objectives take the generalities of the mission statement and turn them into specific performance targets. The purpose of objectives therefore is to focus the management task on a specific outcome and to provide a means of assessing whether that outcome has been achieved after the event. Thompson and Strickland (2001) state if objectives are to serve as yardsticks of organizational performance, they must be stated in quantifiable and measurable terms against which performance can be measured. This would set the benchmark for judging the company's performance and progress. Lynch (2000) states that it is usual for company's to set objectives in two types of areas, the first of which relates to financial performance and the second relating to strategic performance (See Table 2.2). Achieving acceptable financial performance is critical to the organizations survival, whilst acceptable strategic performance is essential for improving the organizations long-term market position and competitiveness.

Table 2.2 A summary of financial objectives – Adapted from Thompson and Strickland (2001:43)

FINANCIAL OBJECTIVES	STRATEGIC OBJECTIVES
• Growth in revenues • Growth in earnings	• A bigger market share • Quicker design-to-market times than rivals (an ability to get newly developed products to market quicker)
• Higher dividends • Bigger profit margins • Higher returns on invested capital	• Higher product quality than rivals • Lower costs relative to key competitors • Broader or more attractive product line than rivals
• Attractive economic value added (EVA) performance • Strong bond and credit ratings • Bigger cash flows • A rising stock price • Attractive and sustainable increases in market value added (MVA) • Recognition as a "blue-chip" company	• Better e-commerce and Internet sales capabilities than rivals • Superior on-time delivery • A stronger brand name than rivals • Superior customer service compared to rivals • Stronger global distribution and sales capabilities than rivals • Recognition as a leader in technology and / or product innovation
• A more diversified revenue base • Stable earnings during periods of recession	• Wider geographic coverage than rivals • Higher levels of customer satisfaction than rivals

Thompson and Strickland (2001) suggest that strategic objectives need to be competitor focused and aimed at unseating the industry's best in that particular category and that building a stronger long-term competitive position benefits shareholders more lastingly than improving short term profitability.

2.4.5 OBJECTIVES AND STRATEGIC INTENT

Hamel and Prahalad (1989) stated that company's who created an obsession with winning at all levels of the organization and then sustained that obsession over the 10 – 20 year quest for global leadership, termed this obsession "strategic intent". Strategic intent envisions a desired leadership position and establishes the criterion the organization will use to chart its progress. According to Hamel and Prahalad (1989) the concept also encompasses an active management process that includes: focusing the organizations attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contribution, sustaining enthusiasm by providing new operational definitions as circumstances change and using intent consistently to guide resource allocations.

2.4.6 THE NEED FOR LONG RANGE AND SHORT RANGE OBJECTIVES

According to Thompson and Strickland (2001), organizations need to build both long and short-term objectives. Long-term objectives forces managers to take action now to achieve desired performance levels in the future and short-term objectives serves as stairs-steps or milestones. Thompson and Strickland (2001) argues that company performance targets requires organizational stretch. Objectives should serve as a management tool for stretching an organization to reach its full potential, which means setting them high enough to be challenging and to energise the organization and its strategy. They further state that objective setting needs more of a top-down than a bottom up process. This will guide lower-level managers and organizational units towards outcomes that support the achievement of the overall business and company objectives.

2.5 THE EXTERNAL ENVIRONMENT

"It is not the strongest of the species that survive, nor the most intelligent, but the one most response to change" (Charles Darwin). There are many external factors that influence a firm's choice of direction and action. According to Hitt and Hoskisson (2003), firms must understand the external environment by acquiring information about competitors, customers, and other stakeholders to build their own base of knowledge and capabilities. Firms may then use this base to imitate the capabilities of their able competitors and to build new knowledge and capabilities to achieve a competitive advantage. On the basis of the new information, knowledge, and capabilities, firms may take actions to buffer themselves against environmental effects or to build relationships with stakeholders in their environment. To build their knowledge and capabilities and to take actions that buffer or build bridges to external stakeholders, organizations must effectively analyze the external environment.
Pearce and Robinson (2003) stated that the factors, which constitute the external environment, can be divided into three interrelated subcategories:

- Factors in the remote environment
- Factors in the industry environment
- Factors in the operating environment

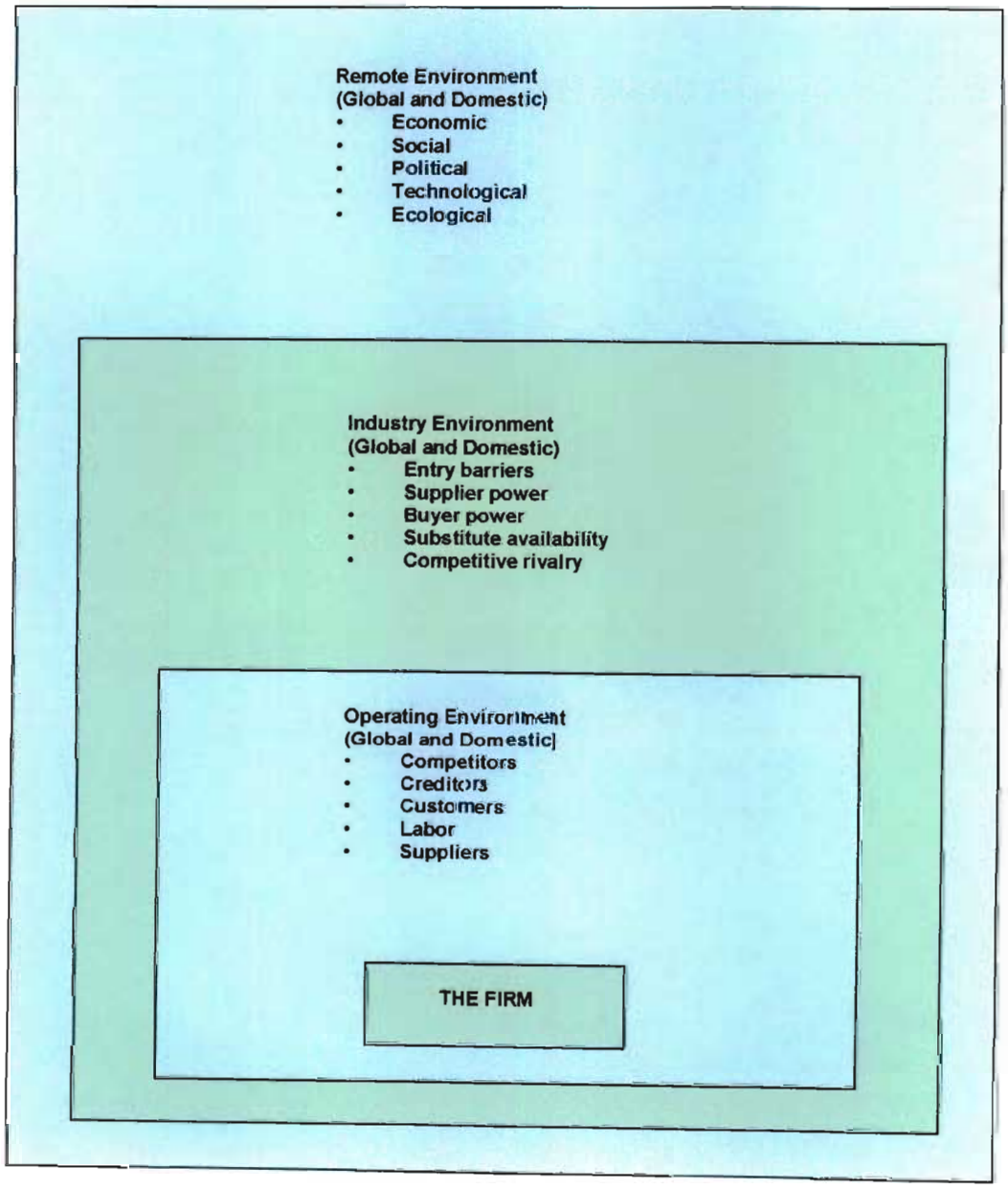
Hitt and Hoskisson (2003) state that firms engage in a process called "external environmental analysis" to increase their understanding of the general environment. This process includes four activities:

- Scanning the environment for early signals of environmental changes and trends that will affect the company.

- Monitoring the environment for changes in trends.
- Forecasting outcomes based on monitored changes and trends, and
- Assessing future trends and its impact on the organization.

Pearce and Robinson (2003) suggest that the interrelationship between the firm and its remote, its industry, and its operating environment form the basis of the opportunities and threats that a firm faces in its competitive environment (See figure 2.6).

Figure 2.6 – The Firm's External Environment adapted from (Pearce and Robinson, 2003:57).



2.5.1 REMOTE ENVIRONMENT

A PESTEL analysis is used as a tool in assessing the external environment. Its looks at the future trends in the Political, Economic, Social, Technological, Environmental and Legal environments, which might impact on the organization The PESTEL analysis is illustrated in Table 2.3 below.

Table 2.3 – The PESTEL Framework - adapted from (Richard Lynch, 2000:110) and modified to include Legal and Environment factors.

Political • Government stability • Taxation policy & employment law • Foreign trade regulations • Monopolies and competition • Social welfare policies **Socio-cultural factors** • Population demographics • Distribution of income • Income distribution • Social mobility • Lifestyle changes • Attitudes to work and leisure • Consumerism • Levels of education **Environmental** • Environmental protection laws • Waste disposal • Energy consumption	**Economic Factors** • Business trends • GNP trends • GDP trends • Cyclicality • Interest rates • Money supply • Inflation • Unemployment • Disposable income **Technological** • Government spending on research • Government and industry focus on technological effort • New discoveries / development • Speed of technology transfer • Rates of obsolescence **Legal** • Monopolies legislation • Employment law • Health and safety • Product safety

2.5.1.1 POLITICAL AND LEGAL FACTORS

"The political and legal segment is the arena in which organizations and interest groups compete for attention, resources, and a voice of overseeing the body of laws and regulations guiding the interactions among nations" (Hitt and Hoskisson, 2003:48). These factors define the legal and regulatory parameters within which firms must operate. These factors take the form of fair trade decisions, antitrust laws, tax programs, minimum wage legislation, pollution and pricing policies, and many other policies aimed at protecting consumers, the public, employees and the environment. Most of these laws and regulations are restrictive and tend to reduce the potential profits of firms, hence it is essential for firms to have a political strategy. However, not all of these policies are restrictive, as some benefit firms. These policies are patent laws, government subsidies and research grants.

2.5.1.2 ECONOMIC FACTORS

This refers to the nature and direction of the economy in which a firm competes or operates. According to Pearce and Robinson (2003), consumption patterns are affected by the relative affluence of various market segments, therefore each firm must consider economic trends in the segment that affect its industry. Managers must consider the general availability of credit, the level of disposable income and the propensity of the people to spend on both the national and international level. Other economic factors they should monitor include prime interest rates, inflation rates and the trends in the growth of the gross national products. As a result of global economies, new international power brokers such as the European Economic Community (EEC) and the Organization of Petroleum Exporting Companies (OPEC) have emerged. The EEC has helped its member countries compete more effectively in non-European international markets.

2.5.1.3 SOCIAL FACTORS

This segment is concerned with a society's attitudes and cultural values. Attitudes and values form the cornerstone of a society and they often drive demographic, economic, political and legal, and technological conditions and changes. As social attitudes change, so too does the demand for various types of clothing, books, leisure activities and so on. Social factors are dynamic and informed estimates of the impact of such alterations as geographic shifts in populations and changing work values, ethical standards, and religious orientation can only help a strategizing firm to prosper.

2.5.1.4 TECHNOLOGICAL FACTORS

According to Hitt and Hoskisson (2003), technological changes affect many parts of society, primarily through new products, processes and materials. Given the rapid pace of technological change, it is vital for firms to study this environment as early adopters of new technology often achieve higher market share and earn higher returns. Thus it is imperative that executives verify that their firms are continuously scanning the external environment to identify potential substitutes for technologies that are in current use, as well as to spot newly emerging technologies from which their firms could derive competitive advantage.

2.5.1.5 ECOLOGICAL FACTORS

Ecology, according to Pearce and Robinson, (2003) refers to the relationship among human beings and other living things and the air, soil and water that supports them. Environmental legislation impacts on corporate strategies worldwide as companies fear the consequences of highly restrictive and costly environmental regulations. Companies have established pro-ecology policies to protect the environment and this will continue to be a top strategic priority, because the public and the government require it.

2.5.2 INDUSTRY AND OPERATING ENVIRONMENT

Thompson and Strickland (2001), state that industry and competitive analysis seeks to answer seven questions about the firm's external environment:

1. What are the industry's dominant features?
2. What competitive forces are at work in the industry and how strong are they?
3. What are drivers of change in the industry and what impact will they have?
4. Which companies are in the strongest / weakest position?
5. Who's likely to make what competitive moves next?
6. What key factors will determine competitive success or failure?
7. How attractive is the industry for above-average profitability?

The answers to these questions form the basis for matching its strategy to changing industry conditions and competitive realities. A few of these important questions are discussed below.

2.5.2.1 INDUSTRY DOMINANT ECONOMIC FACTORS

Thompson and Strickland (2001), state that industry and competitive analysis begins with an overview of the industry's dominant economic features and the factors to consider in profiling an industry's economic features are fairly standard:

- Market size.
- Scope of competitive rivalry (local, regional, national, international, or global).
- Market growth rate and position in the business life (early development, rapid growth and takeoff, early maturity, maturity, saturation and stagnation, decline).
- Number of rivals and their relative sizes – is the industry fragmented into many small companies or concentrated and dominated by a few large companies?
- The number of buyers and their relative sizes.
- Whether and to what extent industry rivals have integrated backward and / or forward.
- The types of distribution channels used to access consumers.
- The pace of technological change in both production process innovation and new product introductions.
- Whether the products and services of rival firms are highly differentiated, weakly differentiated, or essentially identical.
- Whether companies can realize economics of scale in purchasing, manufacturing, transportation, marketing, or advertising.
- Whether key industry participants are clustered in a particular location.
- Whether certain industry activities are characterized by strong learning and experience effects ("learning by doing") such that unit costs decline as cumulative out-put grows.
- Whether high rates of capacity utilization are crucial to achieving low-cost production efficiency.
- Capital requirements and the ease of entry and exit.
- Whether industry profitability is above / below par.

Using the factors or variations of the above listed features can help frame the window of strategic approaches a company can pursue.

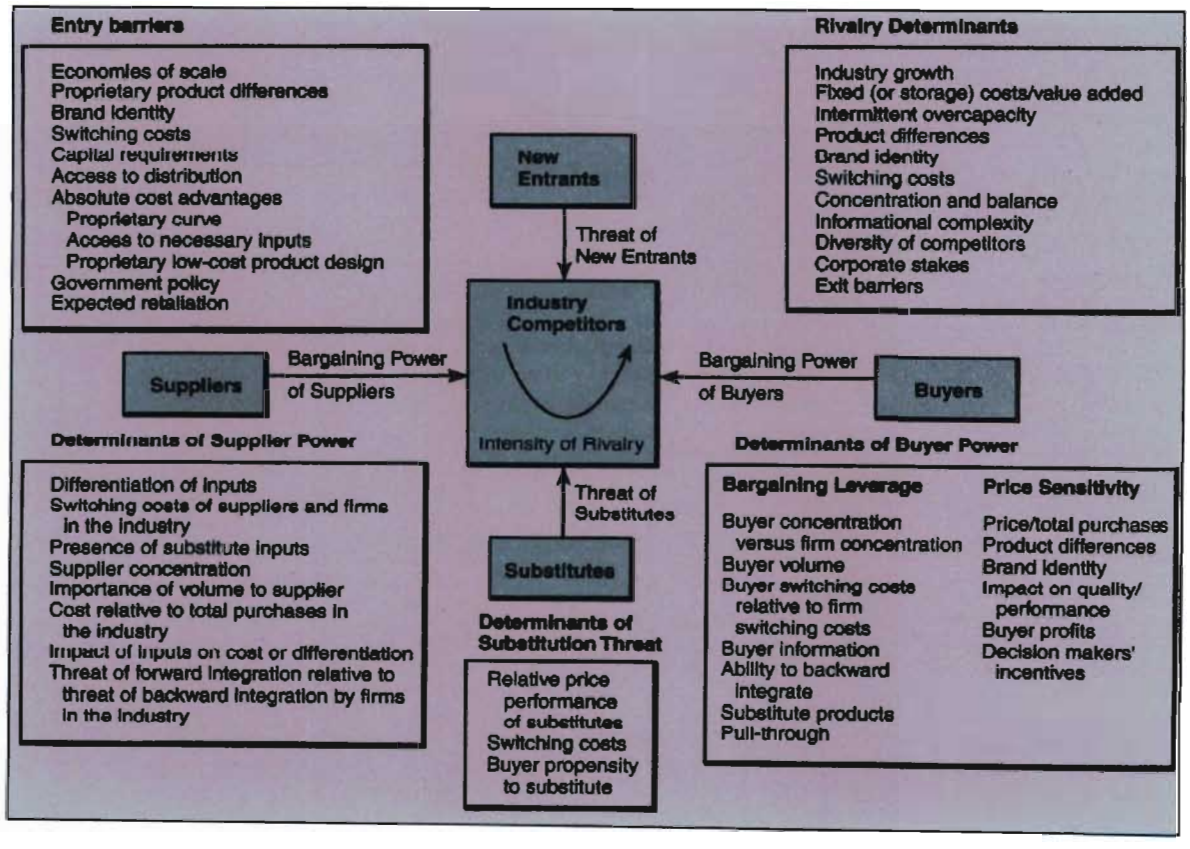
2.5.2.2 HOW COMPETITIVE FORCES SHAPES STRATEGY

Michael Porter (1979) has convincingly demonstrated that the state of competition in an industry is a composite of five competitive forces:

1. The rivalry among competing sellers in the industry.
2. The potential entry of new competitors.
3. The market attempts of companies to win customers over to their own substitute products.
4. Supplier seller collaboration and bargaining
5. Buyer seller collaboration and bargaining

According to Thompson and Strickland (2001), Porter's five force model, depicted below, is a powerful tool for diagnosing competitive pressure in a market and assessing how strong and important each one is.

Figure 2.7 - The Five Forces Model of Competition (Adapted from Michael E Porter, "How Competitive Forces Shape Strategy", Harvard Business Review 57, no. 2, March-April 1979:137-145).



Rivalry among Competing Sellers (Jockeying for Position) - According to Pearce and Robinson (2003), rivalry in an industry can take the form of jockeying for position by using tactics like price competition, product performance features, marketing of innovative products, higher quality or more durable products, providing superior after-sale service, or creating a stronger brand image. Cross company rivalry is dynamic as the competitive scene is ever changing. Regardless of the industry, several common factors seem to increase the tempo of cross-country rivalry:

- Competitors are numerous and more or less equal in size and capability.
- Demand for the product is growing slowly.
- Industry conditions tempt competitors to use price cuts or other competitive weapons to boost unit volume.
- Customers' costs for switching brands are low.
- When a competitor is dissatisfied with their market position and launches a move to bolster their standing at the expense of rivals.
- The more diverse competitors are in terms of their vision, strategic intents, objectives, strategies, resources and countries of origin.
- Strong companies outside the industry acquire weak firms in the industry and launch aggressive, well-funded moves to transform their newly acquired competitors into major market contenders.

Threat of Potential New Entry - Thompson and Strickland (2001) state that new entrants to a market bring new production capacity, the desire to establish a secure place in the market, and sometimes-substantial resources with which to compete. There are several types of entry barriers:

- Economics of scale- deter entry due to large scale.
- Cost and resource disadvantages independent of size.
- Learning and experience curve effects.
- Inability to match the technology and specialized know-how of firms already in the market.
- Brand preferences and customer loyalty- buyers are attached to established brands.
- Capital requirements- large Dollar investment required.
- Access to distribution channels.
- Regulatory policies.
- Tariffs and international trade restrictions.
- Threat of Substitute Products.

Firms in one industry are quite often in close competition with firms in another industry because their respective products are good substitutes. Just how strong the competitive pressures are from substitute products depends on three factors:-

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

Bargaining Power of Buyers - Pearce and Robinson (2003) states that buyers can force down prices, bargain for higher quality or more services, and play competitors against each other. A buyer group is powerful if the following factors hold true:

- It is concentrated or purchased in large volumes.
- They have the ability to integrate backward by producing the product themselves.
- Alternative suppliers are plentiful because the product is standard or undifferentiated.
- Switching costs are low and substitutes are readily available.
- The buyers are well informed about sellers products, prices and costs.
- The purchase price is unimportant to the final quality or price of a buyer's products or services and thus can be easily substituted without affecting the final product adversely.

Bargaining Power of Suppliers - According to Hitt and Hoskisson (2003), a supplier group is powerful if the following factors apply:

- It is dominated by a few companies and is more concentrated than the industry it sells to.
- Its product or service is unique and has built up switching costs.
- Substitutes are not readily available.
- Suppliers are able to integrate forward and compete directly with their present customers.
- The industry is not an important customer of the supplier group.

2.5.2.3 THE DRIVERS OF CHANGE – THE CONCEPT OF DRIVING FORCES

Porter (1980) suggests the industry and competitive conditions change because forces are in motion that creates incentives or pressures for change. The most dominant forces are called driving forces because they have the biggest influence on what kinds of changes will take place in the industry's structure and competitive environment. "Driving forces" analysis has two steps: identify what the driving forces are and assessing the impact they will have on the industry.

The most common driving forces fall into the following category (Porter, Competitive Strategy: 162-183):

- The Internet and the new e-commerce opportunities and threats it breeds in the industry. The challenge here is how growing use of the internet will change the competitive landscape.
- Increasing globalisation of the industry.
- Changes in the long-term industry growth rate. A shrinking market heightens competitive pressures.
- Changes in who buys the product and how they use it.
- Product innovation. Successful new product introductions strengthen the market position of the innovating companies.
- Technological changes.
- Market innovation.
- Entry or exit of major firms.
- Diffusion of technical know-how across companies and more countries.
- Changes in cost and efficiency. E-tailing versus brick and motor retailing.
- Growing buyer preferences for differentiated products instead of a commodity product.
- Regulatory influences and government policy changes.
- Changing societal concerns, attitudes and lifestyles.
- Reduction in uncertainty and business risk.

According to Thompson and Strickland (2001), sound analysis of an industry's driving forces is a prerequisite to sound strategy making. Managers need to have a keen awareness of which external factors will cause the largest potential changes in the company's business and craft a strategy to respond to these driving forces.

2.5.2.4 COMPETITOR INFORMATION

Although no respected author would recommend espionage, it is obvious that the degree of uncertainty in a firm's decision making is reduced in the presence of accurate information about its competitors. Thompson and Strickland (2001) advise implementing a formal competitor information gathering system, and constantly assessing probable competitor action and reaction. Managers, who fail to study their rivals closely, risk being blindsided by surprise actions taken by their rivals.

2.5.2.5 KEY SUCCESS FACTORS FOR COMPETITIVE SUCCESS

Industries are characterized by critical success factors, therefore all competitors are advised to adhere to the principle of having the key fundamentals in place in order to compete on an even footing. Thompson and Strickland (2001), states that an industry's key success factors (KSFs) are those things that most affect industry's members ability to prosper in the marketplace- the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately between competitive success and failure. KSFs are the rules that determine whether a company will be financially and competitively successful. The answer to three questions helps identify an industry's key success factors:

- How do customers choose between the competing brands of sellers? Which product or service attributes are fundamental to their decision?
- What resource and competitive capabilities does a seller need to have to be competitively successful?
- What does it take for sellers to achieve a sustainable competitive advantage?

Key success factors vary from industry to industry as driving forces and competitive conditions change. The most common types of key success factors are listed below:

Technology-Related KSFs

- Scientific research expertise.
- Technical capability to make innovative improvements in product processes.
- Production innovation capability.
- Expertise in a given technology.
- Capability to use the Internet for all kinds of e-commerce activities.

Manufacturing-Related KSFs

- Low-cost production efficiency (achieve scale economies, capture experience curve effects).
- Quality of manufacture (fewer defects, less need for repairs).
- High utilization of fixed assets (important in capital-intensive / high-fixed cost industries).
- Low-cost plant locations.
- Access to adequate supplies of skilled labor.
- High labor productivity (important for items with high labor content).

- Low-cost product design and engineering (reduces manufacturing costs).
- Ability to manufacture or assemble products that are customized to buyer specifications.

Distribution-Related KSFs

- A strong network of wholesale distributors / dealers (or electronic distribution capability via the internet).
- Gaining ample space on retailer shelves.
- Having company-owned retail outlets.
- Low distribution costs.
- Accurate filling of customer orders.
- Short delivery times.

Marketing-Related KSFs

- Fast, accurate technical assistance.
- Courteous customer service.
- Accurate filling of buyer orders (few backorders or mistakes).
- Breadth of product line and product selection.
- Merchandising skills.
- Attractive styling or packaging.
- Customer guarantees and warranties (important in mail-order and on-line retailing, big-ticket purchases, new product introductions).
- Clever advertising.

Skills-Related KSFs

- Superior workforce talent.
- Quality control know-how.
- Design expertise (important in fashion and apparel industries and often one of the keys to low cost manufacture).
- Expertise in a particular technology.
- An ability to develop innovative products and product improvements.
- An ability to get newly conceived products past the R & D phase and out into the market very quickly.

Organisational Capability

- Superior information systems.
- Ability to respond quickly to shifting market conditions (streamlined decision making, shorter lead times to bring new products to the market).
- Superior ability to employ the Internet and other aspects of electronic commerce to conduct business.
- Managerial experience.

Other Types of KSFs

- Favourable image or reputation with buyers.
- Overall low cost (not just in manufacturing).
- Convenient locations.
- Pleasant, courteous employees in all customer contact positions.
- Access to financial capital.
- Patent protection.

2.5.2.6 INDUSTRY PROSPECTS AND OVERALL ATTRACTIVENESS

Although there are always factors common to all competitors in an industry, the behaviour of competitors goes a long way towards establishing an industry segment as attractive. The following factors would be considered in determining industry attractiveness:

- Growth potential for industry
- Current level of inter-firm competition and prospects for increased or reduced competition.
- Probable impact of industry driving forces.
- A firm's current position in the industry and potential to improve position.
- Potential to exploit vulnerabilities of competitors.
- Vulnerability of firm to competitors and driving forces.
- Degree of risk and uncertainty of the industry's future.
- Severity of problems facing the industry.
- Potential for continued competition within the industry segment to contribute to overall organizational success.

If the assessment of the industry is attractive, then current industry participants must employ strategies to strengthen their long-term competitive positions in the business by expanding sales and investing in additional facilities and equipment. If the situation proves to be unattractive, the

organization may choose to invest cautiously, look for ways to improve long-term competitiveness and profitability and perhaps acquire smaller firms. Finally, Thompson and Strickland (2001) believe that good industry and competitive analysis is a prerequisite to good strategy making. They further state that a competently done industry and competitive analysis tells a clear, easily understood story about the company's external environment. It provides the understanding of a company's macro environment needed for shrewdly matching strategy to the company's external situation.

2.6 GLOBALISATION

"It was born when the Wall fell in 1989. It's no surprise that the world's youngest economy – the global economy – is still finding its bearings. The intricate checks and balances that stabilize economies are only incorporated with time. Many world markets are only recently freed, governed for the first time by the emotions of people rather than the fists of the state. From where we sit, none of this diminishes the promise offered a decade ago by the demise of the walled-off worlds... The spread of free markets and democracy around the world is permitting more people everywhere to turn their aspirations into achievements. And technology, properly harnessed and liberally distributed, has the power to erase not just geographical borders, but also human ones. It seems to us that, for a 10-year old, the world continues to hold great promise. In the meantime, no one ever said growing up was easy," (Merrill Lynch-The World is 10 Years Old, 11 October 1998).

According to Porter (1980), one of the drivers of change is the increasing globalisation of most industries. Any company that aspires to industry leadership in the 21st century must think in terms of global market leadership, not domestic market leadership. "The world economy is globalising at an accelerating pace as countries heretofore closed to foreign companies open up their markets, as the Internet shrinks the importance of geographic distance, and ambitious, growth minded companies race to stake out competitive positions in the markets of more and more countries", (Thompson and Strickland: 199, 2001).

2.6.1 REASONS FOR GOING GLOBAL

Companies opt to expand outside their domestic market for any of the four following reasons:

- To gain access to new customers.
- To achieve lower costs and enhance competitiveness.
- To capitalize on the firm's core competences, and
- To spread its business risks across a wide market base.

Pearce and Robinson (2003) states that firms who only operates in the local or domestic environment have important decisions to make with regards to globalisation. Should they:

- Be proactive by entering global markets in advance of other firms and hence enjoying first mover advantages, or
- Be restrictive by following a conservative approach and following other companies into the global arena once customer demand has been established and new product or service cost have been absorbed by competitors?

The table 2.4 listed below is a useful guideline to assist decision makers faced with this dilemma.

Table 2.4 Guide lines for Going Glogal - Source: Betty Jane Punnett and David A. Ricks, International Business (Boston: PWS-Kent, 1992: 249 – 50.)

PROACTIVE	
ADVANTAGE / OPPORTUNITY	**EXPLANATION OF ACTION**
Additional resources	Various inputs – including natural resources, technologies, skilled personnel, and materials – may be obtained more readily outside the home country.
Lowered costs	Various costs – including labor, materials, transportation, and financing – may be lower outside the home country.
Incentives	Various incentives by government to encourage foreign investment in specific locations.
New, expanded markets	New and different markets may be available outside the home country.
Exploitation of firm-specific advantages	Technologies, brands, and recognized names can all provide opportunities in foreign locations.
Taxes	Opportunities for companies to maximize their after-tax worldwide profits.
Economies of scale	Sales from several combined allow for larger-scale production.
Synergy	Operations in more than one national environment provide opportunities to combine benefits from one location with another, which is impossible without both of them.
Power and prestige	The image of being international may increase a company's power and prestige.
Protect home market through offense in competitor's home	A strong offense in a competitor's market can put pressure on the competitor that results in a pull-back from foreign activities to protect itself at home.
REACTIVE	
OUTSIDE OCCURRENCE	**EXPLANATION OF REACTION**
Trade barriers	Tariffs, quotas, and other restrictive trade practices can make exports to foreign markets less attractive; local operations in foreign locations thus become attractive.
International customers	If customer base becomes international, and the company wants to continue to serve it, then local operations in foreign locations may be necessary.
International competition	If a company's competitors become international, and the company wants to remain competitive, foreign operations may be necessary.
Regulations	Regulations imposed by the home government may increase operating cost at home; establishing foreign operations may avoid these costs..
Chance	Chance occurrence results in a company deciding to enter foreign locations.

2.6.2 STRATEGIC ORIENTATION OF GLOBAL FIRMS

According to Pearce and Robinson (2003), multinational corporations display one of four orientations towards their overseas activities. A company with an ethnocentric orientation believes that the parent company should guide the strategic decision making of all its operations. If a corporation displays a polycentric orientation, then the host country is allowed to guide the strategy decision making of all it operations. In contrast, in regiocentric orientations, the parents attempts to blend its own predispositions with those of the region under consideration, thereby arriving at a region sensitive compromise. Finally, corporations that display a geocentric orientation, adopts a global approach to strategic decision making, emphasizing global integration. The table 2.5 below shows the impact of all four orientations based on key activities of the firm. It is clear from the table below that the strategic orientation of a global firm plays a major role in determining the locus of control of the firms decision makers.

Table 2.5 – Orientation of a Global Firm - Source: Adapted from Balji S. Chakravarthy and Howard V. Perlmutter, "Strategic Planning for a Global Business," Columbia Journal of World Business, (1985: 5 – 6).

ORIENTATION	ETHNOCENTRIC	POLYCENTRIC	REGIOCENTRIC	GEOCENTRIC
MISSION	Profitability (viability)	Public acceptance (legitimacy)	Both profitability and public acceptance (viability and legitimacy)	Same as regiocentric
GOVERNANCE	Top-down	Bottom-up (each subsidiary decides on local objectives)	Mutually negotiated between region and its subsidiaries	Mutually negotiated at all levels of the corporation
STRATEGY	Global integration	National responsiveness	Regional integration and national responsiveness	Global integration and national responsiveness
STRUCTURE	Hierarchical production divisions	Hierarchical area divisions, with autonomous national units	Product and regional organization tied through a matrix	A network of organizations (including some stakeholders and competitor organizations)
CULTURE	Home country	Host country	Regional	Global
TECHNOLOGY	Mass production	Batch production	Flexible manufacturing	Flexible manufacturing
MARKETING	Product development determined primarily by the needs of home-country customers	Local product development based on local needs	Standardize within region, but not across regions	Global product, with local variations
FINANCE	Repatriation of profits to home country	Retention of profits in host country	Redistribution within region	Redistribution globally
PERSONNEL PRACTICES	People of home country developed for key positions everywhere in the world	People of local nationality developed for key positions in their own country	Regional people developed for key positions anywhere in the region	Best people everywhere in the word developed for key positions everywhere in the world

2.6.3 COMPLEXITY OF GLOBAL ENVIRONMENTS

According to Pearce and Robinson (2003), five factors contribute to an enhanced level of complexity in global strategic planning:

1. Global organizations face multiple political, economic, social and technological environments as well as varying rates of change in each.
2. Interaction between foreign and national environments is complex because of national sovereignty issues and differing social and economic conditions.
3. Geographic separation, cultural and national differences make communication and control difficult.
4. Global firms face extreme competition because of differences in industry structures in different countries of operation.
5. Regional blocs and economic integrations restrict competitive strategies.

An inherent complicating factor for global firms is that financial policies are typically designed to further the goals of the parent company, exacerbated by the shift of earnings from one centre of operations to another to optimize net income. The built-in bias of financial policies creates tension not only between home and host firms, but home and host governments. Different financial environments make comparison difficult and it becomes increasingly difficult to measure the performance of international divisions.

2.6.4 FACTORS THAT DRIVE GLOBAL COMPANIES

Pearce and Robinson (2003) state that there are six factors that drive the success of global companies. These factors address key aspects of globalising a business's operations and provide a framework within which companies can effectively pursue the global market place. The six factors are listed below:

1. **Global Management Team**
   - Possesses global vision and culture.
   - Include foreign nationals.
   - Leaves management of subsidiaries to foreign nationals.
   - Frequently travels internationally.
   - Has cross-cultural training.

2. **Global Strategy**

- Implement strategy as opposed to independent country strategies.
- Develop significant cross-country alliances.
- Select country targets strategically rather than opportunistically.
- Perform business functions where most efficient – no home-country bias.
- Emphasize participation in the triad – North America, Europe and Japan.

3. **Global Operations and Products**

- Use common core operating processes worldwide to ensure quantity and uniformity.
- Product globally to obtain best cost and market advantage.

4. **Global technology and R & D**

Design global products but take regional differences into account.

- Manage development work centrally but carry out globally.
- Do not duplicate R & D and product development; gain economies of scale.

5. **Global Financing**

- Finance globally to obtain lowest cost.
- Hedge when necessary to protect currency risk.
- Price in local currencies.
- List shares on foreign exchanges.

