ORGANISATIONAL TRANSFORMATION:

A QUANTUM LEAP FROM THE TRADITIONAL TO THE ENTREPRENEURIAL

by

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Louis Serfontein (1905 – 1988)

en

Phoebé Serfontein (1915 – 1997)

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‘n Studie soos hierdie is sekerlik nie iets unieks nie. Vir my egter, wat in die laatmiddag van my loopbaan staan, is dit ‘n hoogtepunt en ‘n blyk van groot genade. Dit het vir my ‘n geheel ander betekenis vandag, as wat dit vroeër sou gehad het.

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Nou weet ek dat die hele proses betekenisvol was omdat:

- die werk waarmee ek die afgelope dertig jaar intens besig was, tot akademiese status verhef kan word en so my werk as bestuurskonsultant aan ‘n finale toets kan onderwerp;

- ‘n stel uitsonderlike resultate op die terrein van transformasie en sakebestuur in die kollig geplaas kan word, veral m.b.t. die sleutelrol wat mense in organisasies speel en die verskil wat hulle aan die prestasie van ‘n onderneming kan maak;

- ‘n professionele bydrae gemaak kan word tot onder andere die terreine van Organisasie-ontwikkeling, Bestuurskonsultasie, Bedryfsielkunde en Menslike Hulpbronbestuur.

In hierdie studie maak ek gebruik van die kwalitatiewe navorsingsbenadering. Robert Stake (1995) sê hieroor dat ervaring die belangrikste vereiste vir ‘n studie van hierdie aard is. Ek vereenselwig myself heelhartig met hierdie stelling, veral verwysende na sy opmerking oor die wese van ervaring: *“...one of knowing what leads to significant understanding, recognising good sources of data, and consciously and unconsciously testing out of the veracity of their eyes and the robustness of their interpretations”.*

Na al die jare in die konsultasiebedryf plaas ek my, in alle beskeidenheid, in die kategorie van *ervare bestuurskonsultante*. Ervaring word oor ‘n lang periode opgebou – daar is nie kortpaaie nie. Dit is die resultaat van harde werk, die bereidwilligheid om risiko’s te loop en die vermoë om te kan leer uit sowel suksesse as mislukkings.

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In die soeke na nuwe toepassingsvelde binne militêre verband, het ek die terrein van Organisasie-ontwikkeling (OD) ontdek. Dit was vir my van meet af aan 'n passie. My loopbaan en my lewe, is verder verryk deur die destydse hoof van die leër, Generaal Magnus Malan, en een van sy senior staf-offisiere, Brigadier (later Generaal) Raymond Holtshausen. Deur hulle bemiddeling en ondersteuning kon ek middel sewentigs die National Training Laboratories (NTL) in die VSA besoek. Dit was 'n eksponensiële leerervaring. Daar kon ek op 'n persoonlike vlak kennis maak met baanbrekers soos Richard Beckard, Ron Lippet, Tony Petrella, Charlie Seashore en Roger Harrison. Deur die jare het ek met Dr. Roger Harrison kontak behou en kon ek deel word van sy internasionale netwerk. Ek noem ook graag die naam van Dr Marilyn Harris, destyds verbonde aan NTL en die *Institute of Social Research* aan die Universiteit van Michigan. Ons is na dertig jaar steeds vriende. Sy het nooit gehuiwer om die heel nuuste denke en publikasies in die veld met my te deel nie.

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So kom Serfontein en Du Toit, in 1979 tot stand. Die maatskappy het stelselmatig gegroei totdat ons in 1985 verkies het om elkeen sy eie pad te loop.

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Sep Serfontein

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Table of Contents

Figures

Tables

SUMMARY

ORGANISATIONAL TRANSFORMATION:

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Today's global business environment requires organisations to adapt to increasingly complex technological, economic, political and cultural changes. Environmental turbulences are characterized by perceived dynamisms, hostility and complexity.

Organisations respond to this turbulence in many different ways. The popular ones involve outsourcing, leasing and renting, shorter product life cycles, downsizing and cost-cutting. Others enter into joint ventures, alliances, mergers and acquisitions. Popular response often result in more problems than profits; and on average the success rate of alliances and mergers is a meagre 53%. To go beyond improving an organisation's performance incrementally or entering into contractual alliances, activities need to be directed at the basic character of an organisation. Such changes are referred to as organisational transformations and imply fundamental changes to the way people perceive, think and behave at work.

Transformational change involves changing the different features of an organisation such as processes, structure, information systems, human resource practices and culture in a coordinated way. It is a transition from a control-based to a commitment-based organisation. The outcome is often the emergency of new organisational forms. These forms are mostly distinguishable by an emphasis on bottom-up entrepreneurship and a reliance on a cooperative network to allow for competencies to be shared.

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

To achieve the aim a qualitative research study was conducted, which consisted of a survey of relevant literature and a case study. The literature review was performed to understand changes in today's business environment, the characteristics of an entrepreneurial organisation and the dynamics organisational change. The case study portrays the organisational transformation which occurred at Schumann-Sasol (Pty) Ltd over the period 1997 to 2003. The case study is a holistic picture of the transformation within it's specific context and was guided by four research questions:

- Why was a transformation necessary?
- How was the transformation managed?
- What role did the project team and the consultant play in championing the transformation?
- What role did leadership play in championing the transformation?

The transformational model which emerged from the research is composed of nine explicit phases, spread over two distinct periods of the transformation: the period when the consultant-project team alliance championed the change, and the period when the new MD as entrepreneurial leader, championed the change.

The research generated sufficient evidence to conclude that Schumann-Sasol, redefined itself as an entrepreneurial unit in the Sasol Corporate environment. Distinguishing characteristics were it's strategy, structure, new products and markets, management processes, systems human resources practices, culture and leadership. During the period of the transformation performance in EBIT terms increased from of R3.09 m to R187.70 m. Several key success factors characterized the transformational process: the transformation was strategy-driven; it was mainly a people process; the right measure of entrepreneurial leadership was involved; organisational learning formed an integral part; values were successfully entrenched, ownership and risk were shared and high energy levels were sustained.

Many of these learnings could find application in other transformations. Some of these are of particular importance to the South African context, and the way organisational change is being managed.

In the broader context the study proves that transformational change can unlock the potential synergies hidden in a merger, even where different national cultures are involved. The research is particularly valuable because of the meticulous way in which the process of transformational change was mapped, variables were identified and dynamics observed and interpreted. It also highlights the strategic role of the Human Resources function and the practices of Organisational Psychology in a transformation. Through these practices people's perceptions, thinking and behaviour can change fundamentally to become a key factor in the attainment of a quantum leap in performance.

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:

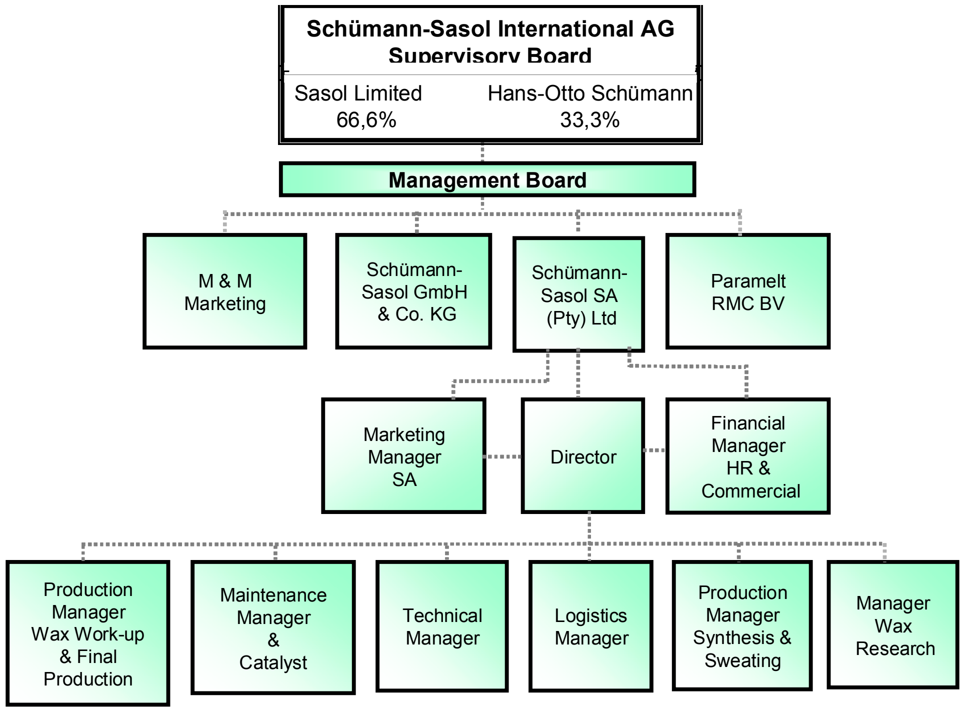
a. Schümann-Sasol (Pty) Ltd.
b. Schümann-Sasol GmbH, Co. KG.
c. HOS Holdings Corporation, USA (Moore and Munger Marketing)
d. Paramelt RMC BV.

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.

Chapter 2

RESEARCH METHODOLOGY

2 INTRODUCTION

The discussion in this chapter is directly related to the research methodology for the theoretical inquiry of the study, namely to establish a theoretical framework for the assessment of a transformation process. A theoretical framework for evaluating an entrepreneurial organisation is debated in Chapter 4, and builds on the analysis of the changing business environment faced by organisations (Chapter 3). A theoretical framework for evaluating the transformation process is discussed in Chapter 5. Considerations for using a qualitative approach and choosing the case study as a research strategy for the study as a whole, are debated in this chapter. The chapter also explains the structure of the research.

2.1 Setting the context

The research will focus on the entrepreneurial organisation globally, with specific reference to the South African context. An entrepreneurial organisation in South Africa could be similar to those found in other parts of the world, but it may also require some unique characteristics to cope with prevailing circumstances in the South African business environment.

The focus is not on a start-up organisation or a new venture where entrepreneurship is required. It is on an organisational unit within a corporate environment, engaged in a transformation process to achieve what it strategically wanted to accomplish, in an effort to face the demands of it's business environment. The original intention was therefore not to become an entrepreneurial company, but to find the vehicle (organisation) most suited to enable strategy. As strategy unfolded and guided the transformation, an entrepreneurial unit evolved as the final vehicle.

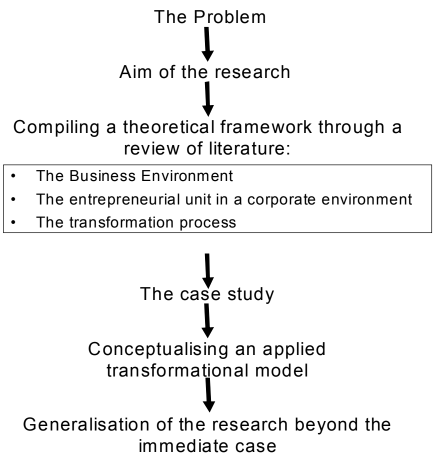
The focus of the study is the **process of transformation**: from a traditional form of organisation to a more flexible, innovative structure, including the phases and interventions performed during the transformation. The focus will not be on the reintegration of this entrepreneurial unit into the larger corporate environment and the processes associated with such integration.

2.2 Phases in the research

As depicted in figure 2.1, the researcher envisages the following phases to address the research problem, aim and research questions outlined in Chapter 1:

- a literature review that will be conducted to understand the major changes in the business environment and to conceptualise these changes, with particular reference to the business environment of the case being researched;
- a literature review that will be performed to define the entrepreneurial organisation, as it finds application in a corporate environment, and the reason why organisations with entrepreneurial characteristics have a good chance of meeting the demands of the current business environment;
- a literature review that will be conducted to understand the transformation process and how such a process is managed;
- a case study that will be based on a selected case (Schümann-Sasol (Pty) Ltd) to develop an applied transformational model; and
- a generalisation of the research findings to speculate on possible applications in other situations under similar, but not identical, conditions.

Figure 2.1
Scoping the research



2.3 Research approach and rationale for methodology

The research problem, the research aim and the research questions suggest the study of phenomena and processes: the phenomenon being the organisational format: traditional or entrepreneurial; the process being the transformational process. On closer investigation it appears as if all the phases of the study, as described above, have a clear bias towards the qualitative. The review of literature, which is aimed at establishing a theoretical framework, will rely on content analysis – a recognised qualitative method (Miles & Huberman, 1984; Denzin & Lincoln, 2000). The case study of the company is a known and widely used qualitative approach in the social and management sciences (Yin, 1994; Stake, 1995; Hamel et al, 1993). Qualitative research as a form of scientific research should therefore be scrutinised to be used effectively in this research.

2.3.1 Qualitative and quantitative research

Somewhat sceptical, Van Maanen (1985:12) states the following in regard to qualitative research: "*The label qualitative methods has no precise meaning in any of the social sciences. It is at best an umbrella term covering an array of interpretive techniques, which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world. To operate in the qualitative mode is to trade in linguistic symbols, and, by so doing, attempt to reduce the distance between indicated and indicator, between theory and data, between context and action.*"

King, Keohane & Verba (1994:11) observe that the difference between qualitative and quantitative research is not always clear and must rather be viewed as a difference of style and technique: "*Quantitative research uses numbers and statistical methods. It tends to be based on numerical measurements of specific aspects of phenomena; it abstracts from particular instances to seek general description or to test causal hypotheses; it seeks measurements and analyses that are easily replicable by other researchers. Qualitative research, in contrast, covers a wide range of approaches but by definition, none of these approaches relies on numerical measurements.*"

King, Keohane & Verba (1994:7) express themselves as follows when referring to scientific research: "*… we do not regard quantitative research to be any more scientific than qualitative research. Good research, that is, scientific research, can be quantitative or qualitative in style.*" According to them, scientific research has the following four characteristics:

- the goal is inference – meaning that the research must be designed to make descriptive or explanatory inferences based on empirical information;

- the procedures are public – since methods are used that are explicit, codified and public in the generation and analyzing of data, whose reliability can therefore be assessed;
- the conclusions are uncertain – since reaching perfectly certain conclusions from uncertain data (whether gathered qualitatively or quantitatively) is impossible;
- the content is the method – the validity of research depends on the rules, not the subject matter – since these rules can be used to study virtually anything.

Researchers have long debated the relative value of qualitative and quantitative inquiry. Phenomenological enquiry, a method in qualitative research, uses a naturalistic approach that seeks to understand phenomena in context-specific settings. Quantitative research on the other hand, uses experimental methods and quantitative measures to test hypothetical generalisations (Patton, 1990). Each therefore represents a **fundamentally different enquiry paradigm**, and researcher actions are based on the underlying assumptions of each paradigm. Where quantitative researchers seek causal determination, prediction and generalisation of findings, qualitative researchers in stead seek illumination, understanding and extrapolation to similar situations. Qualitative analyses result in a different type of knowledge than does quantitative inquiry (Strauss & Corbin, 1990). Cronbach (1975) claims that statistical research is not able to take full account of the many interaction effects that take place in social settings. Qualitative inquiry accepts the complex and dynamic quality of the social world.

The primary goal of qualitative research is therefore the **generation** of theory, (based on inductive reasoning) rather that theory **testing** (based on deductive reasoning).

Both qualitative and quantitative researches have their unique sets of characteristics, but as Mouton (1996:46) observes: *"In the final instance, all research is aimed at improved understanding by describing, explaining and evaluating phenomena in the social world."*

2.3.2 Descriptions of qualitative research

Several writers have identified what they consider to be the prominent characteristics of qualitative, or naturalistic research (Bogdan & Birklen, 1982; Lincoln & Guba, 1985; Patton, 1990; Eisner, 1991). The list that follows represents a synthesis of these authors' descriptions of qualitative research:

- Qualitative research uses the natural setting as the source of data. The researcher attempts to observe, describe and interpret settings as they are, maintaining what Patton calls an *"empathic neutrality"* (1990:55).
- The researcher acts as the *human instrument* of data collection.

- Qualitative researchers predominantly use inductive data analyses.
- Qualitative research reports are descriptive, incorporating expressive language and *"presence of voice in the text"* (Eisner, 1991:36).
- Qualitative research has an interpretive character, aimed at discovering the meaning events have for the individuals who experience them, and the interpretation of those meanings by the researcher.
- Qualitative researchers pay attention to the idiosyncratic, as well as the pervasive, seeking the uniqueness of each case.
- Qualitative research has an emergent (as opposed to pre-determined) design and researchers focus on this emerging process as well as on the outcomes or product of the research. Because the researcher seeks to observe and interpret meanings in context, it is neither possible nor appropriate to finalise research strategies before data collection has begun (Patton, 1990).
- Qualitative research is judged using special criteria for trustworthiness. Lincoln & Guba (1985:300) identified an alternative set of criteria that corresponds to those typically employed to judge quantitative work.

2.3.3 The product of qualitative research

It has already been pointed out that the primary goal of qualitative research is the generation of theory (Glaser & Strauss, 1967:32), rather than theory testing or mere description. According to this view theory is not a *"perfected product"* but an *"ever – developing entity"* or process. These authors claim that one of the requisite properties of grounded theory is: *"…sufficiently general to be applicable to a multitude of diverse situations within the substantive area*" (:237).

The grounded theory described by Glaser & Strauss represents a somewhat extreme form of naturalistic inquiry. They state that it is not necessary to insist that the product of qualitative inquiry be a theory or model that will apply to a *multitude of diverse situations.* Examples of a more flexible approach to qualitative inquiry can be gained from a number of sources. For example, both Patton (1999) and Guba (1978) state that *naturalistic inquiry is always a matter of degree* of the extent to which the researcher influences responses and imposes categories on the data. The more *pure* the naturalistic inquiry, the less reduction of data into categories.

Figure 2.2 illustrates one interpretation of the relationship between description, verification and generation of theory – or, in this case, the development of what Cronbach (1975) calls *"working hypotheses",* which suggests a more tractable form of analysis than the word *"theory."* According to this interpretation, a researcher may move between points on the description/verification continuum during analysis, but the final product will fall on one particular point, depending on the degree to which it is naturalistic.

Figure 2.2 –
Description, verification and generation of working hypotheses in qualitative research

In keeping with a naturalistic stance, the researcher might conclude that, to the extent that findings are based on information from a variety of diverse situations, they *may* be applicable to a larger substantive area. However, their applicability to a particular situation is wholly dependent upon the conditions of the situation and the usefulness of the research findings to individual readers (Hoepfl, 1997).

2.3.4 Considerations for the use of a qualitative methodology

There are several considerations when deciding to adopt a qualitative research methodology. Strauss & Corbin (1990) claim that qualitative methods can be used to better understand any phenomenon about which little is yet known. Qualitative methods can also be used to gain new perspectives on things about which much is already known, or to gain more in-depth information that may be difficult to convey quantitatively. Thus, qualitative methods are appropriate in situations where one needs to first identify the variables that might later be tested quantitatively, or where the researcher has determined that quantitative measures cannot adequately describe or interpret a situation. Research problems tend to be framed as open-ended questions that will support discovery of new information.

The ability of qualitative data **to more fully describe a phenomenon is an important consideration** not only from the researcher's perspective, but from the reader's perspective as well. *"If you want people to understand, better provide them information in the form in which they usually experience it"* (Lincoln & Guba, 1985:120). Qualitative research reports, typically rich with detail and insights into participants' experience of the world, *"…may be epistemologically in harmony with the reader's experience"* (Stake, 1978:5) and thus more meaningful.

2.3.5 The role of the researcher in qualitative research

Hoepfl (1997) states that before conducting a qualitative study, a researcher must do three things. Firstly, (s)he must adopt the stance suggested by the characteristics of the naturalist paradigm. Secondly, the researcher must develop the level of skill appropriate for a human instrument, or the vehicle through which data will be collected and interpreted. Finally, the researcher must prepare a research design that utilizes accepted strategies for naturalistic inquiry.

Yin (1994) is quite explicit when he suggests that the researcher must possess or acquire the following skills:

- the ability to ask good questions and to interpret the responses;
- be a good listener;
- be adaptive and flexible so as to react to various situations;
- have a firm grasp of issues being studied; and
- be unbiased by preconceived notions.

Glaser & Strauss (1967) and Strauss & Corbin (1990) refer to what they call the "theoretical sensitivity" of the researcher. This is a useful concept with which to evaluate a researcher's skill and readiness to attempt a qualitative inquiry. Theoretical sensitivity refers to a personal quality of the researcher. It indicates an awareness of the subtleties of meaning of data. *"...[It] refers to the attribute of having insight, the ability to give meaning to data, the capacity to understand, and capability to separate the pertinent from that which isn't "* (Strauss & Corbin, 1990:42).

Strauss & Corbin (1990) believe that theoretical sensitivity comes from a number of sources, including professional literature, professional experiences, and personal experiences. The credibility of a qualitative research report relies heavily on the confidence readers have in the researcher's ability to be sensitive to the data and to make appropriate decisions in the field (Eisner, 1991; Patton, 1990).

Lincoln & Guba (1985) identify the characteristics that make humans the *"…instrument of choice"* for naturalistic inquiry. According to this research humans are responsive to environmental cues, and are able to interact with the situation; they have the ability to collect information at multiple levels simultaneously; they are able to perceive situations holistically; they are able to process data as soon as it becomes available; they can provide immediate feedback and request verification of data; and they can explore a-typical or unexpected responses.

The above clearly calls for good judgement, common sense and experience. Stake (1995:49-50) asserts that experience in particular is one of the principle qualifications. He qualifies the experience of the qualitative researcher as *"one of knowing what leads to significant understanding, recognising good sources of data, and consciously and* *unconsciously testing out the veracity of their eyes and robustness of their interpretations".*

2.3.6 Assessing strengths and weaknesses of the researcher

Given the above characteristics expected from the researcher in a qualitative study, it is important that the researcher of this study critically assess his own readiness to engage in this role. Using the framework for thinking as suggested by Lincoln & Guba (1985), Glaser & Strauss (1967) and Strauss & Corbin (1990), as outlined in paragraph 2.3.5, the researcher would like to note the following:

- **Theoretical sensitivity**. The researcher believes he has acquired the personal qualities required to attempt a qualitative inquiry. He believes he has developed an awareness of the subtleties of meaning of data, particularly human data, due to his work as a process consultant over more that 30 years. Process consultation is the consultation mode for professionals in Organisational Development (OD) (Schein, 1988).
- **Data processing**. As a practitioner of OD the researcher was obliged to apply the Action Research Model, which specifies iterative stages of contracting, diagnosing, planning and implementation through a number of cycles. Conducting many diagnoses in a multitude of settings has honed the researcher's skills to gather process and interpret data. The researcher believes he has sufficient insight in individual behaviour, team dynamics, strategy formulation, structural design, socio-technical processes and organisational culture to give meaning to data, to understand various levels of interpretation and to *"separate the pertinent from that which isn't"* (Strauss & Corbin, 1990:42). This is true for any organisational context, whether private enterprise, the public sector or the informal sector.
- **Literature.** Throughout his professional career the researcher has maintained a high level of knowledge of his own and related disciplines. This was achieved through frequent visits to professionals in other countries, attendance of international conferences, and the reading of credible magazines in the fields of management and OD. Regular rapport writing for clients necessitated continuous awareness of new trends in the literature and a competence in content analysis. Finally, having been in a position to train internal OD consultants from more than 50 organisations over a 22 year period, he is equipped to be an authority on much of the theory relevant to this study. This would include:
    - organisational behaviour;
    - Organisation Development (OD);
    - management;
    - creativity and innovation;
    - organisational change;

- business strategy;
- influencing behaviour;
- training design;
- entrepreneurship;
- negotiation;
- organisational learning;
- organisational redesign;
- values;
- performance management;
- consultation.

- **Qualitative methodology.** Through his professional role as a management consultant the researcher has utilized many opportunities to use both quantitative methods and qualitative methods of research. Quantitative methods were applied in many survey reports in a variety of organisations and industries. This included the development and administration of questionnaires and the analysis and interpretation of data collected through these questionnaires. The use of qualitative methodology formed an integral part of the researcher's repertoire when he was working with clients. Methods like the following were often applied:

  - interviews;
  - direct observations;
  - report analysis;
  - content analysis.

- **Direct involvement in the case.** The researcher is fully aware that his direct involvement in the case as the External Consultant, who guided the transformation, could result in a subject-object trap. The researcher admits that his involvement in the planning and deployment of the transformation and his personal relations with the project leader, project members and key staff in particular could bias his handling of data. He is quite aware that his own experiences of the research variables could influence the stages of the research process. These possibilities cannot be ignored. What is essential is that the researcher must remain open to the question of whether he influences his work or not. He may assume he does not influence it, but he must allow himself to be wrong by testing his assumptions frequently. One assumption is that an objectified account of himself is possible. In other words, only he can find out to the best of his knowledge, at the time, whether he influences his work or not. Boucher (2003) maintains that self-reflexivity is the key, not whether he holds subjectivist, inter-subjectivist or objectivist assumptions or what theories and methods he uses. The researcher therefore has to apply to himself the same rigor of analysis that he applies to those he researches.

2.3.7 The trustworthiness of qualitative research

According to Lincoln & Guba (1985:290), the basic question addressed by the notion of trustworthiness, is simple: *"How can the inquirer persuade his or her audiences that the research findings of an inquiry are worth paying attention to?"*. When judging qualitative work, Strauss & Corbin (1990:250) believe that the *"usual canons of 'good science"* require re-definition in order to fit the realities of qualitative research. Lincoln & Guba (1985) identified an alternative set of criteria that corresponds to those typically employed to judge quantitative work (see table 2.1).

Table 2.1

Comparison of criteria for judging the quality of quantitative versus qualitative research

CONVENTIONAL TERMS	NATURALISTIC TERMS
Internal validity	Credibility
External validity	Transferability
Reliability	Dependability
Objectivity	Confirmability

This proposed set of criteria is sharply criticized by writers such as Smith & Heshusius (1986:6) who are particularly concerned by Lincoln & Guba's use of "*comparable criteria",* which they perceive to be little different from the conventional criteria they supposedly replace. In either case, there must be a *"belief in the assumption that what is known – be it existent reality or interpreted reality – stands independent of the inquirer and can be described without distortion by the inquirer*".

It is therefore important to determine which criteria are consistent with the thinking behind qualitative research, yet still allow for a declaration that "*good science"* has been carried out (Hoepfl, 1997:11).

With reference to table 2.1 conventional and naturalistic criteria need to be compared with the purpose of selecting criteria which are appropriate for judging the overall trustworthiness of qualitative studies.

a. **Internal validity versus credibility**

In conventional inquiry, internal validity refers to the extent to which the findings accurately describe reality. Lincoln & Guba (1985:294,295) state *"…the determination of such isomorphism is in principle impossible"*, because one would have to know the *"precise nature of that reality"* and, if one knew this already, there would be no need to test it. The conventional researcher must postulate relationships and then test them; the naturalistic researcher, on the other hand, assumes the presence of multiple realities and attempts to represent these multiple realities adequately. Credibility becomes the test for this (Hoepfl, 2003).

Credibility depends less on sample size than on the richness of the information gathered and on the analytical abilities of the researcher (Patton, 1990). It can be enhanced through triangulation of data. Patton identifies four types of triangulation:

- methods triangulation;
- data triangulation;
- triangulation through multiple analysis; and
- theory triangulation.

Other techniques for addressing credibility include making segments of the raw data available for others to analyse, and the use of *member checks*, in which respondents are asked to corroborate findings (Lincoln & Guba, 1985).

b. **External validity versus transferability**

In conventional research, external validity refers to the ability to generalise findings across different settings. Making generalisations involves a trade-off between internal and external validity (Lincoln & Guba, 1985). That implies that one can include only limited aspects of each local context while making generalisable statements that apply to many contexts. Lincoln & Guba (1985:124) suggest that the existence of local conditions *"…makes it impossible to generalize"*. According to Cronbach (1975:123) *"…when we give proper weight to local conditions, any generalization is a working hypothesis, not a conclusion"*.

In the naturalistic paradigm, the *transferability* of a working hypothesis to other situations depends on the degree of similarity between the original situation and the situation to which it is transferred. The researcher cannot specify the transferability of findings; he can only provide sufficient information that can then be used by the reader to determine whether the findings are applicable to the new situation (Lincoln & Guba, 1985). Other writers use similar language to describe transferability, if not the word itself. For example, Stake (1978:6) refers to what he calls *"naturalistic generalization"*. Patton suggests that *"extrapolation"* is an appropriate term for this process (1990:489). Eisner (1991:205) articulates it is a form of *"retrospective generalization"* that can allow us to understand our past (and future) experiences in a new way.

c. **Reliability versus dependability**

Kirk & Miller (1986:41-42) refer to three types of reliability in conventional research:

- the degree to which a measurement, given repeatedly, remains the same;
- the stability of a measurement over time; and
- the similarity of measurements within a given time period.

They note that *"…issues of reliability have received little attention"* from qualitative researchers, who have instead focused on achieving greater validity in their work. Although they give several examples of how reliability might be viewed in qualitative work, the essence of these examples can be summed up in the following statement by Lincoln & Guba (1985:316): *"Since there can be no validity without reliability and thus no credibility without dependability, a demonstration of the former is sufficient to establish the latter"*.

Nevertheless, Lincoln & Guba (1985:317) do propose one measure which might enhance the dependability of qualitative research. That is the use of an *"inquiry audit,"* in which reviewers examine both the process and the product of the research for consistency.

d. **Objectivity versus confirmability**

Conventional wisdom proclaims that research, which relies on quantitative measures to define a situation, is relatively value-free, and therefore objective. Qualitative research, which relies on interpretations and which is admittedly value-bound, is considered to be subjective. In the world of conventional research, subjectivity leads to results that are both unreliable and invalid. There are many researchers, however, who call into question the true objectivity of statistical measures and, indeed, the possibility of ever attaining pure objectivity at all (Lincoln & Guba, 1985; Eisner, 1991).

Patton (1990:55) believes that the terms *objectivity* and *subjectivity* have become *"…ideological ammunition in the paradigms debate".* He prefers to *"…avoid using either word and to stay out of futile debates about subjectivity versus objectivity."* Instead, he strives for *"empathic neutrality"*. While admitting that these two words appear to be contradictory, Patton (1990:58) points out that empathy *"…is a stance toward the people one encounters, while neutrality is a stance toward the findings"*. A researcher who is neutral tries to be non-judgmental, and strives to report what is found in a balanced way.

Lincoln & Guba (1985:320-321) choose to speak of the *confirmability* of the research. In that sense, they refer to the degree to which the researcher can demonstrate the neutrality of the research interpretations, through a *confirmability audit*. This means providing an audit trail consisting of:

- raw data;
- analysis notes;
- reconstruction and synthesis products;
- process notes;

- personal notes; and
- preliminary developmental information.

With regard to objectivity in qualitative research, it may be useful to turn to Phillips (1990:35), who questions whether there is really much difference between quantitative and qualitative research:

"Bad work of either kind is equally to be deplored; and good work of either kind is still – at best – only tentative. But the good work in both cases will be objective*, in the sense that it has been opened up to criticism, and the reasons and evidence offered in both cases will have withstood serious scrutiny. The works will have faced potential refutation, and insofar as they have survived, they will be regarded as worthy of further investigation"*.

2.4 The case study

The case study constitutes an important component in the research strategy of this research. The case study is a recognised qualitative research method, used widely to examine contemporary real life situations and provides the basis for the **application** of ideas and **extension** of methods. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. Researcher Robert. K. Yin defines the case study research method as "…*an empirical inquiry that investigates a contemporary phenomenon within it's real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used*" (Yin, 1984:23). Hartley (2004:323) cites that the aim of a case study is *"…to provide an analysis of the context and processes which illuminate the theoretical issues being studied."*

2.4.1 Unique characteristics of case study research

It is important to note that the phenomena being studied in a case study are not isolated from its context (as in laboratory research) but is of interest exactly *"…because the aim is to understand how behaviour and/or processes are influenced by, and influence context"* (Hartley, 2004:323).

The case study is particularly suited to research questions which require detailed understanding of social and organisational processes, because of the rich data collected in context (Hartley, 2004).

The overall approach in case studies are very similar: inductive analysis focusing on processes in their social context (Hartley, 2004). Case studies are therefore useful in illuminating behaviour, which may only be fully understandable in forces operating within or on an organisation (Feagin et al, 1991).

The case study is therefore an ideal methodology when a holistic, in depth investigation of cultural systems of action is required (Feagin et al, 1991). Feagin et al (1991) explain cultural systems of action as sets of interrelated activities engaged in by the actors in a social situation. This means that the researcher considers not just the voice and perspective of the actors, but also of the relevant groups of actors and the interaction between them. This one aspect is a salient point in the characteristics that case studies pose (Tellis, 1997b:2).

The unit of analysis is a critical factor in the case study. It is typically a system of action rather than an individual or group of individuals. Case studies tend to be selective, focusing on one or two issues that are fundamental to understanding the system being examined (Tellis, 1997b) .

The question is often asked whether a case study is only a method or an approach Hamel, Dufow, & Fortin (1993) cite that it would be more appropriate to define case studies as an approach, because their goals are to reconstruct and analyse. Hartley (2004) asserts that a case study is not a method but a research strategy and motivates this claim by pointing out that the context is deliberately part of the case. In addition, there will always be too many variables for the number of observations made, so that the standard experimental or survey designs and criteria are not really appropriate. Even issues of reliability, validity and generalisability are addressed with a different logic.

2.4.2 Use of methods

Within the broad research strategy a number of methods may be used. Some could be qualitative, quantitative or both. Case studies generally include multiple methods because of the research issues, which can be best addressed through this strategy (Hartley, 2004). Multiple methods are required, including data from interviews, observation, documents, focus groups and even questionnaires. These could also be used in combination. Hartley (2004:324) cites: *"…many case study researchers, in their pursuit of the delicate and intricate interactions and processes occurring within organisations, will use a combination of methods, partly because complex phenomena may be best approached through several methods, and partly to triangulate data and theory"*.

Stake (1995) refers to triangulation as those protocols that are used to ensure accuracy and alternative explanations. The need for triangulation arises from the ethical need to confirm the validity of processes and establish meaning. In case studies, this could be done by using multiple sources of data. Denzin (1984) identifies four types of triangulation:

- **data source triangulation**, when the researcher looks for the data to remain the same in different contexts;

- **investigator triangulation**, when several investigators examine the same phenomenon;
- **theory triangulation**, when investigators with different view points interpret the same results; and
- **methodological triangulation**, when one approach is followed by another to increase confidence in the interpretation.

2.4.3 The place of theory

In case studies the value of theory cannot be underestimated. A case study has to be defined in terms of its theoretical orientation (Hartley, 2004). This makes the understanding of processes alongside their organisational and other contexts a must. During case study research the researcher needs to develop theoretical frameworks *"…which inform and makes sense of the data and which can be examined during the case study for plausibility"* (Harley, 2004:324). Theory needs to help make sense of the particular circumstances of the case but also illuminates what is of relevance and interest (Hartley, 2004). Glaser & Strauss (1967) and Länsisalmi et al, (2004) assert that grounded theory could lead to emergent theory, while in other situations, researchers may enter the case study with clear propositions to examine.

Case studies provide the opportunity to explore issues in depth and in context. This means that theory development can occur through the systematic collection of detailed evidence to generate (or replicate) theories of broader interest (Hartley, 2004). The implication of this is that evidence must be sifted to build inferences about what has happened, why and in what circumstances (Yin, 1994).

It therefore appears as if case studies have an important function in generating hypothesis and building theory. The implication is that the formulation of the research questions should be tentative, acknowledging the fact that theory may shift as the framework and concepts are repeatedly examined against the data (Hartley, 2004). This requires a vigorous approach to the research design, the formulation of research questions and the data collection. Stake (1995:55) mentions that most researchers find that they do their best by working thoroughly prepared to concentrate on a few things, yet ready for unanticipated happenings that reveal the nature of the case.

2.4.4 Applications of case study research

The literature contains examples of application of the case study approach to qualitative research (Stake, 1995; Tellis, 1997a; Patton, 2002; Stake, 2000). The earliest and most natural examples are to be found in the fields of Law and Medicine where cases make up a large body of the student work. Yin (1994) observes that the body of literature in case study research is *"…primitive and limited, in comparison with that of experimental or quasi-experimental research"*. The requirements and inflexibility of the latter forms of research make case studies the only viable alternative in some instances. It is a fact that case studies do not need to have a minimum number of cases, or to randomly *select* cases. The researcher is called upon to work with the situation that presents itself in each case.

Case studies are increasingly being used in education (Tellis, 1997a). Schools of business in particular have been very active in the implementation of case-based learning. Research case studies must be distinguished from teaching case studies, which are widely used, particularly in business schools. Teaching case studies are written to highlight particular issues and to stimulate debate. The research case study aims to research questions and issues by setting them in contextual and often causal context (Hartley, 2004).

Cases can be individuals, groups, neighbourhoods, programmes, organisations, cultures, regions or nation-states (Patton, 2002). Cases can also be critical incidents, stages in the life of a person or programme, or anything that can be defined as a *"specific, unique, bounded system"* (Stake, 2000:436).

Case studies can be very useful in capturing the emergent and changing properties of life, such as during an organisational transformation. A survey may be *"…too static to capture the ebb and flow of organisational activity, especially when it is changing very fast"* (Hartley 2004). A case study can also be used to understand everyday practices and their meanings to those involved, which would not be revealed in brief contact (Barley, 1990).

Yin (1994) presents at least four applications for a case study model:

- to explain complex causal 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.

Yin (1993) identifies specific types of case studies: **exploratory, explanatory and descriptive**. **Exploratory** cases are sometimes considered as a prelude to social research; explanatory case studies may be used for doing causal investigations; **descriptive** cases require a descriptive theory to be developed before starting the project. Of the three, the **explanatory case study** appears to be most suited for this research. Causal relationships for example need to be determined between an intervention and the response of the organisation to the intervention; or between a particular emerging phenomenon during the change process and the choice of intervention. Similarly a causal relationship could exist between several phenomena.

2.4.5 Reliability and validity of case study research

In case study research consideration must be given to construct validity, internal validity, external validity and reliability (Yin, 1994). Suffice to note the following:

a. **Construct validity**. This form of validity is especially problematic in case study research, the source of criticism being the potential investigator subjectivity. Yin (1994) proposes three remedies to counteract this:

- using multiple sources of evidence (e.g. survey instruments and documents);
- establishing a chain of evidence; and
- having the draft case study report reviewed by key informants.

b. **Internal validity.** This is usually a concern in causal (explanatory) cases, like the current study. The problem is one of *interferences* in the case study. This potential problem can be dealt with using multiple pieces of evidence from multiple sources to uncover convergent lines of inquiry. This helps to establish a chain of evidence forwards and backwards (Soy, 1996). The specification of the unit of analysis also contributes to internal validity, as theories are developed and data collected and analysed to test those theories (Patton, 1990; Lincoln & Guba, 1988).

c. **External validity.** This centres on the question whether the results are generalisable beyond the immediate case. For quantitative research generalisation is achieved through such techniques as sample size and sampling frame. In case study research several approaches may be considered to improve generalisation:

- Hartley (2004) proposes **analytical generalisation**, which is a detailed examination of processes in context that can reveal processes that can be proposed as general. The generalisation is then about theoretical propositions, not about populations; about a particular process, which may influence behaviours and actions in an organisation.

- There are certain actions a researcher can take to ensure that generalisation is as strong as possible, such as ensuring the construct validity of operational measures, the internal validity of the research and the reliability of the phenomena (the data). The case study must therefore be well-argued, well-presented and alternative explanations of data examined (Hartley, 2004).

- The use of existing literature to assess the extent of generalisable findings is equally important (Eisenhardt, 1989). In this regard, writing with a clear conceptual framework rather than a narrative, will help to relate theory to the literature and aid generalisation.

- Cronbach (1975) concluded that social phenomena are too variable and context bound to permit very significant empirical generalisations, and poses that any effort to generalise be treated as a working hypothesis, not a conclusion. This view is echoed by Guba (1978).

- Lincoln & Guba (1985:124) emphasise appreciation of attention to context as a natural limit to generalisations, and propose the use of substituting concepts such as *transferability* and *fittingness*. The degree of transferability then becomes a direct function of the similarity between the two contexts.
- Finally, Stake (1995) argues for another approach, centred on a more intuitive, empirically-grounded generalization. He refers to it as *"naturalistic generalization"*. His argument is based on the harmonious relationship between the reader's experiences and the case study itself. He expects that the data generated by case studies will resonate experientially with a broad cross section of readers, thereby facilitating a greater understanding of the phenomenon.

d. **Reliability.** In case studies this is achieved in a number of ways. One way is to ensure multiple sources of data (Stake 1995, Yin 1994). Some sources identified by Yin (1994) are:

- documentation;
- archival records;
- direct observation,
- participant observation; and
- physical artefacts.

2.5 Research design

2.5.1 Selection of the case

A single-case was selected for this research: Schümann-Sasol (SA) (Pty) Ltd (from 2002 known as Sasol Wax (Pty) Ltd). The reasons for the choice of this company as the focus of this research are three-fold:

a. SSSA is an autonomous business unit, accountable for all its functions, which would make it possible to study the business unit as a *whole*.

b. The company systematically entered into and managed a total transformation, which eventually resulted in the establishment of an entrepreneurial unit within a larger corporate domain. This offers the researcher the opportunity to study theory on both the organisational transformation and the entrepreneurial organisation.

c. By successfully emerging as an entrepreneurial unit in the larger Sasol corporate environment, the company represents a unique case – a rare phenomenon in any large corporation (which usually tends to be bureaucratic).

A criticism of a single case may be the question whether a single case could be capable of providing a generalising conclusion. According to Yin (1994), single cases are used to **confirm or challenge theory**, or to represent a **unique or extreme case.** Single case designs therefore require careful investigation to avoid misrepresentation and to maximise the investigator's access to evidence (Tellis, 1997:b).

This principle could be applied to the chosen case because the researcher was also the consultant. The consulting role, although a variable, guaranteed access to evidence during the entire period between 1997 to 2003. Evidence was collected from many sources: interviews, observations, formal planning sessions with the project team, meetings with the management team, strategy sessions, surveys, analysis by other consultants, etc.

2.5.2 The review of literature

A literature review assists in developing a conceptual framework that can explain the main dimensions or variables and the presumed relationship among them (Miles & Huberman, 1994).

A review of literature can also bring focus to a study. It helps to determine what is already known and what is still unknown. It also assists the researcher to identify what the cutting edge theoretical issues are (Patton, 2002).

The aim of the research in the first part of the study is to provide a theoretical background for conceptualising concepts and variables to be studied during the qualitative inquiry. Babbie (1995:101) defines conceptualisation as to *"…specify the meaning of the concepts and variables to be studied"*.

The theoretical inquiry of this study can be divided into three phases:

- the environment that businesses face;
- the entrepreneurial organisation in a corporate environment; and
- organisational change.

The research method chosen for this part of the study can be classified as content analysis. *"In content analysis researchers examine a class of social artefacts, typically written* documents (Babbie, 1995:306). Goldenburg (1992:245) expands on the concept and describes content analysis as *"…the study of the recorded products of human communication of any type, whether oriented to describing, cataloguing or testing hypothesis in the course of this analysis."*

In this study content analysis will focus on categorising and structuring the content of the body of text (articles and books) in order to clearly describe and define:

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

These three theoretical inquiries will be addressed in Chapters 3, 4 and 5 respectively.

To achieve the goal of theoretical inquiry, the researcher must have a general idea of what is meant by business environment, transformation and entrepreneurship, and how to recognise and measure it in qualitative terms.

The researcher believes that he is capable of doing this as a result of his involvement as external consultant in hundreds of organisations over more than 30 years. Through this he believes he has gained a thorough understanding of the business environment, business strategy, business processes, structures, systems, culture and people's behaviour to recognise relevant terms and conceptualise concepts and variables during the literature review to develop an appropriate theoretical framework.

This theoretical framework will be utilised to describe and interpret results from the case study and to put patterns that emerge into a conceptual framework or model.

The researcher fully appreciates the value of qualitative methods in permitting inquiry into selected issues, in great depth and with careful attention to detail, context and nuance. The researcher however also realises the constraints of the case. In this regard the theoretical framework will be a key factor to bring focus.

The data on the case was collected over the period August 1997 to September 2003. The implication is that the literature search will take place after data collection. One advantage of doing a review of literature before describing and interpreting the case is the minimisation of bias in the researcher's thinking to whatever emerges from the case (Patton, 2002).

2.5.3 The case study in the research

Taking into account the research of Simons (1980), Yin (1994) & Stake (1995) on case studies as a qualitative method of research, a number of components is essential. These are:

- the study's questions;
- it's propositions, if any
- it's unit of analysis;
- the logic linking the data to the questions;
- the criteria for interpreting the findings.

2.5.3.1 The study questions

Stake (1995) argues that the research issues may evolve over time, but need to be organised around a small number of research questions. They are usually *how* and *why* and what questions (processes). The researcher expects them to vary according to how much they are focussed on issues recognised in the literature and how much they reflect issues as experienced by the case study participants (Hartley, 2004). The review of the literature will however initially be important to assist the researcher in enhancing the meaning of the research question. The researcher also recognises the challenge to link the issues experienced by the case study participants to a wider literature by the end of the case study. The questions will suggest pinpoints of where to look for evidence and will help to determine the methods of analysis to use in the case study.

The researcher realises that a case study's propositions are sometimes derived from the *how* and *why* questions, but accepts that not all studies need to have propositions (Yin, 1994). For this case the research questions will therefore suffice.

2.5.3.2 The unit and the assembling of raw data

The researcher's choice of a single case has been argued earlier. Another reason was the researcher's direct involvement as external consultant and the opportunity to test and refine applied theories involved in an organisational transformation. Taking these factors into account the study will qualify as an explanatory case study (Yin, 1994).

Through his involvement as external consultant the researcher collected data from many sources – documents, observations, interviews, meetings, reports by other consultants and from a variety of people. Information was gathered about the case and the context, and stretched over the period August 1997 to September 2003. Evidence of the case was collected systematically and included an emphasis on multiple and triangulated methods where possible. The researcher, however, realises that additional evidence may have to be gathered when the case narrative is written.

2.5.3.3 Preparing a case record

Because of the voluminous nature of the data collected over a five-year period, the case data will be organised into a comprehensive, primary resource package. This case record will include all the major information that will be used when writing the case study. In the process of compiling this case record, information will be edited, redundancies will be sorted out, and parts will be fitted together. The case record will be organised for ready access chronologically and/or topically.

The researcher accepts that the case record must be complete but manageable and should include all the information needed for subsequent analysis (Patton, 2002). It must be organised at a level beyond that of the raw data.

2.5.3.4 Writing the case study narrative

The intention of the researcher is to prepare the case study as a readable, descriptive picture of the Schümann-Sasol transformation. All the information necessary to understand the case in it's uniqueness will be made accessible to the reader. The case study will be told chronologically. To understand the case well, a holistic portrayal of the organisational transformation within it's context will be made.

In the writing of the case study the researcher intends to use many interpretations in order to find a linkage between the research questions and the case data. Throughout the researcher will remain open to new opportunities and insights. This will be aided by the fact that the researcher's involvement as external consultant was reduced from 2000. This avoided an overload of impressions that could prevent him from seeing the wider significance of the data.

Being an explanatory case study the case narrative will be a complete rendition of the features and facts of the case, but with some consideration given to possible alternative explanations of these facts. The researcher will provide a chain of evidence which will allow the reader of the case study *"…to follow the derivation of the evidence from initial research questions to ultimate case study conclusions"* (Yin, 1984:98).

Throughout the interpretation of data and the description of the case the researcher will guard against subjectivity, particularly because of his direct involvement in the case, especially during the first two years of the transformation. To counter this the researcher will allow for triangulation of data sources and analytical perspectives to increase the accuracy of the findings (Patton, 1999).

2.5.3.5 Generating and testing theory

In an effort to get as close as possible to what really happened during the transformation at Schümann-Sasol, the researcher will conceptualise the transformation process in the form of a model, given it's unique context. This must be seen as an effort to hypothesise a theory of organisational transformation, given the particular variables and the context.

Through this theoretical model the researcher hopes to add more meaning to the analysis and to enhance the internal validity of the research (Hartley, 2004). By systematically building a model the relevant constructs and theory will be tested against various sources of evidence. By simultaneously referencing existing literature, the researcher hopes to put together more coherent answers and a worthwhile theory for the process of transforming a traditional, functional organisation into an entrepreneurial unit in a corporate environment.

2.5.3.6 Generalising from the case study

As was stated earlier (par 2.3.7b) the researcher fully realises the limitations when making generalisations in Qualitative Research. He agrees with Lincoln & Guba (1985) that the researcher cannot specify the transferability of findings, he can only provide sufficient information that can be used to determine whether the findings are applicable to the situation.

In this regard two attempts towards generalisation will be made:

a. **Common success factors**. The researcher endeavours to identify the common success factors that manifest in all the phases of the transformation. It is expected that each of these factors will provide further insight into a successful transformation and a better understanding of how these factors fit together (Patton, 2002).

   Generalisation from the case study will be enhanced by also using existing literature to assess the extent to which these factors could indeed be *common* in similar transformations (Hartley, 2004).

b. **Extrapolation of findings**. To go beyond the findings of the data the researcher will discuss application. This will be written an extrapolations (Patton, 2002). Extrapolations will be viewed as modest speculations on the *"…likely applicability of findings to other situations under similar, but not identical, conditions"* (Patton, 2002:548).

To enhance the process of generalisation further, the data of the case study will be presented in such a way that it will resonate with managers and consultants, thereby hopefully contributing to a greater understanding of the transformation phenomenon (Stake, 1995).

2.5.3.7 Validity and reliability

Throughout the research design the researcher will ensure that the study is well constructed to meet the requirements of construct validity, internal validity, external validity and reliability. Some of these measures have already been discussed.

In summary the researcher will take the following measures to meet these requirements:

a. **Construct validity.** To counter any possible subjectivity of the researcher (particularly due to his involvement as external consultant), multiple sources of evidence will be used and a chain of evidence will be established. The draft case study will be reviewed by key informants.

b. **Internal validity.** The researcher will allow for multiple pieces of evidence from multiple sources to uncover convergent lines of enquiry. Through the development of a transformation model, the relevant constructs and theory will be listed against various sources of evidence.

c. **External validity**. Because of the difficulty to generalise, research findings will be extrapolated to speculate about the likely application to other situations under similar but not identically conditions.

d. **Reliability.** Reliability will be enhanced by using multiple sources and applying data source triangulation.

Chapter 3

THE BUSINESS ENVIRONMENT

3 INTRODUCTION

This chapter is directed at understanding the new business environment and the pressures and challenges that companies face. It starts by briefly looking at some characteristics of the new business environment, the drivers of the new economy and changes that characterise the environment. This is followed by an analysis of the changing business environment, which Schümann-Sasol (SA) (Pty) Ltd faced after the merger and prior to it's decision to engage in a transformation.

The Chapter also reviews the major factors companies could consider for enhancing their competitive advantage. The Chapter ends with a proposal for a new paradigm to improve organisations' competitive advantage.

3.1 The new business landscape: a new frontier

Changes since the early 1990's have been unprecedented. The world entered the nineties with the use of the internet largely unknown. The nineties ended with almost a billion people globally communicating and conducting business on the Internet. Now, after four years into the millennium it has become the basis for electronic commerce among businesses, the digital delivery of goods and services and retail sales of tangible goods (Hitt 2000; Hughes, 1998).

The environment of the 21st Century represents a new frontier. This new frontier is characterised by the elimination of industry boundaries, major technological advances, the opening of previously closed global markets and intense global competition (Roux, 1998).

These changes and the business environment now faced by organisations require a new mindset. Standard management thinking and practice were developed when most firms operated in a relatively stable environment, which thrived for nearly three quarters of a century. The old economic policy, shaped by the Great Depression, largely focused on creating jobs, controlling inflation and managing the business cycle. But the environment of the 21st century represents a new frontier. This new frontier provides a distinctive, exiting and challenging time for companies. It is a time of technological revolution and a global market economy.

The business environment is also typified by substantial, discontinuous change. Multiple strategic discontinuities occur and change is rapid. Periods of stability are short. These substantial changes and the size and complexity of this new frontier produce significant levels of uncertainty (Pink, 2000). Firms must compete in multiple markets and often in multiple countries, each of which has it's own rules and *referees* (such as government policies). This is especially true in the South African context as companies experience not only ongoing competitive pressures, but have to cope with new challenges such as Black Economic Empowerment, Employment Equity, and the fluctuations of the Rand.

The landscape is rigged with many hills, mountains and valleys. Changes in the landscape may occur with little or no warning. A firm may be the market leader one day, but that same firm may find itself down in the valley and *behind* its competitors because of a change in the business landscape.

3.1.1 Drivers of the new business landscape

In this competitive landscape, two **primary** drivers can be distinguished: the **technological revolution** and increasing **globalization**.

3.1.1.1 The technological revolution

The technological revolution is characterised by an increasing rate of technological change and diffusion, greater knowledge intensity and the recognition of knowledge as a competitive advantage. The development and diffusion of new technology require more innovation as companies strive to stay competitive. Likewise, the continuous technology development and change have produced shorter product life cycles and fleeting windows of opportunity. Being first in the market with a new product has become a competitive imperative (Levy, 1998). This allows a company little time to recover tremendous investments in research and development and other expenditures to commercialize the market. Companies therefore have to get to the market as quickly as possible and allow their customers to develop and debug their products. *Launch and leam* has become the new competitive strategy (Farrel, 2003).

Technology can be viewed as *"…the systematic application of knowledge to resources to produce goods and services"* (Roux, 1997). Resources can be both physical and human in nature, the latter encompassing management, labour, capital and what Thurow (1997) calls *man-made brain power*. Technology broadly defined, operates on three levels (Soltynski, 1998):

- the level of physical artefact (the product);
- the skills to use the technology (the process); and
- the environment in which the technology operates (the infrastructure).

This definition of technology does not require that a physical artefact be involved in a particular technology, but without the other two levels, that technology ceases to be viable.

High-technology as a value adding element. Soltynski (1999) argues that high-technology in particular is a major factor in a nation's economic development and thus its ability to compete globally. High-technology industries are defined as industries with a high intensity of R&D. (OECD, 1993). These include aerospace, computers and office machinery, electronics, communications and pharmaceuticals.

One of the most significant high technologies inherent in the technological revolution is information and communications technology. This technology is used in almost all businesses, large and small, and forms an integral part of many systems (e.g. manufacturing systems, inventory systems, communication systems). Companies are using IT to finish work faster and with fewer workers, without raising inflation. Information technology facilitates globalization because it allows ready access to employees all over the world at a nominal cost. It's integration into manufacturing technology is allowing the development of mass customization processes in many product lines, ranging from clothing to vehicles. It is also helping firms to increase their productivity (Soltynski, 2000).

The networked economy. High-technology applications have created changes of which the speed and complexity are difficult to absorb. It appears as if the transition to a networked economy is the largest shift in the way the world functions since the industrial revolution. This era may in future be viewed as the era that bridged the gap between old and new ways of living and doing business (Neuhauser, Bender & Stromberg, 2000). A great deal of attention is being directed at designing, marketing, selling and delivering goods and services in the networked economy. On-line transactions not only increase firm's revenues, they also reduce costs. While business-to-business transactions today represent the largest single segment of e-commerce, many firms are marketing their products directly to the consumer on their web pages. One of the implications of the networked economy is that everything is moving ten times faster than in the pre-net world (Hitt, 2000).

3.1.1.2 Globalisation

Markets are fast becoming borderless or global, and it is difficult to distinguish between international and domestic. The motor vehicle market is a good example. This is evidenced by the merger which created Daimler Chrysler, the acquisition of Nissan by Renault, of Landrover by Ford and of Rolls Royce by Volkswagen. Ford

Motor Company has an interest in Mazda and Daimler Chrysler in Mitsubishi. There have been strategic alliances between U.S. and Japanese car manufacturers. Many BMW, Volkswagen and Mercedes Benz vehicles are now being manufactured in South Africa and sold in other parts of the world, while the South African consumer has a choice of vehicles which include those manufactured in Germany, the U.S., Australia, Japan and Korea.

Globalisation, i.e. *"…the widening, deepening and speeding up of the processes of worldwide connectivity "* (McGrew, 1998:302), in all dimensions of human life, is no longer simply a peripheral trend. Globalization is a process of integration via the axes of technology and communications infrastructure. But it has also become a structural feature of the global system (De Kock, 1997). The widening, deepening and speeding up of connectivity refer to the fields of finance, production, trade and knowledge generation; in short, economic globalisation. The regulatory changes, and technological and management innovations which facilitated the widening, deepening and speeding up of economic inter-connectivity, are well known.

Firms are endeavouring to become stateless in order to transform themselves into global businesses. As markets become more open as a result of free trade agreements; more foreign firms are entering domestic markets, thereby increasing the amount of competition. Increasing domestic competition in turn puts pressure on firms to move into international markets in order to maintain their competitiveness (Hitt, 2000; Farrel, 2003).

The growing interdependence across national economics was exemplified by the effects of the Asian crisis on global economic growth. In 1998 global economic growth was reduced by 25% because of the economic problems in Asia. The interdependence is also growing as world financial markets are becoming more integrated (Farrel, 2003).

Financial market integration, the interdependence of national economies, the development of borderless markets and stateless corporations and increasing competitive pressures suggest that globalisation has changed the boundaries and nature of strategy, competition and competitive advantage (Hitt, 2000).

Emergence of an entrepreneurial economy. Audretsch & Thurik (2000) note that a fundamental shift is taking place in OECD (Organisation for Economic Co-operation and Development) countries. This shift is the result of globalisation and is **away from** the managed economy to the entrepreneurial economy. The reasoning can be summarised as follows (Audretsch &Thurik, 2000):

- The comparative advantage of high-wage countries is no longer compatible with routinised economic activity (production), which can be easily transferred to lower cost regions outside the developed countries. Maintenance of high wages requires knowledge-based economic activity that is costly to diffuse across geographic space.

- Change is a force underlying the entrepreneurial economy. Change goes together with knowledge-based activity and knowledge-based activities result in innovations that are more radical than incremental. An inherent characteristic of knowledge is high uncertainty, which individuals assess differently. Differences in the evaluation of knowledge can be more easily handled in new and smaller firms.

Some conclusions. Given the reasoning of Audretsch and Thurik (2000), one could then articulate the following conclusions:

- creating a new entrepreneurial company may be a more viable option to respond effectively to the competitive environment;
- downsizing and management buy-outs may be considered as options to refocus existing businesses and to light and grow an own entrepreneurial spirit;
- restructuring or re-engineering of a business into a collection of horizontal processes, managed independently through multi-functional, multi-skilled teams to handle orders from initial enquiry to final product (at the client), may be a way of creating an entrepreneurial way of thinking and doing as part of a larger corporate structure.

3.1.2 Some characteristics of the new landscape

If the new business landscape is driven by two major factors, the technological revolution and globalisation, what are the changing characteristics that businesses have to face? Prahalad (1998) describes the emerging competitive landscape as eight discontinuities: *"…global, deregulation, volatility, convergence, intermediate industry boundaries, standards, disintermediation* and *eco-sensitivity"* – and they must be managed simultaneously. One at a time they do not tell the whole story; it is the collective pressure these discontinuities exert that has to be taken note of.

To fully understand these discontinuities, each needs to be discussed briefly (Prahalad, 1998):

a. **Global.** Companies now need to take an agreement beyond national borders as the global economy changes. As China and India emerge as strong economics, more multi-national companies will need business units there. Globalisation will therefore have a significant impact on both the resource and skill configuration of multi-national firms. Needless to say, the composition of top management in these firms will also be different.

b. **Deregulation and privatisation.** One only needs to look at the financial and telecommunications industries to see how deregulation has snowballed, particularly as the focus of these sectors has become international. Mergers and takeovers are commonplace, as companies seek to position themselves and their assets to their best advantage. There is a race to extract value out of the inefficiencies that are inherent in regulation–induced local and regional monopolies.

Public sector firms move into the private domain, resulting in **unemployment** and rationalisation of assets. Resizing has become a synonym for downsizing. Privatisation produces a significant amount of social disruption as inefficient public sector firms shed obsolete assets, consolidate their businesses and resize their companies. These efforts significantly impact capital flows, unemployment and the need for growth to absorb the workforce rendered surplus.

c. **Volatility**. Almost all industries are experiencing a new level of volatility. Volatility and seasonality combined create a new set of demands on management. As the demand for products and services fluctuates, focused factories have to dramatically scale up or be closed down. This dilemma is increasingly forcing firms to create *flexible factories* that can serve multiple, related business units. Furthermore, privileged access to suppliers is becoming a major source of concern. Firms must maintain a close relationship with their suppliers to ensure that they will support the marketplace volatility of their end products.

d. **Convergence.** The convergence of multiple technologies represents a major discontinuity. As business sectors converge, firms must learn to move beyond their traditional areas of expertise to survive. The key issue is that very distinct *"intellectual heritages"* have to be managed and seamlessly integrated. In this regard, the impact of digital technology is having a profound effect.

e. **Indeterminate business boundaries.** The lines between sectors are blurring and will continue to blur. Competition may come form unexpected **quarters**, so identifying potential threats may be difficult. The boundaries between suppliers, competitors and customers are becoming less defined. Traditional market measures may no longer suffice. Size does not necessarily imply influence and power. Firms form new alliances and opt out of old ones regularly.

f. **Standards.** There is a change in the way industry standards are created, as market drivers, not policy makers, take charge. Companies are setting their own standards, and the most successful will become the industry standard. Competing coalitions of companies will decide the fate of any given set of standards.

g. **Disintermediation.** The distance between producer and customer is shrinking. The multiple distribution steps – wholesalers, dealers and retailers – are **being** reduced to a single distribution step. E-commerce and other new channels emerge as traditional links in the supply chain disappear. In this deregulated zone, there is unlikely to be a dearth of information available to the end-user.

h. **Eco-sensitivity.** As the world becomes more environmentally conscious, firms are moving away from a compliance-orientated perspective to a business-opportunity-driven viewpoint of environmental issues.

3.1.3 The productivity factor in the new economy

One can hardly doubt the significance of key drivers in the new economy such as the technology revolution and globalisation. Neither can there be doubt that many changes have occurred directly or indirectly as a result of these factors. But, although very much part of this landscape, it is doubtful whether the internet, technological breakthroughs or free trade agreements truly constitute the new economy.

Farrel (2003) argues that the true driver of corporate success in the new business landscape is **productivity**. She quotes the US Bureau of Labour statistics and points out the following:

- Productivity in the US grew at an annual rate of only 1,4% from 1973 to 1994.
- US labour productivity however increased to 2,4% per annum from 1995 to 1999, rose to 2,9% in 2000, decreased to 1,1% in 2001 and increasing again in 2002 to 4,8%.

In South Africa a major contribution to economic growth between 1994-2001 of 2,8% (*versus* 1% between 1980-93) can be attributed to a 3,1% TFP (Total Factor Productivity) during that period, rather than to increases in labour and capital. This implies a significant improvement in technology since 1993 and the efficiency with which labour and capital are being combined (Roux, 2004).

Competition. Farrel (2003) doubts the claim that IT investments drove the productivity gains and acknowledges only a few industries where IT spending could honestly be linked to an improvement in productivity. She postulates that the increasing pace of change in the economy is being spurred not only by new technology, but also by increasing competition, a trend that is in turn partly a product of increasing globalisation. It appears as if one of the most noticeable structural changes in the new economic landscape is the **degree to which dynamism, constant innovation, and adaptation have become the norm**. It seems as if the winning companies have the ability to welcome and embrace these changes. Farrel (2003) cites that managers in those sectors , which experienced productivity growth, were forced to innovate aggressively to protect their revenues and profits in the face of strong competition. Competition therefore spurs innovation, in both technology and business processes. These innovations spread quickly, improving productivity across the sector. As productivity rises, competition intensifies further (Dyer *et al*, 1999).

In the old economy, fixed assets, financing and labour were principal sources of competitive advantage for firms. But now, as markets fragment, technology accelerates, and competition comes from unexpected places, continuous learning, creativity and productive adaptation are becoming the principle source of competitive advantage in many industries.

3.1.4 The changing business landscape of Schümann-Sasol (SA) (Pty) Ltd

To fully understand the SSSA case it is necessary to grasp the nature of it's business environment before and during the crisis, which led to the decision to engage in a transformation.

Before January 1995 Sasol Waxes (Pty) Ltd functioned in a very protected capacity as a business unit within Sasol Chemical Industries. To position themselves globally Sasol entered into the merger with Schümann of Germany. Sasol Waxes (Pty) Ltd became Schümann-Sasol (SA) (Pty) Ltd, the South African branch of the international company Schümann-Sasol International AG.

The new company now had subsidiaries in Germany, South Africa and the USA, and controlled downstream activities in the Netherlands, France and China. A global market orientation therefore replaced a preference for the local market.

SSSA's competitive position was also changing. Because of market growth and competitive pressures, a number of petroleum wax firms were entering the polyethylene wax business. These synthetic polymers were putting pressure on traditional wax applications, including Fisher-Tropsch wax, produced by SSSA.

The competitive position of SSSA as sole supplier of Fisher-Tropsch waxes changed drastically when Shell Malaysia went into wax production during May 1993, using a modified Fisher-Tropsch synthetic process.

The company's competitiveness was worsened by a lack of alignment within Schümann-Sasol International AG, the absence of a corporate governance system and philosophy to manage the economic interdependence of the merger.

The situation was further compounded by SSSA's own lack of vision and strategy, a highly specialised and inflexible structure, uncoordinated marketing, sales and production processes and conflict between the company's management and the Management Board in Germany.

3.2 Building competitive advantage in the new business landscape

There is an increasing pressure on companies and organisations to find new ways to keep ahead of rivals, or even just to survive. This is especially relevant in the South African context as companies experience not only ongoing competitive pressures, but have to cope with changes in government legislation, fluctuations in the Rand and increasing exposure to the international marketplace.

The Institute for Futures Research at the University of Stellenbosch produced an environmental hexagon, which poses that an organisation is embedded in a contextual and transactional environment (Soltynski, 1998). The **contextual** environment provides pressures over which an organisation has little or no control. These pressures originate from changes in the political, economic, social (including demographic changes), institutional or regulatory, and the natural dimensions of the contextual environment. The **transactional** environment may be viewed through Porter's (1996) well-known five-force model: competitive rivalry, buyer power, supplier power, barriers to entry, and the threat of substitutes.

Organisations can apply knowledge and skills to their resources to effectively utilise the transactional environment to cope with the contextual environment. These resources could include **technology, the ability to innovate** and **competencies.** The way they are **managed** often determine the relative competitive position in a particular industry and market.

3.2.1 The Management of technology

When competition intensifies and companies face the possibility of losing customers and profits, managers have many potential incentives at their disposal to pursue creative ways of cutting the cost of their operations and increasing the value they provide to buyers. Price (1996) asserts that because the key to innovation is economic success, **strategic thinking** about technology beyond the simple development of new products and services are required. To think strategically about technology managers have to understand the relationship between organisational structure, management and IT deployment, realise the benefit of IT as a generator of new knowledge and skills and appreciate the potential impact on innovation, productivity and organisational transformation.

3.2.1.1 Organisational structure, management and IT deployment

The National Office for Information Economy in Australia (NOIE, 2003) accentuates the importance of IT in technology forecasting, life-cycle management, the management of partnerships and alliances.

3.2.1.2 Organisational learning and skills development

Organisations report that a key benefit from the way in which they have implemented IT projects is the creation of new skills and knowledge. This strengthens the capabilities and capacity of the organisation for future operation (NOIE, 2003).

3.2.1.3 Process innovation

Some of the IT based innovations come in the form of new products and services (Farrell, 2003). Others are enhancements to existing processes. In many cases new products and processes are tightly intertwined. Thurow (1996) points out that product innovation means little as products can be easily imitated or reverse engineered. He poses that the most important part of technology is process technology – having the knowledge, skills and potential ability throughout the organisation to put new things together and the ability to manage the production process (Thurow, 1996:68-69).

3.2.1.4 Productivity improvement

Organisations attribute productivity improvements not only to actual IT systems being implemented, but also indirectly to the processes associated with preparing for and undertaking implementation. This includes process re-engineering, participative arrangement, etc. (NOIE, 2003). Specific sources include:

- work process re-engineering and simplification;
- reduced process cycle time;
- data sharing and elimination of duplication;
- reduced re-work;
- automated reporting and analyses;
- direct customer entry of data and access to systems;
- scalability of systems, allowing transaction volume growth to be handled without additional resources;

3.2.1.5 Transformation improvement

It appears as if even an organisational transformation could benefit from IT implementation, if managed well. To fully appreciate this, it must be kept in mind that the transformation of an organisation is closely related to variables such as culture, strategy, structure and leadership (Cummings and Worley, 2001). Research by the

NIOE (2003) revealed the following benefits originating from IT application on organisational transformations:

- new processes subsuming old;
- more capacity to provide more and varied services;
- changes in the business model, core business and business objectives;
- improved skill levels and skill mix;
- development of an innovative work culture;
- improved communications and increased confidence in using and implementing IT;
- improved morale.

3.2.2 Innovation

Enabling constant innovations has become the goal of any organisation committed to prospering. In today's fast changing environments, global corporations need to be innovative in order to sustain their market position and competitive advantages (Bartlett and Ghoshal, 1998; Chiesa, 1999; Dunning, 1994). They face considerable pressure to quickly and effectively respond to local market needs, while achieving global efficiency (Prahalad, 1999). This has led some global companies to recognise the need to leverage innovation that occurs within their subsidiaries to meet global needs.

Bartlett and Ghoshal (1993) note that changing local conditions place unique pressures on subsidiary managers to be responsive to the opportunities that exist in their immediate environment. Porter (1986) suggests that subsidiaries facing sophisticated demand conditions and competitive national environments have to engage in more entrepreneurial activities such as initiating strategic renewal, developing new products or processes or spawning new ventures in order to compete in the dynamic local markets. Consequently, the local environment context can spur entrepreneurship within subsidiaries.

To better understand innovation within the broader context of competitiveness, a distinction should be drawn between product or service innovation and strategic innovation.

3.2.2.1 Product or service innovation

Innovation can be viewed as the application of new knowledge, the use of new resources or the production of new goods or services. Indeed services are the hallmark of the New Economy. In the United States between 1969 and 1995, virtually all the jobs lost in the production or distribution of goods were replaced by jobs in offices. Today 80% of workers in the US (93 million jobs) do not make things.

Instead, they move things, process or generate information, or provide services to people (Soltynski, 1999).

Innovation can apply to products or processes that can be either internal to the organisation, or external, whether financial, marketing, administration, information management - and not just manufacturing or production processes (Soltynski, 1998).

Innovations are often developed in response to requests and ideas of suppliers and customers. Lead users can also help a company to refine its innovations and make them more friendly (Von Hippel, 1989). These innovations can improve a company's ability to meet existing demands in current markets or venture into new ones.

In many industries, companies depend on new products, i.e products introduced within the last five years or less, for more than 50 percent of their sales (Schilling and Hill, 1998). So in effect, **the introduction of new products is the dominant driver of competition** and as such it is of key strategic importance. It is certainly not without risk, as borne out by a recent survey which found that only 55 percent of new products launched were adjudged to have been a commercial success (Balbontin *et al*, 1999), and this representative figure does not take into account those new product projects which failed to even result in a product at all.

The importance of being first-to-market. Being first to the market with a product has considerable strategic advantage which can result in considerable profit. Some of the components of this advantage include (Dyer *et al,* 1999):

- full utilization of the product life-cycle;
- pricing freedom, far more so than what later entrants to the market have;
- a better success rate and a higher customer satisfaction with their products than those who arrive late.
- the ability to set *de facto* standards, and benefit from licensing and patent arrangements with those who follow;
- economies of scale;
- the pre-emptive acquisition of scarce resources, whether physical or human;
- a reputation and the perception of being a market leader.

3.2.2.2 Strategic innovation

Strategic innovation may be thought of as finding or creating a new way or ways of doing things what Markides (1997) refers to as *changing* or *even breaking the rules of the game*. Porter (1998) describes it as *"…the creation of a unique and valuable position, involving a different set of activities".*

a. **Operational efficiency as substitute for strategic innovation.**

Most organisations today try to encourage growth by focusing exclusively on pulling the conventional levers such as cutting costs, developing incrementally better products and services, strengthening their distribution chains, looking for more profitable customers and putting pressure on suppliers. Porter (1996) argues that because companies have become so focused on improvements in productivity and quality, and have positioned themselves to act and react more quickly, they have confused operational efficiencies and strategy.

Porter (1996) points out that the implementation of management techniques such as total quality management, business process re-engineering, outsourcing, and even take-overs and mergers, have mostly led to short term results. Such non-innovative processes and structural changes are not sustainable in the longer term as rivals quickly copy and adapt to such moves. Such improvements are only incremental. **What is required is the fundamental redefinition of a company.**

b. **Characteristics of a strategic innovation.**

How should strategic innovation be produced and what does it look like? According to Markides (1997) strategic innovation can be stimulated by redefining the business: in essence asking **what** business are we in? Subsequent questions could include:

- Who is our customer?
- What product or services are we offering?
- How are we doing this?

Porter (1996) recommends a similar type of approach. A company should examine amongst others, the following:

- it's positioning;
- it's competitive pressures;
- it's trade-offs, and;
- it's fit.

Hamel & Välikangas (2003) take the concept of strategic innovation much further. They maintain that three essential forms of innovation should be mastered:

- **Revolution.** Whether a newcomer or an old timer, a company needs an unconventional strategy to produce unconventional financial returns. Industry revolution is creative destruction. It is innovation with respect to industry rules.

- **Renewal.** Newcomers have one important advantage over incumbents – a clean slate. To reinvent its industry, an incumbent must first reinvent itself. Strategic renewal is creative reconstruction. It requires innovation with respect to one's traditional business model.
- **Resilience.** Resilience refers to a capacity for continuous reconstruction. It requires innovation with respect to those organisational values, processes and behaviours that systematically favour perpetuation of innovation. It is the ability to dynamically reinvent business models and strategies as circumstances change. It means having the capacity to change before the case of change becomes desperately obvious.

3.2.3 Organisational competencies

The third major source of competitive advantage is competencies. In the past, a company's capital consisted of tangible assets such as buildings, machines and finished goods. In the new economy, value has shifted from tangible to intangible assets.

Sveiby (1999) defines intangible assets as **internal structures**, (systems, patents, etc.) **external structures** (customer and supplier relationships and an organisation's image) and **competencies** of people to make the internal and external structures work well.

3.2.3.1 Composition of competencies

Prahalad (1998) recognizes two broad systems of competencies:

- people-embodied knowledge – both tacit and explicit;
- capital-embodied knowledge – both proprietary and vendor-based.

It is the combination of both people-embodied and capital-embodied knowledge which represent the totality of the competence-base within an organisation.

To manage this competence-base effectively, understanding the relative importance of the various elements in a firm's competency profile, is a requirement (Prahalad, 1998). Companies with one location or multiple locations around the world will, for example, have to be managed differently. The development of a new competence will have to explicitly recognize the role of individuals, teams, the whole organisation **and** the process by which individual excellence, scientific knowledge, creativity and imagination are transferred to team expertise and organisational capability. (Prahalad, 1998).

One of the key factors in achieving strategic competitiveness is undoubtedly highly developed human capital or people-competencies. This requires systematic and substantial investment in the training and development of people (Hitt, 2000; Hiltrop, 1998).

Pfeffer (1994) observes that traditional sources of success, such as product and process technology, protected or regulated markets, access to financial resources, and economics of scale, can still provide competitive leverage but to a lesser degree than in the past. This leaves organisational culture and capabilities, derived from how people are managed, as comparatively more vital.

3.2.3.2 Knowledge transfer and learning

To successfully utilise human capital, managers and knowledge workers must think in new ways, build portfolios of skills, and harness and utilise new technology. Managers must emphasize the creation of knowledge, diffuse it throughout the organisation and ensure that it is utilised.

To develop such human capital, a process of continuous learning is required. Furthermore, for a company to take full advantage of this knowledge and to ensure that it is diffused throughout the organisation, management should consider the following (Hitt, 2000; Prahalad, 1998; Drucker *et al,* 1997):

- If a company wants to do business worldwide, it must manage multiple locations, multiple cultures, multiple skill sets and multiple business perspectives. In this process learning is essential.
- If a company wants to enter into collaborative agreements and alliances that are designed to transfer skills across firms, learning will be important to protect critical intellectual property, demanding that people will be open to new ideas while protecting vital company interests.
- Since speed is a major factor in the competitive landscape, companies will have to absorb new knowledge across markets and businesses at speed.
- Knowledge is different from all other kinds of resources. *"It constantly makes itself obsolete, with the result that today's knowledge is tomorrows ignorance"* (Drucker *et al,* 1997:22*).*

Implications. To successfully transfer knowledge and to create new competencies management must be aware of a number of implications. Suffice to mention only two:

- In a turbulent and ever-changing business world, replacing the skills and competencies that have provided people with jobs and careers for many decades, is becoming a necessity, not an option. It could mean that only those focusing on change and those emphasising continuous development and adaptation, will survive (Hiltrop, 1998). Organisations and their managers must therefore recognise the necessity of developing the mindsets, skills and abilities that will allow people to cope with the demands of the new age.

- Knowledge makes resources mobile. Knowledge workers, unlike factory workers, own the means of production: they carry their knowledge in their heads and therefore can take it with them. As a result more and more of the critical workforce – and the most highly paid part of it – will increasingly consist of people who cannot be "managed" in the traditional sense of the word. In many cases they will not even be employees of the organisation for which they work. They will be contractors, experts, consultants, part-timers, joint-venture partners, etc. These people will identify themselves by their own knowledge rather by the organisations that pay them (Drucker *et al.* 1997).

3.3 The shift to a new paradigm

To respond to the challenges of the new competitive landscape new managerial mindsets that are global in orientation and allow for strategic flexibility, are demanded. Managers must be able to think globally but also react quickly and operate in a necessary continues state of change. This requires nothing less than a fundamental re-definition of an organisation, as suggested by Hamel and Välikangas (2003). Organisations experiencing failure and pain are usually willing and keen to engage in serious change – often too late, because the new landscape requires change before it becomes obvious.

The most stubborn organisations that will resist change with the greatest tenacity are those who functioned well and have been rewarded for their performance. If a consultant approaches the management of such an institution to tell them that their recipe for success is no longer viable, their personal experience belies the consultant's diagnosis.

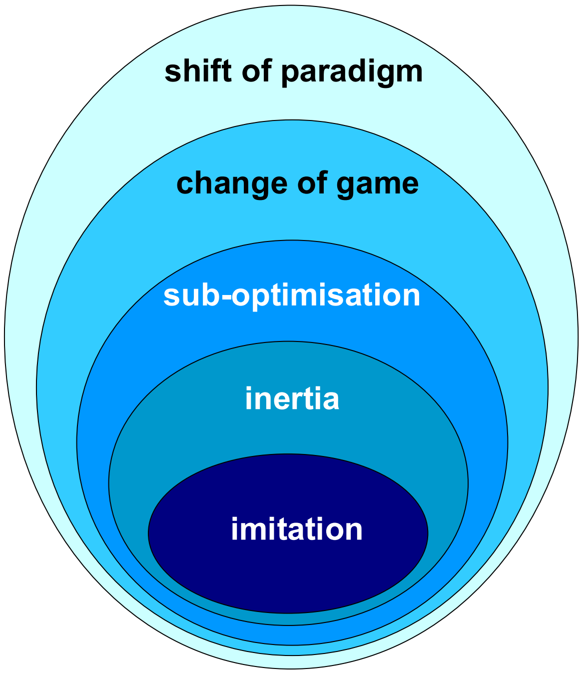
One way to understand the forces that convert success to failure and the realities of the changing game, is to apply the thinking associated with the *dual paradigm shift* (Gharajedaghi, 1999).

3.3.1 Forces that convert success to failure

The forces that make a failure out of success form a five level hierarchy (see figure 3.1). "*Each represent a distinct tendency, but together they form an interactive whole in which higher levels provide the context for the lower levels. At each level success plays a critical but different role*" (Gharajedaghi, 1999:4).

Figure 3.1

Hierarchy of forces that erode competitive advantage



Source: Gharadaghi (1999)

- **Level 1: Imitation**. Imitation is the most basic force. Competitive advantage is by definition a distinction. Successful distinctions, in time, are eroded by imitation. Advances in Information Technology, communication and reverse engineering have increased product technologies' vulnerability to imitation. Any technology distinction can now be learned, copied and reproduced in practically no time. At that point, exceptions become norms and loose their advantage.
- **Level 2: Inertia.** Inertia is responsible for all the tendencies and behaviours that delay reactions to technological breakthroughs. The more success an organisation has with a particular technology, the higher its resistance to the prospect of change. The initial reaction is always denial. The real danger however arises when the organisation finely decides to patch things up. Patching wastes critical time. It provides the competition with a window of

opportunity to disseminate the new technology and dominate the market (Gharajedaghi, 1999:6).

