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THE SUITABILITY AND FEASIBILITY OF A STRATEGIC PLAN FROM THE PERPECTIVE OF DEVELOPMENT NEEDS.

BY

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SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF

MASTER IN BUSINESS ADMINISTRATION

GRADUATE SCHOOL OF BUSINESS
UNIVERSITY OF KWAZULU NATAL

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JUNE 2004

CONFIDENTIALITY CLAUSE

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TO WHOM IT MAY CONCERN

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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

N J KUNENE

DECLARATION

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

Signed :

Date : 22/9/2004

ACKNOWLEDGMENTS

My sincere gratitude to the special individuals who made this work possible. My special thanks and acknowledgements go to:

Professor Elza Thompson, my Supervisor for her support, guidance and encouragement. Most of all, her ability to stretch my thinking and her insistence on high standards.

Mr Sipho Nyembezi, Chief Executive of Ithala, for his support and encouragement and for allowing me to use Ithala strategic documents for this project.

Ms Thembeka Sosibo for her encouragement and excellent support in typing and putting together difficult graphics.

My family members Halima, Swazi, Thobi, Amina and Bongi, for their support, encouragement and understanding at all times.

ABSTRACT

All organisations exist for a purpose and survival is the most common to all organisations. Changes to the internal and external environment often require the organisation to realign its activities to suit the changes. Ignoring the changes normally threatens the purpose of existence of the organisation. One of the triggers for change in the direction is the recognition of the performance gap. All changes require management to take strategic decisions and there are risks which such decisions entail.

This project is about Ithala Development Finance Corporation's strategic direction where reassessment was triggered mainly by the increased need to be financially self-sustainable in addition to meeting its development mandate. This naturally demanded that Ithala venture into new areas of operation including inter alia new products, new markets, new geographic areas and, more importantly, new internal competencies. All change involves risks and uncertainties as it challenges the status quo, established mindsets and cultures. These are just some of the challenges facing Ithala in devising its new strategic direction.

Evaluation criteria are intended to assess whether a particular sequence of actions will result in the desired positions or postures. Evaluation enables the organisation to make objective judgements about the probable outcomes of the proposed actions before implementation. It is the last chance for the organisation to take alternative recommendations seriously and make amends. The purpose is to prevent surprises.

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CHAPTER 1

PROPOSAL FOR THE STUDY

1.1 INTRODUCTION

The crafting of the strategic direction of an organisation is the start in determining its future in an ever changing environment. The qualitative method of research is the most appropriate technique in assessing the appropriateness of proposed strategies. The qualitative approach allows for collection, collation, analysis, exploration and interpretation of data from various sources. It is important that the data collected be reliable and valid to allow for objective conclusions. The process followed to craft strategies is as important as the strategies as it affects the quality of data collected and analysed and the conclusions drawn.

To meet the objectives of the study and answer the research question, the context of the strategy as well as the organisation's background must be understood as these form the basis for achieving the correct analysis interpretation for, drawing appropriate conclusions and for making practical recommendations.

1.2 BACKGROUND OF THE RESEARCH

The study will evaluate the strategic direction of Ithala Development Finance Corporation as a development finance agency in KwaZulu Natal. Ithala was established in terms of KwaZulu Natal Ithala Development Finance Corporation Act 2 of 1999. It is responsible for the socio- economic empowerment of the people of the Province, particularly the previously disadvantaged. Like similar Development Finance Institutions (DFI's), Ithala's key function is sustainable socio-economic development. At the time of its establishment in 1999, two major changes, which had far reaching implications in Ithala's future operations, took place:

- The annual funding allocation (sometimes referred to as grant funding or subsidy) was to be phased out within two years ending in year 2000.

- The mandate of undertaking economic development in the province was extended to include the improvement of the quality of life of the beneficiaries and was also meant to complement government and private sector initiatives.

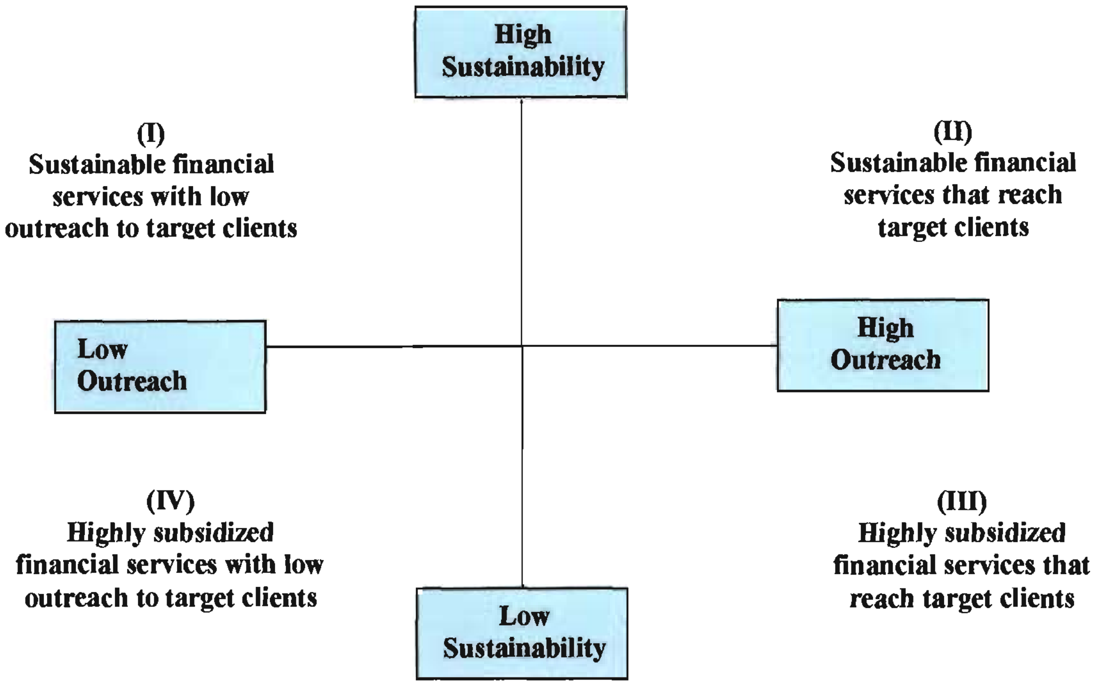
These changes meant that Ithala had to undertake development activities without any financial support from the government. This change was in line with the government's attitude change that all parastatals must be financially self-sufficient to justify their existence. This change to Ithala meant involvement in high risk and costly activities which would yield very low returns. The core problem faced by Ithala was how to create and maintain the balance between maximum development impact and financial sustainability as required by the shareholder.

In development terms, as applicable to Ithala and other Development Finance Institutions, this means the common performance measurement is development impact. Development impact refers to the depth and breadth of the reach of beneficiaries. Depth refers to how low the reach goes in terms of beneficiaries' income and the breadth refers to the number of beneficiaries reached by the various development activities undertaken.

This breadth and depth of development is referred to as outreach. Outreach therefore is the extent to which a DPI has succeeded in reaching the targeted clientele. Financial sustainability indicates the ability of the DPI to exist based on its own efforts. Generally, the higher the financial sustainability, the lower the outreach or the higher the outreach, the higher the cost and the lower is financial sustainability (Internet 1). In diagram form, Ithala's problem of balancing outreach and sustainability depicted as in Figure 1.1 below.

FIGURE 1.1

SUSTAINABILITY/OUTREACH MATRIX



Source: *www.ithala.co.za – company profile: Development Dividend*

In Figure 1.1, quadrant (I) shows a financially viable case which does not meet the objective of outreach. Quadrant (II) is desirable and it meets all objectives. All DPI's strive to achieve the situation described in this quadrant. Quadrant (III) is where Ithala historically was but, had to move to quadrant (II). The strategic question is how Ithala will achieve this move from a highly subsidised environment into non subsidised arena whilst still achieving financial sustainability. What strategies are required to move the organisation to this position? This is to a large extent the essence of this project.

It is for this reason that Ithala needed a new strategic direction which will take it into the future. Ithala's current situation, as it will be shown in Chapter 3, is that it is unable to meet is operational and strategic objectives. These include, for example:

- the total drop of 50,1% of jobs created between 1999 and 2003,
- the failure to meet its 2003 target by 32%;
- the drop in enterprises created by 64,5% between 1999 and 2003 and
- meeting only48,7% of the 2003 target.
- The return on assets of 0, 6% is also considered very low compared to the banking sector figure of approximately 20%.

To rectify this situation, Ithala embarked on a strategic planning session in July 2003. In the light of the above problems and challenges, the study will evaluate the effectiveness of the 'new' strategy with a view to establishing whether

- ❖ The identified mission and set objectives of Ithala are going to be met and if the strategies will assist it meeting these stated objectives.
- ❖ The financial objectives as well as operational objectives are going to be met and that the strategies will energise the organisation to work towards meeting its challenges.
- ❖ The identified strategies will strengthen Ithala's long term position in the market and add to its financial sustainability.
- ❖ Ithala's strengths are going to be leveraged and capitalised on and opportunities exploited, weaknesses addressed and threats averted.

1.3 MOTIVATION FOR THE STUDY

Ithala is facing challenges in achieving financial sustainability while at the same time delivering development programmes to its target beneficiaries. Should the former not be achieved, its failure will be almost guaranteed and if the latter is not achieved shareholder expectations will not be met andit will not be able to justify its existence. The proposed strategy is the only hope to rescue Ithala and lead it into the future. It is therefore important that the study:

- ❖ Help Ithala evaluate and assess whether the proposed strategies will enable it to achieve this delicate balance between financial sustainability and development impact (high sustainability and high outreach as in Figure1.1).

- ❖ Highlight areas of weakness in the strategies in order to enable Ithala to correct these weaknesses before they become too costly to rectify. The study will therefore help Ithala reduce the risk of implementing a strategy which will not achieve the desired effects and save Ithala from utilising resources in unproductive areas in the process.

- ❖ Assist Ithala to set priorities in the quest to meet its objectives, specifically by matching its resources to the changing environment and in particular its markets, customers and products, so as to meet stakeholder expectations.

- To assist Ithala in creating sustainable economic growth in KwaZulu Natal and achieving a fair distribution of resources which in turn, will create wealth and prosperity by expanding markets and increasing access to services. This in turn will add to the profitability of Ithala, offering it further impetus for economic growth by ploughing back profits for further developmental investments.

- If Ithala achieves its objectives, the model can be used throughout South Africa for all Development Finance Institutions (DFI's).

1.4 VALUE FOR STUDY

Ithala's performance since 1999 had been deteriorating and it was unable to meet its strategic and operational objectives. It can be concluded that the performance of Ithala is a sign of threat to its survival and also does not please the shareholders. Since government assistance was discontinued, it is incumbent upon Ithala to generate enough of a surplus to fund its growth or to provide positive ratings to facilitate access to funding.

Ithala's strategy therefore needs to be evaluated for its relevance, acceptability, suitability and feasibility. The study will therefore help Ithala to assess if the strategies proposed will, on implementation, lead to its success and survival and also please the shareholder. Ithala will also benefit from the study because weaknesses which have not yet been addressed by the strategies and areas of vulnerability are going to be identified and recommendations for improvement made in the study.

The study will also expose and test the appropriateness of the strategies against various theories and models which will either confirm or question certain strategies. This will alert Ithala and probably lead to effective implementation of these strategies. Lastly, if Ithala achieves its objectives and becomes one of the organisations which achieve high sustainability and outreach, then the model can be replicated to other Development Finance Institutions in South Africa.

In summary therefore, once the strategies are evaluated and recommendations made, Ithala will have the opportunity to adjust its offering to the market, thereby maximising reach and financial sustainability. Ithala will therefore focus its resources appropriately in areas which will yield maximum benefits to the beneficiaries throughout KwaZulu Natal.

1.5 PROBLEM STATEMENT

The key question to be answered by the study is: "What is the appropriate strategic direction of a development finance institution in its area of activities?"

In the light of Ithala having crafted the strategy, it is appropriate then to have sub-questions which are related to the key question of the study. These sub questions are:

- Is Ithala's strategic plan able to deliver financial as well as developmental objectives as expected by the shareholder?

- Is the strategy able to balance between the critical strategic issues of sustainability and development impact?

- Will the strategic direction proposed stop poor performance and put Ithala on the path of prosperity and survival?

- Are there any areas of improvement or additional strategies which will help improve the impact of the strategies on results?

1.6 OBJECTIVES OF THE STUDY

1.6.1 To evaluate critically and analytically Ithala's strategic plan in line with its development and financial mandates.

1.6.2 To establish if the elements included in the strategic plan will enable Ithala to turn the historically unimpressive results into positive future performance which is acceptable to the stakeholders.

1.6.3 To determine the extent to which the financial returns and development impact achieved meet the shareholder and stakeholder expectations.

1.7 METHODOLOGY

The research methodology used in this research is qualitative and is in the form of a case study. In this respect, the study will be explorative, rational and analytical. It will not involve any mathematical techniques which are not going to be suitable to resolve the research problem and purpose. The information gathering will emphasise the contextual analysis of events and issues (Ghauri, Gronhaug and Kristianslund 1999).

The methodology followed involves collection, collation, analysis and interpretation of data from readily available sources. Such information will either be published data, internal company data or other relevant unpublished material. The information will be screened for its relevance to the subject based on its coverage of the subject and related areas being explored, its emphasis, timeliness, accessibility and accuracy (Hibbert and Lui 1996:105-107). The strategic management models provided by the available literature will be used as the basis to test the appropriateness of Ithala's strategies and to recommend other appropriate strategies. The published industry standards are also going to be used to benchmark Ithala's projected performance in evaluating the effectiveness of its strategies.

The data will be structured and not coded and will consist of written text, illustrative graphs, research articles, various internal reports and published literature. The data which is significant will be identified through reading and studying various publications and documents at the end of which efforts will be made to identify related categories and their relevance to the study. These categories will eventually come to be integrated into a network of relationships which could be mutually exclusive (Notes on Business Research Methods: University of Natal: 2002:135)

1.7.1 Secondary Data

Data analysis is the breaking up of data into manageable patterns, themes, trends, and relationships (Ghauri Gronhaug and Kristianslund: 1999). The strategic plan of Ithala will be analysed and evaluated using the existing models available in literature and the criteria recommended by recognised authors on the subject. A further criterion to evaluate the relevance of Ithala's strategic plan will be to use the mandate of Ithala as detailed in its establishment Act.

Further, Ithala's annual financial statements, internal publications, internal studies and management reports are going to be used to gain an in-depth understanding of the organisation background in order to put the analysis and conclusions drawn into their proper context. This will assist in ensuring that recommendations made are relevant, valid and practical to implement.

1.8 LIMITATIONS OF THE STUDY

The process followed in crafting the strategic plan will not be analysed or challenged. The assumptions will be that the methodology used to analyse certain data and identify key issues e.g. competitor analysis, was sufficient to lead to the true outcome. However if there was a flaw in the process, then the outcome may not necessarily lead to inappropriate strategies.

The secondary data, the input to the strategic plan document, will be assumed to be relevant and significant to lead to the document produced. It is difficult to distinguish objectively what are facts, inferences, hearsay, fears, speculation and exaggerations in various situations analysed in the document. The political, power, and cultural influences on the strategy cannot be detected yet they have a significant influence on the strategic options considered.

Further, the study does not as far as assessing the implementation of the strategies which in effect does not give a complete picture of the envisaged effectiveness of Ithala's strategies. Particular detailed information about Ithala could not be made available for the purposes of the study. This in certain instances left some gaps in the analysis and therefore in certain areas, conclusions were drawn only from the available information.

1.9 STRUCTURE OF THE STUDY

The study will be divided into distinct chapters.

- Chapter 2 will cover the theoretical aspect of strategic management with a view to clarifing the relationship between the study and previous research on strategic management. Various models will be discussed and related to the techniques to provide a theoretical base for the project.

- Chapter 3 will detail the background of Ithala, its historical performance as well as the newly devised strategic plan in the form of a case study.

- Chapter 4 will cover the evaluation and analysis of Ithala's strategic plan using models, techniques as well observations and conclusions drawn from Ithala literature and publications.

- Chapter 5 will provide the conclusions and recommendations for the improvement of the effectiveness of Ithala's strategic plan. These will be drawn from an analysis of the various factors of the plan and Ithala's specific situation and circumstances.

1.10 SUMMARY

Every organisation, whether owned by the government or private sector works towards achieving certain objectives which must be met. Also, for any organisation, sustainability and survival are key objectives as in reality all organisations are competing for scarce resources. It is these realities that are now facing Ithala as the political decisions to discontinue any grant funding directly affects the existence of Ithala and its future viability.

In view of the challenges facing Ithala, the study will be of immense importance and value to ensure that all weaknesses are corrected and appropriate strategies in this respect are implemented. To achieve this, the qualitative nature of the study is appropriate as valid and reliable information will be obtained as input thus enabling an objective and critical analysis of the situation to be achieved.

Before embarking on the analysis of Ithala strategic profile, it is appropriate to firstly explore the theoretical techniques and models of strategic management which are going to be applied in the analysis of Ithala's strategies.

CHAPTER 2

STRATEGY AND STRATEGIC MANAGEMENT

2.1 INTRODUCTION

Strategy means deliberate, large-scale, future oriented plans for approaching and dealing with the dynamic macro and competitive environment to achieve company objectives. It is the means of laying foundation for future success while presently delivering acceptable results. Crafting a strategy could involve some changes to the business concept as well as approaches to markets and products which if not made, will cause the organisation to fall behind its competitors. Without strategic plans, the organisation will therefore approach the future blindly and it is bound to lose direction and purpose or even fail. Management is always faced with challenges of making strategic decisions which will position the organisation to compete effectively on the market, add value to its business and meet its long term objectives. To do this, the organisation must match its activities to four forces:

2.1.1 Macro environment forces implies the identification and understanding of the political, economic, social and technological factors impacting on the organisation.

2.1.2 Industry environment involves identification, scanning and monitoring of industry growth rates, market size, technological changes and products offered.

2.1.3. Competitive forces involve an analysis of the nature of the competition and the threats, competitive strengths and competitive success factors and the extent of the intensity of competition.

2.1.4 Resources and strategic capability analysis (internal analysis) involves analysing and understanding the company strengths and weaknesses, understanding the unique sustainable capabilities and other resources including financial, human resources , marketing and the technological position.

The above 'four forces' analysis should expose internal strengths which the organisation must capitalise on, weaknesses which it must address and eliminate, external opportunities which it must exploit as well as threats which it must avoid. Through this process, the organisation will identify unique strengths and distinctive capabilities which will offer it a competitive advantage and above average profits. These strengths and capabilities are only valuable if they are sustainable and not easy to imitate. The strategy of an organisation must outline the direction which it believes will take it to the future. This requires four key issues and statements which must explicitly articulate its status and direction:

Firstly, the mission statement which explains what the company does and who it is in terms of the market needs it satisfies, its customers and its product offering.

Secondly, the strategic vision statement which specifies what the company wants to become. This defines how the company visualises itself in the future. This statement determines how the company intends to shape the future to suit itself as well as reach its destination.

Thirdly, the value statement which essentially specify the rules the company will adopt to reach its destination. It defines the standards, norms, values, and principles that are essential to take it to the future by taking both internal and external factors into consideration.

Lastly; the performance objectives which essentially are set targets and outcomes which the organisation aims to achieve. These targets are the end through which the organisation determines its success or failure or even the extent to which it has reached its destination within a defined time period.

Once both internal and external factors have been identified and analysed, and the mission, vision, values and objectives set, the next phase is to synthesize and extract meaning and impact from the information gathered. Regarding this decision stage, Lynch (1997:20-23) identifies three elements for analysis in developing strategy:

Context: the environment within which the strategy operates and is developed.
Content: the main actions of the proposed strategy.
Process: how the actions link together as the strategy unfolds against a changing environment.

The other issue which is of fundamental importance are the way in which the strategy development process is approached. The prescriptive approach favours the process of starting with where the organisation is now and then developing new strategies. The emergent approach proposes that strategies are evolving, incremental and continuous. The view of Lynch (197:23) is, "it should be noted that Mintzberg sees merit in both approaches .Both approaches can make a contribution and are not mutually exclusive."

This latter approach will be the basis of the process this assignment will follow in developing strategies. It will include the phase of synthesising information gathered during strategic analysis, determining the capabilities and strategic profiles. Strategic thinking and strategic alternatives considerations are key to this phase.

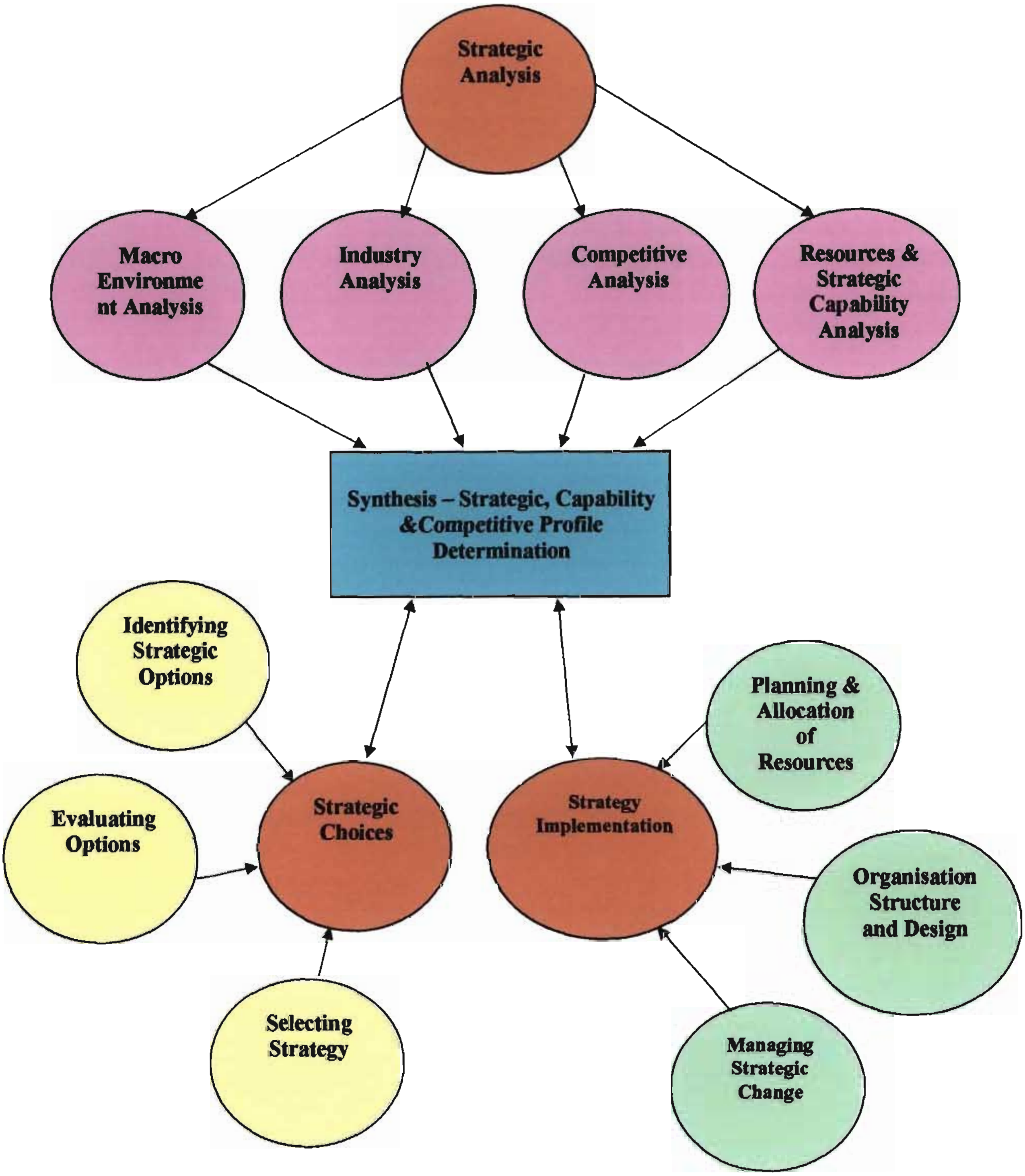
The strategic options opened to the organisation are determinable once the analysis and the profiles had been completed. There are broadly two strategic choices available to the organisation, namely competitive strategies and business strategies. The latter comprises market options and expansion method matrixes. Strategy determination is linked to obtaining the best match between environmental demands and unique capabilities. The company strategy always tries to answer the how question; how to grow business, how to satisfy customers, how to out compete rivals, how to respond to market conditions (Thompson and Strickland, 2003).

Before chosen strategies can be implemented, it is prudent to strictly evaluate them for consistency with the organisation's objectives, mission, and vision; suitability for their ability to build upon strengths, overcome weaknesses and take advantage of opportunities while circumventing the threats the business faces. Further, assessment for feasibility of implementability in the light of existing resources or the ability to acquire them to effect the selected strategy and lastly, the extent to which the strategy is acceptable to the stakeholders regarding expected performance namely profitability, return on investment efficiencies etc. In line with purpose of this dissertation, the evaluation procedures and processes will be tailored to suit Ithala in its context and area of operation.

To summarise the strategic management process, the model in Figure 2.1 captures the essence of all the elements of the strategy.

Figure 2.1

A Summary Model of The Elements of Strategic Management



(Source: Adapted from Johnson and Scholes, 1993:32)

2.2 THE CONCEPT AND DEFINITION

Johnson and Scholes (1993) define strategy as the direction and scope of an organisation over the long term, ideally, which matches its resources to its changing environment and in particular its markets, customers or clients, in order to meet stakeholder expectations. The key characteristics of strategy or strategic decisions therefore are:

- Strategic decisions are likely to be concurred with the scope of an organisation's activities.

- Strategy is about matching the activities of an organisation to the environment in which it operates.

- Strategy involves matching of the organisation activities to its resources capability

- Strategic decisions often have major implications for an organisation

- Strategic decisions are therefore likely to affect operational decisions.

- The strategy of an organisation will be affected by the values and expectations of those who have power in and around the organisation.

- Strategic decisions are likely to affect the long- term direction of an organisation.

The important questions in connection with the strategic process are where are we going? What should we do? How shall we do it? and why? (Karlöf: 1987).

The central thrust of business strategy is how to build and strengthen the company's long- term competitive position in the marketplace. It is concerned with responding to changes experienced by the industry, the economy, the political arena as well as regulatory and other relevant changes. Proactively, it is concerned with establishing moves and business approaches that lead to sustainable competitive advantage. In this respect, Karlöf (1987:8) identifies five components of strategic management:

- See the pattern in what is happening;
- identify the need for change;
- devise strategies for change;
- provide tools for change and
- resolutely implement strategies for change.

These components give the impression that strategic management is about change whereas in reality it is also about doing more of the same provided that such strategies are relevant and already add value to the organisation. Also, strategies are also emergent and are continuously adapted to changing situations. A good strategy therefore matches both the external environment and the internal situation. Internally, it is important for management to recognise and build valuable competencies and capabilities to deliver the devised strategies.

Not all changes in the environment require a response. Some would have insignificant consequences to the company position or would not offer opportunities or threats to the business. It is only the moves in the marketplace and internally that offer sustainable competitive advantage or threat that the organisation must respond to. With competitive advantage, a company has good prospects of producing above average profitability and success in the long term. The most successful business strategy aims at building distinctive competencies in one or more areas and then using this advantage for a winning competitive edge over rivals. Competitive advantage and competencies is not something that develops overnight. They are normally the result of resource utilisation, business model application and a number of deliberate well- planned activities and strategies which the firm embarks on over the years.

Robert (2002:17) argues, "the goal of companies is not to compete adequately but rather a strategy that is aimed at supremacy over their competitors." Supremacy, not adequacy, is the ultimate goal of strategy. Further, the CEO's of winning companies have strategies that are distinctive from their competitors. Roberts continues to argue that best practices, benchmarking, balanced scorecard are all techniques that lead to imitation strategies. The ultimate goal of strategy should not be to imitate competitors but to strive towards making competitors much less relevant or even irrelevant.

Due to the ease with which competitive advantages are copied, the new concept now is that a winning strategy is one that changes the rules of play. Examples of such strategies are Dell Computers and Amazon.com, which changed their business concepts and were able to develop further in their business concepts to widen the gap with their competitors. Dell Computers decided to change by adopting and combining the concepts of direct marketing with that of on demand, made-to-order computers. The result is a multi-billion dollar company that has the highest revenue per employee, highest return on capital and a stock price that has outperformed the market by a factor of a large scale earthquake, despite volatility of the PC market. Amazon .com on the other hand introduced online book ordering system which threatened the existing brick and mortar bookshops (Robert 2002).

2.3 MISSION

According to Falsey (1989), the mission statement defines who the company is and what it does. It reflects current thinking and priorities. It also represents the ideal of the company, the way it wants to be viewed and goals it is attempting to achieve. Karlöf (1987:27) adds, "a corporate mission satisfies a need experienced by certain customers by supplying a product comprising an assortment of goods and services in an industry with a number of known competitors".

In this definition, it becomes clear that the mission describes the need which the company is satisfying in the market and defines the customers or customer group as well as the product offering which satisfies the needs of defined customers in a dynamic industry environment with competition to outperform.

Thompson and Strickland (2003:36) add another dimension to the elements of the mission statement, namely, that it summarises the company's activities, technologies, and competencies or how the enterprise goes about creating and delivering value to customers and satisfying their needs.

The mission statement must be broad enough to cover the key areas of who the company is, what it does and where it is now but it must also be specific enough to avoid vagueness or being too general. It must provide a continuous check of whether the product offering matches the need and the demand. The risk of a broad mission statement is a lack of business focus and a dilution of effort. The mission statement must indicate the direction the organisation is following and must inspire action by employees towards that direction. It must also, where necessary, specify what the organisation does not do.

Each mission statement is unique and reflective of the individual ideals of the corporation. The mission statements largely reflect top priorities for companies which differ from one organisation to the next. Most often, companies include employees, shareholders and customers issues in their mission statements.

There are differing views regarding the incorporation of profit into mission statement. Falsey (1989) suggests that profit be included because profits are the basis of the free-enterprise system. Profits measure how well a company is performing. A company that cannot produce a profit cannot continue to exist for a prolonged period of time. Even those companies considered non- profit must at least live within monetary constraints for long- term survival and must preserve resources.

Thompson and Strickland (2003) state that the mission is not to make a profit but profit is more correctly an objective and a result of what the company does. The desire to make a profit does not describe the business arena or business concept in which profits are achieved. The company should rather answer the question, "What will we do to make a profit?"

It is now common practice that functional departments devise their own mission statements. Since a mission statement helps to focus efforts, define roles, activities and inspires employees to optimum performance, it is appropriate that each department have its own mission statement provided it contributes to the overall company mission.

2.4 STRATEGIC VISION

Strategic vision reflects management's aspirations for the organisation and its business, providing a broad view of where it is going and giving specifics about its future business plans. It spells out the long-term business purpose, points it in a particular direction and charts a strategic path for it to follow. The key difference between the mission and vision is that the former is concerned about the present i.e "Who we are and what we do" whereas the vision is concerned about the future i.e "What do we want to become? How will we go about it? and Why?" The strategic vision statement therefore has much greater direction-setting and strategy-making value (Thompson and Strickland 2003).

A well chosen strategic vision statement prepares the company for the future and forces managers to think creatively about how the future can be shaped. To achieve this managers are required to be realistic about the changes in the market, the competitive, technological, political, and regulatory environment as well as the company's resources and capabilities. Managers must study, and observe trends objectively in order to provide for the long- term future of the organisation as dictated by the environmental factors.

To a large extent, having a strategic vision statement prepares the company to think about sustaining success rather than responding to developments and market occurrences. It offers the company the opportunity to respond positively to new opportunities and to identify opportunities in a changing environment.

According to Thompson and Strickland (2003), a well- conceived, well- stated strategic vision pays off in several respects:

- It crystallises senior executives' own views about the organisation's long- term direction;

- It reduces the risk of rudderless decision making;

- It conveys organisational purpose in ways that motivate organisation members to make a concerted effort;

- It provides a beacon that lower level managers can use to form departmental missions, set departmental objectives and craft functional and departmental strategies that are in sync with the company's overall strategy; and

- It helps an organisation prepare for the future.

2.5 VALUE STATEMENT

The mission statement informs who the company is and what it does, the strategic vision refers to what the company aspires to be in the future and the corporate values refers to the rules the company adopt to reach its destination. A company has certain corporate values and it is very important to take these into consideration when formulating its strategy.

The expression 'corporate culture' is generally used to refer to the attitudes, opinion and behaviour patterns through which these basic values are expressed. Corporate culture can be considered to be a manifestation of the values that are expressed in and influence, amongst others, organisational structure, external relations, business concept (Karlöf 1987).

Some progressive organisations have established various codes (code of conduct, code of ethics, code of best business practice, etc) of behaviour which emanates from the established value system. The value statement is the mirror for the organisation on how it relates to its business, its environment and to the social aspects of its community. Most communities judge the company by what it says, and what it does and social expectations as defined by societal principles, norms and standards.

The King II Report on Corporate Governance for South Africa (2002: 102) contends that the existence of – and demonstrable adherence to established principles of ethical conduct provide a strong measure of organisational integrity. A company's ethical principles represent a major motivator for stakeholders' involvement with it and as such, should permeate its culture, motivating its strategy, business goals, policies and activities. The core ethical principles that all companies should aspire to, and that will demonstrate a commitment to organisational integrity are, fairness, transparency, honesty, non-discrimination, accountability and responsibility, respect for human dignity, innovation etc.

With modern emphasis on good corporate governance standards, and social demand for conformance thereto, it is important that value standards must be established and communicated to all staff. The most important values which contribute to the success of the business, according to Karlöf (1987:23) are:

- Hard work;
- Risk -taking, rewards and penalties;
- Energy drive and initiative/innovation;
- Intelligence and training;
- Respect for human beings as a resource in general and for employees in particular as contributors to success; and
- Recognition that customers and their needs are the point upon which business turns.

2.6 SETTING OBJECTIVES

The purpose of setting objectives is to convert managerial statements of strategic vision and business mission into specific performance targets encompassing the results and outcomes the organisation wants to achieve. Every unit within the company must have concrete, measurable performance targets that contribute meaningfully to achieving the company objectives. Objectives are the destination for the organisation and it is important that the destination is identifiable and known to all employees so that they will all work towards one direction.

The company's well- being is determined by its competitiveness and overall long- term business position. If the company concentrates on short term goals e.g profitability without a long term view, its competitive strength and long- term position will be jeopardised (Thompson and Strickland 2003).

Ideally, objectives must stretch the organisation to reach its full potential which means that the objectives must be challenging enough to energise the organisation and its strategy. The recent trends of paying incentives for performance have, to some extent tempted management to concentrate on short- term achievements at the expense of long- range objectives. There are always dangers when management is tempted by immediate gains in profitability even when it means sacrificing strategic moves that would build a stronger business position. The sure path to sustained future profitability year after year is to pursue strategic actions that strengthen the company's competitiveness and business positions.

Pearce and Robinson (1991), identifies seven criteria to be used in preparing long- term objectives and these are: acceptable, flexible, measurable over time, motivating, suitable, understandable and achievable.

2.6.1 Acceptable

The objectives must be acceptable to all participants in the organisation, particularly those responsible for attaining them. Managers are most likely to pursue objectives that are consistent with their preferences and may ignore or even obstruct the achievement of objectives that offend them or that they believe to be inappropriate or unfair. Management and staff are more likely to reject or reluctantly implement objectives which are felt to be dictated from the top. It is important, therefore, to consult and canvass the opinions of staff and obtain their buy-in of the objectives before adopting them. Long- term objectives must also be acceptable to all stakeholders including those outside the firm.

2.6.2 Flexible

Objectives should be geared to withstand the challenges of the dynamic competitive and environmental changes. Flexibility, however, must not be applied to undermine consistency in pursuing them. Changes made to objectives must be well thought out and appropriate for the purpose. Any changes to objectives must be communicated accordingly, to ensure that every resource in the organisation pursues the same objectives.

