Chapter 1

PROBLEM STATEMENT AND ORIENTATION

1 INTRODUCTION

In this chapter the researcher provides a short, concise overview of the turbulence faced by organisations. The chapter briefly discusses ways in which businesses respond. To enter into joint ventures, alliances, mergers and acquisitions is identified as an option. The researcher points out that the concept of Organisational Transformation is different from other forms of change because of the radical nature of change involved. It is concluded that the outcome of an organisational transformation is often the emergence of new organisational forms, such as entrepreneurial units.

The chapter provides a background to Sasol's decision to enter the global market in the early nineties and its efforts to establish a successful merger between Sasol Waxes (Pty) Ltd and Schümann GmbH & Co. KG in Hamburg. A brief analysis of the merger's newly formed competitive position is given, as well as some of the reasons why the South African subsidiary, Schümann-Sasol (Pty) Ltd, developed symptoms typically experienced when two organisations from diverse cultures, with different company histories and approaches to business, endeavor to do business together. A crisis developed and a decision was taken to enter into a serious organisational transformation.

The remainder of the chapter attempts a problem statement and aim to direct the research. This is followed by selected research questions to guide the researcher in deciding what to look for during the case study. The choice of research method – the case study- is defended as well as the reasons for selecting the Schümann-Sasol case. The chapter concludes with a framework for the research and its significance to the scientific and business community.

1.1 The turbulent business environment

To examine continuous efforts of organisations to adapt to change and survive, it is necessary to understand the nature of the turbulence.

1.1.1 The challenge of a turbulent environment

Today's global business environment requires organisations to adapt to increasingly complex and uncertain technological, economic, political and cultural changes. It appears as if the world is becoming turbulent faster than organisations are able to adapt and respond. The evidence is worldwide. Of the 20 largest US bankruptcies in the past two decades, 10 occurred in the last two years. (Hamel & Välikangas, 2003). Even successful companies are finding it more difficult to deliver superior returns consistently. In 1994 Collins & Porras singled out 18 "visionary" companies that had consistently outperformed their peers between 1950 and 1990. Over the past ten years, just six of these companies managed to outperform the Dow Jones Industrial Average. The other twelve, which includes companies like Disney, Motorola, Ford, Nordstrom, Sony and Hewlett-Packard, had apparently slided from outstanding to merely average (Hamel & Välikangas, 2003).

Environmental turbulences are characterised by perceived **dynamism**, **hostility** and **complexity**. Each of these sources of turbulence needs to be understood to fully appreciate the challenges facing organisations of the 21st century.

Environmental dynamism. Dynamism refers to changes that occur in an organisation's environment because of the technological and market shifts. Technological shifts create new opportunities for companies to pursue profitability and growth (Tuschman & Anderson, 1986). As a result of these shifts, organisations are pressured to revise their technological assets and to build new capabilities or risk failure. Dynamism also means that innovation is fast paced, causing technological obsolescence among companies that fail to upgrade their products (Prahalad, 1999). The implication of a dynamic environment is aggressive innovation and a pro-active pursuit of emerging market opportunities (Covin & Covin, 1990).

Environmental hostility. Hostility results from unfavorable changes in the market through proliferation of rivals, shifts in the ways companies position themselves, adverse regulatory changes or increased government protectionist policies (Miller, 1983). Environmental hostility is invariably linked to globalization and the resultant intensity of competition in a particular industry (Porter, 1986). Nohria & Garcia-Pont (1991) maintain that globalization of an industry destroys its previous structural and competitive equilibrium and simultaneously creates a need for global scale efficiencies, worldwide learning and local responsiveness.

Addressing these challenges requires innovation and a willingness to take risks in order to capitalize on the knowledge that exists in the firm's diverse markets.

Environmental complexity. A final source of turbulence is the perceived complexity of a company's business environment. This may be the result of the perceived diversity of the needs of the different customer groups a company serves (Miller, 1983). It might also result from the perceived interconnectedness of the different external forces that influence a company's operation. Interconnectedness creates uncertainty about the firm's environment, making it difficult for managers to plan ahead.

The impact of these factors on most South African companies is further aggravated by a loss of expertise and the resulting skills deficit, particularly in the technical, financial and managerial categories of jobs. Year on year, South Africa is losing more economically active people and the impact on companies is particularly noticeable in these job categories.

1.1.2 Responses to environmental turbulence

Having loyal customers, a well known brand, industry knowledge, preferential access to distribution channels, proprietary physical assets, and a robust patent portfolio are still of enormous value, but these advantages are slowly being undermined by environmental turbulence.

Organisations respond to this turbulence in many different ways. The popular ones involve outsourcing-contracting, leasing and renting, shorter product life cycles, more frequent buying and selling, more frequent changes in contracts, a switch from mechanical to process technologies, a change from manufacturing to service economies and from central to local control. More brutal changes include downsizing, cost cutting as well as *quick fixes*. Quick fixes are often characterised by convulsive re-organisation, colossal write-offs and indiscriminate, across the board lay-offs.

In an effort to cope with the many challenges of the business environment, companies also enter into joint ventures, alliances, mergers and acquisitions. These are seen as ideal for managing risk and uncertain markets, sharing the cost of large scale capital investments, and injecting a new found entrepreneurial spirit into maturing businesses (Bramford, Ernst & Fubini, 2004).

