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STEYN

THE APPLICATION OF THE PRINCIPLES OF STRATEGIC
MANAGEMENT IN THE SAMANCOR FERROCHROME DIVISION

A Research Report in partial fulfilment
of the requirements for the

MASTERS DEGREE IN BUSINESS MANAGEMENT



UNIVERSITY
OF
at JOHANNESBURG

THE RAND AFRIKAANS UNIVERSITY

by

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1991

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ACKNOWLEDGMENTS

I wish to extend my sincere appreciation to the following people for their contributions in the completion of this study:

- Prof. S. Kruger for his patience in handling my somewhat unorthodox approach to the study and his guidance during this period.

- Dirk Grobler and Linda Labuschagne for their assistance with the diagrams.

- Linda Steyn for the typing of the draft report.

- STETCO CC for the final editing and computer print.

- Last but not least my two daughters Mia and Adél. Thank you. You no longer have to hear the excuse: "I cannot, I have to write my report!"

**DIE TOEPASSING VAN DIE BEGINSELS VAN STRATEGIESE
BESTUUR IN DIE SAMANCOR FERROCHROOM-AFDELING**

OPSOMMING

Hierdie verslag bied 'n antwoord op die vraag: Wat is die beginsels van strategiese bestuur en hoe kan hierdie beginsels toegepas word in die Samancor Ferrochroom-afdeling om sodoende die Afdeling in staat te stel om 'n mededingende voordeel te verkry? Die Chroom-allooi-afdeling van Samancor word gekategoriseer op die tweede besigheidsvlak in 'n drievlak-hiërargie. Daar word aangedui dat die ekonomiese faktore in die eksterne omgewing die grootste impak uitoefen op hierdie Afdeling.

Deur middel van 'n SWOT-analise word aangetoon dat die Afdeling oor heelwat geleenthede beskik en te kampe het met heelwat bedreigings. Die belangrikste mededingende voordeel is die interne verskaffing van relatief goedkoop chroom-erts.

Alhoewel daar geen formele strategiese beheermeganismis in die Afdeling bestaan nie, is operasionele beheer effektief deur middel van 'n jaarlikse besigheidsplan. Daar word voorspel dat die struktuur van die Afdeling dalk kan verander met die aanstelling van 'n nuwe Algemene Bestuurder en die amalgamasie van die Allooi- en Erts-afdelings.

Die belangrikste strategie wat geïdentifiseer is vir die Afdeling, is die strewe om die produsent met die laagste koste te wees. Die skrywer hiervan huldig die mening dat die Afdeling se langtermynoorlewing berus op strategieë wat op hoër vlak aanvaar sal word as dié wat in hierdie verslag aangespreek is. Die strategieë van die Samancor Bestuurskomitee en die Genmin Uitvoerende Bestuur sal die langter-

myntoekoms van die Afdeling bepaal. Met sterk mededinging tussen Suid-Afrikaanse produsente, kan produsentedisipline slegs bewerkstelling word deur middel van amalgamasies en oornames. Hierdie onderwerp is geïdentifiseer as belangrik vir verdere navorsing.

Die belangrikste kritiek van die skrywer op die jaarlikse proses van strategiese beplanning in die Afdeling, is dat in werklikheid slegs een jaar se begroting opgestel word wat dan geëkstrapoleer word vir die volgende vier jaar. Min strategiese beplanning vind werklik plaas.

oOo



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CHAPTER 1

INTRODUCTION AND MOTIVATION FOR THE STUDY

1.1 INTRODUCTION

South Africa is the largest supplier of ferrochrome to the stainless steel industry and is responsible for 51% of world trade therein (Parizer, 1991). The stainless steel industry dominates the usage of ferrochrome (Anon, 1990: 1). Chrome is added to steel to increase the resistance to oxidisation and enhances its reaction to heat treatment whereby strength and hardness is improved. Steel markets therefore impact heavily on the ferrochrome industry (Sorel, 1989:5-8) and continued growth is dependent on the continued steady growth of stainless steel (Gomersall, 1989:5).

Samancor is the most dominant player in the ferrochrome market (Van Wyk, 1991a). To maintain this position and improve its profitability Samancor must be managed strategically.

What are the principles of strategic management and how can they be applied in The Samancor Ferrochrome Division?

How can the Ferrochrome Division gain competitive advantage?


This report deals with defining the principles of strategic management and applying them in the Samancor Chrome Alloys Division, with special reference to the Chrome Alloys Division being on the second level of the three tiered hierarchy.

This Division consists of three producers of ferrochrome and a chrome ore mine. The ferrometals works at Witbank also produces intermediate carbon ferrochrome and ferro-silicon.

1.2 MOTIVATION FOR AND PURPOSE OF THE REPORT

Samancor annually undertakes the process of drawing up strategic plans - a one year budget and four years' forecast. However, most of the personnel involved in the process have never had any formal training or education in strategic planning, therefore, there is not much expertise on the subject of the principles of strategic management.

The purpose of the report is to identify the principles of strategic management and then apply them to the Chrome Alloys Division with the primary objective of this report becoming a tool for the annual strategic planning process. The secondary objective being that by applying the principles of strategic management identified, management can better "position" the firm and so improve its profitability through increased effectiveness and efficiency. The report will also highlight the benefits of strategic management for the Division's management.



1.3 THE BACKGROUND OF THE CHROME ALLOYS DIVISION

The entity on which the principles of strategic management will be applied, is the Chrome Alloys Division. This Division consists of three producers of ferrochrome and a chrome ore mine. The ferrometals works at Witbank also produces intermediate carbon ferrochrome and ferrosilicon.

Structurally the Chrome Alloys Division spans over divisions and companies within the Samancor Group (Figure 1.3 p.6).

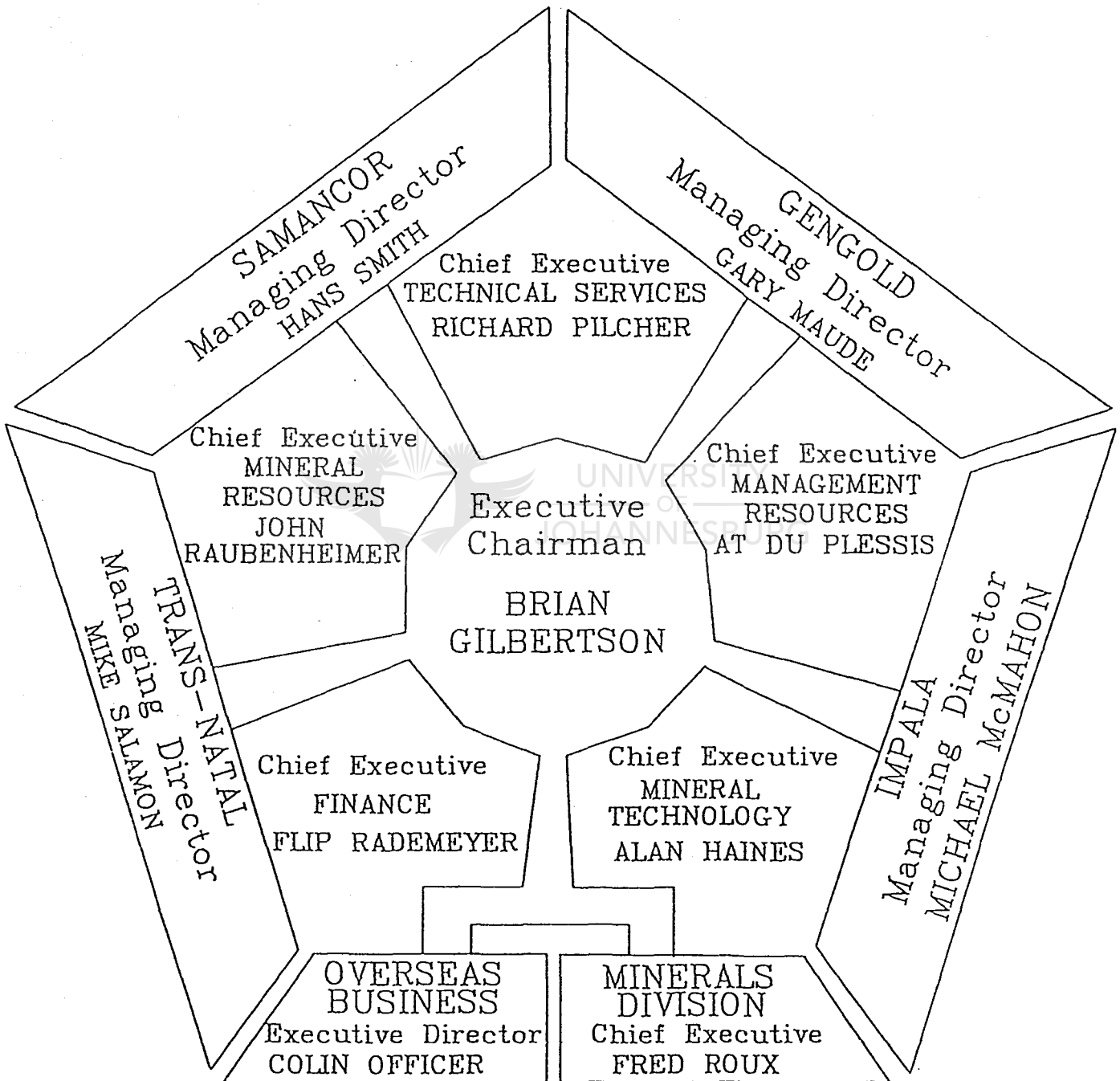
Samancor Limited is part of the Genmin group (Figure 1.1 p.4) and is subsequently managed at corporate level by the Genmin Executive Chairman and Samancor Management Committee. Samancor consists of seven Divisions (Figure 1.2 p.5), each managed by a General Manager who reports to the Managing Director (MD) of Samancor. The Samancor MD, together with his general managers and the Genmin Executive Chairman, forms the Samancor Management Committee.

The Chrome Alloys Division is a sub division of the Chrome Division and is managed by a Divisional Manager (Figure 1.2 p.5).

The company organisation structure of the Chrome Alloys Division is illustrated in Figure 1.3 p.6.

Figure 1.1

GENMIN ORGANIZATION STRUCTURE JUNE 1991



SOURCE: GENMIN PUBLIC RELATIONS (1991)