2.6.3 Measurable

Objectives must clearly and concretely state in quantitative terms what is to be achieved and when is it expected to be achieved. Generic objectives does not inspire any action and end up being statements of intent. Objectives set in quantitative terms motivates the organisation towards achieving such and informs the organisation when it reaches its destination.

2.6.4 Motivating

There is general assumption that people are most productive when objectives are set at a level meant to challenge them i.e must be high enough to challenge but not so high as to frustrate or so low as to easily attain. Objectives must be negotiated with groups and be tailored for specific groups according to their strengths and capabilities. Developing objectives requires time and effort but objectives of this kind are likely to motivate.

2.6.5 Suitable

Objectives must be suited to the broad aims of the firm as articulated in the mission statement. Each objective must be a step towards attainment of overall broader goals. Objectives which contradicts the mission statement are confusing and must be avoided.

2.6.6 Understandable

Strategic managers at all levels must understand what is to be achieved and also the criteria by which performance will be evaluated. Objectives must be clear, meaningful and unambiguous. They must also be communicated concisely to all employees, limiting any possibilities of misinterpretation.

2.6.7 Achievable

Objectives must be possible to achieve. Various developments causes the attainment of objectives impossible and this could create uncertainties. Caution must be made to avoid too optimistic objectives and also ambitions of certain managers. This could be the result of exaggerating capabilities of resources or misreading the opportunities in the market. Unattainable objectives demotivates staff.

2.7 THE PROCESS OF STRATEGY DEVELOPMENT.

There are a number of ways in which a company strategy is developed and this could differ from company to company depending on various internal circumstances. The process of developing a strategy is important because it impact on its implementation and effectiveness.

Ambrosini (1998:182) identifies six dimensions of strategy development process framework which influences the outcome of the process and the product. These are:

2.7.1 Planning

In this respect, strategy is developed through analytic, intentional, sequential and methodical procedures. The strategic goals are set by senior managers and the organisation and environment are analysed, objectives set and strict implementation plans developed. The strategies are communicated throughout the organisation through formal structures.

2.7.2 Incrementalism

Strategy is developed in an evolutionary but purposeful manner, and adaptive process of trial and error. The strategies are continually adapted to match changes in the operating environment. Continuous assessment of relevance and fit are done. Strategies are developed with tentative commitments and flexibility and review is expected. Experimentation during implementation occurs and any traces of success are supported with resources.

2.7.3 The Cultural Dimension

In this instance, the strategy is directed and guided by the culture of the organisation, its history, shared assumptions and beliefs of its members. The 'way of doing things 'in the organisation impacts on the strategic direction. They evolve in accordance with assumptions based on the past experience and history which guides strategic options and actions. Any strategy which does not fit with the culture is resisted.

2.7.4 The Political Dimension

The strategy is developed through a process of process of bargaining, negotiation and influence between internal interest groups. Each interest group seek to attain its own objectives and power influence normally dictates the strategic options selected due to its ability to control resources. Coalitions could be formed but at the end, the strategy acceptable to the most powerful interest group is developed and implemented.

2.7.5 The Command Dimension

The strategy is defined and determined by a particular powerful individual within the organisation. The individual is the driving force in the organisation and the aspirations of the individual becomes the direction of the organisation. The individual normally commands a power base and has high level of control in the organisation. This is also typical when the vocal individual dominates the proceedings in the organisation. Some of these individuals are visionaries and this represents the strategy of the organisation.

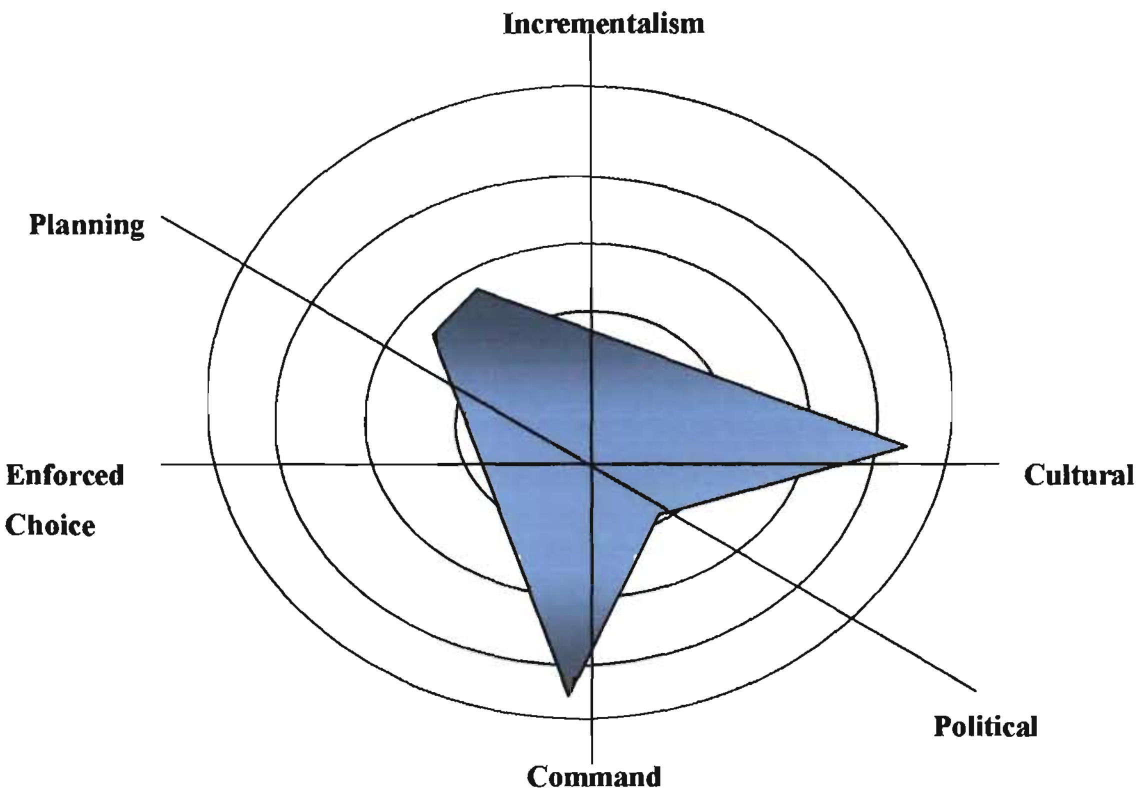
2.7.6 The Enforced Choice Dimension

The strategy is developed as a result of external pressures which limit an organisation's ability to determine its own strategic direction. Strategies are prescribed by the operating environment and the choices are constrained by external forces outside of the control of the organisation. Strategic choices are limited by the barriers created by the environment which the organisation is unable to influence.

These dimensions can be put graphically to indicate the state of each firm:

Figure 2.2

The Process of Strategy Development



(Source: Ambrosini, 1998:186)

Figure 2.2 depicts an organisation with very formal strategic planning processes and the command factor is high (conformity) and there are low political factors at play but the cultural influences on how things are done is also strong. This is a typical hierachical, bureaucratic, proud organisation but not progressive.

2.8 STRATEGIC ANALYSIS

Factors external to the organisation influence its operations and directions in many ways. That environment presents firms with opportunities, threats and constraints.

The macro environment factors consist of influences within the industry as well as the firm's immediate environment. It is important for managers to understand the environment because most often, the changes in the organisation reflect the environment otherwise the relevance of the firm becomes questionable. The firm that is first to perceive and exploit macro environmental changes can gain a valuable competitive advantage on the market.

Macro environmental analysis provides an understanding of both current and potential changes in the environment. This understanding help in anticipating the future and in devising short term tactical initiatives. Also, macro environmental analysis provide critical inputs to strategic management. This analysis must provide relevant and useful information for decision making. Further, macro environmental analysis facilitates strategic thinking and brings fresh viewpoints into the organisation, Fahey and Randall (1994: 196).

Lynch (1997: 92) adds that special attention need to be directed to the nature and strength of the forces driving strategic change i.e the dynamics in the environment. The environmental forces surrounding the organisation can be assessed according to their changeability and predictability. Changeability comprises complexity and novelty. Complexity relates to the extent to which the environmental factors jointly or individually affect the organisation. For example, an organisation operating in international markets with rapid technological change and influenced by changing social, economic and political influences would be different from a locally based firm operating in a stable market. Complexities sometimes presents novelties which are themselves potentially opportunities which could be exploited.

Predictability relates to the degree to which changes in the environment could be anticipated. This is influenced by rate of change and visibility of the future in terms of the availability and usefulness of the information used to predict the future. Lynch (1997: 92) discusses complex dynamics in the environment where turbulences could be repetitive, expanding, changing, discontinuous or surprising. These are further influenced by changeability and predictability of the environment.

When the turbulence is low, it may be possible to predict the future with confidence and high certainty. When the turbulence is higher such predictions may be meaningless. The changeability elements influencing the organisation may contain many complex items and the novelty being introduced into the market may be high. For example, in the internet era, new ideas, new software, new purchasing habits and new lifestyles resulted. These trends could have been traumatic for industry participants who never anticipated them and therefore, unprepared to deal with them appropriately.

If the turbulence is high and unpredictable, it is important for the organisation to remain responsive and flexible to adapt quickly to changes through quick decision making in such situations. Also the information processing ability is essential to pick up the trends and be able to identify only the most important elements of the environmental change. These high turbulence changes are a likely feature in the new global village currently emerging.

2.8.1 Segments of the Macro Environment

There are four principal commonly identified segments of the macro environment, namely, political, economic, social and technology (PEST). Due to the increase in the lobby groups for environmental preservation and conservation as well as the need for compliance and conformance by organisations, Johnson and Scholes (1993: 83) identified ecological and legal factors as additional segments (PESTEL).

2.8.1.1 Political Environmental Factors

The political segment incorporates all electoral processes and administrative, regulatory and judicial institutions that make and execute laws, regulations and rules. In case of political instability, most firms are adversely affected so as in times of possible changes in the political regime. Also the changes in the legislation could also have direct effects on the firm as well as its employees and consumers. The changes in the tax and labour legislation could affect the profitability of the firm as well as relations with employees and in turn affect the price to consumers and also demand for the products.

2.8.1.2 Economic Environmental Factors

The economic environment consists of a general set of economic conditions facing all industries. Economic activity is reflected in the levels and pattern of output, consumption, income, savings, investments, productivity, consumer expenditure, inflation, interest rates, currency fluctuations and exchange rates, unemployment and the cyclicality of the economy. These factors affect all industries but the extent and the impact on each would differ from industry to industry. Changes in the overall economic activity directly affect the supply and demand aspects of all industries.

Strategic managers must identify those economic factors which offers opportunities or threats or constraints in so far as the firm's markets, products and consumers are concerned. Sometimes it is not one single factor which has a bearing on company performance, but a combination of factors which need to be considered simultaneously to determine their impact on the organisation.

2.8.1.3 Social Environmental Factors

The social factors that affect the organisation involve beliefs, values, attitudes, opinions and lifestyle of individuals in the organisation's external environment. These are developed by the cultural, ecological, demographic, religious, educational and ethnic conditioning of the society (Pearce and Robinson 1991). The most profound social changes in South Africa recently has been the economic empowerment of blacks and women. The entry of women into the labour market has resulted in changes in household consumption patterns, birth rates as well as changes to the labour policies of most companies in terms of their compensation policies. The other important social change has been a move to accelerate the quality of life of most previously disadvantaged communities. This has resulted in increased electrification of houses with the expected resultant increase in demand for white goods and electrical appliances. Translating social changes into forecasts is always difficult but if well managed, the timely shifting of resources due to shifts in population distribution could provide a short- term competitive advantage for the firm.

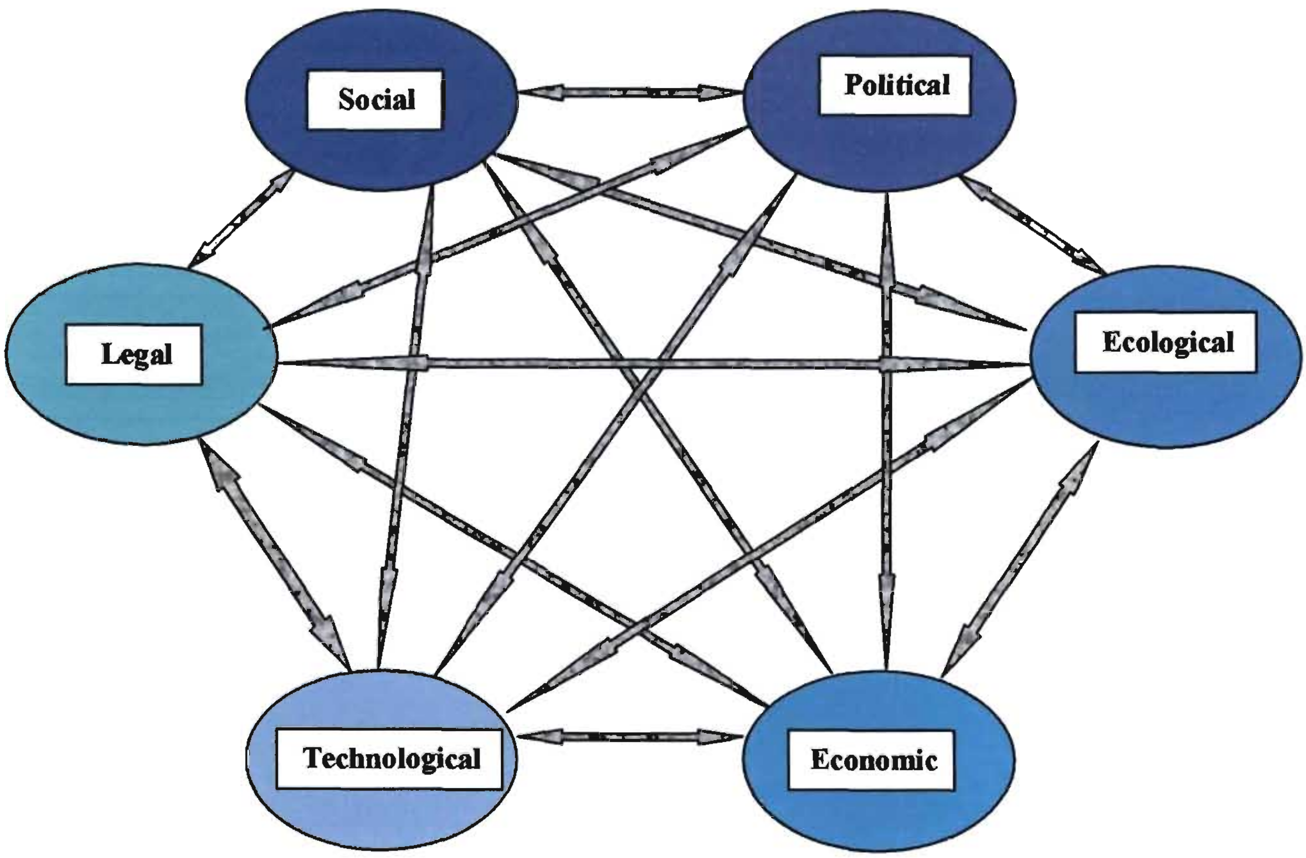
2.8.1.4 Technological Environmental Factors

The technological segment is concerned with the level and direction of technological progress or advancement taking place in the society. This would include new products, processes, systems and other scientific fields. To avoid obsolescence and promote innovation, the firm must not only be aware of technological changes but must constantly update and advance its processes and technology either to remain competitive or to lead the industry. Technological breakthroughs can have a turbulent effect on the firm's environment and the firm must foresee such developments. Technological forecasting can help protect and improve the profitability of organisations and alert managers to both impending challenges and promising opportunities.

The macro environmental model is shown below:

Figure 2.3

Macro Environmental Model.(Pestel)



(Source: Adapted from Fahey and Randall, 1994 201).

What is observable from the model in Figure 2.3 are the linkages between segments. Every segment impacts on or influences another and therefore it can be concluded that the macro environment is an interrelated system of segments. The relevance of understanding linkages of the segments vests with the subsequent analytical stages of scanning, monitoring, forecasting and assessing current and future environmental changes.

Organisations must frequently scan the environment in order to identify indicators of current and potential changes and issues in all segments. Scanning must be able to forewarn against threats as well as be sensitive to opportunities. Should this happen, an organisation gains valuable lead time to understand the implications and consider its options for actions, thereby gaining the advantage of being 'first to market'.

According to Fahey and Randall (1994), monitoring involves tracking macro environmental changes over time. The trends, events and activities that the organisation tracks may have been identified during scanning. The purpose of monitoring is to assemble sufficient data to ascertain if there are patterns emerging. Monitoring is an ongoing process and as trends accumulates, it is possible that certain patterns could emerge which initially would not have been picked up. The outputs of monitoring is threefold:

1. A specific description is produced of the environmental pattern to be forecast;
2. The identification of trends and patterns for further monitoring; and
3. Identification of patterns requiring future scanning.

The third stage is forecasting where the intention is to develop credible and relevant projections of the scope, direction, speed and intensity of macro environmental change. There are two types of forecasting, the first involves projections based on trends that are evident and can be expected to continue over time into the future. The second type of forecasting is a scenario which is a depiction of how one future might unfold. Scenario planning is useful where a long-term view of strategy is taken where there are limited factors influencing the success of that strategy. In drawing up scenarios, information such as key assumptions, historical trends and key inputs are required to build logical, consistent, possible futures on the basis of optimistic future, pessimistic future and dominant futures. (Johnson and Scholes 1993:85).

2.8.2 Industry Environment Analysis

Industries differ in their economic characteristics, competitive situations and future profit prospects. The economic character of industries vary according to overall size, market growth rate, pace of technological change, the number and size of buyers and sellers, the extent to which products are identical or differentiated and also how costs are affected by economies of scale.

The competitive forces on one hand can be fierce or moderate. Both the economic traits and competitive structure determine the profit prospects of the industry. The more attractive the industry is, the more profitable it is likely to be and also more competitive.

As the industry and competitors influence change, it is important to identify trends and new developments that produce change. The most dominant force that influences change is called the driving force. It is important to identify the driving force and to assess the impact it will have on the industry. The most important driving forces of this era are the internet and e-commerce, globalisation, changes in industry growth rate etc. Sound analysis of an industry's driving force is a prerequisite to sound strategy making. Without an awareness of the effect of external factors on the company's business over the next two to three years, the potential for managers to be ill-prepared to craft a strategy appropriate and tightly matched to emerging conditions, is higher (Thompson and Strickland 2003).

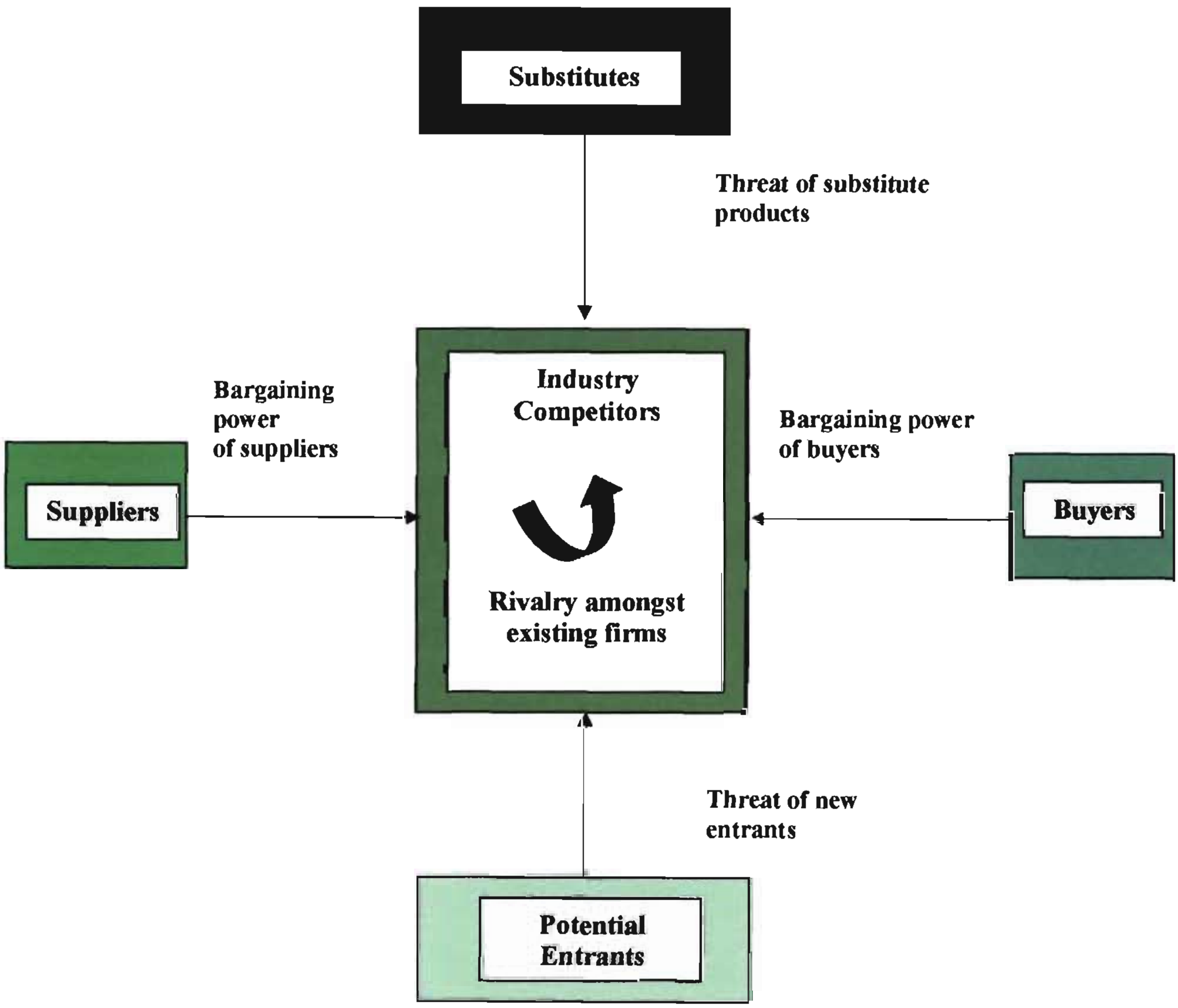
The other determining factor of industry analysis is the strength of firms with similar competitive approaches and positions on the market. In this instance, the competitive characteristics to be identified are price/quality range, geographic coverage, degree of vertical integration, use of distribution channels and the degree of service offered. These factors influence the industry's ability to prosper or are referred to as key success factors. This relates to product attributes, resources, competencies, competitive capabilities and business outcomes.

Determining the industry's key success factors is a top priority analytical consideration. There is a need to know what kind of resources are competitively valuable. A company with an understanding of the industry key success factors can gain sustainable competitive advantage by devoting its energies to being distinctively better than competitors in one or more areas (Thompson and Strickland 2003: 108).

2.8.3 Competitive Analysis

The essence of strategy formulation is to outperform competitors. It is therefore an important component of the analysis to understand the competitive process in the industry and discover the main sources of competitive pressures. The Porter's Five-Forces Model in Figure 2.4 is the most relevant framework for analysing the nature and intensity of competitive forces. These forces are:

Figure 2.4
Five Forces Model of Competition



(Source: Pearce and Robinson:, 1991: 88)

The strongest competitive forces determine the profitability of an industry and are also of paramount importance in strategy formulation.

The characteristics of these forces are:

2.8.3.1 The Threat of Potential New Entrants

New entrants approach the market when profit margins are attractive and entry barriers low. The expected reaction of existing firms to new entrants could also be the determining factor. New entrants to an industry bring new capacity, a desire to gain market share and often new resources.

Pearce and Robinson (1991: 89) identify six barriers to entry which organisations use in one way or the other to protect their market share and future business:

❖ *Economies of Scale*

Scale economies deter entry by forcing the aspirant to either come in on a large scale or to accept a cost disadvantage and consequent lower profitability. In trying to overcome this disadvantage, the alternative is to enter on large scale and create over-supply in the market. The likely reaction is that this will affect existing firms who might retaliate by possibly cutting prices, increasing their advertising or sales promotions.

❖ *Product Differentiation*

Brand identification creates a barrier to entry by forcing the new entrant to spend heavily to overcome customer loyalty to existing brands. Establishing brand recognition and building customer loyalty can be a slow process and is therefore a deterrent to new entrants as the investment made may take long to realise. Also, consumers might be reluctant to switch due to established loyalty.

❖ *Capital Requirements*

The larger the expenditure required to enter the market successfully, the more difficult for entrants to be attracted to the market especially if the capital required is not recoverable e.g up-front advertising. The higher the profit prospects and shorter payback period, the more attractive the industry is and the greater the likelihood of new entrants.

❖ *Cost Disadvantages Independent of Size*

The new entrant may be faced with disadvantages not experienced by existing firms emanating from accumulated experience and learning over time. These costs can pertain to gaining access to the best raw materials, assets purchased at pre-inflation prices, a favourable location, government subsidies etc. These advantages are difficult to capture even over an extended period of time, resulting in the new entrant earning lower profits than its more established competitors.

❖ *Access to Distribution Channels*

A potential entrant may be faced with limited ability to access consumers. Retailers and wholesalers may be reluctant to take on a product with no consumer recognition or market position. The new entrant might, as a result, have to incur additional costs to gain favours of the retailers and wholesalers.

❖ *Government Policy*

The government can limit the number of role players in certain industries which requires licensing. The cellular industry in South Africa is a prime example where the operators are limited to three thus far.

Thompson and Strickland (2003) add another barrier relating to the inability to match the technology and specialised know-how of firms already in the industry. Successful entry may require technological capabilities not already available to a newcomer or skills and know-how not easily learned.

2.8.3.2 The Rivalry among Competing Sellers

This force is stronger if a number of sellers are jockeying for position in the market. Very often, this results in price competition where prices could temporarily fall below cost and participants may experience losses. The alternatives are efforts towards differentiation which includes offering buyers attractive features and out-competing rivals with high quality, providing superior after- sales service or a stronger brand image. The intensity of competition depends on how each competitor responds to the above tactics. The extent of the rivalry also depends on how much of their resources the competitors are prepared to expend on offensive or defensive strategies.

Intense rivalry is related to the presence of a number of factors such as whether competitors are numerous or are of roughly equal size and power, industry growth is slow precipiting fights for market share or exit barriers are high.

2.8.3.3 Competitive Pressures from Substitute Products

The presence of readily available and attractively priced substitutes creates competitive pressure on existing firms by placing a ceiling on how high their prices could be before consumers consider switching to substitutes. A readily available substitute causes consumers to compare prices, features, quality, and ease of use. Also, the switching costs to the consumer is the determining factor of the rivalry in the industry.

In summary, the lower the price of substitutes, the higher their quality and performance and the lower the user's switching costs, the more intense the competitive pressures by substitute products, Thompson and Strickland (2003).

2.8.3.4 Competitive Pressures Stemming from Suppliers Bargaining Power

Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of the purchased goods. Powerful suppliers can therefore determine the profitability of the industry especially if price increases cannot be passed on to consumers.

Suppliers also tend to have less leverage over price and other terms if the company they are supplying is a major customer and their well-being is dependent on the success of the customers. Also the bigger the threat of backward integration into the suppliers business, the more leverage users have to negotiate favourable terms. In more and more industries, rival sellers are electing to form strategic alliances with suppliers to promote just-in-time deliveries and reduced inventory costs, speed up research and development initiatives, improve quality and reduce suppliers costs and pave the way for lower prices. This collaboration however, could be to the disadvantage of other customers who are in competition with the supplier's strategic partner.

2.8.3.5 Competitive Pressures Stemming from Buyer Bargaining Power

The buyers have a profound influence on the seller if they are large and purchase a sizeable percentage of the industry output. Purchasing large quantities gives the buyer leverage to obtain price concessions and other favourable terms. Pick n Pay and Shoprite /Checkers in the South African retail sector, are popular for 'demanding' favourable terms from certain suppliers and presumably, because of their size and buying power, these suppliers are bound to oblige.

Thompson and Strickland (2003: 91), identify five circumstances where buyers can have a bargaining leverage over sellers:

- The buyer's costs of switching to competing brands or substitutes are relatively low;
- If the number of buyers is small or if a customer is particularly important to a seller;
- If buyers are well-informed about sellers' products, prices and costs;
- If buyers pose a credible threat of integrating backward into the business of sellers;
- If buyers have discretion of whether or not and when they purchase the product.

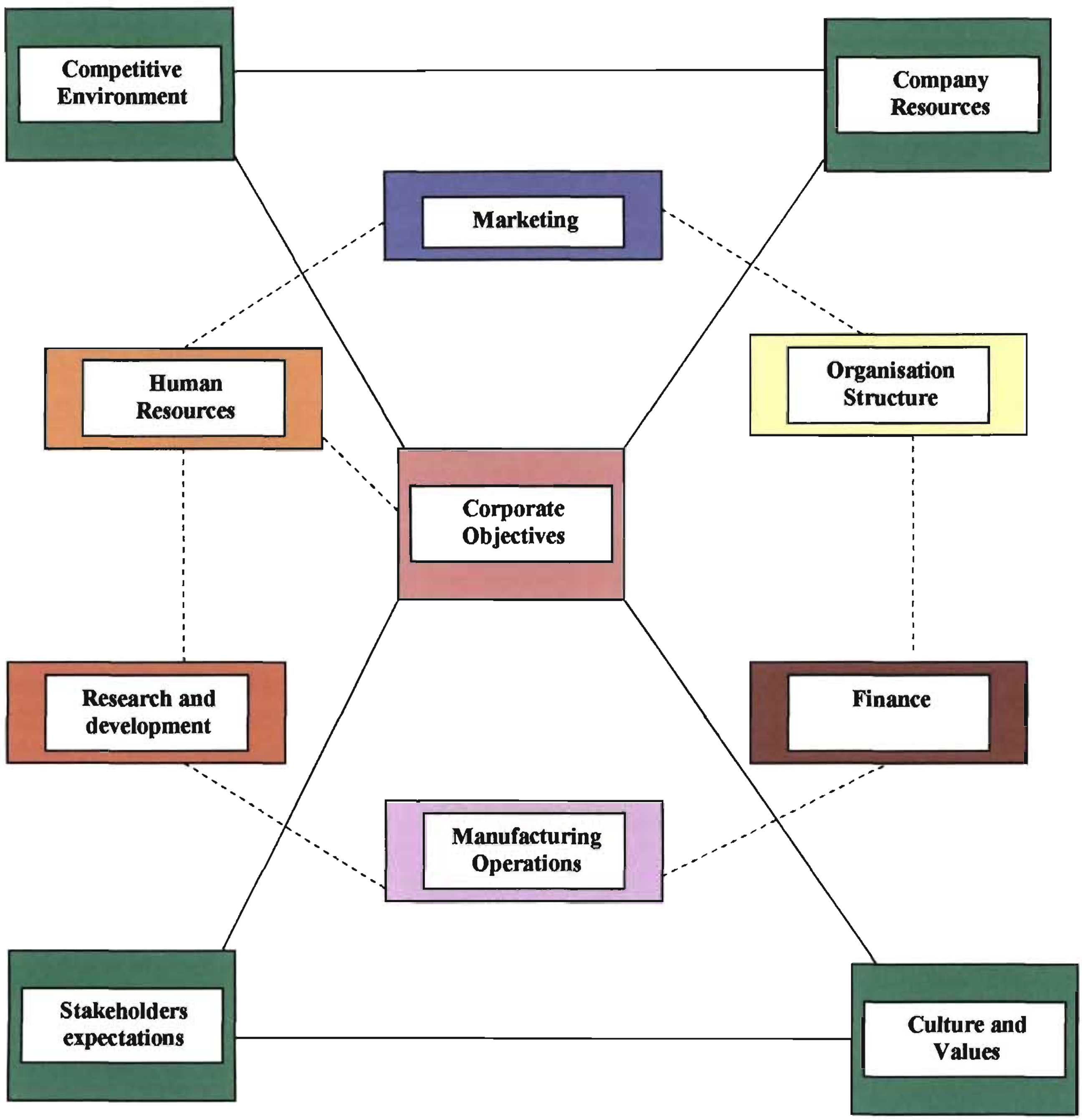
2.8.4 Analysing Resources and Strategic Capabilities

The formulation of the strategy is dependent on the company's ability to evaluate its resources and strategic capabilities to effect the strategy. These capabilities would, in all probability, have been built up over time through old strategies. The capabilities of most organisations are fundamentally determined by the separate activities undertaken in designing, producing, marketing, delivering and supporting their products and services. Capability is concerned with the overall balance of resources and mix of activities. It is the understanding of these various value activities and the linkages between them which is crucial when assessing strategic capabilities (Johnson and Scholes 1993). The organisation's resources are not confined to activities which the company owns. Strategic capability is strongly influenced by resources outside the organisation which are an integral part of the chain of activities from product design through to production and ultimately distribution of product to consumers of the organisation. The ability to blend the environmental forces and internal resources is an integral part of obtaining competitive advantage.

This integrated approach is depicted in Figure 2.5 as follows:

Figure 2.5

Matching The Organisation and The Environment



(Source: Thompson 2001: 332)

The competitive environment, company resources, culture and values and stakeholder expectations are seen as key strategic elements linked to corporate objectives. These elements are reasonably fixed as they cannot be changed at short notice. The six operating elements are:

- Marketing which relates to how the various products and services are positioned in relation to competitors and how they are priced, advertised and distributed;

- Manufacturing / operations involves the types of production processes, service delivery, business processes, location and technology utilisation;

- Finance incorporates performance targets and sources of funding;

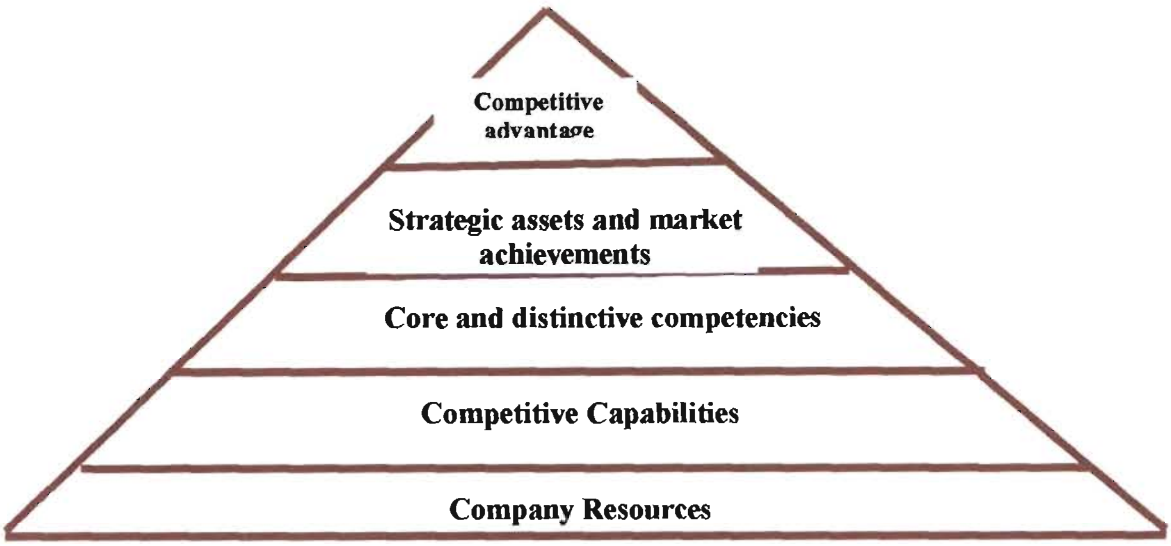
- Research and development considers how much to spend on research and development and whether short or long term perspectives are considered;

- Human resources relates to the type of people utilised, their skills, commitment, motivation and reward system;

- Organisation structure incorporates how functions are organised and co-ordinated, the systems, procedures and rules and power structure are controlled.