- **Level 3: Sub-Optimisation.** Exaggeration – the fallacy that if "*X is good, then more X's is better*" – is the core of the third level forces that effectively destroy a proven competitive advantage. A tendency to push ones strengths to its limits transforms the strengths into a destructive weakness.
- **Level 4: Changing of the game.** The change of the game or *transformation of the problem* is at the very heart of a counter intuitive process that converts success into failure. In other words, playing the game successfully changes the game itself. Henry Ford's success in creating a mass production machine effectively dissolved the production problem. A familiar concern for production was replaced with an unfamiliar concern for markets. To mass-produce lost it's advantage through widespread imitation. The competitive game therefore changed from a concern for production to a concern for markets (which required a new ability: to manage diversity and growth). Henry Ford's refusal to appreciate the implication of his own success and his unwillingness to play the new game ("*they can have any colour as long it is black")* gave Alfred Sloan of General Motors the opportunity to dominate the automotive industry. Sloan's concept of a product-based divisional structure, turned out to be an effective design for managing growth and diversity. This new game became the benchmark for the rest of the world to copy (Womack *et al*, 1990).
- **Level 5: Shift of paradigm.** The cumulative effects of imitation, inertia, sub-optimisation and the change of the game, ultimately manifest in a fifth force, a shift of paradigm. A shift of paradigm can happen purposefully by an active process of learning and unlearning. Gharajedaghi (1999) refers to it as a reaction to frustration, produced by events that nullify conventional wisdom. Faced with a series of contradictions that can no longer be ignored or denied, or an increasing number of dilemmas for which prevailing mental models can no longer provide convincing explanations, most people accept that the pervading paradigm has ceased to be valid and that it has exhausted its potential. Thus begins a painful struggle, the end result which is a re-conceptualization of critical variables into a new ensemble with a new logic of its own (Gharajedaghi, 1999).

3.3.2 The dual paradigm shift

According to Gharajedaghi (1999), shifts of paradigm can happen in one of two ways: either by a change in the nature of reality, or a change in the method of inquiry. The possibility of a dual shift, involving both dimensions, complicates how the game is changing even further.

The significance of any paradigm shift cannot be over estimated, but a dual shift is a formidable challenge. It tests the outer limits of human capacity to comprehend, communicate and confront problems. For example, the shift of paradigm from a mechanical to a biological model of organisations, despite its huge impact, represents only a shift in organisational models.

Gharajedaghi (1999) reasons that the business world are now facing the challenge of dual shift – a shift in conception of the organisation from a biological model to a *socio cultural model*, or a multi-minded system, **and** a shift in the method of inquiry – the means of knowing – from analytical thinking (dealing with independent sets of variables) to holistic thinking (handling inter-dependent sets of variables). The complementary nature of these two dimensions is at the core of both understanding how the game is changing and identifying the drivers to change (Gharajedaghi, 1999).

3.3.2.1 The first paradigm shift

The first paradigm shift involves moving from a biological model to a socio cultural model. This new model views the organisation as a voluntary association of purposeful members who manifest the choice of both ends and means. Mechanical or biological models cannot explain their behaviour in terms of systems whose part display *choice*. Therefore, a social system must be understood on its own terms. For Ackoff (in Ackoff & Emery, 1972) and Gharajedaghi (1999), these terms are *purpose and information bonded*.

Ackoff (in Ackoff & Emery, 1972) cites that an entity is purposeful if it can produce the same outcome in different ways in the same environment, as well as different outcomes in the same way in different environments. As a purposeful system, an organisation forms part of a larger, purposeful whole society. At the same time, its members consist of purposeful individuals. The result is a three level hierarchy of purposeful systems: society, organisation and individuals. Aligning these purposeful parts with each other and that of the whole is the main challenge of the system. Under the socio-cultural model, an organisation's purpose is to simultaneously serve the purposes of its members and of the environment.

In the biological model, *growth* is the measure of success, the single most important performance criteria, and profit is the means to achieve it. Under the biological model, profit drives change. The differences become pertinent when compared to the socio-cultural view, which considers the purposes of its members and the environment as the main change drivers.

In addition, as noted earlier, the elements of a socio cultural system are information-bonded, in contrast to the elements of the mechanical system, which are energy-bonded. Information-bonded relationships are an agreement based on common perception (Gharajedaghi, 1985).

Buckley (1968) saw the socio-cultural system as a set of elements linked almost entirely by intercommunications of information. Information-bonded relationships bring an organisation of meanings that emerge from a network of interactions among individuals. Information-bonded interactions in business and industry are becoming more common each day.

Some of the changed thinking in organisations as a result of this first shift, could include:

- looking at an organisation from an external rather than an internal perspective and viewing an organisation as a sub-system of a larger global system;
- switching from a profit-only orientation to serving the stakeholders (stakeholders include members of the community, in order to stay viable);
- the meaning of energy changes since energy needs not now be generated by mechanical systems, but primarily by information and knowledge exchanges.

3.3.2.2 The second paradigm shift

This second paradigm shift is about the change in the nature of inquiry. It is the change from the use of analytical thinking to systems thinking. Analytical thinking and systems thinking are quite distinct. Handling independent variables is the essence of analytical thinking. It assumes that the whole is nothing but the sum of its parts. Increasingly, however, independent variables are no longer independent. As systems become more sophisticated, the reality of interdependency becomes more pronounced. Understanding interdependency requires a way of thinking different from analyses: it requires systems thinking (Gharajedaghi, 1999).

Analytical thinking uses a three-step thought process:

- first, it takes apart that which it seeks to understand;
- then it attempts to explain the behaviour of each part separately;
- finally, it tries to exaggerate understanding of the parts into an explanation of the whole.

Systems thinking uses a different thought process. It puts the system in the context of the larger environment of which it is part and studies the role it plays in the larger whole. In contrast to analyses, this process is synthesis. Wardman (1984) quotes Ackoff who argues that synthesis is the opposite of analysis. with synthysis high level understanding is achieved, while with analysis only knowledge is attained. Synthesis is defined as a three-step process (Wardman, 1994):

- Step 1: determining the largest system in which the system is to be examined;
- Step 2: trying to understand the largest system as a whole;
- Step 3: disaggregating the understanding of the whole into an understanding of the parts by identifying its role or function in the larger system.

3.3.2.3 New learning required

Gharajedaghi (1999) poses that to reach the other side of the paradigm shift, significant development in terms of learning is required. This could include learning a new holistic language, learning a language of systems, and learning a language of interaction and design that will help people learn a new mode of living by considering various ways of seeing, doing and being in the world. People who assist organisations with change, can then design new methods of inquiry, new modes of organisation and create a way of life that will allow the rational, emotional and ethical choices for interdependent, yet autonomous social beings.

Chapter 4

THE ENTREPRENEURIAL UNIT IN A CORPORATE ENVIRONMENT

4 INTRODUCTION

This chapter endeavours to understand entrepreneurship as a response to the pressures and challenges of the new business landscape. The reasoning commences by exploring the concepts innovation, risk taking and pro-activeness, generally perceived as the requirements for companies to effectively respond to environmental dynamism, hostility and complexity. This is followed by a definition and description of entrepreneurship in a corporate setting, as well as current manifestations and perceptions about this phenomenon. A number of case studies are referenced to understand the concept of entrepreneurship as it finds application globally. This is succeeded by a review of the differences between bureaucracies and entrepreneurial companies. Obstacles for change are identified. The chapter ends with a set of guidelines for introducing and sustaining the entrepreneurial spirit in a corporate environment.

4.1 Environmental context and entrepreneurship

Chapter 3 described the characteristics and drivers of the new business environment. It highlighted the roles of the technological revolution and globalisation and concluded that the new landscape is in essence a new definition of competitiveness. The chapter also looked at factors to enhance competitiveness, such as the management of technology, the need to become more innovative and the need to establish certain key competencies. The chapter concluded by hypothesising that a paradigm shift is required in our thinking about organisations in order to meet the challenges of the changing game.

4.1.1 Innovation, risk-taking and proactiveness

From the previous chapter it would therefore be safe to surmise that the environmental turbulence faced by companies, including subsidiaries of global corporations, requires **innovation, risk-taking and proactiveness** on the part of management. Entrepreneurship involves all three elements (Miller, 1983; Covin & Slevin, 1991 a, b; Lumpkin & Dess, 1996; Zahra & Covin, 1995). **Innovation** refers to the creation, development and introduction of new products, processes, systems and organisational forms (Guth & Ginsberg, 1990; Schumpeter, 1950). **Risk-taking** alludes to the willingness to pursue goals and undertake action even when the results are uncertain (Miller, 1983; Morris, 1998), and may require *calculated* risk-taking (Stevenson & Jarrillo, 1990; Baden-Fuller & Stopford, 1994). **Proactiveness** denotes a company's commitment to initiate changes in its industry, rather than respond to the competition (Miller, 1983; Lumpkin & Dess, 1996). A proactive company is aggressive in its strategic moves (Knight, 1997) and is among the first to initiate strategic changes to pursue emerging opportunities (Covin & Covin, 1990).

Several authors have recognised the importance of entrepreneurship of a subsidiary company for the overall success of a global corporation. For example, Bartlett & Ghoshal (1990) highlighted the importance of *dispersed entrepreneurship* throughout Philip's international operations as a key determent of that company's global success. Philip's subsidiary in Canada created the company's first colour TV; Philips of Austria created the first stereo TV; and Philips of the UK created the first TV with teletext capabilities. Kogut (1990) notes the importance of *local entrepreneurship* within a global corporation. It provides the possibility that innovations, in response to local market demands, may be internationally useful.

Organisational researchers generally agree that higher levels of turbulence and uncertainty call for more flexible, innovative and entrepreneurial management practices (Davis, 1999). Contemporary business pressures have forced companies to place a high priority on identifying individuals suited for entrepreneurial roles and to emulate an entrepreneurial environment in which these managers can operate relatively unencumbered within the larger organisational structure. This supports the belief that the intelligence required by organisations today is not the genius of a few great strategists at the top, or to have many *smart* people throughout the organisation. Many *smart* people could not save long-gone bureaucratic firms. To achieve organisational intelligence, the system must support large numbers of people in applying their intelligence in a free, yet coordinated way (Pinchot & Pinchot, 1993).

4.1.2 Entrepreneurship as a response to environmental turbulence.

Numerous new organisational forms have been proposed for ensuring the continuous strategic renewal of a firm. These forms are all distinguishable by an emphasis on bottom-up entrepreneurship and a reliance on a cooperative network that allows these entrepreneurial units to share their competencies with one another (Chakravarthy & Gargiulo, 1998).

Establishing and nurturing entrepreneurial behaviour and practice so that they become part of an organisation's culture and ethos can therefore provide the opportunity to initiate corporate renewal and to create innovation (Robinson, 2001). According to Echols & Neck (1998), the more the organisation can exhibit entrepreneurial qualities, and its people believe in behaving entrepreneurially, the greater the firm's ability to achieve maximum innovation or entrepreneurial success.

There are many examples that point to the entrepreneurial venture as a model for rapid growth. Besides providing the structure, it also opens up possibilities for individuals with diverse interests, strengths, talents and motivation to become part of this structure (Luczkiw, 2002). It is proposed that companies can significantly increase the odds of survival and subsequent success in their foreign markets by behaving entrepreneurially (Zahra *et al*, 2001). Entrepreneurship embodies innovation and venturing activities, which are crucial to the conception, development and execution of an innovative and effective global strategy that creates value for the company and its shareholders.

Entrepreneurship enables a company to deliver greater value to its customers, shareholders and other stakeholders. In a study of Japanese firms it was found that firms with entrepreneurial cultures outperformed those which emphasized internal efficiency (Chung & Gibbons, 1997). A study of 437 Swedish firms found that entrepreneurship is positively associated with performance (Wiklund in Zahra *et al* 2001). A recent study by Zahra & Garvis (in Zahra *et al*, 2001) found that entrepreneurship in the international operations of 167 companies was related to company performance. Morck and Yeung (in Zahra *et al*, 2001) also found that entrepreneurship significantly moderates the effect of multinationality on a company's financial performance.

For the foreseeable future there may be a **growing need for entrepreneurs** 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).

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.

Sharma (1999:11) defines entrepreneurship as follows: "*Entrepreneurship encompasses acts of* organisational *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*".

In line with this, a growing body of evidence suggests that an entrepreneurial orientation is critical for the survival and growth of companies as well as for the economic prosperity of nations (Lee & Petersen, 2000).

Most enterprises in the developed, and developing world, are facing frequent, irregular and significant changes in their environment, which shorten the life span of both present products and future opportunities. The enterprises that seem best able to deal with these changes are those that focus on opportunity recognition and capture - in other words, those that engage in the entrepreneurial process (Churchill *et al*, 1997).

4.2 Entrepreneurship in the corporate environment

Entrepreneurship is all too often taken to mean the **creation of new businesses.** Yet nowhere is it more important – or, often, more elusive, than in large, established companies. According to a study by Accenture (2001), entrepreneurship is crucial in the corporate world and especially challenging to create or sustain in established or mature companies.

In their well known publication, *In search for excellence*, Peters and Waterman (1982) claim that the biggest draw back of corporate life is it's loss of innovation – that very innovation that made them successful. Many large companies have therefore lost the entrepreneurial spirit they began with. As these firms have grown larger, their ability to be flexible and innovative may have been paralyzed due to size and success.

The question therefore is whether large companies can be entrepreneurial. The 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 specialized, newer and smaller organisations (Figueroa & Conceicao, 2000).

Covin & Miles (1999) identifies four forms of corporate entrepreneurship required:

- sustained regeneration (ability to regularly introduce new products or enter new markets, e.g. 3M, Motorola, Mitsubishi);
- organisational rejuvenation (alteration of internal processes, structures, and/or capabilities, e.g. Procter and Gamble, General Electric, Chrysler Corporation);

- strategic renewal (articulating strategy for navigating it's current environment, e.g. Harley-Davidson, IBM);
- domain redefinition (creation and exploitation of new product-market arenas, e.g. Merrill Lynch, Sony).

4.2.1 Background to entrepreneurship in large corporations

Entrepreneurship in large companies (sometimes called corporate entrepreneurship, intrapreneurship or corporate venturing) is nothing new. As early as 1978, Gifford and Elizabeth Pinchot argued for something akin to free market entrepreneurship within the corporate organisation (Pinchot & Pinchot, 1978). The concept of corporate entrepreneurship received much attention in academic writing in the late 1980s and early 1990s. Since the mid-1980s intrapreneurship has been identified as a corporate strategy with characteristics such as costs and rewards that differ from traditional strategic archetypes. Exploration of the meaning and nature of intrapreneurship brought forth calls for building organisational systems, structures and processes to support entrepreneurship as a corporate strategy.

At this point it is important to note that the **intrapreneur** is often taken to differ substantially from the true **entrepreneur**. For example, intrapreneurs would rather operate within an existing organisational structure in accordance with established corporate systems while reporting to hierarchical supervisors. Intrapreneurs need to be fairly adept at corporate politics, but many independent entrepreneurs deplore this behaviour and resist traditional organisations in order to avoid it. Intrapreneurs are likely to possess some competencies characteristic of independent entrepreneurs and others characteristic of more traditional managers (Davis, 1999). While these terms are sometimes used interchangeably, and while intrapreneurship is proposed as a minimum requirement in modern companies, the preference is towards fostering (the more *daring* and, probably, even more *powerful*) *entrepreneurial* spirit in companies.

Furthermore, while companies generally understand the term *intrapreneurship* and describe companies' cultures as intrapreneurial, the terms *creativity* and *innovation* are much more prevalent (Accenture, 2001). There is however a broad recognition that the generation of new business activities or *new combinations* alone does not constitute entrepreneurship (Birkinshaw, 1997). Entrepreneurship suggests a predisposition towards proactive and risk-taking behaviour, the use of resources beyond the individual's direct control or a clear departure from existing practices. This study will assume that innovation and entrepreneurship go together, that entrepreneurs innovate, and that innovation is the specific instrument of entrepreneurship (Robinson, 2001).

Corporate entrepreneurship therefore involves individuals or teams within a firm, led by intrapreneurs, entrepreneurs or corporate champions who promote entrepreneurial behaviour inside large organisations, proactively engaging in risky projects that seek to create new, innovative, administrative procedures, products and services that facilitate organisational renewal and growth (Thomson & McNamara, 2001). It means fostering profit-making innovations by encouraging employees to think like entrepreneurs, and then giving them the freedom and flexibility to pursue their projects without getting bogged down in bureaucratic inertia. It is not a specific technique or process, but rather a particular management philosophy for which executives have a responsibility to instil and support within the organisation. (Stoner et al in Echols & Neck, 1998).

Stevenson and Jarillo (in Chung & Gibbons, 1997) identify the *crux* of corporate entrepreneurship as the fact that opportunities for the firm have to be pursued by individuals within the firm. Thus aligning individuals' interests, motivating them to organise and resolve uncertainties, search for opportunities, and encouraging them to cooperate in the creation of new resource combinations and to exploit them successfully becomes a critical discriminator between firms that prosper, survive, and flounder.

A question is, how do corporate initiatives originate? A study based on case study analyses of forty-four initiatives, both successes and failures (Birkinshaw & Ridderstrale, 1999), found that subsidiary initiatives take two different forms: internally-focused initiatives and externally-focused initiatives. Internally-focused initiatives are identified within the corporation, and are perused through a traditional bottom-up approach; externally-focused initiatives are based on opportunities in the external marketplace. The most successful ones gain allies outside the corporation early on, and only confront the corporate immune system once they are relatively well established.

4.2.2 The case for entrepreneurship in large companies

While entrepreneurship is especially critical in the corporate world, it is often nowhere more elusive than in large, established companies (Accenture, 2001). Large corporations show a tendency to become bogged down by the systems and procedures needed to help them cope with their complexity and size. Many large corporations are therefore seen by their staff, potential employees and customers, as excessively bureaucratic, slow-moving and risk-averse.

However, the study by Accenture (2001) shows how entrepreneurship can be applied to great effect within large corporations, citing 3M, BP and Sony as some of the inspiring examples of companies that have managed to foster entrepreneurial cultures with consequential tremendous results. Corporate entrepreneurship has indeed been successfully initiated in established organisations for purposes of profitability, strategic renewal, fostering innovativeness, gaining knowledge and international success (Hornsby, Kuratko & Zahra, 2002).

Some of the main advantages of entrepreneurship in large companies can be summarised as follows:

a. **Survival, growth and renewal**

A growing body of evidence suggests that an entrepreneurial orientation is critical for the survival and growth of companies (Lee and Peterson, 2000). The enterprises that seem best able to deal with frequent, irregular and significant changes in their environment are those that engage in the entrepreneurial process (Churchill *et al*, 1997). It is postulated that companies can significantly increase the odds of survival and subsequent success in their markets by behaving entrepreneurially (Zahra *et al*, 2001). Robinson, 3M's business development manager of medical markets, believes that entrepreneurship can produce either radical or incremental change within an organisation that can enable it to maintain or enhance it's competitive advantage (Robinson, 2001).

b. **Business performance**

The linkage between corporate entrepreneurship and a firm's performance has been empirically documented in methodologically rigorous research (Covin 1999, Zahra & Garvis in Zahra *et al*, 2001; Twomey & Harris, 2000) and it is suggested that corporate entrepreneurship produces superior firm performance for identifiable, defensible and strategically valid reasons. According to 3M's Robinson, intrapreneurship can improve an organisation's financial and market performance by creating additional shareholder value (Robinson, 2001). *Dispersed entrepreneurship* throughout Philips' international operations is given as a key determinant of that company's global success (Bartlett & Ghoshal, 1990).

c. **Successful integration of mergers and acquisitions**

Firms that created an environment which fostered corporate entrepreneurship soon after acquisition, are the firms that remained within the acquirer's portfolio (Thomson & McNamara, 2001). Those that did not foster corporate entrepreneurship in the years following acquisition were divested within five years. The success of post takeover integration is, amongst other things, reflected in the ability to address the dilemma of to either save costs today through redundancies or gain potential benefit in the future through innovative redeployment of underemployed human resources. Thomson & McNamara (2001) propose that the dilemma can be solved through corporate entrepreneurship.

d. **Social investment and job creation**

When communities (including companies) facilitate the creation of small companies by providing infrastructure, resources and quality of life that appeal to those who are choosing entrepreneurial career paths, job creation is stimulated (Stevenson & Jarillo in Chung & Gibbons, 1997). Entrepreneurial behaviour can impact far beyond any one organisation. Accenture (2001) reports an 80% survival rate for SME's enjoying large company support. The following examples also support this claim:

- **The creation of new job opportunities outside the company.** British Steel provided help to create more than 100 000 job opportunities by, amongst other initiatives, providing more than 3500 businesses with either finance or premises (A Stimulus to Job Creation, 1997).

- **The prevention of job losses due to retrenchments.** Centrica, the retailing and supply arm for British Gas, was given the opportunity to de-merge and adopt an entrepreneurial strategy of growth rather than retrenchment (Accenture, 2001). Clark Equipment survived Chapter 11 by requiring all units (including a staff of 500 people) to become self-supporting enterprises (Accenture, 2001).

e. **Other advantages.** Some other advantages of stimulating the entrepreneurial spirit in large companies can be summarised as follows:

- the competence domain gets extended, current capabilities are enhanced and new, unanticipated opportunities are defined (Burgelman, 1984).

- sustained regeneration is ensured, which means companies have the ability to regularly introduce new, unanticipated products or new markets, for example 3M, Motorola and Mitsubishi (Covin & Miles, 1999);

- innovation is supported by challenges to the status quo and the elimination of organisation structures that obscure personal responsibility and homogenize individual action (Robinson, 2001).

- markets are transformed - instead of following the traditional approach of minimizing or avoiding risks, and following fast rather than acting first (Covin & Miles, 1999);

- a higher order of organisational learning takes place (Chaston *et al*, 2001).

- the speed of decision-making increases because their shorter chain of command enables them to make rapid decisions and grab opportunities before larger, more bureaucratic operators, can react.

4.2.3 Some characteristics of entrepreneurship in large corporations

4.2.3.1 Strategy and structure

An entrepreneurial company (autonomous or a unit in a larger corporate setting) is usually characterised by its unique entrepreneurial strategy and a uniquely designed structure. In this regard, Hewson Consulting Group (2000) provides some indicators of such a strategy and structure:

- a business design that harnesses direct customer contact and extreme frugality;
- profit centers with as few as ten people;
- managers in uncushioned, direct contact with customers, responsible for profit and directly accountable to shareholders.

4.2.3.2 Entrepreneurial climate and practices

It appears as if the most important thing is to ensure the right climate for entrepreneurship within a corporation. Such a climate should remove fears and prevent the hierarchy and bureaucracy from drawing innovation down (Maxon, 1986). Kuratko *et al* (1993) state that the climate should emphasize individual responsibility and rewards based upon results. Both Maxon (1986) and Kuratko *et al* (1993) highlight management practices such as the following, as supportive of an entrepreneurial climate:

- the presence of explicit goals;
- a system of feedback and positive reinforcement;
- training for entrepreneurship;
- a reward system based on results.

4.2.3.3 Behaviour

People identified as entrepreneurs in companies usually show a predisposition towards active, risk-taking behaviour and the use of resources beyond the individuals direct control. Behaviour is also characterised by a clear departure from existing practices (Birkinshaw, 1997). Kanter (in Birkinshaw, 1997:208) proposes the following distinction between *basic* and *entrepreneurial activities*:

> "*Basic accomplishments… are part of the assigned job and require routine and readily available means to carry them out. In contrast, innovative accomplishments are strikingly entrepreneurial. They are sometimes highly problematic and generally involve inquiring and using power and influence.*"

Accenture (2001) identifies five key behaviours:

- **Creativity and innovation**. This behaviour is perceived to be the heart of entrepreneurship. As much as 26% of US companies and 21% of European companies have more than 10% of sales coming from new products. More than 40% of turnover of Glaxo-Smith-Kline comes from products launched in the last five years. The majority of Hewlett Packard's revenue originates from products that did not exist a year before.
- **The ability to apply creativity**. Entrepreneurs have the ability to get things done. They can effectively marshal resources to a single end. Dhruv Sawhney, Chairman and MD of Triveni Engineering and Industries in India, states that successful entrepreneurs don't just have ideas; they are part of the delivery mechanism.
- **Drive**. Entrepreneurs have a fervent ability to change the way things are done, and the force of will and passion to achieve success. They simply have the will to go beyond.
- **Focus on creating value.** Entrepreneurs want to do things better, faster and cheaper.
- **Risk-taking.** Entrepreneurs enjoy taking risks, breaking rules, cutting across accepted boundaries and going against the status quo. Some entrepreneurs are motivated by the challenge; others possess such self-belief that they do not even see risks in their path.

4.2.3.4 Personality characteristics

A study of more than 2000 small and medium sized enterprises, including Profit 100, High Growth Companies as well as an exhaustive review of global research, yields the following observations that have helped to understand the entrepreneur's modus operandi, intrinsic motivation and individual sense of meaning (Davis, 1999; Kuratko, 2001; Luczkiw, 2002):

- Entrepreneurs as individuals are agents of change who break with existing ways of doing things in order to create what has not been created before.
- Successful entrepreneurs are in control of their destiny. They transcend their culture and genetic determinants by becoming conscious of their uniqueness and differentiation.
- Successful entrepreneurs are expert collaborators and networkers inside and outside their enterprise. It is this integration, along with their uniqueness and differentiation, which determines the success of their enterprise.

- They deal effectively with chaos and crisis. They view this as a normal condition. They are survivors of many battles. Most have failed at least once in a previous endeavour.
- Attitude is considered to be more important than knowledge and skills in determining their success.

4.2.3.5 Teamwork

Corporate entrepreneurship involves teams within a firm, led by intrapreneurs or corporate champions, who promote entrepreneurial behaviour inside large organisations. These teams proactively engage in risky projects that seek to create new, innovative, administrative procedures, products and services that facilitate organisational renewal and growth (Thomson & McNamara, 2001).

4.2.3.6 Differences between entrepreneurial and bureaucratic organisations

Since the purpose of this study is to describe the transformation from traditional organisations to an entrepreneurial unit, it is important to understand the main differences between the two. Ross & Unwulla (1986) draw the following distinction between entrepreneurial and bureaucratic organisations (see Table 4.1).

Table 4.1
Differences between entrepreneurial and bureaucratic organisations

Entrepreneurial	**Bureaucratic**
▪ Take risks	▪ Avoid risks
▪ Stay innovative	▪ Do routine work
▪ Focus on results	▪ Focus on activities
▪ Focus on teamwork	▪ Focus on structure
▪ Do technical work	▪ Do administrative work
▪ Stay flexible	▪ Have tight controls
▪ See the organisation as a system	▪ Practice parochialism and “nichemanship”
▪ See change as good	▪ Prefer the status quo
▪ Tolerate and learn from mistakes	▪ Avoid and punish mistakes
▪ Believe managers are motivated by creating something out of nothing	▪ Believe that managers are motivated by upward movement in an established structure

Source: Ross & Unwalla, 1986

4.2.4 Perceptions on entrepreneurship in corporations.

It appears that most CEOs today agree that entrepreneurial behaviour can be found in a multi-national organisation, employing thousands of people or in a one-person company (Accenture, 2001). A study by Accenture in 2001, in which 880 executives across the world were surveyed, revealed the following interesting phenomena:

- less than 3 in 10 think their companies are very entrepreneurial because companies, as they become successful, bigger and more complex, also become excessively bureaucratic;
- 88% think that their country's future prosperity depends on everyone becoming more entrepreneurial and 95% said training and education could enhance people's ability to be entrepreneurial;
- 98% think that entrepreneurship is a **positive force in society**, 94% think that entrepreneuring creates jobs and 90% think entrepreneurship will help to improve the global economy;
- 89% say that they are visibly acting entrepreneurially, while 83% believe they are communicating pro-entrepreneurial values to employees;
- 70% believe their organisations will be more entrepreneurial in three years' time;
- 90% said that companies and organisations are the most influential in encouraging entrepreneurship, acting as role models across society;
- 98% of South African executives agree that South Africa must become more entrepreneurial within the next five years for it to prosper.

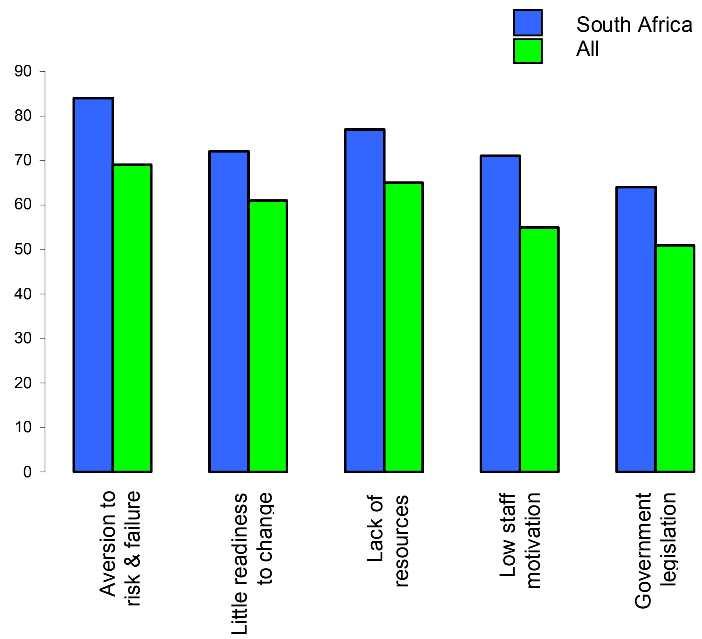
Some negative perceptions still persist. Some argue that it will be near impossible for an individual company to remain or to become entrepreneurial if the society in which it does business (and recruits it staff from) view entrepreneurial behaviour as being dangerous or inappropriate (Accenture, 2001). In this regard the following data from the Accenture Survey is quite interesting:

- 17% of executives in the Accenture survey could not name a single entrepreneurial company.
- In corporations as well as across many societies, entrepreneurial behaviour is regarded as somehow illegitimate, and showing a desire to succeed is frowned upon.
- At IBM, a corporation noted for building an entrepreneurial spirit, some executives worry that encouraging too much creativity will result in higher turnover of critically valuable personnel.

- South African organisations face relatively high hurdles (compared to the world average) in their bid to become more entrepreneurial. As high as 55% of South African executives agree that people in the country have a more negative attitude towards entrepreneurs, compared with the world average. South African executives are also more likely to regard their peers as imbued with more key entrepreneurial characteristics than their staff.

Perceived barriers to entrepreneurship. Figure 4.1 depicts the perceived barriers to entrepreneurship in the survey of South African executives.

Figure 4.1
Perceived barriers to entrepreneurship (%)



Source: Accenture, 2001

4.2.5 Current trends in entrepreneurship within large corporations

From the scanning of literature on trends regarding the use of entrepreneurship, in corporate environments, certain observations are of particular interest (Echols & Neck, 1998; Coulson-Thomas, 1999; Robinson, 2001; Accenture, 2001; Lee & Peterson, 2000):

- No less than 78% of influential Americans believe that entrepreneurialism will be a defined trend in the next century.

- Many major oil companies have restructured by using the entrepreneurial responsiveness model and are placing primary emphasis on cultural change initiatives and breakthrough teams (Echols & Neck, 1998).
- Some companies are already being transformed into enterprise colonies that unleash, build, and tap latent entrepreneurial potential within their people. Their boards no longer believe that senior management and the experts who advise them know best (Coulson-Thomas, 1999).
- The drive to be more innovative is stimulating a renewed appreciation of the value of the intrapreneur, otherwise known as the *in house entrepreneur* (Robinson, 2001). Executives from organisations of varying sizes *"…call for a new kind of leadership…. that focuses on…. entrepreneurial behaviour… to give staff the confidence to behave in an entrepreneurial way"* (Accenture, 2001:15). Reuters Business Briefings identify 100 articles on entrepreneurship per week and all the major business schools now include entrepreneurship courses in their curricula (Accenture, 2001).
- Both popular enthusiasm and academic research are increasingly stressing the need to establish a global business climate, whereby entrepreneurship assumes a prominent role (Lee & Peterson, 2000). Large US companies such as Du Pont, Merck, 3M, Wal-Mart and Johnson and Johnson have reputations for providing organisational support to encourage entrepreneurial behaviours of their employees (Echols & Neck, 1998).

These trends are supported by various case studies. For the purpose of this research a few relevant ones have been selected for review.

4.2.5.1 Hindustan Lever Ltd (HLL)

Kamath (in Davis, 1999) gives the example of HLL, which decided to incubate entrepreneurial ventures within a separate setup, and as and when they become large, to move them into one of the other categories. HLL believes that the onus for nurturing entrepreneurship rests on the HR function. In this regard the following was initiated:

- A venture capital cell was set up to support intrapreneurship.
- Through process improvement workshop processes were analysed and redesigned in an effort to ruthlessly eliminate bureaucracy.
- A 360° feedback system was implemented, which was aimed at making people work better in teams and to support each other in a positive way. This also highlighted areas for individual development. A series of enterprise culture awards were instituted.

- Certain disciplines were combined to drive knowledge sharing.
- Coaching took place through the immediate supervisor, but professionals were also brought in as mentors.
- The reward system was redesigned to reward success and not to penalise failure.
- People with different characteristics were grouped into teams to create a unique mix that could drive entrepreneurship.

4.2.5.2 Koch Industries

Charles Koch, Chairman and CEO of Koch Industries, advocates the economic model of *spontaneous order* as a means of encouraging and enabling entrepreneurial behaviour throughout the organisation. He suggests that success is created by (Koch in Kemelgor, 2002):

- sacrificing control over operational details;
- providing resources instead of giving orders; and
- getting people to think differently – to focus on creating value for customers in a coordinated way.

Koch goes on to state that the best way for a CEO to foster growth in times of rapid change, is to rely upon entrepreneurial flexibility and adaptability, decision-making power located close to the market and putting aside former power in the traditional command and control sense. In this way companies can create a spontaneous order of employee entrepreneurs through a well founded and internally consistent strategy and intellectual framework to interpret and apply the new knowledge that is constantly being produced.

4.2.5.3 Chrysler Corporation

Barrett & Weinstein (1998) views the success of the Chrysler Corporation as the combination of an entrepreneurial management style meshed with an increasingly flexible organisation and improved market orientation. (These views were expressed before the merger with Daimler Benz).

After years of poor management, marketing and manufacturing, the firm faced bankruptcy in the early 1980's. Then Lee Iacocca initiated a campaign to persuade the US government to guarantee a loan programme. After that Chrysler incorporated a number of Toyota's lean management ideas. These included understanding and respect for customer needs, use of teamwork and coordination amongst departments, acceptance of needed risks and individual empowerment. The Chrysler Corporation therefore had an awareness for a need to manage differently. Chrysler Corporation's share price increased from $10 in 1991 to over $70 just before the merger with Daimler Chrysler (Barrett & Weinstein, 1998).

4.2.5.4 Shell

In the 1990's, Shell employed around 100 000 (mainly longstanding) people across 130 nations, and was in danger of becoming bureaucratic and slow moving (Accenture, 2001). Shell needed both to cut cost and to create new engines for growth and innovation. In the challenges Shell was facing, they decided to cut through the existing bureaucracy by engaging members of the front line organisation directly.

Local managers were given the chance to approach business problems in a new entrepreneurial way, with direct coaching and sponsorship from senior executives. The CEO himself reallocated over 50% of his available time to work directly with frontline personnel, fostered many local initiatives in groups and conducted intensive *action labs* and *fishbowl reviews* with local teams.

The approach generated hundreds of many new connections between headquarters and the field. The established part of Corporate Shell initially found the new leadership style very difficult to accept.

4.2.5.5 Sony

Sony has 170 000 employees around the world. Yet, it maintains a small venture capital spirit that can be brought into management through the organisational freedom given to different business units, investment in R&D and encouragement of diversity in styles and backgrounds of management (Accenture, 2001:44).

Sony's success in product innovation, has been largely attributed to the success with which the company has inculcated its *Sony spirit* culture in employees (Chung & Gibbons, 1997). This is partly done through it's unorthodox practice of hiring brilliant people with non traditional skills for key positions in management and product development projects.

4.2.5.6 3M

3M has more than 50 000 products and around 4000 profit centres. Under the principle of *grow and divide*, the company encourages small units, born out of innovation and entrepreneurship, to grow into larger divisions and departments.

(Accenture, 2001). Management's commitment to entrepreneurialism is exemplified by a culture and value system which allows employees to spend 15% of their time on alternative projects and the corporate goal of generating 30% of sales from products, less than four years old (Robinson, 2001).

The 3M company achieves organisational intelligence through a culture with powerful anti-bureaucratic elements. One element is a lack of reverence for management. Another is management's ability to trust people. DiSimone & Hatsopoulus (1995) observe that lab people don't see their managers for up to six months at a time, without a formal review.

The company is not without bureaucracy, but it's strong tradition of greater respect for doers and innovators than for hierarchy, opens cracks for innovations to move through the system (Pinchot & Pinchot, 1993).

Harnessing the entrepreneurial spirit within the organisation is critical to 3M's success in managing innovation. Intrapreneurial teams are empowered to take a product all the way from conception, commercialisation and beyond to become the management team running a new division (Pinchot & Pinchot, 1993).

4.2.5.7 General Electric

As the CEO of General Electric, Jack Welsch instilled a revolutionary sense of intrapreneurship in the company. Once an employee has been given the authority to make decisions and perform to ability, he is allowed the opportunity to become an intrapreneur and innovator (Tichy & Charan, 1989).

Jack Welsch aimed to create an enterprise that could tap the benefits of local scale and diversity without the stifling costs of bureaucratic controls and hierarchal authority, and without a managerial focus on personal power and self- perpetuation (Tichy & Charan, 1989). Welsch stated that, for a large organisation to be effective, it must be simple. For that to happen, it's people must have self-confidence and intellectual self-assurance. Leaders must be simple, clear, uncluttered and tough-minded (Tichy & Charan, 1989).

4.2.5.8 Hewlett Packard

Despite it's 84 000 employees world-wide, Hewlett Packard was still able to sustain the entrepreneurial climate, normally associated with smaller companies (Maxon, 1986). This was done by:

- allowing employees to work with minimum supervision;
- keeping working groups small and encouraging decentralisation;
- rewarding successes financially;

- creating an informal but stimulating environment, conducive to creativity and discussion.

Hewlett Packard has become the second largest American computer manufacturer to create an entrepreneurial organisation for constantly leading technological innovation. Hewlett Packard's profits grow at an annual rate of 30% (Entreplexity, 2002).

Entrepreneurial characteristics of the Hewlett Packard organisation include (Entreplexity, 2002):

- **A decentralised structure.** The company's current 96 000 employees are organised into small, global, cross-functional units that never exceed 1500 people. This creates a decentralised structure that is constantly changing and which produces thousands of products.
- **Internal enterprises.** Each unit is an enterprise that *owns it's business*. Units plan their own strategy, work with their suppliers and customers, re-invest their profits in the unit, and have their own financial statements. "*Our profit and loss statement is like any other small company's"* (Entreplexity, 2002:4).
- **Internal competition.** Units are accorded almost complete freedom to manage their own affairs as they feel it best, including competing against other Hewlett Packard units and doing business with Hewlett Packard competitors. For instance, the Hewlett Packard laser printer competes with the ink jet printer. One unit chose to buy millions of chips from a competitor because the price was lower than Hewlett Packard's.
- **Internal cooperation.** Units also cooperate when it is useful by offering the benefits of their experience, sharing technology, organising joint ventures, etc.
- **Facilitating leadership.** Corporate executives avoid making operating decisions that intrude on unit autonomy, but focus instead on facilitating cooperative relationships, offering advice, holding units accountable and providing leadership.

4.2.6 Bureaucratic obstacles in the process of creating entrepreneurial organisations

4.2.6.1 Structure

This research is focused on the transformation from a traditional (bureaucratic) organisation to an entrepreneurial unit. The literature shows that the characteristics of these two types are totally different. When attempting change, managers should know what bureaucratic characteristics to consider and to address when implementing entrepreneurship. They should for example understand that (Chisholm, 1987):

- bureaucracies were created as a highly rational alternative for organisational chaos and inconsistency;
- rules and regulations were designed to achieve organisational consistency and efficiency;
- in order to guarantee uniform decisions, regulations multiplied and the original purpose of the decisions got lost in a maize of procedural conformities;
- since the bureaucracy operates on the basis of rules and regulations, it is biased towards the past and based on precedent and legislation;
- coordination is achieved by setting narrow confines, minimizing the chance to use a broad range of talents;
- it therefore appears as if structure and innovation do not mix, unless some way is found to encourage the entrepreneurial spirit and release the potential amongst it's people.

Despite the fact that the structural requirements are known, internal structural problems are identified by 75% of executives as the *primary challenge in creating and sustaining entrepreneurship in large established companies* (Luchsinger & Bagby, 1987; Accenture, 2001). It should be noted that a commonly accepted conclusion amongst managers of established corporations is that the complexity and structure of the modern corporation inhibits innovation and change (Ross, 1987).

Given these structural problems, when attempting to create entrepreneurial companies, more recent thinking stresses the necessity of generating entrepreneurship as an element of corporate strategy – as part of a process of continuous strategic renewal (Chakravarthy & Gargiulo, 1998; Figueroa & Conceicao, 2000; Covin & Miles, 1999; Hewson, 2000).

There seems to be some agreement that organisational variables must be configured in relation to each other, so that significant change in one variable – such as strategy – will be accompanied by change in the others, or the organisation will lack effectiveness or efficiency (Miller & Friesen, 1980). Guth & Ginsberg (1990) see four sets of variables playing a role when fitting corporate entrepreneurship into strategic management: environment influences, qualities of strategic leaders, organisation form / conduct and organisational performance (effectiveness and efficiency).

4.2.6.2 Governance

There is a widely held view that the current corporate governance debate focuses too much on issues of conformance and control, while underscoring the role of strategy and entrepreneurship.

As more procedures, systems and documentation requirements are added over-time, managers are increasingly encouraged to micro manage each and every expenditure, and to establish quantifiable performance benchmarks in as many activity areas as possible.

Control systems therefore tend to evolve in companies and these benchmarks can easily become ends in themselves, while conveying a lack of trust in employees. A related issue with control systems is that of efficiency (doing things right), versus effectiveness (doing the right things). Control systems have historically placed a heavy emphasis on efficiency, sometimes ignoring or even undermining effectiveness issues (Morris, Noel and Schindehutte, 2001). As Pinchot observes, *"…many centralized companies with highly sophisticated control systems are, in fact, out of control"* (Pinchot, in Morris, Noel & Schindehutte, 2001:13).

For this reason there is a potential for the control measures to limit employee initiative and constrain ongoing entrepreneurial behaviour within the venture, especially as the control system itself evolves, become more complex, and infiltrates all aspects of operations (Morris, Noel & Schindehutte, 2001). In a case study performed by Morris & Trotter at AT&T (in Morris, Noel & Schindehutte, 2001), six categories of constraints on corporate entrepreneurship were developed. Some of these were systems and policies and procedures. The authors conclude that flexible control systems, streamlined procedures and short approval cycles are critical requirements for sustained entrepreneurship.

At a more fundamental level, however, it would seem that the entire philosophy of control must change. The control system must become a vehicle for managing uncertainty, promoting risk, tolerance, encouraging focused experimentation, and empowering employees (Noel & Schindehutte, 2001). Enlightened rules eliminate none essential restrictions on employees conduct and enhance the climate for individual innovation (McGinnis & Verney, 1987; Chisholm, 1987).

4.3 Guidelines for designing and managing entrepreneurial organisations

This chapter started with a review of the environmental context and the need for innovation, risk-taking and proactiveness on the part of companies. These characteristics are embodied in entrepreneurship and appears to be the solution for companies seeking ways to maintain and enhance their competitive advantage. In today's turbulent business environment entrepreneurship is not only restricted to the creation of new businesses, but is being established worldwide as forms of corporate entrepreneurship. There appears to be many advantages to the implementation of such a strategic choice, and sufficient evidence exist to substantiate many of these claims.

As the entrepreneurial spirit becomes established in the corporate environment, certain characteristics of entrepreneurial companies become known. To the same degree dissimilarities between traditional, bureaucratic organisations and entrepreneurial companies are better understood. Therefore, changing a traditionally structured company into an entrepreneurial one, requires a particular style of leadership, a clear vision and a well tested process to change successfully from one paradigm to another.

The next section in this chapter reviews several directions for introducing and sustaining the entrepreneurial spirit in a corporate environment. These directions attend to the design of structure, corporate culture, management processes, human resources policies, rewards and systems.

4.3.1 Designing of structures

The structure of an organisation is a primary ingredient necessary for corporate entrepreneurial success. By enacting structures that will foster employees' potential, entrepreneurial potential can be maximized (Echols & Neck, 1998).

Structures which support entrepreneurial behavior should, amongst other things, enable (Echols & Neck, 1998):

- the creation of new organisational forms, either separate from or subsets of other forms;
- a reduction of authoritarianism (relinquishing control to experts instead of basing it on seniority) ;
- a release of energy towards creatively shaping the organisation, while taking calculated risks;
- flexibility, whereby bureaucracy is minimized and adhocracy is maximized;
- teamwork and participative management styles;
- celebration for the process, more than the end result.

These entrepreneurial structures should have performance-driven systems, with an unusually high level of discipline, a clear mission and standards to be supportive (Bartlett and Goshall in Echols & Neck, 1998).

Three specific guidelines should be considered, particularly when designing structures to foster entrepreneurship.

4.3.1.1 Avoid too much structure

Imposing too much structure on the entrepreneur or innovator will mean he has to give up any entrepreneurial ambitions or innovative instincts and has to follow the structural system instead (Maxon, 1986). Heavily integrated, tightly coupled structures do not lend themselves to rapid attuning to environmental changes. Too much focus on structure is therefore a distraction.

4.3.1.2 Maintain a sense of *smallness*

A sense of *smallness* can make it easier for people to show the drive that is essential to entrepreneurial behaviour and for greater collaboration and creativity (Accenture, 2001). Complexity and size could therefore be seen as a threat that could hurt the entrepreneurial spirit. The problem is that corporations want to capitalise on sheer size, but still maintain some of the principles and focus that underpin growth from startup to market leader. (Accenture, 2001).

The challenge, therefore is to create the feel of a small organisation without sacrificing the benefits of size; to get the organisation out of the way and regain the small company soul. Having the soul of a small company in the body of a big one is important if one is to create entrepreneurial thinking within a large organisation. Failure to create the conditions under which smallness might facilitate a more pro-active response to uncertainty, may mean that structuring creates only the shell and not the substance (Gibb, 2000). Therefore the challenge to large organisations is to adapt more to the culture, holistic management styles and learning methods of the small business (Gibb, 2000).

4.3.1.3 Establish separate structures

The ability to structurally isolate a set of activities from the rest of the firm's systems, processes and incentive structure, plays a role in determining the success of internal corporate ventures (Pennings & Puranam, 2001). This option offers new venture units the opportunity to carry different policies, rules and measurements that best fit it's objectives and spirit (Drucker in Echols & Neck, 1998). These loosely coupled systems also create a haven of psychological safety in which deviance and experimentation are protected (Heller, 1999).

4.3.2 Corporate culture

A key to the relationship between an entrepreneurial orientation and selected aspects of organisational performance, may reside in corporate culture (Kemolgor, 2002). Corporate culture is often seen as the shared philosophies, ideologies, values, assumptions, believes, expectations, attitudes and norms that knit a group of people together. This is commonly translated to mean *the way things are done around here*. Chisholm (1987:36), cites that the ultimate purpose of entrepreneurship is the advancement of the corporation. Intrapreneurship cannot fulfill this responsibility if restricted to activities, values and thought patterns which conform to the existing culture of the organisation.

There are ways in which a corporate culture can be managed to support entrepreneurship. This includes promoting entrepreneurial behaviour, allowing freedom and autonomy, encouragement from top management and avoidance of bureaucratic barriers. The achievement of this is dependent on strategic leadership, visible in their characteristics, personal values and behaviour. Numerous studies confirm the role of strategic leadership in making entrepreneurship part of strategy (Kanter, 1983; Burgelman, 1983; Guth & Ginsberg, 1990; Kuratko & Welsch, 2001).

4.3.2.1 Understand and accept the uniqueness of entrepreneurial behaviour

Echols & Nick (1998) point to the fact that the behaviours of employees are primary ingredients necessary for corporate entrepreneurial success. Negative perceptions towards entrepreneurial behaviour could have a hugely damaging effect on people who might otherwise act in an entrepreneurial way (Accenture, 2001). Corporate management must be aware of characteristics uniquely associated with entrepreneurship in large companies and should develop an acceptance of these characteristics. Although **intrapreneurs** are likely to possess some competency characteristics of independent entrepreneurs and others characteristics of more traditional managers (Davis, 1999), managers must also be prepared to handle a corporate entrepreneur differently than a traditional manager (Kuratko *et al*, 1993).

4.3.2.2 Promote freedom, autonomy and independence

Entrepreneurship is catalyzed by the independent spirit and freedom to create new ventures, and the dimension of autonomy is a particularly crucial part of an entrepreneurial orientation (Lee & Peterson, 2000). In a survey conducted in 1991 (Brandstatter & Viraelli in Envick & Langford, 2000), 83% of small business owners left corporate jobs because they wanted to be on their own. Entrepreneurs have an inherent desire to be independent.

Many bureaucracies give no autonomy to individuals. Decisions are usually made by few or many, instead of one (Chisholm, 1987).

From a search of literature it appears as if the following managerial actions could ensure freedom, autonomy and independence:

- **Refrain from too much forced collaboration.** Too much forced collaboration and discussion can suppress individual initiative (Accenture, 2001). Managers should encourage more flexibility by giving greater independence of decision-making.
- **Give independence to those who earn it.** According to Pinchot (Pinchot & Pinchot, 1978), the corporation must let the employee entrepreneur who has earned his independence, have it.
- **Ensure availability of budget.** Freedom can be given by allowing a discretionary budget, no time limit on its expenditure and renewed through rewards from past and present innovations (Duncan et al, 1988).
- **Ensure availability of seed capital.** The Shell Netherlands Business Unit (established in 1985) provides seed capital (start-up or venture capital) to a ceiling value of $125 000 (A Stimulus to Job Creation, 1997).
- **Ensure championing of small-scale initiatives.** Large firms will often look for a minimum level of scale in any new development. The best entrepreneurial companies find ways of championing small scale initiatives (Accenture, 2001). Management must be willing to deal with small projects and see them grow incrementally.
- **Avoid intrusion on unit autonomy.** Corporate executives must avoid making operating decisions that intrude on unit autonomy. They must allow employees to work with minimum supervision and focus instead on facilitating co-operative relationships, offering advice, holding units accountable and providing leadership (Chisholm, 1987; Zaleznik, 1990).
- **Create a culture of discipline**. Entrepreneurship and discipline go hand in hand. Collins (2001) maintains that such a culture depends upon self-disciplined people who take disciplined actions, in accordance with their understanding of their business focus. Collins (2001) observes the following:
  - A culture of discipline involves a duality. On the one hand, it requires people who adhere to a consistent system; yet, on the other hand, it gives people freedom and responsibility within the framework of that system.
  - A culture of discipline is not only about action. It is about getting disciplined **people** who engage in disciplined **thought** and then take disciplined **action**.
  - A culture of discipline should not be confused with a tyrant who disciplines – one is functional, the other disfunctional.

- o The single most important form of discipline is fanatical adherence to the **business focus** and the willingness to shun opportunities that fall outside the business focus.

4.3.2.3 Encouragement of entrepreneurial conduct

Encouraging innovative and risk-taking behaviour by employees in an environment of flexibility and adaptability are the hallmarks of a corporate entrepreneurship culture (Kemolgor, 2002). Organisations can only become entrepreneurial if leaders create a culture where employees can, want, and know how to be entrepreneurial (Accenture, 2001). Therefore to succeed, entrepreneurship requires a large amount of active top management support (Chisholm, 1987). Senior executives must thus be leaders of entrepreneurs, not entrepreneurial leaders (Accenture, 2001).

Members of management should adopt an entrepreneurial behavioural style that transcends the bureaucracy and encourage a climate of innovation; also encourage innovation and entrepreneurship among subordinates (Ross, 1987).

Entrepreneurial conduct can be encouraged by (Ross, 1987):

- valueing entrepreneurship and making known that it "…*is for* everybody" (Ross, 1987:24);
- communicating the message that business in general and employees personally will benefit if they behave in an entrepreneurial way;
- communicating clearly that reasonable failure will not be punished;
- developing performance management systems and corporate communication programmes to support the entrepreneurial culture; and
- giving middle managers the authority to act as if they were running their own businesses.

4.3.2.4 Avoid bureaucratic barriers

Bureaucratic structures and related behaviour become inappropriate where there is a greater need for self-determination, co-ordination with others and a shift in authority from the hierarchy to the market (Pinchot & Pinchot, 1978). A clash with authority and bureaucracy can be expected where the large and formal organisational structure is at odds with the entrepreneurial mentality (Maxon, 1986). In the Accenture Survey (2001), 75% of senior executives from organisations of more than 500 people, named bureaucratic problems a barrier to entrepreneurial behaviour.

4.3.3 Management processes

According to Barringer & Bluedorn (1999) and Zahra et al (in Kemolgor, 2002), a firm's ability to increase entrepreneurial behaviour is largely determined by the compatibility of its management practices with entrepreneurial ambitions. Managers must be allowed to build an entrepreneurial culture by achieving expected outcomes, by challenging employees to explore new markets and by evaluating innovative schemes in terms of their contribution to strategy (Davis *et al*, in Echols and Neck, 1998). Managers must also know that risk aversion leads to focusing almost exclusively on resource allocation rather than resource attraction.

According to Kuratko *et al* (1993), the adverse impact of a particular traditional management technique can be so destructive that the individuals within an enterprise will tend to avoid corporate entrepreneurial behaviour. It is therefore important for managers to recognise the difference between new and old venture units and historical operating units if corporate entrepreneuring is to flourish. Bureaucrats and controllers must learn to coexist with, or give way to the designer and entrepreneur.

From the existing literature it is possible to formulate a number of guidelines to match management practices with an organisation's entrepreneurial ambitions.

4.3.3.1 Recognise the complementary role of entrepreneurship to management

Clinical evidents suggests that successful entrepreneurial companies such as 3M and Hewlett Packard, exhibit both entrepreneurial and managerial approaches (Birkinshaw, 1997). The entrepreneurial challenge is to move an idea to a commitment of resources; the managerial challenge is to make the resultant business activity profitable. It is however important to recognize that the focus and dispersed approaches are complementary rather than alternatives.

4.3.3.2 Apply enlightened management practices

Companies fostering intrapreneurship are characterised by practicing enlightened management principles (Luchsinger & Bagby, 1987). Higher levels of uncertainty, so common to the current business environment, also call for more flexible innovative, entrepreneurial managerial practices (Davis, 1999). In the Accenture survey (2001) executives called for a new kind of leadership that focuses on entrepreneurial behaviour and which gives staff the confidence to behave in an entrepreneurial way. There is general agreement that a leader influences others towards the attainment of a vision and goals (Zaleznik, 1990; Stoner, 1995). A successful entrepreneur likewise influences those who can help achieve a desired goal or vision. Kuratko and Welsch (2001) reveals that the most common characteristics of both an entrepreneur and a leader are **risk-taking, creativity, achievement motivation, ability to motivate, vision, flexibility** and **persistence**.

4.3.3.3 Internalisation and drive for efficiency

The trend in organisations to internalize many services and processes and drive for efficiency, appears to absorb a great deal of entrepreneurial human energy, which could well be better used directly in the market place. Internalization directs entrepreneurial energy inwards in the organisation to fight for the size, shape and structure of a department. Energies are then consumed in defending and enhancing specialisation, rewards, status, demarcation, etc. (Pennings & Puranam, 2001).

The drive for efficiency is often also coupled with risk-aversion, resulting in firms focusing almost exclusively on resource allocation rather than resource attraction. This means that the company funds organisational units, which then decide what to do with the money rather than allowing people or teams to seek support for good ideas (Accenture, 2001). Management thus has to find balance between **operational efficiency** and **innovative thinking**.

4.3.4 Human resources policies

Human Resource systems are a powerful link in shaping behaviours and developing a firm's ability to be entrepreneurial. Twomey and Harris (2000) maintain that strategy, human resource management systems, behaviour and organisational outcomes can be aligned around entrepreneurial intent.

Because many traditional management practices turn out to be obstacles to corporate entrepreneurship, early solutions call for creating havens for individuals or small groups by sheltering them and excusing them from the formal rules of the organisation. More recent formulations saw generating entrepreneurship as an element of corporate strategy, and included in it's specialised human resource management systems to support intrapreneurial behaviours and organisational outcomes (Twomey & Harris, 2000). Jack Welsch from General Electric, emphasized that leaders have to find a better fit between the organisation's needs and peoples' capabilities (Tichy & Charan, 1989). Pinchot (in Rosner, 2000:96) argues that probably the most important thing the Human Resources function can do to encourage innovation, is to find people who are going to do something intrapreneurial for the company and then create a safe space for them to work in.

Human Resources Management Systems can therefore align around intrapreneurial intent since these systems are a powerful link in shaping behaviours and developing a firm's ability to be entrepreneurial. It is possible to find several ways to improve the contribution of the Human Resources function to encourage entrepreneurship. Some of these options are briefly reported.

4.3.4.1 Assess the capability

Rosner (2000:96) emphasizes the importance of assessing the quality of people and their entrepreneurial spirit. Every time an investment decision is made, Human Resources should be asking: "*Who wants to do this*" and *"Do they have the entrepreneurial spirit to pull it off?"* If Human Resources practitioners and people in the Human Resources function would accept this challenge, they could enhance their status and role within the organisation, and the ability to evaluate the entrepreneurial spirit could become one of their key tasks.

4.3.4.2 Create career intrapreneurs

It is a concern that intrapreneurs are rarely promoted to positions that match their contributions (Duncan *et al*, 1988). Good intrapreneurs are often promoted to management positions, significantly reducing the likelihood of future innovation in the technical sense of the term. Intrapreneurs rarely have the interest or temperament required for such positions. It is therefore unlikely that the promising or proven intrapreneur will be appropriately rewarded in today's corporation, as long as career paths do not allow for career intrapreneurs (Duncan *et al*, 1988).

4.3.5 Reward systems

"*The organisation which, for sake of an illusionary organisational harmony, declines to adequately reward it's achievers is doomed to exist in a swamp of mediocrity and perhaps even in a* performance *downtrend, as high achievers suffer a lack of recognition and reward"* (Chisholm, 1987:36).

The creation of viable intrapreneurial attitudes requires sensitivity to the nature of reward systems (Chisholm, 1987). Employee entrepreneurs can often better secure profit and wealth outside the large corporation. This failure to reward entrepreneurial behaviour therefore often causes entrepreneurs to leave the company (Jones & Butler, 1992).

Establishing equitable reward systems to encourage intrapreneurship is a difficult process. According to Jones & Butler (1992), the forces behind intrapreneurship are always in some dynamic balance and only the ability of firms to control the principal relationship and align incentives and rewards to changing conditions, can prevent the entrepreneurial spirit from lapsing into the practice of management.

However, firms are notoriously averse to paying supra normal rewards for supra normal performance to lower level employees because of beliefs that it will destroy the equity of the internal reward structure (Jones & Butler, 1992). It appears as if few corporations really have any concept of how to compensate creative employees

(Duncan *et al*, 1988). Firms therefore need to find ways to recognize individual performance contributions so that they can reward entrepreneurial performance appropriately (Jones & Butler, 1992:20). According to Dennison (in Duncan *et al*, 1988), the normal human being, even if he or she receives increased earnings, will reduce effort if hard work only increases the incomes of *absen*t shareholders or owners.

Jones and Butler (1992:738) argue that, while it is difficult to evaluate an entrepreneur's contribution and even more difficult to evaluate any one entrepreneur's contribution in a group or corporate setting, if entrepreneurs are not rewarded for their entrepreneurial efforts in the form of profits rather than salary, they will have less of an incentive to perform entrepreneurially; they will probably reduce their performance and pursue their own interests.

It seems as if top level managers now believe that unique types and combinations of compensation should be used to stimulate entrepreneurial actions and to support implementation of a corporate entrepreneurship strategy (Kuratko et al, 2001). Rewards should take the form of short-term or long-term incentives (e.g long-term profit sharing), should be both monetary and non-monetary and should include rewards for intelligent failure (Accenture, 2001). However, entrepreneurs should believe that they are always allowed to expect extrinsic (monetary) as well as intrinsic (recognition) rewards for their performance (Accenture, 2001). Pinchot and Pinchot (1978) predicted that, to become intrapreneurial, an individual must risk something of value to himself (e.g time, having no salary increases until the new business becomes a success, or even a 20% salary decrease, until project bonuses arrive).

Pinchot and Pinchot (1978) suggest that the rewards of success in an entrepreneurial project should be shared between the corporation and the intrapreneur in a well-defined and equitable way. Shared options schemes should include employees at all levels in the firm, not just at the corporate level (Jones and Butler, 1992). Magna International, a Canadian manufacturer of car parts, guarantees employees 10% of pre-tax profits. In 1985, Magna International paid $8.3m to employees in the form of incentives (Rule & Irwin, 1988:47).

Some argue that entrepreneurs should only be rewarded in the form of profits, rather than salary (Jones and Butler, 1992). A survey of CEO's in Fortune One Thousand Firms revealed that in more than 30% of the firms, managers of new ventures are compensated differently from their counterparts in more established organisations. More than half of the respondents indicated that venture members' incentives should be based on the venture's ROI, and that incentives should be kept between 50% and 200% of an individual's salary (Kuratko *et al*, 2001).

4.3.6 Systems

Information Technology (IT) and Information Systems (IS) governance must always create and preserve business value, not enforce standards (Woodward, 2001). This emphasis is particularly relevant in the context of IT.

It appears as if IS governance is sometimes constraining. If IS governance is merely a mechanism for reining in the wayward, it will become a constraint on business innovation. The challenge presented to business owners is therefore not just to go through a compliance exercise, but also to implement control of IT, while delivering value to the business through the use of technology. Every policy, principle and governance mechanism should derive from that motivation (Woodward, 2001). IT governance must nurture innovation, not constrain it. Real opportunity lies in insuring that the new goal of IS governance is to encourage the submission and discussion of innovative ideas on **cost reduction**, as well as **process, product** and **service innovation** (Woodward, 2001).

In conclusion one can note that IT management should understand it's role in the enterprise and how to adapt that role to meeting business goals. Frameworks for ensuring focus on business value must embrace the contributions that new ideas can make, while ensuring appropriate consideration and management of risk. A system that fails to meet this requirement will fail to contribute to the business value expected.

4.4 Strategy

Organisations seeking to introduce an intrapreneurial strategy also need to identify and focus on a number of internal organisational factors to make the transition successful. A review of research shows that a new organisational form and major change are inevitable considerations if entrepreneurial activity is to prosper. In the change process, people, corporate goals and existing needs all undergo change. The researcher does not propose a specific strategy, but discusses a continuum of entrepreneurial activities that may be considered when developing intrapreneurship, as well as a possible sequence of steps when implementing such a strategy.

According to Kuratko & Welsch (2001), research reveals that the matching factors, when introducing an intrapreneurial strategy, are:

- top management support;
- risk-taking activity;
- organisational structure;
- rewards; and
- resource availability.

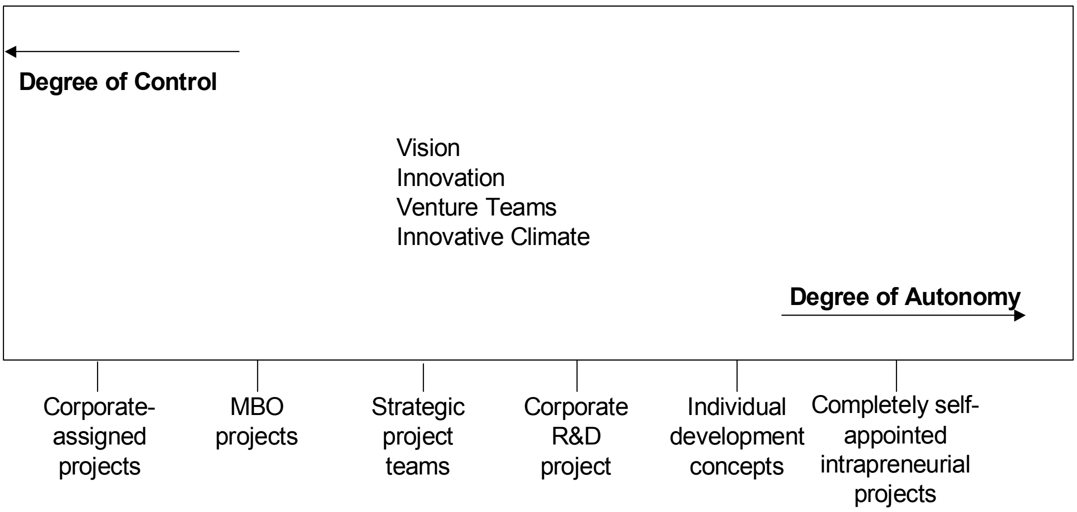
These factors are also aligned with critical steps or activities to be followed when introducing an intrapreneurial strategy.

4.4.1 A continuum of intrapreneurial activities

It appears as if the major elements of an intrapreneurial strategy point to a proactive change in the existing corporate status quo that leads to a newer, more flexible organisation (Kuratko and Welsch, 2001). It must be appreciated that an entrepreneurial strategy cannot be affected all at once. A change process is involved, which means that it has to proceed through a progression of activities. These activities are depicted as a continuum in Figure 4.2 (Kuratko & Welsch, 2001).

Figure 4.2

The Intrapreneuring-venturing continuum



Source: Kuratko & Welsch, 2001

Figure 4.2 first presents ventures that may be considered corporate-assigned projects, which are characterised by a great deal of corporate control and commitment. Then it progresses through management by objectives (MBO) strategic projects, and corporate R&D projects, all of which feature increased individual autonomy and decreased corporate control (Kuratko & Welsch, 2001).

The degree of project control and corporate commitment pushes certain projects toward greater corporate control and, therefore, alignment and supervision. Other projects will be pushed towards the ideal of intrapreneurship because of the need for autonomy and freedom to run a project. These efforts will manifest itself in completely self-appointed champions of new venture developments (Kuratko & Welsch, 2001).

Kuratko & Welsch (2001) cite that entrepreneurship is a risk, but it has to start somewhere, even if it starts small and is kept under corporate control. These authors maintain that, once initiated, there is a good chance that this effort will progress through the steps of the continuum. It appears as if, over time, people tend to become more comfortable with the idea, build confidence through the results, soon to manifest in more autonomous ventures that involve innovative abilities of all team members.

4.4.2 Possible steps in creating the entrepreneurial company

It has already been stated that various forms of intrapreneurial activity can exist within organisations. These circumstances will obviously be influenced by the business environment, leadership, the current organisation form and the organisation's performance, amongst others. Yet the necessity of a change process, which involves a number of phases or steps and which is strategy-driven, cannot be avoided. Kuratko et al (1993) proposes a sequence of such steps (in broad terms) to be followed when creating an entrepreneurial company:

- Step 1: Assess current strategies for entrepreneurial activity.
- Step 2: Assess the current organisational situation.
- Step 3: Determine whether there is an understanding of the innovation that management wants to achieve.
- Step 4: Identify specific objectives for corporate entrepreneuring strategies and the programmes needed to achieve them.
- Step 5: Make sure that the current system, structures and practices do not present insurmountable roadblocks to the flexibility and fast action needed for innovation.
- Step 6: Provide the incentives and tools for entrepreneurial projects.
- Step 7: Seek synergies across business areas.
- Step 8: Orientate managers so that they understand entrepreneurial thinking by employees.
- Step 9: Introduce and entrench an entrepreneurial climate.

- Step 10: Control and evaluate corporate entrepreneurship.
- Step 11: Encourage, not mandate, entrepreneurial activity through rewards and recognition.
- Step 12: Provide proper exposure of the human resources through selected rotation.
- Step 13: Entrench the principle that management must sustain commitment to entrepreneurial projects long enough for momentum to occur.
- Step 14: Introduce a people value (not analysis), and reinforce the concept of relying on people as the major managerial requirement if corporate entrepreneurship is to prosper.

Strategies developed to entrench intrapreneurship are aimed at a revitalization of innovation, creativity and a new way of managing a company. When managed successfully it has the potential to boost the future productivity of organisations, thus helping them to meet the challenges of the 21st century.

Chapter 5

ORGANISATIONAL CHANGE AND TRANSFORMATION

5. INTRODUCTION

This chapter is key to this research in the sense that it describes change as a phenomenon in organisations, including transformational change. The chapter starts with an assessment by the researcher, (as a consultant), of how change is being handled in South African organisations. This is followed by a look at an organisation from a change perspective. The researcher then summarises current paradigms about change and attempts to classify change into different types. Organisational transformation as a process then becomes the focus and is followed by a critical assessment of Organisational Development (OD) as a planned process of change. The chapter differentiates between transition at individual level and transformation at organisational level, followed by a discussion of critical success factors in change. The chapter ends with a review of several change models.

5.1 Assessing organisational change in the South African context

The researcher's experience with change in organisations stretches over a period of more than 30 years. This experience was first gained as an internal consultant and later as an external consultant to private enterprise as well as the public sector. Industries include, amongst others, banking, insurance, automotive, high-tech, chemical, energy, tourism, agriculture and mining. In the public domain clients such as the central, provincial and local governments, tertiary education, SARS, the military and NGO's were served. Interventions varied from strategy formulation to structural re-design; from a change in organisation culture to the development of teams; and from third party conflict resolution to interventions at individual level, such as life and career planning, stress management, diversity management and competency development.

Some of these interventions formed part of a larger change process in which the researcher played a key role. Others served as targeted interventions, which formed part of a larger change effort, initiated by management, or in some cases in conjunction with a third-party consulting firm. In some instances the change efforts were limited to only a diagnosis, after which management decided not to proceed. In a few instances the researcher was involved in large scale transformations which stretched over several years and ended with a joint decision to terminate the relationship.

These interventions to bring about change were not always successful. Change is complex and a successful outcome is not a guarantee. Real change in measurable terms is evasive, sometimes elusive and most of the time a real test for the competence, commitment and character of the leader, the management team, the consultant and the people in the organisation.

The literature reveals that transformation is much sought after, but rarely fully achieved (Beer & Nohria, 2000; Applebaum & Wohl, 2000). It contains many accounts of failed attempts, whether the goals are seemingly modest (involving targets that are apparently within reach), and apparently undemanding, (involving incremental change) or ambitious (involving more rapid or more radical change).

Despite much activity and analysis it therefore remains hard to bring about the requisite degree of change in an organisation. It would be safe to conclude that organisational change as a complex phenomenon, is difficult to analyse and not yet sufficiently understood to articulate a complete list of generic factors that will guarantee the successful outcome of a change initiative in any one particular organisation.

5.1.1 Reasons why South African organisations change

The origins of organisational change and change management date back to the seventies, when the USA as the world's largest economy, faced the turmoil of the 1973 and 1979 oil crises. This initial driving force to bring about change in enterprises was soon followed by competition from other countries, particularly Japan, offering cheap and better quality products to the consumer. Competition escalated into large scale mergers and take-overs, which led to across the board retrenchments. The advent of the information age finally contributed to a restructuring of the US economy (Finansies & Tegniek, Aug 1994).

Most South African companies were well protected until the early nineties, when they were rudely awakened by environmental factors such as:

- the globalisation of businesses;
- a world-wide slump in the price of commodities;

- new competitors on the South African scene, offering products of a higher quality at more competitive prices;
- new demands by customers as a result of changes in industries through acquisitions, with implications for products and delivery of services;
- new inventions, offering the possibility of changing the organisations' existing production technology or distribution chain;
- a new government, introducing legislation pertaining to Black Empowerment, Equal Employment Opportunity, and Social Responsibility;
- a growing awareness amongst communities regarding their rights in wealth sharing, protection of health and quality of life;
- economic and social conditions that created long-term changes in the composition of the labour force, as well as skill levels, particularly skill-levels in the technical and managerial domains.

It would be fair to surmise that very few organisations in South Africa were prepared to deal with all the changes after the first democratically elected government came into power and the country broke out of years of isolation. Since then changes at both global and national levels continued at an alarming pace, with very little time to develop a pro-active orientation and the necessary resilience to promptly deal with change. Strategy sessions were conducted and scenarios were developed, but the majority of these plans seldom evolved into visible changes and tangible results.

This statement is supported by a worldwide survey on competitiveness conducted by Boston University Round Table during 1994. The survey rated the South African industry 35th out of 41 countries assessed. The analysis showed that the South African industry was particularly poor in implementation. A failure to follow through and proper execution were cited as reasons. The report acknowledges that South Africa is acquainted with, and has tried, many advanced methods used in the US and Japan. The local industry however *"…fails to implement new techniques and suffers from a lack of discipline top-to-bottom, often starting an approach and backing off after difficulties arise at lower corporate echelons"* (The Star, 2 Feb. 1995).

Although a number of positives (such as macro stability, growth in investment and economic growth) have since appeared on the scorecard, the situation as described above has not improved markedly over the past decade (World Economic Forum, 1998; Institute of Futures Research, 1998, 2004).

5.1.2 Common changes observed

Despite the implementation shortfalls referred to, life at work is definitely changing. Whether the result of a carefully conceptualised strategy, with an in-depth analysis of external and internal forces, or merely an intuitive decision by a select few, South African organisations are engaging change. Life at work takes on new proportions. A number of salient changes are observed, each with it's own unique challenges, particularly in regard to the way the changes are being managed.

5.1.2.1 Mergers, acquisitions or divestitures

Mergers, acquisitions, and JV's have become an accepted means by which organisations can grow. Divestitures are seen as strategic attempts to redirect assets or to focus the organisation in some new direction. Such directional changes almost always result in "restructuring", as a result of duplication of functions, which must be corrected through painful layoffs. (Institute for Futures Research, 1998). Mergers entail the joining together of organisation cultures and often national cultures, which poses a unique set of challenges in terms of strategy, governance, economics and the management of cultural differences (Bamford, Ernst & Fubini, 2004).

5.1.2.2 The launch of a new product or service

A decision to enter into a new product or service range invariably connects a company with new customers, markets and often new competitors. Africa in particular is becoming a targeted market (Finance Week, 2004).

5.1.2.3 Appointment of a new leader

Another common phenomenon is the appointment of a new CEO from outside. The motive here appears to be distinctly different for nationals and multi-nationals. In the case of national companies stakeholders hope to generate a turnaround through new thinking and a different style of leadership (Keyser & Serfontein, 2002). For multi-nationals operating in South Africa, the motive seems to be the creation of an opportunity for future leaders to experiment and learn, before moving towards more demanding corporate positions in the East, Europe or North America. Like a new owner of an old house, leaders are tempted to alter or re-model existing business processes. In many cases, this leads to a substantial turnover amongst senior executives. The new leader generally doesn't feel at home until he is comfortable with all the people around him. Change usually cascades down from these new executives.

5.1.2.4 New technology

Technology is transforming the world of work, irrespective of it's application in research, operations or logistics. Information technology in particular is not only changing the way people work, but also when they work and from which locations they work (Gerstein *et al*, 1992). Nadler (in Gerstein *et al*, 1992) argues that perhaps the largest single influence on organisational architecture and design has been the evolution of information technology.

The scope of technological adaptations is vast, ranging from something seemingly simple such as buying a personal computer, to investing in the latest state-of-the art computer-aided manufacturing machinery. Regardless of the complexity of the system or the size of the organisation, one thing is certain, the incorporation of such technology or information systems will accompany change. Change is usually visible in the following areas:

- **Traditional supervisory relationships**. Computer networks allow people to communicate quickly, share ideas and transfer information regardless of physical location. Supervisors are therefore able to monitor the activities of a larger number of subordinates. The concept "span of control" takes on a new meaning. Interdependency between people and technology surfaces as empowerment, but it implies that employees are properly trained in the technology, and that they understand the direction taken by the organisation and their roles in it (Main, 1988).
- **Relationships with suppliers, customers and outsourcing companies**. Information systems make the ability to gain information from others up or down a process or distribution channel less dependent on control over that process. These relationships can now be managed virtually, almost in real-time (Main, 1988).
- **Automation and human expectations**. Tasks previously performed by human operators have become automated, changing the human task to one of supervisory control. Inevitably, the expectations of the average employee has to change due to the shift from repetitive tasks to having to recognise and react to problem situations.
- **Structural changes**. Nadler (in Gerstein *et* al, 1992:25) points out that *"…in organisational terms, the role of a hierarchy as the principle means to coordinate, control and facilitate communication is dramatically impacted by the capabilities of information technology…. The existence of these capabilities, however, does not determine the organisational architecture of the future;* ***it merely makes a new architecture possible****."* Improved coordination and larger spans of control are therefore replacing the need for many hierarchical levels.
- **New technology and change**. Since changes in technology should accompany changes in organisational practices and culture, learning has become an essential pre-requisite for the acceptance of informative technology. Also, if not viewed as part of the overall change process, the addition of technological process improvements, replacing human responsibility, is likely to lead to job dissatisfaction (Alexander, 1977).

5.1.2.5 Appointment of previously disadvantaged people at all levels

The effects of Black Empowerment and Employment Equity legislation are becoming visible in the workplace. The retrenchment and stagnation of white males, combined with an acceleration of previously disadvantaged groups (sometimes in senior positions), is a common phenomenon in South Africa (Institute of Future Research, Jan. 2004). Such trends are likely to place pressure on existing and new staff, sometimes resulting in inter-cultural tension as a result of whites feeling like second-class citizens in their own country (Institute of Futures Research, 2004). Strong leadership is needed to redirect energy and create ways of assimilating new appointments, while keeping more experienced members loyal to the company.

Other change implications implicit to this phenomenon could involve the development of new competencies and managing diversity in the workplace. Although not a new phenomenon, it remains unique to South Africa since the process entails the complicated merging of members of the majority group of the population into organisations of which the majority of members are of the population's minority group.

5.1.2.6 Improved corporate governance

Corporate governance has moved to the top of the corporate strategic agenda. This state of affairs can partly be attributed to the country's transition to democracy, and the related pressure on organisations and institutions to follow suit by creating opportunities for previously disadvantaged groups while adhering to constitutionally entrenched human rights. At the same time it enhances performance and competitiveness (Esterhuyse, 2003). Other reasons relate to global trends that post the acceptance of good corporate governance as an (ethical) business imperative and competitive advantage (King Report, 2002).

Fundamentally, corporate governance is about control systems and risk management. However, a controlled environment is not enough. Esterhuyse (2003) asserts that it should be energised by a culture of trust. Building trust is dependent on the establishment of certain core values. The result is that boards and companies are being forced to accept values such as the following (Esterhuyse, 2003):

- **Accountability**. Accountability can be legal and/or moral and has become non-negotiable for corporate life. It has changed the view of the place and role of business in society.
- **Disclosure**. The basic assumption applicable is that the investor has the right to be in a position where he can make informed decisions –an assumption necessitating high quality reporting and corporate communications.
- **Transparency**. This value emphasises the need to admit to problems, to strive for balanced reporting, to be open to ideas of others, to accept the role of the press, and to be open to issues such as remuneration of directors and share transactions.

- **Sustainability**. The challenge to organisations is to balance the pressure of short-term gain with the requirement of continuity. This means that the present actions of the business should be such that they do not limit or destroy the range of future economic, social and environmental options and opportunities.

5.1.3 How are these changes managed?

The changes referred to need to be dealt with or managed to be effective. Irrespective of the business sense of a merger, a new product, new markets, or new technology, existing structures, or processes and systems invariably need to be re-designed, adapted or altered to meet the expectations implicit to new business challenges. And people need to change their behaviour and review their expectations to be a good *fit* into the new environment.

A new technology could certainly reduce the number of staff and improve governance, but it usually involves a number of concurrent internal changes of similar proportions. To eradicate inequality, members of previously disadvantaged groups must be brought into organisations, but an enterprise must still stay competitive to survive in the highly competitive world. A government department or a local authority must remain relevant to exercise control and promote order and stability in society.

Managing these changes remains a major challenge to South African leaders. What makes the challenge particularly difficult are factors such as the incidence of aids and it's effect on the workplace, the loss of experienced people, the high levels of crime and corruption and the ever changing macro business environment.

How do leaders deal with these changes, albeit a private company, a large multi-national corporation, a government department or an academic institution? In an effort to find an answer to this question and help clarify the complexities associated with organisational change, the researcher takes the liberty to share some of his own observations, without attempting an analysis or exercising judgement.

5.1.3.1 Meaning attached to the term transformation

Transformation as a concept has different meanings in South Africa (McNamara, 1998). For a significant number of people transformation refers to the process of reshaping organisations by appointing previously disadvantaged people to senior positions. To some others it is more associated with the achievement of human rights as a logical step in the process of democratisation. To others transformation is still synonymous with change, but change could refer to very specific interventions such as reengineering the plant, introducing Total Quality Control or implementing ISO 9000. To the more informed, transformation implies radical changes in how people perceive, think and behave at work (Cummings & Worley, 2001).

The term transformation therefore creates confusion and leads to misunderstanding and divergence in interpretation. This makes alignment of expectations and communication during the process of change particularly difficult.

5.1.3.2 The cursory nature in which change is handled

The way changes in organisations are handled creates the impression that the approach is still reactive, ad hoc and not properly thought through. Evidence for such a view is seen in drastic cost reductions, which include the closing of plants, a decline in the number of regional offices, outsourcing of critical services and inadvertent retrenchment of staff. This way of adapting to change sometimes succeeds in the short term because inefficiencies are reduced. Strategically however, this approach destroys much valued experience and established competency levels, making the company less capable of responding to a changing environment.

The ad hoc nature in which change is addressed is particularly disconcerting. Structures are changed without thinking about or articulating strategy, changes in business processes are not given consideration in the redesign processes, and policies and standard operating procedures often fall by the wayside. To further aggravate the situation experienced staff are replaced by managers and supervisors who do not even understand those basic business processes they have to manage.