Short-term gains. Companies that engage in cost cutting often end up with more problems than profits. Research published in US News and Report (Nel, 1992) showed that downsizing, cost cutting and quick fixes had initially caused a spurt in share prizes and performances. This was followed by a long, painful slide. The study does not deny the sometimes-staggering short-term gains that can be made by downsizing and cost cutting. What it does show is that downsizing is often tantamount to amputating assets, resulting in medium term reduction in performance. A study of 850 downsized organisations showed that only 41% met their profitability goals. Yet many organisations are still lured into the trap of such supposed quick fixes, precisely because of the apparent guarantees of savings and sustained *productivity* (Nel, 1992).

Success rate of alliances. In 2001 Bamford, Ernst & Fubini (2004), assessed the outcomes of more than 200 alliance announcements during the previous decade. They found a success rate of just 53%. These failures are normally ascribed to wrong strategies, incompatible partners, inequitable or unrealistic deals and weak management. The same authors state that many companies overlook a critical piece of any alliance or joint venture effort – **the launch planning and execution**. They point out that the companies which engage in acquisitions, are highly disciplined about integration, but in mergers or joint ventures the parties rarely commit sufficient resources to the launch of the business initiative. This lack of attention can result in strategic conflicts between the merging companies, governance gridlock and missed operational synergies.

It therefore appears as if a company's ability to respond to environmental turbulence is not about handling a one-time crisis or rebounding from a setback. Even carefully deciding on what makes business sense at a particular point, such as entering into a contractual alliance, is no guarantee for success, unless the changes inherent to these strategic decisions are managed effectively.

1.1.3 Organisational transformation

1.1.3.1. Definition and reasons for occurrence

To go beyond improving an organisation's performance incrementally or through contractual alliances, activities must be directed at the basic character or culture of the organisation. This involves making significant alterations in an organisation's business strategy and processes to support a new direction. Such changes are referred to as organisational transformations and imply changes in the way members perceive, think and behave at work (Cummings & Worley, 2001). These changes go far beyond making the existing organisation better or improving the status quo. Changes are concerned with "fundamentally altering the organisational assumptions about its functioning and how it relates to the environment". (Cummings & Worley, 2001:499)

Tuschman, Newman & Romanelli (1986) showed that transformational change occurs in response to at least three kinds of disruptions:

- **Industry discontinuities** – sharp changes in legal, political, economic, and technological conditions that shift the basis for competition within industries;
- **Product life cycle shifts** – changes in the product life cycle that require different business strategies;
- **Internal company dynamics** – changes in size, corporate strategy, executive turnover, etc.

These disruptions severely shock organisations and push them to alter business strategy and in turn their mission, values, structure, systems and procedures (Cummings & Worley, 2001).

1.1.3.2. Characteristics of transformational change

a. Transformations entail significant shifts in corporate philosophy and values and in the numerous structures and organisational arrangements that shape members' behaviour. Not only is the magnitude of change greater "but the change fundamentally alters the qualitative nature of the organisation" (Cummings & Worley, 2001: 499). Interventions revolve around **culture change**, **self-design**, and **organisational learning and knowledge management**.

b. Transformational change involves reshaping the organisation's culture and design elements. These changes are characterised as systemic and revolutionary because the entire nature of the organisation is altered fundamentally. Hamel & Välikangas, 2003, state that the imperative for organisations today is to **get different.** Difference is then defined as having the capacity to change before the case for change becomes desperately obvious.

c. Transformational change is particularly pertinent to changing the different features of an organisation, such as structure, information systems, human resources practices and work design (Meijer, Tsui & Hinings, 1993). These features need to be changed together and in a coordinated fashion so that they can mutually support each other and the new cultural views and assumptions (Miller & Friesen, 1984).

d. Transformational change is characterised as the transition from a control-based to a commitment-based organisation, which according to Sackmann, 1989, includes features such as:

   - leaner, more flexible structures;
   - information and decision-making pushed down to the lowest levels;

- decentralised teams and business units taking accountability for specific products, services or customers.

e. A key feature of organisation transformation is the active role of senior executives and line managers in all phases of the change process (Waldersee, 1997).

f. Finally, transformational change is distinguished from other types of strategic change by its **attention to the peoples side of the organisation**. For change to be labeled transformational, a majority of individuals in an organisation must change their behaviour (Blumenthal & Haspeslagh, 1994).

1.1.4 The quest for entrepreneurship

The outcome of a transformation is often the emergence of numerous new organisational forms in an effort to ensure continuous strategic renewal (Chakravarthy & Gargiulo, 1998). It appears as if these forms are distinguishable by two factors:

- an emphasis on **bottom-up entrepreneurship;**
- reliance on a cooperative network that allows these entrepreneurial units to share their competencies.

Echols & Nick (1998) maintain that the best blueprint to survive in the dynamic environment of the twenty first century is hiring and rewarding employees who demonstrate **entrepreneurial behaviour,** and secondly, **adopting structures** that facilitate these behaviours.

Contemporary business pressures are therefore forcing organisations to identify and place managers in entrepreneurial roles and emulate an entrepreneurial environment so that these managers may operate relatively free within the larger organisational structure. Luczkiw (2002) believes that entrepreneurial units will eventually replace most bureaucratic and hierarchical structures, and that these entrepreneurial units will emerge on the edge of existing structures.