These operating elements determine whether or not the corporate objectives are met. The stronger the company's overall performance, the less likely is the need for radical changes to existing strategy. Company strengths have diverse origins. Sometimes they relate to specific skills and expertise of employees (human capital). Sometimes they are a result of different resources teaming together to create competitive capability. These elements combined i.e company's skills and expertise, its intellectual capital, its competitive capabilities, its unique strong competencies, its collection of strategically valuable assets and its achievements determine the complement of resources with which it competes (Thompson and Strickland 2003). Diagramically this is shown in Figure 2.6.

Figure 2.6 - Mobilising Company Resources to Produce Competitive Advantage



(Source: Thompson and Strickland, 2003: 119)

While the strength is something a company is good at, a weakness is something a company lacks or does poorly. Internal weakness can relate to deficiencies in competitively important skills or expertise or intellectual capital, a lack of competitively important physical, organisational or intangible assets, or missing or weak competitive capabilities in key areas. A weakness may or may not make a company competitively vulnerable, depending on how much the weakness matters in the marketplace.

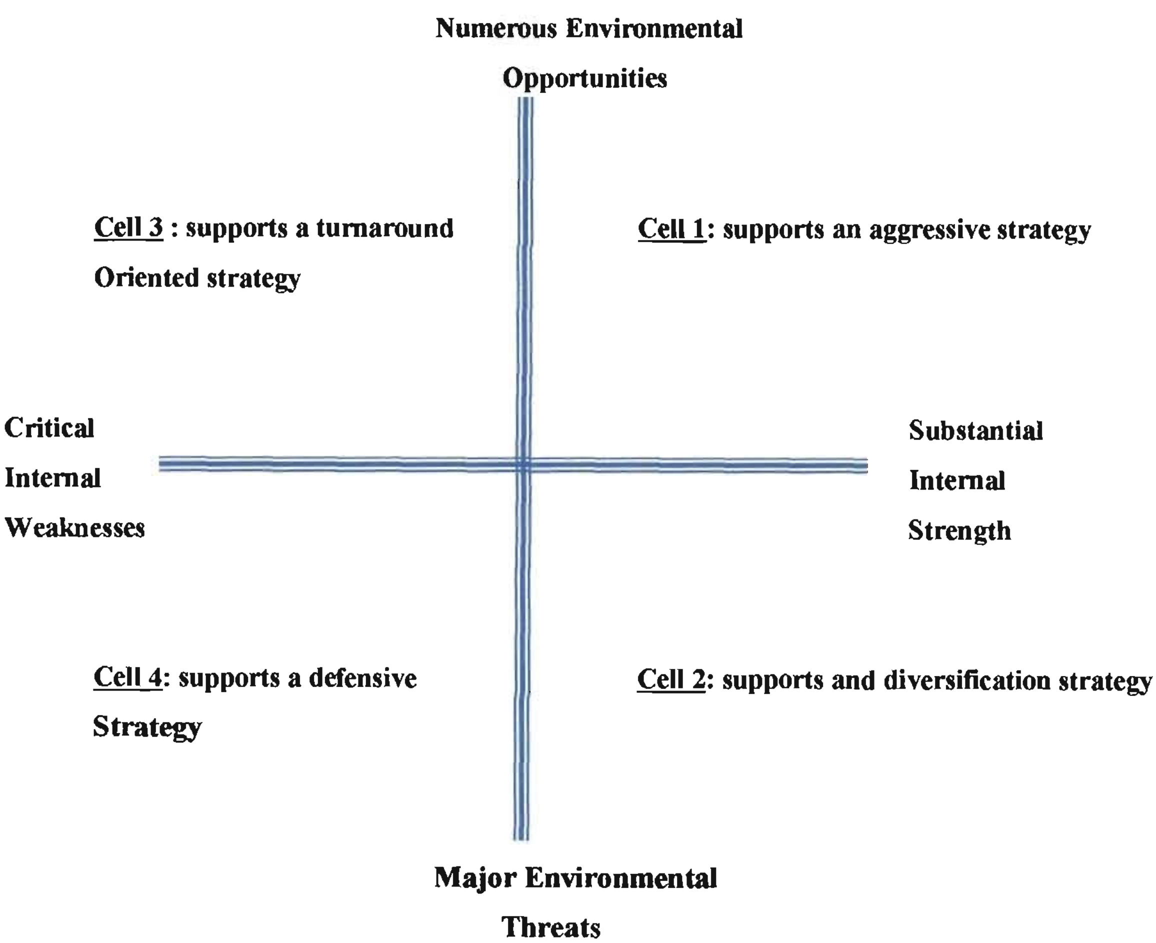
It is important for the company to identify key competencies and those competencies which are distinctive. The importance of a distinctive competence in strategy making is that it provides the company with a valuable capability which gives the company a competitive edge on the market. This edge enables the organisation to earn above average profits than competitors. In this respect, Robert (2002) refers to competitive supremacy, meaning that, a company needs to have a strategy that establishes a significant and sustainable point of differentiation – one that enables it to add unique value that competitors will have difficulty duplicating. It is a component unique to the organisation and is the key determinant of the choices management makes with regard to future products, future customers and future markets..

2.8.4.1 S.W.O.T Analysis

The company must evaluate and understand its strengths, weaknesses, opportunities and threats (SWOT) and draw a conclusion about how its company strategy can be matched to both its resource capability and its market opportunities and how urgent it is for the company to correct resources weaknesses and guard against external threats. It also needs to provoke thinking about future resources strengths and capabilities that the company will need to respond to the changing competitive situation in order to produce sustainable profits.

SWOT analysis can also be used to aid strategic analysis as shown in Figure 2.7.

Figure 2.7
Swot Analysis Model



(Source: Pearce and Robinson, : 1991 : 184)

In the model, the external opportunities and threats are compared with internal strengths and weaknesses. The objective is the identification of distinct patterns in the match between internal and external environment. Cell 1, is the most favourable situation where a firm is faced with several environmental opportunities and has numerous strengths that encourage the pursuit of opportunities. This situation requires growth-oriented strategies to exploit opportunities. Cell 4, is least favourable where the firm faces major environmental threats from a position of internal weakness. This calls for strategies that reduces or redirect involvement in the market. Cell 2 shows, a firm with key strengths that faces unfavourable environment. Strategies for this firm would use current strengths to build long-term opportunities in other product markets. In Cell 3, a firm faces impressive market opportunity but is constrained by internal weaknesses. The focus should be to eliminate internal weaknesses in order to pursue the market opportunity (Pearce and Robinson, 1991).

2.8.4.2 Strategic Cost and Value Chain Analysis

For a company to be competitively successful, its costs must be in line with those of close competitors. A high cost organisation's market position becomes vulnerable if its costs exceed those of competitors. Price cost comparisons are especially critical in a commodity product industry where value provided to buyers is similar for all sellers. In this instance, lower cost producers have the upper hand of being price leaders. Each company's business consists of a collection of activities undertaken in designing, producing, marketing, delivering and supporting its product or service. Each of these give rise to costs. Value chain is an analytical tool used for identifying the separate activities, functions and business processes that are performed in designing, producing, marketing and delivering and supporting a product or service (Thompson and Strickland, 2003 :).

A company's value chain shows the links between activities and functions performed internally. These include operations, marketing and sales and service. Inbound and outbound logistics involves outside parties who also add value to the chain prior or after production. The cost structure of these outside parties also impact on the final price of the product reaching the consumer. Each activity in the value chain incurs costs and ties up assets. Assigning the company's operating costs and assets to each activity provides a cost estimate for each activity. Suppliers may have excessively high cost structures or profit margins that prejudices the company's cost competitiveness even though its internal cots are competitive.

Accurately assessing a company's competitiveness in end-user markets requires that the managers understand the entire value chain system for delivering a product or service to end users. A company must work with its suppliers and distribution channels participants to revise their value chain in ways that promote mutual competitiveness.

Another method of cost comparison with competitors is benchmarking the cost of key activities with that of competitors. Benchmarking enables the company to determine if the manner of performing certain activities, functions and tasks matches the industry's best practice. The objective of benchmarking is to identify the best practice in performing an activity, to learn how other companies achieve lower costs and to take action to improve the company's cost competitiveness.

The manner in which the company manages its value chain activities relative to competitors can allow it to build valuable competencies and capabilities and leverage them into sustainable competitive advantage. However, using the tools of value chain, strategic cost analysis and benchmarking to determine the company's cost competitiveness is necessary and valuable but it does not reveal the company's competitive position and competitive strength. These measures merely put the company on a par with competitors and therefore eliminate weaknesses facing the company. Issues of current and expected market position, how the firm ranks in terms of the industry success factors, and resource capabilities, whether the firm enjoys a competitive advantage over rivals and its ability to improve and protect its market position are important for the organisation success (Rowe et al. 1990).

The quantitative assessment model which is used to determine whether the company is stronger or weaker than close rivals in each industry key success factors and each competitively essential resource and capability is detailed in steps by Thompson and Strickland (2003 : 142 – 143) as follows:

Step 1: List the industry's key success factors and most important competitive strength and weaknesses. The examples of key success factors could be quality/product performance, reputation/image, manufacturing capability, technological skills, distribution capabilities, financial resources etc.

Step 2: Rate the firm and its rivals on each success factor. A Numerical weighting scale of 1 – 10 is best to use.

Step 3: Add the individual strength ratings to get an overall measure of key success factor for each competitor

Step 4: Draw conclusions about the size and extent of the company's net competitive advantage or disadvantage based on strength assessments and note specific areas where the company's competitive position is strongest or weakest.

It is preferable to use the weighted rating system because of differences in importance of each competitive strength measure. In a weighted rating system, each measure of competitive strength is assigned a weight based on its perceived importance in shaping competitive success. Lesser competitive strength indicators can carry low weights of for example 0,05 or 0,1. No matter how big or small the difference in weights, the total sum must be 1,0. Weighted ratings are calculated by deciding how the company fares on each strength measure and multiplying the assigned rating by the assigned weight. Summing a company's weighted strength rating for all measures yields an overall strength rating. Comparisons of the weighted overall strength scores indicate which competitors are in the strongest or weakest competitive positions and who has the biggest net competitive advantage.

Competitive strength assessments provide useful conclusions about the company's competitive situation. The ratings show how a company compares against rivals, factor by factor or capability by capability, thus revealing where it is strongest or weakest against whom. As a general rule, a company should try to leverage its competitive strength into sustainable competitive advantage and take strategic actions to protect against its competitive weaknesses (Thompson and Strickland, 2003: 143).

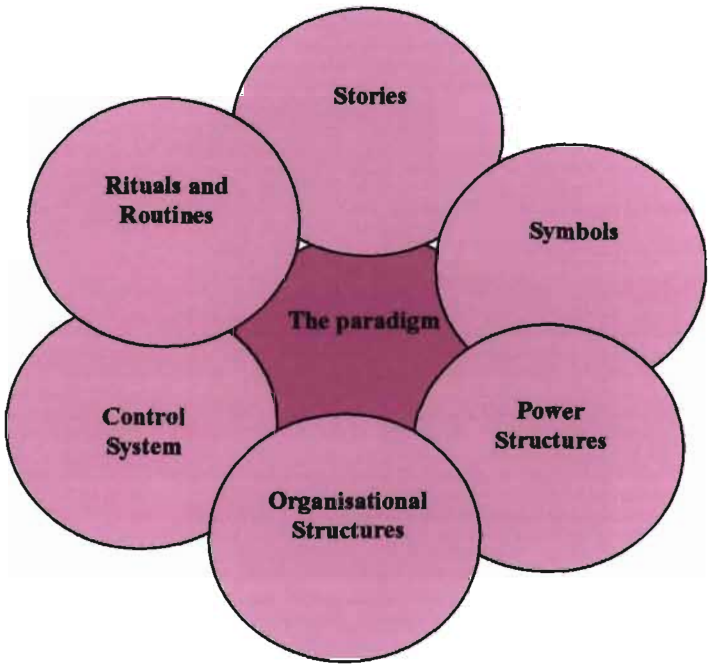
2.8.4.3 ***Analysis of organisational culture***

The influence of culture in the organisation cannot be under- estimated. Some adopted strategies could, to a large extent, be a reflection of the culture of the organisation. Some serious cultural issues within the organisation are taken for granted. The reality, however, is that these issues tend to act as filters through which the organisation in general responds to its internal and external environment.

This established way of doing things could be helpful for two reasons. First, it provides a shorthand way of understanding often complex situations; secondly, it may be the basis of the organisation's success, providing competitive advantage because culture is difficult to imitate. At the same time it can also be a problem for two reasons. First, because information, opinions and new ideas can be filtered out and secondly, because the culture is likely to be very difficult to change, particularly if the success of the organisation has been based upon it in the past (Ambrosini 1998)

It is important to understand the components of the cultural web as illustrated in Figure 2.8.

Figure 2.8
The Cultural Web of an Organisation



(Source: Johnson and Scholes, 2002:230)

Trying to understand culture at all these levels is not easy but is very important. Ignoring these during strategy formulation can easily result in strategic drift because individuals fail to adjust to new demands. According to Johnson and Scholes (2002:230), to understand the dynamics of culture the elements of the web are very important to understand. These elements are:

- The **routine** methods of doing things eventually become rules which everyone must adhere to and not change or challenge. It becomes 'the way we do things around here' and becomes the way the organisation works. This could be beneficial and be a competitive advantage but it could also be a hindrance to progress. Normally these routines are difficult to change and are protective of core assumptions in the paradigm.

- The **rituals** of organisation life are special events through which the organisation emphasises what is practically important and reinforces 'the way we do things around here'! These events include training programmes, promotions, and assessment procedures, gossiping and sometimes even drinks in the pub.

- The **stories** told by members of the organisation to each other, to outsiders and to new recruits, embed the present in its organisational history and flag up important events and personalities (Ambrosini 1998:141). They generally relate to successes disasters, heroes and even mavericks who deviate from the norms. Their influence on the behaviour of people towards the organisation is enormous as they dictate legitimate types of behaviour and tell people what is important and acceptable.

- The **symbols** such as logos, offices, cars, titles, decor or the type of language and terminology being used become a shortened representation of the nature of the organisation. Symbols are often non verbal but are powerful in conveying the essence of what is valued in the organisation. For example routines, control and reward systems and structures are symbolic in so far as they signal the type of behaviour valued in an organisation.

- **Power structures** are also likely to be associated with the key assumptions. The paradigm is the formula for success which is developed over the years. The source of power in the structure which could be based on certain functions, levels or expertise influences the extent to which the organisation will embrace changes or new strategic directions.

- The **control systems** measurement and reward systems emphasise what the organisation perceives as important to monitor and to focus attention and activity upon. This shapes the behaviour of employees and their reactions and their attitudes towards the way to do things. Reward systems are important influencers on behaviour but can prove to be a barrier to success of new strategies. For example, a bonus system based on individual performance could be difficult to change if the organisation wants to promote teamwork. A relevant example is a bonus system based on profits which may result in some organisations' executives inflating profits to earn short- term bonuses.

- The formal **organisation structure** or more informal ways in which the organisations works are likely to reflect power structures and, again delineate important relationships and emphasise what is important. Formal hierarchical mechanistic structures may emphasise that devising a strategy is for top management and everyone else must work to orders.

- The **paradigm** of the organisation embraces and reinforces the behaviour observed in other elements of the cultural web. It is the sum total of all assumptions held about the organisation which sometimes are entrenched in routines and are taken for granted. The identification of the paradigm is the most difficult task. Those things which are taken for granted may be very simple and straightforward but their effects on strategies and the need for change in the organisation's direction cannot be neglected.

2.9 SYNTHESIS OF ENVIRONMENTAL ASSESSMENT

This phase essentially involves a assessment of internal capabilities, SWOT Analysis evaluation and current performance. Having analysed the internal and external environment and identified external threats and opportunities to which the organisation must respond, as well as its strengths and weaknesses, it is important to review the information collected on the organisation's position. This review is in respect of identifying key issues which will impact on the organisation and must of necessity be seriously considered in crafting strategies. The analysis of an organisation's capabilities can help strategic managers to develop strategies that have the best chance of succeeding.

These assessments need to be synthesised and key issues identified so that the organisation can evaluate any target opportunities that it chooses to address. The target opportunities exist within the key issues that surfaced during internal and external assessments. The goal is to look for relationships in the themes identified by the internal and external stakeholders.

The issues are prioritised based on the perceptions and needs identified as crucial for the organisation's future. The issues must then be translated into opportunity statements. Once key issues have been prioritised, they need to be compared to the current mission statement. Either way, there might need to be a change to the mission statement if there are inconsistencies between the mission statement and opportunities (Burkhart and Reuss 1993)

The Capability Profile is a means of assessing a company's managerial, marketing, financial and technical strengths and weaknesses. A capability profile reveals "gaps" that need to be corrected and opportunities that should be pursued. Capability evaluation is generally required when a gap is observed between strategic goals and actual performance. Irrespective of whether the gap is caused by shortcomings in strategy implementation or changes in the external environment, a new strategy is required if the organisation is to reach its goals and objectives.

The conclusions of the competitive position analysis need to be considered in the light of total data collected. This information should identify core competencies. Core competences are important in the development of strategy because they are usually unique to the organisation and therefore important in delivering sustainable competitive advantage. Options that do not address competencies would not contribute to a good strategy. In the evaluation of core competencies, it must be recognised that the organisation may not have all the competencies required to fulfil a strategic vision but it must be capable of acquiring them within required time frames.

According to Rowe et al (1990: 235), the issue of competence is central to three tasks of the strategic manager:

- Identify the organisation's distinctive competence. It includes the organisation's unique resources and capabilities as well as its strengths and its ability to overcome weaknesses.

- Find a niche in the organisation's environment. A niche is a strategic and market segment to which the organisation is well suited. The correct niche enables the organisation to take advantage of the opportunities that present themselves and avert threats from the environment and competitors.

- Find the best match between the organisation's distinctive competence and the available niche.

The review of SWOT analysis will help find the best match between the environment trends and internal capabilities. An effective strategy is one that takes advantage of the organisation's opportunities by employing its strengths and one that wards off threats by avoiding them or by correcting or compensating for weaknesses.

Before embarking on devising a new strategy or an extension of the existing one, it is important to evaluate current performance. The stronger the company's current performance is, the less likely the need for radical changes to its strategy. The weaker a company's financial performance and market standing, the more its current strategy must be questioned and might require major overhaul. The most telling method of evaluating current performance is to review key performance indicators to discover whether the company is achieving its stated financial and strategic objectives and whether the company is an above average industry performer. Other indicators of current performance which are crucial in crafting a strategy according to Thompson and Strickland (2003: 116) are:

- Whether the sales are growing faster, slower, or about the same rate as the market.
- Whether the company is retaining existing customers and acquiring new customers at an attractive rate.
- Whether the firm's profit margins are increasing or decreasing and how well this compare with competitors.
- Trends in net profits, return on investments and economic value added, and how do they compare to the same trends for other companies in the industry.
- Whether the company's overall financial strength and credit rating are improving or declining
- The firm's image and reputation.

2.9.1 Strategic Profile

Having assessed the internal capabilities, evaluated the strengths, weaknesses, opportunities and threats and determined the capability profile in terms of distinctive capabilities and the company current performance, the next phase is to establish the strategic profile. There are two inputs to strategic profile namely, strategic thinking and strategic alternatives.

2.9.1.1 Strategic Thinking

Strategy is about determining the future direction of an organisation. Strategy determination must also not merely be about doing more of the same. It must also be about changing direction if constraints exist in terms of achievement of objectives. Crafting a strategy is therefore a creative process of doing the right thing differently. A strategy must be based on a core idea about how the firm can best compete in the market place.

Ambrosini (1998) refers to the concept as challenging manager's mindsets where SWOT analysis is argued to be the most useful tool to challenge the manager's mindsets by switching the labelling of environmental influences from threats to opportunities. In a sense, this enables managers to see external change from different angles. Similarly, managers might assume that their organisation's current strengths will remain as strengths as the environment changes.

Once the analysed information is synthesised, it becomes important to strategically consider the impact of the strengths, weaknesses, opportunities and threats. Robert (2002) refers to this concept as strategic thinking, defined as the ability to synthesise highly qualitative data into rational strategy. The skill required from strategic managers is qualitative synthesis.

The key to this is to tap into the knowledge base and bring these perceptions into an objective forum for rational debate. The process involves a qualitative evaluation of the business and its environment and is both introspective and extrospective.

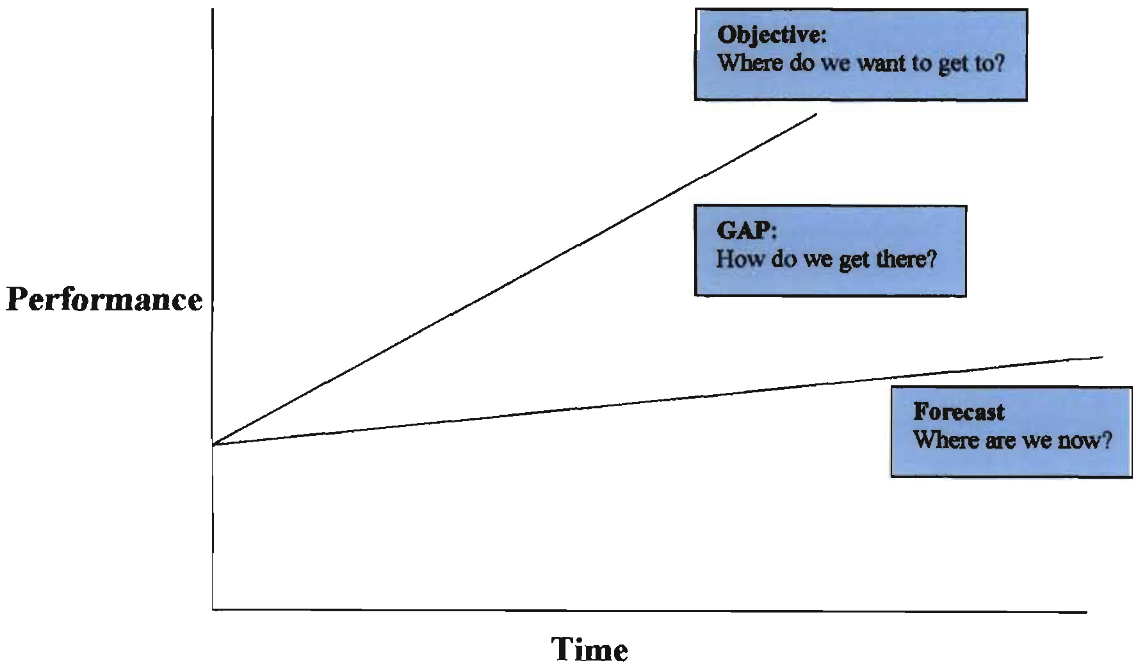
Strategic thinking is an attempt by the CEO and management team to transform their vision into a profile or picture of what the company will "look like" at some point in the future. Unless this picture (profile) is well defined, it will be difficult to communicate to staff and impossible to execute. It is this strategic thinking which has transformed organisations and instilled a desire to be different and stress the points of differences to widen the gap with its rivals.

Robert (2002) further observed that when times are good, and all the charts, graphs and numbers are going through the roof, executives have things on their minds other than asking themselves, "where is the business going?" Only in times of crisis when resources become scarce and these limited resources must be allocated carefully does the need to think strategically surface.

Ambrosini (1998) stresses the need for gap analysis to help managers understand the dynamics of the competitive environment. Such analysis helps the manager to develop strategies to catch market leaders or strategies to stay ahead of the chasing pack. Gap analysis is also about the search for gaps rather than identifying the gap. More usefully still, gap analysis is less concerned with the fact that there is a gap than how to close the gap. Gap analysis centre around three questions (Figure 2.9):

1. Where are we now?
2. Where do we want to get to?
3. How do we get there?

Figure 2.9
A Model of Gap Analysis



(Source: Ambrosini 1998: 221)

The critical challenge for the manager is what strategies need to be devised to close the gap. In some instances, this could be a challenge which requires creativity and the managers to think strategically. According to Ambrosini (1998), the options available to management are threefold in order to close the gap:

❖ *Redefine objectives*

When there is a discrepancy between objectives and forecast, (planning gap), objectives need to be checked to ensure that they are realistic and achievable. If objectives have deliberately been set at a very high level to stimulate action, it is usually advisable to set less high, intermediate objectives.

❖ *Do nothing*

Reorganisation and redirection is common place in the business environment, but it is clear that people become weary of change and that continual change can lead to defensive behaviour, increased staff turnover, decreased levels of satisfaction and lower levels of commitment. The 'do nothing' option is advisable if the timing and environment are not conducive to introducing changes. There could be a lot to lose by changing than by not changing.

❖ *Change the strategy*

The third alternative is to change the current strategy and develop a new one. This, in most instances, requires strategic interventions designed to improve the efficiencies and effectiveness of exiting operations. If the gap can still not be narrowed, the internal strategies that increase growth, such as increasing market penetration, product development and targeting new markets, must be seriously considered.

2.9.2 Strategic Alternatives

When crafting an organisation's future strategic direction, managers typically begin by identifying and considering a list of the organisation's principal strategic alternatives. By practicing the process of generating alternatives that can be developed into viable and challenging strategic options, managers increase their organisation's chances of winning in the marketplace. Alternatives are important because they define the choices available to a manager who must make strategic decisions.

Alternatives can differ greatly in a number of key dimensions: the extent to which they are a logical extension of existing strategies, the extent to which they are creative or inventive and the extent to which they break away from previously acceptable options and are unthinkable in the context of current operations (Fahey and Randall 1994).

Alternatives are categorised into three types:

- Obvious alternatives: arise from an organisation's current strategies, typically as extensions or corrections to the thrust of current strategy.

- Creative Alternatives: they require fresh thinking to break away from the assumptions and beliefs underlying current strategies.

- Unthinkable Alternatives: reflect a radical departure from the organisation's mindset. Frequently such alternatives are unthinkable because they break the rules of what is appropriate in the organisation. Unthinkable alternatives can illuminate the status quo in a radically different light and provoke creative solutions.

On this issue, Robert (2002) argues that CEO's will not only need to conceive strategies that change the rules of the game, but strategies that will change the nature of the game itself. Only a strategy that disrupts the status quo will result in competitive supremacy for its creator. Such a strategy obliges competitors who want to play, to do so by abiding by the rules set by that same creator.

This radical departure from the traditional strategy concept provides the pathway to competitive supremacy. He gives the example of Wal-Mart which introduced a strategy of "everyday low prices". They went on to change the game itself by opening stores in rural towns, they then clustered twelve stores around a warehouse that could replenish stock within twenty four hours. This pressured suppliers to reduce their costs and prices. They therefore created a new game and in the meantime the gap between Wal- Mart and its competitors became wider and wider.

Other examples are Amazon.com which sells books online; CNN which used cable and satellite, an all new format for news broadcasting. It also expanded international, and established itself as the premier news organisation in the world and produced more wealth for its shareholders. Various examples include strategies applied by Southwest Airlines, Dell Computers, Boeing and Charles Schwab and Company.

According to Fahey and Randall (1994), there are five processes which assist organisations in generating alternatives and fostering strategic thinking in the organisation:

❖ **Scenario Generation**

Scenarios are explicitly intended to allow any group of individuals to visualise the future. They provide a means for decision makers to think about the future without the constraints of the past. The power of scenarios is that they allow several alternative pictures of the future to be developed simultaneously. Each of the different futures this may give rise to are distinct strategic alternatives.

❖ **Conflict Generation**

Two specific processes are used:

- "Devil's advocacy" examines the perspectives in reverse. It aims to search for inconsistencies, inaccuracies, irrelevances and the advocate must critique the proposal from various perspectives.

- "Dialictic inquiry" uses a group to present the most divergent alternative view of the issue. Individuals are grouped to build heterogeneous viewpoints and they debate them.

- **Brainstorming**

An environment conducive to creative processes is created and is characterised by openness, trust, freedom from criticism and non-conformity. Brainstorming is useful to uncover new alternatives which were not considered before.

- **Chaos Theory**

This is a deliberate ploy by the organisation to create instability. They encourage multiple cultures, conflict around issues, lack of cohesion and lack of consensus. Alternatives are created in a spontaneous manner.

- **Group Work Support Systems**

This alternative generation method uses computer tools to facilitate interaction among group of individuals. It allows a group of managers to generate ideas and surface assumptions using computers. A facilitator, providing expertise in decision making and group dynamics, helps lead the group through the stages of alternative generation.

2.10 COMPETITIVE STRATEGIES

Competitive strategies take a narrower view than business strategies. The latter is concerned with all strategic activities undertaken by the firm. The former deals exclusively with management action on how to deliver superior value to customers. Competitive strategies are concerned with the initiatives undertaken to attract customers and fulfil their expectations and the ability to withstand competitive pressures and to strengthen market position. A good superior value relates specifically to providing a good product at a low price, a superior product worth paying more for or the best value which combines price, features, quality, service and other attributes desired by the buyers.

According to Thompson and Strickland (2003), there are four distinct competitive strategies:

2.10.1 Low Cost Provider Strategies

In markets which are price sensitive, pursuing a low cost strategy is a powerful competitive approach. This is also true in commodity markets. Low cost refers to low cost compared to competitors over time and do not necessarily mean lowest possible cost. It is also a prudent business approach for organisations to control their costs and benchmark themselves with competitors in this industry. Low cost must also not be construed as meaning sacrificing the quality of the product which could on its own discourage buyers. The value of a cost advantage depends on its sustainability. The low cost provider is in a powerful position and could use this advantage in two ways:

- It could undercut its competitors and attract price sensitive buyers thereby increasing its market share and market position. However unless this is sustainable and it is guaranteed that competitors would not undercut the seller, the gained market share could be lost. If there is any retaliation by competitors, this could lead to a price war which is normally detrimental to everybody.

- It could charge competitive prices but use lower cost to improve its profitability thereby earning profits above these of its competitors and benefiting its shareholders (Thompson and Strickland 2003).

There are various ways in which an organisation can drive costs down:

2.10.1.1 Economic of Scale

This arises when activities can be performed cheaply at larger volumes and results in the ability to spread costs out. This is particularly possible if there is a large proportion of fixed costs which can be reduced per unit by producing more. This method on its own would not offer competitive advantage as competitors could easily copy such strategies. If competitors take this concept to the extreme, the result could be overcapacity in the industry and a price war would result to stimulate demand to absorb this extra capacity.

2.10.1.2 Learning and experience curve

In this instance, the cost of performing an activity decline over time due to experience and learning by the employees. Experience costs savings can also emanate from competencies which the organisation has built over time. It could also relate to managing technologies and their applications in serving customers.

2.10.1.3 The cost of resources input

An analysis of the value chain input costs could lead to substantial savings for the organisation. Negotiations with upstream suppliers could result in savings in stock handling as well as on time deliveries which is normally able to reduce stock shortages and excess inventory costs. The negotiations with downstream role players could also add value and save costs for the consumer in terms of deliveries, returns etc. The labour input costs could be influenced by whether the organisation is unionised or not. Locational variables have costs advantages.

2.10.1.4 The benefits of vertical integration versus outsourcing

While outsourcing enables the organisation to save costs by concentrating on its core business and by outsourcing non- core business, vertical integration or utilising strategic alliances with suppliers is one major source of cost savings.

In the quest of becoming the low cost provider, the organisation must constantly undertake an Activity Based Costing (ABC) exercise to understand the key cost drivers per activity. Once the quantum of the costs are understood, means to control them need to be devised. This, together with benchmarking with other industry players and the application of best practices for the industry could assist the organisation to reduce costs.

2.10.2 Differentiation Strategies

Differentiation is possible if the needs of the consumers are not homogeneous and the organisation can meet the needs of a certain segment better than others. Once differentiation has taken place, the seller is able to charge a higher price than its competitors. The means of differentiation could be price, quality, features, better level of service, or luxury provided it is beneficial and if the cost of effecting it is lower than the cost passed on to consumers. In other words, there must be scope to charge a premium price and earn higher than normal profits and a higher return on investment. There must be value perceived by the consumer to justify paying a higher price than other products.

According to Thompson and Strickland (2003), the most appealing approaches to differentiation are those that are hard or expensive to duplicate. Sustainable differentiation therefore usually has to be linked to core competencies, unique competitive capabilities and superior management of value chain. As a rule, differentiation yields a longer-lasting and more profitable competitive edge when it is based on a new product innovation, technical superiority, product quality and reliability, comprehensive customer service and unique competitive capabilities.

The key to differentiation therefore is a deep understanding of what customers need and building the capabilities to satisfy the needs better than one's competitors.

2.10.3 Best Cost Provider Strategies

The best cost provider strategy entails striving to have the best cost relative to one's rivals while offering products and services with comparable attributes. Best cost provider strategy aims at giving customers value for money. A company achieves best cost provider status from an ability to provide attractive attributes, good to excellent quality and good to excellent customer service at the lower cost than competitors. The competitive advantage of being the best cost provider is having a lower cost than competitors in delivering excellent attributes. This puts the organisation in a position to undercut competitors who are offering similar attributes.

2.10.4 Focused or Market Niche Strategies

A focus strategy occurs when an organisation focuses on a specific niche in the market and tailors its products to satisfy the niche thus gaining competitive advantage. The focuser's basis for competitive advantage stems from either lower cost than competitors in serving the niche or an ability to offer the niche a better value product based on the niche market preference. A focused strategy based on differentiation depends on the existence of a buyer segment that is looking for specialist product attributes which the marketer is able to provide. Focus strategy is attractive if:

- The target market (niche) is big enough to be profitable and there are prospects for future growth

- The industry leaders perceive the niche to be too small for their efforts.

- The industry has many niches and segments and the particular niche is suitable for the capabilities and resource strengths of the niche marketer

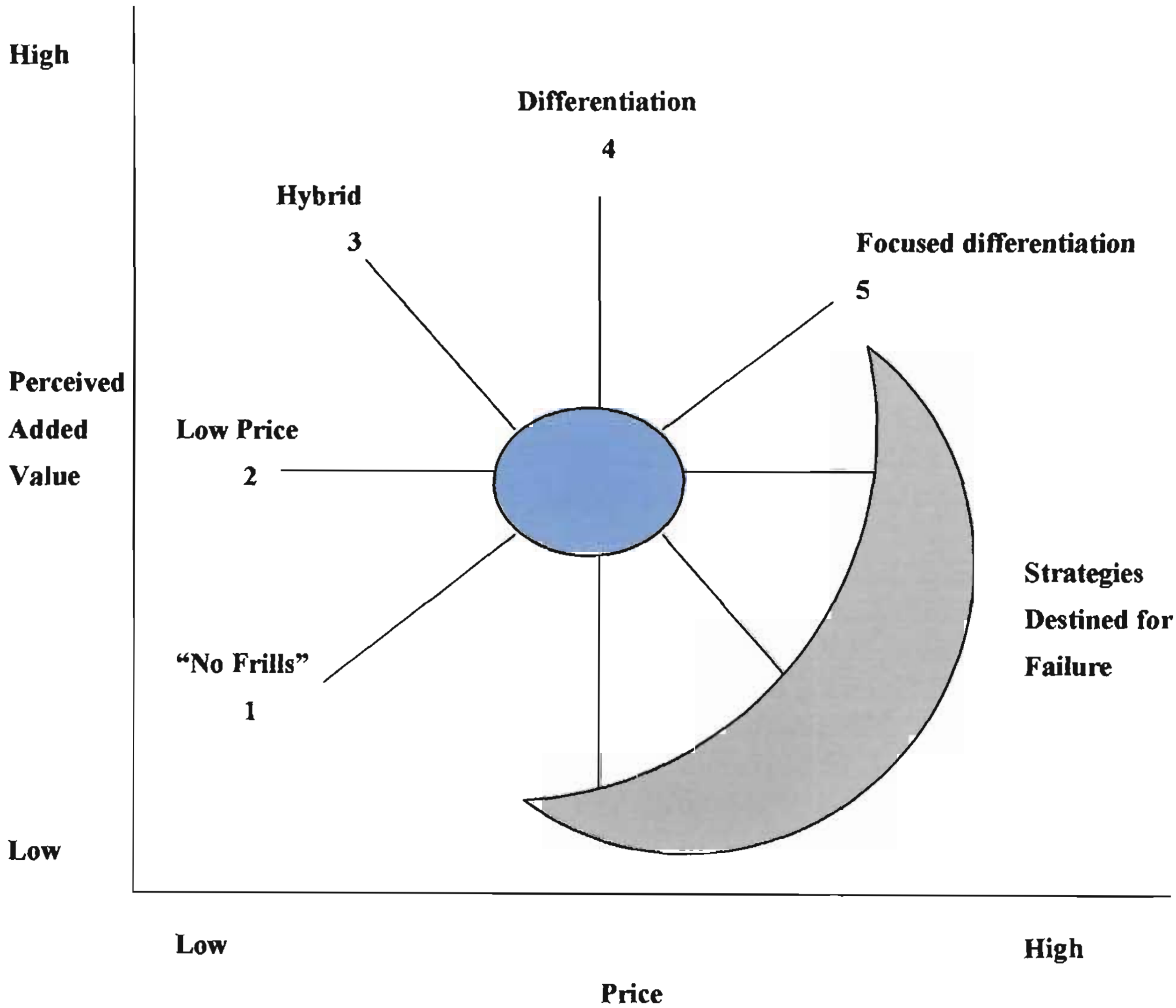
- The focuser can compete effectively against the challengers in the niche due to consumer goodwill already created (Thompson and Strickland 2003).

