Eskom: the making, unmaking and remaking of an institution - a case study

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Abstract

The scope of the research is limited to the organisational development and adaptive trajectory of Eskom, from its origins to present day. It focuses specifically on understanding how the organisation became an institution, how it was deinstitutionalised and the attempts to convert the organisation back into an institution that supports the country's developmental objectives.

Keywords

Institution; institutionalisation, old institutionalism

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Chapter 1: Introduction to the Research Problem

1.1 Introduction

An "institution" can be defined as a unique organisation, "infused with value", focused on "internal" and "external" goals, adapting organically to a changing landscape in search of stability (Selznick, 1957; Rhenman, 1973).

Over the past few decades there has been greater recognition of the key role that institutions play in the social, political and economic fabric of life. Scholars acknowledge that organisations function within an environment and are influenced by that environment. Despite the stability that the concept of institution denotes, social scientists have focused their studies on institutional changes, examining "both modes of reinforcement and diffusion, as well as processes of struggle, demolition and renewal" (Scott, 2010).

In its quest to overcome the challenges of poverty and unemployment, the South African government is relying on its state-owned enterprises to provide the necessary impetus to accelerate economic growth thereby creating more job opportunities and reducing the income inequalities that currently exist (Republic of South Africa, 2011a; 2011b). Given its substantial plans for investment in electricity infrastructure over the next six years, Eskom, more than any other state-owned enterprise, bears the brunt of the government's expectations (Lakmidas, 2011). However, is Eskom in a position to support and enable government to deliver on its developmental objectives? This research

paper seeks to answer this question from an institutional perspective by examining the organisational development of Eskom as an institution.

Eskom produces 95% of all the electricity consumed in South Africa and is the only source of affordable energy available within the country. As such, electricity has been an essential ingredient in the economic growth of the country. Since its inception in 1923, Eskom has provided the power needed to drive the development of the country's mining sector which in turn fuelled the establishment of Africa's largest and wealthiest economy (Conradie & Messerschmidt, 2000; Eskom Holdings Limited, 2010; Business Day, 2011; Department of Public Enterprises, 2011).

The dependence on the electricity generated by Eskom is not restricted to the confines of South Africa's borders. As the largest power utility in Africa, Eskom is the dominant player in the Southern African Power Pool (SAPP), providing electricity to neighbouring countries like Lesotho, Swaziland, Botswana and Namibia who have very little power generation of their own. Their economies are inextricably linked to the power supply from Eskom (Green, 2010).

Once acclaimed as a company that was "ahead of change" and a shining example of how to successfully balance the demands of business success with social responsibility (Graham, 2006), the company's reputation was severely tarnished with a spate of 'load shedding' incidents in 2008 that stifled the economic growth of the country and curtailed investment (Eskom Holdings Limited, 2010; Business day, 2011; Herskovitz, 2011). The loss to the economy

due the shortage of supply was estimated to be R 50 billion (I-Net Bridge, 2008). Power struggles between the Chairman and Chief Executive of Eskom did little to repair the sullied reputation of the company (Davie, 2009).

In spite of plans to increase its power capacity, there are concerns that Eskom is currently unable to provide a steady, reliable supply of electricity to fuel the economic growth of the country. The concerns stem from increasing electricity demand, a shortage of generation capacity and insufficient time to perform the necessary maintenance on an aging power station fleet (Business Day, 2011; Lourens, 2011; Herskovitz, 2011; Eskom Holdings Limited, 2011a).

How does a company, once seen as an "institution" within the South African context that contributed significantly to the development of the country's economy, and heralded as the Global Power Company of the Year in 2001, become a significant obstacle to job creation and economic growth (Eskom Holdings Limited, 2010; Business Day, 2011)?

1.2 The Research Rationale

Rhenman (1973) compared the 'character' of an organisation to the personality of an individual. Just as the personality of an individual is a product of "historical development", an integration of different traits, a response to challenges from the internal and external environment, so too is the character of an organisation shaped by these factors. Institutional theory provides the necessary tools to understand how the 'character' of an organisation evolves in order to provide

insight to into the ability of the organisation to meet the current challenges and opportunities facing it.

1.3 The Scope of the Research

The scope of the research is limited to the organisational development and adaptive trajectory of Eskom, from its origins to present day. It focuses specifically on understanding how the organisation became an institution, how it was deinstitutionalised and the attempts to convert the organisation back into an institution that supports the country's developmental objectives.

1.4 The Research Problem and Objectives

With no other cheap energy alternative in place, Eskom is seen as the lifeblood of the South African economy and a critical factor to its continued economic growth (Department of Public Enterprises, 2010; Department of Public Enterprises, 2011). Without an affordable, reliable supply of electricity the South African economy will stagnate (Grosvenor, 2011; Business Day, 2011; Davie, 2009). Therefore, the future economic success of the country is intimately connected to the success of Eskom (Business Day, 2011; Eskom Holdings Limited, 2010). Since its inception in 1923, Eskom has been pivotal to the economic success of the country. However, in recent years its position as a revered organisation in the country has been lost (Eskom Holdings Limited, 2010; Davie, 2009).

The goal here is to understand how Eskom became a success and fell from its perch through the lens of institutional theory and organisational development in order to provide new insights into its prospects for future success.

1.5 Overview of Research Report

This study will attempt to gain a deeper understanding of how Eskom developed as an institution, how it was being transformed out of being an institution and its current attempt to reconstruct itself as an institution.

The research will:

- Confirm the validity of the proposed institution framework developed from the theoretical work of Selznick (1957) and Rhenman (1973).
- Provide an understanding of which factors, from an institutional theory perspective, contributed to Eskom success and subsequent failure.
- Provide new insights into the organisational factors that Eskom needs to focus on to ensure future success.

Chapter 2 explores the theory and relevant literature around institutional theory, specifically focussing on "old institutionalism" and the theories of Selznick (1957) and Rhenman (1973).

Chapter 3 provides a broad overview of the profile of Eskom and its history, from inception to the present.

Chapter 4 presents the research propositions to be investigated.

Chapter 5 outlines the research approach, research design and defence of the research methodology.

Chapter 6 contains the results of the investigation.

Chapter 7 conveys the analysis of the findings of the research.

Chapter 8 provides a consolidated view of the findings, recommendations for Eskom and areas for future research.

Chapter 2: Theory and Literature Review

2.1 Introduction

This chapter starts by providing a broad overview of institutional theory which forms the basis of the research paradigm applied in this study. The key concepts of "institution" and "institutionalisation" are critically examined from the perspectives of Selznick (1957) and Rhenman (1973). A reference framework is then developed to evaluate Eskom's organisational development in terms of an institution. The chapter ends with a justification for applying institutional theory to explore Eskom's organisational development as a state-owned enterprise.

2.2 Institutional Theory

The study of Eskom as an "institution" relies heavily on the institutional theory of Selznick (1957) and Rhenman's (1973) organisational development theory to define a framework that identifies the attributes of an "institution" and the applicable processes which transform the organisation into an institution, namely institutionalisation. Therefore, the two key concepts central to this research are the definitions of what an institution is and the process of institutionalisation.

However, before one can delve into defining the attributes of what an institution is, one has to take a closer look at institutional theory.

Institutional theory is a way of thinking about formal organization structures and the nature of the historically grounded social processes through which these structures develop (Dillard, Rigsby, & Goodman, 2004)

Institutional theory traces the emergence of distinctive forms, processes, strategies, outlooks, and competences as they emerge from patterns of organisational interaction and adaptation. Such patterns must be understood as responses to both internal and external environments. (Selznick, 1996)

There is a myriad of institutional paradigms that have been useful in analysing organisations, providing deep, insightful perspectives on the complexities of organisations (Zucker, 1987; Scott, 1987; Suddaby, 2010; Washington & Patterson, 2011). Although the multitude of institutional paradigms in existence are concerned with institutions and institutional processes, the diversity of institutional approaches on offer focus on different elements of the organisational social system (Nielsen, 2001; Fleck, 2007;). Two schools of institutional theory dominate the landscape, namely "old institutionalism" and "new institutionalism" (Zucker, 1987; Scott, 1987; Selznick, 1996; Haveman, 2000; Fleck, 2007).

Philip Selznick is considered to be one of the founding fathers of "old institutionalism" and his work *Leadership in Administration* (1957) is often cited as being one of the seminal pieces of the aforementioned school of institutional

thinking (Selznick, 1996; Scott, 1987; Zucker; 1987; Haveman, 2000; Fleck, 2007; Washington & Patterson, 2011). According to Kraatz and Zajac (1996), Selznick's (1957) institutionalism emphasised "organisational adaptation, change, and uniqueness". Greenwood and Hinnings (1996) put forward the notion that "old institutionalism" focussed on "issues of influence, coalitions and competing values". They contend that "old institutionalism" placed emphasis on the informal structures and power. Values, norms, attitudes, conflicts of interest and vested interests provide the lenses through which the organisation is perceived.

Haveman (2000) states that "new institutionalism" focuses on how organisations respond to diverse external expectations, revealing how legitimacy is conferred on organisations in the form of "taken-for-grantedness" which allows organisational structures and activities to stabilise. DiMaggio and Powell (1991), as cited by Kraatz and Zajac (1996), claim that "new institutionalism" is concerned with the stability of the organisation; the focus is on "legitimacy" as a key driver, and the resolve of the organisation rather than organisational change. Washington and Patterson (2011) claim that "new institutionalism" analyses institutions as "processes, practices and ideas." They claim further that the representation of an institution need not be restricted to that of an organisation and cite Berger and Luckman's (1967) example of a "handshake" to illustrate this point. A handshake has shared social meaning and there is a common understanding of the exercise that communicates this meaning to others. A "handshake" is therefore an institution.

The lack of focus on human involvement, specifically management, in the "new institutionalism" approach is one of the key criticisms put forward by Stinchcombe (1997). He contends that the absence of managerial agency diminishes the institutional theory as he perceives management to be the very "guts" of the organisation that is accountable and actively involved in compelling the organisation to adhere to standards (Stinchcombe, 1997; Fleck, 2007). Without consideration given to management's involvement in the organisation, Stinchcombe (1997) questions the quality of the "empiricism" that can be derived if it is not based on a true reflection of the complexity of the organisation.

Zucker (1987) provides an insightful overview of institutional theory where she provides an eloquent categorisation of organisational theory into two basic approaches, one that sees the organisation as an institution, where the institutionalisation process originates from with the organisation itself, and the other that sees the environment as the institution, where the institutionalising processes are as a consequence of state intervention or influence. Table 1 provides a broader overview of the two concepts.

Zucker (1987) provides three key defining principles for the "environment as an institution":

a) Institutional processes stem from overarching rationalisation, a zeitgeist-like world-wide phenomenon, that fuels the growth of the state;

b) Institutions are commonly state-linked and invariably external to the organisation; and

c) Institutionalisation produces task-related inefficiency, hence a decoupling of internal structure.

From Zucker's (1987) perspective, the "environment as institution" refers to the influence that external organisations within the business environment have on the development of a company. In most cases, the external organisations are government agencies like the postal services or Department of Labour. However, labour unions and non-governmental organisation like Green Peace may also have an influence on the development of a company.

The "organisation as an institution" is assigned the following key three defining principles by Zucker (1987):

d) Institutional elements arise primarily from a small group or organisation-level processes;

e) Formalised organisational structure and process tend to be both highly institutionalised and a source of new institutionalisation; and

f) Institutionalisation increases stability, creating routines that enhance organisational performance except when more efficient alternatives are ignored.

Table 1 Zucker's classification of institutional theoretical approaches

Theoretical Approach	Environment as institution	Organisation as institution
Motif	Reproductive	Generative
Source	Growth of state	Small groups and imitations of other organisations
Locus	Outside organisation State linked	Internal process Similar organisations
Outcomes	(1) Decoupling from technical core (2) Inefficiency	(1) Stability (2) Efficiency contingent on alternatives

(Source: Zucker, 1987)

While not explicitly naming the two schools of institutionalism, Zucker's classification of the organisation as the institution can be considered to be aligned to "old institutionalism" where as the environment as the institution is more reminiscent of "new institutionalism" (Fleck, 2007).

Harnessing the work of DiMaggio and Powell (1991), Hirsh and Lounsbury (1997) provide a more concise comparison of "old institutionalism" and "new institutionalism" tabulated below:

Table 2 Comparison of old and new institutionalism

Dimension	Old institutionalism	New institutionalism
Conflicts of interest	Central	Peripheral
Source of inertia	Vested interests	Environmental legitimacy
Level of analysis	Focal organisations	Field, sector, society
Institutional locus	Organisational values, culture	Abstracted, societal
Behavioural emphasis	Commitment	Habit, rules
Key forms of cognition	Values, norms, attitudes	Classification, scripts, schemas
Social psychology	Socialisation	Attribution
Goals	Negotiable	Symbolic
Structural emphasis	Informal networks	Formal administration

"New institutionalism" focuses on how organisations become homogenous due to institutional pressure within the business environment (Hirsch & Lounsbury, 1997), while in "old institutionalism", the focus is on understanding organisations as "adaptive social systems attempting to survive in their environments" (Scott, 2004).

Central to this study is to view Eskom as a unique organisation, with values and norms that must adapt to the challenges and opportunities posed within its business environment as a result of internal as well as external forces. Hence "old institutionalism" is the more appropriate institutional paradigm for this research as this institutional theory places emphasis on the role of values, norms, attitudes and organisational members have on the development of an institution (Scott, 2004).

2.3 What is an "institution"?

Kaplan (1960) defines an institution as "a complex of status-role relationships which is concerned with a particular area of activity within any specified social system."

Scott (2008) offers another definition of an institution:

Institutions are social structures that have attained a high degree of resilience [and are] composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life. (Scott, 2008, p. 48)

A more contemporary definition of an institution is provided by (Abrutyn & Turner, 2011):

An institutional domain is a set of corporate units that evolved to address selection pressures or problems of adaptation facing members of a population, and as this set of corporate units evolves, it develops a distinctive generalized symbolic medium used to form an intra-domain culture, a distinctive set of corporate-unit formations, and a distinctive configuration of mechanisms for integrating relations among its constituent corporate units and, at times, the elations of

these units and their culture and symbolic media with units in other

institutional domains.

Selznick (1957, p 17) offers a simpler definition, an institution is an organisation "infused with value". However, he later differentiates between an organisation and an institution by claiming that organisations are "technical instruments" that have been "designed" as a means to achieve specific goals (Selznick, 1957; Delage, 1989).

The life expectancy of the organisation is dependent on its ability to effectively accomplish the goals it was designed to address. When a more effective "instrument" emerges, the older organisation is considered to be expendable (Selznick, 1957). Selznick's (1957) perspective on the life expectancy of organisations is analogous to Schumpeter's (1942) view of "creative destruction" which states that within capitalism, larger, more established companies are replaced by new, innovative entrants who display greater creativity in being able to provide the goods or services required by the consumer more efficiently and / or effectively.

In contrast to an organisation, Selznick (1957, p 21) describes institutions as follows:

Institutions, whether conceived as groups or practices, may be partly engineered, but they also have a "natural" dimension. They are

products of interaction and adaptation; they become the receptacles

of group idealism; they are less readily expendable.

Selznick (1957) is also claiming that institutions are themselves more resistant to "creative destruction". However, it is the concept of "natural" that he uses in his description of institutions that holds a richer, deeper meaning. Selznick (1957) posits that institutions are communities of people whose inter-relationships, needs and vested interests play a pivotal role in the success and sustainability of the enterprise. Furthermore, he argues that unlike "organisations" which respond to changes in the internal and external business environment in a co-ordinated, well-defined approach, institutions adapt to changing circumstances in an organic manner which is neither pre-defined nor co-ordinated according to a set plan.

Selznick (1957, 1996) suggests that when an organisation is "institutionalised" it becomes "infused with value" and tends to adopt a unique character and achieve a "distinctive competence or inadequacy". The "distinctive competence" relates to an organisation's unique ability to excel in the performance of a particular task or activity. On the other hand, the development of the unique competence prevents the organisation from specialising in other areas. For example, Microsoft specialised in the development of computer operating software. It has not developed the competence to engineer super computers.

Selznick (1957) elaborates further by stating that once an institution has developed its "distinctive competence" the organisation focuses on "self-

maintenance" which implies minimising upheaval and internal conflict within the organisation, reducing risk and protecting the organisation from new challenges and a changing context. These actions are taken in order to ensure stability as the organisation pursues the achievement of both long-term and short-term objectives. Hence, the aims of the organisation may become fixed. Selznick (1957) posits that the transition of an organisation from being "expendable" to becoming an institution is marked by a "concern for self-maintenance".

Selznick (1957) asserts that his definition of an "organisation" and "institution" lie at opposite ends of a continuum and that most organisations contain elements of both definitions.

2.4 Rhenman's taxonomy for organisations

Building on Selznick's (1957) work, Rhenman (1973) developed a taxonomy for organisations based on internal and external goals. Internal or strategic goals were defined as ideas about desirable future strategic positions. Examples of strategic goals include growing market share by 20%, driving operational efficiency by 13% and increasing manpower numbers by 8%. Strategy or strategic plans were considered to be ideas about how the internal goals are to be attained. The person or persons inside or outside the organisation responsible for developing these ideas were described as the strategic management of the organisation.