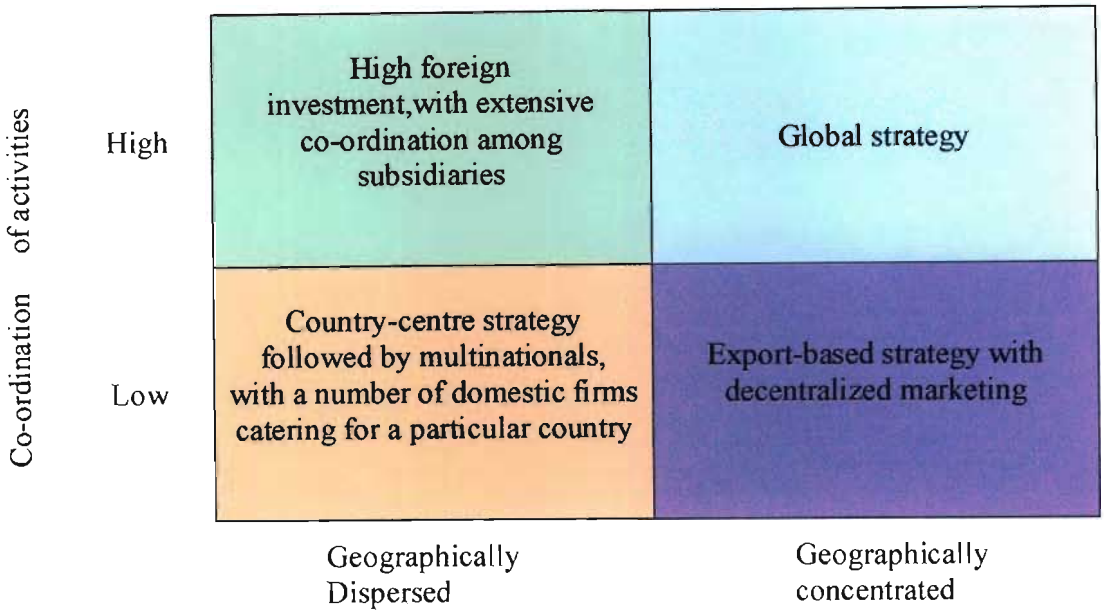
6. **Global Marketing**

- Market global products but provide regional discretion if economies of scale are not affected.
- Develop global brands.
- Use core global marketing practices and themes.
- Simultaneously introduce new global products worldwide.

2.6.5 INTERNATIONAL STRATEGY OPTIONS

The figure 2.8 below presents the basic multinational strategy options based on location and coordination dimensions.

Figure 2.8 International Strategy Options - Adapted from Michael E. Porter, "Changing Patterns of International Competition," California Management Review: (1986: 19)



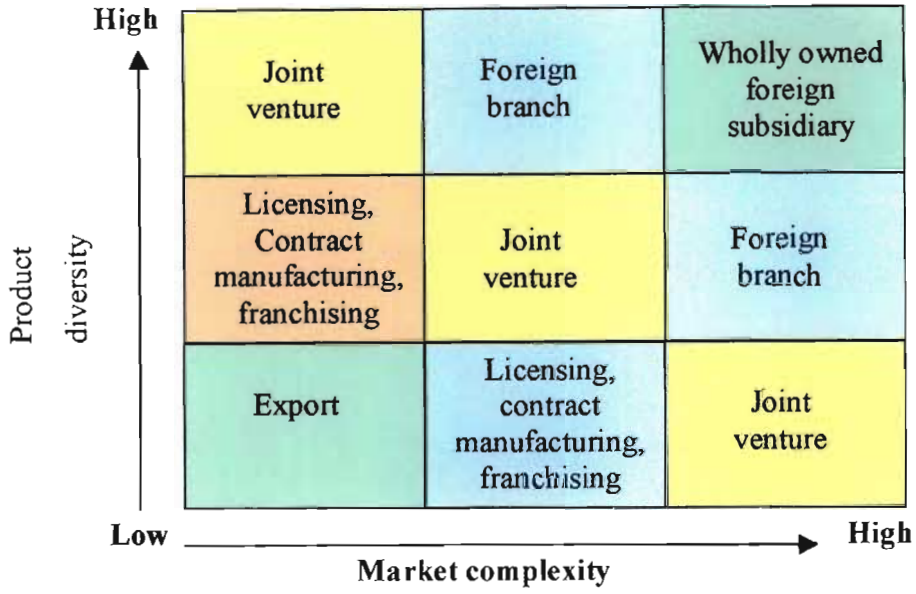
Pearce and Robinson (2003) states that low coordination and geographic dispersion of functional activities are implied if a firm is operating in a multi-domestic industry and has chosen a country-centered strategy. This allows subsidiaries to closely monitor local market conditions and freely respond to them. High coordination and geographic concentration of functional activities are the choice of a pure global strategy.

2.6.6 COMPETITIVE STRATEGIES FOR FIRMS IN FOREIGN MARKETS

Firms that are attempting to move towards globalisation can adopt strategies based on the complexity of the foreign markets they want to enter and the diversity in the company's product lines. Pearce and Robinson (2003) state that complexity is the number of critical success factors required to prosper in a given competitive arena and diversity refers to the breadth of a firms

business lines. Together, the complexity and diversity dimensions form a continuum of possible strategic choices, which result in various possible actions, (see fig 2.9).

Figure 2.9 - Competitive Strategy Options - Source: adapted from Pearce and Robinson (2003:116)



These actions are discussed hereunder.

2.6.6.1 NICHE MARKETING EXPORTING

According to Pearce and Robinson (2003), the primary niche market approach for the company that wants to export is to modify select product performance or measurement characteristics to meet special foreign demands. Exporting usually requires minimal capital investment. Quality control standards over production processes and finished goods inventory are maintained by the organization and there is low risk involved.

2.6.6.2 LICENSING/CONTRACT MANUFACTURING

Svend Hollensen (Global Marketing – A market Responsive Approach, 2001) states that licensing is another way in which firms can establish local production in foreign markets without capital investments. The licensor gives the licensee the right to use one or more of the following:

- A patent covering a product or process
- Manufacturing know how
- Technical advise and assistance

- Marketing advise and assistance
- The use of trade mark or name

The licensing option reduces the risk of entry into foreign markets. Contract manufacturing on the other hand, according to Svend Hollensen (1999), enables the firm to have foreign sourcing (production) without making a final commitment. Contract manufacturing offers substantial flexibility. If the firm is dissatisfied with the product quality or reliability of delivery, it can shift to another manufacturer.

2.6.6.3 FRANCHISING

Pierce and Robinson (2003), describe franchising as a special form of licensing which allows the franchisee to sell a highly publicized product or service, using the parents brand name or trademark. In exchange, the franchisee pays a fee to the parent company, based on the volume of sales of the franchiser in its defined market area.

2.6.6.4 JOINT VENTURES

According to Thompson and Strickland (2001), strategic alliances and joint ventures with foreign companies, strengthens a firm's competitiveness in world markets. Cooperative arrangements between foreign and domestic firms have strategic appeal for reasons besides gaining wider access to attractive country markets. The first is to capture economies of scale in production or marketing, the second, is to fill gaps in technical expertise or knowledge of local markets and finally, to share distribution facilities and dealer networks.

2.6.6.5 FOREIGN BRANCHING

Pearce and Robinson (2003), describes foreign branching as an extension of the company in a foreign market. This is a separately located business unit responsible for fulfilling the operational duties assigned to it by corporate management, including sales, customer service, and physical distribution.

2.6.6.6 WHOLLY OWNED SUBSIDIARIES

Investment commitment in these subsidiaries is high, therefore companies insist on full ownership for reasons of control and managerial efficiency. They can either be started from scratch or by acquiring established firms in the host country. Policy decisions about local product lines, profits and dividends remain with the home country managers.

However, these strategic choices have several advantages and disadvantages. The table 2.6 below, adapted from Svend Hollensen (2001:284-6), lists the main advantages and disadvantages of some of the strategic choices mentioned above.

Table 2.6 Advantages and disadvantages of strategic choices –Adapted from Svend Hollenson (2001: 284-6)

Strategic Options	Advantages	Disadvantages
Contract manufacturing	Permits low-risk market entry. No local investment (cash, time and executive talent) with no risk of nationalization or expropriation. Retention of control over R & D, marketing and sales / after-sales service. Avoids currency risks and financing problems. A locally made image, which may assist in sales, especially to government or official bodies. Entry into markets otherwise protected by tariffs or other barriers. Possible cost advantage if local costs (primarily labour costs) are lower.	Transfer of production know-how is difficult. Contract manufacture is only possible when a satisfactory and reliable manufacturer can be found – not always an easy task. Extensive technical training will often have to be given to the local manufacturer's staff. As a result, at the end of the contract, the subcontractor could become a formidable competitor. Control over manufacturing quality is difficult to achieve despite the ultimate sanction of refusal to accept substandard goods. Possible supply limitation if the production is taking place in developing countries.
Licensing	Increases the income on products already developed as a result of expensive research. Permits entry into markets that are otherwise closed on account of high rates of duty, import quotas and the like. A viable option where manufacture is near the customer's base. Requires little capital investment and should provide a higher rate of return on capital employed. There may be valuable spin-off if the licensor can sell other products or components to the licensee. If these parts are for products being manufactured locally or machinery, there may also be some tariff concessions on their import. The licensor is not exposed to the danger of nationalization or expropriation of assets. Because of the limited capital requirements, new products can be rapidly exploited, on world-wide basis, before competition develops. The licensor can take immediate advantage of the licensee's local marketing and distribution organization and of existing customer contacts. Protects patents, especially in countries which give weak protection for products not produced locally. Local manufacture may also be an advantage in securing government contacts.	The licensor is ceding certain sales territories to the licensee for the duration of the contract; should it fail to live up to expectations, renegotiation may be expensive. When the licensing agreement finally expires, the licensor may find he or she has established a competitor in the former licensee. The licensee may prove less competent than expected at marketing or other management activities. Costs may even grow faster than income. The licensee, even if it reaches an agreed minimum turnover, may not fully exploit the market, leaving it open to the entry of competitors, so that the licensor loses control of the marketing operation. Licence fees are normally a small percentage of turnover, about 5 %, and will often compare unfavourably with what might be obtained from a company's own manufacturing operation. Lack of control over licensee operations. Quality control of the product is difficult – and the product will often be sold under the licensor's brand name. Negotiations with the licensee, and sometimes with local government, are costly. Government often impose conditions on transferal of royalties or on component supply.

Table 2.6 continued

Strategic Options	Advantages	Disadvantages
Franchising	Greater degree of control compared to licensing. Low-risk, low-cost entry mode (the licensees are the ones investing in the necessary equipment and know-how). Using highly motivated business contacts with money, local market knowledge and experience. Ability to develop and distant international markets, relatively quickly and on a larger scale than otherwise possible. Generating economies of scale in marketing to international customers. Precursor to possible future direct investment in foreign market.	The search for competent franchisees can be expensive and time consuming. Lack of full control over franchisee's operations, resulting in problems with cooperation, communications, quality control, etc. Costs of creating and marketing a unique package of products and services recognized internationally. Costs of protecting goodwill and brand name. Problems with local legislation, including transfers of money, payments of franchise fees and government-imposed restrictions on franchise agreements.
Joint venture	Access to expertise and contacts in local markets. Each partner agrees to a joint venture to gain access to the other partner's skills and resources. Typically, the international partner contributes financial resources, technology or products. The local partner provides the skills and knowledge required for managing a business in its country. Each partner can concentrate on that part of the value chain where the firm has its core competence. Reduced market and political risk. Shared knowledge and resources: compared to wholly owned subsidiary, less capital and fewer management resources are required. Economies of scale of pooling skills and resources (resulting in e.g. lower marketing costs). Overcomes host government restrictions. May avoid local tariffs and non-tariff barriers. Shared risk of failure.	Objectives of the respective partners may be incompatible, resulting in conflicts. Contributions to joint venture can become disproportionate. Loss of control over foreign operations. Large investments of financial, technical or managerial resources from which it is difficult to withdraw. Transfer pricing problems as goods pass between partners. The importance of the venture to each partner might change over time. Cultural differences may result in possible differences in management culture among participating firms. Loss of flexibility and confidentiality. Problems of management structures and dual parent staffing of joint ventures. Nepotism perhaps the established norm.
Management contracting	If direct investment or export is considered too risky – for commercial or political reasons – this alternative might be relevant. As with other intermediate entry modes, management contracts may be linked together with other forms of operation in foreign markets. Allows a company to maintain market involvement, so puts it in a better position to exploit any opportunity which may arise. Organizational learning: if a company is in its early development stages of internationalization, a management contract may offer an efficient way of learning about foreign markets and international business.	Training future competitors: the management transfer package may in the end create a competitor for the contractor. Places a great demand for key personnel. Such staff are not always available, especially not in SMEs. Considerable effort needs to be put into building lines of communication at local level as well as back to contractor. Potential conflict between the contractor and the local government as regards the policy of the contract venture. Little control, which also limits the ability of a contractor to develop the capacity of the venture.

2.7 THE INTERNAL ENVIRONMENT

"Three ingredients are critical to the success of a strategy. First, the strategy must be consistent with the conditions in the competitive environment. Specifically, it must take advantage of existing or projected opportunities and minimize the impact of major threats. Second, the strategy must place realistic requirements on the firm's resources. In other words, the firm's pursuit of market opportunities must be based not only on the existence of external opportunities but also on competitive advantages that arise from the firm's key resource. Finally, the strategy must be carefully executed," Pearce and Robinson (2003: 123). The focus below is on the second ingredient, "realistic analysis of the firm's resources".

2.7.1 THE IMPORTANCE OF INTERNAL ANALYSIS

Few firms can consistently make the most effective strategic decisions unless they can change rapidly. A key challenge to developing the ability to change rapidly is fostering an organizational setting in which experimentation and learning are expected and promoted. The demands of the 21st century competition require top-level managers to rethink earlier concepts of the firm and competition. In addition to the firm's ability to change rapidly, a different managerial mindset is required for firms to be successful in the global economy. Also critical is that manager's view the firm as a bundle of heterogeneous resources, capabilities, and core competencies that can be used to create an exclusive market position, Hitt et al (2003: 77-8).

2.7.2 RESOURCE, CAPABILITIES, AND CORE COMPETENCE

Resources, capabilities, and core competencies are the characteristics that make up the foundation of competitive advantage. Hitt et al (2003) states that resources are the source of a firm's capabilities and capabilities in turn are the source of a firm's core competencies, which is the basis of competitive advantage.

2.7.2.1 THREE BASIC RESOURCES

According to Pearce and Robinson (2003), there are three basic types of resources that together create the building blocks for distinctive competencies. These resources are, tangible assets, intangible assets and organizational capabilities. Tangible assets, according to Hitt et al (2003), are assets that can be seen and quantified.

These assets can be made up of production equipment, manufacturing plants and formal reporting structures. Intangible assets are those that are embedded in the firm's history and have accumulated over time. These resources are difficult for a firm's competitor to analyze and imitate. Organizational capabilities are the skills, the abilities and ways of combining assets, people and process that a company uses to transform inputs into outputs.

2.7.2.2 CAPABILITIES

Capabilities are derived from tangible and intangible resources and are a critical part of the pathway to the development of competitive advantage. Capabilities are the firm's capacity to deploy resources that have been purposely integrated to achieve a desired end state. Critical to the forming of competitive advantages, capabilities are often based on developing, carrying, and exchanging information and knowledge through the firm's human capital. The foundation of many capabilities lies in the skills and knowledge of a firms employees and, often, their functional expertise. Hence, the value of human capital in developing and using capabilities and, ultimately, core competencies cannot be overstated. Firms committed to continuously developing their people's capabilities seem to accept the adage that "the person who knows how, will always have a job. The person who knows why, will always be his boss". As illustrated in table 2.7 below, capabilities are often developed in specific functional areas (such as manufacturing, R & D, and marketing) or in a part of a functional area (for example, advertising), Hitt et al (2001: 85-7).

Table 2.7 - Examples of Firms' Capabilities - Adapted from Hitt et al (2003:87).

Functional Areas	Capabilities
Distribution	Effective use of logistics management techniques
Human Resources	Motivating, empowering, and retaining employees
Management Information Systems	Effective and efficient control of inventories through point-of-purchase data collection methods
Marketing	Effective promotion of brand-name products Effective customer service
Management	Ability to envision the future of clothing Effective organizational structure
Manufacturing	Design and production skills yielding reliable products Production of technologically sophisticated automobile engines Miniaturization of components and products
Research & Development	Exceptional technological capability Development of sophisticated elevator control solutions Rapid transformation of technology into new products and processes Deep knowledge of silver-halide materials Digital technology

2.7.2.3 CORE COMPETENCIES

According to Hitt et al (2003), core competencies are resources and capabilities that serve as a source of a firm's competitive advantage over rivals. Core competencies distinguish a company competitively and reflect its personality. They emerge over time through an organizational process of accumulating and learning how to deploy different resources and capabilities. Core competencies are regarded as the "crown jewels of a company", because they are the activities the company performs especially well compared to competitors and through which the firms adds unique value to its goods or services over a long period.

2.7.2.4 BUILDING CORE COMPETENCIES

Two tools help the firm identify and build its core competencies:

1. The first tool consists of four criteria of sustainable competitive advantage.
2. The second tool is the value chain analysis.

2.7.2.5 FOUR CRITERIA OF SUSTAINABLE COMPETITIVE ADVANTAGE

As shown in Table 2.8, capabilities that are valuable, rare, costly to imitate, and non-substitutable are strategic capabilities. According to Hitt et al (2003), every core competence is a capability, but not every capability is a core competence. For a capability to be a core competence, it must be "valuable and non-substitutable, from a customer's point of view, and unique and inimitable, from a competitor's point of view". A sustained competitive advantage is achieved only when competitors have failed in efforts to duplicate the benefits of a firm's strategy.

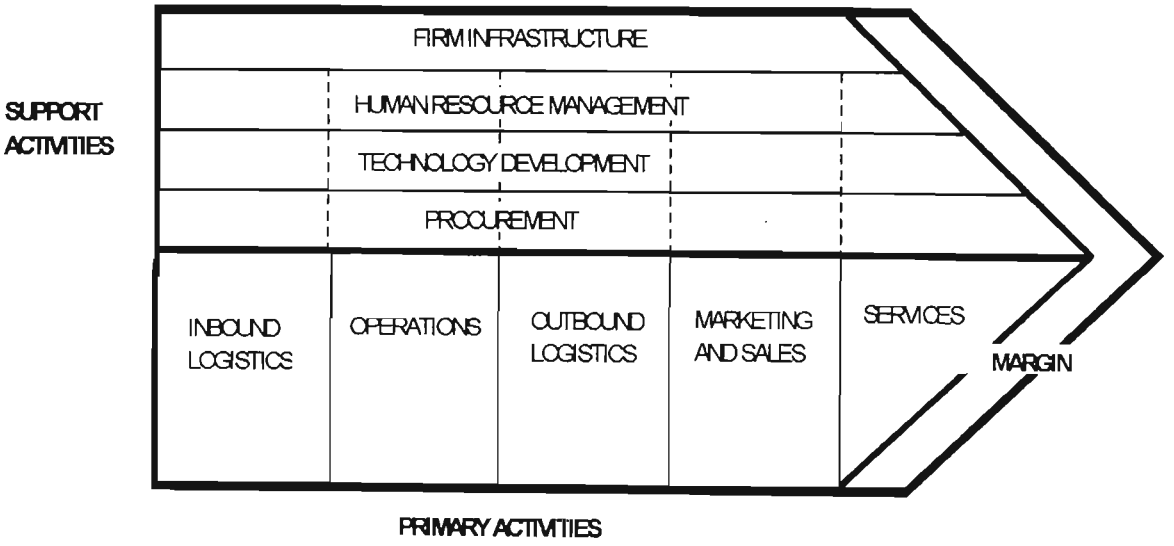
Table 2.8 – Four Criteria for Determining Strategic Capabilities - Adapted from Hitt et al (2003: 89).

Value Capabilities	Help a firm neutralize threats or exploit opportunities
Rare Capabilities	Are not possessed by many others
Costly-to-Imitate Capabilities	Historical: A unique and a valuable organizational culture or brand name Ambiguous cause: The causes and uses of a competence are unclear Social complexity: Interpersonal relationships, trust, and friendship among managers, suppliers, and customers
Nonsubstitutable Capabilities	No strategic equivalent

2.7.3 VALUE CHAIN ANALYSIS

Pearce and Robinson (2003), describes value chain analysis as the understanding of how a business creates customer value by examining the contributions of different activities within the business to that value. On the other hand, Johnson and Scholes (1999:156) describes value chain analysis as "the activities within and around an organization, and relates them to an analysis of the competitive strength of the organization." Proponents of value chain analysis (VCA) believe VCA allows managers to better identify their firms' strengths and weaknesses by looking at the business as a process i.e. a chain of activities. Ambrosini (1998) states further that it is important that managers be able to identify the core competences of the organization, which in some cases is not easy, as it is likely to be tacit knowledge in the organization and taken for granted. It also needs to move from a qualitative description of an organization's value chain, to a detailed and quantified assessment of where both cost and value are being added and lost.

Figure 2.10 – The Value Chain – adapted from: Michael Porter: Competitive Advantage, Creating and Sustaining Superior Performance: The Free Press: (1998:37).



According to Michael Porter (1998) every firm is a collection of activities that are performed to design, produce, market, deliver and support its product. This can be represented by the value chain, (Figure 2.10). A firm's value chain and the way it performs individual activities, is a reflection of its history, strategy and approach to implementing its strategy and the underlying economics of the activities themselves. Differences among a competitor value chains are a key source of competitive advantage. In competitive terms, value is the amount buyers are willing to pay for what a firm provides for them. A firm is profitable if the value it commands exceeds the costs involved in creating the product (Porter, 1998: 38).

According to Michael Porter (1998), value activities can be divided into two broad types, primary activities and support activities. Primary activities, are the activities involved in the physical creation of the product and its sale and transfer to the buyer as well as after sales assistance. Support activities support the primary activities and each other by providing purchased inputs, technology, human resources and various firm wide functions. As seen in Figure 2.10 primary activities are directly concerned with the creation or delivery of a product or service and can be grouped into five main areas, Michael Porter (1998):

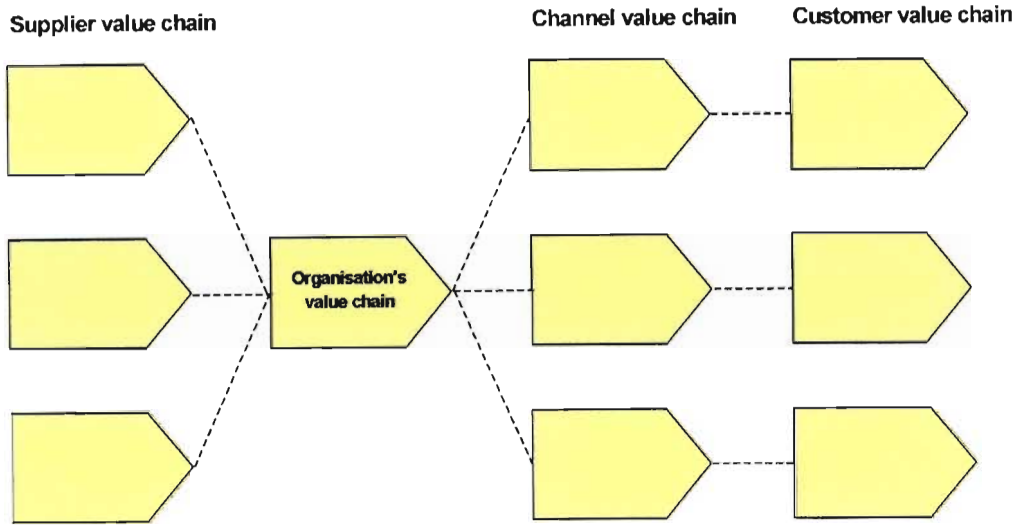
- Inbound logistics – the activities involved with the receiving, storing, and distributing the inputs to the product or service.
- Operations – converting inputs into products or service.
- Outbound logistics – the collection, storage and distribution of the product to the customer.
- Marketing and sales – consumers/ users are made aware of the products or service and are able to purchase it.
- Service – all activities that enhance or maintain the value of the product or service.

Similarly, support activities help to improve the effectiveness or efficiency of the primary activities and are divided into four areas ,(Johnson and Scholes, 1999):

- Procurement – processes for acquiring the various resource inputs to the primary activities.
- Technology development – all value activities have a "technology", e.g. R&D.
- Human resource management – activities involved with recruiting, managing, training, developing and rewarding people within the organisation.
- Infrastructure – the systems of planning, finance, quality control, information management.

Value activities are therefore the discrete building blocks of competitive advantage. How each activity is performed, combined with its economics, will determine whether a firm is high or low cost relative to competitors. Comparing the value chains of competitors exposes differences that determine competitive advantage (Figure 2.11).

Figure 2.11 – The Value System - Source: M.E. Porter competitive advantage, Free Press, 1985. used with permission of the Free Press Division of Macmillan Inc.



2.7.3.1 CONDUCTING A VALUE CHAIN ANALYSIS

Pearce and Robinson (2003) states that there are five steps to conducting a VCA:

- Identify Activities - The firm's activities and business operations needs to be categorized into primary and support activities.
- Allocate costs - Costs are allocated to each discrete activity as each activity incurs costs, utilizes time and ties up assets.
- Identify the activities that differentiate the firm - Sources of differentiation needs to be scrutinized.
- Examine the value chain - once the value chain has been documented, managers need to identify the activities that are critical to buyer satisfaction and market success. Three aspects need to be considered. The first being the company's basic mission needs to influence manager's choice of the activities they examine in detail. Second, the relative importance of selecting activities should be based on the industry in which the firm is

operating. Finally the third aspect is that the relative importance of value activities can vary by a company's position in a broader value system that includes the value chains of its upstream and downstream partners and customers involved in providing products or services to end users.

- Compare to Competitors - A value activity when being analyzed as strength or weakness needs to be compared to value activities of competitors. This could be done through benchmarking and success factors within the industry.

2.7.4 SWOT ANALYSIS

Thompson and Strickland (2001), states that assessing a firm's resource strengths and weaknesses and its external opportunities and threats, commonly known as SWOT analysis, provides a good overview of whether a firm's business position is fundamentally healthy or unhealthy. A SWOT analysis provides an overview of a firm's situation and is an essential component of crafting a strategy tightly matched to the company's situation.

2.7.4.1 IDENTIFYING COMPANY STRENGTHS

Strength is something a company is good at doing or a characteristic that gives it enhanced competitiveness and can take any of several forms,Thompson and Strickland (2001:117-8):

- A skill or important expertise - low-cost manufacturing capabilities, strong e-commerce expertise, technological know-how, a proven track record in defect-free manufacture, expertise in providing consistently good customer service.
- Valuable physical assets - state-of-the-art plants and equipment, worldwide distribution facilities, ownership of valuable natural resource deposits, cutting-edge computer networks and information systems.
- Valuable human assets - an experienced and capable workforce, talented employees in key areas, cutting-edge knowledge and intellectual capital, astute entrepreneurship and managerial know-how.
- Valuable organizational assets - proven quality control systems, proprietary technology, key patents, mineral rights, a base of loyal customers, a strong balance sheet and credit rating, cutting-edge supply chain management systems, a well-functioning company intranet, and e-commerce systems for accessing and exchanging information with suppliers and key customers, computer-assisted design and manufacturing systems, systems for

conducting business on the Internet, or a comprehensive list of customers' e-mail addresses.

- Valuable intangible assets - brand-name image, company reputation, buyer goodwill, or a motivated and energized workforce.
- Competitive capabilities - short development times in bringing new products to market, a strong dealer network, strong partnerships with key suppliers, an R&D organization with the ability to keep the company's pipeline full of innovative new products, a high degree of organizational agility in responding to shifting market conditions and emerging opportunities, a cadre of highly trained customer service representatives, or state-of-the-art systems for doing business via the Internet.
- An achievement or attribute that puts the company in a position of marked advantage - low overall costs, market share leadership, a superior product, a wide product selection, strong name recognition, state-of-the-art e-commerce technologies and practices, or exceptional customer service.
- Alliances or co-operative ventures - fruitful collaborative partnerships with suppliers and marketing allies that enhance the company's own competitiveness.

2.7.4.2 IDENTIFYING COMPANY WEAKNESS

According to Thompson and Strickland (2001) a weakness is something a company lacks or does poorly that puts it at a disadvantage. Internal weaknesses can relate to:

- Deficiencies in competitively important skills or expertise or intellectual capital.
- A lack of competitively important physical, organizational, or intangible assets; or
- Missing or weak competitive capabilities in key areas.

A company's resource weaknesses suggest a need to review its resource base. What existing resource deficiencies need to be remedied and gaps that need to be filled? Table 2.9 indicates the kinds of factors to be considered in determining a company's resource strengths and weaknesses.

Table 2.9 SWOT Analysis – what to Look for in Sizing Up a Company's Strengths, Weaknesses, Opportunities, and Threats - Adapted from Thompson and Strickland (2001:121).

Potential Resource Strengths and Competitive Capabilities	Potential Resource Weaknesses and Competitive Deficiencies
• A powerful strategy supported by competitively valuable skills and expertise in key areas • A strong financial condition; ample financial resources to grow the business • Strong brand name image/company reputation • A widely recognized market leader and an attractive customer base • Ability to take advantage of economies of scale and/or learning and experience curve effects • Proprietary technology/superior technological skills/important patents • Superior intellectual capital relative to key rivals • Cost advantages • Strong advertising and promotion • Product innovation skills • Proven skills in improving production processes • Sophisticated use of e-commerce technologies and processes • Superior skills in supply chain management • A reputation for good customer service • Better product quality relative to rivals • Wide geographic coverage and/or strong global distribution capability • Alliances/joint ventures with other firms that provide access to valuable technology, competencies, and/or attractive geographic markets	• No clear strategic direction • Obsolete facilities • A weak balance sheet; burdened with too much debt • Higher overall unit costs relative to key competitors • Missing some key skills or competencies/lack of management depth/a deficiency of intellectual capital relative to leading rivals • Subpar profitability • Plagued with internal operating problems • Falling behind rivals in putting e-commerce capabilities and strategies in place • Too narrow a product line relative to rivals • Weak brand image or reputation • Weaker dealer network than key rivals and/or lack of adequate global distribution capability • Subpar e-commerce systems and capabilities relative to rivals • Short on financial resources to fund promising strategic initiatives • Lots of underutilized plant capacity • Behind on product quality and/or R&D and/or technological know-how • Not attracting customers as rapidly as rivals due to ho-hum product attributes
Potential Company Opportunities	**Potential External Threats to Company's Well-Being**
• Serving additional customer groups or expanding into new geographic markets or product segments • Expanding the company's product line to meet a broader range of customer needs • Utilising existing company skills or technological know-how to enter new product or new businesses • Using the Internet and e-commerce technologies to dramatically cust costs and/or pursue new sales growth opportunities • Integrating forward or backward • Falling trade barriers in attractive foreign markets • Openings to take market share away from rivals • Ability to grow rapidly because of sharply rising demand in one or more market segments • Acquisition of rival firms or companies with attractive technological expertise • Alliances or joint ventures that expand the firm's market coverage or boost its competitive capability • Openings to exploit emerging new technologies • Market openings to extend the company's brand name or reputation to new geographic areas	• Likely entry of potent new competitors • Loss of sales to substitute products • Mounting competition from new Internet start-up companies pursuing e-commerce strategies • Increasing intensity of competition among industry rivals – may cause squeeze on profit margins • Technological changes or product innovations that undermine demand for the firm's product • Slowdowns in market growth • Adverse shifts in foreign exchange rates and trade policies of foreign governments • Costly new regulatory requirements • Growing bargaining power of customers or suppliers • A shift in buyer needs and tastes away from the industry's product • Adverse demographic changes that threaten to curtail demand for the firm's product • Vulnerability to industry driving forces

2.7.4.3 IDENTIFYING A COMPANY'S MARKET OPPORTUNITIES

Market opportunity plays an important role in shaping a company's strategy. According to Thompson and Strickland (2001), market opportunities most relevant to a company are those that offer important avenues for profitable growth, those where a company has the most potential for competitive advantage, and those that match up well with the company's financial and organizational resource capabilities. A company's opportunities can be plentiful or scarce. Table 2.9 presents a checklist of things to be alert for in identifying a company's market opportunities.

2.7.4.4 IDENTIFYING THREATS TO A COMPANY'S FUTURE PROFITIBILITY

"Certain factors in a company's external environment pose threats to its profitability and competitive well-being. Threats can stem from the emergence of cheaper or better technologies, rivals' introduction of new or improved products, the entry of lower-cost foreign competitors into a company's market stronghold, new regulations that are most burdensome to a company than to its competitors, vulnerability to a rise in interest rates, the potential of a hostile takeover, unfavourable demographic shifts, adverse changes in foreign exchange rates, political upheaval in a foreign country where the company has facilities, and the like. It is management's job to identify the threats to the company's future well-being and to evaluate what strategic actions can be taken to neutralize or lessen their impact", (Thompson and Strickland, 2001: 127). Table 2.9 presents a list of potential threats to a company's future profitability and market position.

2.7.4.5 THE REAL VALUE OF SWOT ANALYSIS

Thompson and Strickland (2001) state that simply listing a company's strengths, weaknesses, opportunities, and threats is insufficient. The payoff of SWOT analysis comes from the evaluations and conclusions that flow from the four lists and must be a basis for action. It is also to provoke thinking and answers to several questions about what future resource strengths and capabilities the company will need to respond to emerging industry and competitive conditions and to produce successful bottom-line results. SWOT analysis has not served its purpose until the lessons about the company's situation have been distilled from the four lists.

2.7.4.6 WHAT STRATEGIC ISSUES DOES THE COMPANY FACE?

According to Thompson and Strickland (2001), the final task is to zero in on the strategic challenges that stand as obstacles to the company's future success. This involves using the results of both company situation analysis and industry and competitive analysis to identify as clearly as possible the strategic issues and problems confronting the company.

Identifying the strategic issues a company faces is a prerequisite to effective strategy making. It involves developing a "worry list" of strategic challenges concerning "how to . . .", whether to . . .", and "what to do about . . ." , (Thompson and Strickland,2003:144).

Questions that can help pinpoint the right strategic issues to address include the following:

- Is the present strategy adequate for protecting and improving the company's market position in light of five competitive forces?
- Is the company vulnerable to the competitive efforts of one or more rivals?
- Should the present strategy be adjusted to better respond to the driving forces at work in the industry?
- Is the present strategy closely matched to the industry's future key success factors?
- Does the present strategy adequately capitalize on the company's resource strengths and capabilities?
- Which of the company's opportunities merit top priority? Which should be given low priority and which are best suited to the company's resource strengths and capabilities?
- How important is it for the company need to correct its resource weaknesses? Are there things the company can do to lessen the impact of external threats?
- Does the company have competitive advantage, or must it work to offset competitive disadvantage?
- Where are the strong spots and weak spots in the present strategy?

If a company's current strategy is well matched to its external environment and to its resource strengths and capabilities, there is little need to contemplate big shifts in strategy. If however, the present strategy is not well suited for the road ahead, the task of crafting a better strategy has got to go to the top of management's action agenda.

2.8 FORMULATING LONG TERM OBJECTIVES AND GRAND STRATEGIES

The goals of the firm, which deals with profitability, growth and survival, are stated without specific targets and time frames. Long-term objectives are statement of results a firm seeks to achieve over a specific period, typically, three to five years.

2.8.1 LONG TERM OBJECTIVES

Pearce and Robinson (2003) states that to achieve long-term prosperity, strategic planners commonly establish long-term objectives in seven areas:

Profitability – This depends on the ability of any firm to operate in the long run to attain acceptable level of profits. Strategically managed firms normally have a profit objective, usually expressed in earnings per share or return on equity.

Productivity - Strategic managers constantly try to increase the productivity of their systems. Firms that can improve the input-output relationship normally increase profitability.

Competitive Position – A measure of corporate success is relative dominance in the marketplace. Firms establish an objective in terms of competitive position, often using total sales or market share as measures of their competitive position.

Employee Development - Employees value education and training because they lead to increased compensation and job security.