Johnson and Scholes (2002) identify eight competitive strategy options and in addition to the four discussed above, the additional four are listed below. Figure 2.10 illustrate all the options clearly.

Hybrid strategy: is based on low cost and reinvestment in low price and differentiation.
Increased price/standard value: this refers to higher margins if competitors do not follow but there is the risk of losing market share.
Increased price/low value: this strategy is only feasible in monopoly situation.
Low value/ standard price: this strategy is likely to result in a loss of market share.
The last three are very likely to fail as they are dependent upon abnormal market situations.
The totality of these competitive strategies by Johnson and Scholes are detailed in the strategy clock.

Figure 2.10

The Strategy Clock: Competitive Strategy Options

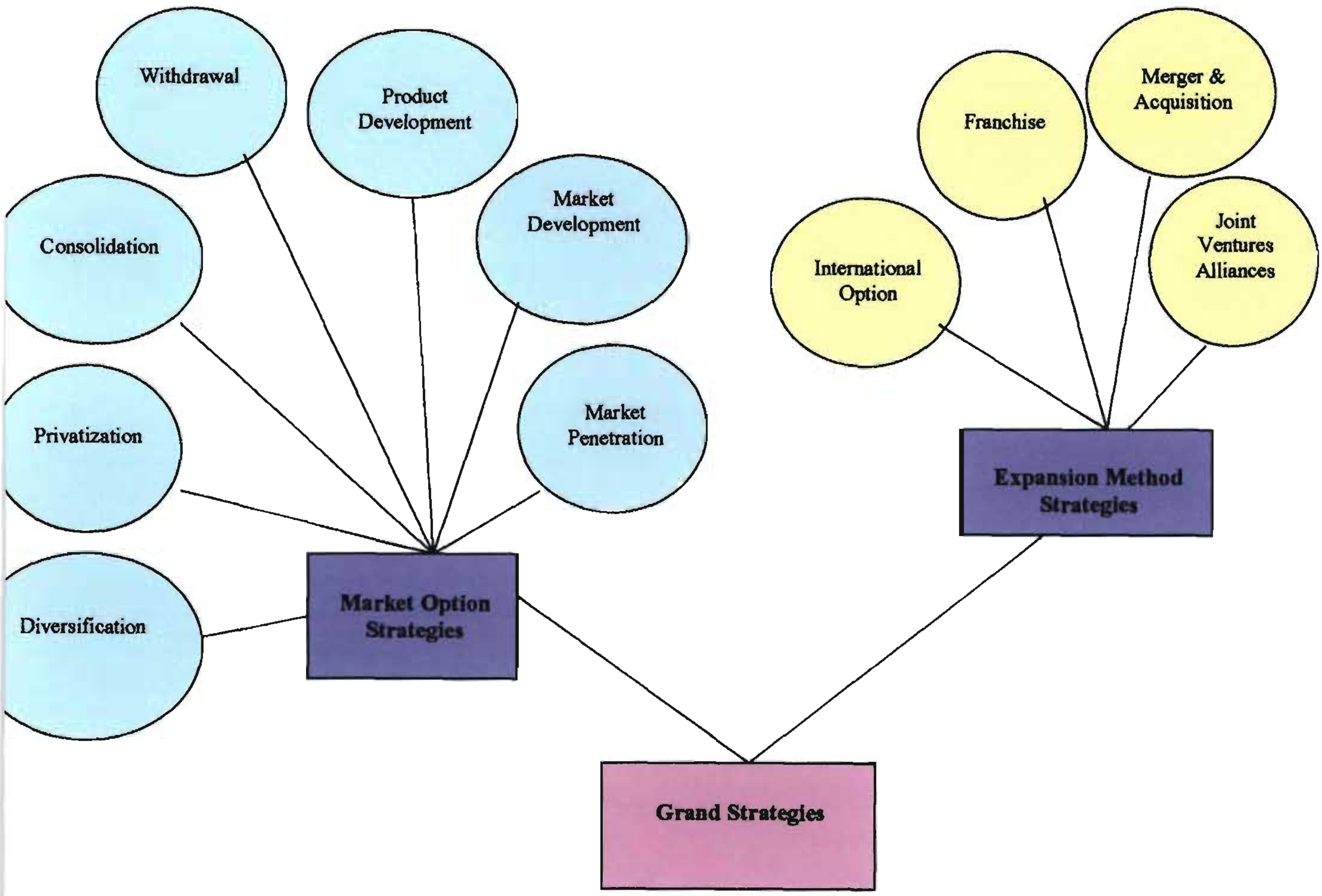


(Source: Johnson and Scholes, 2002: 230)

2.11 GRAND STRATEGIES

Grand strategies which are sometimes referred to as business strategies provide basic direction for strategic actions. They are the basis of the deliberate, coordinated and sustained efforts of the organisation to achieve long term business objectives. Lynch (1997) distinguishes between the market options matrix and the expansion method matrix. The former include the strategies of demerger, privatisation, market penetration in the existing market, market development using existing products, product development for existing market, diversification to related market and diversification to unrelated market strategies. The latter consists of acquisitions, mergers, joint ventures and alliances, franchise, and international strategy options. Graphically, these strategies can be represented as follows (figure2.11):

Figure 2.11
Graphic Presentation of Business / Grand Strategy Options



(Source: Adapted from Lynch, 1997: 498)

2.11.1 Market Options Matrix

The market options matrix identifies and examines the product and market choices available to the organisation. It is concerned with the possibility of launching new products and moving to new markets as well as withdrawing from certain markets and moving to unrelated markets.

2.11.1.1 Market Penetration in Existing Markets

The purpose of market penetration is to gain market share without moving away from the current product range and market. Market penetration strategy 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. Market penetration could take two forms, namely, by making an effort to keeping existing customers and persuade them to use more of the product by making an effort to acquire new users. Most organisations put a lot of effort into attracting new customers and neglect existing ones who may then move their business to competitors. There must always be a balance between strategies to attract new customers and strategies for keeping existing customers.

Market penetration is easier if the market is growing because new customers entering the market would not yet be loyal to any seller. In contrast, market penetration in static or declining markets could be difficult to implement since any attack on major competitors could result in retaliation. Market penetration could also be effected by cooperating with other competitors or made possible by other firms exiting the market.

2.11.1.2 Market Development Using Existing Products

In this strategy route, the company moves to attract the customers for its existing product range. This can be achieved by opening or attracting new market segments by developing or modifying its existing product range, entering other channels of distribution or appealing to new segments via different media and also by opening new geographic markets including international markets. This strategy works better if the product has proved successful and established itself in the local market. If the product is not already successful, there is no guarantee that it will be accepted in other markets.

2.11.1.3 Product Development for Existing Market

Product development involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels of distribution. The product development strategy is pursued to prolong the life cycle of existing products and take advantage of current market reputation or brand name. The idea is to attract satisfied customers to new products (Pearce and Robinson, 1991).

According to Lynch, (1997: 501), product development strategy is justified in order to:

- Utilise excess production capacity
- Counter competitive entry
- Exploit new technology
- Maintain the stance as a product innovator
- Protect overall market share

While new products may be vital for the future of the firm, the process of creating new products is expensive, risky and potentially unprofitable.

2.11.1.4 Withdrawal

Voluntary exit from the market is also a sensible strategy in certain circumstances. In some instances this could be an admission of failure and may result in hardships to the strategic managers and employees. According to Lynch (1997), there are various other reasons for withdrawal and these include:

- The product life cycle is in the decline stage with little possibility of retrenchment
- There is an over-extension of the product range which can be resolved by withdrawing some products

- The holding company sells off a subsidiary – a company in a diversified industry may sell a subsidiary if the price is attractive and net realisable value is higher than net asset value.

- Raise funds to invest elsewhere

- A small entrepreneur may decide to retire

- Declining performance may lead to withdrawals from some activities to raise funds, cut losses or as part of consolidation for the corporation as a whole.

2.11.1.5 Consolidation

Consolidation is concerned with the way the organisation operates and does not involve any alterations to products and markets. Johnson and Scholes (1993) identify four forms which consolidation could assume depending on market conditions:

- *Consolidation in a growing market*

In this instance the firm may decide to maintain its market share and ensure that the cost structure is in line with its competition. This will mean that at the maturing stage or in a sales decline, the firm will not end up with a cost structure which cannot be recovered.

- *Consolidation in mature markets*

The organisation will defend its market position by increasing market activity, emphasizing quality and improving cost structure through productivity gains. These are meant to create entry barriers for competitors, while at the same time prolonging the profitable cycle of the product.

- *Consolidation in declining markets*

This situation requires major changes which involve a review of the cost structure and overhead costs. The most important decision will be whether to reduce capacity either temporarily or permanently.

❖ *Consolidation during a transition from mature to a declining market*

The strategy normally followed is harvesting, which means gaining maximum payoff from an existing strong position. This could be achieved by leasing the facilities and temporarily exiting the market. Adjustment of the cost structure to maintain profits is also a sensible action to manage this transition.

2.11.1.6 Privatisation

This strategy has been followed by governments when disposing of assets to the private sector. The purpose in most instances is to facilitate the efficiencies and wider availability of government services through the creation of competition. The results of this strategy are major changes to the business concept, accountability, product range and public perception.

2.11.1.7 Diversification: Related Markets

Diversification means moving away from current products and markets into new areas. Since this means moving into new business areas, it involves some risk. Moving to markets related to current business carries lesser risk and according to Lynch (1997), involves three types of relationships:

❖ *Forward integration*

A manufacturer would become involved in activities of output such as distribution and transportation to the end user. This decision is mostly prompted either by identified synergistic opportunities in such integration or forced upon the organisation by poor service which jeopardises its product offering.

❖ *Backward integration*

The organisation extends its activities into inputs in areas such as suppliers of raw material. plant and machinery

* *Horizontal integration*

The company moves into areas immediately related to its existing activities either because they compete or are complimentary

2.11.1.8 Diversification: Unrelated Markets

When organisations move into unrelated markets, they run the risk of entering areas without sufficient knowledge and competencies. The logic of such expansion is unlikely to be market related since the newly acquired business could have a different target market and it could have very little to do with current operations. This is typically a conglomerate strategy undertaken in the quest for wider market dominance. In all instances of integration, there must be a strong business case for it to be undertaken. There is always the danger of mission drift where the organisation loses sight of its core business and ventures into markets unknown to it and sometimes without appropriate skills.

It is important therefore to carefully assess the core competencies required in the new market and match those with current competencies in the organisation before any integration could take place. Without proper assessment, the organisation could extend itself too far and end up in an unfavourable position.

2.11.2 Expansion Method Matrix

This option explores methods by which market dominance might be achieved. This process involves examining internal and external expansive opportunities and its geographical spread of activity. The expansion methods can be explored using market options. For example, launching a new product could be achieved by using an existing company or by means of an acquisition, merger or joint venture with another firm. There are four expansion options, namely mergers and acquisitions, joint ventures and alliances, franchise and international options.

2.11.2.1 Mergers and Acquisitions

Merging with or acquiring another company often changes the market structure dramatically it can strengthen the market position and open new opportunities and create greater competitive advantage for the acquirer. Combining operations offer opportunities for cost saving and other efficiencies which make such mergers attractive. The compelling reasons to expand by acquisition or merger is the speed with which new product / market areas could be entered and also the lack of knowledge or resources to develop a strategy internally.

The disadvantages of an acquisition could be the expense and premium which could be paid. There is also a high risk if no real synergies exist between the two companies, and there may be a clash of cultures. Also, in practice mergers and acquisition have not worked as anticipated in terms of realised benefits sometimes because of exaggerated expectations or because capturing benefits proves much harder than anticipated.

2.11.2.2 Joint Ventures and Alliances

A joint venture is a consortium agreement between two or more separate corporate entities. It is largely entered into in order to explore large scale projects whose scope and requirements are beyond the capabilities of one company. There is the perceived benefit of complimentary strengths. For example, one partner could be financially strong and the other could have technology or marketing strengths (Rowe 1990).

In recent times, companies have formed strategic alliances and partnerships to compliment their own strategic initiatives and strengthen their competitiveness. Many companies find themselves thrust in the midst of two very demanding competitive races:

- the global race to build a market presence in many different national markets and to establish an attractive position among global market leaders; and

- the technology race to capitalise on the technological and information age revolution and build the resource strength and business capabilities to compete successfully in the industries and product markets of the future (Thompson and Strickland 2003).

A competitive desire to develop new products faster, to achieve better quality at low cost or have more resources and expertise to exploit opportunities to the point of achieving market dominance, leaves the company with no choice but to try and close the gap by mobilising the capabilities and strengths of the allies.

The disadvantages of joint ventures and alliances include the fact that the partners may have limited joint commitments and the venture demands constant work to keep the relationship sound.

2.11.2.3 Franchise

A franchise is a form of licensing agreement in which a contractor provides the licensee with a pre-formed package of activity or business concept. This may include the brand name, technical service expertise and various product or market support.

The advantage of a franchise is that an investment in a franchise is at a lower price than an outright purchase. The business preposition is already tested and therefore there is low risk of entry to business and usually territorial exclusivity is guaranteed. The disadvantage; however is that the franchise may be of low quality, the franchise holder charges an annual percentage of sales and there is also the risk that the franchise could be withdrawn. Despite these disadvantages, franchising is still very popular and largely a successful strategy to expand business and enter new markets with the support of local expertise, the franchisee.

2.11.2.4 International Options

This involves the option of expanding the product / market operation to new geographical areas outside of the country's borders. This expansion strategy might include modifications to products to suit the new target market. There are various combinations of distribution ranging from exporting without commitment of major resources to full overseas productions and global expansion. There are various risks and opportunities associated with international operations the primary one being currency variations which could cause significant and unexpected losses. This strategy is gaining in popularity and many organisations in one form or another are entering global markets successfully.

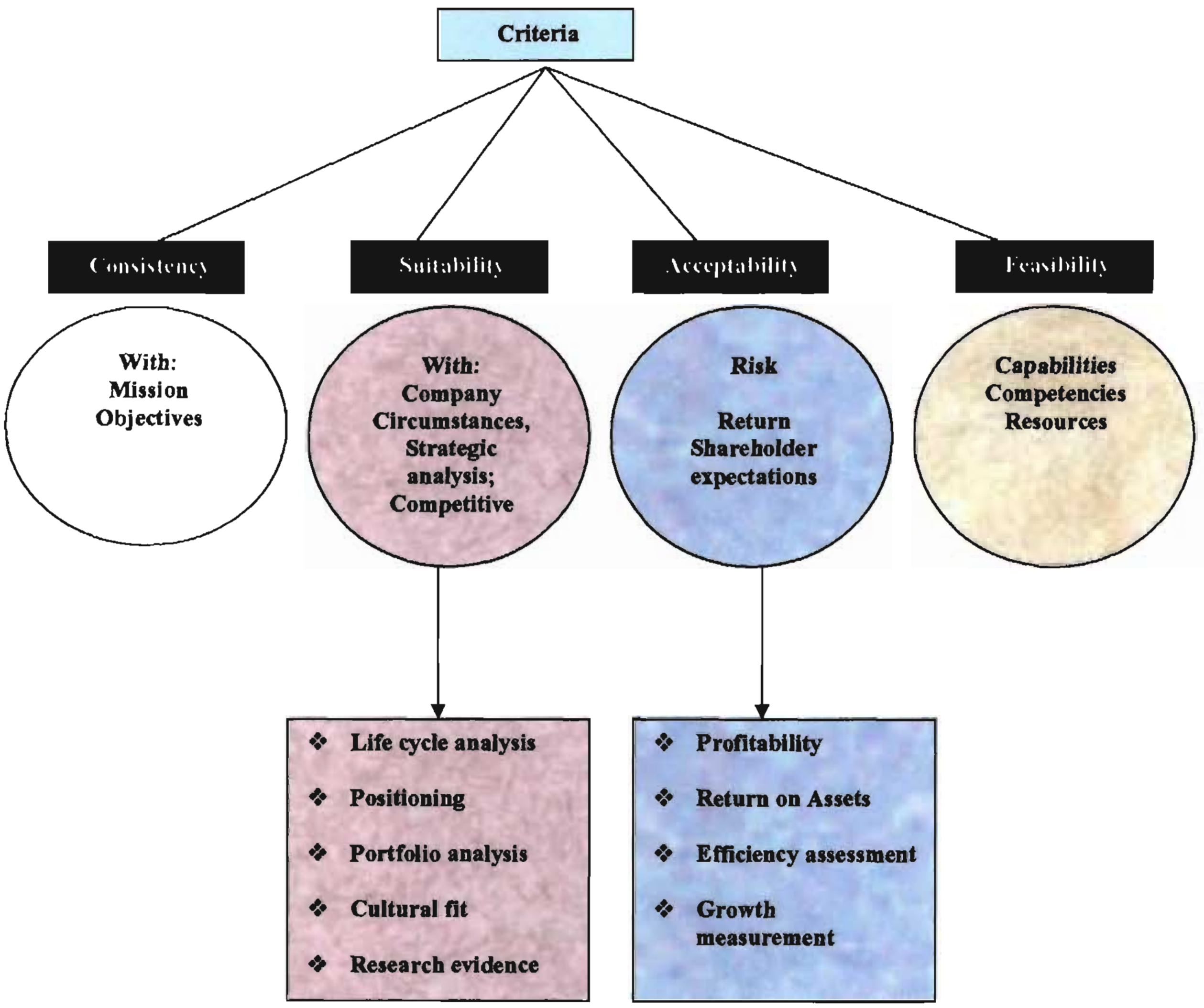
2.12 EVALUATION CRITERIA FOR STRATEGY OPTIONS

Strategy options need to be evaluated for their contribution to both the organisation and the strategic vision and objectives in terms of the extent to which they contribute. The risk of adopting ineffective or inappropriate strategies needs to be avoided. It is, however, not unusual that an organisation can be hasty in its evaluation procedures or be too overconfident that the analysis was done accurately and conclusively and that the strategic options proposed are appropriate to take the organisation to the next level.

The main objectives of corporate strategy for an organisation are to add value and to develop a sustainable competitive advantage. The strategic options offer a number of ways in which this could be achieved. It is therefore an important task to assess which of these will be most appropriate to fall in line with the mission and objectives of the company (Lynch 1997). The ground rules (evaluation criteria) as discussed in this section, will be used to evaluate Ithala Development Finance Corporation's strategies in Chapter 4. It is for this reason that emphasis will be placed on the criteria which are relevant to this particular organisation.

Johnson and Scholes (1993) identify three types of evaluation criteria, which are suitability, acceptability and feasibility. In addition to these, Lynch (1997) identifies consistency as other relevant and important evaluation criteria. These evaluation criterions can be depicted as follows:

Figure 2.12
Framework for Evaluation of Strategies



(Adapted from: Johnson and Scholes, 1993: 244 and Lynch 1997: 519)

2.12.1 Criteria 1: Consistency

The strategic option must be consistent with the mission and objectives of the organisation. If it is inconsistent, there is a strong case either to reject the option or change the mission and objectives unless these have been carefully considered. It is also important that a long term view is taken that this criteria is considered in the long-term. For example, the objective could be to optimise profits but the option might require spending money in the short term for long-term returns, which will result in sacrificing short-term profits.

2.12.2 Criteria 2: Assessing Suitability

This criterion is concerned with whether the strategic option addresses the circumstances in which the organisation is operating or wishing to operate. It further assesses the extent to which a proposed strategy fits the situation as identified in the strategic analysis and how it would contribute to or sustain the competitive position of the organisation. This criterion therefore assesses the extent to which a strategy:

- Exploits the opportunities in the environment and avoids the threats;
- Capitalises on the strengths and core competencies and avoids the weaknesses;
- Addresses the cultural and political context of the organisation.

Johnson and Scholes (2002) further divide their suitability analysis into five categories which are life cycle analysis, positioning, value chain analysis, business profit and portfolio analysis.

2.12.2.1 Life Cycle Analysis

A life cycle analysis assesses whether the strategy is appropriate at the given stage of the product life cycle. The life cycle analysis combined with the competitive position assessment result in the life cycle / portfolio matrix. The purpose of the matrix is to establish the appropriateness of particular strategies in relation to these two dimensions as shown in Table 2.1:

Table 2.1

Stages of Industry Maturity

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

(Source: Johnson and Scholes: 1993:357)

If a company is operating in a mature market and in a strong competitive position, the table shows that the appropriate strategic options are to attain cost leadership, renew, focus, differentiate, and grow with the industry. Not all these strategies would be equally appropriate but most would somehow be favourably considered for an organisation in the above circumstances.

The position within the life cycle can further be determined by industry factors such as the market growth rate, growth potential, breadth of product lines, number of competitors, spread of market shares between these competitors, customer loyalty and technology. The above matrix can assist the organisation in determining if the strategy contemplated is in line with its competitive position at various stages of the product life cycle.

2.12.2.2 Positioning

Testing positioning is the key criteria to determine if the organisation is poised to take advantage of opportunities offered by product and market strategies. The key factor is whether the demand for the product is increasing or decreasing and how it is perceived by the consumers. For example, in positioning for differentiation, the unique set of competencies which underpin the value added feature of a product will determine if the strategy is suitable. To assess positioning, it is important that resources and competencies required to execute a strategy are understood and also assessed in terms sustainability or the extent to which they can be imitated. If competencies are easily imitated, then competitors could react quickly to dilute the advantage by matching the organisation's offer. The key is whether competencies are valuable to buyers, or are rare, complex or embedded in the product service and procedures.

2.12.2.3 Portfolio Analysis

The question this assessment answers is if the product portfolio will result in the company achieving a dominant position in the market. In other words, is the strategy option going to enable the company to gather competencies to move its product portfolio into profitable arenas? Whether the strategy is capable of ensuring that the product portfolio mix has, for example, enough cash cows which will generate cash for investment in further product development. Also if the provision for resources is available at each stage, for example, since question marks and stars require investment, are there sufficient cash resources to accomplish this. If not, maybe an acquisition strategy needs to be considered. The objective of this assessment is that the portfolio is balanced in order to generate the expected returns in the short as well as long term.

2.12.2.4 Cultural Fit

It is also very important to review the strategic options against the backdrop of the political and cultural realities of the organisation. It may be too optimistic to contemplate a strategy which will require a cultural change without necessary provisions for transformation or assessment of whether the strategy should be assimilated into the organisation or not. One of the key roles of leadership is to shape and change culture to better fit preferred strategies. Generally organisations tend to adopt strategies which can be delivered without challenging the paradigm and comfort zones of its employees or shareholders. Such strategies are easy to pursue and understand but often limit the potential of the organisation.

Whether paradigm change is required or not, the assessment of strategic options in terms of cultural fit is valuable. If the organisation is developing within the current paradigm, these analyse help to identify those strategies which would be most easily assimilated. If the paradigm will need to change, the analysis helps in establishing the ways in which the company's culture will need to adapt to embrace new types of strategy.

2.12.3 Acceptability Analysis

Acceptability is concerned with expected performance outcomes such as risk or return which will result if the strategy is implemented. The most relevant financial analyse will be :

2.12.3.1 Net Income Trend Analysis

This analysis measures whether the organisation is or is not generating net income after expenses and if the trend of net income growth is positive or negative.

2.12.3.2 Return on Total Assets

This measures the return on total investments. It would include whether the organisation is generating income from investments and would determine whether investment choices are directed at productive areas of the business.

2.12.3.3 Cost to income ratio

This ratio measures the efficiency of the operation in terms of whether, in each area of expenditure, there is higher income being generated than the cost incurred to generate such income. An inefficient organisation will spend a lot of money with little income. Tracking the trend of this ratio will also indicate if the cost structure of the organisation is in line with its competitors. Benchmarking the organisation with the industry reveals the challenges of achieving efficiencies either by growing the business, or by generating additional income using the same resources without an equivalent cost increases or cutting costs.

2.12.3.4 Development Dividend

As far as Ithala is concerned, the development dividend concept will also be used to assess acceptability. The shareholder has invested in Ithala to achieve development objectives. Whether or not these objectives are met, need to be assessed. The areas of assessment will be:

- Enterprises assisted per year per business sector
- Number of jobs created per year per business sector
- Home owners assisted with finance
- Savings accounts opened

2.12.4 Analysing Feasibility

Feasibility is concerned with whether an organisation has the resources and competencies to deliver a strategy. The requirements of future strategies should be analysed and key resources and competencies identified. Without this analysis, the implementation could be impossible as it would be hindered by poor resourcing of the strategy. If for example, better efficiencies may be achieved by improving a computer system, it must be established whether there are resources in place to acquire a computer system and whether the expertise and skills are available to develop the system to yield the required efficiencies.

If funds will be needed to affect the strategy, will the current business operations generate such funds or do they need to be borrowed? If the latter, is there debt carrying scope available in the organisation, what is the current debt to equity ratio and what will be the subsequent ratio be after borrowing? Is it feasible to gear at that level? On answering these questions objectively, the organisation will determine if the strategy being proposed is feasible or not.

2.13 CONCLUSION

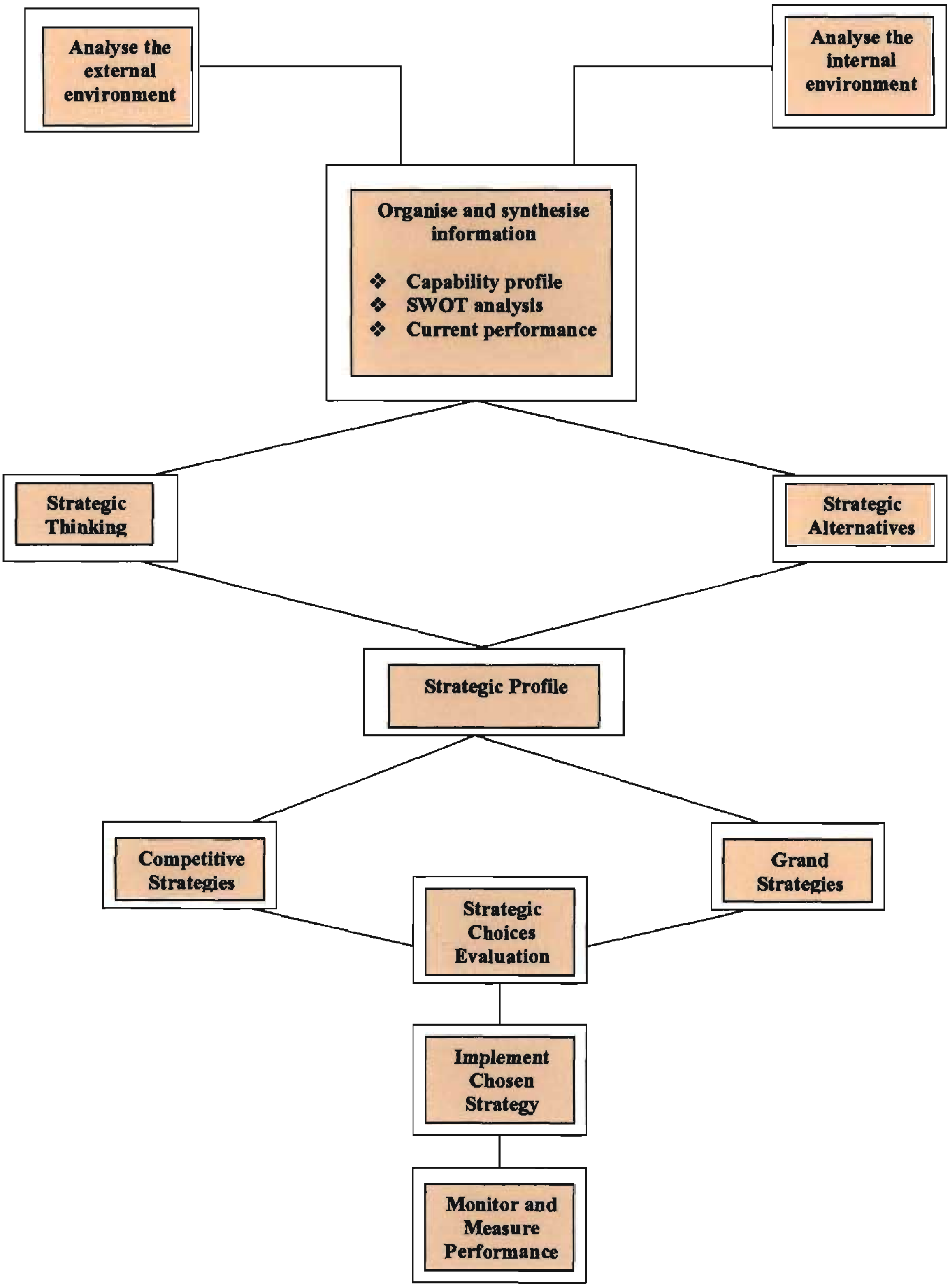
The quality of the strategy crafted by the organisation depends largely on the strategic analysis conducted, an objective assessment of the resources and capabilities as well as the competitive position. The best strategy is the one which will enable the organisation to improve its market position, improve profitability and sustainability. The models used to determine strategic options assist organisations to maximise the available opportunities to craft a successful strategy.

To reduce the risk of adopting doubtful strategies, it is advisable that a proper evaluation of strategies is undertaken. This helps to determine if the strategy is consistent with the mission and objectives, is suitable to the company circumstances, that the risk and return are acceptable and that implementation is feasible, given internal capabilities, competencies, and resources.

To evaluate Ithala's strategic profile, the model of the framework for choosing and evaluating strategies will be used. The details of the model are as follows:

Figure 2.13

The Framework for Choosing and Evaluating Strategies



(Source: Adapted from Rowe et al: 1990: 234)

CHAPTER 3

ITHALA DEVELOPMENT FINANCE CORPORATION'S STRATEGIC PROFILE

3.1 INTRODUCTION

In July 2003, Ithala embarked on a strategic planning session to determine the future direction of the organisation. The reasons for this process were firstly because a new Chief Executive had been appointed and he needed a strategic mandate and, secondly because the previous strategy planning period was coming to an end. Further, Ithala was not meeting its operational and strategic objectives and a detailed assessment and review of the relevance of the existing strategies of the organisation was necessary.

A group of ± 20 senior managers went though a detailed exercise facilitated by a firm of external consultants, Decision Processes International (DPI) who are experts in the process but the content was extracted and facilitated from management's side. The process involved group discussions, debates and filling in of questionnaires and spanned six days. The result was the establishment of a business concept, a review of the current business model, products, customers, strengths, weaknesses, opportunities and threats. Competitors and their impact on the business were assessed per SBU.

The business concept adopted was the market approach which essentially emphasises the understanding of customer needs as well as product development, market development and market penetration strategies. The strategy of Ithala therefore is detailed as far as the product success characteristics, geographic segments, their success and failure characteristics as well as users and customer segments were concerned. The defensive as well offensive strategies were devised which indicated that Ithala had markets to win and had a position it did not want to lose.

The strategic options to be discussed are therefore a reflection of Ithala's future intentions to grow its business, ensure its future sustainability, improve its competitive and market positions and well as define the direction in which it wants to influence the future. The first section of this chapter will give a detailed overview of Ithala in order to gain an understanding of the context of the strategies being discussed. The second section is the strategic profile of Ithala.

3.2 COMPANY OVERVIEW

Ithala Development Finance Corporation (Ithala) was established in terms of KwaZulu Natal Ithala Development Finance Corporation Act, Act 2 of 1999. It is responsible for the socio-economic empowerment of, particularly, the previously disadvantaged communities in KwaZulu Natal province. In 1994, a process of transformation took place with the primary objective of effectively satisfying the economic development needs of the people of KwaZulu Natal and during this process, the then KwaZulu Finance and Investment Corporation (KFC) changed its name to Ithala Development Finance Corporation.

3.2.1 Vision

The vision for Ithala is to be the preferred partner in socio-economic development, instrumental in creating sustainable economic growth that impacts upon an improvement in the quality of life of a significant proportion of the people of KwaZulu Natal in its area of activities.

3.2.2 Mission

The mission of Ithala is to be a financially sustainable organisation, representative of and identifying with the community it serves, promoting economic growth and socio-economic development by:

- identifying and implementing development opportunities;
- providing a range of products and services that meet the needs of the clients;
- complementing government and private sector initiatives;

This will be achieved by growing the organisation and actively seeking partnership in socio-economic development (Internet 2).

3.2.3 Objectives

In terms of Section 3 of the KwaZulu Natal Ithala Development Finance Corporation Act, No.2 of 1999, Ithala's objectives provide for the organisation:

- To mobilise financial resources and to provide financial and supportive services to the people of KwaZulu Natal;

- To plan, execute, finance and monitor the implementation of development projects and programmes in the Province;

- To promote, assist and encourage the development of the Province's human resources and its social, economic, financial and physical infrastructure;

- To promote, encourage and facilitate private sector investment in the Province and the participation of private sector and community organisations in development projects and programmes, and in contributing to economic growth and development; and

- To act as the Government's Agent for performing all development - related tasks and responsibilities that the government considers may be more efficiently or effectively performed by a corporate entity (The Provincial Gazette of KwaZulu Natal No. 5338: 4/3/1999).

3.2.4. Key Activities

To meet its objectives, Ithala engages in a range of key activities namely:

- Entrepreneurial development

- Employment creation

- Funding business enterprises

- Providing business premises, commercial shopping centres and tourism facilities

- Fostering personal wealth through savings

- Providing loan finance for housing and home improvements; and
- Providing insurance / assurance products

3.2.5. Method of Operation

To achieve its mission, Ithala sets out to:

- Praise and apply funds and other resources in a responsible manner and in such a way that the organisation's activities are sustainable;
- Support the government's development strategy;
- Maximise and spread the development impact in such activities;
- Develop synergistic relationships with other agencies for delivery of development in the Province and to avoid duplicating functions and resources; and
- Promote and encourage private sector participation in economic growth and employment creation.

Ithala is only active in KwaZulu Natal and may not become involved in projects and programmes outside the province's boundaries, unless it considers it desirable for the attainment of its objectives. Further, while Ithala is mandated to maximise development impact in the Province, it must do so in an economically sustainable manner. In other words, Ithala can only be involved in projects and activities which are economically viable and would result in sustainable economic growth in the province.