For the foreseeable future the world will therefore continue to see a growing need for entrepreneurs in order to develop structures, systems, processes and strategies that can deal with the emerging complexities – whether for start-up entities or for large monolithic organisational structures and their existing paradigms, unable to take advantage of their opportunities (Accenture, 2001). In their well-known publication, *In search of excellence*, Peters & Waterman (1982) claim that the biggest draw back of corporate life is its loss of innovation – that very innovation that made them successful.

A question is whether large companies can be entrepreneurial? A challenge to large companies is to encourage a sense of innovation, autonomy and entrepreneurship, despite the required structure and systems of the bureaucracy. Another challenge is to leverage their resource advantage while acting quickly, efficiently and effectively and move faster than specialised, newer and smaller organisations (Figueroa & Conceica, 2000).

Entrepreneurial behaviour can be present at any stage of an organisation's evolution: from start-up, to development and building, to renewal and exploitation of innovation on a grand scale. Entrepreneurial behaviour can deliver value in a wide variety of ways: promoting innovation in products and services, developing different ways of doing business, or building more effective services.

It seems logical that the emergence of entrepreneurial units and the replacement of hierarchical structures must invariably also lead to a change in leadership. Changes in the workplace will demand another type of leadership. A flatter organisational hierarchy with its shrinking management ranks and less bureaucracy coupled with the need for greater speed, better customer responsiveness and ongoing innovation, will require leaders who are visionaries, can solve problems, can make timely decisions and can accept risks (Fernald & Solomon, 2001).

Sharma (1999:11) defines entrepreneurship as follows: "entrepreneurship encompasses acts of organisation creation, renewal, or innovation that occur within or outside an existing organisation. Entrepreneurs are individuals or groups of individuals, acting independently or as **part of a corporate system, who create new organisations**, or **instigate renewal or innovation within an existing organisation**".

A number of models could be considered to assist in deciding on ways to foster corporate entrepreneurship. Various such models exist, including the Business Incubation Model (Lavrow & Sample, 2000), Burgelman's Design Alternatives (Burgelman, 1984), Accenture's Model (Accenture, 2001) and Loosely Coupled Systems (Heller, 1999).

It is safe to surmise that traditional hierarchical and bureaucratic models, based on the Newtonian mechanistic/reductionism system, are making room for new organizational models.

1.2 The Schümann–Sasol business relationship

1.2.1 Sasol Limited

In the early nineties Sasol represented the establishment of the only proven oil-from-coal operation in the world. The Sasol process (based originally on the German Fischer-Tropsch process) had become the blueprint for synthetic fuel projects. Sasol became a private company in 1979 when Sasol Ltd, the Group's holding company, was listed on the Johannesburg Stock Exchange.

Sasol's unique synfuel technology, which produced both fuel and chemical components in a single step, provided a significant cost advantage in the production of petrochemical feedstock's. By the mid eighties Sasol contemplated more product diversity to exploit this cost advantage. At that point Sasol had already successfully diversified into some nitrogen derivatives. In an effort to become more diversified and to grow the business globally, a number of product groups were identified, (including waxes/paraffin's, ammonia and solvents), and it was decided to increase production of these product groups (Schrenk, 2004).

1.2.2 Sasol Wax

Sasol's diversification strategy in the early nineties was characterised by a serious drive to find international partners. For that reason Sasol Wax was registered as a limited liability company. At that point Sasol Chemical Industries was acknowledged as an expert in the production of synthetic hard waxes derived from coal via the Fischer-Tropsch process, and had been producing wax for 40 years.

By October 1993 wax production in Sasol Wax (Pty) Ltd had increased from 100 000 to 200 000 tons per annum as planned. At that point new markets had to be found to sell the excess tonnage. The Schümann Group of companies was subsequently targeted for an acquisition. Schümann in Hamburg had been manufacturing and marketing products obtained from mineral oil processing for over 50 years. Schümann GmbH & Co. KG was known to Sasol. This association dated back to the mid eighties when Sasol Chemical Industries entered into a 50/50 joint venture, known as HAVAS, and a hard wax plant was erected in Hamburg, where hard waxes from Sasolchem was refined and distributed to Schümann's agents in the USA. (Schrenk, 2004).

Sasol's strategy was to negotiate a merger in which they could have a controlling stake as well as effective management control. The first negotiation with the Schümann Group took place in October 1993. At that point Sasol Wax (Pty) Ltd had just qualified as an ISO 9000 company, and had achieved its production targets. It therefore viewed itself as being in a favorable position to enter into negotiations (Schrenk, 2004).

1.2.3 Schümann-Sasol International

In May 1995 Sasol Chemical Industries and the Schümann Group of companies, entered into a merger, with effect from 1 January 1995. A separate German company, Schümann-Sasol International AG, was registered. Sasol Chemical Industries held a 66,66% interest and Hans-Otto Schümann a 33,33% interest. Both Sasol and Schümann viewed the new company as having considerable synergy potential to provide a competitive edge over rivals. United as one company Schümann-Sasol International was now positioned to offer the entire paraffin wax, hard wax and petroleum jelly product range. Schümann-Sasol International also controlled downstream activities in Germany, South Africa, the USA, the Netherlands, France and China (Sasol Annual Report, 1995).