Employee Relations - Firms actively seek good employee relations. Strategic managers believe that productivity is linked to employee loyalty and to appreciation of managers' interest in employee welfare.

Technological Leadership - Firms must decide whether to lead or follow in the marketplace.

Public Responsibility - Managers recognize their responsibilities to their customers and to society at large. Many firms seek to exceed government requirements as they work not only to develop reputations for fairly priced products and services but also to establish themselves as responsible corporate citizens.

Pearce and Robinson (2003) further state that seven criteria should be used in preparing long-term objectives: acceptable, flexible, and measurable over time, motivating, suitable, understandable, and achievable. Each of these are discussed hereunder:

1. Acceptable - Managers are most likely to pursue objectives that are consistent with their preferences and may ignore or even obstruct the achievement of objectives that they believe to be inappropriate or unfair.

2. Flexible - Objectives should be adaptable to unforeseen or extraordinary changes in the firm's competitive or environmental forecasts.
3. Measurable - Objectives should be measurable over time.
4. Motivating - People are most productive when objectives are set at a motivating level – one high enough to challenge but not so high as to frustrate or so low as to be easily attained.
5. Suitable - Objectives must be suited to the broad aims of the firm and each objective should be a step toward the attainment of overall goals.
6. Understandable - Strategic managers at all levels must understand what is to be achieved and how their performance will be evaluated. Hence, objectives must be stated in such a manner that they are understood by both the recipient and the giver.
7. Achievable - Finally, objectives must be possible to achieve. This is easier said than done as turbulence in the remote and operating environments affects a firm's internal operations, creating uncertainty and limiting the accuracy of the objectives set by strategic management.

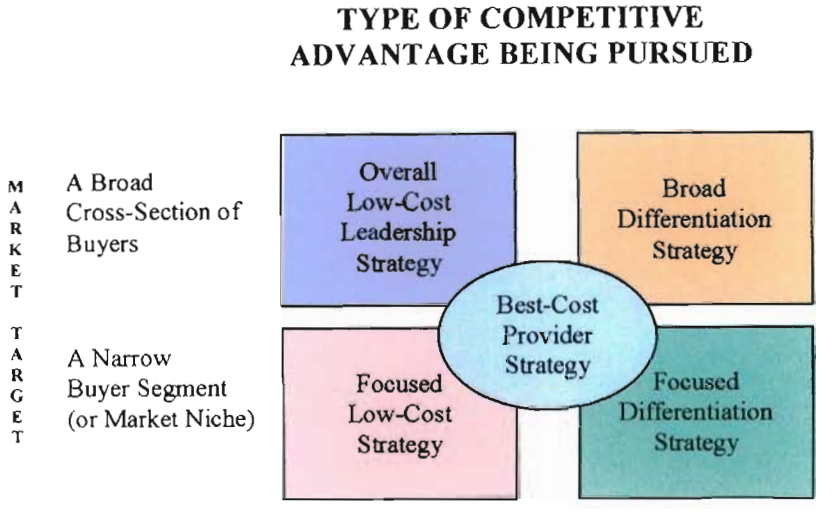
2.8.2 THE FIVE GENERIC COMPETITIVE STRATEGIES

According to Pearce and Robinson (2003), a long term or grand strategy must be based on a core idea about how the firm can best compete in the marketplace. Thompson and Strickland (2001) on the other hand suggest that a company's competitive strategy deals with managements action plan for competing successfully and providing superior value to customers. There are five distinct approaches to competitive advantage as advocated by Thompson and Strickland (2001:150):

1. A **low-cost provider strategy** - based on being the overall low-cost provider of a product or service.
2. A **broad differentiation strategy** – seeking to differentiate the company's product offering from rivals' in ways that will appeal to a broad spectrum of buyers.
3. A **best-cost provider strategy** – giving customers more value for the money by demonstrating lowest (best) costs and prices compared to rivals offering products with comparable upscale attributes.
4. A **focused (or market niche) strategy based on lower cost** –focusing on a narrow buyer segment and out competing rivals by serving niche members at a lower cost than rivals.

5. A **focused (or market niche) strategy based on differentiation** – concentrating on a narrow buyer segment and out competing rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals' products.

Table 2.10 The Five Generic Competitive Strategies - Adapted from Michael E. Porter, Competitive Strategy (New York: Free Press, 1980: 35 – 40).



The listing in Table 2.10 highlights the contrasting features of these five competitive strategies; for simplicity, the two strains of focused strategies are combined under one heading since they differ fundamentally on only one feature - the basis of competitive advantage.

2.8.3 GRAND STRATEGIES

Grand strategies, often called master or business strategies, provide basic direction for strategic actions. They are the basis of coordinated and sustained efforts directed toward achieving long-term business objectives. Grand strategies indicate the time period over which long-range objectives are to be achieved. Thus, a grand strategy can be defined as a comprehensive general approach that guides a firm's major actions. The fifteen principal grand strategies are: concentrated growth, market development, product development, innovation, horizontal integration, vertical integration, concentric diversification, conglomerate diversification, turnaround, divestiture, liquidation,

bankruptcy, joint venture, strategic alliances, and consortia. Pearce and Robinson (2003:161-2). Each of these grand strategies is discussed below.

Concentrated Growth - Is the strategy of the firm that directs its resources to the profitable growth of a single product, in a single market, with a single dominant technology. The main rationale for this approach is that the firm thoroughly develops and exploits its expertise in a delimited competitive arena.

Market Development - Consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion. Market development allows firms to practice a form of concentrated growth by identifying new uses for existing products and new demographically or geographically defined markets.

Product Development - The product development strategy is adopted either to prolong the life cycle of current products or to take advantage of a favorite reputation or brand name. The idea is to attract satisfied customers to new products as a result of their positive experience with the firm's initial offering. This strategy is based on the penetration of existing markets by incorporating product modifications into existing items or by developing new products clearly connected to the existing product line.

Innovation - The underlying rationale of the grand strategy of innovation is to create a new product life cycle and thereby make similar existing products obsolete.

Horizontal Integration - When a firm's long-term strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of the production-marketing chain, its grand strategy is called horizontal integration. Such acquisitions eliminate competitors and provide the acquiring firm with access to new markets. The principal attractions of a horizontal integration grand strategy is that the acquiring firm is able to greatly expand its operations, thereby achieving greater market share, improving economies of scale, and increasing the efficiency of capital use.

Vertical Integration - When a firm's grand strategy is to acquire firms that supply it with inputs (such as raw materials) or are customers for its outputs (such as warehouses for finished products), vertical integration is involved. The main reason for backward integration is the desire to increase the dependability of the supply of quality of the raw materials used as production inputs. The vertically integrating firm can better control its costs and, thereby, improve the profit margin of the expanded production-marketing system. Forward integration is a preferred grand strategy if great

advantages accrue to stable production. A firm can increase the predictability of demand for its output through forward integration; that is, through ownership of the next stage of its production-marketing chain.

Concentric Diversification - Involves the acquisition of businesses that are related to the acquiring firm in terms of technology, markets, or products. With this grand strategy, the selected new business possesses a high degree of compatibility with the firm's current businesses.

Conglomerate Diversification - Is the acquisition of another business because it represents the most promising investment opportunity available. The principal concern of the acquiring firm is the profit pattern of the venture.

Turnaround - A firm can find it-self with declining profits due to economic recessions, production inefficiencies, and innovative breakthroughs by competitors. In many cases, strategic managers believe that such a firm can survive and recover if a concerted effort is made fortify its distinctive competences. This grand strategy is know as turnaround. It typically is begun through one of two forms of retrenchment, employed singly or in combination:

1. Cost reduction. Examples include decreasing the workforce through employee attrition, leasing rather than purchasing equipment, extending the life of machinery, laying off employees, dropping items from a production line, and discontinuing low-margin customers.
2. Asset reduction. Examples include the sale of land, buildings, and equipment not essential to the basic activity of the firm and the elimination of "perks," such as the company cars.

Divestiture - Involves the sale of a firm or a major component of a firm for reasons of incompatibility between acquired firm and parent firm or for financial needs.

Liquidation - In this case the firm typically is sold in parts, only occasionally as a whole – but for its tangible asset value and not as a going concern. In selecting liquidation, the owners and strategic managers of a firm are admitting failure.

Bankruptcy - The business cannot pay its debts, so it must close its doors. Investors lose their money, employees lose their jobs, and managers lose their credibility. In owner-managed firms, company and personal bankruptcy commonly go hand in hand.

2.8.4 CORPORATE COMBINATIONS

Pearce and Robison (2003) state that recently, three new grand types have gained in popularity and they fit under the board category of corporate combinations. These grand strategies deserve special attention and consideration especially by companies that operate in global, dynamic, and

technologically driven industries. These three newly popularized grand strategies are joint ventures, strategic alliances, and consortia.

2.8.5 STRATEGIC ALLIANCES

In many instances, strategic alliances are partnerships that exist for a defined period during which partners contribute their skills and expertise to a cooperative project. According to Thompson and Strickland (2001) alliances and partnerships are a necessity in racing against rivals to build a strong global presence to stake out a position in the industries of the future. Growing use of alliances is shifting the basis of competition to groups of companies against groups of companies.

2.8.6 CONSORTIA

Consortia as defined by Pearce and Robinson (2003) are large interlocking relationships between businesses of an industry. It is designed to use industry coordination to minimize risks of competition, in part through cost sharing and increased economies of scale.

2.8.7 JOINT VENTURES

As this case study revolves around Joint Ventures, a detailed analysis of the subject will be covered in the next few pages. Glen Arnold (2000, Corporate Finance Management) describes a joint venture as a partnership between two or more parties to strengthen its market position and to open up avenues of new opportunity. In international joint ventures, these parties will be based in different countries, and this obviously complicates the management of such an arrangement. A number of reasons are given for setting up joint ventures, including the following, Svend Hollenson (2001: 273-4):

- Complementary technology or management skills provided by the partners can lead to new opportunities in existing sectors.
- Many firms find that partners in the host country can increase the speed of market entry.
- Many less developed countries, try to restrict foreign ownership.
- Global operations in R & D and production are prohibitively expensive, but necessary to achieve competitive advantage.

The joint venture can be either a contractual non-equity joint venture or an equity joint venture. In a contractual joint venture, no joint enterprise with a separate personality is formed. Two or more companies form a partnership to share the cost of investment, the risks and the long-term profits. An

equity joint venture involves the creation of a new company in which foreign and local investors share ownership and control. There are various stages in the formation of a joint venture and these are summarized in Table 2.11 and discussed in detail below; Young et al (1989:223).

Table 2.11 - Stages in joint-venture formation - Adapted from Young et al (1989:233).

STAGES	OBJECTIVES
Joint venture objectives	Establish strategic objectives of the joint venture and specify time period for achieving objectives.
Cost/benefit analysis	Evaluate advantages and disadvantages of joint venture compared with alternative strategies for achieving objectives (e.g. licensing) in terms of: (a) financial commitment; (b) synergy; (c) management commitment; (d) risk reduction; (e) control; (f) long-run market penetration; and (g) other advantages/disadvantages
Selecting partner(s)	(a) profile of desired features of candidates; (b) identifying joint-venture candidates and drawing up short list; (c) screening and evaluating possible joint-venture partners; (d) initial contact/discussions; and (e) choice of partner.
Develop business plan	Achieve broad agreement on different issues.
Negotiation of joint-venture agreement	Final agreement on business plan.
Contract writing	Incorporating of agreement in legally binding contract, allowing for subsequent modifications to the agreement.
Performance Evaluation	Establish control systems for measuring venture performance.

Step 1: Joint-venture objectives

Hollenson (2001) state that Joint Ventures are formed for a variety of reasons. These include entering new markets, reducing manufacturing costs, and developing and diffusing new technologies rapidly. Joint Ventures are also used to accelerate product introduction and overcome legal and trade barriers expeditiously. In this period of advanced technology and global markets, implementing strategies quickly is essential. Forming alliances is often the fastest, most effective method of achieving objectives. There are three principal objectives in forming a joint venture, Hollenson (2001: 276-9):

- **Entering new markets.** Many companies recognize that they lack the necessary marketing expertise when they enter new markets. Rather than trying to develop this expertise internally, the company may identify another organization that possesses those desired marketing skills. Then, by capitalizing on the product development skills of one company and the marketing skills of the other, the resulting alliance can serve the market quickly and effectively. Alliances may be particularly helpful when entering a foreign market for the first time because of the extensive cultural differences that may abound. They may also be effective domestically when entering regional or ethnic markets.
- **Reducing manufacturing costs**. Joint ventures may allow companies to pool capital or existing facilities to gain economies of scale or increase the use of facilities, thereby reducing manufacturing costs.
- **Developing and diffusing technology**. Joint ventures may also be used to build jointly on the technical expertise of two or more companies in developing products that are technologically beyond the capability of the companies acting independently.

Step 2: Cost/benefit analysis

A joint venture/strategic alliance may not be the best way of achieving objectives, therefore they need to be evaluated against alternate strategies.

Step 3: Selecting partner(s)

If it is accepted that a joint venture is the best entry mode for achieving the firm's objectives, the next stage is the selection of the joint-venture partner. This selection involves five stages which is listed in table 2.12.

Table 2.12 - Selecting Partner(s) Process - Adapted from Hollenson et al (2001:276-9)

STAGES	REQUIREMENTS
Establishing a desired partner profile	• Development know-how. • Sales and service expertise. • Low-cost production facilities. • Strategically critical manufacturing capabilities. • Reputation and brand equity. • Market access and knowledge. • Cash.
Identifying joint-venture candidates	The firm should proactively search for joint-venture candidates among competitors, suppliers, customers, related industries and trade association members.
Screening and evaluating possible joint-venture partners	Relationships get off to a good start if partners know each other, hence they need to be properly evaluated. Six factors can be used to evaluate possible partners: Finance – good standing Organisation – structure and quality of senior managers Market – reputation in market place Production – economies of scale, capital investments Institutional – government influence Possible negotiating attitude – flexible or hardline
Initial contacts / discussions	Since relationships between companies are relationships between people, it is important that the top managers of the firm meet personally with top managers from the remaining two or three possible partners. It is important to highlight the personal side of a business relationship. This includes discussion of personal and social interests to see if there is a good 'chemistry' between the prospective partners.
Choice of partner	The chosen partner should bring the desired complementary strength to the partnership. Ideally, the strengths contributed by the partners are unique, for only these strengths can be sustained and defended over the long term. It is important that neither partner has the desire to acquire the other partner's strength, nor the necessary mutual trust will be destroyed. Commitment to the joint venture is essential. This commitment must be both financial and psychological. Unless there is senior management endorsement and enthusiasm at the operating level, an alliance will struggle, particularly when tough issues arise.

Step 4: Develop business plan

Issues that have to be negotiated and determined prior to the establishment of the joint venture include the following:

- Ownership split (majority, minority, 50-50).
- Management (composition of board of directors, organizations, etc.).
- Production (installation of machinery, training, etc.).
- Marketing (the four Ps, organization).

Step 5: Negotiation of joint-venture agreement

As Figure 2.12 shows, the final agreement is determined by the relative bargaining power of both prospective partners.

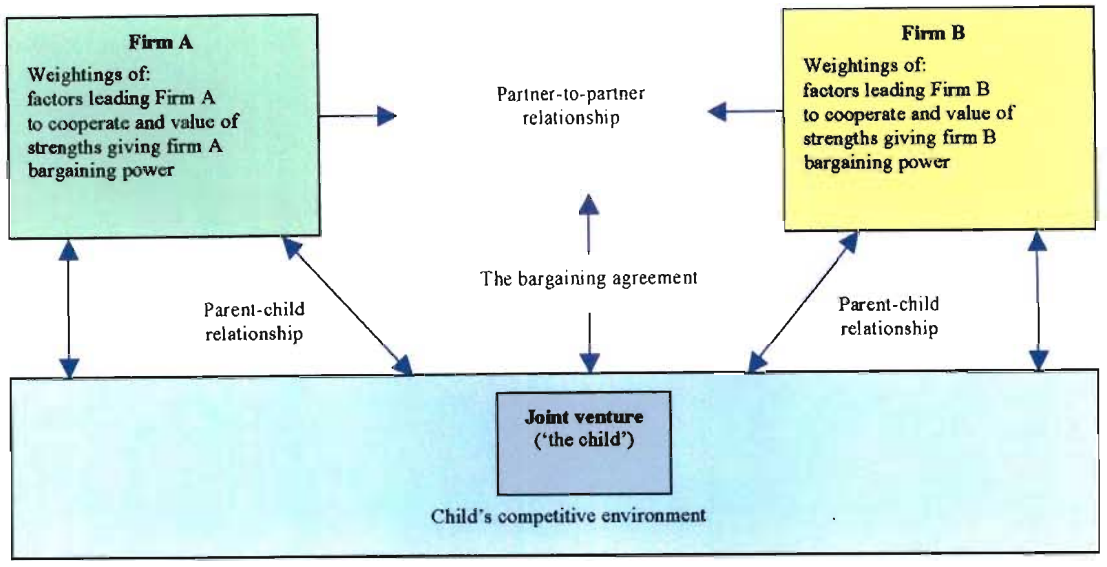


Figure 2.12 - Partner-to-partner relationships creating a joint venture - Source: Harrigan (1986: 50)

Step 6: Contract writing

Holandson (2001) advises that once the joint-venture agreement has been negotiated, it needs to be written into a legally binding contract. The contract should cover the 'marriage' conditions of the partners and also cover the 'divorce' situation, such as what happens with 'the child' (the Joint Venture).

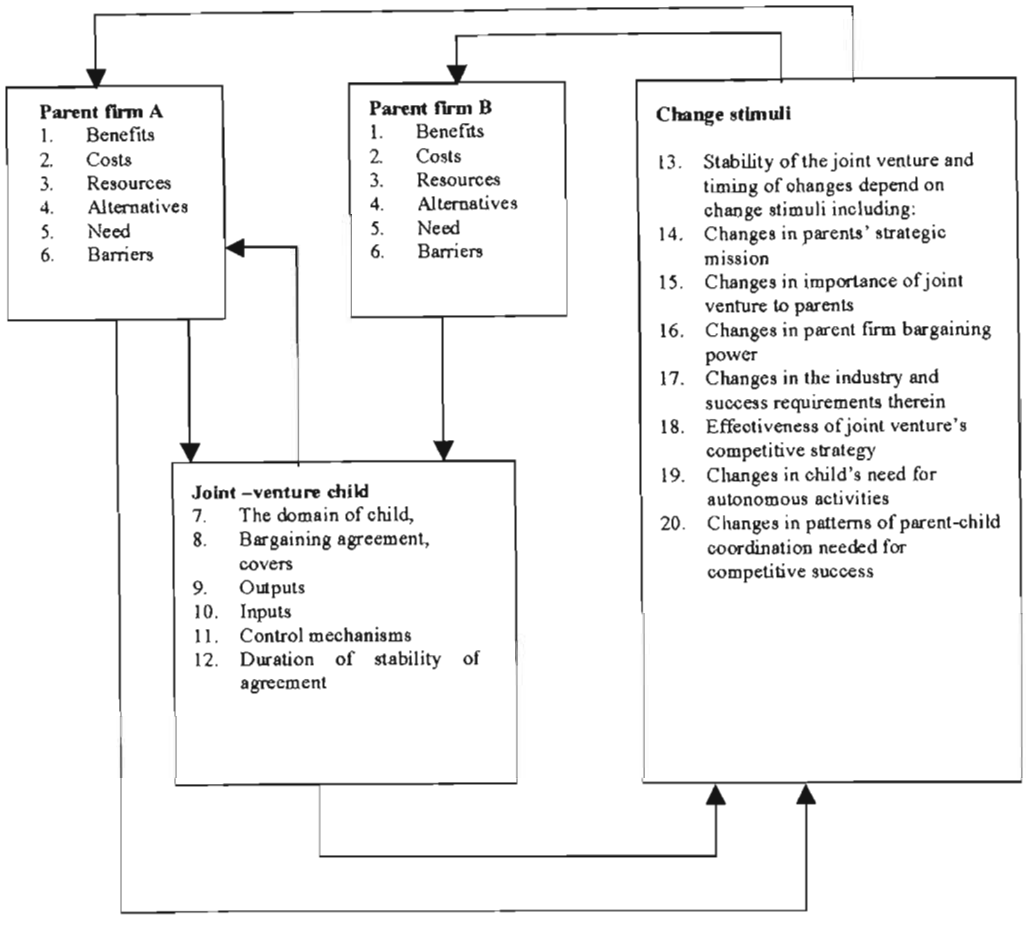
Step 7: Performance evaluation

Evaluating joint-venture performance is a difficult issue when traditional financially orientated output measures becomes standard indicators of performance. These measures may be inappropriate for two reasons. First, they reflect a short-term orientation and secondly, the goals of many alliances may not be readily quantifiable. Many alliances need considerable time before they are ready to be judged on conventional output measures. Only after partnerships mature (i.e. when the operations of the alliance are well established and well understood) can managers gradually shift to measure output, such as profits and cash flows. Thus expecting too much too soon in terms of profits and cash flows from an alliance working under risky conditions can endanger its future success.

2.8.7.1 MANAGING THE JOINT VENTURE

The average life span for alliances is only about seven years and nearly 80 percent of joint ventures ultimately end in a sale by one of the partners. Harrigan's model (Figure 2.13) can be used as a framework for explaining this high 'divorce rate.

Figure 2.13 - Model of joint venture activity - Source: (Harrigan, 1986:50)



2.8.7.2 CHANGES IN BARGAINING POWER

According to Bleeke and Ernst (Collaborating to Compete, 1994), the key to understanding the 'divorce' of the two parents is changes in their respective bargaining power. Let us assume that we have established a joint venture with the task of penetrating markets with a new product. In the initial stages of the relationship, the product and technology provider generally has the most power. But unless those products and technologies are proprietary and unique, power usually shifts to the party that controls distribution channels and thus customers. The bargaining power is also strongly

affected by the balance of learning and teaching. A company that is good at learning can access and internalize its partner's capabilities more easily, and is likely to become less dependent on its partner as the alliance evolves. Before entering a joint venture, some companies see it as an intermediate stage before acquiring the other partner. By entering a joint venture, the prospective buyer of the partner is in a better position to assess the true value of such intangible assets as brands, distribution networks, people and systems. This experience reduces the risk that the buyer will make an uninformed decision and buy an expensive 'lemon' (Nanda and Williamson, 1995: 119-128).

2.8.7.3 REPATRIATION OF PROFITS

Conflicts can also arise with regard to issues such as repatriation of profits, where the local partner desires to reinvest them in the joint venture while the other partner wishes to repatriate them or invest them in other operations.

2.8.7.4 MIXING OF CULTURES

An organization's culture is the set of values, beliefs and conventions that influence the behaviour and goals of its employees. This is often quite different from the culture of the host country and the partner organization. Thus, developing a shared culture is central to the success of the alliance. Partnering is inherently very people orientated. To the extent that the cultures of the partners are different, making the alliance work may prove difficult. Cultural differences often result in an 'us versus them' situation. Cultural norms should be consistent with management's vision of the alliance's ideal culture. This may entail creating norms as well as nurturing those that already exist. They key to developing a culture is to acknowledge its existence and to manage it carefully. Bringing two organizations together and letting nature take its course is a recipe for failure. Language differences are also an obvious hurdle for an international alliance. Ignoring the local culture will almost certainly destroy the chances of its accepting the alliance's product or service. Careful study of the culture prior to embarking on the venture is vital. Again, extensive use of local managers is usually preferred, Hollenson (2001:282).

2.8.7.5 PROVIDING AN EXIT STRATEGY

There is a significant probability that a newly formed joint venture will fail, even if the previously mentioned key principles are followed. The anticipated market may not develop, one of the partner's capabilities may have been overestimated, the corporate strategy of one of the partners may have changed, or the partners may simply be incompatible. Whatever the reason for the failure, the parties

should prepare for such an outcome by addressing the issue in the partnership contract. The contract should provide for the liquidation or distribution of partnership assets, including any technology developed by the alliance.

2.9 IMPLEMENTING STRATEGY: STRUCTURE, LEADERSHIP AND CULTURE

Hitt et al (2003) states that strategies, once selected cannot be implemented in a vacuum. Organisational structure and controls provide the framework within which strategies are used. Pearce and Robinson, (2003), suggests that there are three "levers" through which managers can implement strategy. These "levers" are structure, leadership and culture. We will discuss each of these " levers" in detail.

2.9.1 STRUCTURE

A firm's structure specifies the work to be done and how to do it, given the firm's strategy or strategies. Supporting the implementation of strategies, structure is concerned with processes used to complete organizational tasks. Effective structures provide the stability a firm needs to successfully implement its strategies and maintain its current competitive advantages, while simultaneously providing the flexibility to develop competitive advantages that will be needed for its future strategies, Hitt et al (2003: 346).

2.9.1.1 SIMPLE STRUCTURE

According to Johnson and Scholes (1999), a **simple structure** is a structure in which the owner-manager makes all major decisions. Typically, the owner-manager actively works in the business on a daily basis. Informal relationships, few rules, limited task specialization, and unsophisticated information systems describe the simple structure. Frequent and informal communications between the owner-manager and employees make it relatively easy to coordinate the work that is to be done. Hitt et al (2003) state the simple structure is matched with focus strategies and business-level strategies as firms commonly compete by offering a single product line in a single geographic market. Local restaurants, repair businesses, and other specialized enterprises are examples of firms relying on the simple structure to implement their strategy.

2.9.1.2 FUNCTIONAL STRUCTURE

Johnson and Scholes (1999:403) describes the **functional structure** as a structure based on the primary activities that have to be carried out, such as production, finance and accounting, marketing and personnel. According to Hitt et al (2003: 351), this structure allows for functional specialization, thereby facilitating active sharing of knowledge within each functional area. Knowledge sharing facilitates career paths as well as the professional development of functional specialists.

2.9.1.3 MULTIDIVISIONAL STRUCTURE

The **multidivisional (M-form) structure** consists of operating divisions, each representing a separate business or profit center in which the top corporate officer delegates responsibilities for day-to-day operations and business-unit strategy to division managers. Each division represents a distinct, self-contained business with its own functional hierarchy, Hitt et al (2003:351).

The M-form has three major benefits:

1. Accurately monitor the performance of each business, which simplified the problem of control;
2. It facilitated comparisons between divisions, which improved the resource allocation process; and
3. It stimulated managers of poorly performing divisions to look for ways of improving performance.

Active monitoring of performance through the M-form increases the likelihood that decisions made by managers heading individual units will be in shareholders' best interests. Diversification is a dominant corporate-level strategy in the global economy, resulting in extensive use of the M-form.

2.9.2 VIRTUAL ORGANIZATION

True 21st century corporations will increasingly see their structure become an elaborate network of external and internal relationships. This organizational phenomenon has been termed the **virtual organization**, which is defined as a temporary network of independent companies - suppliers, customers, subcontractors, even competitors - linked primarily by information technology to share skills, access to markets, and costs. Globalization has accelerated the use of and need for the virtual organization.

Outsourcing was an early driving force for the virtual organization trend. Outsourcing is simply obtaining work previously done by employees inside the companies from sources outside the

company. Managers have found that as they attempt to restructure their organization, particularly if they do so from a business process orientation, numerous activities can often be found in their company that are not "strategically critical activities". This has particularly been the case of numerous staff activities and administrative control processes previously the domain of various middle management levels in an organization. But it can also refer to primary activities that are steps in their business's value chain – purchasing, shipping, making certain parts, and so on. Further scrutiny has led managers to conclude that these activities not only add little or no value to the product or services, but that they can be done much more cost effectively (and competently) by other businesses specializing in these activities. If this is so, then the business can enhance its competitive advantage by outsourcing the activities. Outsourcing, then, can be a source of competitive advantage and result in a leaner, flatter organization structure, Pearce and Robinson (2003: 287-8).

2.9.3 WEB BASED ORGANIZATIONS

Pearce and Robinson (2003) state that globalization has accelerated many changes in the way organizations structure, and that is certainly the case in driving the need to become part of a virtual organization or make use of one. Technology, particularly driven by the Internet, has and will be a major driver of the virtual organization. "The Web's contribution electronically has simultaneously become the best analogy in explaining the future virtual organization. So it is not just the Web as in the Internet, but also a web like shape of successful organization structures in the future. If there are pair of images that symbolize the vast changes at work, they are the pyramid and the web. The ever-shrinking layers leading to an omnipotent CEO at its apex. The 21st century corporation, in contrast, is far more likely to look at a web: a flat, intricately woven form that links partners, employees, external contractors, suppliers and customers in various collaborations. The players will grow more and more interdependent. Fewer companies will try to master all the disciplines necessary to produce and market their goods but will instead outsource skills – from research and development to manufacturing – to outsiders who can perform those functions with greater efficiency", Business week (Aug 28, 2000), "The 21st Century organization."

2.9.4 ORGANIZATIONAL LEADERSHIP

According to Hitt et al (2003: 386), strategic leadership is the ability to anticipate, envision, maintain flexibility and empower others to create strategic change as necessary. Pearce and Robinson (2003), on the other hand, state that the leadership challenge is to galvanize commitment among people as well as stakeholders to embrace change and implement strategies to achieve the objectives of the organization. Leaders galvanize commitment to embrace change through three interrelated activities: clarifying strategic intent, building an organization, and shaping organizational culture. We will discuss these briefly below.

2.9.4.1 CLARIFYING STRATEGIC INTENT

"Leaders help stakeholders embrace change by setting forth a clear vision of where the business's strategy needs to take the organization. Traditionally, the concept of vision has been a description or picture of what the company could be that accommodates the needs of all its stakeholders. The intensely competitive, rapidly changing global marketplace has refined this to be targeting a very narrowly defined strategic intent - an articulation of a simple criterion or characterization of what the company must become to establish and sustain global leadership", Pearce and Robinson (2003: 294).

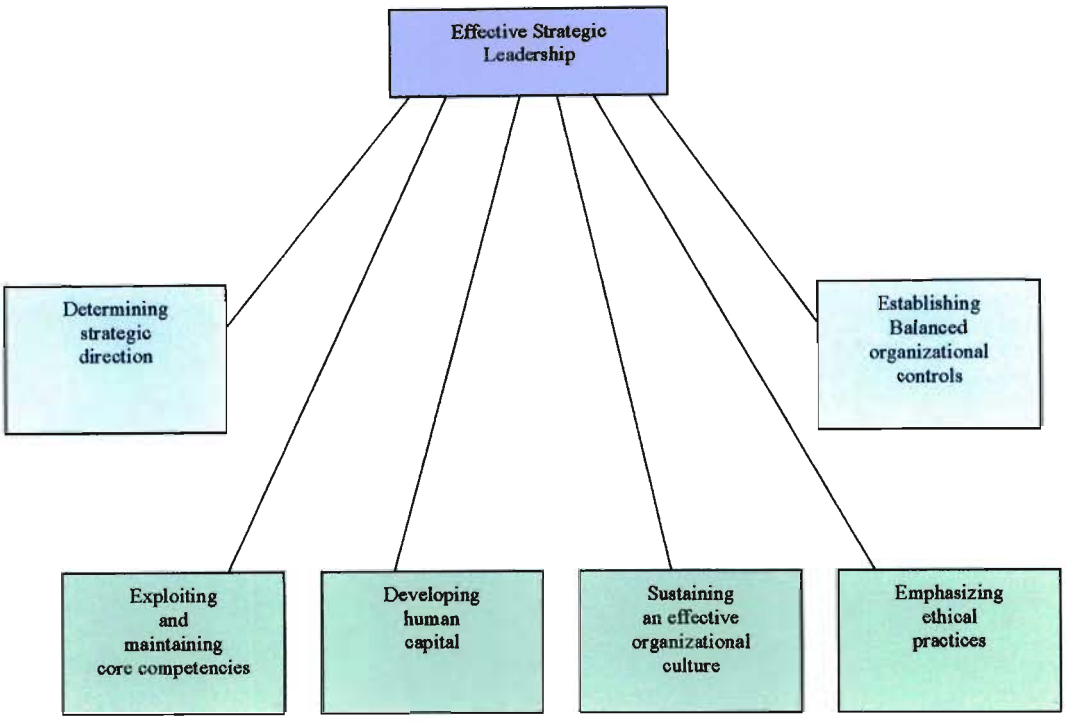
2.9.4.2 BUILDING AN ORGANIZATION

Helen Deresky (2002, Managing Across Borders), states that effective leadership involves the ability to inspire and influence the behavior of people anywhere in the world. According to Pearce and Robinson (2003), leaders spend considerable time shaping and refining their organizational structure to effectively accomplish strategic intent. By attempting to embrace change, they are often rebuilding or remaking their organization to align it with the ever-changing environment and needs of the strategy. Embracing change often involves overcoming resistance to change and leaders find themselves addressing the following problems in their attempts to build or rebuild their organization:

- Ensuring a common understanding about organizational goals.
- Clarifying responsibilities within the organizational units.
- Empowering newer managers and delegating authority lower in the organization.
- Uncovering and remedying problems across the organization.
- Gaining the personal commitment to a shared vision from all personnel throughout the organization.

These are the issues leaders constantly address as they attempt to build a supportive organization. The role of an effective leader is depicted in Figure 2.14 below.

Figure 2.14 – Exercise of Effective Leadership adapted from Hitt et al (2003:394).



2.9.4.3 SHAPING ORGANIZATION CULTURE

Leaders know well that the values and beliefs shared throughout their organization will shape how the work of the organization is done. And when attempting to embrace accelerated change, reshaping their organization's culture is an activity that occupies considerable time for most leaders. Leaders use reward systems, symbols, and structure among other means to shape the organizations culture. As leaders clarify strategic intent, build an organization and shape their organizations culture, they look to their management team for help. So assignment of key managers becomes a leadership tool, Pearce and Robinson (2003:296).

2.9.5 ORGANIZATIONAL CULTURE

Pearce and Robinson (2003), state that organizational culture is the set of important assumptions (often unstated) that members of an organization share in common. An organization's culture is similar to an individual's personality - an intangible yet ever-present theme that provides meaning, direction, and the basis for action. In much the same way as personality influences the behavior of an individual, the shared assumptions (beliefs and values) among a firm's members influence opinions and actions within that firm. Leaders manage and create distinct cultures through numerous ways:

- Emphasize key themes and values to create competitive advantage.
- Encourage dissemination of stories and legends about core values.
- Institutionalize practices that systematically reinforced desired beliefs and values.
- Adapt some very common themes in their own unique ways.

2.10 CONCLUSION

In thinking about its strategy, a company must first identify and colonize a distinctive strategic position in its industry. It should then excel at playing the game in this position, thus making it the most attractive position in the industry. While competing in its current position a company also must search continuously for new strategic positions. Moving into another industry does not alter the strategic tasks that a company must undertake in each business, it just makes management more complicated in that the firm faces additional challenges, such as how to manage a diversified portfolio and how to exploit synergies among its businesses. Thus, designing a successful strategy is never-ending. A company needs to continuously revisit and challenge its answers to the "who-what-how" questions in order to remain flexible and ready to adjust its strategy if feedback from the market is unfavorable. Changing industry conditions and customer needs or preferences, countermoves by competitors, and a company's evolving competencies give rise to new opportunities and the potential for new ways to play the game. A strategy adopted a decade ago on the basis of prevailing industry conditions is certainly not a guaranteed game plan for the future. Even successful companies must continuously question the basis of their business and the assumptions behind their successful formulas. Because new" who-what-how" positions spring forth from the mass market almost ceaselessly, established companies must be on the lookout for these new positions. Like modern-day pioneers, corporate executives must set out to explore the evolving terrain of their industries in search of unexploited strategic positions. Only the intrepid that abandon the safety of the familiar to venture into the unknown will have a future worth discussing.