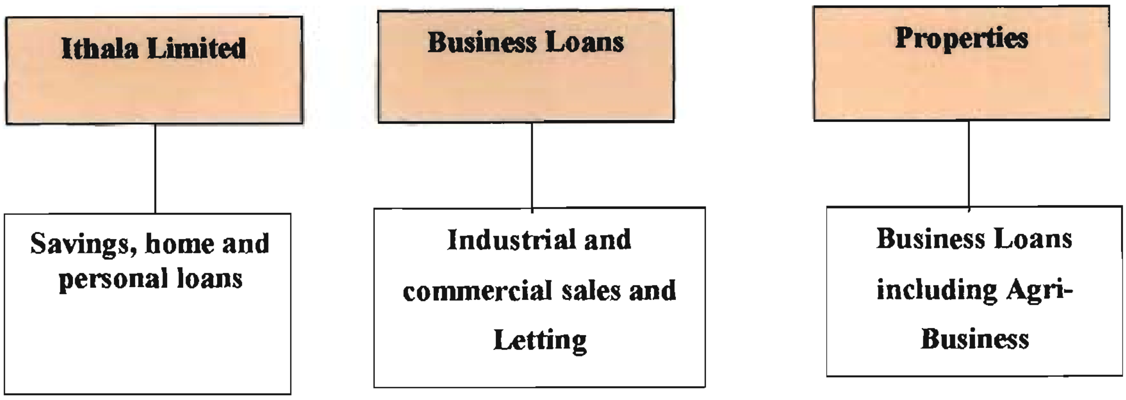
3.2.6 Ithala Markets, Products and Services

Operating only in KwaZulu Natal, Ithala segments its market into Strategic Business Units as well as Living Standard Measure (LSM) groups. The LSM groups range from the disadvantaged groups (LSM 1 who are largely beneficiaries of services and are targeted for their development needs) to LSM 10 (who are very affluent and possess the capacity and capability to deliver development benefits to the previously disadvantaged)

In order for Ithala to deliver more effective and efficient services to customers, the organisation has been divided into three Strategic Business Units (SBU's) as shown in Figure 3.1:

Figure 3.1

Ithala Strategic Business Units



(Source: Ithala Development Finance Corporation Limited, 2001)

The markets for each of the above SBU's are substantially different and can be summarised as follows:

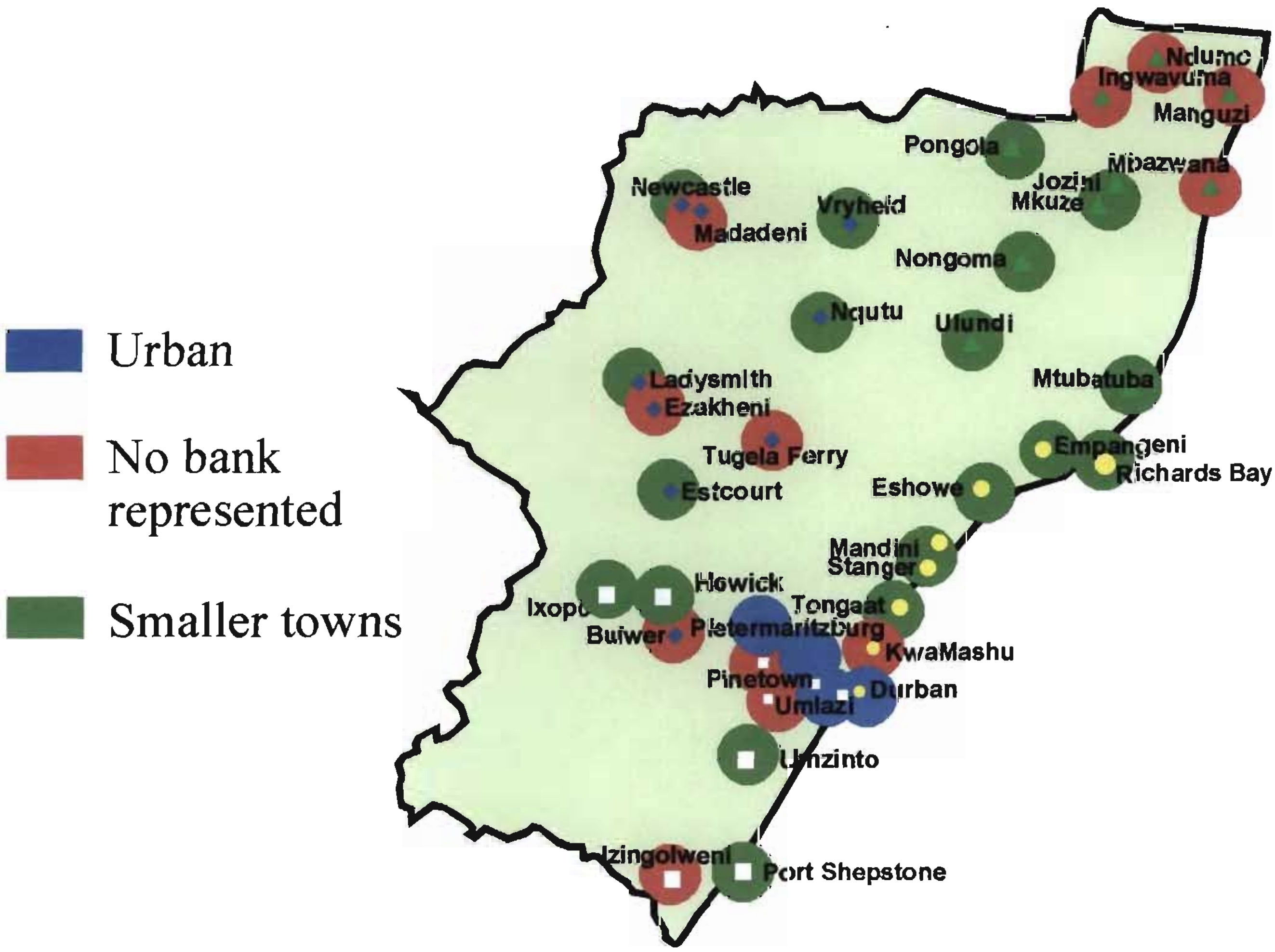
3.2.6.1 Ithala Limited

This wholly owned subsidiary provides housing finance specifically to the low-income market. Since most of the applicants are new first-time homeowners, homeownership education becomes key both as an empowerment medium to the borrower and as a risk management tool for the company. At the same time this increases the inception costs of the loan relative to its competitors who do not feel duly bound to provide such education. The average housing loan size in 2002/2003 was R77 800-00.

Another key function of Ithala Limited is to mobilise savings from the public. These funds provide cheap means of financing loans and enable Ithala to access funds to replace those which it no longer receives as grant funding from the Government. Ithala vigorously promotes a culture of savings in KwaZulu Natal as a meaningful and secure mechanism for the creation of personal wealth, particularly amongst the rural and largely unbanked communities.

Ithala distributes its savings and housing products and services through its 42 branch network throughout KwaZulu Natal.

FIGURE 3.2-Ithala Branch Network Distribution



As can be noted in Figure 3.2, 26% of Ithala branches are located where no banks exist and 47% are in smaller towns. This shows that Ithala is already positioned in areas where development needs are demanded most. Ithala has created for itself, a unique niche in these areas where other financial institutions are not keen to be represented.

3.2.6.2 Business Loans Department

This SBU is aimed at all sectors of business and is segmented into a micro and small business components and a medium and large business component. The key activities of the department include:

- The direct selling of financial products and services to KwaZulu Natal businesses;

- The evaluation, advancement and administration of loan finance to business entities in KwaZulu Natal;

- The direct investment in viable businesses in selected sectors requiring initial establishment support; and

- The identification, evaluation and facilitation of the development of new business sectors.

The Business Loans Department also facilitate skills transfer for entrepreneurs as a means of assisting in creating and promoting sustainable economic growth. A capacity building programme has also been developed for the construction sector which is aimed at assisting.

This SBU also comprises of agri-business division which specifically promotes agricultural activities and land redistribution to the previously disadvantaged communities through the provision of funding for agricultural developments and agricultural land purchases. It complements Government initiatives for the redistribution of land to all communities in South Africa.

3.2.6.3 Properties Department

The Properties Department manages all the corporation's properties and is made up of two divisions:

- The Industrial Division which is further divide into medium and large industries and small medium and micro enterprises; and

- The Commerce and Tourism Division which consists of Commercial Properties (shopping centres and office blocks) and tourism projects.

The specific key activities of the department are:

- The development of commercial and industrial space;
- The letting and selling of space;
- Financing of tourism projects; and
- Asset management.

The department's existing markets include:

- Industrial tenants – medium and large tenants (local and international) and small, medium and micro enterprises;
- Commercial – national and provincial retail chain stores, financial institutions, small privately owned retail businesses, professional practices etc.
- Tourism operators

Ithala enjoys a unique position in the market but information on its performance in the market as well as its market share is not available.

3.2.7 Development Perspective of Ithala

Development Finance Institutions (DPI) such as Ithala have two imperatives, namely to remain profitable on the one hand and to maximise its reach and benefit as many people as possible of a targeted profile on the other hand. The reality is that the maximisation of reach very often has adverse implications for profitability in the sense that the overhead costs increase in relation to larger numbers of clients and in addition, it often requires having to accept larger risks than would otherwise be the case.

In the case of Ithala, development impact (or reach) is measured in terms of a selected group of development indicators and replaces the need for payment of a cash dividend to the shareholder (Provincial Government). The performance as measured by the development indicator is therefore considered to be a "development dividend" paid to the KwaZulu Natal government (the sole shareholder).

The development dividend therefore refers to the measurable, non-financial return which Ithala provides by a way of delivery of sustainable development. Development as a concept and process in South Africa has taken on a variety of meanings. Some would argue that development is primarily concerned with addressing the problem of persistent poverty while others emphasise different goals such as economic growth, expanding markets, and providing access to services by the majority of the people. There are common factors in the arguments in that fostering economic growth as well ensuring that the poor are target beneficiaries in terms of access to services and their improvement in the quality of life by expanding incomes and reducing poverty.

The performance of Ithala is measured by the extent of its outreach and sustainability like all DPI. Outreach is a hybrid measure that assesses the extent to which a DPI has succeeded in reaching its target clientele and the degree to which a DPI has met that clientele's demand for financial services. Self-sustainability indicates the ability of the DPI to exist, based on its own effort and is measured by a composite measure of the DPI's financial performance, taking into account the subsidies received by the DPI. The objective of a successful DPI should be to achieve reach, high sustainability and high outreach simultaneously.

Reaching high sustainability and outreach simultaneously is indeed a challenge and something that most DPI's strive to achieve. Those that achieve high sustainability and outreach offer significant returns on development investments to society.

The question which is asked of Ithala is whether correct investments are being made and whether those investments pay adequate development dividends in terms of the aspects of development deemed important to the people of KwaZulu Natal. Ithala reports annually on its financial performance and provides a qualitative assessment of its development performance.

3.2.8 Historical Financial and Development Indicator

Ithala performance indicators are divided into two, namely financial performance and development performance. Development performance relates to its activities which are developmental in nature such as the number of jobs created, and the entrepreneurs assisted amongst many.

3.2.8.1 Development Achievements

Table 3.1

Total Jobs Created

	1999	2000	2001	2002	2003	2003 Target
Total jobs created	**9 959**	**8 469**	**8 125**	**4 511**	**4 967**	**7 350**
Micro and Small Business	2 283	1 666	906	613	944	-
Medium and Large Industrial	5 107	5 800	4 949	3 264	3 272	-
Commercial and Tourism	96	92	642	391	530	-
Agriculture (* and maintained)	2 473	911	1 628	243	221	-

The total jobs created can also be expressed in graphical form as shown in Figure 3.3:

Figure 3.3

Total Jobs Created

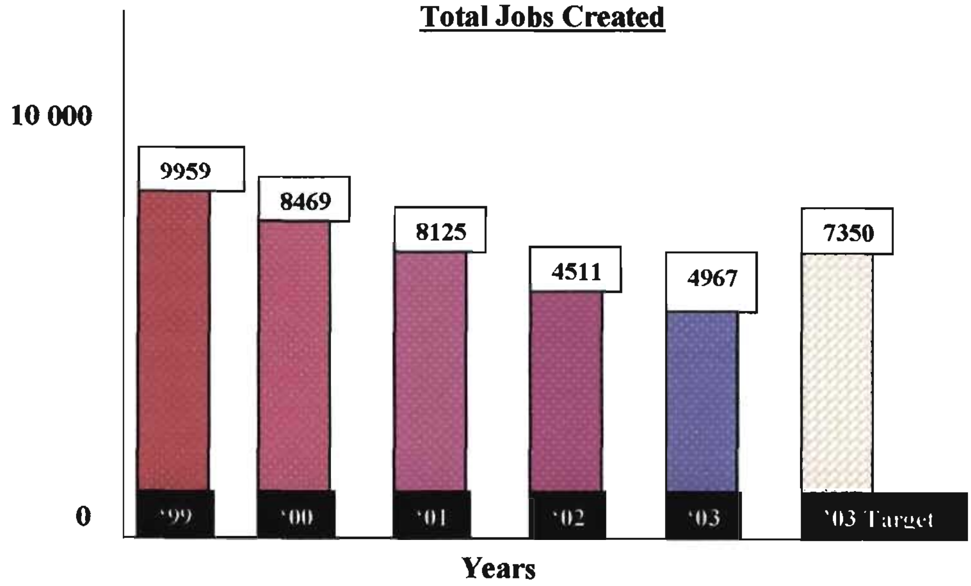


Table 3.1 shows that the total number of jobs created in 2003 dropped by 50, 1% compared to the 1999 levels. The worst affected are the Micro and Small Business sector (58, 6% drop) and the Agricultural sector (91% drop). The most significant % increase is in Commercial and Tourism sector which increased by 552% although this was off a small base.

The conclusion is that the development impact delivered by Ithala in terms of job creation has deteriorated over the years. Also the capital investment has dropped by 27, 4% on 1999 levels (excluding the effects of inflation). Another disappointing factor is that, contrary to popular belief and rhetoric, the prospects for job creation does not lie in Micro and Small business sector as proven by the achievements of Ithala.

Table 3.2

Trends on Total Enterprises Assisted

	1999	2000	2001	2002	2003	2003 Target
Total Enterprise Assisted	**1 574**	**965**	**719**	**1 037**	**557**	**1 144**
Micro and Small Business	1 110	559	327	702	227	466
Medium and Large Industry	216	177	175	146	140	288
Commercial and Tourism	55	24	143	137	109	224
Agricultural	193	205	74	52	81	166

The total enterprises assisted from 1999 through to 2003 are shown graphically in Figure 3.4:

Figure 3.4

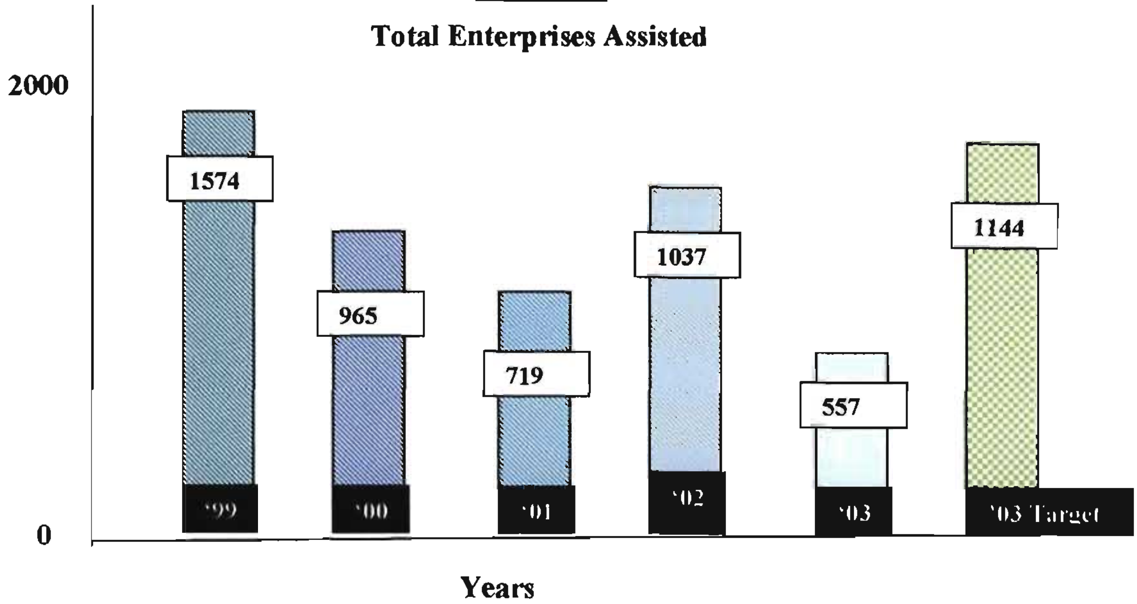


Figure 3.4 shows that there has been a decrease of 64% in enterprises assisted in 2003 compared to 1999. Fewer Micro and Small business sector enterprises were assisted in the same period (79,5% less). Commercial and Tourism nearly doubled (off a small base) during the same period.

Table 3.3

Historical Trends of Development Achievements.

Development Achievements	**1999**	**2000**	**2001**	**2002**	**2003**	**2003 Target**
Hectares Agric Land Financed	4 761	2 945	4 830	2 345	2 379	5 500
Savings Accounts Opened	123 807	141 804	121 797	162 223	173 875	45 000
Homeowners assisted with finance	3 461	1 991	3 802	2 745	3 317	4 800
Staffing						
Number of Staff	1 187	1 170	1 080	974	970	

The historical trends in Table 3.3 shows that there has been deterioration in the agricultural land distributed since 1999 but the number of savings accounts opened shows a positive trend while the number of homeowners assisted is not showing any real growth. Also the staff numbers have decreased slightly during the review period.

3.2.8.2 Financial Achievements

Table 3.4

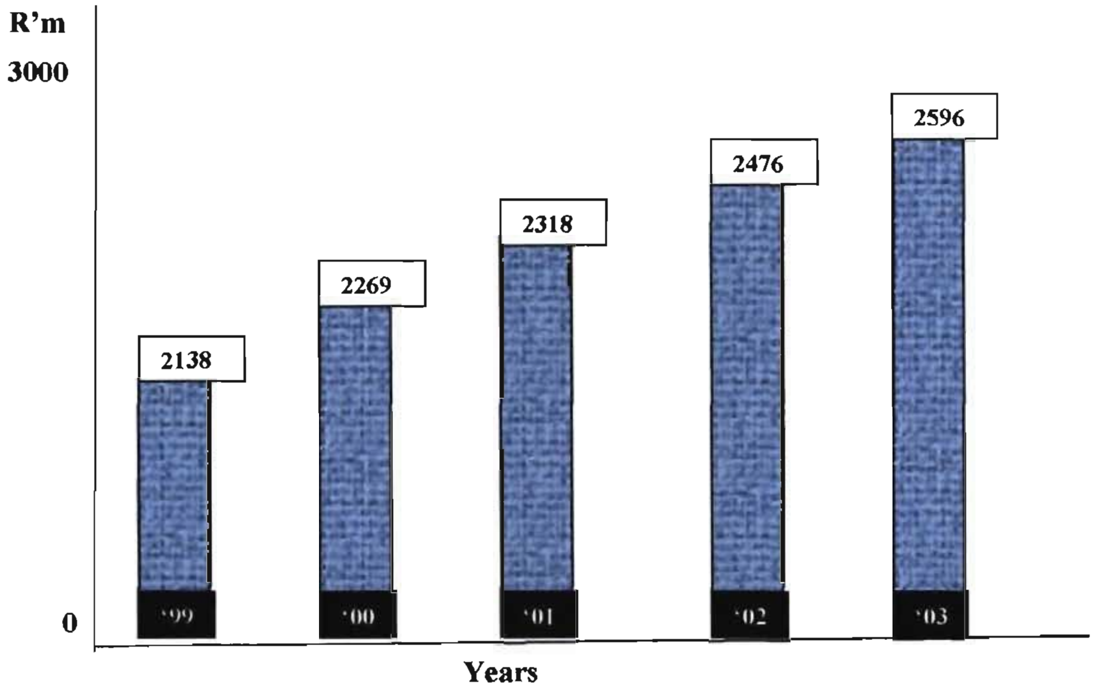
Historical Trends of Financial Achievements.

	1999	2000	2001	2002	2003
Interest received (R'm)	221	226	226	222	264
Interest paid to depositors (R'm)	49	50	38	38	56
Net income (R'm)	4	3	2	13	15
Savings deposits (R'm)	561	664	722	772	864
Total assets (R'm)	**2 138**	**2 269**	**2 318**	**2 476**	**2 596**
Growth in total assets (%)	11	6	2	7	5
Advances (R'm)	**1 110**	**1 253**	**1 360**	**1 335**	**1 352**
Growth in advances (%)	19	13	9	(2)	1
Capital invested (R'm)	408	298	394	243	296
Return on assets (%)	0,2	0,1	0,09	0,5	0,6

The interest received and interest paid is a function of the advances balances and savings balances and the interest rates charged and paid. The interest paid and interest received trends in Table 3.4 shows no significant changes. This is also the case with advances but savings are showing steady growth which is in line with the increase in savings accounts opened observed in Table 3.3. The return on assets is showing improvement but off a very small base and it is still very low by any standards.

Figure 3.5

Total Assets



The total assets in Figure 3.5 are showing steady growth over the five years. The return on assets in Table 3.4 shows a fluctuating trend and there should be scope for improvement.

Figure 3.6

Total Advances

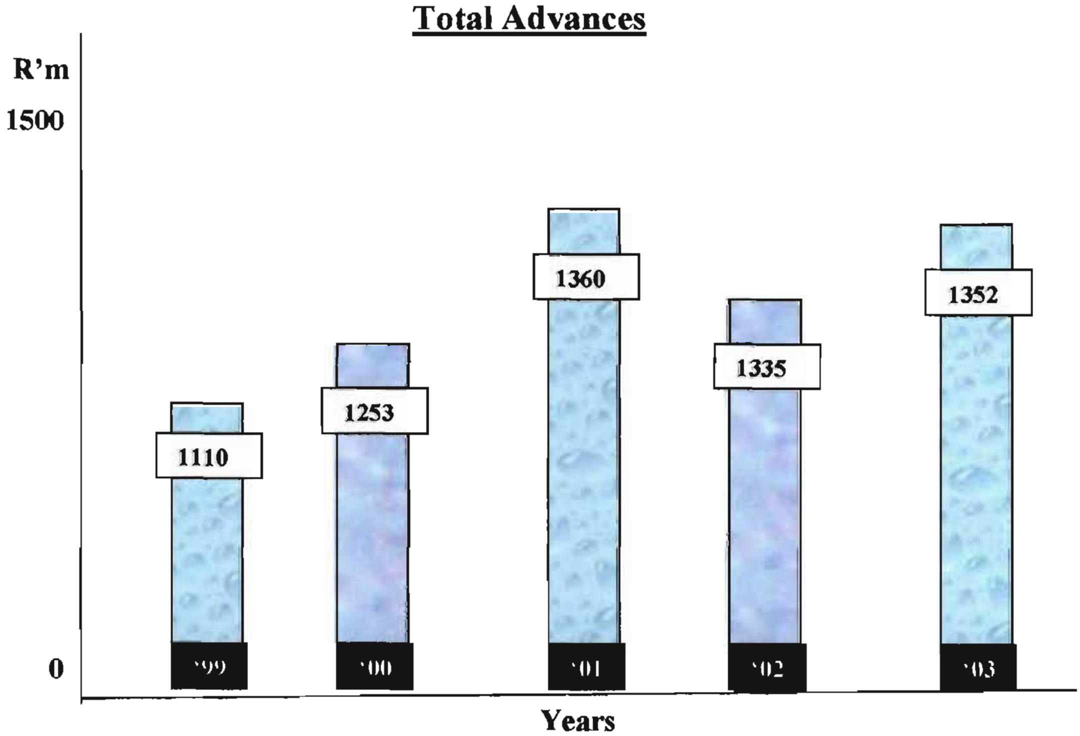


Figure 3.6 illustrates that Ithala is struggling to meet the set targets in almost all key performance areas and as it looks unlikely that it is meeting shareholder expectation either. It is also not doing enough for its own sustainability and survival. The growth in advances is fluctuating, which is not a good trend bearing in mind that most of its income is derived from interest.

3.3 THE NEWLY ESTABLISHED BUSINESS CONCEPT

Time Frame : In position and operational within 2 years

Driving Force : Market Category

Thrust of Strategy : To drive economic empowerment through the financing and facilitation of economic development solutions

Strategic Intent:

- The strategy of Ithala will be to direct, in accordance with the Provincial Government Growth and Development strategy and our own internal BEE policy, our skills and resources to make KwaZulu Natal the leading economic empowerment province in South Africa. This will be achieved by driving sustainable dynamic economic empowerment programmes.

- The User focus will be on:
  - Youth, low and medium income individuals, entrepreneurs, professionals and small and medium enterprises
  - Professional management services to Government, entrepreneurs as well as corporate organisations
  - Property development and related services to entrepreneurs, corporate and Government.

- Through focused research and product development a range of personal and business solutions will be designed to meet the implicit and explicit needs of the target market

- Ithala significant brand strength will be leveraged through superior solutions, convenient physical and electronic access and enhancement of all aspects of customer service to enable Ithala to become the institution of choice.

- Through customer focussed marketing programmes, Ithala will continue to build and develop the community's affinity to Ithala as a proudly KZN development institution.

- Ithala's structure and culture will reflect an entrepreneurial, unified product and market focused entity resourced by effective focused business units staffed by motivated professionals

- This strategy will enable Ithala to grow its asset base, advance our market share, and decrease its cost: income ratio, thereby providing an increase in profitability that will generate an *ROE of 5% and enable access to cost effective funding.

- The effective implementation of this strategy will facilitate an increase in the reach and development impact of Ithala's activities thus providing more equitable wealth distribution.

3.4 AREAS OF EXCELLENCE

3.4.1 Customer Service

The company must excel at providing unique, superior service to its customers through every interaction and with appropriate product and service solutions that will establish it as the supplier of first choice.

3.4.2 Market Knowledge

Ithala must excel at using formal and informal research as well as its data mining capabilities to identify the unexpressed needs, as well as to respond to the expressed needs of its target markets, with quality, innovative, flexible product and service solutions, sourced from within Ithala or from appropriate partners.

3.4.3 Systems and Processes

Ithala must excel at ensuring that it has appropriate business systems and processes, as well as developing IT systems that are aligned with its overall Business Strategy. This will creating a competitive advantage through leveraging these systems and technologies faster and more effectively than its competitors to improve its service to current customers and to provide new customers with compelling reasons to select Ithala as their suppliers of first choice.

3.5 CURRENT BUSINESS MODEL

Table 3.5

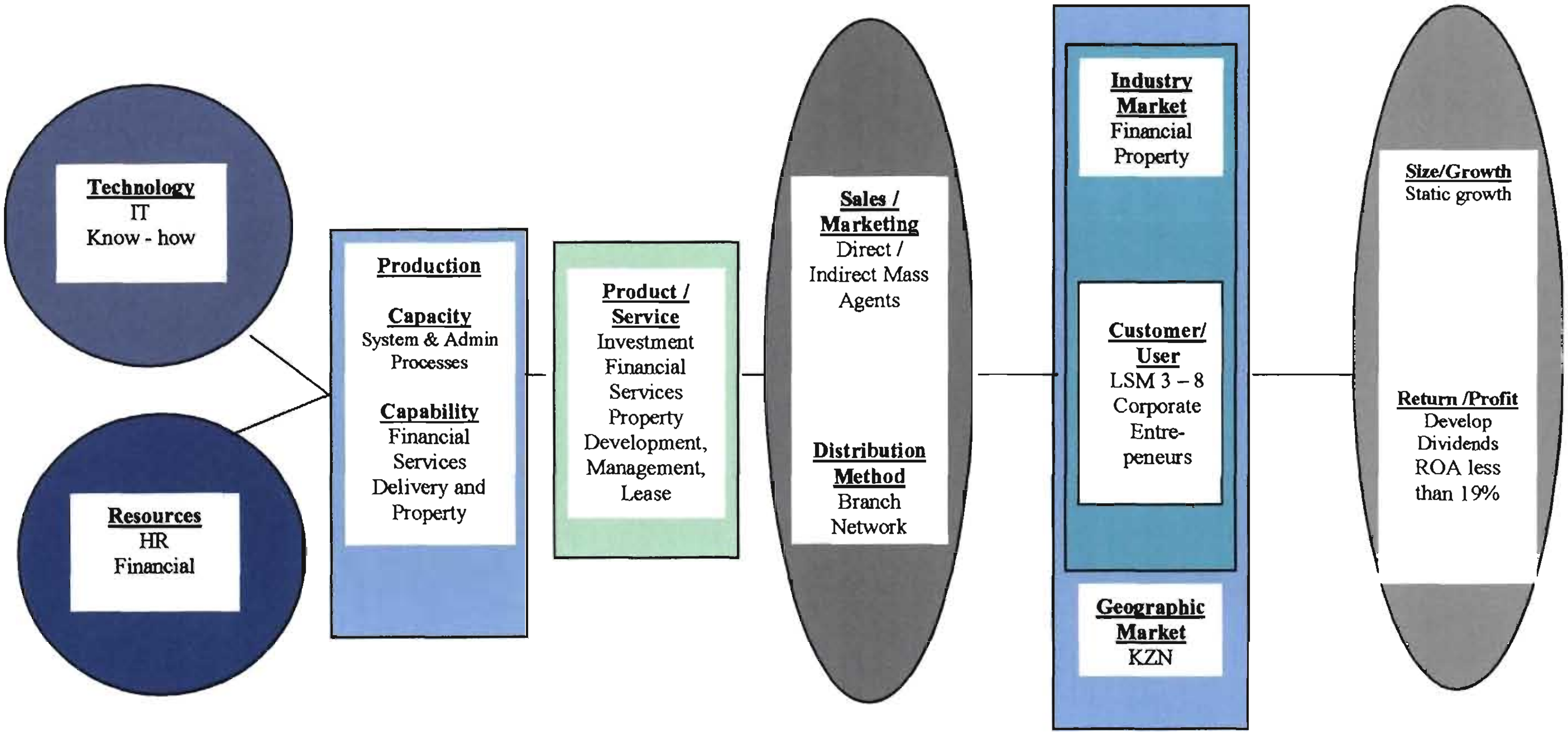
		Modus Operandi
Products	Scope/range: Features: Content:	❖ Savings/Home loans ❖ Project management ❖ Business finance ❖ Insurance services ❖ Property portfolio – letting ❖ Municipal services
Customers	Type: Class: Characteristics:	❖ Lower middle income ❖ Semi rural: poor and unbanked ❖ SME's and industrialists ❖ Corporate and individuals
Users	Profile: Demographics: Habits:	❖ Diverse – rural and urban ❖ 18 – 75 male and female ❖ Educated and uneducated ❖ Cross cultural (predominantly African)
Industry / Market Segments	Type: Category:	❖ Retail / business / property ❖ Municipal / government ❖ Tourism
Geographic Markets	Countries: Regions: States/Provinces:	❖ Regional
Technology / Know-how	Foundation / Basic: Enabling: Differentiation:	❖ I.T. Systems
Manufacturing Capabilities	Processes: Capacity: Location:	❖ I.T. and admin processes
Sales / Marketing Methods	Type: Quantify: Reach: Coverage:	❖ Direct / indirect / mass / agents ❖ Media / mail shots ❖ KZN / continuous
Distribution Methods	Channels: Service: Reach:	❖ Branch networks (42) ❖ Industry estates

Support Activities	Human Resources: IT Systems: Finance: Administration:	❖ Legal ❖ Audit ❖ Compliance ❖ Technical
Financial Targets	Size / growth: Return / profit:	❖ Extrapolated increase in budget ❖ Business loans – less than 5% growth ❖ Properties – average 5% growth in capital investment ❖ Technical services 3 - 5% turnover ❖ Insurance services – positive outlook ❖ Corporate services – cost? ❖ Ithala Limited: o Savings 9% growth in investments o Loans 1 – 3% growth ❖ Marketing – cost? ❖ Finance and IT – Cost?

Table 3.5 and Figure 3.7 show that Ithala offers a wide range of products and services to mostly lower and middle income users in rural and semi-urban areas in the KwaZulu Natal region. The systems and administrative processes are driven by information technology. The products and services are distributed through the branch network and Industrial Estates. The financial targets are not met with this business model and growth is very limited. The cost structure is high which adds a burden to profitability.

Figure 3.7

Current Business Model



Source: Ithala Strategic Profile: 88

3.6 STRENGTHS

3.6.1 Unique Strengths

No unique strengths of Ithala were identified.

3.6.2 Relative Strengths

- Ithala operates geographically in areas / regions where banks do not generally operate
- It addresses a market that its competitors do not serve due to the risk profile
- It has strong linkage to Government departments
- It has a strong brand in its market
- It knows how to deal with low income earners
- Ithala have years of experience in development work.
- It understands the language and culture of its target the market better than competitors
- Its infrastructure is well developed and established especially in rural areas
- Its customer base is very loyal to the organisation.
- The staff profile of Ithala is representative of the market it serves
- The property portfolio of Ithala is relatively low cost-low rental as compared to competitors.

3.6.3 Latent Strengths

- Ithala have a huge client base with largely single product usage
- It is the largest industrial landlord in the Province
- It has vast experience in use/management of Previously Disadvantaged Individuals (PDI) contractors (mentorship)
- Ithala appetite for risk matches its market profile

3.7 WEAKNESSES

3.7.1 Unique Weaknesses

- Ithala is restricted to operating in KwaZulu Natal
- It is the only retail bank with no Automatic Teller Machines(ATM) facilities
- Ithala experiences difficulties in marketing its repossessed properties particularly in rural areas

- Ithala structure restricts it from reacting to market trends timeously

3.7.2 Relative Weaknesses

- Ithala has no banking licence, it operate under exemption.
- Ithala have serious customer service short comings
- Its return on investment is low and has high overheads
- The location of its property portfolio is decentralised for ease of manageability
- Its operating systems banking systems are outdated and inefficient.
- Its cost of funding is high and net returns are lower given the risk profile of its portfolio.
- Ithala is unable to provide one stop shop financial services

3.7.3 Latent Weaknesses

- Ithala are in comfort zone which makes it difficult to introduce innovation
- The seems to be high levels of stress which cause absenteeism
- Its inability to focus on markets beyond its traditional market is a weakness.

Table 3.6 -Detailed External Opportunities

ENTS/TREND	What is the specific opportunity for Ithala	Probability	When	Where	Impact / Effect
ga Projects	❖ Partnerships ❖ Developer / management project ❖ Finance sub-contractors	High	Now	KZN Richards Bay – Durban	❖ Earn income funded (non interest) ❖ Interest income
reased wealth and ome levels of black get market	❖ Increased savings ❖ Increased lending ❖ Other financial services ❖ New markets and products	Low/Medium	3 – 5 years	South Africa	❖ Growth ❖ Increase income
ange in roles and ndate of Ithala	❖ Enlarged mandate (SA) ❖ Consultancy to access incentives	Medium	2 years	South Africa	❖ Growth ❖ Increase revenue
w technology (cell one)	❖ New products ❖ New delivery channels	High	Now	South Africa	❖ Increase client numbers ❖ Improve operational effectiveness

'ENTS/TREND	What is the specific opportunity for us	Probability	When	Where	Impact / Effect
;her SA growth and reased SADC growth	❖ Better climate for business development	Medium	3 – 5 years	SADC	❖ Growth in loans ❖ Increase income
grade neglected areas	❖ More branches ❖ More shopping centres	Medium	Now	KZN	❖ Increased investment ❖ Increased clients
w stable interest rate	❖ Larger client base to afford loans ❖ Lower bad debts	High	6 – 12 months	South Africa	❖ Growth in loan book ❖ Lower default rate
›rtgage originators	❖ Extended marketing opportunities ❖ New marketing channels	High	Now	KZN/ South Africa	❖ Increased loan book
:tnerships with ancial services e.g. urers	❖ Key insurance players want access to the client base ❖ Joint ventures	High	Now	KZN	❖ Increased income and better client service

Table 3.6 indicates numerous external opportunities for Ithala during the planning period. Most of the opportunities can be exploited immediately without major investment in resources. The benefits from opportunities are improved efficiencies, increased income, and increased volumes. Other benefits relate to improvement in the market position and would impact on customer loyalty and long-term benefits to the organisation.