5.1.3.3 Content vs process focus

A strong task orientation amongst the management population results in a preference for content thinking when change is contemplated. The focus of time, energy and resources is on new products, new technology, new markets and business results. Internally the efforts are directed at the analysis of work processes, redesigning of structures and introduction of new systems to match new technologies. These are all content work related elements. The change process itself, which involves the people dimension, receives luke-warm attention, and is seldom professionally planned, executed and monitored over the life cycle of a change project.

5.1.3.4 The emphasis on structural changes

Changing organisational structures is a favourite pass-time of managers in South Africa. “Reorganisation”, *rationalisation of functions* and *re-engineering* are the terms frequently used to describe the process of re-structuring.

It is seldom that structural changes contribute to meaningful change and the outcome is often unsatisfactory. In most cases structures remain hierarchical despite repeated efforts to map out business processes. Power cultures prevent the acceptance of flatter, more empowered structures, where people can respond to new opportunities much quicker and solve their own problems. Real change to structures is often limited to the higher corporate levels and it appears as if the courage to follow through with changes down to the lowest levels is lacking.

Even in instances where new structures are scientifically designed and people are placed into new positions, very little gets done to prepare people for their new roles, define the interfaces or to equip them with the required competencies. The result is that people revert to their old behaviour, and because people give definition to structure, the original intent with re-structuring is not achieved. Executives are then surprised that they have to repeat the exercise a few years later (Strebel, 1994).

Restructuring almost always leads to downsizing and retrenchments. During the process of restructuring it often becomes evident to staff that the restructuring exercise is nothing more than a camouflage to downsize. To avoid blame internationally reputable consulting firms are often contracted to do the *dirty* work, albeit very costly and the outcomes often unpredictable (Serfontein, 2001).

Manipulation like this creates distrust in management's motives and is often the reason for resistance amongst staff.

5.1.3.5 Planned change

Despite theories arguing that change be planned and executed in a phased way, a contrasting picture surfaces as pressure on organisations increases. Initiatives involving change are not properly coordinated, resulting in confusion and uncertainty. Resource allocation is inadequate, time lines are unrealistic and staff directly involved are expected to engage in change activities while still performing their normal tasks. Efforts to manage change lack, amongst others, a vision of the end result, a credible change leader and sufficient monitoring for follow-up. In some cases the HR function, instead of line management, is held accountable for change.

In the case of takeovers, mergers and joint ventures, the effect seems even more dramatic. These cases often involve large-scale downsizing and almost instantaneous restructuring. Change strategies are top down and are achieved coercively by virtue of dictates from the outside or by newly appointed chief executives. Advocates of such approaches are often found among financial experts who are appointed as CEO's. They tend to show a preference for a rapid, coercive re-structuring and express contempt for the *soft* approaches, which they regard as trivial and time consuming.

This paradigm is becoming more of a norm as organisations venture deeper into a rapidly changing and unpredictable business landscape. Complexity is used as an excuse for quick change. To achieve change objectives people are coerced, forced and manipulated without an option of negotiation. This results in a lack of consensus and commitment, leaving people responsible to implement the change with very little motivation. Consequently many initiatives fall by the wayside or are kept alive artificially but at a cost. In an effort to survive individuals develop personal strategies such as to skilfully manoeuvre between priorities, without producing results.

In cases where provision is made for a planned step-wise change process, too much reliance is placed on analysis, particularly through surveys. Not only is the reliability of such surveys often questionable, but it also appears as if staff in larger corporations have developed an aversion towards these surveys. They seldom receive feedback and find it difficult to make a connection between the survey objectives and change strategies.

If consultants and facilitators of change were to honestly reveal their approaches to change, they would agree that the diagnostic phase is the easier one. Gaining management's commitment to change after a diagnosis and facilitating the implementation of such change strategies are the real challenges. These are also the areas where consultants perform less successfully.

Finally, step-by-step or phased models of change have become quite the fashion, suggesting that one recipe can work for all. The concept of a phased approach cannot be ignored and has been tested and proven to be a critical factor in the management of change. However, to apply a phased model indiscriminately would be naïve, involving unnecessary risk. Organisations are unique, as much as change strategies are triggered by different combinations of external and internal forces. Understanding an organisation is as important as understanding the factors contributing to the need for change. These factors and other variables should therefore, in the final instance, guide the thinking when planning change.

5.1.3.6 Systems-driven change

Change is often driven through the introduction of new or enhanced systems. Yet, companies often lack a clear business strategy and fail to align organisational structures and people with these changes. IT systems, for example, then become the drivers for change, and instead of being a means to an end, they become a means onto themselves.

Systems change can create another problem. Since technological change is often not managed as part of a larger change effort, the people impact of technology is underestimated. Software organisations mandated to implement such changes are expected to do so in isolation of other variables (i.e. changes in processes, practices, policies and culture), impacted by technological change. Whether such organisations are equipped to manage integrated change efforts remains another question.

5.1.3.7 People and change

Although most managers are quick to state that people are their *most important asset*, their efforts to manage a change project often send out a different message. Many fail to see that people define change.

It is hardly understood that people determine whether structures function according to their intended design, that people determine the success of new work practices, that people have to interpret new business directions and that people eventually determine how quickly and efficiently new systems operate (Serfontein, 2001). They fail to understand that new organisational structures imply new roles, new relationships, new approaches to work and new sets of values. They overlook the fact that people must be guided and supported, both cognitively and emotionally, to adapt to such changes.

Failure to recognise the direct line between structures, systems and technology on the one hand and perceptions, skills and attitudes of people on the other hand, is exacerbated by two other oversights:

- **People are viewed as a collective.** Individual differences are ignored and the fact that people react differently to the same situation or challenge is not taken into account. It appears as if *diversity training*, does not succeed in creating a full understanding of the meaning of diversity in organisations and it's importance when managing change.
- **Feelings are ignored.** In the rare cases where people are recognised as an element in the change equation, efforts are limited to the conceptual and cognitive domains. People's behaviour is not only affected by their thoughts and levels of understanding but also by their feelings – both positive (e.g. excitement, enthusiasm and challenge) and negative (e.g. fear, disillusionment, anger, frustration, doubt and disempowerment). Change efforts create the impression that negative feelings such as doubt, uncertainty, confusion and fear can be ignored or rationalised, while positive feelings such as enthusiasm, pride and excitement are neither leveraged nor fully utilised.

5.1.3.8 Leading change

An important issue to many South African organisations contemplating change is one of leadership. The expectation is that leadership will not be mired in the past, but will bring about the ability to understand the new world and to move the organisation courageously out of the past and into the future.

It is also generally accepted that organisations facing change need both managers and leaders. Bennis &Nanus (1985:21) for example, postulate that *"…managers are people who do things right. Leaders are people who do the right thing."*. Sashkin and Rosenbach (1993:106) argue that "…*effective transformational leaders use* *transactional managerial roles not simply to define, assign, and accomplish tasks and achieve goals, but also to educate, empower, and ultimately transform followers*". It is therefore safe to infer that the role of leadership in change is particularly important.

Based on a multitude of observations made in both the private and public sector over many years, the researcher cautiously makes the following inferences:

a. On average, South African managers may find it difficult to break out of their existing thought patterns and assumptions about organisations and change. They may find it particularly difficult to change their assumptions about:

   - how the business is run;
   - critical factors for business success;
   - competitiveness;
   - the role of people in enhancing competitiveness;
   - the human factor in change;
   - diversity.

b. There appears to be a reluctance to engage change openly and boldly and take personal accountability for a change strategy. Some engage in strategic planning exercises but fail to follow through on strategic decisions. They frequently lack a personal vision and the ability to mobilise and excite their fellow leaders for the challenge the new direction offers them.

c. Those who are willing to embrace change and become personally involved and accountable, appear to be autocratic, strong-headed and manipulative. They prefer to use positional power rather than personal power and are satisfied with compliance rather than commitment. Compliance is often reinforced through performance contracting. Unfortunately, the use of power creates negative feelings such as fear, powerlessness and eventually distrust and resentment.

5.1.3.9 Communicating change

To guide people's progression from awareness of change, to understanding, acceptance and internalisation, communication plays a key role and could involve many methods.

The communication strategies observed in South African organisations are usually based on the following:

- a reliance on traditional communication methods (e.g. briefing meetings, company newspaper and video) and based only on facts and logic;
- a reliance on communication trickling down through middle management;
- the assumption that employees will be more favourably impressed with the change if they first hear it from senior executives.

What is often lacking is interactive communication where people can freshly air their concerns. Another serious mistake is the under utilisation of middle management as a means of communicating to frontline employees.

5.1.3.10 Negative consequences

Organisations handling change ineffectively might see a short-lived improvement in their bottom line, usually as a direct result of the downsizing of the workforce or the selling of assets. Leaders are usually shocked when faced with many unexpected problems when change objectives fail: the workforce size has decreased, but the smaller workforce has lost their motivation, clients start complaining about quality of service and products and fire-fighting becomes the norm. At lower levels cynicism and disillusionment reign and the announcement of yet another change project is met with disbelief and immediate resistance.

More consultants are appointed – and fired, then replaced by a new group, offering yet another *packaged* solution. Competitors and talent seekers witness these vulnerabilities and exploit them to their advantage (Serfontein, 2001).

5.1.3.11 Perspective

From these observations it should be evident that change within organisational settings could assume many different forms and guises. A further reality is that many organisational change initiatives are overtaken by events and consequently do not reach the point of completion. In fact, there appears to be a substantial degree of uncertainty at the onset of change, related to the inability to articulate the complete outcome of a change initiative.

Finally, change could range over an extended period – sometimes up to five years and more. This requires a particular change orientation and mindset, different from that of engaging and dealing with short term directional change initiatives, with predictable and discrete beginning and end stages.

5.1.3.12 Conclusions

The process of moving an organisation from one state to another in order to survive, is a complex one. For those actively engaged in organisational change, either as a manager or as a consultant, this could be a humbling experience. Many change initiatives never reach fruition, are abandoned and resources such as people, time and money are wasted - despite promises of a business utopia. Business opportunities are missed and lost, often without reference to the human suffering and loss as a result of these aborted efforts.

The process is becoming more troublesome as it is realised that success neither depends on a single event nor hinges on creating the appropriate momentum. Organisations today have to develop the ability to become resilient, i.e. the ability to dynamically reinvent business models and strategies as circumstances change. Strategic resilience is not about responding to a one-time crisis. It is not about bouncing back after a setback. It is about continuously anticipating and adjusting to deep, secular trends that can permanently impair the earning power of a business. It is about the capacity to change before the case for change become desperately obvious (Hamel & Välikangas, 2003).

5.2 Defining change

It is often said that change is the only constant in the world people live in. The pervasiveness of change is seen in every sphere of human activity. Despite efforts by humans to bring in routines to create more order and stability, the world becomes increasingly unstable. Organisational change implies taking a system from a state of stability to a new (and changed) state.

Understanding of the change concept and the nature of change will facilitate learning and development of strategies and, eventually, the competencies needed for living with change. These competencies will contribute to a sense of being in control. The goal is an organisation that is constantly creating it's future rather than defending it's past. In a truly resilient organisation, there will be plenty of excitement, but no trauma (Hamel & Välikangas, 2003). The sense of being in control will therefore replace the sense of loosing control, usually experienced when change is unexpected.

5.2.1 Change as a world-wide phenomenon

Societies are changing rapidly and discontinuity has replaced stability over the past three decades. People experience much more of a global awareness than before and global competition has become a reality. With technology innovations and scientific breakthroughs have emerged changed values, attitudes, life expectations, etc.

With the many forms of worldwide change have also emerged a series of problems, ranging from environmental pollution and degradation to global warming and over-population, which include poverty, crime, disease and ethnic strife (Carnall, 1995; Korsten, 1995), pointing to the shifting sense of value in the global business context. Fifty of the world's one hundred largest economies are business organisations and not countries. The wealth of the world is slipping out of the hands of countries and into the hands of multi-nationals, gaining more power and influence as they grow (Stern & Barley, 1996). One can safely conclude that the power of global corporations will increase and will perhaps even have a stronger impact on the way business is conducted in many countries than the governments elected by those peoples.

5.2.2 Change at organisational level

At organisational level, turbulence, the rate of change, and the resultant struggle to innovate and stay alive are becoming equally evident. As highlighted in chapters 3 and 4 of this research, organisations have been subjected to a state of constant change as a direct result of the changing competitive landscape. As pointed out, adaptive responses consist mostly of mergers and acquisitions, corporate restructuring, strategy changes and related attempts to realign the organisation with changing environmental conditions.

Bamford, Ernst and Fubini (2004) cite that more than five thousand joint ventures and many more contractual alliances have been launched worldwide over the previous five years. They point out that the largest one hundred JV's represent more than $350 billion in combined annual revenues.

Corporate restructurings have been equally popular as a means to adapt to the changing environment. Some recent restructurings in South Africa include Transnet, Iscor, Telkom, Eskom, Absa, Toyota, SAB, tertiary education institutions and many others. Organisational change initiatives are assuming a continuous change character and the pace of change is quickening in the face of essentially accelerated environmental change.

5.2.3 Defining change

Kurt Lewin (1951) equated change to a force field. He viewed change as a *sequence of activities* that emanate from disturbances in the stable force field that surrounds the organisation (or object, situation or person), tends to focus on the role of context, stability as the preferred state, and the onset of a chain reaction of events when the force-field is disturbed.

Porras & Silvers (1991:52) view organisational change as a process, which consists of the following:

- an initiative which alters;
- critical organisational processes, which in turn influence
- individual behaviours, which subsequently impact on
- organisational outcomes.

Van Tonder (2004:6) views change "…*as a process resulting in a difference of* varying *magnitude and nature in the state and/or conditions of a given entity over time – whether the entity is a phenomenon, situation, person and/or object*".

The author explains the main elements of this definition as follows:

- C*hange is a process*, i.e. dynamic and bound to time, and clearly not discreet.
- Change is evident in a *differenc*e in the state and/or conditions within a state of an entity. He poses that *condition* be a description of the entity or person (or organisation) *within* a specific state.
- A change in *condition* will not impact on the *state* of the entity, but when a change in *state* occurs, a change in *condition* will also be recorded. Change will therefore be observable in both the state and/or condition of the entity. Change in state is likely to be far more comprehensive and intrusive than a change in condition.
- Change as *difference* does not occur in a void, but is bounded by it's *context*. The entity may include a person, an organisation, a situation, an object, some phenomenon, a system, an organism or any such defining term. Open systems thinking maintains that boundaries are permeable, to the extent that change in the one system is likely to be transferred to other linked systems and sub-systems.

Because of the difference in context, Van Tonder (2004) recommends that organisational change be treated distinctly different from environmental and personal change.

Van Tonder (2004) also observes that a real understanding of change as a scientific phenomenon is hampered by the following factors:

- the tendency to promote change management **recipes** and **phased programmes** for addressing the immediate practical problems of managers and consultants in organisations;
- a preoccupation with the predominantly **analytical and rational** approach to understanding change and change-management and a disregard for the **intuitive**;
- a lack of specificity and a tendency to ignore the distinctive organisational and broader operating **context** and become fixated on specific content-driven stages.

5.2.4 The individual in organisational change

Earlier in this chapter the distinct lack of participation and involvement of employees was given as one of the primary reasons why so many organisational change efforts in South Africa do not produce the desired results. This observation is supported by Beer and Nohria (2000) who argue that change in organisations cannot take place or be dealt with effectively if the individual employee is not engaged in the change initiative. He/she must internalise and accept change and finally support efforts to facilitate or manage the change process.

Individual employees often have to deal with change on a personal level. This includes solving the problem of change (Naisbett & Aburdene, 1990).

Change at organisational level therefore only occurs at the rate that the individual employee is able to deal with and respond to change. Such change occurs much slower than what managerial assumptions and actions would normally suggest (Forisha-Kovach, in Van Tonder, 2004).

Whether this phenomenon is labelled ignorance, denial or just a lack of awareness, the impact is of a serious nature and the stumbling block in many abortive change efforts. The tendency of management to focus on the technical and business elements involved in change and, at the same time, neglect the equally important human elements in the change process, is widely acknowledged. (Serfontein, 2001; Bamford, Ernst & Fubini, 2004).

5.2.5 Can change in organisations be managed?

The many failures of managed change initiatives serve as a warning to those who claim that change can be managed in a prescribed phased fashion or recipe. Mintzberg, Lampel & Ahlstrand (1998:325) state categorically that change cannot be managed. The authors concede the change can be ignored, resisted, responded to, capitalized upon and created, but it can't be managed. This statement challenges the term *change management* used so frequently, and sometimes, out of context. To manage one self through life is difficult; so much more difficult it becomes to manage a team, unit or organisation, consisting of numerous individuals, expected to work towards a common goal in a complex network of relationships.

This may be seen as a somewhat conservative view of the management of change. There may be other reasons for failed change efforts such as uncommitted leadership, poor planning, a lack of joint ownership by both management and employees and a tendency to stick to prescribed recipes. Working within a given context and actively engaging forces for change in a productive way, are some of the challenges that managers and consultants have to face.

5.3 The organisation from a change perspective

The main focus of this research is organisational change and transformation. Understanding of organisations must therefore be accepted as a pre-requisite for understanding change within organisations. In this regard the researcher must reiterate the basic premise that change is always construed within a specific context and is defined in relation to some object or phenomenon that imposes boundaries on it. For this study an organisation – Schümann-Sasol (Pty) Ltd (South Africa), and it's specific context was selected.

5.3.1 Defining an organisation

The concept of organisation includes terminology such as business, company, corporation, institution, firm and others. Organisations could exist in a profit or non-profit context. Most writers in this field acknowledge the evolving form and structure of organisations. In it's simplest form, an organisation is a mechanism that takes inputs and transforms them into outputs (Nadler & Tushman, 1980).

5.3.2 Relevant organisational theory

In an effort to grasp a better understanding of organisations and organisational change this study relies heavily on organisational theory, organisational behaviour theory, organisational psychology and management theory.

These theories represent different perspectives on what an organisation is, or should be, and was influenced by a variety of disciplines and backgrounds. Theories have the advantage of helping the researcher to observe an organisation from a variety of perspectives and to see how they converge. Yet it also makes it troublesome to develop an integrative framework of what an organisation really is. And this will make it difficult to identify a coherent and integrated view of change, as the way organisations are described will invariably also influence the way change is seen and described within that organisation.

5.3.3 Schools of thought

Several schools of thought emerged during the twentieth century. These were:

a. **The classical theorists**.

They include Scientific Management, Taylorism and Max Weber's bureaucratic school. This school of thought sees an organisation as a machine that is capable of acting with precision, speed and efficiency. The classical theorists disregard the role of people. Organisational change is understood to conform to known parameters. To restore optimum levels the primary vehicle for change is rational analyses and solutions to ensure that the machine returns to it's levels of desired performance. For this school of theorists change is essentially a controllable process that is employed in a corrective mode and in accordance with known rules and parameters (Weisbord, 1987).

b. **The human relations movement**.

This school of thought benefits from the contributions of Elton Mayo and the Hawthorne studies as well as Maslow, Lewin and Hertzberg, among others. This movement is in part a reaction to the de-humanised machine concept of an organisation. The school recognises the importance of addressing the social needs of employees through employee-directed leadership and participative work practices. This school however still conforms to the broad tradition of *one best way* of organising and managing, with it's implicit expectation of *one best* change solution (Weisbord, 1987).

c. **The structural analysts**.

This movement emphasises the importance of the environment and the impossibility of divorcing the organisation and it's functioning from it's operating environment. According to this school, there is no single best way of structuring organisations and there are interdependencies between the organisation and it's environment. Contributors to this school include Lawrence & Lorsch, Trist, and Galbraith. The importance of information, power and conflict is also recognised because of it's acknowledgement of the environment. This school recognises the stability or change in the environment as influences of stability or change in the organisation; hence favouring the *contingency* approach. Change in or within organisations is essentially viewed as *adaptive* in nature, as it is concerned with matching, fitting or aligning organisational structure and complexity with what is required by the operating environment (Van Tonder, 2004).

d. **Contemporary theorists.**

This school of thought must be seen as a reaction and response to functionalist thinking. It gives recognition to the role of culture, symbolism, conflict, action, organisation-identity and more recently, chaos and complexity. It views organisations as entities that need to adapt to increasing complexity (in operating environments, but also in terms of internal dynamics). Organisations also have to contend with competition and secure scarce resources. The contemporary theorists believe that organisations have the innate potential to develop and self-organise in the face of changing circumstances. According to this school the only way that an appropriate (unique) change response can be initiated is through increasing the number of relations or linkages between potential sources of solutions (i.e departments, stakeholders, etc.) By collectively making sense of information, appropriate change responses can be formulated (Van Tonder, 2004).

5.3.4 Paradigms of organisations

In chapter 3 reference is made to the need of a dual paradigm shift: a shift in the conception of an organisation **and** a shift in the method of inquiry – the means of knowing – from analytic thinking to holistic thinking (Gharajedaghi, 1999). Paradigms therefore appear to be important when thinking about change.

Van Tonder (2004) describes a paradigm as a tool for reflecting on and deepening people's understanding of, firstly the nature of organisation and, and secondly the nature of change. In other words, a paradigm is a framework, a mindset or a world view, which Van Tonder (2004) describes as *"…a form of cognitive or conceptual schemata that includes an integrated body of knowledge and wide range of concepts, believes, theory, laws and principles, methodologies, considerations, techniques, application, parameters and so forth"*.

Several paradigms of organisations can be identified, which aid the thinking about organisations and organisational change. Van Tonder (2004) postulates three such paradigms:

- **the functionalist**, which is characterised by rationality, high levels of differentiation, hierarchical control, top down communication and technical and professional expertise;
- **the post-modernist**, which essentially reflects the movement away from the rational to the intuitive, accompanied by greater fluidity and diversity;
- **the psychological perspective,** which acknowledges the importance of psychological forces such as emotions, cognition, learning, the unconscious and the role of irrational processes.

The systems perspective. A fourth organisational paradigm could be added is based on system theory. A system is described as a whole that consists of a set of two or more parts. Each part affects the behaviour of the whole, depending on how it interacts with the other parts of the system (Wardman, 1994; Kreuzer & Wiley, 1996). According to Schein (1980) an organisation can be construed as:

- an open system;
- a system with several purposes or functions;
- consisting of many sub-systems; and
- being embedded and existing in an environment.

Comments

In parallel with developments in the field of organisation theory, disenchantment with traditional forms of organisation has grown in the face of recognition that rapidly changing environments require organisations which are, among other things, more agile and responsive (Gailbraith & Lawler III, 1998; Hamel and Välikangas, 2003).

It appears as if traditional organisational forms which were characterised by tightly bound and clearly defined centralised and structured forms, are making way for a more loosely-associated and wider-reaching organisational architecture. This includes a diffusion of external and internal boundaries and the emergence of new forms of relationships, mediated by an ever-increasing free flow of information. Even leadership, management practices and fundamental organisational processes are changing in unison with the transformation of organisational forms. Roles and responsibilities are less clearly defined, work descriptions are becoming more fluent and work environments are more virtual.

At operational level work has become much more flexible, information based, abstract and interdependent. Work is performed more by teams than by individuals, and mostly in flexible working environments.

To stay competitive individuals, teams and organisations have to engage in continuous learning and improvement, competency-building, and above all, the capacity to engage in continuous change.

5.4 A thinking framework for understanding organisational change

As much as paradigms help to understand organisations, paradigms of change must also assist in conceptualising change in organisations.

Relevant to this study are life-cycle-based change, planned change and change through organisational learning.

5.4.1 Life cycle-based change

Life-cycle models suggest that all organisations pass through predictable and sequential stages of development and change, and that organisations display regular patterns of change which correspond to the stage of development in which the organisation finds itself in (Cameron & Whetten, 1981; Adizes, 1988; Greiner, 1998; Mintzburg, 1984; Quinn & Cameron, 1983).

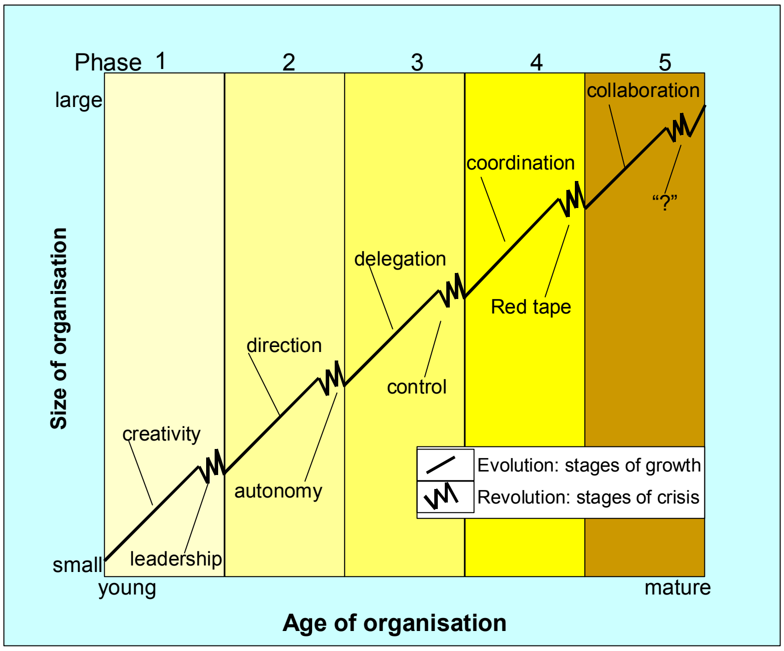
Life-cycle models display many similarities and show only minor variations. The natural process of organismic change that unfolds in every organisation, in accordance to an implicit and predetermined developmental blue print, is core to a life-cycle view of organisational change. Organisations are therefore capable of progressing through several cycles in a developmental spiral of ever-increasing complexity and sophistication (Van Tonder, 2004).

The primary value of a life-cycle view of organisational change is it's usefulness in explaining changes in organisations over time, which enables both managers and consultants to anticipate problems or difficult development stages. This view also acknowledges the dynamic and changing nature of organisations, independent of context (Van Tonder, 2004).

The pioneering work of Greiner (1972; 1998) is perhaps the best-known contribution toward this paradigm because of it's relevance over three decades. Greiner argued that organisations progress through the stages of creativity, direction, delegation, co-ordination and collaboration. Each of these stages is followed and matched with managerial crises, centering around leadership, autonomy, control, red-tape and as yet undefined managerial crises. The latter was not named by Greiner (1972), but stems from the psychological saturation emanating from demands of intense teamwork and intense pressure for innovation. For Greiner's model see figure 5.1.

Figure 5.1

The five phases of growth



Source: L.E. Greiner, (1972, 1998)

Most of the models incorrectly assume that organisational development and change is sequential and in hierarchal progression, and is not easily reversed. Another point of criticism is the apparent disregard for the presence and influence of the environment as manifested in industry, technology and other situational variables (Van Tonder, 2004).

Apart from the useful contribution of this framework in conceptualising various life-cycles in the development of an organisation, it also confirms observations that past strategies and behaviour become inappropriate in new stages and could even have fatal consequences if rigidly adhered to. Success formulas of the past have triggered the fall of many great enterprises in that somehow their recipe for success became ineffective (Gharajedaghi, 1999).

5.4.2 Planned change

Planned or managed change is the most common form of organisational change. Planned change has gained prominence through the emergence of Organisational Development (OD) as a discipline dedicated to the study of change (Cummings & Worley, 2001; French & Bell, 1999). Although the pioneering role of Organisation Development in planned organisational change efforts must be recognised, all significant approaches to planned change are not necessarily found in this domain. Several functional domains and fields of practice incorporate a planned change component. Typical examples are the following:

- strategic planning and formulation of strategy, which deals with the organisation as a holistic unit in the context of it's operating environment;
- the domain of management, which incorporates operational, financial and production management;
- re-engineering-related concepts such as Total Quality Management, Business Process Re-engineering, etc.

Institutionalised strategic planning is of primary importance, as it represents the consciously constructed organisational change efforts (strategic choices), designed to ensure timely adaptation and growth of the organisation. The generic strategic planning process would typically commence with direction-setting activities such as vision and mission formulation, followed by scenario development, external and environment assessment and industry and competitive analyses. This will lead to the formulation of strategic thrusts and objectives (Serfontein & Naude, 1987; Keyser & Serfontein, 2002). Strategic planning could then become the start of a process of planned change.

It must however be pointed out that a difference could easily occur between intended strategy and actual strategy. This phenomenon was particularly prevalent since 2003 with the strengthening of the Rand. Several organisations switched to a cost-management strategy, in an effort to stay competitive; in doing so growth strategies where often compromised. The intended strategy or plan for change thus is not necessarily an adequate measure of actual organisational change.

This highlights one of the limitations of planned change thinking. Strategic planning does however demonstrate how some organisations have routinised and formalised organisational change as a mechanism for effectively dealing with the environment.

The success of the planned change approach cannot be doubted. What started off in the late seventies as isolated and ad hoc planning events in companies, have evolved into a routinised and formalised organisational practice, which is consciously constructed to guide organisational change efforts. But the failure rate of these organisation initiated change attempts is high. The planning part is usually the easier part and, with the help of a good facilitator, could run smoothly, and could assist in creating a thorough understanding of where the organisation is heading.

The reason for the failure must be attributed to deficiencies such as the following:

- the neglect of the emotional dimension in organisations and in the management of organisational change in particular (Kelly & Conner, 1979);
- the cognitive ability of those engaging in planned change (Van Tonder, 2004);
- the inability of organisations to translate a strategic plan (primarily content thinking) into a planned process of change (primarily process thinking);
- failure to adapt planned change efforts to changes that occur at strategy level, resulting in an incongruence developing between these key processes.

5.4.3 Organisational learning

This paradigm of change in organisations is based on factors such as the following:

- because of the pace of change in their business environments, organisations have less time in which to build up carefully planned organisations;
- advances in information and communication technology are producing an overload of information, while at the same time shrinking the globe to the size of a village;
- due to these advances in information technology, radical changes are taking place in work processes, reducing the number of people working in an organisation significantly and changing jobs fundamentally;
- obsolete knowledge and experience, as well as outdated success formulae of the past, fail to help management face new adaptive challenges of the business environment;
- in South Africa in particular, the appointment of significant numbers of previously disadvantaged people at all levels in organisations are creating a huge need for the development of competencies;
- both the opportunities and threats with which organisations are confronted are increasing in number, intensity and influence.

Ongoing learning, not only at an individual level but certainly also at an organisational level, constitutes the best and probably the only preparation for an uncertain future. Organisations therefore have to develop an ability for learning so that they can continuously transform themselves and in so doing, maintain alignment with a rapidly changing environment. Learning organisations (Senge, 1990) have mastered the act of adapting quickly on the one hand and preserving their own direction and identity on the other. A learning organisation is one that has acquired the ability to learn collectively and has made the capacity to learn, adapt and change an element of it's culture, values, policies, practices, systems and structures. The results of collective learning are visible in the areas of work, processes, products and services (Senge, 1990; Watkins, 1995).

5.4.3.1 Learning and change

Learning is the changing of behaviour. The goal of this change in behaviour is to arrive at a form of behaviour which corresponds better to the goals of the learner; in other words, behaviour that is more effective. To be effective implies being more competent. A competence is determined by what people know and understand, but also by what they can do (skills), what courage and will they possess and what and who they are (personality and aptitude).

Organisational learning is a collective learning process. An organisation can only learn because it's individual members learn. Without individual learning there can be no organisational learning. A learning process takes place in and through interaction with and between a number of people. Despite this, an organisation does not automatically learn when individuals within it have learned something. An organisation only learns if someone not only does the job better, but also as a result of this, other members operate better and differently too. It must be a question of mutual behavioural change and therefore mutual learning (Swieringa & Wierdsma 1992).

Organisational change starts taking place when people begin to collectively do things differently. Collective learning, which leads to behavioural change, is the equivalent of organisational change.

Senge (1990), one of the pioneers, who have to be credited for the term *learning organisation*, cites that learning organisations are possible because people enjoy learning. According to him learning does not only occur within organisations, but the entire global business community is learning collectively. Senge (1990) postulates five disciplines or *component technologies*, converging to innovate learning in organisations. These could be briefly described as:

- a **shared vision**, which fosters commitment to the long term;
- **mental models**, which initiate the openness needed to change existing paradigms;
- **team learning**, which allows for the development of team or group competencies and a larger perspective;
- **personal mastery**, which promotes the personal motivation to continually learn how peoples' reactions affect their world; and

- **systems thinking**, the discipline that integrates the disciplines into one conceptual framework or body of knowledge.

5.4.3.2 Susceptibility to organisational learning

Organisations are not all equally susceptible to learning. In some organisations, for example small to medium sized entrepreneurial companies, learning takes place at a quicker pace. Like the type of organisation and the environment in which they operate, the learning is almost completely an entrepreneurial process. In the first phase of their existence, production, promotion, selling and administration involves learning. In the next phase the learning usually revolves around the development of new products and new markets. This could later on develop into learning to develop cooperative links with other organisations, so that a higher order of organisational learning takes place (Chaston, Badger & Sadler-Smith, 2001).

In contrast, bureaucracies usually experience great difficulties in learning, although these organisations are sometimes renowned for the large amount of education that is promoted by them. In contrast with entrepreneurial organisations, bureaucracies avoid risks, exercise tight controls and avoid and punish mistakes (Ross & Unwulla, 1986; Chisholm, 1987). It is clear that the common threat that runs through strategy, culture, structure and systems of such organisations is *to prevent problems.* Unfortunately, by preventing problems, they also prevent learning.

5.4.3.3 Conscious and unconscious learning

Learning is often implicitly equated with conscious learning. Training, trail and error learning, planned experimentation, work redesign and even strategic planning, could be viewed as conscious learning (Harrison, 1992). By contrast unconscious learning is repetitive; imitating role models or repeating behaviour which is rewarded, and avoiding that which is punished (Hall, 1959). Swierenga & Wierdsma (1992) postulates that much behaviour in organisations, particularly collective behaviour, is learned unconsciously, both formally and informally.

The distinction organisations draw between conscious learning (education) and unconscious learning (experience) was challenged by Kolb (1976, 1984), who maintains that learning is a cyclical process: doing (concrete experience) → reflecting (observation) → thinking (abstract conceptualisation) → deciding (action again).

A person therefore gains experience through doing; reflecting is the meditation of the experience; thinking is an attempt to understand the experience by means of analysis and conceptualisation; a person then makes choices, decides on the next steps and then the cycle repeats itself.

Kolb (1984) has contributed to a better understanding of learning, particularly organisational learning, in the following ways:

- knowledge and insight cannot stand alone but is integrated with the development of skills and attitudes;
- learning is not restricted to classrooms or seminars, but occurs by doing, which Kolb refers to as problem-oriented-learning, where the problem is both a stimulus and a medium for learning;
- everyday activities can become a component of learning processes by raising it to a conscious level through thinking and deciding.

It furthermore appears as if self-knowledge is a prerequisite for the development of learning potential (Swieringa & Wierdsma, 1992). This observation emphasises the importance of feedback as part of organisational learning, since self-knowledge is only possible through interaction with others.

The potential to learn must therefore also be equated with the potential for learning to learn. Kolb (1976) cites that this is dependent on a person's learning style: whether a person is a doer, a reflector, a thinker or a decider, with each style's accompanying strengths and weaknesses.

The reflection phase of Kolb (1976) is not only important to the gaining of self-knowledge, but particularly significant when trying to make sense in a very complex situation – such as those experienced during change. Under such circumstances Gharajedaghi (1999) suggests three learning modes:

- **Learning to be** – time to reflect, acknowledge and share feelings.
- **Learning to do** – learning about knowledge and skills to implement strategies.
- **Learning to learn** – when the person becomes a self-educator.

5.4.3.4 Forms of collective learning

It has been stated earlier that collective learning leads to the changing of organisational behaviour and that is equivalent to organisational change. Swieringa & Wierdsma (1992) propose three forms of collective learning at a conscious level:

- **Single-loop learning**. This is learning at the rules-level and is usually associated with the *improvement* of quality, service and customer relations. With this form of learning no significant changes take place in the strategy, structure, culture or systems of an organisation.
- **Double-loop learning**. In double-loop learning not only the rules are changed, but also the underlying insights. The consequences are further reaching, the number of people directly or indirectly involved is higher and the learning process runs over a longer period. Double-loop learning becomes an option for change when external and internal signals indicate that the mere changing of rules is not the answer any more. For this to be realised, self-knowledge is required. Double-loop learning leads to *renewal.*

- **Triple-loop learning**. This form of learning takes place when the essential principles on which the organisation is founded are challenged. It therefore questions an organisation's very being or reason for existence (mission) and identity. It stimulates questions of collective will and being. Triple-loop learning is essentially the development of a new set of principles with which an organisation can proceed to a higher level of being or functioning.

5.4.3.5 High-order learning

To cope with current and future changes, organisations need to elevate their learning processes to a higher order to allow for single-loop, double-loop and triple-loop learning as discussed above (Swieringa & Wierdsma, 1992), and to qualify for a learning organisation status (Senge, 1990).

Harrison (1992) proposes a number of criteria for high-order learning. These criteria can be summarised as follows:

- High-order learning requires constant attention to the learning process. Learning has to become one of the values in the organisations culture. Action has to be interwoven with the examination of it's consequences and the realisation that there is no action without learning.
- High-order learning is wider and longer in it's conceptual scope. The organisation has to go beyond the search for immediate causes of symptoms and quick fixes to an attempt to understand the entire system and it's relationships with it's environment, and how those evolve over time.
- High-order learning is self-initiating and self-directing. People have to take responsibility for their own learning, rather than relying on others to provide learning opportunities.
- High-order learning uses systemic thinking and is pre-occupied with wholes rather than parts. The scope of enquiry must allow for the possibility that solutions to problems in one part of a system could create problems for other parts.
- High-order learning involves articulating, questioning basic assumptions and mental models of reality, rather than limiting inquiry to issues within the current paradigm.
- High order learning involves the creation of learning systems (organisational learning) and individual learning. Unless an organisation is well developed as a learning system, it will frustrate the attempts of individual members to put their learning into practice.

5.4.4 Concluding comments

The three frameworks discussed cannot be separated when engaging change. Planned change initiatives should be aligned with an organisation's life cycle stage and complemented by organisational learning. In this regard management plays a key role by interpreting environmental information and making sense of the many events enveloping an organisation

Of the three frameworks, organisational learning could be the key to successful change. Every organisation has the capacity to learn and to unlock the knowledge and wisdom to address it's particular situation effectively. The unlocking can be achieved through leadership, but also through a consultant, especially those consultants who focus on process rather than on content. The roles of such consultants include placing a *learning frame* around their work. Through such a *learning frame* the consultant helps to increase an organisation's ability to learn and **to deepen it's understanding of the learning processes**. An organisation's development stage and it's particular approach to planned change is then blended into a process of organisational learning until change becomes ongoing and fully integrated into an organisation's ability to cope with a changing environment.

5.5 Types of change

In an effort to understand organisational change this chapter has so far dealt with organisational change in practise, the concept of an organisation and organisational paradigms. This was followed by several perspectives on organisational change. This section endeavours to describe different types of change.

The dimensions according to which types of change are described and differentiated could vary in terms of the following:

- the manner in which the change unfolds in (incremental or sizeable leaps);
- the scope of the change (one segment or the complete system);
- a time orientation (does change unfold rapidly or slowly);
- the mechanism of change (small sequential changes that cumulatively build up over time, as apposed to major change efforts).

5.5.1 Some typologies of change

5.5.1.1 First- and second-order change

The concept was first introduced by Watzlawick, Weakland & Fisch (1974). First order change was typically thought of as occurring within a given system, which remains unaffected while these changes takes place. Second-order change, however, entails the changing of the system itself – a change of the contextual frame.

First-order change is less threatening in nature and is usually more easily accepted with minimal resistance. Most change management practices are being build around gradual and incremental approaches to change (first-order) for the very reason of not provoking resistance. These low-risk practices are more unlikely to produce meaningful gains.

It is questionable whether a first order change methodology will be sufficient to ensure the continued competitive positioning of an organisation in turbulent operating environments. Second order change is less easily understood and will elicit more resistance than first order change. Some kind of a crisis is usually required to dislodge an existing paradigm and allow second order change to occur.

5.5.1.2 Alpha, Beta and Gamma change

These types were researched and first introduced by Golembiewski, Billingsley & Yeager (1976).

Alpha change is described as change that involves a variation in the level of some existing state of a construct, which is measured with an instrument that is constantly calibrated and which is related to a constant conceptual domain. Alpha change is the actual observed difference between the pre-test and the post-test scores. This can be viewed as the conventional form of change where the construct, the instrument and the context or conceptual domain remains constant.

Beta change is very similar to Alpha change, except that it has the added complication that the respondent has recalibrated the intervals on the measurement instrument at a conceptual level. The respondent's internal standards have therefore changed. This implies that the participant has altered his understanding of the meaning of the scale points between the pre-test and the post-test. The measurement scale has been stretched by the participant in the sense that the points on the scale take on a new meaning the moment the participant places them in the context of an experience that he did not possess at the outset of the training programme.

Gamma change involves a redefinition or re-conceptualisation of some conceptual domain or context. Gamma change is *change in state* as opposed to *change in condition*. Gamma change is a quantum leap in the way that a specific phenomenon or dimension is conceptualised and therefore differs substantially from Beta change.

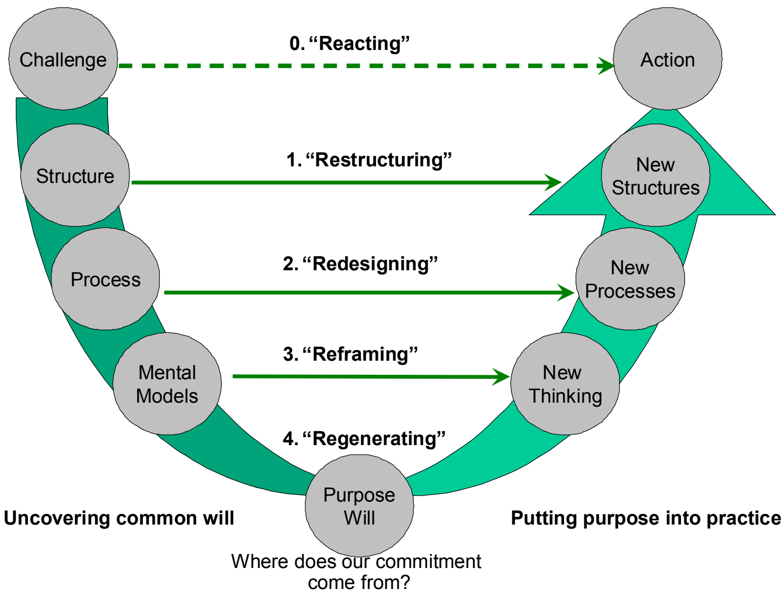
5.5.1.3 Scharmer's typology of coping with change

Claus-Otto Scharmer (2000) poses that change (particularly transformational change) plays out on multiple levels and offers a distinction among five different levels of change that are mapped along the lines of the classical Lewinian insight of unfreezing-change-refreezing.

Figure 5.2 depicts five levels of organisational reality and accordingly of coping with change (types of change). The five levels of organisational reality are similar to an iceberg, in which most reorganisation takes place *below the waterline*.

Figure 5.2

Five levels of behaviour in response to change



Source: Scharmer, 2000

In figure 5.2 the **action** (at level 0) is *above the waterline* and is embodied in four underlying or contextual levels (or types of change) of reorganisation and change. The four underlying levels of reorganising are **restructuring** (level 1), **redesigning** core processes (level 2), **reframing** mental models (level 3) and **regenerating** common will (level 4).

When leaders in an organisation face a challenge (figure 5.2, top left), they must choose whether to react directly to the issue (level 0) or to step back, reflect, and reorganise the underlying contextual levels that gave rise to the challenge in the first place. Accordingly five different responses to change can be distinguished: reacting (the response on level 0), restructuring (the response on level 1), redesigning (the response on level 2), reframing (the response on level 3) and regenerating (the response on level 4).

a. **Level 0 Change: Reacting**. The first response to a challenge caused by change, often occurs on level 0, where the change has occurred. Once a problem becomes known, the logical response is to *react*. Although reaction is appropriate in some cases, in many circumstances reaction does not address the underlying issue. The context that *gives rise* to the issue has to be taken into account as well. Thus, the focus needs to be on the underlying levels of organisational structure, processes, mental models and identities.

b. **Level 1 Change: Restructuring.** Structure consists of a set of variables that drive **behaviour**. *Restructuring* occurs when the problems and issues raised by level 0 change are seen as the manifestation of the underlying contextual reality called *structure.*

c. **Level 2 Change: Redesigning**. Often neither reacting nor restructuring can truly address the real issues of change, in which case a third level of response may be appropriate. In this response, often referred to as *redesigning* or **business** re-engineering, *manifest action* and *structures* are conceived of as part of an underlying reality called *core processes.* Core processes are at the center of what drives corporate behaviour. Core processes represent the stream of value creation as perceived from the point of view of the *customer* (Hammer & Champy, 1994). Everything that directly contributes to that is part of the core process; everything else is not. Focusing on core processes allows companies to be more flexible with respect to structure and action. Both structure and action can be adapted to local conditions.

d. **Level 3 Change**: **Reframing**. According to Strebel (1996) about 70% of all corporate re-engineering attempts fail. Many practitioners argue that these failures are usually connected to the fact that the underlying mental **models** (or paradigms) used to develop the core processes, did not change. Thus, corporate re-engineering requires yet another approach and level of corporate change: one that focuses on the mental models and cultural assumptions that guide managerial action. In these approaches, which are often referred to as organisational learning, the problems on levels 0, 1 and 2 (action, structure, and process) are conceived of as the function of yet another set of underlying context variables referred to as *mental models* (Senge 1990; Argyris & Schön 1996) or culture – i.e. taken-for-granted assumptions (Schein 1992). Companies that use dialogue to focus on shared mental models and cultural assumptions are believed to be more flexible in respect to other key variables like action, structure and processes.

e. **Level 4 Change**: **Regenerating.** One explanation why change initiatives based on culture and learning so often fail, is that the rhetoric of change was in **disconnection** to what really matters most to line managers and business leaders.

Thus a fifth approach to coping with change is to focus on deep intention, purpose and will. The responses of levels 0, 1, 2 and 3 (action, structure, process and mental models) now become part of an even more subtle set of contextual variables, which are referred to as purpose (Hock, 1999), shared vision (Senge, 1990), or common will (Scharmer, 1999). Focusing on purpose and principles allows companies to be more flexible in situating action, structure, processes, and mental models according to local conditions.

5.5.1.4 Other popular change concepts

To further expand the understanding of types of change in organisations, a few additional change concepts need to be reviewed briefly (Van Tonder, 2004):

a. **Continuous, discontinuous and radical change**.

Continuous change can be described as a gradual adjustment of an organisation to continuously changing environmental circumstances. Changing the organisation's structural architecture and mode of functioning is essentially a gradual type of change and of limited scope.

Discontinuous change on the other hand has been described as change events or processes that are not continuous with the past or current direction of the organisation. Discontinuous change is likely to occur when existing corporate skills are incapable of addressing the current problems within the organisation.

Radical change refers to the magnitude or scope of the disruption or break in the continuity of the organisation's functioning. Discontinuous change will therefore also be simultaneously radical in nature.

b. **Evolutionary and revolutionary change**.

These concepts draw attention to the process character of change, and in particular the tempo or pace of change and therefore the implicit role of time. **Evolutionary change** is more slow-paced and the direction of change is indicated by the environment. **Revolutionary change** has a different tempo and mode. It usually involves short, transformational revolutions within an otherwise extended period of slow and gradual change. Greiner (1972, 1998) refers to *evolution* in an organisational context as modest adjustments that are necessary for maintaining steady growth and stability, and *revolution* as the periods of substantial turbulence and upheaval within organisations.

5.5.1.5 Conclusion

The various concepts or types of change discussed in this section seem to broadly cluster around two primary change concepts:

a. **Type 1.** **"***A steady state, incremental step-by-step, sequential change which generally evolves over an extended period of time, does not have a disruptive influence on the system and is generally within the control of the system"* (Van Tonder, 1999:51). Change concepts that cluster around type 1 change are: first-order, alpha, normal, evolutionary, incremental and continuous.

b. **Type 2.** **"***A major, disruptive, unpredictable, paradigm altering and system-wide change which has a very sudden onset and escalates rapidly to a point where it is perceived as being beyond the control of the system"* (Van Tonder, 1999:51). Change concepts that cluster around type 2 change are: second order, gamma, paradigmatic, revolutionary, radical, reframing, regenerating and discontinuous.

There are arguments favouring one or the other type of change. In essence incremental change allows an organisation to move forward in small, logical steps. Appropriate environmental information is collected and utilised over a long time frame. As information is shared, assimilated and internalised by employees, sub-systems are adjusted progressively rather than discontinuously. Incremental change is therefore characterised by order, rather than disorder, and by consensus and collaboration in preference to conflict and the use of positional power.

As a result of environmental forces and organisational crises, discontinuities invariably arise. Managers may then find themselves powerless to deal with the forces and could feel trapped in a fixed paradigm, which will force them into a reactive rather than a pro-active mode. In such crises the choice is often between organisational extinction or immediate and radical transformation. Change is now a multi-dimensional, multi-component and multi-level alteration that shifts irreversibly to a new paradigm.

5.6 Organisational transformation

Organisational transformation, transformational change or simply **transformations** are popular concepts in the change domain. Change as a transformation emphasises the *result or consequence of the change*: the organisation looks different in it's appearance and/or character once it has experienced transformational change (Cummings & Worley, 2001).

One of the focal points of this study is the process of transformation in a business organisation. The concept therefore needs to be properly understood. This section attempts to do this by looking at definitions, classify it as a particular type, understanding it's characteristics and origins and viewing events usually triggering transformational change.

5.6.1 Defining the term

In South Africa in particular, the term could mean different things to different people. The South African context is injecting a special meaning into the transformational change concept, particularly in the post 1994 South African business environment. McNamara (1998) cites that different constituencies, such as the public sector (government perspective), organised labour (trade unions) and the business sector, each developed it's own unique view of transformation. Despite frequent contact between the different stakeholders, these constituencies specific view of transformation has remained entrenched. McNamara's effort to differentiate between these perspectives on transformation are summarised in table 5.2.

Table 5.2

Alternative South African perspectives on transformation

Public sector	Business	Organised labour
Definition of transformation: The dynamic, focussed, short-term process to fundamentally reshape the public service and achieve a unified, representative, transparent, effective and accountable public service.	Definition of transformation: A fundamental shift in the way in which business delivers value to customers and stakeholders, resulting in dramatic changes in strategies, processes, technology and the utilisation and management of human resources, to meet the needs of the global economy.	Definition/description of transformation: The achievement of full worker rights and social equity flowing from political democratisation, followed by further evolution to socialism.
Elements: o Service delivery: restructuring, decentralisation, community partners. o Equity through affirmative action and equitable employment conditions. o Institutional support in the form of human resources training and development, democratisation and accountability, service ethos and a culture of diversity.	Elements: o Restructuring: delayering, downsizing and outsourcing of non-core business. o Business process re-engineering: process value change and information technology. o Human resources: skills development, empowerment and leadership. o Customers: quality, service, boundaryless organisation.	Elements: o Jobs: creation and preservation. o Fair labour practices: worker rights, non-discrimination, health and safety, training and development. o Social equity: representativity and affirmative action, redistribution of wealth, eradication of poverty, social welfare.

Source: McNamara (1998)

For the purpose of this study, the business perspective is the most relevant and needs further exploration.

Essentially, transformation is a change of the basic characteristics of structure, process and function, in such a way that it cannot return to the earlier form. Gharajedaghi (1985) explains that transformation involves:

- an active process of the generation and dissemination of knowledge;
- a process of learning and adaptation;
- the creative process of discovery of a new dimension with all of it's implications, and finality;
- the painful process of re-conceptualisation, reformulation and integration of all the variables involved in a new ensemble, with whole new relationships and characteristics of it's own.

5.6.2 Organisational transformation as change type

As a change type, organisational transformation is probably a form of type 2 change. This makes particularly sense if the definition of Levy & Merry (1986:5) is observed. They define it as: *"…second order change (organisation* transformation*) is a multi-dimensional, multi-level, qualitative, discontinuous, radical organisational change, involving a paradigmatic shift".* As pointed out earlier, type 2 change involves discontinuous shifts in mental or organisational frameworks. (Golembiewski, Billingsley & Yeager, 1976). These changes could also involve a new paradigm about organisations, such as a shift from *control-based* to a *commitment-based* organisation.

The general impression left by researchers and practitioners in this field is that transformational change stands alone as an intervention to bring about important alignments among the organisation's strategies, design elements and culture, and between the organisation and it's competitive environment (Lundberg, 1989).

One exception is the model proposed by Burke & Litwin (1989), generally referred to as the *Causal Model Of Organisational Performance*. The model draws a distinction between transformational and transactional factors. *Transformational factors* are likely to be influenced by environmental forces (both within and outside the organisation) and are concerned with organisational elements, such as the mission and strategy, leadership and culture. *Transactional factors*, on the other hand, are more concerned with management practices, structure, systems (including policies and procedures), task requirements, work unit climate, motivation and individual needs and values. The authors predict that dramatic and pervasive change is likely to occur when *transformational factors* are altered. Transactional change, on the other hand, tends to be more contained in focus and content, and is likely to be of a short-term nature and duration.

5.6.3 Some characteristics of transformational change

In summary, transformational change is often associated with significant alterations in the firm's business strategy, which in turn, may require modifying corporate culture as well as internal structures and processes to support the new direction. Such fundamental change requires a new paradigm for organising and managing organisations.

Transformational change goes far beyond making the existing organisation better or fine-tuning the status quo. It is concerned with fundamentally altering the organisational assumptions about it's functioning and how it relates to the environment (Scharmer, 2000).

Changing these assumptions entails significant paradigm shifts in regard to corporate philosophy, values and the managing of organisations. It involves qualitatively different ways of perceiving, thinking and behaving (Cummings & Worley, 2001).

A particularly important requirement of transformational change is the need to change the different features of an organisation, because they tend to reinforce one another. Thus making it difficult to change them in a piece-meal manner (Meijer, Tsui & Hinings, 1993). Features such as structure, information systems, human resources practices and work design need to be changed in a coordinated fashion so that they can mutually support one another and the new cultural values and assumptions (Miller & Friesen, 1984).

Transformation also requires considerable innovation and learning. Members of organisations have to learn how to enact the new behaviour required to implement new strategic directions. They have to learn qualitatively different ways of perceiving, thinking, and behaving; the learning process is likely to involve much unlearning (Cummings & Worley, 2001).

5.6.4 Factors that trigger transformations

Fine-tuning the status quo by implementing incremental improvements involves little risk to management and the organisation. This is often the result of management's preference for stability and the vested interest of individuals, groups and units. Organisations are usually reluctant to undertake transformational change unless significant reasons to do so exist.

Organisations must experience and anticipate a severe threat to survival before they will be motivated to undertake transformational change. Tushman, Newman & Romanelli (1986) identify three kinds of disruptions that trigger transformational change:

- **Industry discontinuities**: sharp changes in legal, political, economic and technological conditions that shift the basis for competition within the industries;

- **Product life-cycle shifts**: changes in product life-cycle that require different business strategies;
- **Internal company dynamics**: changes in size, corporate portfolio strategy, executive turnover and the like.

Disruptions such as these shock organisations and force them to alter business strategy, and in turn also their mission, values, structure, systems and procedures.

5.6.5 The role of leadership in organisational transformation

Leadership is key in all phases of the transformation process. Apart from the fact that they have to provide strategic direction, they have to actively lead the transformation (Waldersee, 1997). The leader or the leading team decides when to initiate transformational change, what the change should be, how it should be implemented and who should be responsible for directing it. Cummings & Worley (2001) summarises research on this matter by suggesting three key roles for the leadership of each change:

- **Envisioning**. Leaders must be able to articulate a clear and credible vision of the new strategic direction. They must also set new and difficult standards for performance, and generate pride and enthusiasm for the new strategy.
- **Energising**. The leadership must demonstrate personal excitement for the changes and model the behaviours that are expected of the rest of the staff. They must be quick to communicate examples of early successes to mobilise energy for change.
- **Enabling**. Leaders must provide the resources necessary to undertake significant change and utilise rewards to reinforce new behaviour. They must also build an effective top management team to manage the new organisation and develop management practices to support the change process.

Ulrich (in Drucker, 1996) is more explicit in terms of leadership required during transformations. He argues that leaders of the future must discover simple models that access the complex underpinnings of successful leadership. He postulates the following about leadership in the future:

- **Leaders have to work to turn aspirations into actions**. Aspirations could come from strategies, goals, missions, visions and plans. Aspirations are essential because they connect and integrate the entire value chain, they create energy and enthusiasm, and they engage employees' hearts and minds. Therefore the leader's job is not just to aspire, but also to act. They must intentionally and purposefully create actions that cause these aspirations to happen.

- **Leadership rests on two dimensions**:
  - **Credibility.** Do individuals trust, respect, admire and enjoy working with the leader? Do those who work with the leader as subordinates, peers, and customers feel a personal and emotional bond with him or her?
  - **Capability.** Does he or she have the ability to shape a vision, create commitment to the vision, build a plan of execution, develop capabilities, and hold people accountable for making things happen?

5.6.6 Conclusions

Various concepts regarding transformational changes have been discussed in an attempt to understand the concept. A few conclusions need to be drawn:

- transformational change is fundamental, complex and radical;
- circumstances which have occurred in the South African business environment could justify transformational change;
- few, if any South African organisations have really engaged in fundamental or transformational change as defined above, despite the frequent use of the term by managers and the media;
- A different kind of leadership is required for transformational change.

5.7 Organisation Development (OD) as a planned change approach to organisational transformation

The origins of Organisation Development (OD) in today's thinking and practice of transformational change cannot be disregarded. The fact that OD pays attention to culture as a target of change means that it's ultimate aim is to change behaviour of the people in an organisation (Burke, 1982). OD's concern with long-term interests, the involvement of a systematic process and it's aim to improve effectiveness, emerge from a number of well known OD definitions (see table 5.3).

This research is based on the premise that OD is the most appropriate process to bring about organisational transformation. Reasons supporting this premise are:

- OD is a process that applies behavioural science knowledge and practice to change behaviour, but also to help the organisation achieve greater effectiveness, including increased financial performance and improved quality of work life.
- OD involves a different approach to change because the focus is on building the organisation's ability to assess it's current functioning and achieve it's goals (action research).

- OD is oriented towards improving the total system – the organisation and it's parts in the context of the larger environment that affects it.

5.7.1 Definitions and distinguishing characteristics

Table 5.3

Definitions of Organisational Development

(adapted from Cummings & Worley, 2001)

- A response to change, a complex educational strategy intended to change the beliefs, attitudes, values and structure of organisations so that they can better adapt to new technologies, markets and challenges and the dizzying rate of change itself (Bennis 1969).
- Organisation Development is a planned process of change in an **organisation's culture** through the utilization of behavioural science technology, research and theory (Warner Burke, 1982).
- Organisation Development refers to a **long-range effort** to improve an organisation's problem-solving capabilities and it's ability to cope with changes in it's external environment with the help of external or internal behavioural-scientist consultants, or *change agents*, as they are sometimes called (Wendell French, 1969).
- Organisation Development is an effort (1) planned, (2) organisation-wide and (3) managed from the top, to (4) increase organisation effectiveness and health through (5) planned interventions in the organisation's *processes,* using behavioural science knowledge (Richard Beckhard, 1969).
- Organisation Development is a system-wide process of data collection, diagnosis, action planning, interventions and evaluation aimed at (1) enhancing congruence among organisational structure, process, strategy, people and culture; (2) developing new and creative organisational solutions; and (3) developing the organisation's self-renewing capacity. It occurs through the collaboration of organisational members working with a change agent, using behavioural science theory, research and technology (Michael Beer, 1980).
- Organisation Development is a system-wide application of behavioural science knowledge to the planned development, improvement and reinforcement of strategies, structures and processes that lead to organisation effectiveness (Cummings & Worley, 2001).

According to French & Bell (1999) and Cummings & Worley, (2001), OD is in the following ways a different approach to planned change:

a. OD applies to the strategy, structure and processes of an entire system, such as an organisation, a single plant of a multi-plant firm, a department or workgroup. In OD a change programme can be aimed at modifying an organisation's strategy, but it might also include changes both in the groupings of people to perform tasks (structure) and the methods of performing the task, communicating and solving problems (process), to support changes in strategy. An OD programme can also be directed at helping a top management team to become more effective to manage a newly formulated strategy and to implement a new structure. This contrasts with approaches focussing on one or only a few aspects of a system, such as training and development, technological innovation or operations management. In these approaches attention is narrowed to individuals within a system, to improvement of particular products or processes, or to the development of productional or service delivery functions.

b. **A behavioural science approach**

OD is based on behavioural science knowledge and practice to include micro concepts such as leadership, group dynamics and work design; but also macro approaches such as strategy, organisational design and interpersonal relations. These distinguish OD from other applications that emphasise the economic, financial and technical aspects of organisations. These approaches tend to neglect the personal and social characteristics of a system.

c. **A planned but flexible approach**

OD is concerned with managing change in a planned way. Yet this is not in the formal sense associated with management consulting or technological innovation, which tend to be problem centred and expert driven. OD is more an adaptive process for planning and implementing change than a blue print for helping how things should be done. In it's planning it allows for diagnosis and the solving of organisational problems, but such plans are flexible and often revised as new information is gathered about the progress of the change programme.

d. **Change and reinforcement**

OD moves beyond initial efforts to implement a change programme to a longer-term concern for stabilising and institutionalising new activities within the organisation. Examples of reinforcing activities include performance management systems, reward systems, self-managed teams, the development of new competencies, etc.

e. **Organisational effectiveness**

OD aims at improving organisational effectiveness. An effective organisation has to meet two criteria:

- It must be able to solve it's own problems and focus it's attention and resources on achieving key goals. In the process OD helps organisation members to gain the skills and knowledge necessary to conduct these activities by involving them in the process.

- It has to be both *high performance* (financial returns, quality products and services, high productivity and continued improvement) and *high quality of work life*. Management consulting, for example, is almost solely concerned with financial performance, where as training and development addresses individual effectiveness.

As a planned form of change, OD distinguishes itself by playing a key role in helping organisations change themselves. It helps organisations to assess themselves and their environments, and revitalise and rebuild their strategies, structures, processes and culture. OD helps organisation members to go beyond surface changes and to transform the underlying assumptions and values governing their behaviours.

The researcher believes that OD, better than any other change process, can help an organisation to create effective responses to complex and uncertain technological, economic, political and cultural changes in it's business environment.

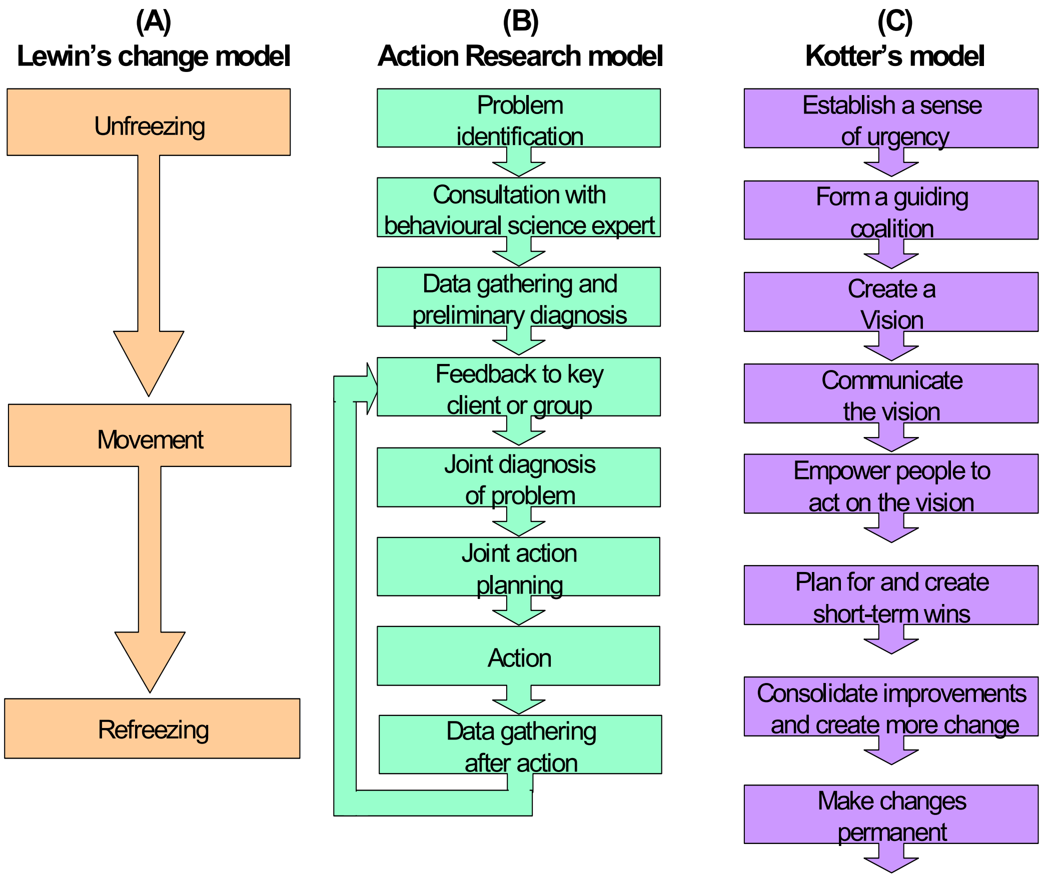
5.7.2 Action research

The action research model is strongly associated with the practice of OD and underpins it's approach to planned change. In practice, the words *action research* are reversed, for empirical research is first conducted and then action is taken as a result of what the research data are interpreted to indicate (Burke, 1987). One of the originators, Kurt Lewin (in Burke, 1987) states that there is *"…no action without research, and no research without action"*. The researcher is of the opinion that action research is one of the unique features of OD, and if not followed in a planned change effort, looses it's OD character.

Action research emphasises planned change as a cyclical process in which initial research about the organisation provides information to guide subsequent action. Then the results of the action are assessed to provide further information to guide further action, and so on (see figure 5.3). This interactive cycle of research and action involves collaboration between people in the organisation and the OD consultant. It also relies heavily on data gathering and diagnosis prior to action planning and implementation, as well as the evaluation of results after action is taken.

Figure 5.3

Action research and other planned change models



What makes Action Research unique is the idea that people with vested interests in the problem help define and solve it. It becomes a joint venture between leadership, members of the organisation and the consultant. Everybody learns. Each step involves multiple realities, views of several people not simply those of the consultant, or management, or supervisors, workers, or suppliers or clients, but all those whose information is relevant (Weisbord, 1987).

It appears as if Action Research has influenced current approaches to planned change, and is being extended to new settings and applications. Consequently researchers and practitioners have made applications of it's basic framework. One adaptation is that of Kotter (1996). Kotter's model shows clear congruence with both Action Research and Lewin's change model (figure 5.3).

5.7.3 Criticism of the OD approach to planned change

There is a view that the approach is *too soft* and *too time-consuming* (Dunphy & Stace, 1988). Another point of criticism is the tendency of organisations to become too dependent on the consultant.

Serious doubt is also raised about OD's ability to produce results. Although the criticism is not directly aimed at OD programmes, but programmes are labelled *activity centred* and accused of flawed logic that confuses ends with means and processes with outcome (Schaffer & Thomson, 1992). This criticism cannot be ignored. Schaffer and Thomson (1992) give six reasons why *activity centred programme* are unsuccessful:

- they are not keyed to specific business results;
- they are too large scale and the array of activities that are launched, too large;
- results in terms of financial and operational performance are not emphasised sufficiently;
- measures of activity are equated with measures of performance;
- too much reliance is placed on consultants to drive initiatives;
- a lack of clear-cut beginnings and ends, as well as an inability to link cause and effect, result in lost opportunities to learn useful lessons.

5.8 The process of change at individual level

At several instances during this chapter, the researcher has argued that individual employees have to change before organisations can change. Organisational change ultimately boils down to individual cognitive and affective change, but at a collective level. Change at the individual level is therefore an important process and needs further clarification. Without proper conceptualisation of change at individual level, it would be difficult to fully understand and bring about change at the collective level.

Bridges (1980) poses that cognitive and affective change are the building blocks of the individual change process, also known as *transition*.

5.8.1 Cognitive change

Cognitive change is the modification or replacement of pre-existing cognitions that are typically ordered in the form of meaning structures, thinking frameworks or paradigms. A paradigm will remain applicable and relevant across different situations and contexts, and is typically concerned with a specific object or concept. Paradigms are formed through a slow process of learning. This process of learning is a process that can be activated by either an explicit thought or topic, or by an experience that provides the prompting stimuli. The primary role of a paradigm is to provide a framework for interpreting new or incoming information (Smith, 1998).

If an individual is subject to change, these changes could affect certain paradigms. With type I change it is expected that paradigms could undergo some changes. In the case of type 2 change (transformation) it can be expected that paradigms could be altered in such a manner that they could no longer be regarded as the same paradigm. The existing paradigm will then be replaced by a new mental representation. During type 2 changes many long held understandings of how organisations and management in particular deal with major change, are altered at both management and employee levels.

If it is taken into account that paradigms are built over time through a painfully slow learning process, then the attempts to obtain *buy-in,* which are so frequently observed during change efforts, must be seriously challenged. On the other hand, if paradigms about organisations or change in organisations are not significantly altered, the change initiative is unlikely to succeed.

Sharing of change-related information during a transformation is therefore generally inadequate to bring about the change in paradigms necessary for major change. Neither are the participative measures, employed by most organisations in an effort to engage employees, adequate.

5.8.2 Change at emotional level

Emotions are central to organisational life, but at the same time it must be acknowledged that emotions are frequently ignored, suppressed and not dealt with. (Lundberg & Young, 2001). Emotions play a role in perception, thinking and behaviour and must be viewed as critical to the success of change.

Emotions are coping mechanisms as they enable people to adapt to changing circumstances. *Emotional work* refers to the psychological *work* or effort that the individual expends in an attempt to reconcile personal feelings with *permissible* displays of emotions in a social context. *Emotional work* also entails the expenditure of effort in an attempt to cope with internal conflicts or contradictions and uncertainties, and maintain a sense of control over emotional states, which would otherwise consume a lot of energy at personal level (Mangham, 1998).

Changing behaviour is therefore unthinkable if emotions are not taken into account. Change can only be successful if people's feelings are addressed. This is true, even in organisations that are very focussed on analysis and quantitative measurement.

In highly successful change efforts, people find ways to help others see the problems or solutions in ways that influence emotions, not just thought.

5.8.2.1 Definition

Van Tonder (2004) paraphrases Wade & Tavris (1996:124) and defines an emotion as *"…a state of arousal, characterised by facial and bodily changes, brain activation, subjective feelings, conscious sub-conscious and rational or irrational cognitive appraisals, as well as a tendency towards action*".

5.8.2.2 Dimensions of emotion

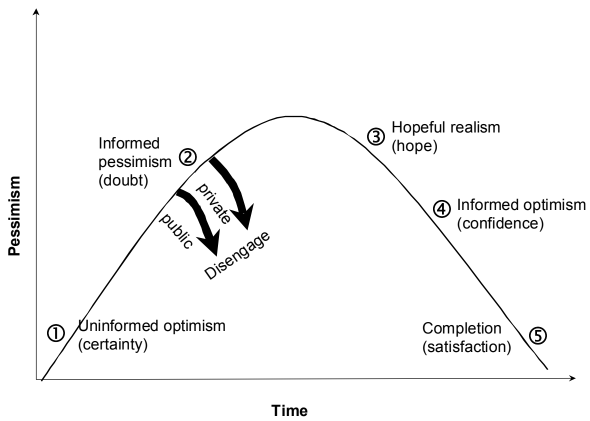
The following dimensions of emotions could be distinguished (Weiss & Cropanzano, 1996):

- **Positive emotions** – ranging from *low* (apathetic, sluggish, listless) to *high* (joyful, energetic, exhilarated).
- **Negative emotions** – ranging from *low* (calm, content, placid) to *high* (angry, sorrowful, listless)
- **Pleasantness** – ranging between unpleasant (sad, distressed, sober) and pleasant (happy, pleased, carefree).
- **Arousal or intensity of emotion** – ranging from un-aroused (peaceful, quiescent, controlled) to aroused (restless, astonished, changeable).

Kelly and Conner (1979) poses that change initiatives go through an emotional cycle (see figure 5.4). Many initiatives in organisations start with high energy and **certainty** that a particular change initiative will make a huge difference. It appears at that stage that all major obstacles have been identified. This initial certainty about the project's success, however, is often based on little data, or uniformed optimism. It is usually not known how the new initiative will be received, and what competing priorities will appear.

As the change initiative develops, more and more problems surface. Negative feelings such as **doubt** surface and the initiators become cautious and concerned, which reflect the sobering effect of facing reality. If negative feelings and pessimism persist beyond the individual or team's tolerance level, a loss of commitment and withdrawal of personal investment occur. Resistance takes the form of withdrawal. Withdrawal could be private or public.

Figure 5.4
Energy levels during a change initiative



Source: Kelly & Conner (1979)

Overcoming the urge to give up requires hope, determination and support from others. The turning point comes with small successes and the awareness that successful completion of the project has shifted from a possibility to a probability. Problems have not disappeared, but people involved begin to feel a sense of realistic **hope**.

Optimism continues to develop, based on the growing **confidence** in the team's capabilities, the approach being followed and the project per se. Larger, more significant successes replace initial small successes.

The last phase is characterised by the people involved, feeling **rewarded and satisfied** with the accomplishment of the task. The vision becomes reality.

Kotter cites that *"…behaviour change happens mostly by speaking to people's feelings. This is true even in organisations that are very focussed on analysis and qualitative measurement, even among people who think of themselves as smart in the MBA sense. In highly successful change efforts people find ways to help others…. in ways that influence emotions, not just thought"* (Deutschman, 2005:53).

5.8.2.3 The emotion – cognition interface

The distinction between emotion and cognition is not always clear in practice. Of importance however, is the fact that emotions contain the trigger that mobilises energy and directs this energy for action. Cognitions on the other hand, are incapable of triggering action (except when a thought triggers an emotion). People's emotions (or passions) direct their will and move people into action (Van Tonder 2004).

Emotions and cognitions are closely related, to such a degree that when a person changes his paradigm or cognitive framework, that person will at the same time, and as a consequence of the same procedures that triggered the change in his cognitive representation, simultaneously also register a change in his *affective disposition*. Lundburg & Young (2001) cite that emotions are triggered by thoughts in a reactive fashion. The process starts with:

- a perceived event (which includes the person's thoughts), which in turn triggers
- an affective response, which is sometimes conditioned by a prevailing mood (where strong moods may heighten or dampen the affective response); followed by
- the impact of affective reactions on the cognitive processes (i.e. attention, judgement, reasoning, analyses, problem-solving and decision-making), which consequently
- result in some form of social behaviour.

It is therefore safe to conclude that if the meaning and affective content of any gesture, discussion, project or endeavour is not explicit, the individual (employee, manager, director) will pre-consciously draw on his affective paradigms to interpret and respond to this stimulus. This would be particularly true when employees face radical change.

5.8.3 Transitions

As much as transformations are applicable to organisations, transitions apply to individuals. Change evokes different experiences and meanings and these different experiences should be appreciated by both management and consultants.

At individual level change is more than often viewed as a troubling phenomenon accompanied by an equally troubling phenomenon referred to as resistance. Resistance is usually associated with *negative* emotions, strained organisational relationships and lowered effectiveness. Fortunately change does not always signify threat, mourning, decay or even death, but it also represents excitement, growth, challenge, celebration and healing.

Yet it has to be accepted that individuals will construe change events and processes differently and will also differ in their willingness and ability to adapt to change (Darling, 1993).

5.8.3.1 Personal transition conceptualised

Personal transition can be viewed as the *"…gradual psychological process through which individuals and groups re-orientate themselves so that they can function and act appropriately in the change situation"* (Adams, Hayes & Hopson, in Van Tonder, 2004:5). It could also be seen as the internal psychological dynamics that emerge when individuals move from a relatively stable state or life pattern to another.

A number of observations can be made in regard to a personal transition:

- The process of change is *intrapersonal* and there are individual variations that allow for the uniqueness of the individual's transition experience (Van Tonder, 2004).
- Considerable psychological effort is expended as individuals attempt to cope with conflicts, contradictions and uncertainties. It therefore resides in the feeling domain (Van Tonder, 2004).
- Transition is a process that starts with an ending, followed by a beginning, with a shallow time in-between (Bridges, 1980).

5.8.3.2 Human development and transition

The human life cycle and the various development stages that are distinguishable can at times be accelerated by an interaction between the life cycle and the environmental stimulation (Hudson, 1991). The life-cycle does not require specific triggers or a specific context in order to unfold, although they influence it.

5.8.3.3 Transition models

Various models of transition exist, but when it occurs within the context of an organisation, the researcher would like to argue that an organisational transformation will not succeed unless the individuals affected successfully move through a personal transition process.

As far as models are concerned, it is noteworthy that Levin's Model of unfreezing, moving/change and refreezing represents one of the earliest models of the change process, from which several other contributors eventually expanded. Claes Janssen's (1982) *four room apartment* for example was used extensively by Marvin Wisebord in his *Future search* workshops in the United States during the 1990's. Janssen differentiates between four rooms:, *contentment, denial, confusion* and *renewal*.

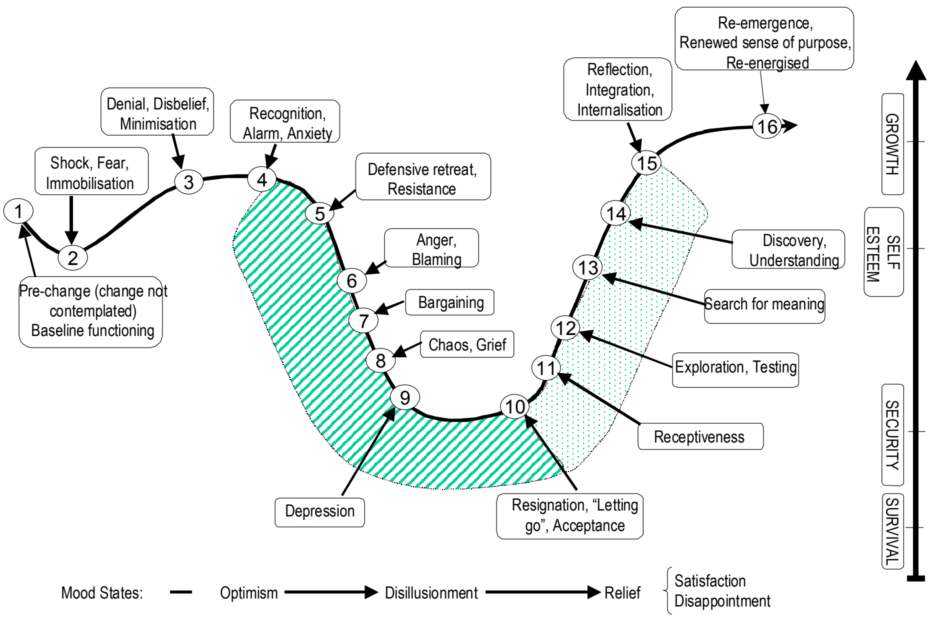
Bridges (1980) suggests a three-step process that is characterised by:

- letting go of the *old situation*, i.e. dealing with endings;
- entering a neutral zone or an in-between stage - typically a period of crisis and confusion, without clear perspectives on the future;
- new beginnings, which entail a refocusing and adoption of a new way of thinking, new behaviours – in essence a new future.

Van Tonder (2004) developed a very elaborate and comprehensive personal transition model, which allows for sixteen sequential states, starting with initial shock to a renewed sense of purpose and new energy (see figure 5.5).

Figure 5.5

Individual change (transition)



Source: C.L. van Tonder, 2004

Van Tonder (2004) argues that the individual change cycle is characterised by both emotional upheaval and cognitive revolution. The author explains the phenomenon as follows:

- Philosophy, values and belief systems are fiercely protected during change initiatives – hence the highly emotive resistance (essentially stages 5 to 10 in figure 5.5).
- Stages 11 to 16 reflect a predominantly cognitive mode of functioning in which the long held cognitive structures of the person are changed and from which a new synthesis, in the form of a new paradigm emerges. During these stages a new *order* also becomes obvious.

5.8.4 Transitions at managerial level

During organisational change efforts the focus is either on the organisation or change at individual level. The individual level then usually refers to individual employees in an organisation.

The question however is whether managers who have a distinctly different role in a change effort, experience change in a markedly different way than non-managerial employees. One could argue that the response would be different, based on the assumption that managers generally have more experience and consequently a better capability for anticipating the likely outcomes of the change. Technically they should therefore not experience the change initiative to the same extent than non-managerial employees. Van Tonder (2004) cites that managers experience two difficulties in particular:

- the inability to effectively deal with employee resistance and
- the inability to secure required performance.

5.8.5 Concluding comments

The substantial agreement between different models of individual change underlines the validity of the process. Knowledge of the stages of individual transition would therefore assist those responsible for change. But it would be fair to conclude that the personal transitions people in organisations have to make during major transitions, are underestimated.