2.11 SUMMARY

This chapter explained why strategic management is important and provides a framework for understanding strategy. It goes on to show that different aspects of strategic management are likely to be important in different contexts, and the strategy development theme is introduced. We then discuss the impact of the environment, organizational capability and expectations on strategy by reviewing the organizations standing in the environment and the determinants of strategic capability. The strategic issues facing the organization are discussed and the selection of grand strategies are examined. Finally we end this chapter by discussing the implementation of strategy, the organizational culture of an organization and the leadership of the organization. In Chapter three we discuss the Joint Venture of Shell and BP, Blendcor (Pty) Ltd. We begin by examining the history of the oil industry in South Africa, the history of the Joint Venture partners and the history of Blendcor. We then examine the profile of Blendcor as it stands today.

CHAPTER 3: A CASE STUDY OF BLENDCOR

3.1 INTRODUCTION

Blendcor (Pty) Limited is a joint venture lubricants blending and grease manufacturing plant owned equally by its shareholders, BP Southern Africa and Shell South Africa. The site comprising of 1,60 hectares is situated in Island View, Durban, with its frontage on Honshu Road. The property is leased from the National Ports Authority. Both shareholders, Shell and BP, are part of the larger international organisations and as such Blendcor is considered an operating unit of these international companies. The performance of Shell and BP internationally is measured by the cumulative performances of the individual operating units. Hence, Blendcor is obliged to conform to the requirements of Shell and BP international standards in addition to the statutory, local, regional and national requirements. The CEO of Blendcor is the General Manager (GM) who is appointed by the Blendcor Board of Directors. The Board comprises three appointees from Shell, three from BP and the General Manager.

In March 2000, BP purchased Castrol (Pty) Ltd worldwide. The transaction became effective in South Africa in August 2000 and BP purchased Castrol as a going concern. The merger of BP and Castrol created opportunities for consolidation of production facilities between the various production plants in which both BP and Castrol had an interest. Production facilities in which Castrol, BP and Shell have an interest include Castrol Island View Sites 1 and 2 Plants, Castrol Roodekop Plant, Blendcor Plant and Shell CERA Plant. In addition to these facilities, third parties blend and fill various products on behalf of each company. The combined capacity of all these plants resulted in a production over-capacity and opportunities for consolidation. Coupled with this production over-capacity were opportunities for synergies in the areas of procurement, inbound logistics, production and distribution. It was hence agreed by the Board of Directors that all mainstream lubes comprising BP, Castrol and Shell portfolios are consolidated at Blendcor for production efficiencies and primary distribution. In view of the above we examine how Blendcor accommodated this critical change in partnership and what were the likely strategic management decisions that the Blendcor management had effected in the light of these changing conditions. Let us briefly look at the current oil industry in South Africa before presenting Blendcor.

3.2 OVERVIEW OF THE SOUTH AFRICAN OIL INDUSTRY

In this section we briefly look at the South African oil industry and the history of the two key players, Shell Southern Africa and BP Southern Africa.

3.2.1 INTRODUCTION OF THE SOUTH AFRICAN OIL INDUSTRY

The history of the South African oil industry dates back to 1884 when the first company was established in Cape Town to manage the importation and sale of petroleum products. The industry grew with the growth in both the motoring industry and the move to industrial enterprises powered by liquid fuels. By the 1930's, it was important enough to be the focus of regulations aimed at providing a balance between the Oil companies, the customers and small businesses. The industry is regulated by the government's Department of Mineral and Energy Affairs, which, in turn, is monitored by a Parliamentary Portfolio Committee (Sapia Annual Report– 2001).

South Africa has a sophisticated lubricants industry, which encompasses base oil refining, lubricant blending and the marketing of finished lubricants into a wide range of applications and markets. The South African lubricants industry is perhaps one of the largest on the continent, playing an important role in the South African oil industry. The lubricants industry has a long history in which the needs of the automotive market as well as industrial sectors have been served. In particular, the demands of the powerful mining industry, the agricultural sector and the manufacturing industries have ensured healthy, ongoing growth of the lubricants sector. The South African lubricants industry is highly competitive and is not currently subject to most of the government or trading controls and restraints, which pertain to fuels such as gasoline and diesel.

Lubricants are marketed by all the fuels marketing companies as well as Mobil Oil South Africa, which returned to South Africa with its premium range of synthetic and non-synthetic lubricants in 1997, Castrol, Agip and a range of smaller companies. The South African lubricants market is one of the strongest in Africa, with South Africa also supplying most of the lubricant demands in the Southern African countries including Botswana, Namibia, Zimbabwe, Lesotho and Swaziland and the Northern countries including the likes of Ethiopia and Sudan Http://www.mbendi.com/indy/oilg/sa.

3.2.2 MARKET AND DISTRIBUTION

The South African lubricants market demand is approximately two million barrels per year, which accounts for a little under a fifth of the African continent's lubricants consumption and about one percent of the world consumption of lubricant products. The market covers the full spectrum of applications for lubricants and greases including industrial (49%), marine (7%), aviation (1%), cars (22%) and trucks / buses (21%). Also produced are various process oils such as those which find application in printing ink and tyre manufacture. The range of products includes mineral based lubricants, and various combinations of synthetic lubricants although these comprise a small proportion of the overall products demand.

The marketers of lubricants include the local affiliates of multinational oil majors, South African based oil companies, the synfuels producers, local affiliates of international lubricant companies, specialist lubricants niche marketers and jobbers. Mobil re-established a South African lube presence in 1997 and has quickly established itself as a force in the market, particularly with its highly rated synthetic lubricants. The oil companies, which market lubricants, include BP, Caltex, Engen, Shell, TOTAL and Zenex. These companies market lubricants through their service station forecourts, through supermarkets such as Pick n' Pay, through commercial channels and by direct customer sales. Sasol has more recently entered the market, deriving part of its technology through its shareholding in the Europe based, Carl Bechem. Smaller market share oil players include specialist CPI Engineering, Exel, which markets Mobil lubricants on its forecourts, Agip and Petromin. Castrol, (now merged with BP) as a specialist lubricants marketer has an important position in the South African lubricants industry holding close to a seventh of the market. Other companies include Chemico, Dimol, Fuchs, Flexilube, Lubrichem, Blendrite, Cera (Shell Lubricants Plus) and Pennzoil.

In South Africa, lubricants are marketed and distributed in a range of bulk and packaged forms. These include road tankers, bulk Iso-tainers, mini-tainers, maxipacs, 210-liter drums and various small pack sizes. Distribution is done either direct to the end user or through company depot and distribution networks. Major oil companies and national road haulage companies such as Tanker Services, Unitrans, and others play a role in the bulk transport of lubricants and in the distribution of packed products. Drum and smallpack packaging suppliers include Rheem, Van Leer (Now GREIF), and others, Http://www.mbendi.com/indy/oilg/sa/p0005.

3.2.3 LUBRICANTS MANUFACTURE

Base oil refining is carried out at two refineries located in Durban. These include the Samco base oil refinery, which is jointly owned by Shell and BP, and the Safor base oil refinery, which is owned by Engen Petroleum, Caltex and TOTAL. The Samco base oil refinery is one of the largest in Africa with a capacity of 175 million litres per annum. Samco is downstream of the Sapref fuels refinery. Safor, which is downstream of Engen's refinery, has a capacity of 165 million litres per annum. Despite having two base oils refineries, South Africa tend to be short of base oils and imports of various base oil grades are necessary. Also imported are ranges of synthetic base stocks, although the market demand for these products is not as high as in Europe and elsewhere. Mobil South Africa is one of the leaders in this high technology field.

South Africa has substantial lubricant blending capacity, with eleven blending plants of various capacities, and with four grease plants. The major petroleum companies, which operate in South Africa, obtain finished lubricants from their wholly owned or shared lube blending plants. Engen owns a blending plant in Durban as well as an unused facility located near Johannesburg at its subsidiary, Chemico. Shell and BP jointly own a blending facility, Blendcor that is located in Durban. Shell also owns a plant by the name of Veetech in Durban and a small plant in Johannesburg. Other companies with their own blending plants in Durban include Caltex, Castrol, (now merged with Blendcor) Total, Fuchs and newly formed Blendrite. Zenex, Sasol and Agip share a blending plant, which is located at the Zenex facility in Durban. Flexilube has a blending facility in Johannesburg. The available lubricant blending capacity in South Africa currently exceeds the local market demand for lubricants, http://www.mbendi.com/indy/oilg/sa/p0010.

3.2.4 HISTORY OF SHELL

In 1833 Marcus Samuel opened a small shop in London, selling sea shells to Victorian natural history enthusiasts. It soon became a thriving import–export business. On a visit to the Caspian Sea coast, Marcus's son recognized a huge opportunity to export oil for lamps and cooking to the Far East. He commissioned the first special oil tanker in 1892, and subsequently delivered 4,000 tonnes of Russian kerosene to Singapore and Bangkok. Meanwhile, the company Royal Dutch had been formed in the Netherlands to develop oil fields in Asia. By 1896 it had its own tanker fleet to compete with the British. In time, it became obvious that the competing Dutch and British companies would do better working together. In 1907, the Royal Dutch/Shell Group of companies was created to incorporate their operations worldwide. Throughout the early twentieth century, the

Group expanded with acquisitions in Europe, Africa and the Americas. These were exciting times for the oil industry, as the mass production of cars had opened up a vast new market. The First World War years saw many of Shell's operations closed down or confiscated; but others were added or expanded, particularly in North America. In 1919, Alcock and Brown made the first non-stop flight across the Atlantic - powered by Shell fuel. Shell Aviation Services was established that same year. The 1920s and 1930s were expansion years, with Shell businesses in new regions and new industry sectors; Shell's first foray into chemicals began in 1929. During the Second World War, Shell once again lost businesses; tankers and properties but supported the Allied Governments with fuel supplies and chemical production. Following the Second World War an enormous effort began to replace and expand Shell's facilities for production, transport and refining to meet the new pressures on demand. Throughout the 1950s and 1960s, Shell's oil output and sales increased dramatically, to the point where Shell supplied almost one-seventh of the world's oil products. This period was also important for the development of natural gas as an alternative source of energy. In the 1970s, Shell made major oil & gas discoveries in the North Sea, just off the coast of Scotland.

At the same time, an economic recession combined with a steep rise in the price of crude oil had a serious impact on the oil business. People turned to natural gas. By the end of the decade, gas accounted for about 15% of Europe's energy consumption, with Shell and its partners supplying about half. Liquified natural gas (LNG) - which Shell helped to pioneer - also performed well. Meanwhile, Shell was developing its long-term interests in coal and metals. In the 1980s, Shell companies installed advanced technology, launched new products and services, and explored solutions to environmental concerns. Shell began to sell unleaded petrol, and subsequently gained a worldwide leadership position. With the 1990s came lower oil prices, and a concentration on Shell's core businesses - mainly oil, gas and chemicals. By mid-decade, Shell had started to look ahead to the new millennium and what would be required of energy companies. As a result, fundamental changes have occurred and continue to be made in the Group. Sustainable development practices are gradually being integrated throughout the Shell business. These, and a commitment to people, the planet and profits will help Shell retain a competitive advantage. Shell has been a successful energy company for over 100 years – and aims to carry on being a successful energy company well into the next century, http://www.shell.com.

3.2.5 HISTORY OF BP

BP is one of Britain's biggest companies and one of the world's largest oil and petrochemicals groups. BP owes its origin to one man, William Knox D'Arcy, who, shortly after the turn of the century, invested time, money and labor in the belief that worthwhile deposits of oil could be found in Persia (now known as Iran). In the company's first six decades, its prime focus lay in the Middle East. But from the late 1960s the centre of gravity shifted westwards, towards the USA and Britain itself. However, the BP of today is an international company, having operations in over 70 countries. Its key strengths are in oil and gas exploration and production; the refining, marketing and supply of petroleum products; and the manufacturing and marketing of chemicals. It supports all its businesses with high quality research and technology. This brief account covers only some of the principal milestones along the road from BP's beginnings in Persia to its current position as one of the world's leading companies.

Diversification Strategy - The upheavals of the 1970s led BP to conclude that it should broaden its activities so that it could operate in the future with more balanced sources of income. Accordingly, from the mid-1970s there was increased emphasis on diversification into new areas of activity. As a result of the purchase in 1986 of the US Company, Purina Mills, BP Nutrition became one of the world's largest feed millers. In 1990, it also took responsibility for BP's household cleaning and personal care products. Another industry which BP entered in the mid-1970s was minerals. BP expanded its minerals interests considerably in 1980, when, in what was then the London stock market's largest-ever takeover bid, it bought Selection Trust, the British-based mining finance house. The mid-1970s also saw the start of the build-up of BP's coal business. By 1989, about half the group's coal operations were in the US, the remainder being in Australia, South Africa and Indonesia, with some coal trading in Europe. Meanwhile, in the 1960s, BP had become involved in the information technology industry through its acquisition of Scion. With a view to the effective management of this now much more diversified group, the company underwent major restructuring in 1981.

1987 - three major events. The year of 1987 was dominated by three historic events in BP's development: the company's £4.7 billion offer for the 45% of Standard Oil it did not already own; the sale by the British government of its remaining holding in BP; and, as the year ended, the start of BP's successful bid to acquire Britoil, the UK-based oil exploration and production company. After acquiring Standard Oil outright, BP combined its existing interests in the US with Standard's operations to form a new company: BP America. The merging of Standard Oil into BP gave the

group access to the full potential of the world's biggest market as well as to Standard's considerable cash flow. Today, about one-third of BP's fixed assets are in the US. The British government sold its remaining 31.5% shareholding in BP in October 1987,and the number of names on BP's share registers more than doubled to around 600,000. The third major event of the year was BP's bid for Britoil, whose purchase was completed in 1988. The success of the £2.8 billion acquisition meant that BP almost doubled its exploration acreage in the North Sea and reinforced its position as the largest oil and gas producer in the area.

Major divestments - Towards the end of the decade, in a change of strategy, the company decided to concentrate on its core, hydrocarbon-based activities. To that end, it began a series of divestments. In early 1988, BP sold its subsidiary, Scicon, and so withdrew from the computing services industry. In 1989 the company sold most of the minerals business to RTZ and disposed of the balance during the next few years. Similarly, most of BP Coal was sold in 1989 and 1990. The company sold off its nutrition interests in1992.

Merger and Acquisitions strategy, 1998 - In August, Amoco and BP announced that they had agreed to unite their global operations through a merger. The joining of the two companies represented the world's largest ever-industrial merger. March 2000 - BP Amoco announced its agreement to acquire Burmah Castrol for approximately £3 billion. The acquisition fits well with BP Amoco's overall downstream strategy, which is to:

- Grow earnings
- Expand the customer base
- Broaden the customer offer
- Optimise manufacturing capacity

Sir John Browne stated that the acquisition was not cost synergy driven, but by a desire to acquire brand management expertise, global reach and a customer base from which BP Amoco can offer a broad set of services and solutions.

2002 - Early February, following receipt of regulatory approvals, BP takes up a 51% shareholding in Veba Oel as part of a capital increase arrangement agreed in the previous summer. In the second half of September Veba Oel AG is integrated into Deutsche BP AG. Effective at end of 2002 the activities of the subsidiaries Aral Aktiengesellschaft & Co. KG (service stations, marketing of petroleum products) and Veba Oil Refining & Petrochemicals GmbH (refineries, petrochemicals) are also incorporated into the Deutsche BP Group.

The history of BP shows that the company has never shirked from responding to change. The spirit of enterprise, which led to its birth in 1909, is still very much alive today, http://www.bp.com.

3.3 BLENDCOR COMPANY HISTORY AND BACKGROUND

Some of the background and facts about the Plant are given here for the understanding of the readers. The Blending Plant was constructed by Frasers and Chalmers and commissioned in 1956. The plant was entirely owned by the Shell Group. The design capacity of the plant was 50 000 metric tons per annum and was upgraded in 1957 to expand capacity to 80 000 tons per annum. The Grease Plant became operational in 1958 and was also owned and managed by Shell. In 1964 the management of the plant was handed over to the Sapref Refinery. In 1975 BP Southern Africa bought a 50 % share of the plant and the plant manufactured and filled both Shell and BP products.

In 1992 the plant was officially separated from Sapref and Blendcor (Pty) Ltd was formed, with both BP and Shell as equal partners. The management of the plant was shared between the two partners i.e. the CEO was either Shell or BP appointed for the duration of three years. Owing to a dearth of skills in South Africa, this position was always filled with expatriates. In 1993/4 major political happenings opened the doors for growth and demand for lubes exceeded capacity. Exports, mainly to the African States trebled and Malaysia, Mauritius, Singapore etc took advantage of the favourable exchange rate and increased lube orders. With this in mind, a massive project (The Blue Print) was commissioned to upgrade the Lube Oil and Grease Manufacturing facilities, in order to meet Shell and BP requirements into the New Millennium. The project design was based upon Shell and BP forecasted requirements to the year 2003 and was to address such issues as production volumes and flexibility, costs, manpower rightsizing, HSE improvements, materials handling, quality and technology improvements. The project consisted of four major sections, namely, tank farm upgrade, grease plant upgrade, filling hall upgrade and blending plant upgrade.

Filling Hall: Filling of containers (0.5 L to 1000 L) was undertaken in five different and geographically remote areas – ground floor, mezzanine floor, specials, gantry, and grease plant. This resulted in extreme difficulty in trying to integrate operations, particularly manpower, resulting in major under-utilisation of staff. Most of the filling equipment was also under-utilised. Stop-Start operations and loss of capacity was evident. Components were received and stored in numerous locations, and mostly remote from the filling operation. Empty drums were stored outside approximately 150 metres from where they were to be filled. This storage and further handling resulted in corrosion and damage.

Should the drum elevator conveyor, used to move the empty drums, fail, all drum filling ceases. 20 L and 5 L filling was done on a mezzanine floor area, requiring all components to be elevated to the floor and after filling, full pallets had to be returned to ground level again. All filling equipment was relocated to the ground floor level, and laid out so that empty containers came in from the one side and full pallets go to the other side. Large drum storage is now in "mobile warehouses", with the drums only being moved directly onto the filling lines when ready to fill. The drum filling operation has been improved considerably. With logical material flow and equipment optimisation filling line capacities were expected to improve, with improved productivity.

For a single shift operation, the planable packs per day is illustrated in Table 3.1 below:-

Table 3.1 – Packs per day

Pack Size	Pre-Project	Design	Actual (2003)
- Drums	1600	2000	1200
- Pails	3200	4000	2600
- 5 L	4000 (2 lines)	3500 (1 line)	2500
- 0.5 L	7100 (2 lines)	8000 (2 lines)	8000

The expected improvements in filling capacity have not materialized. This is due mainly to an ineffective planning operation.

Grease: Orientation of the ground floor was rotated by 180 degrees to allow for improved and systematic material flow. Piping was changed to accommodate the "4 stream" approach. New conveyors, pallet stations, handling equipment and a shuttle car operation were installed. This streamlined the movement and improved the handling of empty containers coming in and filled containers going out, which resulted in the reduction of forklift operations. Undercover storage area was provided for empty containers.

Tank Farm: With the rationalization of the tankfarm operation, new weighbridges were installed for the off loading of bulk additives adjacent to the blending and storage area. Prior to this, additives had to be pumped from the other side of the plant. A centralized pipe manifold system was constructed, from where all base oils are received and distributed. Pre-Project, although there was a main product-incoming manifold, distribution to tanks required line up and opening of valves in many different areas of the plant.

Blending: A fully automated blend plant was installed with the capabilities of translating recipe's and formulations into completed blends by using the following:

- 10 ton and 20 ton blender, the Tank farm base oils and bulk additives are all integrated to these blenders.
- A drum decanting system provides for drum decants to both blenders.
- A high volume Simultaneous Metered Blending System provides for inline blending of product volumes of greater than 20 tons.
- The blending system integrates all tank levels, pump commands and valve control from a central control room.
- The blending philosophy is based on a lubricant property for finished product storage, e.g engine oils and gear oils

Online faults and alarms provide the interface for problem solving Pre-Project loading on the blending system was 140 % on a single shift, and with all the tank farm changes and reduction in bulk blend tanks from 19 to 12, the loading would have been increased to some 175 %, with a variable cost increase of approximately R1 million per year. The new blending system is providing blend cycle times of 6 hours from the bulk blends and between 1 to 2 hours per tower blend. This provides a differential in variable blending costs of R25 / tonne from that of the old blending system. This generates a cost savings of up to R750 000 per year.

Environmental Impact: A project was completed in 1997 where Blendcor was required to collect all water and trace effluent and pump it into a central effluent pipeline system. When the filling hall was constructed, the roof run off water and that of other existing covered areas, was redirected to feed directly into the bay, thus bypassing the trade effluent collection system. Had this not been done and all water had to go through the effluent collection system, a very large effluent buffer tank would have had to be constructed, costing an additional R1 million. Old, unsightly and in poor state of repair tanks were demolished, thereby reducing the possibility of leaks. In addition to this, with the raising of pipelines to above ground level, oil contaminated soil was removed and all areas are now concrete paved.

Reduced Maintenance Costs: Pre-Project, with the mezzanine floor filling operation with conveyors and elevators to supply empty containers packaging and pallets, and to remove full pallets, maintenance costs amount to R176 000 / year. Post - Project with the improved layout of the filling operation and removal of conveyors and mezzanine floor operation, the maintenance cost of R176 000 has been eliminated completely.

The cost of the Blue Print Project was R58 million. By 1998 the plants actual production was 210 000 tons of products, compromising of 400 grades and 1600 grade pack combinations. The Blue Print investment addressed the core of the business, the blending system and normal plant and equipment replacement programmes. After the Blue print project, focus was directed towards equipment reliability. Strategic equipment identified as being the bottleneck within the overall process and restricting production or that, which does not have the flexibility to meet the market requirements, were phased out and replaced.

3.3.1 ISO 9002 ACCREDITATION

In 1989 Blendcor was accredited with an ISO 9002 registration. ISO is an international body called the International Organization for Standardization. They issue international standards for quality system requirements that are referred to as the ISO 9000 series. ISO 9000, 9001, 9002, 9003 and 9004 are a set of requirements for a management system incorporating all of the activities associated with quality, and addressing those activities which help ensure that the CUSTOMERS' needs are met. The standards apply to a company's quality management system, not its product, and so can be applied to every company whether in the manufacturing or service sector. Twice per year, our certification body South African Bereau of Standards (SABS), audits our Quality Management System to evaluate it against the ISO 9002 standard and our own documented system. These are very formal audits and are run according to a pre-scheduled format.

3.3.2 ISO 14001 ACCREDITATION

In the year 2000, Blendcor implemented the ISO 14001 standard. The implementation of ISO 14001 has consolidated Blendcor's initiatives in improving the environmental performance, minimizing waste and natural resources. Blendcor is concerned in achieving and demonstrating sound environmental performance by controlling the impact of their activities and products on the environment. This is done in the context of increasingly stringent legislation, the development of economic policies and other measures to foster environmental protection, and a general growth of concern from interested parties about environmental matters. This is all encompassing with a structured management system and integrated with overall management activity. It also created a greater awareness among employees, contractors and suppliers as well as becoming more receptive to the communities needs and expectations. With the implementation of ISO 14001 all activities have been documented and assessed for potential risks and appropriate plans initiated to eliminate or mitigate environmental impacts. These are updated with every plant change request.

3.3.3 QS 9000 ACCREDITATION

In the year 2002, Blendcor was accredited with the QS 9000 registration. QS 9000 is a harmonization of Chrysler's Supplier quality assurance Manual, Ford's Q-101 Quality system standard, and General Motors' NAO Target for Excellence, with input from the Truck Manufacturers. QS 9000 defines the fundamental quality systems, for the automotive industry, that provides for continuous improvement, emphasizing defect prevention and the reduction of variation and waste in the supply chain. Conformance to QS shows a commitment to working with suppliers to ensure customer satisfaction beginning with conformance to quality requirements, continuing with reduction of waste and variation to benefit the final customer, the supply base and Blendcor.

3.3.4 CASTROL MERGER

The merger of BP and Castrol created opportunities for consolidation of production facilities between the various production plants in which both BP and Castrol had an interest. In order to maintain the BP business, the drive for low cost leadership began. The entire Blendcor value chain was reviewed and various cost cutting initiatives were implemented. Blendcor's workforce comprised of people with poor skills levels and many had great difficulty in coping with the new technology introduced. Through a mis-directed salary progression program, many of these staff was highly paid and ill equipped. With the opportunity to take on additional volumes with the Castrol merger, it was imperative that Blendcor ensures efficient delivery to the Shareholders and ensures that the new business opportunity presented is not jeopardized.

To ensure the Company was able to meet and adapt to these new business needs and therefore meet its obligations to the Shareholders, the Company was forced to re-look at the position descriptions associated with the new challenges within the Plants operations. The inherent requirements of the positions within the Plant necessitated greater flexibility, including both a mechanical and technical acumen on the part of the employees. This necessitated a complete redefinition of the operational positions within the Plant. In view of this, Blendcor proceeded with the restructuring of the Plant. Hence all operational positions within the Plant were disestablished and new positions defined and established. Employees occupying the disestablished positions were afforded the opportunity to apply for the redefined positions or opt for a severance package. Most of the employees opted for the latter. In October 2001, the project team assigned to the Castrol/BP merger proposed to the board of Shell and BP directors that Blendcor retains the BP business and all Castrol production migrate to Blendcor. This recommendation was based on a R12 million per annum savings if all production was

consolidated at Blendcor and that the Castrol plant was closed down. After due consideration, in Dec 2001 it was agreed by the BP and SHELL Board of Directors that all mainstream lubes comprising BP, Castrol and Shell portfolios are consolidated at Blendcor for production efficiencies and primary distribution. In view of the above the Castrol Project was commissioned to optimize the plant to expand the capacity to manage an additional 50 million liters. At a cost of R20 million the following process changes and facilities upgrades were made to accommodate the additional Castrol volumes:

- The Tank farm was modified for additional storage space. New tanks were installed for storage of new additives, base oils and finished goods.
- Four new tanks were installed to cater for the additional marine volumes and these were linked to the direct despatch pipeline to the Marine Barge.
- Blending and Bulk filling moved to a second shift. The Cellier system (blending software) was upgraded to incorporate additional tankage linked to the Automatic Batch Blending (ABB) and the Simultaneous Metered System (SMS).
- The 1000 litre filling line was modified to cope with the increased volumes.
- The entire Castrol 5 litre filling line was relocated to Blendcor.
- The packaging storage warehouse was expanded to hold more empty packaging and the management of vendor managed stocks.
- A new plant office was built.
- A new rail siding was built to accommodate rail deliveries to customers.

Finally, several modifications were made to the Specials Plant for the tail blending. Seven blending vessels and 15 product tanks were installed for low volume and specialist lubricant blending and storage. A new Spray oil blending circuit was introduced for the blending of spray oils. Spray oils are used by the farmers to spray crops and this is a seasonal requirement. The 20 litre line was completely relocated from the main filling hall to the Specials plant to accommodate the Castrol 5 litre filling line. About twenty people were relocated to Blendcor. Most of these people were operational staff and they were gradually inducted into the Blendcor business. The benefits of these changes was a modern plant with greater flexibility and a lower cents per litre cost. The consolidation of raw material working capital led to the elimination of the duplication of base oil and additive stockholdings. The removal of core production activity at the Castrol site released the storage capacity and factory space for alternative uses. Duplicated activities and supplier/service

provider contracts were eliminated and opportunities for consolidation of upstream (procurement, inbound logistics, vendor managed inventory) and downstream (outbound logistics, third party storage) activities were enhanced by operating from one location with one point of contact.

3.3.5 STAFF COMPLIMENT

Blendcor has a workforce of 134 full time employees, which comprises of the Leadership Team, who are responsible for the general management of the business and the various process and operational personnel who are responsible for production. The business is further supported by the use of 123 contractor personnel based on site. The role of these contractors are to provide a non core business service e.g. security, canteen or materials handling service.

3.3.6 SERVICE LEVEL AGREEMENT

The Service Level Agreements between Blendcor and the Shareholders is authorised by all three parties (Blendcor, Shell and BP). The Service Level Agreement provides guidance and enhanced awareness and focus amongst internal structures in terms of the fundamental source and target of our business – our shareholders. The service level agreement ensures the following:

- Shareholders requirements are clear
- Blendcor has the capability to meet the Shareholders needs,
- Shareholder requirements are met

The Management Team is responsible for reviewing and approving this document. The current Service level agreement has not been reviewed since the integration of the Castrol business into Blendcor.

This concludes the brief history of Blendcor to date. We now examine Blendcor's Five Year Business Plan.

3.4 BLENDCOR 5-YEAR PLAN

The Blendcor Five Year Plan was started at the Bonamanzi Business Planning Strategy session during April 1997. That session provided a framework for the strategic plan and since that time input has been provided by all participants to help formulate the plan. The purpose of the plan was to set the scene for Blendcor for the next five years. The plan begins with Umbono, (Our Vision), and builds on this, with statements of principals, code of conduct, values and policies. This provided us with a platform on which to build our detailed plans.

The plan begins with our UMBONO (Vision statement): **We aim to be and be seen as leaders among the worlds lubricants plant.**

To achieve our vision we strive and commit to :

- Put Safety First
- Live our values
- Delight the customer
- Work and communicate as a cohesive and effective team
- Recognize and respect, value each others contribution to our success
- Implement appropriate information and process technology
- Maintain continuous improvement in our management of quality, occupational health, safety and the environment.

3.4.1 BLENDCOR'S MISSION STATEMENT

At Blendcor our mission is to:

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

To achieve this mission, Critical Success Factors were defined in consultation with all stakeholders in the business to meet this plan. These critical success factors are:

Delivery to Promise – Blendcor will deliver to our customer, 100 % on time and in full.

Cost Focus – Blendcor will endeavor to achieve the lowest cost price in cents per liter costs in comparison to other lubricants plants.

Plant Reliability – Blendcor will provide a safe and reliable plant to meet its production plan.

Quality - Blendcor will conform to lubricants manufacture and supply standards that meet the requirements of Shell and BP and their customers.

Health, Safety and Environment - Blendcor will pursue a policy of continuous improvement in its activities to protect the Health & Safety of all its employees, contractors and visitors and surrounding communities.

Organizational Values – Blendcor recognizes, respects and values each other's contribution to our success.

Technology – Blendcor will keep abreast with technological advancements relevant to our industry and implement appropriate information and process technology.

These objectives were aimed to improve the overall performance of Blendcor and to satisfy the changing needs and expectations of all stakeholders. With these objectives in mind, a five-year business plan was developed to achieve our vision and our mission.

3.4.2 BUSINESS PLAN (MANUFACTURING STRATEGY)

The strategic manufacturing plan forms the basis for planning our business over a 5-year horizon and measuring our business annually. The Strategic Manufacturing Plan ensures that management focuses on the longer-term aspects of the business, "longer-term" being the survival of the business. The value of the manufacturing plan process lies in the process itself, whereby Management is forced to think, investigate and evaluate the possible future scenarios and how best to meet them within all the constraints of the strategy (safety, environment, health, quality, delivery to promise, financial, HR, etc). There are two components to the Strategic Manufacturing Plan:

- plans and actions to be implemented over the five-year horizon; and
- the anticipated results of these plans and actions measured annually.

The strategic manufacturing plan is reviewed annually at the Blendcor Bush Camp (BBC) Conference and disseminated to the relevant Heads of Department. Objectives and targets are set by December of each year for the forthcoming year. The objectives are first set at a corporate level. More detailed objectives at departmental and individual level are derived from the corporate objectives. These objectives are in line with the strategic direction of the Company and can always be linked to the defined critical success factors. Performance reports are aligned to critical objectives and targets and are generated for monthly monitoring and reporting. The overall responsibility for the Strategic Manufacturing Plan lies with the General Manager of Blendcor. The strategy is approved by the General Manager. The General Manager discusses the strategy with the Blendcor Board for approval and this is minuted at the Board meetings, (Refer Appendix 3.1 for Blendcor 5-year plan).

3.4.3 BLENDCOR VALUES

Blendcor was in an advanced stage of structural and technological change in its machinery and operational methodology with the objective of becoming a world class lubricants manufacturer whilst being competitive in the local market. This vision cannot be achieved without attention being given to the Human aspect of the business, i.e. the people issue. Hence, a code of business conduct with core values that are shared by all within the organization was developed.

'See The Vision Live The 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 its business, thus addressing our organizational short and long term goals.

3.4.4 BLENDCOR POLICIES

As a Joint Venture between two international companies, Blendcor is subjected to the various policies of its parent company. Some of these policies are discussed hereunder:

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

In order to realize the quality policy we value and strive to maintain the following: -

(a) Importance of Quality

Quality standards shall not be compromised by consideration of cost or production demands.

(b) Quality Competitiveness

Be a world-class lubricants manufacturer producing quality product at a competitive cost.

(c) Internal & External Customers

Recognize that receivers of our work are "customers" whose needs we must fully understand and strive to satisfy.

(d) 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.

(e) Continuous Improvement

Apply continuous improvement principles to raise our quality standards of our people, products, and services and improve our performance against these standards.

(f) Vendors (Suppliers)

Work closely with our suppliers to achieve and improve common quality goals.

(g) Training

Provide appropriate quality awareness training to our employees and contractors.

(h) Business processes

Identify and measure quality in all core and support business processes and strive for continuous improvement.

Health & safety policy -Blendcor is committed to conducting its activities in a responsible manner to ensure that the Health & Safety of employees, contractors and visitors are not adversely affected.

- Never accepting that accidents are unavoidable.
- Measuring our Health & Safety performance.
- Developing and implementing Health & Safety training and awareness programmes for staff & contractors.
- Eliminating unsafe practices, actions and conditions.
- Compliance with Health & Safety Legislation.

Environmental policy -Blendcor is committed to conducting its activities in such a manner as to limit our impact on the environment through a systematic approach to Environmental 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 Environmental performance and progress is monitored, measured and reported,
- Prevention and pollution through initiatives designed to eliminate incidents and, where incidents occur, procedures to clean up and remedy environmental damage,
- Continuous improvement in environmental performance.

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.

Black economic empowerment policy - Blendcor supports the principle of Black Economic Empowerment (BEE) in contributing to a stable South African economy. The Company will continuously endeavour to conduct its business in accordance with the principles ascribed to in this policy. The Company is willing to enter into business ventures with Black Economic Empowerment companies where such will genuinely enhance black entrepreneurial-ship. Blendcor and its shareholders see little value in ventures and structures set up on an ad hoc basis purely to appease those who espouse to black economic empowerment. Accordingly Blendcor will actively pursue joint venture opportunities where such conform to the criteria of wealth creation, quality and financial viability in the general up liftment of previously disadvantaged persons. Whilst it is understood that legislation is currently being looked at by the Government with the view of being implemented during the course of the next 18 months, we will be guided on our approach through both shareholders.

Objectives, within the policy include:

- Being contributory to the development and growth of small black businesses by diverting a percentage of our current out-source expenditure to goods and services provided by such businesses.
- Establishing links with small black businesses by doing business with them on a commercially sound basis.
- The setting of annual targets by Departments in respect of expenditure to be diverted to goods and services purchases from black owned businesses and monitor progress accordingly.