Schümann-Sasol International AG registered the following subsidiaries:

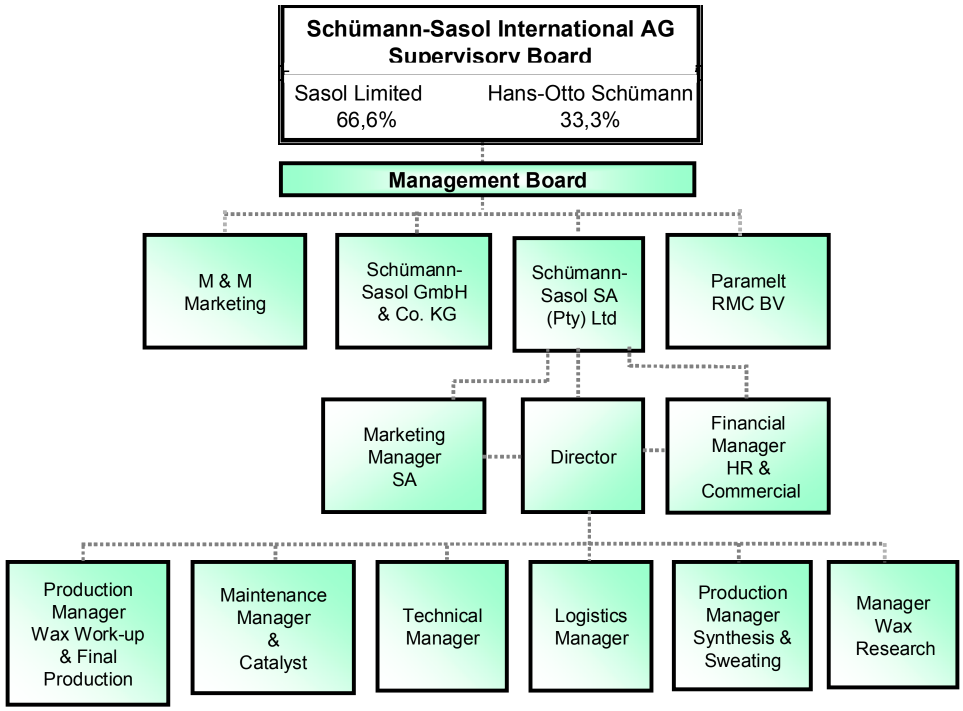
a. Schümann-Sasol (Pty) Ltd.
b. Schümann-Sasol GmbH, Co. KG.
c. HOS Holdings Corporation, USA (Moore and Munger Marketing)
d. Paramelt RMC BV.

Being a German registered company these subsidiaries were managed through the Supervisory Board and Management Board. German legislation stipulates both these boards. The **Supervisory Board** has to supervise critically, but are not allowed to intervene or to influence the business directly. The **Management Board,** “Vorstand”, had the authority, took responsibility for the business and exercised direct control over the units in the merger. The Supervisory Board consisted of six members, four from Sasol and two from Schümann. On the Management Board, the Schümann representative became the chairman, with a second member of the board a nominee. The previous CEO of Sasol Wax (Pty) Ltd became the third member and the only member of the Management Board representing Sasol’s interests. The Supervisory Board met on a quarterly basis, alternating between Hamburg and South Africa. The Management Board resided in Hamburg. Figure 1 depicts the position of Schümann-Sasol (SSSA (Pty) Ltd) within the total structure of Schümann-Sasol International AG immediately after the merger (Schrenk, 2004).

Figure 1.1

The position of Schümann-Sasol (Pty) Ltd

in the International AG structure



Sasol were thus left in a position where they owned the majority of shares in the merger, but without direct control over the business. Taking into account that this was Sasol's first real international business venture, the *miscalculation* could be discounted as one of the lessons learned in the drive to become a global player.

1.2.4 Schümann-Sasol International's competitive position

Although not well recognized as industrial chemicals, waxes play an important role in many known household and industrial products. Their application include paper coatings, candles, textile and leather manufacture, polishes, adhesives, fruit and vegetable coatings, cosmetics, medicals, inks, lubricants, rubber compounding, plastic compounding and other uses (Task Force on Strategic Planning, 1997).

By the mid nineties petroleum waxes derived from lubricating oil production, dominated the wax business and accounted for about 80% of the total market in monetary value. Polyethylene waxes were the second largest category and animal and insect derived waxes were the third largest. Other types of waxes, including Fisher-Tropsch and additional naturally derived types, made up the remainder of the business (Task-force on Strategic Planning, 1997).

At the time of the merger between Sasol Wax and Schümann more than fifty companies produced petroleum waxes world wide, mostly by oil refineries. Some oil companies sold directly to wax consumers, while others disposed of the wax through specialised marketing firms that often processed the wax further before selling to the end user.

Market growth and competitive pressures motivated a number of traditional petroleum wax firms to enter into the polyethylene wax business. Synthetic polymers were putting pressure on traditional wax applications.

Up to 1993 Sasol Wax (Pty) Ltd was the sole world producer of Fisher-Tropsch wax. Shell Malaysia went into production during May 1993 using a modified Fisher-Tropsch synthesis process.