Table 3.7 - -Detailed Internal Opportunities

What is the specific opportunity for us?	Probability	When	Where	Impact / Effect
❖ Broaden product portfolios to access new markets and service existing clients through data mining	High	3 months	Target market	❖ Improved profitability and gained market share
❖ Pursue consumer / business finance products for business and personal use	High	6 months	Government and own employees, micro businesses	❖ Profit and new markets
❖ Sophisticated transacting facilities and improved processing systems (faster decision making and delivery) in order to attract the middle income group	High	12 months	Existing and new markets	❖ Ability to service a broader market and be more cost effective
❖ Technical assistance to support financial assistance ❖ Business Support Services for SME's	Medium	9 months	SME's	❖ Reduced risk and increased profit
❖ Recruit, develop and retain top quality staff	High	Immediately	Own staff	❖ Improved effectiveness, efficiency and loyalty
❖ Strategic alliances and joint ventures	High	9 months	External product and service providers	❖ Leverage of external relations for improved profitability

Again Table 3.7 shows that there are various internal opportunities with a high probability of success which could have high business impact within a short term in the existing markets.

Table 3.8 --Detailed External Threats

EVENTS/TREND	What is the specific opportunity for us	Probability	When	Where	Impact / Effect
Instability of the rand	❖ Planning uncertainty ❖ Reduced fixed investment	Medium	Now	South Africa	❖ Lack of growth ❖ Increase operating cost
HIV/AIDS	❖ Depletion of savings ❖ Social instability ❖ Skills base erosion	High	Now	South Africa	❖ Reduced growth ❖ Higher costs ❖ Reduced income
Legislated competition (Khula/Big Four)	❖ Increased competition	High	1 – 2 years	South Africa	❖ Lower market share ❖ Decrease in profit
Reserve Bank revokes exemption	❖ Close 50% of business ❖ Pay back deposits	Medium	Less than 2 years	KZN	❖ Liquidity ❖ Bankruptcy

Table 3.8 indicate that there are few external threats in the environment facing Ithala but precautions need to be taken to avert these threats. The instability of the rand and the impact of HIV/AIDS are already affecting performance although the impact could change over time.

3.8 REQUIREMENTS FOR SUCCESS

For Ithala to succeed it was considered very important for it to adhere to certain business demands and market approaches. Failure to take these into consideration will jeopardise its results and impair performance. These key areas of success were identified as:

- To provide demand driven products and services, tailored to clients' needs
- To improve customer service and aftercare
- To price and package the services according to the risk / collateral profile of the client
- To build loyalty and affinity to Ithala Brand
- To develop client knowledge and skills understanding
- To earn a reliable income stream from clients

3.9 INDICATORS OF FAILURE

The indications of practices which Ithala must avoid were also identified as:

- High risk clients with a lack of business skills / knowledge
- Areas of low economic activity / high risk
- Small new business entrants with low resources levels
- Involvement in non-core activities / businesses

3.10 AREAS OF VULNERABILITY

3.10.1 Short-Term

- The spread of HIV/Aids, especially within the client base
- Financial Constraints
- The cost of compliance with legislation
- A poor profit track record
- High levels of debt
- Operating without a banking licence
- The environment is conducive to the entry of competitors
- The high cost to income ratio

3.10.2 Long-Term

There were no long term vulnerabilities identified.

3.11 IMPORTANT FORMS OF FUTURE COMPETITION

3.11.1 New Direct and Indirect Competitors

- Chain stores and petrol stations
- Government agencies
- Post banks
- Insurance companies
- Commercial banks establishing networks (ATM's) in rural areas
- Umthombo (SASA funded)
- Village and Co-op banks

3.11.2 New competing Technologies and Products

- Alliances to retailers in established distribution networks
- Rural banking via cell phones
- The big four forming alliances with Post Bank
- Sophisticated CRM systems – voice recognition and biometric ID

3.11.3 Suppliers and partners who may become Competitors

- Mobile banking – electronic facility
- Big banks forming alliances with micro lenders?
- Micro lenders moving into the mortgage business

3.11.4 Customers and Suppliers who may become Competitors

- Government Agencies
- Bond originators
- Cell phone companies – Insurance and other Financial intermediaries
- The Big Four major banks

3.12 COMPETITORS

Table 3.9 – Ithala Limited

STRENGTHS			
Common	**Big Four**	**Retailers**	**Micro Lenders**
❖ Strong IT infrastructure ❖ Distribution network ❖ Product range (one stop) ❖ Economies of scale benefit ❖ Brands	❖ Strong IT infrastructure ❖ Financial strength ❖ Distribution network ❖ Variety of products (one stop) ❖ Expertise ❖ Large client base	❖ Distribution network ❖ Lower transaction costs ❖ Convenient (one stop) ❖ Knowledge of data customers (mining of existing customers)	❖ Close to community ❖ No red tape ❖ High appetite for risk ❖ Flexibility ❖ Quick turn around times ❖ Good collection systems ❖ Needs driven

The main competitors of Ithala Limited as identified in Table 3.9 are the Big Four banks, retailers which are more and more providing financial services and micro lenders. Their main strengths are their distribution network supported by strong IT infrastructure and products. Ithala must understand these strengths as they would impact on the success of its strategies.

Table 3.9 – Ithala Limited ***(continued)***

WEAKNESSES			
Common	**Big Four**	**Retailers**	**Micro-Lenders**
❖ No appetite for low income market ❖ Bureaucracy ❖ Image (excluding Big Four)	❖ Bureaucratic (takes time to make strategic decisions) ❖ Business units operating in isolation ❖ No intimate knowledge of clients ❖ No appetite for low income market	❖ No banking experience ❖ Limited product range ❖ No licence (work through one of the Big Four) ❖ No bank image yet – based on trust	❖ No good image ❖ No unique brand ❖ High interest rate / expensive

The competitive weaknesses are that jointly, the main competitors have no appetite for the low income market where Ithala is the strongest as analysed in Table 3.9 above. They are also bureaucratic and take long to make decisions and react to the market needs.

Table 3.10 Competitors - Properties

Common	Property Investors (Institutions)	Property Developers	Property / Asset Managers	Business Partners
STRENGTHS				
❖ Operate nationally ❖ Experienced and give personal service ❖ Good systems knowledge ❖ Strong brands ❖ Higher returns	❖ Financial resources ❖ Large portfolios (office, industrial and retail) ❖ National spread ❖ Human and IT resource base ❖ International knowledge ❖ Deal with nationals ❖ Strong brand	❖ Higher return from: better areas, lower cost of development and higher rents ❖ More prelet / end user ❖ Closer knit prospect teams/networks ❖ Quick decisions ❖ Quicker building times ❖ Good local/end user knowledge	❖ Good systems ❖ Experienced personnel ❖ Well networked ❖ National ❖ Diverse portfolios ❖ Strong branding	❖ National ❖ Comprehensive offering ❖ Advisory service ❖ Government incentive knowledge ❖ Small tenant knowledge ❖ Outlying area knowledge ❖ Local knowledge ❖ Brand/visibility ❖ Sound funding

The competitors of the properties division comprise private property investors, property developers, asset managers and Business Partners. Their strengths are personalised service, strong brands, national experience and investment in high return ventures as shown in the analysis in Table 3.10.

TABLE 3.10 COMPETITORS – Properties *(Continued)*

Common	Property Investors (Institutions)	Property Developers	Property / Asset Managers	Business Partners
WEAKNESSES				
❖ Not in out lying areas ❖ Lesser local knowledge – inflexible and high handed ❖ Non BEE profile ❖ No government incentive knowledge/advice	❖ Large investments in CBD's ❖ No smaller niche centres ❖ More in urban areas ❖ Lack of lack knowledge ❖ Lack of smaller tenant knowledge ❖ Remote decision making ❖ High handed/inflexible ❖ Property offering only ❖ No knowledge of government incentives ❖ Non BEE profile	❖ Smaller financial resources ❖ Higher gearing ❖ Lower quality buildings ❖ Not in outlying areas ❖ Highly susceptible to under performance / collapsing projects ❖ No knowledge of government incentives ❖ Non BEE profile	❖ Lack of outlying/emerging tenant knowledge ❖ Inflexible ❖ Not in outlying areas ❖ No knowledge of government incentives ❖ Non BEE profile	❖ Promote new project decision making ❖ Lesser quality ❖ Smaller / less diverse portfolio

e competitive weaknesses in Table 3.10 above shows that Ithala can capitalise on these to its advantage to win market share and establish itself in the ırket as these are analysed relative to Ithala position.

Table 3.11 Competitors – Business Loans

Common	Big Four	Government Departments Land Bank/IDC	Niche Banks	Business Partners
STRENGTHS				
❖ Capital resources ❖ Cost of capital pricing ❖ National presence ❖ Access to resources	❖ Capital resources ❖ Cost of funds ❖ One stop shop (product mix) ❖ Technology resources ❖ Access to skills resources ❖ Strong national brand	❖ Capital resources ❖ Cost of capital ❖ Strong national level government links ❖ Access to skills ❖ Economies of scale	❖ Capital resources ❖ Cost of capital ❖ Cherry pick ❖ Aggressive pricing ❖ Deal structuring ❖ Strong national brand image	❖ National base ❖ Equity and loans

Table 3.11 Competitors – Business Loans *(Continued)*

Common	Big Four	Government Departments Land Bank/IDC	Niche Banks	Business Partners
WEAKNESSES				
❖ Knowledge of the market ❖ Lack of penetration of the market	❖ Lack of personal contact with the smaller client ❖ Decision making out of the province ❖ Turnaround time ❖ Loan threshold ❖ Don't know the market ❖ Limited penetration of the market	❖ Slow turnaround time ❖ Limited presence in KZN	❖ Loan threshold ❖ Narrow customer profile	❖ Limited KZN distribution network ❖ Very, very slow

Table 3.11 analyses the strengths and weaknesses of the competitors of Ithala's Business Loans division in the light of the SBU's position. The key common strengths are their capital resources, their cost of capital, their strong national presence as well as their access to resources. The competitors' weaknesses include a lack of knowledge of the market, specifically in KwaZulu Natal where Ithala's specialty knowledge is the highest, and their lack of penetration of the market which deprives them market power. On devising its strategies for the SBU, Ithala must work around the strengths and capitalise on the competitor weaknesses.

Table 3.12 summarises the common strengths and weaknesses of the competitors for each SBU. This is meant to position the entire organisation to understand the competitors. The most common competitor traits are the financial strengths, good systems and processes, and national presence. The weaknesses vary per SBU and there are no common weaknesses across all SBU's.

Table 3.12 Competitors – All Common Traits

Ithala Limited	Insurance	Business Loans	Properties
STRENGTHS			
❖ Strong IT infrastructure ❖ Distribution network ❖ Product range (one stop) ❖ Economies of scale benefit ❖ Brands	❖ Sophisticated systems ❖ Cost effective and wide distribution ❖ Linkage / alliances ❖ Strong brands ❖ Support / training ❖ Loyalty and trust ❖ Captive market (broad) ❖ Broad and affordable product range	❖ Capital resources ❖ Cost of capital – pricing ❖ National presence ❖ Access to resources	❖ Operate nationally ❖ Experienced and give personal service ❖ Good systems knowledge ❖ Strong brands ❖ Higher returns
WEAKNESSES			
❖ No appetite for low income market ❖ Bureaucracy ❖ Image (excluding Big Four)	❖ C.R.M ❖ Poor admin systems ❖ Fewer distribution points ❖ Service delivery ❖ Language barrier ❖ Turn around time ❖ Compliance	❖ Slow turn around time ❖ Limited presence in KZN	❖ Not in outlying areas ❖ Lesser local knowledge – inflexible and high handed ❖ Non BEE profile ❖ No government incentive knowledge / advice

Table 3.13 analyses Ithala's most successful products and their characteristics. This analysis will assist in strategy development by providing an understanding of those products which are successful in order to replicate them and also understand the characteristics of less successful products in order to avoid repeating such mistakes. This analysis gives insight into the most successful activities of the organisation in order concentrate more on the successful activities and less on the risky, costly, and less successful activities in future

Table 3.13 Products / Services Success/ Failure Characteristics

MORE SUCCESSFUL PRODUCTS/SERVICES	CHARACTERISTICS OF MORE SUCCESSFUL PRODUCTS / SERVICES
❖ Property and working capital finance (M&L) ❖ Home improvement loans ❖ Savings products and services ❖ Insurance products ❖ Municipal services ❖ Durban M & L business premises	❖ Demand driven ❖ Packaged and priced correctly ❖ Tailored to clients needs ❖ Quality of personal contact / service ❖ Ithala brand well known ❖ Innovative solutions
LESS SUCCESSFUL PRODUCTS / SERVICES	**CHARACTERSISTICS OF LESS SUCCESSFUL PRODUCTS / SERVICES**
❖ Progress Home Loan ❖ Working capital loans to retail market ❖ Micro Business loans / hawker loans ❖ SME properties ❖ Some eco-tourism projects ❖ Low value equipment loans ❖ Business saving accounts ❖ Non-core business activities (tea and nut farms)	❖ Extremely high risk ❖ Difficult to administer and costly ❖ Lack of business skills / entrepreneurship ❖ Inadequate collateral

Table 3.14 details the common successful geographic areas and the less successful geographic segments. This will focus Ithala's strategies towards the most successful areas and encourage them to invest less in poorly performing areas. This informs future decisions on the choices of activities in various geographic market segments.

Table 3.14 Geographic Segments - Success/ Failure Characteristics

MORE SUCCESSFUL GEOGRAPHIC SEGMENTS	COMMON CHARACTERISTICS OF MORE SUCCESSFUL GEOGRAPHIC SEGMENTS
❖ Areas with a reasonable income pool but with limited competition e.g. Nongoma ❖ Durban / Pinetown – Business loans, property, saving and loans ❖ Coastal sugar belt (P/Sheptone to Richards bay)	❖ Understand needs of market/community ❖ Reasonable disposable income ❖ Accessibility ❖ Representation in low competition areas ❖ Target market association with Ithala
LESS SUCCESSFUL GEOGRAPHIC SEGMENTS	**COMMON CHARACTERISTICS OF LESS SUCCESSFUL GEOGRAPHIC SEGMENTS**
❖ Areas with low economic activity ❖ Unstable / boycott areas ❖ High crime areas	❖ No or little economic activity ❖ Low income / unemployment ❖ Lack of business skills and knowledge

3.13 FUTURE BUSINESS ARENA

The future business arena is analysed in terms of economic environment, political situation, social/demographic factors, consumers/user profile/characteristics, competition, technology evolution, manufacturing, product content, sales/marketing, distribution methods, and resources. These possible future events culminate probable scenarios which will take an optimistic view as well as a pessimistic one. Each of these future business factors are going to be considered in detail:

3.13.1 Economic Environment

- ❖ To operate in a stable, growing economy
- ❖ A generally lower interest rate scenario will prevail
- ❖ The economy will be better developed due to an increase in user groups and new products
- ❖ The country's re-integration into the world economy will create an environment where manufacturing and tourism sectors can play a lead role

- There will be stronger focus on SME development and funding
- A favourable macro economic policy environment will prevail.

3.13.2 Political

- There will be political stability
- Tighter legislative environment will come into effect for 1st tier banks
- Positive socio-political legislation will benefit customers
- There will be a relaxed regulatory environment for the 2nd tier in terms of Banks Act

3.13.3 Social / Demographic

- There will be a substantial growth in black middle class
- The impact of HIV/Aids will be severe
- There will be increased participation of blacks in mainstream economy as well as increased urbanisation
- More consumers will embrace technology
- Higher level of education will result in demand for better service and products
- The client base will be multiracial

3.13.4 Market Characteristics

- Competitive environment will increase in previously un-banked markets
- There is a need for greater emphasis on non-interest revenue generating activities
- There will be better access to funding
- The increase in technology will facilitate more competition
- More factory space will be needed in urban areas

3.13.5 Customers/User Profiles/Characteristics

- Focus on middle income markets by competitors will increase.
- Growth in equity provision through alternative exchange (ALTX)
- The community based affinity groups will increase.
- Customer profiles will improve in terms of earning/buying power

- Non financial organisations with wide distribution facility (e.g. Pick n Pay) will be attracted to the market.

3.13.6 Competition

- Competition in niche markets is expected to increase
- More emphasis on brand development by major market participants.
- The operating efficiencies will dictate the success / failure of businesses

3.13.7 Technology Evolution

- The electronic application and approval of deals will be possible
- The industry will be highly technology driven
- More widespread utilisation of cell phones / smartcards and on-line facilities
- Service will be driven by technology.

3.13.8 Manufacturing

- Automation in office and administration process is expected to increase
- Higher mechanisation will lead to fewer job opportunities
- Mechanisation / automation as a result of Aids
- Sales and Marketing activities will be internet orientated

3.13.9 Product Content

- Innovative products will be launched to capture market
- Quick assessment and approval of loans will be the new standard
- Transaction processing off-site will be more feasible
- Products flexible will determine consumer preferences
- Total product package concept will be widespread

3.13.10 Sales / Marketing

- Relationship building, marketing programmes and client centricity focus

- Cell phone and internet orientated marketing programmes will increase
- More emphasis will on extensive cross selling to existing clients
- More sophisticated prospecting methods will prevail on the market
- Utilisation of sophisticated customer relationship management technologies will increase

3.13.11 Distribution Methods/Channels

- Cell phones will be a means of distribution
- More efficient ways of service delivery e.g. internet
- Less reliance on brick and mortar offices: mobile phones and laptop computers?
- Integration of financial services

3.13.12 Resources

- Increase need for multi-skilled and computer literate staff
- Human resources will be problematic due to effects of Aids
- There will be competition for talented management and staff who will have increased expectations but in return will add significant value
- Greater pressure for definite self funding and greater competition with other institutions
- The increasing trend of mobile employees will be noticeable.

3.13.13 Best Case Scenario

- High growth within a stable political environment
- User friendly and affordable technology will be available
- Better educated customer that will embrace technology
- Sufficient pool of skilled employees
- Greater access to South African and SADC markets
- Cure for Aids within 3 years
- Improved culture of savings
- Relaxed regulatory environment
- Significant Government support for SME's

3.13.14 Worst Case Scenario

- Socialist system of Government
- Inability to manage the impact of Aids
- Failure of the banking system in South Africa
- Unfair competition from powerful competitors
- High inflation and interest rate scenario caused by bad macro economic policies
- Collapse of communications and support infrastructure

Table 3.15 Individual Customer Segments – Success/Failure Characteristics

MORE SUCCESSFUL INDIVIDUAL CUSTOMER SEGMENTS	COMMON CHARACTERISTICS OF MORE SUCCESSFUL INDIVIDUAL CUSTOMER SEGMENTS
❖ Medium and low business ❖ Middle and low income households ❖ Sugar farmers ❖ Government employees	❖ Established / expanding businesses ❖ Proven systems / skills ❖ Low risk profile ❖ Stable income / salary ❖ High level of collateral ❖ Secured repayments
LESS SUCCESSFUL INDIVIDUAL CUSTOMER SEGMENTS	**COMMON CHARACTERISTICS OF LESS SUCCESSFUL INDIVIDUAL CUSTOMER SEGMENTS**
❖ Certain sectors of retail (furniture / liquor) ❖ Irrigation scheme clients (small scale) ❖ Micro sized businesses	❖ Low level of business experience / acumen ❖ High input costs / limited resources / support ❖ Small / new entrants into business ❖ Culture of non-collection

Table 3.15 highlights the most successful as well as less successful customer segments. This analysis will help Ithala to craft a strategy aimed at the successful customer segments and also assess its capabilities in making the less successful segment become more successful. A strategy formulated with the most successful analysis in mind is likely to yield the desired results as it likely to capitalise on successful areas and avoid possible failures.

3.14 FUTURE GEOGRAPHIC MARKET SCOPE

		More Emphasis	Less Emphasis
A.	**Current Markets**		
	KZN		
❖	Coastal sugar belt		✓
❖	Durban/Pinetown	✓	
❖	Richards Bay	✓	
❖	Rural areas		✓
❖	Peri urban areas.		✓
B.	**Future Markets**		
❖	CBD's	✓	
❖	Areas immediately bordering KZN	✓	
❖	Educational campuses	✓	
❖	Areas with profit potential	✓	
❖	Areas of operations of JV partner	✓	

In its future markets, Ithala will concentrate on the urban areas and the areas outside KwaZulu Natal which are new markets and a move away from its rural markets. It must be noted that in these areas the need for development activities is much less. This marks a departure by Ithala from its historical areas of operation. This departure is likely to be done at the expense of less privileged markets which Ithala originally was established to serve.

3.15 FUTURE USER / CUSTOMER SEGMENT

		More Emphasis	Less Emphasis
A.	**Current User / Customers**		
❖	Individuals (low - middle income)		✓
❖	Home owners 9low – middle income)		✓
❖	Corporate	✓	
❖	Entrepreneurs	✓	
❖	Government	✓	
❖	Public services	✓	

B.	**Future User / Customers**	**More Emphasis**	**Less Emphasis**
❖	Individuals /homeowners (low – middle income)	✓	
❖	Black economic empowerment	✓	
❖	Students	✓	
❖	Developers		✓
❖	Property investors / owners	✓	
❖	Professionals	✓	

Again it is noted that in the future Ithala hopes to place more emphasis on students and professionals which are not part of its current target market. This is also a departure from current operations.

3.16 FUTURE PRODUCT SCOPE

A.	**Current Products**	**More emphasis**	**Less emphasis**
❖	Business and Industrial premises	✓	
❖	Business Loans	✓	
❖	Bridging (asset based)		✓
❖	Emerging Contractor Training	✓	
❖	Equipment / asset Finance	✓	
❖	Facility Management	✓	
❖	Funeral Schemes	✓	
❖	Group Life		✓
❖	Home Loans	✓	
❖	Home Improvement Loans	✓	
❖	Industrial Properties – Leases		✓
❖	Life Insurance	✓	
❖	Management Services (Project, Contract, Facilities and Property Management)	✓	

	More emphasis	Less emphasis
❖ Municipal Services	✓	
❖ Project Management Facilitation	✓	
❖ Property Development	✓	
❖ Property Finance	✓	
❖ Property Leasing	✓	
❖ Savings	✓	
❖ Term Deposits		✓
❖ Working Capital Finance		✓

The products to be concentrated on are those with a higher preference rate by the consumers. In this respect Ithala will place more emphasis on those products and resources will be expended on them.

B. Products to be assessed for development

The product development efforts of Ithala will be directed at producing new products for new markets which had been earmarked as having potential for growth and contributing to future profits. These products include:

	More emphasis	Less emphasis
Property Management Services		
❖ Asset Management (buy and sell portfolio)	✓	
❖ Facilities Management External (maintenance)	✓	
Personal Financial Products		
❖ Consumer Finance	✓	
❖ Micro Finance for Businesses	✓	
Business Finance Solutions		
❖ Commuter Transport		✓
❖ Equity Investment	✓	
❖ Hire Purchase	✓	
❖ Rental Financing	✓	

	More emphasis	Less emphasis
❖ Structured Finance Packages for Empowerment Deals	✓	
❖ Trade finance	✓	
Insurance Products		
❖ Comprehensive insurance	✓	
❖ Group Life Insurance	✓	
❖ Short Term Insurance	✓	
Technology Driven Banking Solutions		
❖ Credit Cards		✓
❖ Debit Cards	✓	
❖ Internet Banking / cell phone	✓	
Business Assistance		
❖ Mentorship	✓	
Treasury Services	✓	

3.17 OFFENSIVE STRATEGIC OBJECTIVES

Ithala will be adopting offensive strategic approaches to enter new markets, attract new users, and introduce new markets. Its strategic intent Is to capture certain positions as detailed below. These positions to be targeted and captured had been broken down per Strategic Business Unit.

3.17.1 Ithala Ltd

Table 3.16 Ithala Limited offensive strategies

POSITIONS TO BE CAPTURED	2004	2005	2006	2007	2008
Electronic Transactional Account	40 000	80 000	140 000	200 000	240 000
South Africa	Urban	Periphery	Rest of SA	Rest of SA	Rest of SA
Consumer and Asset Finance Products	Nil	1% of loan book	3%	5%	7%
Group Benefit Schemes (churches, affinity clubs)	R130mil	→	→	→	R260mil
Medium to High Income Earners and Professionals	5% of book	7%	10%	12%	15%
Youth	10% of number of electronic accounts				

Ithala limited intends to aggressively increase volumes of electronic transactions over the next five years achieving specific targets and also to expand to the rest of South Africa. It also wants to be offensive in capturing the group schemes and medium to high income markets. The advantage of this analysis is that there are clear positions and targets to be captured.

3.17.2 Business Loans

Table 3.17 Business Loans offensive Strategies

POSITIONS TO BE CAPTURED	**2004**	**2005**	**2006**	**2007**	**2008**
Trade Finance (size in book)	R10mil	R20mil	R50ml	R100ml	R100mil
Loan Advances:	Urban	Periphery	Rest of SA	Rest of SA	Rest of SA
• Timber and Wood	R5mil	R10mil	R15mil	R20mil	R30mil
• Plantations, Services and Manufacturing	R4mil	R6mil	R8mil	R12mil	R20mil
• Agricultural Land – Mortgage Bond Finance	R10mil	R10mil	R15mil	R20mil	R30mil
• Agricultural Processing	R3mil	R5mil	R10mil	R15mil	R15mil
• Fresh Produce Export	R2mil	R3mil	R10mil	R10mil	R10mil
Chemical and Non Ferrous (aluminium)	R5mil	R10mil	R18mil	R20mil	R25mil

The strategic intent of the Business Loans division is to be offensive in the trade finance business by capturing a R100million loan book by 2008. The other attractive markets it intends to enter are timber and wood, plantations, and agricultural processing amongst others. The entry into these markets is of strategic importance for the SBU because they are growth business areas and will contribute to profitability.

3.17.3 Insurance

Table 3.18 Insurance Division Offensive Strategies

POSITIONS TO BE CAPTURED AS PERCENTAGE OF TOTAL BUSINESS	2004	2005	2006	2007	2008
Public and Private Sector	10%	30%	20%	20%	15%
Affinity Groups	10%	13%	15%	15%	10%
Direct Marketing	01%	02%	05%	03%	05%
Other Provinces	0%	0%	07%	17%	40%
Group Life	01%	10%	10%	05%	05%
Short Term Insurance	5.5%	20%	20%	15%	10%

3.17.4 Properties

Properties Division Offensive Strategies

POSITIONS TO BE CAPTURED	2004	2005	2006	2007	2008
Extend Property Management Services – Increase Current Income Levels by:	10%	15%	20%	→	→
❖ Do JV's to "Gear Up" Current CAPEX and Reduce Risk (1% of Budgeted CAPEX)	15%	20%	25%	→	→
❖ Form New BEE Property Management Vehicle for Government / Parastatal type Business (R income)	R100 000	→	R800 000	→	R180 000
❖ Attract New Foreign Industry and Tourism Projects (# p.a)	4%	4%	8%	10%	12%

The Properties division is geared towards consolidation and extending its services to new areas. It intends to increase property management services' income by 20%and to enter into joint ventures and attract foreign industry and tourism projects.

3.18 DEFENSIVE STRATEGIC OBJECTIVES

Ithala also has certain positions to defend which, if these are not defended, the organisation's position would be severely affected. These areas have been identified as areas of immense importance to Ithala. It is currently enjoying some success which it hopes to improve on to become the dominant force in these areas. These positions to be defended can be slang specified per user segment, product, geographic location, and the triggers for reaction to defend positions have been determined. These positions are detailed below per SBU.

3.18.1 Ithala Ltd

Table 3.19 Ithala Limited Defensive Strategies

POSITIONS TO BE DEFENDED	2003	2004	2005	2006	2007
❖ Target Save (percentage of savings)			20%		
❖ Civil Servants (home loans)			13 000		
❖ Low to Middle Income Earners (market share)			7%		
❖ Rural-small Towns and Townships (market share)			10%		
❖ Home Improvement Loan			10% of loan book		

Table 3.19 shows that Ithala Limited will defend their Target Save product against competitors if the market drops to 20%, and its civil servants market if the number of customers fall below 13000 and its share of middle to low income market and rural towns fall to 7% and 10% respectively.

3.18.2 Business Loans

Table 3.20 Business Loans Division Defensive Strategies

POSITIONS TO BE DEFENDED	2004	2005	2006	2007	2008
❖ MSF sugar loans	R100mil	R120mil	R142mil	R150mil	R150mil
❖ M & L loans	R350mil	R350mil	R400mil	R450mil	R500mil
❖ ABD BEE asset based finance (medium)	R10mil				

In its Business Loans SBU, Ithala will start defending its positions if the indicated triggers are reached each year. In this instance it can be observed that Ithala is successful in medium to large loans and medium scale farmers' loans. Table 3.20 shows that the lucrative segments will be grown while watching the possible competitive threats and once threshold is reached then Ithala will start defensive activities to protect its positions

3.18.3 Defensive Strategic Objectives - Insurance

The insurance department is new and mostly supports and compliments Ithala Limited's financial services products and effectively would have little to defend but a lot more reasons to be offensive.

Table 3.21 Insurance Division Defensive Strategies

POSITIONS TO BE DEFENDED	2004	2005	2006	2007	2008
❖ Ithala Ltd as client	100%				
❖ Own Credit life product as percentage of total book	70%				
❖ Funeral plan	30% conversion rate				

3.18.4 Properties

Table 3.22 Properties Division Defensive Strategies

POSITIONS TO BE DEFENDED	**2004**	**2005**	**2006**	**2007**	**2008**
❖ Maintain vacancy levels below	14%				
❖ Maintain rental collection levels above:	95%				
❖ Maintain min. presence of public & foreign companies (based on current)	90%				
❖ Maintain min presence of commercial anchor tenants	90%				
❖ Limit turnover of tenants (by # and m^2)	Less than 15%				
❖ Maintain quality of portfolio (ROI)	100%				
❖ Maintain current customer satisfaction levels	100%				

The Properties division also has certain positions to defend and some difficult decisions may need to be taken if the organisation feels it is vulnerable or threatened as shown in Table 3.22. This vulnerability could be caused by factors outside the control of the SBU, for example if the economic situation forces the closure of firms renting its properties. Ithala in this situation might have to sacrifice rental income in the short term to assist its customers.

3.18.5 Summary

Table 3.23

Return / Profit Guidelines

	2004	2005	2006	2007
❖ ROA (%)	0.6	0.9	1.0	1.5
❖ Cost: income ratio (%)	91.8	91.6	89.4	85.9
❖ Staff cost as % of total income	48.4	48.9	48.3	46.0
❖ Profit before tax (R'million)	16.0	17.6	22.8	43.99
❖ Total Income (R'million)	375.9	398.1	422.5	467.9
❖ Interest Income (R'million)	112.3	123.8	130.6	154.8
❖ Non-Interest Income (R'million)	263.6	274.3	291.9	313.1
❖ Growth in Deposits (R'million)	117.8	158.5	220.0	205.0
❖ Growth in Advances (R'million)	84.5	232.5	295.1	425.9
❖ Gross Advances (R'million)	314	500	616.5	725.7
❖ External Borrowings (R'million)	96.4	165	190	221
❖ IT Capital Expenditure (R'million)	7.2	6.4	4.98	5.1
❖ % admin and operations cost: income	10.3	10.2	10.5	10.0

Table 3.23 details Ithala's strategic targets to be achieved during the planning period. These targets take into consideration anticipated impact of all the strategic actions to be implemented. This summary could also be used to assess whether the strategic actions envisaged will move Ithala to a desirable position and whether it will reach its set objectives. This will also help to assess if the strategies proposed are challenging enough and achievable.

3.19 CONCLUSION

Ithala has a well-defined mission, vision, and objectives which must be achieved. It has a sound business in terms customers, geographic distribution, and products and services. It is not really successful in delivering its set objectives of financial sustainability and development impact. During the last few years, Ithala's performance has shown clear signs of deterioration.

This is particularly noticeable in the number of jobs created, the enterprises created, and the land redistributed but there had also been some signs of improvement in its financial performance with net income increasing from R4million in 1999 to R15million in 2003 and return on assets from 0.2% in 1999 to 0.6% in 2003. This improvement however is off a very small base and is in fact negligible considering the level of investment made in the organisation.

Ithala has selected a specific market approach as the driving force for the new strategy and has identified customer service, market knowledge and systems and processes as areas of excellence. In its strategic analysis, the current business model, strengths, weaknesses, opportunities, and areas of vulnerability were identified. The competitive situation was analysed and requirements for success identified. New products and services, new markets and new users were identified in the light of future business scenario. The defensive as well as offensive strategies with milestones and triggers were decided upon and specified.

Overall, the process of crafting Ithala strategies followed well-founded and researched models in various literatures. Before concluding if the proposed strategies have any likelihood of succeeding, it is logical that these strategies need to be evaluated for appropriateness. This will be done in the following chapter using existing models which will assess them for their consistency with the mission and objectives, suitability, feasibility, and acceptability.

CHAPTER 4

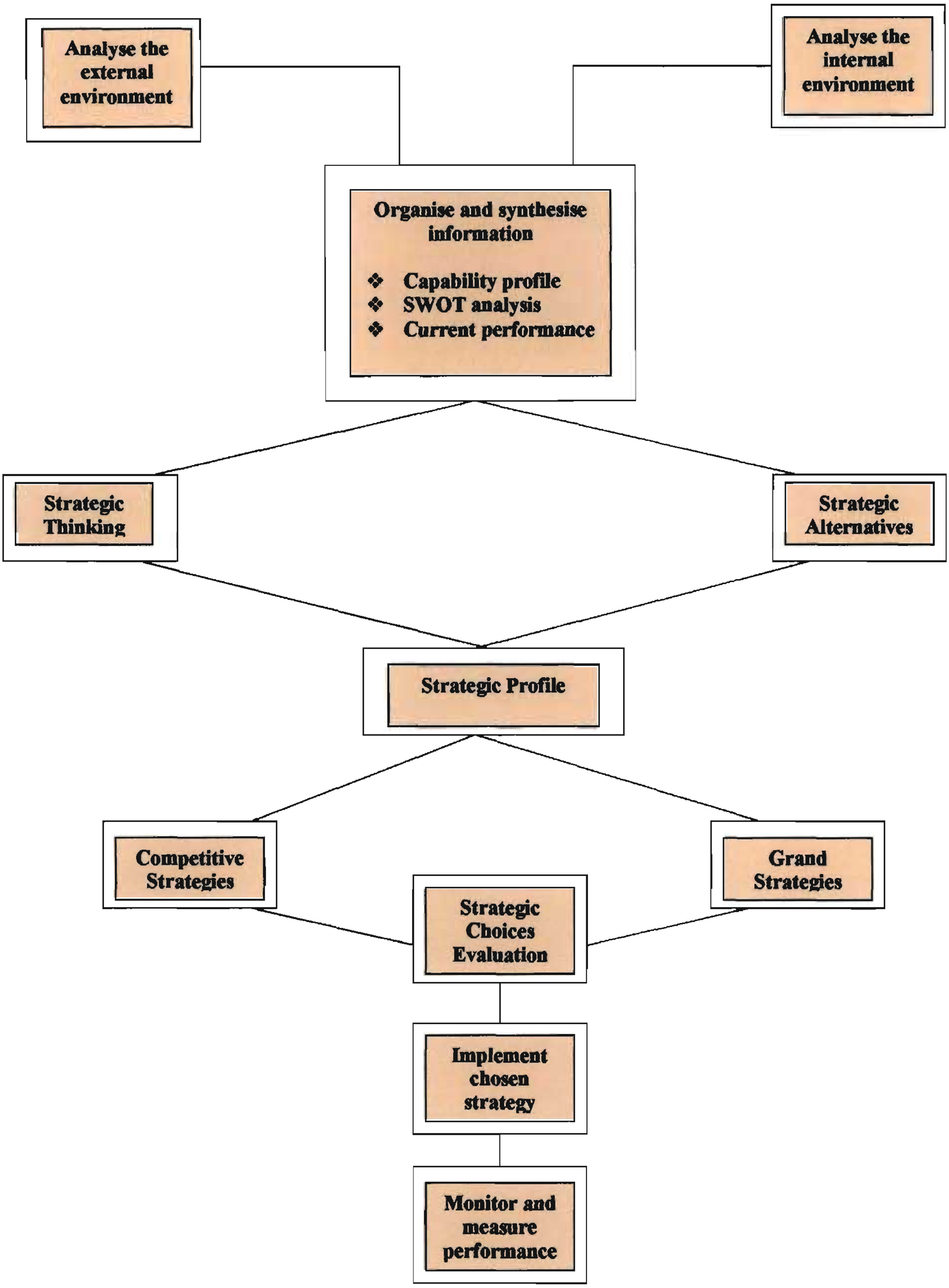
EVALUATION OF ITHALA STRATEGIES

4.1 INTRODUCTION

In Chapter 2, a framework for choosing and evaluating strategies was discussed. The basis of the framework is that strategies development could be a response to both the internal and external environmental changes. The devised strategies are as good as the quality of the analysis of the internal and external environment. The interpretation and objective assessment of the inputs of capabilities, strengths, weaknesses, opportunities, and threats (SWOT) as well as the current performance gives a picture of the present situation which is crucial in determining the future. It is at this stage that strategic thinking and the extent of the consideration of strategic alternatives makes a difference in the strategy profile determination. The model utilised to assist with the evaluation of Ithala's strategy is depicted in Figure 4.1

Figure 4.1

The Framework for Choosing and Evaluating Strategies



(Source: Adapted from Rowe et al: 1990, 234)

This chapter is about evaluating the strategic profile of Ithala which is made up of grand strategies and competitive strategies. It is important for Ithala to evaluate the success of its strategies prior to their implementation to reduce the risk of failure and to facilitate employing resources in unproductive areas. The established framework identified consistency, suitability, feasibility and acceptability as the criteria for evaluating strategies. These criteria will be used to evaluate Ithala strategies and thereby to assess the probability of success and also to draw conclusions on the applicability of others as well as recommendations for the new approaches for consideration.