The primary guide to a definition of a BEE is the approach of the Parastatals / government when awarding contracts. It appears that the requirement is for ownership of the black company who is awarded a contract of having a vesting of 51% in the hands of previously disadvantaged citizens (African, Coloured, Asian, Disabled, Women). In the case of joint ventures the shareholding of the previously disadvantaged people must be at least 25%, as well as there being a demonstrated commitment to transferring skills over a defined period of time. In view of the above, Blendcor has therefore developed an Affirmative Procurement Policy that sets out amongst other things:

- Definition
- Policy Objectives
- Responsibilities of Contracts & Procurement Section

- Responsibilities of Blendcor Leadership Team

The approach in this regard is as follows:

- The appointment of a senior manager as being responsible for the implementation of BEE initiatives.
- The setting of annual targets of expenditure to be allocated to goods and services purchased from small black businesses.
- The identification of goods and services required by each function/department which in turn could be purchased by small black businesses
- The monitoring and reporting on progress against objectives on an annual basis
- To foster links on a commercially sound basis with small black-owned service providers
- The use of Tender Boards & "weighting" BEE as a requirement for being awarded contracts

3.5 SUMMATION

To achieve our mission we have embarked on a strategy of business process redesign and business process ownership. These processes will be supplemented by an emphasis on innovation & learning. The emphasis in business process redesign is on eliminating non-value adding work and on simplifying, standardizing and automating the remainder and using technology to redefine the boundaries between Blendcor and it's customers and suppliers to eliminate work for both. The drivers in this strategy are those focused on cost and those focused on adding growth and value to the business. Two different drivers for Blendcor result from this. One is the demand for low cost leadership and the other is for added value and growth.

3.6 BLENDCOR'S VALUE CHAIN

For the Business Process to be effective and efficient, all components of the Blendcor Value Added Chain must be functional. The components of the Blendcor value chain are:

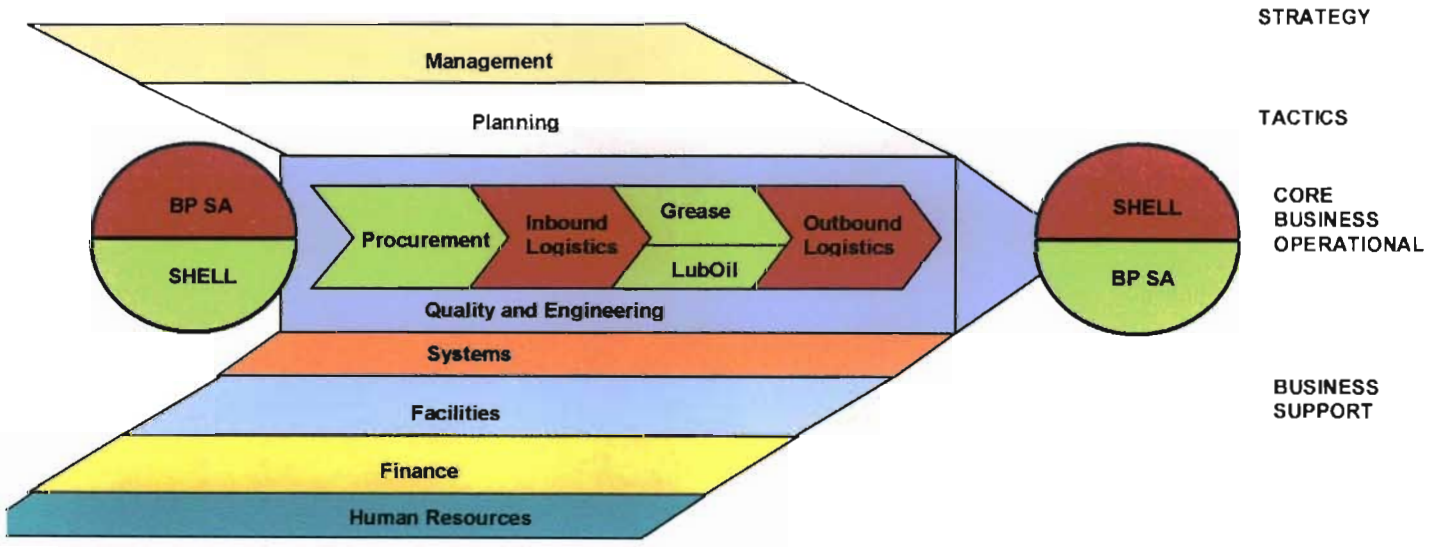
Support Activities

- Management – responsible for Strategic Planning
- Planning – responsible for tactical and production planning and forms the key interface with the Marketers.
- Business Support – these are the support activities that help to improve the effectiveness and efficiency of the primary activities.

Primary Activities

- Core Business operational – these are the primary activities directly concerned with the creation or delivery of products and services.

Fig 3.1 Blendcor's Value Chain - Adapted from: Johnson and Scoles (1999) and modified for use at Blendcor.



It is the responsibility of management to provide the necessary resources required to achieve the desired output. Line management shall be responsible for managing the resources provided and maximising on output.

3.6.1 SUPPORT ACTIVITIES

Blendcor's support activities comprises of management who are responsible for strategic planning. The tactical and production planning is managed by the planning department and the business support system help improve supplier chain efficiencies.

3.6.1.1 MANAGEMENT

Blendcor's current infrastructure, meets the current needs of the business. The changing needs of business require a forward view of future business needs. The Management Team engages in developing the different scenarios applicable to establish a Business Plan. The Plan includes:

- Market Related issues,
- Financial Planning and costs
- Growth projections,
- Plant / Facility plans
- Cost Objectives,
- Human Resource development,
- Projections and Projects with appropriate funding,
- Projected productions demands,
- Objectives - Quality, Health, Safety and Environment, and
- Operational performance measures.

The plan is reviewed in June each year. As demands from our Shareholders (BP and Shell) to optimize the business in terms of reduction of costs are ever increasing, the business plan is reviewed more frequently. Despite these demands, we need to ensure the level of standards is maintained in terms of Safety, Quality and Service. Competition from our local competitors (Total/ Engen / Caltex) demand that we are able to confront, and exceed the challenges and competition. Now that the world is a global village, competition from outside South Africa is placing further demands on our Shareholders, who in turn look to Blendcor for increased business efficiencies.

3.6.1.2 PLANNING

The Planning section is responsible for converting demand received from shareholders into a workable, credible manufacturing and filling plan. The Shareholders' respective marketing functions identify the needs and expectations of their customers and translate these into customer orders for Blendcor. Blendcor then review these customer orders and establish capability to consistently meet such customer orders prior to production. Potential limitations and agreed deviations are communicated to each marketer and resolved.

3.6.1.3 BUSINESS SUPPORT COMPONENT

Engineering: Production is supported by the Engineering department to provide adequate storage, pumping, blending, filling and packaging hardware to meet demands. Engineering designs use the

Best Available Technology Not Entailing Excessive Costs (BATNEEC) principle. Consideration is given in the design stage to Quality, Health, Safety and environment (HSE) and Security aspects. A multi-disciplinary team approach is used to ensure that the needs of all affected parties are understood and met.

Quality: It is important that all products dispatched from the Blendcor site meet Shell and BP's quality specifications and conform to the order requirements. Appropriate records are maintained to trace back to lot numbers, production facilities utilised, and the date and time of manufacture.

Any product found to be non-conforming at any stage of the process, is identified by means of black and yellow barrier tape to avoid further processing or dispatch to a customer. The appropriate level of management is informed of the non-conforming product for further action. All incidents involving non-conforming products are recorded by the relevant section and form part of their performance reporting.

Customer complaints: One of the primary objectives of a Corrective Action system is to highlight problem areas. Careful measurement is a positive means of determining our level of service and efficiency. Surveillance of our performance enables us to see if our efforts are heading in the right direction and if we are making progress. By carefully documenting and measuring customer complaints, we use the valuable feedback as an effective tool in achieving our objective of conforming to our Shareholders' requirements. The customer complaint system allows for thorough and complete investigation, remedial action, testing of the remedial action and feedback. The system provides a means whereby checks and balances ensure that all the steps are followed, from logging the complaint, to the finalisation of the complaint.

Product technology: Blendcor does not create or own any formulations. All formulations belong to the Shareholders who also market their products. It is the responsibility of the Shareholders to evaluate the constituents comprising the formulations from an HSE point of view. Material Safety Data Sheets (MSDS) are to be provided for all new components introduced for trial work at Blendcor. Every endeavour is to be made to obtain and maintain a databank of existing materials and products at Blendcor. The company also takes a proactive role in identifying products considered to contain harmful components, e.g. lead and lobby the Shareholders to implement plans to seek substitute formulations. Any materials requiring precautionary measures in storage, handling, transporting or in the event of an accident are identified and appropriate information is made easily available.

Systems: A diversity of packages currently support the primary business processes and most interfaces between these packages are manual interfaces. The packages Prism and JD Edwards (JDE) support the primary business processes, inbound, blending, filling and outbound. JDE is used as a financial package (For cost control, stock control of non-resource stock, cash book, debtors, creditors, invoicing, payment processing and purchasing of non – stock resource). The Prism package is used to support the manufacturing process (resource stock control, resource procurement, resource cost control, manufacturing planning and scheduling). Interfaces between the two packages exists for transfer of data for financial reporting. A host of other peripheral systems are in place for measuring and reporting purposes. In order for Blendcor to be able to provide the Shareholders with a competitive advantage in manufacturing and packaging lubricants, the latest information must be accessible to them. Due care is taken to manage sensitive or confidential information as Blendcor operates as a joint venture.

Facilities: Security is provided on the premises to protect people, property, products and assets. All personnel entering the premises shall comply with the security requirements at all times. A secure, safe and healthy work environment is provided in all areas at all times. Engineering projects / changes or layout changes will include appropriate risk assessment to mitigate the following:

- Impact on personnel,
- Impact on the environment,
- Impact on the public,
- Damage to property, and
- Loss of revenue.

Finance: Blendcor as a Joint venture, operates as a cost centre, where all costs are directly recovered from its Shareholders, Shell and BP. Hence, Blendcor makes neither a profit nor a loss, but its profitability is measured by its thru-put cost i.e. the cents per litre cost to produce a litre of oil. The finance department is responsible for the financial and general administration of Blendcor. The financial reports are prepared in this department for Board review. Monthly performance reports are also compiled by this department for discussion at management level. The total Company's budget is co-ordinated by the Finance Manager and the annual budget is approved by the Board. The computer system used by the finance department is the JD Edwards system.

Human Resource: Blendcor acknowledges that its employees are its main asset. In this regard Blendcor management are at all times mindful of the needs of the people and will in a participative manner, assure satisfaction. A healthy work environment is provided and the rights of individuals protected. Blendcor endeavours to unite its entire workforce to operate as a single unit, subscribing to a common set of values. The Human resources department is responsible for all recruitment and selection. Vacant positions are advertised internally first and if there are no successful candidates, adverts are placed in the local newspapers. Once the applications are shortlisted interviews are conducted using the Targeted Selection method and are panel driven mostly by the line managers. The prospective employees also undergo the Speex assessment test. Once these results are known the successful applicant is selected on merits by the panel and the Blendcor Leadership Team. The human resources department ensures that the new employee undergoes a full induction programme before embarking on their new duties. The Human Resources department is responsible for assessing the training and/or educational requirements for all job levels and developing programs to provide the identified needs. This is done on an annual basis through the performance appraisals and a training calendar for the year is drawn up. The needs include operational, administration, technical, supervisory and management staff in the following subjects:

- Health,
- Safety,
- Environment,
- Total Quality Management, and
- Other degrees or diplomas

Training is provided to ensure that all staff have the desired level of competence to execute their duties. Techniques used for training include 'on the job training', classroom lectures and exercises, off-site courses, and learning at educational institutions. Learner Directed Training is compulsory for the shop floor. Staff are incentivised with salary increases for every module attained and awarded a certificate on completion of the program. The human resources department is responsible for negotiating the annual salary increases for the bargaining unit staff with the trade union at the Industry Bargaining Arena. Bargaining unit staff salaries are increased annually and are based on performance. The human resource department conducts annual salary surveys to ascertain what the general market movements are and base the increases on the individual employees performance accordingly. The human resources department is responsible for ensuring that the Employment

Equity Plan is practised when employing new recruitments and promoting from within. The employment equity plan is illustrated in Table 3.2.

Table 3.2 – Blendcor Employment Equity Plan

CLUSTER 1	Race	African	Coloured	Indian	White
Managerial level	Plan	50%	2%	24%	24%

CLUSTER 2	Race	African	Coloured	Indian	White
Middle Management	Plan	50%	2%	24%	24%

CLUSTER 3	Race	African	Coloured	Indian	White
Operational	Plan	50%	2%	24%	24%

GENDER PROFILE

Gender	Male	Female
Plan	75%	25%

The human resources (HR) department has implemented "corporate HR initiatives". They have turned the training centre into a self-funding unit. They have targeted all the employers operating within the Island view complex and offered them training and courses for their employees. The human resources department has drawn up specific policy and guidelines for dealing with the HIV/AIDS issue. The company distributes free condoms to all employees through the company clinic and dispensing machines in the ablution facilities. The company also provides a safe working environment using universal precautions. Voluntary counselling and testing is offered to employees through the clinic facility. A peer-counselling team has also been specifically trained in dealing with HIV/AIDS.

3.6.2 PRIMARY ACTIVITIES

In order for Blendcor to meet its stated Vision, the entire business chain must work cohesively to support each other. Each process, including support functions, must manage their activities to provide the expected service levels. Blendcor's primary activities comprises of its core business component, its margins and its customers.

3.6.2.1 CORE BUSINESS OPERATIONAL COMPONENT

Procurement: The Shareholders' branded products are made to international and, in some cases, local formulations. Approved suppliers are nominated by the Shareholders for each of the components in the respective formulations. The exception to this rule relates to a small number of "commodity" components that are purchased by Blendcor under authority from the respective Shareholders. All purchased materials used in manufacture have been evaluated to ensure that they satisfy current government and safety constraints on restricted, toxic and hazardous materials as well as environmental considerations. Contracts for the purchase of the non-Blendcor components are entered into between the Shareholder and the supplier. It is Blendcor's responsibility to place such suppliers on the Approved Suppliers List (ASL) and to manage call-off of relevant components to meet the production demands for these products.

Inbound Logistics: This process controls the handling, storage, preservation and delivery of all incoming materials, stored materials, in-process materials to the Blending and Filling plants as raw material inputs. Base oils are transferred via a thirteen-kilometre pipeline from the Sapref refinery into holding tanks at Blendcor. This ingredient is then metered or dosed via the Simultaneous Metering System or the Automatic Batch Blending systems for the blending of lubricating oils. Packed additives are received and stored and released for blending as per blend formulation requirements. These drums additives are fed into the blending system via a Drum Emptying System (DES). Bulk additives are stored in onsite bulk tanks and metered and dosed in the same way as base oils. Finally, empty packaging and accessories are received by this section for inputs into the filling lines.

Blending: Blending is a process of bringing together various resources (ingredients) nominated by the blend formulation under specified conditions to produce a specific grade of lubricating oil. The three processes are the addition of resources that make up the blend composition, the heating of the resources to reduce viscosity and the mixing of the resources to make the blend homogenous. This is

followed by testing the blend to confirm that the right quantities of all the resources were used. Two Automatic Batch Blenders (ABB-See Appendix 3.2) and a Simultaneous Metering System (SMS) is used for blending. The three blenders are automatically controlled by the Lubecell Software (Cellier Program) The Blending section operates on a shift cycle to meet production demands and each shift is lead by a shift foreman, who is responsible for all operational aspects of the shift. The equipment in this section consists mainly off pigged transfer lines, valves, volume and mass measuring devices, pumps and tanks. In order to ensure a safe operation and to obtain maximum efficiency, all of the associated equipment is maintained in good condition. Running maintenance of the various equipment is the responsibility of the teams and the Foreman.

Filling: The filling of packed products is divided into five sections according to the type of fill. The large drum section has six filling points and each line has the capacity to fill between 35 to 45 drums per hour depending on the viscosity of the oils being filled. This section also fills the one cubic metre containers. The Sealed Can machine is used to fill 500 ml tins of motorcar oil, which is sold on most forecourts. It has a capacity to fill eight thousand packs in a eight-hour shift and is the cash cow for the company. The Multi-purpose filling machine fills 500ml plastics containers and is run on a twenty - four hour shift basis owing to the high demand of this pack type. As the migration from tinplate to plastics continue for cost reduction and environmental purposes, the capacity of this line will have to be reviewed to cope with the high demand. Both the Blendcor five litre and Castrol five litre lines are high volume low variety fillers. Most of these packs end up in chain stores and garages. The Twenty Litre lines are used to fill plastics buckets. These lines produce an average of 3000 buckets per day. Most these products are destined for the motor and light industrial sector. An Overall Equipment Effectiveness (OEE) monitor electronically measures each of the above Filling machines. This program measures the productivity of the lines and acts as a troubleshooting guide for maintenance or poor performance.

Grease: The process of Grease manufacture undergoes two stages, viz: the saponification process (soap making) and the grease completion stage (See appendix 3.3). Soaps can be saponified in the autoclave and kettle, generally all Lithium based soaps are saponified in the autoclave and all Calcium and Clay based soaps are saponified in the kettle. In the autoclave an acid and base is reacted with the addition of water as the catalyst to make soap. Temperature is controlled by the use of hot oil, which passes through a jacketed internal element. During saponification an exothermic

reaction takes place, an increase in temperature / pressure with the aid of heating and the use of a screw mixer aids the completion of the reaction. Controlling of the vent valves is critical for the correct formation of soap and it also minimises soap carryover that will effect the environment and quality. The soap is then stirred and dropped into a kettle when the saponification process is completed. In the kettle the soap is processed into grease, this process occurs when the soap is cooled (water is used to cool the grease, water passes through an external jacket attached to the kettle). This stage is known as crystallization and it is at this stage the grease fibres are formed. The grease is cooled to 100 deg and the performance additives are added. The product is mixed and circulated through a homogeniser (in the homogeniser all the undissolved additives are "broken down" and dispersed evenly in the product). The product is tested and when passed by the laboratory it is filled into the following pack sizes:

- 15 kg metal tins.
- 18 kg plastic containers.
- 50 kg metal containers.
- 180 kg open top drums.
- 1000 kg flow bins.
- 4x5kg & 20x500gr

A simple analogy of grease: The grease is like a sponge used to wash a motor vehicle, the oil is like the water that soaks into the sponge and the additive is like the detergent which is used for various reasons.

Outbound logistics: Blendcor does not have warehousing facilities for manufactured products. All products are packed as per the Shareholders orders and dispatched immediately to warehouse or depots managed by the Shareholders. The transport from Blendcor is under contract with the respective Shareholders. All products are manufactured for the Shareholders, and Blendcor's responsibility ends once the product leaves Blendcor's premises for the Shareholders' nominated destinations. The Logistics operational function is divided into four main areas:

- Packed products – this section is responsible for the receiving of finished products returns from the market place and despatches to the shareholders main distribution centres.
- Bulk products – this section despatches bulk oil by filling bulk road vehicles, rail cars, isotainers and tanktainers directly to the shareholders warehouses and customers. Marine oils are loaded directly onto the barge, which services the ships in the local Durban harbour.

- Materials Handling – this section is outsourced to a materials management company and is responsible for the handling of all products inbound and outbound.
- General – this section is responsible for the despatch of pallets, additives and the general administration of the Logistics department

3.6.2.2 MARGINS

Blendcor operates as a cost centre, and all costs are directly recovered from its Shareholders, Shell and BP. Blendcor does not make neither a profit nor a loss, but its profitability is measured by its thru-put cost i.e. the cents per litre cost to produce a litre of Oil or Grease.

3.6.2.3 CUSTOMERS

Blendcor has only two external customers, Shell and BP. Service Level Agreements between Blendcor and the Shareholders are used as a means of understanding and meeting customer expectations. Performance against these SLA's is measured and reported monthly to the Shareholders - refer "Monthly Performance Report". Where a 3rd Party company is the customer, e.g. where a part blend is completed elsewhere or the product is repacked, the needs and requirements are identified and documented by the parties entering into such contract arrangements. Such agreements are to consider cost, quality, health, safety, security and the environment. Blendcor does not normally interface with the final customers. Therefore, it is the responsibility of the Shareholders to establish customer satisfaction levels and report production quality related feedback to the General Manager. Such feedback forms the basis for exploring improvement initiatives for quality, health, safety and the environment. Records of customer survey feedback are available from the Shareholders' Marketing departments.

3.7 PERFORMANCE MEASUREMENTS

For effective management, regular measurement of key performance indicators is important. On-going measurement of the Critical Success Factors (CSF's) is necessary to assess the overall performance of the company. These measurements are reported to management monthly. In addition, each department is required to measure and report their performance against targets.

3.7.1 CUSTOMER SATISFACTION

As customers are the foundation of Blendcor's current and future existence and growth, customer satisfaction is a vital objective measure of Blendcor's success or failure. Blendcor has two customers: BP Southern Africa and Shell South Africa. There is no point of sales to the end customer as Blendcor supplies BP and Shell respectively. As such, all internal structures of Blendcor should be focused on continually enhancing its shareholders customer satisfaction through any means available to them. Customer satisfaction, or dissatisfaction, can be based on any or all of the following points of potential interaction:

Market services (includes research)

Debtor's staff

Planning staff

Production (product quality – packaging and labelling)

Customer visits

Feedback from customers (complaints)

Any one of these points of interaction can create a greater level of satisfaction or alternatively, create dissatisfaction in the shareholders' mind.

3.7.2 ANALYSIS AND USE OF COMPANY DATA

Trends in quality, environment and operational performance are monitored with a view to continuous improvement. These are geared towards the development of prompt solutions to customer (BP & Shell) related problems and the determination of key customer related trends and correlations to support status review, decision-making and longer term planning. Table 3.3 illustrates the Key Performance indicators that are measured and monitored on a quarterly/annual basis.

Table 3.3 – Blendcor Performance Report as at – December 2002

CRITICAL SUCCESS FACTORS	2002 YR PLAN	2002 ACTUAL	2002 % PLAN	2001 ACTUAL
DELIVERY TO PROMISE				
Plan vs Actual				
LubeOils	95%	85%	89%	65%
Grease	95%	90%	94%	89%
Transporter Availability				
Bulk	95%	85%	89%	80%
Packed	95%	86%	91%	65%
PRODUCTION				
Main Plant				
Volume Blended (KL)	118 500	117 900	99%	100 600
Volume Filled (KL)	181 700	177 750	98%	165 800
Grease Plant (Tonnes)				
Grease Manufactured	5750	5150	90%	5590
Rockdrill Filled	3320	3360	101%	NA
DESPATCHED (Tonnes)	188 700	189 000	101%	171 000
SUPPLIER RELIABILITY				
Base Oils	100%	95%	95%	72%
Additives	100%	92%	92%	89%
Packaging	100%	89%	89%	65%
PRODUCTIVITY				
Kl/Ton per man hour				
Blending	3.37	2.74	81%	3.03
Filling Packed	1.37	1.79	130%	3.15
Filling Bulk	5.99	5.05	84%	6.70
Despatch	2.40	2.86	119%	3.61
Grease	0.13	0.20	154%	0.22
Rockdrill	0.10	0.04	40%	0.00
COST CONTROL				
Activity Costing (C/lt; C/kg)				
Blending	5.00	6.24	125%	7.10
Receipt & Storage (Base Oils)	0.98	1.46	150%	1.52
Filling	4.78	5.75	120%	4.49
Despatch	5.44	4.25	78%	4.25
Grease	104.00	81.00	78%	84.64
Rockdrill Grease	70.00	30.00	43%	0
Total Cents per Litre (Including one off costs)	23.24	24.20	104%	22.62
LOSSES (R000's)	4 913	2 360	48%	3 813

Table 3.3 continued

CRITICAL SUCCESS FACTORS	2002 YR PLAN	2002 ACTUAL	2002 % PLAN	2001 ACTUAL
STOCK (R000's)				
Additives	11 000	15 607	142%	5 000
Number of days	20	28	140%	14
Containers	4 000	1 808	45%	4 024
Number of days	25	9	36%	25
Baseoils	30 000	54 000	180%	39 000
Number of days	31	46		41
Finished Goods: Bulk	10 500	10 220	97%	10 800
Number of days	7	7	100%	7
QUALITY				
Customer Complaints	30	55	183%	28
Cost of Non-Conformance (R000's)	0	474	474%	N/A
Number of CAR's issued to suppliers	30	45	150%	80
HEALTH, SAFETY & ENVIRONMENT				
Lost time injury	0	1	0%	0
First Aid cases	8	15	188%	10
Potential Incidents	80	69	86%	78
ENGINEERING				
Planned maintenance achieved	95%	65%	67%	0
Breakdowns vs Total work	10%	13%	124%	0
Hours captured on CMMS	70%	75%	107%	0
PEOPLE				
Staff Compliment				
Contractors	88	123	140%	114
Blendcor	134	134	100%	109
Training / Sick Days	1050	998	95%	789
TECHNOLOGY				
Failure Rate				
Lubes	1%	0.8%	80%	1%
Greases	2%	1.2%	60%	1.3%

3.7.3 KEY PERFORMANCE INDICATORS

Delivery to promise - measures our plan against actual delivered. A vast improvement over our 2001 performance.

Production – with the heavy migration of products from Castrol, our production volumes for the year was met. Productivity levels increased all round with the exception of Rockdrill plant, blending and bulk filling. The Rockdrill plant was a fairly new plant and the plant costings has to be revisited. The blending plant was coping with the new complexities of the Castrol blending and much time and effort was required to get these blends to specification. The bulk loading facility was expanded to a twenty four hour shift to cope with the additional volumes and three additional were employed.

Costing – the overall cents per litre costs increased marginally due to one off revex cost, however this is in line with the increase in volumes. Stock holdings of raw materials were high owing to the uncertainty of demand requirements on the plant. This should decrease once the demand levels off. Losses of raw materials and finished goods were managed to sustainable levels in 2002.

Health, safety and environment – reported first aid cases almost doubled and Blendcor experienced its first ten million man hours lost time injury.

Engineering – planned maintenance achieved continue to suffer as maintenance gave away to production demands.

People – Contractor numbers continue to rise unabated as demands for production escalates. Our training days are on par with the training calendar.

3.8 BLENDCOR FINANCIALS

Blendcor's Income Statement for the years 2000 – 2003 is illustrated in table 3.4 below

Table 3.4 – Blendcor's Income Statement YTD 31 March 2003 (1 Quarter)

FIGURES IN R'000	NOTE	ACTUAL			PLAN	
Income		2000	2001	2002	2003	Ytd 03
Systems costing – BP		18 241	20 488	25 570	34 494	5 958
Systems costing – Shell		20 754	20 115	25 235	18 573	5 246
Billing depreciation – BP		4 073	4 021	3 504	6 561	822
Billing depreciation – Shell		4 073	4 021	3 356	5 389	786
		47 141	48 645	57 665	65 017	12 812
Expenses						
Operating expenses	1.	38 995	40 603	47 051	52 875	11 540
Castrol Project Revex				3 755	193	(336)
Depreciation		8 146	8 042	6 860	11 950	1 607
		47 141	48 645	57 665	65 018	12 811
Unappropriated Income / (loss)		(0)	(0)	(0)	(1)	0

3.8.1 INCOME STATEMENT SUMMARY

Blendcor's revenue equals its expenditure as all expenditure is recovered from both Shell and BP. Operating expenses increase of R6.5 million over 2001 is in line with the migration of the Castrol volumes into Blendcor. A once off revex cost for the Castrol project, drove up the cents per litre cost, hence the derived benefits from the increased volumes were nullified. Blendcor's revenue stream is governed by both Marketers and our ability to increase our revenue depends on sales by Shell and BP. As a cost center, Blendcor does not have the ability to influence its sales, however there is plenty of capacity to blend and fill for other oil companies. These opportunities must be explored with the relevant Shareholders.

3.8.2 BLENDCOR (Joint Venture)

Blendcor's balance sheet is illustrated in table 3.5 below.

Table 3.5 – Balance Sheet YTD March 2003

FIGURES IN R'000	NOTE	ACTUAL			PLAN	
		2000	2001	2002	2003	Ytd 03
CAPITAL EMPLOYED						
Unappropriated (Income) / Loss		0	0	(0)	0	(340)
Group company financing	1.	(81 228)	(79 054)	(110 379)	(93 299)	(114 055)
		(81 228)	(79 054)	(110 379)	(93 299)	(114 395)
EMPLOYMENT OF CAPITAL						
Fixed Assets	5.	38 455	33 268	32 496	33 696	39 429
Net Working Capital		42 773	45 785	77 885	59 603	74 965
Stock: materials		886	999	1 580	1 000	1 617
Stock: additives BP		3 180	3 086	8 411	6 500	8 009
Stock: additives Shell		3 524	1 880	7 196	3 500	8 589
Stock: containers BP		1 373	1 986	922	3 000	1 433
Stock: containers Shell		1 261	2 038	887	1 500	1 523
Stock: base oil BP		15 441	168	22 218	25 000	35 807
Stock: base oil Shell		20 222	38 948	36 973	20 000	30 060
Stock: finished goods BP		5 701	6 248	5 812	10 000	16 411
Stock: finished goods Shell		5 027	6 762	4 984	6 000	6 188
Stock: Work in Progress BP		26	39	0	100	189
Stock: Work in Progress Shell		17	25	0	100	189
Accounts Receivable	2.	508	728	6 133	5 000	5 630
Other Current Assets: Capital (WIP)	3.	721	3 582	16 857	3 003	8 790
: Trade creditors		(6 978)	(3 378)	(5 903)	(5 000)	(13 013)
: Other creditors		(8 040)	(17 314)	(28 132)	(20 000)	(35 777)
Unpresented cheques	4.	(96)	(10)	(57)	(100)	(681)
TOTAL		81 228	79 053	110 379	93 299	114 394

3.8.3 FINANCIAL SUMMARY

Blendcor has no financial gearing problems. The day to day financing is paid by Shell and BP and the Blendcor cash account is cleared daily by both marketers. Group financing increased by 40% over 2001 owing to large payments for the Castrol project and raw material stock build. The fairly substantial work in progress is indicative of items not being capitalised when projects are closed.

3.9 CONCLUSION

This case study on Blendcor has given insight to the benefits of viewing strategic management as a process. A firm's strategic posture may have to be re-evaluated in response to a change in the external environment. The merger of Castrol and BP had necessitated a restructure of the business in order not to jeopardise the opportunity for additional business. The challenges facing Blendcor are by no means unique with the integration of Castrol, the volumes will increase by 35% and the complexities correspondingly increase. Blendcor regards strategic management as a dynamic process as both its customers operate within the global village. Competition is strong and the continuous drive for low cost leadership is sought by our shareholders to maintain and gain market share. Pearce and Robinson (2003: 17) state, that "since change is continuous, the dynamic strategic planning process must be monitored constantly for significant shifts in any of its components as a precaution against implementing an obsolete strategy".

3.10 SUMMARY

In this chapter, a brief overview of the South African oil industry was looked at. The history of both the Blendcor Shareholders was examined and Blendcor's history and background was explored. We then examined Blendcor as an operating company and its management practices to accommodate the BP and Castrol merger. Chapter 4 looks at evaluating the present strategy of Blendcor. The organisations resource strengths and weaknesses and its external opportunities and threats will be analysed.

CHAPTER 4: EVALUATING THE PRESENT STRATEGY OF BLENDCOR

4.1 INTRODUCTION

Blendcor has undergone tremendous change in the last eighteen months in its attempt to make it "best in class". Blendcor has achieved its objectives by attracting and retaining the Castrol business and has made the step change required to compete in the global village. The challenges facing Blendcor are by no means unique. With the integration of Castrol, the volumes have increased by 35% and the complexity of the operation has increased correspondingly. The operation itself is going through a change in terms of grappling to meet the current production requirements and improving productivity, whilst controlling the costs and maintaining quality. The inability of BP to provide accurate demand on the plant has further exacerbated the complexity and the risk of plant planning and scheduling activities. Poor demand and associated inefficient planning has resulted in increased working capital to support desired service levels. On the positive side duplicated activities and supplier or service provider contracts were eliminated and opportunities for consolidation of the value chain activities i.e. the support activities and the primary activities were enhanced by operating from one location with one point of contact.

The purpose of this research was to establish if the merger between BP and Castrol had a positive or negative impact on the joint venture ship of Blendcor and if the merger will realize cost savings due to economies of scale. In the previous chapters we have analyzed the various factors that impacted on the integration process and included a full assessment and evaluation of the current Blendcor business processes, its people, its methodology of doing business, its strategic management practices and as well as the optimization of its assets and the new equipment required to facilitate the additional volumes. In this chapter, we examine how well Blendcor's present strategy is working and if the strategy is suitable to compete in the global village. The oil industry operates in a dynamic environment and the environment has to be continuously scanned for market changes. Strategies have to be developed to meet these changing conditions; therefore, it is important that we also examine the strategy development process at Blendcor. The organization has always been managed by an expatriate owing to a lack of experienced managers in South Africa. Since the merger, Blendcor has been managed by a South African manager; hence, it will be interesting to note the impact of this leadership on the strategy development process. We begin the evaluation by conducting a SWOT analysis on Blendcor.

4.2 SWOT ANALYSIS

Blendcor's resource strength and weakness and its external opportunities and threats is listed in table 4.1 below.

Table 4.1 – Blendcor's Swot Analysis

STRENGTHS	WEAKNESS
Company name. A well-respected name in the lubrication and grease plant industry.	Planning and Scheduling is seen as one that requires improved system support
International Shareholders – Shell & BP	Inflexible plant
Substantial facility, better use could be made.	People -Lack of trained staff. Huge skills gap
Sole BP / Shell lubes plant in SA	Overstaffed – all layers of organization
Market place (Captive)	High number of Sku's
Capability – Increased scope for production	Teamwork – Have problems on occasions
Accredited Iso 14001 plant	Lengthy Lead time (procurement)
Safety – the plant has a very good safety record	Systems and information - poor
Better plant than competitors	Complexity of product line
Accredited QS 9000 plant	Lack global expertise
Accredited Iso 9000 plant	Industry over capacity
Quality Management	Poor demand management
Technology	Inventory management - overstocked
Well established business equity	High operating costs
High Level Technical support	Excess flushings and Waste
Financial strength of two shareholders	Loss Management poor
Larger producer by volume	Information systems are antiquated
Modern plant for oils	Stringent and rigid blending procedures
OPPORTUNITIES	**THREATS**
Tank farm rationalization	Local competitors
Increase throughput	3rd party fillers
Increase market share – Fill excess capacity	3rd party blenders
Merges to utilize over-capacity	Imports
3rd party processing	Government - De-regulation
Export market growth	Not competitive (cost)
Collaborative arrangement - Suppliers	Marketers - Inability to supply correct demand
Procurement Synergies with shareholders	Lack of productivity
Explore hidden competencies	Job Knowledge - Few people with competence
Delivery to Promise - Improve on-time delivery	Loss of competent staff
Improve contacts with suppliers	Global village effect
Improve plant reliability – de-bottle necking	Asset division not finalized
Focus / specialize	Do not operate as a profit center
Outsource non-core activities	Service level agreement outdated
Portfolio rationalization	Decreased market for – Synthetics and Lubes
Introduce Performance Measurement System	Environmental groups Green Movement
Decrease costs	Union immaturity –Strikes, Industrial relations

4.2.1 STRENGTHS

Substantial Facility: A modern plant that has tremendous capability for increased production. Capital investment in intelligent expansion and de-bottlenecking would increase efficiencies in blending and filling. Blendcor is a well-respected name in the lubricants and grease industry and is supported by the financial strength of its international shareholders, Shell and BP.

Safety record: The plant has a very good safety record, but has recently lost its ten-year record by fourteen days, owing to an injury to a contractor on site. A lot of emphasis is placed on safety and this is evident by the number of potential incident reports generated by staff and contractors. Safety awareness is high amongst staff and contractors and the monthly safety suggestion box is always full with recommendations.