External or institutional goals (sometimes called the mission of the organisation) were ideas about the effects of organisational operations on the environment. The creator of these ideas or stipulations is described as the institutional management of the organisation. Based on whether organisation had internal and / or external goals, Rhenman (1973) classified them as being:

Table 3 Rhenman's taxonomy of organisations

Organisation….	….without strategic or internal goals, therefore no strategic management	…. with strategic or internal goals and a strategic management to formulate them.
…without institutional or external goals, therefore no institutional management	MARGINAL ORGANISATION	CORPORATION
…with institutional of external goals and an institutional management to formulate them.	APPENDIX ORGANISATION	INSTITUTION

Source: Rhenman (1973)

a) An **<u>appendix organisation</u>** has institutional management but no strategic management and is usually established by a parent organisation to fulfil a specific purpose. A government agency would be an example of an appendix organisation.

b) A **<u>marginal organisation</u>** has neither institutional management nor strategic management. However, this does not imply that the organisation lacks strategic positioning. Instead, the strategic positioning of the organisation is

not aligned to a "prescribed" plan. A start-up business / enterprise would be an example of a marginal organisation.

c) A **<u>corporation</u>** has strategic management but no institutional management. The focus is on the achievement of strategic goals, like increasing return on investment, improving profits and growing market share, rather than the contribution to societal or institutional goals like food security or the fight against HIV/AIDS.

d) An **<u>institution</u>** has both strategic and institutional management. The focus within the institution is achieving both the strategic and institutional goals even though the aims of both sets of goals may be conflicting. For example, Eskom has the same strategic goals as private corporations like improving the return on investment and increasing profitability. However, it is also required to provide free access to electricity to the previously disadvantaged communities even though such provision comes at a significant cost and impacts on profitability of the organisation.

Rhenman (1973) noted that institutional management would reside outside of the organisation while strategic management would be found within the organisation. Similar to Selznick (1957), Rhenman (1973) is reluctant to codify any single organisation as being completely defined by one of the organisational typologies that he developed. Instead, he asserts that his organisation classification represents the "end-points" of the scale.

Rhenman (1973) puts forward an interesting notion that the founding value system of an organisation is the key determining factor of what an organisation can do in the future. He defines the value system of an organisation as being "a system of ideas and attitudes" which defines "what is good and what is bad" as well as defining what is considered to be "desirable", which ultimately directs decision making.

Rhenman (1973) states the development of an organisation is punctuated by different goals and aspirations during its development trajectory. He advocated four main organisational goals at the different stages of development, namely:

- Dissolution or subjection
- Stabilisation
- Depoliticisation
- Institutionalisation

2.4.1 Dissolution or subjection

Rhenman (1973) proposes that "newly established" organisations usually start off as an appendix or a marginal organisation. When an appendix organisation has accomplished the goal that the parent company initially setup or is unable to fulfil the purpose it was created for, the appendix organisation may be dissolved.

When a marginal company is unable to identify new opportunities it may be sold off to a larger company or it may become bankrupt. As part of the new parent company, the marginal company may become an appendix organisation, serving the specific needs or goals of the new parent company.

2.4.2 Stabilisation

Stabilisation refers to the emergence of strategic management within an appendix or marginal organisation. The presence of strategic management in the organisation sees the need for self-preservation or growth as a goal in itself.

2.4.3 Depoliticisation

When an appendix organisation is in competition with independent companies the organisation may feel stifled by its "dependence" on the parent company and its duty to serve the interests of the parent company. An institution may also experience this "frustration" when in competition with independent companies and finds its focus on institutional goals debilitating. The processes that organisations harness to address such issues is termed depoliticising.

2.4.4 Institutionalisation

A marginal organisation which develops into a corporation may develop into an institution through the additional focus on its own institutional goals. For

example, like a providing free basic adult education within the local community that it operates in, or collaborating with other institutions to accomplish their own external goals. For instance, an institution may work with local authorities to provide fresh water to impoverished communities.

2.5 What is "institutionalisation"?

Institutionalisation is defined as "the emergence of orderly, stable and socially integrating patterns out of unstable, loosely organised, or narrow technical activities (Broom and Selznick, 1955; as cited by Selznick (1996))

Institutionalisation processes consist of the development of formal structures, the creation of informal norms, the development of objective / impersonal procedures, administrative rules, ideologies, legalisation and the focus on legitimisation (Alpay, Bodur, Yilmaz, Cetinkaya and Arkin, 2008).

From a "new institutionalism" perspective, Meyer and Rowan (1991) define institutionalisation as "a process where social processes, obligations or movements reach a rule-like status in social thoughts and actions. They are unquestionable and cannot be compared to alternatives" (Gorges, 2001; Aypay & Kalayci, 2008).

Selznick (1957) argues that institutionalisation is a "process" that an organisation undergoes "over time". The process is representative of the rich, distinguishing history of the organisation, its social fabric, the vested interests of

internal parties, and the way the organisation has been able to adapt to its environment.

Scott (1987) claims that Selznick primarily sees institutionalisation as a means of instilling value into an organisation, integrating societal values into the very social fabric of the organisation such that it attains a position of significance which it would not have achieved prior to its institutionalisation. The "infusing of value" provides stability as well as developing a resistance to change (Delage, 1989).

As the organisation becomes "institutionalised" there is a focus on self-preservation or "a concern for self-maintenance". Leaders seek to establish stability by not engaging in activities that put the wellbeing of the organisation at risk. The establishment of stability comes at a cost as the organisation loses its flexibility and agility to cope with change (Selznick, 1957, Fleck, 2007).

Selznick (1957) sees leadership as playing a critical role in the process of institutionalisation. Firstly, leadership is accountable for defining the "institutional mission and role", i.e. the setting of goals that address the actual commitments of the organisation which are heavily influenced by internal and external demands. Secondly, leaders are responsible for the "institutional embodiment of purpose" which means ensuring that the policies developed by the leadership must be ingrained into the social structure of the organisation such that the implementation of policies is done according to both the spirit and letter of the policies.

Thirdly, leadership is responsible for defending the institutional integrity which means more than just protecting the organisation against threats to its very existence but also protecting the organisation's fundamental values and its unique identity from threat. This implies not engaging in opportunistic ventures, as well the avoidance of a "utopian" purpose and ideals. One cannot escape the challenges of reality by focussing on abstract goals.

Finally, leadership is responsible for the ordering of internal conflict, which means balancing the needs and expectations of different organisations so that leaders can solicit "voluntary cooperation" but at the same time effectively demonstrate that they are ultimately in charge and in control of the organisation.

2.6 Attributes of an institution

Combining the works of Selznick (1957) and Rhenman (1973), the attributes of an institution can be defined in the following manner:

- The organisation has both internal and external goals. Internal goals are focussed on the strategic position of the organisation, e.g., gaining market share, while external goals focus on the influence the organisation has on its environment. For example, Eskom providing free electrification to previously disadvantaged communities would be regarded as an external goal.
- The organisation, through some or all of its operations and activities, addresses a key need in society. The fulfilment of the

societal need may not be clearly understood, expressed and / or acknowledged by the other members in society but the organisation would be acutely aware of its role in society. For example, Eskom is the key supplier of electricity is South Africa. The influence Eskom has on the growth of the economy through the provision of electricity was not fully understood and / or appreciated by the members of the South African society until the load shedding incidents of 2008 severely stunted economic growth in the country (Business Day, 2011).

- Stakeholders develop a deep psychological connection with the organisation that extends beyond the organisation's economic and financial contribution to society. The organisation may embody the aspirations of the community, like NASA's aspirations to put a man on the moon represented the United States of America's aspirations of achieving the "impossible", or the organisation may play a significant role in stakeholders' sense of identity, e.g., an employee may see himself as an "Eskomite" rather than just an engineer.

- The organisation adapts to both internal and external risks and opportunities in an organic manner and not according to a predefined path. Old practices and processes are replaced by new ones in an evolutionary manner rather than a revolutionary approach. This implies that adaptation and change is a slow and drawn out process within the organisation. For example, despite pressure from the Board of Trade and Industries to adopt better

financial management practices in the 1970's, Eskom only started to apply better management practices in the next decade.

- The organisation develops its own special identity and distinctive competence, i.e. the enterprise has developed its own organisational character and capabilities that differentiate it from its peers. This process is influenced by the establishment of "value commitments" which ultimately influence the key aims of the organisation, its methods of operations as well as its role in society. For example, Eskom has safety as a corporate value and this influences the tendering and contract processes within the organisation.

2.7 Framework for identifying an "institution"

By combining the elements of institutionalisation and the attributes of an institution described above, a framework (Table 4) was developed to assess an organisation as an institute.

Criterion 1 represents Rhenman's (1973) proposition that an institution pursues both internal and external goals. Criteria 4 to 7 represent the "old institutionalism" perspective of Selznick (1957), where he placed emphasis on institutions developing a "distinctive competence" that differentiated them from their peers, having societal values integrated into the organisation plus a key focus on "self –preservation". He also puts forward the notion that institutions adapt in a slow, organic manner rather than swift, coordinated change.

Criteria 2 and 3 represents two characteristics associated with institutions, namely the key role that they play in the society they operate in and the close bonds that develop between the organisation and its key stakeholders.

Criteria 8 to 10 focus on the leadership that Selznick (1973) is critical to the institutionalisation of the organisation.

The criteria targeting the crux of what an institution represents, namely, a distinctive organisation, infused with value, focused on internal and external goals, adapting organically to a changing landscape in search of stability, are

assigned higher weightings than the other criteria (Rhenman, 1973; Selznick, 1957).

Table 4 Framework for evaluating an organisation as an institution

#	Criteria	Yes / No	Weighting
1	Does the organisation have internal and external goals?		3
2	Does the organisation understand the key need in society it fulfils?		1
3	Do stakeholders have a deep psychological connection with the organisation?		1
4	Does the organisation adapt to internal and external challenges in a slow, organic manner?		3
5	Does the organisation have a distinctive competence and its own special identity?		3
6	Are societal values infused in the organisation?		3
7	Is there a focus on self-preservation or self-maintenance?		3
8	Does leadership play a pivotal role in the setting of the goals of the organisation?		1
9	Does leadership ensure company policies are ingrained in the operations of the organisation?		1
10	Does leadership protect the "institutional integrity" of the organisation?		1
11	Does leadership balance the needs and expectations of the different stakeholders?		1
Total			21

Selznick (1957) argued that no organisation was completely an institution; he believed that all organisations contained a "mixture" of characteristics associated with his definition of an "organisation" and that of an "institution". Selznick (1957) stated further that his definitions of an "organisation" and an "institution" lie at opposite ends of a continuum. What this framework seeks to

determine is the relative position of an organisation on the continuum suggested by Selznick (1957).

Ratings from 16 to 21 would indicate an organisation that has a very high inclination of behaving and operating like an institution.

Ratings from 13 to 15 would indicate an organisation that has a high inclination of behaving and operating like an institution.

Ratings from 10 to 12 would indicate an organisation that has a medium inclination of behaving and operating like an institution.

Ratings from 7 to 9 would indicate an organisation that has a low inclination of behaving and operating like an institution.

Ratings from 0 to 5 would indicate an organisation that has a very low inclination of behaving and operating like an institution.

2.8 Applicability of framework to Eskom as a state-owned enterprise

The key differentiator between a state-owned enterprise and a private enterprise is that a state-owned enterprise has to achieve social objectives over and above the profit maximisation objectives that a normal private enterprise is subjected to (Daka, 2010). This ties in well with Rhenman's description of what differentiates an institution from an organisation.

Eskom is expected to be a permanent fixture with the business world, providing the necessary electricity supply to support the economic growth of the country. There is no expectation that the organisation will be replaced by a private enterprise or another state-owned enterprise (Republic of South Africa, 2011a). Hence, the South African government expect Eskom to be an institution they can rely on.

Chapter 3: Brief History of Eskom

3.1 Introduction

This chapter provides a brief company profile and an overview of the history Eskom Holdings Limited from its origin to present day.

3.2 Company Profile

Eskom is a vertically integrated electricity parastatal. The power utility is the largest producer of electricity in Africa and is among the top twenty utilities in the world in terms of generation capacity (Eskom, 2011a).

Eskom generates approximately 95% of the electricity used in South Africa and approximately 45% of the electricity used in Africa. Eskom generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors. Eskom has a 27 power stations with a total of 41 194 megawatts (MW) of installed capacity. Most of the coal-fired stations are based in Mpumalanga near coal deposits. The company has the only nuclear power station in Africa, based in the Western Cape. Eskom is regulated under licences granted by the National Energy Regulator of South Africa (NERSA) and by the National Nuclear Regulator (Eskom, 2011a).

3.3 History

3.3.1 Before apartheid – (1922 to 1947)

In 1922, the South African Parliament passed the Electricity Act of 1922 (Act 42 of 1922). The Electricity Act of 1922 provided the blueprint for the development of an electricity supply industry in South Africa. The Act established the Electricity Supply Commission (Escom). Escom was responsible for establishing, maintaining and operating activities for an efficient electricity supply. Most importantly, Escom had to sell electricity at cost. The principle of "no profit or loss" was introduced to provide cheap electricity in order to support industrialisation and economic growth in the country. Furthermore, Escom was exempt from paying taxes (Conradie & Messerschmidt, 2000).

On 6 March 1923, the birth of Escom was announced in the Government Gazette with Dr Hendrik van der Bijl was appointed the Chairman of Eskom. He was acutely aware of the importance of the utility to the growth of the South African economy. At that stage, the Victoria Falls and Transvaal Power Company Limited (VFP) was the dominant player in the electricity market supplying electricity to the mines in the Witwatersrand area (Conradie & Messerschmidt, 2000).

In 1925, Escom obtained four power supply licences and the Cape Town, Witbank, Sabie and Central Natal undertakings were established. A year later, two coal-fired power stations, Colenso and Witbank, were commissioned. Two

years after that, Congella and Salt River coal-fired power stations were commissioned (Eskom Holdings Limited, 2004a).

In 1927, the Sabie River Gorge hydro station became the first station designed by Escom engineers that was commissioned into commercial operation. Escom began competing with VFP to supply electricity to the mines (Conradie & Messerschmidt, 2000).

In 1934, VFP and Eskom signed the Klip Agreement which was a precursor to the expropriation of VFP. According to the terms of the Agreement, VFP would cease to incur further capital investment in electricity infrastructure. Given the uncertain future of VHP, employees started to leave the organisation (Conradie & Messerschmidt, 2000).

In 1947, concerned by the loss of skills and threat to their industry, the Gold Producers Committee urged Escom to start speeding up the process of expropriation of VHP (Conradie & Messerschmidt, 2000).

3.3.2 The apartheid years – (1948 to 1993)

In 1948, applying the expropriation clause in the Transvaal Power Act of 1910, which was included in the Electricity Act of 1922, Escom acquired the assets of VFP (Conradie & Messerschmidt, 2000; Eskom Holdings Limited, 2004a).

The National Party, lead by D.F. Malan, came into power in May 1948. This was the start of *apartheid*, an oppressive, racist policy based on subjugating the black masses of the country and supporting Afrikaner nationalism (Giliomee, 2003).

Dr van der Bijl passed away in December 1948. Mr A.J. Jacobs succeeded Dr van der Bijl as the Chairman of Eskom (Conradie & Messerschmidt, 2000; Eskom Holdings Limited, 2004a).

The impact of World War II could be felt even after a considerable time after the war. One of the key areas impacted was the availability of critical industrial machinery which included power station equipment. The shortage of power station equipment effected Escom's ability to meet the electricity supply requirements for the growth in industrialisation and the mining industry in South Africa. The shortfall in the amount of the generating capacity available to meet demand culminated in the rationing of power supply to customers in 1949. In conjunction with the rationing, Escom embarked on constructing ten power stations simultaneously. The new power stations were being built next to coal deposits which were far from existing towns. These undertakings required the establishment of villages for the white workers and compounds for the black labourers (Conradie & Messerschmidt, 2000).

In 1952, A.J. Jacobs retired as Escom chairman and was replaced by Dr J.T. Hattingh. Hattingh continued the expansion efforts of Jacobs, building power stations as fast as possible. The capacity of Escom's power stations more than

doubled between 1945 and 1955, growing from 1216 MW to 2531 MW of installed capacity (Electricity Supply Commission, 1955). However, there was recognition by the company that additional generating capacity would be required over the next ten years to meet increasing demand (Conradie & Messerschmidt, 2000; Eskom Holdings Limited, 2004b). Figure 1 illustrates the growth in electricity demand and capacity from 1954 to 2002.