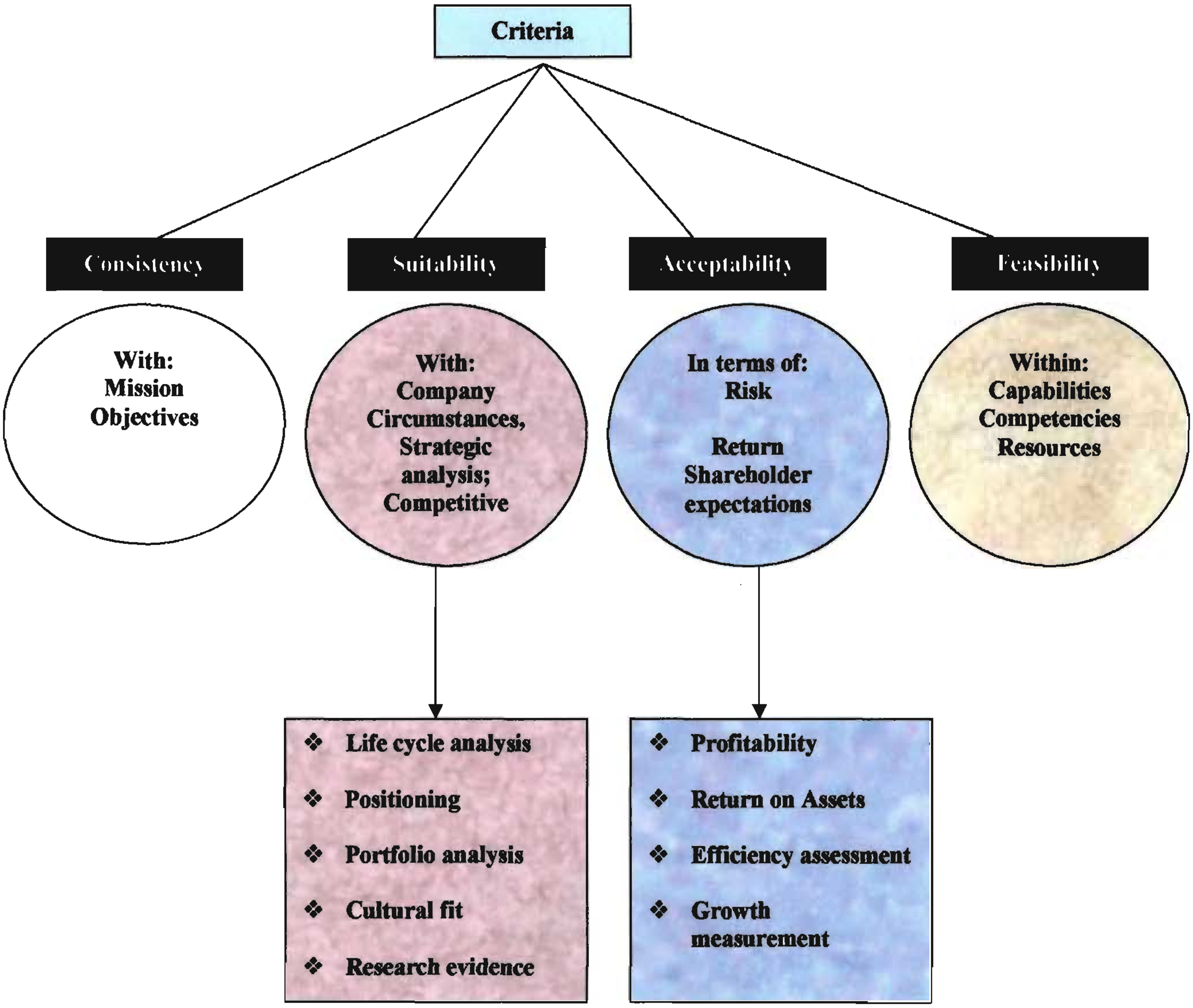
Consistency criteria assess whether Ithala's strategic choices are consistent with its mission and objectives. Unless gaps are identified and addressed it is possible that strategies could be ineffective. Suitability essentially assesses whether the strategy choices of Ithala will improve the company's market position, its sustainability as well as its competitive position and will also judge if the strategies capitalise on the strengths, exploit the opportunities, address the weaknesses and avert then threats which had been identified during the strategic analysis stage.

Acceptability assessment refers to the risk, return and shareholder expectations which the strategy is expected to deliver. Ithala's profitability, return on assets, efficiencies and growth prospects are going to be explored to determine the acceptability of the impact of strategy implementation.

Feasibility challenges the capabilities and competencies of Ithala regarding its ability to effect and implement the strategy. This averts the possibility of having a good strategy on paper but finding it impossible to implement.

These assessments in combination with each other will determine if Ithala's strategy is relevant to its circumstances and is implementable and also if it will have the desired effect on the position of the organisation after successful implementation. The model to be used to assess these strategies is detailed in Figure 4.2.

Figure 4.2
Framework for Evaluation of Strategies



(Adapted from: Johnson and Scholes, 1993: 244 and Lynch, 1997: 519)

2 CONSISTENCY ASSESSMENT

onsistency refers to the extent to which the envisaged or proposed strategies are consistent with the ıission and objectives of the organisation. In Chapter 1, the mission of Ithala was stated as the desire to ɜ a financially sustainable organisation, representative of and identifying with the community it serves, romoting economic growth and socio-economic development by:

- Identifying and implementing development opportunities
- Providing a range of products and services that meet the needs of the clients
- Complementing government and private sector initiatives.

'his will be achieved by growing the organisation and actively seeking partnerships in socio-economic levelopment (Internet 2).

The stated objectives are:

- To mobilise financial resources and to provide financial and supportive services to the people of KwaZulu Natal
- To plan, execute, finance and monitor the implementation of development projects and programmes in the province.
- To promote, assist and encourage the development of the province's human resources and its social, economic, financial and physical infrastructure.
- To promote, encourage and facilitate private sector investment in the province and the participation of the private sector and community organisations in development projects and programmes, and in contributing to economic growth and development; and
- To act as the Government's agent for performing and development-related tasks and responsibilities that the government considers may be more effectively or efficiently performed by a corporate entity.

Ithala's strategies are aimed at directing and driving sustainable dynamic economic empowerment programmes in KwaZulu Natal. It has identified the beneficiary target markets in terms of its capacity to deliver on the mission.

The proposed strategy is aimed at leveraging brand strength and focussed marketing programmes to build affinity between Ithala and the communities it serves. It has also identified the users, products and services, geographic markets and success characteristics to deliver economic growth and socio-economic development.

The issue which is not addressed by the strategies is complementing government and private sector initiatives. The strategies do not specify the interrelationship between government as shareholder. Also the issue of complementing private sector is not clear and therefore no clear definition of envisaged synergies and areas of common interest and/or competition between the private sector and Ithala is included in the strategic options.

The weak links between government and the private sector in the strategic intent also weakens the objectives of seeking partnerships in socio-economic development. It is important that Ithala explore the relationship with government and define areas of common interest with the private sector and partners in order to be able to proactively facilitate such mutual benefits.

With regards to consistency with the objectives, the strategies are geared towards mobilising resources, to execute development projects and programmes in the province. It is also encouraging that the aspects of users, in terms of geographic location, as well as their usage products and services are identified as of strategic importance Ithala has strategic intent to excel in servicing customers, in gaining a better knowledge about the market it serves and also in improving its system and processes to be commensurate with the needs of the market it serves.

It is, however, unclear in the strategies of Ithala how the objectives of promoting and encouraging human resources development in the province will be achieved. In addition to this, Ithala identified as a requirement for success, the development of client knowledge and skills understanding. The lack of business skills and knowledge is potential an indicator of failure. Although this was identified at the strategic analysis stage, it was not carried forward as a strategic issue.

As noted earlier, the strategies do not address the issues of meeting the objectives of private sector participation, or of being a government agent in performing development work. The latter issue needs to be taken up with the shareholder (government).

In summary, Ithala strategies are in line with the mission and objectives except that on the issues of partnerships, and complementing government and private sector involvement need to be incorporated in the strategy, otherwise it will be difficult for it to meet all its objectives, achieve its shareholder's expectations and maximise its development impact in the province which is its mandate.

4.3 SUITABILITY ASSESSMENT

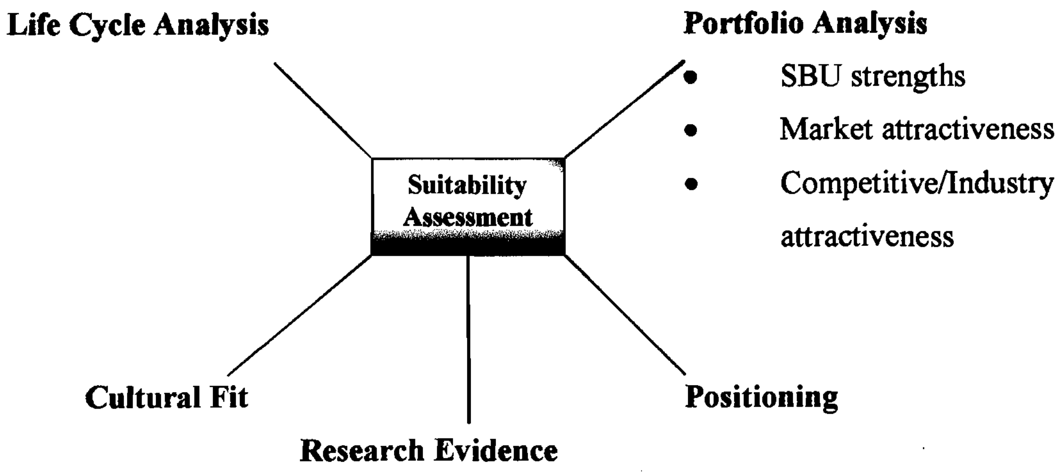
The second evaluation criteria is suitability which assesses the extent to which a proposed strategy fits the situations identified during the strategic analysis stage and how the strategy would improve or sustain the competitive position of Ithala. This evaluation will attempt to establish whether Ithala's strategy exploits the strengths or environmental opportunities. Also whether the strategy will overcome the weaknesses and threats identified in the environment.

Ithala's situation is very unique in that, it is a development agency in the province and its overriding objectives are to deliver a development mandate on one hand, and ensure financial viability for its survival on the other. It must be pointed out that Ithala is no longer receiving any financial allocation from the shareholder. Development activities are high risk, expensive to implement and have low returns. In the light of this therefore, Ithala would not be expected to achieve market-related returns.

The suitability assessment of its strategy based on the above will be discussed under the following framework (Figure 4.3):

Figure 4.3

Framework for Assessing Suitability



(Source: Compiled with Johnson and Scholes, 1993:248-264)

4.3.1 Portfolio Analysis

This analysis is important to ensure that the strategic business units (SBU's) are balanced in order to move the company into a dominant position. Ithala has four strategic business units, namely, Ithala Limited (the banking arm), Business Loans, Properties and Financial Services. The latter is newly established and less emphasis will be on it.

To assess the Ithala portfolio, the directional policy matrix which indicates the strengths and the industry attractiveness/competitive position matrix will be used. To add more meaning to this, each indicator will be allocated a rating between 1 and 10, depending on whether it is a strength or not. Further, each indicator will be weighted according to its perceived importance as indicated in Table 4.1.

Table 4.1 - Indicators of SBU Strength

Indicator	Weighting	Business Loans	Ithala Limited	Properties	Financial Services
Market share	0,05	0,2 (4)	0,2 (4)	0,4 (8)	0,1 (2)
Sales force	0,05	0,3 (6)	0,3 (6)	0,2 (4)	0,1 (2)
Marketing	0.1	0,6 (6)	0,6 (6)	0,6 (6)	0,4 (4)
Customer Service	0,15	0,6 (4)	0,6 (4)	0,9 (6)	0,9 (6)
Systems & processes	0,1	0,2 (2)	0,2 (2)	0,6 (6)	0,4 (4)
Distribution	0,13	0,52 (4)	1,04 (8)	0,52 (4)	0,26 (2)
Financial Resources	0,1	0,4 (4)	1 (10)	0,6 (6)	0,4 (4)
Image	0,08	0,32 (4)	0,32 (4)	0,64 (8)	0,32 (4)
Breadth of product line	0,13	0,78 (6)	0,78 (6)	0,78 (6)	0,78 (6)
Quality/Reliability	0,05	0,2 (4)	0,2 (4)	0,3 (6)	0,3 (6)
Management Competence	0,06	0,36 (6)	0,36 (6)	0,48 (8)	0,36 (6)
Overall Strength	**1**	**4,48**	**5,6**	**6,02**	**4,32**

(Source: Johnson and Scholes 2002: 107 and Thompson and Strickland 2003:142

Table 4.1 shows that the Properties division is rated as the strongest SBU followed by Ithala Limited. Further analysis of Table 4.1 shows that more work needs to be done in Business Loans and Financial Services. The weak areas generally for Ithala are in the areas of market share, sales force (selling efforts) customer service, systems and processes, and image especially in Business Loans and Ithala Limited. The strengths for Ithala Limited are its distribution and financial resources.

Ithala has set itself a turnaround strategy for customer service and systems and processes by identifying these aspects as their intended areas of excellent. A lot of work needs to be done to achieve this but once successful, the image and market share weaknesses will be addressed in the process.

The model confirms that Ithala does not have any unique strength and therefore none of the indicators are outstandingly strong. With regard to unique weaknesses however, its inability to react to market trends timeously will also be addressed by its identified driving force which is market knowledge. This knowledge should enable it to understand customer and market needs better. To achieve this, however, the internal processes need to be streamlined to reduce the decision- making cycle.

Two important strengths which the strategy is not capitalising on are the linkage to government departments and a loyal customer base. Regarding the former, the linkage should be converted into business opportunities rather than remaining at ownership level. On the loyal customer base, there are no proposed strategies for cross-selling between SBU's or explicit plans for offering more products and services to existing customers or even for keeping those customers who are loyal.

The second dimension of the directional policy matrix model is to determine market attractiveness in which each SBU is operating as shown in Table 4.2.

Table 4.2 - Market Attractiveness of Each SBU

Indicator	**Weighting**	**Business Loans**	**Ithala Limited**	**Properties**	**Financial Services**
Market size	0,05	0,35 (7)	0,4 (8)	0,45 (9)	0,45 (9)
Market growth rate	0,15	0,9 (6)	1,05 (7)	1,05 (7)	1,2 (8)
Industry profitability	0,17	1,19 (7)	1,36 (8)	1,36 (8)	1,53 (9)
Competitive structure	0,1	0,6 (6)	0,7 (7)	0,6 (6)	0,7 (7)
Cyclicality	0,15	0,75 (5)	0,75 (5)	0,75 (5)	0,75 (5)
Regulatory issues	0,13	0,91 (7)	0,39 (3)	0,91 (7)	0,78 (6)
Skills availability	0,05	0,4 (8)	0,5 (10)	0,35 (7)	0,45 (9)
Barriers to entry	0,07	0,49 (7)	0,7 (10)	0,63 (9)	0,49 (7)
Technology issues	0,13	0,52 (4)	0,39 (3)	0,78 (6)	0,65 (5)
Overall attractiveness	1	6,11	6,24	6,88	7,0

(Source : Adapted from Johnson and Scholes 2002 :107 and Thompson and Strickland 2003 :142)

All Ithala SBU's as per analysis in Table 4.2 are operating in relatively attractive markets with cyclicality impacting negatively on them. This relates specifically to economic changes which affect Ithala especially because 30% of its income is derived from interest charges and another ± 55% is rental income which depends on the occupancy of commercial properties.

Taking the SBU strengths and market attractiveness, the overall Ithala competitive / attractiveness position can be depicted as follows:

Figure 4.4

<u>Competitive / Industry Attractiveness Matrix.</u>

	Strong	**Average**	**Weak**
High	**Properties**		**Financial Services**
Medium		**Business Loans and Ithala Limited**	
Low			

Source: adapted from Johnson and Scholes 2002:107 and Thompson and Strickland 2003:142

The Properties department is in an ideal position competitively and is operating in an attractive industry. The strategy is most likely to entrench the position, defend against threats and constantly be alert of developments. Financial services, although it is in an attractive industry in terms of size, profitability and growth rate, is in a weak position. There needs to be a lot of investment to move the SBU to a strong competitive position. This will not be an easy task as the industry is already competitive.

4.3.2 Life Cycle Analysis

The analysis in Figure 4.1 shows that Ithala's competitive position is largely favourable bearing in mind that the Financial Services Unit is new and in the process of establishing itself. The detailed life cycle / competitive matrix discussed earlier, recommended strategies for each position on the matrix. These strategies per SBU are:

4.3.2.1 Properties

This division is in a strong competitive position, operating in an attractive industry. The properties industry in KwaZulu Natal can be considered mature with established competitors and business models. Under these circumstances, the model proposes strategies of attainment of cost leadership, renewal, focus, differentiation and growth with industry

4.3.2.2 Business Loans and Ithala Limited

These strategic business units are in mature markets with favourable competitive conditions and average market attractiveness. The strategic options opened to them are as per the model are to harvest, hang in, find niche / hold niche, renew, turnaround, differentiate, focus and grow with the industry

4.3.2.3 Financial Services

This SBU is operating in a mature industry but is in a weak competitive position but the market is attractive. Ithala is at major market disadvantage as a lot of investment is required and the risks for failure and negative competitive reactions are high. The strategic options include catch-up, finding a niche, acquiring market share, growing, establishing market positioning and costs controlling.

The common strategies for all SBU's of Ithala are renewal, differentiation, attaining cost leadership and focus. On the other hand, however, the analysis of Ithala strategies highlight the following strategies – market focus developing user, geography, products and services and systems and processes to deliver to the identified markets, offensive and growth focus which is growth oriented into new users, markets, areas and new products and services.

It is becoming apparent that differentiation and attaining cost leadership are strategic option gaps which have not been considered. The former observation is also in line with the previous observation that the strategic options do not concentrate on keeping existing clients or on cross selling to bind them into the organisation. Taken this at a high level, the customer relationship at Ithala is likely to be transactional rather than value driven.

4.3.3 Cultural Fit

For Ithala strategies to succeed, it is appropriate for it to take cultural realities into consideration. In this section though, there could be generalisations about Ithala which can be proven by further observations. The culture of an organisation is largely determined by the norms, values and practices prevailing over time. Ithala, being a parastatal, has over the years depended on the government for its annual share capital allocation. It was also established to effect government policies which were largely immeasurable.

This dependency on the government has resulted in a poor work ethic and the fact that there is no emphasis on results which is typical of most government departments. At best, the organisation was expected to break-even and there was no motivation to produce profits. This resulted in bloated structures, expensive ineffective and inefficient systems and processes and low levels of productivity.

Over the last ten years, the government started phasing Ithala's out share capital and in 2001 it was discontinued altogether. Ithala therefore, had to transform into a viable self-sustaining and self-sufficient organisation. The work ethics had to change and the company was required to make profits for future funding of development projects. It had to borrow funds at market rates and had repayment obligations which further squeezed its profit margins.

It therefore, has to transform its culture from a 'government' institution into an organisation which practices sound business principles and also fulfils a development mandate with greater emphasis on self-sufficiency and financial sustainability. Ithala's strategies as they stand cannot be successfully implemented without challenging this paradigm.

Ithala leadership must explicitly define the future direction and train staff to move towards this future. New values with which each employee can identify and to which they are prepared to voluntarily subscribe need to be devised. This will make the process less painful and will break down resistance to change.

4.3.4 Positioning

Ithala's current business model and positioning is directed at the lower to middle income market in rural and semi-rural areas, providing traditional products delivered via a branch network and industrial estates. It is also limited to operating only in KwaZulu Natal Province.

In terms of a shift in their future user or customer segment, students, professionals, property investors and in terms of future geographic scope, central business districts, urban areas and areas immediately bordering KwaZulu Natal are being targeted. At the moment, Ithala is not positioned in these newly identified areas of opportunity.

This requires a thorough review of its positioning and image on the market. Allied with this, is the evaluation of the competencies and resources required to attack and attract these markets. Ithala must also assess the risk of repositioning itself in new markets with higher potential and the risk of driving away existing customers.

4.3.5 Research Evidence

Research has examined the relationship between the choice of strategy and the performance of the organisation. This takes into consideration the market, competitive position, cost and investment structure and the financial results, Johnson and Scholes (1993: 263)

During the last two years, Ithala has not met many of the targets set in the key performance areas. Also of note is that Ithala has not put any effort into quantifying its market share. The competitive characteristics however, reveal that its share is relatively small in each of the markets it operates in.

The competitors' common traits include strong information technology infrastructure, strong distribution networks, one stop product range, strong brands and access to capital resources. If these competitive strengths are contrasted, Ithala's strengths are in addressing the market segment which is not served by its competitors due to high risk, its strong brand in its market, the fact that it operates geographically where other banks are not represented, its loyal customer base and its better understanding of the language and culture of the target market.

From the above comparison, it is observed that Ithala's competitors have infrastructural and financial muscle whereas Ithala operates in 'exclusive' markets which are not attractive to competitors. It is trusted by its client base, and have therefore created a niche geographically in rural areas, it appeals to lower income groups which are of lower value and have lower margins due to their higher servicing costs. However, the need for Ithala to add a differentiation strategy option in this market as pointed out earlier, is confirmed

This further explains the current performance of Ithala which is characterised by high cost to income ratio (91, 7%), low return on assets (0, 6%) low profit to total income (4, 3 %) and therefore low market share and market power.

Given the above scenario, Ithala has low market power because low profitability means low cash resources, low return on investment, and no economies of scale (cost disadvantage).

In this respect, the conclusion by Johnson and Scholes (1993:264) that "The indications are also that firms with high market share develop strategies of higher price/higher quality than low share competitors. The phenomenon may be somewhat circular. High share firms tend to be more profitable, thus providing cash resources for R & D to improve and differentiate products, thus enhancing their market position and also justifying higher prices, which in turn increase profits" is applicable to Ithala's competitors but not to Ithala itself.

Given the above evidence, it can be concluded that Ithala's strategic thrust of customer service and market knowledge to leverage the strengths of their customer base loyalty and improving systems and processes to achieve efficiencies and deliver on client service in the most cost effective manner is appropriate and has a high probability to deliver on the mission and objectives.

This strategic approach combined with attacking new markets such as the youth, professionals, entrepreneurs and corporates and emphasising their products and services which are demand driven and designed to provide solutions to customer needs, will improve Ithala's market position and its power to benefit from economics of scale over time.

The strategic challenge of Ithala is to improve its productivity and financial performance as growth and market penetration strategies require product development in terms of new products and services which may prove expensive and unprofitable at their initial stages. The alternative strategy would be acquisition or strategic alliances with partners who have the technology and efficient product development capabilities and expertise.

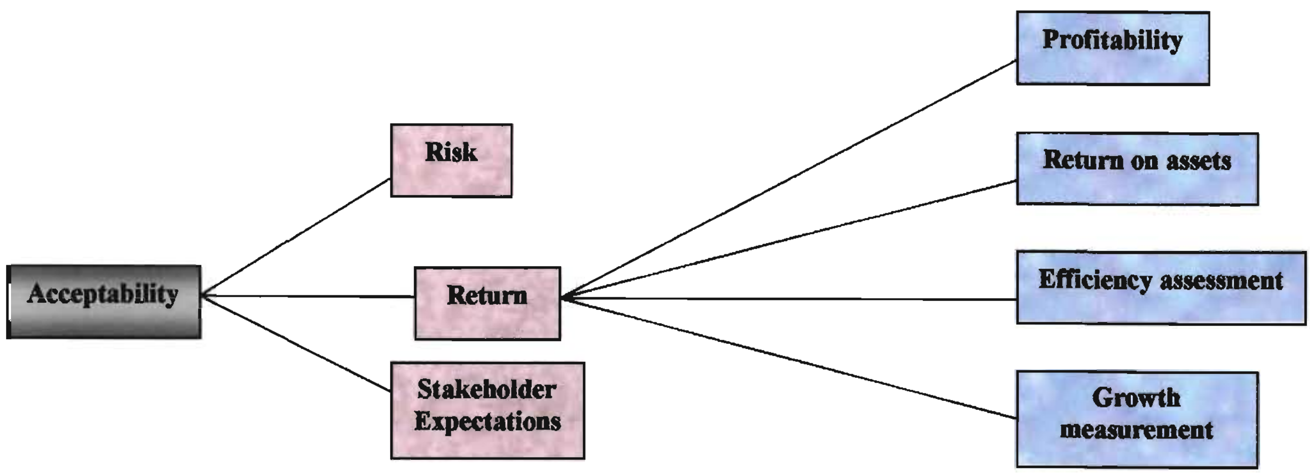
Strategic partnership establishment is part of Ithala's strategy but the areas of synergies, priorities and benefits need to be defined, detailed, implemented and focussed on.

4.4 ACCEPTABILITY ASSESSMENT

Acceptability refers to the outcomes expected as a result of implanting the strategy. In the context of Ithala's operations, acceptability will be assessed as follows (figure 4.5):

Figure 4.5

Acceptability Assessment



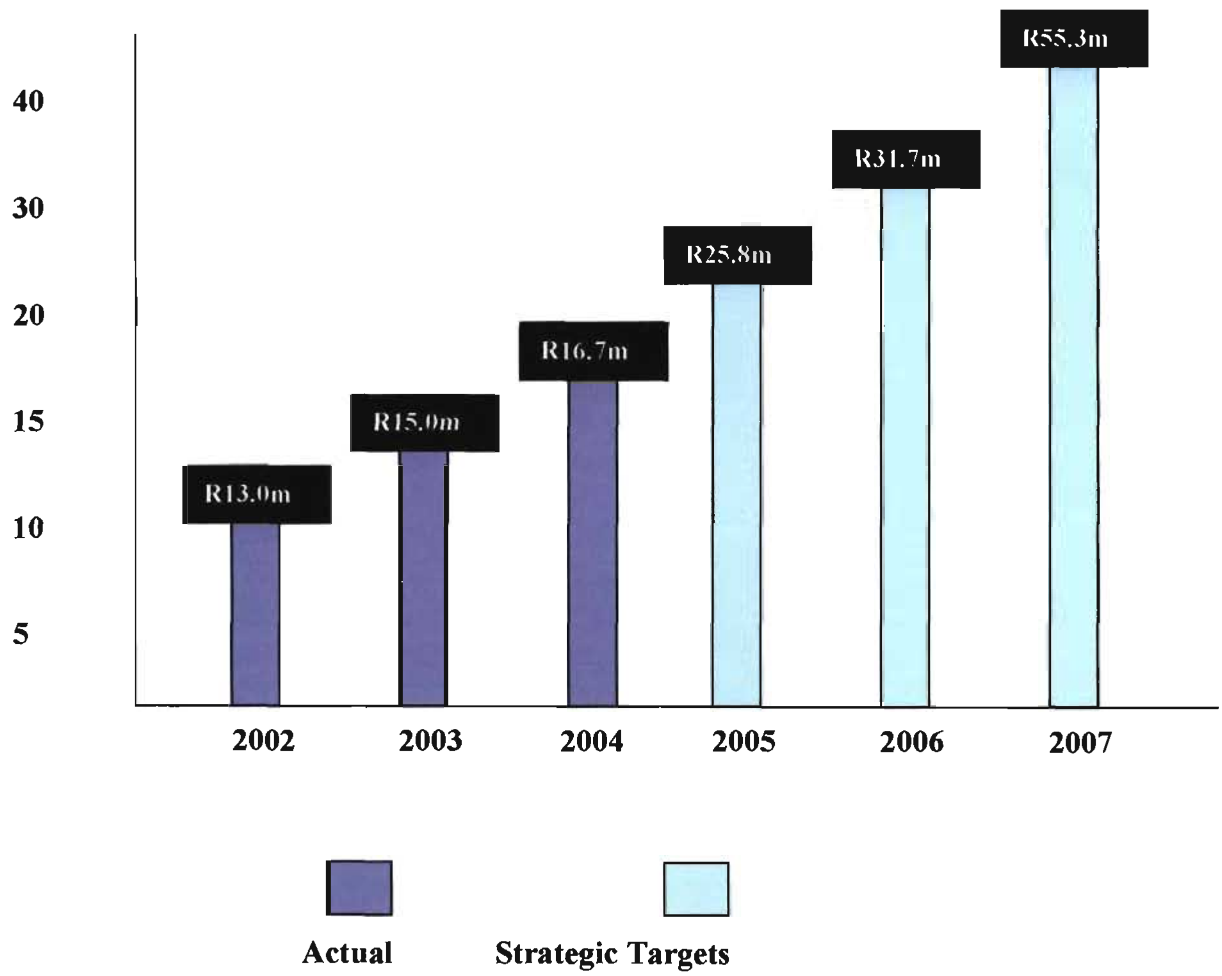
Source: Compiled from Johnson and Scholes, 1993:281-287

Ithala's projected outcomes will indicate if the envisaged strategy will meet its long term objectives. The purpose of embarking on a strategic planning session is to improve the performance of the company including financial performance.

4.4.1 Profitability Analysis

To fairly assess if the envisaged strategy will improve profitability, it is prudent to consider necessary expenditures which must be incurred in the short term to create a sound base for future profits. The envisaged profit trends which include the previous performance of Ithala can be shown graphically below:

Figure 4.6--Ithala Profitability Trends



(Source: Ithala Strategic Profile)

The projected profits are expected to grow phenomenally during the planning period. Although this might appear a little optimistic, given the levels of investment and current returns on assets, it is achievable.

4.4.2 Return on Assets (ROA) Analysis.

Table 4.3- Trends on Return on Assets

	2002	2003	2004	2005	2006	2007
% Return on assets	0,5	0,6	0,6	0,9	1,0	1,5
% Changes	-	20	0	50	11	50

During the strategic planning period, ROA is expected to improve by an average of 37% over three years from 0.6% in 2003 to 1.5% in 2007 as shown in Table 4.3. This is off a small base and historical poor returns of 0, 5% compared to the average banking sector return of 16%. In other words, if Ithala was privately owned and expected to perform comparative to the market, the expected profit would be R415m per annum with total assets of R2, 596 billion.

It can be concluded from Table 4.3 therefore, that the projected profit improvement is impressive but it is still far short of acceptable standards even for a parastatal. There are still untapped opportunities for turning assets into profit-generating instruments.

4.4.3 Efficiency Assessment

Improving efficiencies had been identified as an area of strategic importance for Ithala from profitability, competitiveness and service delivery points of view. Ithala's strategic choice should therefore impact significantly on its efficiencies. There are four options open to Ithala to improve efficiencies, namely:

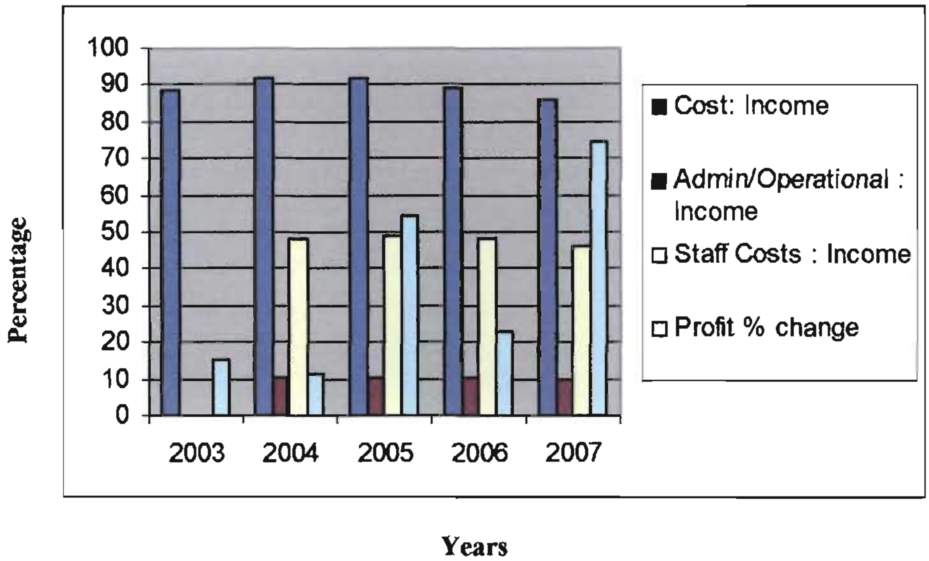
- Grow the business with the same cost base;
- Reduce costs while generating the same revenue;
- Improve processes with or without changing the business model and processes; and
- Direct expenditure to the productive and cash generating areas of the business.

Ideally, actions which combine a number of the above options could yield even better results. In order to assess efficiencies objectively, the cost to income ratio, operational and administrative costs to total income ratio, are going to be used for analysis as shown in Table 4.4 and Figure 4.7.

Table 4.4 Efficiency Assessment Trends

	2003	2004	2005	2006	2007
Cost : Income	88,6	91,8	91,6	89,4	85,9
Admin / Operational : income	-	10,3	10,2	10,5	10,0
Staff costs : Income	-	48,4	48,9	48,2	46,0
Profit % change	15,4	11,3	54,5	22,8	74,4

Figure 4.7 - Efficiency Assessment Trends



The costs to income ratios over the years are unacceptably high. The average banking sector cost to income ratio is ± 65% and the staff cost to income ratio is between 35% and 40%. What is of concern is that during the planning period, there have been no significant inroads into reducing costs as indicated in Table 4.4 and Figure 4.7. Ithala needs to investigate its systems and processes and explore automation possibilities and also check if its structures are streamlined.