Technology: Is equipped with the latest state of the art blending systems as compared to other blending plants within the Shell and BP group. All other technology concerning research etc is provided by both shareholders, with Blendcor providing the facility to test their latest innovations.

Iso-Accreditation: The plant has an international Iso-14001 accreditation. It is also an Iso-9000 approved plant and is QS 9000 accredited for the motor industry worldwide.

4.2.2 WEAKNESS

Plant Flexibility: To cope with the additional Castrol volumes, Blendcor has worked out engineering modifications to cope with the increase. The changes or efforts in engineering have been directed to exact requirements with very little regard to plant flexibility to cater for future complexity or intelligent expansion. The blending system consists of a Simultaneous Metering System and two Automatic Batch Blender's of ten and twenty metric ton each. There are 12 product tanks, 12 top floor tanks and 40 holding tanks with a blending or storage capacity ranging from 50 to 10 metric tons. The bottleneck in blending is the dedication of holding tanks as per families. The base oil tanks also have some constraints in that some of them cannot be connected to the Simultaneous Metering System and the two Automatic Batch Blender's. A 3^{RD} Drum emptying system which is used for siphoning additives into the batch blenders has been added in the recent modification with provisions for Intermediary Bulk Container (IBC) decanting, but there is no supply of additives in IBC's and nor are there any plans in the future to purchase additives in this format. Another example of un-intelligent capital expansion.

Excess flushings and waste: The flushing generated from the small pack filling lines, drum lines, blending and gantry, etc are collected into IBC's and downgraded. The cost of downgrading is then shown as losses. In 2002, four million Rand worth of losses were incurred due to downgrading costs. Although there is a formal process for re-using line flushing into blends, this procedure is hardly used and these oils are incorporated into the cheaper oils or sold as slops.

Staffing: The organization is heavy in numbers in almost all the areas. The organization is hierarchical in structure and there is no evidence to support a movement to a leaner, flatter structure. Areas of concern are the Planning department, Laboratory and Engineering department.

Lack of Global expertise: Key Management members of the plant should visit other Shell and BP blend Plants in Europe, Egypt, Africa, Dubai and India in order to broaden their horizon and learn from best practices.

Procurement lead times: The Packaging lead times for Shell and BP are between seven and fourteen working days. This is too high and unacceptable if Blendcor wants to operate and compete in the global market.

Poor Information systems: A diversity of packages currently support the primary business processes. Most interfaces between these packages are manual interfaces. The current packages are mainly seen as necessary administrative evils instead of as supportive of the business functions. Prism was intended to integrate and provide primary support to the business processes, but most of the users of the package do not perceive it in this way. This could be due to a number of factors, such as poor implementation of Prism, limited use of available functionalities, inaccurate information (capturing), user ignorance, lack of user competencies or simply insufficient user training. Whatever the cause, it is evident that the current use and available functionalities of Prism do not support the business.

4.2.3 OPPORTUNITIES

Shell and BP collaboration: The operating committee from Shell and BP have not been meeting regularly to discuss plant issues and to improve communications within the operating unit and the shareholders. The operating committee must be strengthened to provide a strong functional support to the plant.

Performance measurements: Ideal opportunity to introduce well known measurement systems to enhance productivity and motivate staff. The Kaplan's Balance Scorecard measurement system is used worldwide and is a popular choice as a measurement system in most international companies.

Third party processing: The plant has sufficient capacity to blend and fill for third parties. With the threat of new entrants in the market place, Blendcor can easily use its economies of scale to out-compete these rivals and stay on top of the oil industry, however these new business have to be won by the Shareholders.

Deliver to promise: There are many opportunities to improve our lead times to the market place. The current lead-times of ten working days for an "A" category product are not acceptable. If Blendcor wants to operate within the global village, it needs to be able to provide it products within shorter lead times. Indian and Malaysian plants have the ability to churn out products on customer requests and have a 100% on time delivery to their customers, therefore, Blendcor needs to improve on its lead-time to compete in the global market place.

4.2.4 THREATS

Asset division not finalized: Although the plant equity has been agreed as 65% BP and 35% Shell, the tankage has not been allocated accordingly. This causes storage constraints and problems for BP as its volumes have increased. Shell resistance to change is evident and Blendcor does not have a code of practice to follow when dispute arises.

Service level agreement: With the advent of the BP and Castrol merger, the existing service level agreements with Shell and BP have not been revised. The current service level agreement is outdated and needs to be renegotiated based on the new structure.

Third parties: South Africa has opened its doors to global trade and the oil industry is now becoming saturated with a multitude of smaller local and international Blenders and Fillers. Many are opportunistic and "backyard operators' and will soon exit from the market, but there are a few serious contenders. Market research amongst the middle class has indicated that price and not brand is the contributory factor leading to purchases e.g., taxi industry. Therefore, it is imperative that Blendcor delivers on its low cost, quality product strategy.

Poor demand management: Currently, both marketers are unable to provide Blendcor with stable order requirements. There is no forecast available and Blendcor procures raw materials based on history. Planning is virtually impossible as there is a continuous manipulation of orders to satisfy the market place. The plant is now more reactive than pro-active in satisfying the marketers needs and is requested to produce goods inside the normal lead-times. Failure to provide these goods will lead to loss of customers; therefore, it is imperative that the shareholders resolve the demand management issue urgently.

In summary, the overriding strength of Shell and BP, with all their inherent technology and technical support, together with the fact that the plant is modern and has the capacity to deliver improved productivity, is seen as the major strengths of Blendcor. This, coupled with the tremendous capability and potential of the facility, together with a very good safety record, are seen as the key strengths on which Blendcor should continue to build it's business. The difficulty of the planning and scheduling process that is not supported by an adequate Information Technology (IT) system and both Shareholders, as well as the complexity of the product line, are seen as key weaknesses. These areas, together with the lack of suitably trained staff and the difficulty of managing the demand process, are additional areas requiring attention. Increasing the thru-put of the plant, by acquiring third party blending and filling are two areas that offer opportunities to decrease the cost of production, and thereby improve the competitiveness of the plant. Improved plant reliability and a continuing focus on quality standards, together with a performance measurement system, are seen as further opportunities for lowering the cost of production. Threats to the organization were seen as mainly coming from third party fillers and blenders, as well as a lack of adequate skills within the organization. A serious threat is that Blendcor has no expertise in competing in the global markets, therefore its low cost, quality product strategy will be tested to its limits by both Shell and BP's competitors.

4.3 STRATEGY EVALUATION BASED ON THE SUITABILITY CRITERIA

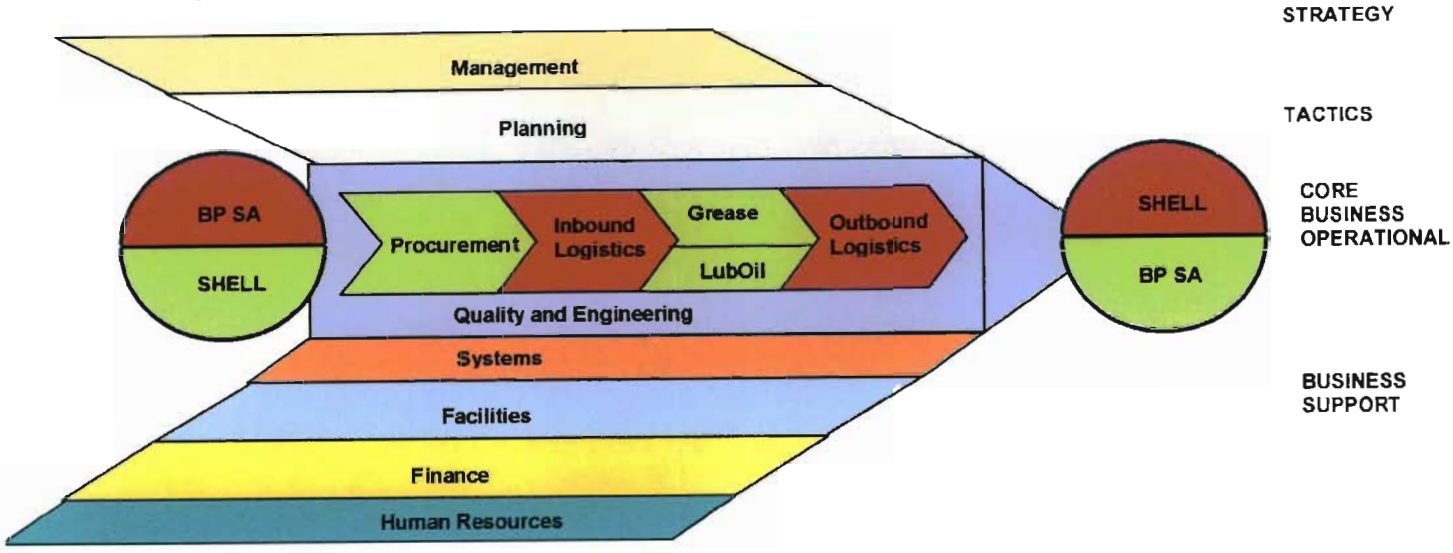
In this section, we examine whether Blendcor's low cost, quality product strategy was suitable to compete in the market place.

4.3.1 VALUE CHAIN

According to Thompson and Strickland (2001:129), the value chain is the primary analytical tool of strategic cost analysis which identifies the separate activities, functions, and business processes that are performed in designing, producing, marketing, delivering, and supporting a product or service. In Blendcor the value creating activity starts with raw materials supply, which is blended into the different brands of product and filled into the various pack sizes and then distributed to the end customers which are the Shareholder nominated stock holding depots. Blendcor's value chain is unique in that it does not include a profit element as a mark up, which is customarily practiced by normal businesses. The abnormality in this sense is that Blendcor operates as a cost center for both

Shareholders and all expenses are recoverable on the volumes produced for each Shareholder. The Blendcor value chain is depicted in figure 4.1 and the cost of each link is examined.

Fig 4.1 – The Blendcor Value Chain. Adapted from: Johnson and Scholes (1999) and adapted for use by Blendcor



4.3.2 PRIMARY COST

Actual costs are allocated to each activity in the primary value chain as identified below –

Raw materials - this includes all raw materials cost used in the manufacturing process.

Storage & Handling -this cost includes receiving and storage off raw materials and the dispatching of finished goods.

Blending – cost is split by tank capacity e.g.: 20ton.

Filling - cost is allocated by filling line- e.g.: Large drum filling.

Grease Plant – cost is split by grease streams and complexity e.g.: complex greases and simplex greases.

4.3.3 SUPPORT COST

All costs not directly linked to production, which is the costs of the support activities are apportioned to each Shareholder based on their dispatched volumes for the month. The support costs comprises of **Finance and Systems, Quality Services, Planning and Scheduling, Engineering, Facilities and Management** costs. The Primary and the Support cost, which is known as the "Billing" is then recovered from both Shareholders.

However, there is a need to disseminate this cost further into a grade pack combination level to advise the Shareholders of the cost of each product. The Shareholders then use this information and include their markup for sale to their customers. The cost of each product is achieved through the allocation of direct materials to each production model and the primary and support costs are allocated on a volumetric basis. This method is flawed in the sense that it subsidizes the complex or the short runs with the long runs. The value chain for blending, filling and dispatching a typical product is analyzed in table 4.2 below. Note that the production model of a product consists of all the ingredients that make up the product i.e. the raw materials that are consumed, the packaging that it is filled in, the allocation of the operating costs based on actual expenditure and the apportionment of the overheads.

Table 4.2: BP Visco Taxi 5 Litre Production Cost Model

RAW MATERIAL COST	**RAND PER LITRE**
Base Oil	2.80
Additive	8.90
Packaging	7.50
Total raw material cost	19.20
OPERATING COSTS	**CENTS PER LITRE**
Storage and Handling	6.42
Blending	5.00
Filling	4.78
Indirect costs	7.04
Total operating cost	23,24

As you would note the profit element is missing in this value chain analysis as Blendcor is treated as a cost center by both Shareholders. Hence, the price to the Shareholder is the price of the raw materials and the operating cost to manufacture BP Visco Taxi. Another important element in strategic cost analysis is to explore how Blendcor costs compares against its rivals. Blendcor is already market leader and dominant lubricants manufacturer in South Africa, therefore we will use this opportunity to benchmark Blendcor's competitive position against BP plants in the Africa, Middle East, Europe and Asian plants worldwide.

4.3.4 BENCHMARKING

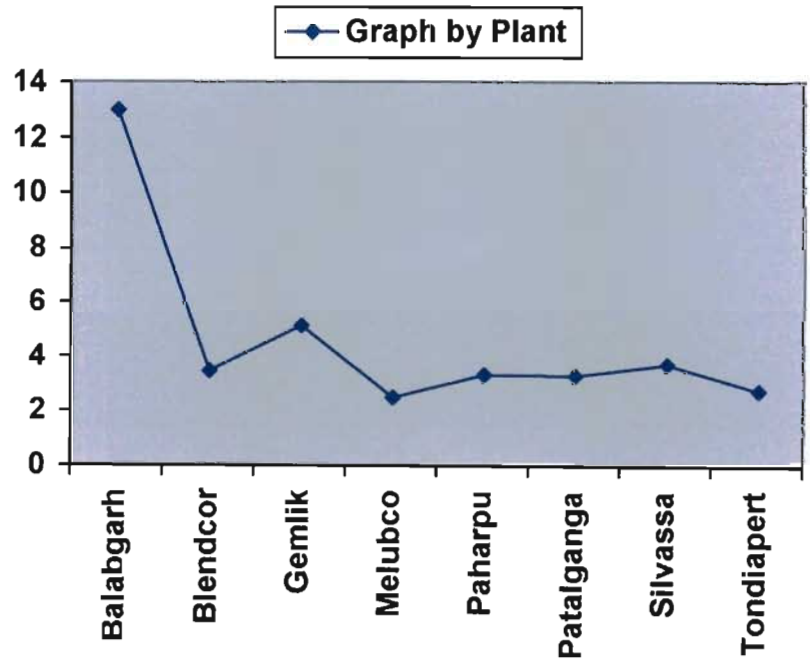
Table 4.3 depicts the US ($) cents per litre operating cost to produce one litre of oil in the African, Asian, Middle East, South African and some European Plants. (AMESA region)

Table 4.3 - Cost of production in US cents per liter for the AMESA region by plants.

PLANT	US ($) CPL
BALABGARH	12.98
BLENDCOR	3.46
GEMLIK	5.12
MELUBCO	2.48
PAHARPU	3.32
PATALGANGA	3.29
SILVASSA	3.70
TONDIAPERT	2.74

These costs are graphically demonstrated in fig 4.2 below. The Balabgarh, Paharpu, Patalganga, Silvassa and Tondiapert plants are of Asian origin. The Melubco plant is in the Middle East in Dubai and the Gemlik plant is in Turkey.

Figure 4.2 - Cost of production in US cents per liter for the AMESA region by Plants.



It is evident from the rankings above that Blendcor has a lot to learn from the best practices of these plants to become best in class. The Melubco plant in Dubai is the lowest service provider, whilst the Balabgarh plant in India is the highest service provider. An interesting point to note is that this plant is a new, modern plant built fairly recently and its costs are high due to large interest payment and heavy depreciation that is synonymous with newer plants. We will now discuss the best practices adopted by the Melubco plant in Dubai and the Silvassa plant in India.

Melubco Plant: Situated in the Middle East, in Dubai. It is a Joint Venture between Mobil, Bp and Caltex and produces mostly for the export market. The plant produces approximately one hundred and twenty thousand metric tones of products annually, which is around fifty percent of Blendcor's current volumes. Its total operating costs are two million US dollars per annum. The operations are manned mostly by expatriate workers from India and Pakistan. Work permits are normally valid for a year and most of these workers migrate back home once their permits expire. Most of these personnel are highly educated and are multiskilled on just about every manufacturing activity in the plant, i.e. from blending, filling, testing etc. Unlike South Africa, these personnel are required to work nine hours a day with one day off in a week. All demand is placed manually on the plant by the 24^{th} of every month for the next month. This plan is reviewed, revised, and then agreed by each Shareholder. Melubco does not have the support of an Information System and all planning, invoicing and administration is compiled on Excel spreadsheets. As part of the Joint Venture agreement, Bp handles all the Health, Safety and Environmental issues, Human Resources, and the administration.

Raw materials are procured by each Joint Venture member and are made available at the time of manufacturing. Any excess raw material is handed back to the Joint Venture Shareholder. Hence, the raw material in stock is virtually zero. All finished products filled by the plant are shuttled to the Joint Venture shareholder warehouses within the plant. It then becomes the responsibility of the Shareholders to distribute these products to the marketplace. Costing is based upon output and any demand over the Shareholder nominal capacity is charged directly to the Shareholder. Briefly, the Melubco plant is broking its capacity to its Shareholders and anyone else that is interested in conducting business with them. This best practice would be very difficult to replicate in South Africa. The paradigm shift to plant broking must come from the Shareholders, as they hold the key to the door. The big question is, would they be prepared to share technologies with others to attain economies of scale and grow its market position within the global context.

Silvassa Plant: Situated in India and is an ex Castrol Plant. Produces approximately eighty five thousand metric tones of product annually. The cost to operate the plant is in the region of about two point three million dollars annually. Demand or orders are received weekly and production is fixed for two weeks. The plant is manned by eighty-one personnel and almost all are graduates. The laboratory is staffed by six people and they are responsible for all product testing and incoming inspection. They are also responsible for Total Quality Management (TQM) and are strong believers of the "Kaizen" principles. Kaizen is a Japanese word, the definition of which is given by Masaaki Imai (Pyecraft, et al, 1998: 666). "Kaizen means improvement. Moreover, it means improvement in personal life, home life, social life and work life. When applied to the workplace, Kaizen means continuing improvement involving everyone-managers and workers alike". Silvassa also spends two million rupees on community projects annually. The plant has eight Automatic Batch Blenders and twenty finished product tanks. All pigging to tanks are done manually, unlike Blendcor, who have automated pigging lines. Everything in this plant with the exception of the Automatic Batch Blenders is basic, yet product is churned out timeously to meet the customers demand.

Unlike the Blendcor plant, where almost every conceivable aspect of the operational business is automated in some manner, which adds to the complexity of the business, the Silvassa plant has done away with this complexity and stuck with the basics, because it works for them. It is pointless acquiring a million Rand palletizing machine which is complex to operate and routinely problematic. The Indians have devised an uncomplicated structure costing less than ten thousand Rand, which is easy to maintain and importantly it works for them. Perhaps South Africa is too technology reliant and, probably needs to go back to basics in some instances to compete effectively.

As can be seen from the above, Blendcor has displayed very mediocre performance to be able to compete effectively in the global markets. Their lack of expertise to operate globally, coupled with several key issues that hinders the progress of the Joint Venture, may lead to their early demise. However, there is a glimmer of hope when Blendcor is compared on a regional basis against its rivals.

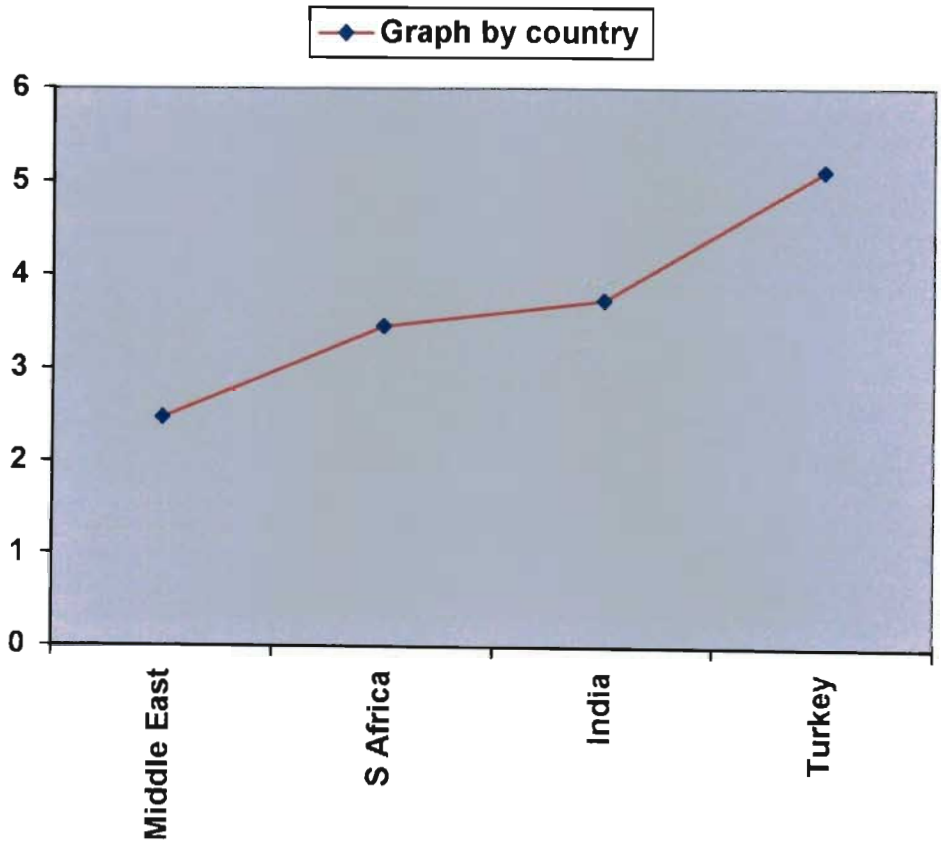
Table 4.4 below list the cost of producing a litre of oil on a regional basis, i.e. the US ($) cents per litre operating cost to produce one litre of oil in the AMESA region, (South Africa, Middle East, India and Turkey).

Table 4.4: Cost of production in US cents per liter for the AMESA region by Country.

COUNTRY	US($)CPL
MIDDLE EAST	2.48
SOUTH AFRICA	3.46
INDIA	3.74
TURKEY	5.12

This is more clearly demonstrated graphically in fig 4.3 below. This now paints a completely different picture and it is clear that South Africa (Blendcor) is going to be a force to reckon with in the global market place.

Figure 4.3: Cost of production in US cents per liter for the AMESA region by countries.



Blendcor is second on the rankings of the Africa, Middle East, European and Asian ratings. This is quite an achievement, considering we were only local agents 12 months ago. However, playing a secondary role to the Middle East is like rolling over and dying and Blendcor needs to persevere to reach the top and be number one. Some of the best practices adopted by the Melubco and Silvassa plants are not easily replicated at Blendcor. There must be a paradigm shift on the Shareholders, Blendcor and Blendcor management to accept and adopt these principles. Our South African workforce just cannot be compared to the workforce of these plants. Most of our workforce has barely passed their higher level of education and are resistant to being multi-tasked.

Our stock holdings are high owing to inefficient planning methods and unreliable demand from the market place. We are overly high-tech and may need to get back to basics to enable the plant to work more efficiently. There is a multitude of issues that we need to resolve and Blendcor management needs to concentrate on these issues so that the company can soar ahead and compete effectively in the global market place. Blendcor's low cost, best quality strategy has paid its dividends. Striving to be the industry's low cost provider is a powerful competitive approach in a market that is saturated with dominant players. Currently Blendcor is one of the several competitors with comparatively low costs. As seen in figure 4.3 the Melubco and Asian plants are fiercely competitive and in trying to keep costs below these rivals, Blendcor must take care to include features that buyers consider essential. Pursuing cost reductions that sabotage the attractiveness of the products often turns the buyers off. In Blendcor's case, it is therefore imperative that we provide a package that lives up to the image of both Shareholders.

To succeed and sustain low cost leadership, Blendcor management have to scrutinize each cost creating activity and what determines its cost. They have to then use this knowledge to manage each cost activity downwards and pursue this cost savings along the entire value chain. Finally, a cost conscious culture needs to be embodied within all staff and continuous improvement programs must be encouraged. Perhaps the principles of Kiazen should be introduced to assist with the continuous programs. To support these initiatives, strong effective leadership is essential. The strategy to meet these challenges should emanate through rational or analytical design, from the organizations past experience or from the variety and diversity of ideas that emerge from the organization. Will the Blendcor strategy making process facilitate this process?

4.4 STRATEGY DEVELOPMENT AT BLENDCOR

According to Johnson and Scholes (1999:66), strategy development of organizations is better-described and understood in terms of continuity, or momentum of strategy, and once a particular strategy is adopted, it develops from within and changes gradually. The strategy making process of Blendcor in the past was top down. Strategy was developed by top management who made the decisions and it was then filtered down to those who needed to make it happen. However, with the influx of expatriates appointed to overseer Blendcor, strategy development soon drilled down to both senior and middle management. Every year in June, the Leadership team, together with the middle management team, reviews the Blendcor strategic plans. With the advent of the recent merger, a local leader was appointed to the helm of Blendcor. This year the annual pilgrimage to the strategy sessions was postponed to November of this year. Without this direction, how then is strategy developed within Blendcor to meet the challenges of the continuously changing environment. The strategy development questionnaire from Ambrosini (1999:197-9) referenced in 4.4.1 below was sent out to the Blendcor leadership team and the results were examined. These issues will be discussed at the end of the strategy development questionnaire described below.

4.4.1 STRATEGY DEVELOPMENT QUESTIONAIRE

The following strategy development questionnaire was sent to the Blendcor leadership team to determine how strategy is developed at Blendcor. It also aims to establish if there is synergy in the management team.

Strategy development questionnaire: This questionnaire considers the process by which strategy is developed within BLENDCOR. It is designed to discover **your perceptions** of how strategic decisions are made in BLENDCOR. Strategic decisions are those, which are characterized by a large commitment of resources and deal with issues of substantial importance to the organization usually with longer rather than just short-term impact or significance; they usually involve more than one function and involve significant change.

The following pages comprise a number of statements. When considering these statements please:

- Assume each applies to BLENDCOR and respond to the statements as such
- Think of BLENDCOR as it **exists at present**, not as it has existed in the past or how you would like it to exist in the future
- Evaluate each statement in terms of the extent to which you **agree** or **disagree** with it in relation to your organization.

How to complete the questionnaire

- Please answer all the statements (it will take approximately 5 – 10 minutes to complete)
- Give the answer that first occurs to you. Do not give an answer because you feel it is the right thing to say or you feel it is how things should be
- Respond to each of the statements by circling the appropriate number on a scale of 1 (you **strongly disagree** with the statement in relation to your organization) to 7 (you **strongly agree** with the statement in relation to your organization.

Your name: _____

Name of your organization: BLENDCOR (PTY) LTD

What industry does your organization mainly operate within?

THE LUBRICANTS INDUSTRY

Thank you for your cooperation.

Cyril Sindraj

Logistics and Procurement Manager

Fig 4.4 Strategy Development Questionaire

		Strongly disagree						Strongly agree
1.	We have definite and precise strategic objectives	1	2	3	4	5	6	7
2.	To keep in line with our business environment we make continual small-scale changes to strategy	1	2	3	4	5	6	7
3.	Our strategy is based on past experience	1	2	3	4	5	6	7
4.	The influence a group or individual can exert over the strategy we follow is enhanced by their control of resources critical to the organization's activities	1	2	3	4	5	6	7
5.	The strategy we follow is directed by a vision of the future associated with the chief executive (or another senior figure)	1	2	3	4	5	6	7
6.	Our strategy is based on past experience	1	2	3	4	5	6	7
7.	We evaluate potential strategic options against explicit strategic objectives	1	2	3	4	5	6	7
8.	We keep early commitment to a strategy tentative and subject to review	1	2	3	4	5	6	7
9.	Our organization's history directs our search for solutions to strategic issues	1	2	3	4	5	6	7
10.	The information on which our strategy is developed often reflects the interests of certain groups	1	2	3	4	5	6	7
11.	Our strategy is closely associated with a particular individual	1	2	3	4	5	6	7
12.	Our freedom of strategic choice is severely restricted by our business environment	1	2	3	4	5	6	7
13.	We have precise procedures for achieving strategic objectives	1	2	3	4	5	6	7
14.	Our strategies emerge gradually as we respond to the need to change	1	2	3	4	5	6	7
15.	There are beliefs and assumptions about the way to do things which are specific to this organization	1	2	3	4	5	6	7
16.	Our strategy develops through a process of bargaining and negotiation between groups or individuals	1	2	3	4	5	6	7
17.	The chief executive determines our strategic direction	1	2	3	4	5	6	7
18.	We are not able to influence our business environment; we can only buffer ourselves from it	1	2	3	4	5	6	7
19.	We have well-defined procedures to search for solutions to strategic problems	1	2	3	4	5	6	7
20.	We tend to develop strategy by experimenting and trying new approaches in the marketplace	1	2	3	4	5	6	7
21.	The strategy we follow is dictated by our culture	1	2	3	4	5	6	7
22.	Our strategy is a compromise which accommodates the conflicting interests of powerful groups and individuals	1	2	3	4	5	6	7
23.	Our strategic direction is determined by powerful individuals or groups	1	2	3	4	5	6	7
24.	Barriers exist in our business environment which significantly restrict the strategies we can follow	1	2	3	4	5	6	7
25.	Our strategy is made explicit in the form of precise plans	1	2	3	4	5	6	7
26.	Our strategy develops through a process of ongoing adjustment	1	2	3	4	5	6	7
27.	The strategies we follow develop from 'the way we do things around here'	1	2	3	4	5	6	7
28.	The decision to adopt a strategy is influenced by the power of the group sponsoring it	1	2	3	4	5	6	7
29.	Our chief executive tends to impose strategic decisions (rather than consulting the top management team)	1	2	3	4	5	6	7
30.	Many of the strategic changes which have taken place have been forced on us by those outside this organization	1	2	3	4	5	6	7

		Strongly disagree						Strongly agree
31.	We make strategic decisions based on a systematic analysis of our business environment	1	2	3	4	5	6	7
32.	Our strategy is continually adjusted as changes occur in the marketplace	1	2	3	4	5	6	7
33.	There is resistance to any strategic change which does not sit well with our culture	1	2	3	4	5	6	7
34.	Our strategies often have to be changed because certain groups block their implementation	1	2	3	4	5	6	7
35.	A senior figure's vision is our strategy	1	2	3	4	5	6	7
36.	Forces outside the organization determine our strategic direction	1	2	3	4	5	6	7

4.4.2 STRATEGY DEVELOPMENT QUESTIONAIRE SCORING TEST

Please transfer the number circled for each statement of the Strategy Development Questionaire to the corresponding box, (table 4.5) on the grid below. The number at the left of each box indicates the questionaire statement to which it refers. Having transferred the number for all statement to the grid, sum each column. Subtract **24** from each of the column totals to produce a score for each of the perspectives. This score can then be plotted on the strategic development profile by marking a cross on the appropriate one of the six axes. Finally, join all the crosses together by moving clockwise around the profile.

Table 4.5: Strategy development questionaire scoring sheet

Planning	**Incrementalism**	**Cultural**	**Political**	**Command**	**Enforced choice**
1	2	3	4	5	6
7	8	9	10	11	12
13	14	15	16	17	18
19	20	21	22	23	24
25	26	27	28	29	30
31	32	33	34	35	36
Column Total	Column Total	Column Total	Column Total	Column Total	Column Total
- 24	- 24	- 24	- 24	- 24	- 24

Score = Column total – 24

4.4.3 ANALYSIS OF THE STRATEGY DEVELOPMENT QUESTIONAIRE

The strategy development questionaire was sent to all members of the leadership team and there was a ninety percent response rate. We will examine a few of these strategy development profiles and then discuss the aggregated results of the Leadership team. We begin with the General Manager and CEO of Blendcor, who has not been with Blendcor for more than eighteen months. We then analyze the strategy development profile of the Manufacturing manager, who has been with Blendcor since its inception twelve years ago and next we analyze the profile of the Finance manager, who has been with Blendcor for not more than three years. Finally, we examine the aggregated total of the entire Leadership team. The pictorial depiction of these scenarios is displayed in Fig 4.5 on page 140.

Table 4.6 (a): Results of strategy development questionnaire of the CEO

Planning	Incrementalism	Cultural	Political	Command	Enforced Choice
-1	8	3	4	-2	1

The CEO sees the process of strategy development as being distinctly characterized by incrementalism, followed by the political dimension. He indicates that the strategy followed by the organization is the outcome of continually adjusting strategies to match changes in the operating environment. Such a process is seen to have many benefits as the continual testing and gradual strategy implementation provides quality information for decision-making. With incrementalism, change will be gradual; hence, the possibility of creating and developing a commitment to change throughout the organization is increased. Incrementalism leads to the organization being in a constant state of interplay and managers can learn from each other about the feasibility of a course of action. Here, the political nature of the organization is also taken into account, as smaller changes are less likely to face the same degree of resistance as major changes. The formulation of strategy in this way means that the implication of the strategy is being continually tested out, which makes sense if the environment is continually changing.

Table 4.6 (b): Results of strategy development questionnaire of the Manufacturing manager

Planning	Incrementalism	Cultural	Political	Command	Enforced Choice
-7	1	-1	4	-2	13

In contrast to the profile of the CEO who emphasizes the incrementalism dimension, the manufacturing manager perceives that the strategy making process is characterized by the enforced dimension, which is slightly influenced by the political dimension. The Manufacturing manager believes that strategy development within the organization is prescribed by the operating environment and that strategic choice is limited by external forces, which the organization is unable to control. The mere fact that the Manufacturing manager has been with the organization for longer than the CEO may allow for the inference that the profile reflects greater familiarity with the organization and the historical influences upon strategy development. However, the enforced choice dimension is also characterized by strategic change that is instigated from outside the organization. This could be a possibility as the recent BP plant audit by the AMESA general manager recommended several changes and operational challenges.

Table 4.6 (c): Results of strategy development questionnaire of the Finance manager

Planning	Incrementalism	Cultural	Political	Command	Enforced Choice
3	2	1	-8	-5	-5

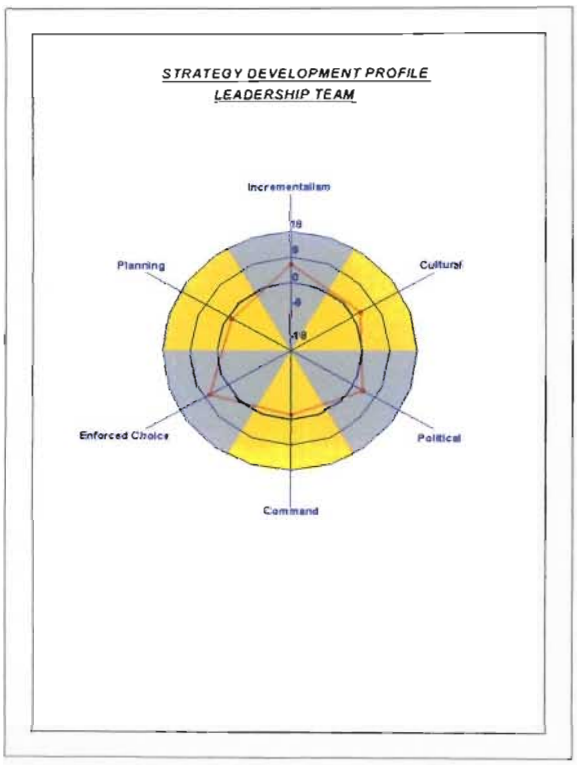
The Finance manager sees the process of strategy development as being distinctly characterized by planning, followed closely by the incrementalism dimension. He indicates that the strategy followed by the organization is the outcome of sequential, mechanistic, and deliberate procedures. These include the setting of objectives and goals, the analysis of the environment and the resources of the organization; to match environmental opportunities and threats with resource based strengths and weaknesses. This is followed by the generation and evaluation of strategic options, and the planning of the implementation process, all of which is to be done in a prescribed way in the organization. This profile is typical of the profession the finance manager belongs too.