1.3 The South African Subsidiary

1.3.1 Cultural differences

Differences in regard to expectations, business approach and management style, soon surfaced at the interfaces between the Management Board and Schümann-Sasol (Pty) Ltd's (SSSA) Management team. These differences can primarily be ascribed to cultural differences. The South African subsidiary represented the large Sasol corporation with a conservative Afrikaans history. The Schümann organisation represented the German (distinctly north German) culture and a family owned company, headed by the charismatic, and highly respected Hans-Otto Schümann. These differences were underestimated at the start of the merger (Schrenk, 2004).

The Management Board, being fully aware of their position of authority and responsibility, wasted no time in questioning SSSA quality problems and challenging their approaches. They regarded daily interferences in the business as natural and demanded daily reporting particularly in regard to finances and marketing (Olivier, 1997, Schrenk, 2004).

Staff at SSSA found the behaviour of the German board members strange and labeled them autocratic, prescriptive and insensitive to cultural differences. Impressions were formed during *coffee shops*, informal interactions and formal meetings (Olivier, 1997). The SSSA Management Team responded by being reluctant to openly share information.

The merger was now experiencing the first frictions after fusion, characterised by symptoms such as disillusionment and looking for scapegoats.

1.3.2 Performance decline

In the first year of the merger (1995), revenue of SSSA increased to R378 m but the company showed a loss of R11.2m. In the 1996 financial year revenue increased to R400m, but a budgeted profit of R20m ended in a loss of R3.1m (Task Force on Strategic Planning, 1997). These poor business results can be attributed to a number of factors, including higher cost of gas and utilities and a generally inappropriate cost structure. One of the internal limiting factors was the fact that the business was (as a result of technology) producing a product mix for which markets did not yet exist (Stander, 2005). However, other factors such as a lack of vision and strategic direction as well as ineffective marketing, also contributed to the poor business performance (Olivier, 1997, Schrenk, 2004).

The above reasons for the inadequate performance are all valid, but do not fully explain why success of the merger was so elusive and why these problems occurred. On further analysis it appears as if diversity and particularly cultural diversity was a contributing factor. This would explain the conflicting expectations, misunderstanding and friction between the Management Board and SSSA. It would however be more correct to surmise that Sasol and Schümann overlooked a critical piece of any alliance effort – the launch planning and execution. Very little evidence of such planning exists. A possible reason for this could be found in Sasol's inability to obtain it's intended management control of the Schümann group after purchasing 66,66% of the shares. This left a void, which was not effectively addressed.

Bamford, Ernst & Fubini (2004) defines the launch phase as beginning with the signing of the Memorandum of Understanding and continuing through the first 100 days of operation. The same authors state that four hurdles need to be cleared during this phase:

- building and maintaining strategic alignment across the separate corporate entities;
- creating a Governance System that promotes shared decision making and oversight between the parent companies;
- managing the economic interdependencies; and
- building the organisation as a cohesive, high performing unit.

These hurdles were neither cleared by the Supervisory Board nor by the Management Board of Schümann-Sasol International (AG).

1.3.3 Conflict between the Management Board and SSSA

With a loss of R3,1m at the end of the 1996 financial year (Dec 1996), SSSA became a problem, particularly in the view of the Hamburg subsidiary (Schümann-Sasol GmbH & Co. KG.), which was still showing a handsome profit. The CEO of SSSA was offered an exchange with Schümann-Sasol GmbH's CEO in Hamburg.

The management of SSSA failed to appreciate the wisdom of this decision and interpreted the move as a hidden agenda to gain more control over their business and erode their autonomy. For personal and private reasons the CEO did not support such a move (Stander, 2005).

Aware of their own powerbase, which was vested in their technical expertise, their knowledge of the plant, the collective anti-German feelings amongst staff and the unity amongst themselves, SSSA's management team expressed their full support for their CEO and threatened resignation. The merger was plunged into a crisis of confusion, conflict and cultural antipathy (Olivier, 1997).

Before the crisis, in response to an invitation by the Management Board to embark on an initiative similar to what had been launched in Hamburg, the CEO of SSSA commissioned a firm of consultants to perform a quick diagnosis of the company (Stander, 2005). Their report was submitted in August 1997 and addressed problems in regard to alignment, structure, processes, rewards and people (Alliance Consulting, 1997) and highlighted (inter alia) the following:

- a lack of vision, strategy and values;
- a highly specialised structure, which makes coordination difficult;
- a command and control style of management favoured by Hamburg;
- very little co-ordination between marketing, sales and production as far as planning was concerned;
- de-motivated staff.

The firm of consultants suggested an Organisational Transformation Programme, favouring incremental change, and outlined three distinct phases and a clear set of guidelines for the approach they favoured. (Alliance Consulting, 1997).