FIGURE 1.2

SAMANCOR ORGANISATION STRUCTURE – JUNE 1991

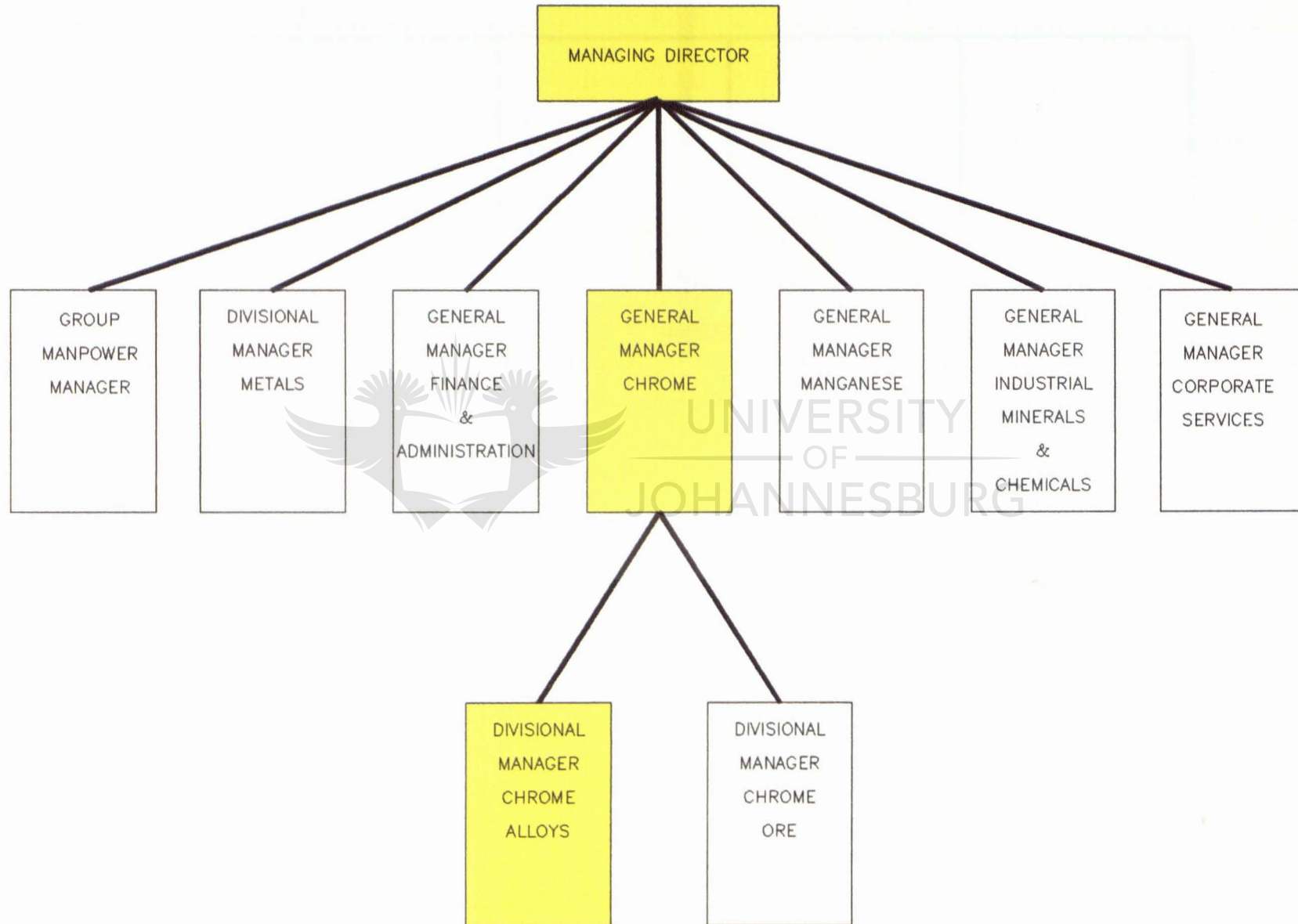
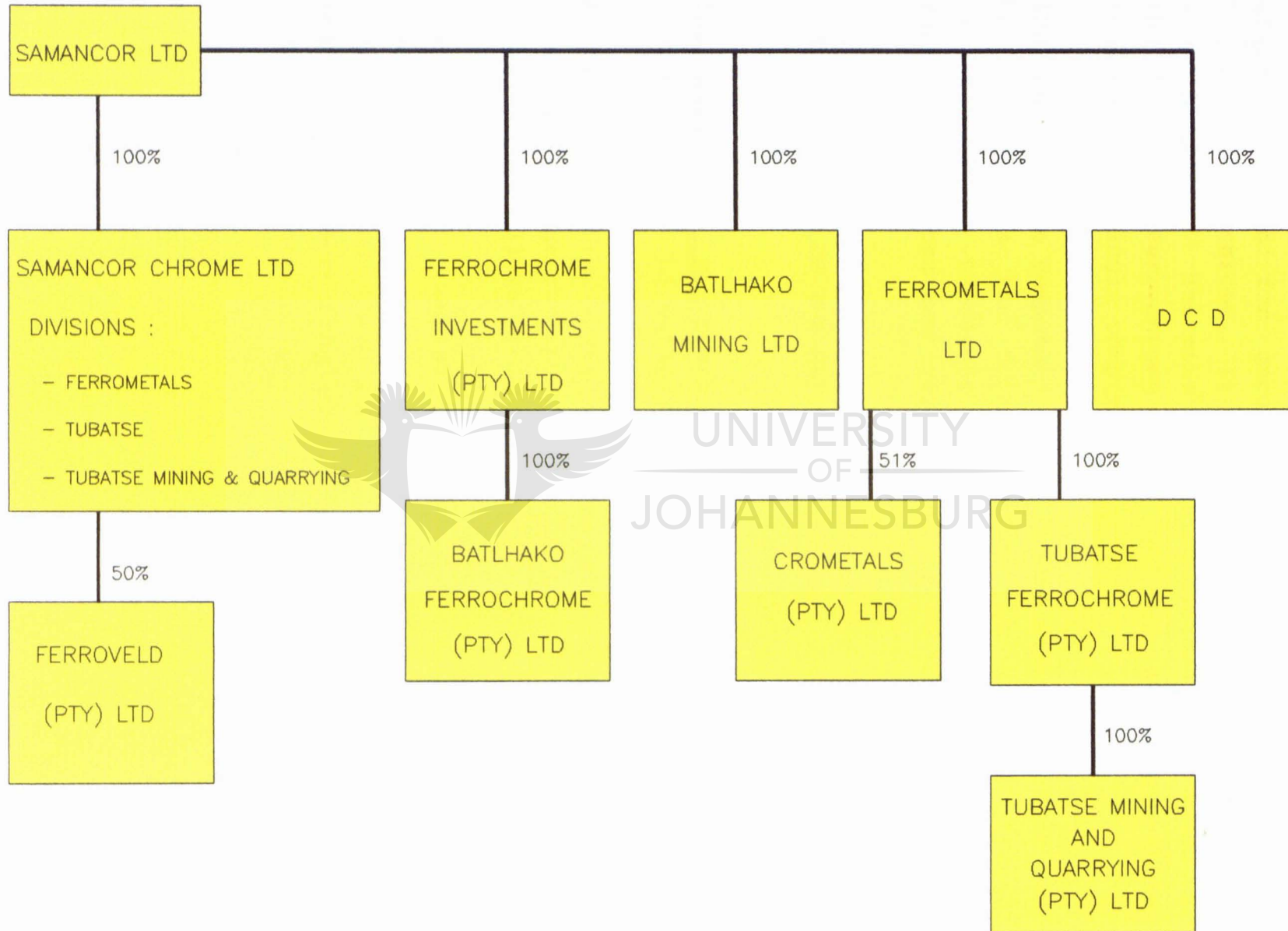


Figure 1.3

COMPANY STRUCTURE – CHROME ALLOYS DIVISION



The Bathlako Mining Company is included in the Chrome Alloys Division for geographical reasons. Together with Bathlako Ferrochrome, it forms one centre situated in Bophuthatswana. The mine's total production is consumed by the Bathlako Ferrochrome works and for that reason it is regarded as a single complex.

The head office component of the Chrome Alloys Division can be regarded as the business level in a three tiered decision-making hierarchy. This concept is dealt with further in chapter two (paragraph 2.4 p.14-16).

1.4 SCOPE OF THE REPORT

The report is not based solely on literature research but on a combination of methods.

A literature study was done to define the principles of strategic management and these principles were then applied to the Chrome Alloys Division.

The application consisted of holding meetings with the managers at the general works to discuss the theoretical principles with them and to obtain their views, and secondly by requesting senior managers in the Division to give written contributions on the following topics:

- * Mission statement.
- * SWOT analysis.
- * Key success factors.
- * Major objectives.
- * Planned strategies.

Two forms part of
a certain research
Method /
Kind of Delphi
Technique

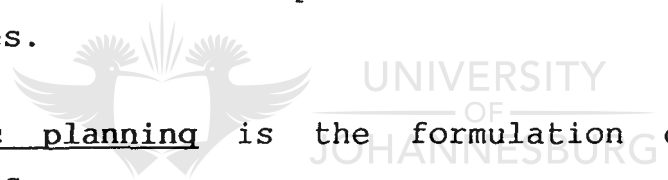
These written contributions and ideas from the meetings were then summarised to give views on the application of the principles of strategic management in the Chrome Alloys Division.

1.5 DEFINITION OF TERMS

From the literature study the following terms which are used in this report, were developed:

- * Strategic management is the deliberate effort to adapt the organisation to its changing environment through the formulation and implementation of competitive strategies.
- * Strategic planning is the formulation of competitive strategies
- * The environment is the sum of all the external and internal variables that impact upon the organisation.
- * A strategy is a unified, comprehensive and integrated plan that relates the strategic advantages of the organisation to the challenges of the environment.
- * Strategy formulation is the process whereby, relative to the competitors, decisions are taken regarding the mission, objectives and resource allocations (planning).
- * Strategy implementation is the strategic organising, leading and control of the organisation so that the strategies can be executed.

*What about my feedback?
What about my feedback?
What about my feedback?
What about my feedback?
What about my feedback?*



1.6 PROGRAMME OF THE REPORT

This report consists of six chapters which can be divided as follows:

* Chapter one: Introduction and motivation for the study

In this first chapter the subject of, the motivation for and the purpose of the report is outlined. ✓

The entity on which the principles of strategic management are applied, is described.

* Chapter two: The principles of strategic management ✓

In this chapter the theory of strategic management is discussed by defining the principles of strategic management, their features and the levels of strategy.

The mission of the Chrome Alloys Division is defined and the need for an explicit mission is explained in this chapter. ✓

* Chapter three: Environmental scanning ✓

This chapter deals with the Division's external environment and how this environment impacts on the Division. A distinction is made between the remote and operating environment.

The industry in which the Division operates is also analysed in this chapter. The industry structure is described and the competitive situation is analysed, resulting in opportunities and threats being identified. The Division's profile is developed and subsequently its strengths and weaknesses are identified together with the competitive advantages. ✓

* Chapter Four: Formulation of strategy

The sixth step in the process of strategic management is addressed in this chapter, namely formulating long-term objectives and key strategies. The strategic analysis and choice are conducted, leading to the selection of long-term objectives and planned strategies to achieve these objectives. ✓

This chapter also takes one through the seventh step, namely setting annual objectives and developing functional strategies to help implement the key strategies - operationalising the strategy.

* Chapter Five: Implementation of strategy ✓

The long-term means for institutionalising the Division's strategy, namely, structure, leadership and culture, is briefly discussed in this chapter.

Step nine in the process, control, is described with distinction being made between strategic and operational control. Reward systems are briefly touched on.

* Chapter Six: Summary, findings and recommendations

This chapter summarises the report, discusses the findings and certain recommendations are made.

CHAPTER 2

THE PRINCIPLES OF STRATEGIC MANAGEMENT

2.1 INTRODUCTION

The environment affects every organisation, and an important characteristic of the environment in which any organisation must survive or grow, is the rate at which that environment changes.

The degree to which an organisation is sensitive to the environment, and the forces generated by the environment which impact on it, determine the ultimate success of the organisation.

This is the basic principle of strategic management: "The deliberate effort to adapt the organisation to its changing environment through the formulation and implementation of competitive strategies, by making certain decisions" (Kruger, 1990:3). The mission is discussed as part of this chapter as it is already defined by top management and as such is 'theory' and does not have to be 'applied' in this report.

only one sentence?



? Is this true? — I kind to disagree

2.2 FEATURES OF STRATEGIC DECISIONS

As previously stated, managers formulate and implement strategies by making decisions. Which decisions facing the Division are strategic and therefore deserve attention?

Pearce and Robinson (1988:7) identify six dimensions characterising such decisions:

- * Strategic issues require top management decisions. ✓
- * Strategic issues involve the allocation of large amounts of the Division's resources. ✓
- * Strategic issues are likely to have a significant impact on the long-term prosperity of the Division. ✓
- * Strategic issues are future oriented. ✓
- * Strategic issues usually have major multifunctional or multibusiness consequences. ✓
- * Strategic issues necessitate considering factors in the Division's exterior environment. ✓

2.3 VALUE OF STRATEGIC MANAGEMENT

One of the objectives of the report is to identify benefits and risks of strategic management for the Division's management.

2.3.1 Financial benefits

A series of studies actually measured the impact of strategic management process on the bottom line. Pearce and Robinson (1988:17) say Kager and Malik found that strategic long-range planners significantly outperformed non-formal planners in terms of generally accepted financial measures. Thompson and Strickland (1987:17) however, say there is no absolute, unequivocal yes to the question whether strategising firms perform better or not. However, the majority of studies suggest that there is a relationship between better performance and formal planning (Armstrong, 1982: 97-212; Robinson & Pearce, 1983:197-207).

2.3.2 Benefits of strategic management

As a result of the interaction of managers at all levels, strategic management also has certain behavioral consequences:

- * Strategy formulation should enhance the problem prevention capabilities of the firm.
- * Group based strategic decisions are most likely to reflect the best available alternatives.
- * Employee motivation should improve with better understanding.
- * It should lead to clarification of role differentiations and allocate responsibilities.
- * Resistance to change should be reduced.

Therefore, regardless of the eventual profitability of strategic management, the behavioural effects can improve the welfare of the Division. If they fail to plan strategically, they plan to fail strategically (Pattan, 1986:31).

2.3.3 Risks of strategic management

While involvement in strategy formulation has benefits, there could be negative consequences summarised as follows:

- * Costly in terms of hours invested by participants and time managers are away from their work.
- * Non implementation. Formulators must be involved in implementation, otherwise subordinates may not implement or plans may be unrealistic and impossible to implement.
- * Negative reactions when expectations are not met. Subordinates may become disappointed or frustrated over unattained expectations and managers must be trained to handle these problems.

2.4 LEVELS OF STRATEGY

The decision-making hierarchy of business firms typically contains three levels. At the top is the corporate level, composed principally of members of the board of directors, chief executive and administrative officers.

They are responsible for the financial performance of the business as a whole and for achieving non-financial goals of the business, for example, corporate officers set objectives and formulate strategies that span the activities of individual business in the corporate and the functional area of these businesses.

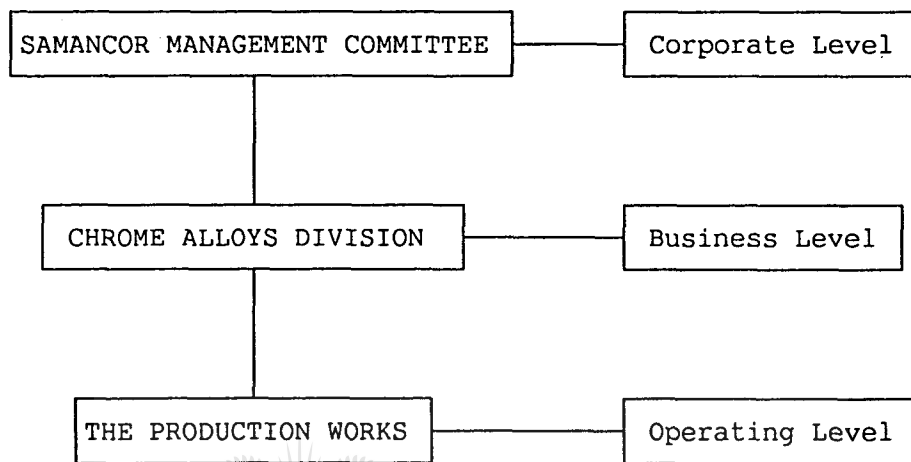
The second rung of the decision-making hierarchy is the business level. These managers must translate the general statements of direction and intent generated at the corporate level into concrete, functional objectives and strategies for individual business divisions. In essence, business level strategic managers must determine the basis on which the Division can compete in the selected product-market area. ✓

The third rung is the operating level, composed principally of managers of product and functional areas. It is their responsibility to develop annual objectives and short-term strategies in such areas as production, operations, finance, marketing and human relations. However, their greatest responsibilities are in the implementation or execution of the Division's strategic plans.

Figure 2.1 p.16 depicts the three levels of strategic management as they should be structured in the organisation under review. *ie the proposed management structure!*

Figure 2.1

Strategic Management Structure



The Chrome Alloys Division is classed as being on the business level and is mainly concerned with "doing the right things" (effectiveness), whereas the managers at the Works must stress "doing things right" (efficiency).

The emphasis of this research report will be on the application of strategic management on the business level.