It must be accepted that the individual experience of a transformation is generally traumatic. Resistance to change should therefore not be rationalised or ignored, but be viewed as the individual's view and experience of the change process.

5.9 5.9 Applied organisational change: a summary

To summarise, change in organisations can occur as a result of an evolutionary process and unfolds in line with an organisation's life-cycle. It could also be the result of a sudden, dramatic event that requires an accelerated learning process. Multiple sources and multiple forces of change can be identified. Organisations do not change as a result of a single change force, such as change in the environment. Change usually occurs as a result of a complex variety of factors or forces converging to produce organisational change (Armenakis *et el*, 1999).

Organisational change takes place in aspects basic to it's reason for existence or identity, such as vision, mission, products, technology, values and a combination of some of these elements. Organisational change also manifests itself in the primary activity domains, such as culture, strategy, structure, power distribution and control systems. Although change in organisations is usually most visible in it's structural architecture, the fact that organisations are populated by people who function at cognitive, affective, behavioural and spiritual levels, reveals the human face of change. Because of the involvement of people, change will be human in nature. And although people are looked upon as a collective, the analysis of the individual transitions highlights the importance of recognising the individual employee or manager. Organisational change can thus be reduced to individual change.

Organisational change unfolds as a process brought about by interventions in work setting variables, the organisation's strategy or both. This prompts cognitive change at the individual level, which in turn lead to behavioural change, followed by modified organisational functioning and performance. An organisation's strategy can be interpreted as it's vision, it's mission, it's guiding principles (values) and it's specific objectives. Work-setting variables are typically clustered under organising arrangements, social factors, technology and the physical setting (Porras, 1987).

Change is a process that emerges through the use of methodologies, techniques or instruments. These tools enable the drivers or facilitators of change to uncover and work through the emotional defence system of the individual, and alter the cognitive structure of individuals and groups.

Organisations fail to recognise that communication or a communication plan is an inadequate approach to changing-entrenched paradigms or thinking structures. Likewise, organisations neglect the emotional content, which results in resistance to change initiatives and huge costs in financial, social and human terms.

If change is successful, it is usually defined in terms of post change profitability, a lower cost structure, improved effectiveness and efficiency. The financial consequences are used as a barometer judging whether a change initiative has been successful or unsuccessful.

Change however remains dependent on people. During change, people's reactions vary from outright opposition, through resistance, tolerance, acceptance and support. Because people have to become involved in new work processes, they have to get used to new approaches. They have to accept new values, assumptions and paradigms. Their work locations might change. Supervision changes. New roles have to be learned and new work relationships have to be developed. Employees are likely to experience these organisational events in a personal manner and create their own interpretations of what change means to them. Change events could therefore evoke affective reactions such as fear, disappointment, alarm, uncertainty and shock. This could again manifest in such common consequences as lowering of morale, increased stress levels, disorientation, anxiety and lower self-esteem. Surfacing resistance is associated with negative emotions, and becomes a process of sense making in an attempt to reaffirm or re-establish valued ideas, beliefs and habits, rather than immediately discarding existing paradigms (Goldstein, 1988).

If change continues for a long time or if one change initiative is followed by another, without allowing these initiatives to reach fruition, people become saturated and intolerant of further change. Confusion, exhaustion and disenchantment then take over, which makes the possibility to start another change initiative, remote (Binney & Williams, 1997).

5.9.1 Critical success factors

Successful change is the effective implementation of what was planned and envisaged. It is securing the final change outcome in quantitative or qualitative terms. Successful change could mean:

- efficient implementation, which means that the initiative remained within cost, time and quality parameters;
- employee acceptance and commitment;
- sustainability over the longer term;
- stakeholder compliance.

A critical success factor refers to success in regard to the change process. Critical success factors are therefore those factors which, if not adequately attended to, will result in the change initiative being destined for failure.

A possible theoretical base for identifying critical success factors is found in a number of change equations that exist. Suffice to refer to the more recent thinking of Carnall (1995), who proposed the following equation:

EC = AxBxD (where EC is > as Z).

where: EC= energy for change
A = the felt dissatisfaction with the status quo/present situation
B = knowledge of the practical steps forward
D = a vision of the change outcome/ shared/ common vision

where EC is > than the perceived costs of the change (Z).

Following on this and reviewing other change, equations the researcher concludes that the following factors are critical for success:

- energy;
- a clear vision;
- effective communication;
- leadership and management;
- employee involvement;
- learning;
- the consultant/client relationship.

5.9.1.1 Energy

When change is initiated, energy has to be generated and sustained over longer periods. Carnall (1995) views the energy for change as a key factor in leveraging change. Energy can be mustered when:

- employees are sufficiently dissatisfied with the current situation;
- they have a vision of the desired state;
- there is sufficient knowledge of the practical steps to secure the future.

In practical terms this means that when articulating the current situation, the need for change becomes a critical factor in establishing the credibility of management as well as the change initiative. Of equal importance is the way the future state or vision is presented. Energy is also mobilised when members of an organisation have a clear understanding of the process for achieving the change and how it will affect the people, coupled to the effort required to make the transition (*costs* of the change).

If insufficient energy is generated to initiate the change, very little will happen and the initiative will be aborted after a short while. If the energy is inadequate to sustain change after an initial launch, the situation will revert back to the pre-state of conditions.

To successfully utilise energy as a tool to leverage change, the following must be kept in mind:

- The focus of energy must be secured in the right direction – energy can easily be diverted away from the effort.
- There must be a clear understanding of where the systems' energy can be spent at any moment, as well as the different sources of energy in the system. It has to be remembered that emotions drive focus and energy expenditure.
- There must be an alertness to identify negative energy. Negative energy flows from a neglect of the emotional side; negative energy results in resistance.
- There must be a concerted effort during the early stages to change the driver of the change effort to positive energy. Change initiatives often start with a crisis of some kind, characterised by frustration, uncertainty and doubt. These emotions can drive change initially but also create negative energy, which could hurt the company. The challenge to management and consultants is to substitute these sources of energy with emotions such as enthusiasm and excitement in order to create and sustain positive energy.

5.9.1.2 A clear vision

The change equations of Connor (1981), Beckhard & Harris (1977), Carnall (1995) and Kotter (1995) recognise the importance of a vision or ideal future state in change. If articulated correctly and communicated effectively, a vision is an important means of mobilising and sustaining energy.

A vision is particularly useful (Kotter, 1996; Nanus, 1992):

- to gain understanding and commitment to a new direction;
- to create a shared sense of a desirable future;
- to provide a realistic and informed picture of what the alternative future looks like;
- to set standards of excellence and reflect high ideals;
- to inspire enthusiasm and encourage commitment.

5.9.1.3 Effective communication

It is accepted that communication has certain limitations and it cannot be relied upon solely to change people's mindsets and to break down resistance and perceptions. Yet communication can be especially helpful in attempts to minimise the gap between employees' expectations and their understanding of the change and factual realities of the change. This will minimise the emotional built-up of energy.

The implication is that communication has to be detailed and accurate about the change process. It has to take place through various communication means, and it has to happen rather sooner than later. Where the change initiative is clearly and specifically articulated, the chance of misinterpretation will be less and fewer demands will be placed on the members of the organisation to make sense of the change initiative, because people will not need to be so much reliant on their own mindsets to clarify the information.

Communication during change should be adequately planned and executed. Emotional experiences in particular have to be recognised and attended to. If these guidelines are not taken seriously, communication can promote increasing uncertainty and heighten stress levels, while decreasing commitment and loyalty. With that the perception of leadership as trustworthy, caring and honest diminishes (Schweiger & DeNisi, 1991).

Larkin and Larkin (1994) suggests the use of first line supervisors to communicate to lower levels, rather than top management. Communication must be clear and proactive, inviting feedback. These authors' research indicates that frontline employees will not change if communication only relies on videos, briefing meetings or company newspapers.

5.9.1.4 Leadership and management

Earlier in this chapter reference was made to the role of leadership during transformation (Cummings & Worley, 2001). Kotter (1990) poses that management is about coping with complexity; leadership by contrast, is about coping with change. Without effective leadership transformations are therefore bound to fail. Although it must be admitted that both leaders and managers are required to bring about and sustain change (Ulrich, in Drucker, 1996). Leaders perform a critical role in perceiving and interpreting events in the environment for the organisation to adapt to. Leaders also play a key role in establishing alliances and partnerships within the power structures to gain the necessary support for change.

Leaders and managers are key to the planned transition of an organisation from the existing state to the future state. Instead of trying to enforce change they need to acquire knowledge of how change is experienced and how individuals are affected. The contrary is often the norm; undue emphasis is placed on cost with a subsequent neglect of the human and social dimensions (Jewel & Linard, 1992). Management has to guard against conducting a change process at minimal cost.

To be effective, leaders and managers need to be trustworthy and credible in their change roles. Nothing could undermine change efforts more than inconsistent behaviour of important individuals (Ulrich, in Drucker; 1996). This typically applies to managers who refuse to change and who make demands inconsistent with the change effort (Kotter, 1995). Stuart (1966) observes that the trauma of change can be greatly compounded by carelessness of change leaders, notably the manner in which change is announced, introduced and managed.

Finally, management can enhance the credibility of a change effort considerably if they make substantial investments in resources such as funding and time (Kilmann, 1995).

5.9.1.5 Employee involvement

Participative events help employees to asses the impact of change on them. It must therefore also be seen as an opportunity to generate support for the change initiative (Weber & Weber, 2001).

Participative practices provide an opportunity for creating appropriate perceptions about the organisation and it's readiness for change. Perceptions are important because they can undermine or help the change initiative. Using participative methodologies before and during the change initiative will undoubtedly help.

The process of gaining support for change must not be viewed simplistically. What is so often referred to as *buy in* is not good enough and is no guarantee for support. The process of gaining support and ownership is complex. Conner & Patterson (1983) identify three phases for gaining support: preparation, acceptance and commitment. Each of these phases involves clearly identifiable sub-processes:

- *preparation,* consists of making contact and raising awareness;
- *gaining acceptance,* involves understanding first, followed by positive perceptions;
- *Commitment,* involves installation, adoption, institutionalisation and finally internalisation.

Various other stakeholder constituencies to an organisation should also be considered and involved where possible. Today's organisations do not function in isolation; there is much more interdependence with other stakeholders than before. These stakeholders could include unions, shareholders, the community, contractors and JV partners.

5.9.1.6 Learning

Ongoing learning at individual-, team- and organisational levels has become a necessity for effective change. At management level, leaders have to become thoroughly educated to understand the change process and individual reactions to change. At employee level, individuals can be assisted when engaging their own individual transition cycles through learning. Acquiring appropriate knowledge and skills can often raise an employee's self-esteem and facilitate a shift from the past to the future (French & Delahaye, 1996).

Apart from the building of knowledge and skills, which are associated with the more formal forms of learning (training), learning for the purpose to understand is equally important. At least three such processes are known;

- reflecting on experiences of the past (Kolb, 1984);
- learning about the future (Scharmer, 2000);
- mastering a complex world (Gharajedaghi, 1999).

5.9.1.7 The consultant–client relationship

Consultants or facilitators are often involved as third parties during a change initiative. Consultants generally work either as resource-consultants or process-consultants. The resource-consultant assists in helping the client to decide **what** to change. The process-consultant helps the client to decide **how** to change, and assist in dealing with **human problems** as they arise.

Schein (1987) describes process consultation as a set of activities on the part of the consultant that helps the client to perceive, understand and act upon the process events that occur in the client's environment. Organisation Development (OD) favours process-consultation and the establishment of a helping relationship with key people in an organisation. This relationship is not only key to the OD process but also empowering to the client, enabling him to deal with risks and to make decisions. Consultants must therefore know when to engage and give strong guidance and when to let the client take the lead. He must be skilful in helping the client to develop ownership and the need to be autonomous. He must also be sensitive to the dynamics between himself and the client system so that he will know when to terminate the relationship.

In following the process-consultation approach, the consultant can also play a central role in cases where people resist change. To be successful the consultant must have the ability to willingly and voluntarily become involved in the reactions of people. Through clarification and elaboration of projected feelings, thoughts and wishes a better understanding develops, and change can proceed (Schein, 1987).

5.9.2 Change models

There appears to be some agreement amongst experts regarding the meaning of change management. The details might vary, but in main terms, most organisational change is cited to involve three broad phases: an initial stage of recognition and preparation, followed by the implementation of the actual change, and finally, a period of consolidation. Garvin (2000) however admits that these phases are not linear, all three must take place for the change to work, but not necessarily in the order described.

These latter observations put a question mark to the concept of change management as a planned, purposive and controlled activity. It appears as if a systematic analysis of change and programme of interventions belong to a functionalist way of thinking, which was described earlier in this chapter. Change is still essential and broad stages may still be recognisable, but rigid and structured programmatic approaches for dealing with change will no longer suffice in the rapidly changing turbulent environment, where organisations have to adapt and grow.

In an effort to understand what is required to successfully engage in planned change, various approaches and a number of change models will be reviewed.

5.9.2.1 The step-by-step models of change

A number of these programmatic and solution structured approaches exist. They are usually presented as formulae and recipes, where the ingredients or pattern of activities are very similar. These models are based on a number of assumptions such as (Van Tonder, 2004):

- there is one best solution that fits all organisations;
- life in organisations is structured, linear, systematic and predictable;
- change is as simple as educating people - then they will comply.

These models emerged as efforts to present change in an orderly, rigorous and controlled way and in reaction to a need for *quick fixes*. The impression is created lately that any bestseller on organisational change is quickly followed by a success recipe. It is obviously good business but the validity of some of these models are often suspect.

Some areas in these step-by-step models have validity, such as effective communication of change and the articulation of an inspiring vision. The most outstanding features of these models are the number of fixed stages or steps that unfold in a sequential and seemingly linear manner. The more generic models show a significant agreement in regard to activities such as:

- assessment of the change need;
- creating a vision of the future state;
- planning of the change initiative;

- involvement of employees;
- implementation;
- monitoring and sustaining the change.

Although widely used, step-by-step models that support programmatic and structured approaches, fail in two ways (Van Tonder, 2004):

- they do not adequately acknowledge the variety in individuals, teams and organisations, and in the operating contexts;
- they do not acknowledge the social nature and dynamics of organisations and those of change.

5.9.2.2 Application of the Lewinian model

On several occasions during this chapter, reference has been made to the classical Lewinian insight that change is situated in a pre-stage (*unfreezing*) and a later stage that puts the respective changes into behaviourally embodied routines and practices (*refreezing*). It appears as if most approaches to managing change have followed this basic sequence. Although different names and numbers of steps have been used in various planned change approaches, the underlying logic appears to remain the same.

Lewin recognised that change is the consequence of a disturbance in the field surrounding an entity or organisation and the objective is to establish a situation of balance or equilibrium. Lewin's model therefore still serves a valuable purpose in the sense that an organisation is solid and need to be changed to another state. In it's unfrozen state it is very vulnerable and it is here that change often goes wrong. Refreezing does not occur, momentum is lost, other priorities appear and confusion, frustration and disillusionment rule.

Goodstein & Burke (1991) provide one of the best examples to be found of the Lewinian model and how it can be used for planning change and implementing these plans in a careful and supportive manner, with considerable payoff. British Airways, formerly government-owned and in financial arrears year after year, was confronted with becoming a shareholder-owned corporation. Table 5.4 summarises the application of Lewin's model to the British Airways change effort, and defines the variety of interventions at individual, structural, systematic, climate and interpersonal levels.

British Airways survived and became one of the most profitable airlines in the world and excelled in their quality service to passengers and customers. Within the spate of 5 years a loss of $900m was changed into a profit of $435m.

Table 5.4

Applying Lewin's model to British Airways change effort

Levels	Unfreezing	Movement	Refreezing
Individual	Downsizing of workforce (59,000 to 37,000); middle management especially hard-hit. New top management team. "Putting People First".	Acceptance of concept of "emotional labor." Personnel staff as internal consultants. "Managing People First". Peer support groups.	Continued commitment of top management. Promotion of staff with new BA values. "Top Flight Academies." "Open Learning" programs.
Structures and systems	Use of diagonal task forces to plan change. Reduction in levels of hierarchy. Modification of budgeting process.	Profit sharing (3 weeks' pay in 1987). Opening of Terminal 4. Purchase of Chartridge as training center. New, "user friendly" MIS.	New performance appraisal system based on both behaviour and performance. Performance-based compensation system. Continued use of task forces.
Climate/interpersonal style	Redefinition of the business: *service*, not *transportation.* Top management commitment and involvement.	Greater emphasis on open communications. Data feedback on work unit climate. Off-site team-building meetings.	New uniforms. New coat of arms. Development and use of cabin-crew teams. Continued use of data-based feedback on climate and management practices.

Source: Goodstein & Burke (1991)

5.9.2.3 A second-order change model

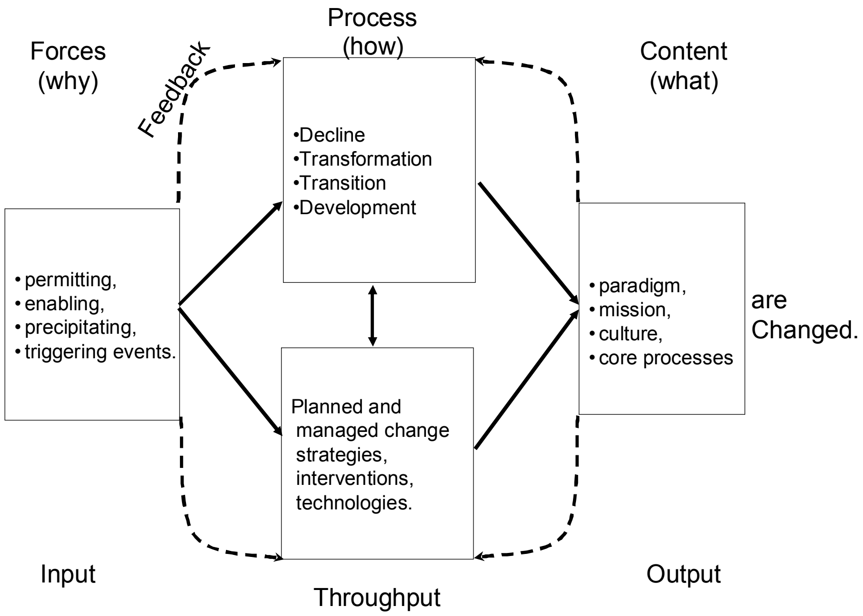
The way change is managed cannot be divorced from the nature and content of change. In this chapter many references have been made to differentiate between type 1 and type 2 change. Type 1 change is essentially incremental, and type 2 change is more dramatic, disruptive and unpredictable. Type 1 change therefore requires a completely different management methodology from the more disruptive type 2. A very comprehensive model for understanding second-order change was developed by Levy (1986). The model (depicted in figure 5.6) can be described from three perspectives: Why? (the driving forces of this type of change), How? (the stages and process characteristic of the change); What? (the content of the change).

- **Why? The driving forces for change:**
  - **Permitting conditions:** Aspects of the internal organisational situation that permit transformation to occur.
  - **Enabling conditions:** External conditions that increase the likelihood for transformation to occur.
  - **Precipitating conditions** such as

        - the tendency of organisations to grow or to experience the decline, and
        - the feelings of pain and dissatisfaction by organisation members, coupled with the emergence of new unmet needs.
    - **Triggering events** such as
        - environmental events that create calamity, or
        - opportunity, or
        - major unresolved conflicts or some crisis caused by a major management shake-up.
- **How? The stages and process of second-order change:**
    - **Decline**: External and internal needs are not appropriately met, warning signs appear and efforts to cope with problems result in chaos.
    - **Transformation**: The need for change is accepted, which results in discontinuity with the past, commitment to change, reframing of processes and discovering new realities.
    - **Transition**: Planned and managed efforts to translate ideas and visions into action steps, programmes, structures and procedures.
    - **Stabilising and development**: The change programme is institutionalised, tuned up, maintained and developed further.
- **What? The content of change:**
    - **Organisational paradigm**: Second-order change addresses underlying assumptions that unnoticeably also change perceptions, procedures and behaviours.
    - **Organisational mission and purpose**: The content of change is visible in explicitly stated programmes for direction of action and include statements about *what business we are in* and what strategies exist for achieving organisational mission, goals and policies.
    - **Organisational culture**: In second-order change beliefs, values and norms are affected. Change in culture could also lead to a rearrangement of the physical setting and changes to the style of management and interpersonal relationships.
    - **Core processes**: Content of change includes the organisational structure, management, throughput and decision-making processes, recognition, and rewards and communication patterns.

Figure 5.6

Model for understanding second-order change



Source: Levy, A (1986)

5.9.2.4 An industry specific change model

Throughout this chapter the researcher has emphasised the importance of meaningful engagement in change. In support of this he argued that:

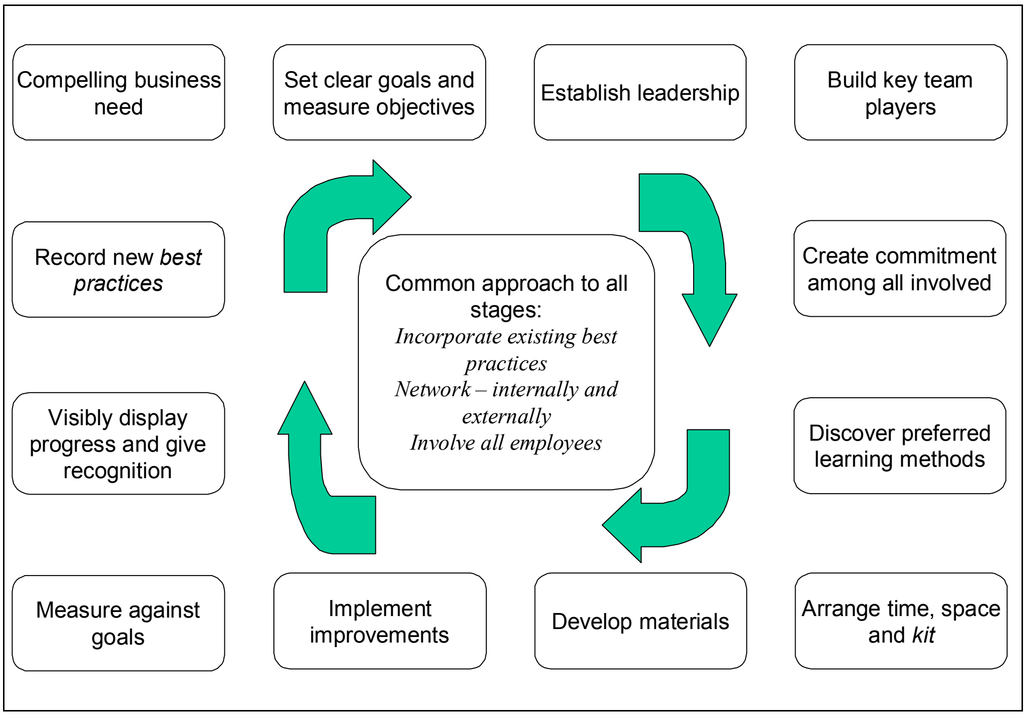
- change must be organisation-specific;
- change must be concrete enough to be understood and interpreted by employees at all levels;
- change must be consistent in it's meaning and interpretation throughout the organisation.

A model developed by Oxtoby et al (2002) measures up to some of these conditions.

The **Model for sustaining successful organisational change** (Oxtoby *et al*, 2002) is based on research in eleven organisations in the UK automotive supply sector, all of which had had an acknowledged reputation for their abilities to sustain successful change.

Figure 5.7

A Model for sustaining successful organisational change (automotive industry)



Source: Oxtoby *et al* (2000)

The model that surfaced through the research illustrates in general terms what the key elements of a change model in this industry are likely to be (see figure 5.7). The elements of the model requires somewhat more explanation.

- **Compelling business need**. Shared recognition in an organisation of a compelling business need is an essential motivational driver, necessary for activating in organisational stakeholders the high levels of involvement and commitment that are antecedents to sustaining successful change.
- **Setting clear goals and measuring processes**. Setting goals and measuring processes are important for providing directional guidance to organisational change. One of the lessons of Total Quality Management (TQM) is the contributory role that timely, accurate and relevant measurement plays in effective management. Goals and measurement processes need to be fully aligned with the company's underlying business needs.
- **Establish leadership and build a team of key players**. Leadership is needed for people who:
  - **can** be effective champions of change,
  - **have** the ability to attract resources and recruit the right balance of skills and personalities to teams,

- o **demonstrably** have the passion, determination and ability to motivate, coordinate and focus work done by teams.

- **Involve all employees and create commitment among all involved**. Successful change involves both exploration (the use of processes for generating or discovering knowledge that is currently unknown to the organisation) and exploitation (the use of processes for developing and implementing knowledge that is already known in the company). Both processes benefit from involvement of employees who are learning-orientated.
- **Networking: discovery of preferred learning methods; arrangement of time, space and kit; development of colourful materials; implementing improvements**. These are all elements of the change model that support both the creation of knowledge (within teams charged with finding practical solutions to business problems) and helping people to learn how to implement agreed changes. For knowledge creation (and the unlearning that is often a necessary ingredient of this) sanctioning time that managers or employees devote to change, signifies it's importance within the organisation and gives it a symbolic value that motivates people, justifies change and promotes unlearning. An additional benefit is networking in cross-functional teams.
- **Measure against goals: visibly display and recognise progress**. Successful change is sustained through appraisal and reward systems that are well aligned with company goals. The visibility with which measured progress is displayed, communicated and celebrated, is a powerful force in motivation. Incentives such as publicising and communicating individual or team successes to referent groups within and outside the work environment, are also strong rewards.
- **Record new best practices**. Sustaining successful **change** involves internal exploitation of existing knowledge as well as knowledge creation, based on internal or external exploration. It is important to institutionalise new knowledge that is created within the organisation and embedding it in organisational systems, structures and routines.

5.9.2.5 A community change model

In this chapter several references have been made to the importance of meaningful engagement when dealing with change. This is a requirement in order to maximise the gains to be derived from the change initiative. It is also a guarantee for expediting movement through the change process, while minimising the trauma associated with change.

Meaningful engagement is particularly difficult in communities or voluntary organisations where less leveraging through rewards and incentives is possible. The framework of change described by Chapman (2002) is an example of meaningful engagement at community level.

The Australian Disabilities Services Act of 1986 became the centrepiece of a wide range of strategies to provide training, mainstream employment and living options to the broader Australian community. The National Technical Assistance Unit (NTAU) was formed in 1991 as a quasi-independent consultancy group by the responsible government minister. Under it's terms of reference, the NTAU provided technical service and support to sheltered workshops and devised their own strategies to achieve transformation.

Prior to the start of the consultancy project a serious conflict had developed between most of the groups and the stakeholders associated with sheltered workshops (e.g. parents, community workers, church representatives, management staff and philanthropists). Professional staff who had been associated with the workshops were very anxious and extremely suspicious about government proposals, which they thought would remove the protection and care that they had provided for consumers. Conflict was therefore identified as a major impediment to change before the NTAU intervened.

The NTAU wanted those associated with sheltered workshops to think differently about what they would be doing and what their place in the world would be. The NTAU saw their capacity to involve stakeholders, direct organisational energy towards the clarification of visions and goals, and to begin with the process of planning and implementing new strategies as pre-requisites for success.

Table 5.5

Five phases of the NTAU change process in organisation-based consultancies

Phase 1 Scoping	Phase 2 Analysis	Phase 3 Exploration	Phase 4 Planning	Phase 5 Implementation
Engaging consultants Project agreements Forming committees	Environmental analysis Internal analysis Consumer data collection and analysis	Clarifying vision, purpose, mission Considering options and ideas	Identifying critical issues, objectives, strategies Preparing action plans	Carrying out plans by managers and staff of organisation Institutionalising change

Source: Chapman (2000)

A change process (outlined in table 5.5) emerged during the project. The five phases can be summarised as follows:

- **Phase 1: Scoping**. In this phase the broad parameters of the project were decided upon and two committees were formed: a steering committee and a project team to perform the detailed work.
- **Phase 2**: **Analysis.** This phase was designed to collect realistic information about the internal and external situation, as well as the attitudes and aspirations of consumers.

- **Phase 3**: **Exploration.** This phase involved the identification of various stakeholder groups and inviting them to attend a two-day conference, where future directions where considered in the light of information from phase 2.
- **Phase 4**: **Planning.** The purpose of this phase was to develop and refine objectives, strategies and plans for the future state of the organisation.
- **Phase 5**: **Implementation.** This involved implementation over the longer term - which organisations were to manage after having been equipped with the necessary knowledge and skills.

This change framework succeeded well in creating a readiness for change through knowledge that the organisation was poorly aligned with it's environment and that opportunities are being forfeited. The model was also successful in creating an acceptance of the need to change and a positive willingness to engage in processes that may be difficult and challenging.

Very little is said about implementation (phase 5). This must be seen as a weakness, because implementation is usually the more difficult phase of change.

5.9.2.6 Organisational learning as a model for change

Earlier in this chapter organisational learning as a paradigm for change was discussed. Throughout the chapter learning was emphasised as an integral part of any change process. Learning at team and organisational levels has become essential. Organisations therefore have to develop a capacity for learning.

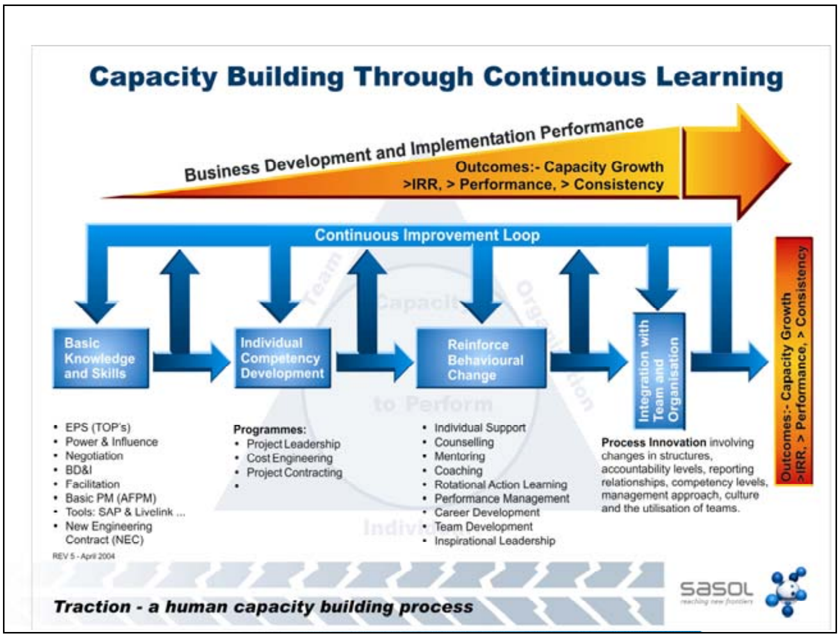
The final model presented in this chapter is based on the learning paradigm. But it also demonstrates that change need not be initiated at top levels in an organisation. It proves that organisation charge can also succeed because of the small change efforts that begin at the middle to lower levels of a company, although often only belatedly recognised as successful by senior management (Garvin, 2000).

The change model referred to was developed by Sasol's Technology Division and is known as Project Traction (Serfontein & Van Garderen, 2005a&b). The purpose of Project Traction was articulated as *"…building individual, team and organisational competencies, to improve Sasol Technology's capacity to consistently execute diverse and complex projects in realising Sasol's business opportunities".*

The need to develop capacity. Energy was mobilised when a group of middle to senior managers (not top management) in the division became aware of the changing project environment and realised that a solution would not be found in appointing hoards of new project managers. Apart from the fact that such a decision would go against existing policies, it would not address the need effectively. More capacity in terms of appropriate competencies was needed.

In organisations such as Sasol Technology competencies are the *enablers* that leverage *external structures* (assets such as image, relationship with clients and contractors) and *internal structures* (assets such as patents, models, systems, processes and culture) (Sveiby, 1999). To be enablers competencies need to be built at individual level, to create capacity at team and organisational levels.

Figure 5.8



Source: Serfontein & Van Garderen (2005a&b)

The Traction Model. The Traction Model depicts the process of capacity building at individual, team and organisational levels (see figure 5.8), and distinguishes between four phases in the change process (Serfontein & Van Garderen, 2005):

a. **Phase 1: Basic Knowledge and Skills**. The core of this phase is to establish the fundamentals of project management, entrench basic skills and help people to understand how these skills are applied in Sasol Technology.

b. **Phase 2**: **Individual Competency Development**. This phase is a key in competency development at individual level. It consists of the project leadership programme, a two-week programme conducted as two separate weeks of learning. Two other competency programmes, in Cost Engineering and Project Contracting respectively form part of this phase.

c. **Phase 3**: **Reinforcing behavioural change**. To fully **benefit** from the learning in phases 1 and 2, the learning is reinforced in the workplace. This phase also offers the organisation, and particularly line-management, the opportunity to become directly involved in establishing and honing individual competencies.

The phase involves the application of newly-learned competencies in project team context.

d. **Phase 4**: **Integration at organisational level**. This phase integrates competencies with processes, systems, technology and strategy in order to establish a core of strategic organisational competencies, to keep the division adaptive, relevant and competitive.

The Traction Capacity Building Model also makes provision for an improvement loop, thereby recognising the importance of continuous learning. Learning therefore becomes part of the division's culture.

Recent research by Lyons (2004) reflects a very positive picture of the Traction Process in regard to the learning of Basic Knowledge and Skills (phase 1) and selected project-management competencies (phase 2). A positive picture in regard to continuous learning also emerged, suggesting that progress has been made to establish a learning culture. This would pave the way towards change at team and organisational levels (phases 3 and 4 of the model).

Chapter 6

THE TRANSFORMATIONAL MODEL

6 INTRODUCTION

The aim of this research is to develop a transformational model for changing a traditional, functional organisation into a high performance, entrepreneurial unit within the larger corporate environment.

This chapter is a synthesis of the transformation process. It relies heavily on the Case Study which is embodied in Annexure A. The Case Study was guided by the research aim and the following four research questions:

- Why was transformation necessary?
- How was the transformation managed?
- What role did the project team and consultant play in championing the transformation?
- What role did leadership play in championing the transformation and creating a high performance, entrepreneurial unit?

The Case Study starts with a description of the crisis faced by the company during the third quarter of 1997. It reveals the factors that led to the decision to engage in an organisation wide transformation. It also reflects upon the original thinking and planning which characterised the initial period. The case study evolves through various interventions at process, structure and people level. It reveals in painstaking detail how the various phases followed one after the other, until processes, structures, values and people were rearranged in a new way in order to add new value to the market.

The Case Study describes the appointment of a new Managing Director halfway through the transformation and how his leadership style enabled the company to fully utilise the internal changes that had taken place during the previous two years, to become an entrepreneurial unit within the larger Sasol corporate environment. The Case Study ends with a business case, which benchmarks the company's achievements.

6.1 The purpose of a model in this research

This research was aimed at developing a model for transforming a traditional, functional organisation into a highly competitive, entrepreneurial unit in a corporate environment. The aim was not to develop a generic model to be followed indiscriminately by managers and consultants in other organisations. As reasoned in Chapter 5 of this dissertation, organisations have different capabilities and face different challenges and therefore require different approaches to manage change successfully. Organisations are unique and what works for one organisation may not necessarily work for another in exactly the same way.

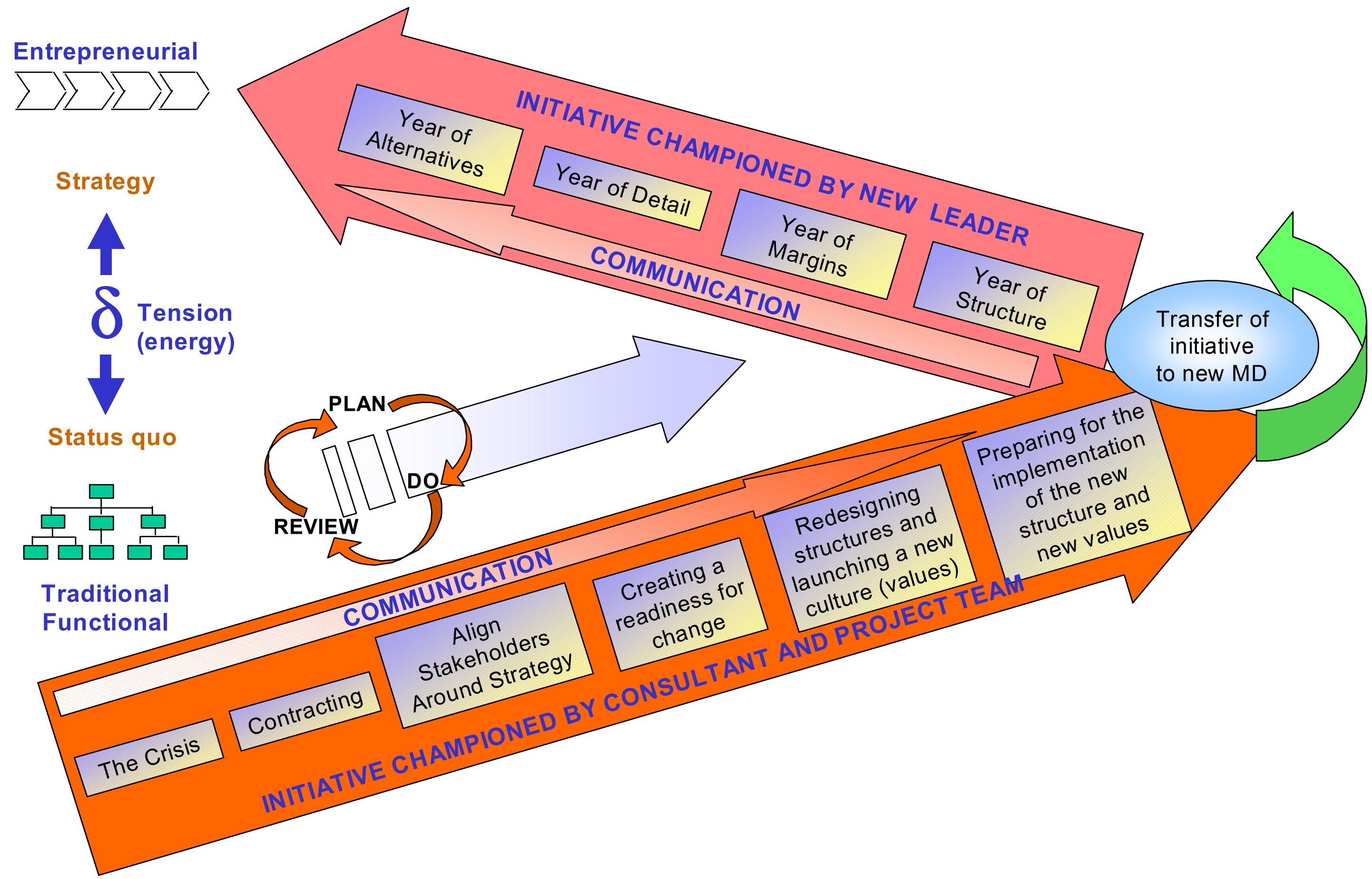
The purpose of the model is therefore neither to identify generic elements in the change process nor to suggest a definite number of sequential steps. *The purpose is more one of describing the process that was followed, understanding it by analysing successes and failures, and verifying observations and learnings against results generated by similar studies and current thinking on transformations and the entrepreneurial organisation.* The process of transformational change is just too complex and vulnerable to a plethora of unpredictable variables, to be reduced to a number of sequential steps or an inflexible strategy.

The model is particularly helpful in grasping the overall change process from a traditional organisation – one structured around functionally, specialised departments – to one structured along the value chain - focussing on defining, developing and delivering customer value. Conceptualising this change process helps to grasp the complexity involved in such a total transformation because it alters the qualitative nature of an organisation (Cummings & Worley, 2001; Blumenthal & Haspeslagh, 1994; Meijer, Tsui & Hinings, 1993; Waldersee, 1997; Scharmer, 2000). The researcher is of the opinion that such an understanding will aid managers and consultants to think about change more carefully, plan more wisely and facilitate the change process more effectively.

In view of the high failure rate of organisational change initiatives (Day, 1988; Kotter, 1995; Daft & Noe, 2000; Beer & Nohria, 2000; Applebaum & Wohl, 2000), a change model is also of conceptual importance to management and organisational theory. A transformation model, particularly one based on such a detailed case study, will help to comprehend the key dynamics and capabilities required of organisations and their leadership, when engaging in change.

Figure 6.1

A model for transforming a traditional, functional organisation into an entrepreneurial unit in a corporate environment



6.2 Description of the model

The transformation model, which emerged from this research (see Figure 6.1), is composed of nine explicit phases, spread over two distinct periods of the transformation: the period when the consultant and project team championed the initiative, and the period when the new MD as leader, championed the transformation. The model depicts the central role of strategy and portrays communication as a recurring element during both periods. It finally draws attention to the continuous cycle of plan-do-review, which characterised the change process during both periods, although applied somewhat differently.

The model is specific to this particular transformation and takes into account the distinctive organisation and it's broader operating context as well as transformational change as a phased process.

Each of the elements in the model needs further definition and clarification.

6.2.1 Strategy

The transformation in SSSA was driven by strategy. Mintzberg cites that *"…real strategic change requires not merely rearranging the established categories, but inventing new ones"* (Mintzberg, 1994:109). Strategy provides a sense of direction. For an organisational transformation strategy is the starting point, and an indispensable element in directing and co-ordinating management's decisions for a renewal (Kotter, 1996; Price, 1995; Burke & Litwin, 1989; Keyser & Serfontein, 2002). It is the first step in redefining the business. Strategy provides cohesion and legitimacy to a transformation and cultivates alignment between parties. Strategy is composed of a vision, a mission, strategic priorities, objectives and values. The vision in particular plays a prominent role in helping people understand where they are heading.

6.2.1.1 Vision

Visions serve the front-end of a strategy formulation process. A vision spells out a realistic, credible and attractive future. It is an articulation of a destination towards which an organisation should aim; a future that is better, more desirable than the present. At the start of a transformation the vision is a wake-up call to everyone involved that fundamental change is needed and is on the way (Kotter, 1996; Carnall, 1995).

A vision is a mutual construct of a desirable or idealistic future that people and organisations can bring about through their commitment and actions. (Nanus, 1992). *"A vision serves as a signpost, pointing the way, for all who need to understand what the organisation is and where it intends to go"* (Nanus, 1992:9).

In a transformation a vision is essential because it transcends the status quo, providing a link between what is now taking place and what the organisation aspires to build in the future. This creates a healthy tension and a surge of positive energy. Kotter (1995) cites that without a sensible vision, a transformation effort can easily *"dissolve into a list of confusing and incompatible projects that can take the organisation into the wrong direction or nowhere at all"* (Kotter, 1995:16).

A powerful vision, particularly at the start of a transformation, could be an idea so energising that it could unlock those essential skills, talents and resources to make it happen.

This is how SSSA articulated their vision at the start of the transformation:

VISION

Schümann Sasol is the renowned world leader, dominating the wax and related markets across the world.

Our multi-cultural and highly competent workforce is energetically and joyfully collecting opportunities through creativity, carrying it to the hives of innovative business units. The full utilization of the value chain is a way of life. Through these creative efforts we are the cost and productivity pioneers of the industry.

These units are converting a variety of feedstock's into world-class quality products, which flow crystal clear from pipelines, prepared with care, pride and dedication. As valued partners we work in harmony with the communities and environments where we do business.

Our product range is frequented by customers attracted by a professional and motivated marketing force. Customers indulge in our special priced products and enjoy it's uniqueness. To them our products are critical ingredients for their own successes.

This powerful and elegant leopard of Africa is headed by a management team that knows no limits and accepts all challenges. Running at full speed, it is setting the pace in creating new standards of excellence for conquering the worlds markets.

Three years after the start of the transformation the vision was abbreviated by the new MD, to read as follows:

VISION

The respect and imagination of the world culminate in our people, our products and our service.

6.2.1.2 Strategic priorities

A vision still needs strategic goals or priorities for attaining the vision. The vision provides direction but strategic goals provide the framework for getting there. The pattern of strategic objectives, following from the goals, relates what the organisation wants to become and what it wants to achieve (Kotter, 1996).

At the start of the transformation Schümann Sasol's business strategy revolved around eight strategic goals, which provided a framework for the transformation process. These were:

- to establish reliable feedstock sources at competitive prices for all our operations;
- to half the time cycle for all new products from concept to customer;
- to raise productivity and reduce cost levels to meet international benchmarks, measured in US dollars, without negatively affecting competitiveness;
- to rationalise and align activities, structures, technologies and resources across the value chain in order to effectively meet customer needs;
- to develop a long-term investment plan to streamline and rationalise operational and internal logistical activities in order to enhance cost effectiveness;
- to utilise the full capacity and yields of the Slurry Bed Technology;
- to establish Schümann Sasol SA (Pty) Ltd as the world market leader on Fischer-Tröpsch waxes as well as the leader in new product applications; and
- to build a knowledge and competence base to enable the company's strategic development.

The eight strategic goals and the large number of strategic objectives dealt with different components of the company: **processes** and **technologies**, **products** and **markets**, **structures** and people **competencies** - all necessary to re-invent an organisation. Most important, it was comprehensive enough to allow fundamental change to occur (Gharajedaghi, 1985).

Goals were related. For example, it was difficult to imagine how productivity levels could be raised and cost reduced if feedstock resources were unreliable and not available at a competitive price. Neither could SSSA become a world leader in Fischer-Tröpsch waxes if new product development time could not be reduced or an international competency base be created.

Organisational renewal was mandated with the inclusion of a goal, which explicitly made provision for the rationalisation and alignment of activities, structures, technologies and resources **across the value chain in order to effectively meet customer needs.** The intention of this was to design a structure that would be innovative, flexible and resilient enough to respond to the market and the changing business environment (Markides, 1997; Porter, 1996; Hamel & Välikangas, 2003). Strategy did not define an entrepreneurial company, but paved the way for one. The entrepreneurial characteristic emerged at a later stage.

6.2.1.3 The mission

A mission statement reflects an organisation's purpose or reason for being. It leaves it's tracks in organisational goals and objectives and manifests itself as guidelines for the daily decision-making of members.

Whereas a goal might be achieved or a strategy attained, a mission cannot be fulfilled. It is "…*like a guiding star on the horison - forever pursued, but never reached"* (Collins & Porras, 1996:69). Although mission or purpose therefore does not change it does inspire change. This is how SSSA drafted their mission statement:

MISSION

We are a profit driven, customer and application focused company, achieving sustainable growth by optimizing the value chain in supplying Fischer-Tropsch and other wax related products, to specialty and commodity markets worldwide.

The mission was also shortened by the new MD and by June 2001, it read as follows:

MISSION

We serve the globe with wax and related products.

6.2.1.4 Values

Another key element of the SSSA strategy that featured throughout the transformation was the company's five core values:

- creativity and individual ability;
- openness, honesty and integrity;
- equal and fair treatment;
- pride; and
- perseverance.

These core values were continually emphasised to guide the entrenchment of new behaviour. Collins & Porras (1996) allude to core values as those essential and enduring tenets of an organisation. Values are the principles or standards that help people decide what is worthwhile or desirable. Values are abstract ideas that become entrenched in the behaviour of people to demonstrate what really matters or should matter (Nanus, 1992). SSSA expressed their values through the behaviours represented in the frame that follows:

Schumann-Sasol's values expressed in behavioural forms	
1.	**To grow and to be competitive, the CREATIVITY and individual ABILITY of people should be stimulated.**
1.1	Constantly look for new ways in which the work processes people are involved in, can be changed.
1.2	Keenness to encourage and listen to new ideas from sources within and outside the company.
1.3	Ask and encourage fellow team members to apply their own unique abilities anywhere and whenever an opportunity arises.
1.4	Utilise each opportunity to understand what is really wrong and to find ways of preventing it from happening again.
1.5	Giving constructive feedback to clients, suppliers and colleagues.
2.	**In a working environment in which people are interdependent, TRUST is essential and can only be established through OPENNESS, HONESTY and INTEGRITY.**
2.1	Report and admitting mistakes and take responsibility for them.
2.2	Show respect to clients, suppliers, the community, the wider Sasol, colleagues, superiors and oneself.
2.3	Support fellow team members, whether they are present or absent.
2.4	Keeping promises to colleagues, clients, suppliers and the community.
2.5	Solve interpersonal problems at their source, instead of gossiping and taking sides.
3.	**For an individual to develop his/her own uniqueness, individual differences must be recognised and cultivated in a climate of EQUAL and FAIR TREATMENT.**
3.1	Avoiding favouritism when choosing suppliers, contractors or the company people to work with.
3.2	Apply the disciplinary code in the same way for all employees.
3.3	Respect a person that is different, be it race, gender, age or religion, whether that person is a company employee, supplier, client or a member of the community.
3.4	Vigorously oppose the belittling of any person – whether they work for the company, or not.
3.5	Communicate in such a way that everyone feels respected.
4.	**Customers and associates will give preference to a company where PRIDE is an ATTITUDE, observed in day-to-day behaviour.**
4.1	Keenly look for opportunities to take responsibility for a task.
4.2	Take pride in keeping the work environment clean.
4.3	Talk enthusiastically about the company, our clients and suppliers, our jobs as well as our products.
4.4	Pride ourselves in the people they work with, whether they are the company employees, clients or suppliers.
4.5	Deliver on spec and on time.
5.	**A company's achievements are dependent on it's PIONEERING SPIRIT, long-term VISION and commitment to PERSEVERE until results appear.**
5.1	Carry on and don't give up until a solution has been found for a problem that satisfies all parties, whether they are clients, suppliers or the company staff.
5.2	Making sacrifices in an effort to reach common objectives that might involve the client, supplier, the community as well as internal company units.
5.3	Motivate and support fellow colleagues, clients and suppliers during difficult times or disappointment.
5.4	If not successful at first, try and try again.
5.5	Stick to the rules that are dictated by the job, even if under pressure.

Values form the core of an organisation's culture. John Kotter (1995:20) believes that failure to anchor change in corporate culture is a huge error: *"…change sticks when it becomes the way we do things around here, when it seeps into the bloodstream."* (Kotter, 1995:20). He concludes: *"…until new behaviours are rooted in social norms and shared values, they are subject to degradation as soon as pressure for change is removed."*

6.2.2 The project team and consultant-championed period vs leader-championed period of change period of change

Two distinct periods were distinguishable in this transformation:

- **An initial period**, in which the project team, with the help of the consultant, championed the transformation until the start of the implementation processes;
- **A second period**, which commenced after the initiative had been transferred to the newly appointed MD, who then took the change initiative upon himself and championed the implementation in such a way that an organisation with distinct entrepreneurial characteristics emerged.

Championing by the Consultant and Project Team was not planned initially. It happened by default. A leadership void was created, first by the CEO who resigned, followed by a second CEO, who was only appointed for a short period before he was transferred to Hamburg. A third CEO was appointed from Germany. As a foreigner he struggled to gain the acceptance of his fellow managers. This forced the Consultant, Project Manager and the Project Team to drive the initiative.

This leadership void left the transformation without the necessary support, encouragement and ownership by management. Instead of sponsoring the change effort the Management Team misapplied their energy on quarrels amongst themselves and with their leader. In so doing they failed to form a guiding coalition with the Consultant and the Project Team (Kotter, 1996). This deficiency at management level threatened the credibility of the change effort and on several occasions almost derailed the process.

Other restraining factors such as the tension between the Management Board and the Management Team, the mistrust of change initiatives by lower levels and the radical nature of the transformation (i.e. from a functional to a process driven structure), compelled the consultant and project team to proceed very cautiously.

The Consultant and Project Team subsequently followed an approach similar to Action Research, associated with the practice of OD (Burke, 1987). The traditional form of Action Research was adapted in a way which corresponds with the observations expressed by Cummings & Worley (2001): the **total system** instead of a small sub-unit became involved and the degree of **member involvement** was increased.

During the Consultant – Project Team alliance dominated first period of the transformation, many efforts were initiated to involve members in learning about the organisation and how to change it (Cummings & Worley, 2001). This took the form of *self-design* work by focus groups, training and sending more than a hundred key employees through a simulation. In this modified form of Action Research the Consultant worked with members of the organisation to facilitate the learning process. The Consultant, Project Team and the larger group of members became *co-learners* (Cumming & Worley, 2001) and allies in the change process. A cyclical process of plan-do-review characterised all the phases, from alignment to kick-off of implementation.

The second period in the transformation commenced two years later. The Project Team was dissolved and the Consultant's role reduced to that of a resource for HR. The new MD recognised the proper foundation that had been laid during the first period and used it extensively in shaping the company into an entrepreneurial unit.

He also favoured the co-learning approach, albeit in a somewhat different way. As champion his strategy was different from the one followed by the Project Team – Consultant alliance. The transformation, however, proofs that there is room for more than one strategy to be followed, on condition that one can support the other.

6.2.3 Sustained communication

One of the prominent features of this transformation was the well-planned, well-directed communication before, during and after each of the identified phases (Kotter, 1996; Larkin & Larkin, 1994). Mainly because of the leadership void during the first period, communication was more pronounced, more frequent and relied on a variety of communication techniques and sources. In a very convincing way it succeeded in minimising the gap between employees' expectations and their understanding of the change and factual realities of the change. This undoubtedly reduced the build-up of negative energy as a result of negative emotions.

Communication took place through various means. Change was also clearly and concisely articulated, which reduced the chances of misinterpretation. The same message reached people from different directions, enhancing understanding at intellectual level and acceptance at emotional level. By incorporating two-way communication as part of the programme, staff members could voice their concerns, air their feelings, share their perceptions and verify their understanding (Larkin & Larkin, 1994).

The transformation was particularly effective in communicating the vision, goals and values, thereby bringing about a common understanding of a shared and desirable future and commitment to a new direction (Kotter, 1996).

During the second (leader-championed) period, the more regular forms of communication continued but a new dimension emerged: direct interaction between the leader and other leaders and between the leader and staff members, including families. Communication by the MD was frank and simple, indicative of great clarity of thought, courage and understanding on his part. This directly contributed to his credibility amongst employees (Ulrich, in Drucker, 1996).

The changes to SSSA were probably best communicated through the visible behaviour of the leader during this second period. He enacted the essence of the entrepreneurial organisation he was committed to (Kuratko *et al*, 1993; Accenture, 2001; Luczkiw, 2002). Other managers soon started modelling his example and eventually a common identity was created, which was distinctly different from that of other business units in the Sasol corporate environment.

6.2.4 Phases in the period championed by the consultant - project team alliance

6.2.4.1 The crisis

Recognition of a compelling, painful business need can be a strong motivational driver for change (Tuschman, Newman & Romanelli, 1986; Cummings & Worley, 2001). Watzlawick, Weakland and Frisch (1974) argue that some kind of a crisis is required to dislodge an existing problem.

Several internal and external factors precipitated the crisis and the decision, which triggered the transformation:

- 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.
- The weakening competitive position of the newly formed merger, particularly as a result of wax companies entering the polyethylene wax business and Shell Malaysia becoming a global supplier of Fischer-Tropsch waxes.
- Internal organisational problems in regard to direction, structure, processes and people, as outlined by a firm of external consultants.
- A disappointing decline in performance after an initial expectation that better performance would be a logical outcome, given the obvious synergies of the merger.
- Distrust between the Management Board and SSSA's Management Team.

The crisis at SSSA led the Management Team and the Management Board to the decision to enter into a large-scale transformation, rather than a process of incremental change, which was recommended by a firm of external consultants. Leadership reasoned that the ambiguity of large-scale change involved high levels of risk but was still a better alternative than to continue under the present conditions. The crisis which was characterised by frustration, anxiety and disillusionment sourced the energy and led to the decision to involve external help in the form of a management consultant.

6.2.4.2 Contracting

For an external consultant to be effective proper contracting is a pre-requisite (Cummings & Worley, 2001; Schein, 1987). The contracting phase included a definition of the problems in a preliminary manner and the exchange of expectations between members of the Management Team, Management Board members and the Consultant, in an attempt to define roles. Contracting also involved building rapport and establishing a working relationship with each key stakeholder. Through the contracting process awareness was created that different roles would be required for the transformation: that of the **Project Team,** the **Project Leader**, the **Management Team,** the **Management Board** and the **External Consultant**. Contracting decidedly removed the uncertainty and misconceptions that had existed in regard to the consultant's role.

6.2.4.3 Aligning stakeholders around strategy

Alignment amongst the stakeholders in regard to direction, method, roles and deliverables were required to establish a united effort (Kotter, 1996; Carnall, 1995; Ulrich, 1996). The process started with the consultant orientating himself in regard to the business and establishing a relationship with key stakeholders. During this initial engagement he verified data and assessed the understanding of the problem areas as identified earlier. Additional information was generated. Through this a common understanding surfaced amongst stakeholders that strategy (direction) was indeed the missing element and the first weakness to address. Serious structural inconsistencies also surfaced, which explained the confusion that existed between the two major stakeholders: the Management Board in Germany and SSSA's Management Team.

Two strategic alignment sessions followed, which involved representatives of all the stakeholder groups. The first session commenced with an expression of a variety of negative feelings. Emotional blockages and incorrect assumptions, which detained alignment were identified and addressed (Lundburg & Young, 2001; Mangham, 1998). With these blockages removed, the group engaged in the development of scenarios and establishment of a common strategy and change paradigm. A vision, mission, strategic priorities and strategic objectives were formulated to provide direction; a set of core values was articulated to drive future behaviour in pursuit of strategy (Kotter, 1996).

This strategic alignment process helped stakeholders to conceptualise the integration of business strategy and organisational change through the transformation. They understood what was required, but ownership for the process was still lacking. However, their understanding of the changes required was instrumental to their decision to appoint a project team and to equip them with the necessary competencies. This ensured that a project structure could be followed: a small team with reasonable influence, accepted by the employees (Breuer & Van der Ligt, 1988).

The alignment phase also served as a proper foundation for a psychological contract between the Management Board, Management Team, the CEO designate, the Project Team and the External Consultant (Schein, 1987; French & Bell, 1999).

6.2.4.4 Creating a readiness for change

For people to respond positively to change, a readiness for change has to be created. Readiness for change involves a proper understanding why change is necessary and establishing a sense of urgency (Kotter, 1995; Weber & Weber, 2001). Readiness for change also entails addressing any form of resistance and creating a positive expectation in regard of things to come. Positive energy has to replace the negative energy, which usually characterises a crisis (Carnall, 1995).

The phase commenced with an evaluation of progress made up to that point. This drew attention to competencies required by the Project Team on whom so much would depend. Project Team members were therefore trained and coached to understand change and how change should be facilitated. Simultaneously targets for communication were identified and a communication plan was drafted. The launch of the project was arranged as a major event and became the pivotal point for all communications – some leading up to it and some following it.

The launch was a great success and a good start to the transformation. It involved all major stakeholders, including more than ninety percent of all staff (Beer & Nohria, 2000; Weber & Weber, 2001). The company's new vision and the purpose of the transformation featured prominently. The project's branding (the Leopard Project) was announced. High energy levels and the involvement of all the company's leaders, created a positive expectation for the project (Waldersee, 1997; Kotter, 1996, Kotter, 1990; Cummings & Worley, 2001).

Readiness for change invariably implies a willingness on the part of the management team to engage in change. Several interventions were therefore directed at the management team. These interventions were aimed at enhancing cohesion amongst team members, encouraging open dialogue and generating motivation for the transformation in their role as the champions of change.

Consolidation of the phase took the form of an evaluation of progress, and included:

- an assessment of the success of the communication effort;

- an evaluation of progress made by individual members of the project team;
- an assessment of the energy levels in the organisation for the forthcoming changes and how positive energy levels could be sustained.

This evaluation introduced a cycle of planning–doing–evaluating, which became a regular feature of the transformation - one that successfully allowed the project team and consultant to navigate their progress carefully, to keep plans flexible, but to stay in control of the change process (Cummings & Worley, 2001).

6.2.4.5 Re-designing structures and assessing the culture (values)

To position the SSSA transformation and plan the next phase the external consultant and project leader started off by benchmarking with the Hamburg operation, which had started a transformation more than a year earlier. Key lessons were learned and many pitfalls, typical of organisations engaging in transformation, were identified.

As stipulated in the strategy, the structure of the company became the first focus of change. Structure was recognised as a pre-requisite for achieving the company's other strategic priorities. The present functional structure was considered outdated and portrayed an inadequate vehicle for adding more value to the customer.

The project team decided to perform a proper analysis of all the core processes, across the value chain. As a first step, focus group members were appointed. This was followed by the training of the project team and focus group members in performing a value chain (process) analysis. The seven core processes of the SSSA value chain are presented in Annexure B of this dissertation.

The project team and focus groups engaged in a value chain analysis, which consisted of:

- a technical analysis;
- a transformation analysis;
- a social analysis;
- a client analysis.

Realising the importance of changing people's paradigms when engaging in change, the consultant introduced a **two-day simulation** for all project team members, focus group members and members of the management team. After three months, more than 100 people (out of a staff complement of 400) had attended these simulations. The simulations helped staff to think differently about the client, the business, the values, structures, empowerment, team performance, etc. The value chain and the principles of process – redesign were now better understood (French & Delahaye, 1996); (Weber & Weber, 2001).

Values

Realising the necessity of changing organisational culture when changing structure the project team conducted a value survey (Kotter, 1996). The results were extensively communicated to groups at all levels. This reinforced their understanding of the new core values and helped them to realise what new behaviours were required. The survey also succeeded in establishing a baseline measurement in regard to values, which would make future measurements more meaningful.

Midway through, the phase progress in regard to the transformation, was once **more evaluated** and plans were reviewed and amended. The consultant's role was re-contracted in terms of specific deliverables.

While the value chain analysis was nearing it's end, the project team and focus group members met with the consultant during two two-day workshops and design principles were set. This was followed by the preparation of a first-order redesign for Board approval. By redesigning according to the value chain, core processes were brought into the centre of what drives corporate behaviour. Core processes now represented the stream of value creation as perceived from the point of view of the customer (Hammer & Champy, 1994; Hewson Consulting Group, 2000).

Concurrently an extensive communication programme was launched to prepare staff for the new structure. A coalition was formed between the project team, management team and leaders at lower levels to portray one view on the new structure (Kotter, 1996). Despite ongoing problems at management level, attempts were made to prepare management for their new leadership role in the redesigned structure. Strategy was also reviewed and amended.

At the November Board meeting approval was granted for the proposed new structure. The decision was unanimous that the transformation process should be extended to December 2000. An implementation plan was requested. Approval was also given for a pilot roll-out of the new design. The pilot would involve the appointment of people to whole task groups (self managing teams) across the value chain and the preparation of leaders at management (strategic) and team levels, for their new roles. Of real significance was the mandate given to SSSA to manage themselves operationally as well as strategically. A commitment was given to clarify the interface between the SSSA Management Team and the Management Board.

6.2.4.6 Preparing for the implementation of the new structure and values

Successful implementation is dependent on proper planning (Vrakking, 1995). Shortly after the Board Meeting of November 1998, the project team engaged in a planning workshop and developed a detailed plan for the period December 1998 to December 1999. This was followed by a review and updating of strategy. The cycle of planning – doing – reviewing had thus been well entrenched and remained a formal feature of the process until July 1999, when the new MD was appointed. Evaluation at the start of this phase was focussed on progress that had been made during the previous phases as well as the status quo in regard to the transformation. Amongst many variables in the transformation, the project team critically assessed the following (Schein, 1987; Kolb, 1984; Gharajedaghi, 1999):

- the performance of the project team;
- the impact of the communication;
- the management team and it's role in the transformation;
- the relationship between the project team and the external consultant.

The evaluation led to a refinement of the planned implementation and a re-contracting with the External Consultant.

Leaders to whole-task groups and support groups were appointed. Communication started to actively deal with resistance, which now took the form of doubts, unexpressed uncertainties, direct challenges, and high levels of anxiety (Mangham, 1998).

One project team member and other selected staff were appointed as a special task team to assess IT needs at strategic level and to design an IT system compatible with the new organisational design (Price, 1995; NOIE, 2003). At company leadership level (now referred to as strategic level), unwillingness surfaced to accept their new roles and to surrender direct operational involvement.

Team leaders of whole task groups and support groups were equipped for their new roles, and specific attention was paid to those groups, which formed part of the pilot. This was followed by the forming and development of teams around whole jobs. Structure, one of the features of an organisation often associated with a transformation, was now being addressed directly by orientating members for their new roles (Meijer, Tsui & Hinings, 1993).

Over the period 1997 to 1999 business results had improved significantly from that of the previous three years. During the financial year 1997 to 1998 revenue had grown from R442.24m to R576.34m. The net EBIT (in Rand) had increased from R13.09 m in 1997 to R31.39m in 1998. At the end of the 1998/99 financial year results looked equally promising. Revenue had increased from R576.34m to R716.30m and the net EBIT had improved from R31.39m to R45.70m.

6.2.5 Transfer of the change initiative to the new MD

A new MD was appointed in July 1999, but officially only took control of the business in early August 1999. Before accepting the appointment the new MD visited Hamburg and successfully negotiated an agreement according to which he was allowed to "*do things in his own way and be trusted to do that*". Entrepreneurs have a desire to be independent (Brandstatter & Virasli in Envick & Langford, 2000).

The new MD spent a few weeks orientating himself and assessing practices, attitudes, and the way the company was managed on a daily basis. The transformation and what had been achieved up to that point, was closely scrutinised. His personal norms and expectations for the organisation were articulated and it became clear that **he favoured** an **entrepreneurial type of organisation**. He envisaged a small head office, flatter structures and small business units which would allow people to communicate informally. Staff would be that are well informed and empowered and remuneration would be structured in such a way that those people who perform well also receive more. This correlates with the findings of Accenture (2001); Chisholm (1987); & Zaleznik (1990). His conclusion was that the current strategy, newly designed structure and the new set of core values could accommodate all his expectations and serve as a foundation to fulfil his wish for an entrepreneurial organisation in a corporate environment.

The new MD's management style was different from that of his predecessors. He displayed strong leadership, and it was clear from the start that he could fill the leadership void, which had impeded the transformation up to that point. His willingness to take accountability for the business and it's performance created positive expectations at project team level (Ulrich in Drucker, 1996).

Within a month after taking over control he officially took over the leadership role by transferring the accountability for the transformation to himself. In a brilliant political move he terminated the Leopard Project, disbanded the Project Team and appointed the Project Leader as his new Human Resources Manager. To establish himself as the sole champion he reduced the influence of the External Consultant to that of an advisor to the Human Resources Manager. It was clear that he was willing to take the risk himself (Kuratko & Welsch, 2001).

This move effectively reduced the External Consultant's role to that of a specialist resource, which would only be utilised when needed. The project team - consultant period of the transformation thus effectively came to an end.

The MD followed through on these initiatives by adding his own branding to the transformation (Kuratko, 2001; Luczkiw, 2002). This included:

- the involvement of families in the change process;
- the introduction of a common vocabulary to describe the practices and processes of the company; and
- acceptance of a policy that the company would in future be less isolated and become a more integral part of the global Schümann-Sasol.

The transfer of the change initiative, from the project team – consultant alliance to the new leader occurred over a period of approximately three months. Apart from publicly announcing his willingness to take full accountability for the business and championing the transformation process personally, several initiatives on his part enhanced the process of transfer, re-energised the transformation and firmly established his position as the leader. This behaviour supports the observation of Davis, (1999) and Kuratko (2001), that entrepreneurs are change agents who break from existing ways of doing things in order to create what has not been created before.

Some of these initiatives are particularly significant and require a more detailed discussion.

6.2.5.1 Addressing inconsistencies in the new structure

Although the MD was excited about the concept of whole task groups arranged along the value chain, he was also concerned about the inconsistency which he noticed in the structure between the managers, the whole task groups and their leaders. To him the structure reflected incongruence and an unbalanced authority distribution, which created the impression that power had been handed to the whole task groups and their leaders without affording a similar degree of empowerment to the company's managers (referred to as *cluster leaders* in the first re-design.) To him this *hierarchical element* was irreconcilable with the principles that had been applied to the rest of the new structure.

The inconsistency was addressed in a management workshop, facilitated by the consultant. After re-iterating the inconsistencies, the MD challenged his team to use the philosophy underpinning the new design and submit a better solution. The consensus decision was that *cluster leaders* at the top would become business managers, laterally linked to the value chain. The change not only supported the principle of owning the customer, but connected whole task groups more closely within each of the four business units. This move on the part of the MD brought the structure closer to the typical entrepreneurial (Hewson Consulting Group, 2000; Echols & Neck, 1998).

The MD was now satisfied with the new structure and made the successful implementation of the new structure one of his first priorities, hence the later reference to the **Year of Structure**.

6.2.5.2 Putting strategy in perspective

The MD made it clear that the current vision, mission core values, strategic priorities and objectives would suffice and would provide direction to the company. He urged leaders within the new structure to solve their problems within the guidelines of strategy. Because implementation of strategy was dependent on the speed of decision-making, bureaucracy had to be eradicated, otherwise the company would not be able to compete. This clear departure from existing practices supports the findings of Birkinshaw, (1997) and Maxon (1986).

The new leader fully supported the principle that had been followed from the start of the transformation: **change must be strategy driven**. He stated that each individual should be allowed to digest the strategy for himself so that he could clearly understand what his contribution towards strategy should be. This supports the view of Beer & Nohria (2000) that change in organisations cannot take place or be dealt with effectively if the individual employed is not engaged in the change initiative. To facilitate this process the MD shortened the vision to only one sentence and reduced the number of words in the mission statement. He regarded it essential for people to be able to recall the vision, mission and core values, without reference.

The message about the importance of strategy and the need for ownership of it were reinforced regularly and was even introduced as a common feature to all meetings held in the company. Business managers were encouraged to take the initiative and develop their own business unit strategies and take accountability for it. In this regard he acted as mentor and coach to help business unit managers overcome their initial uncertainty (Ross, 1987; Pinchot & Pinchot, 1978).

To advance strategy beyond his own circle of leaders the MD invited staff and their spouses to strategy sessions on regular intervals, where he performed a facilitating and coaching role. This initiative could be seen as part of his role as a transformational leader to establish alliances and partnerships (Ulrich, 1996). It could also be interpreted as a means of generating support for change (Weber & Weber, 2001). He believed that if a leader wants people to apply business principles in their company, they should also understand it well enough to apply the same principles in their private lives. Between 30 and 40 people attended each session and eventually about a third of the staff and their spouses were exposed. The MD was satisfied and stated that if a third of the company understood strategy and how it must be implemented, the remaining people in the company would follow suit.

The significance of the relationship between **strategy, structure** and **discipline** was frequently highlighted: strategy had to provide direction, structure had to make strategy happen and discipline had to be embedded so that people "*do the right things*" consistently. By calling people's attention to discipline and reinforcing it continuously he created a culture of discipline in which empowered people would go to extreme lengths to fulfil their responsibilities (Collins, 2001).

6.2.5.3 Making empowerment a reality

It has been highlighted that an organisational transformation is often associated with leaner, more flexible structures, information and decision-making pushed down to lower levels, decentralised teams and business units taking accountability for products, services and customers (Sackman, 1989).

The MD demonstrated a seriousness to make empowerment work on a day-to-day basis and at all levels. He started off by addressing the confusion that existed between the terms participation and empowerment. Debating a principle to him was participation, but accepting the principle and applying it in practice as one's own, was empowerment.

Utilising management meetings as report back meetings was viewed by the MD as disempowering. Challenging open debate and taking decisions were the ways in which managers could empower themselves. He saw the importance of learning in the process of developing his managers so that they could live up to their expectations and perform as business managers, rather than traditional functional heads (Chaston, Badger & Sadler-Smith, 2001; Harrison, 1992). Each member of his team was allowed to engage the services of a personal mentor. He was quite explicit about his expectation that a condition must be reached where any member of his team could lead, depending on the problem and circumstances. Members of his team were encouraged to support one another and accept the principle that no single person leads, but the team.

All these activities underscore the active role of the MD as executive in the transformation (Waldersee, 1997) and his concern for the people side of the organisation he wanted to create (Blumenthal & Haspeslagh, 1994).

6.2.5.4 Articulating a personal management philosophy

Communication during management meetings and *coffee shops* was always characterised by directness, openness and clarity of thought. Equally well articulated was his personal management philosophy, which showed a marked resemblance with the strategic leadership characteristics found in entrepreneurial leaders (Kanter, 1983; Burgelman, 1983; Guth & Ginsberg, 1990; Kuratko & Welsch, 2001). This can be summarised as follows:

- **Clarity about principles**: gaining acceptance for principles is more important than rules and procedures.
- **Promote growth in volume and revenue first**: cost should only be curbed once that has been achieved.
- **Develop the value chain as a community**: his role as leader is to serve that community.
- **Teamwork is the core of the company**: every individual should be a member of a team.
- **A quantum leap in performance can only be attained through people**.
- **Structure should reflect the strategy**.
- **His position as MD calls for certain non-negotiables:** accountability for the business, appointment of people in the top structure, company strategy and the discipline to execute strategic decisions.

His personal management philosophy also matched his concept of **success enablers**, which he personally communicated at formal and informal meetings. Success enablers referred to, amongst others, speed of implementation, cost discipline, learning, flexibility and razor sharp focus.

6.2.5.5 Closing the leadership void

The transfer process and the actions described so far succeeded in generating much needed energy at management level. It also created positive expectations in regard to the new organisation at every level. The leadership void, which had been such a serious obstacle during the previous 18 months of the transformation, was closing. People were excited about the new MD and regarded his approach to business as an adventure, worthy of engagement. The new *streamlined* structure and certain priorities and principles set by the MD, were communicated in writing as well as through group discussions, headed by members of the management team. For the first time in the transformation all managers were playing a prominent role (Ulrich in Drucker, 1996).

The MD publicly admitted that much work had been done through the Leopard Project, but concluded that implementation could only be led **by himself**, and not by a consultant or project team. He stated that an excellent foundation had been laid, but only **leadership** could take it to fruition (Waldersee, 1997).

Towards the end of the transfer process the consultant's services were re-contracted and extended for a further period, but with no influence on the leader's thinking. He was now contracted to review progress of the pilot group, address leadership and team issues at whole task group and support group levels and perform a follow-up survey on core values.

6.2.6 Phases in the period championed by the leader

When the transfer was completed the MD was ready to move into implementation in a serious way. What is interesting is the fact that he never really referred to an entrepreneurial unit as the outcome of his efforts. He merely reinforced and adapted strategy and emphasised the key principles on which the new design was based (Hewson Consulting Group, 2000; Luchsinger & Bagby, 1987). In so doing, he as the leader gave concrete meaning to the original intent: to design an organisation that is innovative, flexible and resilient enough to meet the challenges of the market.

One of his outstanding characteristics was his ability to think globally, to react quickly and to operate intuitively, showing less regard for the analytical and the rational and favouring the instinctive and the holistic.

The four identifiable phases of the period championed by the MD was not planned, but crystallised, as he gained a better understanding of the strategy, the transformation principles, the changes that had taken place and the uniqueness of the wax business. Yet, if these phases are compared with that of Kuratko (1993), it shows a more than incidental resemblance. The main difference can be ascribed to the fact that many changes had already started before the MD's arrival.

Four distinct phases can be identified during the period in which the leader championed the transformation:

- the year of structure (October 1999 to June 2000);
- the year of margins (July 2000 to June 2001);
- the year of detail (July 2001 to June 2002);
- the year of alternatives (July 2002 to June 2003).

As strategy became more pronounced the phases almost spontaneously evolved, but strategy always remained the main driver. The MD used the analogy of sheep being herded by a keen shepherd. The sheep start off in the right direction, but would soon loose their focus and sense of direction. In an effort to redirect them the shepherd would then throw a stone either to their left or their right. This activity needs to be repeated regularly to maintain direction.

6.2.6.1 The year of structure (October 1999 to June 2000)

Almost 8 months before the new MD was appointed the new organisational design was approved (November 1998), and was followed by the development of an extensive implementation plan. The implementation plan was not only directed at the structure, but at the *smooth integration of strategy, structure, culture, people, processes and technology across the value chain* (Miller & Friesen, 1984; Meijer Tsui & Hinings, 1993).

As far as the new structure was concerned, implementation made provision for a pilot. The pilot ran over a six-month period (until June 1999) and involved only a certain number of whole task groups. The pilot phase included several interventions, such as:

- the manning of the new structure;
- appointment of leaders to whole task groups and support groups;
- the orientation and development of these newly appointed leaders for their leadership roles in the new structure;
- addressing resistance to change amongst new appointees;
- preparing members of management for their new role;
- building teams (whole task groups and support groups) around whole jobs, along the value chain;
- building individual jobs within teams.

When the new MD took over the reigns in July 1999, teams had started to work together and leaders were given the opportunity to complete the structuring of their own teams around whole jobs. Paradigms of leaders and team members in regard to work were being challenged seriously.

It was mentioned earlier that the MD, shortly after his appointment, became involved in the new structure by drawing management's attention to an inconsistency in structure. He referred to the problem as the *hierarchical element in the form of cluster leaders* at the top. By applying the principles of redesign, the cluster leaders were redefined as business managers with more accountability than before. The change met the approval of the MD. At that point the MD was satisfied with the new structure and ready to become personally involved in it's implementation. Entrenching the new structure was important to the new MD, because strategy depended upon it. Structure had to enable the strategy.

In this regard the MD wanted to make sure that all people understood the thinking behind the structure and how the structure worked. To assist with this he reinforced people's understanding of the SSSA value chain and how a process driven structure differed from a hierarchical one. He personally supported business units in clarifying and defining their respective value chains and core processes (Sachmann, 1989).

The Year of Structure also involved a reinforcement of the company's **mission**. Each individual had to understand that the company's core business was producing **and** selling. In this regard he initiated several actions to streamline the structure even further:

- the role of secretaries was terminated and they were re-employed in more meaningful roles;
- the non-value adding functions such as the Test Laboratory and Maintenance were outsourced;
- staff in temporary capacities and those who were regarded as redundant, were retrenched;
- each remaining member of the organisation became digitally literate and skilled in Basic Computer Skills and in Excel software.

In the streamlining of the structure the MD relied heavily on the HR function (Kamath, in Davis, 1999). With the assistance of the HR Manager the whole process was conducted very smoothly, but the number of people was reduced from over 400 to approximately 300. As a result of the reduction of people, costs were reduced dramatically.

The MD emphasised and cultivated the principle of effective leadership in order to make the structure work. According to him it was leadership's responsibility at every level to develop individuals so that each person in the structure could make informed decisions. In his opinion each individual, down to the lowest level, should be able to exercise a choice and therefore share in decision-making. He was passionate to empower. To him empowerment was a way of liberating people – an expression of their right to do things in support of strategy (Maxon, 1986; Echols & Neck, 1998; Lee & Peterson, 2000; Chisholm, 1987).

The MD was a firm believer in the power of learning. He became personally involved in the development of the management team and was willing to coach them on a one-on-one basis to enrich the shared leadership process (Sashkin & Rosenbach, 1993). He was quite forthright in expecting them to share in the leadership of the company, not only hold positions of authority.

Meetings with his team members were characterised by many questions directed to them, in an effort to assess their level of understanding and test their way of thinking. He plainly demonstrated the value of **openness** to encourage participation, obtain everyone's ideas and clarify their expectations of him.

Management meetings were often learning events. The MD's view was that the purpose of management meetings was not for information sharing, but to focus on the future and to take decisions to bring about that future. Certain themes such as the following were reinforced at almost every management meeting (Kuratko *et al*, 1993; Maxon, 1986; Tichy & Charon, 1989):

- managers should know the company as a whole and solve problems **collectively**;
- every manager should take **ownership** of the company and know the **strategy** by heart;
- **confidence** amongst members of a team can only grow through **alignment** with one another.

To facilitate the entrenchment of the new structure he introduced a fixed rhythm of meetings. All business meetings were for example conducted on the first Thursday of each month. *Coffee shops* in the plant were handled by the MD himself and were utilized as opportunities to learn and grow and not only as a mechanism to disseminate information.

Efforts to interact directly with his people the MD's behaviour cannot be described as flawless. He was often perceived as impatient and manipulative. Staff members who worked closely with him described their feelings as a mixture of fear, anticipation, tension and excitement. **But they always felt challenged to make the right decision.**

The MD demonstrated a keen awareness of the important interface between the SSSA structure and the Management Board structure in Hamburg. He was a good networker and promoted the restoration of good relationships with Hamburg and modelled the change in attitude personally (Davis, 1999; Kuratko *et al*, 2001; Luczkiw, 2002). During "coffee shops" he actively promoted a positive image of the

Management Board and emphasised Hamburg's important role. He accentuated the principle that people should not be allowed to talk badly about their leaders. When errors occurred or responsibilities were handled incorrectly by Hamburg, he personally volunteered to take up the matters with them.

Several supporting interventions were launched by the HR Manager and External Consultant. Most of these were aimed at establishing whole task groups and support groups, thus actively endorsing the structural initiatives of the MD at strategic level.

Since the company was now structured around teams, **teamwork** became a **strategic driver** (Thomson & McNamara, 2001). Teams existed at three levels: **strategic** (the management team), **business** unit and **whole task group** level. The whole task groups and most of the support groups were clustered into business units. Each whole task group had a total responsibility for it's own area of performance, both in terms of operations and maintenance. A team took ownership of a whole task in a specific portion of the value chain, and owned problems form start to finish. Functional specialists were reduced, as maintenance staff were either outsourced or became part of whole task groups. Each person in the business was well on his way to become a well-rounded generalist, who understood all aspects of the operation, grasped the economy in which the business was operating and who could keep the interest of the total company in mind when making decisions (Entreplexity, 2002).