Figure 1 Growth in maximum electricity demand and reserve margin (1954 to 2002)
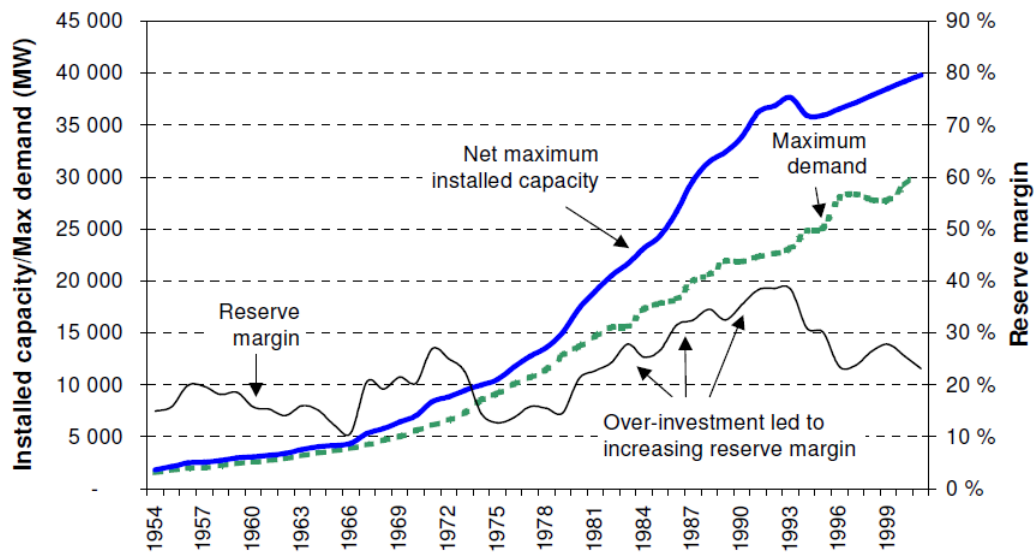
(Source: Newbery & Eberhard, 2008)

The only solution to meet increasing demand was to build individual stations of greater generating capacity. The first two of these stations were Highveld and Taaibos, near Sasolburg in the then northern Orange Free State. The smaller Wilge power station was built to exploit the rich Eastern Transvaal coal-fields for power generation. Escom's biggest coal-fired power stations were to be erected in this area. Komati power station was commissioned in 1962 with a capacity of 1 000 MW. Ingagane power station, near the town of Newcastle in Natal,

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followed in 1963. The planning of West Bank 2 (in East London) and Swartkops (in Port Elizabeth) was undertaken in the 1950s. Swartkops was sold to the Municipality of Port Elizabeth in April 1955 (Eskom Holdings Limited, 2004b).

The 1960s was a highly profitable period for South African businesses with economic growth of 5.5% per annum. The mining sector was able to take advantage of the exploitive labour practices of *apartheid* to increase profits due to low labour costs while the manufacturing sector was able to benefit from the import substitution policies of the South African government (Murray & Luiz, 2007).

Therefore, additional coal power stations were announced in the 1960s. Camden (1 600 MW), Hendrina (2 000 MW), Arnot (2 100 MW), Kriel (3 000 MW) and Grootvlei (1200 MW) were erected. Escom's power generation capacity increased dramatically enabling the organisation to support the country's economic growth through meeting its electricity needs (Conradie & Messerschmidt, 2000; (Eskom Holdings Limited, 2004c) .

Dr J.T. Hattingh was succeeded by Dr R L Straszacker in 1962. Straszacker was the first Escom appointment from outside the organisation and was a member of the Broederbond, a secretive organisation aimed at promoting the welfare of the Afrikaner nation (Conradie & Messerschmidt, 2000).

He participated in discussions with the Portuguese government about acquiring power from the Cahora Bassa hydro-electric power station in Mozambique.

Escom received its first power supply from this source in 1975 (Conradie & Messerschmidt, 2000).

A national power network was developed in the 1960s to link the power stations based in the Transvaal power stations with the Cape Province via 400 kilovolt transmission lines (Eskom Holdings Limited, 2004c).

On the 21 March 1960, the South African Police fired indiscriminately on black protesters at Sharpeville, who were voicing their opposition to the pass laws, control documentation used to regulate the movement of black South Africans in the country. The police killed 69 people and wounded 180. This event ultimately led to the banning of the African National Congress (ANC) and the Pan African Congress (Conradie & Messerschmidt, 2000).

Gariep and Vanderkloof hydro stations were commissioned in the 1970s to provide capacity to meet the peaks in the daily demand profile. The 1970s also saw the development of the first pump storage power scheme in the Drakensburg as well as the initiation of the construction of Africa's first nuclear power station, Koeberg. Two additional coal power stations were also constructed, Matla (3 600 MW) and Duvha (3 600 MW) during this period (Eskom Holdings Limited, 2004d).

The Soweto uprising coupled with the death of Steve Biko in 1977 raised questions in the international community about the legitimacy of the white dominance in South Africa (Murray & Luiz, 2007).

Dr R L Straszacker was succeeded by Mr J.H Smith as Chairman of Escom in 1980. The 1980s brought significant disruptions to the political, social and economic well being of the country. Countries expressed their condemnation of the policies of apartheid through the adoption of economic sanctions against South Africa. Domestically, civil and labour unions participated in civil disobedience and industrial mass action. The unrest led to a drop in the confidence of the South African economy, a depreciation of the Rand and disinvestment in the country (Callinicos, 1994).

By 1986 the United States of America and Europe were forced to accede to the demands of their constituents and impose sanctions on South Africa, deepening the isolation experienced by South Africa (Callinicos, 1994).

During the same time period Escom experienced a massive increase in its generating capacity. Tutuka, Lethabo, Matimba, Kendal and Majuba coal power stations were under construction with an additional pump storage scheme at Palmiet proposed (Eskom Holdings Limited , 2006).

In order to fund the significant increase in electricity infrastructure, Escom required large quantities of capital. Due to isolation as a consequence of *apartheid*, Escom could not rely on external financing to support its capital expansion programme. In 1971, a capital development fund was created to support Escom with its expansion needs. The capital development fund was subject to interest therefore electricity tariffs were increased to address the interest payments. The result was that the average 1977 electricity tariff was

166% larger than the electricity tariff in 1971. Bowing to public pressure the Minister of Economic Affairs in 1977 requested the Board of Trade and Industries to investigate and report on the issues related to the supply of electricity in South Africa. The Board identified many areas for improvement, ranging from the capital development fund to the reserve margin (spare generating capacity) requirements. However, it was especially critical of Escom's financial management practices and reporting. For example, there was no regular reporting on progress versus budget (Conradie & Messerschmidt, 2000).

Despite the investigation by the Board of Trade and Industries, members of the public were not satisfied with the quality of supply received from Escom which were coupled with an ever increasing electricity tariff. Escom was struggling to maintain a reliable supply of electricity, plant breakdowns and load shedding incidents were the norm. The South African government again bowed to public pressure and appointed a Commission of Inquiry to investigate the supply of electricity in the country. As the commission was headed by Dr J.W. de Villiers, the Commission came to be known as the De Villiers Commission. The De Villiers Commission focussed on Escom's energy demand forecasts, the capital expansion programme and the financial implications thereof. Escom's poor plant performance and business planning also received attention (Conradie & Messerschmidt, 2000).

During 1984, the De Villiers Commission released its report to the South African government. The Commission recommended significant changes to Escom. It

advocated a two-tier control structure, consisting of a board of control, the Electricity Supply Corporation (Escor), and a management board. Escor would be responsible for taking the leading role in the conservation of electricity and ensuring that the price of electricity did not rise dramatically. The Commission further stated that electricity tariffs should be cost reflective and that consumers should be consulted in determining future electricity load growth (Conradie & Messerschmidt, 2000).

A considerable improvement in generating plant performance was expected such that maximum availability was achieved. However, the most significant recommendation made by the Commission was its attack on the principle of "no profit and no loss". The Commission was of the opinion that Escom required a revenue margin of at least 5% over its expenditure. (Conradie & Messerschmidt, 2000). The revenue margin assumption was based on an analysis of the long run marginal costs for operating Eskom's electricity generating assets (Kantor, 1988).

In 1985, legislation was passed to restructure Escom into a two-tier control structure, the Electricity Council and the Management Board. The Electricity Council was responsible for crafting strategy and policy while the Management Board was responsible for the day-to-day operations of the business, aligned to policies and objectives determined by the Council. Dr J.B. Maree was appointed as the new Chairman of Escom (Conradie & Messerschmidt, 2000).

In July 1985, the South African government declared a state of emergency much to the disapproval of the international community. The infamous Rubicon speech by then State President P.W. Botha prompted a decline in the value of the Rand, the South African currency. As one of the largest borrowers of capital abroad, Escom faced significant challenges (Conradie & Messerschmidt, 2000).

Fortunately for Escom, the decline in economic growth in the country was followed by a decline in the electricity demand which enabled the organisation to review and revise its capital expenditure. Although money markets were closed to Escom, it still had access to export credits which formed the basis for most of its foreign borrowings. Furthermore, Escom was able to take advantage of forward cover on foreign exchange due to the depreciating Rand (Conradie & Messerschmidt, 2000).

In 1987 a revised Electricity Act and a new Eskom Act were promulgated which resulted in a name change of the organisation from Escom to Eskom. Maree brought customer focus to the forefront for Eskom which also led to the expansion of Eskom's electricity market from large scale users to residential users. He was ultimately responsible for pioneering the concept "Electricity for all" which became the unofficial vision of the company throughout the 1990s (Conradie & Messerschmidt, 2000).

The 1990s brought about significant changes to the South African landscape. Nelson Mandela was released from prison and the ANC was unbanned. The last vestiges of apartheid were being torn down in anticipation of a new

democratic country, far removed from the tyranny of the past. Eskom embarked on a massive electrification programme to bring access to electricity to the previously disadvantaged communities in South Africa. By 1992, almost one million more people were receiving electricity with 260 electrification projects underway. Eskom concluded that a lower electricity tariffs would stimulate economic growth in the country and proceeded to drive the price of electricity down to the cheapest levels in the world (Conradie & Messerschmidt, 2000; (Eskom Holdings Limited, 2009a).

An exemption from corporate taxes, cheap coal costs and a significant reduction in capital expenditure were contributing factors to achieving the lowest priced electricity in the world (Newbery & Eberhard, 2008).

3.3.3 The democratic decade – (1994 to 2004)

The democratic South Africa offered the new ANC government significant challenges. It had to re-build a stagnant economy, alleviate poverty, enable the creation of employment and address the inequalities of the past (Murray & Luiz, 2007). In essence, it had to ensure "broad-based" prosperity for all. The government's plan to improve the country was captured in the Reconstruction and Development Programme (Wehner, 2000).

As part of its commitment to the new government, Eskom promised to reduce the real cost of electricity by 15% between 1995 and 2000. The organisation further committed to electrify 1 750 000 homes by the end of 2000. Eskom

further committed to invest R 50 million in the electrification of schools and clinics and other community development activities. The company also wanted to support the development of small and medium enterprises. The company promised to fund the activities in support its commitment to government by itself (Conradie & Messerschmidt, 2000).

Although Eskom had been involved in changing the demographics of its workforce since the 1970s, it was still slow to have a greater representation of black managers and professionals. With the changing of the political regimes and ideologies in the 1990s, Eskom embarked on an employment equity programme to transform the demographics of the organisation. By 1999, 45% of staff in professional, supervisory and managerial positions were black. The transformation of Eskom's employee demographics coincided with a reduction in the overall staff complement. In 1986, the company had 66 000 employees. By the end of the millennium, employee numbers had dropped to 34 000 (Conradie & Messerschmidt, 2000).

The new ANC led government talked about the possibility of privatising the state-owned enterprises which included Eskom. However, its initial attempts were rebuffed by its alliance partner the Congress of South African Trade Unions (COSATU), who was concerned that privatisation would lead to job losses and an increase in the cost of services that the state-owned enterprises provided (Conradie & Messerschmidt, 2000).

In 1997, Dr Maree was replaced by Mr R.J. Khoza, the first black Chairman of Eskom. As part of his commitment to President Mbeki's vision of an African Renaissance, Khoza sought to expand Eskom's presence beyond the borders of South Africa. In 1999, Eskom Enterprises, was created to focus on non-regulated business activities in South Africa and become involved in the energy and related services business internationally. Eskom Enterprises was involved in energy-related projects in Libya, Zanzibar, Uganda, Nigeria, Mali, Mauritania, Senegal, Zambia, Mozambique, Namibia, Swaziland, Mauritius, India and China (Eskom Holdings Limited, 2009a).

In 1998, the Eskom Amendment Act (Act 126 of 1998) was passed which converted Eskom into a limited liability company under the Companies Act. This meant that a board of directors replaced the Electricity Council and Management Board. Eskom would also now become a dividend and a taxpaying public enterprise. A year later, the Minister for Public Enterprises announced that Eskom would be privatised. The Minister of Minerals and Energy announced the creation of regional energy redistributors which Eskom's distribution group would be merged with (Conradie & Messerschmidt, 2000).

Further announcements were made on the restructuring of the electricity supply industry. Competition was introduced into the generating division of Eskom by creating several smaller competing companies. There were plans to create a separate, independent transmission company and to possibly list the company on the stock exchange. Due to the backlash from the labour unions, government did not privatise Eskom but insisted that new power station

development would involve independent power producers (Conradie & Messerschmidt, 2000).

In 2001, Eskom embraced a new strategic intent which was to be the pre-eminent African energy and related services business, of global stature. The company was recognised as the Global Power Company of the Year at the Global Energy Awards ceremony in New York in 2001 (Eskom Holdings Limited, 2009b).

By 2004, no private investment in new power stations was forthcoming as the low electricity prices would result in a low return on investment. The South African government finally asked to Eskom to step in and build power stations as soon as possible (Eskom Holdings Limited, 2011b).

3.3.4. Post the democratic decade (2005 to the present)

Mr Khoza's term of office ended in 2005 and he was succeeded by Mr M.V. Moosa as Chairman of the Board of Directors (Eskom Holdings Limited, 2009b).

During a planned maintenance outage in 2006, a bolt was accidentally left in the Koeberg Power Station's generator which caused damage to the generator, resulting in power supply disruptions that plunged the Cape into darkness. Eskom came in for heavy criticism but this was just the start of the problems for the soon-to-be beleaguered company (Eskom Holdings Limited, 2009b).

Power outages in 2006 and 2007 were brought about by higher than expected demand, unplanned outages, and a diminishing reserve capacity. President Thabo Mbeki made a public apology in 2007 for government not accepting Eskom's timeous recommendation to build more generating plant to match the country's growth rate (Eskom Holdings Limited, 2009b).

Gourikwa and Ankerlig open-cycle gas turbine stations were added to the generating capacity in 2007 (Eskom Holdings Limited, 2009b).

Between October 2007 and February 2008, emergency load shedding was implemented in order to maintain the integrity of the transmission grid and prevent a nationwide blackout. A national electricity emergency was declared on 24 January 2008. The load shedding events severely tarnished the image of Eskom as the company was lambasted in the media (Eskom Holdings Limited, 2009b; Davie, 2009). Some of the reasons for the crisis put forward by the public included Eskom's affirmative action policy and incompetent, greedy executives. The public perceived Eskom as being solely responsible for the demise of economic growth in the country including diminishing their quality of life (Swersky, 2008). The following cartoon provides a good indication of the negative public sentiment towards Eskom at the time:

Figure 2 Madam and Eve cartoon depicting Eskom as the "Prince of Darkness"
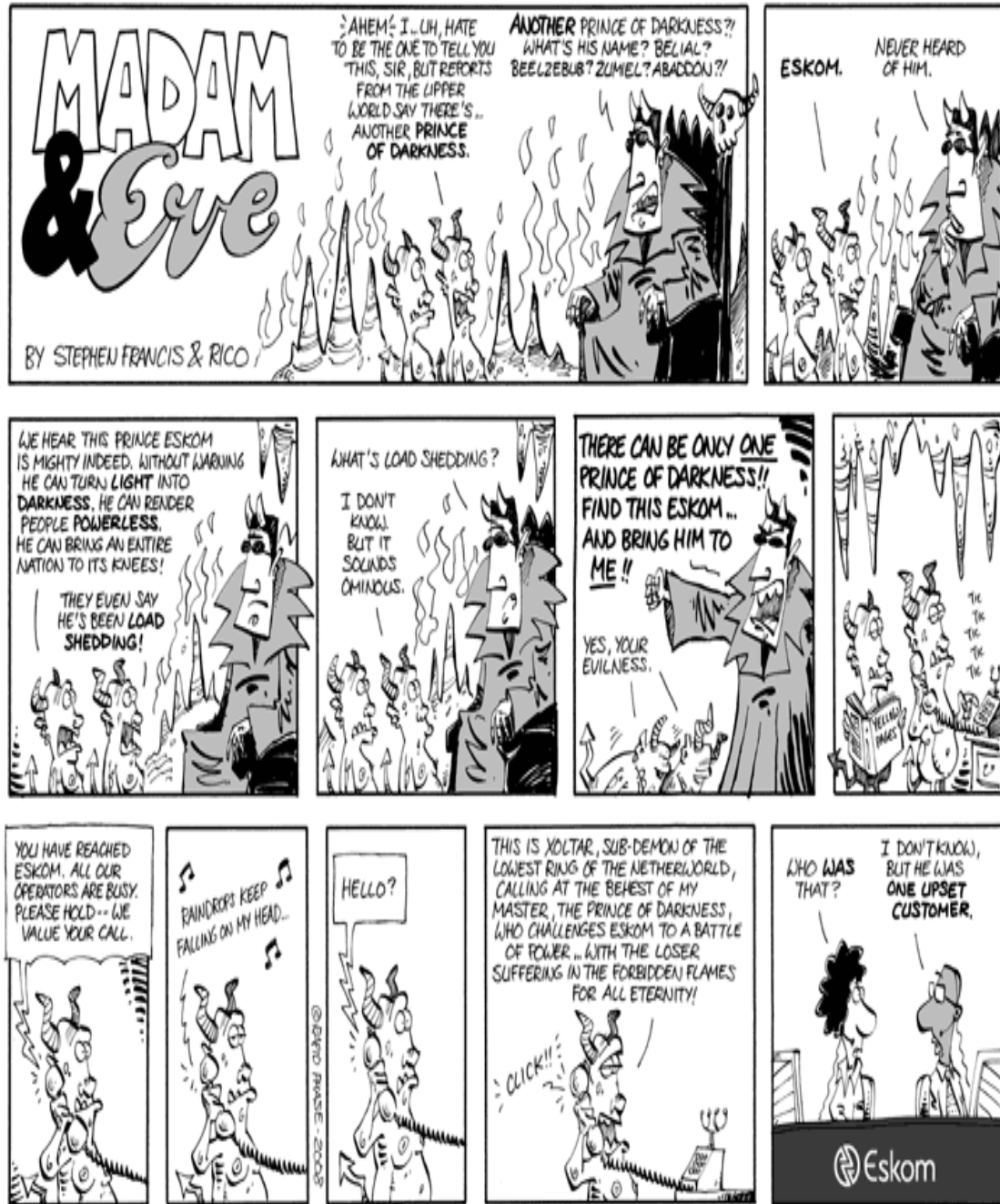
(Source: Francis & Rico, 2008)

Eskom embarked on a programme to return three power stations that had been

decommissioned namely, Camden, Grootvlei and Komati power stations. In

addition, Eskom had started construction on two additional coal power stations, the Medupi Power Station (4 788MW) in 2007 and Kusile Power Station (4 800 MW) in 2008 (Eskom Holdings Limited, 2009b).