2.5 THE INTERACTIVE AND ITERATIVE FLOW OF THE STRATEGIC PROCESS

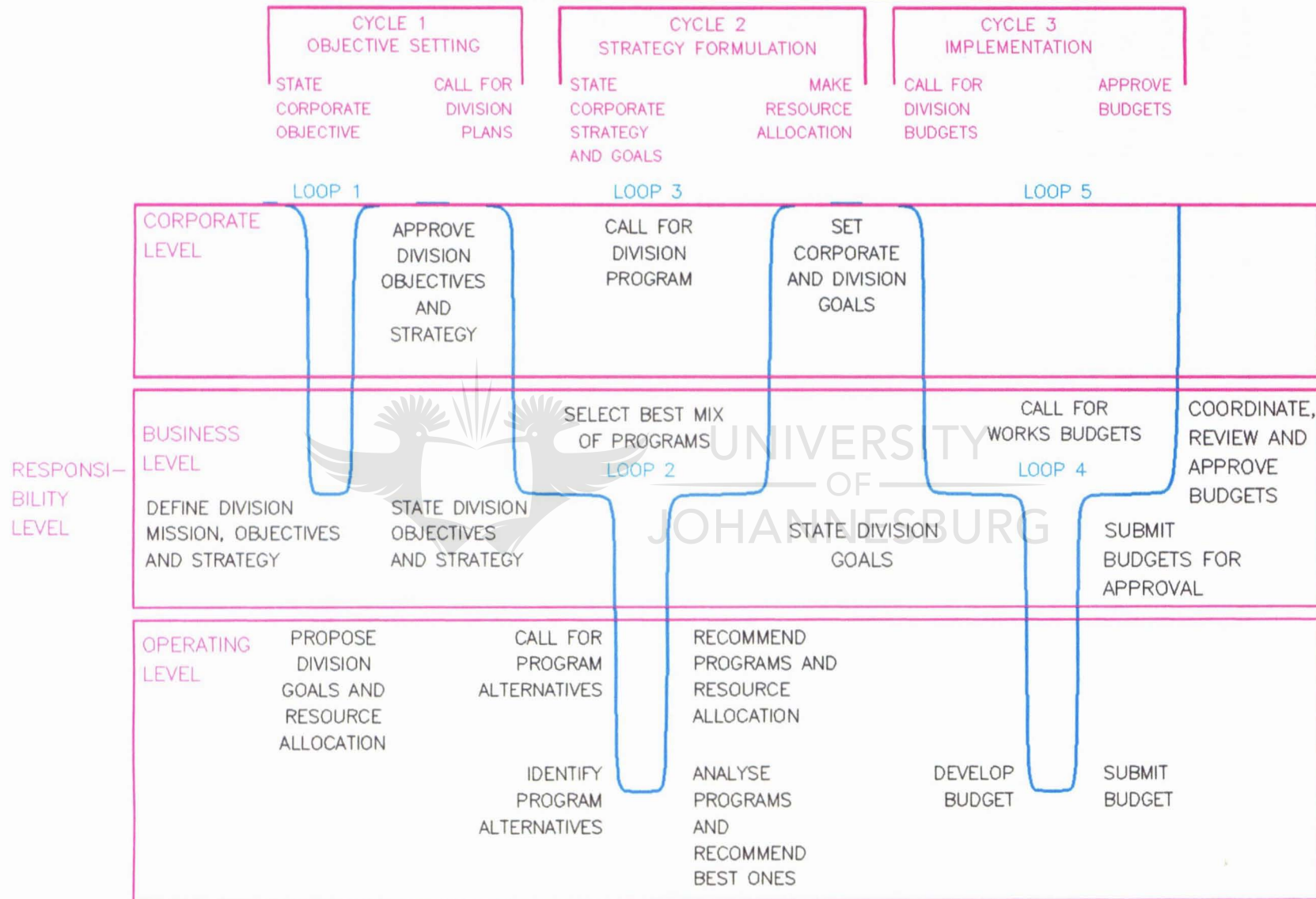
The strategic management process is sometimes misperceived as involving a uni-directional flow of objectives, strategies and decision parameters from corporate to business to operating level managers. In fact, the process is highly interactive, that is, designed to stimulate input from creative, skilled and knowledgeable people throughout the firm. While the strategic process is certainly overseen by top managers, because they have a broad perspective on the company and its environment, managers at all levels should have multiple opportunities to participate in various phases of the total process.

Figure 2.2 p.18 illustrates the basic interactive flow. As indicated by the blue line, strategic management activities tend to follow a formalised pattern of top-down or bottom-up interactions involving planners at all three levels.

As indicated by the five loops, the strategic management process is also iterative. This means strategic decisions are usually reached only after trial and error.

Figure 2.2

STRATEGIC PLANNING PROCESS CYCLE



SOURCE : ADAPTED FROM PEARCE AND ROBINSON (1988:16)

* Loop 1

When Samancor management committee receives inputs indicating where the Division may be going, it will have to reconcile the picture with its initial objective. As a result the Committee may ask the Division to revise its inputs, or alternatively the Committee could change the original objective. A number of iterations may be necessary before the loop is closed.

* Loop 2

In formulating strategy the General Manager Chrome may frequently go back to the works and request revisions so that the individual programmes fit into a more coherent package from the Division's viewpoint.

* Loop 3

When the Samancor Committee receives the Division's strategy it may have to recycle it to achieve the desired strategy.

* Loop 4

During implementation the General Manager Chrome may have to recycle the work's proposal so that the overall implementation plan has the desired strategic properties.

* Loop 5

Similarly, the Samancor Committee might want revisions of the Division's implementation plan so that an overall fit is achieved.



The central point is that the team concept is critical in the strategic process. Managers at various levels interact and are interdependent in achieving the final outcome. Participative management and management by objectives are essential for a successful strategic management process.

2.6 THE STRATEGIC MANAGEMENT PROCESS

Strategic management is the process whereby managers establish an organisation's long-term direction, set specific performance objectives, develop strategies to achieve these objectives in the light of all relevant internal and external circumstances (Thompson & Strickland, 1987:4).

Strategic management is a continuous process (Jauch & Glueck, 1988:8) consisting of identifiable steps that can be taken to formulate and implement strategies.

Viewing strategic management as a process has several important implications. First a change in any component will affect several or all other components. A second implication is that strategy formulation and implementation are sequential.

The necessity of feedback from institutionalisation, review and evaluation to the early stages of the process is another implication.

A fourth and final implication of strategic management as a process is the need to view it as a dynamic system (Thompson & Strickland, 1987:12). The term dynamic describes the constantly changing conditions that affect interrelated and interdependent strategic activities.

*Strange
way to
give
definitions!*

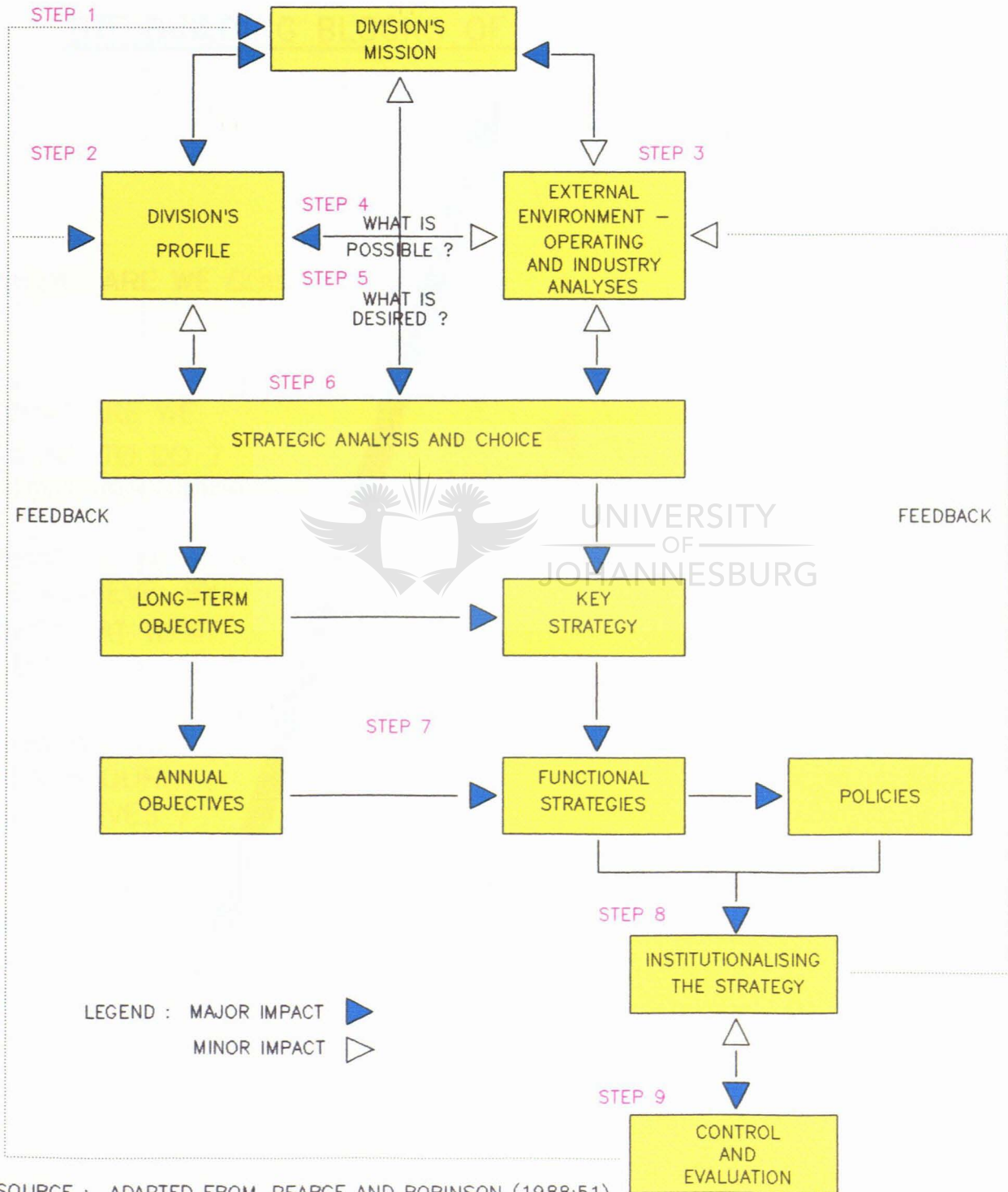
The identifiable steps making up the process are as follows:

- a) Determining the mission of the Division.
- b) Developing the Division's profile.
- c) Evaluating the external environment. There is a definite link between the external and profile analysis, and the SWOT analysis is used to do the analysis.
- d) Analysing the possible options derived from the Division's profile and environment analysis.
- e) Identifying the desired options out of the possible options.
- f) Strategic selection of specific long-term objectives and key strategies to make the options possible.
- g) Development of annual objectives and short-term strategies.
- h) Implementation of strategic choices based on budgeted resource allocation and taking into consideration tasks, people, structures, technology and remuneration systems.
- i) Reviewing and evaluating the success of the process to serve as basis for control and as input in future decision-making.

These steps can be grouped together in a strategic management model as illustrated in Figure 2.3 p.22. Alternatively the process can be illustrated diagrammatically as in Figure 2.4 p.23 where Boshoff (1991:14) adds the block of vision on top of the mission. Boshoff asks the question where the organisation is going - a distant vision, an idea. Then the vision is turned into the mission - a statement of intent. After that the steps are similar to those identified above.

FIGURE 2.3

STRATEGIC MANAGEMENT MODEL



SOURCE : ADAPTED FROM PEARCE AND ROBINSON (1988:51)

Figure 2.4

THE BUILDING BLOCKS OF STRATEGIC MANAGEMENT



Source : Adapted from Boshoff (1991:14)

2.7 MISSION

2.7.1 What is an organisation mission?

Very simply, it describes the nature and concept of the organisation's future business (Morrisey, 1988:50). Secondly, a company's mission statement should differentiate it from other companies (Ackoff, 1986:31).

Whether developing a new business or reformulating direction for an ongoing organisation, the basic goals, characteristics and philosophy that will shape a firm's strategic posture must be determined. This organisation mission will guide future executive action. The mission is a broadly framed but enduring statement of organisation intent.

The mission statement defines current and future business activities. It should provide a unifying force, a sense of direction and a guide to decision-making for all levels of management (Beyers & Neil, 1987:32).

Thus, the organisation mission is defined as the fundamental and/or unique and/or broad general purpose and/or values and/or philosophy that set a business apart from other firms of its type in terms of:

Table 2.1 Components of a mission statement


- product/service]	What business are we in?
- markets		
- technology		
- public image]	What is our philosophy?
- philosophy		
- self concept		
- survival		
- growth		
- profitability		

Source: Samancor Chrome Alloys Division: Strategic Plan, 1991:1).

2.7.2 The need for an explicit mission

Defining the organisation mission is time consuming, tedious and not required by an external body. It is not prescribed by any outside body but may be of value to anybody analysing the organisation. Its main purpose is for internal use - to describe the business of the organisation. The mission contains few specific directives, only broadly outlined or implied objectives and strategies. Characteristically, it is a statement of attitude, outlook and orientation, rather than of details and measurable targets.

