CREATING AND SUSTAINING COMPETITIVE ADVANTAGE THROUGH OPERATIONAL EFFECTIVENESS AND STRATEGY

by

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DECLARATION

I declare that:

"CREATING AND SUSTAINING COMPETITIVE ADVANTAGE THROUGH OPERATIONAL EFFECTIVENESS AND STRATEGY"

is my own work, that all the sources used or quoted have been indicated and acknowledged by means of complete references, and that this thesis was not previously submitted by me for a degree at another university.

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OCTOBER 2000

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SUMMARY

For organisations to maintain their profitability, they need to look at where they are in the stream of competition in their various industries. Once they know where they are, they would need to establish where they want to be. This would call for organisations to know where their competitive advantage lie.

This study demonstrates how organisations can create and sustain their competitive advantage. Operationally, the practices of total quality management and benchmarking are underscored as means to make organisations more effective operationally. Furthermore, strategies that organisations can employ are also discussed which would enable organisations to sustain their competitive advantages. This study also shows how management in organisations can develop a global mindset if they are to take advantage of the forces of globalisation.

In order to achieve the objectives of this study, a literature study on the subjects of competititiveness, competitive advantage, operational effectiveness, total quality management, benchmarking and globalisation was undertaken on the one hand. On the other hand, an empirical study was conducted in the Vaal Triangle Metropolitan Area (VTMA) to determine organisations, particularly in the steel industry have created their own competitive advantage in such a highly competitive industry. Part of the study was conducted in Tilburg, The Netherlands for comparative purposes. The questionnaire was developed and applied after which results were reported.

The results indicated that there is a need for organisations to examine themselves and improve their operational effectiveness if they are to compete successfully with the rest of the world. In conclusion, recommendations on how organisations can create and sustain their competitive advantage are made.

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CHAPTER 1

THE SCOPE AND METHOD OF STUDY

1.1 INTRODUCTION

The re-integration of South Africa into the global economy a few years ago meant a number of developments for the country. It not only had implications for the country's populace but also for the business community. For many years prior to re-integration South Africa was restricted in many ways. This ranged from diplomatic recognition to sport to business, to mention but a few areas. Many foreign countries imposed trade sanctions against South Africa and others disinvested their businesses.

This resulted in the economy being isolated from the rest of the world with undesirable consequences. Trade sanctions meant that South Africa was left with very few trade partners and therefore very few competitors abroad. Disinvestment on the other hand, meant that indigenous South African organisations were now left with fewer competitors within the borders of the country. Invariably, South African organisations lost sight of the importance of competition since there was now so little.

Due to the re-integration of the country in 1994, those countries that had imposed trade sanctions against South Africa began lifting them and some of those that had disinvested began to reinvest. Trade with other nations resumed and South African organisations began to see competition resurfacing.

In the past self-sufficient economy, South African organisations could afford to be uncompetitive relative to international standards. Consumers had little choice. What was once considered to be a viable price or a profitable point of differentiation was no longer sustainable. (Klein, 1998:2)

In this regard, Klein (1998:2) persuasively argues that there are only two ways for an economy to grow rapidly, both of which are inextricably tied to the global economy - to be an attractive destination for foreign direct investment, and for its organisations to be aggressive and successful competitors in foreign markets. Klein (1998:2) further argues that the record since South Africa's re-integration into the global economy has not been strong on either of the two bases for growth.

South Africa is one of several countries whose common denominator is being large, extremely wealthy in natural resources but not very competitive. Furthermore, Kotze and Kotze (1997:6-7) assert that South African wages have already reached a level at which the country cannot compete on cost with countries offering lower wages, particularly where more labour intensive industries are concerned. Kotze and Kotze (1997:6-7) believe that the most likely development path is to move progressively towards supplying the higher-end of the market, where quality and service become important and that core competencies such as design capabilities, global marketing expertise, total quality management and just-in-time delivery be developed.

As the set of competitors has changed, so too have customer demands and the basis of competition. Competitive skills that were dulled by protectionism must be honed through competition in the market place. More efficient operations must be accompanied by effective customer satisfaction.

Local decision-makers need to understand clearly the competitive strengths of global players, who may enjoy both lower costs and more sophisticated market understanding. In addition, South African organisations need to be aware of their own vulnerabilities in a global context. Achieving such an awareness of one's

competitive position requires the ability to look at matters from a global perspective.

Access to foreign innovation, raw materials, capital, markets, skills and demanding customers are all critical. Success in the global arena requires the ability to recognise and respond to opportunities wherever they exist. (Klein, 1998:1)

The global environment is becoming ever more competitive and while it provides opportunities for South African organisations it also presents challenges. In view of this, it is therefore imperative that organisations in South Africa look and relook at their competitiveness and know where their competitive advantage lies. More importantly, they should have a strategy that will make their competitive advantage sustainable.

Competitiveness is at the heart of a business organisation's performance in competitive markets. After many years of vigorous growth, many organisations lose sight of their competitive advantage in their pursuit of growth and diversification. Today the importance of creating and sustaining a competitive advantage cannot be overemphasised. (Porter, 1985: xv)

Competition determines the appropriateness of an organisation's activities that can contribute to its performance such as innovations, a cohesive culture, or good implementation. Competitive strategy is the search for a favourable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that undermine industry competition. The fundamental basis of above-average performance in the long-run is sustainable competitive advantage. (Porter, 1985: 1)

The quest for productivity, quality, and speed has triggered a remarkable number of management tools and techniques such as total quality management, benchmarking, partnering, time-based competition, outsourcing, reengineering, and change management. Although the resulting operational improvements have often been dramatic, many organisations have been frustrated by their inability to translate those gains into sustainable profitability and gradually those management tools and techniques have taken the place of strategy. As managers push to improve on all fronts, they move further away from viable competitive positions. (Porter, 1996:61)

Another area that is vital for competitiveness is the core competencies of an organisation. Core competencies are the organisation's fundamental strengths. These are things that the organisation does very well. A core competency is meaningful if it provides possible access to new markets, if it satisfies specific customer needs and if it is difficult to imitate. In other words, an organisation's core competency is meaningful if it provides the organisation with sustainable competitive edvantage. (Javidan, 1998:61)

It is not every competency that results in a competitive advantage. A competency leads to a competitive advantage if the organisation is better than its competitors and if that betterness is valued by the market. In other words, the fact that an organisation may be the most efficient manufacturer of a product is not pertinent if there is no demand for it. Thus, organisations must examine the market value of their core competencies since a competitive advantage is meaningful if it is related to an attribute valued by the market. (Javidan, 1998:66)

Constant improvement in effectiveness as far as the organisation's operations are concerned, is necessary to achieve superior profitability. However, it is not usually sufficient. Few organisations have competed successfully on the basis of operational effectiveness over an extended period, and staying ahead of rivals

gets harder every day. The most obvious reason for that is the rapid diffusion of best practices. Competitors can quickly imitate management techniques, new technologies, input improvements and superior ways of meeting customers' needs. (Porter, 1996)

While operational effectiveness is about achieving excellence in individual activities or functions, strategy is about combining activities. The essence of strategy formulation is coping with competition. According to Pearce and Robinson, Jr. (1988:124) the nature and degree of competition in an industry hinges on five forces: the threat of new entrants, the bargaining power of suppliers, the threat of substitute products or services (where applicable), and the jockeying among current contestants.

Knowledge of these underlying sources of competitive pressure provides the groundwork for a strategic agenda of action. They highlight the critical strengths and weaknesses of the organisation, animate the positioning of the organisation in its industry, clarify the areas where strategic changes may yield the greatest payoffs, and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats.

In formulating a strategy, once the strategist has assessed the forces affecting competition in his industry and their underlying causes, he can identify his organisation's strengths and weaknesses. With this in mind, Pearce and Robinson, Jr. (1988:135) suggest that the plan of action devised by a strategist may include:

- Positioning the organisation so that its capabilities provide the best defence against the competitive force; and/or
- Influencing the balance of the forces through strategic moves, thereby improving the company's position; and/or

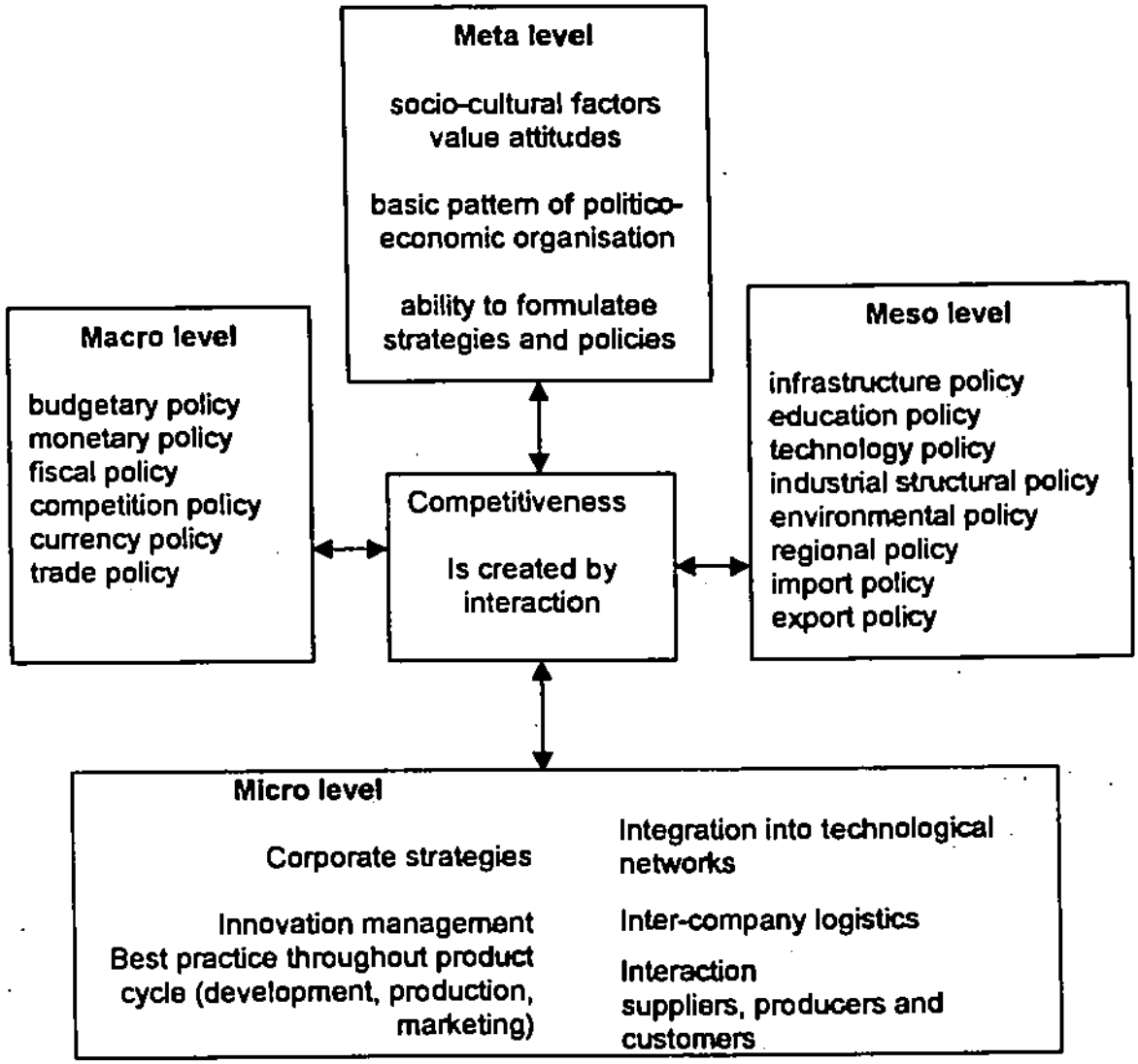
- Anticipating shifts in the factors underlying the forces and responding to them with the hope of exploiting change by choosing a strategy appropriate for the new competitive balance before opponents recognise it.

Strategy can therefore be viewed as building defences against the competitive forces or as finding positions in the industry where the forces are weakest. Also, it should be appreciated that knowledge of the organisation's capabilities, including its weaknesses and strengths, and of the causes of the competitive forces will highlight the areas where the company should confront competition and where to avoid confrontation. With this knowledge, an organisation can devise a strategy that takes the offensive. This posture is designed to do more than merely cope with the forces themselves; it is meant to alter their causes.

In essence, the competitiveness of businesses is based on a societal arrangement in which the interplay of factors related to competition, policies at different levels plus a frame of reference in which theses levels can interact lead to competitive advantage. Appropriately, Esser, Hillebrand, Messner and Meyer-Stamer (1995:2) describe the competitiveness that emerges this way as systemic competitiveness. It thus emphasises that an economy's competitiveness rests on purposive and inter-meshed measures at four levels (the meta-, macro-, meso-, and micro-levels) and a multidimensional guidance concept consisting of competition, dialogue, and shared decision-making and integrating the most important group of actors.

What the concept of systemic competitiveness entails, in essence, is that the organisation's competitiveness is influenced by factors that operate at different levels and that all these factors interplay with one another. The following figure puts the concept of systemic competitiveness in perspective:

Figure 1.1: Determinants of systemic competitiveness



Source: Adapted from Esser *et al* (1995:28)

At the meta level, there has to be an outward-looking and competition-oriented pattern that encourages international competitiveness in an economy. The international competitiveness will only emerge when a society succeeds in establishing a solid consensus on this goal. At the macro level different policies must exist that will foster and promote the international competitiveness of a country.

For example, the monetary policy must provide a stable framework and the central bank plays a very critical role in this area by keeping down inflation and interest rates. Trade policy is also very important, as it will guide authorities and business in their trade especially with their global suppliers and customers. The role of the meso level in ensuring that the spirit of competitiveness exists cannot be overemphasised. Consider the import and export policies and their direct effect in international trade. These days, it is imperative that organisations as well as countries at large have sound environmental policies and practices. Environmental issues on their own have caused many countries to lose investments. In order for organisations to compete successfully, they need to adhere very closely to the requirements and standards of specific international institutions in their respective sectors. (Esser *et al*, 1995)

Therefore, if organisations want to compete, especially internationally there must be coherence and synchrony in all four levels. Micro level is the level that exists within the business organisations themselves. As can be seen from figure 1.1 competitiveness at this level would involve, broadly speaking, factors such as managerial competence, proper corporate strategies, innovation and best practice, interaction between suppliers, producers and customers, among other things.

Esser *et al* (1995:52) have come to appreciate that factors such as efficiency, quality, flexibility and responsiveness determine the competitiveness at an organisation level. In the case of efficiency, organisations must ensure that they optimise the indicators of productivity, which are labour and capital. When it comes to quality, organisations cannot afford to lag behind and not meet or even exceed customer requirements and expectations. Learning organisations are flexible organisations. They demonstrate this in the dimensions of product flexibility, volume flexibility, machine flexibility, operations flexibility as well as process flexibility. Responsiveness in organisations involves the ability of an

organisation to adapt swiftly to changing customer demands, changing tastes and preferences and so forth.

Furthermore, rather than relying on detection of defects after production with traditional statistical sampling techniques, Total Quality Control (TQC) emphasises the elimination of the problems that lead to poor quality at source by constant analysis of the causes of all observed defects, and the continuous search for ways to redesign products and processes such that the causes of poor quality are eliminated, and the ideal of 'zero defects' is achieved. (Kerr, 1991:30) The answer to problems associated with how quality should be managed is in TQM which is discussed at great length in Chapter 3 of this study.

The transition to a competitive orientation has brought about a need for many organisations to reorganise their entire value chain systems, revisit their corporate strategies and look at their cost structure, among other things. Such organisations have had to invest in new manufacturing techniques to make production more efficient. When markets are opened, many organisations consider specialising far more intensely. This is helpful especially when they are as familiar with their customers and their needs as possible.

Lindberg, Voss and Blackmon (1998:3) assert that the globalisation of competition and sourcing has led to increased pressures on, and opportunities for, national industries: challenging them to develop the ability to change strategies and tactics in response to new demands. As best practice or 'world class' manufacturing is considered to embody most of the innovation practice and technology, the strategies for the use, applicability and performance of businesses in different countries and regions have become of vital importance. Commenting on innovation, Schonberger (1996:17) is confident that innovations in manufacturing organisations will continue to pour forth from all parts of the world, including the less developed countries.

In the past, marketing was seen to be independent and unrelated to the manufacturing activities. However, in more recent times, organisations have come to a realisation that if they are customer- driven, then they must develop means for linking customers to their production activities. In this connection, Whybark (1992:338) believes that the development of direct linkages to and from the customers is a necessary precursor to effective implementation of any customer-driven manufacturing strategy.

As emphasised throughout this study the human factor is not something to be taken lightly in organisations. Any organisation becomes a winner over its competitors by attaining high performance with best practices and by sustaining it through the efforts of its people (Basu and Wright, 1997:143). It must always be borne in mind that capital assets depreciate with time while human resources can appreciate with experience and appropriate training and development.

1.2 STATEMENT OF THE PROBLEM

Since the Second World War (1939-1945), enormous changes have occurred in the steel industry. Since then, there has been a 100 percent increase in the production of steel throughout the world. At the same time, the price of steel products in general has declined by 25 percent in terms of constant dollars and the labour component in terms of man-hours per tonne declined by a dramatic 60-70 percent. (Katrak and Agarwal, 1999:10)

Today there are a number of countries that produce iron and steel in both the developed and developing worlds. One of the foremost steelmaking countries is Japan, which has attained a remarkable development since the Second World War. (Kawata, 1969: 112) This is true in spite of the fact that Japan is very poor in natural resources such as iron ore and coal, which are the main materials in making iron and steel. One of the reasons underlying the remarkable progress

made by postwar Japan is that it was relatively easy at that time to introduce the latest technology from the advanced steelmaking countries.

However, it must be pointed out that over the years, the iron and steel industry in many steel-producing countries, suffered from one plight or another. In the case of South Africa, the industry underwent a severe recession between 1989 and 1993 and experienced considerable rationalisations and contraction. As a result, governments in those countries offered some protection from imports, subsidies and a suspension of laws against cartels. Many of such organisations remained fixed on the idea of cooperation rather than showing that they could compete in a free market without complaint. (Economist, 1992:70-71)

During and following the Second World War, the steel industry grew into the largest manufacturing sector in Southern Africa and became a dynamo for industrial development. This increased demand resulted in the establishment of a major steelmaking organisation in the Vaal Triangle Metropolitan Area (VTMA). This, in turn resulted, directly or indirectly, in the establishment of many other organisations in the area whose business was in scrap metals and related businesses.

Indeed, there is a close correlation between steelmaking and the 'scrap industry'. In fact, UNECE (1999:1) shows that scrap collection and utilisation is affected by the following most important factors:

- The evolution of steel consumption and production worldwide
- The evolution of the structure of steel production plants
- The impact of new technologies in steelmaking
- The impact of new developments in continuous casting
- The production of primary metals

The success or otherwise of the scrap metal industry depends to a large extent on how well the steel industry is managed – indeed, an industry on which VTMA so much depends.

The steel industry has experienced a fundamental transformation from the production of large-scale orders for a market to a much more highly differentiated range of products in comparatively small batches. The reason for this is that the market is now dominated by buyers and their quality standards where competition on quality has increasingly become the crucial factor. (Franz and Lichte, 1992:10)

The challenge for South Africa is to improve the processing of raw materials and move from being commodity exporters to being sellers of value-added products based on these resources. The Vaal Triangle Metropolitan Area (VTMA) is no exception. Studies consistently reveal the outdated status of machinery and equipment, outdated conceptual technology as represented by work-organisation, total quality management, materials handling and just-in-time production, as well low spending on training. (Kotze and Kotze, 1997:6)

In the past few years the increased competition hit the manufacturing sector of the economy in a significant way. This resulted in job losses and in the closing down of some organisations. In the VTMA, manufacturing accounts for most of the economic activity in which some 37 percent of people in the formal sector are employed. Of all manufacturing activities, about 75 percent are in the basic iron and steel, base metal and metal products. (Vaal Research Group, 1999:11)

Clearly, then, strengthening the competitiveness of the VTMA invariably involves strengthening that of business organisations within the region. And since it is clear that the strength of the region lies in the base metal and metal related business, this study specifically focuses at this sector of the VTMA economy. It is

when organisations within any region are themselves competitive that there can be further investment in the region since the region would be perceived to be competitive as a whole.

This study conducted both in Tilburg, in The Netherlands and in the VTMA has shed some light to the key aspects that organisations in the VTMA need to pay close attention to:

- Firstly, managers need to come to a realisation that for their organisation to be competitive they need to strive to be 'world-class' manufacturers. This will mean that their organisations must embrace the principle and philosophy of total quality management.
- Secondly and related to the first, they also need to know what the best practice is and who the best is within their industry. Often this also includes other practices outside their industries.
- Thirdly, it appears that many organisations in the VTMA still view the domestic market as the only potential market. As a result they find that their markets are steadily dwindling. They have not come to appreciate that the whole world is a potential market. Those who do appreciate the fact, do not know exactly how to go about globalising their businesses. To many, the idea of globalising their activities is simply overwhelming.

The point is that managers in the VTMA must know where their competitive advantage lies so that they will be able to create and sustain those advantages through operational effectiveness and strategy.

Apart from the abovementioned challenges, the lack of skills and know-how, and cultures that do not encourage creativity within organisations are still major problems in many organisations. The conclusion is that these deficiencies naturally hinder organisations from responding strategically.

The challenge ahead of managers in the VTMA is to have a long-term view of where they would like to take their organisations. How to do this, is even more challenging. In this thesis, it is therefore argued that for managers to be successful in creating and sustaining competitive advantage for their organisations, they need to become strategic in their view.

1.3 OBJECTIVES OF THE STUDY

The objectives of this study are divided into the primary and secondary objectives.

1.3.1 Primary Objective

The primary objective of the study is to demonstrate how organisations in the Vaal Triangle Metropolitan Area (VTMA) may create and sustain a competitive advantage through operational effectiveness and strategy.

1.3.2 Secondary Objectives

The following are the secondary objectives of the study :

- To provide an overview of the concept of competitive advantage
- To demonstrate how the companies in the VTMA can be more effective in their operations
- To show how firms can expand their markets by going beyond their geographical borders

- To highlight the need for companies to create their competitive advantage and make them more sustainable

1.4 RESEARCH METHODOLOGY

1.4.1 The Sample

The population for this study was restricted mainly to organisations in the VTMA The main target group was those organisations that are in the steel and metal industry. As a way of enriching the quality of the study and obtaining a more comparative view of the study from a developed country point of view, the study was extended to Tilburg in the Netherlands. During the researcher's stay in Tilburg, he was based at the University of Tilburg, and in particular in the department of Development Research Institute. As a result, some organisations were visited and interviews were arranged with the relevant people in those organisations.

1.4.2 The literature review

The formal literature on competition, competitiveness, competitive advantage, operational effectiveness, core competencies, globalisation, and strategy was studied in Tilburg and the Republic of South Africa in order to have a sound foundation with regard to the theoretical and contemporary approaches in connection with these concepts.

Relevant and useful information was obtained from various publications such as textbooks, journals, articles from the newspapers and previous studies on the subjects. Relevant information not obtainable from such publications was gathered through the use of a questionnaires directed at the target group of this study.

1.4.3 Empirical Research

A questionnaire directed at the target group of this study was developed. The questionnaire was delivered by the senior students from the Vaal Technikon some of whom are doing Research Methodology as a subject. Proper training was given to those students in anticipation of the challenges and problems they would have to face.

The questions applicable to this study were carefully selected and adjusted. The contents of the questionnaire were specifically evaluated in terms of non-ambiguity, relevance, general validity and interpretation. Every precaution was taken to ensure that these questions were understood and that good quality answers obtained.

Interviews were also conducted where it was more practical to do so. This was mainly the case in Tilburg in The Netherlands where part of this study was undertaken. It has to be mentioned that in The Netherlands interviews are preferred to questionnaires as a method of data collection. Appointments for interviews were accordingly made through the University of Tilburg with some organisations in the area.

1.5 HYPOTHESIS IN RESPECT OF THE RESEARCH ISSUES

In view of the exploratory nature of this study, a hypothesis was not formulated. The emphasis of this study is to demonstrate how businesses in the metal and steel industry in Vaal Triangle Metropolitan Area can create and sustain a competitive advantage through operational effectiveness and strategy, rather than on the confirmation of previously held views.

1.6 DIVISION OF CHAPTERS

This thesis is divided into six chapters. They are as follows:

Chapter 1: This is an introduction to the whole thesis. Discussion on this chapter is directed to issues such as the problem of the study, primary and secondary objectives of the study, demarcation of the field of study and research methodology.

Chapter 2: This chapter looks at the principles and strategies of competitive advantage. The aim is to define competitive advantage and demonstrate how organisations can achieve competitiveness by applying those principles.

Chapter 3: This chapter looks at specific areas to which organisations can pay attention in order to enhance their operational effectiveness and thus their competitiveness. These areas include total quality management and bench marking

Chapter 4: This chapter discusses a sensitive subject in developing countries – globalisation. It further shows how organisations in the VTMA can benefit from this irreversible process that is here to stay

Chapter 5: The findings of the empirical research are discussed in this chapter.

Chapter 6: This is the final chapter in which conclusions are reached and recommendations made where necessary.

1.7 REFERENCE TECHNIQUES

The Harvard method of reference is used throughout this study to indicate the sources consulted. A detailed list of sources used and consulted is included at the end of this study.

1.8 LIST OF ACRONYMS

EU	-	EUROPEAN UNION
GD	-	Globally Distributed Teams
SA	-	South Africa
SADC	-	Southern African Development Community
TQM	-	Total Quality Management
WTO	-	World Trade Organisation
VTMA	-	Vaal Triangle Metropolitan Area

1.9 TERMINOLOGY

Macro-economic policies	-	these are policies developed to deal with the following factors: coping with inflation, stimulating capital investment, managing foreign exchange rates, fiscal policy, unemployment and coping with external shocks
Quality circles	-	these are arrangements where employees are organised into manageable groups that from time to time discusses areas and ways in which quality can be improved in an organisation

Barriers to entry	-	these are factors that make it costly for organisations to enter an industry
Materials management	-	it encompasses the activities necessary to get materials to a production facility (including the costs of purchasing material inputs), through the production process and finally through a distribution system to the end user.
Organisational culture	-	is the specific collection of values and norms that are shared by people and groups in an organisation and that control the way they interact with each other and with stakeholders outside the organisation.
Supplier alliances	-	are relationships between an organisation and its suppliers in which the former works with the latter to improve the quality of the supplier's input.

CHAPTER 2

THE PRINCIPLES AND STRATEGIES OF COMPETITIVENESS

2.1 INTRODUCTION

This chapter focuses on competitiveness and related issues. The purpose is to put the concept of competitive advantage in perspective and to demonstrate how companies, particularly in the iron and steel industry in the VTMA can create their competitive advantage and apply the principles thereof.

Competitive advantage is not a new concept. It is at the core of a business organisation's performance in competitive markets. The importance of competition has never been so evident. The globalisation and internationalisation of world economies has caused economies and business organisations to be more and more conscious of their competitiveness. This has been particularly true of South Africa and indeed VTMA together with businesses operating within its borders. For many years South African organisations have been protected and could not identify their areas in which they excel and in turn their competitive advantages. Such organisations were more providers of employment rather than competitors in competitive markets.

The concept of competitive advantage is commonly used in examining the behaviour of organisations in particular product markets in capitalist economies. It may also be applied to analysing the standing of particular nations in the world economy.

It is not enough for businesses to just understand competition; these should also understand how they can create and sustain competitive advantage over other competitors. Competition determines the appropriateness of the organisation's activities that can contribute to its performance. Javidan (1998:66) defines competitive advantage as any aspect of the organisation's resources, capabilities and competencies that provides it with an attractive relative competitive position. He goes on to say that while the attractive relative position could be caused by

something that the company does better than its competitors, it is not always necessarily so.

It may be said that not every competitive advantage is related to a competency. At the same time, it is also true that not every competency or capability leads to a competitive advantage. According to Javidan (1998:66), a competency leads to competitive advantage if the organisation is operationally more effective than its competitors and if that superiority is somehow valued in the marketplace.

Hill and Jones (1998:110) state that an organisation has a competitive advantage when its profit rate is higher than the average for its industry, and that it has a sustained competitive advantage when it is able to maintain this high profit rate over a number of years. Similarly, Rangone (1999:235) maintains that an organisation's competitive advantage is based on its innovative capability, production capability and market management capability.

It is only appropriate then, that the question posed at this stage urges organisations to examine the market value of their competencies and capabilities. A competitive advantage is meaningful if it is related to an attribute valued by the market. This means that customers must be able to perceive a consistent difference in important attributes between a producer's products or services and those of his competitors.

The rapidly growing connectivity of people, databases and research, and of designing, manufacturing, marketing and service facilities means that any company, anywhere is vulnerable to competition from remote agile organisations that can extend their reach into local markets. Conversely, it is becoming easier and less expensive for organisations to enter markets anywhere they can identify customers.

Creating commercial barriers around domestic markets in order to protect local producers is likely to be counterproductive. There are strong grounds, both logical and empirical, for concluding that domestic producers are efficient global competitors in the areas in which they are exposed to global competition, however painful may be the achievement of the efficiency required. Conversely, domestic producers may be inefficient if they are sheltered from global competition. After all, if

they were competitive, they would not need to be sheltered (Goldman *et al*, 1995:96-7)

One of the most compelling reasons for businesses to begin operations outside their domestic markets is to refine their current core competencies and to develop new core competencies. Expanding operations outside their domestic markets, companies can gain a greater understanding of the strengths and weaknesses of their core competencies. Exposing these competencies to new competitive contexts, traditional competencies can be modified, and new competencies can be developed.(Bancy, 1997:491) and once these new core competencies are developed, they must be exploited. What, though are core competencies? The next section discusses this.

2.2 CORE COMPETENCIES, KEY SUCCESS FACTORS AND COMPETITIVE ADVANTAGE

Successful organisations do not only react to changes in the external environment, but they also actively seek to create new, internal sources of advantage around their core competencies. Interestingly, Hamel and Prahalad (1994:202) define core competencies as a bundle of skills and technologies rather than a single discrete skill or technology. While Kotler, Jatusripitak and Maesincee (1997:345) define a core competence as one that provides potential access to a wide variety of markets, makes a significant contribution to the perceived customer benefits of the end product, and is difficult for competitors to imitate.

A core competence should be difficult for competitors to imitate. (Hamel and Prahalad, 1990, 80) For many manufacturing organisations, the goal of core competencies is to achieve excellence in the design and development of their products. Porter (1997:348) argues that to strengthen their competitive advantage, organisations need to build up both the breakthrough innovations and the cyclical innovation processes in their portfolio of core competencies.

It is interesting to observe how Maskell, Eskelinen, Hannibalsson, Malmberg and Vatne (1998:4) also persuasively argue that the underlying conditions for sustained competitive advantages of companies are related to the way in which companies acquire resources and combine them in building specific competencies for the company. Further, Maskell *et al* (1998:4) believe that organisations survive and thrive, not because of some exogenous market size or industry characteristic, but primarily because of factors within the particular company.

In view of this, it is clear that a competitive advantage may be based on the organisation's core competencies. These might include the company's access to and control over something that is in demand, or by being able to do something that competitors cannot do as well or as rapidly or even as cost-effectively. Core competencies are fundamental building blocks of the organisation's competitive advantage.

While resources are the source of the organisation' capabilities, it is capabilities themselves that are the main source of the company's competitive advantage. (Grant, 1991:119) Resources in themselves are not good enough if they cannot be effectively and efficiently exploited. In this connection, Foss and Eriksen (1995:46) assert that the resources are always tradable while capabilities are non-tradable..

When managers analyse markets and competition, these realise how markets and competitors have an important role in identifying which core competencies are key in a perticular market environment. The critical competencies are used to build sources of competitive advantage. In trying to understand this relationship, business managers may want to consider the following important lessons recommended by Verdin and Williamson (1994:27-29):

- *Understand exactly which competencies can offer competitive advantage*: competencies that are commonplace among rivals will seldom offer a company a competitive advantage. Those competencies that enable a company to build assets that are slow and costly for competitors to imitate are the ones that count.

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These include assets like an efficient network of distributors, a response system allowing delivery of made-to-order products that competitors can neither buy off the shelf nor copy quickly. It is such kind of competencies that are core to achieving competitive advantage.

- *Start from the market in deciding how to use your core competencies*: The fact that an asset is hard for competitors to imitate is not enough in itself to give advantage. The market must value the services that an asset can deliver. In other words, such competencies must also be market-driven. Certain indicators are useful in deciding where a company should focus its competencies. Those include the level of customer fragmentation, whether the product represents a major or minor purchase for the customer, and the frequency of purchase among others.

- *Look for ways to transfer core competencies from one business unit to others within the group and establish processes to ensure these transfers continue, cycle after cycle as competence levels improve*: Many organisations are successful at sharing their core competencies with new subsidiaries in their start-up phase. Often this flow of competencies is not sustained as the subsidiary matures and that very few organisations have established successful mechanisms for continually transferring improvements in the competence of one business unit to others within the group.

- *Transfer competencies from young subsidiaries back into mature ones, not just from mature ones to start-ups*: Mature business units do help smaller business units to build assets like an effective distribution network, powerful brands and efficient, capital-intensive facilities more quickly and cost effectively than independent entrants who lack similar access to the core competence of a corporate group.

It can be noted that core competencies can be sources of competitive advantage and how managers should take advantage of these competencies. Of importance is

that such competencies must be valued by the market. Closely related to core competencies are certain key success factors.

Key success factors express a relationship between the performance of an organisation in terms of a competitive advantage, and the causes of that performance in terms of assets and skills. (Matthyssens and Vandenbempt, 1996:7) According to Sousa and Hambrick (1989:367-382) they refer to high leverage functions and activities that a company must master in order to outperform its competitors.

Summarising the characteristics of key success factors, Grunet and Ellegaard (1993:264) draw the following conclusions:

- Key success factors are always actionable since they are skills and resources
- Key success factors are market-driven
- They imply a causal relationship between a skill/ resource and the competitive advantages
- The identification of the key success factors must lead to investment in the assets and skills that are necessary and sufficient for achieving a successful position.