The profit percentage change graph proves that the profit increase is due to increased business and operational, administration and staff costs are nominally increasing with income. A detailed analysis of increase in income sources shows that the increase in profitability is largely due to a increase in non- interest income rather than an increase in income from core business. This proves that there is scope to improve efficiencies and possibly processes.

4.4.4 Growth Assessment

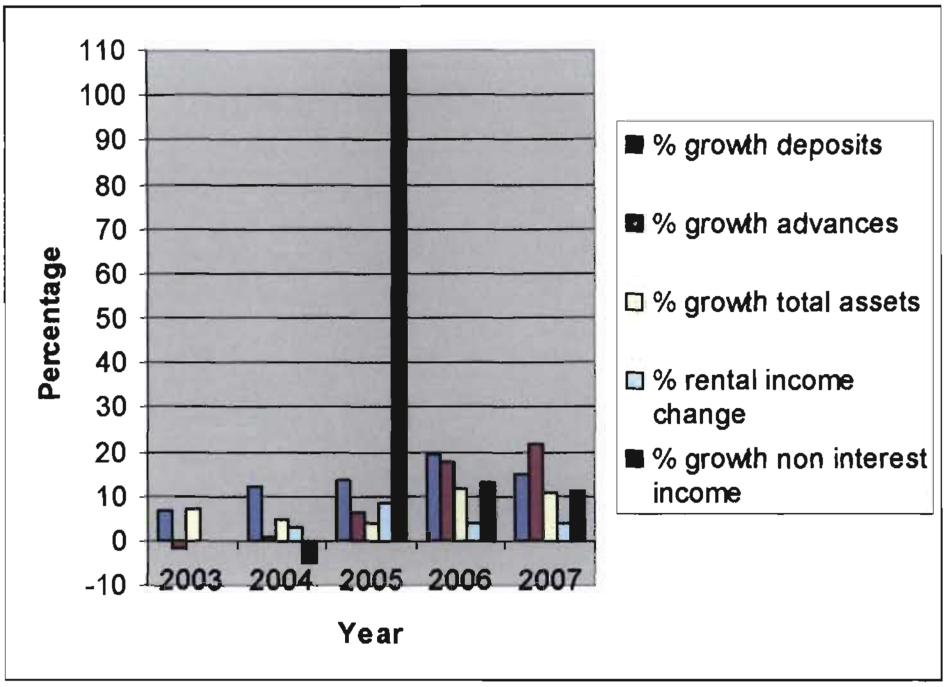
One of the key objectives of Ithala is to grow its business for future financial sustainability. The key business volume growth areas are deposits, advances, total assets, rental income from leasing properties and other non-interest income. Table 4.5 and Figure 4.8 show the targeted growth trends of Ithala during the planning period.

Table 4.5 - Ithala Growth Trends Analysis

	2002	2003	2004	2005	2006	2007
% growth deposits	6,9	11,9	13,5	16,2	19,2	15,0
% growth advances	- 2	1	6,2	16,2	17,7	21,7
% growth total assets	7,0	5,0	4,0	9,8	11,8	10,7
% rental income change	-	3,3	8,3	1,5	3,9	4,0
% growth non interest income	-	-5,0	109,9*	34,0	13,2	11,4

* Abnormal releases of extraordinary write backs to income.

Figure 4.8 -Graphical Representation of Growth Trends



Overall, the growth trends as per Figure 4.8 are positive, especially in the area of savings which is projected to grow faster than the inflation rate. Growth in advances reaches acceptable levels of ± 20% only in 2007. Of concern though is the rental income from Properties division.

This trend confirms the relevance and appropriateness of the strategies suggested in the life cycle analysis, where strategies of renewal, focus, differentiation and growth with the industry were proposed in the model.

The growth in non-interest income is also impressive as it will reduce Ithala's dependency on interest income especially during low interest economic times.

4.4.5 Risk Analysis

Risk analysis refers to uncertainties the organisation faces in pursuing its strategies. The future business arena analysis for Ithala largely points towards a conducive environment for business performance. This however, reduces the inherent risks of doing business.

One risk consideration worth noting is the cash flow movement during the strategic planning period as shown in Table 4.6. Overall, Ithala will generate a positive cash flow but the concern is the level of borrowings which is budgeted to increase significantly to fund the growth and strategy implementation.

Table 4.6 - Cash Flow Forecast

	2004	**2005**	**2006**	**2007**
Cash balance R'm	R332,5	R311,2	R337,9	R238,0
Borrowings (Net R'm)	R12,0	R176,3	R245,9	R235,1

The anomaly in cash balance and borrowings is caused by restrictions imposed on Ithala Limited in transferring its cash to other SBU's. Ithala Limited will almost be cash self-sufficient due to its ability to attract savings from the public and as noted before, savings growth is expected to increase faster. The risk of funding the strategies with borrowed funds is mitigated by the increase in cash generated by operations which make it viable for Ithala to meet its loans obligations. The investment of the borrowed funds must be in profitable assets in order to improve returns. In summary, it is evident that the strategy can be funded without any envisaged liquidity problems but Ithala must carefully forecast its gearing ratio in the medium term.

4.4.6 Shareholder Expectations Assessment.

In the private sector, shareholder expectations are linked to shareholder value analysis (SVA) and the emphasis in modern business is not only on quantifiable results but also on unquantifiable value which the strategy will add to the organisation. This often includes image, ethical standards, market share, corporate governance, compliance, good citizenship, and so on.

In the case of Ithala, the public image it attracts and its reputation is normally measured by customer loyalty and image. This added value ensures future sustainability and the organisations resilience to social, economic and political uncertainties. As pointed out earlier, Ithala's strategy is growth oriented and outward-looking and it is evident that there is little or no attention paid to internal matters. Internal matters such as values and motivated, trained staff had been ignored in Ithala's strategic options.

The shareholder, on being exposed to the strategy would not be convinced that the future value is being considered seriously by management. On further scrutiny, it was surprisingly evident that the strategic development goals or targets were not included in the strategy document.

However, the above shortcomings are compensated by Ithala's core strength of market understanding and customer loyalty. By implementing a growth-oriented and development-focussed strategy aimed at improving financial sustainability, it adds value to the organisation.

The envisaged reach of a wider consumer base in economically viable geographic areas will grow the business in line with Ithala's ability to effectively contribute to the economic growth of the Province.

4.5 FEASIBILITY ASSESSMENT

The assessment of feasibility analyses if the organisation would have access to financial and other resources needed to implement the strategies selected. In the previous sections on acceptability, it was observed that the strategies envisaged will generate profits, improve efficiencies, stimulate growth, and will be able to generate sufficient cash to fund the strategy. The level of borrowings will increase as cash will be needed to fund the strategies and growth.

As far as the resources are concerned, Ithala might need to acquire competencies in areas of human resources and product development and research capabilities to execute the strategies. Product development specifically is a risky venture as any failure to launch new products successfully will not only pose as financial risk only but also reputational risk.

The other area of concern is that one of Ithala's weaknesses is inefficient systems and outdated banking systems. This needs to be addressed and could hinder feasibility. A new system is very costly but of concern is that the IT capital expenditure budget is as follows (Table 4.6):

Table 4.6 – Ithala's Information Technology (IT) Budget

	2004	**2005**	**2006**	**2007**
R'm	R7,2	R6,4	R4,98	R5,1

This is certainly insufficient for a new computer system. In order to purchase a new information technology system, Ithala will require funds from external sources which it would appear were not budgeted for.

The implementation of Ithala strategies seems feasible except for concerns of human resources, product development and capabilities and information system requirements. These can be sourced at a cost though.

4.6 CONCLUSION

The strategy of Ithala was well thought out and a number of critical business issues were addressed in the drive to improve the organisation's position and improve its future viability. The strategy also addressed the current shortcomings which are surfacing in the failure of Ithala to meet its current operational and strategic goals. While it is acceptable that the devised strategy cannot simply be the instant cure for all ills, there are areas which the analysis identified as crucial in being included and prioritised in the existing strategies. These include serious consideration to improve efficiencies and reduce costs, solve and update the computer system and look seriously at devising differentiation strategies. The other most important consideration after adopting the appropriate strategies, is planning for their implementation. This is also very important because crafting an excellent strategy is one thing and effective implementation is another.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

Ithala's decision to embark on a strategic planning process was appropriate as its performance in most key performance areas was deteriorating and not meeting either its set operational or strategic targets or objectives. Under these circumstances, it would be expected that the strategy adopted would be a radical change from the previous one in order to realign resources and the ensuing environmental changes. Thompson and Strickland (2003) observed that the stronger the company's current performance, the less likely the need for radical changes to its strategy. The weaker the company's financial and market standing, the more its current strategy must be questioned and might require a major overhaul.

Generally, and to a large extent, the strategies chosen by Ithala would meet the objectives of the organisation but there are certainly areas which must be seriously reconsidered to improve the impact of the strategy on the position of Ithala. These weaknesses and vulnerabilities must be addressed in order to eliminate possible mediocre results on implementing the strategies.

5.2 CONCLUSION DRAWN FROM THE EVALUATION OF ITHALA STRATEGIES

- Ithala's strategies are to a large extent, consistent with the mission and objectives of the organisation. The strategies detail the target beneficiaries in terms of segments, geographic scope, user profile and product scope. This detailed analysis will enable Ithala to maximise reach and empowerment objectives and aspirations.

- The market understanding and its brand recognition will enable its strategic marketing programmes to build affinity with the communities it serves. This will enable Ithala to consolidate its market position and successfully appeal to its newly identified future markets.

- The lack of identifiable synergies between Ithala's intended strategic alliances with government and private sector led to the conclusion that there is a weakness in the manner in which this objective could be achieved. The relationship between Ithala and the government is identified as weak and it seems the government role is limited to shareholding which deprives both parties of the opportunity to exploit business opportunities arising from the relationship.

- The objective of promoting human resources development in the province is not covered in the strategies. The development of client knowledge and skills was also identified as a requirement for success at the strategic analysis stage of Ithala and therefore, to ignore this market requirement will be detrimental to the achievement of future goals.

- Ithala's strategy is well positioned to improve its position and sustain its competitive position in the market in the sense that the strategic logic of choosing their market option as a strategy driving force is sound. According to Lynch (1997), the market matrix strategies emphasise demerger, privatisation, and market penetration in the existing market, product development and diversification. Ithala's strategy to a very large extent emphasises:

    - Market penetration in existing markets based on keeping existing customers and acquiring new customers by striving for excellent customer service

    - Market development using existing products through expanding their branch network and expanding outside KwaZulu Natal.

    - Product development is vital for the new markets earmarked by Ithala as offering growth prospects, eg professionals, youth, entrepreneurs and property investors. This shows the realisation that this market will have special needs which must be catered for. The established strategies of Ithala are therefore in line with the model by Lynch.

- Ithala's weaknesses have been identified as low market share, poor selling efforts, customer service, systems and processes and image. On the other hand, it identified customer service, systems and processes and market knowledge as areas it will strive to excel on. Given this effort, it can be concluded that with successful achievement of excellence in the areas identified, these weaknesses can be overcome.

- Ithala does not have any unique strength as confirmed by the strength indicator matrix. Also the relative strengths of linkage with the government and loyal customer base are not capitalised on. The latter case is proven by the lack of client retention strategies which emphasises cross-selling. The existing customer relationship could therefore be described as transactional rather than value-driven. Under these circumstances, it is easy for the competitors to entice customers away from Ithala. This is another area of vulnerability for the organization.

- Ithala's strategic business units are all in attractive markets with good prospects for growth. The Properties division is in the most ideal position in terms of market attractiveness and competitive position. Ithala Limited and Business Loans are average performers in average markets.

- All Ithala's strategic business units are operating in matured markets.

- Ithala's strategies are largely in line with the recommended strategies outlined by the competitive/life cycle model except for differentiation and attainment of cost leadership strategies. These are strategic options gaps. This is in line with previous conclusions that Ithala strategies are weak on client retention and that the customer relationship is transactional because there is no effort to differentiate its products in terms of features, value for money, pricing, quality, etc.

- The perception of Ithala and its history as a government institution could be detrimental to its achievement of its objectives and the poor work ethics of the staff could be responsible for the company's poor performance, ineffective and inefficient systems and processes and low productivity.

- An area of concern is the possibility of a mission drift within Ithala. In strategic choices, less emphasis will be placed on individuals in the low to middle income and homeowners in the low to middle income brackets. Also in its future geographic markets, less emphasis will be placed on rural and peri-urban areas and more emphasis placed on CBD's, areas immediately bordering KZN, educational campuses, and areas with profit potential, such as Durban/Pinetown and Richards Bay areas.

  It is a fact that in KwaZulu Natal, the most urgent need for economic development and improvement in the quality of life of the previously disadvantaged is in rural areas and peri-urban areas, in low income communities and small towns. Ithala's strategic intent therefore to increase its presence in other areas other than these is a move away from its development responsibilities

  Further, the common theme of Ithala's strategy is increased profits but the mission requires a critical balance between achieving development impact and financial sustainability. It is therefore the mandate of Ithala that, given the high risk nature of development activities, it must still effect these development activities while accepting lower than competitive returns on investments. The evidence on the areas of emphasis however is a concern that there is a mission drift from being a development agency for the Province into a purely profit chasing institution.

  The shareholder expectations may not be met as expected in the instance.

- Ithala is well-established and positioned in the market with a strong brand, loyal customers, market expertise and know-how to deal with low income earners however does not have the experience, competence or capabilities to deal with the markets it aspires to attract professionals, the youth, property developers and competitive urban markets. These competencies are critical for successful implementation and penetration of these markets.

- The strengths of Ithala's competitors are technology infrastructure, strong distribution networks, one-stop product range and capital resources. Ithala's strategy of market approach is considered appropriate as it does not have the financial abilities to match competitors head on. It is admissible that generally, Ithala does not have the market power equivalent to competitors.

It is ideal that it is operating in a market niche which the competitors consider unattractive. Ithala's strategic thrust of customer service and market knowledge is capable of enhancing customer loyalty and improving its position in the market and adding to its profitability. Thompson and Strickland (2003:188) refer to this strategy as End-Run Offensives where the idea is to manoeuvre around competitors, capturing unoccupied or less contested market territory and winning the market in your favour in the process.

- The projected net profit of Ithala as a result of the envisaged strategy impact is quite impressive with the average profit growth of 50, 6% over three years. This performance is well below its capability (in terms of capital investment). It cannot therefore be concluded that the profit targets are unachievable but they are challenging under the circumstances. The concern though is the fluctuating trend of profit growth.

- The return on assets average improvement over three years is 37% and is expected to reach 1, 5% by 2007. The strategic target of 5% will not be achieved during the planning period. Strategic interventions are required to improve this return despite the high risk development projects which Ithala gets involved in. The trend is, however, an improvement on their past performance which is commendable.

- The improvement of efficiencies is of strategic importance for Ithala. Firstly, it was stated previously that attaining low cost is of competitive importance for Ithala. From the analysis done and despite the other positive ratios, Ithala's cost to income ratio is still expected to be high at 85, 9% in 2007 although this will be an improvement from 91, 8%. The administration and operational cost to income ratio remains static at around 10% despite expected improvements in performance. A similar conclusion is drawn for staff costs. It can be concluded from the above analysis that the major causes for such high cost to income ratio, compared to other banks at ± 65%, are disproportionately high staff members, high operational and administrative costs.

- The historic growth of Ithala in key areas of deposits, advances, total assets and rental income has been poor over the last few years. The projected average growth over 3 years due to the impact of the strategies implementation is acceptable at 16,8% for savings, 18,5% for advances; 10,1% for total assets and 16,2% for non-interest income. Rental income is a cause for concern at an average growth rate of only 3, 1% over three years. This points towards the market maturing with limited growth prospects. It was previously observed that the Properties division needs to apply appropriate strategies of renewal, focus, differentiation and grow with the market.

- There are no external risk factors identified for Ithala and it should be mentioned that even the worst case future scenario drawn while not too threatening to Ithala's position, could have limited effects. As far as funding is concerned, Ithala will have sufficient funds to effect the strategies without many adverse effects. The total borrowing will increase though by R657, 3 million during the three years. With low interest rate outlook, Ithala should be able to meet its repayment obligations. The information on current debt levels is not available but it is noted that at the current asset base, the new borrowings adds amounts to 25% of the current asset base. Ithala must watch its gearing ratio closely.

- Regarding shareholder value add and expectations, the concern had already been expressed on possible mission drift which would not please the shareholder. It can generally be concluded that there will be positive economic development impact and improved profitability on implementing the strategies. The intangible value add issues are however a major concern. Ithala does not have a value statement and its stand on corporate governance, social responsibility programmes are not considered in its strategic options list.

- Although one of Ithala's weaknesses was identified as inefficient systems and outdated banking systems, there is no evidence in the strategic plan that this problem is going to be resolved. The budgeted capital expenditure for Information Technology over three years is R16, 48million an average of R5, 5 million per annum. This is grossly insufficient and is by far incapable of addressing the problem. The danger of not replacing the computer system is that any modifications to the existing system will be perceived as too little too late and in all likelihood will not solve the problem.

- In summary, Ithala's strategy is sufficient to improve its position on the market. The key result area objectives are likely to be met. The objectives are quite stretching to the organisation considering its current position, but are achievable. Ithala does have areas of serious vulnerability, the most obvious one being its costs structures which are not in line with competitors and its outdated systems and processes which the strategies are not fully addressing. Further, it is unlikely that the proposed strategies will provide Ithala with sustainable unique competencies and strengths which distinctively differentiates itself from competitors.. As Robert (2002: 69) states: "a company need to have a strategy that establishes a significant and sustainable point differentiation – one that enables it to add unique value that competitors will have difficulty duplicating."

5.3 RECOMMENDATIONS

- Ithala is correct to pursue the market option strategies which emphasises market penetration, product development, market development and diversification. This is more so because, it was observed previously that the markets competitive strengths are financial, infrastructural and computer systems and processes. It is a fact that Ithala cannot match these strengths and it therefore is considered a good strategy not to confront strong competitors. Further, it was observed that Ithala is operating in mature markets with the implications that profitability will not increase in the future. Two strategies are recommended for Ithala, differentiation and attaining low costs.

Differentiation Strategy Option

Ithala needs to differentiate its products and services capitalising on its strength of market understanding. Ithala must review its products and service offerings to include unique features, quality, and value for money. Successful differentiation will allow Ithala to:

- Charge a premium price for its services which will help it to improve its profit margin and make it more profitable. It must be emphasised at this point, that customers will not pay higher prices if the perceived value is low. The premium price charged must match the perceived extra benefits the consumer is gaining by choosing the product above competitive products. The starting point for Ithala therefore is designing products with unique features which are different from those of its competitors. The value added must be lower than the cost so that an improved margin can be obtained.

- Differentiation will increase customer volumes at Ithala as more customers will be attracted to it. Increasing volumes without increasing overheads will also help Ithala reduce its overall cost and achieve a better level of efficiency.

- Differentiation will help Ithala retain customer loyalty to its brand. It was concluded earlier that Ithala has loyal customers and its brand recognition is strong in its target market. Differentiation will help Ithala to retain this strength. It was also concluded that Ithala has created a unique niche in the lower income mass market which it must defend.

The future scenario identified is that there is a trend for growth in the Black middle class in South Africa, and if Ithala follows a differentiation strategy it would be able to attract the vast element of this emerging market. It would be positioning itself as a financial institution of choice into the future which the competitors will find difficult to imitate. This will add a unique strength to Ithala which it lacks badly at the moment. It was also observed earlier that in the Properties division specifically, income is expected to be on the decline in the next three years the and the organisation needs renewal and differentiation strategies to turn this trend.

Ithala therefore needs to spend money investigating the unique selling points required by its target market and needs to introduce products and services with such features.

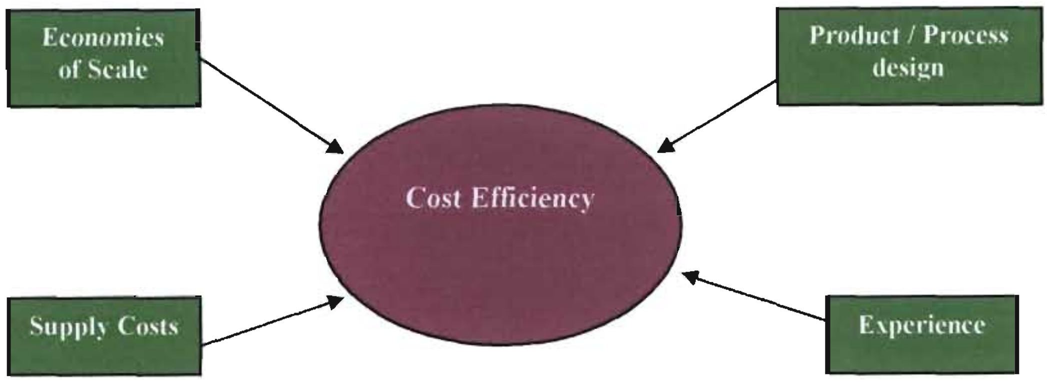
Attaining Low Cost

- It was concluded that Ithala is at a cost disadvantage to its competitors. Analysis showed that its cost to income ratio is still very high at a projected 85% in 2007 and the return on assets target of 5% will not be met in the planning period. Complementing the differentiation strategy which will help Ithala improve its profit margins and increase volumes thereby improving efficiencies, is a concerted effort to reduce costs.

- Ithala must not attempt any price cutting as this could agitate competitors who could retaliate. It must rather use lower costs to earn a higher profit margin thereby raising total profits and overall return on investment. Johnson and Scholes (2002:166) identify four sources of cost efficiency as outlined in Figure 5.1 below:

Figure: 5.1

Sources of Cost Efficiency



(Source: Johnson and Scholes, 2002:166)

All these cost drivers influence the overall costs of the organisation. It is important to understand the knowledge and competencies associated with each of these factors and whether they might be core competencies. As an example, experience derived from human capital, can be a key source of cost advantage and a competitive advantage and difficult to duplicate by competitors.

The two recommended competitive strategies do not necessarily translate into competitive advantage. The point is that Ithala's costs need to be comparable to its competitors and it should benchmark itself with the industry. Secondly, differentiation should be specific as to whom one is differentiation and on what basis is it happening. Also, according to Johnson and Scholes (1993:212), differentiation can only be successful if the firm is able to clearly identify who the customer is and what the customer needs and values. The firm must be close to the market to sense and respond to customer needs, then the basis of differentiation is linked to a mix of activities or features rather than just a product or service. Lastly, differentiation cannot be achieved on a static basis because customer values change and if customer values are perceived as constant, competitors can imitate over time.

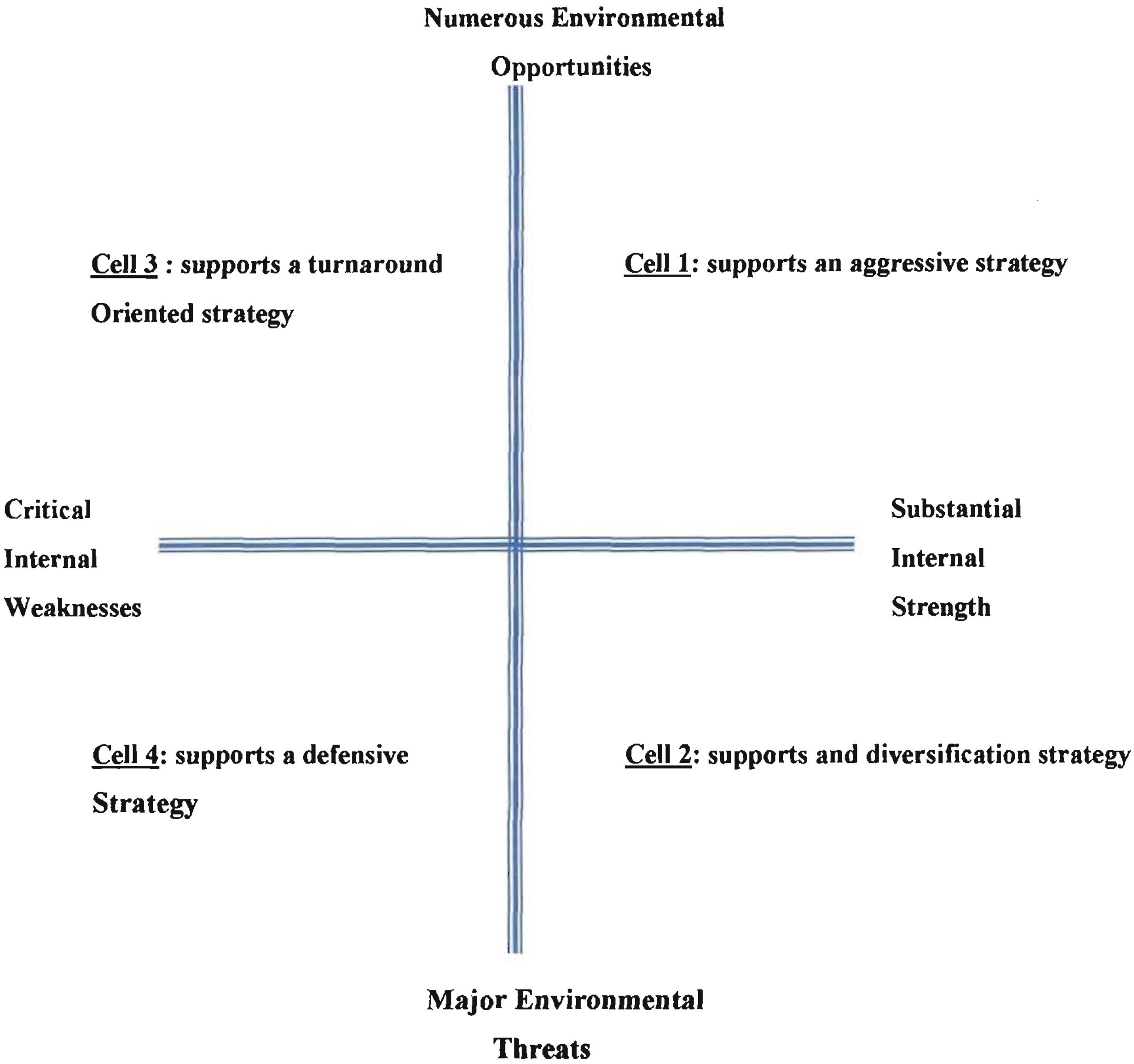
- Ithala must put emphasis on client training to improve the skills especially of emerging entrepreneurs in small medium and large industries. This is in line with its objectives to improve the skills levels in the Province. Training will not only ensure that the quality of businesses being financed improves but it also preserves the resources in the province and is a risk management tool for Ithala against losses.

  In this respect, Ithala must seek partnerships with organisations promoting small businesses. These would include local authorities, the government's economic and finance departments and other institutions. The linking of this initiative with relevant Sector Education and Training Authority (SETA) could afford it the funding it requires.

- Ithala must transform itself from a 'government' run organisation into a progressive innovative and performance-driven organisation which conducts its affairs according to conventional business principles. This is not easy to accomplish but retraining of employees and restructuring the organisation is required. The new strategic direction needs to be work shopped with all employees to obtain their commitment. This could involve external consultants with necessary expertise. Once this is done, the strategy can be implemented with a high probability of success.

- Further to this, in the strengths, opportunities, weakness and threats (SWOT) model, Ithala's position is assessed as having numerous environmental opportunities but seems to be facing critical internal weaknesses (with no unique strengths). In terms of the model, it should also pursue turnaround oriented strategies to eliminate internal weaknesses and pursue market opportunities (Pearce and Robinson, 1991).

Figure 5.2
<u>**Swot Analysis Model**</u>

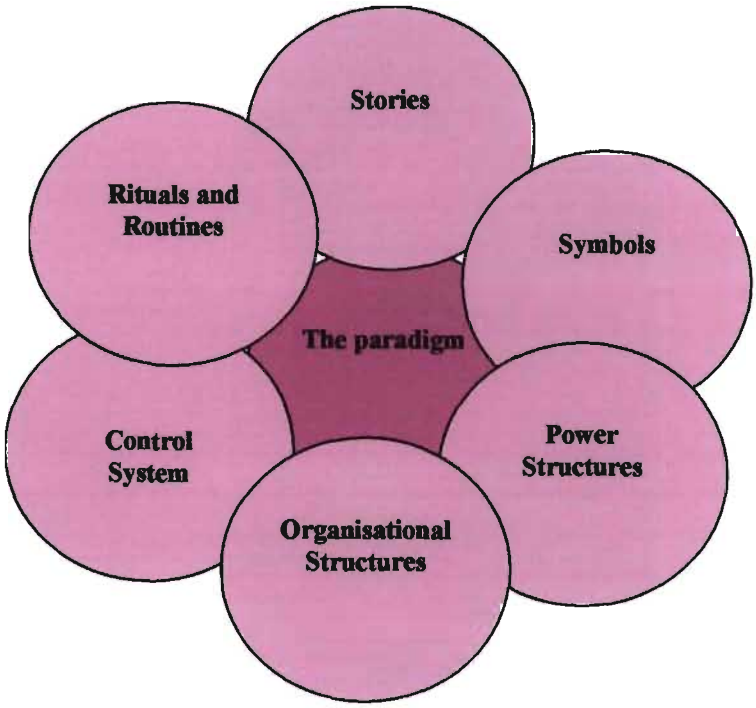


(Source: Pearce and Robinson, 1991: 184)

According to Figure 5.2, Ithala is in Cell 3 with critical internal weaknesses but numerous environmental opportunities. Ithala must eliminate internal weaknesses and leverage its strengths to exploit the available opportunities. The weaknesses relate to deficiencies in resource utilisation, skills and capabilities.

* The analysis of the cultural web pointed to cultural problems in Ithala which are holding the organisation back (Figure 5.3). These are manifesting themselves in inefficiencies and poor productivity records and could be due to the fact that Ithala had been dependent on the government for its survival. The cultural shock of the need to change to be financially sustainable should not be underestimated. The paradigms of routine ways of doing things, rituals, stories, symbols, control systems, power structures and organisational structures need to be challenged and influenced.

Figure 5.3
Cultural Web



(Source: Johnson and Scholes, 2002:230)

Ithala should consider devising a value statement which specifies the rules the company will adopt to reach its goals. The value statement should define the standards, norms and principles essential to take the organisation into the future. It should be aimed at countering the existing undesirable historical cultural issues and usher in a spirit of entrepreneurship, innovation, business, profitability and productivity ethics. Change management training is recommended for all Ithala staff in order to lay a foundation for future changes which should not be resisted by staff.

In addition, Johnson and Scholes (2002) are of the opinion that communicating the statement of mission, vision, intent, and objectives to employees helps forge a new direction for the organisation which employees can associate with and aspire to achieve. This could be used to counter resistance to change caused by cultural dimensions. These need to rather emphasise the common ground which all stakeholders subscribe to and not the differences.

- Further to the above point, it is recommended that each SBU should have its own mission statement which will unify and inspire each unit towards a positive contribution. The totality of the mission statements of all SBU's must be co-ordinated centrally to ensure that the message sent out does not contradict the overall objectives or cause conflict. They must, in totality, result in unity of direction and break down barriers and create new values for the organisation which everyone should be proud to pursue.

- Ithala must start to introduce measurements which will compare itself with its competitors in areas of market share. It must also introduce standards against which it benchmarks its performance against that of its competitors and learn the best practices in the market. This will help Ithala to reduce costs or modify the way of doing business or to accomplish certain tasks.

- It must identify, detail and specify areas of synergies and mutual benefits with the private sector and seek partnerships in terms of its mission and objectives. Also, it must, together with government identify areas of involvement and persuade the government to use it resources to maximise development impact and service delivery in the province. Ideally, there must be an annual compact agreement with the shareholder to clear areas of involvement, expected targets and objectives to be achieved.

- Ithala must identify areas of human resources development in the province in terms of the development of skills and knowledge empowerment. Advisory services for small and emerging business are not only maximising development impact but is the recipe for its success and a risk management tool in its lending activities. It must promote entrepreneurship by providing its consumers with education skills, knowledge and advisory service as one of its products. It must work with relevant agencies to achieve this function

- Since the current positioning of Ithala is targeted at low to middle income clients with some rural roots, the organisation need to be careful in repositioning itself as it aspires to move to the new markets of professionals, youth and entrepreneurs. The products and services delivery mechanisms need to be reviewed to prevent client profile backlash.

- As Ithala strategy dictates extending products and services to new markets and existing customers, it is recommended that thorough research be conducted to establish real consumer needs and acquire the necessary competencies in product development and launch. This will help to reduce the risk of failure. The knowledge base of the characteristics of successful products which were uncovered during strategic analysis should be used as principle guidelines to develop and launch new products. Strategic alliances in this area should be explored, specifically with insurance companies for other financial services products and cellular phone companies for reaching more rural customers cost effectively. It was noted earlier that differentiation strategies require a thorough understanding of consumer needs. The extension of product range should be pursued concurrently with the differentiation strategy. To achieve this, research must be conducted by Ithala to discover its market position and identify gaps.

- While the mandate of Ithala requires it to be engaged in development activities which are high risk, but at the same time ensuring financial viability, the organisation should quantify in percentage terms, what financial resources will be allocated to various risk levels. High medium and low risk ventures should balance its exposures while meeting its mandate.

  The risk targets could be adjusted and negotiated with the shareholder annually. This will obviate the risk of mission drift and if the shareholder requires more allocation to high risk areas, then additional funding should be allocated by the shareholder (government).

Since Ithala presently needs to create reserves for development funds and for funding internal realignment activities, the percentage split initially should be in favour of profitability at least by a ratio of 70:30.

- ❖ Ithala must address the problems of outdated processes and computer systems if it wants to be competitive at all. If funds are not available to this effect, outsourcing computer services or alliances should be considered. Efficiencies will never be achieved if the systems and processes are outdated. Technology is the driver of the efficient delivery of products to the consumers in most industries and particularly in financial services where the internet is the latest fastest growing distribution methodology. Cost comparativeness with competitors will not be achieved unless processes and systems are updated to reflect the industry's technological advancement.

- ❖ Ithala must improve customer service and put more emphasis on customer retention and relationship building. This is especially important since in the analysis the trend towards increased urbanisation, the increase in the middle income market and black middle class points towards its existing client base graduating to a more profitable client base. This could also reduce the risk of and the need to attract new clients. One of the identified threats of Ithala is other banks targeting the middle to lower income sector. Customer retention strategies will prove cheaper to implement than those of acquiring new customers as switching clients from other banks will not be easy.

- ❖ Ithala must conduct an intensive study of its cost structure, specifically the administrative and operational costs and review its organisational structure and ensure that functions are streamlined and staff costs reduced. The systems and processes need to be evaluated to improve efficiencies and profitability. Any savings in these areas immediately improves profitability.

If this aspect is taken seriously and implemented, the envisaged benefits would be enormous. For example, if 2004 is taken as a base, the total expenses were R359.2 million. If a reduction in expenses of 8.1% is assumed, to bring the cost to income ratio to 80% that will add R29.1 million to the net income which is an 181.8% increase in profitability. If efforts are concentrated on reducing administration, operational, and staff costs which totalled R226.6 million in 2004, and if these are reduced by a mere 10% then the increase in profitability would be R22.6 million or 141%.

The benefits of a lower cost base will have a longer-term impact on profitability provided the cost reduction is sustainable. These estimates are not impossible to achieve as there is value within Ithala which is not currently being realised.

- Lastly, it is a concern that throughout the analysis, Ithala's unique strength, core competence and competitive advantage were not identified or is not immediately apparent if there is one. These points to a definite need for Ithala to review its activities and identify an area it will develop as a core competence and use this to its competitive advantage.

In conclusion, Ithala's strategies were found to be sound in terms of consistency, suitability, acceptability and feasibility. If the above recommendations are taken into consideration, Ithala's competitive and market position will improve considerably and will put it on the path of creating distinctive competencies which are going to be difficult to be duplicated by competitors.

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