What then is an organisation mission designed to accomplish? King and Cleland (1978:124) provide seven answers:

- * To ensure unanimity of purpose within the organisation.
 - * To provide a basis for motivating the use of the organisation's resources.
 - * To develop a basis, or standard, for allocating organisational resources.
 - * To establish a general approach or organisational climate.
 - * To serve as a focal point for those who can identify with the organisation's purpose and direction.
 - * To facilitate the translation of objectives and goals into a work structure involving the assignment of tasks to responsible elements within the organisation.
 - * To specify organisational purposes and the translation of these purposes into goals in such a way that cost, time and performance parameters can be assessed and controlled.
- 

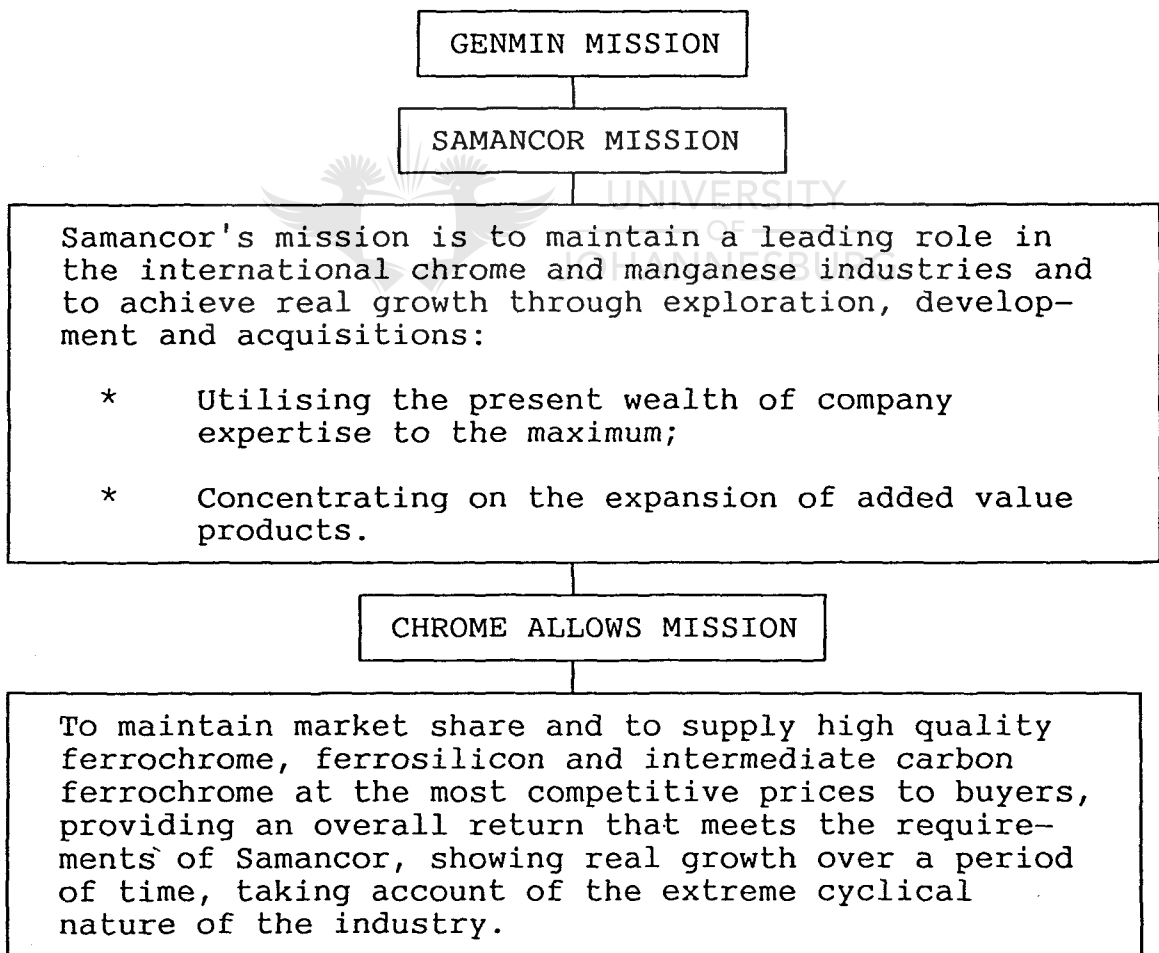
2.7.3 Chrome Alloys' mission

The aim of the mission on the business level should be to translate the more general corporative mission into more concrete functional objectives and strategies.

The Chrome Alloys Mission must be derived from and subordinate to the Samancor Mission which in turn is derived from the Genmin Mission. *as shown in figure 2.5*



Figure 2.5 Samancor and the Chrome Alloys Division Mission Statements



Source: Samancor Chrome Alloys Division: Strategic Plan, 1991.

This agrees with Samancor's mission of showing real growth and maintaining a leading role in the international chrome industry by utilising the present wealth of company expertise to the maximum.

Measured in terms of the requirements set out in paragraph 2.7.1 p.24, the Chrome Alloys mission describes the products but does not describe the markets or technology. As regarding the philosophy, it only refers to profitability and growth and ignores the other factors such as public image and self concept.

2.8 SUMMARY

Strategic management was defined as the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of an organisation. It was shown to involve long-term future orientated, complex decision-making, necessitating top management action because of the recourses required to formulate an environmental or opportunistic plan.

Strategic management was presented as a three tiered process involving corporate, business and operational planners.

The chapter stressed that the strategic management process centres around the belief that the mission of the Division can best be achieved through the systematic and comprehensive assessment of both the Division's resource capabilities and its external environment. Subsequent evaluation of the Division's opportunities, leads in turn to the choice of long-term objectives and grand strategies, and ultimately, to annual objectives and operating strategies which must be implemented, monitored and controlled. Each phase of the process is examined in the subsequent chapters.

The critical role of the organisation mission as the basis of orchestrating managerial action is repeatedly demonstrated by failing firms whose short-run actions are ultimately found to be counterproductive to their long-run purpose.

An organisation gains a heightened sense of purpose when its managers address the issues of: "What business are we in?" "What customer do we serve?" "Why does this organisation exist?"

When a mission statement is developed from this perspective it provides managers with a unity of direction. It promotes a sense of shared expectations among all levels and generations of employees. It affirms the organisation's commitment to responsible action to ensure sustained survival, growth and profitability.

Once the Mission has been established, the environment must be analysed to determine its impact on the organisation.

oOo



CHAPTER 3

ENVIRONMENTAL SCANNING: INTERNAL AND EXTERNAL

3.1 INTRODUCTION

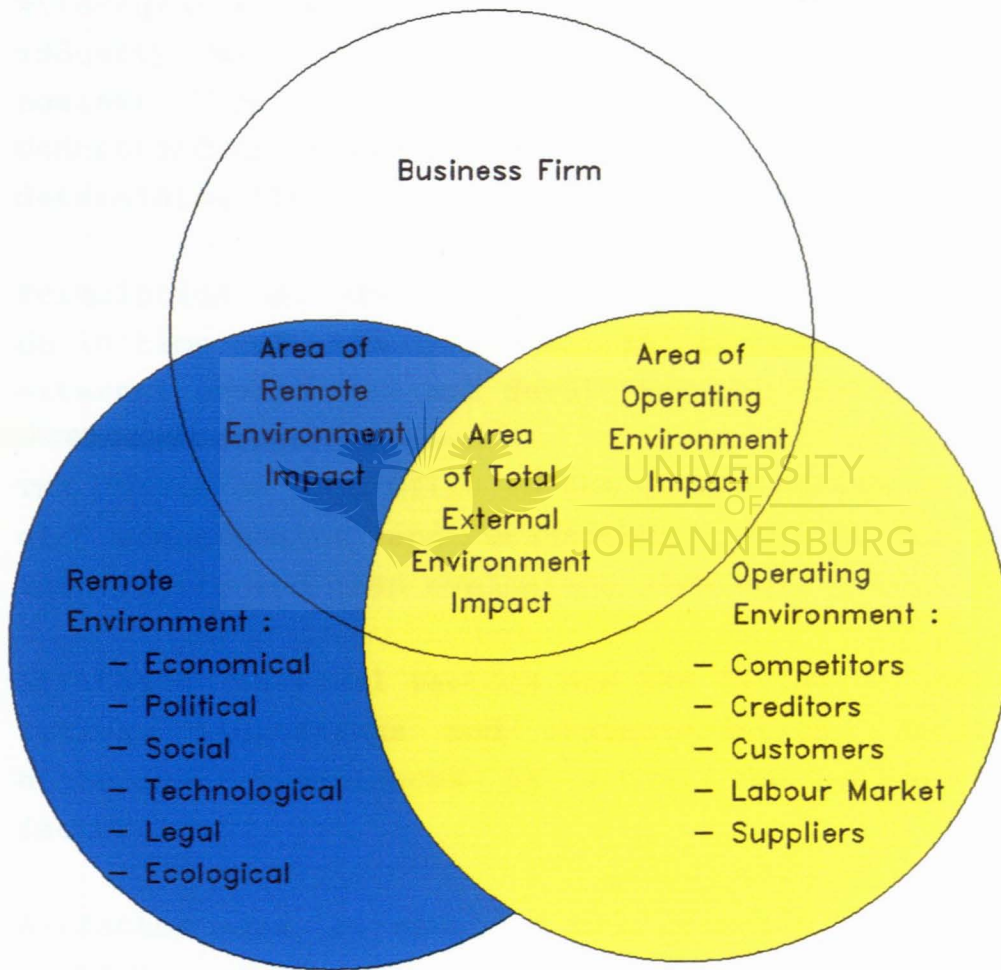
A host of external and often largely uncontrollable factors influence a firm's choice of direction and action and ultimately, its organisational structure and internal processes. These factors, which constitute the external environment, can be divided into two interrelated subcategories: those in the remote (macro) environment and those in the more immediate operating (micro) environment. The market environment, although not really part of the micro environment, is read together with it in this report, as this is the segment in which the organisation trades.

Figure 3.1 p.30 suggests the interrelationship between the firm and the remote and operating environment.

The nature and degree of competition in an industry hinges on five forces. To establish a strategic agenda for dealing with these contending currents and to grow despite them, an organisation must understand how they work in its industry and how they affect the organisation in its particular situation.

Figure 3.1

The Firm's External Environment



SOURCE : PEARCE AND ROBINSON (1988:100)

The collective strength of these forces determines the ultimate profit potential of an industry, but the strongest competitive force or forces actually determine the profitability of the industry and so are of greatest importance in strategy formulation.

Whatever their collective strength, the corporate strategist's goal is to position his organisation in the industry where his organisation can best defend itself against these forces or can influence them in its favour. Understanding these forces also proves to be of help in determining the opportunities or threats in the industry.

Formulation of an effective strategy is based on a clear definition of the mission, an accurate appraisal of the external environment and developing the Division's profile.

The Division's profile is the determination of its strategic competencies and weaknesses. This is accomplished by identifying and then evaluating strategic internal factors.

Strategic internal factors are the Division's basic capabilities, limitations and characteristics. Strategists use historical experiences as a basis for evaluating internal factors.

A factor can be regarded as a strength when it has a competitive advantage and as a weakness when it is connected to something the Division does not do so well or does not possess.

The Division must analyse its environment and for this purpose several techniques can be used.

3.2 TECHNIQUES FOR ENVIRONMENT ANALYSIS

First of all, there is the gathering of verbal information, formally or informally (for example at meetings and conferences). Other verbal sources include the media, the Division's employees and others outside the firm.

Written or documentary information is also gathered by reading of journals, newspapers and industry news letters. Examples are, The Metal Bulletin and Chromium Review. ✓

A third technique available, which is not used by Samancor, is industrial espionage.

Another technique to analyzing the environment is formal forecasting.

Accurate forecasting of changing elements in the environment is an essential part of strategic management and for this reason the Chrome Alloys Division has a market research section which co-operates closely with overseas consultants in identifying factors external to the Division that might provide actual opportunities or pose threats in the future.

3.3 REMOTE (MACRO) ENVIRONMENT

The remote environment is composed of a set of forces that originate beyond and are usually irrespective of a single firm's operating situation. These forces, set out below, present opportunities, threats and constraints for the firm.

For The Chrome Alloys Division the most important factor is the economy, which will be discussed in depth with the other factors only being touched on briefly.

3.3.1 Economic

Examination of the various environmental factors has shown that the business organisation must concern itself with a number of aspects. The firm, however, is primarily concerned with the allocation of resources. Resources become available through the economic environment. The examination of the economic environment is of central concern for the business enterprise.

The general state of the economic environment serves to determine the availability of resources. In periods of economic upswing, resources are more readily available than in periods of downswing. The state of the economic environment may be determined through price indices, growth of the Gross National Product (GNP) or an examination of unemployment rates. The state of the economy exerts its influence by determining the availability of financial capital and the demand for a firm's products. Taxation and money supply, determined by the authorities, exert their influence upon the activities of the firm.

The South African economy in which the Division operates, continues in a state of recession with substantial uncertainty over its future direction. In many areas such as unemployment, the economy is closely interlinked with the country's political climate, which is undergoing fundamental change. Various negative trends, such as very high inflation and interest rates, and effectively no growth in GNP, undermine the economy. In addition, international prices for most of South Africa's major

exports, including Ferrochrome, remain depressed - the most visible is gold, but ferro alloys are also a major foreign currency earner.

Exchange rate movements exercise enormous influence on the Division's profits, and inflation rate differentials with major trading partners continue to have the greatest effect on exchange rates in the longer term. The other side of the coin, however, is that South Africa's unacceptably high rate of inflation causes the Division's production costs to increase far more rapidly than those of foreign competitors, and there is no realistic chance of a substantial decrease in the inflation rate in the foreseeable future.

International economic activity influences demand for the Division's products. Most major industrial economies remain in varying stages of recession despite conflicting signals from the United States of America. The democratisation of Eastern Europe may not fully realise the trade potential initially expected, although on the positive side, the feared adverse consequences of the recent Gulf War did not materialise.

The world economy softened considerably during the first half of 1991; for the first time since the early 1980s cyclical demand weakness has become the dominant problem facing the commodity metals industry. There is certainly a current global metal industry recession, even though the world economy is in a much less serious condition than it was during the last two business cycles. The key issue is how long, deep and serious is this recession going to be. The best assessment can be made through studying trade figures (De Wet, 1985:24).

The view is that the current recession will be much less severe than that of 1975 and 1982; that it has probably reached a bottom level and that a mild recovery will set in later in 1992. Opinions such as this are quite widely held in the economic forecasting profession and they represent a reasonable basis for future planning.

The major economies of interest to the metals industry can be divided into the following three categories (Resource Strategies, Inc., 1991:1-24):

- * Those clearly experiencing a significant recession.
- * Those economies where economic activity is flat with recessionary tendencies in cyclical sectors, especially the metals-using industries.
- * Those economies experiencing a growth slowdown.