The line between core competencies and key success factors is thin. However, what is very clear is that core competencies are those which are necessary to participate in the market and they are more or less present in all competing organisations and as such do not explain the differences in competitive advantages. Key success factors are those resources that have the highest leverage on competitive advantages.

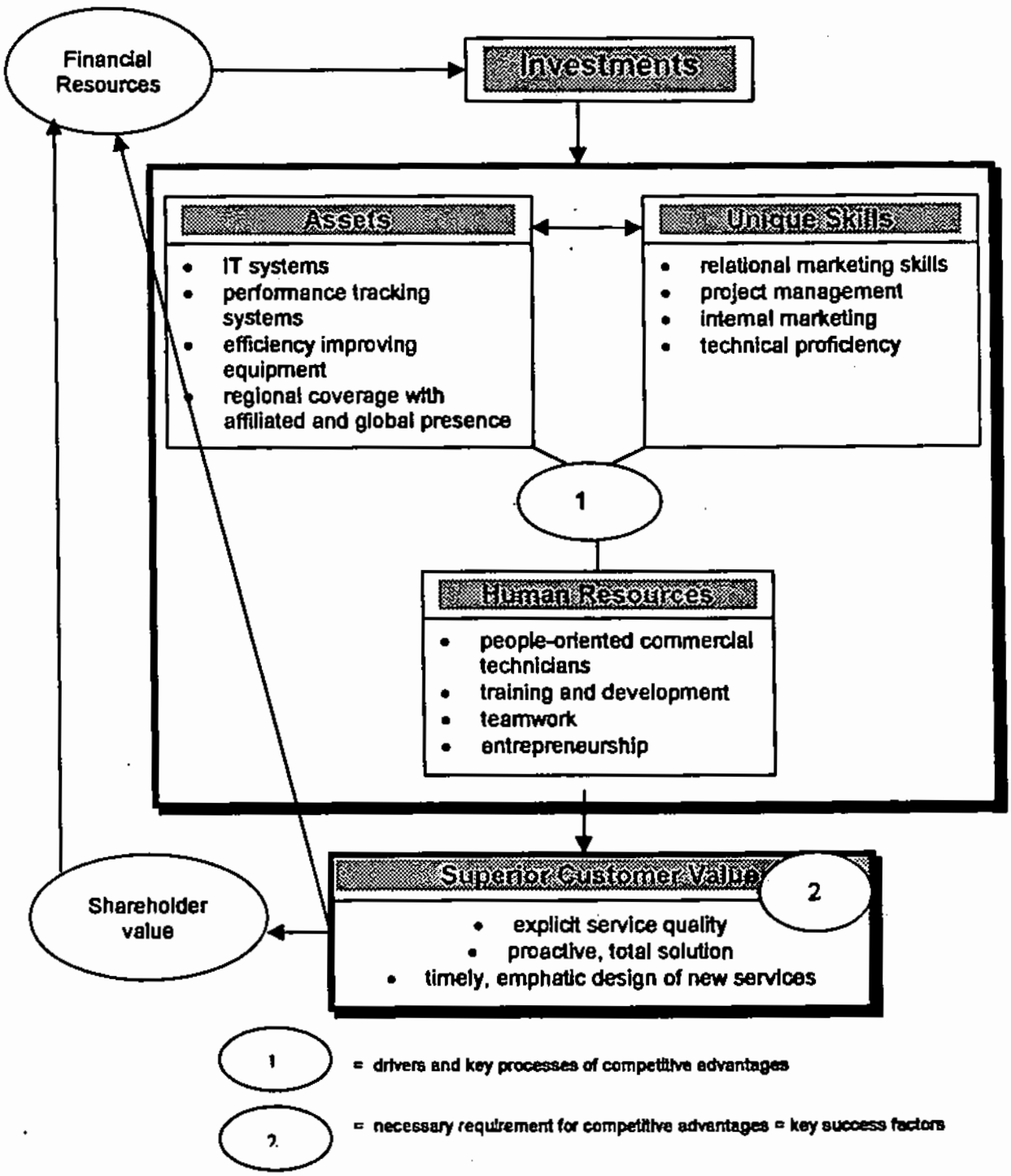
Commenting on the difference between the two types of resources, Varadaraja (1985:357-365) suggests that core competencies should be considered as those that prevent failure rather than produce success.

The study and the identification of key success factors is linked to the analysis of market characteristics. The implications are therefore that, key success factors are assertions about the causes of success under certain market conditions and secondly, that performance is not only dependent on the match between the assets and unique skills of an organisation and the actual key success factors of the industry, but also on the attractiveness of the industry. (Matthyssens and Vandenbempt, 1996:8)

It is beneficial for managers to have understanding and insight on the issues pertaining to key success factors. They will understand how these key success factors contribute to the competitiveness of their businesses. However, it must be pointed out that the benefits of identifying and using key success factors lies not so much in directing but in learning.

Figure 2.1 demonstrates the relationship between key processes and key success factors as follows:

Figure 2.1: Competitive advantage for industrial services: drivers, key processes and capabilities and key success factors



Adapted from (Mattheysens and Vandenbempt, 1996:20).

2.3 THE FORCES BEHIND COMPETITION

There are various forces that drive competition and these are the same forces that pose a challenge to managers. Manning (1998:59-61) isolates the following as drivers of competition:

- **Globalisation**

The spread of capitalisation has opened massive markets in central Europe, East Asia, Latin America and Africa. Cross border trade has become easier as regulatory barriers to foreign investment have eased, telecommunications and transport costs have fallen, and capital markets have opened up. Rising labour costs are among the factors that force companies to leave their home countries and relocate production to places where labour costs are cheaper. They seek to put marketing activities closer to customers.

By staying local when they have the potential to expand their activities and markets beyond domestic ones, organisations lose on the opportunities that go a long way to making them more profitable. Globalisation and competitiveness feed off each other. As more organisations reach beyond their home bases, competition increases everywhere.

- **Deregulation and privatisation**

Barriers that protected manufacturers and service providers have begun to fall. This process is forcing costly change on South African organisations. The rules that govern industries have been and are still being rewritten in the interest of deregulation and privatisation. In the past few years the South African government has come up with a programme in which it has identified key state-owned organisations that need to be privatised and if this process can be well managed, it will clearly benefit the economy.

- **Overcapacity**

Factories have sprung up everywhere, often supported by governments keen to create jobs. With the spread of capitalism, organisations in many developing countries have become mainstream producers. A number of producers serve few customers. The result is that manufacturers have been forced to cut costs. Factories are shut, huge amounts of equipment lie unused and skilled people are laid off in huge numbers.

- **New technology**

Advances in technology are transforming products and processes. Exploiting the new technologies takes time and money, new skills and new kinds of organisations, all of which create a great deal of uneasiness. Along the way, the industrial landscape is irrevocably altered. Yesterday's rules of competition no longer apply.

2.4 SOUTH AFRICA AND WORLD COMPETITIVENESS

According to the World Competitiveness Yearbook (1999), South Africa ranks 42nd out of 46 industrialised countries. Since the findings in the Yearbook are well researched and scientifically compiled, countries attach a great deal of value to their ranking. From her ranking, it is clear that South Africa should be very concerned about her competitiveness by world standards.

According to Hatty (1999:14) competitiveness in world terms is the ability of a country to create added value and thus increase national wealth by managing assets and processes, attractiveness and aggressiveness, globality and proximity and by integrating these relationships into an economic and social model that has high sustainability. However, Hetty (1999:14) hastens to add that governments do not create wealth but companies do, since the latter do not operate in a vacuum.

On this note, Healey and Dunham (1994:1279) state that centrel to Porter's (1990) argument is the contention that explanations of the competitiveness of e whole nation's economy are unconvincing. The focus should be on specific industries and industry segments. Organisation' performance depends heavily on their national environment. The ranking of a country in terms of world competitiveness allows analysis of a nation's enviroment to sustain the creation of value added.

This thesis takes the view that for the most part, the principles which apply to the nation's competitiveness also apply to the organisation's competitiveness. This view is based on the premise that the country's competitiveness is simply a sum total of the individual business organisation's competitiveness. Of course, this assumes competition-friendly policies at the macro-, meso- and meta-levels as was discussed in chapter 1 of this study.

Inasmuch as countries need to know where they are placed on an international scale to understand where they are, companies should likewise know where they stand within their respective industries when it comes to their competitive advantages. It is only when the performance of an organisation is measured against those in the same industry that it can understand where it is.

It is not good enough for businesses to look at their profits and balance sheets but it is also important for them to assess where they stand as regards competition, not just any competition but against the best in the world. The World Competitiveness Yearbook (1999) is not only about comparing the nation's trade results or the Gross Domestic Product or the money in the central bank, but looks at each critical activity in each nation. It is like an international scoreboard that shows the results of competition. The World Competitiveness Yearbook (1999) describes different aspects of world competitiveness by means of eight factors that are used in the evaluation process of which four are the following:

Infrastructure: identifies the extent to which resources and systems are adequate to serve the basic needs of business. There is no doubt that physical infrastructure improvements enable business to be conducted more effectively and efficiently and of course investments in physical infrastructure create more jobs for the economy. Good transportation is at the heart of successful trade and business. The benefits of telecommunication system in any economy are evident.

Finance: quantifies the performance of capital markets and quality of financial services. The banking system as well as the management of the stock exchange in a country plays a major role in this regard.

Government: describes the extent to which government policies are conducive to competitiveness. The vision of a nation's political leader can vitally affect the nation's economic performance. Effective governance is usually judged by the level of corruption (especially in government), resource misallocation and political stability in the country.

Domestic economy: an overall evaluation of the strength of the domestic economy at a macro level. The performance of an economy depends to a large extent on the nature of its macro-economic policies.

The competitiveness of a business is what creates the opportunity of value added creation. If a company is not competitive it cannot create added value. This study looks at the other four factors this way:

2.4.1 People

People represent the availability and qualification of human resources in a country. This includes the skills they possess and the extent to which people use those skills profitably. The formal education system is the main institutional mechanism for building up the human capital and investing in human capital especially during the period of youth is a course of wisdom.

Almost all companies claim that people are their most important asset. Yet it is paradoxical that many companies do not spend enough money on education and training of their employees as they should or as they claim. The promulgation of Skills Development Act of 1997 in South Africa recently in which organisations are compelled to set aside a certain percentage of the turnover for training is indicative of the fact that many companies still lag behind in this regard.

World class manufacturers realise that employees need to be led and managed differently if the organisation is to be competitive. Such organisations do not view people as labour that can be turned into profits as cheaply and as quickly as possible. In world class organisations, employees are given the opportunity to apply their intellectual skills and common sense to solve problems and where possible, to implement continuous improvements to the operations process. The whole idea really, is to build employees into a team that is committed to making an organisation create and maintain its competitive advantage.

It is vital for managers always to bear in mind that it is truly the people who make an organisation successful. The importance of teamwork and getting employees involved in broader areas than their immediate job responsibilities cannot be overemphasised. Maskell (1991:290) suggests the following few measurable ways in which employees could be involved in a meaningful manner:

- Meaningful quality circle participation
- Suggestions that are put into practice per employee
- Amount of training and development per employee
- Number of skills per employee

The changing role of human resources management presents a major challenge to many manufacturing companies. In many such organisations, an increasing number of workers are poorly motivated. In part, the lack of a skilled workforce accounts for

the decline in manufacturing capability. There is a need for a motivated and highly trained workforce for companies that need to become world-class manufacturers.

Part of the reason for the de-motivation of workers is the constant fear that they live with, that anytime they could lose their jobs. Many of them are frightened by the mention of words such as restructuring, downsizing, cost-cutting and re-engineering. To them, all these words are a synonym for retrenchments. Unfortunately, menagers have used these words when they are in fact referring to job losses.

For some reason, it seems that when organisations embark on cost-cutting measures, the workers are the first victims. This epproach is not necessarily a logical one since in a number of manufacturing organisations direct labour costs are relatively low when compared to costs associated with materials. Firing people can be demoralising for both the laid off and those who remein in the workforce. It must be mentioned though, that this study does not rule out the possibility thet in certain instances, workers may have to be laid off. In such cases, it would be responsible of the organisation to help workers who are to be retrenched to find new jobs or assist them to create their own jobs or fend for themselves in other ways.

In their statements and documents many organisations mention that their greatest asset is their people. However, when they have to embark on a cost-cutting exercise, then a traditional rather than a long-term view holds. In other words, such companies no longer see their employees as assets but as a cost to the organisation.

As was mentioned earlier, there may well be occasions when an organisation might have to make reductions. However, it is argued that such organisations should not rush to see people as the first area in which to reduce costs since doing so may demonstrate a lack of a long-term view of human resources on the part of the organisation. The point is that downsizing or whatever managerial term may be used

to mean reduced employee costs, can be a short-term solution and is no substitute for long-term strategy.

For many, it is not their first choice but a last resort, in case they do not find employment at all elsewhere. For one thing, steel-makers must overcome poor public perception that steel is a low-tech and dirty industry and learn to market themselves better to best graduates. (Newsteel, 1999:49)

When organisations treat individuals decently as suggested above, this will go a long way to reducing the adversarial relationships that exist in many industrialised organisations. Instead there will be co-operation and everyone within the organisation will share common goals and objectives and this will surely be in the interest of success and competitiveness. This, though, takes a long time and a lot of commitment on the part of managers and the employees.

2.4.2 Management

Management identifies the extent to which enterprises are managed in an innovative, profitable and responsible manner. Good management depends on the type of formal education and training that people are exposed to in a country and whether there are sufficient and equitable opportunities for all.

Management plays a crucial role in making the organisation competitive. In part, chapter 4 discusses practical ways in which the management team can for example, develop a global mindset. A few suggestions are provided. In fact, throughout this study management teams are urged to take a leading role in making their organisations create and sustain their competitive advantages.

2.4.3 Science and technology

Science and technology indicates the scientific and technological capacity together with the success of basic and applied research. Such knowledge can be embodied in human and institutional forms. The national government plays a vital part in fostering the proper conditions and supportive environment within which industries can successfully select and accommodate technology. This may call for the government to attract the immigration of foreign scientists, and encouraging the entry of more scientists and engineers into neglected industrial sectors. Other main issues that create a proper base in a country for science and technology are the university/ technikon-industry relationship, subsidy schemes for industrial research and intellectual property rights protection.

Today's most productive steel-making facilities incorporate such technologies as state-of-the-art computer controls, advanced metallurgical practices, sophisticated process-control sensors, and the latest refinements in continuous casting and rolling-mill technology. (Sheridan, 1997:86) It is therefore imperative for companies to expose themselves to the latest technologies that can be applied in their operations.

Organisations should not necessarily make use of the latest technology for technology' sake alone because there are many cases where such technology is available yet under-utilised. Prudence will remind managers of the principle of cost-benefit analysis in this regard. In other words, organisations should not see technology as an end in itself, rather as a means to an end.

Technology should, among other things enable organisations to become more efficient in their operations. This would give rise to lower costs (cost advantage), faster deliveries (speed advantage) and thus customer satisfaction. For example, steel-making companies, service centres, and their customers are grappling with how to take advantage of electronic commerce conducted through the Internet.

Bagsarian (1999:20) states that already there is MetalSite (www.metalsite.net) where steel-makers can auction off secondary material and excess prime steel and that soon steel-makers will sell prime steel over the site, too. It was joined by e-Steel (www.esteel.com) and there already exists other sites for metals transactions that exist.

2.4.4 Internationalisation

Internationalisation describes the extent to which the country participates in international trade and investment flows. This can be seen from the level of imports and exports in a country, the level of foreign direct investments and other forms of cross-border transactions.

The following is the point of departure of this whole study: Applying the criterion that the World Competitiveness Yearbook (1999) employs to measure the competitiveness of different nations and remodelling it to individual organisations. However, the model used here only takes into account the four of eight factors; namely the people, management, science and technology as well as internationalisation.

2.5 THE QUEST FOR COMPETITIVENESS

If the World Competitiveness Yearbook (1999) is anything to go by, then clearly South Africa has much room for improvement as far as being competitive is concerned when compared to 40- plus other developing and developed nations. As it has been mentioned earlier, strictly speaking, there are no such things as competitive nations. Competitive nations consist of competitive companies and institutions. Regardless of the special characteristics that an organisation may have, one thing remains common in all research. Ultimately, it is the people factor that determines the superiority or otherwise of organisations.

Nel (1999:11) believes that the quest for competitiveness is a journey, that it evolves over time and that it requires sustained focus, dedication and expertise. Further, Nel (1999:11) believes that the quest for competitiveness poses the following dual challenge:

- Organisations need to identify and evaluate themselves against increasingly global competitive practices and then they need to target a critical mass of these benchmarked practices

- Perhaps more importantly, organisations need to comprehend the evolutionary path and the critical building blocks that have to be put in place to enable them to achieve the competitive benchmark.

South African managers view competitiveness as the single greatest priority and challenge facing their organisations. However, they cannot afford the luxury of going through the years of learning by trial and error. There are a few exceptions to the rule, but on average South African organisations have not yet cracked the code of competitiveness, as it were (Nel,1999:11-12). Hence, it is imperative for such organisations to establish the crucial cornerstones of competitiveness as is discussed in the next section.

2.6 CORNERSTONES OF COMPETITIVENESS

Nel (1999:12-15) identifies the five cornerstones of competitiveness as leadership, information driven, roles and accountabilities, appropriate involvement and competency based practices.

2.6.1 Leadership

The leaders of competitive organisations create the time to interact with the workforce on a regular basis. Opportunities are created for people at all levels to

interact directly with the organisation's management. This enables top management to communicate their vision and clarify what it means for the employees.

It is unfortunate that many South African executives claim that they do not have the time to interact with their employees. They claim that it would interfere with their capacity to do their job. This means that they do not see it as an intrinsic part of their job as other world class leaders do with the result that they are not able to pass their expertise on to the employees.. On the other hand, competitive leaders know that the success of delegated work is dependent upon their own willingness and capacity to interact with those who are finally accountable for delivering the outputs.

2.6.2 Information driven

Information is the lifeblood of every organisation. With this in mind, it makes sense that organisations must come up with proper management of information. There is also a tendency to guard information and not to make it transparent and accessible to people who need it. Another thing is to make information relevant to its users within an organisation. Complex data must not be dumped on people who do not have the specialised knowledge needed to interprete it.

2.6.3 Roles and accountabilities

If people at various levels have a clear understanding of their respective roles and accountabilities that they have to fulfil, then an organisation's performance will be higher. Truly competitive organisations have established a distinct understanding of what is expected of people at various levels. This is not a bureaucratic environment but instead provides the necessary structure, information systems and managerial processes to ensure that people clearly understand and fulfil their roles and accountabilities. This will go a long way in helping organisations avoid problems. For example where top management is so embroiled in the short-term efficiencies of the organisations that they do not put aside sufficient time to explore the longer-term and more strategic challenges facing the organisation.

2.6.4 Appropriate involvement

It is essential for organisations to involve employees in decisions that affect them. However, organisations that have implemented participative systems and structures have often made the mistake of not clearly spelling out what is meant by participation.

Competitive organisations have over the years established a broad-based understanding of the limits and appropriateness of involvement at various levels and within different structures.

2.6.5 Competency based practices

South Africa has a legacy of poor people development and often inadequate investment in training (see Figure 3.4). This has left the country in a situation where the competence pool is exceptionally shallow. The National Qualifications Framework already provides a framework for competency based practices. Several organisations are responding well and, in particular with regard to more operational and technical areas of work. Globally competitive organisations, however, are increasingly moving to competency based people practices.

2.7 THE FORCES OF COMPETITION

Managers evaluate and choose strategies that they think will make their business successful. Organisations become successful because they possess some advantage relative to their competitors. This study looks at various strategies that are at the disposal of any company and how such strategies can give them a competitive advantage over their competitors.

Competitive strategy must grow out of a sophisticated understanding of the rules of competition that determines an industry's attractiveness and that the ultimate aim of

a competitive strategy is to cope with and, ideally, to change those rules in the organisation's favour. The rules of competition are embodied in five competitive forces; namely, the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the rivalry among the existing competitors. (Porter, 1985:4)

The following are the five forces which determine the price competitiveness because they shape the prices businesses can charge, the costs they have to bear, and the investment required to compete in the industry.

- *The entry of new competitors*

The ability to compete at all depends upon some perceived sustainable advantage either through cost (which clearly is a major factor for manufacturing) or differentiation (again a major factor since this depends upon the capability of operations to produce the product which is perceived to be differentiated). Entering into a steel or metal industry is achieved by world-class manufacturing capability. The strength of the competitive force of potential competitors depends largely on the barriers to entry. The greater the costs to enter an industry, the greater are the barriers to entry. Brand loyalty, absolute cost advantages and economies of scale are the main sources of barriers to entry. Significant brand loyalty makes it difficult for new entrants to take market share away from established organisations. Potential entrants may see the task of entry too costly where brand loyalty is well established. The higher the economies of scale the lower the threat of entry will be.

- *The threat of substitutes*

The launch of new or substitute products is only possible if production or operations' capabilities can satisfy market requirements including cost, flexibility, delivery and product quality. Where there are close substitutes, there will be a strong competitive threat that will limit the price that an organisation can charge and thus its profitability.

On the other hand, if an organisation has few close substitutes, then it will likely be able to raise prices and earn more profits.

- *The bargaining power of buyers*

Generally, a buyer is viewed as a competitive threat when he is in a position to demand lower prices or better service from the organisation. The ability of a buyer to make demands on an organisation depends on his power relative to that of an organisation. In a manufacturing setting the bargaining power of a buyer has much to do with the relationship between the buyer and the supplier (the buyer being the manufacturer) within the supply chain.

The relationship between the buyer and the supplier is critical in increasingly becoming one of collaboration rather than confrontation. For example, an organisation that manufactures steel and metal products is a supplier to an automobile manufacturer. Therefore, any technological developments and breakthroughs on the part of the steel manufacturer will have an immediate impact on the buyer and vice versa.

- *The bargaining power of suppliers*

Suppliers can be viewed as a threat when they are able to force up the price that an organisation must pay for its inputs or reduce the quality of the inputs they supply, thereby depressing the organisation's profitability. On the other hand, if suppliers are weak, this gives an organisation the opportunity to force down prices and demand higher input quality.

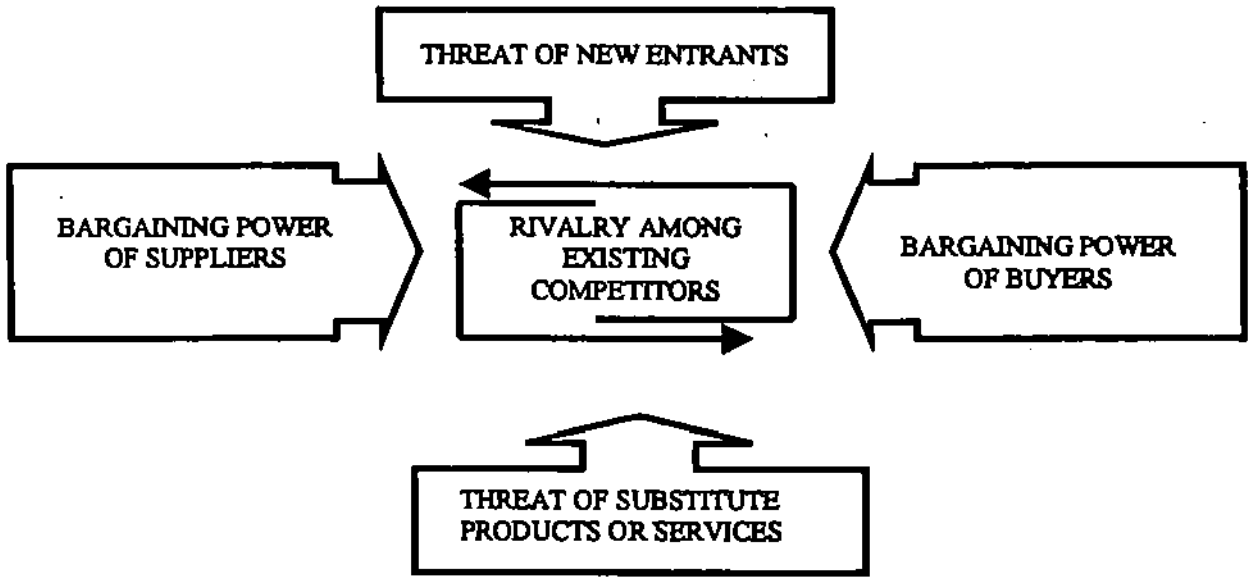
- *Rivalry among existing competitors*

This will be enhanced by the number of competitors and the extent of competition in a particular market segment. If the rivalry is weak, organisations can raise prices and

earn greater profits whereas if rivalry is strong, significant price competition may result. Intense rivalry constitutes a strong threat to profitability

These five forces determine industry profitability because they influence the prices, costs and required investment of organisations in an industry. Buyer power influences the prices that organisations can charge, for example, as does the threat of substitution. The power of buyers can also influence cost and investment, because powerful buyers demand costly service. The bargaining power of suppliers determines the cost of raw materials and other inputs. Finally, the threat of entry places a limit on prices, and shapes the investment required to deter entrants. These forces are illustrated in figure 2.2.

Figure 2.2: The five forces that determine industry competition



Adapted from Porter, 1990:35

2.8 GENERIC COMPETITIVE STRATEGIES

The primary objective of strategy is to achieve a competitive advantage. An organisation needs to pursue strategies that build on its existing resources and

capabilities as well as strategies that build additional resources and capabilities. This will enable an organisation to enhance its long-run competitive position.

In addition to responding to and influencing the structure of the industry, companies must choose a position within the industry. This means that they must clearly define their overall approach to competition. Positioning will in turn define their competitive advantage. From the available research, three basic types of competitive advantage are identified. They are cost leadership, product differentiation and focus. (Porter, 1990)

In essence, the cost leadership strategy identifies economies of scale, low labour cost per unit and a technological edge as features contributing to a competitive advantage based on cost. The two other strategies have a marketing orientation and as such focus on product mix and promotion as well as on the exploitation of distribution channels to achieve competitiveness. (Porter, 1990)

Cost leadership involves the organisation's ability to design, produce and market its products at the lowest cost possible vis'-a-vis' its competitors. Differentiation on the other hand is the ability of en organisation to provide to its customers unique and superior value (Porter, 1990:37). The uniqueness which must be of value may result from various ways. For example, it may result from the quality of the processes and systems or from whatever special features an organisation may have. It may even result from an after-sale service. An organisation which prides itself of its unique position within the industry will command a premium, which in turn will result in higher profits assuming that their costs are comparable to those of their competitors.

Interestingly, Porter (1990:38) mentions another important variable in positioning. He calls it a competitive scope. In essence, a competitive scope means that an organisation must clearly define its business boundaries, where it begins and where it ends in its business relationships. These boundaries should include aspects such as product lines, distribution channels, customers, markets, among others.

It makes economic sense to look for strategies that will enable an organisation to achieve its competitive advantage while simultaneously attaining a competitive scope. However, it will not be a course of wisdom to pursue the two advantages simultaneously lest the organisation gets stuck in the middle, as it were.

This does not mean, however, that when management pursues a cost advantage strategy, it will not want to provide unique and superior value to its customers. It does not mean that when management pursues differentiation strategy on the other hand, it will not be conscious of keeping the costs down.

At the same time, Brown (1996:24) quotes Porter (1980) as acknowledging the dangers associated with pursuing either a low-cost or differentiation strategy in the following manner:

- *Cost.* An overemphasis on low-cost efficiency can cause an organisation to be out of touch with the changing requirements of customers; in a commodity market, being second or third behind the cost leader brings no competitive advantage; low-cost production is relatively easy to copy and as industries mature, the concept of the experience curve becomes invalid.

- *Differentiation.* If the perceived distinction is easily imitated, then rivalry will quickly switch to cost factors; costs incurred in providing differentiation might not be paid back by the prices which are unattractive to customers; broad-based differentiators may be outmanuvoured by specialist organisations that target one particular segment.

These advantages lead to three generic strategies for achieving above-average performance. They are cost leadership, differentiation and focus.

2.8.1 Cost leadership

This strategy is perhaps the most straightforward of the three. It is almost self-explanatory. In the interviews with some managers in the VTMA it was quite encouraging to see how much conscious they were as far as costs were concerned. Indeed, they recognise the importance and value of cost. This can be seen in how frequently they use such terms as cost-cutting measures, rationalising, downsizing, right-sizing, etc. It is unfortunate, however, to note that many of them want to bring down costs at all cost.

The behaviour of the cost concept is not always correctly understood. In part, this is what this study seeks to address. Generally, studies on cost tend to concentrate on manufacturing costs and they overlook the impact of other activities such as marketing, service and infrastructure on relative cost position. Cost analyses also tend to rely heavily on accounting systems. Porter (1985:63) asserts that while accounting systems do contain useful data for cost analysis, they often get in the way of strategic cost analysis.

Commenting on this crucial aspect, Kelly (1997:4) states that the steel-makers' financial success is determined by the management's ability to eliminate costs without compromising customer satisfaction. The operative concept, he stresses, is eliminating costs not simply reducing or managing them, but eliminating their root cause.

In their analysis of cost, managers generally tend to overlook the importance of value chains in their strategic cost analysis. Because of this narrow approach to cost analysis many organisations in the VTMA have, rightly or wrongly, resorted to retrenchments as a main strategy for reducing cost with the hope of improving their competitiveness.

An organisation has a cost advantage if its cumulative cost of performing all value activities is lower than that of the competitors. In other words, cost advantage will lead to superior performance if an organisation provides an acceptable level of value to the buyer. The next section discusses differentiation as the second strategy.

2.8.2 Differentiation

Differentiation is an integral part of success in a competitive environment. It is a multifaceted process that involves four key areas in the organisation: products, services, personnel and image. In order for an organisation to be differentiated successfully, managers need to create unique solutions for their customers. (Kutcher, 2000:14)

Effective marketing strategies should be able to position an organisation in the mind of the customer. In other words, when customers think of any product, they should think of the organisation that produces that particular product. But if an organisation wants to influence their customers to that extent, the former should know how its customers think.

As a product, steel has become a product that has to compete on a market that is now customer-driven. For example, the quality of the product, the precision of delivery (just-in-time production), customer service and innovative capacity are factors that determine the market share and profitability of organisations.

Effective differentiation starts with extensive customer research. The organisation should gather information about what the customer wants and needs. Solvell (1987:25) concurs that product differentiation involves long-term commitments in the form of investments made to increase the quality of the product, increase brand recognition and the like.

Once the organisation has this information at its disposal, it should not hesitate to come up with ideas that they have not tried before. This would be the opportune time for the company to step out of its comfort zone.

Some organisations differentiate themselves not just through their products, but through the organisation itself. The most recognisable brands in the world are associated with a distinct, trustworthy corporate image.

Appropriately, Kutcher (2000:16) argues that in a competitive environment, customers have to choose between various businesses. When they pick an organisation they have to believe they made the right choice. He goes on to say that to develop this emotional attachment successfully with the customers, businesses must first define what they stand for and then live it.

Organisations that are most effective at differentiating themselves in the marketplace understand that each area makes an impact on the overall success of creating distinction. When it comes to their products, an organisation that wants to differentiate itself from its rivals will ensure that its products are durable and reliable. It will strive for exceptional performance and let its products conform to acceptable rules and customs.

Such organisations do not say one thing and practice another when it comes to quality. Customer service is an easy way to differentiate a business from the competition. This will mean that the organisation should from time to time revisit their customer service, delivery and repair policies. This includes those businesses that are already renowned for their service excellence. The future of steel belongs to bold, imaginative men and women who care about serving the customer, know how to lead people, use the Internet and choose investments in technology. Such men and women venture wisely and execute projects on time and within budget, and earn a reputation for financial prudence that persuades investors to risk their money with them. (Berry, 2000:3)

Perhaps the most important way of differentiating an organisation involves the personnel since they represent the face of the organisation. Organisations should develop adequate training that may include aspects such as attitudes, behaviour and knowledge. If an organisation is truly to differentiate itself, it should see investment in human training as worth the cost.

When an enterprise follows this strategy, it seeks to be unique in its industry. It selects one or more attributes that many perceive as important and uniquely positions itself to meet those needs. In this regard, Porter (1985:14) states that differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approach, and a broad range of other factors.

The logic behind this strategy is that an organisation must choose attributes in which to differentiate itself and even more importantly is that those attributes must be different from those of its competitors. An organisation must truly be unique at something or at least be perceived as such.

The world market for steel products is being deliberately divided into two. The newly-industrialised steel-producing countries taking an increasing share of steel for bulk and standard products, whereas the highly industrialised steel-producing countries are undergoing a process of specialisation, concentrating increasingly on high quality and special steel. Since this process of specialisation goes hand in hend with ongoing product differentiation, the range of products manufactured may have become more extensive in spite of product simplification. (Franz and Lichte, 1991:21)

Barnes and Kaplinsky (1998:10) state that in principle, South Africa is also a competitive source of steel-based components, since X[1] is one of the lowest cost global producers. However, they go on to say that virtually every user of X's steel,

[1] For confidentiality reasons, this organisation will not be named. It will just be referred to as X.

whether in the assembly or components sector complained bitterly about the unresponsiveness of this supplier.

They mention, for example that a component organisation that is presently exporting a steel-based component into the European market is being forced to hold on to 12 years worth of stock of the particular grade of steel that it is using because of X's inflexibility.

With this unfortunate example in mind, one cannot overemphasise the importance of this kind of strategy. To illustrate the negative effects of this strategy one cites the example of a situation which shows how this can lead to loss of business opportunities. One of the largest brewing organisations in South Africa is well ahead in its plans to build a brewery plant in the Eastern Cape. This promises to be a massive construction project that needs to be completed in the set time.

As input in the construction project, enormous amounts of steel would be required. The brewing organisation had to make a decision as to whether to buy steel locally or from abroad. The decision was that all the steel that is going to be used for the entire project would have to be imported from one of the European countries. One of the main reasons they gave was that from the facts, not one of the local producers of steel would meet their demand at the required time. Hence they had to decide against local producers of steel.