Mr R.M. Godsell was appointed Chairman of the Eskom Holdings Limited Board in 2008 as a successor to Mr Moosa (Eskom Holdings Limited, 2009b). He resigned as Chairman in 2009 as result of an internal power struggle between the then Chief Executive, Mr P.J. Maroga and himself. Some of the newspaper quotes that appeared in the media pages during the leadership struggle were:

> *The latest developments at Eskom are a 'complete disaster'* (Habib, 2009)*.*

> *The crisis at Eskom deepened yesterday with board chairman Bobby Godsell resigning and citing lack of support from the government in the fiasco over CEO Jacob Maroga's resignation* (Njobeni, 2009)*.*

> *Eskom's problems now are so deep and multifaceted it will take more than any individual to fix them* (Davie, 2009)*.*

The leadership crisis did little to repair Eskom's tainted public image (Mail and Guardian, 2009).

A new Chairman, Mr P.M Makwana, was appointed in 2010 with a new Chief Executive, Mr B.A. Dames. Despite the leadership struggles of the previous

year, Eskom was able to provide a reliable supply of electricity during the hosting of the World Cup in 2010, which was lauded as a significant achievement within the company given its poor performance over the past few years (Eskom Holdings Limited, 2011a). In December 2010, embattled former Chief Executive, Mr P.J. Maroga lost his fight for reinstatement in the South Gauteng High Court, bringing to an end an ugly leadership saga that had been drawn out for over year (Parker, 2010).

In 2011, a new board for Eskom was appointed by the South African government with Mr Z.A. Tsotsi appointed as the new Chairman (Donnelly, 2011; South African Press Association, 2011). Currently, Eskom is experiencing challenges with the construction of the Medupi Power Station and there are fears that the first operating unit of the station will not be commissioned by the end of 2012. This delay will exacerbate current electricity supply challenges (Roelf, 2011).

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Chapter 4: Research Proposal

The preceding literature review provided an overview of what an institution is, how an institution differs from a normal organisation and how an organisation can become institutionalised. This study will investigate the making, unmaking and re-making of Eskom as an institution using the institutional framework derived from the institutional theory of Selznick (1957) and Rhenman (1973). The factors that contribute to the development of an institution were identified and an institution evaluation framework was developed in Section 2.7.

Based on the literature review, Rhenman (1973) defined a key characteristic of an institution as the presence of internal and external goals. He defines internal goals as a focus on the strategic positioning of the organisation. Examples of strategic goals, as defined by Rhenman (1973), include increasing the profit margin by 10%, growing market share by 15% and improving operational efficiency by 5%.

External goals were defined by Rhenman (1973) as those goals that focus the organisation on the influence it has on its environment. An example of an external goal would be the number of homes in the local community that have been provided with access to clean water as a result of the operations of the business. In line with Rhenman's (1973) view of what constitutes an institution, the following criterion for the evaluation framework was proposed:

- *Criterion 1:* Does the organisation have internal and external goals?

Selznick (1957) argues that an institution addresses a key need in society and it understands the importance of the role it plays in addressing this need. The key societal need could be the access to basic amenities like water, sanitation and electricity or affordable mobile communication that allows members of local communities to connect to each other and to the rest of the world. Just as important was the organisation's keen awareness of its role in providing or addressing the key societal need. Using this characteristic of an institution the following criterion was developed:

- *Criterion 2*: Does the organisation understand the key need in society it fulfils?

Selznick (1957) posited that stakeholders have a tendency to develop deep, psychological connections with an institution that extends beyond the company's economic and financial contribution to society. For example, Anglo American is involved in the provision of free, drinkable water to the local community near its coal operations in South Africa. Employees may be proud to be associated with a company that is involved in making a positive difference to the communities in which it operates (Anglo American, 2011). Embracing this characteristic of an institution leads to the development of the following criterion:

- *Criterion 3*: Do stakeholders have a deep psychological connection with the organisation?

Institutions are characterised as adapting to change in a "slow, organic" manner rather a revolutionary, coordinated manner (Selznick, 1957). Change is an "evolutionary" process which may consume a considerable amount of time. Based on this characteristic, the following criterion was developed:

- *Criterion 4*: Does the organisation adapt to internal and external challenges in a slow, organic manner?

An institution has its own special identity and distinctive competence which differentiates it from its peers. The specialisation in a particular field enables the organisation to develop a reputation for excellence in that area of expertise (Selznick, 1957). This key characteristic has been used to define the following criterion:

- *Criterion 5*: Does the organisation have a distinctive competence and its own special identity?

Scott (1987) puts forward the notion that Selznick's (1957) claim of an institution being "infused with value" relates to integrating societal values into the very social fabric of the organisation. This implies that values present in society, at point in time, should be reflected in an institution. Harnessing this perspective of an institution, the following criterion was crafted:

- *Criterion 6*: Are societal values infused in the organisation?

Selznick (1957) claims that once an institution has developed its "distinctive competence", the leadership of the organisation focuses "self-maintenance" or "self-preservation" in order to protect the organisation from internal as well as external threats that challenge the stability of the organisation. The focus on "self-maintenance" or "self-preservation" helps create another criterion:

- *Criterion 7*: Is there a focus on self-preservation or self-maintenance?

Selznick (1957) believed that leadership played a critical role in the development and preservation of an institution. Firstly, he saw the leadership as having a key responsibility for setting the goals that address the actual commitments of the organisation which would be influenced by internal and external factors. Secondly, he stated that leaders had to ensure that the policies developed by the leadership must be ingrained into the organisation. Thirdly, he contended that the leadership of an institution was responsible for defending the "institutional integrity" which means more than just protecting the organisation against threats to its very existence but also protecting the organisation from striving towards overly unrealistic goals and objectives. Finally, he argued that leadership was responsible for balancing the needs and expectations of different stakeholders in order to maintain stability in the organisations. These four characteristics of leadership in an institution give rise to the following four criteria:

- *Criterion 8*: Does leadership play a pivotal role in the setting of the goals of the organisation?

- *Criterion 9*: Does leadership ensure company policies are ingrained in the operations of the organisation?

- *Criterion 10*: Does leadership protect the "institutional integrity" of the organisation?

- *Criterion 11*: Does leadership balance the needs and expectations of the different stakeholders?

Archival data, documents and interviews are tested against the criteria in the framework to determine when and how Eskom became an institution and how its institutional status changed throughout its history. Four distinct periods were looked at in order to examine Eskom's direction and performance to the political objectives of the time. These four periods are:

a) Before apartheid – before 1948
b) During apartheid – from 1948 to 1993
c) The democratic decade – from 1994 to 2004
d) Post the democratic decade – from 2005 to now

Each period is associated with a particular political ideology. The National Party introduced *apartheid* to South Africa in 1948 and the system of racial

oppression and segregation lasted for almost 45 years. It was only with the appointment of a democratically elected government in 1994 that the policy of *apartheid* was officially abolished. The period of apartheid was seen as key period to investigate in order to examine *apartheid's* influence on the development of Eskom as an institution.

1994 heralded the birth of a new, democratic South Africa, filled with hope and peace. The new ANC led government realised that extensive work was required to uplift the quality of life of those South Africans that had been prejudiced in the past. The first democratic decade was chosen to examine the influence the new regime had on the operations of Eskom.

After the first democratic decade, the South African government realised that it had not yet made a significant enough contribution to improve the quality of life of all South Africans. Plans were drafted to better harness the resources at its disposal, which included its state-owned enterprises, to improve the socio-economic circumstances of the poor and unemployed. The period preceding the democratic decade provided an opportunity to assess how government's focus on a developmental agenda would influence Eskom.

Eskom was created in 1923. Understanding influences and forces that shaped the organisation prior to *apartheid* are important in order to acquire a deeper understanding of how the organisation became an institution.

The key research question to be answered is:

"Does Eskom's history determine whether the organisation is in the best position to achieve government's developmental objectives?"

Chapter 5: Research Methodology

5.1 Introduction

The purpose of the chapter is to provide a justification of the research methodology adopted.

5.2 Proposed Research Method

5.2.1 Rationale for proposed Method

The aim of study is to understand the making, unmaking and re-making of Eskom as an institution. It is therefore a study of a single organisation and the adaptive changes the organisation underwent during its development trajectory, using a theoretical framework derived from Selznick (1957) and Rhenman (1973). Simons (2009) advocates that case study research is constructive in exploring and understanding the process and dynamics of change. Selznick, himself, employed the case study research methodology, with an emphasis on adaptive change, when studying the institutionalisation of an organisation (Scott, 1987).

As the case study was used to test the "well-formulated" theories of Rhenman (1973) and Selznick (1973), the case study can be considered to be a "critical case" thereby justifying the use of a single case study (Yin, 2003).

Yin (2003) defines a case study "as an empirical enquiry that investigates the contemporary phenomenon within its real-life context; when the boundaries of between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used." The case study research approach therefore enables a researcher to study the phenomena under investigation in its natural environment thus enabling a deeper, richer understanding to be obtained (Simons, 2009; Blumberg, Cooper and Schindler, 2008)

A further benefit of the case study research methodology is that the methodology allows the use of a combination of different sources of evidence allowing the researcher to address a broader range of historical, attitudinal and behavioural issues (Yin, 2003; Blumberg, Cooper and Schindler, 2008)

In order to fully understand how Eskom was transformed into an institution, and then deinstitutionalised and now being currently re-formed into an institution to achieve the developmental objectives of South Africa, it will be necessary to explore a range of data ranging from archival evidence to interviews with past Eskom executives and board members, which supports the use of the case study research methodology (Selznick, 1996; Simons, 2009; Blumberg *et al*, 2008).

5.3 Proposed Population and Unit of Analysis

As this is a single case study, the proposed population consists of one entity, namely Eskom Holdings Company Pty (Ltd). The unit of analysis is the organisational development of Eskom Holdings Company Pty (Ltd) (Yin, 2003).

5.4 Data collection, Data analysis and Data Management

5.4.1 Data collection

Interviews, documents and archival records were the primary methods of data collection.

Primary data was collected through conducting nine in-depth interviews. An interview was conducted with a former Chief Executive of Eskom and another with a former Minister of the Department of Public Enterprises. The remaining seven interviews were conducted with senior executives of the organisation (three Divisional Executives, one General Manager and three senior managers). Each of these Eskom employees interviewed had worked in more than one division of Eskom throughout their careers, thus were able to provide a broader perspective on the company. Five of the senior executives interviewed were considered affirmative action candidates, with three of the five affirmative action candidates also being female; insights into the company's transformation agenda from a race and gender perspective were also garnered. Each employee had worked at Eskom for least 13 years. Two of the current employees interviewed had worked in the corporate environment their entire careers while the remaining five employees served in at least one of the operation divisions of the company.

The number of interviews conducted was limited by time constraints and the difficulty of gaining access to the Eskom board members and other Eskom staff members, both past and present.

Secondary data was extracted from the Eskom's electronic archive which contained annual reports dating back to 1923. The archive included documentary footage for each of the decades that Eskom has been in existence.

Eskom had also commissioned a publication of book documenting its history from 1923 to 2000. The book entitled "A Symphony of Power: The Eskom Story" by Conradie and Messerschmidt (2000) has proven to be an invaluable source of information.

For case study research, interviews are regarded as one of the most important sources of information (Yin, 2003). Interviews can be placed into two broad categories, i.e., structured interviews and unstructured interviews. Interviews may be highly structured, for example questionnaires or highly unstructured where the respondent is given the freedom to "lead the way" during the interview (Cummings & Worley 1993, pp.117-118).

Yin (2003) states that open-ended interviews are commonly used in case study research. The benefit of this approach is that it allows the researcher is to ask the respondents "about the facts of a matter as well as their opinions about events" (Yin, 2003). The application of unstructured interviews allows the researcher to gain insight into what the respondents deem to be important and how he or she interprets the issue being examined (Blumberg *et al*, 2008). In order to gain a richer understanding of the institutional path of Eskom and

acquire information on other sources of data, unstructured interviews were applied for the purpose of this research.

One of the shortcomings of this approach is that it is time intensive. This is a direct result of allowing the respondent to fully express his or her views on the issues and adapting the questions to explore the issues that emerge. This approach also relies heavily on the rapport that exists between the interviewer and the interviewees. A poor rapport can result little or no meaningful input being received. Another area of concern is the biasness of the interviewer. The interviewer can influence the outcome of the interviews by leading the participants to respond in a manner that supports a particular view or perspective (Cummings & Worley, 1993).

Documents and interviews should be seen as supplementary. Documents can be very useful in preparing the outline of an interview while interviews can lead the researcher to find documentation to corroborate information gleaned from the interview. It is in the corroboration of other sources of information that documents provide the greatest value to a case study researcher (Yin, 2003, Blumberg *et al*, 2008).

The archival records were of particular importance in this study as it allowed the researcher to track the development trajectory of the organisation and provide rich information about the organisational history, the origins of the company as well as the institutional context over time (Yin, 2003, Blumberg *et al*, 2008).

5.4.2 Data Analysis

Yin (2003) argues that data analysis for case studies is one of most challenging aspects of case study research. He proposes the development of a general analytical approach that defines the priorities of what is to be analysed and why.

The theoretical propositions that underpin the study fulfil the role as the general analytical approach. It was used to filter data, organise the case study and help define alternate explanations to be examined (Yin,2003). For this particular case study, the framework for identifying an institution was the theoretical proposition of choice.

Pattern matching is regarded as one of the most desirable techniques for case study analysis. The technique involves the detection of patterns to form a general picture of the case (Yin, 2003; Blumberg, Cooper and Schindler, 2008). This technique was applied to get an understanding of the themes that emerged from archival records, documents and interviews.

5.4.3 Data Management

Yin (2003) encourages the case study researcher to set up a case study database where all the evidence that has been collected is stored. A database was kept that included case notes, retrieved documents, interview notes and transcripts as well as the analysis of the evidence.

Furthermore, Yin (2003) advises that the researcher maintain a "chain of evidence" which is basically a report that allows an external observer to follow the derivation of evidence from ranging from the initial research questions to the final conclusions. The report must cite the appropriate pieces of evidence from the database. When inspected, the database must contain the actual evidence cited and also indicate the circumstances under which the evidence was collected. The circumstances need to be consistent with the research protocol while the research protocol needs to correlate the initial study questions. A database was set up according to the above requirements.

5.5 Data validity and Reliability

5.5.1 Validity

Validity refers to the ability of a research instrument to accurately measure what it was intended to measure (Creswell, 1994). In qualitative research, validity is more closely linked to determining the "trustworthiness" of the findings than the accuracy of the research methodology.

Triangulation involves gathering different sources of information, examining the evidence from these sources in order to build a coherent justification for themes (Creswell, 2003). One of the strengths of case study research is that is draws evidence from multiple sources which addresses the concerns of construct validity (Yin, 2003)

5.5.2 Reliability

The goal of reliability is to reduce the number errors and biases within a study. The study should be repeatable by another investigator if he or she followed the same research procedures outlined in the study (Yin, 2003). The creation of a case study database and a chain of evidence addressed the issue of reliability.

5.6 Potential Research Limitations

The following are aspects are limitations to this study:

- The lack of time and the unavailability of former and current Eskom executives and board members reduced the pool of perspective that was garnered. It would have been beneficial to speak all the former executives and board members to get a richer picture of the developmental changes of the organisation.

- In order to gain a better understanding of the organisation as an institution it would have been beneficial to interview a larger number of employees from the different strata within the organisation who worked in different eras in the company.

- The interviewing of other key stakeholder like customers, government departments and former energy ministers would have also provided a deeper, richer understanding of the factors at play that influenced the development of Eskom.

- Using one case study does not provide sufficient data to test the validity of the proposed institution evaluation framework.