In the first category, we have the United States, the United Kingdom, Canada, Australia and some of the important Third World countries such as Brazil. In the second category we find the main continental European countries such as France, Italy and Spain. In the third category, we find Japan and the newly industrialising countries of East Asia. The economy that is most difficult to classify in the above schematic is that of Germany. The consensus of macro-economists places Germany in the third category, experiencing a growth slowdown. ? Schem

Whether or not the recession in the United States will intensify and spread to Europe and eventually Asia, depends on two factors, namely:

* The stance of government monetary policy around the world.

* The state of financial institutions in general.

Government policy around the world shows signs of shifting to a more expansionary phase. To recapitulate: policy turned restrictive in 1988 and continued in this vein through 1990. This move to restrictive monetary and in some cases fiscal policies, was triggered by the unexpected strength of the boom in capital goods experienced in the late 1990s and the attendant inflationary pressures that began to develop in key economies. As far as the United States is concerned, policy has now definitely moved to a more accommodating stance over the last twelve months. The Federal Reserve Bank has allowed short-term interest rates to drop sharply. However, long-term rates were found more resistant to shift downwards, partly because of inflationary expectations and partly, because hardpressed banks have used the opportunity afforded by falling short-term rates to enhance profit margins. However, inflation expectations have significantly moderated over the last few months since the end of the Gulf War. Moreover, banks are finding it difficult to put good new loans on their books at present. Both of these pressures are expected to produce some flattening of the yield curve in the United States with an attendant beneficial influence on business activity. Needless to say, the posture of fiscal policy is definitely expansionary with the huge Federal government deficit further increasing as a result of the decision by Congress to make the cost of the savings and loan bailout and the Gulf War both "off budget" for the purpose of counting the numbers.

Until recently, Japanese and European governments were resisting this shift in monetary policy because they were concerned about intensifying inflation. In early July,

however, the Bank of Japan unexpectedly cut interest rates. This was a clear sign of a change in the stance of policy makers in that country. Inflationary pressures in Japan moderated sharply in the early part of 1991. For example, the wholesale price index declined at an annual rate of 0,4 per cent in May and the import price index, a key indicator of future inflationary pressures, dropped a massive 8,1 per cent (Resource Strategies, Inc., 1991:3). Moreover, in the first quarter of 1991 the rate of increase of hourly earnings was down to only 1,6 per cent compared with 5,3 per cent in the previous year (Resource Strategies, Inc., 1991:3).

In addition to the moderation of inflationary pressures, the Japanese authorities have also been influenced by the relatively successful way in which the prices of speculative assets have been de-escalated. For example, share prices in Japan fell 40 per cent in 1990 (Resource Strategies, Inc., 1991:4). While this has been accompanied by a certain amount of pain and suffering, it has not produced a financial calamity.

In Europe, the situation is a little different. The German Bundesbank has been insisting on maintaining high interest rates. The Bundesbank is worried about the huge deficit spending of the German government on the reconstruction of the Eastern region, a process that seems likely to cost a lot more than originally anticipated. The economic policy decisions associated with this process have been poorly handled by any standards and this has led to a loss of confidence in German government policy.

It is usually assumed that high German interest rates have been pushing up the structure of European rates as a whole. However, in recent months there has been a significant breaking of ranks. Both the French and Italians dropped their interest rates in May. In the United Kingdom the trend to lower interest rates started earlier - in the

fourth quarter of 1990. The prime rate is now down from a peak of 15 per cent to 11,5 per cent (Resource Strategies, Inc., 1991:4). However, the actions of the French and Italian governments are of greater significance. The cuts in British interest rates were taken in the context of a sharp decline in inflation from more than 10 per cent to approximately 6,5 per cent (Resource Strategies, Inc., 1991:4).

There is some concern that the economic recovery that one would normally expect to be triggered by this shift to a more accommodating government monetary policy, could be offset or aborted by problems in financial institutions. The 1990 - 1991 recession is the first that has seriously impacted on the service industries, particularly financial institutions. The current weakness in the capital structure of banks in many countries and the apparent trend to more restrictive lending practices, means we cannot rule out the possibility of a "credit crunch". The problems in the United States have received much publicity, however, difficulties are not confined to this country. Japanese banks have also experienced significant losses and one or two European institutions have been similarly adversely affected. This is a new factor which was not present in previous business cycles. It means that we cannot be confident that past experience will be a totally reliable guide to the future.

In the final analysis these problems are manageable by monetary authorities. They can be cured by an injection of liquidity into the banking system. Obviously such a liquidity injection would have inflationary implications, but the potential pain from a second phase to the recession caused by a credit crunch seems to be too high to be politically attractive.

The South African economy falls into the first category - those experiencing a significant recession. In the longer term outlook is brighter (Robinson, 1991).

3.3.2 Social

This environmental component directs itself to the values and norms of the society in which the firm exists. Western society views profit-seeking as a legitimate goal. However, the firm is not free to pursue this goal in an irresponsible manner. Limitations are prescribed delineating what the firm may or may not do. If the firm conducts its business under a different set of cultural values, then it may act only within the prescribed limits. The social environment not only differs across national borders but can be very different within the same country.

The business enterprise must therefore act in a manner which is deemed socially responsible. If a firm does not perform in this manner, society will react through its legislative arm to prescribe the desired behaviour. Examples of this action may be seen in regulations concerning pollution control and advertising. Such legislation ensures that the corporate citizen behaves in a responsible manner.

The political changes in South Africa have lead to changed values and attitudes of the labour force. Greater future demands from the labour force could influence production costs, although Union demands must be limited by economic fundamentals.

The Chrome Alloys Division must ensure that all discrimination is eliminated in the work place. Greater awareness of social responsibility and upliftment of the workforce could also become costly but must be actively pursued to ensure labour stability.

Fortunately, the workers in the Division's plants are not exposed to any disease or dangerous substances in their work places. The only danger to the workers is the extreme heat and possibility of burning. However, safety precautions are very tight.

3.3.3 Technological

Advances in technology are common everyday occurrences in the present business world. Today's innovation may be rendered obsolete tomorrow. It is important to view technology not only as a threat to the firm, but also as providing opportunities for the organisation to utilise its resources in a more efficient manner. The development of the aeroplane was responsible for a decline in the railroad passenger business but gave birth to the airline industry.

Consideration of technology is vital in the area of competition. It is the firm that can best use new technology that is able to establish a competitive advantage. In order to employ technology in the firm's undertakings it is necessary that the technological environment be monitored to become aware of advances.

Changing technology offers opportunities for reducing costs and differentiated products.



The following areas are being investigated:

- * Pre-reduction (Barcza & Curr, 1985:2). The process is being used by one of Samancor's competitors, but the success is still to be proved.
- * Replacement of coke with coal as reductant. Ongoing studies are being undertaken by the development department.
- * Improvement of chrome recovery. As this has a great influence on unit costs, ongoing studies are being conducted.
- * Utilisation of cheaper UG 2 ore. With the abundance of ore reserves in the group, this option is found not to be viable at this stage.



3.3.4 Legal

The legal component of the environment manifests itself in laws which concern:

- * The establishment of the organisation.
- * How the firm may conduct its business.
- * A framework delineating what may or may not be done in the case of expansion, merger or acquisition.

Corporate management must therefore be aware of the legal implications of their actions or proposed actions, such as anti trust laws in Europe and the USA if Samancor was to take over a competitor and thus have a greater market share.

With the change in the political situation and the repeal of many Apartheid Laws the Division must ensure that it conforms to all new legal requirements.

The terrain of labour legislation such as legal or illegal strikes is one of great importance and incorrect action resulting in strikes can be very costly.

3.3.5 Ecological

The ecological factor of the external environment is becoming an important consideration for the Division. A large number of the natural resources used by industry are non-renewable. Industrial pollution is widespread. If these trends continue, the very existence of humanity is threatened. Responsible use of technology is required in order to support the world's basic system, the ecosystem.

The greatest ecological challenge to the Division is air pollution. The works at Tubatse is most probably the cleanest ferrochrome plant in the world, as all its furnaces are served by gas plants.

Ferrometals at Witbank is presently spending around twenty million rand to install gas plants on the remaining furnaces.

The Division is sensitive to ecological issues and all efforts are made to ensure that the ecology is not jeopardised.

What about the extraction of chrome from the ground? — open mines?

3.3.6 Political

Political considerations define legal and otherwise governing parameters in which the firm must or may wish to operate. The legal aspects have already been dealt with in paragraph 3.3.4 p.41-42.

The recently reformed political situation in South Africa, namely Apartheid had a profound effect on the country. The changing political situation in South Africa has eased sanction pressure and trade restrictions of this nature should soon become something of the past. Other political factors that impact on business are export incentives. The planned withdrawal of these incentives for export promotions will adversely effect export earnings in the ferrochrome industry. Representations to government on this matter are ongoing and Samancor is playing a leading role.

Uncertainty regarding the nature of future governments restricts long-term planning. From the analysis of these factors certain opportunities and threats have been identified, which are discussed in paragraph 3.5.3 p.67-69.

3.4 OPERATING ENVIRONMENT

The operating environment involves factors in the immediate competitive situation that provide many of the challenges a firm faces in connection with resources and the provision of goods and services. This environment can also be called the market environment.

The operating environment differs from the remote environment in that it is typically subject to much more influence

or control by the firm. Among the most prominent of these factors are:

- * Competitive position.
- * Customer profiles.
- * Suppliers and creditors: sources of resources.
- * Personnel: nature of the labour market.

These factors will now be dealt with one by one by means of a check list.

3.4.1 Competitive position



By assessing its competitive position a business improves its chances of designing strategies that optimise environmental opportunities.

Development of competitor profiles enables a firm to more accurately forecast both its short and long-term growth potential. Although the exact criteria used in constructing a competitor's profile are largely determined by situational factors in the environment, the following could be applied in the ferrochrome industry:

- * Market share.
- * Price competitiveness.
- * Location of facilities.
- * Capacity.
- * Raw material costs.
- * Raw material access.
- * Financial position.
- * Relative product quality.
- * Calibre of personnel.
- * Reputation/image.
- * Technological skills.
- * Final product cost.

Although the type of competitor profile suggested in Table 3.1 p.46 is limited by subjectivity, it is of considerable value in helping a business to explicitly define its perception of its competitive position. Comparing profiles of the Division and its competitors can further aid managers in identifying specific factors that might make a competitor vulnerable to alternative strategies the Division might choose to implement.

Table 3.1 COMPETITOR PROFILES

explanation of the abbreviations!

Key Success factors	Weight	Weighted Score			
		MSA	CMI	CCT	SAMANCOR
Financial Strength	0,08	0,32	0,24	0,16	0,40
Raw material access/cost	0,08	0,24	0,24	0,32	0,32
Technological Skills	0,07	0,28	0,28	0,21	0,28
Reputation Image	0,10	0,40	0,40	0,30	0,40
Market Share	0,12	0,36	0,24	0,24	0,48
Price Competitiveness	0,12	0,60	0,48	0,48	0,48
Relative Cost Function	0,17	0,51	0,68	0,85	0,68
Quality/product performance	0,14	0,56	0,56	0,42	0,70
Manufacturing capability	0,12	0,36	0,36	0,48	0,60
Total	1,00	3,63	3,48	3,46	4,34

- Note: 1. Total weights must always equal 1.00
 2. Weighted score = rating multiplied by weight
 3. Ratings Scale: 5 = Very strong competitive position
 1 = Very weak.

Table 3.2 COMPETITOR ANALYSIS

MIDDELBURG STEEL AND ALLOYS (MSA)	Advantage	Ferrochrome price leader.	✓
	Disadvantage	No backward integration.	
CONSOLIDATED METALLURGICAL INDUSTRIES (CMI)	Advantage	Low cost producer due to pre-reduction. — <i>but not a proven concept? — see p 41</i>	See also cross reference
	Disadvantage	No backward integration. Problems associated with purchase of Purity.	
CHROME CORPORATION TECHNOLOGY (CCT)	Advantage	Backward integration with no excess raw materials. Low cost. Independent decision-making.	✓
	Disadvantage	No corporate backing. Distance from ports.	

* Expected competitive conditions/predicted moves of key competitors

- MSA is in the process of building image and uses price leadership and special volume discounts. ✓
- CMI has embarked on an aggressive marketing effort to penetrate the market and buy market share for its Purity acquisition.

3.4.2 Customer profiles

A valuable result of analysing the operating environment is an understanding of the composition of a firm's customers. In developing a profile of present and prospective customers, managers are better able to plan the strategic operations of the firm, anticipate changes in the size of markets and allocate resources supporting forecast shifts in demand patterns.

The four principal types of information useful in constructing a customer profile, geographic, demographic, psychographic and buyer behaviour are not applicable in the ferrochrome industry, as these factors have no direct impact on the demand for the Division's products. Information relevant to the ferrochrome industry can be summarised as follows:


- * Production capacity.
- * Ferrochrome consumption.
- * Samancor's share of ferrochrome consumption.
- * Percentage of the country's consumption.
- * Planned capacity expansion.
- * Industry type.
- * Country.

*These are for
Consumer products!
Industrial products!
different -
use different
segmentation
variables*

The Chrome Division's customers are listed per Table 3.3 p.49. Unfortunately, due to the sensitivity of the information which has been classified confidential by top management, the table has not been completed. ? - Then why do you include it?

Table 3.3

CUSTOMER PROFILES

Present Customers	Industry	Production Capacity M/Tons	Ferrochrome Consumption			Planned Capacity Expansion
			Total M/Tons	Samancor Sourced %	Share of Country's Consumption %	
 <p>C O N F I D E N T I A L</p>						
Prospective Customers						

3.4.3 Suppliers and creditors: sources of resources

Dependable relationships between a business firm and its suppliers and creditors are essential to the company's long-term survival and growth. With regard to its competitive position with suppliers, a firm should address the following questions per given check list:

* Are suppliers' prices competitive?

The Chrome Division's major suppliers are Eskom, Spoornet, coal mines and in-house supply of chrome ore.

The major raw material is chrome ore which is supplied in-house with prices being determined in such a way as to optimise the whole Chrome Division's after tax profits.