The reason provided involves customer service. Such organisations may be low cost producers but they have not learned to differentiate themselves from either local or even foreign competitors. The third strategy is focus strategy.

2.8.3 Focus

This strategy differs with the other two in the sense that it rests on the choice of a narrow competitive scope within an industry. Where an organisation uses this

strategy, it will select a segment or group of segments in the industry and will tailor its strategy to serving these exclusively.

This strategy can either take a form of a cost focus or a differentiation focus. Cost focus exploits differences in cost behaviour in some segments while differentiation focus exploits the special needs of buyers in certain segments. Again if the target market focused is not different from other segments, then the focus strategy will not succeed. (Porter, 1990)

Industry segmentation is the division of an industry into sub-units for purposes of developing competitive strategy. Where there is a specialist rather than universal demand for a product, segmentation appears to be a practical alternative. In practice there are a few products demanded by a mass market. This makes market segmentation necessary. Segmentation has an advantage over mass marketing because it allows an organisation to focus more rigorously on the detailed demands of a specific group of consumers. Segmentation is a specialisation strategy that does not seek to satisfy all customers. (Porter, 1990)

A focus strategy creates imperfect competition in the ways that Schnaars (1998:64) describes as follows:

- *Reducing rivalry*: an organisation that successfully attends to the needs of a segment avoids larger competitors. It relinguishes the larger market for a more secure share in a smaller segment. Segmentation is a strategy based on avoiding competition.

- *Reducing pressures* from substitutes: by focusing on the special needs of a segment, an organisation reduces the lure of substitutes. Substitutes appeal to either other segments or a broader market with a more diverse set of needs.

Where managers see fit that they should choose this strategy, it may be useful for them to keep the following criteria for effective segmentation as outlined by Chee and Harris (1993:43) in mind:

- The market segments must be measurable in terms of both purchasing power and size
- Marketers must be able to promote effectively to serve or reach a market segment
- Market segments must be sufficiently large to be potentially profitable
- The number of segments must match the organisation's marketing capabilities

If one or more of these factors is missing, the managers should reassess any proposed market segmentation strategy.

In manufacturing, an organisation may be unfocused in the following two ways that Brown (1996:9) mentions:

- Competing in markets without undertaking a manufacturing audit. This means that there is a mismatch between the targeted market and the organisation's technology, skills, capabilities and other key resources. Such an audit must be made before attacking new markets.

- By being involved in activities that fall outside of the organisation's core competence. This is particularly true of manufacturing organisations that feel the need to integrate with their own suppliers. This often moves the manufacturer into entirely new manufacturing processes in which it might have no expertise.

Clearly, organisations should focus their activities in line with their core competencies and distinctive capabilities. It is such core competencies and distinct capabilities that provide organisations with competitive advantages. For manufacturing organisations (majority of respondents in this study are manufacturing

concerns), naturally, production/ operations activities are the ones that in the main form part of the organisations' core competence. Thus, the key area for competitive advantage for manufacturing companies lies in their operations. (Corsten and Will, 1994:111) Where the performance in the operations department is poor, little can make up for that poor performance from elsewhere within the organisation.

As was mentioned earlier in sections 2.8.1 and 2.8.2 it is now appropriate that the aspect of value chains be put into perspective. The following section looks at the subject.

2.9 VALUE CHAINS

It is interesting that most research on value chains has been done by people who do not come from a management sciences or economic sciences background. An economist himself, Wood (1999:1) mentions three important things which as economists they should learn from the research of other scholars on value chains and in formulating policies in order to spread the gains of globalisation:

- Look beyond manufacturing, mining and agriculture into other sectors and stages of activity involved in the supply of goods to consumers. Economists of course know that other sectors exists, and pay increasing attention to, for example, research and development and trade in services, but they have probably not paid enough attention to distribution and marketing, whose costs often account for a larger share of the final price of a good than the costs of its manufacture.

- Examine flows of information as well as of objects between the stages of activity in the supply chain, and to pay attention to non-arm's length linkages between organisations involved. In reality complex international supply chains need active management, involving skills and knowledge which are scarce and command large financial rewards.

- Treat the characteristics of goods, production and technology, and the market at each stage of the chain as endogenously determined rather than exogenously given.

Kaplinsky (2000:1) defines the value chain as the full range of activities which are required to bring a product or service from conception, through the intermediary phases of production (including a combination of physical transformation and the inputs of various producer services), delivery to final consumers and final disposal after use. Further, Hill and Jones (1998:120) define value chain as the idea that an organisation is a chain of activities for transforming into outputs that customers value. The crux of the matter is that each activity along the chain adds value to the product.

From the above definition, it is evident that production is just one of a range of value added activities even though it has always been thought to be the most important. The simple value chain can thus be illustrated as follows:

Figure 2.3: The simple value chain



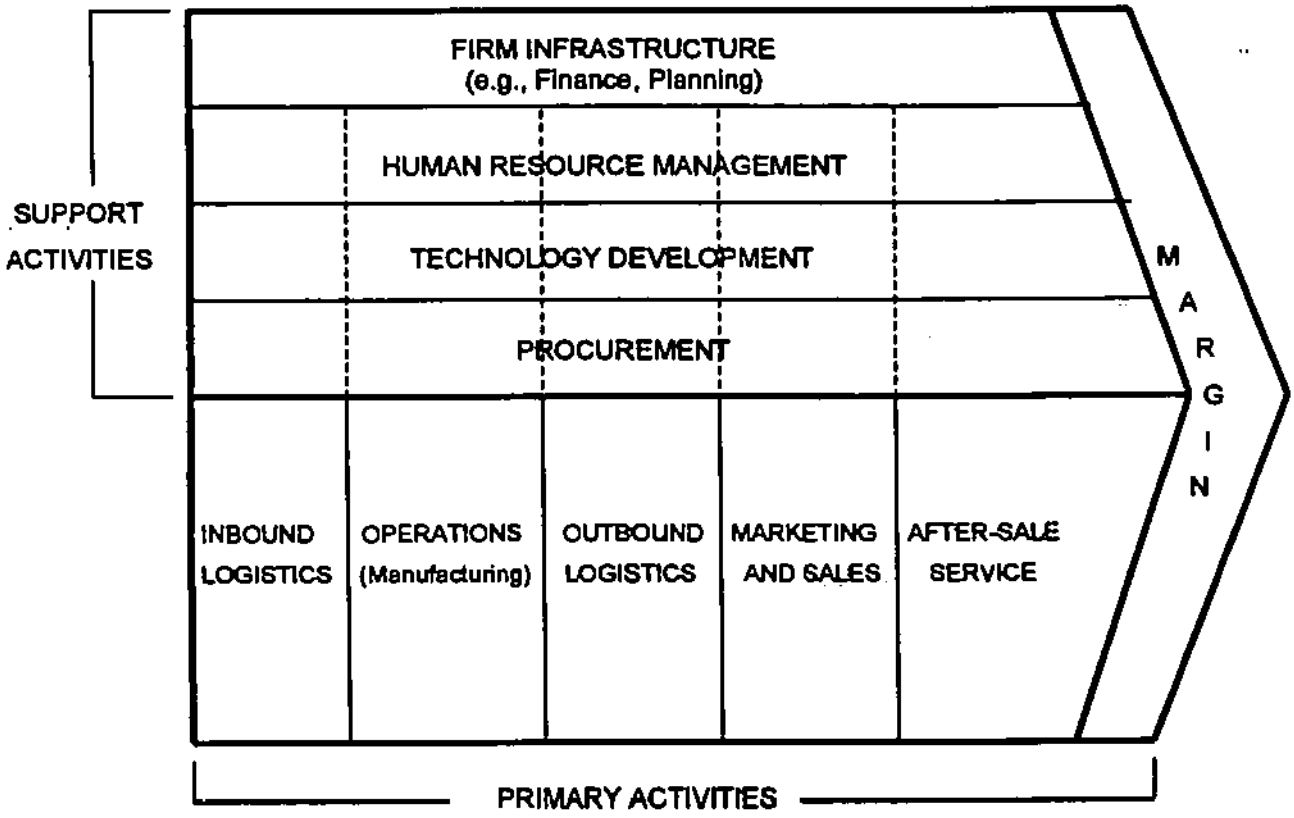
Source: Own research

An organisation creates value for its buyers through performing these activities and this value is measured by the price that buyers are willing to pay for the product or service. An organisation is profitable if this value exceeds the collective cost of performing all the required activities. These activities can be divided broadly into those involved in the ongoing production, marketing, delivery, and servicing of the product (primary activities) and those providing purchased inputs, technology,

human resources, or overall infrastructure functions to support the other activities (support activities) (Porter, 1990:40)

The following figure shows how activities in a value chain can be grouped into categories:

Figure 2.4: The value chain



Source: Adapted from Porter, 1990:41

All activities within the organisation form part of the value chain. The task for the manufacturing organisation is to analyse those activities that it does best and to focus on them. This means focusing on its core strengths and using this capability to provide added value for the organisation's customers.

These activities along the value chain are divided into primary and support activities. Brown (1996:7) describe them as follows:

Inbound logistics. These are all inputs to the product including inventory control.
Operations. All activities related to transforming inputs into final products.
Outbound logistics. Collecting, storing and distributing the product to buyers.
Marketing and sales. Providing the means for buying the product, as well as the inducement to do so.
Service. Enhancing the value of a product, e.g. installation, training, repair and maintenance.

Support activities are cited as follows:

Procurement. Purchasing raw materials, supplies and other organisation's assets.
Technology development. Developing know-how, procedures and technological inputs.
Human resources management. Selection, appraisal, training and development.
Organisation infrastructure, including all general management activities and support systems.

Purchasing is one of the important activities that can influence the organisation's competitive advantage especially in manufacturing concerns. In many manufacturing organisations, purchased materials and components make up to one-half of the total product cost. (Thomas, 1997:22) Yet, in many manufacturing organisations these costs do not seem to be such a cause for concern as compared to costs related to internal operations, marketing and research and development . Perhaps the reason is that many organisations feel that there is not much they can do about purchasing costs in comparison with other costs.

Having suitably trained and qualified people to perform purchasing activities is very critical for an organisation that is cost -conscious. Such personnel should be people

who are well acquainted with the manufacturing strategy as well as an overall strategy of an organisation.

These will be people to whom the lowering of costs means not necessarily changing suppliers who offer lower prices but who will explore other more sophisticated ways of lowering the costs. This might include reducing the supplier's cost of doing business or even helping the supplier improve his internal cost structures. This can obviously only be done when the organisation itself has done a proper job in cutting down the costs and improving productivity. This will be supplier-alliance in action.

Thus, an organisation's competitive strategy guides the way an organisation performs individual activities and organises its value chain. Companies gain competitive advantage from innovating new ways to conduct activities, employing new procedures, new technologies, or different inputs.

The key to analysing the organisation's value chain is to understand the activities within the organisation that create a competitive advantage, and then manage those activities better than other organisations in the industry. In this connection, Donelan and Kaplan (1998:8) identify the following steps as those that can accomplish a value chain:

- Identify value chain activities
- Determine which of the value chain activities are strategic
- Trace costs to value chain activities
- Use the activity-cost information to manage the strategic value chain activities better than other organisations in the industry

Identification of value chain activities involves the organisation taking a broad view of its activities and looking for those activities that create value in different ways. The next step then would be to determine which among those value activities are critical

to the organisation's mission. Management should then identify those product characteristics that the market values.

These characteristics may include quality, service or any features that their products may have and management will be sure to find out the specific activities that are responsible for creating those product characteristics. According to Donelan and Kaplan (1998:8) those activities represent the most important value chain activities. In other words, they represent the strategic value chain activities that provide a competitive advantage.

Once the strategic value chain activities have been identified, the remaining 'non-strategic' activities must likewise be identified even though the latter do not represent sources of competitive advantage for the organisation. Next, the organisation's accounting system should trace costs to separate value chain activities.

In the steel industry, integration of the entire supply chain is critical to making money. Producers have to be able to handle their raw materials properly, have access to competitively priced electricity and ges, and have plants situated close to a skilled workforce. They also need to be able to ship economically, whether by land, river or ocean. (Morton, 1998: 24) In the final analysis, well-managed logistics is crucial for an organisation that needs to be competitive.

Clearly, organisations will achieve a competitive advantage by managing the value chain better than others in the industry. This involves reducing the total organisation's cost while enhancing the competitive advantage. However, this does not necessarily mean reducing the cost of all activities but only the cost of those activities which definitely do not contribute to the strategic advantage.

If linkages within the value chain are not properly managed, organisations will have problems in attaining competitive advantages. For many organisations, their value

chains are connected to the suppliers who provide inputs to the organisation's value chain, wholesalers, distributors and others outside the organisation. It would be foolish for businesses to rationalise that since they buy their inputs from their suppliers, they will not interfere with their supplier's value chain but will only concentrate on theirs. This is the case with the majority of businesses in the VTMA that were involved in this study. Many of them only buy their inputs from their suppliers. There is no further involvement between the two.

Even in such cases, organisations are still able to create competitive advantages. This they can do by better optimising or co-ordinating these links to the outside. This calls for businesses to be involved with their suppliers to the extent that they will benefit from the relationship or partnership. Where such relationships exist and are properly managed, rewards for quality and productivity improvements are guaranteed by means of higher profit margins or improved position in the ranking among suppliers.(Odagiri, 1992:160)

The development of steel as a product depends on many factors. These include that, steel is in competition with other materials and that demands on steel as regards utilisation and processing properties are increasing even where it cannot be replaced. (Franz and Lichte, 1991:21) Of course, more adaptations of steel presents a constant challenge to the techniques of metallurgy, the processing technology and the workforce as a whole. Such challenges can be overcome when developments are conducted in close co-operation with the consumers in the manufacturing sector.

A focus on value chains provides the potential for reaping systemic efficiency. This is the very reason why it is important for managers to understand how value chains can contribute to the efficiency and thus, the competitiveness of their organisations. It is interesting that Gereffi and Korzieniewicz (1994) has made a very useful distinction between two types of value chain governance. The first describes those chains where a critical role is played by the buyer driven chains, while the second

describes a world where key suppliers in the chains, generally commanding vital technologies, play the role of upgrading the links – supply driven chains.

Ongoing research shows that in many cases the buyers (usually foreign) have helped local producers to upgrade production, particularly in raising quality and speed. Such upgrading is clearly in the interest, not only of the foreign buyers but also of the organisation itself. (Schmitz, 1999:1-3) With this distinction in mind, Kaplinsky (2000:3) is convinced that the distinction between the two types of chains is a major contribution to the understanding of the workings of value chains, and hence to throwing light on methods of gaining entrance to local producers into the global markets.

Furthermore, the value chain sheds light on understanding the interaction of local and global forces. Despite the globalisation, authors across the board have emphasised the importance of local sources for competitiveness. For example, the work on leading global industries developed by Porter (1998:77-90) emphasises the importance of local competitors, local infrastructure and domestic customers in generating competitive advantage. In this regard, (Humphrey and Schmitz, 1996:1859-1877 and Meyer-Stamer, 1999) stress the importance of local synergies, inter-company co-operation and industrial policy at the local level.

This study indicates that lack of local synergies and inter-organisation co-operation is evident in the VTMA where there are various chambers of commerce operating along historical differences. It is persuasively argued that in the interest of economic development, the combination of various chambers of commerce into one would go a long way in serving the interest of member business as well as for the region as a whole. This move would also encourage inter-company co-operation since all organisations would be affiliated to one chamber of commerce and the benefits of economies of aggregation would be greater.

Producers from developing countries, like South Africa, need direct or indirect access to these global buyers in order to supply the world's largest markets. Entering such business relationships provides opportunities for growth and upgrading but only as long as the interests of local producers and global buyers coincide.

As will be seen in Chapter 5 that discusses the findings of this research, majority (62 percent) of businesses in the VTMA only import from the Southern African Development Community (SADC) countries as the following table shows:

Table 2.1 Import information

FROM WHICH COUNTRIES ARE YOU IMPORTING?	
Within SADC	62%
Outside SADC but from Africa	-
Europe	15%
Asia	-
Australia	23%
The Americas	-

Source: Own research

Only 33 percent of them are presently exporting their products. Clearly this situation does not do companies in the VTMA a favour since their markets are restricted to local and for some, to other parts in Southern Africa. In some cases, the local markets are dwindling owing to overseas exporters taking advantage of free international trade.

Indeed, as was mentioned earlier in section 2.8.1 the value chain provides a tool for understanding the sources of competitive advantage. Instead of viewing cost narrowly, managers who understand the concept of the value chain appreciate that an organisation's cost position is its collective cost of performing all required activities and that usually involves optimising the linkages and co-ordinating very closely with suppliers and other channels.

However, there are certain factors that contribute to the manufacturing success of organisations. These are discussed in the next section.

2.10 FACTORS FOR MANUFACTURING SUCCESS

Manufacturing plays a very critical role in any economy. Even though some of the developed economies seem to be moving more and more to service industries, the importance of manufacturing is still clearly seen. It is therefore imperative that managers in manufacturing organisations understand how manufacturing strategies create competitive capabilities. In this regard, Davig and Brown (1992:57) concur that continuous improvement in the operations area is an important key to competitive success and revitalised product lines.

Manufacturing provides many opportunities as far as creativity on the part of employees is concerned. There is in fact, more creativity in manufacturing than in most jobs, but the only limitations are in people's minds. (Ferry, 1993:127)

It is very unfortunate that in many industries, the role of manufacturing has been relegated and as such has been seen more and more as a technical function and less and less as a strategic player. It is not unusual to find even highly trained technical specialists to be closer to shop-floor workers than to general managers above. (Lazonick, 1991:49)

Not surprisingly, Skinner (1985:55) concludes that manufacturing is generally perceived in the wrong way by the top, managed in the wrong way at the plant level, and taught in the wrong way in the business schools.

To some extent, this seeming relegation of manufacturing stems from the system of education itself. Arguing this point, Wickens (1987:162) observes that the best graduates want to go into merchant banking, the professions, and the finance sector. If they think of industry or commerce it is in the areas of marketing, sales, finance or personnel that attracts them – rarely production.

Clearly, educational authorities can play an important role in this area. When it comes to the effect that education in specific areas plays, where there is a need in a particular country, one cannot help but think of the example of Singapore, which could furnish an interesting model especially to developing countries, like South Africa.

Singapore has produced one of the most substantial changes in its worker-profile. In the 1960's, a high proportion of workforce was unskilled and had little education. However, over the last 25 years the government has invested heavily in education and training. Kotler *et al* (1997:295) state that as part of a strategy to develop the metals manufacturing industry, Singapore's government established a board in the 1970s to administer a range of incentive programmes designed to attract foreign investment in new manufacturing. Training was provided to enable workers to shift from low-skill employment industries to higher-skill jobs in metal manufacturing. They conclude by saying that after several years, the strategy paid ; the industry had grown substantially, and the board was phased out.

Such radicel moves by authorities are necessary to bring about long-term changes that are especially to the benefit of the economy. The benefits that such initiatives will bring will be worth the investment. This general perception about manufacturing clearly challenges the industry itself and must be a serious cause for concern to

managers in the manufacturing sector. Indeed, policy-makers should see it as a threat to the economy and the future of the country. It truly is no coincidence that the VTMA region presently faces problems in its manufacturing sector.

Of particular interest in this study is the course of action that managers themselves should take. Naturally, this involves the mindset of all in the organisation. Thus, a new mindset would involve repositioning production/operations within the structure of the organisation. This would mean, among other things, that menufacturing staff be more actively involved in strategic planning and that its role go beyond that of the shop floor.

Interestingly, Samson and Sohal (1993:220) argue that manufacturing managers must become more than just implementers of engineering and marketing instructions on the shop floor. Samson and Sohal (1993:220) go on to say that raising the status of the manufacturing function involves getting the manufacturing managers involved in the business development and market competitiveness debate and that manufacturing managers need to be interfaced with and have an understanding of the organisation's customers. This calls for a need to come up with a manufacturing strategy in organisations. The next section discusses this very important aspect of manufacturing.

2.11 MANUFACTURING STRATEGY

In view of what was discussed in the previous section, it is indeed very clear that an explicit manufacturing strategy is needed for companies to be able to deal successfully with the plight that faces the sector. Top management will be sure that manufacturing strategy is in congruence with the overall corporate strategy. If there are good reasons to do so, the overall corporate strategy may even have to be altered to accommodate the new realisation.

It is argued that the adoption of manufacturing strategy will see operations managers becoming more involved in key areas such as target marketing, new product development, and so on. When formulating a manufacturing strategy, Edmonson and Wheelwrght (1989:68) argue that its focus should be on developing a set of distinctive competencies in manufacturing that provide a competitive edge in the market place: that is, developing capabilities that allow the organisation to do things significantly better than their competitors, in areas that customers value highly.

Brown (1996:68-69) admits that while there is no fixed process of formulating strategy, the following four considerations must be taken into account:

- Firstly, some of the previously perceived 'tactical' areas in manufacturing, such as materials management must be seen in a strategic context. Other areas of strategic importance are human resource development, quality, new product development and investment in appropriate technology.
- Secondly, there has to be constant dialogue and appreciation of each other's contribution to the corporate debate within the organisation – in particular, marketing and operations management must be closely linked on the same side.
- Thirdly, other organisations, particularly suppliers, must be seen in terms of strategic importance. Alliances and joint ventures with other partners must form part of the organisation's strategy.
- Fourthly, there has to be a combined sense of urgency and timing, so that plans will be executed within the specific time periods; these plans may well change, but the timing element will help to drive through the plans into specific implementation stages.

A manufacturing strategy is the pattern of manufacturing choices that are made in the context of corporate goals and objectives and the potential success factors that an organisation can employ are defined by the general notion of a manufacturing strategy. (Roth and Miller, 1992:82)

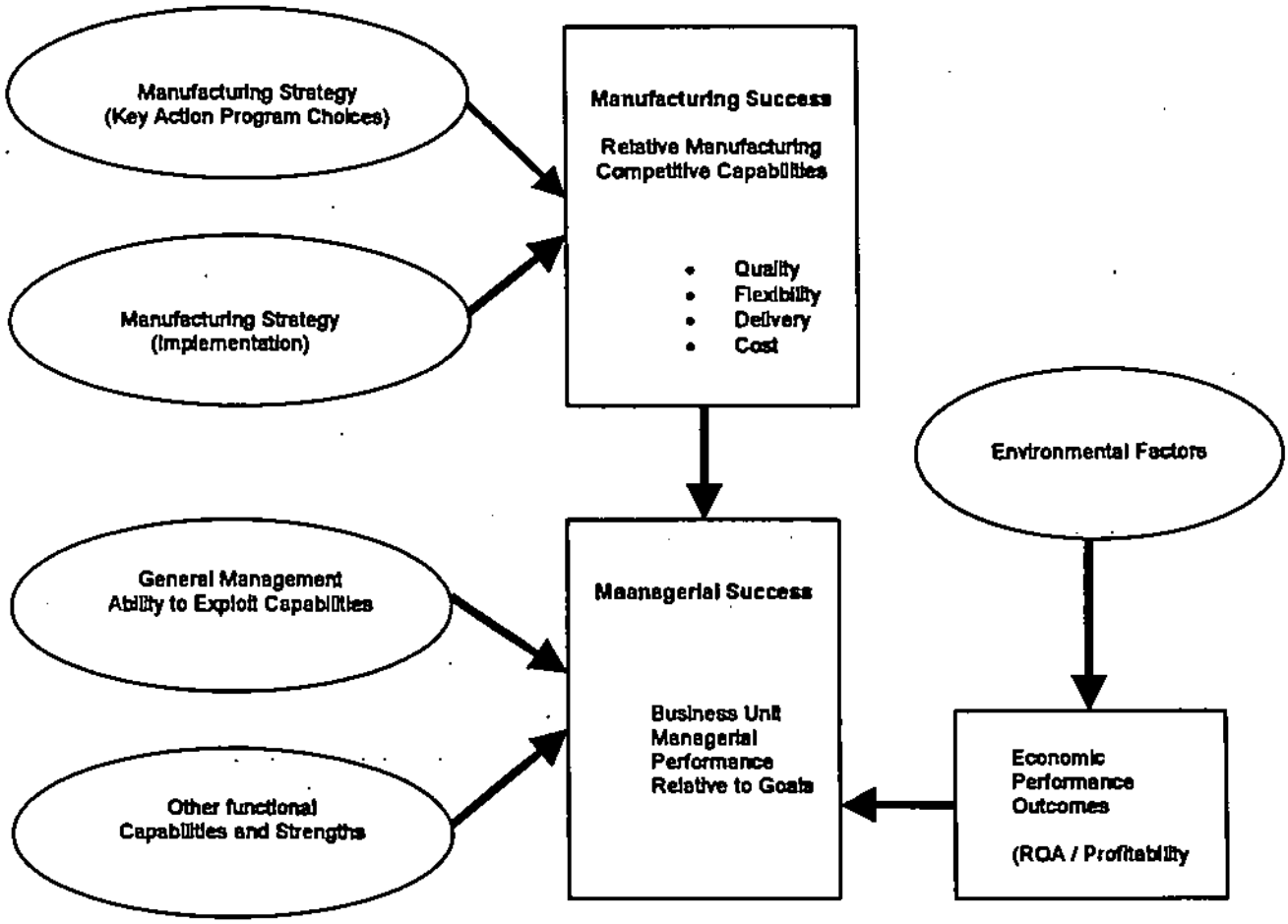
Clearly, the manufacturing strategy will differ from one organisation to another. However, it will revolve around such issues as quality, reliability, shorter lead times, flexibility and customer satisfaction. For the strategy to be meaningful, management must come up with clear and practical performance measures.

According to Roth and Miller (1992:74) manufacturing strategy is related to the following three different types of performance measures:

- *Relative Manufacturing Capabilities*: measures of the business' units manufacturing strengths relative to its primary competitors in quality, delivery dependability, flexibility and the ability to compete with low prices
- *Relative Managerial Success*: executive management's ability to use manufacturing capabilities and those of other functional areas to achieve business unit goals and targets.
- *Economic Performance*: absolute business unit outcomes, including return on assets (ROA) and profitability.

How the manufacturing strategy links with business performance is clearly illustrated in figure 2.5.

Figure 2.5: Linking manufacturing success factors and business performance



Source: Adapted from Roth and Miller (1992:80)

The above figure suggests that greater manufacturing capabilities contribute to higher levels of managerial success.

Roth and Miller (1992:76) are of the view that the three factors that build manufacturing capabilities are mainly resource improvements, quality management programmes and advanced process technology as shown in figure 2.5.

Care and nurturing of the manufacturing environment is the strongest predictor of manufacturing strength. Having a strong preventive maintenance programme is another basic indicator of manufacturing excellence. In many organisations, though,

maintenance is not taken too seriously in comparison with other functions. However, those companies that need to implement continuous improvement need to begin to give maintenance significant managerial attention.

With regard to quality management programmes, the entire section 3.2 has been devoted to this aspect of manufacturing capability. Further, this study shows that applying advanced technology is likely to contribute to manufacturing success. It must be hastily mentioned that, in and of itself, technology does not guarantee manufacturing capability. Technology without proper systems that give human ability a larger role in shaping the production process is unlikely to succeed. Only with properly trained and motivated people will technology improve the organisation's competitive advantage.

Time is another factor that is critical in manufacturing companies when it comes to competitive advantage. In this context, Kumar and Motwani (1995:36) define time as the totality of time required to perform all activities on a critical path that commences with the identification of a market need and terminates with the delivery of a matching product to the customer. Kumar and Motwani (1995:36) believe that the strategic value of time stems through the following three primary sources:

- Faster response time commands a price premium
- Faster delivery of customised products attracts more customers and encourages brand loyalty (provided that the quality of the product is good)
- Accelerated pace of activities economises on production and logistical costs, which in turn, results in higher contribution and profitability

Any manufacturing organisation must be prepared to improve continuously if it is to remain competitive. In view of this Brown (1996:63) suggests the following steps that such organisations should follow:

- First, high quality must be produced
- Then delivery reliability must be achieved
- Then production costs must be lowered
- Then production flexibility must increase

Generally, the above-mentioned steps apply to organisations that produce high volume, relatively standard products. However, the need to improve quality, enhance delivery performance and reduce costs applies to any manufacturing organisation.

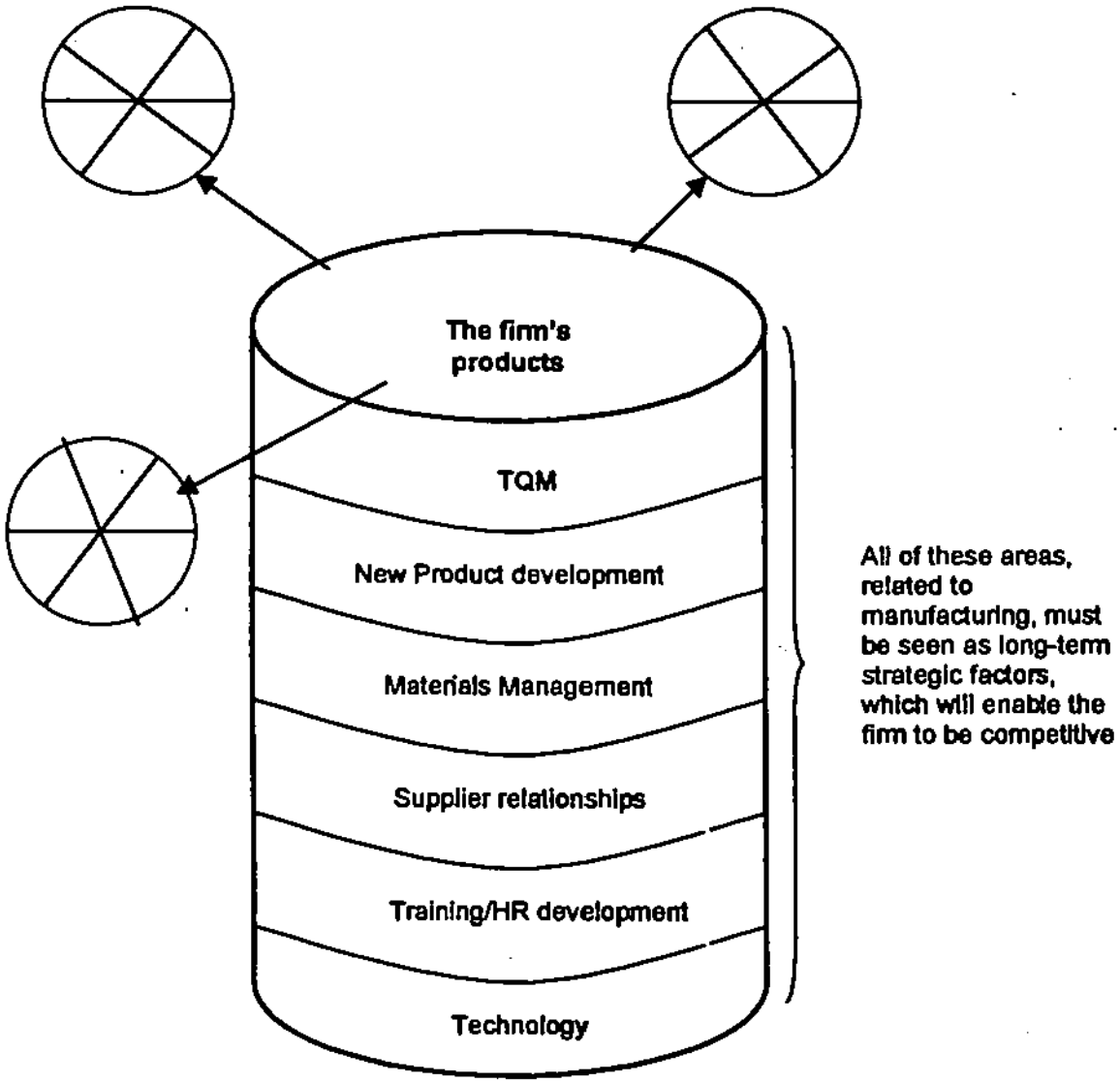
It is also evident from the above-mentioned steps that improvement in competitive areas comes over a period of time instead of overnight. Some organisations that wanted to achieve competitiveness overnight have, as a strategy to cut down on costs retrenched their employees. Little do such organisations realise that, especially in many manufacturing industries the largest cost is in fact materials management.

Hence, the potential for reducing costs through more efficient materials management is enormous. Hill and Jones (1998:156) believe that, for the average manufacturing company, the materials and transportation costs account for 50 to 70 percent of revenues. This means that a small reduction in these costs has a substantial impact on profitability.

Such improvements in materials management must be brought about by long term commitment to improve materials handling and systems in the plant itself coupled with strategic alliances formed with suppliers. The latter aspect of supplier alliances is stressed throughout this study. It is imperative that manufacturers realise that it is only through strategic planning that they can be able to improve and compete on a sustainable basis. Quick-fix solutions, such as retrenchments *en masse* are not necessarily solutions in the long-term.

Figure 2.6 clearly illustrates those areas related to manufacturing that must be seen as long-term strategic factors.

Figure 2.6: The strategic view of production/ operations activities



Source: Brown (1996:64)

Figure 2.6 shows the areas to which management must pay particular attention, since they all contribute to the company's competitiveness. These include new product development, materials management, supplier relationship, training and human resources development and technology.

2.12 CONCLUDING REMARKS

For companies to create competitive advantage, they must first of all be able to clearly identify their core competencies and key success factors. This will enable them to know which competitive strategy to pursue. A good understanding of the value chain activities and its linkages is essential if management is to manage its value chain properly.

Manufacturing firms must be able to develop a manufacturing strategy which should, of course be in line with the organisation's overall strategy and thus elevate manufacturing activities beyond just implementing engineering and marketing instructions on the shop floor.

How can companies be competitive on an operational level? The next chapter discusses ways in which companies can create and sustain competitive advantage through operational effectiveness.