- Possible research bias in questioning and interpretation.

Chapter 6: Research Findings

6.1 Introduction

This chapter details all the evidence to support or refute the making, unmaking and re-making of Eskom as an institution, using the institution evaluation framework developed in Chapter 2. The organisation is evaluated for each of the four key periods identified in the research proposal. For each period, the facts are presented according the criteria of the evaluation framework and a summary provided on whether the evidence supports or refutes Eskom's position as an institution. In order to ensure consistency in the naming convention of the organisation throughout its history, the name "Eskom" was used to denote the organisation from inception to present day.

6.2 Before apartheid – (1923 to 1947)

6.2.1 Does the organisation have internal and external goals?

Yes

Evidence

Eskom was created through promulgation of the Electricity Act of 1922. According to the Act, Eskom was responsible for establishing, maintaining and operating activities for an efficient electricity supply at the lowest cost possible.

More specifically, Eskom was to ensure a reliable supply of electricity to government departments, the railway services, harbour authorities, local authorities and the business sector. Furthermore, Eskom was expected to explore other opportunities to generate electricity at the lowest cost possible (Electricity Supply Commission, 1924).

The price charged for electricity also had to be such that there was no profit or loss. The "no profit or loss" principle was key to the operations of Eskom under the leadership of Dr H.J. van der Bijl from 1923 to 1948. Cheap electricity was seen as a catalyst for the industrial development of the country (Conradie & Messerschmidt, 2000).

6.2.2 Does the organisation understand the key need in society it fulfils?

Yes

Evidence

Eskom was acutely aware of the key role it played in providing electricity at the lowest cost possible. The company recognised the importance that cheap electric power would have in facilitating industrial development within the country as well as uplifting the standard of living of the labour force of the country. The company also noted that both industrial and residential customers were only starting to realise the multitude of uses of electricity (Electricity Supply Commission, 1939).

In order to grow its consumer base, the organisation embarked on a promotional campaign which included the publication of a monthly subscription magazine entitled "Escom Magazine" (Electricity Supply Commission, 1938).

Another component of the Eskom's promotional campaign was the demonstration of the correct use of electrical appliances. A cooking demonstration, for example, was used to illustrate the benefits of electrical appliances in the preparation of food (Electricity Supply Commission, 1938).

6.2.3 Do stakeholders have a deep psychological connection with the organisation?

Uncertain

Evidence

There is no evidence from the archival data to directly support or refute the existence of a deep psychological contract between stakeholders and the organisation in its formative years. However, Eskom played a key role in providing financial assistance to its employees to acquire homes (Electricity Supply Commission, 1940). Furthermore, it helped contribute to the electrification of rural villages allowing the inhabitants, mainly Caucasian, to improve their quality of life (Electricity Supply Commission, 1936). Eskom also contributed to the improvement of the quality of life of South Africans through the introduction of electrical appliances and demonstrating the benefits electricity could bring to their lives (Electricity Supply Commission, 1938).

6.2.4 Does the organisation adapt to internal and external challenges in a slow, organic manner?

No

Evidence

The Electricity Act of 1922 provided a blueprint for the development of an electricity supply industry in South Africa. Prior to the breakout of World War II in 1939, Eskom worked diligently to realise the aims of the Act. The organisation adopted a highly coordinated approach to realise the statutory function it was obligated to perform as part of the Electricity Act of 1922 that were highlighted in 6.2.1. Eskom also embarked on a promotional campaign by demonstrating the benefits that electrical appliances could bring to the domestic user (Electricity Supply Commission, 1924).

Eskom's obligations in terms of the Act and its performance against these requirements were mentioned either explicitly or implicitly in its annual reports, from 1923 to 1938, in order to justify the decisions and actions taken by the organisation (Electricity Supply Commission, 1923, 1924, 1925, 1926, 1927, 1928, 1929, 1930, 1931, 1932, 1933, 1934, 1935, 1936, 1937, 1938).

The onset of World War II slowed down the growth of electricity consumption in the country. Some senior staff, including Dr van der Bijl, were seconded by the

government to support the war effort. Some of Eskom's workshops were even used to manufacture military equipment (Conradie & Messerschmidt, 2000)

After the conclusion of World War II, the resultant shortage in industrial supplies constrained Eskom's ability to meet even the reduced electricity demand within the country. Eskom did not have any contingency plans to swiftly alleviate the constraints it had been shackled with. Instead it increased the price of electricity to manage consumption (Conradie & Messerschmidt, 2000).

6.2.5 Does the organisation have a distinctive competence and its own special identity?

Yes

<u>Evidence</u>

Eskom had built the competency to generate and distribute electricity cheaply and effectively to both industrial and residential users, which helped differentiate itself from its closest competitor, the Victoria Falls and Transvaal Power Company Limited. By 1939 60% of the electricity sold in South Africa came from Eskom power stations. Its installation of street lights in the town of Witbank became an international showpiece for an ideal street lighting system.

6.2.6 Are societal values infused in the organisation?

Yes

Evidence

Although the tyranny of apartheid had not yet gripped South Africa, racial segregation was still part of the social fabric of the country. Eskom reflected the racial discrimination of the society in which it operated. For example, white labourers who were employed as unskilled labourers were afforded the opportunity to grow and develop their skills and competence in order to "qualify for promotion to more responsible work." These opportunities were not available to the "native" labourers (Electricity Supply Commission, 1930).

6.2.7 Is there a focus on self-preservation or self-maintenance?

Yes

Evidence

In 1932, some Members of Parliament raised questions about the control and management of Eskom. They felt that Parliament should have a tighter grip on the reins of Eskom. Dr van der Bijl put forward a strong case to defend Escom from falling directly under Parliamentary control. He reasoned that Parliament already had a say in the appointment of commissioners and auditors was

therefore able to exercise control over the organisation. The Electricity Act of 1922 already ensured that Eskom's financial operations were already subject to government scrutiny and control. Discussing Eskom's transactions in Parliament would make its business methods public. He further argued that Eskom represented the best marriage of the State and private enterprise without entertaining the disadvantages of both systems. It was therefore in the best interest of the country that Eskom remained free from direct Parliamentary control and political interference. Dr van der Bijl's arguments ensured that Eskom did not fall under direct Parliamentary control (Conradie & Messerschmidt, 2000).

One interviewee claimed that Dr van Bijl was able to prevent the government of the time from unduly influencing the operations of Eskom due to the way he had structured Eskom. In the interviewee's opinion, Eskom was structured more as a cooperative belonging to consumers than as an organ of the state. Eskom did not require funding from the government.

6.2.8 Does leadership play a pivotal role in the setting of the goals of the organisation?

Yes

Evidence

Dr van der Bijl played a key role in the development of the Electricity Act of 1922. Given the autonomy of the organisation and credibility he enjoyed with the South African government he was able to develop the goals of the organisation, aligned to the Electricity Act of 1922, without much political interference throughout his tenure as Chairman of Eskom (Conradie & Messerschmidt, 2000).

6.2.9 Does leadership ensure company policies are ingrained in the operations of the organisation?

Uncertain

Evidence

There is no evidence in the archival data to either substantiate or refute the leadership's attempt to ensure that the company policies were ingrained into the fabric of the organisation.

6.2.10 Does leadership protect the "institutional integrity" of the organisation?

Yes

<u>Evidence</u>

The incident of Dr van der Bijl's defence of Eskom against direct control by Parliament, mentioned earlier, clearly illustrates his need to protect the organisation from unwanted interference. At the same time, he did not set unrealistic goals for the company to achieve with respect to its expansion (Conradie & Messerschmidt, 2000).

6.2.11 Does leadership balance the needs and expectations of the different stakeholders?

Yes

<u>Evidence</u>

Dr van der Bijl was very conscious of the South African government's need to have Eskom within their control as the organisation was seen to be a key part of their plan to develop the industrial sector within the country. He was very adept at balancing their needs with the need to keep Eskom autonomous in order to

fulfil its responsibility for a reliable supply of electricity at the lowest cost possible (Conradie & Messerschmidt, 2000).

There is no evidence to suggest internal strife within the company or a conflict of interest amongst stakeholders within the organisation.

6.2.12 Summary

Consolidating the findings onto the institutional framework below reveals that Eskom was already displaying a very strong inclination towards behaving and operating like an institution within the first 24 years of its existence.

Table 5 Evaluation of Eskom an institution (1923 – 1947)

#	Criteria	Yes / No	Weighting	Rating
1	Does the organisation have internal and external goals?	Yes	3	3
2	Does the organisation understand the key need in society it fulfils?	Yes	1	1
3	Do stakeholders have a deep psychological connection with the organisation?	Uncertain	1	0
4	Does the organisation adapt to internal and external challenges in a slow, organic manner?	No	3	0
5	Does the organisation have a distinctive competence and its own special identity?	Yes	3	3
6	Are societal values infused in the organisation?	Yes	3	3
7	Is there a focus on self-preservation or self-maintenance?	Yes	3	3
8	Does leadership play a pivotal role in the setting of the goals of the organisation?	Yes	1	1
9	Does leadership ensure company policies are ingrained in the operations of the organisation?	Uncertain	1	0
10	Does leadership protect the "institutional integrity" of the organisation?	Yes	1	1
11	Does leadership balance the needs and expectations of the different stakeholders?	Yes	1	1
Total			21	16

6.3 During apartheid – (1948 to 1993)

6.3.1 Does the organisation have internal and external goals?

Yes

Evidence

The principle of "no profit or loss" guided most of Eskom's business operations during the apartheid era. This principle enabled the delivery of cheap electricity to support the development of the mining sector in South Africa, specifically the gold mining sector which was one of the key drivers behind the growth of the South African economy (Conradie & Messerschmidt, 2000).

The principle of "no profit or loss" was only changed in 1984 as a result of the findings of the De Villiers Commission. The Commission argued that future tariff increases should be cost reflective but also allow for healthy asset and income structures. It advocated that Eskom should operate with a revenue requirement of at least 5% more than its expenditure (Conradie & Messerschmidt, 2000).

Another key goal was to ensure that the country had an adequate electricity infrastructure in place, from transmission and distribution networks to power stations, in order to provide the energy needed to drive the South African economy (Conradie & Messerschmidt, 2000).

"Electricity for all" became mantra of the organisation from 1989. The goal here was to supply electricity to the disadvantaged communities in order to uplift their standard of living (Conradie & Messerschmidt, 2000).

6.3.2 Does the organisation understand the key need in society it fulfils?

Yes

Evidence

"Eskom is aware that the key to stability and prosperity in South and Southern Africa is economic development. Electricity is a key factor spurring this development" (Eskom, 1987)

From 1948 to 1993, there was a clear understanding within the organisation about the value Eskom contributed through the supply of electricity. This sentiment was endorsed by two of the interviewees who started their careers with Eskom in 1970s as well as another interviewee who joined the company in 1988.

6.3.3 Do stakeholders have a deep psychological connection with the organisation?

Uncertain

Evidence

There is no direct evidence to suggest the existence of a deep psychological connection between stakeholders and the company. However, three of the interviewees who had joined the company prior to 1990 expressed with passion their view that Eskom was a learning organisation when they joined the company.

> *"…the opportunities they gave me was tremendous because my two years as an Engineer in training I just moved around the whole country, Natal and up here the power stations, three months here, three months there and for me it was great so they actually gave me a lot of leeway to get broad experience without actually contributing in terms of outputs so for two years as an Engineer in training but just learning and seeing the organisation…"*

> *"…it was an environment in which we were encouraged to go and learn from the best in the world by actually going there, investigating the business, coming back and implementing what you have seen…"*

Conradie and Meeserschimdt (2000) talk about a culture in the organisation that did not want to let the customer down. Managers and field workers laboured tirelessly to ensure customers had access to electricity. Artisans worked at night and over weekends to ensure that power station plant and equipment were functioning in order to provide power. Working durations of more than 70 hours per week per employee became common place.

6.3.4 Does the organisation adapt to internal and external challenges in a slow, organic manner?

Yes

<u>**Evidence**</u>

In 1977 the Minister of Economic Affairs requested the Board of Trade and Industries to investigate the concerns raised by the commerce and industry around the steep electricity prices and unreliable electricity supply from Eskom. Despite the resultant investigation, Eskom did little to improve its relationship with its customers in order to provide them with greater clarity on the challenges the organisation faced to improve its overall performance. The lack of improvement in performance led to another formal investigation by the government in 1983, namely the De Villiers Commission (Conradie & Messerschmidt, 2000). As one interviewee stated, Eskom was a "black box" that no one from the outside could understand.

6.3.5 Does the organisation have a distinctive competence and its own special identity?

Yes

Evidence

Eskom had built, operated and maintained some of the largest coal-fired power stations in the world and was able to offer electricity at some of the lowest wholesale prices in the world (Conradie & Messerschmidt, 2000).

As one interviewee stated, due to that isolation caused by *apartheid* Eskom had to build up its engineering competence to maintain its current fleet of power stations as well as build new power stations. The end result was that Eskom had one of the largest engineering functions for a power utility in the world.

> *"Eskom at that stage and going back to the issue of sanctions we had the biggest in house engineering organization probably of any utility in the world in terms of architects, civil, mechanical and electrical engineering, we had the cream of the crop…"*

As the only major power utility in the country and the largest power utility in Africa, Eskom was able to forge its own identity in the electricity supply industry in the country (Conradie & Messerschmidt, 2000).

6.3.6 Are societal values infused in the organisation?

Yes

<u>Evidence</u>

In 1997, Eskom acknowledged to the Truth and Reconciliation Committee (TRC) its role in apartheid. The TRC was a body established under the chairmanship of Archbishop Desmond Tutu to investigate the atrocities during the apartheid years. In their submission to the TRC, which covered the period from 1960 to 1994, Eskom stated that as an organisation they did little to "improve the plight of black people" until the 1980's. The organisation's employment practices were discriminatory and favoured the white man (Conradie & Messerschmidt, 2000).

> *"Eskom wishes to apologise to all black South Africans in general and all black Eskom employees in particular for the fact that it entertained apartheid policies, and, through its actions, perpetuated it."* (South African Press Association, 1997)*.*

One interviewee highlighted the fact the organisation felt predominantly white while another highlighted the prominence of the Afrikaner culture in the organisation.

"….it was the arm of the State so it was predominately white people, there was no transformation."

"..it was a very Afrikaans Company, it is a very different culture and at that stage we had not embarked on some of the transformation"

Eskom further admitted in their submission to the TRC that they did very little in their power to convince the South African government of the time to move away from the policy of apartheid and work towards a non-racial society. As one interviewee said Eskom was an "organ of government".

6.3.7 Is there a focus on self-preservation or self-maintenance?

Yes

Evidence

In 1979 Eskom voiced their unhappiness with the findings and recommendations of the Board of Trade and Industries into their operations. Eskom argued that had it succumbed to the pressure to halt the capacity expansion due to the high tariffs, the country would have been plunged into a crisis (Conradie & Messerschmidt, 2000).

Employees were also dedicated to ensuring a security of electricity supply to customers. Conradie and Messerschmidt (2000) contend that this was possibly

in response to preventing another inquiry into the company for poor performance.

6.3.8 Does leadership play a pivotal role in the setting of the goals of the organisation?

Yes

Evidence

From Mr A.M. Jacobs, who succeeded Dr van der Bijl as Eskom Chairman, to Mr J.B. Maree, who was the last Chairman prior to South Africa becoming a democracy, the leadership of Eskom played an active role in setting the direction of the company. Jacobs was responsible for the first major capacity expansion of Eskom post World War II while Maree created the "Electricity for all" campaign at Eskom (Conradie & Messerschmidt, 2000).

In the intervening years between Jacobs' and Maree's chairmanship, Mr J.H. Smith oversaw the next massive phase of the Eskom expansion in terms of electricity infrastructure while guiding the organisation to temper the scientific methods of forecasting with common sense and experience. Besides negotiating access to power from Cahora Bassa, Dr R.L. Straszacker was instrumental in securing the rights for Eskom to build the first nuclear power station. Dr J.T. Hattingh completed the generation capacity expansion that

Jacobs had initiated with little interference from government (Conradie & Messerschmidt, 2000).

6.3.9 Does leadership ensure company policies are ingrained in the operations of the organisation?

Uncertain

Evidence

Prior to Maree, there was no evidence to substantiate or refute the involvement of leadership in embedding the company policies into the organisation. Maree had introduced a "system of performance management" which he leveraged to ensure alignment to policy and strategy within the organisation as well as good plant performance (Conradie & Messerschmidt, 2000).

Maree was also responsible for creating the "Top 30" which was a forum of the top 30 managers in the company. He used this platform to set the business priorities for the company (Conradie & Messerschmidt, 2000).

6.3.10 Does leadership protect the "institutional integrity" of the organisation?

Uncertain

Evidence

Smith's comments against the findings and recommendations of the Board of Trade and Industries provide the only real statements of leadership protecting the interests of the company. In most cases, its key stakeholders were not vehemently against the actions taken by the organisation as it was aligned to government's overall objectives of growing the South African economy (Conradie & Messerschmidt, 2000)

6.3.11 Does leadership balance the needs and expectations of the different stakeholders?

Yes

Evidence

By Eskom's own admission to the TRC, the company marginalised its non-white employees and did not look after the interests of black South Africans. On the other hand, Eskom maintained a healthy working relationship with the South African government which was epitomised by Maree's close relationship with

the Cabinet of the day. He knew many of the ministers on a first name basis and was appointed by the State President himself. Eskom also prided itself with its good labour relations prior to 1994. Eskom was regarded as a model employer for white employees. The organisation provided housing or home loans for white employees and later to black employees in 1989. From 1976 all employees benefited from a pension fund, medical aid and subsidised food. By 1991, in a consultative progress with black labour unions, all Eskom facilities, i.e., training, cafeterias, toilets and sport facilities were open to all races. (Conradie & Messerschmidt, 2000).