Eskom and Spoornet being state or semi-state controlled, dictate prices.

The Division negotiates the purchase of coal, with quality being just as important as price.

* Are suppliers competitive in terms of production standards?

Agreements between the Alloys Division and the Chrome Ore Mines contain quality penalties as the quality of ore is vital to the efficient production of ferrochrome.

As previously stated the quality in terms of chemical composition of coal is important.

- * Are suppliers' abilities, reputation and services competitive?

This question is irrelevant to the in house supply of ore and to Eskom and Spoornet, as they are monopolies.

- * Are suppliers reciprocally dependent on the Division?

Only the in-house suppliers of chrome ore are dependent on the Alloys Division.

With regard to its position with its creditors, the following questions are among the most important for the strategist Division:

- * Do potential creditors perceive the Division as having an acceptable record of past payment; a strong working capital position; little or no leverage?

The Chrome Alloys Division has had excellent results the past couple of years. This, together with the fact that it is part of a large financially sound organisation, rates its credit worthiness very high.

- * Are creditors able to extend the necessary line of credit and are credit terms compatible with the Division's profitability objectives?

Samancor being cash flush, manages its creditors in a way as to maximise profits through optimum settlement discounts.

As the Chrome Alloys Division's main suppliers/creditors are group companies, the assessment of suppliers and creditors is not critical for an accurate evaluation of the Division's operating environment.

3.4.4 Personnel: Nature of the labour market

The ability to attract and hold capable employees is a prerequisite for the Division's success. However, the nature of a business's operating environment most often influences personnel recruitment and selection alternatives.

Three factors most affect the Division's access to needed personnel: reputation as an employer, local employment rates and ready availability of required knowledge and skills.



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3.4.4.1 Reputation

Samancor is regarded as a large, permanent company with competitive remuneration packages and concerned with employee welfare. The recently established Samancor Foundation assists communities with in-house projects and this has enhanced its reputation even further. The business is cyclic, but even this has not had an adverse effect on the Division's reputation - the share price is a proof of this. The share has risen steadily from around five rand a share in the mid nineteen eighties to around thirty rand in 1991.

3.4.4.2 Employment rates

The employment rate in the regions in which Samancor Chrome Alloys operates is affected by the state of the South African economy and not by local development.

3.4.4.3 Availability

Samancor Chrome Alloys has never experienced great problems in obtaining the type of skills required by the Division. Certain specialised skills such as required for instrumentation technicians and metallurgical engineers are not in over supply, but the Division has always been able to satisfy its needs.

3.5

INDUSTRY ANALYSIS

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Industry analysis needs to be focused on four questions (Thompson & Strickland, 1987:61).

- i. How is the industry structured? (paragraph 3.5.1 p.54).
- ii. What driving forces are changing the industry? (paragraphs 3.5.2.1 and 3.5.2.2 p.61-65).
- iii. What factors have the most influence on competitive success in the industry? (paragraphs 3.5.2.4 p.66).
- iv. What strategic issues face the industry? (paragraphs 3.5.2.4 and 3.5.3 p.66-69).

These questions can be answered by means of a check list (Thompson & Strickland, 1987:101), refer paragraph 3.5.1 to 3.5.3 p.54-69.

3.5.1 Description of industry structure

The South African ferrochrome industry has a dominant position of approximately 42% in the world today, compared to 40 per cent in 1985 (Parizer, 1991:53). ✓

Table 3.4 p.56 gives the plant capacities and projected production levels of South Africa, illustrating Samancor's dominance of the South African market.

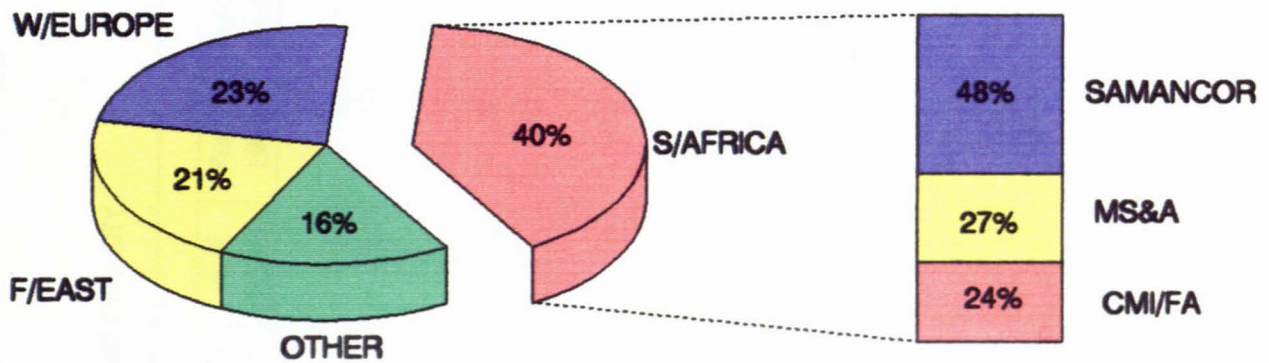
Figure 3.2 p.55 shows South Africa's production share in the Western world.

Table 3.5 p.57 gives historical information and forecast Western World stainless steel production and charge chrome production and consumption.

Figure 3.2

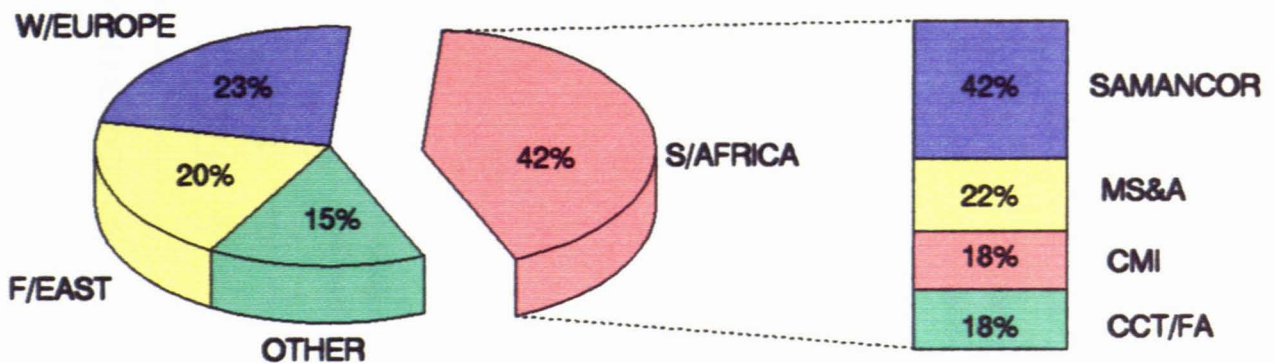
WESTERN WORLD FERROCHROME

1985 PRODUCTION SHARE



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1990 PRODUCTION SHARE



SOURCE: SAMANCOR MARKET RESEARCH DEPARTMENT (1991)

Table 3.4

CHARGE CHROME & HIGH CARBON FERROCHROME PLANT PRODUCTION AND CAPACITY

Country	Producer	('000 MTY) Calendar Year						Forecast					
		Capacity end 1991	Prod. 1989	Prod. 1990	Prod. 1991	91-90 % CH	% of Capacity	Prod. 1992	Prod. 1993	Prod. 1994	Prod. 1995	Prod. 1996	
South Africa Zimbabwe Africa	Chromecorp	180	110	135	150	11.1	83.3	160	180	200	220	240	
	Ferralloys	84	70	65	72	10.8	85.7	70	80	80	80	80	
	CMI Lydenburg	200	155	140	175	25	87.5	170	180	190	190	200	
	CMI Rustenburg	120	0	60	85	41.7	70.8	100	110	110	110	120	
	CMI	320	155	200	260	30	81.3	270	290	300	300	320	
	Krugersdorp	130	101	104	117	12.5	90	120	120	120	120	120	
	Middelburg	280	169	136	184	35.3	65.7	240	260	270	270	280	
	MS&A	410	270	240	301	25.4	73.4	360	380	390	390	400	
	Tubatse	300	166	198	228	15.2	76	240	283	290	327	327	
	Ferrometals	278	258	249	222	-10.8	79.9	232	265	298	296	296	
	Bathlako	22	21	20	20	0	90	24	24	25	25	25	
	SAMANCOR	600	445	2257	470	0.6	78.3	496	572	613	648	648	
	Sub Total	1594	1050	1107	1253	13.2	78.6	1356	1502	1583	1638	1688	
	Zimbabwe	Zimasco	196	170	160	160	0	81.6	160	190	190	190	190
	Africa		1790	1220	1267	1413	11.5	78.9	1516	1692	1773	1828	1878

Source: Samancor Market Research Department (1991)

Table 3.5

THE HISTORICAL AND FORECAST WESTERN WORLD STAINLESS STEEL PRODUCTION

S/S Production	Tons '000						
	1989	1990	1991	1992	1993	1994	1995
North America	1880	1970	1905	2055	2115	2180	2250
South America	160	155	155	170	190	205	220
Europe	4343	4500	4225	4705	4890	5055	5220
Far East	3832	3805	4140	4320	4480	4650	4795
Other	159	170	165	180	195	225	332
TOTAL	10374	10600	10590	11430	11870	12315	12817

THE HISTORICAL AND FORECAST WESTERN WORLD CHARGE CHROME PRODUCTION AND CONSUMPTION

HeFeCr	Tons '000						
	1989	1990	1991	1992	1993	1994	1995
Consumption							
North America	393	425	405	440	450	470	490
South America	74	63	62	75	80	85	95
Europe	1056	1062	1025	1150	1195	1260	1315
Far East	936	1012	1090	1145	1175	1225	1275
Other	96	84	78	80	85	95	100
TOTAL	2555	2646	2660	2890	2985	3135	3275
HeFeCr Production							
RSA	1051	1107	1407	1480	1510	1580	1600
Europe	673	604	642	670	700	720	750
America	182	123	101	110	120	130	130
Far East	575	525	521	530	540	600	650
Other Africa	170	175	155	180	190	190	190
East Block	75	80	80	80	80	80	80
TOTAL PROD.	2726	2614	2906	3050	3140	3300	3400
Over supply (Shortage)	171	(32)	246	160	155	165	125

Source: Chrome Alloys Strategic Plan (1991).



The rapid advance in stainless steel production over the last decade has resulted in a sharp increase in demand for ferrochrome. As demand soared, operating rates increased, substantially placing upward pressure on ferrochrome prices until they reached a peak in the second quarter of 1989. Higher prices led to a large increase in high-carbon ferrochrome capacity, which in turn has resulted in a serious deterioration in operating rates over the last two years. The situation in South Africa is similar to that in the rest of the world (Taljaard, 1989). ✓

With demand weakening in 1990, many ferrochrome producers instituted production cutbacks which, coupled with the capacity increases, slashed industry operating rates from 86 per cent in 1988 to around 69 per cent in 1990 (Resource Strategies, Inc., 1991). Although 1991 demand is expected to hold up reasonably well, mainly due to a strong first half, high-carbon ferrochrome operating rates are set to fall 65 per cent, with the recent capacity expansions by Elkem and Middelburg Steel.

After surging in 1988 and 1989, ferrochrome imports from the Centrally Planned Economies (CPE) fell moderately during 1990. Imports from China were sharply lower, offset by a 46 per cent rise in USSR exports. Import levels from other CPE countries were more or less static. For 1991 slightly lower imports from the CPE are expected, reflecting the current weak market conditions. The ferrochrome industry obviously has too much capacity at present. ✓

An analysis of future ferrochrome capacity requirements indicates that at a 79 per cent plant operating rate, new capacity will not be required until the late nineteen hundreds. Closures of high-cost operations due to low ferrochrome prices could reduce the capacity surplus by 1995 and induce further investment. However, for strategic

and other reasons, permanent closures may be limited. Despite a lingering capacity surplus the possibility of expansions by low cost producers such as CCT and Samancor cannot be ruled out in the foreseeable future. In the case of Samancor additional capacity would possibly be linked to the new Columbus stainless steel joint venture. ✓

Many high cost producers may elect to maintain some capacity for strategic reasons, especially when the company in question is linked to stainless steel operations. Once ferrochrome demand picks up operating rates will improve, exerting upward pressure on ferrochrome prices, which will then induce additional investment.

Through the mid-1980s ferrochrome price appreciation was limited, due to a lackluster growth in ferrochrome demand, combined with low South African operating costs. Although South Africa's inflation was rampant during this period, the rand depreciated rapidly due to a combination of political and economic reasons. Stainless steel production increased substantially towards the end of the 1980s, increasing demand for ferrochrome and placing upward pressure on prices. ✓

Spot market prices peaked in the fall of 1988, while South African contract prices continued to rise before reaching a peak in the second quarter of 1989. This rapid price escalation led to a flurry of investments in ferrochrome capacity, which by the end of the decade resulted in a substantial oversupply. Despite record Western world stainless steel production in 1990, ferrochrome prices deteriorated rapidly. United States' spot market and South African ferrochrome contract prices have since come off their lows and are currently at 48 c/lb and 49 c/lb, respectively (Anon, 1991:5).

The ferrochrome market will remain quite weak for the next few years. South African contract prices, when adjusted for consumer discounts (normally 3-4 per cent) are in the vicinity of the operating costs of the marginal suppliers. Profit margins are, in the meantime, being eroded by the high rate of inflation. The strengthening of the US dollar has, however, brought some relief to producers in South Africa and elsewhere. Nevertheless, lower sales volumes are affecting total profits, placing pressure on management to achieve some marginal price increases.

Buying practices by consumers have been extremely effective in neutralising price increase attempts by South African producers. It has been inevitable that at least one producer "breaks rank" during negotiations in fear of losing market share. For the remainder of this year ferrochrome demand will at best be slow. Thus, prospects of a significant increase in prices before year end are remote. A moderate increase in demand during the first half of next year could result in a limited increase in prices, depending on the co-ordination of pricing policies.