CHAPTER 3

OPERATIONAL EFFECTIVENESS AND COMPETITIVENESS

3.1 INTRODUCTION

In the previous chapter, the concept of competitive advantage was put into perspective. Strategies were discussed that can enable managers to cope and deal with competition successfully. What managers may do to improve their organisations' competitiveness from the operations point of view, is discussed in this chapter.

In view of the intensity of competition in many industries, managers have been preoccupied with improving the effectiveness of their operations. This they have done and still do by means of management techniques or tools such as Total Quality Management (TQM) and benchmarking. Through such techniques they have changed how they perform activities in order to eliminate inefficiencies, improve customer satisfaction and achieve best practice. Hoping to keep up with shifts in the productivity frontier, managers have embraced continuous improvement, empowerment, change management, and the so-called learning organisation.

Constant improvement in an organisation's operations is necessary to achieve superior profitability. During the past few years, the concept and practice of total quality management swept through manufacturing and service industries in the United States. Organisations learned the power of TQM principles to improve service to their customers and thus profitability.

For many organisations, however, continuous improvement has not led to the benefits expected. Organisationss spend valuable time and resources improving insignificant things without gaining a measurably better competitive standing. Such organisations need a solution that merges strategic choices about what activity they

need to be good at while carefully examining what it means to be excellent in that activity. (Porter, 1996:62) Although benchmarking is gaining popularity, this study shows that not many companies in the VTMA really know how to apply it well.

In order for organisations to succeed at being effective in their operations, people themselves must be improved. The real success of operational effectiveness rests in the organisation's ability to integrate people with processes and systems. Whether a business is labour or capital intensive, success will depend on how well people respond to problems and challenges, as well as how the focus will be on the tools and skills necessary to create e competitive advantage in the employees. (Porter, 1996:62) To introduce this chapter, the principle of total quality management will be put in perspective. The following section does just this.

3.2 THE PHILOSOPHY, PRINCIPLES AND PRACTICE OF TOTAL QUALITY MANAGEMENT

In any organisation - be it a hospital, a university, a bank, an insurance company, local government, an airline, a factory - competition is rife: competition for customers, for students, for patients, for resources, or for funds.

For the most part, competition is based on quality of product or service or both. It is not unusual to see the theme of quality characterising the mission statements of many organisations. Such statements not only serve as a message to customers, but they also act as catalyst or a reminder of the organisation's main objective and its commitment to quality. Textbooks, newspapers and academic journals are published literally on a daily basis discussing some aspects of quality. Organisations spend enormous amounts of money on research in their quest to provide products and services of world-class quality to their customers. Be that as it may, this study indicates that quality continues to elude many organisations, both small and big across all sectors.

In this connection, Franz and Lichte (1991:25) strongly believe that of all the requirements imposed on the steel undertakings from outside and which have to be implemented with regard to technical, organisational and skill changes, the most important is quality. The requirements and wishes of customers as regards quality, delivery times, reliability and service are much more varied than before and have to be satisfied as such.

Indeed, Quality is not something to be taken lightly. Disregarding quality in these highly competitive times is one of the fastest and most definite ways for organisations to bid their business farewell. What is good about this eventuality is that it is guaranteed. In simple terms, Garvin (1992:126) states that quality is an unusually slippery concept, easy to visualise and yet exasperatingly difficult to define. There are various definitions of quality, ranging from 'quality is fitness for use' (Juran, 1974:2) to 'quality is doing it right the first time, every time' (Adam and Ebert, 1992:596). Furhther, Feigenbaum (1983:7) in effect defines quality as the total composite product and service characteristics through which the product or service in use will meet the expectations of the customer.

However quality is defined, the common denominator is that quality products and services must be aimed at satisfying customers. Ideally, the organisation should strive to provide customers with those features and characteristics that give them delight and not just match their requirements.

Interest in quality builds upon contemporary premise of systems thinking. Systems thinking proposes a whole or total approach to quality management. The word 'total' is very important because it states that comprehensive ways of dealing with complex sets of interacting issues are sought. The element of 'total' implies that quality must pervade every area of the organisation if the quality drive is to be successful. (Flood, 1993:41)

Total quality means that everyone should be involved in quality, at all levels and across all functions, ensuring that quality is achieved according to the requirements in everything they do. The word "total" injects a systemic meaning of wholeness into quality. Total Quality Management (TQM) portrays a whole systems view for quality management. It builds on the idea that an organisation is an interactive network of communication and control. (Flood, 1993:47).

TQM has been studied by researchers all over the world and their passion and efforts have not waned. Although TQM has been studied and implemented worldwide, a universally accepted definition does not exist. Nevertheless, it is viewed as a philosophy of managing an organisation. Customer focus, continuous improvement and teamwork form the foundation of TQM. It is no wonder that increasingly many organisations have embraced TQM in the last decade. Even though no universally accepted definition of TQM exists, it would be appropriate to consider a few of them.

Capezio and Morehouse (1995:1) define total quality management as a management process and set of disciplines that are coordinated to ensure that the organisation consistently meets and exceeds customer requirements. Capezio and Morehouse (1995:1) further state that TQM engages all divisions, departments and levels of the organisation with the goal of delivering the highest value for the customer at the lowest cost while achieving sustained profit and economic stability for the organisation.

Interestingly, Oakland (1995:18) defines TQM as an approach to improving the competitiveness, effectiveness and flexibility of a whole organisation. For an organisation to be truly effective, each part of it must work properly together towards the same goals, recognising that each person and each activity affects and in turn is affected by others. The methods and techniques used in TQM can be applied throughout any organisation whether in the manufacturing, public service, health care, education or hospitality industries. (Oakland, 1995:18)

Finally, Djerdjour (2000:26) defines TQM as a management philosophy that seeks continuous improvement of all processes, people, products and services of an organisation.

These definitions suggest that TQM should be a way of life in an organisation, part and parcel of the organisational culture. That it is customer-driven and that it should be owned by everyone within the organisation. On this note, Bateman and Zeithanil (1993:324) define organisational culture as the set of important assumptions about the organisation and its goals and practices that members of the organisation share. It is a system of shared values about what is important and beliefs about how the world works.

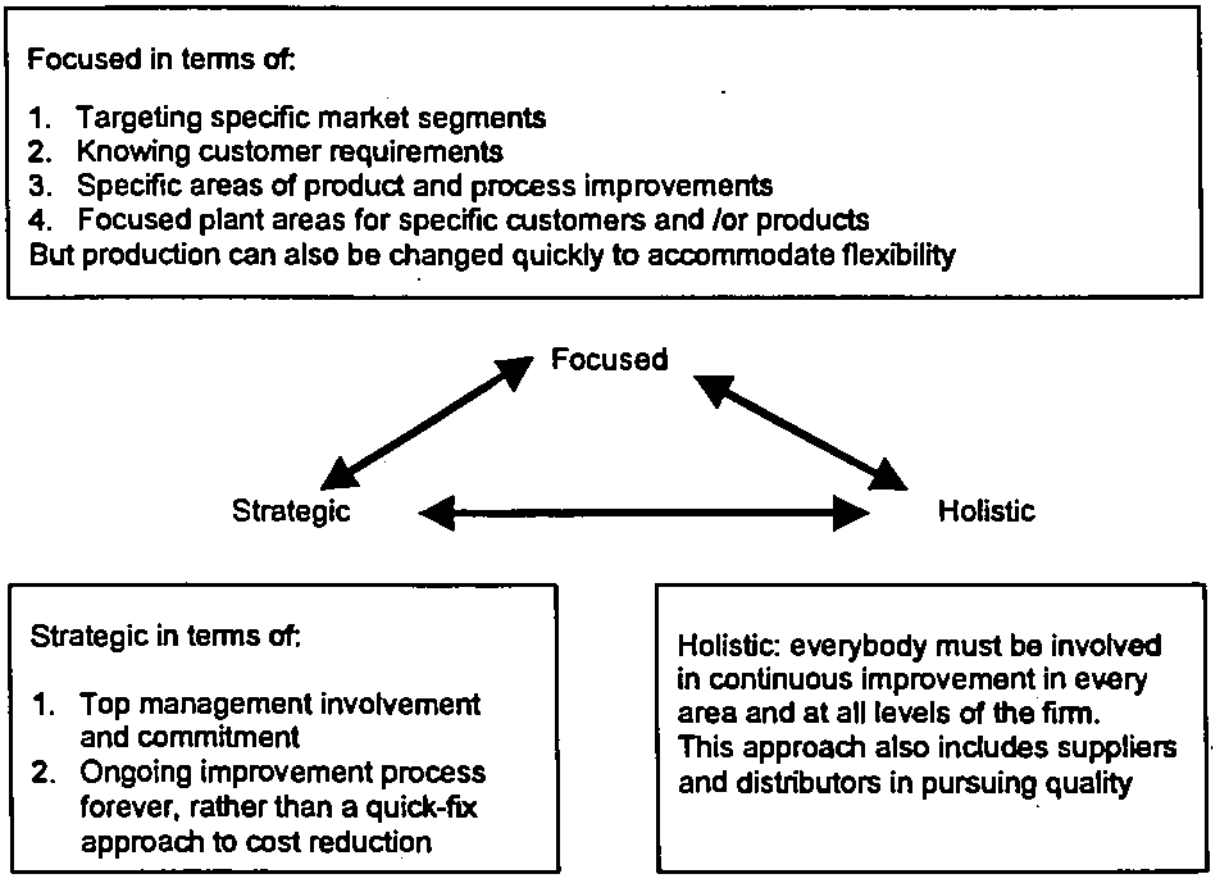
From the above definitions, it may be noted that top management does not have ownership of TQM. It is a norm and value that must be pervasive throughout the company - from the boardroom to the shop floor. It must form part of a system of shared values within the organisation.

This study has shown that TQM has helped many organisations especially in developed countries, such as in The Netherlands towards achieving world-class status. These organisations are now able to produce quality products and services that meet and exceed the needs of their customers. If an organisation wants to run its business in a mediocre manner, then they need not worry about TQM. However, if it is concerned about its competitiveness, like the majority in the VTMA involved in this study are, then TQM is a principle worth exploring. In an increasingly competitive business, quality is no longer a matter of choice, it is an essential strategy as confirmed by part of this research in The Netherlands.

A strategic view of quality sees quality as a long-term competitive requirement, an ongoing means of outperforming competitors. For organisations to compete successfully, they need to be strategic, focused and holistic in their approach, not only in quality but in other areas of strategic importance as well. Brown (1996:188)

Figure 3.1 illustrates how the factors of holistic, strategic and focused approach interrelate with each other.

Figure 3.1: The holistic, strategic and focused approach to quality



Adapted from Brown (1996:188)

Figure 3.1 suggests that the culture of quality consciousness in an organisation is brought about as a result of strategic thinking toward quality, rather than simple, quick-fix and cost-cutting approaches. It is evident that without express support and commitment from top management, the adoption and implementation of TQM is bound to fail. Since it is evident that quality is a moving target, companies must commit themselves to continuous improvement in order to meet and possibly exceed changing customer requirements and expectations. An essential element of TQM that managers must always keep in mind is that it is a philosophy and practice that

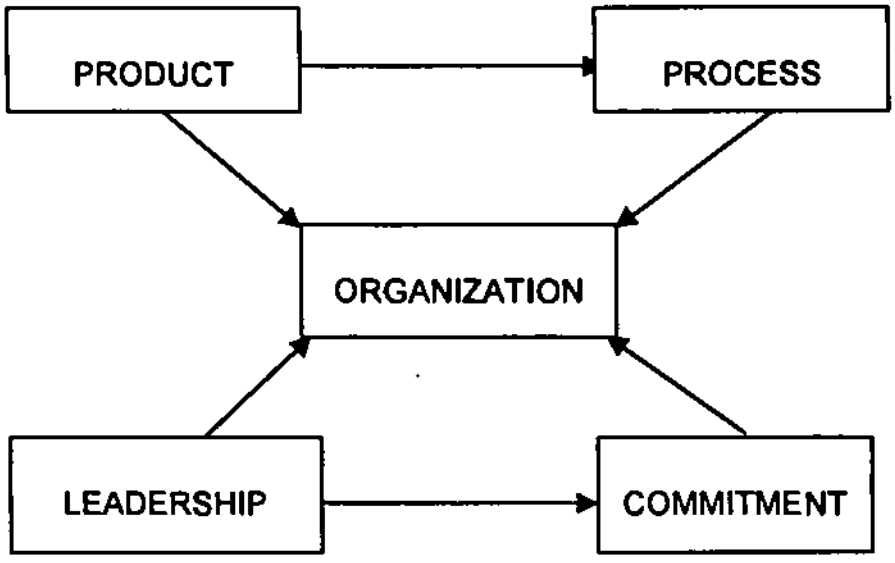
everyone within the company should embrace. Management will be sure that this consciousness is extrapolated to include its suppliers and distributors.

Appropriately, TQM is being adopted in developing countries due to the developments in the global economy and of demand in market forces. In some organisations in developing countries the principle of TQM is not yet as fully understood as in developed countries. South Africa is no exception to the rule. In fact, in the VTMA some managers especially of smaller enterprises indicated that they only know about the concept. . Djerdjour (2000:26) outlines the following as some of the challenges faced by developing countries:

- Lack of employee involvement and participation in quality improvements
- Lack of management commitment and motivation
- Perception of quality as an optional extra and not as a necessity for development
- Traditional belief that quality costs money
- Lack of cooperation between suppliers, dealers, management and trade unions
- Obsolete technologies
- Low level of education

Creech (1994:6) identifies the five pillars of TQM as product, process, organization, leadership and commitment and concludes by saying that product is the focal point for organisation purpose and achievement and that quality in the product is impossible without quality in the process. Quality in the process is impossible without the right organisation. In turn, the right organisation is meaningless without proper leadership. Strong bottom-up commitment is the support pillar for the rest and each pillar depends upon the other four, and that if one is weak all are. (Creech, 1994:6) Figure 3.2 illustrates the relationship between the five pillars of TQM.

Figure 3.2: The five pillars of total quality management



Source: Creech (1994:7)

Creech (1994:158) argues that when one makes a product the focal point of purpose and achievement, as should be done, it also becomes the logical rallying point for quality and productivity which in turn makes it the obvious focal point for measurement of organisational effectiveness in every element.

Managers, with the involvement of employees must create a product, not a job mindset as the focal point for the integrated efforts of all concerned. Furthermore, if the product is not the focal point for purpose and achievement then quality is unlikely to be achieved. Once every employee develops a product mindset, it will be easier to go a step further - developing a quality mindset. According to Creech (1994:166) the quality mindset manifests itself in the pride and professionalism that the employees feel and reflect - or do not reflect. Absence of both or weaknesses in either indicates a weak quality motivation. Creech (1994:17) believes that quality begets quality and that one cannot justifiably expect employees to appreciate quality- thinking and produce quality if top management shows by its actions that it is indifferent to it.

Many organisations around the world are content with getting by instead of getting better. Their management and employees are satisfied with the present quality. Employees and management alike need to believe they can be, and do better. The fact is, improving quality cannot occur overnight. Thus the trick could be in making the improvement process part of the organisation's operating system. It should be part of the way things are done, the way management and employees think and act - indeed part of the organisational culture.

It is argued that the improvement of quality should be seen, not as some quick-fix solution, but as a long-term commitment to continuous improvement in every espect of the production process. The TQM approach requires that quality be designed into the product and the operations process, rather than an attempt to remove poor quality by some method of inspection.

According to Oakland (1995:331-332) there are three basic principles of never-ending improvement:

- Focusing on the customer
- Understanding the process
- All employees committed to quality

Focusing on the customer

An organisation must always know how well its outputs are performing in the eyes of the customer, through measurement and feedback. An organisation should be market-driven and it will show this by manufacturing its products not only according to the needs but also according to the specifications of the customers. Some companies have in fact invited their customers to become involved in the design and manufacture of the products.

Such customer-oriented organisations go further than just manufacturing according to customer specifications. They deliver the product at the right time, in the right

condition and to the right people. It is important for such companies to be able to measure the level of their service and they will ensure that there are instruments in place to measure that. For them, customer feedback is not just keeping in touch with the customers but ensuring that they serve the needs of their customers.

Understanding the process

In the successful operation of any process it is essential to understand what determines its performance and outputs. This means intense focus on the design and control of the inputs, working closely with suppliers, and understanding process flows to eliminate bottlenecks and reduce waste. TQM in a company means that everyone has the determination to use their detailed knowledge of the processes and make improvements.

An organisation that is quality conscious will want to know, as far as it is practical its suppliers operations processes and where necessary be involved inasmuch as such an organisation would go to an extent of even inviting its customers to help design the product. Where this philosophy has been embreced, employees will be given ample training so that they can make as much contribution as possible to making their company a quality-conscious one.

All employees committed to quality

Everyone in the organisation, from top to bottom must play their part. People are the source of ideas and innovation, and their expertise, knowledge, and cooperation have to be hamessed to get these implemented. It is therefore important to convince everyone of their own role in total quality. Management will not only tell employees that it is expected of them to produce quality or rather become quality conscious. Rather, they will ensure as much as they can by means of sound human resources practices that every employee is placed in the right job at the right time with the right training.

Since TQM is part of the organisational culture, it goes without saying that it never should get to a point where it should stop because the organisation is satisfied with its quality. Rather, TQM is a process and not an event. It is ongoing and continuous.

As was mentioned earlier, many businesses in the VTMA (and of course majority of respondents) are in the steel and metal related industries. Some use metal products that have been bought locally as their input. For such ones, quality should be of paramount concern. It is of interest that Stundza (2000:40) states that having a consistent supply of high-quality metals is critical to metalworking industry, where according to McKinsey & Co. estimates, production metals can be as much as 80 percent of total costs. Stundza (2000:40) goes on to say that metel buyers are looking to ensure that future metals suppliers are stable, especially since supply problems exists right now because strong orders are being met with tightened supply.

The need for new metal-purchasing strategies is based on a widespread corporate belief that competition in the global metalworking arena will intensify in the next decade. To become competitive, companies will have to be low-cost producers of high-quality products.

Stundza (2000:41) mentions the top five strategies that the buyers surveyed by 'Purchasing' magazine committed themselves that they will use this decade:

- Strengthen supplier alliances
- Refine performance metrics for supplier evaluation
- Intensify world-class supplier programmes
- Involve suppliers in new product development
- Expand purchase through e-commerce

Basically, supplier alliances are formal relationship that buyers and suppliers enter into for the benefit of both parties. Due to the increasingly complex nature of the metals supply base, supplier-alliances are more important than ever. This has got to a stage where, automobile industry inspectors visit the steelworks and rolling mills to

satisfy themselves in person that the manufacturing conditions in the broadest sense meet the high quality requirements specified in the order. Interviews with managers of some leading firms in Tilburg revealed that stronger supplier-alliances will eventually lead to better world-class supplier development programmes. Purchasing departments will have to learn to develop partnership agreements into a strategic strength.

From this research, it can be concluded that iron and steel production has to be organised in such a way that it meets the following requirements:

- Produce good quality products
- Cost-effective and value-added production processes
- High degree of flexibility of the entire production process so that customer requirements regarding material properties, processing features and delivery schedules can be complied with precisely.

TQM is in and of itself an ongoing process, a continuous one. The next section analyses this feature of TQM.

3.3 CONTINUOUS QUALITY IMPROVEMENT

Continuous improvement is an essential component of TQM philosophy. In this connection, Robertson (1999:4) believes that the only way to improve the world's perception of the steel industry is by continuing to tout the value of the products and that maintaining process control and seeking process improvement over time are key to improving quality. However, Ho, Cheng and Fong (2000:182) caution that blindly adhering to the continuous quality improvement principle could lead to enthusiastic companies placing overwhelming focus on doing things right rather than doing the right things.

Hamington (1987:11) defines the improvement process as a group of activities that complement each other and provide an environment conducive to improving performance for employees and management alike. Hamington (1987:11) further states that improvement process helps to accept change and continuous improvement as a necessary way of life, and that it is a good management practice that when followed, will change management characteristics and personality of an organisation.

It is noteworthy that White (1996:15) defines Continuous Quality Improvement (CQI) as a global approach to business development that establishes an integrated programme through which an organisation can achieve continuous incremental improvements in its chosen key performance measures by focusing on the better leadership of people and the improved management of business process.

It is notable that White (1996:15) definition contains a number of key phrases such as integrated programme, continuous incremental improvements, key performance measures, better leadership of people and management of business processes.

White (1996:17) sums up the business survival strategy to the CQI approach as follows:

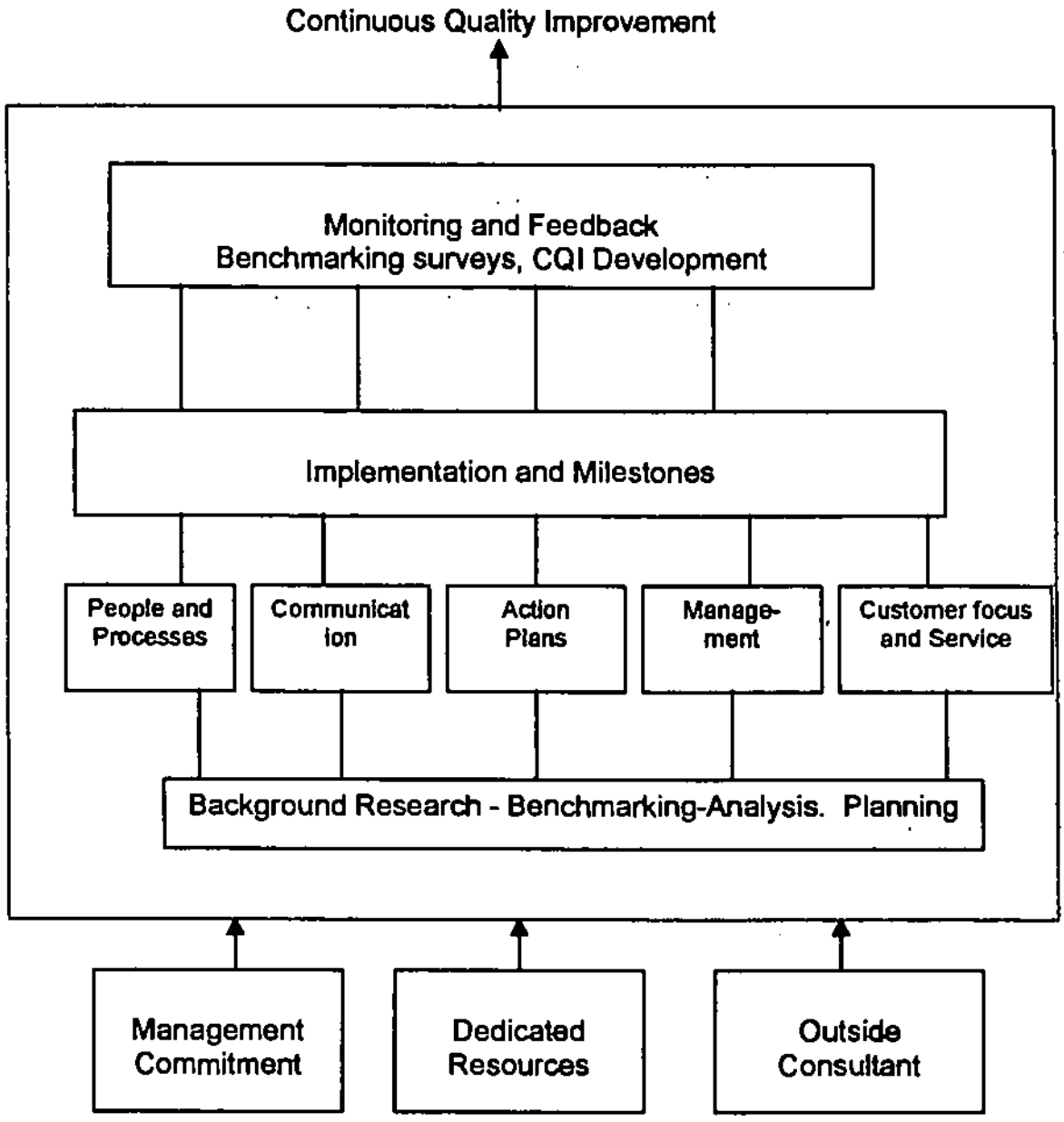
- Determine the right functions that need to be carried out.
- Make sure the right functions use the right processes.
- Get the right people to do the right jobs.
- Manage in the right way.
- Have the right customer-focused products and services for internal as well as external customers.

It is of great importance that organisations look at each one of the above-mentioned factors and gain an understanding of what they are and how they are inter-linked. Equally important is to understand the opportunities and limitations that each

provides. Although it may not be easy to do, organisations must learn to determine the right functions (business activities) that are needed. To this end, they need to recognise and differentiate between a function (a business activity) and a job (an activity carried out by a person). (White, 1996:17-18)

Where the function and the process involves people, managers need to ensure that they have the right people in the right jobs. It is only by ensuring that the right people are doing the right jobs that companies will get the best performance from each person. Figure 3.3 shows how continuous quality improvement can be achieved.

Figure 3.3: The continuous quality improvement



Source: White, 1996:28

From figure 3.3 the following conclusions can be drawn:

- Management commitment is essential for the achievement of continuous quality improvement

- An organisation must be prepared to dedicate its resources in order to continuously improve
- Where necessary, an organisation should seek help and advice from outside consultants
- Channels of communication between management and the employees must be kept open at all times
- People remain the most important resource in any organisation and must be treated as such
- An organisation should never lose its focus - at all times meeting and exceeding customer expectations
- There must be measurable and implementable action plans
- A system of checks and balances must be in place where there is proper monitoring and constant feedback from customers and other role players

Unfortunately, majority of respondents (61 percent) in this study view quality control as somebody else's job and as such some of these respondents have separate departments that ensure that products are of required quality. As has been reiterated earlier, the point of departure TQM takes is that quality is systemic and that it is everyone's responsibility within the organisation.

Covey (1995:26-30) lists some of the traditional approaches to quality which managers must be aware of lest they accept them as practical and factual:

Quality is a department

The truth is that quality is a very personal obligation and that if one can't talk with humility about quality daily, in the first person, then one has not moved to the level of involvement of quality that is absolutely essential. In other words, if a company still thinks that it will make quality a responsibility of a handful of people, then it should immediately stop seeing it that way. It should make it everyone's responsibility.

Training is an expense

In the past, training was viewed as a cost, an overhead expense. However, the truth is that training is not a cost but like practical vocational training, the money is received back in the same accounting period. Organisations should rather see training as an investment. If organisations want to subscribe to the principle of TQM, then they should know that continuous improvement calls for continuous training. When it comes to training, organisations have to be very careful to ensure that the training that their employees receive is relevant and valuable. Otherwise, such training will be a cost as opposed to being an investment for the company.

The up-front costs of quality are high

The truth is that the cost of bad quality is extremely high and that there is no up-front cost for starting a quality programme. Management only needs to do a simple calculation based on the cost/ benefit analysis to see how much it costs not being quality minded. It is not unusual for organisations to pay by losing their business for their neglect of quality. Neglecting quality is by any standard not worth it.

Suppliers have no place in the quality process

The truth is that suppliers do have a place in the quality process. In fact, in some cases suppliers play a relatively more important part in the organisation's outputs than the organisation's processes themselves. Hence, organisations must ensure that they have a say in the production of their raw materials since the quality or the lack of quality will have direct and undesirable consequences for the companies themselves. Managers will want to keep in mind that the principle of "Gigo" (Garbage In, Garbage Out) not only applies to computers but also applies in raw materials and their products.

Championing a customer focused quality programme is hard work, but the results can be exhilarating. As the enterprise creates quality processes, its people will react. Its customers will respond. Sooner rather than later word will spread to all that doing business with such a quality minded organisation is an exceptional experience. Customer retention rates will rise, profits will increase, and employee turnover will decrease. More importantly, the organisation's competitiveness will be unquestionable and will thus sustain its competitive advantage.

Every organisation has a secret weapon in its customers. Customers can help businesses win their quality fight due to the valuable contribution they make. Customers are best placed to offer business such an important service. It is high time that companies listen to their customers. They must make a commitment to sincerely listen, react, and then take that next critical step toward achieving the finest products and services possible based on their customer's needs and expectations.

It is imperative that companies make a commitment to customer focused quality and thus become a champion for change. Equally important is reviewing of the vision and actions of organisations that have successful quality processes and begin to adapt these philosophies and processes that best suit them. Showing best practices to all employees and showing them how quality improvements benefit the company is also essential. In other words, employees should not only be told of what is expected of them, but they should also be shown the fruits of being quality conscious and even sharing in the fruits of their labour.

It is one thing to have a quality programme clearly mapped out. It is quite another to implement the programme. The next section discusses this very important step of the principle of Total Quality Management.

3.4 IMPLEMENTING TQM IN AN ORGANISATION

A successful implementation of TQM takes more than just knowing how to invest in some training sessions or knowing all the right slogans that make TQM work.

Since TQM principles are sound, usually the failure lies in how organisations implement them. (Salazar, 1994:20) There are obstacles that need to be known and overcome for a successful implementation of TQM. In this connection, Salazar (1994:20-23) identifies the following main obstacles which cause organisations to find it hard to install and maintain TQM:

- Large size, diversity and locations of organisations.
- Resistance to changes in behavior, habits, and relationships between leaders and employees
- Lack of conviction that TQM works
- The weak organisation performance, ethics and challenges
- Reward of individuals rather than team by organisation, end intrinsic preference for individual over group accountability
- Most organisations do not understand what quality means and how to measure it

Many organisations may really want to adopt the principle of TQM. However, it seems from the above-mentioned obstacles that many of them may not be prepared and ready. It is imperative that businesses be organisationally and structurally prepared if they are to embrace this philosophy. Of prime importance is that management must ensure that labour relations are in good standing when they introduce the concept to the employees. Frankly, the implementation of TQM must receive the blessing of employees and their unions. This invariably calls for a lot of educating on the part of management to ensure that everybody has more or less the same understanding of the principles of TQM. Once this is the case, then everybody can sing the TQM song with the same tune.

Indeed, companies and managers eager to improve quality and productivity want the results that TQM can deliver. It is vital that organisations prepare sufficiently for the introduction of TQM. This they should do by building on the strengths of the enterprise and letting their employees know that this effort is a direct result of their positive contributions. This will create an enthusiasm that will permeate the entire organisation.

Cullen and Hollingum (1987:174-180) are of the view that when TQM is introduced certain factors must first be brought together. Those factors are a description of the task, people, systems and technologies.

On this note, Culten and Hollingum (1987:174-180) identify the following six main steps in the implementation process:

- Understanding
- Top management commitment
- Company - wide awareness
- Planning
- Implementation
- Review

- **Understanding**

It is important that management carries out an attitude and awareness survey, to find out to what extent the employees understand Total Quality Management. This can either be done in the form of a questionnaire or a series of brief interviews. Where questionnaires are used, they should not consist of many questions and in the case of interviews, they should not take long. Management will ensure that the questions are clear and to the point. The level of education and experience of respondents will be taken into account when that questionnaire or interview questions are designed. The next step is top management commitment.

- **Top management commitment**

Once management knows how aware employees are of quality and what opportunities there are for cost reduction through quality, it is time to put them to the top management and obtain their commitment. Without top management commitment any attempt to introduce Total Quality Management is a waste of time and effort.

Top management should then prepare a policy statement that will include the following:

- A clear definition of quality
- Commitment to meeting specifications every-time
- A commitment to continuing to reduce variance even when specifications are met
- A statement on systems
- A statement on training

The proof that there is a top management commitment is given when a steering committee of senior functional managers chaired by the chief executive is established. This steering committee should then meet once a month, to provide direction and identify priorities. Total Quality Management should be completely integrated into the business, and the function of the steering committee should be incorporated into regular board or management meetings. The next stage is to increase awareness throughout the organisation.

- **Company-wide awareness**

There will indeed be a need to explain Total Quality Management through the organisation irrespective of the level of awareness shown for this. It is essential to avoid mere sloganising and to emphasise the concrete competitiveness. A typical

brief session should explain what quality is, why it is important, and what the organisation is going to do about it.

At the completion of the awareness exercise it will be possible to measure the effect. This can be done by repeating the earlier survey to a different sample of employees. If there has been no clear effect, then there is something seriously wrong with the way in which the awareness exercise has been conducted.

- **Planning**

From the initial outline plan, there will be a series of projects that have to be identified. These will cover education and training on a more extensive scale than the briefing programme. For each project, there should be a time-phased plan identifying targets and milestones, resources required, costs and projected benefits. The benefits should be reconciled with the original cost of quality estimated.

Once the plans have been prepared, it is the task of the steering committee to prioritise them and to allocate resources. In this case, it will be a good idea to put into effect some projects that will show quick and clearly visible results early in the programme. This will help to serve as a motivation for employees. Once planning has been done the next step is the crucial one of implementation.

- **Implementation**

This is the stage where functional managers execute the plans. In doing so the following points must be borne in mind:

- Total Quality is not a "once and for all" exercise.
- Improvement has to be built into the system.
- Total Quality begins and ends with education
- Total Quality is about business improvement. Benefits should be quantified and reported. In this way senior management commitment is maintained.

Each functional manager should have quality objectives that are set annually. Realistic quality objectives will require planning to bring to achievement, and plans will require resources for their execution. For implementation of each plan there must be an element of both education and training: education in why the project is run, and training in the basic activities, procedures or skills necessary to carry out the tasks.

Total Quality concerns business improvement. Essentially this means increased profits and improved competitiveness. If Total Quality is to demonstrate benefits, the effect of reducing quality costs should be clearly shown. A reporting system will be needed which identifies quality costs on a regular basis.

It is advisable to start with a pilot exercise, because it will allow problems to be resolved on a small scale, and where the pilot project generates significant benefits, it generates enthusiasm which helps the full-scale implementation. The next stage is the review.

- **Review**

Since Total Quality is an ongoing process, it is essential that the company's quality performance be regularly reviewed. The review will lead to increased understanding of opportunities for further improvement in the competitive position of the organisation.