1.3.4 Crisis between the Management Board and SSSA defined

1.3.4.1. The situation by August 1997

a. **Effect on the business.** The CEO of SSSA (Pty) Ltd decided to terminate his contract with Schümann-Sasol (AG), and was relocated in Sasol. With his departure the crisis deepened. At a meeting with the Management Board towards the end of August 1997, the Management of SSSA made reference to the following:

- The company had decided to enter into a major business transformation.
- Due to the anticipated improvement of financial results (a ±R25m improvement in profits over 1996 was expected) a climate had been created where, for the first time since the formation of the merger, staff started to believe that they could make a difference and that there was indeed a future for the business. It would therefore be possible to capitalise on this positive attitude of the work force to initiate the organisational transformational process.
- Business strategy would be negatively affected if insufficient time would be allowed for the overlap during transfer of CEOs as planned by the Management Board.

b. **Interface problems.** At the same meeting the SSSA Management Team openly discussed the interface problems they believed were hampering the business. The following problems were highlighted:

- **Management alignment**. There is incongruence between the value system applied by Sasol (Pty) Ltd and the value system evident in Schümann-Sasol (AG).
- **Role clarification / accountability**. Roles and responsibilities are not clearly defined and adhered to.
- **Trust**. Numerous examples of distrust between the Management Board and SSSA's Management exist.
- **Decision-making**. Critical business decisions are not always well thought through and the SSSA Management Team is not consulted regularly.
- **Accountability**. The CEO of SSSA lacks the overall responsibility and accountability to manage his company and is sidelined. The result is a lack of direction in the company.

- **Networking**. The absence of a Sasol person as the CEO in SSSA could severely jeopardise the relationship with the larger Sasol organisation.
- **Communication**. Communication within Schümann-Sasol International is ineffective and the management team has to rely on the grapevine to obtain important information.

c. **Proposals to enhance collaboration**. The SSSA Management Team concluded the meeting by submitting a number of very specific proposals. These were:

- Schümann-Sasol (AG) Management should have a common value system and be aligned towards a vision;
- all Schümann-Sasol International subsidiaries should function as autonomous business units, with full responsibility and accountability;
- a new CEO should be appointed to provide clear direction in regard to Schümann-Sasol (AG);
- a Corporate Human Resources function should be established to be responsible for global manpower planning and development;
- future manpower needs should be identified and developed for the period beyond 2000;
- allowance should be made for an appropriate overlapping period for the new CEO's in order to facilitate proper handover and to minimise risk to the business;
- Schümann-Sasol (SA) Pty Ltd should engage in an organisation-wide transformation.

1.3.5 Agreement between the Management Board a`nd the SSSA Management Team

At the end of the meeting agreement was reached on the following issues:

a. The SSSA (Pty) Ltd CEO, who had been rotated to another Sasol unit would be replaced by a new CEO, until the end of 1997. After this period he would be transferred to Hamburg for a period of two years to act as CEO of Schümann-Sasol GmbH KG.

b. The CEO of the Schümann-Sasol GmbH KG in Hamburg would be transferred to Sasolburg to become CEO of SSSA (Pty) Ltd by January 1998.

Alliance Consulting Report. This report was discussed and it was reaffirmed that SSSA would engage in an Organisational Transformation Programme in a serious attempt to improve the company's performance. In this regard an appropriate Management Consulting firm would be identified and commissioned.

1.3.6 Conclusions and reflections

Two years after the launch of the Schümann-Sasol merger, a crisis transpired. In an effort to deal with the crisis a decision was made to enter into an Organisational Transformation Programme. As referred to earlier, an organisation transformation is concerned with fundamentally altering the organisational assumptions about its functioning and how it relates to the environment (Cummings & Worley, 2001). It is a far-reaching decision because it challenges many features of an organisation, including strategy, structure, information systems, human processes and work design (Meijer, Tsui & Hinings, 1993).

In the researchers' opinion this drastic decision to cope with the turbulence was precipitated by the following external and internal factors:

a. the inherent differences in culture, history, business approach and management style between Sasol and the Schümann organisation, and the fact that these differences were never properly addressed;

b. the weakening competitive position of the newly formed merger, particularly as a result of wax firms entering the polyethylene wax business and Shell Malaysia becoming a global supplier of Fischer-Tropsch waxes;

c. internal organisational problems in regard to direction, structure, processes and people, as outlined by the firm of external consultants;

d. a disappointing decline in performance after an initial expectation that better performance would be logical because of the obvious synergies;

e. distrust between the Management Board and SSSA's Management Team.

1.3.7 Appointment and contracting with External Consultant

At a management meeting held on 9 September 1997 a decision was made to appoint an external consultant to launch the transformation project and to facilitate and guide the phases. At the same meeting an Internal Project Leader was appointed. On 10 September 1997 a meeting was arranged with the selected firm of external consultants, Sep Serfontein Associates, and three phases were agreed upon. These phases were confirmed in a memo on 23 September 1997 and involved the following:

a. **Phase 1: Planning**. This phase would allow the external consultant time to study existing documentation and to conduct interviews with members of the Management Board and SSSA (Pty) Ltd's Management Team. The phase would also involve the preparation of a draft plan for the transformation by the Project Leader in conjunction with the Consultant. During the phase a representative of the Human Resources function would be identified who could actively become involved in the planning of the project.

b. **Phase 2**: **Alignment**. This phase would be primarily focused on aligning the Management Team and would involve creating and obtaining agreement on a vision, mission, core values and business strategy for SSSA (Pty) Ltd. The phase would also involve:

   i. the identification and appointment of Project Team members;

   ii. clarifying roles and responsibilities of the Management Team, Project Team and External Consultant;

   iii. communicating the purpose of the project to the work force.

c. **Phase 3**: **The transformation**. This phase would start with the training of the Project Team members and be succeeded by the formal launching of the project. The rest of the phase would involve the unfolding of the transformation.