Given the large capacity overhand, it is inevitable that some form of rationalisation and capacity cuts will take place, thus reducing supply diversity. CMI has already acquired Purity (Anon, 1991:13), and is involved in at least one other negotiation in Europe. In addition, when the market picks up the larger producers will expand further, consolidating their position in the market and exerting more influence on pricing. The most likely long-term pricing strategy of major South African producers would be to hold charge chrome price levels around 55-58 c/lb of contained chromium in 1990 terms, thus making a reasonable return on capital and making it attractive for local expansions, while reducing the attractiveness of new projects outside of South Africa. Allowing for some short-term variation, long-term pricing will tend to oscillate around these levels.

Technological changes which result in lower operating costs will not have a large influence on pricing through the mid-1990s, as producers have to receive reasonable ferrochrome prices in an effort to recuperate initial capital outlay. ✓

With regard to the longer term, once capital expenditure has been recuperated and the technical problems associated with using cheaper ores such as the UG 2 ores are resolved, these producers would be able to withstand lower ferrochrome price levels. Thus, if enough plants using pre-reduction technologies are installed, a structural shift in pricing could occur.

The industry is in a competitive shake-out and consolidation phase for ferrochrome and ferrosilicon. Although it is presently at the bottom of the business cycle in terms of profitability, total confidence remains in the long-term future and viability of the industry. ✓

Intermediate carbon ferrochrome is in an early development phase.

In summary it can be said that the industry is in an oversupply situation and this leads to opportunities and threats, as can be seen in paragraph 3.5.3 p.67-69. ✓

3.5.2 Competitive situation analysis

3.5.2.1 Competitive forces

The essence of strategy formulation lies in coping with competition, and the state of competition in an industry depends on five basic forces (Thompson & Strickland, 1987:79) which are diagrammed in Figure 3.3 p.63.

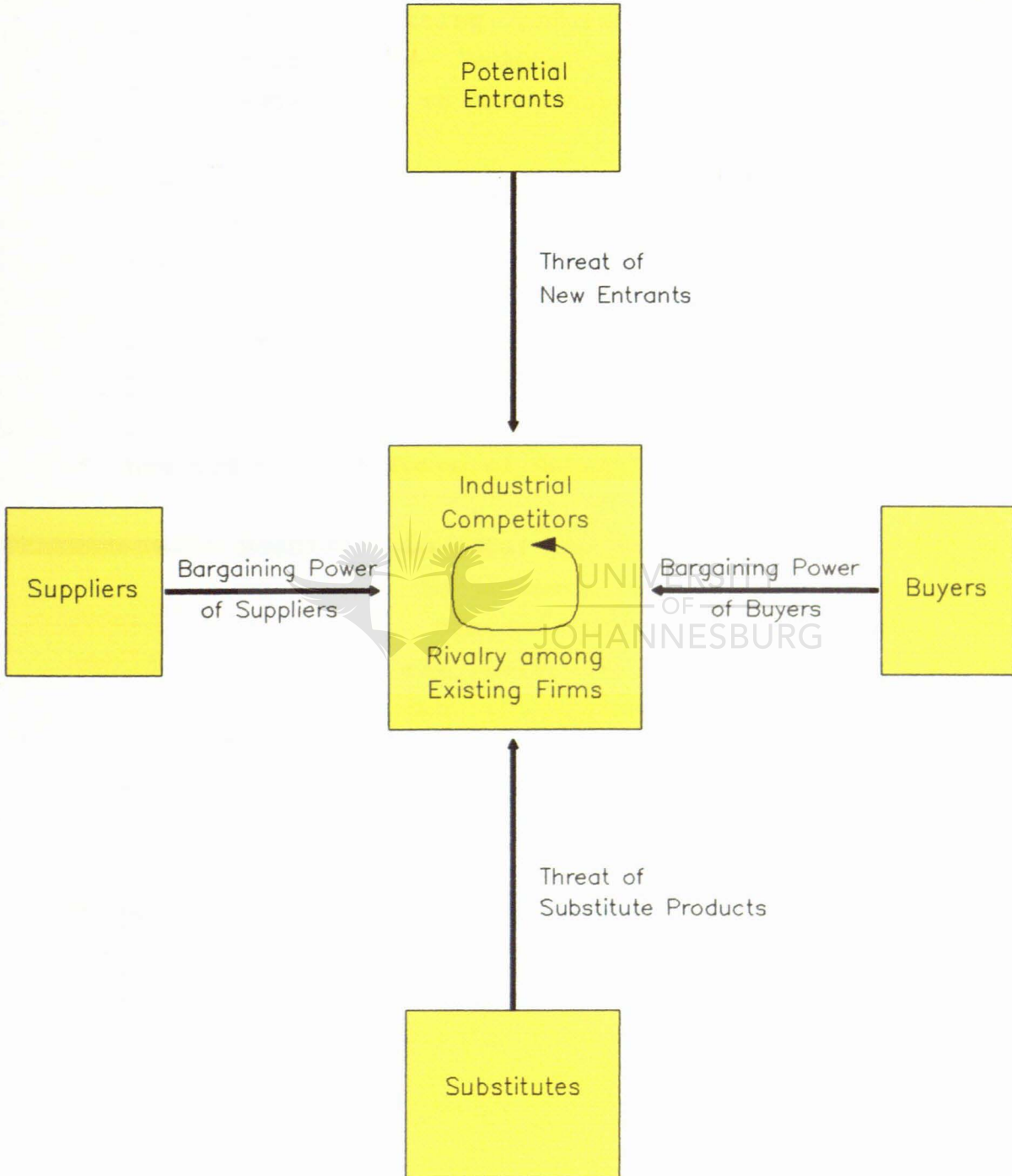
- * The competitive force of rivalry between firms flows from their strategic moves and countermoves to gain competitive advantage. The number of firms, demand for their products, industry conditions and differentiation of products are some of the factors affecting the intensity of the rivalry.
- * The competitive intrusions and threats from substitute products. As a rule, the lower the price of substitutes, the higher their quality and the lower the user's switching costs, the more intense the competitive pressures by substitute products.
- * The potential entry of new competitors. There are several major sources of entry barriers such as economies of scale, the existence of learning and experience curve effects, brand preferences and customer loyalty, capital requirements and cost disadvantages.
- * The economic power of suppliers. The competitive impact suppliers can have on an industry is chiefly a function of how significant the input they supply is to the buyer.
- * The economic power of customers. When customers are few in number, large and purchase a sizeable percentage of the selling company's total sales, the influence can be powerful.

After analysis of these forces in the ferrochrome industry the following conclusions are reached:

✓

Figure 3.3

FORCES DRIVING INDUSTRY COMPETITION



SOURCE : ADAPTED FROM PEARCE AND ROBINSON (1988:126)

* Strong rivalry among competitors to gain competitive advantage

- Throat cutting pricing and volume discounts as a competitive weapon to ensure market share, especially in the present oversupply position.
- Producer discipline is almost non-existent.
- Products and services of competitors are weakly differentiated, so that customers incur low costs in switching to another supplier.

* Low competitive force of potential entry

- Barriers to enter the industry are high for those who wish to compete against the major low cost producers. Reasons for this are capital costs, cost of raw materials and economies of scale. Samancor has the advantage of having in-house supply of chrome ore which represents approximately a third of its production cost.

* Weak competition from substitutes

- No other cost effective substitutes exists for the Division's products due to their unique qualities.

* High economic force of suppliers

- Transport costs are high due to distance from major markets. Many ferrochrome producers are integrating backwards by buying chrome mines to reduce the power of raw material suppliers (Van Wyk, 1991b).

* High economic force of customers

- Oversupply gives customers stronger bargaining power, as does absence of producer discipline.

The strategic implications of these conclusions are summarised in the section dealing with opportunities and threats (paragraph 3.5.3 p.67-69).

3.5.2.2 Industry driving forces

The projected long-term growth rate of 3 per cent in stainless steel production is a powerful variable for South African ferrochrome producers to expand capacity and increase market share. Customer buying behaviour has shifted from supplier loyalty to products at prices meeting their requirements - price orientated market focus.

Process innovations can reduce unit costs but are normally capital intensive. On the production side economies of scale play a major role and strategies to increase sales volumes have become a major driving force exasperating the supply-demand imbalance.

3.5.2.3 Industry price/cost/profit economics

Success in the ferrochrome industry hinges upon the following factors:

- * Reliable cost effective raw material supply.
- * Superior production efficiency and productivity.
- * Production of products with an acceptable quality at a competitive cost.

- * A strong distribution network for high volume turnover to establish a sufficient market share and maintain the role of market leader.
- * Adequate asset management to ensure optimum returns.

3.5.2.4 Key success factors to establish a distinctive competitive advantage

The following key success factors have been identified and are summarised as follows:

* Customer

- Approach any buyer with differentiated and undifferentiated needs.

* Product

- Full range of specifications and sizes.
- Reliable and proven quality comparative to competitors.
- Adequate stocks to ensure fast supply at competitive prices.

* Functions

- Keeping abreast with ever advancing technology and responding to changes in customer needs and product uses.
- A strong distribution network ensuring regular contacts with customers and utilising new market opportunities.

3.5.3 Opportunities and threats

The industry analysis is performed as part of the SWOT analysis resulting in opportunities and threats being identified. Thompson & Strickland (1987:98) call the SWOT analysis an easy-to-use tool for sizing up the Division's overall situation. SWOT is the acronym for the Division's internal Strengths and Weaknesses and its external opportunities and threats.

As a result of the industry analysis certain opportunities and threats have been identified:

3.5.3.1 Opportunities

- * The market has expressed concern about the ability of certain traditional suppliers located in politically/economically unstable countries to continue supply of certain grades of ferrochrome, for example Yugoslavia, Albania and the Philippines.
- * New markets in the recently democratised countries of Eastern Europe.
- * Closure of uncompetitive producers in the Northern hemisphere.
- * Political benefits associated with the "New South Africa". The main benefit being that the easing of sanctions will open up new markets for Samancor.
- * The availability of ferrochrome fines may lead to the production of competitive chrome oxide.
- * Potential growth of chromium steels is significantly higher than that of carbon steels and conventional stainless steels.

- * Alternative production techniques which are less dependent on electric power.
- * Possible joint ventures and/or take-overs. As a result of the oversupply and subsequent weak financial results of certain producers, Samancor should look to taking over one or more of its competitors to combat the power of competitor operations (Chromium Centre, 1989:2).
- * Purchasing or establishing in-house agents. With the changing political climate Samancor should establish in-house agents overseas, so retaining a certain percentage of overheads currently paid to outside agents.

3.5.3.2 Threats

- * Escalation of rail and electricity tariffs, wage demands and the generally rampant South African inflation will increase production costs which will not necessarily be compensated by a declining exchange rate. The uncertainty of the exchange rate requires skilful exposure management.
- * Imminent removal of all export incentives.
- * Replacement of chromium by some other product and/or customers' desire to diversify sources of supply due to international fears about continued reliability of supply from South Africa.
- * Disruptive labour practices by employees (mainly unskilled) can interrupt production.
- * Advantages of the "New South Africa" may be offset by uncertainties about the nature and economic policies of future South African governments.

- * Take over of foreign ferrochrome producers by their respective governments where profit is not necessarily the main motive.
- * Environmental control costs can cause increased production costs.
- * With the development of new technology cheap UG2 chrome ore can be utilised to manufacture ferrochrome in the future.

3.6 DIVISION'S PROFILE

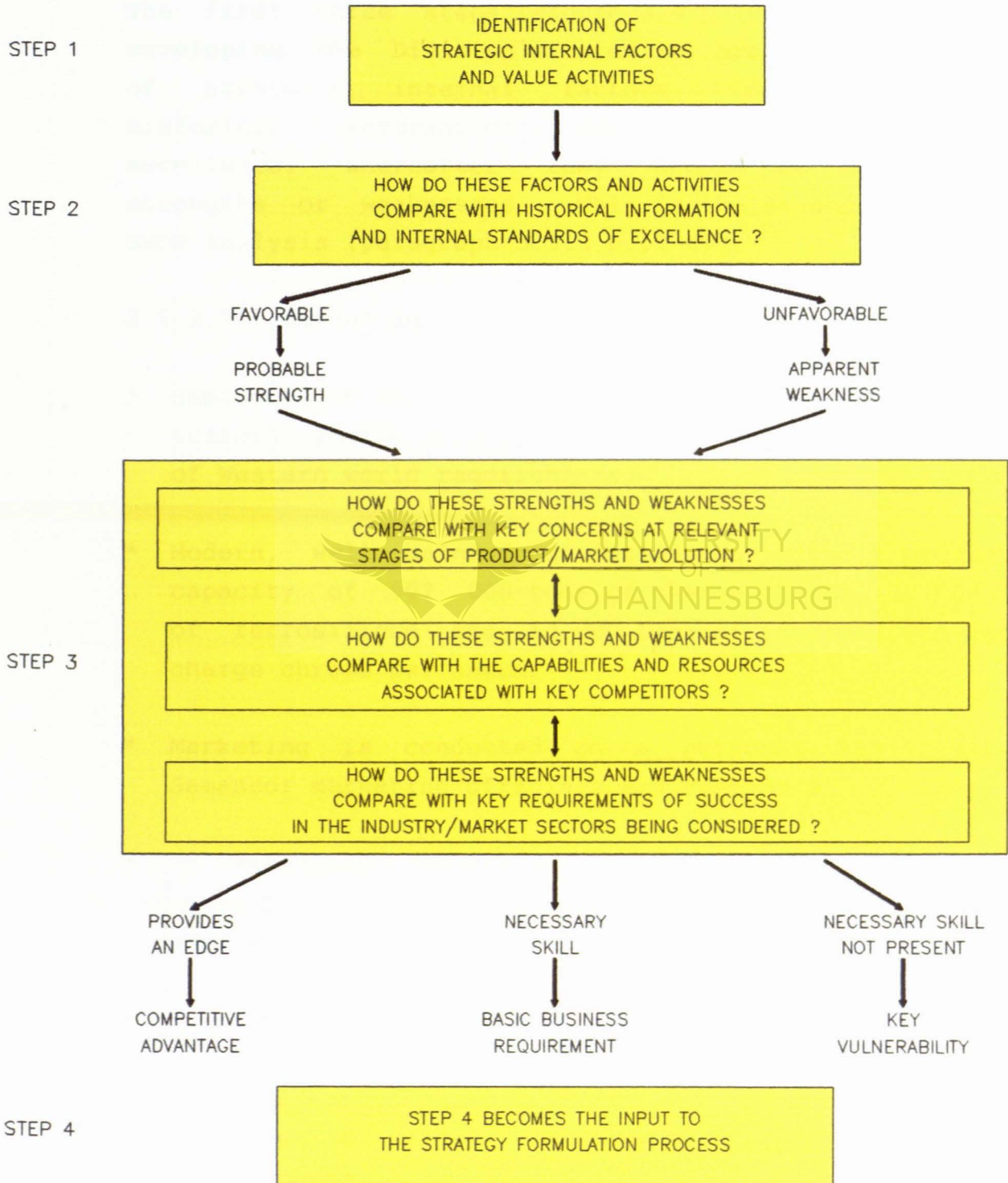
3.6.1 The Division's profile - the process

Formulation of an effective strategy is based on a clear definition of the Division's mission, an accurate appraisal of the external environment, and a thorough internal analysis of the Division. For the strategy to succeed, it must firstly be consistent with conditions in the competitive environment. More specifically, it must take advantage of existing and/or projected opportunities and minimise the impact of major threats. Secondly, the strategy must place realistic requirements on the Division's internal resources and capabilities. In other words, pursuit of market opportunities must be based on key internal strengths and not only on the existence of such opportunities.