The fact that TQM be implemented by teams and not individuals cannot be overemphasized. The team should be the basic unit of performance for most organisations. It presents a combination of multiple skills, experiences and judgements. Again, teams are able to get better results than individuals and this able to provide organisations with a full return on investment. Tom (1997) provides reasons why team as opposed to individuals are successful:

- *Flexibility.* Teams are easier to assemble, deploy, refocus and disband and help to enhance permanent structures and processes. In this way they are flexible.

- *Commitment.* Teams with commitment to clear objectives produce performance results that usually surpass those of their competitors. The process relies on people from different cross-functional circles working together in a practical way to develop a shared sense of direction. This will clearly call for management to articulate and define the objectives of the teams so that the teams can show their commitment.

- *Synergistic response. challenge.* Teams with complementary skills and experience are able to respond synergistically to challenges, changing events and demands. Their clear objectives and established communications aid behavioral changes that adjust approach to new information and challenges with greater speed, accuracy and effectiveness in problem solving.

- *Enhance work.* Teams achieve results through overcoming barriers and establishing trust and confidence in the ability of the team to achieve its goal, develop satisfaction and have fun in the process of working together and reaching the desired outcome.

- *Focus.* Teams offer people more room for growth and change than traditional structures. Through collective commitment, individuals within the team are supported and motivated by other members, thus developing a shared sense of direction.

By involving the human resources department from the beginning of the quality process, management is likely to succeed in selecting team members whom managers can motivate. The purpose is to find and develop enthusiastic, self-disciplined employees who are willing to work hard and are committed to working with others in their self-development.

For a successful implementation of TQM, it is imperative that organisations trust their employees and treat them as professionals. The only way for top management to implement TQM is to indicate to team members that with the trust placed in them they are expected to participate fully, to be innovative and productive. When employees feel that they are important to the organisation, they will be fully committed in their work, aiming at better quality and team work.

In this regard, Lampikoski and Emden (1996:76) believe that giving opportunities and challenges, consulting in difficulties, and support, encouragement and proper rewards are strategies that management may employ to encourage ideas and innovation.

Rewards to teams and individuals should be provided to show that their efforts and contributions are much appreciated by management. The organisation may consider a major reward system. These rewards do not have to be monetary in nature. Compliments and manager's recognition often motivate employees and boost their self-esteem. When enterprises can strive to implement TQM in the fashion that has just been discussed here, they will go a long way to making quality part and parcel of their organisational culture. Managers and everybody for that matter must appreciate that it is not quality for its sake; rather it is quality for the sake of competitiveness and competitive advantage and in turn for the sake of the long-term profitability of an organisation.

TQM cannot be achieved overnight. It is a continuous process of improving an organisation, and management must consider the following points as outlined by Clark (2000:13):

- Strive for continuous improvement with the products and services, and in the way that an organisation does business and interacts with its customers

- Focus improvements beyond just satisfying customers. The heart of TQM is not just customer satisfaction; it is a striving for perfection in dealing with the customers

- Change the organisational culture from being management-driven to being team driven. At the core of TQM is a passionate level of employee involvement and teamwork.

- Organisations need to modify their reward system to encourage teamwork and innovation. Teams, rather than individuals are the foundation of TQM. Their compensation system should reflect team performance.

For proper implementation of TQM, training is essential for each and every person who will be affected by the change. The following section is devoted to this critical part of the principle of TQM.

3.5 TQM AND TRAINING

In the past, competitiveness was defined mainly in terms of economic factors of production such as labour, capital, technology and natural resources. The countries that possessed the greatest amounts of such factors would be the wealthiest and would thus possess a competitive advantage.

Really then, the wealth of a country should be measured in terms of its capacity to add value to global economic products and services. This added value may come from capital, labour or from any other means of competing. But ultimately, it will come from a superior workforce – one that is able to add value to products and services, rather than simply provide low-wage labour for the manufacture of goods. (Rhinesmith, 1995:42)

A workforce that can add value in a more and more competitive world is a workforce that is increasingly sophisticated, that can learn from experience, and that performs to higher and higher standards. Foley, Watts and Wilson (1993:131) believe that skill shortages in a nation's workforce can act as a barrier to the introduction of new technologies and lead to a reduction of a nation's competitiveness.

The steel industry is facing a particularly difficult task since a very large part of the workforce continues to possess no more than practical knowledge acquired from a specific job. However, such knowledge no longer suffices except in a few instances. Steel production and processing would be carried out by small, highly qualified and highly integrated teams and that to cope with the problems of rapid technological change and fast-changing production requirements, companies need broadly based, versatile and transferable training. The main requirement demanded of an employee in the steel works is the capacity to take practical decisions, autonomously and in an interdisciplinary team, as well as to solve problems competently and effectively. This means then, that the days when such an employee had to be a big and strong man are gone.

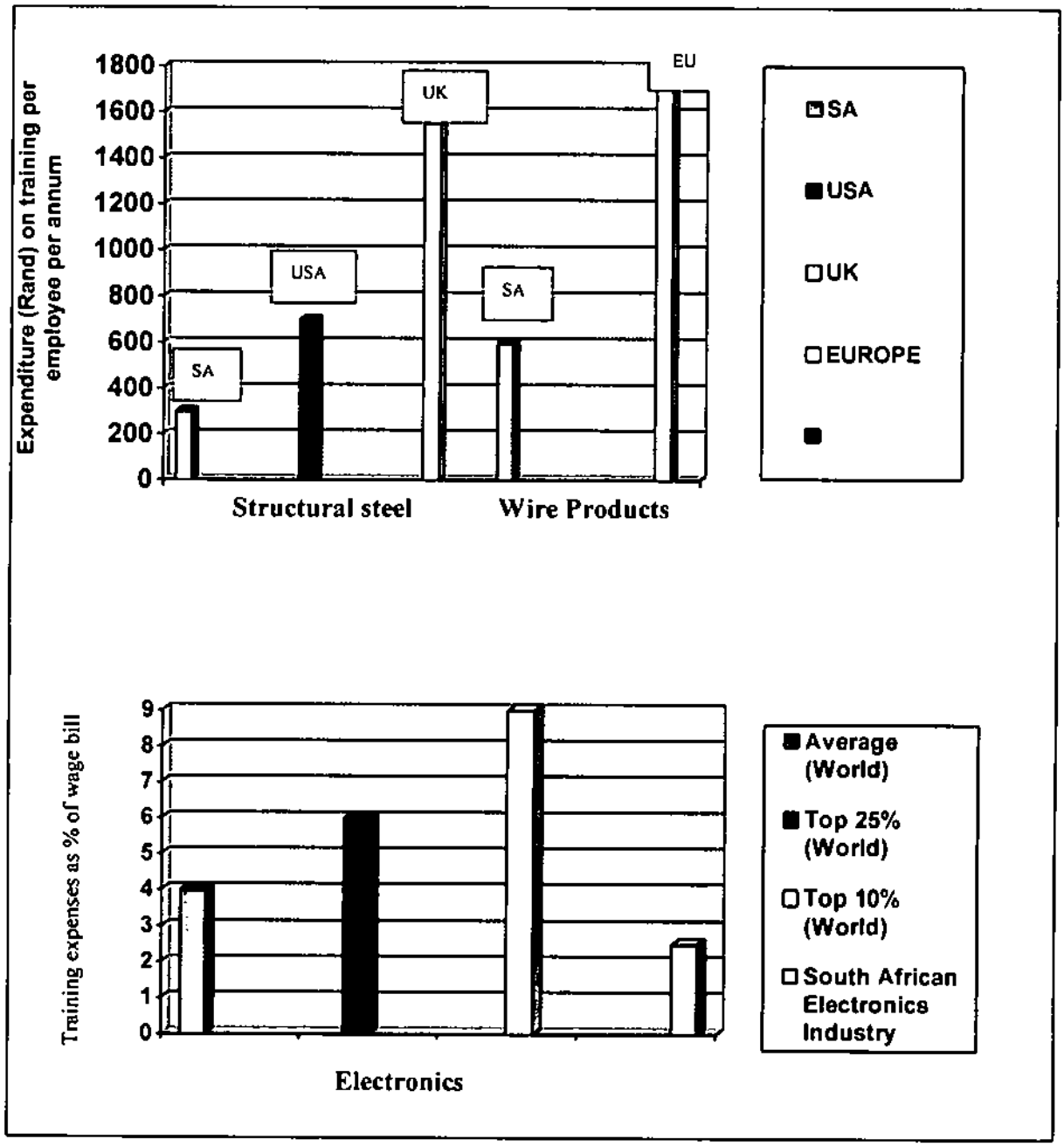
In his fourteen points Deming (1986) mentions as his sixth point, that training must be instituted on the job. Further, in his principles Juran (1988) states that organisations must ensure that all employees are trained to understand their role in quality improvement. He specifically points out that this must include senior management since they are a factor in quality problems. Finally, in his programme of action Crosby (1984) mentions that quality awareness by employees must be established by training supervisors and that supervisor and employee training be undertaken so that all managers understand and are able to explain each step in the Quality Improvement Programme (Flood, 1993:15-25).

Thus, it is clear that training forms part of the common denominator among the principles espoused by these quality pioneers. At this stage it is only appropriate to define what training and development mean in the context of human resources

development. Buckly and Caple (1995:13) define training as the planned and systematic development of knowledge, skills and attitude through learning experience, to achieve effective performance of a given task or job or a range of activities.

How much companies spend on training is one indicator that shows whether the company considers training as a cost or an investment. When it comes to this aspect of investment, many organisations still have much room for improvement. One other problem is that there is a notion that certain people in organisations have risen above any form of training. They view training as something only required by lower level employees, perhaps including lower level managers. This view is not in the interest of the organisation since members of top management also need to receive some form of training from time to time. Figure 3.4 shows the expenditure of the South African organisations on upgrading human resources in comparison to other countries.

Figure 3.4: The expenditure of the South African Organisations on upgrading human resources in comparison to other countries



Source: Kotze & Kotze, 1997:6

SA

One benefit of training that might not be so apparent is spelled out by Kanter (1989:366) when he asserts that training not only helps organisations improve their competitiveness but it also ensures that the labour force remains employable regardless of the fates of particular units of an organisation. This effectively has given rise to such practices as providing lifetime employment opportunities for employees such as the case in Japan with quality circles..

Comparing the difference between training and development, Perrewe and Kackmar (1993:324) argue that training has a narrow focus in that in provides for skills for the current job that benefit the organisation quickly. On the other hand, development has a broader scope in that it focuses on both the current and the future job and that the benefits can only be measured in the long term.

In addition, Anthony, Perrewe and Kackmar (1993:324) refer to the terms training and development as the total structure of the on-the-job and off-the-job programmes used in developing skills and knowledge needed for proficient performance of job and cover advancement.

Differentiating between the concepts of education and training Cullen and Hollingum (1987:70) state that education is about learning of principles and training is about the learning of practice. In more practical terms, education is about what the organisation is doing and why, and training is about what individuals are going to do and how they will do it. It is education that motivates people to put training into practice.

In view of this, it is therefore important that before management can come up with any form of training, they must make it clear to everybody why that particular training is needed. It is only when workers know why they are being trained that they will see the big global picture. In some of the respondents in this study the general level of education of workers is low while The Netherlands has one of the highest educated workforce in the world. As a result, some managers may argue that since some of

the workers are old and without enough formal education, then they cannot be trained. Having done much research in manufacturing companies himself, Gunn (1987:158) states that experience shows that this is not true. He argues that the problem does not lie in retraining the worker but in motivating the worker to undergo this training. Many workers who do not have a great deal of education are very reluctant to go to training classes where their lack of knowledge or ability may be exposed. Thus, it is important to rainforce the worker's self-confidence so he will come to class and participate with his co-workers.

Education and training should start with the top managers and other senior managers and should include the concept of what is meant by quality, how responsibility for quality is carried by everyone; what types of system and structures are needed to ensure product and service quality; what the true cost of quality is to the business; and what tools and techniques are available to improve quality.

Cullen and Hollingum (1987: 71-75) assert that while the detailed content of the education and training programmes will vary, there are common factors in the way such programs are structured and these usually comprise of the following three levels:

- The management level, which gives managers enough understanding of the techniques to exploit them
- The technical level, which gives a detailed understanding to those responsible for using techniques and training others
- The shop-floor level, which gives staff enough understanding to work with the appropriate techniques

Professional instructors can be used to teach the individual quality improvement groups problems-solving skills, but this is expensive and not really desirable. It is much better to keap instructors in the background, giving support and

encouragement to the supervisors only where necessary in developing skills and confidence. (Cullen and Hollingum, 1987:71-75)

Any training and development programme must have as its point of departure some form of needs analysis. In this connection, Gilley and Eggland (1989:198) provide the following four reasons why such an analysis is important.

- *To identify problem areas in the organisation*: management must know whet the problems are, so that the most appropriate training is directed at solving those problems. In this context, the problem would be to make quality in an organisation the order of the day and conscientise everyone in the organisation about the need to become quality minded.

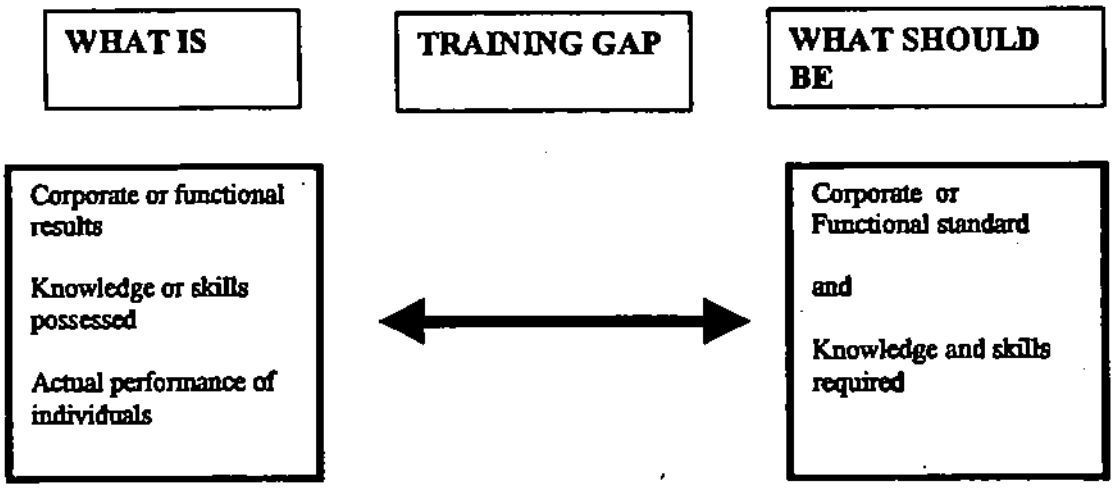
- *To obtain management commitment*: the way to obtain such commitment is to make sure that the proposed training directly affects what happens in the manager department or organization. Line managers in particular must appreciate where the whole principle of TQM fits in with their daily activities. This level of management will naturally play a visible role in the actual implementation of the plan. Once they have the full appreciation of the principle, top management can rest assured of their support and cooperation.

- *To develop data for evaluation*: needs analysis make it easy to evaluate and measure the effectiveness of the training programme when it is completed. Management must come up with instruments which will enable them to measure the success or otherwise of their programmes since this will enable them to make the necessary adjustments and improvements along the way. It must be appreciated by everyone, including top management that in training, no plan is cast in stone. The implementation of TQM training should definitely prove to be a learning curve for everybody.

- *To determine the cost and benefit of training*: if management does a thorough needs – analysis, they are able to put a cost factor on the training needs. As was pointed out earlier, this will prove to be a challenge for management as to whether training in this regard will prove itself to be a cost or an investment. In their projections, management should be able to do rough calculations of cost/ benefit analysis before embarking on such a long-term project. This is a crucial point for managers to keep in mind since there are various other factors that are at play here. For example, the size of the organisation, whether an organisation is labour intensive or capital intensive, the industry, the general level of education of the employees, among others, will all determine the extent to which the business will expend its resources on such training programmes. However, one thing remains clear. At the end of the day the benefits must exceed the costs.

Training needs-analysis aims to define the gap between what is happening and what should happen (Armstrong: 1998:497), and can thus be diagrammatically illustrated as follows:

Figure 3.5: Training needs analysis



Source: Armstrong (1988:497)

Clearly, training and development of employees should be done with TQM in mind. In other words, employees should be developed to be quality conscious and thereby more competitive.

Building an infrastructure that supports Total Quality Management is crucial to the long-term success of the quality system. According to Wesner, Hiatt and Trimble (1995:256) the following are focus areas for building infrastructure:

- Training all associates, first level through top management.
- Reward and incentive programmes to encourage role models and recognize success.
- Associate development.

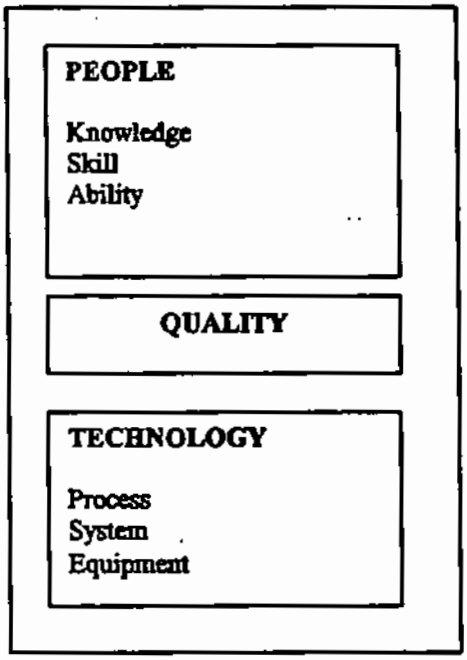
Training can be a powerful influence on people to adapt new ways of managing and improving their work. Wesner *et al* (1995:256) assert that training should cover specific quality programmes as well as the overall quality system. Topics such as effective use of teams, process management, policy deployment, and problem solving are sample topics for training curricula that go beyond the normal skill training in each functional area.

A training programme should create interest in quality for nearly everyone in the organisation. Implementation will be greatly assisted once everyone accepts that following the quality path is a good idea and knows what is to be done, how and by whom. Such an educational program will be sufficiently thorough as to reflect the prior commitment to total quality at the highest level.

The real success of total quality management rests in the company's ability to integrate people with technology - processes, system and equipment. In any business, success still depends on how well people respond to problems and challenges, as well as on the quality of their decisions. Hence, training and development focus should be on the tools and skills necessary to create competitive advantage in the employees. (Capezio and Morehoues, 1995:177). Figure 3.6

illustrates how quality can be at the centre when there is integration of people and technology.

Figure 3.6: Integration of people and technology



Source: Copezio and Morchouse, 1995:177

Once the needs have been determined, it is necessary to set objectives. Needs and objectives are prime factors when determining a subject content for training. In this regard, Kirkpartick (1994:10) believes that objectives should be set for three different aspects of the programme and in the following order:

1. What result is the organisation trying to accomplish?
2. What behaviour does the organisation want supervisors and managers to have in order to accomplish the results?
3. What knowledge, skills, and attitudes does the organisation want its employees to learn?

In the case of the first question an organisation would answer by saying that the result is to improve the company's competitive advantage. Secondly, the

organisation would want its supervisors and managers to be TQM conscious. To answer the third question, Webb (1991:67) suggests the following, among others, to form part of the training programme on TQM:

- What quality is, why it is worth attaining and how it is defined in the organization
- How a total quality system differs form traditional practice
- Why everyone has to be involved and support the new initiative
- How the total-quality program is to proceed

In the same way, Gunn (1987:161) maintains that managers often take a myopic view of what their employees need to know and argues that the broader the understanding that people have of the total aspects of running a business, the greater the benefit to the company. Further, Gunn (1987:161) believes that any good education and training program should address the following set of subjects in some way during the course of training: new product development, leadership, motivation, technology, teamwork, preventive maintenance, planning, quality, project management, innovation and creativity.

One organisation in Tilburg which is a leading supplier of fasteners pointed out that one of the most important and easiest habits to instill in an organisation is that of reading business journals that are related to the organisation's activities. On manufacturing alone, there is a wealth of information in circulation to which such organisations could subscribe. From time to time there are trade shows (such as a cut-flower show in Alsmeer, Netherlands) and seminars locally or overseas where representatives from an organisation could have contact with their counterparts both from locally and overseas. Seminars and conferences play an important part of networking with the right people in the same industry or even other industries for that matter. Services of consultants may also be used as a form of education and training. Further, organisations may even book their workers on certain specialised courses that are offered at a local business school or university.

Over and above the job-related training that is generally needed, an organisation that is geared to quality, flexibility and commitment to the customer will see the need to empower their employees with non-technical skills as well. These should include the ability to display independence, responsibility, problem-solving and communication skills – skills which, traditionally, have not been upheld in the iron and steel industry.

In conclusion, if managers are convinced that their management approach should be geared toward performance improvement, they should consider the following as proposed by Roffino (1999:76):

- Make sure that there is commitment at the top.
- Commit resources to implementing improvement strategies
- Make sure there is a top-level steering committee spearheading the effort
- Be sure there is a clear sense of direction with goals and objectives
- Set up a rewards and recognition programme to show support for the concept
- Recognise that customer needs should drive change within the organisation
- be sure to celebrate small successes

From the above discussion on training, it is evident that much responsibility rests on organisations to ensure that the type of human resources that they have is that which will produce results that they want. Organisations will have to train, develop and continuously improve individuals and teams in order to perform at the level that will be necessary for not only creating but also sustaining their competitive advantages.

In the final analysis, training covering all categories of employees is the only way of ensuring a high level of education and experience in the workforce in times of rapid technological change, high quality standards and growing flexibility demands. If organisations that are in the iron and steel industry want to attract more young and well qualified people, they will have to make an effort to modernise their way of doing business that shows commitment to continuous improvement.

Thus training and development are becoming a key aspect of organisational wealth. To realise their full potential, organisations need to reconsider how they do things and what they can do to redefine themselves, where necessary. It is only then that managers will be able to help their companies create the human capital necessary for high performance.

There is however another way in which organisations can learn from those that excel in certain areas that might be of concern to the organisation. This process is called benchmarking and is discussed in the next section.

3.6 BENCHMARKING PROCESS

Organisations that want to improve their competitiveness and thus their competitive advantages need to be aware of some ideas, benchmarks and information that will enable them to asses their strengths and possible weaknesses. Such organisations recognise that they do not conduct their business in a vacuum. Rather, they appreciate that they are part of an industry and part of competition. Even though they want to become very competitive and striving to be effective in their operations by applying management techniques such as TQM, they are humble enough to recognise the need for benchmarking.

Such organisations recognise that there are stendards that are set by the industry, institutes to which they may be required to affiliate, or even the market itself. Managers in those companies are always interested in knowing how they are doing in terms of those standards, particularly those set by the market or competition. Put differently, they want to judge their performance against the benchmarks set by the market or competition. Thus, simply put, benchmarks are standards against which to gauge oneself.

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For many organisations, continuous improvement has not necessarily led to the expected benefits. As such, they spend valuable time and resources improving areas in their business that are not so profitable without gaining a measurably better competitive position. They need a solution that will enable them to have a careful examination of what it means to be truly excellent in any activity. Benchmarking is that solution. Organisations that aspire to world-class status today cannot achieve it without benchmarking. Benchmarking is an effective TQM approach for guiding the improvement process by determining the most important things to improve and the best approaches for doing so. Comparing a few definitions of benchmarking is possibly the best way to have a more general picture of what benchmarking really is. (Cook, 1995)

Cook (1995) defines benchmarking as the process of identifying, understanding and adapting outstanding practices from within the same organisation or from other businesses to help improve performance while Anderson and Pettersen (1996:4) themselves define it as the process of continuously measuring and comparing one's business processes against comparable processes in leading companies that will help the company in question to identify and implement improvements. Furthermore, Camp (1989:12) who is the most recognised proponent of this discipline and a long standing authority on the subject defines it as finding and implementing best practices.

Various definitions of benchmarking share the following several common elements which recognise that benchmarking:

- Is not an event but a process
- Involves measurement, comparison, and evaluation of both results and processes
- Is about the best practices
- Strives to achieve performance improvements and thus the organisation's competitive advantage
- Is best utilised on an ongoing basis

Gift (1996:246) identifies the following four types of benchmarks:

- *Internal*: Generally speaking, in organisations some departments will be better managed than others for various reasons including more effective communication and systems of control. In such a case it may be good for other departments to learn, to the extent that they can be benefited from a better managed department. This study has found that majority of respondents in the VTMA (75 percent, see table 5.7) apply this type of benchmarking.

  An organisation looks within, often to other divisions or even branches for ideas for improvements. Typically the focus is on operational matters and the fastest and lowest cost of the five. It is the easiest one to handle since both sides that exchange information are under the same roof. It has the greatest degree of transferability of information since all participants speak the same language and understand the same measurement systems. It has the lowest level of risk and correspondingly the lowest level of expected benefits. (McGonagle and Fleming, 1998:38)

- *Competitive*: This involves comparing the performance of one function with the performance of the same function by direct competitors in the marketplace. An example in the context of this study would be comparing smeltering or milling operations of various organisations within the same iron and steel industry. Encouragingly, 64 percent (see table 5.7) of the respondents in the VTMA apply this type of benchmarking.

  Specifically, this is a competitor-to-competitor comparison, typically stressing a key product or process. Its management is fairly difficult since it depends on the degree to which competitors are willing and able to cooperate. With this type, management must first admit that competition may, in fact, be doing better. (McGonagle and Fleming, 1998:38)

- *Functional*: This involves examining methods of organisations with similar processes across different industries. An example of functional benchmarking in the context of this study would be studying the purchasing system of printing, car assembly and packaging firms, among others.

- *Collaborative*: This involves conducting a benchmarking study through a voluntary network of metal producing organisations in two phases – first among members of the collaborative, and then with the external benchmarking partners. An example of collaborative benchmarking in the context of this study would be for instance, all flat steel producing organisations jointly studying best practices in the production of flat steel. In this example the group would first study its members' own practices, determining which ones represented best internal practices, and then identifying best external practices that group members could incorporate into their own processes.

Furthermore, McGonagle and Fleming (1998:38) identify the following three other types of benchmarking that are emerging:

- *Shadow*: In this case, competitor-to-competitor comparisons are made with the partner unaware that they have a shadow. This type is more expensive than competitive benchmarking but is more valuable as a continuous process. The shadowed partner is a direct or potentially direct competitor who may first need to be identified if an organisation is planning to enter a new geographic market. Information is gained through gathering competitive intelligence from a wide range of sources. There is no real partner in the sense of an information exchange. As the partnership is a shadow one and information comes to an organisation unidirectionally, the benefits can enable an organisation to use the shadowing intellegence to reposition its own processes to competitive advantage, or to prepare for entry into a new market without alerting competitors.

The risks are somewhat greater than with competitive benchmarking, as the data collection is direct, increasing the probability of incomplete data collection.

- *Industrial*: A comparison with similar functions within the same industry, often but not always against industry leaders. (This is very similar to functional benchmarking)

- *Transnational*: The comparison of specific processes that are the same, regardless of industry such as handling order entry, preparing marketing proposals and managing telephone sales systems. The comparisons are typically made outside of the organisation's industry, preferably against organisations that are world-class for that process. In this connection, O'Sullivan and Richard (2000:71) state that while they are not suggesting that there is nothing new under the sun, what they do suggest, however, is that organisations look beyond the traditional best-in-class benchmarking candidates in their industry – to other seemingly unrelated industries – for guidance.

Each type of benchmarking serves a different purpose and whether the company applies one or the other really depends on a number of factors. For example, the stage of growth and development of an organisation is an important factor. Other factors include the size of the organisation, the industry, the amount of knowledge and experience of the management, among others.

This study covers different sizes of enterprises and the level of exposure in various organisations differ. Organisations that have never been exposed to benchmarking as a training and education exercise with a large number of relatively autonomous but similar operations should begin with the internal benchmarking. For those that have some experience with benchmarking, particularly in an industry with a variety of competitors competitive benchmarking may be a better option. Where an organisation is considering entering a new geographic market where a strong

competitor is already established shadow benchmarking might be appropriate. It is generally bigger organisations that benefit from industrial benchmarking since they have the resources to allocate to the process and transnational is for those with significant experience in benchmarking.

In view of this, most organisations in the VTMA (and of course respondents) would need to explore internal and competitive benchmarking while a few of them could opt for shadow benchmarking.

It must be pointed out, though, that managers need to be careful that they do not go out in search of quick solutions before they understand where they are and what problems they face as an organisation and an industry. Chazanof (1998:13) argues that defining the high-cost component of an organisation is the key to strategically making the changes that will have the most positive financial impact on the business. This brings us to an important section in which the steps in the benchmarking process are considered.

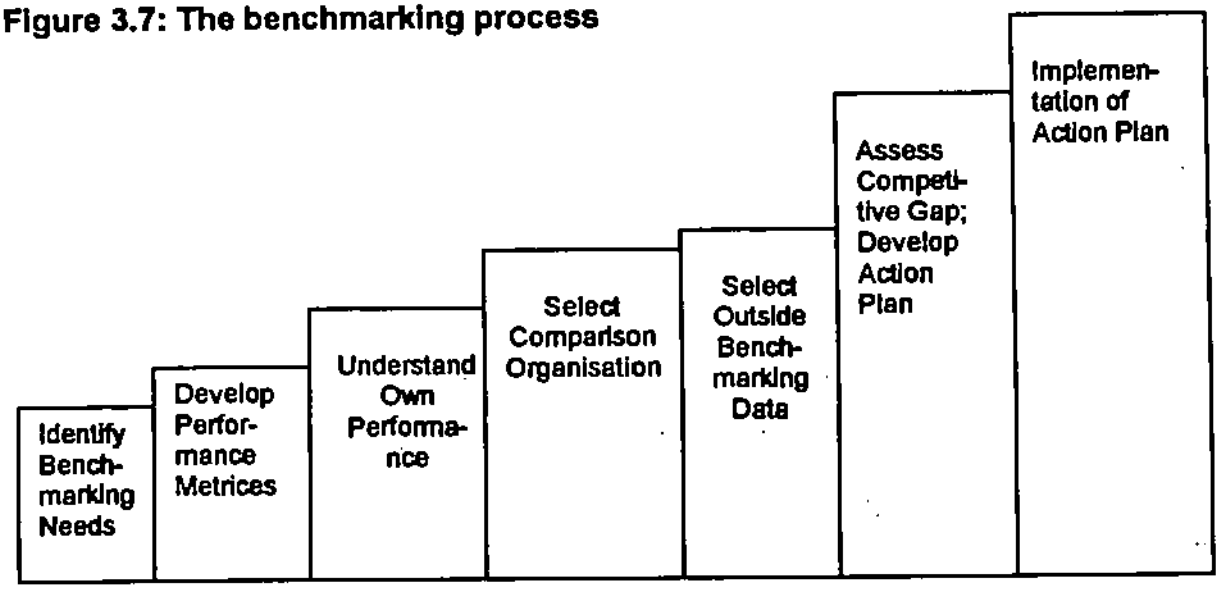
3.7 STEPS IN THE BENCHMARKING PROCESS

Benchmarking typically involves the following five stages:

- Identify an activity within the organisation where there seems to be potential for improvement
- Identify an organisation, not necessarily a competitor, that is a world leader in this activity
- Undertake performance comparisons with the benchmarked organisation through exchange of performance data
- Analyse the reason for performance differentials. This is likely to require visits to the benchmarked organisation, discussions with managers and workers, and analysis of how the activity is organised and conducted
- Use the findings to redefine goals, redesign processes, and change expectations regarding one's own functions and activities (Farmer and Tietz, 1999:66)

Figure 3.7 shows the benchmarking process.

Figure 3.7: The benchmarking process



Source: Adapted from Bengert and Rooney (1998:98)

Figure 3.7 shows that the first step in the process involves the identification of needs. This is crucial since this process can be very costly and time-consuming to the organisation. The idea is to benchmark those areas that will contribute to the competitive advantage of the organisation. Identifying an organisation that is a world leader in a specific area can prove to be quite a challenge to management especially in areas that are outside their industry. Some of the ways of doing this are by reading the technical journals of those particular areas, using the Internet and of course making use of consultants as well.

On this note, Gift (1996:246) strongly proposes that an organisation should appoint a team to conduct the benchmarking effort and that this team be charged with developing a detailed work plan for the project. The work plan includes steps to ensure a thorough understanding of current performance, a discovery of best practices that relate to demonstrated performance in other companies as well as plans to adapt those practices into the company's operations. Gift (1996:246) further

suggests that individuals with an intimate knowledge of the current process and performance comprise the benchmarking team and that the team includes members with well-defined roles.

The benchmarking team leader guides the whole process and ensures that it comes to completion. A facilitator trained in benchmarking techniques who serves the team as the expert in methodology must also be appointed. In addition to assisting the team with the effort under way, the facilitator teaches other members benchmarking skills.

Since benchmarking is about standards, there should be some form of indicators in place to monitor if the process is successful or not. Therefore, indicators and some other forms of meausurements must be developed, in cases where they are not available because the idea is that before an organisation can begin to compare itself to others it must first know its own performance. Equally important is to have a full understanding of the existing business processes used to achieve the results. Analysing performance gaps is extremely important since this is the point where the organisation must formulate e strategy and corrective action plan in order to achieve its goals. It is also at this point that the organisation's ability to effect change is challenged. The finel step is important because if the findings and change are not implemented then the whole expensive and time-consuming exercise would have been in vain.

The benchmarking team that was formed in the beginning of the exercise and was active throughout the entire effort should be the one that drives the implementation process.

It is good for managers who want to implement this process to always keep in mind that by implementing benchmarking, they have the advantage of learning from those who have gone before them since problems are not unique. By studying others, a business can develop an effective work process and solve common problems more quickly than on their own.

It is important that when applying benchmarking benchmarking, organisations should know exactly what they are looking for and where this fits into its overall strategy. Although benchmarking is about learning from the best in the industry or outside of the industry, organisations will want to be realistic and practical in their approach and judgement. It makes more sense for organisations to benchmark from those with similar needs but from which they can learn a particular aspect that will make them a better organisation. Otherwise, benchmarking will amount to a mere plant visit or excursions if there is a world of difference between the two organisations in question.