Supporting interventions were preceded by an assessment of progress made in regard to the pilot. The HR Manager and Consultant visited and assessed each group in terms of several dimensions: structure, leadership, team cohesion, functioning, information, orientation towards learning and awareness of customers and markets.

The results indicated that progress had been made, but certain issues required attention. Feedback was incorporated into the design of the next generation second order redesign workshops for the remaining whole task groups and support groups.

Assessment of the pilot implementation and the running of second-generation redesign workshops revealed several obstacles when changing a hierarchical structure into a process (value chain) driven structure. Some of those obstacles need to be highlighted.

- Newly appointed leaders of these teams found it difficult to understand their new role and to change from the supervisor paradigm of a hierarchy to the leadership paradigm of the team based, process driven structure.
- The use of teams in a process driven structure nullifies the influence of positional power. The team formation forced people to become more dependent on one another for support, knowledge and resources. Because of the old paradigm people initially disliked being dependent on one another. This led to the extensive use of information power, which resulted in the build up of

tension, particularly between people with different competency levels and people from different cultures.

- The third obstacle can be described as a reluctance of people (both team leaders and team members) to take accountability. This obstacle was particularly visible at the interface between whole task groups and support groups. It appeared as if whole task group leaders resisted the idea of taking accountability for maintenance and other support functions.

These unexpected reactions led the HR Manager and the Consultant to conclude that the introduction of teams was more complex than what had been anticipated. A three-phased development model was conceptualised to address the obstacles:

- **phase one** involved the formation of the team, as per second order redesign;
- **phase two** was a learning phase where members of a team could learn to work together, get used to their new roles and acquire the necessary competencies in performing their tasks (French & Delahaye, 1996);
- **phase three** allowed a team to take full accountability for all it's tasks and set it's own performance objectives within the framework of Business Unit Strategy (Echols & Neck, 1998).

The identification and development of competencies was a logical next step to improve the functioning of the new structure. Individual competencies add value and by improving and broadening them, better results are achieved (Prahalad, 1998).

In whole-task groups several members could become involved in the performance of a whole job. People therefore needed to be interchangeable to provide flexibility and adaptability. A member of these self-managing teams was also expected to work across whole jobs. Given these changes, the concept of a role rather than a job description, seemed more fitting to the new structure. The role of group members could involve a number of competencies and needed to be aligned with the competency profile of the team as a whole.

To manage competencies in the new structure, a competency matrix was developed. The matrix defined a total of 25 core competencies for the company as a whole, and served the purposes of a data source for competency profiles, performance appraisal, development opportunities and succession planning.

During the **Year of Structure**, the company's values also gained more appreciation. People now understood the important role of values in directing the desired behaviour within the new structure. Empowerment for example would not become an entrenched feature of the company unless the values of **creativity and individual ability** and **equal and fair treatment** became drivers of behaviour.

Much of the entrenchment of values could be attributed to the efforts of the MD, especially his emphasis on values as an integral part of strategy and his willingness to personally model them (Kemolgor, 2002; Kuratko & Welsch, 2001).

The MD, in conjunction with the HR Manager, requested a follow-up survey to determine whether the core values had been embedded in the company's culture.

The task was assigned to the Consultant. A qualitative approach was followed. Much progress was reported and a few general impressions surfaced:

- people expressed a plain expectation that business leaders should model the core values more visibly;
- team leaders were perceived as making a concerted effort to bring their values in line with the company's values;
- different levels of understanding and interpretation of the core values still existed at team level.

The results of the survey were taken seriously by the MD. At *coffee shops* and other meetings he relentlessly explained the new emphasis on principles and values in contrast to policies as the drivers of behaviour (Kotter, 1996; Goodstein & Burke, 1991).

Results at the end of the MD's first year of office (June 2000)

Financial results at the end of June 2000 showed very little improvement from the June 1999 results. Revenue had increased from R716.30m to R735.51m. The EBIT had increased from R45.7m to R48.46m.

More interesting were the non-financial results. The most promising results came from a second survey conducted by the International Survey Research (ISR, 2000). The first of these research surveys was conducted during the **fourth quarter of 1997** (ISR, 1997: see Case Study in Annexure A). Several problem areas emerged during that first survey. Staff did not understand the company's goals and objectives and senior management were perceived to lack clear business strategy. Productivity was a problem. Management was accused of not providing leadership, not stating objectives clearly, not managing change and not planning for the future.

In the ISR survey, which was conducted in the **first quarter of 2000**, the picture of SSSA looked radically different. As far as **leadership** was concerned a statistically significant difference at the 95% confidence level was achieved on aspects such as:

- the degree to which opinions and thinking of lower level managers were taken into consideration by senior managers when determining policy;
- efforts being made to make SSSA more streamlined and cost effective;
- the degree to which the rationale for decisions was adequately communicated by managers to lower levels;
- the degree to which a climate was established in which traditional ways of doing could be challenged.

Results in the category strategy and objectives were better than the ISR's norm for global high performance companies. Results of SSSA also exceeded global high performance companies norm in the **leadership** category. A statistically significant difference at the 95% level of confidence was obtained on two items: **stating objectives clearly and providing leadership**. In the **organisational culture** category, management was rated as encouraging staff to be innovative (statistically significant). The SSSA culture was rated as significantly different from the Sasol SA Group on **leadership through empowerment** and **harnessing diversity**. In the category **organisational transformation**, teamwork and communication were rated as better than the Sasol Group results (95% confidence level).

6.2.6.2 The year of margins (July 2000 to June 2001)

By attending production meetings regularly the MD soon realised that measurement was inadequate. He was concerned because he knew that the absence of measurement could mean that people lacked clear direction. Neither would they know how to reach strategic milestones.

His fears were endorsed by feedback from Thinc Business Solutions, a management consulting company appointed to do a strategic business assessment of SSSA.

Some of the results validated existing assumptions, but others, particularly those that dealt with the market, provided new insights. The conclusion was that the company needed to take a fresh look at markets, customers and products, if it wanted to stay competitive. A shift from the traditional was required and customer service needed improvement, knowledge of competitors needed to be sharpened and forecasting accuracy needed to be improved. This was only possible if the markets were understood. A better balance between production capability and market demand was therefore suggested.

The business assessment also revealed that staff did not fully understand the meaning of *business* and *profit making*.

As a result of this assessment the MD hypothesised that margins were poor and in some cases negative. This assumption was ratified upon analysis and he subsequently requested business unit managers to critically assess their gross margins on their products and the business processes that were being used. This was followed by an evaluation of the relationship between variable and fixed costs and an analysis of fixed costs per se, in order to improve gross margins.

The War Room

To endorse the theme advocated by the Year of Margins the MD introduced the concept of the War Room. The purpose of the War Room was to reflect the position of the company on any particular day. Calculation of daily positions was based on a sound measurement system. The War Room involved a process which started with small, informal meetings in each of the business units, followed by a meeting in the War Room, where information was integrated by representatives of the business units, to review the total picture of the company as well as that of their own business unit in terms of EBIT and profit/loss on a daily basis (Kuratko et al, 1993; Accenture, 2001; Chisholm, 1987).

The War Room also established the Order Book principle. This concept offered the MD the opportunity to enter into his coaching role (Sashkin & Rosenbach, 1993; Kamath in Davis, 1999). He used discussions around the Order Book to challenge incorrect assumptions and decisions made. Errors were used as opportunities to re-explain business principles (Ross & Unwalla, 1986).

The War Room also introduced the principle of "equals". This principle empowered operational people to report and assess the result of their own decision-making during the previous 24 hours. The process enhanced the learning of business decision-making and entrepreneurship since staff could see the effect of right or wrong decisions on their own business unit's results (Entreplexity, 2002). This learning was reinforced by a training programme in Financial Management, which was attended by all business units and whole task group leaders.

Rewards and incentives

During the Year of Margins a company-wide incentive scheme was introduced. To experience risk on **a personal level** members of management could place a certain percentage of their monthly salary on risk (Pinchot & Pinchot, 1978). This varied from one individual to another. Return of this investment was based on the performance of the company at the end of the financial year, in EBIT terms. Performance was defined as the degree **to which the budget was exceeded.**

Members of management could also exercise a profit sharing option, which meant that they had to forfeit their yearly option of purchasing Sasol shares. Eventually all managers opted for this profit sharing alternative, which is indicative of the extent to which an entrepreneurial climate had taken root (Accenture, 2001; Rule & Irwin, 1988).

The rest of the staff also participated in the incentive scheme. This took the form of individual bonuses, linked to company performance in EBIT terms, and expressed as a percentage of their salaries. Salaries and increases were published in a transparent way and communicated throughout the company.

To reinforce the principle of high performance in a responsible way, performance was linked to safety. If the company's safety record was not impeccable, staff could loose the money that they had gained through financial performance.

The performance navigation process

Human Resources systems can be a powerful link in shaping behaviours in developing a firm's ability to be entrepreneurial (Twomey & Harris, 2000). The Performance Navigation Process (PNP) was used to equip leaders to improve the performance of their teams. Other objectives dealt with the appraisal of individual performance, the development of competencies and the entrenchment of values. For the process to be successful, leaders needed to become competent in following the *navigation process*, thereby ensuring the allocation of performance bonuses fairly and objectively.

The PNP made use of existing performance matrixes and applied the principle that each staff member should take responsibility for his/her own appraisal. The value of **openness, honesty and integrity** was reinforced during the PNP and as a result of this, giving feedback, either one-on-one or in teams became a regular practice at all levels.

The Year of Margins ended with impressive financial results. Revenue had increased from R737.51m to R829.78m. EBIT had climbed from R48.46m to an imposing R98.64m.

6.2.6.3 The year of detail (July 2001 to June 2002)

The MD's metaphor of the keen shepherd who has to herd his sheep in the right direction by throwing stones to their left and to their right, found particularly good application during this phase. He noticed that staff tended to become overly confident and relaxed in the way they treated matters and events. Short cuts were being taken and facts were being generalised. The staff had obviously lost sight of detail. Detail affected processes, cost, quality, systems, customer requirements, etc. He concluded that for people to stay focused they needed to be sharpened. This could be achieved by attending to detail.

The MD experienced another discomfort: the possibility that the symptoms could be a consequence of his personal style of leadership, which was holistic and visionary (and appropriate at his level). He was concerned that employees with a different style, particularly those with an inclination for detail, would copy his style, with the result that their strengths would be lost to the company.

He therefore started placing emphasis on detail. People were urged not only to accept an answer or a practice, but to ask the question: *"What is in the detail?"* Errors and defects were treated in a similar vein, forcing people to **rethink their business**.

Several changes were observed as a result of this new accent. A dashboard concept was developed fully, which created a connection between what every person should measure on a daily basis and the company's measurements. All measurements added up to what the company wanted to achieve. The architecture made provision for a wide range of indexes, ranging from financial results to customer value, to operational excellence, to shared learning. On any day of any month the specific position of the company in regard to any of these indexes was known to everybody. In this way information systems nurtured innovation, encouraging the discussion of innovative ideas on cost reduction, and the improvements, processes, products and services (Woodward, 2001).

Because the theme was detail, every person felt obliged to constantly challenge measurements by asking two questions:

- Do we measure the right thing?
- Do we measure correctly?

In support of this initiative, the HR Manager in conjunction with the MD launched two other interventions:

- **A survey to assess the progress made in regard to the entrenchment of the company's values.** Results of the survey were very positive, indicating a high degree of entrenchment and good alignment between levels of management.
- **A mentorship programme to assist in preparing people for succession planning.** The programme was well planned and executed, resulting in contracts between mentors and protégés, which really contributed, to people development.

At the end of the financial year, 2001/2002 revenue had increased from R829.78m to R1086.0m. EBIT had escalated to R165.88m. The target of 15%, set in November 1997, had therefore been achieved six months ahead of time (15.3%).

6.2.6.4 The year of alternatives (July 2002 to June 2003)

On close analysis it can be argued that the first three phases - structure, margins and detail – could still be nothing more but efforts to improve the company's health. The Year of Alternatives must therefore be viewed as the first of the efforts by the MD that signified growth. The reasons for this statement are quite apparent if the thinking behind this phase is scrutinised. The phase for example involved the following:

- a critical assessment of SSSA's alternative products and services and how each one fitted into the company's strategy;
- an in-depth analysis of what was required at the start of the value chain to make products and services happen, and what changes could be made to the start of the value chain to affect products and services; and finally,
- a scan of the total value chain in an effort to optimise the entire process from feedstock to client.

In their efforts to operationalise the thinking, one of the first conclusions reached by the management team was the realization that they had to examine alternative feedstock sources. It resulted in them seriously contemplating the import of waxes to replace the gas feedstock from Sasol Chemical Industries. On the client end of the value chain new initiatives in the form of Task Forces were formed to attend to wax applications in cosmetics, health, polishes and emulsions.

Sasol bought the remaining shares from Hans-Otto Schümann in January 2002, but decided to allow minimal interference in the management of SSSA (Pty) Ltd for the first year. Amongst others, the name changed to Sasol Wax (Pty) Ltd (1 July 2002).

It needs to be noted that circumstances started changing markedly after 1 July. The company was obliged to switch to the SAP system and standardise it's branding according to Sasol's rules. Standardisation of the HR and Information Management Functions was also demanded. The incentive system was capped at 30% and profit sharing was only allowed until the end of the financial year. More change was expected after June 2003 to ensure that SSA is brought back into the corporate mould.

The question in the minds of Sasol Wax's management was whether the entrepreneurial character of the company was embedded well enough to withstand the practices and culture of the corporate environment.

In a survey conducted during September 2002 (n=304 or 86%), sufficient evidence was found that the **changes that had been made during the previous 5 years had been well entrenched**, portraying many characteristics of an entrepreneurial organisation.

Some of the survey results require more consideration:

- **Characteristics of the company as viewed by employees**. A total of 13 characteristics were selected, all generally associated with entrepreneurial organisation. More than 70% of this sample indicated that they witnessed these characteristics on a regular basis. Strategy and discipline in executing strategy received a very high rating. A correctness level of 76% was achieved on a question were respondents had to distinguish between strategic drivers and strategic enablers.
- **Remuneration**. As many as 43% of respondents believed that they were better off than their Sasol colleagues and 82% felt positively about the way their package was structured. Respondents expressed a positive view of the incentive scheme and accepted the principle of linking pay to performance (Jones & Butler, 1992; Accenture, 2001). Almost the total sample (97%) agreed that performance-related pay does stimulate high performance.
- **Leadership**. The MD's behaviour was described as: modelling the company's core values, acting as the company's visionary, providing strategic direction and

inspiring and motivating staff (Entreplexity, 2002; Kuratko & Welsch, 2001). Other responses confirmed an alignment between the MD and the people's "*immediate leader*".

- **Motivation**. More than 80% of respondents were aware of several self-development opportunities that existed (Lee & Peterson, 2000; Kemolgor, 2002). Employees felt proud to be a member of SSSA and what it had achieved. Strong identification with the company occurred because employees felt part of a family. Because the company was financially successful they were given recognition through incentives and profit sharing, and were given the opportunity to be creative. Other motivational factors which were clearly present in the work environment, included:
    - understanding the broader picture;
    - having a sense of ownership;
    - being an empowered member of a team;
    - having a clear business direction;
    - having worthwhile objectives; and
    - working in a warm and friendly work environment.

Despite major changes such as the introduction of SSSA into the Sasol Corporate environment, revenue at June 2003 had leaped from R1086m to R1300m. EBIT had increased from R165.88m to R187.70m.

6.2.7 SSSA as an entrepreneurial company

There is sufficient evidence to claim that SSSA, during the period 1997 to 2003, achieved a redefinition of itself as an organisation. The question is, how close did SSSA come to match the characteristics typical of an entrepreneurial organisation as part of a larger corporate environment? To answer this question the criteria reviewed in chapter four need to serve as basis for evaluation.

For clarity purposes it would be necessary to revisit the definition of corporate entrepreneurship (Thomson and McNamara, 2001: 671). To them *"…corporate entrepreneurship involves individuals or teams within a firm, led by intrapreneurs, entrepreneurs or corporate champions, who promote entrepreneurial behaviour inside large organisations, pro-actively engaging in risky projects that seek to create new, innovative, administrative procedures, products and services that facilitate organisational renewal and growth".*

6.2.7.1 Strategy (and vision)

At the start of the transformation in SSSA, the new strategy and vision guided the thinking. As the transformation progressed both strategy and vision became more pronounced. The vision eventually became a single sentence: *"The respect and imagination of the world culminate in our people, our products and our service."*

Over a five-year period SSSA changed from marketing products to marketing applications, resulting in a market focused structure, which provided for global business units facing the major clients.

The strong emphasis on a shared vision, strategy and values allowed leadership to successfully create a purpose, a set of principles to guide the change and a common will (Scharmer, 2000; Kuratko & Welsch, 2001; Twomey & Harris, 2000).

The shift from production to marketing was a major change; shifting from the commodity market to the consumer market was a quantum leap. The same could be said for their efforts to apply downward integration into higher value concepts. Their strategy to build people capacity materialised in higher productivity, more staff loyalty and improved results. It has to be concluded that generating entrepreneurship, formed an integral element of the company's strategy – part of a process of continuous strategic renewal (Chakravarthy & Gargiulo, 1998; Covin & Miles, 1999).

These results are particularly imposing if it is taken into account that new strategic initiatives were engaged without capital investment.

6.2.7.2 Structure

The decision to design the company's structure around the value chain was of great significance. It changed the underlying paradigm of employees from a function to the market (Hewson Consulting Group, 2000). A focus on core processes allowed for a structure that was more flexible and adaptable (Echols & Neck, 1998). Core processes represented a stream of value creation as perceived from the point of view of the customer.

Base Wax was designed as a separate business unit that supplied inputs to other value chains. The other value chains were: Paraffin's, Candle Wax (Medium Wax), Hard Wax and New Business Development. Each value chain was a business unit that added value (Entreplexity, 2002). Technical processes, structures, people, hardware and information systems were aligned to the business value chains. Value chains were customer driven and optimised, and staff were empowered through membership of self-managing teams within the business units and took full accountability for their results. Business units were aligned but each one developed it's own unique market driven strategy. Business units and teams were given the required decision-making authority (Pinchot & Pinchot, 1993).

The structure therefore correlates with the typical structural characteristics of the entrepreneurial organisation (Hewson Consulting Group, 2000): a business design, which faces the customer directly, the use of profit centres and managers in direct contact with the market.

6.2.7.3 New products and markets

SSSA never relied on research solely. They entered new markets, fully utilising existing knowledge in the business units and working hard to understand different markets. By understanding the markets and anticipating their reaction, they entered these new markets with relative ease. Examples of such new products and markets are:

- semi-refined wax;
- the production of drilling fluids with improved value applications;
- offering a unique raw material to the cosmetic industry;
- a mosquito net with a slow release repellent;
- various products in the health sector;
- FT exfoliating beads.

By entering the cosmetics and health industry SSSA were *challenging* the existing leaders in that industry (Accenture, 2001). In a similar vein Chinese waxes in Africa and South America were *challenged* .

6.2.7.4 Management processes

SSSA received a mandate from Schümann Sasol AG to introduce new products autonomously (after asking for it). At high risk to themselves they claimed the mandate to appoint key executives at their own discretion. Discretionary powers in regard to the following were also claimed by the SSSA leadership:

- to identify new customer groups (a regional mandate);
- to update existing products (an AG mandate);
- to initiate experimental products (self-claimed);
- to modify product processes (self-claimed).

Risk-taking is regarded as a salient quality of the entrepreneurial organisation (Accenture, 2001; Davis, 1999; Luczkiw, 2002).

Management took high risks with the design of the process (value chain) driven structure, the empowerment of employees at lower levels and the remuneration system. There is also sufficient evidence of high tolerance for risks in markets and with regard to products (e.g new business in health, cosmetics and candles.) They even took the risk of enforcing discipline in the pricing strategy within the candle industry. Technological changes and outsourcing per se involved a certain level of risk on the part of management. Procedures, systems and methods, which existed and were promoted at corporate level, were continuously challenged. Management believed that these control activities fuel bureaucracies – something they wanted to avoid. By applying the principle of doing only the things that added value and which contributed to strategy, they avoided the bureaucratic trap. They found Sasol's remuneration system inadequate and introduced their own system of remuneration and incentives. People development was handled with more freedom and staff were allowed to attend training programmes they thought they needed to improve their performance. Sasol group meetings were often ignored when they were perceived as not adding value.

6.2.7.5 Systems

Information systems were upgraded, customised and adapted to support structures and aid daily decision-making at various levels. Systems were made cost effective. Twelve days after year-end, the system enabled the availability of audited results. End-of-the-month-results could be predicted with 95% accuracy. It was evident that the business had succeeded in implementing control of IT, while delivering value through the use of technology (Woodward, 2001).

6.2.7.6 Human Resources Management

The management of human resources formed an integral part of the company's strategy and acted as a powerful link in shaping behaviour and developing the company's ability to be entrepreneurial (Twomey & Harris, 2000). The HR function played a key role in the development of teams and team leaders. Competencies were assessed and enhanced at every level. Mentorship programmes were successfully introduced and the psychological and personal wellbeing of staff was supported. The company had a powerful training and development policy, and all employees at lower levels met the minimum requirements of the NQF. The training and development budget exceeded 0.05% of revenue. Several internship and learnership agreements were in place and the company was actively involved in the development of entrepreneurs within the Sasolburg community.

6.2.7.7 Culture

SSSA's five core values were understood and the associated behaviours were well entrenched. Other characteristics of the culture included ownership of business results, taking personal accountability, freedom of decision (empowerment) and discipline at all levels. The five core values and these other qualities were effectively managed to support entrepreneurship throughout the company (Kemolgor, 2002).

6.2.7.8 Rewards and remuneration

The company could boast a non-cap incentive scheme, based on EBIT and safety modifiers which reinforced good performance (Chisholm, 1987; Pinchot & Pinchot, 1978). Performance related incentives, measured against EBIT, existed at Management levels, thus decreasing the fixed cost component and increasing the risk component. The soundness of this system was proved by the leaders' decision to discontinue the Sasol share option.

6.2.7.9 Leadership

The MD's leadership clearly promoted entrepreneurship amongst his people. He was willing to sacrifice control over operational details, showed a keen preference to provide resources in stead of giving orders and succeeded in getting people to think differently (Kemolgor, 2002). His leadership style supported the transformation fundamentally, and contributed directly to a change in the qualitative nature of the business.

6.2.7.10 Performance Management

Business performance formed an integral part of performance management. Business scorecards in the business units and whole task groups were linked to strategic deliverables and were evaluated on a monthly basis. Individual performance was measured against business objectives but also made provision for an assessment of a person's competencies and the degree to which he was living up to the company's values. Throughout the principle of self-management was nurtured (Chaston *et al*, 2001).

6.2.7.11 Business results

Business results over the period 1997 to 2003 reflect a quantum leap. Revenue increased from R442.24m in 1997 to R1172.00m in June 2003, and EBIT escalated from R13.09 m in 1997 to R187.70m in June 2003. Despite these impressive results the company succeeded in maintaining an impeccable safety record.

6.2.7.12 Sustainability of change

The MD resigned in June 2003 and was replaced on 1 July. During September 2003 a climate survey was conducted amongst a sample of 266 employees (82% of the permanent staff component). The results upheld the claim that the company had indeed became entrepreneurial and affirmed the sustainability of changes, despite the control and innate bureaucratic attributes of the corporate environment to which the people had been exposed since January 2002.

The survey results are reviewed briefly. A more elaborate analysis is contained in the Case Study (Annexure A).

- **Cultural characteristics**: the company's culture was described as customer focussed, strategy driven, performance driven and values driven.

- **Relationships with leaders and members of other teams**: the relationship with leaders was seen as supportive and inspirational. Members of *other* teams were experienced as supportive.
- **Freedom to influence and change the work environment**: staff felt empowered because they could influence and change their work environment by initiating something new, modifying it or seeking ways to add more value and make decisions.
- **Team spirit**: the team spirit was healthy and nourished by the support people showed one another, mutual respect, open and honest communication and inspiration coming from the leader.
- **Leadership**: Leaders distinguished themselves by demonstrating characteristics such as creating a vision, providing support, giving direction and showing a willingness to take responsibility.
- **The MD**: in the survey a picture emerged of a typical entrepreneurial leader, with most outstanding characteristics:
  - his inspirational style;
  - a visionary;
  - entrepreneurial and business sense;
  - his commitment to values in business.
- **The work environment:** staff saw the most outstanding characteristics of their work environment as:
  - being an empowered member of a team;
  - having a sense of ownership;
  - being treated with respect;
  - being part of a warm and friendly environment.
- **Perceptions with regard to diversity:** diversity was viewed very positively, with the uniqueness of each employee respected, and all employees perceiving diversity as an important success enabler.

Judging from these results there appears to be sufficient evidence to conclude that the entrepreneurial character was properly established and could be sustained, despite other forces imposed upon the company**.** A new paradigm had indeed been successfully created (Gharajedaghi, 1999; Van Tonder, 2004).

These results stand in stark contrast to results of a recent survey (Beeld, 2005), which showed that only 7% of South African employees are emotionally committed to their companies. This figure is lower than for countries like the USA (30%), Canada (24%), Chilli (25%), Great Britain (17%), Germany (16%) and Japan (9%). In the same study it was revealed that 73% of all employees in South Africa were neutral toward their employers, with 20% taking a negative stance.

6.3 Key success factors in the transformation process

Judging by whatever means, there can be little doubt that SSSA became a very successful company in the Sasol Wax International stable. Financial objectives were achieved and it harboured an empowered workforce who felt proud to be associated with the company and who experienced an extraordinary sense of meaning. The company controlled only 30% of Sasol Wax International's assets, utilised only 28% of the Group's manpower, but contributed almost 80% to the Group's profits. Over a five-year period many strategic objectives were achieved and the 15% EBIT, set in November 1997, was attained six months earlier than planned.

It would be fair to conclude that the company succeeded in regenerating itself (Scharmer, 2000; Hamel & Välikangas, 2003), and qualified for all four forms of entrepreneurship (Covin & Miles, 1999): sustained generation, organisation rejuvenation, strategic renewal and domain redefinition.

Changing a faltering company into a high performance entrepreneurial unit over a period of less than five years does not come easily. For such a transformation to succeed, the process involved must be effective. The question that remains is, what were the key success factors, which made this particular transformation so successful?

In an attempt to identify these factors one should however keep in mind that they may be unique to this particular case. All transformations do not originate from a crisis precipitated by a merger, involving two distinct national cultures. Neither do transformations regularly allow for a period where a consultant – project team alliance champion the change process for a period. It is also doubtful whether an entrepreneurial unit is always the outcome of a strategy to innovate; an entrepreneurial structure and climate is not necessarily the best option for all organisations.

To therefore elevate such factors to the status of general principles for managing transformation would be presumptuous. Yet, these factors may support the quest for generic principles for dealing with change, as described in similar studies.

What follows is therefore an attempt to isolate the key success factors for this particular case.

6.3.1 The transformation was strategy driven

Change in this case originated from strategy and was driven by strategy over the whole period (Price, 1996). An entrepreneurial company did not feature in the original strategic plan, but surfaced in the process of finding the most appropriate vehicle (structure) to meet the strategy. As strategy evolved and became more defined, the new MD with his propensity for an entrepreneurial leadership style, acted as the catalyst. Through a continuous emphasis on the vision and strategy, the transformation stayed focussed on the future, understanding and commitment was created and enthusiasm was fuelled. People at all levels were guided to understand and accept the strategy. In so doing a realistic and informed picture was embedded (Cummings & Worley, 2001; Kotter, 1996; Nanus, 1992; Beckhard & Harris, 1977; Kanter, 1983). Each employee in the company associated himself with strategy because he saw a potential benefit for himself in the deployment of strategy. Strategy became pervasive and contributed to a fundamental redefinition of the company to become more competitive (Porter, 1996; Hamel & Välikangas, 2003).

Strategy also directly determined the choice of structure and influenced the principles upon which the new design was founded. Strategic thinking impacted on other important business decisions, such as the choice of systems and their capabilities. This mode of thinking ensured that IT systems not only reinforced the structure, but could be deployed in a way to demonstrate it's benefits to the business (Price, 1996) and to the transformation per se (NOIE, 2003).

6.3.2 The transformation was primarily a people process

A transformation involves all the organisational features such as processes, structures, systems, technology, culture, policies, rewards and incentives. But people are central and give definition to all these features (Weber & Weber, 2001). Much effort therefore went into managing people's perceptions, thinking, feelings, attitudes and values in an effort to prepare them for change and align behaviour with structural and systemic changes.

6.3.3 Change was a plan-do-review process

The business environment is riddled with unpredictable events. Internally to an organisation, multiple variables are involved, often impacting on one another, resulting in volatility and instability not planned for. This complexity and changeability common to a transformation, makes a predetermined, step-by-step approach to change, a high risk. For these very reasons the SSSA transformation although strategy driven, adopted an OD approach in the process of planned change through a plan-do-review cycle. This resulted in plans being flexible and often revised as new information was gathered. OD is in essence an adaptive approach, an interactive cycle of research and action allowing for learning to take place continuously, as the process of change evolves (Weisbord, 1987; Cummings & Worley, 2001).

6.3.4 Appropriate leadership

Leadership is required to champion a transformation (Cummings & Worley, 2001; Kotter, 1996). Leadership could originate with a strong project team – consultant alliance, especially in the early phases – as was demonstrated in this case.

Successful implementation of change however, is hardly possible without the full commitment of a company's leadership.

In the SSSA case the new MD entered the transformation at the critical stage of implementation and took full accountability for the change process. In this role he modelled the behaviour needed and demonstrated the three essential roles required for championing such a transformation: **envisioning, energising** and **enabling** (Cummings & Worley, 2001). He also effectively displayed the magical combination of credibility and capability (Ulrich in Drucker, 1996).

Finally, his leadership exhibited all the characteristics of the entrepreneurial leader (Kuratko & Welsch, 2001):

- ability to communicate;
- ability to motivate;'
- vision;
- creativity; and
- risk taking.

6.3.5 Aligning people with changes in processes, structures and systems

In Chapter 5 the researcher expressed a concern that change in South Africa is often limited to change in structure. But even in cases where change is driven by serious attempts to reconceptualise the very being of the organisation to find new direction and to redesign structure, not enough is being done to prepare and align people for the new direction and structure. A new structure involves new roles, relationships and competencies. Unless employees are properly orientated to give the required definition to the new structure, they easily revert to established and outdated behaviour. The result is incongruence between intention and reality.

In the case of SSSA, the alignment of people with the new structure must be regarded as an undisputed success factor. The alignment process effectively consolidated the intended changes.

Alignment started with the vision, which drew people's attention to the value chain and the prominent place of markets and customers. The use of focus groups during the analysis of the value chain and for the redesigning of the structure ensured a thorough understanding of the core processes, and the principles underlying the new design, by a significant number of people. This direct involvement of people was supported by multiple efforts to communicate essentials of the new structure: process versus function, fewer levels, autonomous business units facing the markets, self managing teams, whole jobs and empowerment at every level.

Orientation and training started immediately after new leaders were appointed. This was followed by the selection of team members, the constructing of teams around whole jobs and the involvement of team members in the design of their own whole jobs. People knew exactly what was expected of them and how they would fit into the new structure. Any form of resistance was quickly identified and addressed. To equip people for their new roles, competencies were identified. Every effort was made to establish and enhance these competencies through training and other opportunities for learning. Through innovations such as the war Room the principle of empowerment became rooted down to the lowest level.

The behaviour required for the functioning of the new structure was effectively reinforced through the Performance Navigation Process, the entrenchment of values, the incentive scheme and a multitude of development opportunities.

Critical to the implementation of the new structure and the alignment of the people was management's ability to keep the new process-driven structure pure, and to maintain it's integrity by not deviating from the design principles. So sound were these principles that they could be used by the new MD to point out inconsistencies in the design, which led to a further refinement of the structure. Later changes only enhanced the original concept, resulting in the structure maintaining it's integrity throughout.

6.3.6 Organisational learning

A perusal of the alignment process, as discussed in 6.3.5 clearly shows the key role of learning in the preparation of people for change. Further enquiry reveals that learning was really at the heart of the transformation, taking on many forms and involving elements of both unlearning and learning. Learning was first mandated by management with the acceptance of a strategic goal, to **build a knowledge and competence base in support of strategy**. Learning was formally recognised as an enabler during the period when the new MD championed the transformation.

Learning featured prominently in the training of the project team for their role in the transformation. Learning formed the core of the plan-do-review cycle and manifested in single loop (improving) and double loop (insight) as well as triple loop (new principles) learning (Zwieringa & Wierdsma, 1992). Learning at organisational level constantly repeated a cyclical process of doing, reflecting, thinking and deciding (Kolb, 1984). When the consultant and the project team championed the change, the cyclical process dealt with the transformation; when the MD championed the transformation, the cyclical process was more about creating the entrepreneurial organisation. Learning by doing was supplemented by formal learning events. Members of management and focus groups received training to equip them for their respective roles. It took the form of coaching sessions, a simulation, workshops and formal training programmes.

The new MD was a strong supporter of learning and allowed himself to become personally involved in the coaching of his team members. Formal meetings became interactive learning events and feedback from clients and the market was innovatively used to help people learn about the impact of their own decisions on results. The Performance Navigation Process relied heavily on certain principles of learning. In the final phases of the transformation training expenses amounted to 0.05% of turnover per annum. A scrutiny of the role learning played from beginning to end reveals a marked resemblance with the learning organisation as defined by Senge (1990) and higher order learning as portrayed by Harrison (1992).

6.3.7 Entrenching the values

Values are often viewed an unavoidable step in the strategic planning process but are seldomly embedded sufficiently to significantly impact on the behaviour and eventually the culture of an organisation. At the start of the transformation SSSA drafted five core values as part of strategy, and entrenched them over a five-year period until they became non-negotiable tenets (Collins & Porras, 1996; Kotter, 1996).

Success cannot only be defined in terms of the entrenchment of values; success must also be defined in terms of the appropriateness of the values for the execution of strategy. In this regard it must be conceded that the choice of the values was indeed apt. This successful fit proves the logic not to decide on values in an arbitrary way or to be influenced by the "*flavour of the month*". The better logic is to apply the procedure followed by SSSA: select the values from the vision, because a well drafted vision usually reflects the common wish of the group involved and projects certain common values.

Because of the appropriateness of the SSSA values they remained unchanged and could generate the desired behaviour. The result was that the structure as well as the entrepreneurial climate created by the MD, greatly benefited from values such as **openness, honesty and integrity, creativity and individual ability, fair and equal treatment, pride** and **perseverance.**

6.3.8 Sharing ownership and risk

Ownership of a transformation and sharing of the risk are not mutually exclusive. If ownership and risk are shared widely the likelihood of resistance to change is reduced, and obstacles to change are normally dealt with boldly and innovatively.

In SSSA these two factors, whether seen as separate or in combination, directly contributed to the success of the transformation and to the establishment of a risk-taking climate, so essential for an entrepreneurial company.

Ownership was stimulated and nurtured through regular communication (particularly two-way communication), the appointment of a project team and the use of focus groups. Ownership was also promoted through the whole job-concept and by allowing leaders of business units and whole task groups to accept full accountability for results. The level at which empowerment was practised invariably involved high risk, not only at individual level, but also collectively to the company. This was further reinforced by the MD's incentive scheme, which offered managers the opportunity to place a certain percentage of their monthly salary on risk. As a result obstacles were approached as challenges and managers became more willing to risk empowering their people.

6.3.9 Sustaining high energy levels

Energy plays a key role at the start of and throughout a transformation (Carnall, 1995). Energy levels need to be sustained to overcome a myriad of obstacles in an innovative way.

A change is often triggered by emotions such as anger, frustration, anxiety and fear. This generates negative energy but is not the kind of energy required to change from one state to another. The challenge is to turn the negative energy into positive energy.

The SSSA case was characterised by an abundance of negative energy before and during the crisis. This got the transformation started, but soon proved to be an obstacle to change, because of cynicism, doubt and distrust. The transformation succeeded in neutralising the negative energy and replacing it with positive energy. This was achieved by reinforcing the vision, **regular and well planned communication**, being sensitive to people's feelings, involvement of employees in focus groups, maintaining good relations with other leaders, involving a significant number of people in the simulation and giving continuous feedback on progress.

6.3.10 Managing the consultant

Contracting the services of external consultants for organisational change could have major advantages because of their exposure to other organisations and their ability to interpret and understand the processes objectively. For various reasons internal staff could easily become biased. Consultants, however, could also develop prejudices and vested interests when granted too much power.

A final success factor in SSSA's transformation can be ascribed to the way in which the external consultant's services were managed and optimised. In this regard several roles are distinguishable:

- **The process role**. This role was particularly useful at the start when the very tense atmosphere between the SSSA management team and the members of the Board had to be defused. Thereafter process consulting skills were regularly used to facilitate strategy sessions and the plan-do-review cycles, to intervene at management level and to address resistance.

- **The educator role**. This role first emerged when the project team was equipped for their task, but featured regularly because of the strong emphasis on learning, whether formal or informal.
- **The expert role**. During the initial period when the consultant – project team alliance championed the change process, the project leader and his team relied on the consultant for guidance in the analysis of the value chain, the redesigning of structures, the entrenchment of values and the preparation of people for the new structure.
- **The supporter role**. The role of the consultant was radically changed when the new MD decided to take full accountability for the change process and personally became the champion. In retrospect this decision came at the right time. It enabled the MD to build on the sound foundation that had been laid, and allowed the consultant to play a less direct role by providing his support to the HR Manager when required, during the rest of the period.

Success must also be attributed to the professional way in which the project team – consultant alliance migrated from one phase to another and the proficiency in which they re-contracted their roles and responsibilities as the project evolved. In a similar vein the MD must be credited for the speed and vivacity in which he transferred power from the project team–consultant alliance to himself, in order to personally champion the transformation.

6.3.11 To conclude

None of these success factors should be seen as unique. The uniqueness probably lies in their combination, thereby creating a synthesis allowing each factor to support other factors. This however, is not the full answer: the uniqueness must also be seen in the diligence, thoroughness and professional manner in which these factors were managed.

Chapter 7

APPLICATION

7 INTRODUCTION

In the explanation of the research methodology used for this dissertation (Chapter 2) the researcher expanded on the limitations when making generalisations in qualitative research. It was acknowledged that any attempt to generalise should rather be viewed as a working hypothesis than a conclusion. Hence a preference for substituting terms such as transferability and fittingness, where the degree of transferability becomes a direct function of the similarity the two contexts. (Cronbach, 1975; Lincoln & Guba, 1985; Patton, 2002; Hartley, 2004). The researcher also recognises that transferability cannot be specified; only sufficient information can be provided to serve as modest speculations or extrapolations about the likely applicability of findings to other situations under similar, but not identical conditions (Patton, 2002).

To facilitate transferability, speculations will be limited to the South African business context, as experienced by the researcher as management consultant and restricted to the concept of organisational transformation, as defined in this dissertation, rather than organisational change, which is used as the all encompassing term in the industry.

The final section of the chapter will centre on a discussion of findings in an effort to assist managers and consultants in finding a possible application in organisations engaged in or contemplating similar transformations.

7.1 Characteristics of an organisational transformation

An organisational transformation is distinguishable from change management on a project or other forms of change in organisations, as discussed in chapter 5. In summary organisational transformations are characterised by the following features, (Blumenthal & Haspeslagh, 1994; Cummings & Worley, 2001;

Gharajedaghi, 1985; Meijer, Tsui & Hinings, 1993; Miller & Friesen, 1984; Sackmann, 1989; Tuschman, Newman & Romanelli, 1986; Waldersee, 1997):

- Transformational change occurs in response to several kinds of disruptions, such as industry discontinuities, product life cycle shifts and internal company dynamics. The disruption must be strong enough to put the organisation in a state of shock, otherwise management will hardly consider engaging in a transformation.
- An organisational transformation is often associated with a transition from a control based to a commitment based organisation, with features such as leaner, more flexible structures, information and decision-making pushed down to lower levels, decentralised teams and business units taking accountability for specific products, services and customers. The outcome is the emergence of numerous new organisational forms, distinguishable by bottom-up entrepreneurships.
- A transformation fundamentally alters an organisation's assumptions about it's functioning and how it relates to the environment. Significant shifts occur in corporate philosophy and values and in the multiple structures and organisational arrangements that shape people's behaviour. It alters the way members perceive, think and behave at work.
- Interventions revolve around culture change, self-design, organisational learning and knowledge management. Attention is centred on the people side, but change of features usually occur in a coordinated fashion so that interventions support one another. A key factor is the active role of senior executives and line management in all phases.

Essentially, organisational transformation is a change in the basic characteristics of structure, process, function and people, in such a way that it cannot return to the earlier form. It changes the very being of an organisation and involves an active process of generating and disseminating of knowledge, a process of learning and adoption and finally, the discovery of a new dimension with all its implications and finality.

If these features of organisational transformation are matched with the change attempts in South African organisations, whether public or private (as discussed in chapter 5) one conclusion can be drawn: very few if any, engage in transformational change, as described above.

The problem probably starts with the term transformation. In South Africa the term could mean different things to different people. McNamara (1998) observes that constituencies such as the public sector, organised labour and the business sector each have developed it's own unique view of transformation and that these specific views have remained entrenched, despite frequent contact. The result is diverse perceptions, interpretations and particularly expectations when the term is communicated.

A common phenomenon, which stands in stark contrast with transformational change, is the reactive way in which change is managed. Organisations tend to react to market forces, government legislation and industry changes. Reactive responses are seldomly strategy linked or driven as a process aimed at creating an entrenched competence and resilience to address a changing business environment. Instead, initiatives centre on short-term measures such as across the board cost-reductions, the closing of plants, the outsourcing of critical services and the retrenchment of staff. These short-term measures not only generate short term results but discredit change initiatives from the outset. Transformational change *fundamentally* alters an organisation's assumptions about it's functioning and how it relates to the environment.

Change is still decidedly associated with structural change, but these changes are not properly aligned with strategy; people who have to man the new structures are ignored or they receive only marginal attention. Employees are not aligned or prepared to ensure that the structure functions as intended. Despite tedious efforts to map business processes and generate more flexible designs, structures remain essentially hierarchical and functional. Power cultures, established over decades are just too strong, and despite good intentions to share power, accountability and decision-making remain centralised. Transformational change is strategy driven, is associated with more flexible structures and takes into account the people who have to give definition to the new organisational form.

Planned change is the subject of many books and articles and executives seldom neglect making reference to its significance in staying competitive. Yet, it seems as if planned change is a fallacy. It lacks serious thinking, proper conceptualisation and is characterised by poor front-end loading (to use project management terminology). This problem is exacerbated by a content focus, while the change process itself, which affects people cognitively , emotionally and existentially, is heavily underplayed. The result is that timelines are unrealistic, resources are inadequate and initial positive expectations are soon replaced by scepticism and doubt. In contrast real transformational change is in essence a planned process, driven by a well tested set of principles.

The philosophical undertones of most planned change efforts appear to be of a rational-logical nature. Because change makes sense to Senior Management, lower levels have to accept the logic and comply. Sometimes they do agree to try and obtain *"buy in",* but such efforts are often nothing more than formal presentations by a senior manager and an apparent openness to questions and ideas. However, these concerns and ideas are seldomly afforded the necessary attention.

Sometimes the philosophy verges on coercion and manipulation. Through various benefits employees are exploited to accept changes while frustration, uncertainty, alienation, disempowerment, fear and other negative feelings prevail. The consequence of this is demotivation, exhaustion and burn-out. In spite of these negative consequences it appears as if organisations just cannot mobilise sufficient time, energy and other resources to use a collaborative re-educational approach – the approach most suitable for changing people's perceptions, thinking and behaviour, and a sine qua non in transformational change.

Finally, organisational transformations should be characterised by the active uninvolvement of senior executives and line management. It appears however as if change efforts lack leaders who can champion the change and provide direction and credibility. The reasons for this failure could be manifold. It is the researcher's opinion that much of the variance can be attributed to the following:

- a reluctance to change their thinking about business – their assumptions and paradigms about business and the critical factors in business success;
- a fear of failure, coupled with an unwillingness to take risks in entrusting accountability to subordinates; and
- a hesitance to engage in change openly and boldly – and take personal accountability for the final outcome.

7.2 Searching for application

This research has generated interesting findings that could be of value when engaging in an organisational transformation. The researcher takes the liberty to rephrase some of these findings as extrapolations in an effort to find resonance in current or future transformations, acknowledging the fact that differences exist between this particular case and other organisations.

7.2.1 Pain and discomfort as a driver of transformations

Although transformations can occur in response to external changes, internal factors such as frustration, dissatisfaction, disappointment and even aggression can create a state of crisis that will oblige management to engage in a transformation. The crisis creates the necessary energy, albeit negative energy, for a bold decision to be made A tangible crisis can be helpful in creating an awareness that things have to urgently change. The problem with a crisis however is negative energy, which could drain the company of scarce resources. Negative energy should therefore be replaced by positive energy which can, for example, be generated by a challenging, compelling vision.

7.2.2 Transformations are driven by strategy

When the goal is behavioural change, coercion and manipulation are less effective. Employees ignore what is requested, become cynical and actively sabotage the change efforts.

Neither will a set of survey results or an extended diagnosis generate sufficient energy to break out of the status quo.

To encourage the dramatic shifts found in successful transformations, there must be a clear strategy, expressed in specific terms, championed by the leader and owned by employees at every level.

Strategy includes the vision, mission, strategic priorities, objectives (strategies and plans) and values. A vision is an imaginable picture of the future; a mission is the organisation's reason for being; the choice of strategic priorities and objectives provide the logic and the detail to explain how the vision can be accomplished. Values are key in establishing a new culture, with new norms of behaviour to support the changes in strategy. Together these elements clarify the general direction of change, motivate employees to take action in the direction as portrayed by the vision and co-ordinate the different actions involved in a transformation. For these reasons these elements have to be connected and reinforced by leadership relentlessly.

To be successful the vision must be shared by everyone; every employee must have a common picture of what the organisation will be in the future and the possibilities it holds for him. Strategy must become an integral part of every person's job in the sense that he understands where he fits into strategy and how his decisions and results affect the attainment of strategic goals, as well as it's impact on the performance of the company.

7.2.3 Involvement of significant numbers

This research has indicated that transformational change can be enhanced through the involvement of significant numbers of employees in one way or another. These employees may include managers, supervisors and informal leaders. Activities are aimed at gaining understanding and acceptance to motivate a critical mass for change. Individual and collective learning is implied. These activities are particularly important during the early phases of a transformation.

Activities can take the form of regular communication, directed at specific stakeholder groups, relying on two-way communication to share information about how the changes can benefit them. The success of communication is also dependent on an understanding of stakeholder needs and the ability to influence.

Other activities to gain acceptance and a readiness to engage in change seem to be more powerful. These include the involvement of employees in focus groups to engage in the analysis of processes and the design of new structures. Focus group members can also be involved in programmes to entrench values, which could entail surveying value driven behaviour, designing special programmes to embed values and providing feedback to management on progress being made.

An effective way of involving and orientating stakeholders is through simulations. Simulations are particularly powerful because of the experiential nature of the learning. A simulation can be used to challenge existing paradigms about business, leadership, clients, structures and the behaviour of people. Because employees are involved cognitively and emotionally, they quickly develop a grasp of new concepts such as value chains, a client driven structures and self-managed teams and how such factors can influence business results. Learning through a simulation is so intense that participants are confronted with their own assumptions, values and attitudes. The outcome is frequently an adjustment of mindsets and a modification of attitudes. These changes in people are particularly beneficial at the start of the implementation phase.

Finally, it seems as if the circle of influence can be extended to include families, especially the spouses of stakeholders. By involving them they feel respected, share the company's vision, understand the changes and are challenged to apply business and other principles to their family lives.

7.2.4 Change and consolidate structure

Structures can be seen as an obstacle to transformational change. Strategy implementation can be restrained by structures which fragment resources, encourage working in silos, lack customer focus and favour centralised decision-making. Structures therefore have to be redesigned when engaging in transformational change. A structure needs to be seen as a vehicle for strategy and a framework for unlocking the talent of people.

A structure can become a vehicle for strategy and an enabler when the thinking originates in strategy formulation and clear guidelines for the structure emerge from such deliberations. This does not imply that the decision-making process prescribes a specific type of structure, e.g. functional, matrix or process driven. Neither can management decide on an entrepreneurial structure in an ad hoc fashion. Certain organisations, for example refineries and mines definitely do not fit the entrepreneurial model. However, *guidelines* for structural redesign can be useful, especially when they provide clear focus, such as a *direct customer focus*, a *reduction in levels to speed up communication*, *accountability at all levels* and *unlocking the innovative ability of people*. With such guidelines it is possible to analyse business processes and re-engineer or redesign structures.

This study has shown that the degree to which a structure becomes entrepreneurial, is largely a function of the leader. A flexible, customer focussed structure, which is designed to devolve decision-making, can only become truly entrepreneurial if the leader as person matches the characteristics of an entrepreneur.

Critical to redesign is the principle of self-design, i.e. involving employees at all levels in the analysis of the business processes and designing a new structure, based on certain principles. This approach has several advantages: existing knowledge of key processes is utilised, a significant number of people understand the thinking behind the redesign and ownership for the new structure is shared. This enhances the implementation of the new design, especially if those involved in redesign are appointed in key positions (e.g. team leaders), in the new structure.

Such measures are appropriate, but not sufficient. Redesigning structures invariable also involves new roles, new relationships, new competencies and a new work environment. People therefore have to match the new structures. This can be done by:

- orientating all the employees who have to fit into the new structure with regard to the design principles;
- building teams around whole jobs so that they can manage themselves by planning-doing- and reviewing their own efforts and take accountability;
- extending the principle of accountability to individuals through the design of jobs within teams;
- developing new competencies where required, to enhance team performance;
- designing systems and policies to ensure that information is available where required and decisions can be made; and
- preparing leaders at executive, business-unit and team levels for their new leadership roles.

The word empowerment is becoming increasingly popular, even the political "correct" word to use when working with change. Despite the overuse and the different interpretations, the idea of helping people to become more powerful is an important part of a transformation. It is essential to the unlocking of human talent.

As much as the people who man redesigned structures must be trained and coached to function in their new job, very little will change if these people feel powerless.

People can be empowered through design; people can be empowered by learning the required competencies; and people can be empowered by systems and policies which ensure access to information and guide decision making. The barrier, which remains, is the manager or supervisor who shows a resistance to empower his people. There could be more than one reason for this phenomenon, but the main ones appear to be:

- the risk of failure and the possibility of losing face;
- the discomfort in handing over control;
- a distrust of subordinates.

The reluctance to empower is often rationalised by referring to subordinate's incompetence, their unwillingness to take responsibility and their low motivation. Yet, in reality, few managers become personally involved in their subordinates development or are willing to test their assumptions honestly. By applying this mindset they invariably stay involved in unnecessary detail and neglect to engage in leadership behaviour that will create productive and fulfilling employees. This research has shown that for empowerment to be successful the manager has to become personally involved in employees as people, be willing to guide and coach them relentlessly, and take responsibility for their growth.

The research also provided several pointers for sustaining new behaviour in a redesigned structure. These can be summarised as follows:

- Apply the principles of continuous learning and make it part of the plan-do-review process, inherent to performing whole jobs.
- Help people to understand the big picture of the business and their own roles in making the company successful.
- Ensure a sound grasp of business principles, help them to internalise these principles and provide them with regular feedback to evaluate the soundness of their own decisions and to learn from mistakes made.
- Make competency profiles part of performance management and encourage people to rectify deficiencies in their own profiles.
- Reward people for what they contribute so that they can establish a link between their own efforts, their level of risk, their level of competence and the reward they receive.
- Anchor the new behaviour in a culture that is driven by an appropriate set of norms and values.

Finally, it would be fair to conclude that the process driven structure and accompanying behaviours established in this case, could form the basis for sound governance. Governance is dependent on principles such as accountability, strong leadership and discipline, but also imply adherence to values such as openness, integrity and trust.

7.2.5 The role of leadership

This study confirmed the key role of leadership – not management – in a transformation. It highlighted the impact of a leader with a vision, who is willing to empower his people and prepared to take personal accountability for change.

A statement was made in Chapter 5 to the effect that too many change efforts in South Africa are driven by consultants, without management being fully involved or committed. It must be granted that consultants guarantee a certain level of objectivity; they also bring useful experience, gained through their work in other client systems. Consultants can play a particularly helpful role in diagnosing situations, planning the change process, assessing progress, providing feedback to leaders and handling certain interventions.

Consultants also have their limitations when transformational change is at stake, and cannot replace leadership. Consultants do not control resources, neither can they reward people for extra efforts. Even if they are handed sufficient resources to take the initiative in change, they don't possess the positional power or the credibility to create the momentum necessary for implementation, institutionalisation and, eventually, internalisation of change.

Leadership is key at every level, but particularly so at the top. At executive level the leader is enthusiastically followed when he passionately communicates a sensible, appealing picture of the future and can articulate strategy in such a way that people understand the logic of how the vision can be actualised. Credibility is enhanced by his willingness to spend a significant amount of time with his people, especially leaders at other levels. By helping them to understand the changes that need to be made, and coaching and guiding them until they are confident and competent, he enables them to take accountability, make decisions and accept the appropriate risk levels.

The Leader during a transformation, appeals to the higher level of morality, ethics and values and, in so doing, elevates himself and others from their everyday selves to their 'better selves'. When mastered well the leader models a style of leadership which others wish to emulate. It bolsters other's self-esteem and communicates high expectations about the company's performance, while expressing confidence in himself and others. It is a style which arouses motivation for challenging tasks, risk taking and personal responsibility, and emphasizes loyalty, being the best and overcoming obstacles.

The successful leader is able to strike a healthy balance between positional and personal power. He uses his positional power appropriately to get the necessary effect (eg. Reducing numbers, changing the status of secretaries or demanding computer literacy from every one). However. he can also use his personal power (ie. the ability to influence) to gain understanding, obtain commitment and create excitement, when required. In his interaction with others he lends credibility to the company's values by modelling the behaviour that support these values.

The research has accentuated the need to match the leader with the organisation. It seems as if the leadership style needs to correlate with the requirements of the structure. A typical bureaucrat will not blend with a flexible, flat structure which encourages risk taking and empowers people down to the lowest level. Neither will an entrepreneurial leader successfully lead a typical hierarchy, where it is more important to maintain consistency, reduce risk, apply standardised practices and maintain safety. The research has demonstrated that, if handed the basic structural ingredients, the appropriate strategy and a set of supporting values, the leader with the suitable leadership style will give the final definition to the way in which the organisation will function.

7.2.6 The strategic role of the Human Resources function

This research also confirmed the importance of people when engaging in a transformation. Peoples perceptions, thoughts and feelings determine their energy levels and their commitment to change; peoples ability to understand and adopt new practices are dependent on the success of individual and collective learning. There can therefore be no doubt that the Human Resources function is essential in understanding, predicting and influencing behaviour during transformational change.

The Human Resources function can add most value when utilised at strategic level. This offers the function the opportunity to apply OD practices such as Action Research, thereby engaging the total system and facilitating a co-learner process.

The Human Resources function can also be a powerful link in shaping behaviour and developing a company's ability to be entrepreneurial. Through training and development individual competencies can be enhanced so that employees can fit well into the new business. Teams can be appointed and developed around business units and autonomous tasks. A performance management system can be designed to improve performance and entrench new behaviour. Human Resources can also play a key role in designing and applying incentive schemes that reward entrepreneurial behaviour.

In the presence of a strong leader who is willing to take the initiative for change, the role of the Human Resources function is vital. It is the Human Resources Manager who can act as a sounding board for the leader, but who can also maintain contact with employees, identify signs of resistance, facilitate conflicts and provide support to individuals and teams. In the process of responding to these needs, he has to mobilise the services of external consultants and manage them effectively so that they can supplement his own actions.

Most important is the credibility of the person in the HR Manager's role. It seems as if a sensitivity for peoples' needs, an ability to deal with feelings, a willingness to engage in a professional relationship with employees at all levels and the courage to confront the leader personally, are the contributing factors.

7.2.7 Managing the process

A significant contribution of this research is the learnings derived from the transformation process per se. It has given more clarity to the time dimension, the nature of planning, and what constitutes a foundation to build on.

The time dimension is notable. It seems as if more rather than less time is required. It takes time for people to get used to a new idea; it takes time to understand an idea and the changes involved; it takes time to accept the changes; it also takes time to introduce it and for people to adopt the change; it takes time for the changes to become a practice and be institutionalised; it requires even more time for change to be internalised. Along this route many things can go wrong which may result in negative perceptions, disengagement and resistance. Hence the importance of proceeding carefully and thoroughly from one phase to another.

The research has underlined the need for broad planning phases, such as strategy development, creating a readiness for change, the redesigning of structures and implementation. However, within each of the broad phases, flexibility is required. A system is never really understood until someone wants to change it. New variables surface regularly and interact with each other in unique ways. In this regard the plan–do–review cycle, which was applied regularly, first by the project team–consultant alliance and later also by the leader, has proved to be extremely beneficial. It contributes to continuous learning and improved understanding. It brings about a better anticipation of the change process and promotes flexibility in regard to interventions. Through this cycle focus can be maintained and energy levels can be sustained.

7.2.8 On becoming an entrepreneurial unit in a corporate environment

The research has indicated that to become an entrepreneurial unit in a corporate environment, a company has to meet the following requirements:

- a business strategy that defines the future and demands more direct contact with the client, supported by business characteristics such as innovation, accountability at all levels and sufficient information to be able to decide and to act quickly;
- an organisational structure which allows for clients to be accessed directly, short communication channels, small business units and self-managing teams who take accountability for their outputs and face clients directly;

- support systems, particularly information systems and policies;
- people aligned with strategy, who understand the strategy and are equipped with the competencies to perform within the new structure;
- an entrepreneurial climate supporting risk-taking, trust, recognition and support;
- an incentive scheme which rewards entrepreneurial behaviour.

Finally, what constitutes a quantum leap from a traditional, functional organisation to an entrepreneurial unit in a corporate environment? To this question the Schümann-Sasol case provided an unequivocal answer. When the transformation was initiated in 1997, the newly formed merger was experiencing the pains of a crisis, brought about by factors such as cultural differences, a weakening competitive position, internal organisational problems and a disappointing decline in performance. Over the next five and a half years, profits increased by an astonishing 1434%. The company also harboured an empowered and loyal workforce, who felt proud of their association with the company. By 2003 the company controlled only 30% of Sasol Wax International's assets, utilised only 28% of the Group's manpower, but contributed almost 80% to the Group's profits.

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Erkennings en bedankings

‘n Studie soos hierdie is sekerlik nie iets unieks nie. Vir my egter, wat in die laatmiddag van my loopbaan staan, is dit ‘n hoogtepunt en ‘n blyk van groot genade. Dit het vir my ‘n geheel ander betekenis vandag, as wat dit vroeër sou gehad het.

Eie aan my aard was ek aan die begin van hierdie studie geneig om dit as net nog ‘n uitdaging te sien. Namate ek myself gedurende die afgelope drie jaar hierin verdiep het, het daar groter begrip vir my eie behoeftes en motiewe gekom. Op hierdie alleenpad is ek ook telkemale gekonfrontreer met die vraag: W*aarom doen ek dit*?

Nou weet ek dat die hele proses betekenisvol was omdat:

- die werk waarmee ek die afgelope dertig jaar intens besig was, tot akademiese status verhef kan word en so my werk as bestuurskonsultant aan ‘n finale toets kan onderwerp;

- ‘n stel uitsonderlike resultate op die terrein van transformasie en sakebestuur in die kollig geplaas kan word, veral m.b.t. die sleutelrol wat mense in organisasies speel en die verskil wat hulle aan die prestasie van ‘n onderneming kan maak;

- ‘n professionele bydrae gemaak kan word tot onder andere die terreine van Organisasie-ontwikkeling, Bestuurskonsultasie, Bedryfsielkunde en Menslike Hulpbronbestuur.

In hierdie studie maak ek gebruik van die kwalitatiewe navorsingsbenadering. Robert Stake (1995) sê hieroor dat ervaring die belangrikste vereiste vir ‘n studie van hierdie aard is. Ek vereenselwig myself heelhartig met hierdie stelling, veral verwysende na sy opmerking oor die wese van ervaring: *“...one of knowing what leads to significant understanding, recognising good sources of data, and consciously and unconsciously testing out of the veracity of their eyes and the robustness of their interpretations”.*

Na al die jare in die konsultasiebedryf plaas ek my, in alle beskeidenheid, in die kategorie van *ervare bestuurskonsultante*. Ervaring word oor ‘n lang periode opgebou – daar is nie kortpaaie nie. Dit is die resultaat van harde werk, die bereidwilligheid om risiko’s te loop en die vermoë om te kan leer uit sowel suksesse as mislukkings.

Die leerproses by die volwassene is in die eerste plek interaktief. Dwarsdeur my loopbaan het talle mense my pad gekruis by wie ek, deur die wisselwerking met hulle, deurlopend kon leer. Wat 'n verrykende proses! Dit het my in staat gestel om my vakgebied te bedink, te ondersoek en met tye te bevraagteken; dit het daartoe gelei dat ek my aannames en motiewe moes aanpas, praktyke moes verfyn en waardes moes bepeins. Dit was 'n proses van *transformasie*, maar in hierdie geval 'n persoonlike een wat my oor tyd heen gehelp het om kwalitatief anders waar te neem, anders te dink en anders op te tree.

Dit het begin met my aanstelling as Sielkundige by die destydse Suid-Afrikaanse Geneeskundige Diens (deel van die destydse SAW). Die uitdaging was om aan 'n nuwe terrein, bekend as die Militêre Sielkunde, beslag te gee. My belangstelling in hierdie veld en vir die Sielkunde in sy breë is gestimuleer deur die insig en entoesiasme van die eerste bevelvoerder, Dr (Brigadier) George Wassenaar. As pioniers op hierdie terrein in Suid Afrika, het ons ywerig gesoek na die toepassing van die Sielkunde en die Bedryfsielkunde binne die militêre konteks. Mense soos Gustav Pansegrouw, Theo Mey en Piet Joubert, wat elkeen later jare diep spore getrap het, moet erkenning kry vir hulle baanbrekerswerk in hierdie veld. Oorlede Frans Gerber het met sy positiewe gees en ondersoekende ingesteldheid ons deurlopend aangespoor om fundamenteel te dink. Ek gee ook erkenning aan Prof Johann Schepers, ons baie bekwame mentor op die terrein van Navorsingsmetodiek.

In die soeke na nuwe toepassingsvelde binne militêre verband, het ek die terrein van Organisasie-ontwikkeling (OD) ontdek. Dit was vir my van meet af aan 'n passie. My loopbaan en my lewe, is verder verryk deur die destydse hoof van die leër, Generaal Magnus Malan, en een van sy senior staf-offisiere, Brigadier (later Generaal) Raymond Holtshausen. Deur hulle bemiddeling en ondersteuning kon ek middel sewentigs die National Training Laboratories (NTL) in die VSA besoek. Dit was 'n eksponensiële leerervaring. Daar kon ek op 'n persoonlike vlak kennis maak met baanbrekers soos Richard Beckard, Ron Lippet, Tony Petrella, Charlie Seashore en Roger Harrison. Deur die jare het ek met Dr. Roger Harrison kontak behou en kon ek deel word van sy internasionale netwerk. Ek noem ook graag die naam van Dr Marilyn Harris, destyds verbonde aan NTL en die *Institute of Social Research* aan die Universiteit van Michigan. Ons is na dertig jaar steeds vriende. Sy het nooit gehuiwer om die heel nuuste denke en publikasies in die veld met my te deel nie.

Gedurende my jare in die militêr het ek vir Louw du Toit leer ken. Na 'n professionele verbintenis van byna vier jaar en die geleentheid om saam Organisasie-ontwikkeling as 'n benadering tot verandering in die SA Leër te toets, is ons saam na die destydse General Mining. Dit was terwyl Dr Willem de Villiers aan die hoof gestaan het. As deel van die Menslike Hulpbrondepartment het Louw en ek direk betrokke geraak by die vestiging van die filosofie van

Gedensentraliseerde Bestuur. Ons het die privaatsektor leer ken en kon onder die aanmoediging van Dr De Villiers met talle nuwe inisiatiewe op die terrein van opleiding en Organisasie-ontwikkeling begin. Dit was 'n besonder verrykende tyd, waar ons onder andere kon skouers skuur met kundiges soos Barry Venter, Dawie de Beer, Reon Mey en Piet van der Merwe.

Nog 'n betekenisvolle geleentheid gedurende hierdie tydperk, het deur middel van die FAK op ons pad gekom. Hulle het ons genader om te help met die opleiding van jeugleiers in die verskillende kultuurliggame. Dit het gelei tot die ontwikkeling en aanbieding van twee programme: 'n Inleidings- en Gevorderde kursus in Seminaarbestuur. Dit was die voorbereiding wat ons nodig gehad om met die uitdaging en risiko van 'n eie konsultasie-praktyk te begin.

So kom Serfontein en Du Toit, in 1979 tot stand. Die maatskappy het stelselmatig gegroei totdat ons in 1985 verkies het om elkeen sy eie pad te loop.

Daarna het Sep Serfontein Genote en later Sep Serfontein Konsultasiegroep, voortgewoeker. Daar was onder andere Jan de Coning, Gerhard Beukes, Gerhard van Hoek, Elsabe Rüde en Jacques Strydom, wat elkeen op sy of haar manier geslyp het aan my professionele ontwikkeling. Ook die verbintenis met *Situation Management Systems* in die VSA dien vermeld te word. Met hulle bestaan daar reeds sedert 1982 'n samewerkingsooreenkoms om sekere programme in Suid Afrika te bemark. Die geleentheid wat ek gehad het om met groot geeste soos David Berlew en Alex Moore op die terrein van program-ontwikkeling te kon saamwerk, was vormend en verrykend.

Die nuwe millineum het nuwe professionele verhoudings meegebring. Een van die mees bevredigende was met die jong Delaine van Zyl, wat in 2000 by die maatskappy aangesluit het. Ons twee se verskillende lewensfases komplimenteer mekaar goed: sy, ywerig en toegewyd om haarself in die nuwe veld te vestig, en ek, gretig om my ervaring, vaardighede en insigte met haar te deel. In so 'n wisselwerking is dit onvermydelik dat die leerervaring wederkerig is.

Die jare in die praktyk was volgepak met besondere leerervarings, die verkryging van nuwe insigte, die uitbou van vaardighede en die bou aan professionele verhoudings. Elke kursus en elke werksessie dra nie net by tot die kennis van die deelnemers nie, maar bou ook aan die ervaringsbasis en bevoegdheid van die fasiliteerder.

In my jare as konsultant het ek in talle bedrywe gewerk en kon ek my verdiep in verskeie terreine. Ek is veral dank verskuldig aan Sasol vir die talle geleenthede wat die verskillende besigheidseenhede my gebied het. My waardering gaan veral aan die destydse Schümann-Sasol Internasionaal AG Bestuursraad, wat my in 1997 by die transformasie van Schümann-Sasol (SA) (Edms) Bpk betrek het. Vir twee jaar het ek nou saam met die projekspan gewerk. In die daaropvolgende

vier jaar was ek in 'n ondersteunende hoedanigheid by die Menslike Hulpbronfunksie betrokke. Daarvoor bedank ek Mnre Bruno Iversen, Deo Schrenk en Dr Hans Barth. 'n Spesiale dankie aan Deo Schrenk vir sy waardevolle inligting en kommentaar en vir die toestemming dat ek die projek se inhoud as 'n proefskrif kon gebruik.

As eksterne konsultant het ek die mense van Schümann-Sasol (nou Sasol Wax (Pty) Ltd) goed leer ken. Tony Olivier, die Projekleier van hierdie transformasie, se lojaliteit teenoor die projek en sy onkreukbaarheid as mens, het my taak deurgaans vergemaklik. My grootste waardering aan hom. My dank aan Pieter Smith, wat my toegelaat het om vryelik van sy denke en bronne oor die entrepreneursorganisasie gebruik te maak. Dit is met waardering dat ek ook terugdink aan die projekspanlede wat met groot toewyding gewerk het om hierdie transformasie 'n sukses te maak.

My opregte dank aan Riaan van Wyk, die destydse Besturende Direkteur van Sasol Wax (SA) (Pty) Ltd, wie se persoonlike betrokkenheid as leier seker die mees bepalende faktor tot die sukses van hierdie projek was. Die feit dat hy bereid was om sy ervaring van die transformasie en die redes vir sy besluite en optredes te deel, dra grootliks by tot die akademiese waarde van hierdie studie.

Sep Serfontein Konsultasiegroep het die navorsing geborg en my kollegas daar, het my van meet af aan ondersteun. Dank aan Marie Hooper vir haar geduld en kalmte met die tik van hierdie manuskrip oor 'n tydperk van twee volle jare; Elna Campher se voortdurende ondersteuning, aanmoediging en bereidwilligheid om te help, het my taak ligter gemaak.

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Ek kon slegs met 'n kameraad soos my vrou Marlene, 'n taak soos hierdie aanpak. Haar onvoorwaardelike ondersteuning en betrokkenheid by die proeflees en versorging van die manuskrip was onontbeerlik.

Professor Johan Basson het my in Mei 2002 uitgedaag om hierdie studie aan te pak. As deurwinterde akademikus het hy nooit geweifel in sy ondersteuning, aanmoediging en gesonde advies nie. Sy nugtere oordeel en sy vermoë om wetenskaplik te dink, was deurentyd my kompas.

Hierdie navorsing handel oor 'n suksesvolle transformasie binne 'n organisasie. So is die lewe ook 'n transformasie, 'n deurlopende proses van leer vir die wat gewillig is om te leer. In dit alles is God ook besig om ons gedagtes en optrede te slyp (Rom 12:2) vir die lewe wat vir ons voorlê. Daarom bring ek graag die eer aan Hom vir hierdie groot genade.

Sep Serfontein

9 Januarie 2006

ANNEXURE A

THE CASE STUDY

Annexure A

THE CASE STUDY

Table of Contents

Annexure A

THE CASE STUDY

1 Orientation

This chapter is a narrative of the organisational transformation, which occurred at Schümann-Sasol SA (Pty) Ltd, during the period 1997 to 2003. It is a case study with a beginning, a middle and an end. It starts with a description of the challenges faced by the company during the third quarter of 1997 and relates factors that led up to the decision to engage in an organisation-wide transformation. It reflects the original thinking and planning which characterised the initial period including the alignment of various stakeholders. The chapter then evolves through various interventions at process, structure and people level. It reveals in painstaking detail how the various phases followed one another until processes, structures, values and people were rearranged in a new way in order to serve the market better. The chapter then describes the appointment of the new managing director halfway through the transformation and how his unique style of leadership enabled the company to fully utilise the changes that had been made to function as an entrepreneurial unit within the larger corporate context. The chapter ends with an evaluation of the company's achievements.

The case study was guided by the research aim and the following research questions:

- Why was transformation necessary?
- How was the transformation managed?
- What role did the Project Team and the consultant play in championing the transformation?
- What role did leadership play in championing the transformation and creating a high performance, entrepreneurial unit?

2 The challenge

Sasol Ltd

Sasol Ltd is recognised as a world leader as a result of their successes in their proven oil-from-coal operations. The Sasol process (based originally on the German fixed-bed Fischer-Tropsch processes) has become a blue print 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 synfuel technology, which produces both fuel and chemical components in a single step, provides a significant cost advantage in the production of petrochemical products. The recovery of high value chemical components and by placing them in high value chemical markets is one of Sasol's strategic priorities. In 1997 chemicals represented 20% (per volume) of Sasol's production (Cox, 1997) and a large number of commercially successful products, stemming from the Coal Gasification process, had become commercially successful by then.

During the early nineties the corporate structures of the Sasol group was rationalised to align the divisions more closely with various business activities of the group. Chemical activities were placed in Sasol Chemical Industries (Pty) Ltd, the synthetic fuel activities in Sasol Synthetic Fuels (Pty) Ltd, the mining activities in Sasol Mining (Pty) Ltd and oil refining and fuels marketing activities in Sasol Oil (Pty) Ltd. During 1994 the Sasol Synthetic Fuels division was once again restructured.

Sasol's ability to manufacture synthetic fuels contributed significantly to South Africa's energy supply in that the company fulfilled in 47% of the country's liquid fuel requirements by 1996. Through the utilisation of indigenous raw materials, Sasol had created 160 000 jobs (directly and indirectly) and saved/earned foreign exchange of approximately R6000m per annum (SCC, 1996).

Sasol Wax

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

By October 1993 wax production in Sasol Waxes (Pty) Ltd had increased from 100 000 to 200 000 tons per annum, as planned. At that stage new markets had to be found to sell the excess tonnage. The Schümann group of companies in Germany was subsequently targeted for 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). A hard wax plant was erected in Hamburg where hard waxes from SasolChem were refined and distributed from there to Schümann's agents in the USA.

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 stage Sasol Waxes (Pty) Ltd had just qualified as an ISO 9000 company, and had achieved it's production targets. Sasol welcomed these promising results and saw them as hard currency in their negotiations with the Schümann Group.

In May 1995 Sasol Chemical Industries and the Schümann Group of companies decided to merge their wax operations, 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 held the 33,33% interest. Both Sasol and Schümann viewed the merger as having considerable synergy potential. Sasol Chemical Industries was recognized as an expert in the production of synthetic hard waxes derived from coal and Schümann had been concentrating on products from mineral oil processing for over 50 years. United as one company, Schümann-Sasol International was now positioned to offer the entire paraffin wax, hard wax and petroleum jelly product ranges. Schümann-Sasol International now 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:

- Schümann-Sasol SA (Pty) Ltd.
- Schümann GmbH & Co KG.
- HOS Holdings Corporation, USA (Moore and Munger Marketing).
- Paramelt RMC BV.

Being a German registered company these subsidiaries were managed through a Supervisory Board and a Management Board. German legislation stipulates the existence of both these boards. The role of the **Supervisory Board** is to supervise critically, but is not allowed to intervene or to influence the business directly. The **Management Board** (Vorstand) has the authority, takes responsibility for the business and exercises 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 also a nominee. The previous CEO of Sasol Waxes (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.

Sasol were thus left in a position where they owned the majority of shares in the merger, but without direct control over the business.

Schümann-Sasol SA's competitive position

Although not well recognised as industrial chemicals, waxes play an important role in many known household and industrial products. Their application include paper coatings, candles, textile and leather manufactures, polishes, adhesives, fruit and vegetable coatings, cosmetics, medicine, 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 approximately 80% of the total marketing 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 Fischer-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 50 companies were producing petroleum waxes worldwide, mostly through 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.

A combination of market growth and competitive pressures motivated a number of traditional petroleum wax firms to enter into the polyethylene wax business. It was clear that synthetic polymers were putting pressure on traditional wax applications.

The growth of wax consumption in the three major market areas (United States, Western Europe and Japan) had been between three and four percent per annum over the previous five years and the forecast was that the slower rate would continue over the next five years.

During the period immediately after the merger, Schümann-Sasol SA (SSSA) had only one serious competitor, Shell Malaysia. Shell Malaysia at that point used a modified Fischer-Tropsch synthesis process and went into production during May 1993. Up until May 1993 Schümann-Sasol was the only manufacturer of Fischer-Tropsch waxes in the world.

When the competitiveness of SSSA and Shell Malaysia is compared, the following is evident (Task Force on Strategic Planning, 1997):

- Shell Malaysia had a more efficient process. Shell Malaysia could claim a lower labour cost and needed less man-hour per ton of product, as a result of a more efficient process. The result was a lower cost structure.
- The utilisation of Shell Malaysia's plant for 18 months before June 1997 was more than 97%, while the plant utilisation of Schümann-Sasol averaged 90%.
- Shell Malaysia was better positioned to European and American markets, which are the major consumers of Fischer-Tropsch waxes.
- Shell Malaysia's plant had the flexibility to vary the composition of their produced products in accordance with the market demand.
- Shell Malaysia could therefore offer a wider range of products, which contributed to it's overall profit, and offered sufficient flexibility in their processes.

In Southern Africa SSSA was the primary supplier of waxes. Local competition was limited and the company could dictate in the Fischer-Tropsch market. They were competitive in marketing, production, technology, distribution and sales. This gave Schümann-Sasol the advantage of manipulating the local market with reference to the prices of the different wax products (Schrenk, 2004).

By the third quarter of 1997 the national market was showing characteristics that required serious attention. These included:

- a stagnation of the medium wax market;
- growing imports from the East as a result of a surplus of wax in the global market, creating uncertainty and turbulence in the market place;
- a decline in the tendency amongst South Africans to use candles because more and more houses were being electrified each year;
- the low aesthetic value that South Africans attached to the use of candles.

The company made a net loss of R3 160 144 for the 1996 financial year. However, the loss had decreased with nearly 72% if compared with the 1995 financial year. Turnover had increased from R378m (1995) to R401m (1996) – an increase of 5,92%. The gross profit percentage had increased from 37% (1995) to 40% (1996). The gearing-and-debt ratios of 40,29% (1995) and 28,72% (1996) respectively were favourable for the company's risk carrying ability. However the fact that the debt collection period had increased from 49.7 days (1995) to 68.55 days (1996) was a major concern. The main reason for this was Prices Daelite South Africa (Pty) Ltd, which had been disposed off during the 1996 financial year, but which still remained Schümann-Sasol's main debtor (R43 698 000 or 60% of local debtors) with an amount of approximately R11m in arrears. Return on assets (-0,49%) and equity (-0,69%) were well below acceptable norms (Task Force on Strategic Planning, 1997).

An independent analysis of the business during 1997, revealed an interesting set of internal strengths and weaknesses (see table1):

Table 1:

SSSA business strengths and weaknesses: 1997

Internal strengths	Internal weaknesses
▪ Adequate financial resources ▪ Economies of scale achieved in terms of plant utilisation ▪ Strong financial position ▪ Shareholders well provided with capital ▪ Most of the capital outlays already paid off ▪ Learning curve already an optimum ▪ A positive trend on profitability ▪ Low gearing and debt ratios ▪ Control over expenditure	▪ A history of yearly losses ▪ A higher overall unit cost relative to the international competitors ▪ Overhead costs high (43% of turnover) ▪ Return on equity and investment very low ▪ Low net profit margins ▪ Relative inflexible product mix (products with low profitability were by necessity part of the product mix) ▪ Unsuccessful employment of financial leverage ▪ Expensive processes (raw materials: coal as apposed to natural gas) ▪ Higher logistical costs ▪ Poor control over debt collection

Source: Task Force on Strategic Planning (1997)

Other strengths included:

- supply agreements for almost 70% of the total wax sales;
- well-established distribution channels;
- leadership in some technologies;

- some proven logistic capabilities;
- skilled production staff;
- proven production methods.

Other weaknesses worth noting were:

- poor market information;
- poor technical support to customers;
- limited R&D financial resources;
- weak information and computer systems;
- a relatively fixed ratio of waxes (high value) to paraffin's (low value) products
- forced production of hard wax with a very small market;
- no ability to produce specialised products (facility destroyed by fire).

Conflict between the Management Board and SSSA's Management

SSSA's poor business results could be attributed to a number of factors, including higher cost of gas and utilities and an inappropriate cost structure. Other factors such as a lack of vision and strategic direction as well as ineffective marketing also played a role.

These reasons however do not adequately explain the poor performance and why the success of the merger had been illusive. Differences in regard to expectations, business approach and management style existed, which regularly surfaced on the interface between the Management Board and the Schümann-Sasol (SA) Management Team. That inhibited business success.

The root cause of these differences appeared to be cultural diversity. The South African subsidiary represented the larger Sasol Corporation with it's conservative Afrikaans history. The Schümann organisation represented the German (distinctly North German) culture, was a family-owned company, and was headed by the charismatic, highly-respected Hans-Otto Schümann. These differences were underestimated at the start of the merger.

The Management Board, being fully aware of it's position of authority and responsibility due to German law, wasted no time in questioning SSSA quality problems and challenging it's business results. The Germans regarded daily interferences in the business as natural and demanded daily reporting, particularly regarding finances and marketing.

Staff of SSSA found the behaviour of the German Board Members quite strange and labelled it autocratic, prescriptive and insensitive to the way the company had been run in South Africa. Impressions were formed during *coffee shops*, informal interactions and formal meetings. The SSSA Management Team responded with non-compliance and by playing their cards close to their chest.

A possible explanation for these interface problems can be found in Sasol's failure to secure 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. Addressing the void would mean building alignment across separate corporate identities, creating a governance system that would promote shared decision-making, managing the economic interdependencies and building cohesion between the parties. (Bamford, Ernst & Fubini, 2004).

A loss of R3,1m at the end of the 1996 financial year was unexpected and contrary to the expectations of Schümann-Sasol International. The loss was viewed in a serious light, given the fact that their Hamburg subsidiary (Schümann-Sasol GmbH & Co KG) at that stage was still showing a handsome profit. In an effort to address the poor performance of SSSA, the Management Board decided to intervene directly. One of their first moves was to offer the CEO of SSA an exchange with Schümann-Sasol GbmH's CEO in Hamburg.

The management of SSSA failed to appreciate the logic of this request and interpreted the move as a hidden agenda to gain more control over the business and erode their autonomy even more. For personal and private reasons the CEO did not support such a move.

Conscious of their own power base, which they perceived as being vested in their technical expertise, their knowledge of the plant, and support from lower levels, the SSSAs' management team expressed their full support for the CEO. The team threatened resignation. The merger was plunged into a crisis characterised by open conflict, cultural antipathy and confusion.