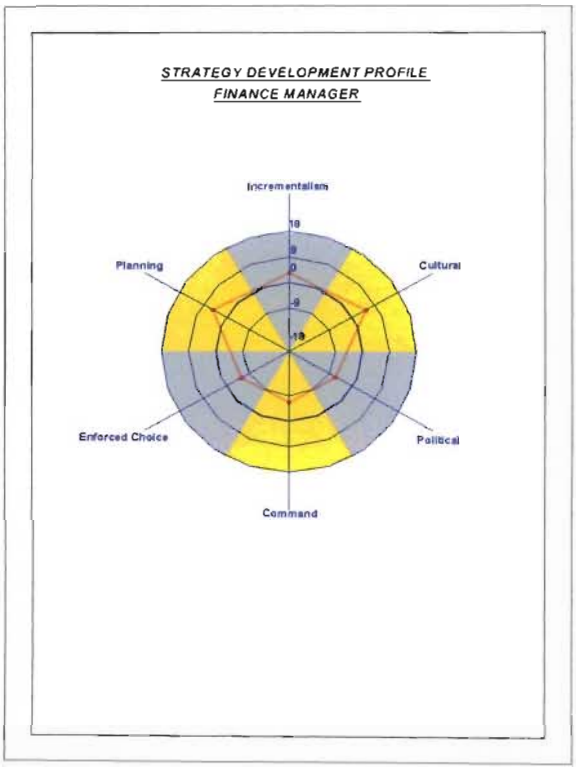
Table 4.6 (d): Results of strategy development questionnaire of the Leadership team

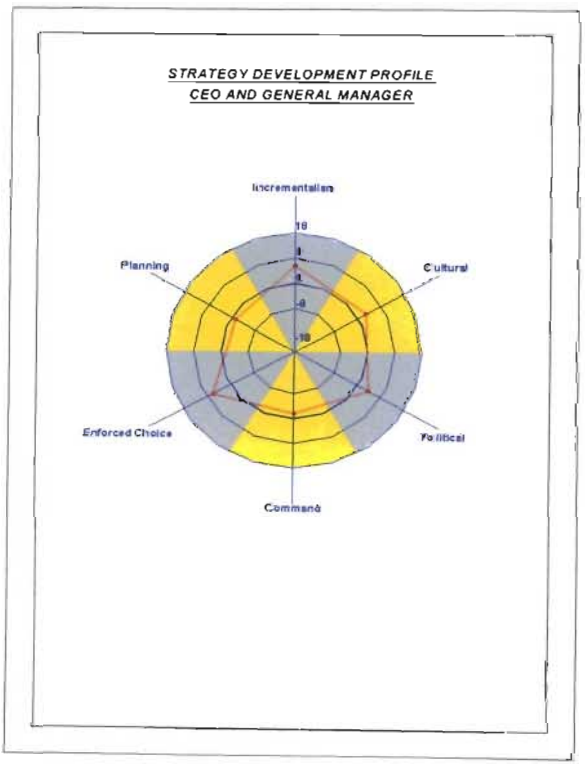
Planning	Incrementalism	Cultural	Political	Command	Enforced Choice
-1	5	2	4	-1	4

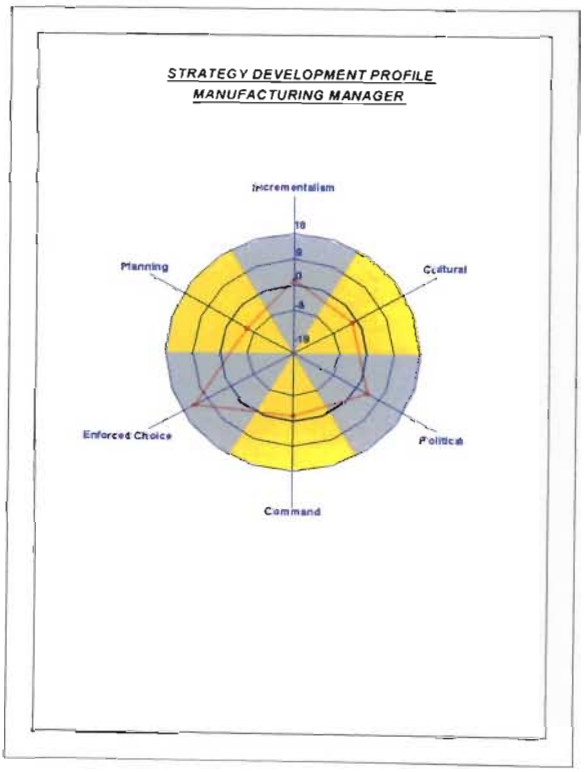
In the aggregated profile of the leadership team, incrementalism emerges as the dominant characteristic of strategy development. It is interesting to note the high scores of the enforced dimension in the previous profiles are not reflected in the aggregated total. This seems to have been tempered out by the ratings of the other managers, which indicates that there is no absolute power in one person within the team and that there is constant deliberation and negotiating amongst them in the strategy development process. Critically important and vital to the organization is that all the managers are on the same wave length as the CEO as his dominant characteristic was the incrementalism dimension.

Figure 4.5 - Pictorial Description of Blendcor's Strategy Development Profile









To summarize, the oil industry is a very volatile industry. The oil industry operates in a dynamic environment and the environment has to be continuously scanned for market changes. Plants are closing down in Zimbabwe, new ones are being built in Africa, there is a proliferation of smaller new entrants into the business, the Asian companies are dominating the markets and the economic conditions of South Africa is turning for the better. Blendcor management has to be on a constant lookout for these trends and adapt their strategies to meet these changing conditions. Management must demonstrate continuous improvement in internal performance measures such as unit cost, losses, employee motivation and morale, number of stock outs and customers backorders and so on. To stay in business, Blendcor must become the leader in product technology in the oil industry and produce a quality product in shorter lead times from order to delivery. Our current strategy development process is consistent with the operating conditions of the marketplace; however there is no room for complacency and Blendcor management must always be on the lookout for new and emerging developments. There must be no compromise, we either innovate or die.

4.5 WAS THE MERGER GOOD OR BAD FOR THE BUSINESS?

The purpose of this research was to establish if the merger between BP and Castrol had a positive or negative impact on the joint venture ship of Blendcor. A business profile analysis would be conducted to demonstrate if the merger was good or bad for the business. In this context, the PIMS (Profit Impact of Market Strategy) database is used. This database contains the experiences of over three thousand businesses. A number of factors will be used and these are adapted from the PIMS model.

4.5.1 PROFILING THE MERGER

In profiling the merger, the PIMS model is used. The strategic position of Blendcor prior to the merger is 'scored' against the ten parameters in fig 4.5 (a). The parameters scored are the relative share and growth of the Shareholders markets, the relative quality of Blendcor's products, the capital intensity required, the capacity utilization and productivity of the plant, the marketing intensity and introduction of new products and finally the complexity of the logistics of the operation and the strength of the bargaining powers of Blendcor. To evaluate each parameter, Blendcor is ranked on the scale of the "good" to "bad" criteria. The strategic position of Castrol is then scored prior to its merger with BP in the same manner and finally the strategic position of Blendcor post the merger is scored.

Fig 4.5 (a): BLENDCOR PRE – MERGER PROFILE: Adapted from Johnson and Scholes (1999:363)

Criteria	Bad ◄——► Good	
Relative share	Weak ■	Strong
Relative quality	Inferior ■	Superior
Capital intensity	High ■	Low
Capacity utilization	Low ■	High
Productivity	Below par ■	Above par
Real market growth	Decline ■	Growth
New products	Many Few	Some
Marketing intensity	High ■	Low
Bargaining power	Weak ■	Strong
Logistics	Complex ■	Simple
	——► Cents Per litre cost: 28 cpl	

Fig 4.5 (b): CASTROL PRE- MERGER PROFILE: Adapted from Johnson and Scholes (1999:363)

Criteria	Bad ◄——► Good	
Relative share	Weak ■	Strong
Relative quality	Inferior ■	Superior
Capital intensity	High ■	Low
Capacity utilization	Low ■	High
Productivity	Below par ■	Above par
Real market growth	Decline ■	Growth
New products	Many Few	Some
Marketing intensity	High ■	Low
Bargaining power	Weak ■	Strong
Logistics	Complex ■	Simple
	——► Cents Per Litre Cost : 35 cpl	

Fig 4.5 (c): BLENDCOR POST – MERGER PROFILE: Adapted from Johnson and Scholes (1999: 363)

Criteria	Bad ◄——► Good	
Relative share	Weak ■	Strong
Relative quality	Inferior ■	Superior
Capital intensity	High ■	Low
Capacity utilization	Low ■	High
Productivity	Below par ■	Above par
Real market growth	Decline ■	Growth
New products	Many many	Some
Marketing intensity	High ■	Low
Bargaining power	Weak ■	Strong
Logistics	Complex ■	Simple
	——► Cents Per Litre Cost: 23cpl	

Blendcor pre merger: Evidence from the PIMS database shows that there are several factors associated with the business, which serve to indicate Blendcor's moderate performance. Both Shareholders enjoyed a relative moderate market share, relatively good quality position, a low capital utilisation, a simple logistics structure and strong bargaining powers with suppliers. Some parameters, on the other hand, are negative, low capital intensity and mediocre productivity has added to the overall moderate performance of Blendcor. This resulted in an average position overall with its cents per litre cost slightly better than its competitors. **Castrol pre merger**: Castrol had a strong relative market share. It was the market leader in the lubricants at that time. It boasted superior quality and was high in market intensity. On the negative side, its productivity was moderate to strong, new product developments were few, their bargaining powers with suppliers were moderate and their logistics were overly complex. Its cents per litre costs was extremely high due to its high usage of capital. **Blendcor post merger:** After the Castrol merger with BP, several positive benefits emerged. We discuss a few of these benefits below:

- **Relative market share:** With the additional volumes of Castrol and economies of scale, the cost of the product to the Shareholders was lower. This low cost strategy has paid dividends as both Shareholders have posted excellent returns.
- **Relative quality:** Much more emphasis is placed on the quality aspects of the business as there were too many quality complaints emanating from the market place. The focus on the cost of non-conformance, stringent quality audits, and a quality awareness culture has led to a superior quality product for the market place.
- **Productivity:** The modifications to the plant have led to some increased productivity, however there is plenty of scope for improvement.
- **Real market growth:** Both Shareholders have indicated strong market growth in the region of three to twenty percent. Opportunities in the Africa region have been exploited and there is a possibility that Blendcor will service parts of Africa in the near future.
- **Bargaining power:** On the positive side duplicated activities and supplier or service provider contracts were eliminated and opportunities for consolidation of the value chain activities i.e. the support and primary activities were enhanced by operating from one location with one point of contact.

To conclude, it can be seen from the above that the merger has had a very positive impact on the Joint venture ship of Blendcor. The economies of scale achieved by the pooling of skills and resources, resulted in a lower operating cost. The removal of core production activity at the Castrol site released the storage capacity and factory space for alternative uses. Blendcor is currently using the site for base oil and additive storage. Duplicated activities and supplier and service provider contracts were eliminated and the bargaining power of the shareholders has been increased. Opportunities for consolidation of the value chain activities i.e. the support activities of procurement, Technology development and Human Resources management and the primary activities of inbound logistics, outbound logistics, operations and third party storage was enhanced by operating from one location with one point of contact. The changes in the shareholding by each business partner are currently being revised. An opportunity now exists to draw up a well drafted, written joint venture agreement, which will specify the mechanics of how the venture is to be operated and how certain likely eventualities are to be dealt with. A precise, clear, and well-structured service level agreement will sustain a long and successful relationship between all parties.

4.6 SUMMARY

In this chapter, we have evaluated the current strategy of Blendcor by conducting a SWOT analysis of the organization. The strengths, weakness, opportunities, and threats were discussed. The strategy was then evaluated based on the suitability criteria and Blendcor's value chain was analyzed. The organization was then benchmarked against other leading plants in the Middle East, India, Europe, and Africa in terms of its competitiveness. The strategy development process was then explored and Blendcor's strategy making process was examined by using the pictorial approach. We conclude by evaluating whether the merger had a positive or negative impact on the Joint Venture Ship of Blendcor. In the next chapter, we will conclude this case study by making recommendations that will benefit the organization as a whole and probably lead it into the 21st century as the leading lubricant manufacturer in the world.

CHAPTER 5: RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION

"You have no choice but to operate in a world shaped by globalization and the information revolution. There are two options. Adapt or Die" (Andrew S. Grove, Chairman, Intel Corporation).

As discussed in Chapter 4, the Joint Venture has had a very positive impact on Blendcor. It has achieved economies of scale by the pooling of resources and Blendcor have adopted a suitable strategy to achieve these milestones. The Joint Venture has also opened the doors of the global village to Blendcor and the challenge is for Blendcor to compete successfully in this turbulent market. The strategic challenge for Blendcor does not end with the evaluation of its strengths and weaknesses nor its opportunities and threats. The problem is how to translate them into suitable action plans for future growth. The challenges facing Blendcor are numerous. The plant, which has been recently modified to take on the Castrol volumes, still suffers from a high degree of inflexibility. The people issues seem to be insurmountable as they are lacking in competence and their unwillingness to be trained further exacerbates the problem. The plant is hierarchal in structure in contrast to BP plants worldwide and is heavy in numbers in the supervisory level as is common in the South African culture. Plant productivity is low and the stock keeping units are high. This adds to the plant complexity concerning planning and scheduling. The Joint Venture success impinges heavily on the service level agreement between both Shareholders, yet there is little evidence to indicate that any effort has been made to review this document.

In this Chapter, several recommendations have been made to eliminate or resolve these issues. Heavy emphasis has been placed on the Information Technology aspect as this presents the weakest link to Blendcor's overall success. The company's success with its costing system is dismal, and its replacement is crucial to the survival of the business and finally its measurement systems which were developed three years ago, are no longer adequate to serve current business needs. Information needs to be transparent and available on a real time basis for competitive success.

5.2 OPERATIONAL RECOMMENDATIONS

In the last eighteen months, the plant has undergone several modifications to cater for the additional volumes generated through the BP and Castrol merger. A full-blown post implementation review is necessary to highlight the success and failures of the plant modifications. However, there is still plenty of room for improvement and recommendations for further improvements are listed below.

5.2.1 PLANT FLEXIBILITY

The **blending system** consists of a Simultaneous Metering System and two Automatic Batch Blenders of ten and twenty metric ton respectively. There are 12 product tanks, 12 top floor tanks and 40 holding tanks with a blending or storage capacity ranging from 50 to 10 metric tons. The bottleneck in blending is the dedication of holding tanks as per families. A thorough review needs to be carried out to see how the compatibility can be increased thereby increasing flexibility and hence productivity in blending. The **base oil tanks** also have some constraints in that some of them cannot be connected to the Simultaneous Metering System and the two Automatic Batch Blenders. Simple modifications to the piping will remove this constraint and this must be catered for in the next capital budget. This modification will add further flexibility to the operation and lead to increased productivity. Huge losses are incurred as a result of **excess flushings and waste:** The flushing generated from the small pack filling lines, drum lines, blending and gantry, etc are downgraded at a cost of four million rands annually. The formal process for re-using line flushing into blends must be re-introduced and managed by top-level management. Our **production targets** are invariably very low. Most of the machines are planned to run at less than the machine demonstrated or design capacity. There needs to be a complete review of the filling line capacities and reasons for not attaining these targets must be thoroughly investigated.

5.3 PEOPLE ISSUES

The organization is heavy in numbers in almost all the areas. There are more than 250 staff and contractors at the plant, which is high when compared to our competitors. The Indian and Middle East plants are manned by less than a third of the numbers employed at Blendcor. Areas of concern are the Planning department, Laboratory and Engineering department. The organization is hierarchical in structure and there is no evidence to support a movement to a leaner, flatter structure. There needs to be a review of staff numbers in all areas. Special focus should be paid to the supervisory levels, as there must be a shift towards a flatter structure. This feature is synonymous with company's advocating a low cost strategy. Another point of concern is the low level of skill in the workplace. The Learner Directed Training modules which are designed to increase the competency levels of the operational staff have not been received well by the shop floor. Although the program is heavily incentivised, it has to be driven by top management. It is vital that our workforce is fully competent to meet the challenges that lie ahead of us. Therefore it is imperative that a structured program be put together to progress this initiative further.

5.4 SERVICE LEVEL AGREEMENT

With the advent of the BP and Castrol merger, the existing service level agreements with Shell and BP have not been revised. The current service level agreement is outdated and needs to be renegotiated based on the new structure. Blendcor does not have a code of practice to follow when dispute arises, therefore a precise, clear, and well-structured service level agreement will sustain a long and successful relationship between all parties. However a few issues are critical for business continuity and these should be resolved urgently. These issues are:

Asset division not finalized: Although the plant equity has been agreed as 65% BP and 35% Shell, the tankage has not been allocated accordingly. This causes storage constraints and problems for BP as its volumes have increased.

Shell and BP collaboration: The operating committee from Shell and BP must be strengthened to provide a strong functional support to the plant. In the event of a dispute in the Joint Venture, this is the only conciliatory body available.

Procurement lead times: The Packaging lead times for Shell and BP are between seven and fourteen working days plus. This is too high and unacceptable if Blendcor wants to operate and compete in the global market. Most of the contracts with the Packaging suppliers reside with the Shareholder and Blendcor merely call off their requirements. There should be joint collaboration between Blendcor and the Shareholders to coerce the Packaging suppliers to reduce their lead times. Service level agreements needs to be drawn up between the Packaging Suppliers and Blendcor to address the issues of supply, non conformance, damages and returns.

Poor demand management: Currently, both marketers are unable to provide Blendcor with stable order requirements. There is no forecast available and Blendcor procures raw materials based on history. Planning is virtually impossible as there is a continuous manipulation of orders to satisfy the market place. There needs to be high-level intervention to resolve this crisis urgently. Blendcor cannot continue to operate in a void and both Shareholders need to address their demand and order problems on an urgent basis. This issue is further elaborated on in the Information section.

5.5 GRADE PACK RATIONALISATION

The current lead-times of ten working days for an "A" category product is not acceptable and every effort must be made to decrease these lead times to the market place. The high number of stock keeping units (SKU's) that is required by the market place further exacerbates the problem of reducing lead times to our customers. There is an urgent need for both Shareholders to rationalize and reduce their SKU's for improved performance and output from Blendcor. A bonus would be if

both Shareholders harmonize their product formulations for cost benefits. Harmonization means that a standard formula is used to manufacture a product and no Shareholder holds the rights to the formulation. Development is a joint effort by both Shareholders and technology is shared. However, both Shareholders are reluctant to share this core competence, as each believes that their technology gives them the competitive edge in the marketplace. This is a concern as world trend indicates that taste is converging towards standardization and that complexity as a cost driver is being slowly reduced. A benchmarking exercise conducted by PIMS (Profit Impact of Market Strategy) to evaluate the blending and filling complexities in Central Europe produced the results as depicted in fig 5.1.

Fig 5.1 - Plant Complexity in Central Europe– Adapted from PIMS Database, 2002

Plant	No Formula's	No of SKU's	No SKU's in small
Stanlow	260	2143	601
Gent	249	1303	392
Neuhof North	66	488	208
Neuhof South	252	417	0
Cornaredo	60	413	292
Wiener Neudorf	157	1200	350
Antwerp	73	241	4
Average	**160**	**886**	**264**
All Eur. Lub. Oil plants:			
PIMS median	168	601	135
PIMS best	**129**	**420**	**68**

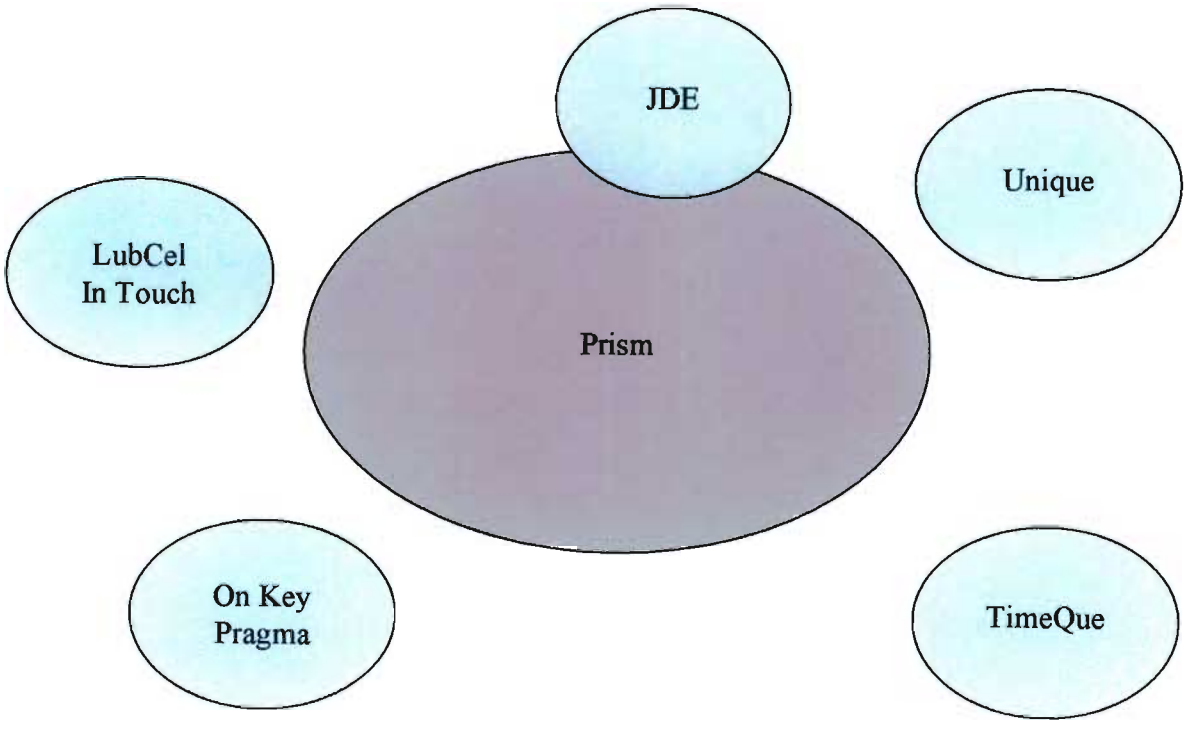
The Stanlow plant manufactured the highest number of blends and filled the most number of Stock Keeping Units (SKU's). Twenty eight percent of its filling portfolio consisted of small packs, which added to the plant complexity and cost. Figure 5.1 above suggests that the Central European Plants are more complex than PIMS median. The average number of formulations is in line with the median, however the average number of SKU's are higher, especially the small packs. Blendcor has 596 blend formulations. This is three times higher than the PIMS median and twice that of the

Stanlow plant. Our number of SKU's is 1398 units, and 761 comprise of small packs which further add to Blendcor's complexity and costs. Our quest for world class status is hampered by the portfolio we carry and the need for rationalisation is overdue.

5.6 CURRENT INFORMATION TECHNOLOGY

Blendcor has experienced various levels of success and failure in the implementation of Information Technology (IT) within the organization, over the past decade. This has resulted in varying levels of support and commitment from the users within the organization, as well as in Shell and BP. It is evident that even though the Prism application was installed to address the need for an integrated manufacturing system, it has not delivered the expected benefit and continues to be a source of frustration and irritation to the majority of users. Blendcor has also installed disparate systems such as J D Edwards (JDE) for the Financials, Unique for the HR / Salary administration, Time Que for the Access control and Pragma for the Maintenance Management System. In addition there are industry specific applications, such as, Lubcel and InTouch. Below is a graphical representation of the present environment, showing all major applications presently in use.

Fig 5.2 Current Sytems Applications in use by Blendcor



5.6.1 BUSINESS NEEDS

Blendcor has, through the identification of its Critical Success Factors (CSF's) committed itself to growth, and improved customer service. With the integration of Castrol and BP, the need to integrate all areas of the manufacturing process from procurement to delivery more effectively, are seen as key areas for improving the business effectiveness. The concerns expressed by all levels of management, as well as the support departments, within the manufacturing process, for more accurate and timely information, together with the need to accurately track Blendcor's performance against a number of key indicators, further emphasizes the requirement for an integrated IT system that can support the needs of the business. The low level of functionality and integration has mainly resulted in the lack of executive information. The managers of the business processes must not be inundated with meaningless information; therefore, the need for an exception based Executive Information System (EIS) that reports on critical issues will be of great value to the organization. As Blendcor competes in the open market, the IT system will play a key role in ensuring the competitiveness of the organization by providing accurate and timely reporting, and thereby control, of all facets of the business.

The future direction and strategy of the business needs to be taken into consideration. The strategy will also enable Blendcor to increase its interfaces, both upstream and downstream, with the current value chain. The lack of integration is first felt in the demand management system, however there are deficiencies that are lacking in other areas as well. A few of these deficiencies are discussed below:

- Integration with the demand of the marketers, and production capacity, would enable prioritization of production, based on cost effective decision criteria. This integration would further facilitate realistic demand on suppliers, and thus enable a reduction in stock holding.
- Integration with suppliers would enable favorable negotiations because of reduced uncertainty and risk.
- Integration of production and maintenance would improve both production and maintenance planning.
- Integration of the inventory and production (SCADA) systems would lead to greater accuracy of information and improved costing.
- Integration of the production and Human Resource systems should lead to better man management, administration efficiency, and data integrity. This would also assist in managing

the hours worked, cost allocation and matching the required skills with planned production. Issues such as change over would receive the appropriate focus and assist in better planning and costing decisions.

A lack of system support has been the main reason why the above opportunities have not been exploited within Prism. A new system will not in itself overcome the above hurdles. It will however provide an opportunity to redress them. It is therefore imperative that the new system is integrated and closely aligned to the business objectives, and most importantly, that competencies required to run and exploit the system are in place from inception.

5.6.2 SUPPLY CHAIN MANAGEMENT

As corporate application packages become more process-focused, they also extend beyond the enterprise, bringing partners, suppliers and customers' systems into an integrated solution. Supply Chain Management (SCM) has become critical to global companies seeking to link their business processes with business partners, suppliers, distributors and customers. Major corporate applications vendors are incorporating this functionality into their product lines. Due consideration should be given to exploring ways of incorporating companies such as Freightmax (BP's third party warehousing vendor) into the Supply Chain Management, and must be part of any future Enterprise Resource Planning (ERP) initiative.

5.6.3 OPTIONS AVAILABLE

The two options regarding the core systems that Blendcor faces are as follows:

- Remain with Prism.
- Move to a new ERP application

Considering the varied needs of the organization from Process Manufacturing to Human Resources, it becomes evident that an Enterprise Resource Planning application, that effectively covers all areas of the business, should be deployed. The chosen application should be capable of adapting to the differing business needs and models. The ability to integrate the Process Control systems into the core business systems will improve the operational flexibility and provide information that will enable integrated business process management. The move to an ERP environment will ensure that the wealth of data presently within Blendcor can be transformed into information, to the benefit of the Process Owners. The chosen system must be capable of integrating seamlessly with the installed Process Control software to further enable integrated business process management.

5.6.4 ADDITIONAL CONSIDERATIONS

There are a number of important additional considerations that Blendcor needs to review to maintain a competitive edge over its rivals. New developments in the IT industry must be viewed to establish if they can provide Blendcor with the required technology to keep ahead of its competitors. A few of these innovations are discussed hereunder.

Electronic Data Interchange (EDI) - Both traditional EDI and newer forms of business-to-business Electronic Commerce (EC) are growing; due to the variety of benefits, they offer. The typical drivers for the adoption of EDI is to do business more efficiently or more cost effectively. This outcome can sometimes be the result of simply reducing the cost of processing the transaction themselves, for example, by eliminating the need to receive invoices in paper form, and then manually re-key them into an accounts payable system. It can, in addition, allow the underlying business process to function more efficiently and cost-effectively, for example, by eliminating the need to hold excess inventory because EDI is used to arrange delivery of needed "parts or raw material" on a "just-in-time" (JIT) basis. Materials Management, as an example, uses EDI, materials requirements planning, and JIT manufacturing, to reduce the level of raw material inventory kept on-site, to virtually zero, unless "risk" stock is retained at the raw material level. Blendcor's Inbound and Outbound Logistics could benefit substantially from the adoption of EDI and EC.

Internet - There is a definite requirement, within certain departments of the organisation, to make use of the Internet. Those departments identified as having a business need are the Procurement department, Quality Services and Engineering. Their usage, at present, would be typically to make use of supplier's sites to interrogate specifications, stock levels, prices, alternatives, etc.

Intranet and Extranet - Blendcor already has access to Shell's Intranet. An extranet, or extended intranet, is based on Internet-standard protocols and services, but it allows access, via the Internet, to people outside the enterprise such as customers and suppliers.

Product Identification - The use of product identification techniques such as Barcode Scanning, must be investigated. The computerized tracking of goods from time of raw material receipts to dispatch would greatly enhance the accuracy of data, as well as provide greater security. The uses of this technology in areas like Product Identification to Stock Management are further examples where IT can enable the business to become "World Class". An investigation needs to be conducted with Shell, BP and the distributors (Freightmax, Unitrans, etc.) to accurately ascertain their requirements.

Data Warehousing - Information is always in demand. However, access to accurate and timely information that may have been merely desirable in the past, has become vital in today's global marketplace. Businesses are requiring broader access to information as a means of supporting decision-making processes and to facilitate extended relationships with customers, suppliers, and partners. This information must be gathered from various systems and sources, and stored and organized so it is easily accessible to those who need it, when they need it. Once Blendcor has successfully installed an effective ERP system, the next step in improving decision-making processes must be to install a Data Warehousing system.

In summary, Blendcor requires a world class system to compete effectively in the global market. The table 5.1 indicates the areas of maximum benefit from the implementation of the various recommendations listed above. These recommendations are linked to the Critical Success Factors (CSF's) defined to capitulate Blendcor into the future as the world's best lubricant supplier.

Table 5.1 – IT Recommendations linked to Blendcor's Critical Success Factors

CSF's	Current Position	Potential Impact of Proposed Strategy
Delivery to Promise	• Limited support for order taking, planning and scheduling. • Uncertainty as to the credibility of information.	• Will improve order taking, planning and scheduling. • Will improve the credibility of the measurement system. • Better understanding and smoothing of the order process will reduce costs. • Will improve supply chain management. • Possibility to link with shareholders and suppliers systems. • Improved support for the principal of Product Tracking to Delivery to Dispatch (linking).
Cost	• Limited EIS support. • Difficult for management to make informed decisions. • Inadequate management reporting.	• Improved EIS support. • Full integration of H/R, Core manufacturing and Financials will have positive results. • Will eliminate the use of disparate systems such as Excel in providing cost related information. • Improved inventory management. • Improved security regarding tracking of products (working loss).
Plant Reliability	• No interface with present MMS & OEE systems.	• Will be capable of providing management with increased understanding of plant reliability through integration of all systems.
Quality	• No support for ISO9002, QS9000 and ISO14001.	• Will be capable of supporting ISO9002, QS9000 and ISO14001. • Integration of quality measurement to improve relationship of plant and quality control. • Ability to measure plant performance. • Ability to support the principle of LOT/batch tracking.
HS&E	• No integration between Unique and core business system.	• Will be capable of integration, providing management with H/R reports, statistics etc. • Safety statistics to link with plant reliability. • Greater integration of HSE providing management reporting in line with HSE requirements. (Shell / BP management system). • Ability to extract information from HSE system and link to a particular activity.
Technology	• No integration to PLC and SCADA systems. • Limited use of Prism.	• Will be capable of integration, providing management with EIS type support. • Move towards an integrated manufacturing environment. • Will use the appropriate technology as required. • Disparate SCADA etc to be available on new ERP system.

5.7 FINANCE

The Blendcor finance system is run on JDE, which is integrated with Prism. Data from both these systems is uploaded into a spreadsheet-costing model, for the costing of products manufactured. This spreadsheet was developed ten years ago and nobody in Blendcor fully understands the mechanics of how it works. Due to changes in the business structure, the set ups in the model is outdated e.g. short production runs are subsidized by long production runs and so on. The cost model is cluttered with data that needs to be constantly maintained and it is a monthly nightmare to generate a costing run. The inability of the costing model to generate real time figures for simulation purposes also poses a problem. Hence, Blendcor needs to implement a real time costing model like Activity Based Costing. The merits of Activity Based Costing are discussed below.

5.7.1 ACTIVITY BASED COSTING (ABC)

ABC is a costing method that is designed to provide managers with cost information for strategic and other decisions that potentially affect capacity and therefore "fixed" costs.

ABC tracks costs, improves efficiency, and provides credible information to those who need to make business decisions. Whenever an activity takes place in the work environment i.e. using equipment or inventory, all associated costs are captured. A single entry in a common control module captures all the elements associated with an activity. For example, using ABC, a manager can assess costs and response times for truck repairs in a certain area in the last six months because of customer complaints. Blendcor is facing tight budgets, increased workloads, and increased costs of operations; therefore, the company has two choices:

- Either improve efficiency and cost-effectiveness,
- Alternatively, cut production in order to reduce cost.

Reduced production would certainly not solve the problem, but rather put the company out of business. Hence, the only option left is to improve efficiency and cost effectiveness. One of the benefits that ABC provides is that it functions as an element to improve product cost to aid decision-making. ABC is also focused on controlling activities; therefore, there is better control on the cost of these activities, therefore cost reduction efforts can be directed at specific cost drivers. ABC moves a large amount of overhead costs from standard, large volume products (allocated based on the traditional method) to premium special order, low volume products. However, the effect does not change the overhead costs, but rather apportions them equally. ABC enhances a process to a more realistic view and background of the cost incurred, without changing the cost collection procedure, allowing management to detect and eliminate any wastage. Overall, ABC supports qualitative

measures of activity and performance and therefore enhancing managerial decision-making. Although ABC has many advantages, when putting it into practice there are some disadvantages. The implementation in itself is time consuming, information hungry and needs support from the entire management. There may also be some irregularity in management decision-making upon deserting low volume products, and promoting the expansion of higher volume products. Another weakness is that it does not conform specifically to GAAP (Generally Accepted Accounting Principles). Due to this conflicting approach between these two factors, two separate costing systems may be required, resulting in increased company expenditure. The advantages of improved cost allocation far outweigh the disadvantages. Blendcor has also operated two systems, namely Prism and JD Edwards for a number of years now. Therefore, the change to ABC will not really make any difference. Interfaces between the different systems employed have been implemented to ensure that GAAP has not been affected. These interfaces are continuously updated.

It can be seen from the above that ABC provides more accuracy in costing a product or job compared to the traditional approach. 'This was due to the failure of the traditional approach to provide a true value of an item" Roztocki (2002). In other words, it can be said that true causes of non-volume-related activities were concealed by the traditional method and therefore without knowing the fair value of a product, certain important events such as economic break-even or money making or losing activities will not be known. The main contribution of ABC is that it provides a clearer view of resources required to perform activities. Blendcor must capitalize on this opportunity and use this technology to enhance its competitive edge in the market place.

5.7.2 MEASUREMENTS

For effective management, regular measurement of key performance indicators is an absolute necessity. On-going measurement of the Critical Success Factors (CSF's) is necessary to assess the overall performance of the company. These measurements are reported to management monthly. In addition, each department is required to measure and report their performance against targets. As customers are the foundation of Blendcor's current and future existence and growth, customer satisfaction is a vital objective measure of Blendcor's success or failure. Trends in quality, environment, and operational performance are monitored with a view to continuous improvement. These are geared towards the development of prompt solutions to customer (BP & Shell) related problems. However, there are a number of different disparate measurement systems in place to manage this huge data flow and the integrity of the data is always questionable. The decision making

process is slow as Blendcor managers sift through this data minefield. In today's turbulent environment, speed is of the essence and decision-making must be swift and accurate to act against prevailing conditions. What is required is a new approach to strategic measurement and control and that is the Balanced Scorecard approach.