Since this study was also based in the VTMA, it recognises the level at which many organisations conduct their businesses as opposed to their counterparts in developed countries such as the Netherlands where part of this study was made. Thus, on a practical level such organisations in the VTMA could find other organisations within the country or even outside with common concerns since this will allow for a more productive exchange of information. However, this should not prevent them from knowing and keeping track of who the best is in their respective industries.

Benchmarking is about adapting rather than adopting systems and processes since conditions and circumstances are never the same for any two or more given organisations. With this in mind, Reinertsen (1999:33) argues that a company cannot optimise its product development process by finding isolated practices that appear to work well in other organisations. Reinertsen (1999:33) likens that to designing a car by finding the best engine, the best wheels, and the best transmission, and combining them. He says the result will be a car that probably works but one that does not work as well as a car that is engineered as a system. In the same way, development processes must be engineered as systems too. Reinertsen (1999:33) concludes that organisations need to spend more time designing systems and less time collecting interesting components. Thus,

benchmarking is not just a set of disjointed practices that were successful in different environments.

Managers need to bear in mind that benchmarking is not an end in itself, but a means to an end. Since benchmarking can be a very sensitive exercise on the part of organisations, the question of where organisations begin and where they end is a pertinent one since to a large extent this determines the limits to which organisations may go as they share information and as the cooperate with one another. The following section of this study is devoted to that very question.

3.8 THE BENCHMARKING CODE OF CONDUCT

One indication of the development of a professional body of knowledge is an accepted standard or code of practice. Being such a sensitive exercise, there is no doubt that some code of conduct is needed in order to regulate the limits of this process. Fortunately for the organisations there is such a code in place. It is called the benchmarking code of conduct. This code of conduct presents a good definition of the collaborative efforts that mark the behavioral interaction between organisations that benchmark. Adherence to the principles contained in the code will contribute to efficient, effective and ethical benchmarking.

Watson (1993:50-54) outlines the following nine principles within the benchmarking code of conduct:

- *Principle of legality*: Essentially, this principles deals with refraining from any discussion or actions that may imply a restraint of trade, market and customer allocation schemes, or disclosure of proprietary information. Further, organisations may not extend one benchmarking study's findings to another organisation without first obtaining the permission of the parties to the first study. The bottom line is, if there is any potential question on the legality of an activity, then the activity should not be done.

- *Principle of Exchange*: The golden rule applies here. An organisation should never ask for any type of information that it would not be willing itself to share with another. Thus the benchmarking partners must fully communicate and clarify any expectations, avoid any misunderstandings and establish mutual interest in the benchmarking exchange.

- *Principle of Confidentiality*: Organisations should treat information gained from benchmarking as confidential as possible and where such information has to be communicated to the outside party prior consent of the other benchmarking party must be obtained.

- *Principle of Use*: The information gained from the benchmarking exercise must be used for the sole purpose of improving operational processes within the organisation and not for anything else such as advertising, marketing or sales.

- *Principle of First-Party Contact*: Organisations should obtain mutual agreement with the designated benchmarking contact on any communication or responsibility to other parties.

- *Principle of Third Part Contact*: Partners should avoid communicating a contact's name in an open forum without the contact's prior permission.

- *Principle of Preparation*: Companies should demonstrate commitment to the efficiency and effectiveness of benchmarking by being prepared prior to making an initial benchmarking contact. This also includes providing benchmarking partners with a questionnaire and agenda prior to benchmarking visits.

- *Principle of Completion*: Organisations should strive to complete each benchmarking study to the satisfaction of all benchmarking partners as mutually agreed.

- *Principle of Understanding and Action*: It is good for an organisation to understand from the beginning how the partner would like to be treated and how the partner would like to have the information handled or used.

From the above discussion on benchmarking, it has been clarified that this exercise is an important one if companies want to continuously improve in their operetions. When companies embark on this exercise, commitment from leadership cannot be overemphasized. Focus on customers and processes learned with continuous quality improvement serves as a foundation on which to build successful benchmarking. Also of importance is that an organisation must identify its key processes before embarking on this project.

However, the processes of TQM and benchmarking must be undertaken and implemented with the organisation's culture in mind since this will enable the findings from benchmarking to be introduced into a receptive environment.

3.9 ADAPTING PRACTICES TO THE CULTURE OF THE ORGANISATION

Implementing TQM and benchmarking requires a change of some existing and well-established values in an organisation. To e degree, this involves looking at the existing organisational culture and where possible to try to influence those beliefs and values that may stand as e block to the introduction and acceptance of the philosophy of TQM and the principle of benchmarking. In other words, it would be a course of wisdom for en organisation to put its house in order before introducing TQM and best practice.

Since different economies have different cultures, managers would want to take those into cognisance as well. By understanding the variations in culture in different economies, there can be no general and universally accepted way to implement quality management in every situation. Integrating quality practice into existing organisational culture requires education, training and even awareness programmes. Where there is a need to transform culture, such a transformation must take the cultural needs of workers into account. (Madu, 1997)

Cultural transformation should also link quality of working life to quality of life and that if the quality of working life is low, ultimately, quality of life will be low because of low productivity. (Madu, 1997:4)

In trying to understand the different cultures, it is important to know how to harness each of the different cultural attributes to improve on quality. In some cultures, as in many developing countries, the communal style of living is important. This is true of black South Africans who in any case are the majority of workers in many manufacturing firms. This attribute will, in fact, be supportive of teams that are suggested as an integral element of quality programmes. Even though this supports the formation of teams, the running and operation of such teams may be hampered by other cultural attributes. For example, in many of the African countries including South Africa, often there is a hierarchy of authority that more often than not is based on seniority on the basis of age. This often transfers to the workplace where elders are often seen as role models in the society and is often disrespectful to challenge their thoughts.

Therefore, when teams are formed there is a possibility that the views expressed and widely supported will be those of the older ones thus subordinating and even suppressing those of the younger members of the team. This is a cultural problem that inevitably affects the thinking of the organisation.

Once again, education and training as well as awareness programmes are invaluable in getting the members of the organisation to appreciate that teams are there to improve work processes for all and that accepting views from younger members of the team does not mean disregard for authority and respect.

In such cultures, seniority on the basis of age affects every avenue of life. It is therefore imperative for managers themselves to understand these differences and develop strategies that will enable smooth adaptation of quality programmes. When managers want to transform existing organisational culture, they need to do it

together with or in consultation with employees for the former to avoid resistance from the latter.

It would be a mistake to adopt quality practices that have worked in other cultures without exploring the differences. Quality programmes as well as benchmarking findings cannot be successfully implemented when workers are denied the basic opportunity to participate in their work or are denied the necessary tools to do their work properly.

3.10 CONCLUDING REMARKS

It is good for managers to appreciate that continuous improvement in the operational effectiveness of their business is an imperative if they are to survive the hostile competition that faces many companies today. Two main areas were stresses that would enable managers to make their business operationally effective and thus more competitive. Those are Total Quality Management and continuous and effective benchmarking.

The importance of top management commitment, proper training and everyone's involvement and participation for the successful implementation of TQM was stressed in this chapter. It is also important for managers to be sure to benchmark those areas that will contribute to their competitiveness.

Faced with the relentless forces of globalisation, many organisations are overwhelmed and thus, slowly but surely, begin to feel unsettled. This has caused some companies to lose the grip on the markets over which they previously had control. The following chapter discusses this subject of globalisation and more importantly shows how organisations can create and sustain their competitive advantages amid these unsettling forces.

CHAPTER 4

GLOBALISATION AND COMPETITIVENESS

4.1 INTRODUCTION

In the previous chapter, the effect of improved operational effectiveness on the firms' competitiveness was clearly seen. This chapter looks at how organisations can take advantage of the forces of globalisation – which affects virtually all kinds of business - to improve their competitiveness. Particular attention is drawn to ways in which managers themselves can develop a global mindset.

Awake! (1999:20) defines globalisation as a shift from district national economies to a global economy while Weisbrot (2000:1) defines it in simple terms as an increase in international trade and investment. In today's so-called global village, the production of goods has been internationalized and money flows freely and instantly across borders. It is virtually trade without borders.

Globalisation can be conceptualised as a situation where political borders become increasingly more irrelevant, economic interdependencies are heightened, and national differences due to dissimilarities in societal cultures are central issues of business. (Kedia and Mukherji, 1999:232) This is true for a number of parts in the world such as in European countries like The Netherlands, Belgium, Luxembourg and Germany.

The past decade in particular has seen a rise in the number and strengthening of trading blocs, as economies seek to integrate their economies more closely in order to open new markets for their organisations and lower prices for their consumers. (Griffin and Pustay, 1996:242) Examples of such trading blocs include Southern Africa Development Community (SADC), the European Union (EU), the Pacific Rim, the ANDEAN pact and MERCOSUR, among many others.

Globalisation is both a cause and result of the modern information revolution. It is driven by dramatic improvements in telecommunications, incredible increase in

computing power, and the development of information networks such as the Internet. These technologies are helping to overcome the barriers of physical distance.

For many developing countries like South Africa the principle of globalisation has been a sensitive one. As a result it has been received with mixed feelings. On the one hand, proponents of globalisation believe that it can be a whirlwind of trade and investment that builds economies and spurs development in developing countries. Globalisation is perceived as bringing unprecedented opportunities to billions of people. The expansion of world trade has induced a wave of productivity and efficiency and has created new jobs. (Awake, 1999:20)

On the other hand, its critics argue that globalisation can also bring down economies overnight. Many point out that globalisation has made life more difficult for large segments of human society and that it threatens to leave part of the world behind. Further, they state that economies that appeared healthy one moment have become seriously ill the next – apparently not because of any shock from abroad. (Awake, 1999:21)

What is clear, though is that the forces of globalisation seem to be irreversible. It would be advisable that instead of resisting these forces which are so pervasive, organisations and their management learn how to manage them and thus ensure that their businesses benefit from the process of globalisation. Be thet as it may, the debate between the advocates and opponents of globalisation continues.

4.2 THE GLOBALISATION DEBATE CONTINUES

The great debate over economic globalisation has moved into a new, more constructive phase. No longer is the main focus on the sterile question of whether the global economy is good or bad, most people now accept that it is here to stay. The topic now at the center of discussion when economists and politicians gather together to debate the issue is much more interesting. It covers areas such as the form that globalisation should take, its economic rules and its political guidelines and constraints. Many of those who have spoken out against

the risk of a global economy in the often abrasive arguments now recognize that it is fruitless to talk of turning globalisation back or finding some kind of alternative. On the other hand, promoters of globalisation have also changed, increasingly conceding that a global economy will not automatically lead to rising prosperity for everyone. More intelligent critics of globalisation, rather than simply denouncing it, are increasingly seeking to shape its future economic and political direction. (Sultana, 1999:1)

Some of the doubters of globalisation keep wondering whether globalisation is a newfound weapon that the developed countries want to use to carry out their insidious political mission of re- colonizing the developing world or a case of widening the gaps between the developed, and developing countries. In this regard, Hai (2000:1) feels that it would be a fatal mistake to ignore the fact that the application of technologies as a result of globalisation can create equal if not greater wealth for a nation. Hai(2000:1) goes on to state that a better approach would be to let politicians manage and control the ills of digital technology while providing incentives to the business community.

The discussion on the debate over globalisation cannot be complete without mentioning the fiasco at the World Trade Organization (WTO) summit held on 30th November 1999 in Seattle, U.S.A. As many as 100 000 demonstrators marched through Seattle, protesting at the launch of a new round of trade-liberalising talks. As the intensity of different nations and groups diverged and no meaningful reconciliatory measures were put to bring the summit to a concluding point, hopes for further trade liberalisation and globalisation were dashed.

Mural (1999:2) argues that if all the nations are to be integrated in the globalisation process, many things have to be done, especially for the poorer nations that face tremendous problems in terms of both technology and industrial development, so that they may be in a position to compete with the industrially advanced nations, purging themselves of the fear that their interests can be endangered by being integrated into the globalisation process. Mural (1999:2) goes on to say that technology transfer and easier flows of capital to the Third World countries from the West are a must because to reap gains or success from

the international integration a nation has to have a comparative advantage in some of the fields of international trade, though not necessarily in all fields.

4.3 GLOBALISATION AND DEVELOPING COUNTRIES

The developing as well as the least developed countries are repeatedly assured by the advocates of economic liberalisation that they too would benefit from the free flow of capital and commodities. They are told that the increased economic opportunities that come their way as a reward for lifting trade barriers will lead to foreign direct investments, creation of more jobs and increased access to goods and services. But many countries, particularly the small and the least developed areas, have now begun to doubt if the promised gains of globalisation would pass them over. In spite of this, the transition to a globalised economy has started. (Sultana,1999:1)

In the World Economic Forum (WEF) at the Annual Meeting at Davos, Switzerland, Wang Darohan the Senior Adviser of the Foundation for International Strategic Studies, People's Republic of China, spoke at great length on his topic "Economic Globalisation", this he said, is an objective process in today's world and a new historical period of economic socialisation and internationalisation under modern high-tech conditions. (Sultena, 1999:2)

Pressures being brought about by globalisation of the world economy are posing formidable problems to national policy makers and domestic and other economic sectors in developing counties. But the process is unstoppable. As the major creators of new technologies, it is the multinational enterprises that, as engines of world economic growth, drive the globalisation process. (Sultana, 1999:1)

It is clear that globalisation is a force to be reckoned with. What is important on the part of managers is to know how to manage and deal with the process and to see where their organisations stand or fit in within the whole picture. However, before turning the attention to management teams, it would be advisable to see what authorities can do to ensure that the process of globalisation benefits all.

4.4 ENSURING THAT GLOBALISATION BENEFITS ALL

The greater interdependence among nations that comes with globalisation highlights the need for the application of partnership principles in efforts to bring about an international financial system that is relevant for all countries, a system that will allow all economies, both large and small, to participate in the globalisation process without rendering themselves vulnerable to the risks associated with financial flows.

The collaborative efforts incorporating the views of countries with diverse backgrounds together with private sector involvement will enhance the prospects for a comprehensive system that would secure greater stability and sustainability.

The question is, 'What plans have the government, people and numerous sub-regional economic groupings in Africa, which constitutes the greatest number of the less developed countries (LDCs) in the world, to cushion the adverse effects of globalisation, and at the same time assure the citizens of a brighter future in this new economic era?' (Anyanwu, 2000:2)

In answering that question, Anyanwu (2000:2) believes that in the first place, there is a need for the LCDs to prepare themselves adequately for this global economic competition. Individual developing countries should have a particular commodity or services it could offer to the global market. Anyanwu (2000:2) goes on to say that developing countries should take programmes on human resources development and utilisation serious because this cross-border trade and investment simply means that job creating capital flows where it can be most productive and not where government and workers think it should go.

Also, good governance should be given a chance so as to forestall civil strife and other socio-political problems that are unwholesome to a stable economic growth and development. In order to participate and benefit adequately from globalisation, developing countries, especially those in Africa must cooperate in the areas such as trade, investment, finance, science and technology, production systems and poverty alleviation.

In the same way, Ibe (2000:3) argues that in the face of the unrestrained phenomenon of globalisation, developing countries must expedite action on cooperation and integration, embark on massive development of their human resources and insist on the increase of official development assistance from the rich nations. He concludes that it is by so doing that developing countries can indeed benefit from the sweeping trend of globalisation.

Among regional and other grouping of countries, partnerships can be forged through collaboration and co-operation in terms of information sharing, development of a common stand and global and regional issues, investment and the mobilisation of financial resources. (Anon, 1999:1).

Collaborations between large and small businesses hold the key to enhance productivity, innovation and competitiveness, and to evolve a shared vision for promoting economic growth and development.

The concept and principles of partnerships can also be applied to strengthen economic fundamentals of a country and sustain as well as to accelerate the economic recovery. Each country needs to take its particular circumstances into account to manage the crisis that might result from globalising. In this connection Anon (1999:1-2) has the following suggestions:

- Too early liberalisation without the necessary preconditions and institutional framework could render countries vulnerable to external shocks. Countries therefore need to be given the opportunity to dictate the pace of globalisation in line with the ability to absorb its implications.

- Through partnerships, an international consensus can be built on the issue concerning the social economic implications of globalisation. This can be achieved through a more humanised approach to globalisation.

- Early recognition of the potential emerging problems by all parties concerned will contain the extent of a crisis and its costs.

- Priority should be accorded to safeguard the socio-economic agenda to minimise the impact on the poor and most vulnerable segments of society.

- Partnerships between governments and the private sector can play a catalytic role in promoting economic development and accelerating the recovery process.

- In view of the importance of small – and medium –sized enterprises, efforts need to be directed to strengthen the development of Small, Micro and Medium enterprises (SMMEs). SMMEs tend to be more flexible and adaptive to change, and thus more resilient and can provide a significant contribution to growth and employment.

The above mentioned suggestions indicate that the process of globalisation is something to be handled cautiously and responsibly by authorities, including South Africa. However, Monstafine (1999:126) believes that the challenge is to ensure that the benefits are shared, the negatives minimized and the forces of globalisation be harnessed for the benefit of the region, the country and for the individuals. Monstafine (1999:126) further goes on to say that the process be shaped by human values and ethics and the development of strong governance.

It is imperative for the government to provide equitable access to education and skills- development since education is a fundamental key to wealth creation and competitiveness in the global information economy. Also, the government should ensure access and equity for the small and medium enterprises (SMEs) to compete in the global economy through e-commence, information technology (IT) as well as finance.

What has been provided so far is the background information on the process of globalisation. It is imperative for managers to have a much broader understanding of this concept and process before they can even decide whether to globalise their activities or not. Whether to go global or not is a crucial question to top management of any organisation and is something that must be approached cautiously and intelligently. Managers need to understand the nuances of this process so as to know how to strategise for success.

It must be appreciated that this process is driven by big multinational enterprises that are competing intensely to stay market leaders by finely balancing the price, quality and service to their customers. These enterprises lead change, set standards and continually raise their standards.

It must be stressed that companies do not have to be big to be global. Many entrepreneurs have created business that are not big but that take advantage of global manufacturing bases and marketers. These enterprises come from all sorts of sectors and sizes but have common features in that they are innovative, lean and flexible.

As a matter of fact, majority of organisations in the VTMA fall under the category of SMMEs and some of them already participate in international trade in one form or another and those that are not involved in international business yet have indicated that they can see themselves doing so as the following figure shows:

Table 4.1: Export information

VARIABLE	PERCENTAGE
INVOLVED IN EXPORTS?	
Yes	33
No	67
PLAN TO ENTER THE EXPORT MARKET?	
Yes	58
No	42

Source: Own research

Since it is evident that the process of globalisation is here to stay, it is imperative that managers know how to go about if they want to go global, the challenges that they will face, what attitude they need to cultivate and how they should

prepare their employees for such a change. These and other aspects are discussed in the following sections.

4.5 STEPS TOWARD GLOBALISATION

Before an organisation decides to expand internationally it must first obtain the firm commitment of the top management and its board of directors. Next, it must decide if it has the proper financial, production, marketing, sales and human resources capability to proceed with the decision to expand internationally. Managers should never view going global as some quick fix solution. They must analyse their current financial statements, then analyse the strengths and weaknesses of the activities so as to keep their core business in speed. (Thompson, 1998:27) Furthermore, the organisation should identify how they want to start to do business internationally.

To begin the process of globalisation Pearce and Robinson (1997:109-110) advise that organisations take the following steps:

- *Scan the global situation* - Scanning includes reading journals and patent reports and checking other printed sources - as well as meeting people at scientific - technical conferences and in-house seminars.

- *Make connections with academic and research organisations* - organisationss active in overseas research and development often pursue work-related projects with foreign academics and sometimes enter into consulting agreements with them.

- *Increase the organisation's global visibility* - Common methods that organisations use to attract global attention include participating in trade fairs, circulating brochures on their products and inventions, and hiring technology acquisition consultants.

- *Undertake cooperative research projects* - Some organisations engage in joint research projects with foreign organisations to broaden their contacts, reduce expenses, diminish the risk for each partner, or forestall the entry of competitors into their markets.

In a similar vein, external and internal assessments may be conducted before a company enters global markets. External assessment involves careful examination of critical features of the global environment, particular attention being paid to the status of the host nations in such areas as economics progress, political control and nationalism. Gauges of economic progress include expansion of industrial facilities, favourable balance of payments and improvements in technological capabilities whereas political status can be gauged by the country's power in and impart on global affairs. (Pearce and Robinson, 1997)

Internal assessment involves identification of the basic strengths of an organisation. These strengths are particularly important in global operations, because they are often the characteristics of an organisation that is valued and thus, offer significant bargaining leverage. The organisation's strengths and global capabilities must be analysed. The resources that should be analysed include, in particular, technical and managerial skills, capital, and raw materials. The global capabilities that should be analysed include the organisation's product delivery and financial management systems.

To expand beyond its domestic market, an organisation must modify its corporate mission to include an international component. The corporate mission statement should indicate the role of international markets in the firm's growth, profitability, and survival. It is true that many small and medium sized businesses have no corporate mission statements. Even when they do, they often fail to incorporate a geographic or international dimension. (Douglas and Craig, 1995:83).

Once the organisation has decided to expand internationally it is important that it must be able to articulate clearly its purpose in doing so and the role that these markets are to play in its future development as well as the overall philosophy guiding international operations. Flowing from the mission statement are clear

goals and objectives which, having been established prior to entry into international markets, should provide direction and focus for the firm's entry into such markets. Such goals and objectives should specify *inter alia* the desired level of involvement and the countries with which to do business.

Of particular significance is the extent to which an organisation views international markets as a prime source of future growth and profits, and the rate and aggressiveness with which the companies plan to enter international markets.

It is only natural for an organisation to limit international involvement especially in the initial stage of market entry. This is largely due to lack of familiarity with customer demand and characteristics, the organisational environment trade regulation, tariffs and quotas, as well as cultural and communication differences in foreign markets.

This research shows that commitment of financial resources to planning international market entry and establishing operations in foreign markets is also necessary. Resources need to be allocated to investigate international marketing opportunities, to select which countries to enter and to determine how to enter these markets. Entering into international market without collecting adequate information to assess market potential can result in errors that can be difficulty to rectify.

Another parameter in determining the organisation's strategic position in international market is its core competence. Douglas and Craig (1995:100) define core competence as the specific skills and assets that underlie the organisation distinctive competitive advantage relative to other organisations, and that provide the motor for strategy development.

A well-defined core competence should possess three key characteristics. Firstly, it should provide access to a variety of markets. Secondly, it should provide a contribution to perceived customer benefits and thirdly it should be difficult to imitate. In entering international markets, an organisation needs to assess whether and how its core competence in its domestic market can be effectively

transferred to other countries, and if so, to which countries. (Douglas and Craig, 1995:98-100).

The core competence reflects the organisation's ability to perform certain activities better than its competitors and thus gain a competitive advantage. (Douglas and Craig, 1995:98-100).

Interestingly, Pucik, Tichy and Barnett (1992:2) believe that one of the key characteristics of the best global competitors is an emphasis on the long-term accumulation of competitive advantage. However, they assert that a single competitive advantage, be it low product cost, high quality, or fast delivery, is not sufficient to provide lasting superiority in the global market and that some competitors will always be able to bridge the gap in a relatively short period of time.

The various dimensions of competitive advantage in global organisations have one thing in common. These are all embedded in organisational systems, processes and cultures and they reflect the capacity of a collective of people to think and act in a fashion that transcends the traditional limitations of an ethnocentric framework. To develop and manage a global firm implies developing and managing people who can think, lead and act from a global perspective (Pucik *et al*, 1992:3). There are even more challenges that face any firm that would like to go global. These are discussed in the next section.

4.6 CHALLENGES FACING GLOBAL MARKETERS

Any organisation that ventures in international business is bound to meet up with certain challenges. Management of such organisations must be able to isolate those challenges in order to be able to manage them. The extent of the challenges is related to the extent of the firm's involvement in international business.

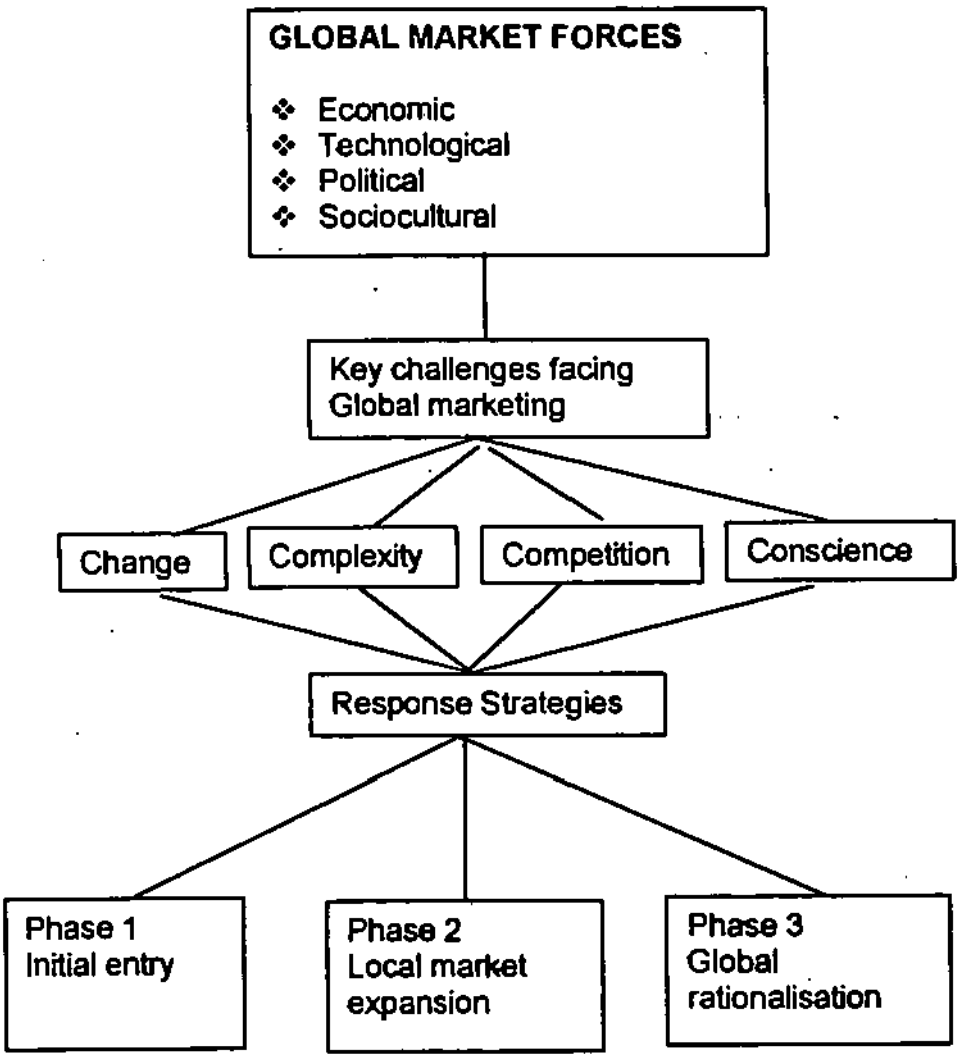
Douglas and Craig (1995:373) identify the following as the key challenges facing global marketers:

- The rapid pace of change in the economic, technological, political and social realities.

- The new complexity created by the interplay of such forces.
- The increasing intensity and speed of competition.
- The social conscience that an organization develops as a results of growing awareness and concern with ethical issues.

Figure 4.1 depicts how these forces interplay with one another .

Figure 4.1: Forces And challenges facing global marketers



Source: Adapted from Douglas and Craig (1995:372)

4.6.1 Change

Technological change rapidly renders product development, production process, and experience obsolete and contributes to escalating investment costs as well as heightened competitive pressures. While the pace of change is accelerating, pushed by the engine of technology and global communication it is becoming increasingly uncertain and unpredictable. A new instability has crept into world markets, threatening at any moment to tilt the precarious balance of economic forces. The case in point for South Africe is the Rand depreciation and the steep hike in interest rates that were caused by the instability in the Asian markets. The effects of such market instability are still felt to date. Moves toward world economic growth, regional integration or the empowerment of Third World nations can without warning be thwarted by pressures to retreat behind the bulwark of economic nationalism.

4.6.2 Complexity

A second challenge arises from the increasingly complexity of managing international operations. As a result of technological advances, management teams must learn to master the tools and skills required to handle the burgeoning international infrastructure. As maintaining close relationships with customers and suppliers becomes increasingly critical in order to compete effectively in global markets, developing organisational networks to sustain these relations is crucial to success.

Sometimes links are established with other organisations, in some cases competitors, to exploit newly emerging opportunities in specific product markets or part of the world. Strategic alliances may be formed with organisations to provide desired geographic market coverage. Market linkage also occurs as customer demand extends across national boundaries. Global markets also develop through mergers, acquisitions and strategic alliances.

4.6.3 Competition

Increasing intensity of competition in global markets constitutes yet another challenge facing companies at all stages of involvement in international markets. As more and more companies venture into global markets, competition proliferates, passing new threats and dangers to be reckoned with. As South Africa has opened up to foreign competition herself, the threat of competition is also on the rise. Companies that previously focused on protected domestic markets are now entering into markets in other countries thus creating new sources of competition. This is evidenced by the privatisation of state-owned enterprises and the opening up of government tenders to foreign companies.

4.6.4 Conscience

The fourth challenge relates to the organisation's moral and social responsibilities in the global market place. Companies have become increasingly aware of the need to take measures to limit destruction to the environment. These include measures to limit pollution of the atmosphere through the emission of gases and other toxic substances. Another area of social responsibility of particular relevance in international markets is concern with customer education and general well-being. This is important in the case of South Africa where the level of illiteracy is still high and consumers are less able to judge the merits of a product or service or even understand how to do it. (Douglas and Craig, 1995:375-378)

Regardless of the level of involvement of organisations in international markets, they are buffeted or benefited by the forces shaping global markets and have to contend with the challenges of change, complexity, competition and conscience in developing effective global strategies. With these challenges that managers have to face in mind, it is a good idea to consider the factors that drive global firms.

4.7 FACTORS THAT DRIVE GLOBAL ORGANISATIONS

There are various factors that drive global enterprises. It is important that management of those enterprises that would like to become global knows and understands these factors. This will enable them to enter the global market ready and prepared so that they are not caught unaware by situations that they did not expect or considered. Further, this will help them in their strategic planning for the environment to which they were previously not exposed. In this connection, Pearce and Robinson (1997: 108) list the following as factors that drive global enterprises:

- *Global Management Team*

For firms to become successful globally, their management team must include foreign nationals who possess global vision and culture. Members of management must be able to travel internationally frequently. Again, they need to have a cross-cultural training.

- *Global Strategy*

When a company goes global it needs to have a global strategy as opposed to independent country strategies. Furthermore, significant cross-country alliance must be developed and country targets must be selected strategically rather than opportunistically.

- *Global Operations and Products*

It would be in the interest of the companies to use common core operating processes worldwide to ensure quality and uniformity. An organisation is more likely to obtain best cost and market advantages if it produces globally.

- *Global Technology and Research & Development*

When global organisations design products they take regional differences into account. Development work must be managed centrally but carried out globally.

- *Global Financing*

Global firms finance globally in order to obtain lower costs and they hedge when necessary to protect currency risk. They also list shares on foreign exchanges.

- *Global Marketing*

In order to succeed as a global marketer, organisations market global products but provide regional discretion if economics of scale are not affected. It is also advantageous to develop global brands and to use core global marketing practices and theme.

Bartlett and Goshal (2000:5-9) distinguish the following motivations for globalisation of enterprises:

Traditional motivations:

- Securing and sourcing supplies
- Expanding markets
- Accessing low-cost factors of production as barriers to trade declined.

Emerging motivations

- Increasing economies of scale
- Increasing investment in research and development
- Shortening product life cycles
- Global environment scanning and learning
- Competitive positioning of the organisation.

Neuland and Hough (1994:4) assert that the process of globalisation is rarely driven by a single motivating factor, and that any of the above motivations alone

is not sufficient for an enterprise to become global. In addition to that, Bartlett and Goshal (2000:5-9) contend that the following two additional conditions must also be met for an enterprise to be regarded as global:

- Having some distinctive strategic competencies to counteract the disadvantage of the organisations relatively unfamiliar with foreign markets.

- Having some organisational capabilities to improve returns by levering its strategic strengths internally, rather than externally through market mechanisms such as licensing of contracts.

Notwithstanding the above motivations and requirements, two distinct forces have enhanced the globalisation trend. These two forces, technological change, and political are illustrated in Table 4.2

Table 4.2: Forces and influences of globalisation

Forces impacting on the world economy	Facilitate and enhance	By means of/through	Resulting in
Being transformed by a combination of technological and political change • **Technological** Improvements in communication and transportation, and the concomitant decrease in space, time and distance .... • **Political** The collapse of communication and worldwide relaxation of government intervention in economic life ...	• **Technological** Reduced barriers to International interchange, leading to greater globalisation of economic and financial system and greater mobility of resource. • **Politically** Increase in globalisation due to removal of institutional barriers t trade, investments a development, resulti in a worldwide triumph fc markets.	Multinational enterprises (MNEs) as principal instruments of globalisation through efficient use of world's resources to meet the needs of competitive international markets effectively development of strategic, operational and managerial network, as well as worldwide coordinating mechanisms.	A new competitive advantage paradigm that comes from increased globalisation and helps to clarify emergent economic differences from early, factor-driven, through investment-driven and innovation-driven, to wealth driven economies.

Source: Adapted from Berry, Conkling & Ray, M.D. 1997

4.8 THE NEED FOR A GLOBAL MINDSET

According to Kefalas and Neuland (1997:5-9) the kind of attribute that enhances exceptional functioning and performance in a global environment could be equated to behavioural attributes like point of view (a position from which something is considered or evaluated), standpoint (a position from which objects or principles are viewed and judged), or philosophy (the most general beliefs, concepts and attitudes of an individual or group). More recently the term mindset has been identified to describe the desired human behavioral attribute.