6.3.12 Summary

Consolidating the findings onto the institutional framework below reveals that Eskom consolidated its position as an institution during the apartheid years. A rating of zero was assigned to the criteria were there was uncertainty.

Table 6 Evaluation of Eskom as an institution (1948 – 1993)

#	Criteria	Yes / No	Weighting	Rating
1	Does the organisation have internal and external goals?	Yes	3	3
2	Does the organisation understand the key need in society it fulfils?	Yes	1	1
3	Do stakeholders have a deep psychological connection with the organisation?	Uncertain	1	0
4	Does the organisation adapt to internal and external challenges in a slow, organic manner?	Yes	3	3
5	Does the organisation have a distinctive competence and its own special identity?	Yes	3	3
6	Are societal values infused in the organisation?	Yes	3	3
7	Is there a focus on self-preservation or self-maintenance?	Yes	3	3
8	Does leadership play a pivotal role in the setting of the goals of the organisation?	Yes	1	1
9	Does leadership ensure company policies are ingrained in the operations of the organisation?	Uncertain	1	0
10	Does leadership protect the "institutional integrity" of the organisation?	Uncertain	1	0
11	Does leadership balance the needs and expectations of the different stakeholders?	Yes	1	1
Total			**21**	**18**

6.4 The democratic decade – (1994 to 2004)

6.4.1 Does the organisation have internal and external goals?

Yes

Evidence

After the democratic elections in 1994, the new government published the Reconstruction and Development Plan, which represented their actions to uplift the previously disadvantaged communities in South Africa. As part of its commitment to the new government, Eskom promised to reduce the real cost of electricity by 15% between 1995 and 2000. The organisation further committed to electrify 1 750 000 homes by the end of 2000.

In addition, Eskom committed to invest R 50 million in the electrification of schools and clinics and other community development activities. The company also wanted to support the development of small and medium enterprises. The company promised to fund the activities in support of government by itself (Conradie & Messerschmidt, 2000).

In terms of its own organisation, Eskom committed to transform the demographics of its workforce by adopting an affirmative action programme at managerial, professional and supervisory levels. The organisation undertook further, to educate and train its employees (Conradie & Messerschmidt, 2000).

The focus on training and development was echoed by all the interviewees who were employees of the company during this stage. In fact, one interviewee commented that Eskom may have been guilty of "overtraining".

Eskom also had the lofty ambition of enabling all its employees to have their own homes (Conradie & Messerschmidt, 2000).

Eskom also looked to exploit business opportunities in the rest of Africa through the creation of Eskom Enterprises, the non-regulated arm of Eskom. At the same time the government was giving serious consideration to the privatisation of Eskom Though the previous regime had discussed privatising Eskom in 1988, it did not get the opportunity to follow through with its objectives (Conradie & Messerschmidt, 2000).

The new government passed the Eskom Amendment Act 126 of 1998 which converted Eskom into a dividend and taxpaying public enterprise. Government had future plans to restructure Eskom. The power stations were grouped to form competing generating companies while Eskom's distribution function was going to be re-grouped under regional electricity distributors. There were also thoughts on removing the transmission function from Eskom and listing it as a private company on the stock exchange. Government wanted independent power producers (IPPs) to enter the electricity market and build new power stations. Government was preparing Eskom for a competitive market (Conradie & Messerschmidt, 2000).

However, many of the interviewees expressed the opinion that the focus on privatisation lead to dysfunctional behaviour, for example, cutting back on maintenance to keep the cost of electricity down and the entrenchment of silos among power stations.

"…when we broke up into clusters that is where everything went wrong. There is fact line that says 2002 and clusters a lot of changes went like that, the ones that were not supposed to go like that and the ones that went like this so anything happened around that period so I personally think that for Generation it was the worst thing we could have done. Just put everyone in silo mentalities which we have not broken out from yet, it was supposed to have induced responsible competition between the clusters but it just divided them more and they became silo mentalities and it is still there now at the moment and it achieved absolutely nothing."

By 2004, government finally asked Eskom to start building power stations to meet the future demand electricity demand. Eskom now had to transform from an organisation that was focussed purely on operations and maintenance to one that had to look providing electricity infrastructure as soon as possible to meet increasing demand (Eskom Holdings Limited, 2008).

6.4.2 Does the organisation understand the key need in society it fulfils?

No

<u>Evidence</u>

At the start of the democratic era in South Africa, Eskom had a very clear understanding of how important electricity was to uplifting the quality of life for all South Africans and its role in providing the electricity supply (Conradie & Messerschmidt, 2000). However, some interviewees put forward the point that Eskom became more enthralled with its role of meeting its transformational agenda than focusing on its ability to provide cheap electricity in the long run. The company become more insular than outward looking.

6.4.3 Do stakeholders have a deep psychological connection with the organisation?

Yes

<u>Evidence</u>

In 2004, Eskom received the accolade of being South Africa's most admired brand from the Sunday Time's Markinor Top Brands Survey. Furthermore, the organisation was awarded the Grand Prix prize as the company that had done the most to uplift the lives of South Africans (Eskom Holdings Limited, 2009b).

One interviewee highlighted the fact that she was proud to be working in a company that was actively making a difference in South Africa.

"I worked in areas where I saw the value Eskom was creating in communities, in people's lives so working in Generation and I saw how Eskom contributed to the local communities, to the schools etc…"

6.4.4 Does the organisation adapt to internal and external challenges in a slow, organic manner?

No

<u>Evidence</u>

Some interviewees expressed the challenges Eskom experienced in moving from a role where they had the overall accountability for security of supply in the country to one where they faced the possibility of a competitive landscape. Additionally, Eskom had the challenge of transforming an organisation which had been predominately Afrikaner to one that better reflected the demographics of the country. At the same time the organisation had to keep the cost of electricity as low as possible.

Three interviewees expressed their concern at how the transformation agenda was pursued in Eskom. Incumbents were offered packages to leave and new

applicants came into the organisation without the knowledge transfer happening. Eskom lost a lot of corporate memory this way.

"…we just threw skills out the window and appointed all sorts of people based on potential and there was no skills transfer it was just a matter of appointing people who then did not stay in the jobs. They were just job hopping. We just eventually ended up with all sorts of people who did not know how to do the job, all the people who had built up their experience for so many years, ten, twenty, thirty years in Eskom and youngsters just coming in based on potential and they did not understand the plant, they could not manage.."

6.4.5 Does the organisation have a distinctive competence and its own special identity?

Yes

Evidence

Eskom still retained the ability to maintain and operate some of the largest coal-fired stations in the world using some of the poorest quality coal that can be found. At the same time, it kept the cost of electricity down to be the lowest wholesale producer of electricity in the world. In 2001, at the Global Energy Awards, Eskom was recognised as the Power Company of the Year (Conradie & Messerschmidt, 2000).

6.4.6 Are societal values infused in the organisation?

Yes

Evidence

After the first democratic elections in 1994, Eskom embraced the concept of addressing the imbalances of the past with fervour. From providing free electrification for disadvantaged communities to transforming its workforce through affirmative action in addition to training and development, Eskom showed great commitment to improving the quality of life of its customers and employees. The company was embracing the spirit of goodwill that prevailed at the time of the democratic transition (Conradie & Messerschmidt, 2000).

6.4.7 Is there a focus on self-preservation or self-maintenance?

No

Evidence

During this phase in Eskom's existence the organisation was forging a new identity on several fronts. The organisation was moving from a predominantly Afrikaner organisation to one that better reflected the demographics of the country.

"…so there was engagement issues, you had people only speaking in Afrikaans refusing to engage with certain people. There was a lot of cultural clashes and I must say, it improved overtime because we had a manager who was very strict so he enforced a common language. For example so all meetings we conducted in English thereafter because even though you had black staff members previously they understood Afrikaans and they spoke in Afrikaans and we had newer people whose first language or even second language which was not Afrikaans so that changed"

The company had become a state-owned enterprise that now had to pay taxes and a dividend. The company was also playing a far more active role in improving the quality of life of all South Africans. Finally there was the prospect of being privatised.

Although the 1998 White Paper on the Energy Policy of South Africa clearly articulated Eskom's concern about its current generation capacity being unable to match future electricity demand in 2007 and that decisions on building new power stations needed to be made by 1999, government did nothing (Department of Minerals and Energy, 1998; Eskom Holdings Limited, 2009b).

Some of the interviewees felt that Eskom could have done more to convince the government to take action sooner to allow Eskom to start building power stations to meet the future demand. One interviewee argued that Eskom lacked the "courage" to confront government and vociferously defend Eskom's right to

build new power stations as soon as possible rather than wait for the private sector to get involved in power station development.

On the other hand, two interviewees put forward the notion that government was prepared to listen to Eskom but did not believe that the actions the organisation proposed were in the interests of the country. Government thought Eskom was still in the mode of self-preservation as opposed to putting the welfare of the country ahead of its own interests.

"…on one level the relationship was reasonably good and you could get certain things done and you could communicate and you could send letters and on the other they were not believing and listening to some of the things you were saying…"

6.4.8 Does leadership play a pivotal role in the setting of the goals of the organisation?

Yes

Evidence

Reuel Khoza played a significant role in defining Eskom's role in a new South Africa. He put forward the notion of Eskom exploiting its strengths in business ventures in the rest of Africa and was instrumental in getting the organisation to work towards socio-economic improvement in the country. However, his actions

had to fit within the policy framework provided by government. Government was accountable for setting the direction for the electricity supply industry in South Africa. Eskom had work within the prescribed framework (Conradie & Messerschmidt, 2000).

6.4.9 Does leadership ensure company policies are ingrained in the operations of the organisation?

Yes

Evidence

Reuel Khoza was a disciplinarian who laid down the law and expected his executive team to carry out their responsibilities with due care (Conradie & Messerschmidt, 2000). At the same time, he involved the Top 200 managers of the organisation in the development of the new Eskom vision. Coupled with a sustainability index, Khoza was able to drive the performance of the top managers in the organisation (Khoza, Mangaliso, & Nkomo, 2001).

6.4.10 Does leadership protect the "institutional integrity" of the organisation?

No

Evidence

Eskom's leadership did not stand up to the government and prevent them from forcing the organisation along a path of privatisation. Three of the interviewees acknowledged that Eskom should never have been subjected to any actions that would have led to the company to becoming privatised. In particular, it was argued that given the low cost of electricity and Eskom's proven competence in running the electricity supply sector any thoughts of privatisation should have been dispelled. In the rest of the world, government owned power utilities that were being privatised, for example the United Kingdom's Central Electricity Generation Board, were poor performers and the privatisation was expected to reduce costs and improve performance (Conradie & Messerschmidt, 2000). Eskom was already a top performer and produced the cheapest electricity in the world, privatisation did not make sense.

Eskom's leadership also did not confront the government on their failure to address the issue of the impending electricity shortages that would arise by 2007 if actions were not taken to build new power stations by 1999. One interviewee suggested that Eskom had adopted too subservient approach to government.

6.4.11 Does leadership balance the needs and expectations of the different stakeholders?

No

Evidence

Eskom played a more significant role in improving the welfare of all its employees by affording them the opportunity to own their own homes (Conradie & Messerschmidt, 2000). However, one of the interviewees raised the issue of Eskom's leadership succumbing to the pressure from the labour unions. Leadership could not effectively deal with the militancy of the unions. These sentiments were endorsed by Conradie and Messerschmidt (2000).

6.4.12 Summary

Consolidating the findings onto the institutional framework below reveals that Eskom changed marginally in its level of as an institute during the first decade of democracy in South Africa.

Table 7 Evaluation of Eskom as an institution (1994 – 2004)

#	Criteria	Yes / No	Weighting	Rating
1	Does the organisation have internal and external goals?	Yes	3	3
2	Does the organisation understand the key need in society it fulfils?	No	1	0
3	Do stakeholders have a deep psychological connection with the organisation?	Yes	1	1
4	Does the organisation adapt to internal and external challenges in a slow, organic manner?	No	3	0
5	Does the organisation have a distinctive competence and its own special identity?	Yes	3	3
6	Are societal values infused in the organisation?	Yes	3	3
7	Is there a focus on self-preservation or self-maintenance?	No	3	0
8	Does leadership play a pivotal role in the setting of the goals of the organisation?	Yes	1	1
9	Does leadership ensure company policies are ingrained in the operations of the organisation?	Yes	1	1
10	Does leadership protect the "institutional integrity" of the organisation?	No	1	0
11	Does leadership balance the needs and expectations of the different stakeholders?	No	1	0
Total			21	12

6.5 Post the democratic decade – (2005 to present)

6.5.1 Does the organisation have internal and external goals?

Yes

Evidence

According to the 2011 Eskom Annual Report (Eskom Holdings Limited, 2011a), the purpose of Eskom is "to provide sustainable electricity solutions to grow the economy and improve the quality of life of the people in South Africa and in the region". Included in the latest annual report is a focus on climate change, electrification, skills development, customer focus and financial sustainability.

There was no mention of providing the lowest cost electricity in the world. However, security of electricity supply is still a key priority.

6.5.2 Does the organisation understand the key need in society it fulfils?

Yes

Evidence

The load shedding events of 2008 had a huge impact on the organisation reminding it of the important role Eskom plays in providing the energy to drive

the economy. Prior to the load shedding incidents of 2008 and the "bolt" incident at Koeberg, there has been a suggestion from one of the interviewees that the organisation had become "complacent" and did not fully appreciate the importance of its role to the economy of the country (Eskom Holdings Limited, 2009c)

6.5.3 Do stakeholders have a deep psychological connection with the organisation?

Uncertain

Evidence

The load shedding incidents in 2008 generated a lot of negative publicity for the organisation, reminiscent of the negative publicity the company received in the 1970's (Eskom Holdings Limited, 2008; Conradie & Messerschmidt, 2000).

However, the interviewees, who are still employees of the organisation, are still passionate about the company and the role it plays in improving the quality of life of South Africans.

> "I think that Eskom has a very bright future in this country and it will always continue to play a big role in this country."

6.5.4 Does the organisation adapt to internal and external challenges in a slow, organic manner?

Yes

Evidence

One interviewee stated that the 'bolt' incident at Koeberg that precipitated power shortages in the Western Cape highlighted the vulnerability of the electrical network to the province.

> *"I think the Koeberg bolt was a major issue, it highlighted the fact that the Cape network was very vulnerable but it took a bolt to highlight that because no one realised if you had one Koeberg unit down and the other one failed you would have load shedding in the Western Cape, people thought no, you will get through but it took that one incident just to realise that how vulnerable the electricity system in South Africa was..."*

Eskom was criticised in the media for the incident and the negative impact the incident had on the Western Cape economy.

The second series of load shedding incidents happened in 2007 and 2008 which negatively impacted the South African economy as a whole and debased the international opinion of the country from an investment perspective. Once

more Eskom was lambasted in the media (Eskom Holdings Limited, 2008; 2009c). The cost of the load shedding incidents to the South African economy was estimated to be R 50 billion (I-Net Bridge, 2008).

Even though Eskom was severely criticised for a second time, there was no indication that an effective stakeholder engagement process had been developed after the first load shedding incident in 2006 to deal with public and the media (Eskom Holdings Limited, 2007, 2008, 2009c)

6.5.5 Does the organisation have a distinctive competence and its own special identity?

No

Evidence

One interviewee remarked that government still relied on Eskom for its critical skills that it needs for long-term electricity planning. Eskom still remains one of the largest power utilities in the world that runs some of the largest coal stations using some of the lowest grade coal available. However, Eskom's core competence was being able to provide cheap, reliable electricity to grow the economy. The load shedding incidents of 2006, 2007 and 2008 the economic losses incurred, does little to substantiate their continued competence in this area (Conradie & Messerschmidt, 2000; Eskom Holdings Limited, 2011a; I-Net Bridge, 2008).

6.5.6 Are societal values infused in the organisation?

Yes

<u>Evidence</u>

Besides supplying affordable and reliable electricity, Eskom also undertook to support government in the following manner (Eskom Holdings Limited, 2011a):

- Human development - Eskom will train 5 000 people per annum and provide apprenticeships to 10 000 young people by 2015.

- Provision of healthcare - Eskom is rolling out HIV/AIDS initiatives and providing effective psycho-social support.

- Job creation - Eskom will provide 100 000 employment opportunities by 2015 and secure 50% local content in the capacity expansion programme.

- Fighting corruption - Eskom has introduced anti-fraud and anti-corruption initiatives and the assurance and forensic team is proactively involved in major projects

- Rural development - Eskom electrifies rural areas and is investing R24 billion to reduce the backlog by 984 000 connections until 2016/17.

6.5.7 Is there a focus on self-preservation or self-maintenance?

No

Evidence

Eskom is embarking on changing the organisation to meet the developmental agenda of the South African government. Changes to the organisation include having sufficient financial resources in place to fund the development of new electricity infrastructure as well as maintaining and operating existing electricity infrastructure. Eskom is also looking to simplify and standardise policies and procedures to improve the overall performance of the business (Eskom Holdings Limited, 2011a).