On October 2, 1997 Sep Serfontein Associates were formally appointed as the management-consulting firm to facilitate the transformation process.

1.4 The problem and the aim of the research

1.4.1 Problem statement

In an effort to enter the global business environment Sasol acquired the majority share in Schümann GmbH, Co. KG in Germany to enter into a merger. Diversity, rooted in the two national cultures as well as the histories of the two companies made alignment difficult. Because differences in regard to values, management style, practices and expectations were not addressed, distrust between the Schümann-Sasol AG Management Board and Schümann-Sasol (SA) (Pty) Ltd management emerged. This was exacerbated by a weakening competitive position and internal organisational problems related to direction, structure, processes and people. A crisis developed when the SSSA (Pty) Ltd Management Team threatened resignation and the CEO decided to leave. In an effort to cope with the crisis, SSSA Management in conjunction with the

Schümann-Sasol Management Board, decided to engage in an Organisation Transformation Programme.

For this purpose a Project Leader and Project Team were appointed, and a firm of management consultants was commissioned to provide the project structure and to facilitate the process. But how does an organisation in a corporate environment, restrained by a problematic merger, go about changing fundamentally, alter its innate nature and culture and modify the behaviour of its people to bring about a quantum leap in performance that would make it globally competitive?

1.4.2 Aim of the research

The aim of this research is to conceptualise a transformational process and model for changing a traditional, functional organisation into a high performance, entrepreneurial unit in a corporate environment.

1.4.3 Research questions

Since the research method decided upon is the **case study**, a number of research questions must formulated. Case study research generally answers questions which begin with "how", "why" or "what". The questions are usually targeted to a limited number of events or conditions and their interrelationship (Stake 1995, Simons 1980, Yin 1984). Careful definition of the questions pinpoints where to look for evidence and to help determine the methods of analysis to be used in the study.

An original list of eighteen questions was compiled. This list was eventually reduced to only four questions, viz:

a. Why was transformation necessary?

b. How was the transformation managed?

c. What role did the Project Team and the Consultant play in championing the transformation?

d. What role did leadership play in championing the transformation and in creating a high performance entrepreneurial unit?

The researcher views the review of the literature as important to assist in enhancing the meaning of the research questions. These questions will also be helpful to search for evidence and determine methods of analysis to use in the case study.

1.5 Research method: the case study

The research takes the form of a case study of a real transformation. The case study methodology will be applied to Schümann-Sasol SA (Pty) Ltd, an organisation within the larger Schümann-Sasol International (AG) and the Sasol corporate environment. The case study will describe the Schümann-Sasol SA (Pty) Ltd organisation when it engaged in the organisational transformation until it eventually became an entrepreneurial business, within the larger corporate environment. The case study examines the transformation over the period October 1997 to September 2003.

The case study is regarded as a form of qualitative research. Several considerations are taken into account when a researcher adopts a qualitative research methodology. These considerations are (Strauss & Corbin, 1990):

- qualitative methods can be used to better understand any phenomenon about which little is yet known, but can also be used to gain new perspectives of things about which much is already known;
- more in-depth information can be gained that may be difficult to convey quantitatively;
- the ability of qualitative data to more fully describe a phenomenon contributes to understanding by the reader and makes it thus more meaningful.

Case studies are increasingly being used in education. Schools of Business have been most aggressive in the implementation of case based learning (or *active learning*). (Boisjoly & De Michiell, 1994). The case study is an ideal methodology when a holistic, in-depth investigation is needed Feagin, Orum, Sjoberg (1991) and Yin (1994) present at least four applications for a case study model:

- to explain complex causes or links in real life interventions;
- to describe the real life context in which the intervention has occurred;
- to describe the intervention itself;
- to explore those situations in which the intervention being evaluated has no clear set of outcomes.

The researcher reasoned that the transformation process, although not an unknown phenomenon, needs to be better understood within the South African context, especially as a vehicle for changing a traditional, functional organisation into a high performance entrepreneurial unit in a corporate environment. For the better understanding by the reader and the gaining of new perspectives, the in-depth information offered and the ability to explain complex causal links, made the choice of a qualitative method (the case study) a logical one.

1.5.1 Selection of the case

The Schümann-Sasol (SA) Pty Ltd case was selected with the following considerations in mind:

- **Organisational substantiality**. The particular case study relates to investments that are considered to be substantial within the context of Sasol Ltd and Schümann-Sasol International AG.
- **Substantiality of impact**. The implementation of an organisational transformation was expected to impact substantially on the company and its performance.
- **Implementation**. The Organisation Transformation Project, which is the subject of the case study, has been implemented for a sufficient period to provide the researcher an opportunity to conduct some form of post implementation review and to assess the sustainability of the change.
- **Complexity**. The project involved has sufficient complexity in terms of decision-making and implementation to make it of real interest from a research as well as from a business point of view.
- **Significance beyond the case**. The case study has potential significance beyond the unique circumstances of the case. It finds resonance and has implications for other companies within corporate structures, for the industry and the South African economy as a whole.
- **Championing change**. The case study relates to an identifiable, discrete project with identifiable internal sponsors and champions at various stages.