Interestingly, Rhinesmith (1993:556) defines a mindset as a predisposition to see the world in a particular way that sets boundaries and provides explanations for why things are the way they are, while at the same time establishing guidance for ways in which one should behave. In other words, a mindset is a filter through which one looks at the world. A mindset is a way of being rather than a set of skills. It is an orientation to the world that allows one to see certain things that others do not see. A global mindset means that one can scan the world from a broad perspective that may constitute a threat or an opportunity to achieve one's personal, professional or organisational objectives.

Condensing the above-mentioned definition, Gupta and Govindaranjan (1999:1-3) define a mindset as the cognitive filters through which people, as individuals and organisations observe and make sense of the world. Since people are human they are selective in what they observe and biased in how they interpret what they observe.

From the above definitions, Neuland and Hough, (1999:9) conclude that it is clear that an organisation which subscribes to globalisation is expected to :

- See the world as a whole
- Search for similarities or commonalties among the various elements of the world, such as people and their habits.
- Exploit the similarities or commonalties to discover differences, and

- Use the knowledge gained from the worldwide search to design and execute strategies that will maximise the benefits to all (local and global) stakeholders.

Gupta and Govindaranjan (1999:1) assert that the concept of mindset applies to both individuals and organisations. In the individual's mindset, the individual's brain basically receives and interprets information. As far as the organisation's mindset is concerned, Gupta and Govindaranjan (1999:1) believe that the following points apply:

- Every organisation is a collective of individuals
- Each individual has a mindset, which continuously shapes and is shaped by the mindset of the other people in the collective.
- Depending on the type of decision, different individuals in the collective have differing degrees of influence on the making of a decision.

A global mindset is a way of approaching the world and a tendency to scan the world from a global perspective. It is the orientation to the world, which orientation represents curiosity about the world, to see goals and objectives against larger backdrops and time frames. (Srinivas, 1995:28)

A global mindset requires an organisation to open itself to cultural diversity and be ready to adopt best practices and good ideas regardless of its country of origin. (McClenahen, 1998:12) In this connection, Rhinesmith (1993:24) believes that a global mindset is the ability to scan the world from a broad perspective, always looking for unexpected trends and opportunities that may constitute a threat or an opportunity to achieve personal, professional or organisational objectives.

Clearly, for managers to have a global mindset as defined above requires skills and knowledge on their part since they have to take a leading role in this regard.

Accordingly, Neuland and Hough (1999:10) define an organisation's mindset as the aggregated mindset of the collective, adjusted for the distribution of power and mutual influence among the people making up this collective.

It can be concluded that there is a relationship between mindset and the strategies that firms pursue. In this connection, Yip (1995:1) is convinced that global expansion of markets has become mature and/or saturated. Yip(1995:1) rationalises that the vital question is whether firms seeking to globalise should do so by integrating the worldwide strategy (global strategy) or by setting up country subsidiaries that tailor products and services to local needs.

It is clear, therefore that the choice of an internationalisation strategy would depend on one's way of looking at the world. Globally minded managers can be easier persuaded to assume the necessary risk in going global. By the same token, locally-oriented managers would tend to exaggerate the risks associated with foreign ventures. In addition, globally minded people would have an easier time implementing the strategies by adapting their strategies, structures, systems and products to the needs of the local environment.

Using the two main dimensions, thinking or conceptualising and acting or contextualising, one could develop the matrix depicted in figure 4.3. In terms of the matrix, the first diagonal alternative (quadrants 1 and 3) local thinkers and local actors (TLAL) as well as global thinkers and global actors (TGAG), would not make good candidates for globalisation agents. Local thinkers and actors (TLAL) make good local and national managers but would be disastrous for a global venture. On the other hand, global thinkers and actors (TGAG) make good candidates for humanitarian tasks such as promoting corporate image and goodwill and democratic values around the world. (Neuland and Hough, 1999:13)

Of the second diagonal alternative (quadrants 2 and 4), the first one, i.e. local thinkers and global actors (TLAG) take us back to the proverbial ethnocentric style which has been proven to be inappropriate for globalising a firm. Finally the combination of global thinkers and local actors (TGAL) possess the mindset that is deemed the most appropriate for expanding on organisation's activities

globally. These will need the least amount of change in their way of looking at the world in contemplating a globalisation strategy, and will also require the least change in adapting the strategy to the local context. (Neuland and Hough, 1999:14)

4.9 CREATING A GLOBAL MINDSET

In the discussion so far, it is evident that managers and their organisations are facing a new set of standards of global performance. As was reiterated in chapter 3, quality is about world-class quality in goods and services, and more important in people themselves. The challenge to become world-class requires a clear understanding of what world-class means and involves.

To become world-class, Rhinesmith (1995:35) persuasively argues that managers and businesses will have to develop a bigger and broader picture of the world. Organisations will need to move away from a concentration of what training does, but instead focus on how firms add value to manufacturing, sales and customer service.

The following are some of the propositions that Rhinesmith (1995:35-40) put forward to managers who want to open e global mindset:

- Reframe the boundaries of space, time and geography that inhibit efficiency
- Reframe boundaries of cultural assumptions, values and beliefs – about the world, about relationship with others, and about perceptions – that prevent people from working with others from different cultural backgrounds to meet global challenges.
- Read professional and commercial publications to search for best practices for tracking relevant trends and ideas from around the world.
- Develop one new idea each year to increase the productivity of their organisation's competitiveness
- Read about the efforts of managers in other cultures in managing their work and their people

- Determine ways to let go of ideas and practices that are relevant to the past, but not to the future.

Seeing that having a global mindset is so critical for firms that want to go global, the next logical question that needs to be asked is, 'How can firms create such a global mindset?' In this connection, Rhinesmith (1997:60) identifies six competencies that describe the relationship between a global mindset and effective management behaviour. They are to:

- Manage competitiveness through knowledge by driving for the broader picture
- Manage complexity through conceptualisation by accepting the balance of contradictions.
- Manage adaptability through flexibility by trusting process over structure.
- Manage teams through sensitivity by valuing diversity with change.
- Manage learning through reflection by seeking to be open.

For organisations to become global is not an easy exercise. There is a great deal of organisational transformation that needs to take place not only from the side of the global manager but to everyone who is willing to take on the organisational and behavioural challenges in achieving the necessary transformation.

Table 4.3 shows the relationship between the two dimensions of global mindset.

Table 4.3: The two dimensions of global mindset

Think: Conceptualisation Act: Contextualisation	Locally	Globally
Locally	Think locally 1 Act locally (TLAL)	4 Think globally Act locally (TGAL)
Globally	Think locally 2 Act Globally (TLAG)	3 Think globally Act globally

Source: Adapted from Neuland and Hough (1999:14)

According to Rhinesmith (1997:60) Table 4.4 shows comparison between domestic and global mindsets.

Table 4.4: Domestic and global mindset

Domestic mindsets	Global mindsets
Functional expertise	Bigger, broader picture
Priontisation	Balance of contradiction
Structure	Process
Individual responsibility	Teamwork and diversity
No surprises	Change as opportunity
Trained against surprises	Openness to surprises

Source: Adapted from Rhinesmith (1997:60)

Although much can be done to develop and train global managers, it could be assumed that certain personal qualities, attributes and characteristics would enhance the receptiveness for such training more than others. In this regard, Newland and Hough (1999:17) isolate personal attributes that generally characterise global mindset.

Table 4.5 shows Global mindset and personal characteristics.

Table 4.5: Global mindset and personal characteristics

Global mindsets	Personal characteristics
Broad	Knowledge
Balance	Conceptualise
Process	Flexibility
Diversity	Sensitivity
Change	Judgement
Open	Perception

Source: Adapted from Neuland and Hough (1999:17)

In the world of harsh business reality, global mindset, aligned with and benefiting from the desired personal characteristics, are of little value unless they lead to value-driven action and sustainable competitive advantage. To this end, these desired characteristics must be linked to managerial competencies as is shown in the Table 4.6.

Table 4.6: Competencies and characteristics

Characteristics	Competence
Knowledge	Managing Competition
Conceptualisation	Managing Complexity
Flexibility	Managing Adaptability
Sensibility	Managing Teams
Judgement	Managing Uncertainty
Reflection	Managing Learning

Source: Adapted from Neuland and Hough (1999:17)

Managers need to learn how their organisations fit within the global context. This calls for managers to develop international relations as well as cross-cultural communication and negotiation skills.

Dowling, Schuler and Welsch (1994:123-126) believe that developing international relations should emphasize worldwide information sharing economic, social, political, technological and market trends and focusing on building teamwork across functional and country lines. In the same vein, Miller (1997:13) advocates the concept of globally distributed teams (GDIs) whose members are from different parts of the world and who are brought together for same set period of time to accomplish a given task. These GDIs reduce travel costs, enhanca cultural and geographic diversity, and can be grouped according to the changing needs of the company.

Being a global organisation, Neff (1995:20) concludes, is a journey and not a destination. Being global means continuously monitoring the horizon for competitive opportunities and the internal operations for better ways to do things. It means being secure enough to accept diverse cultures and opinions, and mature enough to manage the creativity and innovation. No wonder Gregerson *et al* (1998:23) admitted that constantly crossing cultural, language, political, social and economic borders makes global business complex and uncertain and hence constant learning is required for success.

According to Neuland and Hough (1999:19) for global mindsets to be effective the following requirements need to be satisfied:

- A global mindset rests on the foundation of openness, implying openness to change over time - in one's own as well as in all other cultures.
- Global mindset operates on the premises that cultures can be different without being better or worse than one another.
- Global mindset require organisations to become well-informed about different value systems, different homes behaviour, and different assumptions regarding reality.
- Global mindset accepts diversity and heterogeneity as natural and a source of opportunities and strengths, rather than a necessary evil.

Accordingly, in order to exhibit a global mindset the firm's management team must have at least the following two attributes:

- Firstly, a deep understanding of the world's diversity. In this case, a Chief Executive officer will ensure that a management team consists of people with different national backgrounds and a profound experience of different regions of the world.
- Secondly, a strong ability to integrate diverse world views.

Gupta and Govinrandanjan (1999:2-3) list some examples of levers that a firm can use to build a collective global mindset as follows:

- People from other countries in the Board of Directors and top management
- Requirements that promising young managers must have an international experience
- Multinational and multi-cultural team-building workshops as well as training and development programs
- Headquarters in home-country receptive to new ideas and new productions proposed by foreign affiliates
- Background of business unit managers - mix of international experience, cultural and language skills

Notably, researchers argue that the key aspects of international strategic capabilities depend on the manager's cognitive processes that balance competing business and country concerns. (Prahalad & Doz, 1987; Kogut, 1985; Bartlett & Ghoshal, 1989 and Hedlund, 1993)

Therefore, the knowledge that global managers have should include mastery over technology, the ability to use technology, information systems and telecommunications in a way that will make the process of globalisation much easier. On international playing fields, business and socio-economic activities go hand in hand and as such a good understanding of socio-political factors of different countries, especially those that firms do or would like to do business is essesntial. Such managers will be sure that they do not take the cultural differences for granted as they develop an important skill of leading and levering diversity to the advantage of the organisation.

A combination of knowledge and skill will go a long way to increasing managerial effectiveness in international operations and to attaining competitiveness. Having a global mindset does not necessarily mean being able to do all things, rather it is to be able to understand the complexities of managing an interdependent and complex global network. That includes managing human resources.

4.10 GLOBALISATION AND HUMAN RESOURCE MANAGEMENT

The discussion on globalisation would not be complete without considering the human factor. It is true that low production cost, technology and access to capital are necessary for the process of globalisation to become successful. However, these are not sufficient conditions for success.

The process of globalisation invariably influences the scope and structure of human resources management. In the previous sections on global mindset, it was made cleer as to how imperative it is for the management team to have a global orientation or thinking.

Pucik *et al* (1992:64-65) identify organisational learning, continuous improvement and competitive culture as three organisational competencies which are all centered on the accumulation of invisible assets which provide value to the firm yet do not appear on the balance sheet.

4.10.1 Organisational learning

The core value of organisational learning is the enhancement of the long-term strategic capability of the organisation. Its objective is to foster creativity, entrepreneurship, and autonomy as essential building elements supporting proactive and flexible global competitive strategies. To develop an organisational capability to learn and to create new knowledge means to focus on the quality of the interaction process: common language, shared experience, willingness to share information, mutual trust, opportunity to observe innovative behaviour, etc.

4.10.2 Continuous improvement

A continuous improvement in products and process can allow the organisational to accumulate sufficient means to learn. Organisational learning and continuous improvement are two sides of the same competitive strategy. One cannot be implemented without the other. Effective continuous improvement programmes

are those that are integrated into the routine activities of the firms, including planning, accounting, and human resources management. From the human resources management perspective, the selection, skill development and recognition of global managers must take into account their accomplishment as champions of continuous improvement.

4.10.3 Competitive culture

An organisational focus on learning and continuous improvement would be difficult, if not impossible to sustain without an organisational culture dedicated to competition. The responsibility of management in this case is to mobilise people's energy by providing the vision for a winning team.
Managers strive to create a sense of urgency for everyone in the organisation, with top management setting the example. In global organisations with a competitive culture, competition is not a threat but an opportunity to build on the creative energy of its people around the world. The focus on competition is not a blind obsession with winning; it emanates from recognising that only through competition to provide the greatest possible value to the customer comes the excellence required for long-term organisational prosperity.

Table 4.7 illustrates how specific human resources roles are linked to the development of competitive advantage for the global firm.

Table 4.7: Direction and criteria of global human resources activities core competencies

HR ROLES	ORGANISATIONAL LEARNING	CONTINUOUS IMPROVEMENT	COMPETITIVE CULTURE
ORGANISATION DESIGN	Integrated Network	Task forces and teams Flexibility	Flat and lean Empowerment
STAFFING AND SELECTION	Slack resources Organisational competence	Implementation skills	Leadership Cross-cultural interactions
PERFORMANCE APPRAISAL	Teamwork Initiative	Customer focus Cost/Quality	Risk taking Values and behaviour
REWARD SYSTEM	Cooperation Information sharing	Process improvement Recognition	Global sharing of reward
MANAGEMENT DEVELOPMENT	Multifunction and Multicountry careers	Operations Slower mobility	Socialization Global opportunities
COMMUNICATION	Cross-boundary Linkages	Workshops and Conferences	Shared mission and culture

Source: Adapted from Pucik et al, 1992:99

4.11 DEVELOPING A GLOBAL STRATEGY

Turning an organisation that has always done business locally into one that is involved in international business is not easy. It is a mammoth task that faces any top management team. For businesses to go global, top management must develop and implement an effective global strategy. Mistakes will be done in the process and every partner should be mindful of this. What makes a strategy global is the extent to which it is integrated across countries. Yip (1992:4) believes that a global strategy must have the following three separate components:

- *Developing the core strategy*, which is the basis of sustainable strategic advantage. This is usually, but not necessarily, done for the home country first. Without a sound core strategy on which to build, a worldwide business need not bother about global strategy.

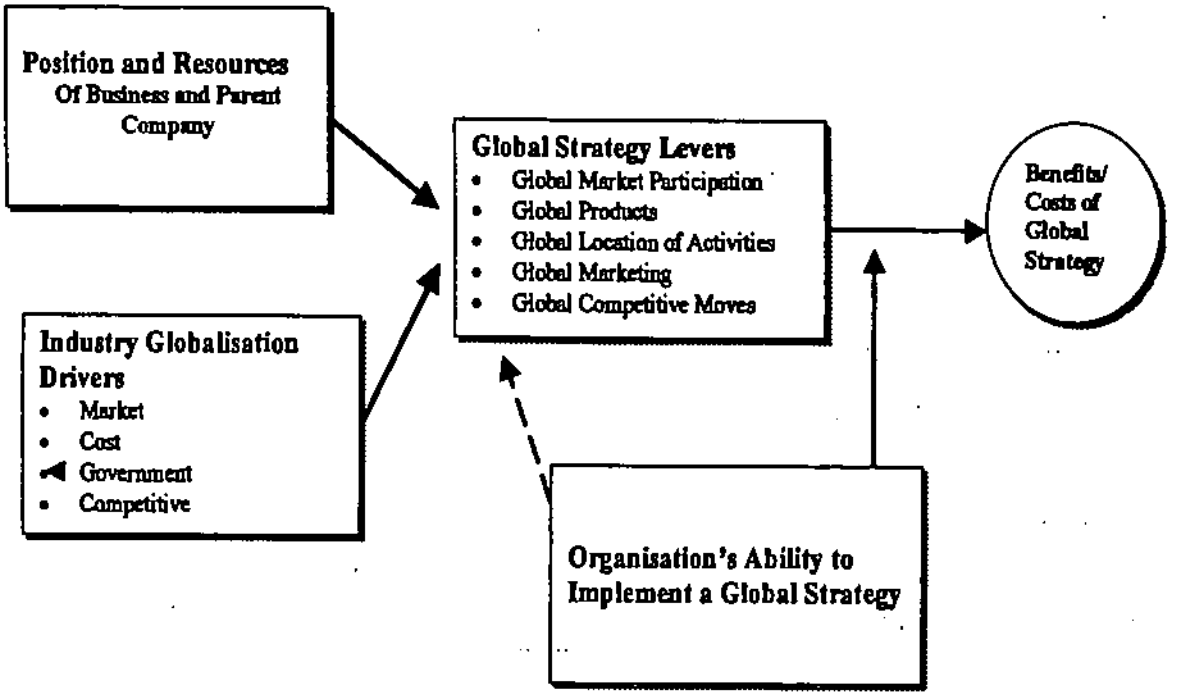
- *Internationalising the core strategy*, through international expansion of activities and adaptation of the core strategy. Organisations need to have mastered the basics of international business before they can attempt a global strategy (because the latter involves breaking the rules of international business)
- *Globalising the international strategy*, by integrating the strategy across countries.

These three components demonstrate that to remain in global business, an organisation must not only come up with any strategy . It has to be a well formulated and researched global strategy. Semenik and Bamossy (1993:534) assert that a global strategy involves locating activities in other nations in order to make use of local advantages, to offset disadvantages in home markets, and to facilitate local market penetration.

Semenik and Bamossy (1993:534) further argue that operating in a number of international markets is not the same as having a global strategy. Global strategies entail integration, coordination, and cooperation among the subsidiaries or other strategic business units. These activities are necessary in order to gain the benefits of economies of scale and learning, to enjoy the benefits of market acceptance that come from a consistent brand reputation, and to serve international buyers.

The first and most important step in internationalising the core business strategy is to select the geographic markets in which to compete. This includes challenges relating to attractiveness of the markets, ways of adapting to local conditions and of managing the business across a larger geographic area. To overcome such challenges businesses need a globalisation strategy that integrates and manages for worldwide business leverage and competitive advantage. Figure 4.2 shows the framework for diagnosing and developing the global strategy: (Yip, 1992:8)

Figure 4.2: A framework for global strategy



Source: Yip (1992:8)

The industry global drivers are determined by the conditions in the industry while global strategy levers are choices available to worldwide business. As can be seen from the figure global drivers include market, cost government and competition while global strategy levers include global market participation, global products, global location of activities, global marketing and global competitive moves.

Market drivers depend on factors such as customer behaviour, distribution channels and the nature of marketing in the industry. These factors are beyond the control of an organisation yet they influence it significantly. One of the benefits of globalising a business is a bigger market, which results in economies of scale. Government policies also play a critical role in determining whether the organisations under its jurisdiction succeed internationally or not. (Yip, 1992:8-10)

In this regard, it can be said that the policies and actions of the South African government are favourable to organisations that want to go global. The country

has obviously not reached a stage where it can say its policies are anywhere near perfect because of the few years since it has been accepted back by the international community. However, factors such as the European Union trade agreement, reduction of tariff barriers, regional integration within SADC (Southern Africa Development Community), among others are steps in the right direction.

Such policies can also be clearly seen from the twinning agreements that many of South African municipalities and regions have entered into with their counterparts overseas. For example, VTMA municipality has entered into twinning agreements with both the Tilburg and Eindhoven municipalities in Netherlands. Efforts are being made to organise trade fairs and other arrangements that will enable businesses in the VTMA to globalise with some fair amount of ease. This study will go a long way in making it possible for some of the businesses to improve their competititiveness, to look at how they can create sustainable competitive advantages so that they too can extend the boundaries of their markets beyond the VTMA, beyond Gauteng and of course beyond South Africa.

However, for organisations to be involved in international business, they need a well-formulated global strategy.

4.12 COMPETITIVE ADVANTAGE THROUGH GLOBAL STRATEGY

Where the global strategy is employed, an organisation sells its product in many countries and employs an integrated approach to doing so. In a global strategy a company sells in many countries that represent significant markets for its products. Porter (1990:54) believes that a global approach provides two distinctive ways in which a firm can gain competitive advantages or offset domestic disadvantages. The first is the way in which a firm spreads activities among countries to serve the world market. The second is via the ability of a global firm to coordinate among the dispersed activities.

The location of activities in a value chain (such as marketing, physical distribution, and after-sale service) can be located anywhere depending on the

industry and on other practicalities. However, in a global strategy a firm locates such activities to optimise its cost position or differentiation from a worldwide perspective.

In some industries, competitive advantage arises from concentrating activities in one country and exporting components or finished goods to foreign markets. This occurs where there are significant economies of scale in performing an activity or advantages in locating linked activities in the same place to allow better coordination.

From the profile of organisations in the VTMA, it becomes clear that concentrating activities would make better economic sense for them since many of them fall into a category of small and medium sized businesses.

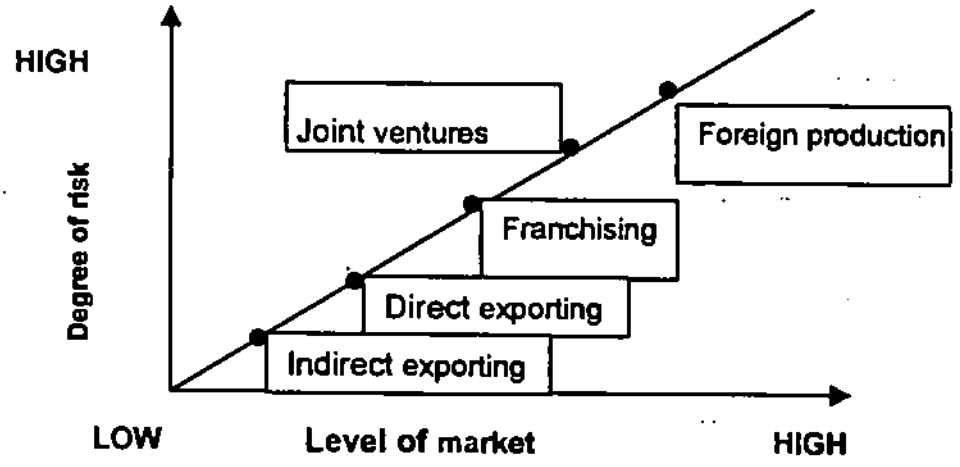
In other industries on the other hand, competitive advantage arises from dispersing activities to several countries. This will usually apply to multinational corporations. In the final analysis, the choice of concentrating or dispersing activities depends on the particular business, and of course the size. The pertinent question to address at this juncture is the method that companies may use to enter the foreign market.

4.13 GLOBAL MARKET ENTRY STRATEGY

Once an organisation has selected its target markets abroad, it must then determine the type of presence it wishes to make and maintain in the markets in which it wishes to compete. The market entry strategy is part of international marketing since the manner in which the organisation introduces itself to foreign markets will have an influence on the rest of its marketing programme. The manner of entry also has a lot to do with the amount of control that an organisation will have abroad, the cost factor as well as the risk that is involved in such a decision. Furthermore, the choice of entry method will involve the organisation in a long-term commitment from which it might be difficult to extricate itself without some costs.

The following figure illustrates the relationship between the level of market control and the degree of risk that an organisation will be exposing itself to:

Figure 4.3: Trade-offs in the market entry decision



Source: Chee and Harris (1993:287)

The types of international entry methods can broadly be divided into three categories. The first is indirect exporting which involves the company selling to an intermediary within the country, who in turn resells the goods to a customer abroad. The second is direct exporting which involves the firm selling to the customer abroad, who might be the final user of the product or service; or to an intermediary who is either a distributor or agent. Finally, in foreign manufacturing the company is involved in production and distribution of the goods and services in the market concerned. (Chee and Harris, 1993: 287-288)

Faced with rapid technological advances, changing market structures and increasing global competition, organisations are motivated to form alliances with others in order to reduce investment risks, share technology, improve efficiency, enhance global mobility and strengthen global competitiveness. (Auster, 1987:3; Harrigan, 1988: 141)

Organisations can form alliances in three ways: first, an alliance with firms from its own country among which there obviously will be some inter-firm linkages. Second, an investing company may form an alliance with an organisation from

another country. This type of alliance is needed if the investing organisation needs a partner with complimentary expertise or resources. Finally, an investing company forms an alliance with another organisation from a different country whose cultural background is similar to the market that an investing organisation wishes to enter. (Tse and Pan, 1997:779)

An example of the last scenario would be when a firm in the VTMA forms an alliance with one in Netherlands (seeing that there is a twinning association between the two regions) with the sole purpose of entering the European market. The idea would be that the Dutch organisation bridges the cultural gap between a South African firm and the European market.

Each marketer is familiar with the four "Ps" – product, price, place and promotion (also known as marketing instruments). This means then, that when a company enters a new market, its management wants to be aware of the factors governing these marketing instruments.

Zhan (1999:2-6) identifies the following or a combination thereof as the method(s) of selling internationally:

- **Direct sales**

In this type of arrangement, the manufacturer sells directly to the foreign buyer. Direct sales offer total control over product distribution, price and sales efforts. Since there are no agents, representatives and distributors, this method offers the highest gross margin. However, the potential exporter or exporter has to find customers himself, handle advertising, promotions and marketing, training, translate manuals for markets with a different language, make necessary adaptations to product standards, styles, packaging and so on. Looking at the direct sales method as a low-cost entry strategy may not be valid when one calculates all the costs that have just been mantioned.

This method also requires familiarity with the market. This might be a problem for a company that had not marketed to the particular market before let alone

exporting at all. From this study, this type of strategy would not be recommended for a firm in the VTMA that has little or no experience in export markets.

- **Sales through representatives**

When an organisation opts for this type of strategy, it must realise that it will have to relinguish some control to the foreign representatives. The challenge that the organisation faces with this strategy is choosing the right foreign agent who is clued up with the new market.

The organisation will want to draw a contractual agreement with the agent, which among other things will set geographic and product boundaries for the agent. Management will ensure that the agent already has an established clientele and that he is not representing directly competing products. One must hasten to point out that the management of the organisation must still have some knowledge of the new market.

- **Sales through distributors**

The challenges for choosing a distributor are even more extensive than for choosing an agent. It is absolutely essential that a company get the right distributor because in this case the company's image and integrity are at stake. A distributor is responsible for the promotion and marketing of the product in his territory and for all efforts to increase sales.

The relationship is more difficult to terminate than an agency. Some distributors provide after-sale service, relieving a substantial headache for large equipment manufacturers when they sell directly or through an agent. The manufacturer must see to it that the product is delivered. The advantage in this strategy is that credit risk is lower.

- **Licensing**

The licensing relationship is almost the reverse of the agency relationship. Here, the manufacturer receives only a small percentage on each sale and the licensee

is responsible for all aspects of production, marketing, and distribution. One major risk is the loss of intellectual property since local contractual and trademark laws can trip up the unwary licensor and are usually skewed in favour of the local licensee. However, the licensee is better equipped to operate within its local market and to adapt product for local consumption. Clearly, this is a low risk and lower-reward strategy.

- **Joint ventures or wholly-owned businesses**

For an enterprise to take advantage of the market fully, it will eventually have to have a presence within the region. The proliferation of trade blocs and reciprocal trade agreements mean wider benefits from production within a unified region.

It is riskier but possibly more rewarding to move at least some of the production process to the target market. This might lower the cost of production per unit owing to possibly lower labour costs, lower taxes and avoidance of tariffs and customs delay.

From all the above-mentioned strategies, one thing is clear; that the risks and rewards of each strategy or a combination thereof vary from country to country and contract to contract. It is critical for organisations to be flexible when considering the market entry strategy.

As to which strategy an enterprise will choose depends on a number of factors such as the size of the enterprise, the type of product, the type of industry, among others. It makes more sense for organisations to first consider easier and less demanding strategies. When such organisations see their way through, they can advance to more complex but rewarding strategies.

Given that the majority of organisations in the VTMA (and of course of respondents) are small to medium sized, and not so global as shown by this study it is strongly recommended that they initially consider sales agents and representatives as a strategy for having an exposure in the foreign markets.

4.14 CONCLUDING REMARKS

Indeed, organisations can take advantage of the forces of globalisation. Sitting back and watch things happening will definitely not do any good to companies. Instead, as part of their strategic planning, they should consider where to position their business on the global market. This will call for managers to develop a global mindset and come up with a global strategy for the firm.

Entering the global market will also cause organisations to strive to produce products which can be exported anywhere around the world. This will certainly have a bearing on the firm's competitiveness. It is therefore evident that any organisation which strives to, not only create but also sustain its competitive advantage will look at the process of globalisation as, not a threat but a challenge.

The next chapter discusses the research findings of the empirical study undertaken. It is in this chapter that the situation with organisations in the VTMA will be clarified as far as their competitiveness is concerned.

CHAPTER 5

RESEARCH FINDINGS

5.1 INTRODUCTION

This chapter provides insight into the methodology that was used to collect data on the one hand and research findings on the other. The population and sample frame, the sample size and procedure will also be discussed in this chapter. Next, the validity and reliability of measures used in data collection also forms part of the discussion in this chapter.

5.2 SAMPLE DESIGN

Sample design forms an integral part of the research design end as such it is crucial that suitable samples be developed carefully. In this connection, Churchill (1992:456) suggests the following steps for drawing a sample.

- *Defining the population*

Blankenship and Breen (1993:167) define population as the total group that is being studied while Martins, Loubser and Van Wyk (1996:251) define it as the aggregate of all elements.

According to Madden and Firtle (1987:267), the following points must be taken into consideration when defining the target population:

- Firstly, that the target population must be consistent with the objectives of the study. In other words, it must be possible to achieve the objectives by using the selected target population.

- Secondly, any other qualities that the respondents must have in order to be included in the sample must be clearly specified.

- Finally, all decision rules for inclusion or exclusion of respondents must be clearly explained.

In this study the target population are all companies in the Lekoa Vaal Metropolitan Area.

- *The sample frame*

Cooper and Emory (1995:204) define a sampling frame as the listing of the elements or units from which the actual sample will be drawn.
Once the population is defined, the next step is to obtain a sample frame of the population. (Sudman and Blair, 1998:338)

According to Sudman and Blair (1998:338), the following are three ways in which the sample frame may differ from the population:

- The frame may contain ineligibles or elements that are not part of the population
- The frame may contain duplicate listings
- The frame may omit units of the population

The sample frame that was used in this study are those manufacturing firms in the Lekoa Vaal Metropolitan Area that are in steel and steel related industry.

- *Sampling method and size*

A sample size refers to the number of items to be selected from the population to make up a sample (Kotheri, 1995:69)

Four students were provided with training that enabled them to hold personal interviews with the respondents. The result was that of the 80 questionnaires they distributed 36 were completed and returned. This is a response rate of 45 percent.

Cooper and Schindler (1998:291) believe that although it can be very costly, personal interviews offer the greatest value in terms of the depth of information and detail that can come out of it.

5.3 METHOD OF DATA COLLECTION

According to Nel, Radel and Loubser (1990:142) there are fixed guidelines as to which method a researcher should use for collecting data but that the researcher must collect data as accurately and unambiguously as possible.

In this study, a structured questionnaire was developed as an instrument for collecting data which the respondent would fill himself or a trained fieldworker in the case where the respondent preferred an interview.

The following sub-sections discusses the design of the questionnaire, data collection procedure as well as the reliability and validity measures.

5.3.1. Questionnaire design

Parasuraman (1991:363) defines a questionnaire as a set of questions designed to generate the data necessary for accomplishing a research project's objectives. In evaluating the questions asked, Weiers (1988:261) believes the following questions need to be considered:

- Is the question really necessary in view of the objectives of the research study?
- Will the respondent be willing and able to provide the information required?
- Does the question adequately cover the content area for which it is responsible?

Once these questions are addressed, the researcher would have to ascertain the type of questions he will use. In this regard, Kinnear and Taylor (1991:344) identify the following types of questions that could be used:

- Open-ended questions, which require the respondents to provide their own answers to the questions
- Multiple-choice questions, which require the respondents to choose an answer from a list provided in the questionnaire
- Dichotomous questions, which are an extreme form of the multiple choice question and which allows the respondent only one or two responses, such as either "yes" or "no"

The questionnaire used in this study has all the three types of questions mentioned above. However, open-ended questions were kept to minimum since too many of those can make analysis rather difficult.

5.3.2 Testing of the questionnaire

There is always a chance that some questions could cause problems and as such, questionnaire testing is needed to identify and eliminate these problems. (Sudman and Blair, 1998:300)

The questionnaire was tested during a pilot study with four companies where interviews were held and the respondents were asked to comment on the clarity or otherwise of the questions. This led to the questionnaire being adapted and those questions that were not so clear were rephrased and some even excluded.

5.3.3 Reliability and validity of measures used

Kinnear and Taylor (1991:232) define reliability as the extent to which the measurement process is free from random error and that it is concerned with consistency, accuracy and predictability of the research findings. According to Fude (1993:94) the following are four commonly used strategies to assess reliability:

- The test-retest method, which involves administering the same test twice to the same group of cases and then correlating the first test of scores with the second test.
- The alternate method, which involves the creation of two forms of tests which are closely parallel in terms of length, style and content, giving both test and correlate scores.
- The split-half method, which involves the creation of two alternate forms by splitting the test into two halves and correlating the scores from the two halves.
- Internal consistency method, which compare each item of the measure to every other item.

Validity on the other hand, is the extent to which a test measure the researcher actually wishes to measure. (Cooper and Emory, 1995:148).

Trochim (1997) suggests the following as the four types into which validity can be subdivided:

- Conclusion Validity: Is there a relationship in the particular study between the two variables?
- Internal Validity: Assuming that there is a relationship in the study, is the relationship a causal one?
- External Validity: Assuming that there is a causal relationship in this study between the constructs of the cause and effect, can this effect be generalised to other persons, places or times?
- Construct validity: Assuming that there is a causal relationship in the study, can it be claimed that the program reflected well the construct of the program and that the measure reflected well the idea of the construct of the measure?