One of the interviewees endorsed Eskom's focus of going back to the basics to ensure excellence in business operations.

Another key focus area for the organisation is the transformation of managerial infrastructure in order to improve performance, i.e. getting the right leadership, in the right place, to make the right decisions to help the government realise its development agenda (Eskom Holdings Limited, 2011a).

Even prior to 2011, the organisational structure of Eskom was changed to better deal with the aftermath of the 2008 load shedding incidents and the shortage of electricity capacity that existed. For example, two super silo structures were

created. The Generation Business, which housed the development of new power stations and the operations and maintenance of the existing Eskom fleet of power stations, was responsible for ensuring Eskom had adequate generating capacity to meet current and future electricity needs. The second super silo was the Customer Network Business that housed the Transmission, Distribution and System Operations Division that was responsible for the transport of electricity from the power stations to the consumers (Eskom Holdings Limited, 2008; 2009c; 2010).

The struggle for power and control that erupted in 2009 between the then Chairman Mr Bobby Godsell and the Chief Executive, Mr Jacob Maroga, did little to build stability within the organisation (Mail and Guardian, 2009).

Since 2005, Eskom has had four new chairmen with latest Chairman, Zola Tsotsi being appointed in 2011 along with a new board for Eskom as well. The media and a few interviewees expressed the concern that the change in leadership was yet another setback in establishing stability in the organisation (Donnelly, 2011; South African Press Association, 2011).

6.5.8 Does leadership play a pivotal role in the setting of the goals of the organisation?

Yes

<u>**Evidence**</u>

Two interviewees claimed that it was the government's responsibility to provide the policy framework that sets the direction for the electricity industry in South Africa. Once the direction is set, it then becomes Eskom's responsibility to develop the strategy on how to realise Government's policy.

The new Chief Executive, Brian Dames, embarked on a review of the business strategy to ensure the foundations were in place to convert Eskom into a "high-performance" organisation that is able to provide the public with a reliable and stable electricity supply while also ensuring financial sustainability and adherence to government's climate change agenda (Eskom Holdings Limited, 2011a).

6.5.9 Does leadership ensure company policies are ingrained in the operations of the organisation?

Yes

Evidence

One interviewee talked about the Back 2 Basics programme that had been initiated by the financial director, Paul O'Flaherty. The aim of the programme is to reduce, simplify and standardise policies and processes as well as to ensure that all personnel are conversant with the new way the business would be operated (Eskom Holdings Limited, 2011a).

6.5.10 Does leadership protect the "institutional integrity" of the organisation?

No

Evidence

Eskom claims that increased electricity demand and the need for greater maintenance have put the available supply of electricity under pressure. The company also predicts an increase in the electricity demand over the next five years.

The greater demand for electricity, the less time will be available for the essential maintenance that the power stations require to operate safely and effectively.

With an ageing power station fleet more maintenance is required than normal (Eskom Holdings Limited, 2011a).

The commissioning of the new power stations, Medupi and Kusile, will not necessarily alleviate the shortage of available capacity. Eskom has experienced problems with the availability of new power stations in the 1970s and early 1980s that led to power shortages (Conradie & Messerschmidt, 2000).

Despite these challenges, the leadership has set the Generation Business of Eskom a target of energy availability factor (EAF) equal to 90%, to be achieved within 5 years. Eskom was only able to achieve this value in the 1990's when the company had surplus capacity and low demand thus time to perform the essential maintenance that the power stations require (Conradie & Messerschmidt, 2000; Eskom Holdings Limited, 2011a).

Besides providing a reliable supply of electricity, the leadership of Eskom expects the organisation to support government's socio-economic agenda through that actions listed 6.5.6. The diverse set of priorities is almost utopian in nature.

6.5.11 Does leadership balance the needs and expectations of the different stakeholders?

No

Evidence

One interviewee was of the opinion that Eskom struggled with its relationship with labour unions and was not effective in dealing with them. She claimed that Transnet, the state-owned enterprise responsible for the railway infrastructure and rail transportation in the country, had a healthy working relationship with unions which they proactively managed. She noted that Eskom did not anticipate the labour union concerns in order to address them effectively and quickly.

Another interviewee commented that the unions had become a dominant force in Eskom over the past three years and that management had become impotent against the might of the unions.

The majority of the interviewees suggested that Eskom's relationship with the government could improve substantially in order to get the required support to enable the state-owned power utility to supply electricity at affordable prices to drive economic growth. One interviewee claimed that many within government circles had perceived Eskom as being dominated by whites, anti-

transformational and arrogant. Some members of government were openly hostile to Eskom.

6.5.12 Summary

Consolidating the findings onto the institutional framework below reveals that Eskom did not change in its level of as an institute from the first decade of democracy in South Africa. A rating of zero was assigned to the criteria were there was uncertainty.

Table 8 Evaluation of Eskom as an institution (2005 to now)

#	Criteria	Yes / No	Weighting	Rating
1	Does the organisation have internal and external goals?	Yes	3	3
2	Does the organisation understand the key need in society it fulfils?	Yes	1	1
3	Do stakeholders have a deep psychological connection with the organisation?	Uncertain	1	0
4	Does the organisation adapt to internal and external challenges in a slow, organic manner?	No	3	0
5	Does the organisation have a distinctive competence and its own special identity?	No	3	0
6	Are societal values infused in the organisation?	Yes	3	3
7	Is there a focus on self-preservation or self-maintenance?	No	3	0
8	Does leadership play a pivotal role in the setting of the goals of the organisation?	Yes	1	1
9	Does leadership ensure company policies are ingrained in the operations of the organisation?	Yes	1	1
10	Does leadership protect the "institutional integrity" of the organisation?	No	1	0
11	Does leadership balance the needs and expectations of the different stakeholders?	No	1	0
Total			21	9

Chapter 7: Discussion of Results

7.1 Introduction

The implications of the findings for the selected periods are discussed in this chapter. The assessment of Eskom as an institution for each period is discussed in the following sections. Each section contains a review of the resultant evaluation of Eskom as an institution and the conclusions that can be drawn from the evaluation. Each discussion is grounded on the literature review captured in Chapter 2. The chapter concludes with a discussion on whether the research objectives outlined in Chapter 1 have been achieved.

7.2 Before apartheid (1923 to 1947)

The assessment of Eskom as an institution, from 1923 to 1947, using the evaluation framework revealed that the organisation had eight out of the eleven characteristics associated with an institution. These were:

- The organisation had internal and external goals.
- The organisation understood the key need in society it fulfilled.
- The organisation had a distinctive competence and its own special identity.
- Societal values were infused in the organisation.
- There was focus on self-preservation or self-maintenance.

- Leadership played a pivotal role in the setting of the goals of the organisation.

- Leadership protected the "institutional integrity" of the organisation.

- Leadership balanced the needs and expectations of the different stakeholders.

The two elements having insufficient evidence to make a conclusive statement were:

- Stakeholders' psychological connection with the organisation.

- Leadership's involvement in ensuring that company policies are ingrained in the operations of the organisation.

The total score was 16 out of 21, indicating that the organisation had a very strong inclination towards behaving and operating like an institution.

Based on the requirements of the Electricity Act of 1922, Eskom was conceived as an organisation that was responsible for making electricity accessible to the greater populace, at the lowest cost possible, without violating the principle of "no profit or no loss". The aim with creating Eskom was to stimulate economic growth and kick start industrialisation in the country. Using Rhenman's (1973) definition of an institution, Eskom started its existence as an institution. The provision of accessible, cheap electricity to drive economic growth can be viewed as the organisation's external goal where it has a positive influence on the business environment. The "no profit or loss" principle can be viewed as

Eskom's internal goal that focuses on the organisation running its operations in a sustainable manner without focussing on profit maximisation. According to Selznick (1957), as an organisation becomes an institution and seeks stability, the aims of the organisation become relatively fixed. In the case of Eskom, both its internal and external goals remained relatively the same, strengthening the stability in the organisation.

With the initial building blocks being put in place, Dr van der Bijl ensured that Eskom built the competence to create the electricity infrastructure that made electricity accessible to both industrial and residential users. This is aligned to Selznick's (1957) comments on developing a "distinctive competence" that enables an institution to differentiate itself from its peers.

Once Eskom had achieved its "distinctive competence", Dr van der Bijl sought to protect the organisation from direct control of the South African government. Selznick (1957) refers to the institution focussing on "self preservation" in order to protect the institution from elements that seek to disrupt the stability it has achieved.

Selznick (1957) was concerned with the infusion of societal values in an institution and how the institution adapted to internal and external challenges. Eskom was an instrument of the government of the time and reflected the societal values that were prevalent at the time. Racial segregation was a key part of the South African society and Eskom reflected this value. The onset of World War II forced Eskom to allow some of its leadership to support the

government with its war efforts. This highlights the symbiotic relationship that existed between Eskom and the government.

Dr van der Bijl was pivotal to setting the direction for Eskom. He set forth a coordinated plan to enable Eskom to achieve its obligations in terms of the Electricity Act which included a promotional campaign to increase residential users. He also maintained a healthy working relationship with government which enabled him to manage their expectations. His leadership was in accordance with Selznick's (1957) expectations of the leadership in the institutionalisation process which was to provide direction, protect the "institutional integrity" as well as handle stakeholder expectations.

A key theme that emanates from this period is stability. Eskom was allowed to develop its "distinctive competence" at its own pace without having to focus on a diverse set of transitory goals. The leadership at the top of the organisation was relatively stable, providing a consistent message on the way forward without suffering from any political interference. Selznick's (1957) concerns about "slow, organic" change, "self-maintenance" and a leadership that protects the "institutional integrity" of the organisation, relate directly to establishing stability within an organisation, which is what Eskom was able to achieve in the first 27 years of its existence.

Prior to 1948, Eskom's development as an organisation can been seen as the making of an institution, aptly supported and directed by its leader who

embodied the qualities Selznick (1957) believed were important for institutionalisation..

7.3 During apartheid (1948 to 1993)

The assessment of Eskom as an institution, from 1948 to 1993, using the evaluation framework revealed that the organisation had eight out of the eleven characteristics associated with an institution. These were:

- The organisation had internal and external goals.

- The organisation understood the key need in society it fulfilled.

- The organisation adapted to internal and external challenges in a slow, organic manner.

- The organisation had a distinctive competence and its own special identity.

- Societal values were infused in the organisation.

- There was a focus on self-preservation or self-maintenance.

- Leadership played a pivotal role in the setting of the goals of the organisation.

- Leadership balanced the needs and expectations of the different stakeholders.

The remaining three elements did not have insufficient evidence to make a conclusive statement. They were:

- Stakeholders' psychological connection with the organisation.

- Leadership's involvement in ensuring that company policies are ingrained in the operations of the organisation.

- Leadership's involvement in protecting the "institutional integrity" of the organisation.

The total score was 18 out of 21, which implies a relative strengthening of Eskom's state as an institution as defined.

The principle of "no profit or loss" was central to the business operation of Eskom until 1984 when the De Villiers Commission recommended Eskom aim for a revenue at 5% greater than its costs. Eskom was still held responsible for providing cheap electricity to fuel the economy. In terms of Rhenman's (1973) definition of an institution, Eskom still had to contend with internal and external goals thus maintaining its status as an institution.

Eskom embodied the values of the *apartheid* regime and brought the practices of racial segregation into the workplace. Not only were its employees subjected to racial discrimination, the company did not make electricity accessible to many black South Africans. Eskom did not build the required infrastructure to transmit electricity into the black communities.

One of the key aims of *apartheid* was to promote the Afrikaner culture and the organisation reflected the culture of those who held the political reins of power.

In a perverse way, the values of the society at the time were infused into the organisation, complying with Scott's (1987) interpretation of Selznick's requirement of "societal values" being embedded in the organisation.

Eskom built on its competence of providing low cost electricity by producing the cheapest electricity in the world. At the same time, the organisation developed the competence to build, operate and maintain some of the largest coal-fired power stations in the world, using some of the poorest quality of coal that can be found for power generation. However, its weakness in financial management was exposed by the Board of Trade and Industry.

If Eskom was just involved in the operations and maintenance of the electricity infrastructure, it would not have required financial management as a core competency. However, the company was also involved in a large capacity expansion programme that would have required detailed monitoring of capital and operational expenses against project budgets in addition to accurate financial forecasting. The build programme would have required a robust financial management system to be in place.

Eskom's lack of financial management competence is aligned to Selznick's (1957) view of organisation's losing their ability to develop other areas of significant competence in different disciplines, once the organisation has established its "distinctive competence".

Unlike the Eskom of the pre-apartheid era, the Eskom that existed in the apartheid era was unable to adapt to changes from the internal and external environments in a quick, coordinated manner. Despite the challenges the organisation faced from the media and its customers, which led to the investigation by the Board of Trade and Industries, the company did not establish a stakeholder management process. The poor management of the very same stakeholders led to the De Villiers Commission being established to review the operations and management of the business. The lack of action by Eskom on the stakeholder management topic reflects Selznick's (1957) comments that old practices and processes, within an institution, are replaced by new ones in an evolutionary manner rather than a revolutionary approach.

Although Eskom was an "organ" of government, the leadership was resistant to accepting recommendations from the South African government when it was clear that the government was merely trying to appease its constituents rather than taking the welfare of the country into consideration. Employees also worked harder to provide the security of supply customers required in order to prevent another inquiry into the company for poor performance. The need to protect and preserve the company is aligned to Selznick's (1957) view of "self-preservation" which an organisation engages in when it is institutionalised.

Once again, the theme of stability features prominently in the era of *apartheid*. With very little changes to the goals and aims of the organisation, Eskom was allowed to hone its "distinctive competence" and grow in size, building, operating and maintaining some of the largest power stations in the world. The

leadership and the staff did their utmost to protect the organisation from what they felt was undue political interference. Selznick (1957) emphasizes that stability is not just an outcome of an organisation becoming an institution; it also plays a role in the development and sustainment of an institution.

In many ways, the apartheid era represented the golden era for the institution that was Eskom.

7.4 The Democratic Decade (1994 to 2004)

The assessment of Eskom as an institution, from 1994 to 2004, using the evaluation framework revealed that the organisation had six out of the eleven characteristics associated with an institution. These were:

- The organisation had internal and external goals.
- Stakeholders had a deep psychological connection with the organisation.
- The organisation had a distinctive competence and its own special identity.
- Societal values are infused in the organisation
- Leadership plays a pivotal role in the setting of the goals of the organisation.
- Leadership ensures company policies are ingrained in the operations of the organisation.

The total score was 12 out of 21. The resultant score indicates deterioration in Eskom's state of being an institution, as defined.

The start of the democratic period brought greater responsibility on Eskom to bear. Besides providing even cheaper electricity to support economic development in the country, the organisation had to help government address the imbalances of the past. Firstly, the organisation took to responsibility for the electrification of previously disadvantaged communities, in many cases at its own expense. The organisation also supported the development of small and medium sized enterprises.

The internal goals included transforming the demographics within the company, through affirmative action, to better represent the demographics of the country. The organisation also ran programmes to educate its employees from previously disadvantaged communities. Additional training programmes were provide to develop the skills of its employees.

Eskom was overloaded with internal and external goals. Rhenman (1957) stated that the challenge institutions face is balancing the demands of their internal and external goals which may have conflicting aims. Eskom had to invest in the socio- economic development of the country, but at the same time it was expected to generate enough revenue to pay taxes and a dividend to the government. Investing in corporate social development initiatives ate into its profits.

There was little stability in the organisation from 1994 to 2004. Besides transforming the demographics of the organisation, Eskom was being structured to compete in a competitive market. Government wanted IPPs to enter the electricity market and build new power stations while Eskom's distribution function was to be consolidated under regional electricity distributors. The transmission function was going to be listed on the stock exchange. Eskom was to look at opportunities outside the South Africa's borders to generate revenue in activities that were not necessarily linked to the supply of electricity.

By 2004, the company had to restructure once more to accommodate the building of new power stations when government realised that independent power producers were not entering the South African market and the country would experience electricity supply shortages. Stability and slow, organic adaptation to changes are key characteristics of an institution (Selznick, 1957). The dynamic changes that were happening in the organisation where dismantling the institutional blocks that had been built since 1923 and reinforced during the apartheid era.

Through the policy of affirmative action applied by Eskom, it lost corporate memory, knowledge and expertise through the early retirement of white employees. New incumbents did not get the benefit of past knowledge and experience. If management forms the "guts" of an organisation, as claimed by (Stinchcombe, 1997), having the "guts" of your organisation removed does little to preserve the standards within the organisation. The loss of key staff

weakened the organisation's "distinctive competence" (Selznick, 1957) and further contributed to the deinstitutionalisation of the company.

If the preceding periods under investigation were characterised by stability, the democratic decade was one of instability. The company was distracted by the transformation agenda, the privatisation issue, exploring business opportunities in the rest of Africa and then reorganising for a new capacity expansion programme. It lost focus on its core purpose, that of providing cheap, reliable electricity to grow the economy. The organisation adopted an insular view, behaving and operating like a "corporation" as defined by Rhenman (1973).