5.7.2.1 THE BALANCED SCORECARD METHODOLOGY

Harvard Business School professors, Robert Kaplan and David Norton, developed a new approach to strategic control. They named this system the Balanced Scorecard. The Balanced Scorecard enables companies to clarify their strategies, translate them into action, and provide meaningful feedback. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the Balanced Scorecard is intended to transform strategic planning from a separate top management exercise into the nerve centre of an enterprise. Kaplan and Norton describe the innovation of the Balanced Scorecard as follows:

"The Balanced Scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation", www.balancedscorecard.org.

The Balanced Scorecard methodology adapts the Total Quality Management (TQM) ideas of customer-defined quality, continuous improvement, employee empowerment, and measurement-based management / feedback into an expanded methodology that includes traditional financial data and results. The Balanced Scorecard incorporates feedback around internal business process outputs, as in TQM, but also adds a feedback loop around the outcomes of business strategies. This creates a "double-loop feedback" process in the Balanced Scorecard. In doing so, it links together two areas of concern in strategy execution, namely:

- Quality operations and
- Financial outcomes

These concerns are typically addressed separately yet are obviously critically intertwined as any company executes its strategy. A system that links shareholder interests in return on capital with a system of performance management that is linked to ongoing, operational activities and processes

within the company is what the Balanced Scorecard attempts to achieve. Pearce and Robinson (2003:337) The balanced scorecard suggests that we view the organization from four perspectives, and to develop metrics, collect data and analyse it relative to each of these perspectives:

The Learning and Growth Perspective: This relates to how well we are continuously improving and creating value. Inputs required here are measures related to innovation and organizational learning to gauge performance on this dimension, e.g. technological leadership, product development cycle times and operational process improvement.

The Business Process Perspective: This relates to what our core competencies are and our areas of operational excellence. Internal business processes and their effective execution as measured by productivity, cycle time, quality measures, downtime, various cost measures among others provide scorecard input here.

The Customer Perspective: This perspective relates to our customer satisfaction. A customer satisfaction perspective typically adds measures related to defect levels, on-time delivery, warranty support, product development among others that come from direct customer input and are linked to specific company activities.

The Financial Perspective: This perspective relates to how we are doing for our shareholders. A financial perspective typically using measures like cash flow, profitably, sales and income growth.

Through the integration of goals from each of these four perspectives, the Balanced Scorecard approach enables the strategy of the business to be linked with shareholder value creation while providing several measurable short-term outcomes that guide and monitor strategy implementation. Using the Kaplan and Norton approach, the Blendcor critical success factors is modelled in fig 5.3. As demonstrated, the Balanced Scorecard can be used to measure Blendcor's strategic objectives. The Balanced Scorecard will help Blendcor employees to understand the priorities and objectives of their particular operations. Therefore, it is imperative that this application is available to everyone in Blendcor. However, the Balanced Scorecard must not be implemented with the emphasis on measurements only. It must be used as a tool for encouraging Blendcor management to think strategically about the organisation and its future. In conclusion, a Balanced Scorecard should be well integrated in the decision making process of Blendcor. In reality, a Balanced Scorecard will help Blendcor management to communicate the strategy effectively, to benchmark with other operations, to prioritise and to motivate the teams to common and longer-term goals. These last elements would therefore justify the investment of time by Blendcor in deploying and perfecting the

Balanced Scorecard. Strong leadership and management skills are also essential for coping with natural resistance that one would expect to find in any change agenda.

FIG 5.3 Measurements of Blendcor's Critical Success Factors

	STRATEGIC OBJECTIVES	STRATEGIC MEASURES
FINANCIAL	BLENDING COST FILLING COST INDIRECT COST STOCK –RAW MATERIALS LOSSES CENTS PER LITRE COSTS	LOWER THAN COMPETITORS CAPITAL EMPLOYED REDUCE TO ZERO BETTER THAN COMPETITORS
CUSTOMER	CONTINUALLY DELIGHT THE CUSTOMER	100 % ON TIME DELIVERY TO BOTH OUR CUSTOMERS
INTERNAL	PRODUCTION LUBES PRODUCTION GREASE DESPATCHED VOLUMES SUPPLIER RELIABILITY PRODUCTIVITY QUALITY HEALTH, SAFETY AND ENVIRONMENT PLANNED MAINTENANCE TECHNOLOGY	AGAINST PLAN DELIVERY ON TIME RATE PER TON PER HOUR NO DEFECTS AND NO RETURNS NO LOST TIME INJURY NO MACHINE BREAKDOWNS NUMBER OF NEW PRODUCTS
LEARNING AND GROWTH	STAFF COMPLIMENT TRAINING DAYS SICK DAYS	REDUCCTION AGAINST PLAN PER TRAINING PLAN AGAINST TARGET

5.8 CONCLUSION

This Joint Venture has been in existence for over thirty years and has survived a tumultuous and colourful past. It has weathered the storms of a stand alone company in the late fifties, withstood the tensions of the Shell and BP alliance of the seventies and suffered the pain and agony of being separated from its parents in the nineties. Over the last ten years, Blendcor has endured a lot of changes. It has celebrated the birth of the New South Africa, embraced the transformation of the New Nation and survived the trials and tribulations of the 1997 plant upgrade. In 2002, it successfully took on the Castrol business in its entirety and began competing in the global market. Today, Blendcor is the leading lubricant manufacturer in South Africa.

The Shareholders have also experienced their fair share of change. In Shell, SOPAF (Shell Oil Products Africa) was established to explore ways in which business in Africa could be made more efficient and effective, while retaining the capacity to respond to regional and local markets. By 2020, Africa's share of the world oil markets is projected to increase to 4.3%, largely due to increased transportation and a decline of natural gas and coal. Shell is the market leader in Africa, but is absent from four out of the five largest markets in Africa. The markets in Africa are volatile and vulnerable to a host of factors, such as socio-economic problems, unstable political environments and a high degree of government regulation. However, these conditions do not deter SOPAF as it aspires to increase its market share and retain its leadership position in Africa. It will be an African business, managed from Africa.

BP has launched Project Phoenix in their efforts to regain their number one position in the market place. Project Phoenix is a business process re-engineering and change management program. It is focused on creating sustainable, cross-functional processes that drive and deliver stakeholder value and customer service excellence. The planning, scoping and mobilisation phase of the project was completed at the end of April. The project team is working with the mapping of the current business process. This mapping will serve as input for the future state of the business processes. What then is Blendcor's role in assisting the Shareholders to meet their strategic objectives? The very existence of Blendcor depends on the success of these strategies adopted by the Shareholders. Blendcor must be able to respond quickly to the Shareholders needs and change strategies on a dime. Speed, flexibility and innovation are the drivers of success today. Blendcor must cultivate a culture that welcomes change and encourages experimentation and learning. Knowledge is the fundamental basis of competition and it is this unique competence that Blendcor must nurture in the organization to

sustain its competitive edge over its rivals. The merger of BP and Castrol has had a positive impact on Blendcor. It has led to economies of scale and a vastly improved lubricant plant. The issues facing Blendcor are not insurmountable, as management and staff have demonstrated their desire for change and continuous improvement. Finally, the leadership of Blendcor resides with the CEO. His main responsibility is in guiding the organization to deal with constant change and build and shape their culture to fit with opportunities and challenges, change affords. His secondary responsibility is in providing the management skill to cope with the ramifications of constant change. This means identifying and supplying the organization with operating managers prepared to provide operational leadership and vision, never seen before.

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BP SA (PTY) LTD; BP SA Intranet.

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Appendix 1


tainer Terminal & Depots
AYHEAD
LANGEBERG
BAYHEAD
SALISBURY ISLAND
Blendcor
ISLANDVIEW
Castrol
WHARFSIDE
HAINAN
BORNEO
HONSHU
HOKKAIDO
CEYLON
CUBA
JAVA
CELEBES
(RESTRICTED RD.)
ABADAN
SUMATRA
TAIWAN
TRINIDAD
IRAN
KUWAIT
BAHREIN
CAUSEWAY
FORMOSA
COMPROMISE
TURNER
Island View
Fynnlands
DONALD
SINGLETON
FIELDS
BLUFF
AIKEN
KINGSCLERE
CHANNEL VIEW
STOTT
MERINIA
ISLAND VIEW
VENEZUELA
KNOX
MILLETT
LIGHTHOUSE
SOUTHERN COASTAL PARK
EMScape Debug Version
Copyright © Map Studio

BLENDCOR FIVE YEAR PLAN

CSF	YARDSTICKS	CURRENT PERFORMANCE	GAP	ACTIONS	OWNER	TIMING
DELIVERY TO PROMISE	CUSTOMER SERVICE • On time in full	• Being measured - 70 %	• 30 %	• Ensure rules are applied • Institute and develop measurement criteria	Cyril	Jan 99
	ENGINEERING • Measure Overall Equip Effectiveness • Equip Replacement programme. • Implement Main scheduling / planning programme • Projects on time • Post project auditing	• Not measured • 5 Year Plan • Not done • Not measured • Nil	• 100% • To be defined • 100% • 100% • 100%	• Implement Computerised Maintenance Management System • Finalise and implement • Implement Computerised Maintenance Management System • Detailed project planning • Setup Structure	Nigel Nigel Nigel Nigel Nigel	Jan 00 Jan 99 - 2002 2002 1999 2000
	IT • Degree of Database Integrity • Measure business requirements against application system provided	• Current I.S. systems do not meet current business needs. Lack of housekeeping.	• To be established	• Business Process Analysis required. • Draw up request for Proposal and Capex justification.	Penny Penny	2000 2001
	TIMES • Blend Reformulation • Blend testing • COQ generation (exports) • Filling samples • Grease testing	• 30 min • 70 min • Meeting • 7 min • 24 hr	• 10 min • 10 min • - • - • 8 hours	• Re-examine stringent quality testing procedures.	Kaycee	99 - 2000

CSF	YARDSTICKS	CURRENT PERFORMANCE	GAP	ACTIONS	OWNER	TIMING
COST FOCUS	Budget Control	• Costs controlled to budgets • Centrally Controlled	• Nil • Decentralise	Nil Delegate and Train appropriate Budget holders.	Ravi	99 / 00
	Process Cost Management	• ABC for major process • Targets not set • Benchmarking not done	• Refinement required.	• Implement Activity Based Costing Phase II. • Set targets. • Establish comparable benchmark values and reasons for difference. Optimise in areas of significant difference.	Allan	98 / 99

	Overall Business Drivers
	• Cents Litre (Lubes)
	• Cents KG (Grease)
		• Measured	• Combined with greases. Not receiving focus.	• Drive Focus
				  • Set Targets
				  • Understand variances
				  • Link to performance payments
					Allan	1998

	Cost of Non-Conformance • Customer Urgency • Product Not-Available • Despatch Errors	• Not measured	• To be established.	• Measure cost of rework, reblend, product not available, despatch errors and product returns.	Rajesh	1999
	Cost of Quality • Downgrades • Flushings • Blend Failures	• Not measured	• To be established.	• Measure cost of down grades, flushing and blend failures.	Rajesh	99 / 00

CSF	YARDSTICKS	CURRENT PERFORMANCE	GAP	ACTIONS	OWNER	TIMING
PLANT RELIABILITY	OEE	Part filling lines only	All other filling lines, grease, blending	• Implement OEE - initial outsource setup • 100 % OEE across whole plant • OEE run by Blendcor or on Internet system • Redefine OEE on all equipment	Nigel Nigel Nigel Process owner	1999 1999 2002 2001
	Maintenance Management System Performance Indicators	Not measured	Total performance measurement	• Outsource the Maint. Management System Planning • set up performance indicators in On Key • Analyse performance results & develop plans to improve • Maint. Mgmt System planning run by Blendcor or on Internet • Maintenance Audit in line with latest maintenance principles	Derick Nigel Nigel Nigel	1998 1998 1999 Annually
	Contracted out work to specialists	Identified Contracts already set up	• Identify all areas best outsourced to specialists	• Verify current contracts for 98 and 99 period. • Implement Contractor auditing programme • Improve standards & conditions • Set up long-term contracts with equipment suppliers.	Munro Nigel/ Facilities	Jul 98 1999 2000 2000/1
	• Equipment reliability • Hardware performance measurement	98.2 % Severe CPU constraints & poor response times Impacted by insufficient housekeeping & storage constraints.	• 1.8 % • CPU capabilities exceed guidelines • DRP	• Maintain current performance • Upgrade AS 400 • Complete Distribute Re..... Plan • redefine purchasing policies for computer equipment • PC Replacement every 3 years.	Penny Penny Penny Penny Penny	 Jan 99 Jan 99 June 99 1998/2001
	• Lab equip calibration schedule • Correlation - national / international	• Meeting standard • Meeting standard	• None • None	• Continue monitoring • Continue monitoring • Setup Stats Process Control across all areas.	Kay Kay Rajesh	2001 2001 1999

CSF	YARDSTICKS	CURRENT PERFORMANCE	GAP	ACTIONS	OWNER	TIMING
QUALITY SYSTEM	ISO 9002 system	• In place - deficient iro Blueprint changes	• Review and update	• Policy • Procedures • Work Instructions • To evaluate and purchase a software package to access ISO 9002, QS 9000 & ISO 14001 systems providing read only access via LAN to all.	SN SN LS SN	2Q98 3Q98 4Q98 2Q99
	QS 9000 System	• Nil	• To meet QS 90000 requirements	• Establish requirements (consultant/s) • Implementation (phased into ISO 9002 system) Accreditation	SN SN	2001 2002
	Awareness	• Insufficient / lacking	• Training	• Videos (Shopfloor & MGMT) • Operation Cleanpack revive • Courses: Higher National Diploma in QA Training • ABET • Inhouse (including Quality Circles)	LS LS LS AN RN/LS	4Q97&98 1Q98 end 98 1998 1999/2002
	Adjustment Rates	• Luboils 7.2 % (ytd)	• Plan 3 & 4 Q97 < 3 % • Plan 98 < 1% • Plan 00 < 0.5% • Plan 02 < 0.1%	• Reformulation • Walter Correction in place & working • Procedures update • Incoming raw material quality • Training - Lab staff (PDCA) • ABB teething problems • Set up performance measurement system reliability / maint. mngt of ABB/SMS • Operator training • SPC (Top ten vol % grades)	Selvs	2Q 97 end 97 3 &4 Q 97 2Q97 97, 98, 99 - END 3Q97 98-2001 2&3 Q 97 2Q98
	Adjustment Rates	• Grease 8.1 % (ytd)	• Plan 97< 5 % • Plan 98 < 3 % • Plan 02 < 1%	• Grease plant plan • Update Blending Procedures • Training of operators (troubleshooting/testing)	SN RN Raj P	4Q 97 4Q 97 3Q 97
	Control of Non-Conformances • Rework/Reblend • Disposal/Scrap	• Controlled reincorporation/ disposal	• Lack of clearly defined Non Conforming areas	• Areas for N/C product to be clearly identified - Luboils - Greases • Produce LAB / plant physical stock recon report • Extend N/C to packaging material	KC Raj P KC KM	3Q 97 2Q 97 3Q 97 1Q 98

PAGE 2 OF QUALITY CSF's (continued)

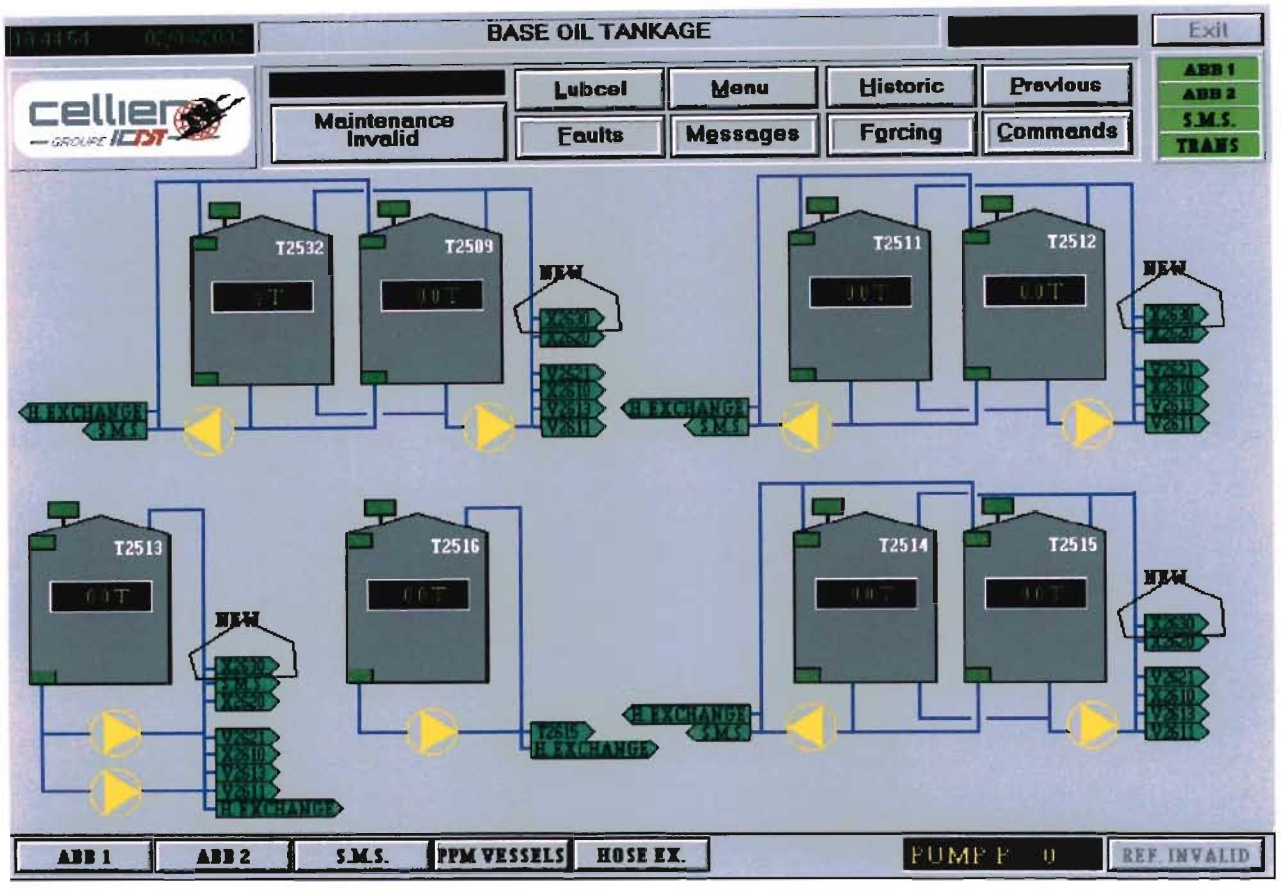
CSF	YARDSTICKS	CURRENT PERFORMANCE	GAP	ACTIONS		TIMING
QUALITY SYSTEM	Flushings	• Quantified per activity - major areas of generation being identified	• Reduce generation to minimum • maximise reincorporation	• Establish team and conduct fish / bone analysis to minimise generation. • Lab to "control" generation and maximise usage. • Update Blending compatibility matrix.	SN KC RN	3-4Q 97 3Q 97->3Q 97
	Corrective Action Reports	• Inadequate	• Lack of incident reporting via CAR route (Shell/ BP / Blendcor) • Response time in actioning CAR's by Blendcor slow (months) • No effective follow up	• CAR's to be routed to QA Advisor for registering, follow up and closing off. • Marketers/Blendcor staff to be encouraged to report CAR's. • Response times by Blendcor on CAR's generated to be within 2 weeks. • Provide reinforcement training to supervisors by assisting in compilation of CAR report.	LS LS LS LS	2Q 97 ->3Q 97 3Q 97 3Q 97
	Approved equipment suppliers and contractors	• Set Up	• Not followed	• Revise supplier listing. • Set up tender board and revise procedure.	MUNRO NR	end 97 98

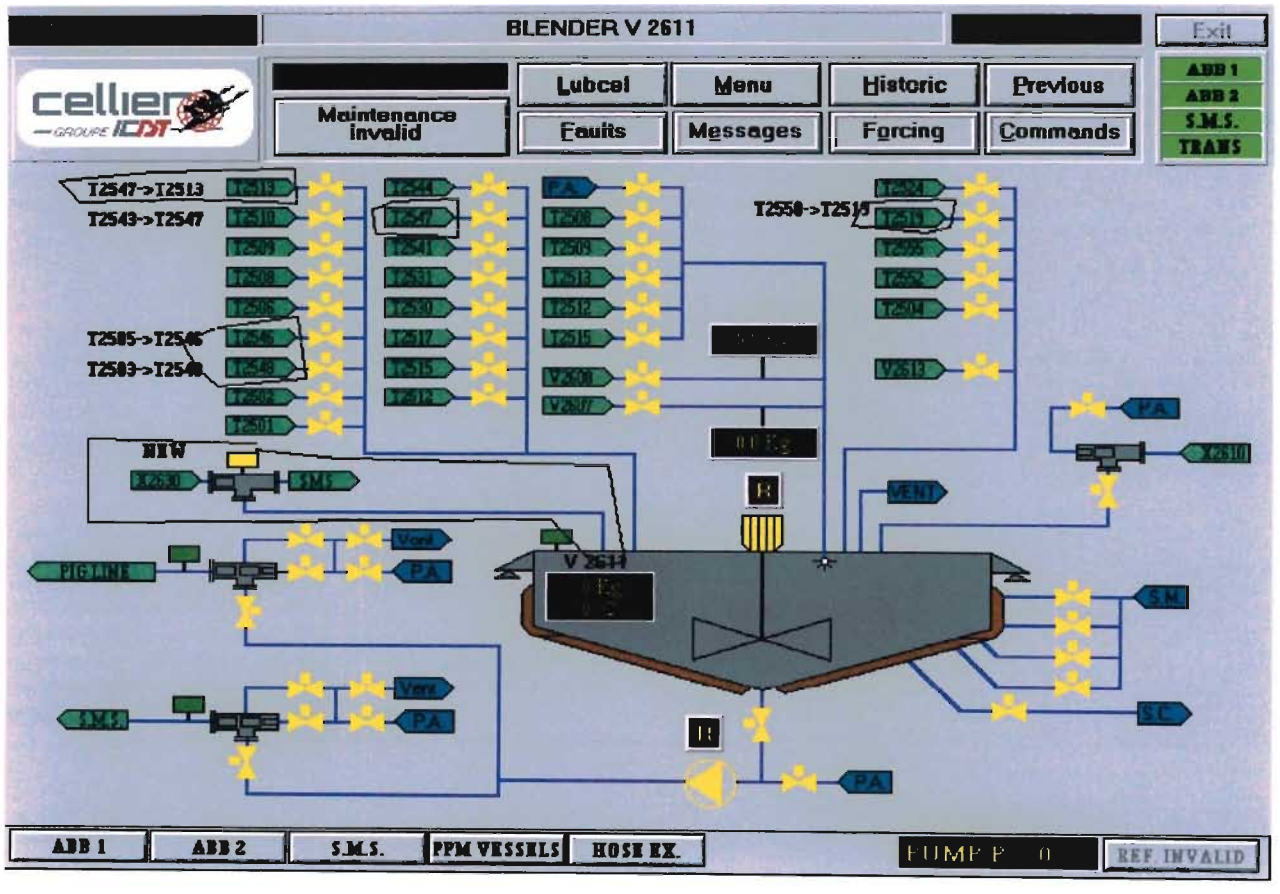
CSF	YARDSTICKS	CURRENT PERFORMANCE	GAP	ACTIONS	OWNER	TIMING
HEALTH / SAFETY & ENVIRONMENT	• Lost Time Injury • First Aid Cases • Near Misses • HRA results • Safety Sampling • Housekeeping Audit	• 2.5 M hrs worked • Not measured • Very few • One line completed • Not Done • Not Done	• 4 M hrs without LTI • FAC • Near misses reports 20 per month 1997 / 98 near misses reports 5 by 2001 • HRA on complete plant • Safety • Sample per area • Housekeeping audit per week per area 1998 /99 • Implement HSE-MS by 3 quarter 1999	• Complete Environment Risk assessment exercise. • Setup report. • Action outcomes of Environmental Assessment • Update safety certificate to new format • Computerise safety certificate system • Complete HRA • Accident Investigation training • Emergency action drills • HSES procedures and info. available to all • Safety competitions & rewards initiate	Nigel Nigel Nigel Nigel Nigel Joe Joe Nigel/Rajesh Joe/Nigel	JUL 97 1998/99 Jun 97 2000 1998 1998 99 JUNE 98 1999 1999
	Other HSE issues	• Not defined or determined.	• Not defined or determined.	• Safety suggestions & incident reporting rewards • Improved service and inspection of safety equipment • Security auditing, external every 2 years. • Set specific guidelines for HSE committee • Ergonomics workshops, 1 per quarter • Contractor HSE training • Develop world class performance reporting system • Approved suppliers & contractors • Best Practices Environmental Options • Implement ISO 14001 EMS • Implement HSE-MS	Joe Nigel Nigel Joe Nigel Munro Nigel Nigel Rajesh Rajesh Rajesh	1999 2 Per Year 1999 1999 1998 1999 1998/20 1999 1999 2001 2002

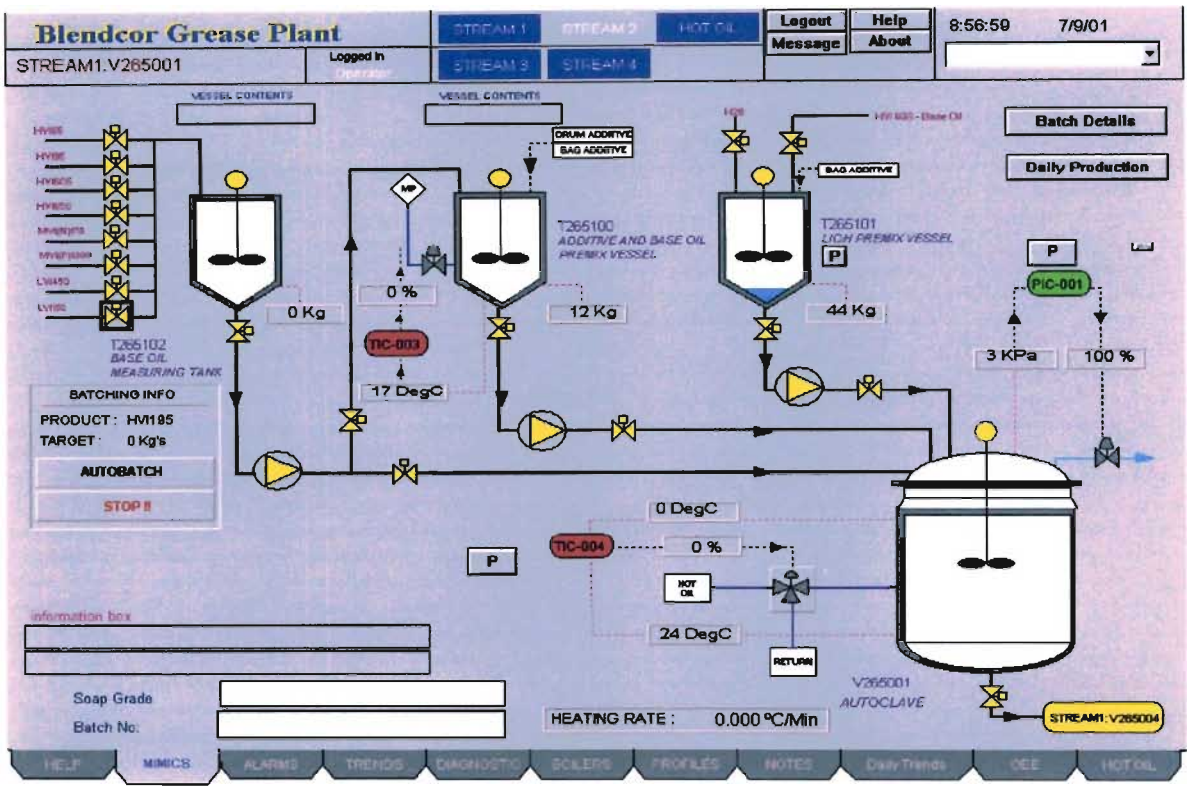
CSF	YARDSTICKS	CURRENT PERFORMANCE	GAP	ACTIONS	OWNER	TIMING
ORGANISATIONAL VALUES	Levels of morale within organisation. Sense of responsibility and attitude changes within organisation and feeling and sense of belonging.	40 %	30 %	Workshop the developed code of business conduct focusing on the core values to get buy-in.	Rajesh	1999

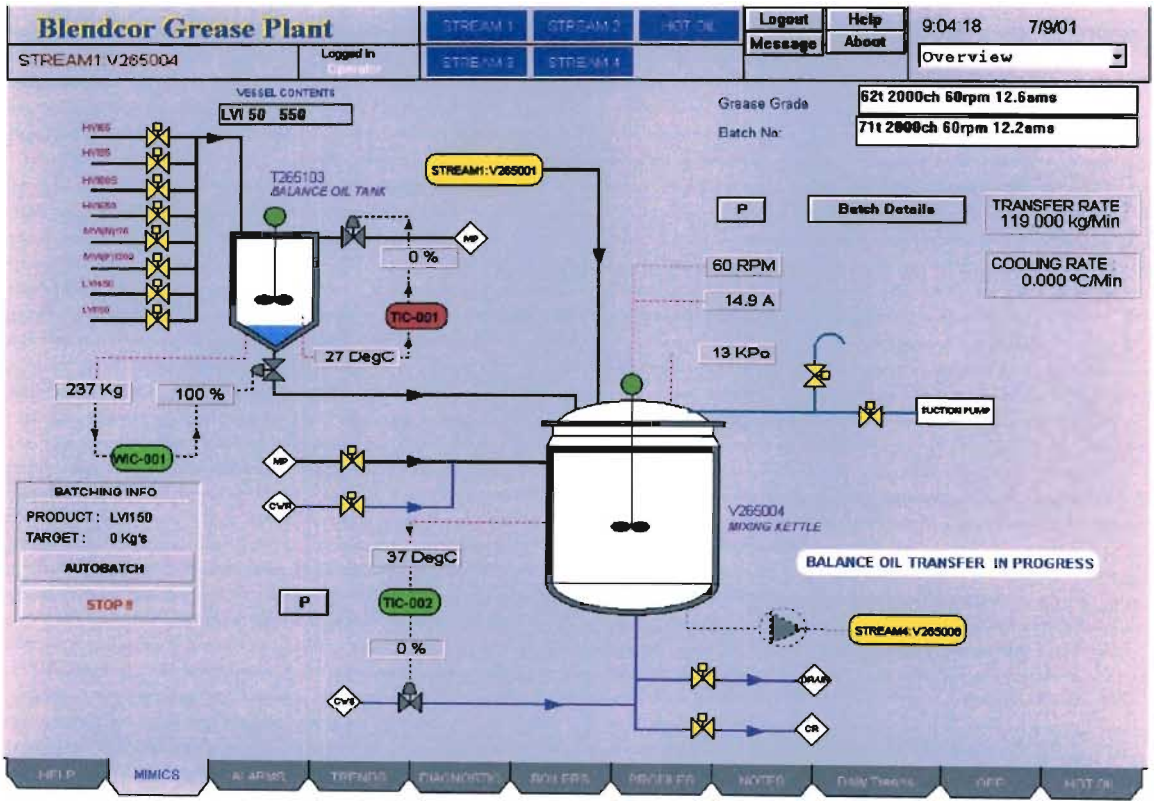
CSF	YARDSTICKS	CURRENT PERFORMANCE	GAP	ACTIONS	OWNER	TIMING
TECHNOLOGY	Working in a fully Computer Integrated Manufacturing C.I.M) environment.	To date, achievement = approx. 70 %	30 %	Achieve a 100 % (C.I.M) environment.	Mehmood	1999
	Bench-marking against other plants world-wide	Done for Grease Plant (Shell only) Not done for Blend Plant	Very small measure of performance for acquisition of World Class Manufacturing (WCM) status	Setup annual benchmarking.	Rob	1999
	Keeping abreast with technological advancements relevant to our industry eg : acquire literature attend workshops attend conferences inter-act with universities cross-posting	Needs to be initiated / established	Large	Identify and establish relevant technological advancement with the aid of the relevant shareholders.	Kay Mehmood	99 / 02
	Utilisation of newly installed technology to its maximum capacity	Technology not fully utilised as a result of inadequate people skills	Large e.g.: current staff vs BAG)	Upgrade people skills to match current technology. Establish and set minimum requirements for new recruits - restructure.	Rob	00 / 01

Appendix 3.2


BASE OIL TANKAGE
Exit
Lubcel
Menu
Historic
Previous
Maintenance Invalid
Faults
Messages
Forcing
Commands
ABB 1
ABB 2
S.M.S.
TRANS
T2532
T2509
T2511
T2512
T2513
T2516
T2514
T2515
NEW
ABB 1
ABB 2
S.M.S.
PPM VESSELS
HOSE EX.
REF. INVALID


BLENDER V 2611
Exit
Lubcel
Menu
Historic
Previous
Maintenance Invalid
Faults
Messages
Forcing
Commands
ABB 1
ABB 2
S.M.S.
TRANS
T2547->T2513
T2543->T2547
T2550->T2515
T2505->T2546
T2503->T2548
NEW
V 2611
ABB 1
ABB 2
S.M.S.
PPM VESSELS
HOSE EX.
REF. INVALID


Blendcor Grease Plant
STREAM1.V265001
Logged In
STREAM 1
STREAM 2
HOT OIL
STREAM 3
STREAM 4
Logout
Help
Message
About
8:56:59
7/9/01
VESSEL CONTENTS
VESSEL CONTENTS
DRUM ADDITIVE
BAG ADDITIVE
BAG ADDITIVE
Batch Details
Daily Production
T265100
ADDITIVE AND BASE OIL PREMIX VESSEL
T265101
LIGHT PREMIX VESSEL
T265102
BASE OIL MEASURING TANK
0 Kg
12 Kg
44 Kg
0 %
TIC-003
17 DegC
P
PIC-001
3 KPa
100 %
BATCHING INFO
PRODUCT : HVI 95
TARGET : 0 Kg's
AUTOBATCH
STOP !!
0 DegC
TIC-004
0 %
HOT OIL
RETURN
24 DegC
information box
Soap Grade
Batch No:
HEATING RATE : 0.000 °C/Min
V265001
AUTOCLAVE
STREAM1:V265004
HELP
MIMICS
ALARMS
TRENDS
DIAGNOSTICS
BOILERS
PROFILES
NOTES
Daily Trends
OEE
HOT OIL


Blendcor Grease Plant
STREAM1 V265004
Logged In
Logout
Help
Message
About
9:04 18
7/9/01
Overview
VESSEL CONTENTS
LVI 50 550
Grease Grade
Batch No:
62t 2000ch 60rpm 12.6ams
71t 2000ch 60rpm 12.2ams
T265103
BALANCE OIL TANK
STREAM1:V265001
P
Batch Details
TRANSFER RATE
119 000 kg/Min
COOLING RATE
0.000 °C/Min
0 %
60 RPM
14.9 A
TIC-001
27 DegC
13 KPa
237 Kg
100 %
SUCTION PUMP
WIC-001
BATCHING INFO
PRODUCT : LVI150
TARGET : 0 Kg's
AUTOBATCH
STOP !!
V265004
MIXING KETTLE
37 DegC
BALANCE OIL TRANSFER IN PROGRESS
P
TIC-002
0 %
STREAM4:V265006
HELP
MIMICS
ALARMS
TRENDS
DIAGNOSTICS
BOILERS
PROFILES
NOTES
Daily Trends
OEE
HOT OIL