1.6 Framework of the research

1.6.1 Scoping the research

The researcher envisages a single focus: the transformation from a traditional, functional organisation to an entrepreneurial unit in a corporate environment. The focus commences with a statement of the problem and the research questions. This is followed by a review of the literature, the conceptualisation of a theoretical framework and the development on an applied model for this particular case. In the final phase an attempt is made to extrapolate the findings and speculate on likely applications.

The review of literature will help to narrow the focus of the research by determining what is already known, what is still unknown and what are the cutting edge theoretical issues. In specific terms the theoretical inquiry will assist in describing and defining:

- the forces impacting on organisations in a global context;
- the characteristics of an entrepreneurial organisation; and
- change as a phenomenon in organisations.

The case study which follows, will be presented as a readable, descriptive picture of the Schümann-Sasol transformation. It will be a holistic portrayal of the transformation within a specific context, with many interpretations in order to find a linkage between the research questions and the case data. To triangulate the data crosschecks repeat interviews will be conducted; quantitative data will be used to corroborate and support the qualitative data.

An applied transformation model will be developed in an effort to conceptualise the transformation process, within it's unique context. Through the development of the model relevant constructs and theory will be tested against various sources of evidence in an attempt to put together more coherent answers and a constructive theory for the process of transforming a traditional, functional organisation into an entrepreneurial unit in a corporate environment.

The final phase of the research will centre on efforts to generalise the findings through the identification of common success factors and the extrapolation of findings to other similar, but not identical conditions.

1.6.2 Chapters in the research dissertation

The research will evolve through to the following chapters:

Chapter 2: Research methodology. The research scope and delimitations are discussed as well as the research approach and rationale for the choice of the case study methodology. The chapter also gives an overview of qualitative research and characteristics of the case study methodology. Guidelines are proposed for the design of the case study, the conceptualisation of the transformation model and the generalisation of findings.

Chapter 3: The business environment. This is a literature review to understand the major changes in the business environment and a conceptualisation of these changes. The chapter reviews key factors for enhancing competitive advantage in the new business landscape.

Chapter 4: The entrepreneurial unit in a corporate environment. The literature defines the entrepreneurial organisation as the most likely type of organisation to respond successfully to new demands in the business environment. A definition of entrepreneurship in a corporate setting is given and analysed in terms of it's characteristics.

Chapter 5: Organisational change and transformation. This chapter is a review of the management of change and the transformation process. The chapter ends with theoretical models for transforming organisations into more flexible, adaptive and innovative units.

Chapter 6: The transformational model. This chapter is a synthesis of the transformation process which was followed. The model is based on the case study, which describes the organisational transformation at Schümann-Sasol (Pty) Ltd over the period October 1997 to September 2003. As a conclusion several success factors are discussed and placed in perspective.

Chapter 7: Application. In this final chapter findings are generalised by extrapolating it to similar, but not identical conditions.

Annexure A: The case study. The case study is a narrative guided by the aim of the research and the four research questions. It is based on 385 sources of evidence, collected over the period October 1997 to September 2003, and is supplemented with data that became available after the transformation period.

The case study reveals the factors, which led to the decision to engage in an organisation-wide change and reflects upon the original thinking and planning. The case evolves through various interventions at process, structure and people levels. It also describes the appointment of a new Managing Director half way through the transformation and how his leadership enabled the company to fully utilize the internal changes that had taken place during the previous two years.

Annexure B: The Schümann-Sasol (Pty) Ltd Value Chain. As an initial step in the design of the new organisational structure, an analysis of the company's value chain was made. Annexure B reflects in great detail the seven core processes and the many sub-processes involved. This analysis as well as several other analyses were used as inputs to the redesign process.

1.7 Significance of the research

In today's business environment organisations need to be resilient; to be flexible and adapt has become an imperative for survival. Because many organisations are ill prepared for change they usually limit their options to downsizing of the workforce or restructuring, in an effort to gain more control and reduce cost. These measures almost without exception only provide short-term results. They do not help an organisation to be more adaptable and innovative. At worse these measures alienate the human element and ignore the role of human behaviour, as they are the key to effective change, flexibility and organisational resilience.

The research aim of developing a transformational model could be of real importance from a scientific point of view. The research contains elements of both basic and applied research. As basic research the study explores the concept of transformation and the impact on a company after a merger. The research is, however, also of an applied nature in the sense that it studies the validity and applicability of concepts and methods in practice, within the context of a transformation that culminates in an entrepreneurial unit.

In this regard the research population from the social and managerial sciences could benefit from an understanding of the following:

- the forces that lead up to a decision to engage in a transformation;
- the characteristics and dynamics of an organisational transformation, which involve several organisational features such as strategy, processes, structure, systems, policies, culture and people, and how this approach differs from ad hoc, short term and quick fix change alternatives;
- the consultant-client relationship during a transformation and how such a relationship evolves over time in order to optimize value adding;
- the sequence of interventions (methodology) used to bring about this particular transformation;
- the process followed in entrenching values to the extent that it became a significant feature of the entrepreneurial culture;
- the main factors which contributed to the quantum leap in performance, to make the company globally competitive;
- the approach followed to successfully blend a reconfiguration of technical processes, with human processes and entrepreneurial leadership;
- the value of a project team and a consultant during a transformation and their respective roles, vis-à-vis other stakeholders;
- the indispensable role of strong leadership in a major organisational transformation.