The democratic period can be considered to be the period where concerted efforts were made to "unmake" the organisation as an institution. It was a fairly dynamic period where the organisation was overwhelmed with external goals and that ultimately lead to a loss of focus on its "distinctive competence".

7.5 Post the democratic decade (2005 to present)

The assessment of Eskom, from 2005 to 2011, as an institution using the evaluation framework revealed that the organisation had five out of the eleven characteristics associated with an institution. These were:

- The organisation had internal and external goals.
- The organisation understood the key role in society it fulfilled.
- Societal values are infused in the organisation

- Leadership plays a pivotal role in the setting of the goals of the organisation.
- Leadership ensures company policies are ingrained in the operations of the organisation.

One element had insufficient evidence to make a conclusive statement. This element was:

- Stakeholders' psychological connection with the organisation.

The total score was 9 out of 21. The resultant score indicates a further deterioration in Eskom state as an institution since the dawn of democratic era.

If the democratic decade was one of dynamic change for Eskom, post 2004 has been an even more tumultuous period thus far.

The power outages in 2006 followed by the load shedding incidents in 2007 and 2008 severely impacted economic growth in the country and did little to build the public confidence in the organisation. Eskom restructured once again in order to better deal with the challenges from the aftermath of the load shedding incidents. Problems at the top of the organisation due to a power struggle between the Chairman and the Chief Executive did little to bring about stability within the organisation. Eskom has had four new chairmen since 2005.

The lack of stability and the revolutionary changes that have been taking place at Eskom go against Selznick's (1957) view of institutions focussing attention on "self-preservation" and adopting changes in an organic and evolutionary manner.

Despite a serious decline in the organisation's ability to provide a reliable, uninterrupted supply of electricity, government expects the organisation to support its developmental agenda by participating in additional socio-economic developmental initiatives. Committing to these initiatives increases the burden on Eskom's already strained resources. The challenge Eskom is experiencing ties in with Rhenman's (1973) view that institutions struggle to balance the demands of internal and external goals which may have conflicting aims. In the case of Eskom, the outcome has been a decline in its "distinctive competence", namely, providing a reliable supply of electricity at the lowest cost possible. Selznick (1957) highlighted that one of the key steps in the institutionalisation process was the development of the "distinctive competence". It can be argued that over the past six years Eskom has lost its "distinctive competence".

Attempts are being initiated to re-develop the competence of the organisation through the Back-2-Basics programme that is focussing on reducing, simplifying and standardising policies and processes.

However, there are ambitious goals that have been set where the business is expected to return to the high performance levels first experienced when Eskom had additional capacity and significantly lower electricity demand. Now the

organisation faces critical challenges trying to meet the current electricity demand and completing essential maintenance to keep their power stations running. Selznick's (1957) warns against striving to achieve "utopian" goals, which places the "institutional integrity" of the organisation at threat.

Eskom's organisational state as an institution has proceeded to be dismantled post 2004. The lack of stability in the company structures and leadership has done little to focus the organisation on building and strengthening its ability to provide electricity at the lowest cost possible to power economic growth in the country. Without re-establishing stability in the organisation, and minimising the number of socio-economic initiatives that Eskom should be involved in, the state-owned enterprise has very little chance in effectively supporting government with its developmental agenda. In many ways, Eskom now resembles an appendix organisation, as defined by Rhenman (1973). Usually an organisation will commence its existence as a marginal or an appendix organisation, not transform from an institution into an appendix organisation (Rhenman, 1973).

The aims and objectives of the company are heavily geared towards engaging in socio-economic initiatives in support of government's developmental agenda. The company's internal goals are now of secondary importance. The organisation does not resemble an institution any more.

7.6 Conclusion

The stated aim of this research was to establish if Eskom's history determines whether the organisation is in the best position to achieve government's developmental agenda. The additional aims of the research was to determine the usefulness of the institution evaluation framework based on the works of Selznick (1957) and Rhenman (1973), the key factors, from an institutional perspective, that lead to the success and subsequent failure of Eskom and the institutional factors that Eskom needs to focus on for future success.

Most of the objectives of the research study have been achieved as this study investigated how Eskom became an institution, documenting the factors that contributed to the organisation becoming an institution and a success as well highlighting the change in specific institutional factors that lead to its failure plus the key institutional factors that need remedy in order to return the organisation to success.

The benefit of the proposed framework in determining the institutional state of an organisation provided favourable results, by clearly indicating a change in Eskom's status as an institution over its development. However, more empirical research is required to test the validity of the proposed model.

Mapping Eskom's developmental trajectory using the Rhenman's (1973) organisation taxonomy reveals the following:

Figure 3: Mapping Eskom's developmental trajectory on Rhenman's (1973) organisational taxonomy
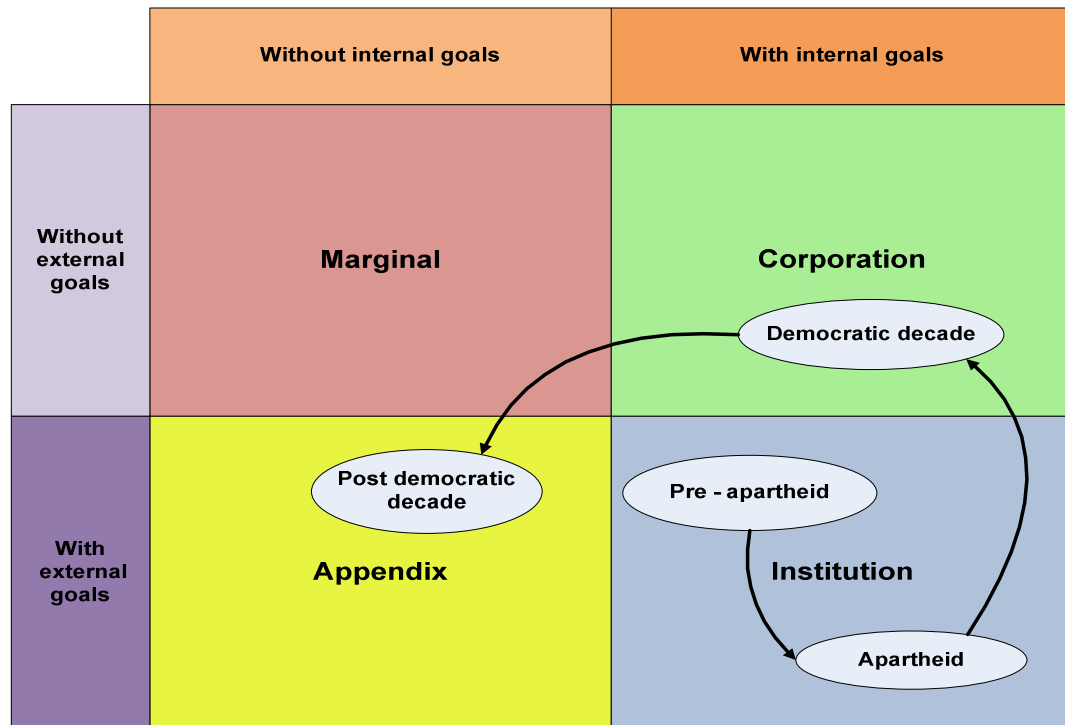
Eskom started its existence as an institution before consolidating its institutional state in the *apartheid* era. During the course of the democratic decade, Eskom underwent significant changes, most notably the restructuring of the organisation in anticipation of privatisation. This transformed the organisation into a "corporation", as defined by Rhenman (1957). The instability following the democratic decade and government's stronger influence in the operations of the business has converted the organisation into an appendage organisation.

The decline in performance of the organisation corresponds to changes in its institutional state, which are supported by the institutional theories of Selznick

(1957) and Rhenman (1973). The lack of stability, too many external and internal goals plus the rapid transformation of the organisation have contributed to its poor performance.

Without returning stability to Eskom, the organisation has little chance of effectively supporting government in its quest to improve the quality of life of all South Africans.

Hence, the analysis of Eskom's development as an organisation, from inception to the present day, is supported by the institutional paradigm, as outlined in the literature review.

Chapter 8: Conclusion

8.1 Introduction

The purpose of this chapter is to consolidate and summarise the findings of the research paper, to discuss the implications of the conclusions drawn for Eskom and to make recommendations for future research based on the limitations of the study.

8.2 Summary and Conclusion

The study of the making, unmaking and remaking of Eskom as an institution investigated and documented the key factors that contributed to the development of the organisation as an institution, the subsequent activities that lead to the dismantling of the organisation as an institution and the attempts to rebuild the organisation into an instrument of government that will enable its developmental agenda.

The factors that lead to Eskom being an institution stemmed from the requirements of the Electricity Act of 1922 which required the organisation to make electricity available to industrial and residential users while at the same time ensuring the price of electricity was kept relatively low in order to support the development of industrialisation in the country. The company had to operate under the principle of "no profit or loss". The need to meet both the internal and

external goals contributed to Eskom's development as institution (Rhenman, 1973)

Building the competence to make electricity accessible and supplying electricity at the lowest cost possible, helped the organisation establish its "distinctive competence" that Selznick (1957) states is critical in the development of an institution. Under the leadership of Dr van der Bijl the organisation was provided with stability and a clear focus of what was needed to be accomplished in order to fulfil its obligations in terms of the Electricity Act of 1922.

During the era of apartheid, Eskom was able to further develop its "distinctive competence" in providing the cheapest electricity in the world. The organisation's competence was expanded to include the building, maintaining and operating of the largest coal-fired power stations in the world. Eskom was blessed with leadership that sought to strength the organisation's "distinctive competence" and protect the organisation from undue interference. The greater stability during the apartheid era and the refinement of the core principle from "no profit or loss" to revenue margins of at least 5%, helped strengthen Eskom's position as an institution.

The democratic decade brought about dynamic changes as Eskom sought to change its image from a tool for the apartheid regime to an ardent supporter of the new regime. The company embarked on significant socio-economic initiatives to support the government's plan to improve the quality of life of all

South Africans. One of Eskom's key contributions was the electrification of previously disadvantaged communities.

The new government also sought to privatise Eskom and restructured the organisation in anticipation of a competitive electricity supply industry. At the same time, Eskom was changing the demographics of its workforce to better represent the demographics of the country. In the process of transformation, Eskom lost critical skills and corporate memory that weakened its "distinctive competence".

The failure to attract independent power producers to the South African electricity supply market forced Eskom to restructure in order to build power stations to meet the future electricity demand.

The lack of stability, the revolutionary structuring of the organisation and the weakening of its "distinctive competence" contributed to the deinstitutionalisation of the organisation.

The effects of the instability created in the democratic decade made its presence felt post 2004 when the organisation faced its darkest days due to power supply shortages in 2006 and load shedding incidents in 2007 and 2008. Key stakeholders lost confidence in the organisation which was publicly slated. In order to effectively address the challenges posed by the aftermath of the load shedding incidents, Eskom restructured again while still pursuing its transformational agenda and socio-economic initiatives in support of

government. Power struggles in the boardroom did little to improve Eskom's credibility and establish stability. Too many internal and external goals increased the burden on the organisation's already constrained resources.

Further changes in the board of Eskom have created additional uncertainty and instability.

The main findings of this study have been documenting the reasons behind the development of Eskom as an institution, the attempts to deinstitutionalise the organisation via privatisation and the impact thereof, plus the establishing whether Eskom's current position enables the organisation to support government achieve its developmental agenda.

The research findings highlighted the importance of stability to an institution. From Selznick's (1957) perspective, stability in an organisation arises from adapting to change, whether internally or externally induced, in an evolutionary, organic manner. At the same time, he puts forward the notion that institutions seek "self-preservation" once they have been able to develop a unique competence that differentiates them from their peers. One of the aims of "self-preservation" is to have a fixed set of goals to strive for. Leadership plays a critical role in establishing and maintaining stability within the organisation. Besides protecting the organisation from undue interference, the leadership also has the responsibility to protect the organisation against striving to achieve unrealistic goals that place the very well-being of the organisation in jeopardy. Eskom's decline in performance corresponds to the increase in instability in the

organisation and substantiates Selznick's (1957) view of the importance of organisational stability to an institution.

8.3 Recommendations

In order to better understand how to return Eskom to one of the premier power utilities in the world, executives within the organisation need to review the history of the company to understand the factors that have contributed to the company's successes and failures in the past and the context under which the triumphs and failures occurred.

The institution evaluation framework highlighted three key factors that contributed to the deinstitutionalisation of Eskom post 1993 which also contributed to its subsequent poor performance. These factors were:

- The organisation did not adapt to internal and external challenges in a slow, organic manner.
- There was no focus on self-preservation or self-maintenance of the organisation.
- Leadership did not protect the "institutional integrity" of the organisation.

According to Selznick (1957), these factors play a pivotal role in establishing and maintaining stability within an institution. He also puts forward the notion that the establishment of stability gives rise to a set of goals and objectives that

do not change markedly over time. In other words, variable goals and objectives can unsettle the stability achieved within an institution.

Eskom's ability to provide cheap, reliable electricity was regarded as its "distinctive competence" that differentiated the organisation from its international peers (Graham, 2006). However, the load shedding incidents of 2006, 2007 and 2008 raised questions about Eskom's current ability to provide affordable and reliable electricity.

Harnessing Selznick's (1957) view on establishing and maintaining stability within an institution, the following recommendations have been crafted to help Eskom improve its performance:

1. The provision of affordable and reliable electricity to stimulate economic growth must be seen as Eskom's key contribution to supporting government with its developmental agenda. The organisation cannot afford to be inundated with too many socio-economic initiatives that distract the organisation from its core purpose.

2. The organisation requires a limited set of realistic, key goals that are aligned to returning the organisation to its level of "distinctive competence". The goals should remain relatively permanent for the next 10 years. Too many variable goals do not provide a clear direction to the organisation. Instead, it creates confusion and uncertainty, leading to instability in the organisation.

3. Changing the demographics of the company to better represent the demographics of the country must be tempered with retaining the vital skills and knowledge required to operate and maintain the electricity supply system within Eskom. At no stage should a transformational agenda be pursued that runs counter to strengthening the organisation's ability to deliver on its core purpose in both the short and long term.

4. Significant disruptions to the structure and leadership of the organisation should be avoided at all costs. Frequent changes to the leadership of the organisation and the organisational structure do little to embed stability in the organisation, which is necessary to re-build the company's key competence.

5. The leadership needs to play an active role in protecting the organisation from undue political interference. The executive leadership needs to develop a healthier, more transparent and collaborative relationship with government. Government must view the opinions being expressed by Eskom as credible. Furthermore, the organisation needs to demonstrate a deep understanding of government's ambitions, needs and concerns in order to appropriately defend the organisation against unrealistic expectations from its shareholder.

The above recommendations are centred on re-establishing stability in the organisation and should not be seen as independent actions. For example, convincing government to accept the delivery of reliable and affordable electricity as Eskom's key contribution to their developmental agenda will not be possible if Eskom does not have a healthy rapport with government.

8.4 Future Research Directions

The limitations and conclusions from this case study reveal the following areas that require further investigation:

- Other case studies on the development of the organisation as an institution need to be conducted in the order to test the validity of the proposed institution evaluation framework.

- The degree of importance of each factor in the institution evaluation framework needs to be evaluated in order to determine the priority elements that contribute to the development or destruction of an institution.

- Applying systems thinking to analyse the development of Eskom as an institution by focussing on the collective influence of the institutional factors defined in the evaluation framework rather than considering each element independently.

- A longitudinal study needs to be conducted on the development of Eskom touching on the perspectives of various stakeholders ranging from employees, government officials, executives, customers and board members.

- An additional case study on the development of Eskom, using the perspective of the environment as the institution, should be conducted in order to acquire different insights into the performance of the organisation.

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Appendix A - Interview Schedule

I. **Opening**

A. (**Establish Rapport**) [shake hands] Hi, my name is Ravendra Maharaj. Thank you for affording me the opportunity to conduct this interview.

B. (**Purpose**) I would like to ask you some questions about your experiences of Eskom, specifically focussing on the organisational development of company, and how its development has responded to changes in the external and internal environment.

C. (**Motivation**) I hope to use this information to help me get an understanding of whether Eskom is in a optimal position to help the South African government deliver on its developmental objectives.

D. (**Time Line)** The interview should take about 60 minutes.

Let me begin by asking you some questions about your first impressions of Eskom

II **Body**

1. If you could summarise your general impression of Eskom, before you formally interacted with the company, in three words, what would they be? Why?

2. As you started to interact with the company what do you believe were the core values of the Eskom? How were these core values manifested in your experiences with the company?

3. Based on your interactions, what do you believe were the key business priorities of the organisation? Did you notice any conflict with the business priorities and the core values? If so, how was the conflict managed?

4. If you had to describe the present Eskom organisation in three words, what would they be and why?

5. In your opinion, what were the fundamental changes you saw in Eskom's as it evolved as an organisation? What do you believe prompted these changes and why? Do you believe that the fundamental changes that Eskom underwent contributed beneficially or detrimentally to its existence? Please justify your answer.

6. What do you believe are the strengths of the organisation? What are the weaknesses?

7. Do you believe that Eskom is currently in a position to effectively support government achieve its developmental objectives? Why?

III **Closing**

Thank you for giving me the time for this interview, it has been a pleasure finding out about your experiences with the Eskom. If there is anything else that you believe I should know in order get a deeper understanding of the organisation, please send me an e-mail. Thanks again for your time