Before the crisis and 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 management consultants (Alliance Consulting) to perform a quick analysis of the company that would justify management's position.

Analysis of the company's problems

The Alliance Consulting Group was requested to perform an analysis covering all areas of business. The consultants were specifically mandated to provide answers to the following questions:

- Have we invested sufficiently in our people?
- Are our people aware enough of the realities facing Schümann-Sasol?
- Are our people ready and do they have the capacity to respond to our new challenge?
- How do we restore the balance?

The consulting firm directed their analysis at the following categories:

- strategy: determine the company's direction;
- structure: determine the location of the decision-making power;
- processes: determine the flow of information;
- rewards: determine if it influenced the motivation of people to perform.
- people: define the employees' mindsets and skills.

A total of 12 workshops were conducted over a period of 2 weeks. All the departments were involved. A total of 142 employees attended the workshops.

The Consultant's report revealed the following problem areas (Alliance Consulting, August 1997):

- **Strategy**

  Only 50% of employees who attended the workshops, knew about the Company's vision. Lower levels expressed confusion as far as the meaning was concerned and employees and management were misaligned in regard to values.

- **Structure**

  The structure was characterised by a high level of specialisation, which created difficulties in regard to coordination, communication and job rotation. A major anomaly in this trend towards specialisation was the practice of using casual labour in the final stage of the process. Most of the casual labour (52%) was employed in Final Products, but most of the customer complaints received during 1996 and 1997 also originated with final products.

  Decision-making was of the command and control type. Decision-making was not always at the point of contact with the work that was being performed. Although it was claimed by the Management Board that the decision-making power was delegated to the management team, SSSA management expressed discomfort in exercising the authority and called for more clarity. As a result of these conflicting expectations very little authority was delegated to lower level supervisors.

  The Hamburg management style was perceived as very much command and control and seen as in conflict with SSSA's expectation of self-direction. Although it was accepted that sales and marketing were receiving more decision-making power, good information and an effective forecasting process did not back up this power. A lack of alignment was reported between marketing, logistics and finances, which impacted on decisions regarding production. Functions lacked proper alignment, particularly at the lower levels, and was even noticeable within shifts and between shifts.

  Effective lateral processes did not augment the functional hierarchy. The structure was described as *not the best fit*.

- **Processes**

  Forecasting and planning were particularly ineffective. The annual sales forecast was generated by marketing and sales and was broken down per product and application. However the forecast had a limited impact on the actual production planning, which was entirely based on actual orders received. Spare production capacity was used to build strategic stocks. Forecasting was based more on historical data and *gut feel* than any forecasting method.

  The current monthly planning system only addressed final products and did not roll back into the other production sections of the plant. As a result of this limited focus, no line balancing could be undertaken and the upstream sections were not aligned with the actual final product requirements.

  Key control systems were absent; in other cases, employees did not comply with or did not use existing systems.

  Processes were hampered by quick decisions, which were equally easily changed again. The impact of this could be seen in the fact that a 40% variation occurred on what was planned to produce. Maintenance people complained that they spent 40% of their time in meetings. Communication was confusing, which particularly influenced the lateral information flow and decision-making processes.

As a result of the above, the following symptoms occurred:

- supervisors were not always aware of the capacities of their process areas or optimal throughput profile;
- staff did not understand what they were supposed to control;
- tracking of rework was seldomly done, even when systems were available to do so;
- production performance data was unavailable.

The mindset was one of *produce what we can by running 24 hours a day, 365 days a year*.

- **Rewards**

Promotions were perceived by employees to be made on the basis of patronage, favouritism and race. Bonuses were seen as unfair because managers did not reveal the true profits achieved. Individuals received bonuses, not the team members on whom the individuals were dependent. The current reward system did not support good performance nor did it enhance the profile of Schümann-Sasol as an international company.

- **People**

SSSA was not a competency-based organisation. Because of this a level playing field for matching individuals to roles and developing their potential was absent.

Training was perceived as not needs-driven and the current training, particularly non-technical training, was critised severely. Despite the R600 000 spent on training annually, very little could be shown as proof of a good return on investment.

People management skills were identified as a concern at management and supervisor levels. Specific problems like the following were voiced:

- managers and supervisors felt uncomfortable in managing people;
- managers and supervisors did not have the skills to manage people;
- developing, delegating to and empowering employees was ignored.

In terms of the four initial questions the Consulting firm concluded pointing out that:

- the company did not invest sufficiently in their people, with direct consequences for operational effectiveness;
- people in the organisation were not aware of the reality facing Schümann-Sasol, particularly not the reality of working for a merger;
- people expressed their readiness to respond to the new challenges but their capacity to respond was questioned.

The final conclusion of the Alliance Consulting Group was that the people were not ready to change. Their recommendation was therefore to introduce **incremental** rather than **radical** change.

Some of the results of the Alliance Consulting Group were echoed by results from a survey conducted by International Survey Research (ISR, 1997) an international research company. Their survey was conducted during the fourth quarter of 1997 and involved the **Sasol Management Group** (down to level 6), units in **Sasol Chemical Industries** and **Schümann-Sasol SA**. Compared to other Sasol groups, the areas in which SSSA experienced difficulties, were strategy and objectives, productivity, management relations and leadership. In summary results revealed the following:

- People in SSSA did not understand how their objectives fitted into the overall Sasol goals. Neither did they understand their own companies' goals and objectives. Senior management lacked a well-formulated business strategy for the present and a clear vision for the future. Less emphasis was placed on quality, the development of internal support systems and technology and marketing.
- Productivity suffered as a result of two factors: poor forecasting of market needs and poor exploitation of new business opportunities.
- SSSA's management was perceived as not providing leadership, not stating objectives clearly, not managing change and not planning for the future.

The ISR survey results were not made available before the end of the fourth quarter of 1997. In August 1997 the management of SSSA were therefore only confronted with the analysis by their self-appointed external consultants (Alliance Consulting). The ISR survey results were never really discussed, mainly because the joint decision of the Board and SSSA's management soon afterwards to engage in a transformation process. The ISR results must however be viewed as important. As an impartial, credible international third party, SSSA's results could be compared with the results of other units within Sasol Chemical Industries.

Reaction to the consultant's report

The alliance report and particularly the one-sided way in which the organisational analysis had been initiated, did not meet the approval of the Management Board. The CEO of SSSA, decided to terminate his contract with Schümann-Sasol and was relocated in Sasol.

Five days after submitting their report on the organisational analysis, the firm of external consultants submitted a proposal for completing the Schümann-Sasol organisational transformation programme. They urged management to act immediately, following the "…*trauma of an analysis followed by the sudden resignation of the top man*". They also feared that these two factors could precipitate a management and organisational crisis.

The proposal which they submitted was labelled as one specifically designed for Schümann-Sasol. The transformation would be driven by Schümann-Sasol people and would be owned by them. Change would be incremental in an effort to build capacity of the workforce for a future *quantum leap change*. They admitted however, that the socio-political climate in which SSSA were operating as well as the expectations of shareholders, had to be taken into account.

Three phases were suggested for the transformation:

- Phase 1: Executive alignment and goal setting.
- Phase 2: The translation of corporate goals down to section manager level and the setting of goals, agreeing on KPA/KPI's, a behaviour alignment programme and *realism* programmes for levels 4 and 5.
- Phase 3: Identifying and prioritising the barriers that affected the achievement of goals that had been set and the compilation of *barrier removal teams*.

Their role as external consultants were defined as:

- facilitating the alignment and goal setting;
- training the barrier removal teams;
- designing the realism programme;
- coordinating and monitoring the improvements;
- coordinating improvements between functions.

The scope of work specified the following activities:

- a detailed assessment of current executive team non-alignment;
- the setting of corporate goals;
- the design of key performance areas and key performance indicators for executive management reporting;
- the clarification of roles and responsibilities;
- agreement on a code of behaviour aligned to vision, mission and values;
- the design of mentoring programmes to enable individuals to sustain the code of behaviour;
- the design of a realism programme;
- the completion of this realism programme by the executive management team.

This proposal is important because it reflects the first attempt by a professional body to assess the situation and submit a framework for change in SSSA. The proposal, although fairly comprehensive, particularly in regard to ownership of the process and the role of the consultants, has it's limitations. For example:

- The three phases proposed is an example of a step-by-step, structured approach, which appears to allow very little flexibility for the change process.
- The proposal reflects human resources thinking and not organisation development thinking, hence the reliance on typical human resource type techniques such as KPA's and KPI's, mentoring, role clarification, code of behaviour, etc.

- The proposal did not adequately address major problems as outlined in their organisational analysis. It did not explain, for example, how problems such as misalignment regarding values, leadership, the outdatedness of the structure, the differences between SSSA's style of management and the strong command and control style in Hamburg, the misalignment between marketing, logistics and finance, the inefficiencies with regard to forecasting and planning (to mention a few), would be addressed.
- It is stated quite clearly that the client (SSSA) would be involved in the process (e.g. "…*assignment must be driven and owned by SSSA's people*"), without being specific about the model guiding the collaborative approach.
- Finally, in their keenness to proceed with the project, they overlooked two very important factors: the Management Board's reaction to their analysis and the Management Team's readiness for change. Without the Boards' support and an expressed readiness to engage in change, ownership, support and energy for the transformation would be in doubt from the beginning.

HR's efforts to take initiative

A second initiative to address the problems described in the Alliance Consulting report, was initiated by staff from the HR function. On 2 September 1997 members of the HR Department met to discuss problems that had emerged from the Alliance Report. They identified a total of 32 key problems, categorised under the headings of strategy, structure, process, rewards and people. Through a discussion they reached the conclusion that a **manpower planning process** was the key to addressing the problems identified in the Alliance Report. In a memorandum, dated 8 September 1997, and directed to Dr Hans Barth of the Management Board in Hamburg, they suggested that a manpower plan could address many of the problems identified by the consultants. In their memo they referred to needs such as development of potential, performance management, competencies, remuneration, structure, multi-skilling and self-empowerment teams.

No plan was constructed and the decisions that were made during that session appeared to have had political overtones, possibly to strengthen Human Resources position in the company and to gain some control over the change process. Proposals such as the following, which were communicated to Dr Hans Barth of the Management Board, could substantiate this assumption:

- Alliance Consulting should not be used on a full time basis. Other consultants should also be used to have a wider base of expertise available.
- The CEO of the Hamburg operation, who was designated to take over the Sasolburg operation, should be appointed as the project driver. Tony Olivier, Head of Technical Services, should become Project Manager.
- People in the Human Resources function should be the project champions.

The September 1997 Management Board Meeting

The conflict between the SSSA Management Team and the Management Board became a full-blown confrontation during the Board Meeting of September 1997. The seven remaining members of the Management Team (the CEO had already been relocated), submitted an agenda which openly confronted serious issues in regard to the future of SSSA and the future relationship between SSSA and the Management Board.

The Management Team started off by admitting trauma because of the resignation of the CEO. They expressed deep concern over the impact of his resignation on the *business transformation process*. They acknowledged the importance of a positive attitude amongst members of the workforce to initiate such an organisational transformation. Although they did not express it directly, the agenda submitted to the members of the Board communicated a message that a transformation of the business was viewed as necessary and that they had accepted ownership in view of the potential benefits to the business.

The relationship with Schümann-Sasol AG was also addressed. Once again a major complaint was the lack of a common value system in the Schümann-Sasol Group. Roles and responsibilities were prominent on the agenda and the complaint was that they were neither clearly defined nor adhered to. The trust issue was put squarely on the table. Examples such as the unwillingness to approve the Alliance Consultants analysis, were cited. Members of the Board were accused of sharing information selectively with certain members of the Management Team, suggesting that others were not trusted.

The Management Team also referred to incidents where critical decisions, that could have a serious impact on the business, were not always thought through well, neither were the parties concerned always consulted.

Members drew the Board's attention to the clash of two very diverse cultures: the family business culture of Schümann and corporate culture of Sasol. They observed that these differences were particularly obvious in regard to decision-making. Hamburg wanted to centralise decision-making while the Sasol culture favoured decentralisation. They quoted a recent example where Schümann-Sasol AG had decided to adopt the *FIFO*-principle, without consulting the SSSA Management Team. They complained that decisions such as these created an atmosphere of distrust and uncertainty amongst members of the workforce.

Reference was made to the lack of direction, which surfaced during the survey. They attributed this problem to having a CEO with overall responsibility but no accountability.

The communication process was severely critisized. The concern was that important information only reached management through the grapevine.

Finally, they requested the Board's approval to continue with the transformation and to implement the proposals as drafted by Alliance Consulting.

This meeting is of particular importance to the process of transformation and how the process evolved over the next few months.

Entry by the consultant from Sep Serfontein Associates

A letter dated September 9, 1997, signed by Charmaine Beneke, an HR specialist, was faxed to the Researcher in his capacity as a consultant with Sep Serfontein Associates. The letter is interesting in more than one way: this is the first evidence where the word Organisation Development in regard to the project is used. The letter was an invitation to the Consultant to become involved in the project. It also contained background on the organisational analysis and highlighted some of the areas that had been singled out for change. Reference is made to a proposal by the Management Board and SSSA Management to appoint an external consultant who could "…*launch the project and manage it phase-wise*". Mention is made that an internal project leader and project team would be appointed.

In response to the letter of invitation the Consultant requested a meeting with Ms Beneke on September 10. The meeting was exploratory, but provided some structure for the project. The need for planning and alignment phases before the actual transformation would start was agreed upon. The planning phase was viewed as important, because it would allow the Consultant to study relevant information, interview members of the Management Team and to do conceptual planning for the transformation that would follow. The phase would also be used to determine which HR staff would become part of the project. Alignment in particular, was viewed as a prerequisite to the transformation and would involve strategy formulation and clarification of Schümann-Sasol AG's role in the management of SSSA. **It was agreed that strategy would form the foundation for the envisaged transformation.**

During the meeting it was jointly decided not to select the Project Team yet but to allow the alignment phase to be completed first. The choice of strategic direction would be a deciding factor in selecting project team members. The selection of the Project Team would therefore become a final activity in the alignment phase, after which the respective roles of the Management Team and the Project Team would be clarified. A tentative decision was made to train members of the Project Team at the start of in the transformation process. This first meeting was followed by an informal meeting with Dr Hans Barth of the Board. Dr Barth thereafter gave his consent to engage the services of the consulting firm.

Contracting by the Consultant

In a memorandum to Ms Beneke on September 15 the consultant suggested the submission of a final project plan by the end of October 1997. In the memo the consultant also attempted to clarify his role. It is worth noting that the way in which he describes his role is quite different from the role suggested in the initial letter of invitation of September 9. He states emphatically that the Project Team and Project Leader would take responsibility for managing the project. The consultant describes his own role as "…***providing guidance and structure, to equip members of the Project Team with the relevant competencies and to plan the project in conjunction with the project leader***". He would also provide initial direction, but expected his role to change as the project evolves. As a **first phase** of the transformation, he suggests **alignment** of the management team and communication with the rest of the organisation to address uncertainties and concerns. He indicates that the period until the end of

October would be fully utilised for planning and expresses the need to conduct interviews with each member of the Management Team during that period.

The acting CEO, a seasoned Sasol manager soon became involved in some of the contracting meetings. In a memo from the consultant to Ms Beneke and the Project Manager on September 23, reference is made to a meeting that took place on September 18. This time three proposed phases are discussed and labelled planning, alignment and transformation. The planning phase would now also involve the development of a draft plan for the project and a draft budget. The alignment phase would allow for the involvement of both SSSA's new manager (A German from the Hamburg operation), and Dr Hans Barth from the Management Board. Alignment would include the development of a company strategy. It was agreed that the analysis conducted by the Alliance Consulting Group would be incorporated into the strategic planning process.

At several meetings with the key stakeholders, various issues related to the envisaged project were discussed. Concern was, for example expressed about the friction between SSSA's Management Team, and Schümann-Sasol AG, particularly in regard to marketing. AG's role in the management of SSSA was still unclear. It was accepted that both these issues would have to be addressed as part of alignment.

Another issue which surfaced repeatedly, was that of roles. Key stakeholders recognised the different, but interdependent roles of the Management Team, the Project Team and the Consultant in the transformation process. But they also realised that the process of role clarification could not be finalised until the new CEO from Germany was appointed. Role clarification therefore had to wait until after the alignment phase. The **consultant, however, took great care during the contracting phase that the stakeholders were clear about his role in the project.**

The contracting period also involved discussions regarding the purpose of the alignment sessions. Through debate, a dual purpose was articulated: to enhance operational effectiveness and to strategically reposition the company in the market. The parties also agreed that the outcome of the alignment phase would be a comprehensive new strategy for SSSA (Pty) Ltd, consisting of a vision, mission, core values, strategic priorities and objectives.

During October the first of a series of contracts was awarded to Sep Serfontein Associates as the consulting firm to guide SSSA through three phases now referred to as a preliminary phase, an alignment phase and the transformation phase. It was (wrongly) anticipated that the transformation phase would run over a period of three months, starting on February 15, 1998. Anticipated project costs were discussed and an agreement was reached on the invoicing for the first two phases of the Consultant's involvement.

The Consultant requested a formal letter of appointment. Soon afterwards the letter of appointment was received (dated 2 October 1997). It stated that the external consultant would offer his services in "…*facilitating and* organising *of a development process for Schümann-Sasol (SA) (Pty) Ltd*". It was foreseen that this process would be developed and established in "…*a phased manner*". In the letter of appointment the three phases as discussed, were confirmed.

The contracting process between the external consultant and stakeholders from SSSA described above, occurred over almost a full month (September 1997).

The process was exploratory, interactive and cautious and resulted in a **first** contract that was accepted by the acting CEO, the Project Leader and the Consultant. The process can therefore be labelled successful. Apart from the fact that an agreement was reached, other factors also justify this conclusion:

- Contracting was linked to an initial period and the principle was accepted by the parties that re-contracting would have to be done regularly. The initial contract clarified the activities and deliverables of the preliminary and alignment phases. The transformation phase was still an unknown.
- The Consultant succeeded in establishing rapport with the project leader, HR representatives and the acting CEO. The opportunity to meet with Dr Hans Barth and to discuss the envisaged project led to a favourable impression of the consultant by the *ultimate client* and subsequent support for the Consultant's appointment.
- Frequent interaction between the parties stimulated collective thinking and contributed to a maturity of thought on the process to be followed towards the end of the contracting period. Evidence of this can be seen in the thinking in regard to the original *planning* phase. A shift in mindset occurred as the client eventually realised that planning for the transformation, before alignment would be a futile exercise. What started as a phase in which the transformation would be planned, became a preliminary or orientation phase in which the Consultant could familiarise himself with the company and it's products, verify results of the Alliance Report, build rapport with members of the Board and Management Team and generate additional information that might be relevant to the alignment phase. During the contracting process the realisation grew that planning for the transformation could only be done after the development of a strategy. Hence the later decision to schedule for such a planning period after the alignment sessions. The only activity that was agreed upon for the period after alignment was the training of Project Team members.
- Awareness of the importance of timely communication with the workforce also grew during contracting. Communication needs became more clearly articulated – not in terms of methods or techniques, but in terms of audiences (e.g. the worker forum, supervisors, the workforce), actual needs (e.g. direction, security, certainty) and timing (e.g. the realisation that the first communication to the work force should take place before the December holidays).
- The realisation grew that the alignment phase would offer the company the opportunity to build a new management team by involving the CEO designate from Hamburg in the strategic planning processes.
- The organisational analysis prepared by the Alliance Consulting Group received recognition. A number of the problems that had been identified by them, were incorporated into the interviews which the consultant conducted during the preliminary phase. The conclusions of the report were also treated as a formal input to the strategic planning process. **By integrating this analysis into the early phases of the transformation, another organisational diagnosis was avoided.**
- Ownership of the project grew amongst stakeholders, particularly the appointed Project Manager and members of the HR Department. They

became excited about the opportunity to be part of the project and wanted to add value.

- Stakeholders had a better understanding of the importance of the different roles in the transformation: management, the Project Team, the project leader and the external consultant. They also appreciated the need for these roles to be clarified before the transformation phase started.

The initial contracting phase was also characterised by a discord: the lack of a project champion. The acting CEO gave his support for the transformation, but could not accept the role because of his appointment as CEO of the Hamburg operation, due for January 1998. His successor was still in Germany. Other members of the team could not fill this void. Neither could the project leader. This failing was never really successfully addressed until a new MD was appointed in July 1999 who decided to accept ownership for the transformation.

3 Alignment

The Schumann-Sasol International's draft strategy

The orientation started early in October, 1997, primarily focusing on the main activity of this phase: understanding the situation and interviewing members of the Management Team and the Board (those who were available).

Somewhat surprisingly, however, a faxed draft strategy from Schümann-Sasol International (AG) arrived on October 20, requesting the acting MD and his team to respond by October 30. Why this document arrived at that particular point in time is open to speculation, although it appears as if four factors could have influenced the decision to formulate this draft strategy for Schümann-Sasol AG:

- a need for strategic direction by the Hamburg 2000 plus project, a transformation that had been under way since 1996 at Schümann-Sasol KG (the Hamburg operation),
- the Alliance Report which highlighted the lack of strategic direction as one of SSSA's main inhibitors;
- the desire by the Management Board to maintain the initiative, particularly in the light of SSSA's clearly articulated intention to develop their own strategy during the alignment phase; and
- changes in Schümann-Sasol's business environment and changes in respect to it's competitive position.

The draft strategy contained a vision, which portrayed Schümann-Sasol International as a *"…world leading manufacturer of paraffin and Fischer-Tropsch waxes and related products/application. We will strengthen our leading position by taking advantage of the economy of scale and becoming the cost leader in the wax industry".*

A very steep business objective was set: return on equity before taxes of 20% per annum and the listing of Schümann-Sasol's shares at an European stock exchange. The plan also envisaged *presence* in all relevant markets with manufacturing centres of 150 000 MT/a of finished product each in EU, US, Latin America, South Africa and the Far East.

The strategy also revealed what kind of organisation to expect. It stated *"…we will maintain our reputation as a competitive, innovative and reliable supplier of waxes and* related *products/applications, with strong customer orientation. We will act with due regard towards our employees, the community and the environment".* Although a very generalised statement, it did suggest a few strong values, such as **innovation**, to be a **reliable supplier**, **customer orientation**, **regard for employees** and **regard for the community** and the **environment**.

Compared to existing business the strategy was very challenging, and included an objective of a 20% market share (at that stage the combined market share of Hamburg and SSSA was between 10 & 15%), finding new feedstock sources, upgrading downstream processes to increase added value, and finding application for the 100 000 metric tonne of by-product that had not been marketed up to that point. Part of the strategy was to conclude a strategic alliance with other major wax producers. It also allowed for a number of new activities and applications (e.g. energy storage technology, wax as an additive to bitumen and new products to complement the wax applications).

This strategy was very ambitious, and even aggressive up to a certain point. But it lacked plans and specific strategies, including business plans to realise the strategy. This may explain Schümann-Sasol AG's decision to call the strategy a draft and to invite comments.

Another supposition to explain the unexpected draft strategy revolves around a budget meeting which took place in Hamburg on September 22. The document drawn up during that meeting admits that the company was being confronted with a difficult situation. This necessitated closer contact with customers in the European region and aggressive expansion to make their international presence felt in order to counter the competitive advantage of major refiners (the fact that they were using their own feedstock).

Schümann-Sasol was forced to reposition itself and increase it's efforts to place tailor-made products at the disposal of customers, to offer services that would make them a competent problem-solver for every customer and to increase the quality and reliability of their products.

The meeting also outlined a new marketing, sales and logistic structure. For the first time words like *"reorganisation of the process structure*", *"changes in responsibility in the existing organisation"* and "cultural/behavioural change of employees at all levels" were used and incorporated in the document which circulated after the budget meeting.

It was becoming quite transparent that Schümann-Sasol was experiencing changes in regard to feedstocks, competitors and customer requirements; it's business environment was changing. Leaders were realising that change had become necessary – not only in processes, structures and products, but also in the responsibilities and behaviour of individuals. Two events might have served as catalysts for change in the way of thinking: the Hamburg plus project and the crisis in SSSA.

Interviews with key stakeholders

In Sasolburg the transformation project started with interviews by the Consultant. A total of nine interviews were scheduled. The Consultant approached these interviews with several objectives in mind. He wanted to understand the situation from different perspectives by verifying existing impressions and generating additional information. He was also keen to understand and compare the thinking of the Management Board and members of the Management Team. Another objective was to assess these key stakeholders' readiness for the alignment phase and for the changes typically involved in a transformation. The Consultant saw the interviews as a unique opportunity to establish rapport with each of the stakeholders, which would aid his facilitation role during future alignment sessions.

The interviews revealed a number of distinct differences between the approach and expectations of the two available Board members and members of the SSSA Management Team. Common ground existed but differences were paramount. The chairman of the Management Board, for example, firmly believed that more control from the German part of the merger was completely justified, because Hamburg at that stage produced two thirds of the output; also was the company registered in Germany and therefore subject to German law. He was of the opinion that SSSA could learn from Hamburg, particularly in regard to the changes that were being introduced as part of the Hamburg plus intervention.

Most SSSA team members held a different view. Some could not understand why Hamburg wanted more influence over SSSA, because in their view, SSSA could solve their own problems. Others disliked Hamburg's interference in decision-making and insisted that decisions about the Sasolburg operation be made by SSSA. The view amongst management team members was unanimous that the Sasol operation should be more autonomous.

The Chairman also firmly believed that marketing was a global issue and with this in mind coordination of the marketing efforts should be at Management Board level (through himself). That explained why the Marketing Manager was expected to report to him directly. Through interviews with himself and the Marketing Manager it appeared that the Chairman's style of management in regard to marketing was characterised by incomplete delegation and the absence of a marketing policy. The Chairman insisted on being informed on every detail and then took the liberty to intervene at any time. Even clients in the different regions were allowed to approach him directly. This created frustration amongst SSSA's marketing people. The Marketing Manager of SSSA maintained that although he had the responsibility of marketing hard waxes, he was incapable of making decisions in regard to volume, price or new products. Another consequence of this style and approach to marketing was a lack of marketing information about hard waxes at SSSA level. Increasing the profits from hard waxes was essential for the Sasolburg business, but marketing staff felt as if they were kept in the dark.

The Chairman saw the incident with the previous CEO as a case of too much autonomy, which resulted in obstructions occurring between SSSA and Schümann-Sasol AG. The Chairman admitted that he should have intervened more forcefully and regretted being influenced by other board members.

Members of the management team supported the idea of more autonomy, and were unanimous that the previous CEO's style of management was different to that of the Germans. The CEO was obviously trusted by his fellow team members, and perceived as a leader with a *people sensitivity*. It was therefore clearly a case of misaligned expectations.

Dr Hans Barth, the other board member, expressed concern about the distrust between the Management Board and the Management Team. According to him this existed between individuals as well as between the two groups. It was obvious that the distrust, which had been created when the team threatened to resign, was still present. The consultant realised that this factor had to be dealt with very delicately during the alignment phase.

The Chairman in particular was very outspoken about his preferred management style. He admitted to a preference of being in control and favoured predictability rather than uncertainty. He expressed the conviction that this approach worked for companies, people, and even suppliers and clients. The Management Team on the other hand perceived the Chairman as autocratic and they expressed dislike in interferences that resembled a military style. Hence their admiration for the previous CEO who preferred to work within a climate of trust rather than control. The Consultant realised that these differences needed to be addressed and trust re-established before the company could engage in a transformation.

A request to the interviewees to articulate their wishes for the company, also met with mixed reactions. The Chairman wanted cost to be driven down and saw it as strategically important. He stated emphatically that people-numbers needed to be reduced. According to him retrenchments were unnecessary because Sasol Chemical Industries could absorb the excess staff of SSSA. Dr Barth wanted to see a change in *the way of thinking* in SSSA as well as a *change in values.* Values such as quality and attention to customer needs had to become more important in the future.

Members of the management team articulated a different set of wishes for the future. Some wanted the technical processes to improve; others felt strongly that people should not experience the transformation as traumatic. A number of them wanted the hard wax problem to be addressed directly. The market price for hard wax was R5000 per ton, yet huge losses were being incurred because of 20 000 tons of hard wax p.a. being sold to Natref at a loss. The acting CEO believed that if the 20 000 tonnes could be marketed better and sold, at least R50m could be added to the bottom line.

What applied to hard wax also applied to waksol, one of the by-products, which was sold to Sasol Oil at break-even prices. The hard wax problem was compounded by the fact that SSSA's hard wax sold in Europe, was selling at below market prices. The only two parties who benefited were Schümann-Sasol KG (the Hamburg operation) and the European agent.

The lack of strategic direction which was identified in the Alliance Report and which was reiterated during the board meeting of September 1997, was not seen as a concern by any one of the Board Members. Members of the management team however, shared the consultants' view. In fact, strategy was critised as too vague and generalised. Neither did they trust the credibility of the Schümann-Sasol AG strategy document. They pointed out that the Hamburg plus project had been analysing processes and designing new structures for a full year, without any strategy being formulated. The Project Leader saw this as a serious error in the Board's thinking as strategy needs to be developed first before any attempt could be made to change the structure of a company.

The strategic focus of the past was critised by a number of management team members. Strategy was seen by them as supporting the current market, not creating new markets. What was quite obviously required in strategy was more innovation, allowance for downstream beneficiation and finding new applications. Innovation was required for more diversification, value adding and making special products available to the market. The acting CEO cited that the company could increase it's profits to R40m p.a. within three years if a clear strategy was developed.

The interviews also confirmed what the Consultant had observed earlier: roles, particularly those of the board members, were still confusing. Dr Barth for example, still expected the Financial Manager of SSSA to report to him on financial and administrative issues; the chairman on the other hand expected the Marketing Manager to report to him. The Consultant concluded that the differences, misunderstandings and confusion in regard to the roles of the board and board members were serious and required attention during alignment.

Leadership was also an issue. The handing over of leadership of SSSA to a German CEO, was viewed with apprehension. Some members stated categorically that his appointment was a direct effort by the Management Board to exercise more control over the Sasolburg operation. Others expressed the concern that he would accept the Chairman's leadership unquestionably. Members of the Management Team were unanimous in demanding a guarantee that the CEO designated, be integrated into the SSSA Management Team during the alignment phase so that he could develop a loyalty towards the team rather than to Hamburg.

The real reasons for not appointing the Alliance Group of consultants for the transformation, also surfaced during the interviews. It appeared that Board members were afraid that the Alliance people could take over and start prescribing. Their frame of reference was the Hamburg Plus Project where only one consultant had been used and was supported by a steering committee and workgroups.

The responses of the management team members varied from accusing the Alliance Consulting Group of blowing up the results out of context to anger about accusations that had been made in the report. One team member saw the Alliance Group's claim of a R30m cost saving, if the process would be allowed to continue, as expedient rather than realistic.

These reactions influenced the Consultant to treat the Alliance Report with caution. He concluded that their report could still serve as an input, but it's value would be much less than what had been anticipated earlier.

Cultural differences invariably also played a role in many of the issues that had been identified during the interviews. Doubt was expressed by one of the members of the Management Board whether South African organisations and South African managers could really successfully engage in change when the country and the people of the country were in a constant state of flux. The question was asked how the company could change if the people who worked there could not absorb more change.

First alignment session

The first alignment session where both the Management Team and the Board were present took place over the period of October 27 - 29, 1997. Dr Hans Barth represented the Management Board. All the members of the Management Team were present. The Consultant facilitated the session.

The session started at noon with tension and anxiety quite tangible. Conscious of the intense feelings, the Consultant invited participants to share their thoughts, feelings and expectations for the session.

Several members of the management team expressed their feelings openly. The board member patiently listened to concerns, frustrations and angry comments. By the end of the afternoon a number of factors had been identified by the group as detaining alignment between the Management Team and the Board. These factors were:

- a climate of pessimism, criticism and cynicism;
- high levels of conflict between Sasolburg and Hamburg;
- fear of retribution;
- feelings of uncertainty, apprehension, fear of exposure, frustration and lack of trust;
- an unwillingness to accept change;
- an unwillingness to accept feedback.

When the session ended during the early evening, much had been achieved. Management team members had had the opportunity to express their negative feelings and distrust of the Management Board and Hamburg. Participants showed a willingness to listen and clarify meaning in order to understand. Common ground was respected and elements of trust, such as openness and honesty were established as a way of communicating with one another in the future. Members of management who had taken the risk of expressing their concerns, doubts and frustrations felt rewarded. Energy was high; the cynicism felt earlier, had changed to optimism regarding the outcome of the session.

To attain the goal of alignment, the Consultant structured the rest of the session around the following:

- the development of a scenario for 2003 (five years into the future);
- the drafting of a vision for SSSA (PTY) Ltd;
- the drafting of a mission statement;
- reaching agreement on core values; and
- deciding on strategic priorities.

After extensively dealing with the emotional factor during the first afternoon, cognitive domains such as scenario development were addressed. The scenario was particularly helpful in creating common ground amongst all parties and assisted in developing a shared set of assumptions about the future: politics, the economy, the social environment, technology, customers and competitors.

The debate on the scenario succeeded in sensitising the participants about the future and their thoughts were well primed when the Consultant asked them how they visualised SSSA in the future which they had created. Participants were challenged to create a vision that appealed to both heart and mind. The final vision had all the elements that were required to energise the company and provide direction. This is how the vision was drafted:

Our Vision

Schümann-Sasol is the renowned world leader, dominating the wax and relating markets across the world.

Our multi-cultural and highly competent workforce is energetically and joyfully collecting opportunities through creativity, carrying it to the hives of innovative business units. The full utilization of the value chain is a way of life. Through these creative efforts we are the cost and productivity pioneers of the industry.

These units are converting a variety of feedstock's into world-class quality products, which flow crystal clear from pipelines, prepared with care, pride and dedication. As valued partners we work in harmony with the communities and environments where we do business.

Our product range is frequented by customers attracted by a professional and motivated marketing force. Customers indulge in our special priced products and enjoy it's uniqueness. To them our products are critical ingredients for their own successes.

This powerful and elegant leopard of Africa is headed by a management team that knows no limits and accepts all challenges. Running it full speed, it is setting the pace in creating new standards of excellence for concurring the worlds markets.

The vision was longer than a single sentence or paragraph; it was a detailed picture of a desired future, packed with symbols and metaphors, but concrete enough for everyone to identify with. The general conclusion was that this was the appropriate vision for the company at that stage.

The formulation of the mission elicited a discussion of the company's reason for existence. It provided an opportunity for everybody to share their views and to debate why the company really existed. This is how the mission statement was drafted:

MISSION

We are a profit-driven, customer-and application-focused company, achieving sustainable growth by optimizing the value chain in supplying Fischer-Tropsch and other wax related products to specialty and commodity markets world wide.

In an effort to decide on a number of core values, the participants revisited their vision and selected the following:

- creativity and individual ability;
- openness, honesty and integrity;
- equal and fair treatment;
- pride; and
- perseverance.

The first alignment session was rated as a great success by everybody involved. Not only did they develop a common paradigm as far as their business environment was concerned, they also succeeded in creating three key elements of a strategy: a vision, a mission and core values. Direction was becoming more intelligible.

The first alignment session was successful in many other ways. Participants articulated their learnings as follows:

- liaison with Hamburg is important since the two entities are interdependent of each other;
- the company had much potential to offer and utilising this potential was a challenge to all;
- change would be painful and would challenge each one;
- individual members really wanted to be part of a team;
- diverse outlooks could lead to creative solutions;
- taking the initiative would be acceptable to by the Board.

Second alignment session: November 5-7, 1997

The second alignment session began with a significantly higher level of energy and vocalised positive expectations. The Management Board was once again represented by Dr Hans Barth, but on this occasion the designated CEO also attended.

As overall strategic goal a nett EBIT of 15% as a percentage of sales by the year 2003, was set. A total of eight strategic priorities were formulated:

- to establish reliable feedstock sources at competitive prices for all our operations;
- to half the time cycle for all new products from concept to customer;
- to raise productivity levels and reduce cost levels to meet international benchmarks (measured in USD), without negatively affecting competitiveness;
- to rationalise and align activities, structures, technologies and resources across the value chain in order to effectively meet customer needs;
- to develop a long-term investment plan to streamline and rationalise operational and internal logistical activities in order to enhance cost effectiveness;
- to utilise the full capacity and yields of the slurry-bed technology;
- to establish Schümann-Sasol (SA) (Pty) Ltd as the world market leader on Fischer-Tropsch waxes as well as the leader in new product applications;
- to build an acknowledged competence base in order to enable the company to develop strategically.

To attain these priorities several strategies, expressed in patterns of specific strategic objectives, were devised.

Towards the end of the second alignment session a contracting session was arranged where several psychological contracts were concluded. The following questions served as a basis for the negotiation:

- What do we as members of the Management Team, expect from each other?
- What do we expect from our new leader (the newly appointed CEO)?
- What do we expect from the Consultant and the Project Team to be appointed?
- What does the Consultant expect from members of the Management Team?

The first two alignment sessions were successful in more than one way. Much of the conflict that had existed between SSSA and the Management Board had been addressed and different expectations were better understood. The void that had existed in regard to direction and focus was successfully addressed through a new vision, mission, core values and strategic priorities and objectives. Finally, some key stakeholders in the forthcoming transformation had entered into an agreement with one another. A number of decisions to guide the transformation, were also made:

- the strategic plan would be evaluated on a three-monthly basis and adjusted on an annual basis;
- the strategy would be vision-driven and the Management Team would champion the transformation;
- a Project Team would be appointed to facilitate and manage the transformation;
- the transformation would be guided by the newly formulated strategy and would therefore be **strategy-**driven.

First attempts to conceptualise the transformation

One of the consequences of the alignment sessions was a readiness amongst managers to view the transformation as a process. It was subsequently decided to start the transformation by creating a climate conducive to change, primarily through targeted communication, in which the message that change is necessary would be promoted. The purpose of this early communication was to help staff understand the new direction and to eliminate prejudice and negative feelings that might exist amongst them. A first communication programme was scheduled for the latter part of November 1997.

A significant outcome of the alignment process and strategy in particular, was the integration achieved between business and transformation. Business changes involved feedstock sources, technology, markets, products, productivity, cost reduction and investments. Simultaneously change would occur in the organisation’s primary activity domains such as strategy, culture (values), structure and process.

The strategy would therefore evolve over the next five years in a way which would serve both business and transformation objectives. The focus of the first six months of 1998 would be on technology, finances and the organisational structure, including processes and workflow. Culture and values would be addressed during the second half of 1998. In 1999 new structures would be approved and a new IT system to support the structure would be implemented. The year 1999 would also see the entrenchment of the core values to modify the behaviour of people who have to work within the new structure. Structural changes would be followed by the development of the required competencies and the introduction of a reward system. Simultaneously the technology would be addressed to improve the economics of the technical processes. The period 2000 to 2002 was envisaged as a phase that would be dominated by the implementation of the new structure, further refinement of technology, reduction in costs, the commissioning of a new paraffin plant and the improvement of product quality.

Apart from the fact that the transformation formed an integral part of strategy and was accepted by management in that context, the transformation did not involve a pre-planned step-by-step approach to change. The transformation was rather viewed as a process of change that involved broad outcomes, such as a refocus of the company's strategy, redesigning of structures and modification of behaviour through a change in culture.

Given these outcomes (as suggested by the strategic plan), the process of change would be managed until the desired changes were in place. By involving the total system and all it's components, the company went beyond improving the organisation only incrementally – it qualified as an organisation transformation as defined by Cummings & Worley (2001).

First planned communication

Shortly after the second alignment workshop a communication session was arranged for middle managers. They were the leaders who had not been involved in the strategy formulation process. The session was perceived to be necessary to prevent rumours and misunderstanding and to involve the very important middle management level and make them allies. In this session, which was conducted on November 18, members questioned the involvement of Hamburg and the wisdom of appointing a German (the designated CEO) to lead the transformation process in SSSA. They expressed their doubt whether a person with a *Hamburg orientation* would feel comfortable with the devolution of decision-making power to lower levels.

In the session staff also expressed concern about poor communication. They wanted to know whether SSSA would be part of the Sasol organisation or the Schümann organisation. Clear leadership was requested and doubt was expressed about the transformation, since similar experiences in the past had led to no visible changes.

Preparing the Project Team

By the middle of November 1997 a Project Team of nine members had been appointed. A start-up workshop was arranged for November 27. The purpose of this workshop was to build a Project Team. It was agreed that a Project Team needed to be of the right composition, be able to function at high levels of trust and have shared objectives. In the process of establishing the team, each member was measured against four key characteristics, essential for an effective project team: position power, expertise, credibility and leadership. Other selection criteria included:

- support for new thinking;
- thorough knowledge of the organisation: it's systems, culture and employees;
- ability to communicate with and represent fellow employees;
- enthusiasm in finding better ways to do things;
- tolerance of uncertainty and ambiguity.

The purpose of the team was articulated as: "…*to design, guide and sustain the transformation process in support of Schümann-Sasol strategy, through planned interventions, thereby creating and sustaining a better future".* The key tasks of the Project Team included the following:

- to support individual managers in their attainment of objectives,
- to design, plan, redesign and implement the transformation process,
- to provide information on the organisational climate and readiness for change on a regular basis,
- to actively work towards the creation of a climate conducive to change,
- to monitor progress in regard to the transformation,
- to anticipate and deal with problems related to the transformation process,
- to perform specific interventions as required.

The Project Team met again on December 2, 1997, to learn about the role of communication in a transformation process and to start with the preparation of a communication plan. With the assistance of the Consultant, project team members were guided to understand the role of paradigms in change. Paradigm shifts are required, but paradigm shifts have multiple behavioural implications. At the individual level, paradigm shifts require openness to new ideas and the ability to relate to and respect others. Paradigm shifts require probing and questioning for deeper understanding. Project team members were let to understand that a new way of thinking was needed to create and support new paradigms. It was explained that a paradigm shift did not only present a modification of a prevailing framework, but also the acceptance of a contradictory framework.

Project team members were informed that the transformational change in SSSA would involve the *creation of a new organisational reality*. The cue to the new reality was to be found in the company's new vision, which commits the company to fundamentally changing the whole, not just of some of it's parts. Making the vision a reality not only required changing practices, policies, structures and behaviours, but also the underlying mental models, meanings, and the consciousness of all the people involved.

It was agreed that the main challenge to the Project Team was the ability to influence staff to accept the new reality and to motivate them to take on the work required to turn the vision into a new way of organisational functioning. Members were subsequently informed about strategies for organisational change as well as influencing strategies to use at both individual and group level.

The workshop ended with a target audience analysis for the purpose of developing a communication plan. The following audiences were selected and analysed:

- Schümann-Sasol International AG;
- Schümann-Sasol KG (the Hamburg operation);

- Production and Maintenance first line Supervisors;
- the Boksburg plant;
- staff in support functions (technical, logistics, financial, marketing and R&D);
- the Workers Forum;
- Sasol Chemical Industries and Sasol Technology;
- contractors and shift workers.

The aim of communication during change was defined as, *"…to create a climate by raising an awareness of the need for change, create an understanding for it and to diffuse negative feelings*".

Two training programmes were scheduled for the Project Team: Consultation Skills (scheduled for February 9 - 13, 1998) and the Positive Power and Influence Programme (scheduled for the period January 12-15, 1998).

The year ended with a meeting between the Consultant and the CEO. In the discussion, the transformation process was addressed as well as the progress that had been made. The CEO expressed his concern about some members of the management team's inability to handle the Germans. He was particularly annoyed by the tendency of people to become angry or to avoid interactions. It was clearly interpersonal relations that involved cultural diversity, which required a new approach and a new set of skills.

4 Creating a readiness for change

Planning for 1998

The decision to introduce a strategy-driven transformation came into effect early in 1998. By then change was understood as organisation-wide, strategy-driven, and managed as a process that would eventually involve everybody.

Those strategic priorities, which dealt with change in structure, culture, systems, competencies as well as the communication of change, were the responsibility of the project leader, Tony Olivier.

A meeting between the Project Leader and the Consultant took place on January 19, 1998, to address priorities and the **specific objectives** which Olivier were to be held accountable for. These were:

- "*An* ***information system*** *aimed at keeping staff informed has been introduced and is capable of reaching all staff members within two hours*" (Strategic Objective 3.14).
- "*A* programme *to operationalise the company's* ***core values****, based on an initial survey result, has been launched*" (Strategic Objective 8.7).
- "*An* analysis *has been completed where the current sub-processes in* ***the value chain*** *were defined, including the tasks that will be performed, information required and competency levels*" (Strategic Objective 4.3).
- "*Based on the analysis of sub-processes of the value chain,* ***restructuring of*** **production*, logistics, R&D, marketing*** *and other functions has been formally started in order to add more value and to create the best practices, following a bottom up approach*" (Strategic Objective 4.4).

- "*The* process of **linking departmental and unit objectives** has been completed and approved *by the Management Team*" (Strategic Objective 3.13).

The discussion that followed indicated that new ways of thinking about change had taken root. Conclusions like the following enunciated during the meeting, support this observation:

- Communication could not occur through a single medium or in only one direction. Multiple media had to be used and provision needed to be made for two-way communication to fully understand the perceptions, opinions, belief's and feelings before or after a communication effort.
- An embedded culture could only be assessed on behavioural level. To achieve this, the core values had to be understood; they had to be modelled by the leaders, and structures, systems and procedures needed to be changed so that staff could live the values in an unrestricted way.
- SSSA had three distinct products: paraffins, medium waxes and hard waxes, implying three value chains and the possibility of three business units.
- It is difficult to conceptualise a value chain (or process-driven structure) while the functional paradigm still dominated a person's thinking.

Planning for 1998 was divided into two periods, January to March and May to December. April was scheduled for a visit to the Schümann-Sasol Plant in Hamburg, Germany. The Consultant's contract was extended to December 1998.

The first three months can be seen as a preparation period for the transformation. The Project Team was announced and groups identified as communication targets were informed about the role and composition of the Project Team. The period also allowed for the further orientation and training of the Project Team members. A detailed communication plan for each identified target group was developed and the official launch of the project was scheduled for late February 1998.

Leadership

A team-building session for the Management Team took place on January, 16 - 17, 1998 and was facilitated by the Consultant. The session addressed their leadership role in the company and how they would work together as a team in future. The session was particularly important in view of the recent appointment of the German MD (the board had decided to appoint him as MD, not CEO). A Responsibility Guide was introduced and the role of the MD as well as the roles of the other team members were discussed and defined.

By the middle of February, the Consultant conducted a follow-up discussion with the new MD and made a number of observations. In a memorandum to the Project Leader, he refers to the question asked by the new MD, whether SSSA was moving in the right direction. The Consultant expressed his concern that the transformation process may not have been properly understood, and that the MD might not have accepted his role in the process. He concluded that the MD may not be able to play such a strong championing role as initially anticipated by the Project Team.

The new MD also expressed himself rather strongly against the prominence that was given to *soft issues*. He was quite outspoken about his expectation to get to the restructuring part of the transformation and to submit a redesigned structure by the end of the year. Despite these expectations, he admitted that he had very little experience in analysing processes and designing structures.

The MD's comments can be understood, given his background in the Schümann organisation, but for the Project Team this came as quite a blow. In an effort to address the MD's concerns, the Project Team met with the Management Team on February 25. The session was productive. Negative feelings and concerns were expressed and members of both teams had the opportunity to interact honestly and openly. The session ended with the clarification of their respective roles in the transformation.

The launch

As early as January 1998, the Project Team became active in communicating different aspects of the transformation. The launch of the project, which was scheduled for February 24 - 25, became the pivotal point for all communication efforts.

A first communication plan, targeting critical stakeholders was rolled out over the period January 27 - 30. Members of the Project Team handled the programme. Specific stakeholder groups (eleven in total) were targeted. Four communication objectives were set:

- know the Project Team and it's purpose;
- understand the factors that contributed to the appointment of a Project Team;
- become excited about the launch; and
- express concerns and questions.

The launch of the transformation was handled as a major communication event. The MD was contracted well in advance to perform in his company-leadership role. His address formed the core of the 40-minute programme, which was presented on three occasions over two days, to involve as many staff members as possible. Themes of his address included world competitiveness, the challenge to the Schümann-Sasol strategy, the transformation and the Project Team.

The aim of the launch was to create excitement and a positive expectation for Schümann-Sasol's future. Several specific objectives were set for the occasion:

- to become aware of the content and symbols of the vision;
- to experience a sense of belonging to the company;
- to become aware of Schümann-Sasol's future;
- to develop a perception that management is involved in the change;
- to become aware of the new mission and core values; and
- to know the next steps of the project.

More than 90% of staff attended the three sessions over the two days. The launch was staged at the Ettienne Rousseau theatre in Sasolburg. It involved members of the Management Board, the Management Team and the Project Team. SSSA's products were displayed and markets worldwide graphically portrayed. The name **Leopard Project** was introduced as the official branding of the transformation process. One of the outstanding features of the launch was the vision video that vividly portrayed the images and metaphors of the company's new vision.

After each session Schümann-Sasol employees received T-shirts displaying the Leopard branding and images from the vision. Members of the Board and the Management Team mingled freely with staff members before and after each programme. In many ways it was a great success. A checklist that was distributed after each launch provided immediate feedback. The feedback revealed that the things that really excited staff were: the poster of the vision, the video of the vision, the presence of board members and management and the way in which the launch was executed by the Project Team. Participants were unanimous that the high standards set with the launch, created high expectations for the project. However, it was a surprise to learn that everybody in the company did not know who the members of the Management Team were, what the company's products were and which members had been appointed to the Project Team.

A Board Meeting took place during the same period as the launch. Board members were impressed by the professionalism and energy displayed by the Project Team at the launch. These positive expectations for the project were reflected in their approval of the Leopard Project's R900 000 budget.

After the launch a series of 4-hour follow-up communication sessions were designed and scheduled. A number of target groups were involved and due to the feedback gathered during the launch, some amendments were made to the original thinking. Target groups were selected on account of their **informal influence** in the company. During the workshops groups were kept homogeneous to encourage members to express their thoughts and feelings more openly. The objectives covered a variety of areas and topics, including:

- understanding each other's expectations and feelings in regard to the Leopard Project;
- understanding the vision, mission and core values;
- understanding the gap between current levels of performance and the overall strategic objective of 2003;
- understanding the set of eight strategic priorities;
- what changes were to be expected before the end of 1998; and
- the different but complementary roles of the Project Team and Management.

These sessions started after the launch and ended by the middle of March 1998.

The follow-up sessions, which were handled by members of the Project Team, proved to be extremely useful for preparing people for the transformation. A number of important learnings occurred. One was the fear for retrenchment. Another was the alienation felt by black staff. There were also lessons to be learnt in regard to the language of communication. It was obvious that members of the Management Team and the Project Team needed more contact with staff in regard to the transformation process, since managers had not been able to respond satisfactorily to questions put to them by staff. The conclusion was that Management had to play a stronger championing role in the transformation. If not, the Project Team's facilitating role could easily be replaced by a championing role, which would defeat the object of their existence. Management needed to feel and act as if they were in control of the process.

A useful part of the follow-up communication sessions was to help staff understand that the Leopard Project was directly related to the enhancement of the company's competitiveness. The message was that if competitiveness could be improved, there would be an advantage for every person in the company – also a secure job. Competitiveness was defined as: *"…the degree a company can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real income of the people over the long term".*

A refocus on leadership

To address the concerns about leadership which surfaced during the follow-up communication workshops, another session with Management was arranged on March 14. On this occasion, spouses were also involved. Their session ran concurrently with that of the Management Team and was aimed at helping them understand the imminent changes in SSSA, and the role they could play in their spouses' success.

Both sessions were experienced positively. The Consultant and Project Leader were particularly satisfied with the progress that had been made with the Management Team. Direction was more coherent and members felt excited and challenged as members of the team. They expressed a desire to contribute. The climate in the team was more relaxed, members were supporting one another and they were openly sharing their feelings. They all expressed a favourable opinion of the new MD in his leadership role.

During this session, it was also decided that members of the management team and other senior staff members would attend the Positive Power and Influence Programme (PPIP) during May and June.

The Consultant quickly followed up on the successful workshop of March 14, and initiated a discussion with the Project Team to improve the quality of communication. A number of guidelines were suggested, including more simplicity in communication, making more use of metaphors, analogies and examples, making more use of different forums, modelling by leaders and two-way communication.

The Consultant, with the support of the Project Leader, then considered themes to communicate progress with the Leopard Project. One suggestion was to communicate meaningful results. A good example was readily available. On March 10, 1998, Hard Waxes had set a new record for a single day's production. They produced 232 tonnes but had also succeeded in improving the existing record of 201 tonnes per day throughout that week. Hard Wax was now producing at an average of approximately 1400 tonnes of final products per week, compared to a previous average of 1100 tonnes.

Evaluation of progress to date

The end of the first quarter of 1998 can be described as a period of reflection and evaluation. The Project Team felt particularly encouraged by the successful launch of the Leopard Project and the high ratings it received from all stakeholders. Members of the Project Team were also gaining confidence as facilitators of the transformation process. Their thought processes were stimulated and they were growing in their understanding of change and it's dynamics. Most of the project members were people with a technical background, but they started to show remarkable understanding of the human element in change.

The team itself had matured in several ways: discussions were characterised by openness and honesty, trust prevailed and team members recognised each other's strengths and weaknesses. The team were fully aligned to the company strategy and were quite comfortable in dealing with differences amongst them.

The Consultant compiled a document, dated March 18,1998, which mirrored much of the thinking that was taking place in the Project Team at that stage. What is particularly interesting from the document is the concern expressed about the long interval between creating a readiness (the first quarter of 1998) and the more tangible changes to come, such as the design of new structures and the introduction of new technical processes. Project Team members expressed a fear that energy levels could drop and momentum stalled. This reinforced the original decision to communicate continuously in order to keep people informed, and to stimulate participation at all levels. It was agreed that the strategic objective that dealt with an internal communication system and programme had to be addressed within the next two months.

The Project Team reached another conclusion: changing culture would be a prerequisite for changing processes, structures, systems and technologies. It was agreed that a first step would be to make an assessment of the current manifestation of the new core values in the company.

Partly triggered by the record-breaking performance of the Hard Wax production group, the Project Team recognised the need for achieving short-term, quick results. They reasoned that staff on lower levels would find it difficult to relate to the company's strategic priorities and objectives, but would rather associate themselves with short-term objectives that were more real to them. They argued that short-term objectives to attain quick results would contribute to a climate where energy factors such as a sense of urgency, challenge, tangible successes, pride of achievement, fear of failure, excitement and experimentation would prevail. Another benefit of short-term objectives would be regular feedback. Through regular feedback people could assess their progress and gain confidence. To be meaningful and generate energy, objectives had to be urgent and compelling, multifaceted and linked to quantity, quality, time and cost. Short-term successes would create a common will, a results-driven orientation and would make it possible to introduce a system of tangible and non-tangible rewards.

Although these thoughts were not implemented immediately, they never vanished. They remained dormant for the next twelve months, mainly because of the fact that so much energy was being directed towards the establishment of core values, the analysis of the value chain, the redesign of processes and structures and the preparation of people to enter into the new structure. The appointment of the new MD in July 1999, was the catalyst that revived these thoughts.

By the end of the first quarter of 1998 energy in the Project Team was well focused on the establishment of core values, analysis of the value chain and continuous, but improved communication. They understood and accepted that the core values were important to entrench the behaviour required for the organisation to achieve it's mission; they understood that cultural values involved attitudes, mindsets, beliefs and an understanding that impacted on how work is accomplished and how employees dealt with each other and with customers. It was accepted that values were the subtle control mechanisms that informally sanction or prohibit behaviour, and the importance of linking values to the company's vision, mission, strategic priorities and objectives was appreciated. Members saw the logic in embedding certain behaviours through the value-entrenchment process before engaging a change in organisation structures.

Preparation for the values survey commenced in April. The purpose was to determine how the company's new core values manifested themselves in the behaviour of the people. The survey, which involved a large sample of staff from every level, was conducted during May.

Planning for the value chain analysis was also finalised. A decision was made and approved at management level that staff from various levels could be drawn into the analysis process as focus group members. Orientation of focus group members was scheduled for a week in May and their learning would involve a two-day simulation. It was estimated that the value chain analysis would be completed by September 1998. In view of this a visit to Hamburg by the Project Leader and the Consultant was planned for April. The purpose of the visit was to assess the restructuring process that was being followed in Hamburg and to compare the philosophies, methods and approaches of the two transformations.

The Project Team had by now accepted the importance of continuous communication. The team therefore engaged in longer-term communication planning, which included the selection of specific themes and methods, the introductions of more effective forms of feedback and the use of special events. A Leopard Notice Board was installed in each section of the company and a Leopard Project Newsletter was published at regular intervals.

The Project Team frequently stopped and assessed their own learning as part of their involvement in the Leopard Project. Learning led to improvements. For example in a session, conducted on April 17,1998, they slightly amended their list of key tasks in order to be better focused and to differentiate more clearly between their own role and the role of management in regard to the project.

Visiting Hamburg

The visit to Hamburg by the Project Leader and the Consultant was an energising experience. It offered them the opportunity to benchmark the SSSA transformation with the transformation in a similar plant and to understand the German-way of thinking and doing. Since the Hamburg plant's transformation had started in 1996, SSSA had the advantage of learning from their mistakes and successes (Schümann-Sasol KG, Jan 1997) (Schümann-Sasol KG, August 1997). The visit came at the right time for the Project Leader and the Consultant, since major changes in regard to core values and the structure were to start in May. In Hamburg the Hamburg Plus Steering Committee members willingly shared their experience of transformation. The following weaknesses surfaced:

- EDP needs were not properly addressed during analysis of processes and resulted in a retarding of the implementation of the new structure.
- The Steering Committee (equivalent of the SSSA Project Team) was dissolved when implementation started, resulting in the difficult process of aligning people and structures. Alignment was entrusted to managers and supervisors who lacked the necessary skills and background.
- A new set of core values was initially ignored, causing a dissonance between the behaviour required by the new structure and the behaviour that had been entrenched in the company's culture over a long period.
- Staff at lower levels found it difficult to relate to the company's vision.
- Communication was not planned from the start of the project and was not of an interactive nature, thereby blocking regular feedback from the lower levels.
- The supervisors who were appointed in the new structure had not been part of the working (focus) groups, and knew very little about the analysis that had been done and the intention of the new structure.
- Roles between management, supervisors, the steering committee, consultants and focus groups were not clarified and contracted, causing friction.
- The plant lacked a proper HR department and a resource that could handle the people dimension of restructuring.

5 Redesigning structures and assessing the culture (values)

Appointment and orientation of focus groups

After the return of the Project Leader and the Consultant, the Project Team became fully engaged in the priorities set for the transformation: the core values, communication to all levels and the analysis of the value chain. Most of the members became involved in the latter, which was perceived to be the more complex, but also the more crucial for success of the transformation.

Collectively the Consultant and Project Team looked at the business as a whole in an effort to identify the core processes, which transformed gas to wax products. Seven such core processes were defined:

unaware – application development → **aware**
aware – marketing → **want**
want – selling → **order**
order – plan to produce → **production plan**
production plan – produce → **manufactured**
manufactured – deliver to customer → **delivered**
delivered – pay → **payment**

Each of the core processes involved a number of sub-processes, which needed to be analysed.

The Project Team's task now became much more specialised. They selected members to form focus groups for each of the seven core processes. One project team member headed a focus group. As leaders of focus groups they were mandated to prepare every focus group for the process analysis and the redesign phases, which would follow later on. Project team members understood the importance of this phase and the pivotal role communication would play to create the correct attitudes. One thing they wanted to avoid was to create a perception that this phase was the exclusive domain of Management, the Project Team or focus groups. The rest of the staff had to feel part of the process. The size of the focus groups was restricted to between five and seven members. Several meetings were scheduled to help focus group members understand their role in regard to process analysis and process redesign.

The first major event in preparation for process analysis took the form of a one-week orientation workshop, which was conducted over the period May 20-24,1998. The workshop involved members of the Project Team, the Consultant and newly appointed members of focus groups. The purpose of the workshop was *"…to orientate members of the Project Team and focus groups in regard to the redesign of the process flow analysis"*. A document, titled *Redesigning Philosophy: Programme Structure And Approach,* a 5-volume manual, was prepared by the Consultant and handed to members as pre-work. The workshop was arranged near Rustenburg at an isolated venue.

The orientation week started with Alpha International, a simulation designed to study the impact of an organisation's structure, management style, values and policies on it's people, major stakeholders, productivity and profitability. A specific objective of the simulation was to create a quantum leap in productivity and profitability through redesigning total systems by involving the total organisation in the process of change (Serfontein, 1998). This powerful simulation helped the Project Team and focus group members to:

- understand their organisation as an open system;
- understand the value chain concept, including the role that suppliers and customers play in this chain;
- understand the concept of whole-systems change;
- become familiar with socio-technical thinking and the difference between a technical and social analysis;
- appreciate the huge potential of organisation redesign if approached from a socio-technical perspective;
- understand the key role of management in initiating and managing change;
- appreciate the role of values in high-performance organisations;
- apply principles of entrepreneurial thinking when turning companies around.

During the rest of the week the participants were familiarised with approaches to technical analysis and social analysis. Participants were allowed to give inputs and to contribute to the development of a customised process for SSSA. Valuable learning points in regard to the company's core process and value chain surfaced. Examples included that the discovery that core processes in SSSA were not being **used** optimally, the realisation that there was **no definition of value adding** in any of the processes and that no method existed in which core process outputs could be **quantified**.

For most of the participants this was the first opportunity to conceptualise the total process - from gas to final products - and they admitted that there was room for improvement throughout the process. Another discovery was the realisation that the value chain was currently not **customer-driven** but **production-driven**. Some of the findings of the Alliance Consulting Group almost a year earlier, were substantiated. A good example was the lack of communication between core processes.

In terms of Kurt Lewin's (1951) theory of change, this workshop was in many ways a real unfreezing experience for participants.

Towards the end of the workshop, the group as a whole compiled a communication plan to share learnings and understandings in regard to the transformation with the rest of the staff at SSSA.

Evaluating the success of the Project Team

On May 27, shortly after the one-week orientation, an evaluation session was arranged for the Project Team. The session started with an assessment of the current status of the Leopard Project. Several helping forces were identified, including a better understanding of the analysis process by project team members, the realisation that the Project Team had indeed become a microcosm of the company of the future, the constructive support that team members experienced amongst one another and a much better understanding of the factors contributing to the company's success. Project team members also expressed their appreciation for skills they had acquired through the Positive Power and Influence and Consultation Skills programmes.

The overall experience of members in the Project Team was described as extremely valuable. A restraining force was their realisation that they had not received the support from the company's leaders (the Management Team) as expected. They expressed concerns that the company's leadership were reverting to their old leadership styles. Concern was expressed that business decisions did not reflect the spirit of the Leopard Project or strategic plan. Frustration was conveyed because the initial contract between the Project Team, the Management Team and the Board had not been honoured. Project team members were upset by the expectation being voiced by certain members of Management that the Leopard Project results should by now be visible on the company's bottom line. It was seen as proof that management was not fully involved and committed. These factors momentarily clouded the interface between the Project Team members and Management. A detailed plan was drafted to guide the transformation for the period June to September.

To address the concerns aired by the Project Team, a meeting with Management was arranged for May 29. The purpose was to verify perceptions of Management, to share helping and restraining forces in regard to the project's progress and to seek ways in which the Management Team could become more involved. The meeting was also used to discuss roles and to project the next three month's activities.

Revisiting leadership

By the middle of May the Project Leader and Consultant became aware of another problem at leadership level. An uneasiness had come about amongst members of the Management Team in regard to their new leader – the German MD. Several members shared their concerns with the Project Leader and Consultant. Some of the original feelings of distrust were reawakened. Two members complained that the MD expected them to operate rather than manage. Another member complained that he had not received support in his conflict with Sastech; the two members involved in marketing felt excluded during a recent session on marketing, and left the meeting after only receiving instructions. Their perception was that other norms were being applied to the Germans who had attended the session. All the members felt that the MD had no confidence in his own Management Team.

These problems were addressed during a special session with the management team on June 12,1998. The session was facilitated by the Consultant, and assisted by the Project Leader. Interaction was honest and all the concerns voiced earlier by the individual members, were repeated and discussed. The process however was not efficient: people did not listen to one another and they too frequently became emotional. They deviated from topics and failed to support and involve one another. Conflict was a dominant feature. Negative perceptions were acknowledged. It was clear that this unproductive behaviour had been a team phenomenon for several weeks.

These and other issues were dealt with directly and a number of decisions were made to realign the behaviour of the MD and the rest of the Management Team:

- the marketing department's authority would be recognised in dealing with clients and the MD would avoid talking directly to clients and suppliers;
- the MD would be more sensitive to his own team members' positions when conflict with outside parties erupts;
- emotional outbursts would have to stop because of the impact on people's behaviour and discussions;
- meetings would have to be planned better and time used more productively;
- when conflict with Hamburg occurs, the MD would remain objective and consult with his own team members before taking a position;
- decisions would have to be made by the team, unless the MD is clearly mandated by the team to handle an issue on behalf of the team;
- negative perceptions would be dealt with as soon as a team member became aware of it;
- the team as a whole would commit themselves to the objectives they had decided upon.

The thinking behind the analysis of processes

The orientation workshop of May 20-24,1998, highlighted several flaws in the Project Team's approach to the analysis of processes across the value chain, as well as principles in regard to redesign.

This led to serious rethinking and consultation with several other people in Sasol, who had gained previous experience in process analysis. At least two of these individuals had been subjected to other methods and could provide a valuable assistance. The Consultant himself was knowledgeable about the socio-technical approach and had applied this approach in at least one other technology-driven organisation in South Africa.

The new thinking was integrated in a manual for the value chain analysis (dated June 10,1998). The aim of the manual was *"…provide focus groups with the necessary background and tools to successfully conduct an analysis of the total value chain, throughout it's sub-processes*". The redesign philosophy used SSSA's' strategic priorities as it's foundation. It took into account the fact that the strategy addressed processes and technologies, products and markets, structures and competencies – all necessary to drive the new organisation. The need to integrate the priorities is emphasised, the rationale being that one could not imagine how productivity levels could be raised and costs reduced if feedstock resources were not reliable and not available at competitive prices, neither could Schümann-Sasol became a world leader in Fischer-Tropsch waxes if new product development time could not be reduced, or an international competency base could not be created. If the company wanted to change, it needed to rethink and align the activities that were being performed within it's structures, technologies and resources across the total value chain, in order to effectively meet customer needs. An analysis of the processes, systems, technologies and structures could thus only be of value if they were directly linked to the company's strategy.

The manual states explicitly that companies that want to survive and maintain their level of competitiveness should be ready to change continuously. Radical improvements are achieved through actions that **reduce** (less complexity, fewer hierarchical levels, lower costs), as well as actions that **increase** (more innovation, greater creativity, more attractive products and greater market penetration). The challenge however is to create **new** value. To do this Schümann-Sasol had to move beyond the vertical organisation, structured along traditional functions (e.g production, logistics, laboratory, administration, marketing) and focus on the business-flow that brings value to the customer. By looking at the business as a sequence of activities or processes that result in valued customer output, a business can be managed in a coherent, integrated way in order to achieve radical improvements.

SSSA's value chain consisted of seven core processes and each core process consisted of a series of sub-processes that changed inputs into desired outputs. Redesigning the value chain would imply optimising each of the core processes so that more value would be created in each of them.

The analysis of the value chain, which was custom-made for the Schümann-Sasol environment, relied on socio-technical thinking and the work of Passmore & Sherwood (1978), Lyle & Weisbord (1989), Ashkenas *et al* (2002), and Schumacher (Volschenk, 1999). The analysis provided for a **technical analysis**, **a social analysis** and a **client analysis**. The process commenced with the technical analysis and was followed by the social analysis. Less effort was spent on the client analysis in the initial stages.

The technical analysis involved three techniques: **a transformation analysis**, a **variance analysis** and the preparation of a **key variance control table**. The

transformation analysis took into account the flow of activities through core processes across the value chain. Within each of the core processes a number of sub-processes would be identified. Each sub-process consisted of a number of sequential activities and these sequential activities were rated in terms of their value-adding characteristics. Activities that constituted state changes were regarding as value-adding activities. In the **variance analysis**, variances were identified and labelled as those conditions in the transformation process which needed to be controlled in order to produce the output desired for each stage of the process. The **variance matrix** displayed the inter-relationships among variances in each core process. A key **variance control table** was produced to discover how key variances could be controlled.

The **social system** formed part of the analysis because through the social system goals could be set and attained, the organisation could adapt and the technical system could be optimised. The social system analysis was defined as "…*those interactions and activities that are a result of methods of recruitment, payment and discipline, labour relations, mechanisms to deal with conflict, communication and decision-making procedures, plus other components which influence work-related interactions and activities of people in the organisation*" (Lyle & Weisbord, 1989). The social systems analysis was therefore aimed at describing what was actually happening within and between people and how this was influenced by procedures and mechanisms created by the technical system in which they operated. The social analysis distinguished between satisfiers and motivators. Satisfiers included elements such as pay, job security, safety and health, etc. Motivators referred to decision-making opportunity, variety in the job, opportunities to learn, the opportunity to gain meaning, etc.

The **technical analysis** was not handled in isolation. In this regard a new understanding and a new paradigm was created. People in a core process had to realise that their customer was the next core or sub-process in the value chain, and not only the spectrum of clients in the market place. During the technical analysis, those who were interviewed were questioned about their knowledge of the customer, their relationship with the customer, the feedback mechanisms in regard to quality and the mechanisms for obtaining ideas and help from the customer to improve quality and process.

Creating a critical mass by simulating reality

Simulations are generally acknowledged as a powerful tool to clarify concepts, understand principles and create a positive expectation for implementing change in a company (Rothwell, Sullivan & McLean, 1995). In the transformation at SSSA the simulation as a tool to create a climate conducive to change and to prepare key members of the organisation for a totally different structure and a new way of thinking and working, was used very effectively.

During May and August a total of ninety people, consisting of project team members, focus group members and members of the management team, attended a total of five two-day simulations. The simulation, known as Alpha International, was described earlier in this case study in terms of it's aim, objective and major learnings (see orientation week May 20-24, 1998). Alpha International represents a company with a real hierarchy, a product to manufacture, a client, a supplier and a bank. Managers are appointed at the start of the simulation to orientate themselves in regard to the company. Workers are recruited towards the end of the first day to be trained and to be prepared for production, which starts on the second day. Reality prevails throughout the two days and management becomes acutely aware of time pressure, the results of their own decisions and the impact of their policies and own behaviour on the performance of the company (Serfontein, 1998).

On the second day, the first three shifts are run while the organisation is still functioning as a hierarchy and where a command and control style of management dominates. At the end of the third shift the company is usually in trouble: production targets are not met, quality standards are dropping, conflict is erupting between management and workers and serious cash flow problems are being experienced. As a result of the crisis a diagnosis is performed, which is a joint effort by management, workers and consultants.

To change the company into a high performance organisation, the company is redesigned, based on sound redesign principles, such as the creation of self-managing teams, the empowerment of these teams to take accountability and the redefinition of management's role. The new design is implemented during the final two shifts of the simulation. The challenge to the company is to attain a quantum leap in terms of quantity and quality by the final shift, thereby restoring profitability.

In the SSSA transformation these simulations aided the change effort in several ways:

- Elements of a *win-loose* culture that existed in SSSA were demonstrated through the behaviour of participants.
- The *volume* culture adversely impacted on efforts to promote a quality orientation and to establish better client relationships and sensitivity for customer needs.
- Participants ended the simulation with a much better understanding of the value chain principle and how the value chain could be analysed in terms of technical and social processes. They understood that the redesign process required change from a hierarchy to a process-driven structure.

- It highlighted how difficult it was for management to distance themselves from the operational side of the company and focus on the business, while empowered teams manage production.
- It was demonstrated that empowerment without the necessary competencies does not work.
- There was an appreciation for high energy levels and perseverance at leadership level, as well as the strong encouraging effect it had on worker performance.
- Culture was better understood as well as the need to create values that support change. SSSA's five core values were better understood.
- Customer needs were better understood, particularly the need for quality and the fact that a contract with a customer is primarily linked to quality and not to volume. It was also realised that a relationship with a client is not successful until the client's needs are met.
- It was demonstrated that the right people should take the lead during a transformation and during the implementation process in particular.

As a direct consequence of participating in the simulations Management attempted to define a quantum leap for the company. The following suggestions were put forward:

- an increase in market share of up to 20%;
- increasing revenue per employee from 15% to 30%, and
- a reduction in product development cycle time of between 30% to 50%.

Such initiatives were seen as indications that the thinking processes at leadership level were changing. Leaders were now thinking about the concept of high performance, the requirements for quantum leaps in performance, the gap that existed between current levels of performance and high performance and the factors that could bridge the gap.

Progress with the changing of culture

It was pointed out earlier that a values survey was conducted during April and May 1998. The analysis of the results was made available in August. The survey instrument was a questionnaire that measured behaviours reflecting each of the five core values: *creativity and individual ability; openness, honesty and integrity; equal and fair treatment; pride; perseverance.*

The results identified a number of general behavioural trends, some supporting these core values, but mostly neutral or negative as far as the value related behaviours were concerned. Some differences between races and departments were also reported.

The conclusion was clear: work had to be done in regard to each of the core values to entrench them and make them an integral part of the company's new culture. Apart from the fact that the survey allowed the Project Team and Management to obtain a fingerprint of the culture, it also created a company-wide awareness of the core values and where the company stood in regard to them. This was achieved through a series of feedback sessions to various target groups in the company, including Management, First-Line Supervisors, the Affirmative Action Steering Committee and the Workers Forum. These feedback sessions were perceived as a successful communication operation because it was properly planned and the sessions were handled professionally by project team members. Through these feedback sessions the Project Team succeeded in communicating the rationale behind the new core values, defining the core values in behavioural terms and creating an awareness of the changes required to entrench them in the SSSA culture. Members of the project team were also first to model the core values.

The value chain analysis

Focus groups engaged in the analysis of technical and social processes until the middle of September. Understandably, the *easier* processes such as production and manufacturing, were addressed first. They were perceived to be easier because of their linear nature and the relative ease to identify inputs, activities and outputs. In the non-linear core processes, the sequence of work is of a more optional nature and several tasks are performed in parallel fashion (e.g. tasks in new product development, maintenance or marketing). These non-linear processes were documented as different types of interactions and activities, involving information exchange among organisational members when making key business and operational decisions. State changes (a word used in the technical process analysis to indicate value-adding) were therefore defined as **decisions** taken. Sub-processes and activities revolved around key decisions. The decision thus became the value adding activity. The social analysis was flexible enough to adapt to the non-linear processes.

Evaluating the Change Process

The Consultant's initial contract was scheduled to expire on August 15, 1998. On July 7, the Project Leader and the Consultant re-contracted. The project had now been running for nine months. Two interesting phenomena had surfaced:

- The Project Leader had formalised his role as formal spokesperson for the project. Also, being a member of the management team, he had established a weekly feedback routine on the Leopard Project during the Friday management meetings.
- The Consultant's role had become more pronounced. The new contract, which resulted from the discussions of July 7, made provision for specific tasks such as:
    - advice and assistance in the final analysis phase;
    - assistance with plans for changing the organisational culture;
    - training of the Project Team and focus group members for the redesign phase;
    - assistance with the development of competencies where appropriate.

From the decisions taken at that stage it is apparent that the Project Team, guided by the Project Leader and the Consultant, were still providing structure and leadership in the transformation. The transformation was still seen as a project and managed as a project but now better supported by Management. Accountability for the project and it's outcomes still lay with the Project Leader, but the responsibility for professional guidance rested with the Consultant.

Business results at the end of the financial year (June 30) looked better than over the previous three years. Revenue had grown from R442.224m in 1997 to R576.34m in 1998. EBIT had increased from R13.09m in 1997 to R31.39m in 1998. This exceeded the budget with more than R11m and had a favourable impact on the project; but it did not paint the full picture. Results were clearly not good enough to achieve an EBIT of 15% by 2003.

A workshop for project leaders and focus group members was arranged for July 20-24, 1998, to assess progress, evaluate the functioning of the various focus groups and to do more coaching and training.

Directly after this workshop on July 24,1998, the Project Team prepared a project plan for the period August to November 1998. The plan stipulated that the analysis of certain core and supporting processes needed to be completed by September. Of real interest was the fact that the future role of Information Technology (IT) in the new design of the structure was anticipated. The first meeting to discuss future IT needs was held on August 17. The necessity of special communication plans targeting the Management Board, the Management Team and the rest of the company, prior to the Board Meeting in November (when the new structure was scheduled to be approved), was also discussed.

On this occasion the Project Team introduced the concept of benchmarking. It was seen as a necessity before starting with the redesign process. An interesting communication innovation was the decision to use members of the focus groups to keep staff informed on the days when they returned to perform their regular jobs (focus group members spent only 50% of their time on the Leopard project).

Preparing for redesign: evaluating progress mode with the transformations

The first redesign workshop was arranged for the period September 14-16, 1998. The purpose was to prepare the Project Team and focus groups for the redesign phase. Real change was now imminent and positive expectations and high energy levels characterised this period.

The workshop was designed to evaluate progress made with the transformation project, to consolidate some of the results from the value chain analysis, to reach consensus on the design principles and to start conceptualising Schümann-Sasol's future structure. The fact that the proposal had to be ready for the Board Meeting scheduled for November 16, posed a serious challenge. The workshop was planned and facilitated by the Consultant, but strongly supported by the Project Leader.

In evaluating the process, SSSA's vision, mission, core values and strategic priorities were reviewed. The participants' attention was drawn to the gap that had been identified between existing values and the company's new core values. They understood that a culture which favoured high volumes, close supervision, finding somebody to blame, unhealthy competition, really needed to change. The new core values had become important drivers in creating a culture that would support strategy and the new structure.

The need for people to change was strongly reinforced by business results. Sales figures, contribution margins, fixed cost levels and sale volume at the end of August 1998 painted a gloomy picture. Everyone knew that unless something drastic was done, cost would exceed revenue by the middle of 2000 and the overall strategic goal of an EBIT of 15% by 2003 would become irrelevant.

Nothing less than a quantum leap was required. This called for strategic innovation and finding new ways of thinking and doing. Change would have to involve change in products, services, and in the relationships with the external environment. Innovation would be required to find more reliable feedstocks, develop new products, improve productivity levels and establish a more competitive technology.

In view of these challenges the transformation process from it's launch in February 1998 to date, was evaluated. Successes and failures were listed and discussed. An impressive list of learnings was compiled.

Establishing principles for redesign

For redesign purposes the following set of principles was accepted:

- optimise across the total length of the value chain;
- use the information from the process analysis and construct meaningful patterns of tasks that could create holistic (whole) jobs that could be performed by a team;
- equip teams with the necessary competencies to take full accountability;
- include auxiliary tasks, such as maintenance and quality control in primary jobs within whole-task groups (wtgs);
- leave scope for workers to set their own standards and determine their own means of production;
- ensure that jobs are worthy of respect and that they contribute directly to the end products;
- allow for a limited number of support functions as support groups, primarily for the benefit of whole-task groups and business units across the value chain.
- create a flatter structure where levels are minimised so that empowerment and communication could be enhanced;
- change the role of leadership so that teams and individuals within teams could be fully empowered;
- use information from the technical and social analysis to ensure integration of the technical and the human sub-system – within whole-task groups and support groups;
- ensure worker involvement in the detail design of the structures and tasks;
- allow workers to have a say in their choice of fellow workers and leaders;
- create jobs that require multiple skills;
- locate boundaries between teams and jobs appropriately;
- ensure that information is available to all who need to make sound and timely decisions;

- provide opportunities for individuals to meet their needs for growth, learning, decision-making, social support and recognition;
- ensure that the design of the organisation is aligned with the strategic priorities and objectives and that each part of the design fits with the others.

The design process started with core processes four and five (production planning and manufacturing). The application / product development, marketing / selling, delivery / payment, core processes followed later.

The period September to November 1998 proved to be a crucial one. Planning for the phase was done immediately after the workshop of September 14-16. High on the agenda was the completion of the client analysis as well as the technical and socio-systems analysis for the remaining non-linear processes: finance, procurement, human resources and the research laboratory.

Intensifying communication

Proper communication was of equal importance. A general awareness of the redesign had been created, but staff wanted more detailed information and was asking specific questions that had to be answered. A new draft design had to be tested with internal stakeholders. All levels had to be consulted, including the Management Team in regard to their new role. Outside stakeholders needed to be informed. Sasol Technology had to be involved to help the Project Team identify IT needs for the new structure. An implementation plan had to be prepared, should the Board decide to approve the new organisational structure.

The first communication effort to prepare staff for a new structure was launched on September 21, shortly after the first redesign workshop. The Project Team and the focus groups were involved. During the sessions a number of real concerns surfaced. Staff were upset because too many people (project team members and focus groups members) had been taken out of the plant for too many days. Collation and ordering of the data from the analysis was another problem. It was also apparent that the Leopard Project had not been credited for better end-of-year results or technical breakthroughs like the improvement of the Slurry Bed technology. Some people still held the view that the Leopard Project was nothing more than a small band of people with a hidden agenda. Traces of two earlier negative perceptions had thus remained. These perceptions were: "*The Leopard is only a disguise for future affirmative action"* and: *"The aim of the Leopard is to reduce the number of people*".