5.3.4 Editing and coding

Martins *et al* (1996:295) states that editing entails a thorough and critical examination of a completed questionnaire in terms of compliance with the criteria for collecting meaningful data and in order to deal with questionnaires not duly completed while Parasuraman (1991:101) describes editing as the process of examining the responses and taking the necessary corrective action to ensure that they are of high quality.

Upon receipt, all questionnaires were edited and checked for completeness, consistency and accuracy by the researcher. The questionnaire was considered if at least 75 percent of the questions were answered. Otherwise, it was discarded. This meant that no incomplete answers were subsequently completed by the editor.

Coding refers to the assignment of numbers to answers, so that responses can be grouped into a limited number of classes or categories. (Cooper and Emory, 1995:381) In order to simplify the capturing of data every answer was coded.

The following sections discuss the research findings of the study.

5.4 DEMOGRAPHICAL INFORMATION

The first section of the research questionnaire analyses information pertaining to the form of ownership, the sector or industry within which the business operates, the number of employees as well as the number of years that the business has been in operation.

The following questions were used to collect the data:

Question 1: In which of the following sectors is your business operating?

Question 2: The form of ownership of your business.

Question 3: How long has your business been in operation?

Question 4: How many people are employed by your business?

Table 5.1: Demographical Information

VARIABLE	FREQUENCY	PERCENTAGE
SECTOR		
Manufacturing	32	89
Services	03	08
Trade	01	03
Other	-	-
FORM OF OWNERSHIP		
Private	23	64
Public	02	06
Close corporation	05	14
Partnership	06	16
Sole Proprietor	-	-
NUMBER OF YEARS		
0 – 5 yeers	08	22
6 – 10 years	06	17
11 – 15 years	12	33
16 – 25 years	04	11
25 years and more	06	17
NUMBER OF EMPLOYEES		
0 – 20	06	17
21 – 50	09	25
51 – 100	16	44
101 – 200	02	06
200 and more	03	08

Source: Own research

From Table 5.1 it is clear that the vast majority (89 percent) of companies that participated in this survey are in the manufacturing sector, all of whom are in the steel industry. It is also noteworthy from the above table that most of the companies are privately owned (64 percent being private companies, 14 percent being close corporations and 16 percent partnerships)

It is encouraging to see from Table 5.1 that 22 percent of respondents are 5 years old and younger and with 44 percent employing between 51 and 100 employees.

5.5 THE PRESENT STATUS OF EXPORT BUSINESS

This part of the questionnaire establishes the number of businesses involved in exports and the period of time that the have been involved. The following two questions were asked to collect this data:

Question 5: Is your business involved in the export market?

Question 6: How long have you been involved in the export market?

Table 5.2: Export information

VARIABLE	FREQUENCY	PERCENTAGE
INVOLVED IN EXPORT?		
Yes	12	33
No	24	67
PERIOD OF INVOLVEMENT		
0 – 5 years	01	09
5 – 10 years	07	58
15 – 20 years	03	25
more than 20 years	01	08

Source: Own research

Table 5.2 illustrates that two-thirds (67 percent) of the respondents are not exporting any of their products. Only one-third is involved in export business of which 58 percent have been doing so for between five and 10 years. However, it is a cause for concern that in the past five years only nine percent of them entered this market.

5.6 FUTURE PLANS TO EXPORT FOR ORGANISATIONS THAT DO NOT

It is in this section of the questionnaire where the plans of companies to enter the export market are analysed and tha countries to which they plan to export. The following questions were used o obtain this data:

Question 7: If you are exporting at the moment, do you plan to do so in the future?

Question 7.1 If Yes, to which countries?

Question 8: If already exporting, do you plan to expand your export market?

Question 8.1: If Yes, to which countries?

Table 5.3 shows future plans to export.

Table 5.3: Future plans to export

VARIABLE	FREQUENCY	PERCENTAGE
DO YOU PLAN TO ENTER THE EXPORT MARKET?		
Yes	14	58
No	10	42
TO WHICH COUNTRIES?		
Within SADC	08	57
Outside SADC but in Africa	04	29
Europe	07	50
Asia	04	29
Australia	05	36
The Americas	06	43
DO YOU PLAN TO EXPAND YOUR EXPORT MARKET?		
Yes	12	100
No	-	-
TO WHICH COUNTRIES?		
Within SADC	-	-
Outside SADC in Africa	03	25
Europe	07	58
Asia	06	50
Australia	05	42
The Americas	04	33

Source: Own research

As shown in table 5.2 that 67 percent of the respondents are not exporting at the moment, it was encouraging to see from table 5.3 that 58 percent of those plan to enter the export market some time in the future. Of those that plan to do so, 57 percent would like to export to Southern African Development Community (SADC) countries and 50 percent to the European countries. (Please note that the percentages need not necessarily add up to 100 percent since others indicated that that they plan to export to various countries at the same time)

Interestingly, of all companies that are already exporting at the moment, literally all of them (100 percent) indicated that they plan to export to more countries than they were presently exporting to. Majority of them (58 percent) and (50 percent) wish to export to European and Asian countries respectively.

5.7 IMPACT OF EXPORTING ON PRODUCTION METHODS AND LEVELS OF EMPLOYMENT

In this part of the research questionnaire, the impact of a company's involvement in the export market on the methods of production and levels of employment is explored. To help see the correlation, the following questions were used:

Question 9: Has your involvement in the export market had any impact on your Methods of production?

Question 10: Has your involvement in the export market had any impact on the Levels of employment?

Table 5.4 shows the import on methods of production and employment levels.

Table 5.4: Impact on methods of production and employment levels

VARIABLE	FREQUENCY	PERCENTAGE
IMPACT ON PRODUCTION METHODS?		
Yes	09	75
No	03	25
IMPACT ON EMPLOYMENT LEVELS?		
Yes	10	83
No	02	17

Source: Own research

Table 5.4 clearly illustrates the impact that the involvement in the export market has on the methods of production and the levels of employment. Of the respondents who indicated that they are presently involved in the export market, 75 percent of them mentioned that they had to improve on their methods of production to meet their diversified customers and 83 percent of them agreed that they had to increase their workforce as a result.

5.8 INFORMATION ABOUT IMPORTS

This part of the questionnaire analyses information respecting imports, the countries from which imports are made and the reasons for importing instead of purchasing locally. The following questions were used to collect that data:

Question 11: Is your business importing any of the raw materials from abroad?
Question 11.1: If Yes, from which countries?

Question 11.2: If No, do you plan to import any raw materials in future?

Question 12: Why does your business import raw materials instead of purchasing Them locally?

Question 13: Does your organisation have any operations in other countries?

Question 13.1 If Yes, in which countries?

Table 5.5: Import information

VARIABLE	FREQUENCY	PERCENTAGE
IMPORTING ANY OF THE RAW MATERIALS FROM ABROAD?		
Yes	13	36
No	23	64
FROM WHICH COUNTRIES?		
Within SADC	08	62
Outside SADC but from Africa	-	-
Europe	02	15
Asia	-	-
Australia	03	23
The Americas	-	-

ANY FUTURE PLANS TO IMPORT?		
Yes	07	30
No	16	70
REASONS FOR IMPORTING		
• Cheaper to import	10	77
• Not available locally	06	46
• Imports are of better quality	05	38
• Any other reason	-	-
OPERATIONS OUTSIDE S.A.		
Yes	-	-
No	36	100

Source: Own research

When it comes to whether companies are importing any raw materials or not, table 5.5 shows that only 36 percent of the respondents import some of their raw materials. It is quite noteworthy to see that of those that do, 62 percent import from SADC countries and that 70 percent are not currently importing.

When asked the reason why they import, 77 percent of importers mentioned that it is cheaper for them to do so than to purchase locally. (Please note that the total percentage does not once again add up to 100 percent since some gave more than one reason why they do not import. Furthermore, none of the respondents have other operations outside the country.

5.9 INFORMATION ABOUT QUALITY

The following questions from the research questionnaire examine the companies' attitude, view as well as the practice of quality in their day to day operations. The questions were as follows:

Question 14: Which of the following statements apply to your organisation?

Question 15: When it comes to quality ...

Question 16:Has your organisation embraced the principle of Total Quality?

Question 17: How popular is the principle of Total Quality in your organisation?

Table 5.6: Information related to quality

VARIABLE	FREQUENCY	PERCENTAGE
WHICH OF THE FOLLOWING STATEMENTS APPLY TO YOUR ORGANISATION?		
• Customers have a say in how the products should be	10	28
• every employee is urged to be quality conscious	08	22
• it is the quality assurance department that should ensure that the right quality products are produced the organisation always knows what customers need and want	06 12	17 33

Table 5.6 (Information related to quality) continues

VARIABLE	FREQUENCY	PERCENTAGE
WHEN IT COMES TO QUALITY		
• we ensure that it is built into the product itself	14	39
• quality assurance department are the ones that should ensure the right quality	22	61
HAS YOUR ORGANISATION EMBRACED THE PRINCIPLE OF TOTAL QUALITY?		
Yes	29	81
No	07	19
HOW POPULAR IS TOTAL QUALITY?		
• top management knows all about it	06	21
• middle managers are implementing it	07	24
• supervisors ensure that it is carried out	04	14
• everybody strives to be quality conscious	08	28
• it is not popular at all	04	13

Source: Own research

From table 5.6 the following observations are made when it comes to quality and quality-consciousness in the organisations.

- The highest number of all respondents (33 percent)believe that the organisation always knows what the customers need and want and only 22 percent (the

second lowest) see it as every employee's responsibility to ensure that quality prevail

- Most respondents (61 percent) associate quality more with the quality assurance department than with the fact that quality has to be built into the product

- When asked about the principle of total quality, it is quite significant that an overwhelming majority (81 percent) of respondents said that they have in fact embraced the principle. Yet, it is paradoxical to note that only 28 percent of the respondents say that everybody in their organisations strives to be quality conscious.

5.10 INFORMATION PERTAINING TO BENCHMARKING

This section of the questionnaire seeks to establish the extent to which, if to any, businesses apply benchmarking as a means to perform their activities better by learning from others . The following two questions were used to ascertain the fact:

Question 18: Do you have an arrangement whereby one department learns from Others which are more effective and efficient in your organisation?

Question 19: Does your organisation have a plan whereby it seeks to learn from Other organisations that are more effective and efficient in a Specific area?

Table 5.7 shows the application of benchmarking by companies.

Table 5.7: Application of benchmarking by companies

VARIABLE	FREQUENCY	PERCENTAGE
INTER-DEPARTMENTAL LEARNING		
Yes	27	75
No	09	25
INTER-ORGANISATIONAL LEARNING		
Yes	23	64
No	13	36

Source: Own research

Table 5.7 illustrates the extent to which companies apply the practice of benchmarking. It has been quite encouraging to note that 75 percent of all respondents apply this practice within their organisations while 64 percent of the respondents apply it even with outside organisations.

5.11 INFORMATION PERTAINING TO COMPETITIVE STRATEGY

It is in this section of the research questionnaire that ways in which organisations deal and cope with competition are explored. These include questions related to any competencies that companies may have and any strategies that may be in place to cope or to succeed amid tough competition. The questions that were asked are as follows:

Question 20: Competing successfully over an extended period of time gets
Harder and harder because ...

Question 21: Which one of the following gives you an edge over your Competitors?

Question 22: Does your organisation have any capability or competency that Provides it with an attractive position among its competitors?

Question 22.1 If Yes, please elaborate.

Question 23: Are there any strategies that your organisation has in place for Coping with competition?

Question 23.1: If Yes, please elaborate.

Table 5.8 shows the competitive strategies.

Table 5.8: Competitive strategies

VARIABLE	FREQUENCY	PERCENTAGE
COMPETING SUCCESSFULLY OVER AN EXTENDED PERIOD GETS HARDER AND HARDER BECAUSE...		
• there are always best practices on the market	09	25
• competitors can quickly imitate new technologies and improvements	10	28
• we find it difficult to come up with new ideas because by the time you implement them, some competitors know about it already	17	47
WHICH ONE OF THE FOLLOWING GIVES YOU AN EDGE OVER YOUR COMPETITORS?		
• Producing our products most efficiently	10	28
• producing a product which is better than our competitors'	05	14
• producing a product which is valued by the market	07	19
• having operations that have the capacity to produce different kinds of products	14	39
DOES YOUR ORGANISATION HAVE ANY COMPETENCY THAT PROVIDES IT WITH AN ATTRACTIVE POSITION AMONG ITS COMPETITORS?		
Yes	16	44
Can't think of any	15	42
No	05	14
ARE THERE ANY STRATEGIES THAT YOUR ORGANISATION HAS IN PLACE FOR COPING WITH COMPETITION?		
Yes	14	39
Don't know of any	12	33
No	10	28

Source: Own research

From table 5.8 on the previous page, the following interesting observations on the companies' competitive strategies are made:

- Responding on how they manage to compete successfully over an extended period of time, majority (47 percent) of all respondents felt that it is difficult to come up with new ideas since by the time that they are implemented, some competitors will be knowing about them whereas 25 percent felt that they cannot achieve what the markets demands of them since there are always best practices on the market

- On the question of what gives companies an edge over their competitors, it is sad to say that only 19 percent of the respondents believe that producing a product that is valued by the market is the reason while the majority (39 percent) of the respondents on the other hand, felt that having operations that have the capacity to produce different kinds of products is the answer.

- It is a cause for serious concern that almost equal the number of respondents (44 percent) said that they do have a competency that provides their companies with an attractive position over their competitors and that another 42 percent could not think of any competency that their businesses possessed

- Asked about any strategies that they have in place, 39 percent agreed that they have some form of strategy with 28 percent saying they do not have and surprisingly 33 percent answered that they do not know of any such strategy in place.

5.12 CONCLUDING REMARKS

This chapter outlined the procedures and methodology which were used in obtaining the necessary information from the respondents for this study. Information relating to

the extent to which companies in the steel industry are involved in exports, imports was obtained and analysed.

Also discussed in this chapter is the how companies apply the principles of total quality and benchmarking. Included in this chapter is the findings on strategies (where there are any) on how the respondents deal and cope with competition.

With 45 percent response rate, it can be concluded that these results are fairly representative of the situation as far as the competitiveness of companies in the steel industry are. The respondents were quite helpful and co-operative in their replies and responses. The next chapter will evaluate data collected against the theory discussed in previous chapters.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

In the previous chapter the research findings of the study were discussed. This last chapter summarises the main findings of the study. Some recommendations are made to show how business in the Vaal Triangle Metropolitan Area (VTMA) can create and sustain their competitive advantages through operational effectiveness and strategy.

This thesis provided a fair amount of insight into the concepts of competitiveness, competitive advantage, operational effectiveness, total quality, benchmarking and globalisation. A wide range of questions were used to collect data in respect of the size of the workforce, whether companies are exporting their products or not, quality consciousness, benchmarking and competitive strategies.

In order to relate the research findings to the literature review and the objectives of the study as set out in Chapter 1, some findings will be repeated.

6.2 LITERATURE REVIEW

The concepts of competitiveness and competitive advantage are ones that from time to time managers refer to in their speeches and reports. However, it is one thing to talk about something as a goal that need to be achieved and it is quite another to know exactly what to do in order to achieve the goal.

Chapter 2 discussed the concepts in a fair amount of detail. Not only does it discuss the concepts, but it also highlighted strategies that could be employed for an

organisation to begin to create a competitive advantage. The importance of designing a manufacturing strategy was also underscored in this chapter.

It was also interesting to see how resource improvement, quality management programmes and advanced process technology can build manufacturing capabilities. It was also necessary to demonstrate how proper management of a value chain is essential if organisations are to become competitive.

In chapter 3 key areas that contribute to the organisations' operational effectiveness were discussed at great length. One of them is the principle and practice of total quality management. This chapter could not overemphasise that this principle should be embraced and owned by everyone within organisations, with the top management taking the lead throughout. Various steps as to how it may be implemented were also discussed.

The importance of training before and during the implementation of TQM was also shown. Closely related to TQM is the need for companies to learn from others who may be more effective in specific areas. Different types of benchmarking were identified and explained. Perhaps more important was the demonstration of how this process may be implemented in organisations. Finally, the question of adapting these principles to the culture of the organisation was also considered.

The question of globalisation and competitiveness was looked into and discussed in chapter 4.. It was pointed out that the forces of globalisation are here to stay and that managers would need to develop a global strategy for their organisations. For managers to take advantage of globalisation, they would obviously need to familiarise themselves with the idea. Of vital importance, chapter 4 highlighted the need for a global mindset on the part of managers and how they can create and develop that global mindset.

On a more practical level, chapter 4 also pointed to various global market entry strategies that companies can make use of.

In view of the aforegoing, a thorough empirical study was undertaken in the Vaal Triangle Metropolitan Area to investigate how businesses in the region can create and sustain competitive advantage through operational effectiveness and strategy with a view to develop, propose and recommend specific actions.

The following objectives of the study were thus further investigated through the empirical study in chapter 5:

Primary objective:

- To demonstrate how companies in the Vaal Triangle Metropolitan Area can create and sustain a competitive advantage through operational effectiveness and strategy.

Secondary objectives:

- To provide an overview of the concept of competitive advantage
- To demonstrate how companies in the VTMA can be more effective in their operations
- To show how companies can expand their markets by going beyond their borders
- To highlight the need to make the companies' competitive advantage more sustainable

6.3 CONCLUSIONS

The following conclusions relating to the overall objectives of this study are derived from the empirical research as discussed in Chapter 5.

6.3.1 Demographical information

It is true that this section of the questionnaire does not directly contribute to the attainment of the objectives of this study. However, it is good to have knowledge of the profile of the respondents.

It is noteworthy to see that the majority (33 percent, see Table 5.1) of respondents have been in business for between 11 and 15 years. Encouraging is the fact that in the last five years or so there have been up to 22 percent (refer to Table 5.1)of the respondent of new companies.

6.3.2 Information on exports

In this study, the present scenario is that 67 percent (see Table 5.2) of the respondents are not involved in exporting at all. All their products are sold locally – not even in other parts of Southern African Development Community (SADC). It is a deep matter of concern that of 22 percent (see Table 5.1) more companies which have been added in the last five years, only nine percent is involved in this export market.

This is an indication that many companies would rather do business in their comfort zone, which is the local market. Confining one's sales to the local market – which in any case is shrinking because of products which are being increasingly exported to the country may have negative consequences for the business' future.

It is, however, sobering to see that 58 percent of companies that are not at present exporting would like to do so in the future. The majority (57 percent, see Table 5.3) of them would like to export to SADC countries. This seems to make sense since there is much less to conform to when one does business within SADC due to economic integration that is still taking place with the region.

Also interesting is the fact that Europe (or at least some European countries) is the next favourite (50 percent, see Table 5.3) behind SADC. It is very significant indeed that of all companies that were already exporting at the time of interviews, all of them would like to expand their export market to include countries that they never exported to before.

This is indicative of the fact that companies that are exporting can all see the benefits of doing so. For those companies that are already exporting, expanding their market into Europe seems to be the option that the majority (58percent, see Table 5.3) choose.

6.3.3 Impact of exporting on production methods and levels of employment

From the study, it is evident what the impact of being involved in exports can have on the organisation's methods of production and levels of employment. The findings indicate that of the respondents who participate in the export market, 75 percent (refer to Table 5.4) mentioned that they had to improve in one way or another their methods of production. This might have been using a later technology and more sophisticated machinery and equipment.

Again, of the same respondents, an overwhelming 83 percent (refer to Table 5.4) agreed that they had to increase their workforce as a result.

6.3.4 Information about imports

The findings of the study indicate that only 36 percent (see Table 5.5) of the respondents import some of their raw materials used during the operations process. It is notable that of those that do import, 62 percent (see Table 5.5) import from SADC countries.

Asked why they choose to import the raw materials instead of purchasing them locally, 77 percent (see Table 5.5)pointed out that it is cheaper to import than purchasing locally and 46 percent say that those inputs are not available locally. 38 percent of respondents answered that they do not purchase locally because they feel imports are of better quality. This is something to be concerned with – quality.

6.3.5 Information related to quality

It is a deep cause for concern to see that the majority of respondents (33 percent, see Table 5.6) assumes to know what the customers need and want in the design of their products. At the same time, it is sobering to note that 28 percent view quality consciousness in all the employees as crucial.

It is also notable to see that most (61 percent, see Table 5.6) of respondents still believe that it is the quality assurance department's duty to ensure the right quality product as opposed to the fact that quality should be built into the product itself.

Although the overwhelming majority of respondents (81 percent, see Table 5.6) claim to have embraced the principle of total quality, it is ironic to note that only 28 percent (refer to Table 5.6) of the respondents say that everybody in their organisations strives to be quality conscious. The reason for this could be that, either the companies' management see the need of the principle of total quality but they just cannot successfully implement it or take it off the ground.

Another possibility could be a lack of proper understanding on the part of managers in general as to what total quality management is exactly all about. Where managers have bought into the principle, it may very well be that they have assumed ownership of it instead of making it everybody's privilege in their organisations to become quality conscious.

6.3.6 Information pertaining to benchmarking

It is good to see that many respondents have an arrangement by which they learn from one another. As to how formalised this arrangement is, it is not known. However, it is quite clear that companies prefer to apply this arrangement internally rather than externally or with other outside organisations.

6.3.7 Competitive Strategy

It is interesting that the majority (47 percent, see Table 5.8) of respondents felt that they find it difficult to come up with new ideas since by the time they are implemented, some competitors would be knowing about them. It would seem that many companies are reluctant to face and challenge competition as such. If they are not, then it takes them too long to implement new and innovative ideas. Taking too long to implement new and innovative ideas may be as a result of bearaucracy which exists in many companies.

The majority (39 percent, see Table 5.8) say that it is producing different kinds of products that gives them an edge over their competitors instead of producing products which are valued by the market. In other words, majority of companies are still not yet demand-driven instead are supply-driven.

Fourty-four percent of the respondents indicated that they have a competency that provide their companies with an attractive position over their competitors while another 42 percent (refer to Table 5.8) replied that they could not think of any such

competence. This is truly a sad situation that companies are not sure of their competencies.

Asked about any strategies that they have in place to cope and successfully deal with competition, 39 percent (refer to Table 5.8) agreed that they do have some form of strategy whereas 28 percent (refer to Table 5.8) answered that they do not have such a strategy. A surprising 33 percent (refer to Table 5.8) responded that they do not know if such a strategy is in place or not.

It is quite regrettable that such a significant number of businesses either do not know of their competencies or that they do not have any competitive strategy in place. Clearly, this type of situation is counter-productive for any organisation which would like to be competitive.

6.4 ACHIEVEMENT OF THE STUDY'S OBJECTIVES

In the opening chapter of the study certain objectives were set. Having examined various aspects it is now possible to determine whether these objectives were met or not. The following section looks at that very important part of the study.

6.4.1 Primary objective

For companies to achieve their main objectives of sustainable profitability and continuous wealth creation for its owners, they need to consciously create competitive advantages for themselves. Competitive companies will know exactly what their competencies are and build on them. They will also ensure that they improve their operational effectiveness by ensuring that management adopts and embraces principles such as total quality management and ensure that as a philosophy it percolates to every single member of the organisation.

From the empirical research it is clear that majority of companies lack clear and well-defined strategies to deal with competition and need to look very seriously in improving their operational effectiveness.

6.4.2 Secondary objectives

The objectives of the study were also met as far as tha secondary objectives are also concerned:

- The literature study has provided a fair amount of an overview of the concept of competitive advantage
- Ways were demonstrated in which companies in the vtma can improve their operational effectiveness
- Strategies were suggested that might be used if companies wish to expand their operations and markets beyond the borders of the country
- The role of top management in maintaining a long-term view in order to make their competitive advantage sustainable was stressed throughout the study

From the above, it is clear that the objectives of this study as outlined in the opening chapter were met.

6.5 RECOMMENDATIONS

In view of the findings of this study, the following recommendations are made:

- Companies must clearly define their overall approach to competition and thus employ strategies that will enable them to successfully deal with competition. It is

recommended that they define their strategies around one of or all of the three generic strategies of cost leadership, differentiation and focus.

- It is also critical that companies learn to manage their value chains better than others in their respective industries.

- The status of a manufacturing function must be raised so that manufacturing managers must become more than just implementers of engineering and marketing instructions on the shop floor.

- Companies in the VTMA must begin to embrace and apply the principle of Total Quality Management in earnest. For its successful implementation, it would be appropriate if they can involve employees at all levels at every step of the way.

- Managers need always to keep in mind that customer needs should be the driving force within companies.

- When benchmarking, it is important for companies to keep in mind that they should know exactly what they are looking for and that whatever is being benchmarked must fit into its overall strategy and that it should be adapted to the organisational culture

- For companies to take advantage of the process of globalisation, they will need to have leaders who have cross-cultural communication and negotiation skills and the ability to integrate diverse world views.

6.6 FUTURE RESEARCH

There are several more opportunities for further research into the competitiveness of companies, such as:

- This study was restricted to the companies in the steel industry in the VTMA. A comparative study in other sectors is proposed

- Research on the relationship between the extent to which companies are involved in international business and long-term profitability is proposed

- A study which analyses the relationship between the management profile in terms of factors such as their age, educational background, racial composition, etc. and the level of the firms' long-term profitability is suggested.

6.7 FINAL COMMENTS

Every business person and many other people for that matter know that businesses must be competitive to survive inasmuch as everybody knows that good upbringing by parents is essential for the bright future of any child. However, it is one thing to know that good upbringing of children is essential for the bright future of any child and it is another to come up with a method that will make it possible for a parent to do so.

In like manner, this study went further than just concluding that for companies to survive they need to be competitive. It described and charted the way for companies to get there. It concentrated on the steel industry within the VTMA to asses what the present situation is when it comes to competitiveness, analysed the needs and offered some reasonable recommendations for managers in that field of activity. Thus, the researcher has contributed to the science of business management.

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ANNEXURE A

QUESTIONNAIRE

Department of Business Management
Vaal Triangle Technikon
VANDERBIJLPARK

Dear Sir/ Madam

Re: RESEARCH QUESTIONNAIRE

The attached questionnaire forms part of the study undertaken by the undersigned which aims to investigate how companies can create and sustain their competitive advantage through operational effectiveness and strategy.

The researcher wishes to assure that the information that you will furnish is confidential and will only be used for the purpose of this study.

PLEASE RESPOND TO ALL QUESTIONS AND STATEMENTS IN ALL THREE SECTIONS OF THE QUESTIONNAIRE.

THANK YOU IN ANTICIPATION FOR YOUR CO-OPERATION AND ASSISTANCE.

R I D POOE
Department of Business Management
VAAL TRIANGLE TECHNIKON

QUESTIONNAIRE

SECTION A

1. In which of the following sectors is your business operating?

A. Manufacturing	
B Services	
C Trade	
D Other (Specify)	

2. Form of ownership of your business

A. Private	
B. Public	
C. Close corporation	
D. Partnership	
E. Sole Proprietor	

3. How long has your business been in operation? [ ] Years

4. How many people are employed by your business? [ ]

SECTION B

5. Is your business involved in export market?

YES	NO

6. How long have you been involved in this export market? [ ]. years

7. If you are not exporting at the moment, do you plan to do so in the future?

YES	NO

7.1 If Yes, to which countries? Please specify

8. If already exporting, do you plan to expand your market?

YES	NO

8.1 If Yes, to which countries

9. Has your involvement in the export market had any impact on your methods of production?

YES	NO

Briefly explain:

_____

_____

_____

_____

10. Has your involvement in the export market any impact on your levels of employment?

YES	NO

Briefly explain:

_____

_____

_____

_____

11. Is your business importing any of the raw materials from abroad?

YES	NO

11.1 If Yes, from which countries?

11.2 If No, do you plan to import any raw materials in future?

YES	NO

12. Why does your business import raw material instead of purchasing them locally?

A.	cheaper to import.	
B.	not available locally	
C.	imports are of better quality	
D.	any other reason)	

Please specify:

_____

_____

_____

_____

13. Does your organisation have operations in other countries?

YES	NO

13.1 If yes, in which countries?

SECTION C

14. Which one of the following statements apply to your organisation?

A. customers have a say in how the products should be
B. every employee is urged to be quality conscious
C. it is the quality assurance department that should ensure that the right quality products are produced
D. the organisation always knows what customers need and want.

15. When it comes to quality

A. we ensure that it is built into the product
B. quality assurance department are the ones who ensure quality

16. Has your organisation embraced the principle of Total Quality?

YES	NO

17. How popular is the principle of Total Quality in your organisation?

A. top management knows all about it
B. middle managers are implementing it
C. supervisors ensure that it is carried out
D. everybody strives to be quality conscious
E. not popular

18. Do you have an arrangement whereby one department learns from others which are more effective and efficient in your organisation?

YES	NO

19. Does your organisation have a plan where it seeks to learn from other organisations that are more effective in a specific field?

YES	NO

20. Competing successfully over an extended period of time gets harder and harder because

A. there are always best practices on the market
B. competitors can quickly imitate new technologies and improvements
C. we find it difficult to come up with new ideas because by the time you implement them, some competitors know about it already.

21. Which of the following gives you an edge over your competitors?

A. producing our products most efficiently
B. producing a product which is better than our competitors'.
C. producing a product which is valued by the market
E. having operations that have the capacity to produce different kind of products

22. Does your organisation have any capability or competency that provides it with an attractive position among its competitors?

Yes
Can't think of any
No

22.1 If Yes, please elaborate

23. Are there any strategies that your organisation has in place for coping with competition?

Yes	
Don't know of any	
No	

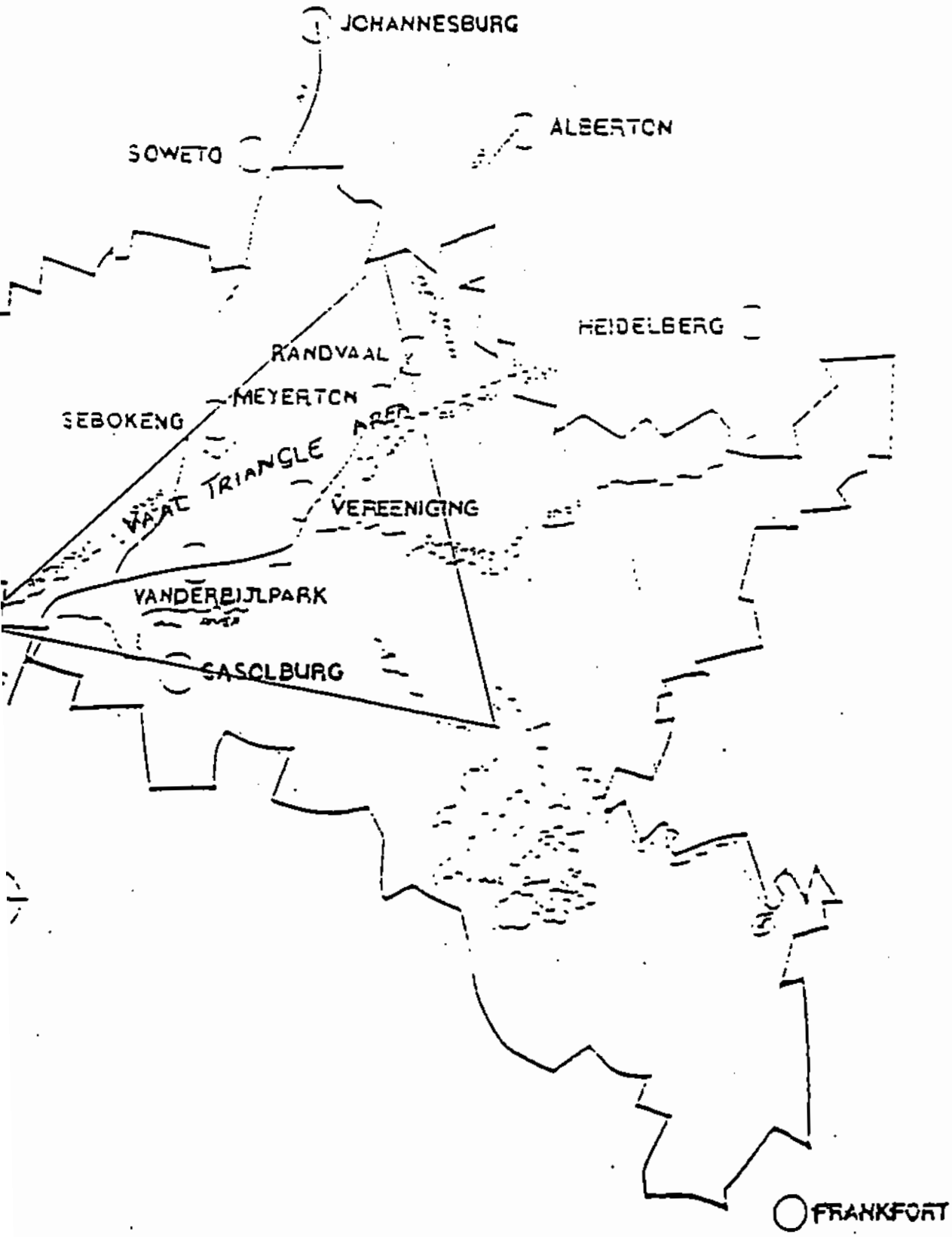
23.1 If Yes, please elaborate

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ANNEXURE B

LOCALITY MAP

GAUTENG MAP


JOHANNESBURG
SOWETO
ALBERTON
HEIDELBERG
RANDVAAL
MEYERTON
SEBOKENG
VAAL TRIANGLE
VEREENIGING
VANDERBIJLPARK
SASOLBURG
FRANKFORT

ANNEXURE C

UNIVERSITY OF TILBURG

kub map of the Netherlands

names and addresses | search and find | using the web

by car

by train

by bus

by air

the Netherlands

map of Tilburg

map of the campus



by car
by train
by bus
by air
map of the Netherlands
map of Tilburg
the campus