The communication sessions also highlighted a number of positive trends; for example, a burning need existed amongst certain staff members to become involved in the Leopard Project. It also became clear that verbal messages were much more effective than the notice boards or the newsletters. In general people were happy with the design principles and satisfied with the focus groups working on it.

As a result of the feedback from this first communication effort, the Project Team selected eight questions and prepared model answers for each question. These questions and answers were subsequently distributed amongst focus group members who were tasked to explain progress regarding the Leopard Project. Examples of these questions are:

- What has been achieved through the spirit of the leopard?
- How will the future Schümann-Sasol differ from the current organisation?
- What is the programme for the next two months, before the Board has to give approval for the new structure?
- How will the redesign affect the 1998 incentive scheme?
- Is there a relationship between redesign and affirmative action or redesign and retrenchment?

Since the focus group members only spent a certain percentage of their time working in focus groups, they could handle these questions and answers informally while they engaged in their regular work with other staff members. It was therefore a case of two-way communication in it's purest form.

Creating new mindsets amongst project team and focus group members

A second redesign workshop was conducted from September 28-30. The workshop was specifically designed to stimulate new thinking and to challenge paradigms in regard to organisational structure, the role of teams, empowerment, etc. The Consultant urged the Project Team and focus groups to work outside the parameters of current processes in SSSA. The functional mindset was challenged and participants were asked to start thinking across functions. The ideas of a whole-task group in particular required a new mindset, because instead of thinking vertically along different functional lines, technology, information, material and people now became **integrated** within the parameters of a whole-task group.

As a result of in-depth discussions and a real desire amongst project team and focus group members to create something worthwhile, several changes in thinking were noted. A few lessons regarding change were also learned. For example, outsourcing was discovered as a viable alternative, but equally strong resistance to the idea was also observed. Vested interest was a major obstacle. This phenomenon was a common one and was even observed at management level. The conclusion was that unless people were willing to change their paradigms, their logic and decisions would always reflect their existing paradigms.

Dealing with resistance at leadership level

As the time for the Board meeting drew closer, the company's leaders and specifically Management became the prime focus for change. To obtain Board approval it was essential for the Management Team to understand the new structure and the principles underlying this new structure. More important, a change of attitude was required especially with regard to leadership, and it's role within the new design. To this effect the Consultant prepared a document, *The Changing Role of Management*. The document served as a basis for questions to members of the Management Team, during interviews by the Consultant. These interviews were conducted early in October. Six members were interviewed, including the MD. Interesting opinions, perceptions and beliefs surfaced:

- Certain managers believed that subordinates were not ready to take more responsibility yet. Neither did they understand empowerment. They interpreted the concept as having more freedom. They perceived people at lower levels as averse to taking decisions, particularly decisions about people.
- The MD favoured the employment of the Project Team and focus group members in key positions within the new structure. His personal concern was that people give up too easily and wanted to see the core value **perseverance,** entrenched. He agreed that people's behaviour would have to change to make the new structure work and admitted that he was not ready to hand accountability to the lower levels yet. He confessed his own prejudices and acknowledged his preferences for the command and control style of managing.
- Certain management team members saw the need for people to be trained and to develop the competencies required by the new structure. Concern was expressed whether a sufficient number of competencies could be developed within a whole-task group to take full accountability. A few members doubted whether Schümann-Sasol International AG would allow the Sasolburg company to run autonomously. Fear was expressed that the Board members would continue interfering in the activities of the Management Team.
- Most members interviewed expressed concerns about the functioning of their own team. It appeared as if information was not shared, as if each member was still only concerned about his own function. The productivity of meetings was criticised, as well as the propensity to deal with operational issues.
- Members openly admitted their doubts and prejudices regarding the new organisational structure. It was evident that their new leadership roles had not been conceptualised yet.

Several sessions with the Management Team followed during October. These sessions served as a forum for members to openly discuss their own prejudices in regard to the new organisational structure. Many questions surfaced, mostly revolving around redesign principles. Other questions dealt with implementation and why implementation was scheduled for the period 1999 to 2003, and not over a shorter period. The relevance of IT as part of the redesign proposals was also challenged.

Decisions that evolved from the discussions included criteria for choosing whole-task group leaders and certain non-delegatable functions of leadership at whole-task group level. The Management Team in conjunction with the Project Leader and Consultant also agreed on the role of IT in the new design, and how existing safety legislation and rewards could be accommodated in the new structure.

The sessions with the Management also served the purpose of raising their awareness of their changing role, should the new design be adopted. It was accepted as a fact that the new company would require a new kind of leadership. A new kind of leadership would not only be needed during the implementation phase, but also in the future, since organisations were bound to change frequently. Three distinct roles crystallised during the discussions:

- a **leadership role**, which involved giving direction, creating alignment throughout the company and establishing the required new culture;
- a **co-ordinating role**, which involved managing the interdependencies and the fact that units would be competing for scarce resources;
- a **role as the creators of a learning environment**, which would involve establishing knowledge, skills and abilities throughout the organisation, and creating new ways of doing things.

By the end of October alignment between the Project Team and the Management Team was once again restored and the Management Team could become actively involved in the important communication phase, which commenced early in November 1998, in preparation for the Board Meeting later that month.

Creating a coalition for the Board Meeting

Once alignment was attained at management level the Project Team turned their attention to the Board. Dr Hans Barth, the board member who had strongly supported the Leopard Project up to that point, was targeted by both the Project Leader and the Consultant. In a memo to Dr Barth on October 30, the Project Leader reiterated the design principles and reviewed the status of the project. He mentioned that consensus had been reached on the following characteristics of the future organisation:

- Staff would be working in market-facing units where they will be doing whole jobs which will be directly related to customers;
- Middle Management or supervisory levels would become part of the whole-task groups, where they will perform direct value-adding work;
- Support staff, with the exception of a skeleton crew for financial accounts, human resources, IT, supply chain optimisation and business optimisation, would either become part of a whole-task group, or will be appointed to support teams which would be rendering services to whole-task-groups on the value chain.

In the memo the Project Leader also refers to "…*grouping people around processes*" and "…*creating many businesses which represent an important part of what the organisation as a whole does*". Emphasis is also placed on the principle that redesign is fundamentally aimed at a growth strategy and not downsizing. He mentions that the new design could immediately result in a cost saving of R8m. A warning is sound that behavioural change would, however, be required and that this would involve more training and a new reward system.

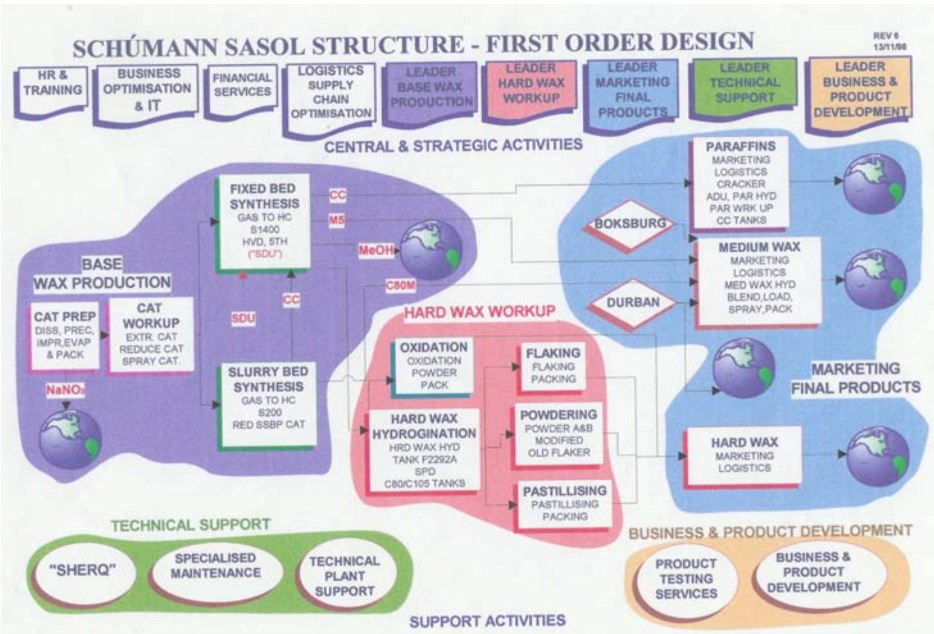
In a letter by the Consultant to Dr Hans Barth, dated November 5, 1998, many of the concepts which were highlighted by the Project Leader were reinforced. The Consultant added, "…*my personal view is that there is a positive expectation and a growing enthusiasm at staff level for the new design*." Also "…*the application of small business characteristics to the corporate environment* undoubtedly *appeals to most staff members. We are particularly thrilled by the reaction of black people who tend to see the new structure as an opportunity to develop as equals*". He cited that his major concern was Management, who might find it difficult to relinquish control and to start trusting people. A warning is given regarding the implementation process: the process would run over a three-year period and 4 to 8% of the salary budget may have to be earmarked for training. He stated emphatically that teams across the value chain cannot be empowered if SSSA's Management are not empowered by the Board to run their business both strategically and tactically.

As a result of these communications Dr Barth decided to attend the Strategy Review Session, which was scheduled for the week prior to the Board Meeting. This news was interpreted by the Project Team as a positive sign.

Communication to leadership at all levels was a major event and planned in detail by the Project Team. A communication session was held on November 3. The introduction was handled by the MD who reviewed the vision and explained the purpose of the day: "…*to share with you the concept of the new structure that has been prepared for approval*". He explained that the new structure would enable the company to improve dramatically and to become a world competitor. The new structure would create new possibilities for SSSA's own people to take more responsibility and share in decision-making, using their own skills more effectively, developing their own business skills and having a more meaningful job. The principles were then discussed and the first-order-design (figure 1) shared and explained.

Figure 1:

The redesigned Schümann-Sasol structure (November 1998)



The concept of whole-task groups was introduced and the roles of the various whole-task groups across the value chain explained. Participants were made aware of the fact that the role of management would change. A number of questions were anticipated by the Project Team and answers prepared. These were distributed as handouts to workshop participants. The following examples will suffice:

- How would the whole-task-group leaders be appointed?
- Why has marketing being split up?
- What will happen to current first-line supervisors and foremen?
- How will it effect promotion and career paths?

- Are people going to loose their jobs?, etc.

The first results of the **social analysis** were also announced in November. Surveys and interviews were conducted in manufacturing, maintenance, logistics, R&D as well as the Boksburg and Durban units. Motivators were connected to work features such as decision-making, variety, feedback and learning, mutual respect and support, whole-ness/meaning and opportunity to grow. Satisfiers were linked to fair and adequate pay, job security, benefits, safety and health and due processes. The analysis, mainly of a qualitative nature, revealed huge gaps in regard to both motivators and satisfiers. This message came at the right moment and reinforced the outcomes of the technical analysis and customer analysis (where gaps were also identified). The Project Team and Management now had sufficient information to support the need for redesign.

Strategy review

The strategy review session took place one week prior to the Board Meeting. The full Management Team was present and the Management Board was represented by Dr Hans Barth. This review session differed from the one a year before in the sense that more emphasis was placed on:

- competitiveness;
- the difference between operational effectiveness and strategic positioning (Porter, 1996);
- strategic positioning: performing different activities from rivals or performing activities in different ways;
- the origins of strategic positioning: variety-based, needs-based and access-based.

The final day was used to share the proposed new organisational structure and to assess the design for it's fit to the SSSA's strategy. A few changes were made and a new revision of the structure was prepared for the Board Meeting, scheduled for November 25.

Evaluating the transformation process

During the week prior to the Board Meeting, the Project Team engaged in another in-depth evaluation of the transformation effort up to that point. For that purpose they used John Kotter's (1996) framework. A total of seven questions were selected and each question was answered in terms of work that had been done well and work that had been done poorly. The questions were:

- Did we establish a great enough sense of urgency?
- Did we create a powerful enough guiding coalition?
- Did we have a vision?
- Did we communicate the vision effectively?
- Are we removing obstacles to the vision?
- Are we systematically planning to create short-term wins?
- Are we declaring victory too soon?

The evaluation offered the team an opportunity to systematically, honestly and candidly review the work that had been done over the previous twelve months.

It served the purpose of learning from both successes and failures. The result was more clarity about what needed to be done to sustain energy levels and maintain focus.

What pleased the Project Team was the involvement of a wide spectrum of staff in SSSA, the impact of the vision (both the way it was articulated and the unique way in which the video captured the images), the availability of project team members to work on the project, the success with internal communication and the indications that the environment in SSSA was becoming more conducive to change.

The downside to this was Management – their *business-as–usual* attitude and the fact that they could have done more to keep the Management Board informed.

The Board Meeting of November 25

At the Board Meeting the Leopard Project Team reviewed the project since it's initiation during the last quarter of 1997. The transformation philosophy as well as the design philosophy and methods were discussed. Design principles were clarified, and explained, and the new redesigned structure was put forward for approval. The Project Team motivated the new structure by reasoning that SSSA strategically required a quantum leap to realise it's vision. This could be achieved through the elimination of excess products, by increasing sales in new value-adding applications and products, by finding additional hard wax markets and by growing revenue and maximising profits from medium waxes. A new vehicle was needed to help the company compete internationally and to improve productivity and cost levels.

The rationale of creating separate whole-task groups representing paraffin's, medium waxes and hard waxes to face the market directly, as well as the principle of placing secondary activities directly in support of the primary whole-task groups, was explained.

The essence of the business case was that the company's future leadership must be allowed to manage the company strategically and to align performance with strategy. To support strategy and encourage innovation, a new set of competencies would be required and a culture characterised by openness, respect for the individual, equal and fair treatment, pride and perseverance, needed to be created to ensure behaviour desirable for implementing the changes.

In conclusion the Project Leader requested approval for the following:

- the draft redesigned structure and principles on which it was based (as the first-order redesign);
- the continuation of the restructuring process through second-order redesign, which would entail establishing whole-task groups and support groups across the value chain;
- an all inclusive implementation plan to evolve over the period December 1998 to June 2000;
- a budget to support the implementation plan;
- the development of a new reward system;

- a new mandate to Management that would empower them to manage SSSA strategically and as an autonomous business;
- a redefinition of SSSA's critical interfaces with the Management Board, SCI and Sasol Technology.

A cost saving of R24m after implementation was envisaged. This was made up of improvements directly quantifiable from the variance analysis (R8m), new opportunities as highlighted by the technical analysis (R12m), reduction of overtime of 25% (R1m) and a restraint in the appointment of new staff (R3m). The implementation plan would stretch from December 1998 to June 2000, and would allow for a series of interventions in addition to capital costs for new offices and control rooms. This would amount to R7.1m.

The Board Meeting coincided with a new edition of the Leopard News, which announced the Board Meeting as a D-day in SSSA's history. In the edition gratitude was expressed to the focus groups who had performed the technical, social and customer analysis diligently. SSSA's approach to redesign was once again explained and a number of hypothetical questions were posed, to which answers were given.

The Board Meeting was viewed as a resounding success for the Leopard Project Team. All proposals were accepted and a mandate was given to continue with the implementation.

The Board of Directors meeting was a significant event in more than one way. Board members admitted that they now understood more about the implementation of an organisation transformation where so many components were changing: strategy, structures, systems, processes and people. The complexity of the change was better appreciated too. Confidence was gained in the process being followed and the hope was expressed that implementation would be managed in the same way. The fact that a **pilot phase** for the introduction of the new structure was approved was indicative of the better understanding of the process and faith in the capabilities of the Project Team.

Another high hurdle was cleared during the Board of Directors meeting: autonomy for SSSA. For the first time SSSA was officially mandated to become an autonomous business unit which could develop and implement it's own business strategy, draw up one-and-three-year business-plans and annual budgets, develop company policies in regard to most of the core processes, negotiate contracts with customers and contractors and implement a desired organisational structure. The Management Board's responsibilities were articulated, and included global corporate strategy, (the positioning of Schümann-Sasol AG globally), managing the interface with Sasol Ltd and establishing a corporate image. The expectation was created that the interface between SSSA and the Management Board would be much easier to manage in future.

SSSA's perceived autonomy was tested soon after the Board Meeting when the Chairman on November 30, argued that the marketing of hard waxes should be a Board (Hamburg) responsibility. Several sound arguments were used, such as the fact that it involved key people in the UK, USA and Europe, that the markets of the hard wax whole-task group were in Europe, US and the Far East, that all the experience in regard to the marketing of hard waxes were in Hamburg. SSSA Management responded and insisted that an autonomous

Hard Wax whole-task-group be managed from Sasolburg. It was stated explicitly that the Hard Wax whole-task Group should have the same level of autonomy as the Paraffin's and Medium Wax whole-task groups. They asked that the management of hard waxes include the developing of a hard wax strategy and the coordination of hard wax marketing activities. It was also suggested that regional managers and technical global support were to be viewed as customers of the Hard Wax whole-task group, to act as a direct link between the final customer and the Hard Wax whole-task-group. The Chairman accepted the proposals.

Finally, approval of the recommendations by the Board of Directors met the expectations of most of the staff members. Enthusiasm for the envisaged changes started growing in October and culminated in huge support for the Project Team and Management before and during the Board Meeting. In a way the enthusiasm was overwhelming, particularly as a result of the relentless efforts by the focus group members to communicate essentials of the redesign to their fellow staff members. On the day the proposals were presented to the Board of Directors, staff at lower levels spontaneously insisted on a petition in support of the recommendations. This petition never reached the Board or Management, but it must be seen as proof of the readiness of staff to seriously engage in change.

6 Implementation of new structure

Drawing up the implementation plan

On December 1, 1998, a very comprehensive implementation plan was prepared by the Project Team. The aim of the implementation plan was "…*to attain a quantum leap in doing business through the smooth integration of strategy, culture, people, processes and technology across the value chain*".

The plan made provision for the period December 1998 to November 1999. A crucial first phase of manning the new structure was to be completed by April 30, 1999. This phase was challenging because it involved advertising the vacancies, and appointing leaders to whole-task groups (wtgs) and support groups.

It was conspicuous that an early start had to be made. An IT system had to be customised to fit SSSA's unique structure, a number of whole-task groups and support groups needed to be formed around people and task, and the company's strategy had to be reviewed and communicated to the staff. A new performance system as well as a reward/remuneration system were scheduled for the second half of the year. Full implementation of the new structure had to be in place by the end of 1999.

A few days after the compilation of the implementation plan the Project Team, under the guidance of the Consultant, met to do a critical assessment of implementation requirements. Members were made aware of the fact that most redesign and transformation efforts fall short during implementation: implementation efforts require an even greater effort than the initial analysis and design. They agreed amongst themselves that it was not enough to know what to do, but to fully understand why something was important, and finally to get these things done. As part of assessing their readiness for the implementation, piercing questions like the following were discussed:

- Do staff members really know what is expected of each of them during implementation?
- Have we done enough so that people are capable of translating the images of the vision into practical realities?
- Do the staff really appreciate the current reality and the looming disaster by the year 2000 (when costs were expected to exceed revenue), unless something drastic is done?
- Do staff feel confident that they could shape the future of the company?
- Does every staff member believe in the plan and how he or she can contribute towards changing the reality?
- Can staff members connect their day-to-day work with the changes that are being introduced and the company's strategic goals?
- Are individuals ready to co-operate and to commit themselves to long periods of uncertainty and confusion?
- Do management and staff really see IT as a catalyst to empower employees, to enhance decision-making and to establish a means for providing direct feedback of results?
- Does everyone realise that change is a learning process involving change in paradigms, skills, emotions, patterns of thinking and approaches to problems?
- Have we as a Project Team given the process of change sufficient thought, particularly in terms of the basic phases of unfreezing, change and refreezing?
- Have we as a Project Team fully conceptualised all the changes involved in this transformation: technical, physical, people, process and structure?

In a memorandum dated December 7, the Consultant reflects on the assessment process which occurred a few days earlier and highlights a number of other issues that should be keenly watched, including interfaces and the need to clarify roles on these new interfaces, the choice of an IT supplier, the importance of starting with a benchmarking process and affirmative action. The Consultant points out that people do not realise that the new design offers more opportunities for learning and growth to historically disadvantaged people than traditional functional designs. He recommends that affirmative action targets become part of the envisaged Balanced Score Card methodology.

In the memorandum the Consultant also addresses the new **co-ordination function** of the three cluster leaders: base wax workup, hard wax workup and marketing of final products. These leadership roles were introduced in an effort to provide more autonomy to the whole-task group leaders. If closely scrutinised, however, it appears as if members of the Project Team, who redesigned the structure, succeeded in applying the **process paradigm** when they created whole-task groups across the value chain, but the **functional paradigm** surfaced again when the three cluster leaders positions were defined. Instead of placing cluster leaders horizontally to their whole-task groups, they were placed vertically to the whole-task groups. It was thus a case of mindsets in conflict – one mindset functioning consciously and the other one on an unconscious level.

As the last activity of 1998 the amended strategy was documented. The strategy review completed during November resulted in the amendment of the list of strategic priorities. On close scrutiny, the effects of the new business thinking and the greater awareness of competitiveness were noticeable. Five of the original priorities remained very much the same but three did not feature on the list again - either because the priority had been attained (e.g. the introduction of the new slurry bed technology) or because they were too vague to provide proper strategic focus (e.g. to half the time cycle for all products from concept to customer). Four new strategic priorities were added, each of them directly connected to the transformation:

- to establish an integrated IT and business intelligence system to ensure competitiveness across the value chain;
- to eliminate excess product and reduce dependence on NATREF by increasing sales in new high volume applications and products to 50 000 k.t.a by 2003;
- to sell an additional 20 000 k.t.a of hard wax to new applications and markets to off-set Shell's return to the market;
- to grow revenue and maximise profits from medium waxes by finding new markets and applications whilst maintaining the current candle market.

Assessing the transformation process to restore energy at the start of 1999

The year started with a contracting meeting between the Project Leader and the Consultant. Progress on the project as well as their relationship was reviewed. They agreed to maintain their business relationship for the full year, with the Project Leader primarily taking responsibility for managing the project and communicating progress to the Management Team and the Management Board. The Consultants' primary role was to provide support to the Project Leader and members of the Project Team and to act as an unbiased third party when this was needed, particularly in situations with a high probability of conflict. His training role was reaffirmed. Two new responsibilities were added: the design of the Pilot Project and his availability to support to the IT initiative.

The first weeks of the year were characterised by discussions, reflections and evaluations. On January,06 the Leopard Project Team reported the results of a survey conducted during December on the effectiveness of communication in the transformation. No less than 87% of respondents were satisfied with the information they had noticed on the Leopard boards; 74% of the respondents were happy with the frequency of communication; 72% felt that their information needs in regard to the project were satisfied. As far as quantity and complexity in the communications were concerned, 77% indicated that they were happy with the current mix; 85% of the respondents felt that the communication sessions were effective. A list of improvement suggestions were put forward by the respondents. The conclusion was that communication had been successful in supporting the transformation project up to that point.

The Project Team's evaluation of the project reaffirmed the pivotal role of Management, particularly in regard to implementation, which was the primary goal for 1999. Some concerns regarding Management's commitment surfaced again. Concern was expressed about their lack of preparedness to assume their new role, the lack of readiness to learn new behaviour and the unwillingness to model the kind of leadership behaviour required by the new structure. The Project Leader subsequently made appointments with each member of management to test commitment towards implementation.

As a final evaluation activity the Project Team conceptualised the evolution of the transformation process, as had been observed in SSSA. A number of separate, but interrelated phases were identified:

- **Stage 1:** Awareness of change and new concepts, as well as new ways of doing things. Resistance occur because people don't understand the underlying principles and how application is possible within their own work environment and mindsets.
- **Stage 2:** People become argumentative; reasons are disputed and logic is challenged; principles are confronted; signs of frustration and anger become noticeable.
- **Stage 3:** People start to understand the principles on which the new organisation will be built, but reject the application because of vested interests. Individuals start to protect their own comfort zones by rationalising. Perceptions become clouded. Anxiety levels increase when people start admitting to themselves that they may loose status, have to learn new things or that they might loose personal support. They show signs of a willingness to compromise.
- **Stage 4:** There is evidence that people start to understand the principles and their application in their own work environment. Appreciation is shown for the logic behind the proposals as well as the new organisational design. Unfortunately they fail to see the benefit for themselves. The result is passivity and low levels of energy.
- **Stage 5:** Acceptance for change grows. People demonstrate a willingness to make new applications. Energy levels increase. The benefits of the changes are better understood and in some cases people are even willing to defend proposals.
- **Stage 6:** People start visualising the time when the changes will be implemented finally. Excitement, enthusiasm and impatience start to surface.
- **Stage 7**: Implementation starts when leaders are appointed to the new structure and staff members are appointed to new teams and in new positions. This stage had only started but once again personal vested interests surface. Some members even admitted that they found it difficult to adapt to changing circumstances. Individual staff members negotiated in their personal capacity to gain as much as possible. In some cases uncertainty, doubt and worry replaced the initial enthusiasm and excitement.

Identifying the stages, confirmed that the individual reaction to change comprises a complex blend of psychological-, social-, emotional- and cognitive factors. Conceptualising the change process from a behaviour perspective helped project team members to understand rather than judge people's behaviour.

Reviewing implementation objectives

Although an implementation plan had been drawn up at the end of 1998, the continuous evaluation of progress and unexpected problems encountered, necessitated a review of implementation objectives and activities for the first half of 1999. In a meeting staged on January 25, the Consultant and Project Leader reviewed their implementation objectives and reassessed their priorities. The outcome of the meeting was summarised in a memorandum by the Consultant on January 26. The salient points were:

- The strategic plan needed finalisation. A workshop to address that, was scheduled for February 08, 1999. Work on the Hard Wax Strategy was required in view of the prominence of hard wax in the revised strategy. More creative solutions and more innovation were required from the Hard Wax whole-task group to be successful.
- Resistance was experienced by people in the traditional research laboratories destined to become the Business and Product Development Support Group.
- Clearer guidelines were needed for the role of technical specialists in whole-task groups.
- Interface problems between SSSA and the Management Board were re-surfacing. When the MD and his Management Team commenced work according to the guidelines set in November 1998, it became obvious that the Management Board interpreted the decision differently. To address this issue a three-hour session was scheduled during the week of February 22-26, so that roles between the MD of SSSA and the Board members could be clarified.
- Following the decision to implement the new structure, leaders for the whole-task groups and support groups were appointed. Workshops to prepare these leaders for their future leadership role were scheduled for April. Those leaders who were involved in the Pilot Project were scheduled to attend the first of two workshops.
- The Pilot Project, to implement the first-order redesign, was scheduled to start during the first week of May. The pilot involved only a certain number of whole-task groups and no support groups.
- Preparation for second-order redesign was scheduled for May 1999. Second-order redesign would first involve the whole-task groups in the pilot, followed by the rest of the whole-task groups and support groups. Special training sessions were scheduled for May and June.

Assisting Management to assume it's new role became a high priority. A session was scheduled for April 28-29. One of the Project Team members was mandated to interview members of the Management Team to determine their attitudes and to assess their readiness to enter into their new roles.

The Project Leader and the Consultant realised that they were entering an area where paradigms of the past were blocking the acceptance of empowerment principles. Failure to understand the business in it's broader context because of too much specialisation in the past, was another restraining factor. Factors such as these made it difficult for leaders to switch from an operational orientation to the strategic management of a company. The legacy of the past was also blocking them working together as a business team and acting as the real change champions during the implementation of the new structure.

Encountering resistance to change

By February 1999 the **leaders** for whole-task groups (wtgs) and support groups had been appointed. The reactions of people appointed to these positions were interesting and somewhat surprising. It illustrated the complexity of the change process. People responded in different ways and displayed a variety of feelings. For the first time change was felt on a personal level.

The Project Leader and the Consultant reacted by listening to people who wanted to talk and by acknowledging their feelings of frustration, disillusionment, disappointment and doubt.

This divergence of feelings and reactions is illustrated by four cases, observed by the Consultant in meetings over several consecutive days.

- **Case 1: Appointed as leader of the Business and Product Development Group**

  Day 1

  The person visits the Consultant and expresses his disappointment with the decision to appoint him as the leader of the Business and Product Development Support Group. He insists that the decision be reconsidered because it does not offer him new challenges and is not aligned with his personal career plans. He threatens to resign if his needs are not met. On the Consultant's question how he perceives his own career development he contradicts himself with his answers. He leaves the meeting very upset and asks the Consultant for more time to think.

  Day 2

  He walks in with a list of reasons why the he cannot accept the appointment. The main reason is that it does not fit into his career plans. He does not even consider the company's needs but maintains that the job is not a challenge to him. He requests an appointment with the MD, which is granted. He remains passive to the Consultant's efforts to explain to him how important this particular leadership position is to the future of the company.

  Day 3

  During the meeting with the MD, the importance of this particular leadership position is reiterated. He can personally benefit by accepting this position. He grudgingly accepts the appointment but warns that he still has much work to complete, which could take up to nine months - and anything can happen during the next nine months!

- **Case 2: Appointment as Senior Process Engineer to the Business and Product Development Group**

  Day 1

  The staff member appears very unhappy and attributes it to a lack of new challenges. His focus is entirely on his own development and he is not even interested in listening to the needs of the company. He maintains that the new position will force him to do exactly what he has been doing during the previous three years. This is not in line with his own interests. He is critical and cynical. He is only interested in his own ideas and not prepared to listen to other views. He voices his disappointment and states emphatically that he doesn't trust the Consultant any more.

  Day 2

  The staff member now threatens to resign because Schümann-Sasol cannot offer him what he wants. He refers to other people who are equally unhappy with their appointments and who are contemplating to resign. He is placing all his hope on an overseas position, for which he has been nominated by Sasol.

  Day 3

  He accepts that the company's needs must receive priority but states that he is still unhappy with the circumstances. He becomes sarcastic and threatens to work only 8 hours per day. He does not accept the fact that he has a number of development areas that needs to be attended to.

  Day 4

  The staff members attitude has not changed and the Consultant gets the impression that he consciously ignores him.

- **Case 3: Appointment as Process Engineer in the Technical Development Group**

  Day 1

  The staff member demands that he is given more production experience and is appointed as a whole-task group leader in the manufacturing area. He threatens to resign if his needs are not met.

  Day 2

  He is willing to negotiate and will be satisfied if the company allows him to gain more production experience during the course of the next year. He understands the principle that the company must utilise him were he can contribute most. He asserts, however, that his needs are ignored.

  Day 3

  He appears more relaxed and satisfied with the recommendation that he becomes the process engineer in the Technical Development group.

- **Case 4: Appointed as Support Group Leader in the Technical Support Group**

  Day 1

The person is very upset. He declares that he was given the impression that he would become the leader of the Business and Product Development Group and regards the appointment as leader of the Technical Support Group to be an insult. He threatens resignation. He maintains that nobody in the company is even closely on par with him as far as leading the Business and Production Development Group is concerned. He confesses that he has lost his trust in the company's management.

Day 2

The staff member reveals that he has left no stone unturned to determine whether his appointment is the result of a hidden agenda or impulsive decision-making. He accuses the Consultant of being a hypocrite. He indicates that he wants to apply for another Level 4 position in the company.

Day 3

He networks widely with colleagues and tries to obtain their sympathy and does not even attend the session where the new appointments are announced. Over the past three days much time has been spent to explain to him his limitations as a consequence of his management style and high-risk profile. The Consultant encourages him to accept the new appointment and offers him the opportunity to work with a smaller team that will enable him to address his own limitations. If he is successful, he could be utilised in a much broader context in future. Despite these accommodating efforts he still listens very selectively and interprets comments very negatively.

Day 4

He has a meeting with the MD. In the meeting he expresses his disappointment in Management and alleges that Management are not aware of his successes and particularly his frustrations over the past three years. He still does not accept that his attitudes and propensity to emphasise problems are the limitations that make him unacceptable for the leadership position to which he aspires.

Experiences like these forced the Project Leader and the Consultant to reflect on the new dynamics that were surfacing in the change process. They had to admit to themselves that the process was not as simple as merely selecting potential leaders and appointing them to a new structure. People were personalising events. The conclusion was unanimous: don't label staff members as disloyal, dishonest, unreliable, unpredictable or ungrateful! It would be wiser to just accept that change was a difficult process for most people and different people work through change in different ways.

Fear was expressed that the same phenomenon may occur during second-order redesign. Leaders in whole-task groups and support groups would therefore have to be prepared and sensitised to handle this type of reaction at team member level. It was conceded that the pilot would provide them with a good opportunity to learn more about the personal dynamics of people engaged in change.

The Project Team reached another conclusion: all it's attention should not be focused on the pilot study – the rest of the organisation should also be prepared for the changes still lying ahead. One very important learning point surfaced in this regard: communication per se is not enough; it is too passive, does not normally reach all individuals, and does it take into account individual differences.

Implementing an IT System

While the pilot was being implemented, other activities related to this phase of the transformation process were simultaneously taking place. One such an initiative was the design of an IT system to support the processes incorporated into the new structure. This initiative was driven by Leon Henrico, a member of the Project Team. It started towards the end of 1998 and involved various discussions with Sasol IT to try and find common ground. On February 4,1999, a number of concerns in regard to this initiative were discussed. These can be summarised as follows:

- Although Sasol's SAP system allowed for horizontal integration, it was seen to be very prescriptive and rigid and any deviation from this fixed structure would escalate costs. Unfortunately the deviations could not be determined at that stage, since the second-order redesign had not yet started.
- IT implementation could result in overspending, which would put the Leopard Project and the transformation process at risk, with the possibility of creating a situation very similar to the situation that had been experienced in Hamburg.
- A shortage of staff that could become involved in the IT project, created problems.

The decision was to actively reduce the risk by spending a significant amount of time with the SAP consultant to ensure that they fully understood the new structure and the principles on which it was based. The SAP consultant would then be forced to clearly state what was possible and what was not. In the meantime no additional SSSA resources would be earmarked for IT implementation.

The SSSA task team responsible for the IT system decided to continue with the compilation of an IT blueprint analysis for SSSA. The proposed systems for the new IT configuration, based on the value chain diagrams, appeared in draft form on March 19,1999.

The IT task team's thinking was based on Gates' concept of the Digital Nervous System (Gates, 1999). In the design an integrated information network was suggested which made provision for the following:

- digital processes that closely linked every aspect of the company's thoughts and actions;
- accessibility of basic operational data such as finance, distribution, production and feedback from customers in electronic format, to the company's knowledge workers;
- knowledge workers who could quickly adapt and respond to information;

- making available accurate information to do strategic thinking, changing strategic planning from a stand-alone activity to an ongoing process;
- the transformation of static sales and customer- and demographic data into the design of a new product or programme;
- less time spent on processing information to more time spent on teaching people to use, analyse and act on the information.
- sales numbers, expense breakdowns, supplier- and contractor costs, status of major projects, etc. could all be seen in a form that incited analysis as well as co-ordination with other stakeholders inside and outside the company.

The main rationale of the digital nervous system was to extend the individual's analytic abilities the same way in which machines extend their physical capabilities. A secondary rationale could also be distinguished: by combining the abilities of individuals it became possible to create a common intelligence and unified ability to act (Henrico, 2000).

The thinking of the IT task force represented a shift in mindset from information to knowledge in the Project Team. To make the shift a reality, a network based on strong relationships was needed in order to tap into information at every level. Survival would depend on the company's ability to capture intelligence, transform it into usable knowledge, embed it as organisational learning and then distribute it rapidly throughout the company.

Resurfacing of leadership problems

By the middle of March 1999 all the whole-task groups and support group leaders had been appointed, and immediate difficulties were addressed. The Project Team engaged in the preparation of a number of crucial interventions that were scheduled to start with the Management Team. This was followed by interventions aimed at the appointed leaders of whole-task groups and support groups, and finally at the newly-appointed teams.

Despite several previous efforts to obtain the commitment of the Management Team for the changes, their day-to-day behaviour refuted the principles driving the change. This was a cause of concern because of the new structure's dependence on the behaviour of leaders at strategic as well as whole-task group levels. In a memo from the Consultant to the Project Leader the Project Team's thinking about leadership and the transformation process was outlined. Doubt about the MD's leadership style resurfaced. The expectation was that the person who should be leading the transformation would be a people-oriented leader - a person willing to take the initiative himself, one who would be willing to lead in his personal capacity and take the risks associated with a transformation. It was agreed that the MD had showen a willingness to change and had given support, but still was perceived as a *bureaucrat*. His perceived inability to think strategically, and his reluctance to confront the board members about his role as leader of an empowered company, was questioned again. The Project Team was concerned that unless the MD was willing to change his behaviour, his team members would not engage in change either.

The inability of management team members to mobilise sufficient emotional energy to take risks and engage in new behaviour could partly be related to the above problem. The Management Team was seen as a *"…conglomerate of bureaucrats, operators, individualists and people who are uncertain"*. A breakthrough was only possible if the MD himself would engage in new behaviour and would be willing to coach members of his management team individually.

Because of the doubt about the company's leadership the *real agenda* of the Board and the Management Team was also challenged by staff. They were seen as avoiding questions about the future number of people working in the company. These perceptions contributed to feelings of uncertainty for which communication could hardly provide answers.

Another concern, causing frustration was the reluctance of the management team to engage in *business talk*. They were perceived as communicating comfortably about production issues and even the budget, but business results and particularly the fact that an overall goal of 15% of EBIT by 2003 needed to be attained, were never articulated. This phenomenon was interpreted as another indication that Management had not yet accepted it's new strategic role as a business leader. This assumption by the Project Team was confirmed by several incidents where Management made decisions without seriously considering the consequences or without consulting with the Leopard Team for guidance in making these decisions.

The Project Team drew two conclusions:

- Management had not yet accepted the basic philosophy of empowerment.
- Management's hidden motive was to stretch the transition phase over a much longer period in order to reduce their own risk or to prove that the new organisation was *impractical,* so that they could revert to their old ways of doing things.

The two-day workshop with Management which was scheduled for late in April was therefore approached with apprehension. The Consultant realised that alignment was necessary between these two teams for the transformation to gain the required momentum for implementation. After much deliberation by the Project Team this workshop was cancelled. Instead they opted for a *leadership development proces*s, which made provision for three phases:

- a **pre-workshop phase** allowing for interviews with members of the Management Team as well as a rating of behaviour by peers and subordinates;
- a **two-day workshop** which would involve feedback to members based on the assessments made by others, as well as new learnings so that members could familiarise themselves with their new leadership roles.
- a **follow-up phase** which would involve follow-up discussions and coaching to ensure that learning continues uninterruptedly after the workshop.

This leadership development process would involve the Management Team as well as leaders of whole-task groups and support groups. In the case of the Management Team the focus would be on strategic leadership and at whole-task group and support group level, the focus would be on operational leadership.

Interviews to assess the status of implementation as perceived by members of the management team, generated valuable information and could be described as diagnostically useful. The data enabled the Project Leader, the Consultant and the Project Team to obtain a better understanding of Management's position regarding the Leopard Project. As far as their own behaviour was concerned, they were honest enough to admit that change was still seen as the Leopard's responsibility and that their ownership was still lacking. Their own discomfort in regard to their new role was acknowledged and members expressed their concern about the MD's preference for operational work. Problems like market pressures, the low oil price and mergers amongst competitors, were raised, but their greatest concern was the perceived lack of commitment by the Management Board and the ethical differences that they believed existed between themselves and the Board.

Data from the interviews and questionnaires was built into the design of the two-day session. The flow of the workshop allowed for a progression from awareness, to understanding, to acceptance. The transformation was reviewed from the start to the current phase, where leaders were appointed at different levels as a first step to populate the new structure. Management Team members were guided to understand that the change process was now converging on them as the strategic leaders of the company. During the workshop the following objectives were achieved:

- assessing the current status of the transformation as perceived by members;
- the identification of management behaviour critical to this stage of the transformation;
- clarification of the proposed leadership model and competencies required at the company's strategic management level;
- analysis of members' own behaviour and identification of their own competency needs;
- Planning of their own personal transition in regard to their new roles.

During April a project team member started to promote and explain the Balanced Score Card (BSC). Use of the BSC as a measuring device had been approved by the Board of Directors in November 1998 and was seen as an important tool to link the strategic plan to the various strategic leaders. Interviews were subsequently conducted with members of the management team to discuss those strategic objectives, for which they took responsibility. Strategic objectives were then classified into the four categories of the BSC. Three levels of measurement were identified: **corporate level, strategic level** and **operational level**.

Progress with the entrenchment of core values

Implementation of the new structure required an assessment of progress made with the entrenchment of core values. Posters, values-related information on the Leopard boards, informal discussions and a competition in support of the company's core values were used. Despite these efforts to reinforce the values, change in the behaviour of leaders and staff members was still not visible. A change in behaviour was essential for the pilot phase, which was scheduled to start in May.

Facing this dilemma the Project Team for the first time fully understood that the structure depended on the entrenchment of values. It was realised that the command and control style of Management could only be phased out if the core values could start guiding peoples' behaviour. Staff would have to demonstrate **openness** and **honesty** in order to build trust and to make the empowerment concept workable. **Diversity** would have to be taken seriously to ensure that no single staff member would feel discriminated against. Individual **ability** and **creativity** would have to be tapped into in order to make the concept of whole-task groups a workable concept. **Pride** would be essential to deliver a high quality service to clients and **perseverance** would be necessary to make the transformation a resounding success.

To speed-up the pace of value entrenchment, several decisions were taken:

- values would become an integral part of the second-order redesign workshops; and
- whole-task groups and support groups would be encouraged, after the second-order redesign workshops, to create their own unique application for each of the core values as demonstrated in the group members' behaviour, but without creating different interpretations of the core values.

On reflection the Project Team realised that communicating values through posters on the Leopard board was insufficient - more interaction on values was required. It was now accepted that they had to find ways to allow people to talk about the values and particularly to ask questions, so that values could become part of their thinking. Listening to people was important, because by listening people are encouraged to think, and by encouraging them to think, their involvement and commitment are secured.

Communication to staff was heavily scrutinised too. The Project Team concluded that they had not been very successful in encouraging enough open debate and questions. They admitted to the limitations of coffee shop sessions. Even the very popular vision video had it's limitations; staff were getting used to the video. A new generation of videos, each addressing a theme from the vision, was to be considered.

Leadership at operational level

Leadership at operational level became the focus of interventions during April. Appointed leaders of whole-task groups and support groups attended two-day workshops on April 13-14, and again on April 16-16. The overall theme was teams and the leadership of teams in the new organisation. Specific objectives included understanding the team-based organisation, the phases of team development, and the main elements of a team. Appointed leaders were given the opportunity to express their fears, hopes, concerns and feelings about their new leadership roles. Empowerment and the barriers to empowerment were on the agenda. Leaders were invited to assess Schümann-Sasol's readiness for the team-based organisation. Uncertainties in regard to the new structure were underlined and clarified.

The leadership workshops at strategic- and operational levels were successful in the sense that they served as an introduction to assist leaders to understand their new roles within the designated structure. But it was also apparent that follow-up training was needed. Designing and conducting second-order redesign workshops for whole-task group leaders in the pilot therefore appeared to be the most obvious next intervention.

The concept of making endings and starting new beginnings had also taken on a new dimension. The dynamics were first introduced during the leadership workshops to assist leaders in managing their personal transition from the old structure and old roles, to the new structure and their new roles. It was now obvious that another category of staff required assistance in this regard: people who had worked as supervisors in the old structure but failed to be selected as leaders in the new structure.

Creating and developing teams

At the start of the pilot and with the second-order redesign workshops scheduled, a lot of relevant data had been accumulated. Results from the technical as well as the social analysis were available. Customer definitions had been completed. Whole-task groups within the pilot had defined their boundaries as well as their inputs and outputs. All the business processes that added value had been identified and the support activities to be conducted within each whole-task group, had been selected.

The purpose of the second-order redesign workshops was to identify and define individual jobs/roles in such a way that the principles that had been agreed upon could be applied to every team and individual within the new structure. It was an intervention aimed at finding the most appropriate integration of technology and people within the structure in such a way that the two sub-systems could be optimised. In addition to creating a vision and a mission statement for each team the five core values were revisited. Other specific objectives included:

- understanding the meaning of a whole job;
- understanding the advantages of creating whole jobs within whole-task groups; and
- identifying and defining each team's whole jobs.

The intervention gave staff the opportunity to familiarise themselves with a key concept - **the whole job**, and with the principle that each job in the new design must make a contribution towards end results. Certain requirements would apply to a whole job, e.g.:

- a whole job would be built around a process that is adding value;
- a whole job would contain the elements of planning, doing and evaluating;
- the job holder would be empowered to perform the job;
- the job holder would have to be competent to perform the job.

After the intervention leaders and members of whole-task groups understood the principles as well as the method of design. The process of design was to continue after the workshop according to definite guidelines and with the assistance of project team members.

Two documents were created that evaluated these second-order redesign workshops as interventions. The first was a memorandum which the Leopard

Project Team sent to Management after the first round of workshops with the paraffin's, medium wax, and hard wax whole-task groups. The second was a note containing twenty-six learnings from that period. In the memo to Management the Project Team describe the learning as *rich and fruitful* and claim that they were now aware of the success factors within teams and felt more informed about the constraints external to teams. They noted that teams were still in a forming phase and that relationships were still very fragile. Roles were still confusing and direction still hazy. Factors such as language and culture were acknowledged as a reality that teams had to deal with. Suggestions like the following were put forward to ensure that the process was completed successfully:

- Teams were to be granted the opportunity to *"…sort out their own problems"*. Managers were discouraged to intervene and urged to express confidence in the team's ability to identify and solve problems.
- Teams were to be encouraged to address cultural differences, which had surfaced as stumbling blocks. Team leaders were incited to involve all the members of the whole-task groups and not only work within *comfortable relationships*.
- Staff were to be influenced to see training and coaching as ongoing events – an inevitable activity to make the new organisation work.

Valuable learning points such as the *competition phenomenon* were noted. This surfaced within and between teams. It appeared as if people were energised by identifying an enemy within against whom they needed to compete. The conclusion of the Project Team was that people did not understand the principle of interdependence yet. A new mindset was required. Other inappropriate mindsets were the view that career progress was only possible through promotion, that job security was vested in a job title and that discipline was impossible without a supervisor. The Code of Conduct which teams had to draw up, helped with the understanding of core values in a very concrete way.

More interesting observations were made:

- team members were encouraging one another and giving support to whole-task group leaders.
- openness and honesty were becoming trademarks of certain teams;
- past conflict between certain members contributed to a recurrence of conflict and eroded trust in the teams;
- the absence of a revised reward system was dampening the excitement;
- whenever a problem occurred, people tended to revert to the *old way of doing things*.

Towards the end of June 1999 progress in regard to the transformation was reported in the Leopard News. Certain paragraphs like the following captured the state of the transformation very eloquently:

"*With the implementation of the Leopard Project, Schümann-Sasol becomes a process-driven, team-based organisation in the Schümann-Sasol Group of Companies. A process-driven approach ensures that customer needs are met across the value chain and human and technical processes are optimised to satisfy the needs of shareholders. Two key variables to attain this quantum leap* *are empowerment and teams*". Also in the same report "…*in Schümann-Sasol, successful teamwork is a prerequisite for survival. In the new structure planning, execution and control will take place at workgroup level, with maximum empowerment to that level. Teams across the value chain will be performing value-adding activities, while non-value activities will be eliminated. These primary whole-task groups will perform activities that are directly linked to the company's mission*" (Leopard News, June 1999).

Reviewing strategy

The Schümann-Sasol Strategic Plan was first developed in November 1997. It was reviewed in December 1998 and again in February 1999. In an effort to improve the plan, the Strategic Plan was linked with the Balanced Score Card (BSC) as a measurement technique. This helped to identify a number of deficiencies in the company's strategic plan. These deficiencies were addressed on June 9, 1999.

For the first time not only members of the management team (now known as Strategic Management) were involved, but also leaders of whole-task groups. Constraints for implementing strategy included a lack of creativity (which inhibited the company's ability to make quantum leaps), a lack of urgency in tackling the strategic objectives, a vagueness with regard to some key strategic concepts, and a lack of finances to operationalise the strategy.

It is worth noting that the questions posed by the BSC really helped leadership to critically evaluate their own strategy (Kaplan & Norton, 1993). Four questions suggested by the BSC were particularly useful:

- If we succeed, how will we look in the eyes of our shareholders (financial dimension)?
- To achieve our vision, how must we look to our customers (customer dimension)?
- To satisfy our customers, at which processes must we excel (internal dimension)?
- To achieve our vision, how must our company learn and improve (learning dimension)?

Of concern was the difficulty experienced when relating strategy and competitiveness and finding ways to improve competitiveness. Two valuable principles were accepted: competitive advantage could grow from the development of new products and applications, and a different competitive advantage would be required for different clients.

The objectives in four of the nine priorities were extensively discussed and revised. A recommendation was accepted to invest more time and energy in the development of plans, including financial plans.

Status of the transformation by June 1999

By the end of June 1999 the transformation process had been running for more than 20 months. Through the transformation a better alignment amongst key stakeholders had been achieved. The company could boast a documented strategy, consisting of a clear vision, mission, core values and strategic priorities. The strategy was understood and accepted as essential in guiding the company towards the future. A champion for the strategy at strategic management level was, however, not forthcoming.

The strategic priority that addressed the restructuring of the company had been achieved in terms of the analysis, approval of redesign principles and a new design. A pilot had started to run on a section of the value chain. Progress had been communicated to staff at all levels, which kept them in the loop and contributed to good energy levels and a positive expectation of things to come. Core values had been reinforced through surveys, notice boards, informal discussions and a competition.

The success of the newly designed structure relied heavily on sound leadership at every level. At strategic level the Management Team had developed a better understanding of their new role but did not, as yet, quite accepted that role. The operational paradigm was preventing the business paradigm to take over. They were neither committed nor passionate about the new role, and they showed signs of uncertainty. The fact that their new mandate that had been promised to them in November 1998 had not been formally handed to them, contributed to their uncertainty and doubt. The members of the team believed that they had not really been given the authority to take full accountability of the company. Trust between them and the Management Board still appeared to be a hindrance.

By June it was announced that the position of MD would become vacant and a new MD would be appointed. Unfortunately it was known that the MD's family had already left South Africa early in 1999, which caused rumours about his inevitable relocation to Hamburg long before his decision was announced.

This intensified the void in leadership in the transformation. To a certain extent this void had been taken care of by the Project Leader himself who emerged as the informal leader during the transformation. When the position of MD became vacant he continued to serve as the formal communication channel to the Management Board in regard to progress on the Leopard Project.

Uncertainty was heightened when the new MD was announced. The news was received with much apprehension. The appointee had a reputation of being a maverick and a manipulator.

At whole-task group and support group levels the importance of leadership was now recognised and actively promoted. The self-managing team concept was gaining acceptance. Empowerment was much better understood.

As part of the second-order redesign intervention, teams were starting to work together and leaders were given the first opportunity to work with their new teams. A leader and his team now had the responsibility to design their own teams around whole jobs. Through the analysis of core jobs many people for the first time understood what they were doing and what they were supposed to do. They now understood inputs, what outputs were expected and what processes were required to convert inputs into outputs. It was realised that these outputs should be measured. The lack of objectives in the past was acknowledged. This changed the old volume paradigm. Accountability was better understood as soon as the principle of measurement was accepted.

Members of whole-task groups worked vigorously to complete their assignments and to submit their proposals to the Project Team for final approval. The experience of creating their own whole-tasks by breaking it down into the elements of planning, doing and evaluating and then deciding on what to measure and which people to appoint, resulted in ownership and high levels of energy. A positive expectation in regard to the future was pervasive amongst staff at this level.

At the end of the 1998/1999 financial year the company's revenue had increased from R576.34m to R716.30m. The EBIT had improved from R31.39m to R45.70m.

At this point the Project Leader commissioned a cartoonist to prepare a poster of key characters involved at that stage of the transformation. The part of the poster (in the frame below) depicts the handover to the new MD.

7 Transferring the initiative to the new leader

Appointment

During early May 1999 Elmore Marshall, the MD of Sasol Chemical Industries (SCI), encouraged the MD of Carbo Tar to apply for the position of MD at SSSA. As MD of Carbo Tar he had taken the company from a net loss position of R19m per annum to a profitable business unit. He considered the position as MD of SSSA as an option for the following reasons:

- SSSA was more of a core business in SCI and would offer him better career prospects than Carbo Tar;

- SSSA was already established and he was curious how he would apply his business-thinking to an already established business unit; and
- being a merger, the SSSA operation would offer him more freedom to *"…do his own thing"*.

The candidate applied and was invited to visit Hamburg and meet with members of the Management Board. The main interactions took place between the Chairman, Bruno Iversen and the other Board member, Dr Hans Barth. During a lunch with Iversen, he stated the expectation to be allowed to "…*do things in his own way and be trusted to do that*". He explained to Iversen that this would be the only way in which he would be able to perform.

When negotiating his remuneration with Barth, he tested the risk principle by proposing a very moderate basic salary coupled to profit sharing and a bonus based on meeting budget. The candidate was therefore sending out the message that he was willing to take risks, but wanted the freedom to run the business in an entrepreneurial way.

Both Iversen and Barth responded favourably to these suggestions. This was not surprising, given their history of opportunism and entrepreneurship in the Schümann era. The candidate was seen as the right person and was appointed. He was requested to evaluate SSSA, to give his opinion about the people and their utilisation, and finally, how he would handle the Leopard Project with it's leader, Tony Olivier. He affirmed to build on what had already been established as far as the change project was concerned.

The newly appointed MD returned to South Africa and shared the MD position with the outgoing MD for a short period during July 1999. The period of overlap was considered to allow the new MD time to learn as much as possible from the outgoing MD, who had occupied office during the previous 18 months. Keen to take over the reigns, he soon realised that little was to be gained by this arrangement; he then terminated the arrangement. He took over control of the business in early August.

The Project Team was informed about the new MD's appointment as early as June 16,1999. The Project Leader stated emphatically that the MD was a person who expected results. It was decided to seek the earliest possible opportunity to recontract with him as far as the Leopard Project was concerned.

The new MD as observed by the Project Leader and Consultant

On July 20, a meeting took place between the Project Leader and the Consultant. They agreed that the new MD was not only important for the company's future, he was also important for the Leopard Project. There was accordance that the relationship with the previous MD had been a productive one, with minimal interference from him in the way the Project Leader and the Consultant had managed the project. They noted that the new MD came from the Carbo Tar environment where he had been extremely successful, yet he engaged in radical measures which were perceived by his peers in the Sasol environment as controversial. They concluded that the new MD would probably have strong ideas on how the business should be managed, and they thought that it might lead to conflict.

The new MD's management style was totally different to that of the previous MD. One common assumption surfaced: the change philosophy, which had guided the transformation over the previous 20 months, might be different from his philosophy of change. They agreed that the new MD's main objective was to grow the business, but their concern was that he might show an unwillingness to accept ownership for the transformation. His style was perceived as confrontational and unwilling to listen, aimed at challenging the other person's logic. His body language communicated irritation, impatience and lack of respect for other people. He was perceived as manipulative and his use of sarcasm often unnerved people. This resulted in people feeling rejected, uncertain and excluded. This kind of behaviour could jeopardise some of the basic principles and values on which the transformation was built.

The Project Leader and the Consultant however admitted that the new MD displayed strong leadership qualities and that he could definitely fill the leadership void the transformation effort had experienced up to that point. One characteristic particularly excited them: his willingness to take accountability for the business and it's performance. They had to find answers for the following:

- What would the MD's role be in the transformation and how would his role affect other roles in the transformation?
- What values and principles did they share with the MD and what principles would have to be agreed on for the next phase of the project?
- Which potential areas of disagreement could jeopardise the relationship?

The transformation as experienced by the new MD

During his first week in office as co-leader of SSSA, the new MD studied the origins, principles and successes of the transformation and reached a general conclusion that the principles which had been applied, were sound. This referred to the strategy (vision, mission, core values and strategic priorities and objectives) as well as the redesign (the way in which the structure was designed across the value chain). The concept of whole-task groups arranged along the value chain excited him. His main concern was the mismatch in the new structure between Management (leadership) and the whole-task groups and their leaders. To him the structure reflected an unbalanced distribution of authority. For him it appeared as if power had been handed to the whole-task groups without offering a similar degree of autonomy to the company's leadership. He favoured a new level to be brought in between the whole-task groups and the strategic level – autonomous business units that could develop their own strategies around their own products.

The format of management practices was another source of frustration. He disliked the idea of utilising a management meeting as a report-back session. He saw the need for developing managers to live up to his expectations of business managers, rather than traditional functional heads.

He noticed a difference in the interpretation of **participation** and **empowerment.** Participation to him was to invite debate, but once a principle was discussed and **accepted**, applying that principle vigorously was the manager's responsibility. It then became the manager's responsibility to give *his* definition to the principle in practice. The new MD's adage was, *"…when you* *perform well and according to expectations, then you do things in your way. However, if you do not perform, I will intervene and then do things my way – because that is all I can do*". This perceived change in thinking about empowerment created a mixture of feelings – frustration, defiance and uncertainty – amongst his managers. It urged them to exercise choices and take accountability.

The MD fully supported the five core values. To him they were the link between the structure and behaviour required to support the new structure. He was also prepared to address the interface with the Management Board and to take a strong position in favour of the empowerment of SSSA, particularly regarding the marketing of hard waxes.

SSSA's strategy was accepted but it's approach to strategic planning did not meet with the new MD's approval. He rejected the idea of involving larger groups in a strategic planning process and preferred a vision and mission that everybody in the organisation could recall. He favoured facilitating strategy sessions himself, but made provision for inputs from specialists at predetermined stages of a strategic planning process.

Recontracting the roles of the Project Leader and Consultant

A meeting between the outgoing MD, the new MD and the Consultant took place on July 27. The consultant saw the meeting as an opportunity to explore the relationship with the new MD and as a first step towards a contract. To start the discussion, the outgoing MD was requested to give his impression of the transformation at that particular point. He summarised his impressions as follows:

- time constraints had made if difficult for him to attend to the project on a full time basis;
- conflict had prevailed between the day-to-day job demands on staff and preparations for the new organisation;
- change at management team level was slow; and
- change was visible in a new paradigm amongst staff – a willingness to take more initiative.

The new MD then outlined his norms for successful organisations and cited that he favoured the characteristics of entrepreneurial organisations (*high flyers*) characterised by:

- small head offices and flatter structures;
- small business units, allowing people to communicate informally;
- people that are well-informed and empowered;
- remuneration structured in such a way that people who perform well also receive more.

He articulated his personal management philosophy and emphasised the following:

- **Principles should be paramount**: gaining acceptance for principles is more important than rules and procedures.

- **Promote growth in volume and revenue first**: costs should only be curbed once that has been achieved.
- **Develop the value chain as a community**: his role as leader is to serve that community.
- **Teamwork is the core of the company**: every individual should be a member of a team.
- **Structure should reflect the company's strategies.**
- **His position as MD calls for certain non-negotiables**: accountability for the business, appointment of people in the top structure, company strategy and the discipline to execute strategic decisions.

After the meeting the MD announced a number of changes, which would affect the Leopard Project directly:

- The Project Leader would be appointed as Human Resources Manager because a *quantum leap could only be attained through people*. At the same time he admitted that the handling of people was one of his weaknesses.
- The Consultant would in future have to work through the new HR Manager; his primary role would be to support the new HR Manager.
- Families would become involved in the change process. They should feel involved and experience ownership for the strategy and the business.
- A common vocabulary would be established.
- SSSA (Pty) Ltd would in future be less isolated and become more integrated with the global Schümann-Sasol units.
- He would personally conduct informal talks with groups throughout the company so that he could orientate himself.

The outcomes of the meeting, particularly the changes regarding the transformation, were assessed positively by the Consultant and the Project Leader, though one fact was clear: the transformation as a project (the Leopard) was something of the past. Accountability for change in the future would be vested in the MD himself.

The appointment of Tony Olivier as the new HR Manager was welcomed because of his involvement in the Leopard Project over a two-year period and the sound relationship he had established with key people at all levels. His well-established image as an effective Project Leader would also boost the credibility of HR. Such a move could only benefit the change effort as HR would now be managed within a transformation paradigm and training and development in particular would in future be considered from within this perspective.

This also implied a lesser involvement by the Consultant. The transformation would in future not be championed by the Project Leader and the Consultant but by the MD himself.

Although generally very positive the changes would also involve an element of risk. It appeared as if this risk primarily revolved around the MD himself, because:

- he could enforce his own ideas and concepts on SSSA, which could cause new uncertainty and confusion;
- although he admitted to the key role of people in bringing about change, he was not willing to address his own weakness - that of *handling people*;
- he strongly supported *client ownership* but restricted the meaning of the concept to clients in the market place – not internal clients across the value chain.

Soon afterwards the Consultant's services were re-contracted and extended to the end of 1999. The contract made provision for the following:

- a visit to the pilot group to review progress and to address issues regarding leadership roles, new competencies required, transfer of staff to whole-task groups and the use of the Balanced Score Card (BSC) at whole-task group level.
- to speed up implementation of the new structure, whole-task groups and support groups not involved in the pilot would attend second-order redesign workshops;
- a follow-up survey on the core values would be conducted to assess the degree to which core values had been entrenched as part of the organisational culture;
- the process of implementation which had been followed since December 1998, would be evaluated for efficiency; and
- a refinement of the new structure would be made to meet the MD's expectation of full implementation by the end of 1999.

Streamlining the new structure

A decisive workshop took place on August 20-21,1999. It involved the Management Team and was facilitated by the Consultant. The new MD shared his views on a number of key dimensions:

- The current vision, mission, core values, strategic priorities and objectives would suffice. They were sound enough to provide clear direction. All problems that occurred should be solved within the guidelines of strategy. Strategy should now be cascaded down and subordinate strategies be developed.
- The present level of excellence, including the work that had been done in the Leopard Project, should be sustained. The redesigned structure offered the company the possibility of creating ownership at lower levels, but the *hierarchical* position of cluster leaders relative to whole-task group leaders was incongruent with the philosophy behind the design of the new structure.
- Cost-discipline should become a business enabler.
- Each member of the Management Team required a personal mentor to enhance his competencies. Members had different needs and they required different mentors to develop their potential as leaders. A condition must be reached where any member of the team could take the lead, depending on the problem and circumstances.

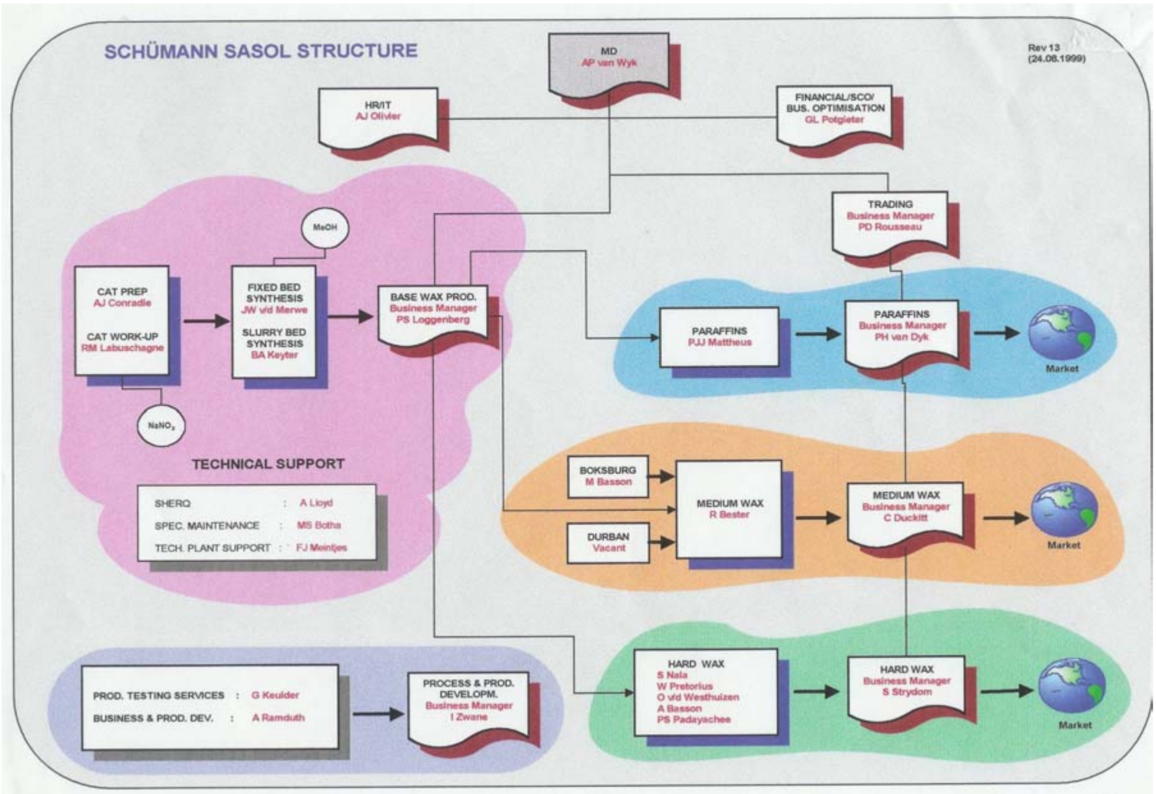
- As a team the members should support one another, stand in for one another and accept *that no one person leads, but the team*. Team members should be themselves, willing to share their feelings and thoughts openly. *"Subjectivity can only be neutralised by making things transparent, i.e. talk about things when members are given the opportunity to add their views. From such discussions objectivity emerges"*.
- Implementation of strategy was dependent on the speed of decision-making. Bureaucracy had to be killed, otherwise the company would not be able to compete.

At the same meeting a number of key decisions were taken to address current business problems, including

- a 5% reduction in fixed costs;
- an increase in the gross contribution margin to 32%; and
- a 10% increase in sales.

The new structure was also addressed. In an effort to apply design principles more consistently, the design was amended in the following ways (see figure 2):

Figure 2: Schümann-Sasol structure (September 1999)



- The *hierarchical element* of the previous version, which had been depicted as **cluster leaders** at the top, was replaced by **business managers**, laterally linked to the value chain. This change would not only enhance the principle of owning the customer, but would connect whole-task groups more closely within a business unit. In future there would be business units for paraffins, medium wax, hard wax and base wax production. The latter would become a separate business unit because of the sensitive interface with SCI and the importance of delivering high quality products and reliable volumes to the three internal clients. Base Wax Production would now also incorporate the Technical Support Group.

- Trading activities would be consolidated in a new, separate business unit. This unit would support the Paraffin, Medium Wax and Hard Wax units by sourcing for them (e.g. buy other types of waxes on the market or testing new products in the market place).
- Process and Product Development would maintain it's identity as a separate support group.

The workshop of August 20-21 was rated a success in more than one way. Members of the Management Team and their new leader could assess strategy objectively. In this regard the MD allowed lengthy discussions and encouraged open debate. For the Leopard Project Leader, now acting as HR Manager, the acceptance of strategy as a basis for building the future on, was a great relief and a confirmation that the work that had been done was of sound quality. He was equally satisfied with the decisions taken to optimise the structure. It was based on the company's strategic pointers as well as on the already accepted design principles.

There are also other reasons to believe that the workshop was significant for the transformation process:

- The workshop was a good experience for the company's leadership as a team. Exposure to the Belbin roles (Belbin, 1993) created a new awareness of individual differences amongst members; open and honest interaction between members removed most of the uncertainty that existed earlier.
- It was the first occasion on which the MD explained the relationship between strategy, structure and discipline. Strategy provides direction, structure must make strategy happen and discipline must be embedded so that people in the organisation do the right things consistently.
- The concept of success enablers was introduced by the MD. Success enablers were defined as cost-discipline, speed of implementation, flexibility, razor sharp focus, learning, empowerment, integration with Hamburg and the importance of sharing information rather than withholding it.
- The MD's promise to involve families by inviting the spouses was honoured. A special programme was designed for the second day and handled by another consultant. Towards the end of the day the MD personally briefed spouses on the company's strategy and the decisions that had been taken during the workshop.

Hamburg's reaction to the changes

Changes made to the structure during the workshop was challenged by the Chairman of the Management Board on the Monday following the workshop. The MD responded directly and openly, admitting that changes had been made to the structure, explaining the principles on which the changes were made and reaffirming his intention to take personal accountability for these changes as MD of the company.

The MD recognised the cultural differences that existed between Sasolburg and Hamburg. He also realised how important the attainment of objectives were for his German counterparts and reasoned that if he would take a strong position, he would be respected.

The Board of Directors meeting of early September offered the MD an opportunity to explain the full rationale for the latest version of the structure. This led to lengthy interactions between members of the Board and members of the Management Team.

The debate was constructive and the interaction useful in helping all the parties to learn and understand how the new structure would work. It appeared as if the German board members initially showed resistance. Some emotional obstructions even occurred, partly because of their reliance on the hierarchy in the past. Discussing the structure also offered an opportunity to members of the Board, the MD and the Management Team to become more aligned.

Change becomes leader driven

The management workshop of August did not only generate much needed energy at leadership level, it also created strong positive expectations in regard to the new organisation at every level. People were excited about the new MD and regarded his approach as an adventure worthy of engagement. The new structure and certain priorities set by the MD, were communicated in writing as well as through group discussions, headed by members of the Management Team.

After only eight weeks the MD’s approach to leadership became quite pronounced. He left no doubt that he wanted to take full accountability for the transformation. He admitted that much work had been done through the Leopard Project but declared that **implementation should be led by himself, and not by a consultant or project team**. He acknowledged that a very good foundation had been laid over the previous two years, but **only leadership** could take it to fruition.

The MD fully supported the principle that had been followed from the start of the transformation: change has to be **strategy-driven**. He seriously believed that strategy should become an integral part of each individual working for the company: each individual should be allowed to digest the strategy for himself so that he clearly understood what his contribution towards strategy should be. He emphasised the fact that strategy involve vision, mission, core values, strategic priorities and objectives. Together these elements provide direction.

To make strategy more digestible he shortened the vision to only one sentence and reduced the number of words in the mission statement. In this way people could remember it more clearly. He wanted people to be able to recall the vision, mission and core values at any time when so requested.

He encouraged the newly appointed business managers to take the initiative and to develop their own strategies for their business units within the company’s strategic framework. He insisted that they take full accountability for their own strategies. To reinforce the concept further, he insisted that two agenda points become a common feature to any meeting that took place in the company: safety and strategy. Whatever the topic of the meeting was, these two agenda points were expected to feature, and it was up to the chairman of a meeting to decide what substance should be given.

The MD's leadership role from July 1999 to June 2003 can be conceptualised in terms of four phases:

- the Year of Structure (September 1999 to June 2000);
- the Year of Margins (July 2000 to June 2001);
- the Year of Detail (July 2001 to June 2002);
- the Year of Alternatives (July 2002 to June 2003).

These four phases were not planned in the beginning when he took over the company in July 1999, but evolved as strategy became more focussed. Strategy remained the main driver. He used the analogy of sheep being herded by a keen shepherd. The sheep start off in the right direction, but soon loose their focus and become less aware of their direction. The dedicated shepherd (leader) then throws a stone either to their left or their right to help them redirect their focus and efforts.

In regard to strategy and the subsequent entrenchment of structures, an important event took place between November 18-20, 1999 – the MD's first strategy review, handled by himself.

Throughout the period since his appointment he had worked hard to fully understand the organisation, get to know the people at different levels and to encourage members of his own team to accept the challenge of empowerment (as defined by him).

For the MD this was an important session. He had gained a sufficient knowledge of the company to express his views and set clear direction. At the session he explained that the company had reached a plateau in regard to both revenue and profits; something needed to be done about it. He voiced his main concern, namely that the company would revert to conventional corporate practices and typical bureaucratic behaviour, in stead of utilizing what had been achieved through the transformation over the previous two years. He reiterated his intention to make strategy and the entrenchment of the new structure his immediate focus. He also addressed issues like core values, the competencies of people for the new structure, leadership, finances, SSSA's products, the customer and success enablers.

To advance strategy beyond his own circle of leaders, the MD invited staff and their spouses on regular intervals to strategy sessions, where he performed a facilitating and coaching role. He believed that if one wants people to apply business principles in a company, they must understand it so well that they could apply the same principles in their private lives. Between 30 and 40 people attended each session and eventually about a third of the staff and their spouses gained exposure. The MD was satisfied and stated that if a third of the company understood strategy and how it must be implemented, the rest will follow suit.

8 The Year of Structure (September 1999 to June 2000)

Entrenching the structure was necessary so that strategy could be implemented. Structure had to enable the strategy. The MD wanted people to understand how the structure worked and what the thinking behind the new structure was. He emphasised the principle that it was Leadership's responsibility (at every level) to develop individuals so that each person could take an informed decision within the structure. Each individual should be able to exercise a choice and therefore share in the decision-making, down to the lowest level. He was passionate to empower. He wanted a person to have the **right to do things**, wherever that persons had to deliver. Hence his emphasis on cascading the strategy down to various business units and whole-task groups.

On the process of entrenching the structure the MD played a key role in helping people understand the concept of the value chain, and how a process-driven structure differed from a hierarchical structure. He personally assisted the business units to clarify and define their own value chains: the business units (Base Workup, Paraffins, Medium Wax and Hard Wax) thus succeeding in clarifying their core processes such as **logistics, production** and **marketing**. Throughout the three interlinking concepts of strategy, structure and discipline were reinforced.

The Year of Structure also involved reinforcement of the company's mission and each individual had to understand that the company was about producing *and* selling wax. The core business was reinforced. In view of this a number of actions were initiated in order to streamline the structure:

- the role of secretaries was terminated and they were re-employed in more meaningful roles;
- the non-value-adding functions such as the test laboratory and maintenance were outsourced;
- staff in temporary capacities and those who were regarded as superfluous, were retrenched;
- each remaining member of the organisation became digitally literate and skilled in Basic Computer Skills and in Excel software.

With the assistance of the HR Manager the whole process was conducted very smoothly. The number of people was reduced from an excess of 400 to approximately 300, and as a result, costs were reduced dramatically.

To support structure and entrench discipline the MD introduced a fixed rhythm for meetings: all business meetings were conducted on the first Thursday of each month. Even if month-end results were not complete, the meeting would still take place. The underlying rationale was explained: to take decisions timely is better, even if results are incomplete.

Coffee shops were handled by the MD himself, and became opportunities to learn and grow. Apart from the fact that safety and strategy were handled as agenda points at every coffee shop, financial results and enablers to the strategy were discussed frequently.

The Management Team

The MD understood the truism that people give definition to structures. That explains his unrelenting efforts to develop members of his Management Team. He wanted them to share in the leadership of the company, not only hold positions of authority.

Scheduled discussions with each member were conducted on a regular basis and meetings were used to coach and educate them. During these meetings (some of which were observed by the Consultant) he asked many questions to test their thinking and assess their level of understanding. He demonstrated the core value of openness to encourage participation, obtain everyone's ideas and to clarify their expectations of him.

Management meetings were often educational in nature. The MD would point out that management meetings are not for information-sharing, but to focus on the future. Information should be real time information, all the time. In focussing on the future, knowledge of the past was necessary, but not more than 20% of meeting time should be spent on matters of the past.

Certain themes were reinforced at almost every meeting:

- the Management Team should improve their knowledge of the company as a whole and solve problems collectively;
- every member should take ownership of the company;
- every member should know the company's strategy by heart;
- confidence of a team grows through alignments of it's members;
- a change from production-ownership to customer-ownership is required;
- know the competition; and
- only a quantum leap can achieve a return on net assets of 17,2%.

Although the new MD was sometimes perceived as impatient, his philosophy was that all people are equal. He described his own role as not being more important, but only having a different set of responsibilities. Staff members, particularly members of the Management Team, who worked closely with him, described their feelings as a mixture of fear, anticipation, excitement and tension, although they always felt challenged to make the right decision.

Addressing the structural interfaces with Hamburg

In an effort to entrench the new structure, the MD promoted the restoration of good relationships with the Management Board and modelled the changed attitude personally. During coffee shop sessions he would actively work towards creating a positive image of Hamburg and the Management Board. His communication was aimed at helping staff understand Hamburg's important role and emphasised the principle that people should not be allowed to talk badly about their leaders. When errors occurred or responsibilities were handled incorrectly by Hamburg, he volunteered personally to take it up and address the problems on behalf of SSSA.

To demonstrate his resolve he invited the three members of the Management Board to attend his first full scale strategy meeting on November 18-20,1999. The reason for his decision was simply *"…because they need to know what we are going to do".*

Supporting interventions to entrench structure

In accordance with the implementation plan as prepared by the new HR Manager and the Consultant early in August 1999, several supporting interventions were launched. Most of these were aimed at establishing whole-task group and support groups, thus actively endorsing the structural initiatives of the MD at strategic level.

Since the company was structured around teams, teamwork became a strategic driver. Teams existed at three levels: strategic (the Management Team), the business unit and whole-task group level. All of the whole-task groups and most of the support groups were grouped into the four main business units. Each whole-task group had a total responsibility for it's own area of performance, both in terms of operations and maintenance. The team took ownership of a whole-task in a specific portion of the value chain, and owned problems from start to finish. Functional specialists had been reduced to the absolute minimum, as maintenance staff were either outsourced or became part of whole-task groups. Each person in the business was well on his way to become a well rounded generalist, who understood all aspects of the operation, grasped the economy in which the business was operating and who could keep the interest of the total company in mind when making decisions.

Second-order redesign training for the remainder of the whole-task groups and support groups was preceded by an assessment of progress that had been made in regard to the pilot. The HR Manager and the Consultant visited all five whole-task groups which were involved in the pilot: Paraffins, Medium Wax, Hard Wax, the Durban operation and the Boksburg operation. Each of these whole-task groups was subsequently assessed in terms of the several dimensions: structure, leadership, team cohesion/formation, information, learning organisation, customers and markets. The results indicated that progress had been made but questions and uncertainties still remained and certain issues required more attention.

This feedback was incorporated into the design of the next generation second-order redesign workshops planned for the remaining whole-task groups and support groups. One of the obstacles, which emerged from the feedback, was the difficulty whole-task group leaders experienced in understanding their roles. In the amended design more time was scheduled to make sure that newly appointed whole-task group leaders understood the differences between their new role and that of the traditional supervisor. The second-order redesign workshops started with whole-task groups, followed by support groups and ended with specialist functions at strategic level (e.g. finance).

Conducting second-order redesign workshops for whole-task groups and support groups allowed the Consultant to interact formally and informally with leaders and members of these teams. From the interactions, it became apparent that the change to self-directed teams was difficult. Several obstacles retarding the process were identified. One obstacle was the use of information power now that position had lost it's flavour. Team formation forced people to become more dependent on one another for support, knowledge, information, etc. Members disliked being dependent on one another and they became irritated, which resulted in the build-up of tension, particularly between different cultures and different competency levels.

Team-formation was also slowed down because of incompatible individual differences. Leading a whole-task group or support group was not easy either, especially switching from a supervisor mindset to a leadership mindset. The reluctance of people to take accountability was another surprising obstacle.

This problem was also experienced in support groups and on the interface between whole-task groups and support groups. It appeared as if whole-task group leaders resisted the idea of taking accountability for maintenance and other support functions. This resulted in misunderstandings and tension.

These unexpected reactions led the HR Manager and Consultant to conclude that the introduction of teams was more complex than what had been anticipated. A three-phase development model was conceptualised to address the obstacles:

- phase one involved **the formation of the group**, as per second-order redesign;
- phase two was conceptualised as a **learning phase** where members of a team could learn to work together, get used to their new roles and acquire the necessary competencies in performing their tasks;
- phase three allowed a team to take full **accountability** for all their tasks and to set their own performance objectives.

Revisiting the core values

Core values gained more appreciation because people now understood the important role of values in directing behaviour within a new structure. Empowerment for example, could not operate as intended unless the values of creativity and individual ability and equal and fair treatment become drivers of behaviour.

Much of the new awareness of values could be attributed to the efforts of the MD, especially his emphasis on core values as an integral part of strategy.

In view of this renewed prominence of values the MD, in conjunction with the HR Manager requested a follow-up survey to determine whether the new core values had been embedded in the company's culture. The task was assigned to the Consultant.

A qualitative approach was followed and the primary focus was the five whole-task groups as well as the Business and Product Development Support Group. Management was excluded from the survey. The survey took place between October 11-14, 1999. Results, which were presented to the Management Team on November 14, revealed varied levels of value entrenchment. The only whole-task group which showed that all five core values had to a large degree been entrenched, was the Paraffins one. The Hard Wax whole-task group was still struggling with the value of **creativity and individual ability** as well as **equal and fair treatment**. In the Durban plant the five core values had only been partially established.

Some interesting general impressions surfaced during the survey:

- Staff expressed a plain expectation that business leaders should model the core values more. Other behaviours, often in dissonance with the core values, were the norm, e.g. the propensity to over-emphasise mistakes, failure to express personalised recognition of success, failure to communicate business decisions, etc.
- Whole-task group leaders were making a concerted effort to change themselves and to empower others, as opposed to supervisors in the past.

- Different levels of understanding of the core values still existed within whole-task groups, and different interpretations of values within the context of empowerment were given.

These results were taken seriously by the MD. During coffee shops and other meetings he relentlessly explained the new emphasis of principles and values in contrast to policies as the drivers of behaviour.

Assessing the transformation after six months under new leadership

By January 2000 the championing of the transformation had been fully transferred to the MD, closely supported by the HR Manager. The MD was setting the pace for implementation, driving the company strategically, shaping people's thinking and creating new mindsets. Much of his personal energy was directed at business unit leaders to assist them in cascading strategy to their levels and to take full accountability for their own strategies.

The HR Manager, working in close collaboration with the MD, provided supporting interventions. The Consultant and his company adopted a new role. This role was less permanent and did not involve a contracted number of days per month as before. Sep Serfontein Associates now only became a name on a list of preferred consulting firms, which rendered services as needed. The initiative, drive and management of the implementation had switched to the leadership of the company.

At individual level, most people were still struggling with change. Some showed resistance, while others were embracing the new structure and new concepts like empowerment. At team level people were still finding it difficult to work together and to develop a common identity. Conflict which erupted between shifts as a result of various disciplines now working together, was difficult to resolve. Some leaders of whole-task groups and support groups were also straining, particularly in regard to their people leadership role. It became quite clear that teams (and people) found it difficult to relinquish past practices, embrace new behaviours and adopt new mindsets.

In January 2000 the MD and the HR Manager decided to involve an independent consulting firm, Bryce-Diaz, to assess the problems at whole-task group level. Some of the problems that surfaced included an inability to handle conflict, a lack of discipline, quality, misunderstanding of empowerment, unclear roles, negative attitudes and leadership inefficiencies. This diagnosis to a large extent supported the conclusions the HR Manager and the Consultant had made earlier. These problems were addressed in a workshop involving whole-task group leaders.

Competencies

The development of competencies originated from strategy, but was a logical next step for improving the functioning of the new design. Individual competencies add value. By utilizing individual competencies and by improving and broadening them, better results can be achieved and quantum leaps become possible.

In whole-task groups and support groups more than one member could become involved in the performance of a whole job. People working within a whole-job therefore needed to be interchangeable to provide flexibility and adaptability. A member of such a team was also expected to be capable of working across whole jobs. Given this flexible approach with regard to the performance of team members, the concept of a role rather than a job description therefore seemed more fitting to the company's new structure. The role of a group member could involve several competencies and needed to be aligned with the competency profile of the whole-task group as a whole.

A competency was defined as the ability of a team member to apply certain skills, attitudes and knowledge, in such a way that he adds value. The competencies an individual member required could vary in complexity. For some competencies an *advanced* level of competence was required, for others an *accomplished* level an for others and *entry* level would be quite adequate.

To manage competencies a competency matrix was developed. This was used to measure the output in terms of demonstrated competencies. The matrix served as a data source for competency profiles, appraisals of performance, development opportunities and succession planning. Allowance was made for four competency matrices: one for individual members, one for a team (whole-task group or support group), one for the team leader and one for each business manager. The competencies contained in each matrix were aligned with the business strategies to enhance the company's competitive advantage.

Results at the end of MD's first year of office (June 2000)

Financial results at the end of June 2000 showed very little improvement from the June 1999 results. The revenue had increased from R716.30m to R735.51m. EBIT had increased from 45.7 to 48.46.

More interesting were the non-financial results. The most promising results came from a second survey conducted by the International Survey Research (ISR, 2000). The first of these research surveys was conducted during the fourth quarter of 1997 (ISR, 1997). Several problem areas emerged during that first survey. Staff did not understand the company's goals and objectives and senior management lacked clear business strategy. Productivity was a problem. Management was accused of not providing leadership, not stating objectives clearly, not managing change and not planning for the future. In regard to the above issues the rating of SSSA were significantly lower than the average for the Sasol Group.

In the ISR survey, which was conducted in the first quarter of 2000, the picture of SSSA looked radically different. As far as leadership was concerned a statistically significant difference at the 95% confidence level was achieved on aspects such as:

- the degree to which opinions and thinking of lower level managers were taken into consideration by senior managers when determining policy;
- efforts being made to make SSSA more streamlined and cost effective;
- the degree to which the rationale for decisions was adequately communicated to managers at lower levels;
- the degree to which a climate was established in which traditional ways of doing could be challenged.

Results in the category strategy and objectives were better than the ISR's norm for global high performance companies. Results of SSSA also exceeded global high performance companies' norm in the **leadership** category. A statistically significant difference at the 95% level of confidence was obtained on two items: **stating objectives clearly** and **providing leadership**. In the **organisational culture** category, Management was rated as encouraging staff to be innovative (statistically significant). The SSSA culture was rated as significantly different from the Sasol SA Group on **leadership through empowerment** and **harnessing diversity**. In the category **organisational transformation**, teamwork and communication were rated as better than the Sasol SA Group results (95% confidence level).

9 The Year of Margins (July 2000 to June 2001)

Introduction of the War Room concept

Early in 2000 the MD started to attend production meetings regularly. He soon realised that measurement was absent. He was concerned about this phenomenon because the absence of measurement meant that people didn't know where they were going. Neither would people know how to reach strategic milestones. Although this weakness was not addressed during his first year of office, it was the start of the war room concept. The concept became practice during his second year of office.

Thinc Business Solutions were brought in to do a strategic business assessment of the company. Feedback from this assessment was given on August 8, 2000 and included a number of recommendations. Some of the issues supported existing assumptions, but other issues, particularly those dealing with the market, provided new insights. It was quite obvious: to remain competitive, the company needed to take a fresh look at markets, customers and products. A shift away from the traditional was required and customer service needed to be improved. Knowledge of competitors was also inadequate. Forecasting accuracy could only be improved if a better knowledge of the market existed. A better balance between market demand and production capability was suggested.

It also appeared as if staff still did not fully understood the meaning of *business* and *profit-making*. Two suggestions were made:

- that a simple, yet comprehensive *system* be developed for the integration of business information; and
- that a performance measurement system be formalised as a business integrator to provide meaning and objectivity to individual jobs.

The assessment by Thinc Business Solutions to some extent confirmed what the MD had observed and studied over several months. One of his conclusions was that margins were poor and in some cases negative. He therefore requested the business unit managers to critically assess their gross margins (revenue minus variable costs) and the reasons for it.

The MD's prime objective was to increase gross margins substantially. This could be done by reducing variable costs and increasing prices. To achieve his objective he requested businesses to calculate the margin for each of their products and to assess the business processes being used. In addition, the relationship between variable and fixed costs had to be evaluated. This included a critical assessment of fixed costs and it's contribution towards an improvement of gross margins.

In an effort to increase gross margins, price increases followed. This was met with considerable resistance by both Hamburg and a subsidiary in the USA, Moore and Munger. At that stage it appeared as if neither the Germans nor the Americans fully understood the language of margins. After some serious debate the MD obtained support from Dr Hans Barth of the Management Board. Eventually the full Board gave it's approval.

To endorse the Year of the Margins, the MD introduced the concept of the War Room. The purpose of the War Room was to reflect the position of the company on any particular day. Daily positions were based on a sound measurement system, compiled by Thinc Business Solutions.

The War Room involved a process, which started with small, informal meetings in each of the business units, followed by a meeting in the War Room, where representatives of the various business units integrated information. The War Room enabled representatives of the business units across the value chain to view the total picture of the company as well as that of their own business unit in terms of EBIT and profit/loss on a daily basis. During these open discussions, people could contribute, participate and challenge any bit of information.

The War Room and the Year of Margins relied heavily on a business intelligence capability. This was achieved through monitoring and chasing infrastructure through trained and competent people. The result was that essential business intelligence on strategic, tactical and operation levels could be made available within hours.

The fact that every member was computer-literate helped staff throughout the company to work *smart* with information. By establishing a computer literate organisation advanced digital tools could be utilised, enabling staff to learn and master the skills and practices of modern business. Over time staff started performing in logistics, production, maintenance and other functional activities as business people. These achievements must be ascribed to the fact that all the staff members had accumulated good business sense. On a daily base, they could see how everything they do impacted on the bottom line financial performance of the company.

The War Room also established the Order Book principle. This concept offered the MD the opportunity to enter into his coaching role. He used discussions around the Order Book to challenge incorrect assumptions and decisions made. Errors were used as opportunities to re-explain business principles. It is however important to note that, although he challenged assumptions and decisions, he never took over the decision or told the staff member what the decision should be. He always asked the person what he could do to rectify a poor decision. He was absolutely merciless in his efforts to change staff members' thinking about business.

Apart from the fact that information was shared and provided where needed, the War Room also introduced the principle of *equals*. This principle empowered operational people to report and assess the result of their own decision-making during the previous 24 hours. The process enhanced the learning of business decision-making since staff could see the effect of right or wrong decisions on their own business unit's results. This learning was complemented by a training programme in Financial Management. All business unit and team leaders attended this course.

Rewards and incentives

The Year of Margins also saw the introduction to a new company-wide incentive scheme. The MD wanted Management to clearly understand and experience risk on a personal level. A system was subsequently introduced in which members of management could place a certain percentage of their monthly salary on risk. This varied from one individual to another. Some high-risk tolerance individuals placed as high as 30% of their monthly salaries on risk. Return on this investment was based on the performance of the company at the end of the financial year in EBIT terms. Performance was not seen as making budget, but the degree to which **the budget was exceeded**. Because budget was exceeded every year over the period 2001 to 2003, some members doubled or quadrupled their investment over this period.

Members of management could also exercise a profit sharing option. To qualify they had to forfeit their option of purchasing Sasol shares on an annual basis. Eventually all level 4's (members of management) opted for the profit-sharing alternative, which could be viewed as an indication of the extent to which an entrepreneurial climate had taken root.

For the rest of the staff, individual bonuses were linked to the company's performance in EBIT terms, and expressed as a percentage of their salaries. The scheme was restricted to individuals and not extended to business units or teams, mainly because of the administrative burden that would be involved.

Salaries and increases were published in a transparent way and communicated throughout the company. EBIT was used as measurement of performance. However if the **safety record was not impeccable**, staff could loose the money that they had gained through financial performance. The fixed component of a person's remuneration (basic salary) was linked to the competency matrix. The annual salary adjustment, which applied to all Sasol employees, also applied to SSSA staff.

The Performance Navigation Process

In January 2001 the need for a new performance appraisal system became acute. The Sep Serfontein Consulting Group was invited to submit a proposal. In launching the initiative the HR Manager admitted to a direct relationship between performance appraisal, coaching and values. SSSA referred to it's performance appraisal system as the Performance Navigation Process (PNP). The purpose of the PNP was to equip leaders to improve the performance of their teams. Individuals would be appraised for their **business performance, competencies** and **values.**

For the process to be successful, leaders needed to become competent in following the *navigation* process, thereby ensuring the allocating of performance bonuses fairly and objectively. In this regard two specific competencies were identified:

- to do ongoing informal performance management and coaching; and
- to do joint performance and development planning with a team member.

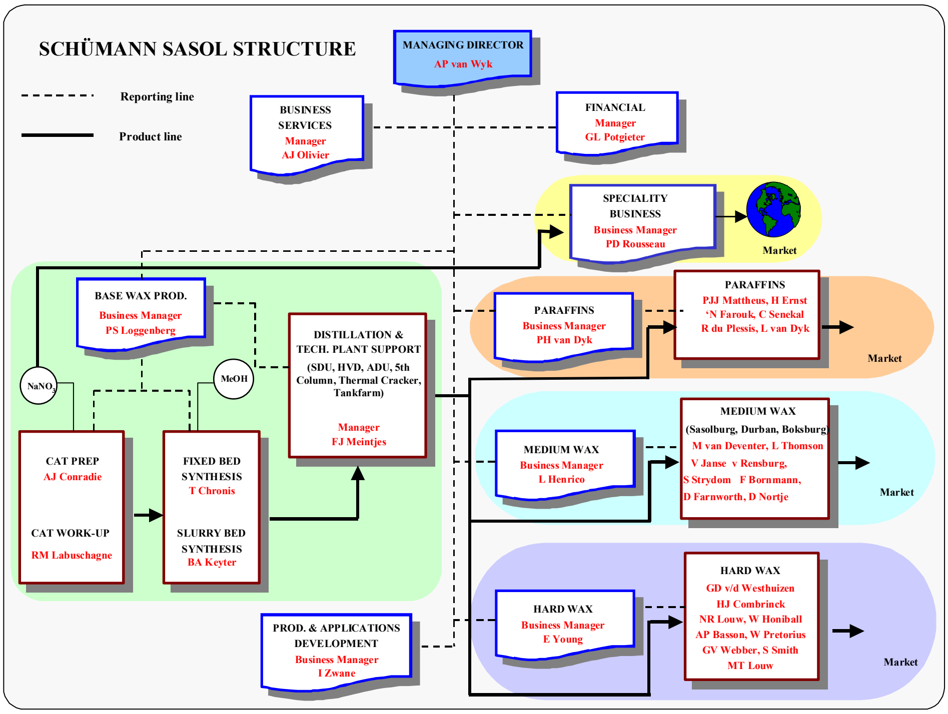
Guidelines for the Performance Navigation Process included the use of the performance matrices, the principle that each staff member will personally take responsibility for his own appraisal and reinforcement of the value of *openness*, *honesty* and *integrity*. Feedback became an acceptable practice at all levels.

The procedure was finalized by the consulting firm and a number of two-day training programmes were conducted during February and March 2001, involving the business unit and team leaders in each of the four business units.

During the Year of Margins small refinements to the organisation structure were introduced. These refinements are portrayed in figure 3.

Figure 3

SSSA's organisational structure during the period July 2000 to June 2001



The Year of Margins ended in June 2001. Financial results were impressive. Revenue had increased from R735.51m to R829.78m. EBIT had climbed from R48.46m to R98.64m.

10 The Year of Detail (July 2001 to June 2002)

Like the previous two years the focus of this third year of the MD's term of office was not pre-planned either, although change was still strategy-driven. The *Year of Detail* was therefore introduced to enhance the deployment of the company's strategy.

The rationale for this phase is quite interesting. The MD noticed that staff tended to become over-confident and too relaxed in the way they treated matters and events. Shortcuts were taken while others tended to generalize, loosing sight of **detail**. Detail, per definition, referred to processes, cost, quality, systems, customer requirements, etc.

The MD concluded that for people to stay focused they needed to be sharpened. This meant that they had to understand the detail. He was also afraid of something else: the effect of his personal style of leadership, which was holistic and visionary and appropriate at his level, but very inhibiting to those with different styles, especially those who were more inclined to look at detail. He knew that if they would start copying his style, their strengths would be lost to the company.

He therefore started placing emphasis on detail. People were urged not only to accept an answer or a practice, but to ask the question: "*What is in the detail?*". Errors and defects were treated in a similar vein, forcing people to rethink the business.

This had a marked impact on the behaviour of people. A number of changes occurred as a result of this initiative:

- The *value of openness and honesty* was reinforced as everything in the system was made transparent.
- With the help of Thinc Business Solutions the Dashboard concept was developed fully. This was made easier by the fact that members of the organisation were computer-literate and could use Microsoft Excel. Data was fed into the system on a daily basis to measure deviations. Because the theme was detail, every person was obliged to constantly challenge measurements by asking two questions:
  - do we measure the right thing?
  - do we measure correctly?

Through the use of the Dashboard the MD succeeded in creating a connection between what every person should measure on a daily basis and the company's Dashboard. All measurements added up to what the company wanted to achieve. The architecture made provision for financial results, product/market sustainability, customer value, logistic effectiveness, operational excellence, performance competence, shared learning and business culture development. The result was that at any point during a month the specific position of the company in regard to these parameters (which included numerous objectives and key performance areas) was known to everyone. The Dashboard also enabled them to anticipate profit at month end.

In support of the MD's initiative for more detail, the HR Manager, in conjunction with the MD, decided to conduct a further survey on the level of value entrenchment. Once again Sep Serfontein Consulting was mandated to do the survey.

The findings of the survey were shared towards the end of June 2001 and the report was published in July 2001. The survey revealed the following:

- the values of *openness and honesty*, and *individual ability* and *perseverance* were treated as more important than *equality* and *pride*;

- behaviours associated with *pride* and *perseverance* were more visible than behaviours associated with the other values;
- the behaviour of top management and the behaviour of other leaders in the organisation were highly correlated, indicating good alignment between levels of management in regard to the core values.

A second HR initiative was launched in September 2001 when it was decided to formally introduce **mentorship** into the business. The mentorship need had initially been identified at the same time as the need for the Performance Navigation System. The mentorship need in SSSA was very specific. It had to assist in preparing people for succession planning, particularly people with leadership potential at team level. Mentorship was also viewed as a means of creating a better balance between a task focus and a people orientation, and of improving diversity management. One condition was that mentorship should be linked to the Performance Navigation Process.

Protégées were selected from levels 5, 6 and lower. Approximately 20 mentors availed themselves for the mentor role. The process was started with a series of interviews, followed by the training of both mentors and protégées. Preparation ended with a contract between mentors and protégées. Roll-out of the mentorship programme commenced in 2001.

At the end of the financial year, 2001/2002 revenue had increased from R829.78m to R1086m. EBIT had risen to R165.88 (Net EBIT = 15,3%). The target of an EBIT of 15% set in November 1997 had thus been achieved six months ahead of target date.

11 The Year of Alternatives (July 2002 to June 2003)

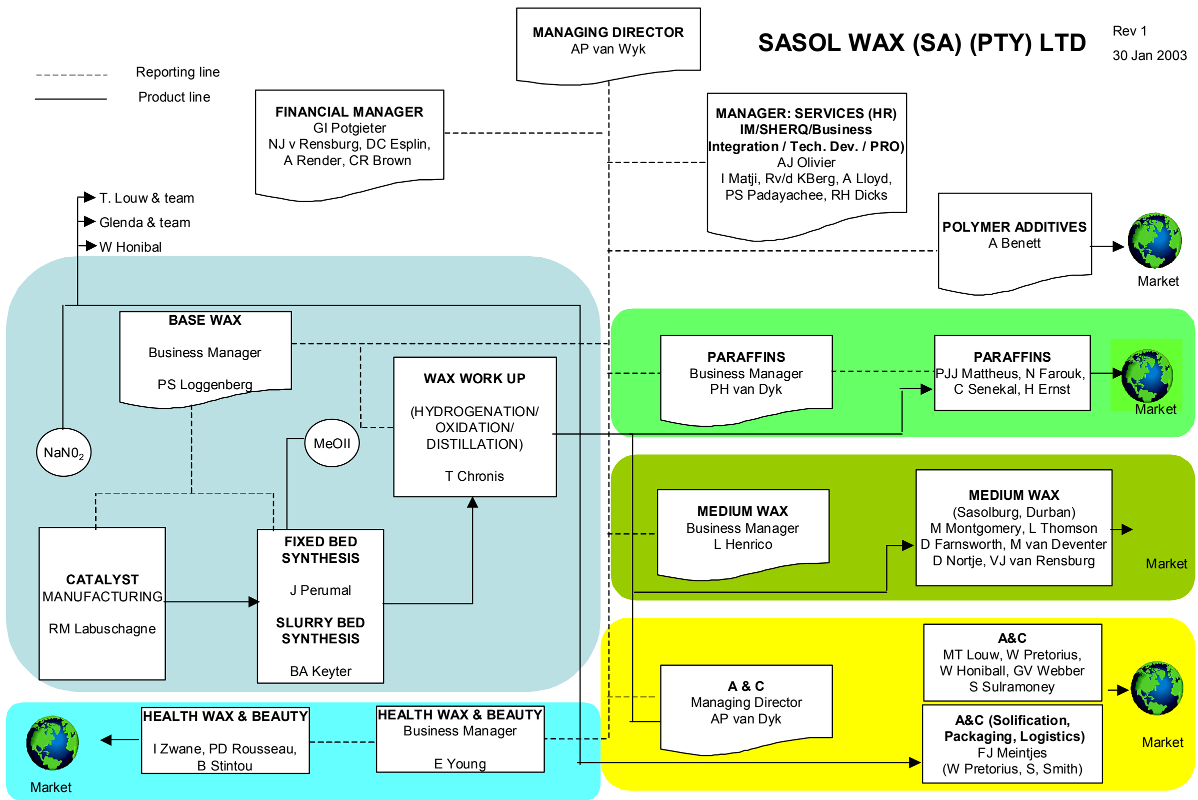
On close analysis the first three phases, structure, margins and detail, could be seen as a variety of efforts to improve the company's health. The Year of Alternatives was the first of the efforts by the MD that can be described as a growth initiative. The reasons for this conclusion are quite apparent if the thinking behind this phase is scrutinised. It involved the following:

- a critical assessment of SSSA's alternative products and services and how each one fitted into the company's strategy;
- an in-depth analysis of what is required at the start of the value chain to make products and services happen, and what changes could be made to the start of the value chain to affect products and services; and finally
- a scan of the total value chain in an effort to optimise the entire process from feedstock to client.

In his efforts to operationalise the thinking, one of the first conclusions reached by the Management Team was the realization that they had to examine alternative feedstock sources. It resulted in them seriously contemplating the import of waxes to replace some of the gas feedstock from Sasol Chemical Industries. On the client end of the value chain new initiatives in the form of task forces were formed to attend to wax applications in cosmetics, health, polishes and emulsions. To address these new initiatives the organisational structure was adapted once again (see figure 4).

Figure 4

SSSA's organisational structure (January, 2003)



Two very important events occurred during 2002:

- Sasol bought the remaining shares from Hans-Otto Schümann and Schümann-Sasol (Pty) Ltd became Sasol Wax (Pty) Ltd on July 1,2002.
- Dr Hans Barth of the Management Board introduced the concept of global business units. This intervention came as a result of poor communication between business units worldwide and the resultant loss of business opportunities. A global matrix structure was created. SSSA was now entering a wave of change. As a result of this move only Hard Waxes (the A & C Business Unit) remained part of SSSA; the Paraffin and Medium Wax business units, as well as new emerging businesses also became part of the global business units.

Despite changes such as the reintroduction into the Sasol corporate environment, revenue by June 2003 had leaped from R1086m to R1300m. EBIT had increased from R165.88m to R187.7m.

12 A business case for an entrepreneurial company

On August 06, 2002, the Business Services Manager, Tony Olivier, approached the Sep Serfontein Consulting Group to develop a strategy for the survival of the *"…Schümann-Sasol Magic*" after the Sasol take-over. Olivier motivated his request by drawing a distinction between two types of organisations:

- the typical corporate business unit characterised by managing cost, managing the budget, improving efficiencies, producing volumes and managing through command and control; and
- the entrepreneurial organisation where the emphasis is on value-adding, satisfaction of customer needs and where management is marginal.

With Sasol now being the sole shareholder, his concern was that the entrepreneurial flame that had been created and fueled in SSSA, could be extinguished and replaced by a bureaucratic type of corporate culture.

The request to the consulting firm was to prepare a business case and to substantiate the case with data from a survey amongst SSSA staff members.

The re-integration of Schümann-Sasol (Pty) Ltd into the Sasol corporate environment, which commenced later in 2003, falls outside the scope of this case study. The preparation of the business case, however, was relevant at the time because it offered the company's leadership the opportunity to assess what had been achieved over the previous five years. The business case was developed within the following parameters:

- SSSA's changing business environment;
- requirements for a company like SSSA to grow market position and strengthen competitive advantage;
- characteristics of an entrepreneurial business: a best fit for meeting the requirements of market growth and the strengthening of competitive advantage;
- the entrepreneurial characteristics featuring in SSSA;
- evidence of SSSA is success as an entrepreneurial business.

For the purpose of this case study it would suffice to only report on three sections of the business case:

- the entrepreneurial characteristics which featured in SSSA;
- evidence of SSSA's success as an entrepreneurial business; and
- how SSSA as an entrepreneurial business was experienced by employees.

12.1 Entrepreneurial characteristics of the company

Vision and Strategy. The company had a market-led vision: "*We care to be the globally respected leader in the high value wax and related businesses*". Over a five-year period SSSA had changed strategy from marketing products to marketing applications, resulting in a market-focused structure, allowing global business units to become effective. This structure was flexible to allow a strategy to be implemented optimally. The company's strategy, as well as strategic drivers and enablers, were understood by all staff members.

Structure. Base Wax was a separate business unit that supplied inputs to other value chains. The other value chains were: Paraffins, Candle Wax (Medium Wax), Hard Wax and New Business Development. Each value chain was a business unit that added value. Technical processes, structures, people, hardware and information systems were aligned to the business value chains. Value chains were customer -driven and optimised. Staff were empowered through membership of self-managed teams within business units. Business units were aligned and they developed their own unique market-driven strategies. Self-managed teams performed whole-tasks and took full accountability for their results. Business units and teams were given the required decision-making authority.

Management. SSSA received a mandate from Schümann-Sasol AG to introduce new products autonomously. They also exercised the following discretionary powers:

- to identify new customer groups (a regional mandate);
- to upgrade existing products (an AG mandate);
- to initiate experimental products (self-claimed);
- to modify product processes (self-claimed);
- to appoint key executives (self-claimed).

Systems. Systems were upgraded, customised and adapted to support structures and to aid daily decision-making at various levels. These systems were also very cost effective. Twelve days after year end, the system enabled audited results to be available. End-of-the-month-results could be predicted with 95% accuracy.

Human Resources. HR formed an integral part of the business strategy. The development of teams and team leaders were given high priority and competencies were assessed and enhanced at every level. Mentorship programmes existed and the psychological and personal wellbeing of staff was supported. The company had a powerful training and development policy; all employees at lower levels met the minimum requirements of the NQF. The training and development budget exceeded 0,05% of revenue. Several internship and learnership agreements were in place and the company was actively involved in the development of entrepreneurs within the Sasolburg community.

Culture. SSSA's five core values were understood and the associated behaviours well-entrenched. Other characteristics of the culture included ownership of business results, personal accountability, freedom of decision making (empowerment) and discipline at all levels.

Rewards and remuneration. The company could boast a non-cap incentive scheme, based on EBIT and safety modifiers. Performance-related incentives, measured against EBIT, existed at leadership levels. The fixed cost component was decreased and the risk component increased. The credibility of this system was proved by the leaders' decision to discontinue the Sasol share options.

Leadership. The MD, his management team and other leaders personally modeled the company's core values and other cultural norms. As visionary leaders, they demonstrated hope and confidence under difficult circumstances by inspiring others and visualizing successful outcomes.

Performance Management. Business performance formed an integral part of performance management. Business scorecards in the business units and whole-task groups were linked to strategic deliverables and were evaluated on a monthly basis. Individual performance was measured against business objectives. Individual performance made provision for an assessment of a persons competencies and the degree to which a person lived the company's values. Throughout the principle of self-management was nurtured.

12.2 Evidence of SSSA's success as an entrepreneurial business

Tolerance for high risks. The company took high risks with the design of it's process (value chain) -driven structure, the empowerment of employees at lower levels and it's remuneration system. A high tolerance for risk was also visible in the selection of markets and the development of products. New businesses were initiated in health, cosmetics and candles. They took the risk of enforcing discipline in the pricing strategy within the candle industry. Technological changes also involved risks (e.g. the Slurry Bed). Outsourcing per se involved a certain level of risk.

Challenging procedures, systems and methods. SSSA challenged these elements, which often controlled activities within bureaucracies, by applying the principle of doing only the things that added value and contributed to strategy. Sasol's remuneration system was found inadequate and the company introduced it's own system of remuneration and incentives. People-development was handled with more freedom and staff was allowed to attend what they believed they needed. Sasol corporate group meetings were often ignored when they were perceived as not adding value.

Challenging competitors or market leadership. By entering the cosmetics and health industries SSSA was challenging the existing leaders in these fields. In a similar vein Chinese waxes in Africa and South America were challenged. In regard to service levels they outperformed EXXON in Australia in certain markets.

Changes in strategy rather then changes in tactics. Designing a structure around the value chain because it was required by the company's strategy, was a bold decision. Switching strategy from production to marketing was a major change; shifting from the commodity market to the consumer market, was a quantum leap. Downward integration into higher value concepts was another example of a long-term goal of SSSA. Strategy to build capacity through people materialised in higher productivity, higher staff loyalty and improved results. What is amazing about these strategic actions, is the fact that these new alternatives were successfully performed without capital investment.

New products to markets. SSSA never solely relied on research. They entered new markets, fully utilising existing knowledge in the business units and working hard to understand different markets. By understanding the markets and anticipating their responses, they entered these new markets with their new products with relative ease. Examples of such new products and markets include:

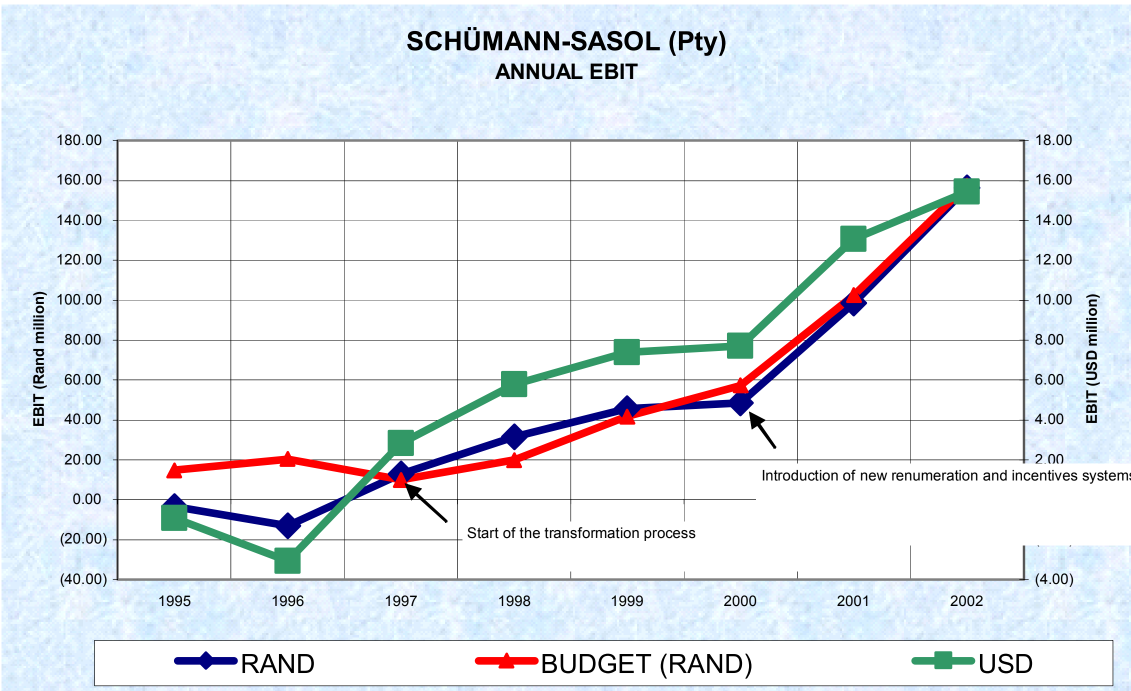
- semi-refined wax;

- production of 15 000 tons of drilling fluid with improved value applications;
- the offer of an unique raw material to the cosmetic industry;
- introduction of innovative products, such as:
  - a mosquito net with slow release repellent;
  - products in the health sector;
  - FT exfoliating beads.

Business results. Business results over the five years reflected the effect of change from a traditional to an entrepreneurial organisation. In November 1997 a target of 15% Net EBIT by 2003 was set (see figure 5). This target was achieved well ahead of schedule (June 2002). This was an exceptional achievement in the business environment in which SSSA operated.

Figure 5

Growth in EBIT from December 1995 to June 2002



12.3 The entrepreneurial business as experienced by employees

The survey. A survey was conducted amongst SSA employees to obtain more evidence supporting the business case and to assess employees' perceptions, feelings and expectations with regard to the integration into the larger Sasol corporate environment. For the purpose of this case study only the results pertaining to SSSA as an entrepreneurial company, are discussed. Themes included characteristics of the business, remuneration, leadership and motivation. A questionnaire was used and administered to a sample of 304 respondents (86% of the total staff complement).

Characteristics of the company as viewed by employees. A total of 13 characteristics were selected, all generally associated with entrepreneurial organisation. More than 70% of people indicated that they witnessed these characteristics on a regular basis. Strategy and discipline in executing strategy received a very high rating. A correctness level of 76% was achieved on a question where respondents had to distinguish between strategic drivers and strategic enablers.

Remuneration. As many as 43% of respondents believed that they were better off than their Sasol colleagues and 82% felt positively about the way their package was structured. Respondents expressed a positive view of the incentive scheme and accepted the principle of pay linked to performance. Almost the total sample (97%) agreed that performance-related pay does stimulate high performance.

Leadership. The MD's behaviour was described as: *"…modeling the company's core values, acting as the company's visionary, providing strategic direction and inspiring and motivating staff*". Other responses confirm an alignment between the MD and an employee's "*immediate leader*".

Motivation. More than 80% the of the respondents were aware of several self-development opportunities that existed. Employees felt proud about SSSA and what it had achieved. Strong identification with the company occurred: employees felt part of a family, and because the company was financially successful, they were given recognition through incentives and profit-sharing, and they were given the opportunity to be creative. Other motivational factors which were clearly present in the work environment, were:

- understanding the broader picture;
- having a sense of ownership;
- being an empowered member of a team;
- having a clear business direction;
- having worthwhile objectives; and
- being part of a warm and friendly work environment.

13 Sustainability

A frequent question in the realm of organisational transformation is how sustainable the change is. The same question was raised when Sasol Ltd bought the remaining shares and re-introduced Schümann-Sasol into the Sasol Corporate fold. On July 1, 2002, the company's identity changed to Sasol Wax, but it was allowed to manage itself fairly independently for another year, until the end of the financial year, on June 30, 2003.

During this final year of self-management, circumstances started to change. The company was obliged to switch to the SAP system and standardise it's branding according to Sasol's rules. Some standardization in the HR and Information Management Functions also occurred. The Hay Job Evaluation system had to be introduced and Sasol's promotional policy (MBK's) had to be adhered to. The incentive system was capped at 30%, although profit-sharing was still allowed until the end of the financial year (June 2003).

More radical changes were expected after June 2003. Sasol Wax's Management was concerned about the possible impact of these changes on staff. The loyalty of individual staff members could, for instance, be affected, and that could result in a higher staff turnover. Other concerns expressed were:

- the value of *creativity and individual ability* (as core values) could come under pressure as a result of standardization and corporate governance;
- learning, which had been promoted relentlessly at individual-, team- and organisational levels, could loose momentum;
- quick responses and quick results, which had become the norm in the business units, could be suppressed by long drawn-out processes, tedious channels of communication and acceptance of less accurate results.
- Sasol's philosophy of strong corporate governance and more centralised decision-making, could constrain the sense of ownership and the feeling of empowerment as practised in Sasol Wax.

The sustainability of the Sasol Wax culture became the focus of attention. The question was asked whether the entrepreneurial spirit had been entrenched sufficiently to withstand the impact of the larger Sasol culture.

The Sep Serfontein Consulting Group was mandated once again to conduct a climate survey. The purpose of the survey was three-fold:

- to understand the current climate and the factors contributing;
- to anticipate the possible impact of the current climate on the performance of individuals and teams;
- to decide on intervention strategies in order to pro-actively plan for changes that might be required.

For the purpose of the survey, climate was defined as *a molar, synthetic or changeable construct, which can be more easily changed by changing circumstances than, for example, culture* (Burke & Litwin, 1989).

Enduring group norms and values do have an impact on climate, but in general climate can be described as the current collective impressions, expectations and feelings of the members of a work unit.

Climate is strongly influenced by the behaviour of leaders and the introduction of new systems and structures. Climate affects staff member relations with one another, with their leaders and with other units (Burke & Litwin, 1989).

The sample. A sample of 266 employees (82% of the permanent staff population) evenly distributed per job level, business unit/group, age, gender, years of service, ethnic group and educational level, was drawn.

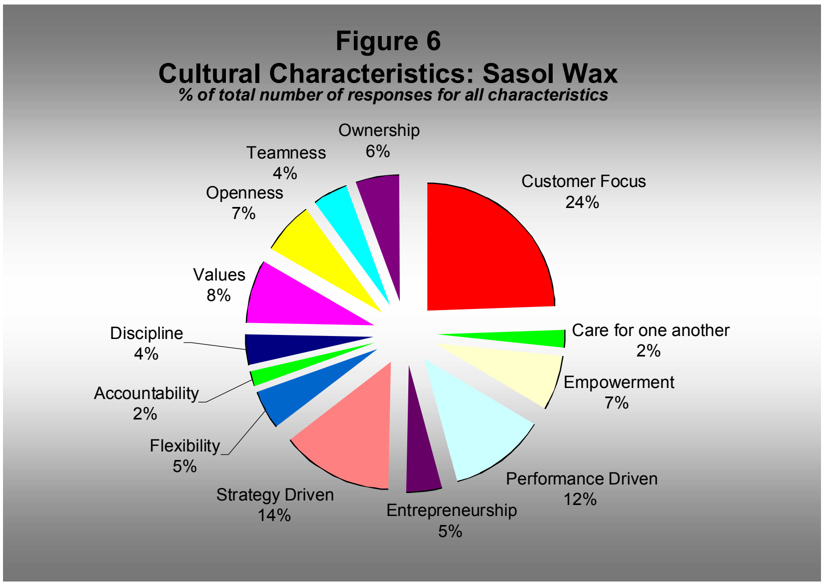
A questionnaire was designed to measure the climate. The following constructs were selected:

- the cultural characteristics of Sasol Wax;
- relationship with leaders, team members and members from other teams;
- freedom to influence and change the work environment;
- team spirit;
- leadership;
- the work environment;
- career-commitment to Sasol Wax;

- diversity.

For the purpose of this case study the results of the survey are discussed only selectively.

Cultural characteristics. Culture, and the specific cultural characteristics of an organisation invariably influence the climate at a particular point. Respondents had to indicate three characteristics (from a list of thirteen), which best described the Sasol Wax culture. The results for all respondents, expressed in % terms, are depicted in figure 6.



Smaller differences were observed between levels as well as between business units/groups. In general a clear picture emerged. **Customer focus** was perceived as the most outstanding cultural characteristic, followed by an urge to be **strategy-driven, performance-driven** and **values-driven**.

Relationship with leaders, team members and members from other teams. In the work environment the relationship with one's leader, fellow members and members of other teams, are of special significance, particularly when addressing change.

Table 1:

Relationships with significant others, expressed per level

SIGNIFICANT OTHERS	NATURE OF THE RELATIONSHIP											
	Inspirational			Supportive			Uninvolved			Destructive		
	L8-12	L7-6C	L5B-3	L8-12	L7-6C	L5B-3	L8-12	L7-6C	L5B-3	L8-12	L7-6C	L5B-3
Your leader	27%	53%	49%	57%	41%	44%	11%	6%	5%	5%	0%	2%
Your own team members	17%	10%	20%	76%	88%	78%	7%	2%	2%	0%	0%	0%
Members of other teams	8%	8%	29%	67%	61%	63%	23%	29%	22%	2%	2%	3%

The picture that emerges from Table 1, conveys a positive message. The relationship between leaders varied between inspirational and supportive. At lower levels (L8-12) relationships were more supportive and at a high level (L5B-3), more inspirational. At all levels fellow team members were perceived as supportive. Even members of **other** teams were by all levels experienced as supportive.

Freedom to influence and change the work environment. Staff in an empowered work environment need to feel free to initiate new processes, approaches and procedures; they have to feel free to add value where they can, and they have to feel unrestricted to make decisions. The picture that emerges from the data captured in Table 2 reflects this premise.

Table 2:

Perceived freedom to influence and change one's working environment expressed per level (% "*always*" and "*often*" responses)

Levels	FORMS OF FREEDOM			
	Initiate and/or implement something completely new	Change or modify the way things are done	Constantly seeking ways of adding more value	Make decisions for which you take full responsibility
L12-8	57%	48%	75%	76%
L7-6C	88%	81%	96%	86%
L5-B3	92%	90%	92%	97%

What was particularly striking was the high percentages on all freedom options at levels 12-8. It also seemed logical for levels 5b-3 and 7-6C (higher levels) to have more freedom to influence and change their working environment. The conclusion is that Sasol Wax was a highly empowered organisation.

Team spirit. A healthy team spirit is a pre-requisite for an entrepreneurial company, but also an extremely helpful factor when engaging change. Several reasons were selected to provide respondents with options to define what a healthy team spirit really meant to them. Figure 7 depicts the situation in the company as a whole. Table 3 portrays the different sets of reasons at business unit/group level.

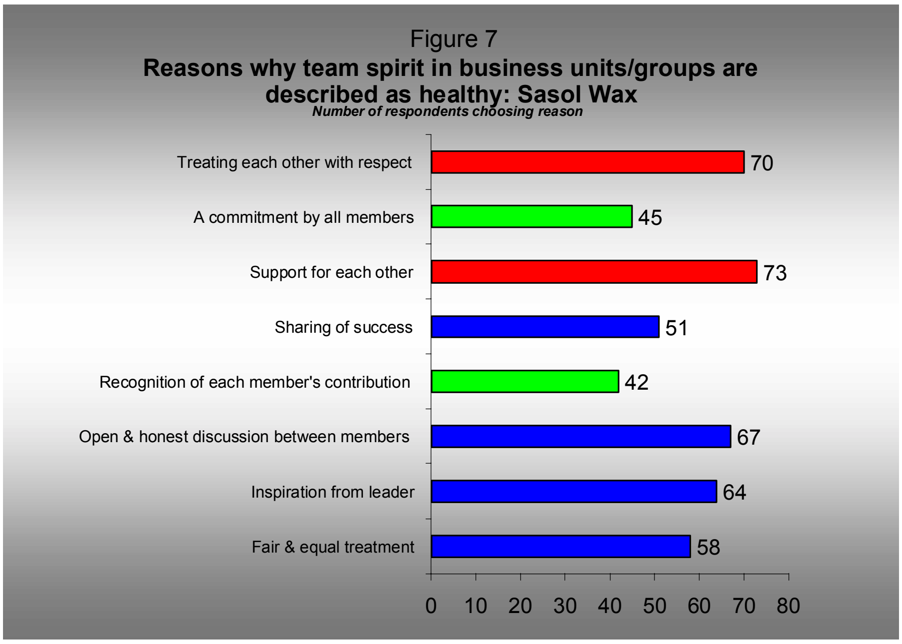


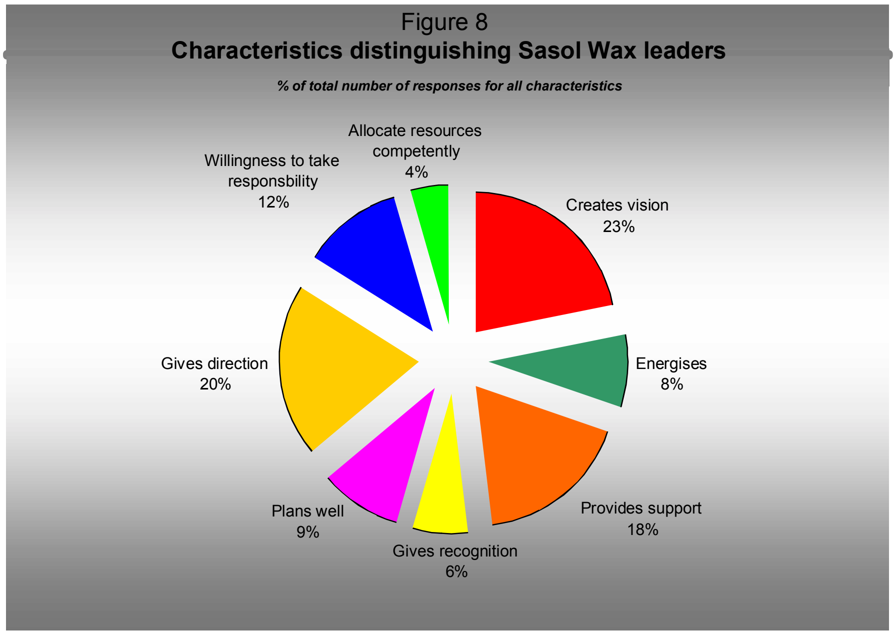
Figure 7
Reasons why team spirit in business units/groups are described as healthy: Sasol Wax

Table 3
Reasons why the team spirit in business units/groups are described as healthy, expressed as preferences 1-4

BUSINESS UNITS / GROUPS	Fair & equal treatment	Leader inspiration	Open and honest discussion / members	Recognition of each member's contribution	Sharing of success	Supporting each other	Commit ment to all	Treating each other with respect
Paraffins	1	4	2			2		
Services		4	2	2		1	2	
Financial		4		4		1		2
Health & Beauty	4	1		4			3	1
CWA Durban	4	2	1			3		4
CWA Sasolburg		1			2	1	2	2
Catalyst	2		2			4		1
Solidification		4	4	2	1	2		
SSBP	2	2					1	2
Logistics	4	4			1	1		3
Fixed Bed Synthesis	2	1	4					2
New Bus Dev		4	1			2	2	4
Wax Work-up	1	4				4		2
Other		2	4			1	4	2

For Sasol Wax as a whole, it appeared as if a healthy team spirit was nourished by the support and respect that people showed towards one another, open and honest discussions and the inspiration coming form the leader. At business unit/group level the differences were more noticeable and could be attributed to the uniqueness of the team spirit in each business unit/group.

Leadership characteristics. Organisations require inspirational leadership to manage and survive change. Several factors were offered to be assessed, particularly those which were more commonly associated with visionary leaders.



People's responses to this question would obviously be influenced by the behaviour of their direct leader, as well as other leaders in the company, including the MD. The most distinguishable characteristics observed in all leaders appeared to be:

- creating a vision;
- providing support;
- giving direction;
- willingness to take responsibility.

Legacy of the MD. Because of his vital role in the transformation and the fact that he had announced his resignation before the survey commenced, people's impressions of him were studied. What emerged was a picture of a typical entrepreneurial leader (Eggers & Leahy, 1995).

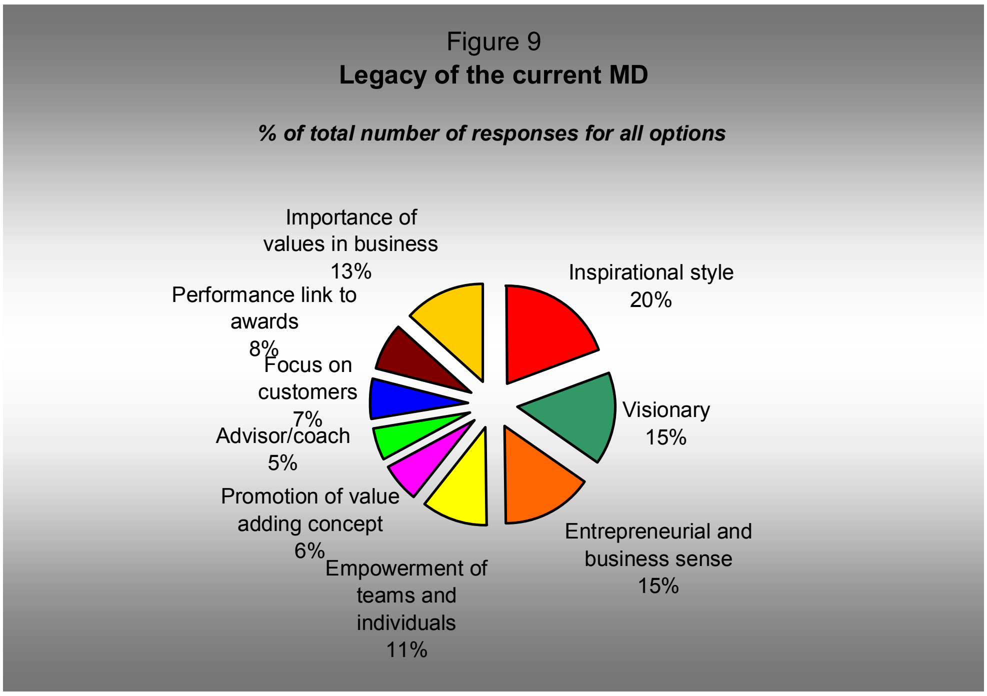


Figure 9 portrays his most outstanding characteristics as:

- his inspirational style;
- a visionary;
- his entrepreneurial and business sense;
- his emphasis on the importance of values in business.

In interviews conducted by the Consultant with five members of the Sasol Wax Executive Team, several characters were highlighted (see Table 4). Some overlapped with the results in Figure 9, (e.g. visionary and business understanding). Some characteristics, however, were unique, probably as a result of the unique relationship with the MD at executive level (e.g. influence/manipulation).

Table 4:

MD's *most outstanding* characteristics (as rated by own staff)

Characteristic	Frequency
o Ability to turn company around	1
o Persistence	1
o Influence / Manipulation (Positive and Negative)	3
o Business understanding / focus	4
o Courage	2
o Discipline in strategy implementation	3
o Entrenching values	2
o Allowing people freedom (accountability)	2
o Strategic thinking (visionary)	4
o Drive	1
o Ability to challenge	2
o Entrepreneurship	3

Using Eggers & Leahy's (1995) characteristics of an entrepreneurial leader, the five executive managers were requested to rate each of the characteristics. The results are depicted in Table 5.

Table 5:

Rating of MD by own staff as entrepreneurial leader

Entrepreneurial Leader	Manager 1	Manager 2	Manager 3	Manager 4	Manager 5
o Visionary	1	1	1	1	1
o Ability to motivate	2	2	2	4	3
o Ability to communicate	3	6	4	5	7
o Persistence	4	7	5	3	5
o Risk-taking	5	3	6	2	2
o Creativity	6	4	7	6	4
o Flexibility	7	5	3	7	6

Work environment. The work environment can have a strong impact on the climate in an organisation at any particular point in time. Work climate could address basic needs such as security or affiliation with others, but could also address the higher level needs, which are usually more motivational in character.

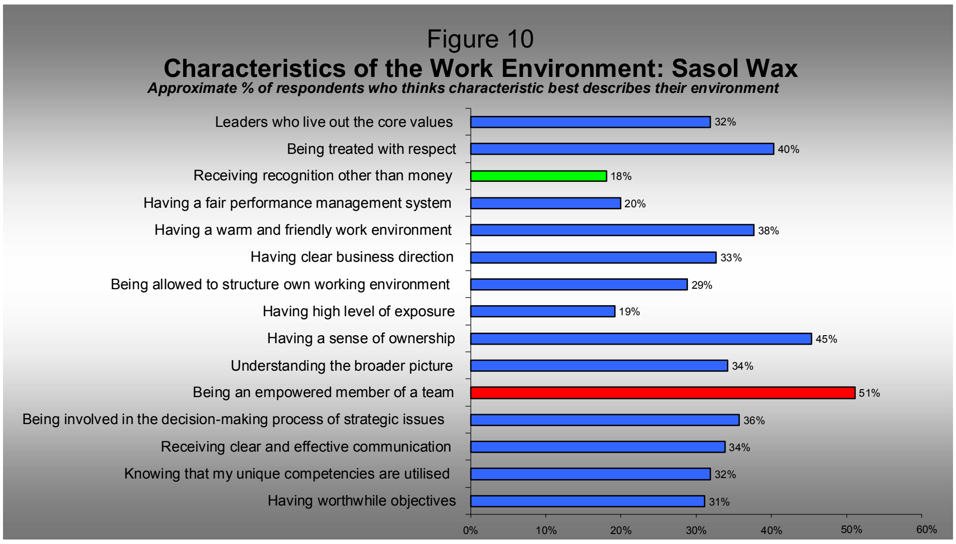


Figure 10
Characteristics of the Work Environment: Sasol Wax
Approximate % of respondents who thinks characteristic best describes their environment

Figure 10 shows that all the characteristics selected were recognised by respondents, but for the staff as a whole the most outstanding characteristics of the work environment were:

- being an empowered member of a team;
- having a sense of ownership;
- being treated with respect;
- working in a warm and friendly environment.

Making a long-term career commitment. For Sasol Wax to sustain it's competitive advantage, it had to ensure a stable and competent work force (amongst other factors). One way to ensure manpower stability is to be aware of, and to address the needs of individual employees.

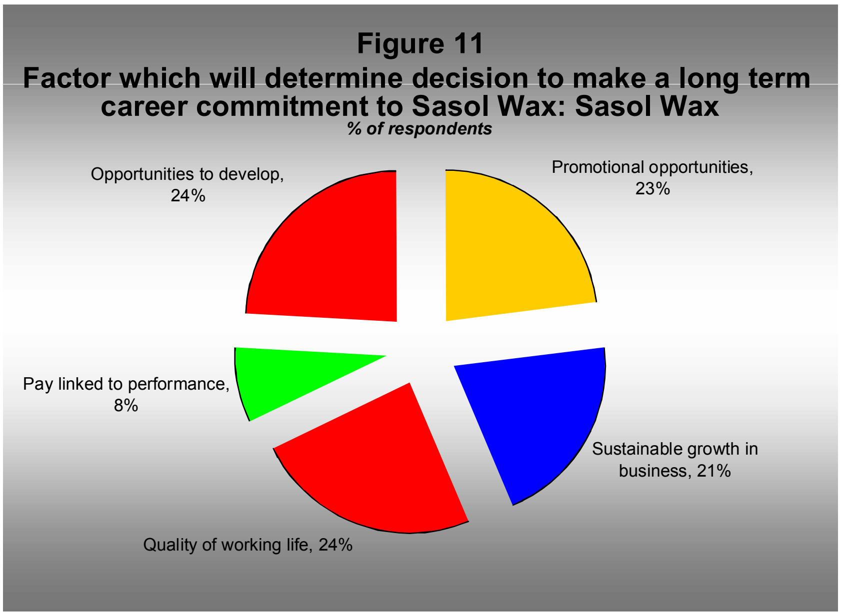


Figure 11 portrays the factors for the total group. It is interesting to note that opportunities to develop and the quality of working life was rated much higher than pay linked to performance.

Table 6:

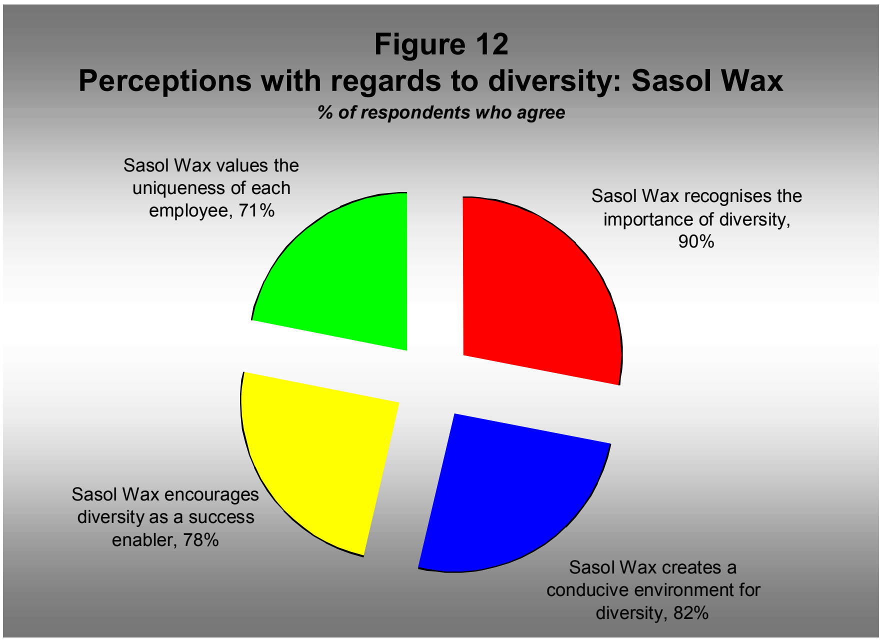
Factors which will determine the decision to make a long-term career commitment to Sasol Wax, expressed per level

	Promotional opportunities	Sustainable growth in business	Quality of working life	Pay linked to performance	Opportunities to develop
L12-8	23%	21%	20%	8%	**29%**
L7-6C	**31%**	20%	**31%**	8%	10%
L5B-3	17%	20%	**32%**	10%	22%

Table 6 provides a fairly clear picture of what was required by staff at different levels to make a long-term commitment to Sasol Wax. The following need to be observed:

- staff at lower levels (levels 12-8) were looking for **opportunities to develop** and to **be promoted**;
- staff at levels 7-6C were looking for **promotional opportunities** and **quality of working life**;
- staff at levels 5B-3 were clearly more influenced by the **quality of working life**.

Perception with regard to diversity. Diversity cannot be ignored in South African organisations. If recognised, companies could do as little as possible and only follow legal requirements. Companies could however embrace diversity as a potential asset as long as they manage it effectively.



The results depicted in figure 12 suggests that diversity was generally viewed very positively. Not only was the uniqueness of each employee respected, but employees perceived diversity as important and as a success enabler. This positive picture surfaced at all levels. The conclusion is that diversity was not only valued, but actively managed as a competitive advantage.

Conclusions

There was sufficient evidence from the survey to conclude that the entrepreneurial character of the company had been properly established. Given the survey results, it was difficult to imagine that characteristics such as customer focus, a drive towards strategy, empowerment and a performance orientation could suddenly disappear. On the contrary, it appeared as if these characteristics were so strongly entrenched that the executive and leaders of groups and teams could utilise it effectively to deal with the coming changes. This conclusion was supported by other survey results, which indicated that the majority of people in the business units were not adversely motivated or worried; there was enough intrinsic motivation, excitement, self-confidence and a willingness to take up challenges to face the inevitable changes associated with the reintegration into Sasol.

The company was fortunate to have an exceptional leader in the person of the MD. His profile matches that of the entrepreneurial leader in almost every respect. His competence to create a business sense and customer focus at all levels, his visionary qualities, his inspirational style and his drive to make values part of the business, became a legacy other leaders could successfully build on.

The company's success in establishing strong leadership at all levels, served as a building block for the future. The data suggested that the company could indeed claim strong leadership at all levels, characterised by:

- a passion to drive strategy;
- the ability to give direction;
- the willingness to provide support; and
- the willingness to take responsibility.

From the survey it appeared that much progress had been made in establishing diversity in the work environment, and this picture remained positive across business units and all levels. It was also quite clear that the company had cultivated a work environment to keep staff motivated and willing to invest in a career in Sasol Wax. So positive were the circumstances that had been created, that rewards and recognition appeared to be less important.

The conclusion of Management after they had studied the survey results, was unanimous: Sasol Wax could sustain it's current performance levels and entrepreneurial character in the corporate environment.

14 Closing Note

At the end of June 2003 the company had achieved all the objectives it had hoped for. It controlled only 30% of Sasol Wax International's assets and used only 28% manpower of the group but contributed almost 80% to the group's profits. Over a five-year period many strategic objectives were achieved and the 15% EBIT was attained almost a year early. Capital of more than R300m was generated. An impeccable safety record was maintained, which manifested in results like the following during the 2003/2004 financial year:

- Sasol Wax was the recipient of it's second NOSA CMB253 5-star platinum grading;
- Sasol Wax achieved a two years Lost Work Day Case free days on April 12, 2004, with a 24 month moving average of 0.00;
- the company recorded the lowest recordable injury rate of 0.23.

On analysis it appears that, although an entrepreneurial business was established and extraordinary business results were achieved, technology development and R&D might have been neglected. Technology problems have since occurred. It forced Management to investigate and eventually they had to spend significant amounts to upgrade and improve in order to sustain the existing levels of performance. This may be an obstruction, should the company decide to engage in another S-cure.

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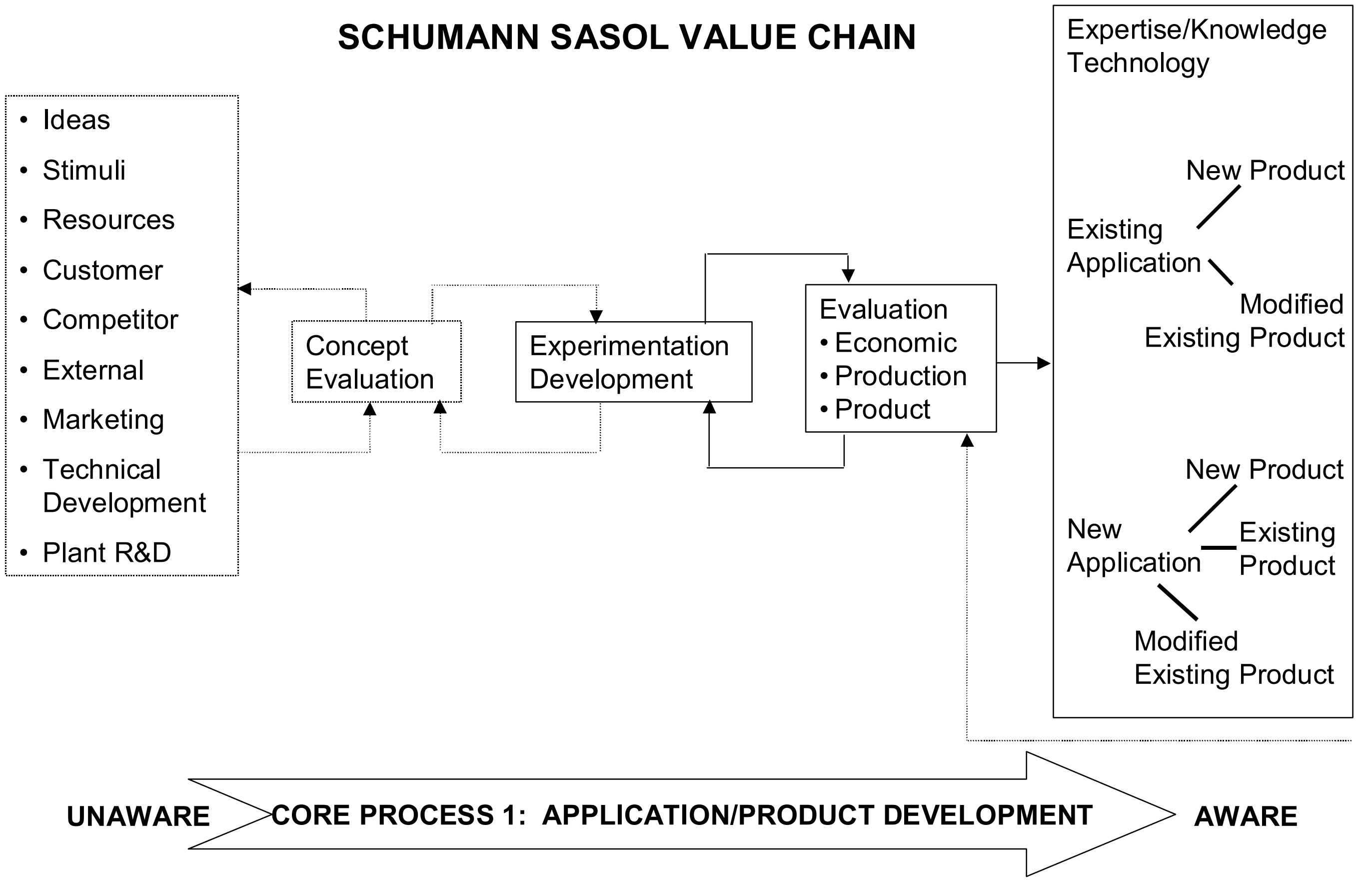
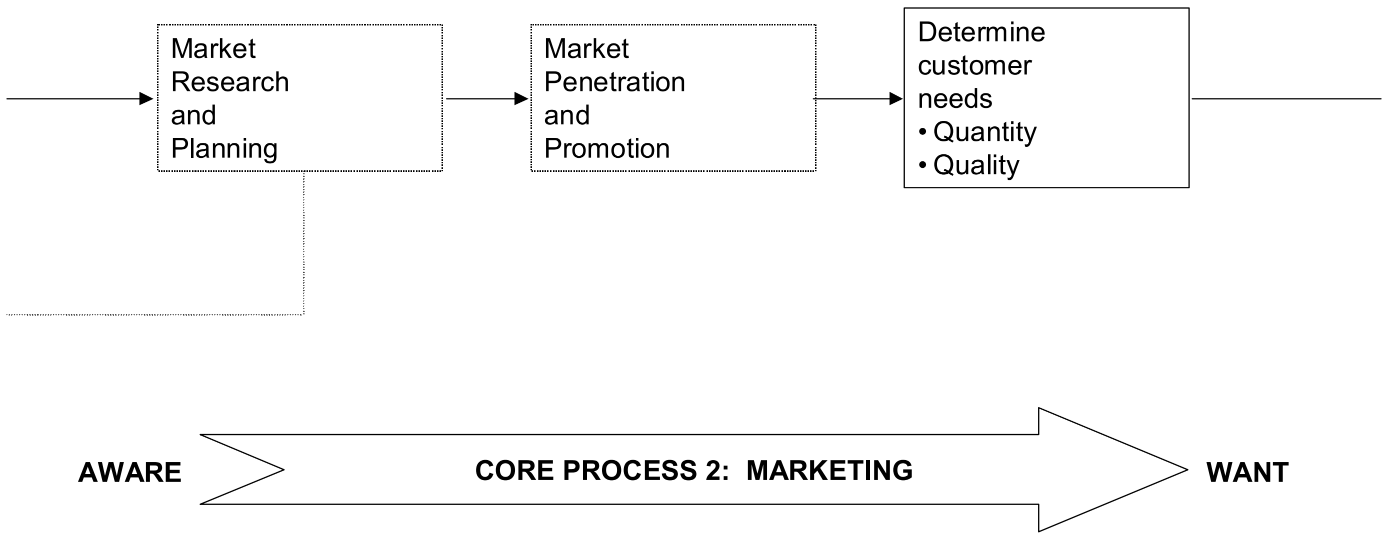
ANNEXURE B

ANALYSIS OF THE SCHÜMANN SASOL (PTY) LTD VALUE CHAIN

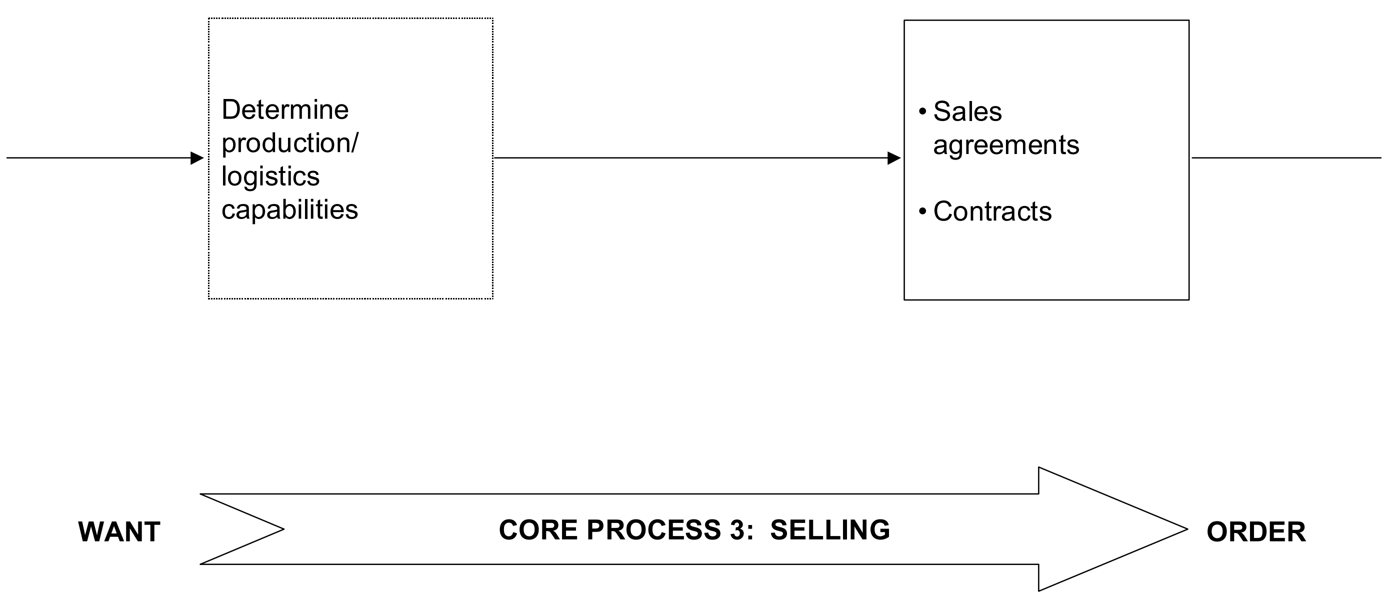
SCHUMANN SASOL VALUE CHAIN



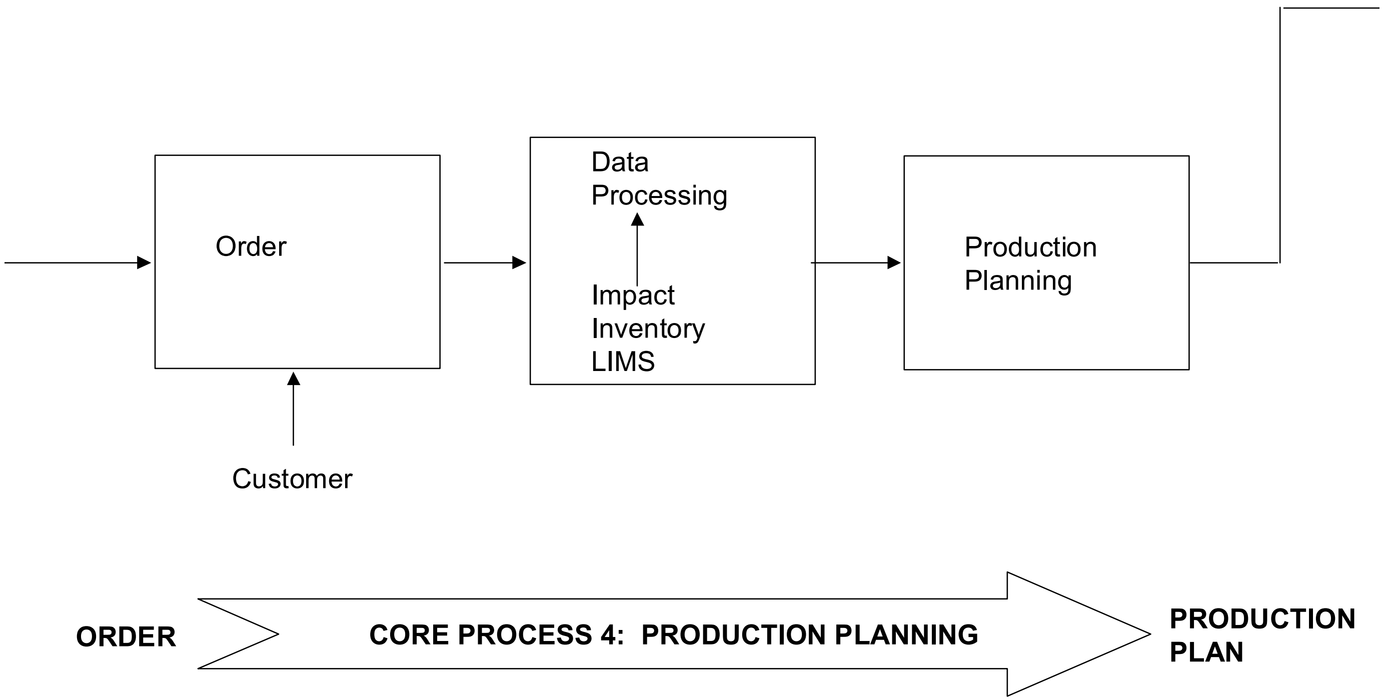
SCHUMANN SASOL VALUE CHAIN

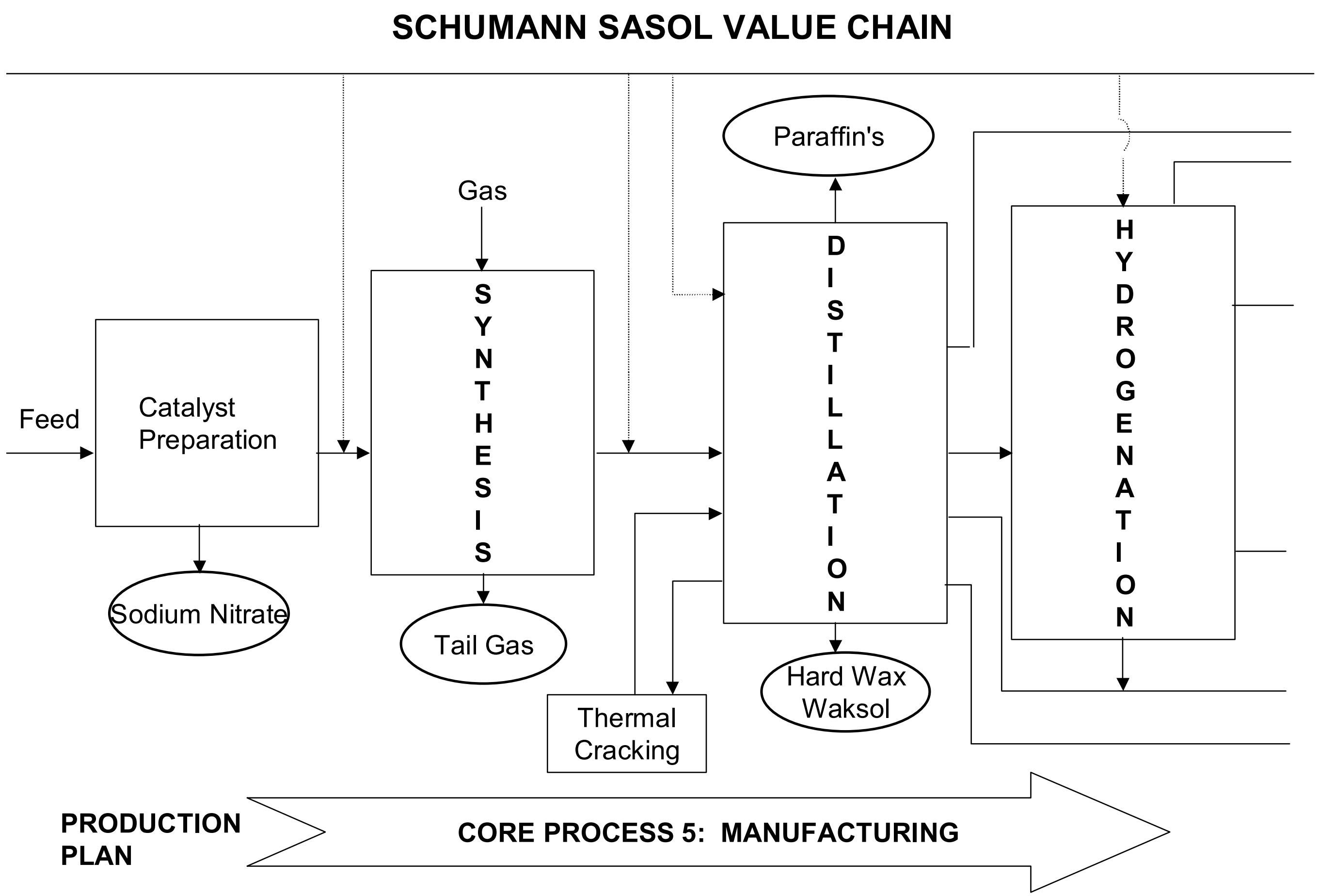


SCHUMANN SASOL VALUE CHAIN

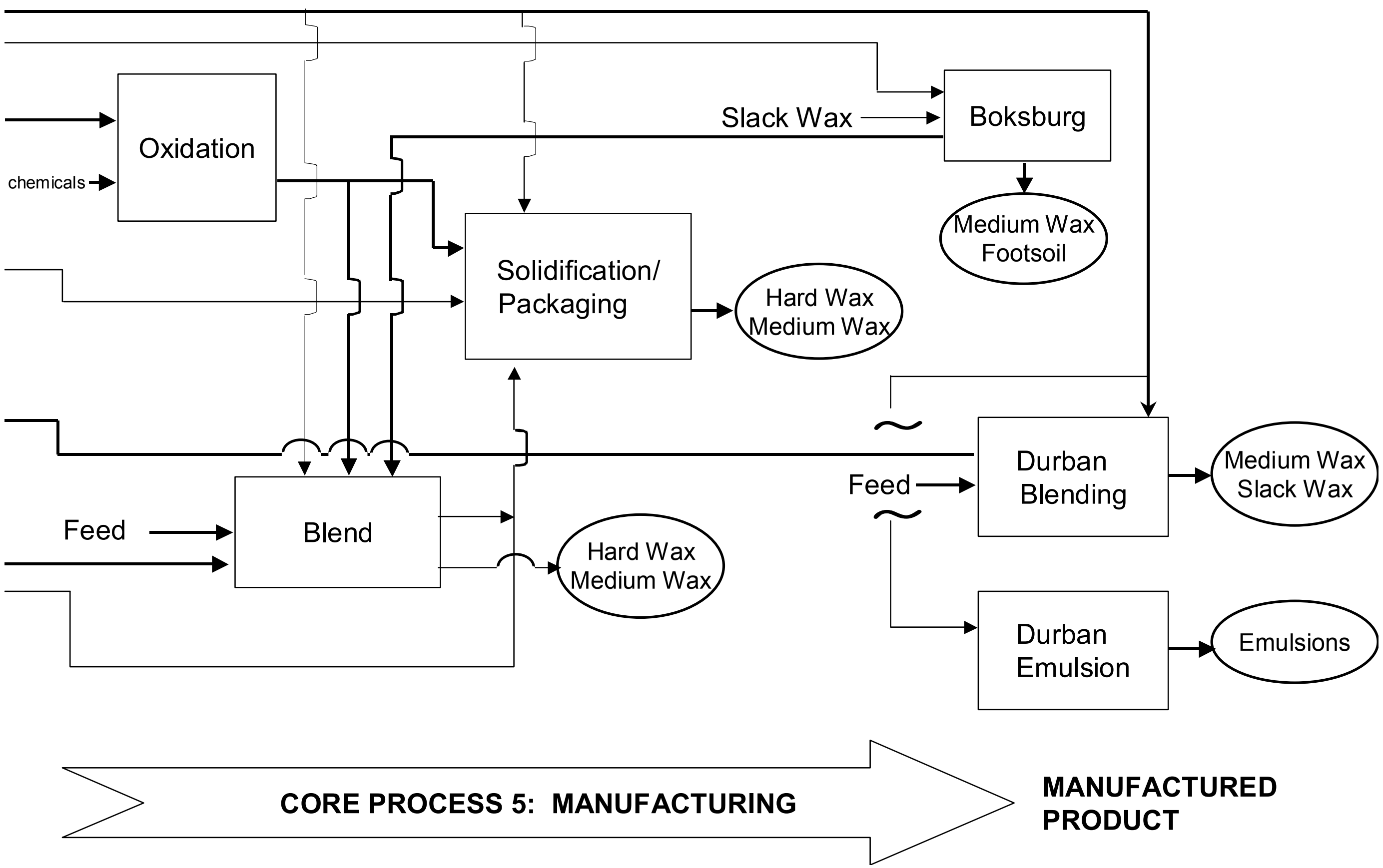


SCHUMANN SASOL VALUE CHAIN

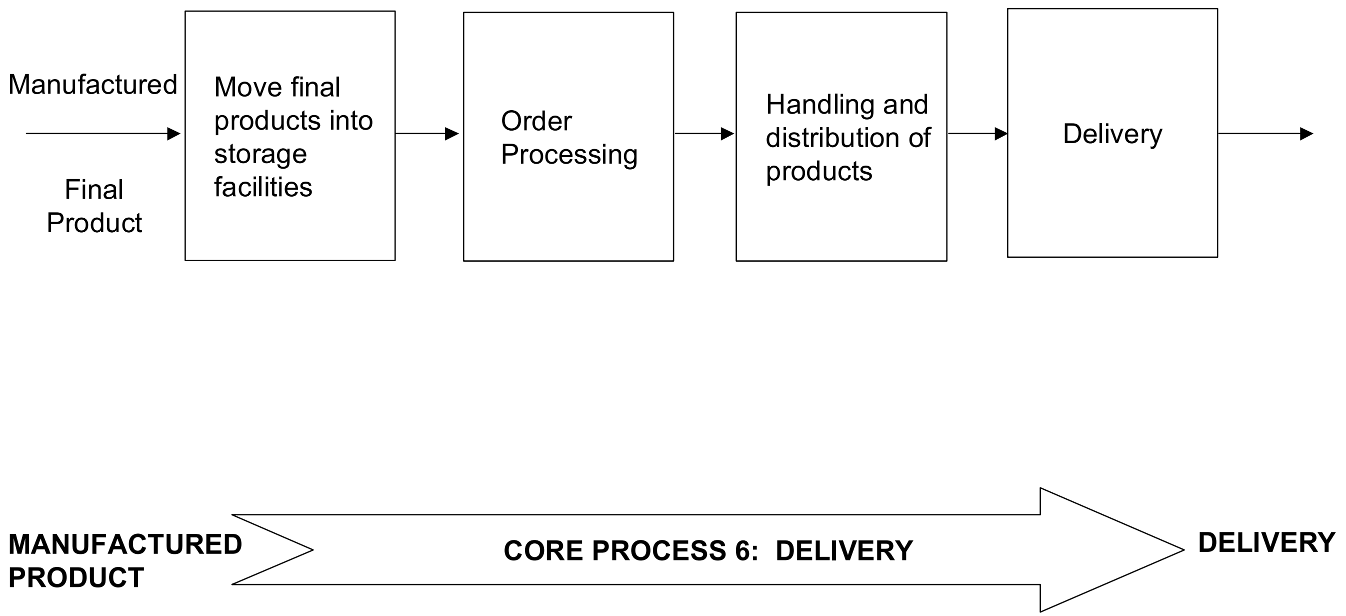



SCHUMANN SASOL VALUE CHAIN
Feed
Catalyst Preparation
Sodium Nitrate
Gas
SYNTHESIS
Tail Gas
Thermal Cracking
Paraffin's
DISTILLATION
Hard Wax Waksol
HYDROGENATION
PRODUCTION PLAN
CORE PROCESS 5: MANUFACTURING

SCHUMANN SASOL VALUE CHAIN



SCHUMANN SASOL VALUE CHAIN



SCHUMANN SASOL VALUE CHAIN