The Division's internal strengths thus have to be analysed. Figure 3.4 diagrams the development of the Division's profile and presents an analysis of its internal capabilities as a four step process. The diagram is self explanatory and the results are discussed in paragraph 3.6.2 p.71-72.

FIGURE 3.4

STEPS IN THE DEVELOPMENT OF THE DIVISION'S PROFILE




SOURCE : ADAPTED FROM PEARCE AND ROBINSON (1988:224)

3.6.2 Internal strengths and weaknesses of the Ferrochrome Division

The first three steps (Figure 3.4 p.70) in the process of developing the Division's profile, are the identification of strategic internal factors, comparing them to historical information and internal standards of excellence, whereafter they should be classified as strengths or weaknesses. This is the second "leg" of the SWOT analysis (paragraph 3.5.3 p.67-69).

3.6.2.1 Strengths

- * Samancor is the largest producer of charge chrome in the Western world with an 18 per cent combined market share of Western world requirements.
 - * Modern, well maintained facilities with a production capacity of 597 000 tons of charge chrome, 30 000 tons of ferrosilicon and 50 000 tons of intermediate carbon charge chrome per annum.
 - * Marketing is conducted on a personal basis between Samancor marketing officials and customers.
 - * An excellent reputation as a reliable, flexible and competitive supplier selling directly to consumers worldwide.
 - * In-house access to very good quality chrome ore and quartz for ferrochrome and ferrosilicon production.
 - * Know-how to produce ferrochrome through the pre-reduction process.
- 

- * Tubatse and Bathlako are located near major sources of chrome ore which reduces transport and therefore production costs.
- * Financial, technical and management backing of the Gencor/Samancor Group.

3.6.2.2 Weaknesses

- * The ferrochrome production process presently in use is electricity intensive and therefore a major cost factor.
- * The plants are located in South Africa which at this moment imparts a heavy political stigma in some of our consumer countries. This situation will improve with the rapidly changing political climate.
- * Ferrosilicon has a high aluminium content, which impacts negatively on prices as users of ferrosilicon require as low an aluminium percentage as possible.
- * Lack of participation by Blacks in the decision-making process, which can become a political issue.

3.6.3 Competitive advantages

A major focus in determining the Division's strengths and weaknesses is through comparison with competitors. After such a comparison the following advantages were identified:



3.6.3.1 Samancor's relative cost advantages (Figure 3.5 p.74)

With the exception of Turkey (as a result of its proximity to Europe), South Africa has the lowest production cost in the world. In South Africa, Samancor has the second lowest production costs as can be seen from Table 3.1 p.46.

- * The plants and equipment operated are modern and well maintained.
- * In-house access to relatively inexpensive raw materials (the Chrome Ores Division of Samancor makes substantial profits on transfers of ore to the Chrome Alloys Division).
- * Representations to government will hopefully result in further export incentives to replace power rebate and tax concessions which will shortly fall away.

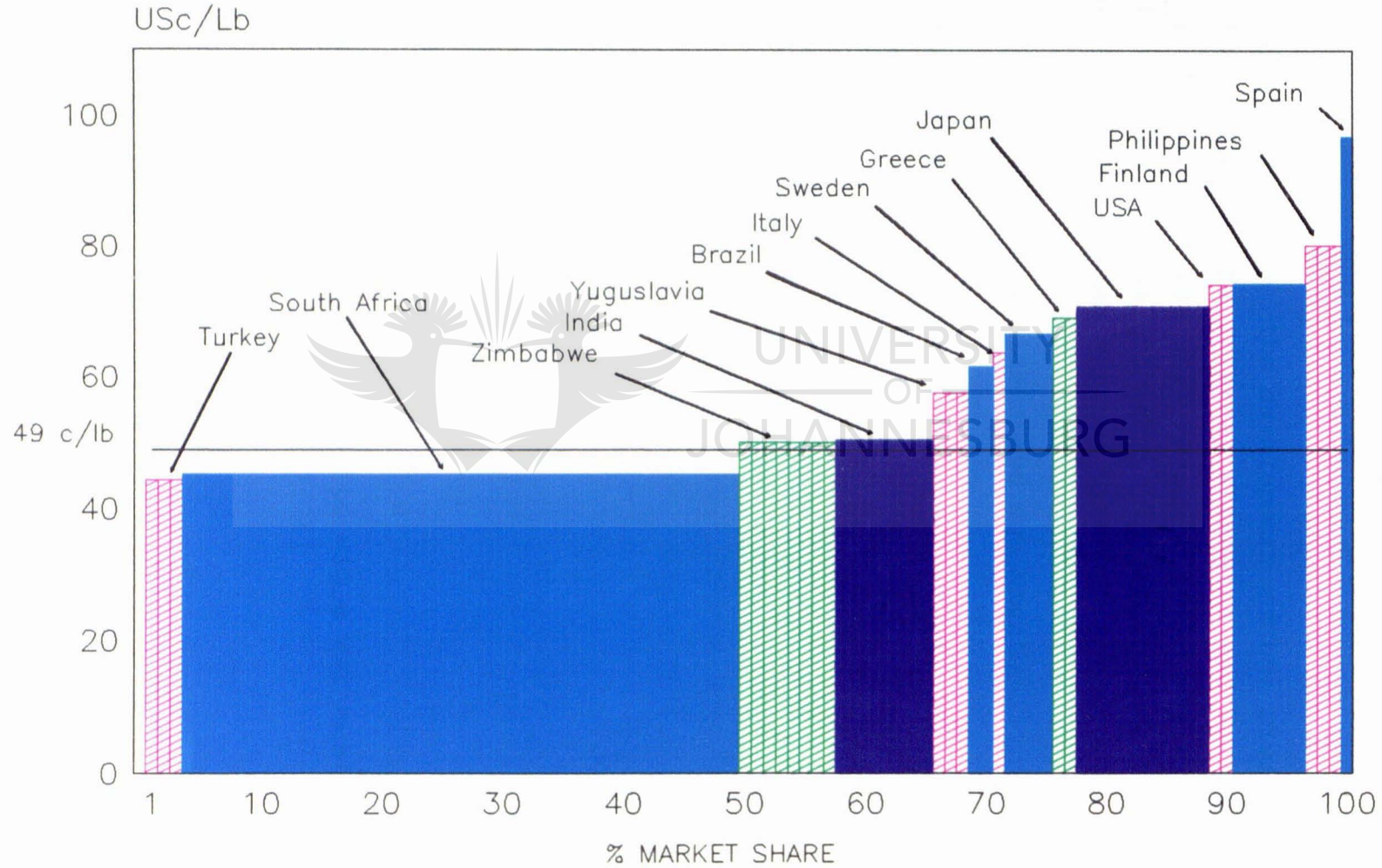
3.6.3.2 Differential advantages of the Ferrochrome Division relative to competitors

- * A reputation as reliable, accommodating and competitive suppliers has been built up by the plants for the supply of ferrochrome.
- * Ferrometals and Tubatse are the largest producers of ferrochrome in the world.
- * The fact that there are three separate plants, two with large capacities, gives flexibility in producing to customer specifications and allows backup for each other in times of problems at any one plant.



Figure 3.5

FERROCHROME COST DELIVERED EUROPE



SOURCE : PARISER (1991)

3.6.4 Key success factors

Part of step three in the development of the Division's profile is comparing the internal strengths and weaknesses identified by means of the SWOT analysis, with key requirements of success in the industry. The following internal strengths contribute to the success of the Division:

- * Modern, well maintained plants and equipment.
- * In-house, readily accessible and relatively inexpensive raw materials.
- * Economies of scale.
- * Flexibility.
- * Reliability.
- * Technical innovation.



3.7 SUMMARY

It has been said that he who wishes to win a war must fully grasp four elements (Shimaguchi, 1991:24)

- * Battlefield selection.
- * Weather conditions.
- * Enemy strength.
- * Strength of ones own forces.

By making use of the SWOT analysis, these four elements are analysed.

The remote environment consists of social, technological, legal, economic, political and ecological factors, which all impact on the Division, but over which the Division has limited influence or control. The economy both in South Africa and the rest of the Western world is probably the most important factor for the Division.

The operating environment involves factors in the immediate competitive situation that provide many of the challenges the Division faces. The competitive position being the most important, and it is best analysed by way of an analysis of the industry.

Leadership in the ferrochrome industry is becoming difficult, as rivalry amongst suppliers, especially in South Africa, is fierce. Take-over and/or merger possibilities must be further explored. Production costs are ever increasing. Exchange rates have a major impact on profits. The conclusion about industry attractiveness/unattractiveness is:

* Short term: unattractive



* Long term: attractive

The next step in strategy formulation is to establish the Division's profile by analysis of its internal strengths or weaknesses.

The process of internal analysis, identifying strengths and weaknesses and comparing these to competitors, when matched with the results of environmental analysis and mission priorities, provides the critical foundation for strategy formulation.

oOo



CHAPTER 4

FORMULATION OF STRATEGY

4.1 INTRODUCTION

The Division's mission was described in chapter two as encompassing the broad aims of the Division, namely:

- * Market share.
- * High quality products.
- * Competitive prices.
- * Overall return.
- * Real growth.
- * Taking into account the cyclic nature of the business. (paragraph 2.7.3 p.26-27).

After analysis of the environment and developing the Division's profile, the long term objectives and strategies can now be formulated following strategic analysis and choice.

4.2 STRATEGIC ANALYSIS AND CHOICE

Strategic choice is the simultaneous selection of long-term objectives and key strategies. On identifying opportunities, one must try to determine which are most likely to result in achieving various long-term objectives and simultaneously try to forecast whether an available key strategy

can take advantage of the opportunity so that the objective can be met.

The Chrome Alloys Division was identified as being on the business level in the three tiered strategic management structure in chapter two (Figure 2.1 p.16). At the business level the SWOT analysis is used for key strategy selection. This step in the strategic management model has already been completed by means of environmental scanning in chapter three (p.67-68/71-72) under the headings, strengths, weaknesses, opportunities and threats and is summarised as follows:

* Strengths

- World's largest producer of Ferrochrome.
- Modern, well maintained facilities.
- Personalised marketing.
- Reputation as reliable supplier.
- In-house raw materials.
- Pre reduction know-how.
- Plants situated near chrome ore sources reducing transport costs.
- Financial, technical and management backing of the Genmin group.

* Weaknesses

- Current production process electricity intensive with high costs.
- Situated in South Africa with its political stigma.
- Ferrosilicon has undesirable high aluminium content.
- Lack of participation by Blacks in the decision-making process.

* Opportunities

- Concern regarding unstability in former Eastern Europe.
- New markets in democratised Eastern Europe.
- Closure of uncompetitive producers in the Northern Hemisphere.

- Political benefits associated with the "New South Africa".
- Availability of Ferrochrome fines for production of chrome oxide.
- Potential growth of chromium steels is higher than that of other steels.
- Alternative production techniques less dependent on electricity.
- Possible joint ventures/or take overs.
- Establishing in-house agents overseas.

* Threats

- High inflation rate impacting on production costs.
- Removal of export incentives.
- Substitution of chromium by some other product.
- Destructive labour practices by employees.
- Uncertainties regarding economic policies of future government.
- Take over of foreign producers by their governments.
- Increased environmental costs.

From this SWOT analysis the critical issues were identified as basis for formulating the strategies. This formulation consists of two parts interrelated, setting long-term objectives and selecting strategies to achieve these objectives.

4.3 LONG-TERM OBJECTIVES

Long-term objectives are the results the Division seeks to achieve over a specified period, typically five years. To achieve long-term prosperity the long-term objectives will be set in the following areas (Pearce & Robinson, 1988: 245-246):

- * Profitability (Figure 4.1 p.82).
- * Productivity (Figure 4.2 p.83).

- * Competitive position - to ensure that Samancor at least maintains its market share as depicted in Figure 3.4 p.70.
- * Employee development.
- * Employee relations.
- * Technological leadership.
- * Public responsibility.

In terms of the mission (paragraph 2.7.3 p.26) the Ferrochrome Division must provide an overall return showing real growth, taking account of the cyclical nature of the business. Figure 4.1 p.82 depicts the forecast growth in income after tax compared to 3 per cent growth. It is clear from the graph that the Division forecasts real growth exceeding 3 per cent. It is also clear from the history that the business is cyclical

The long-term objective of productivity is clear from Figure 4.2 p.83, where it can be seen that the objective is to have the rate of increase in production costs below that of the price increase.

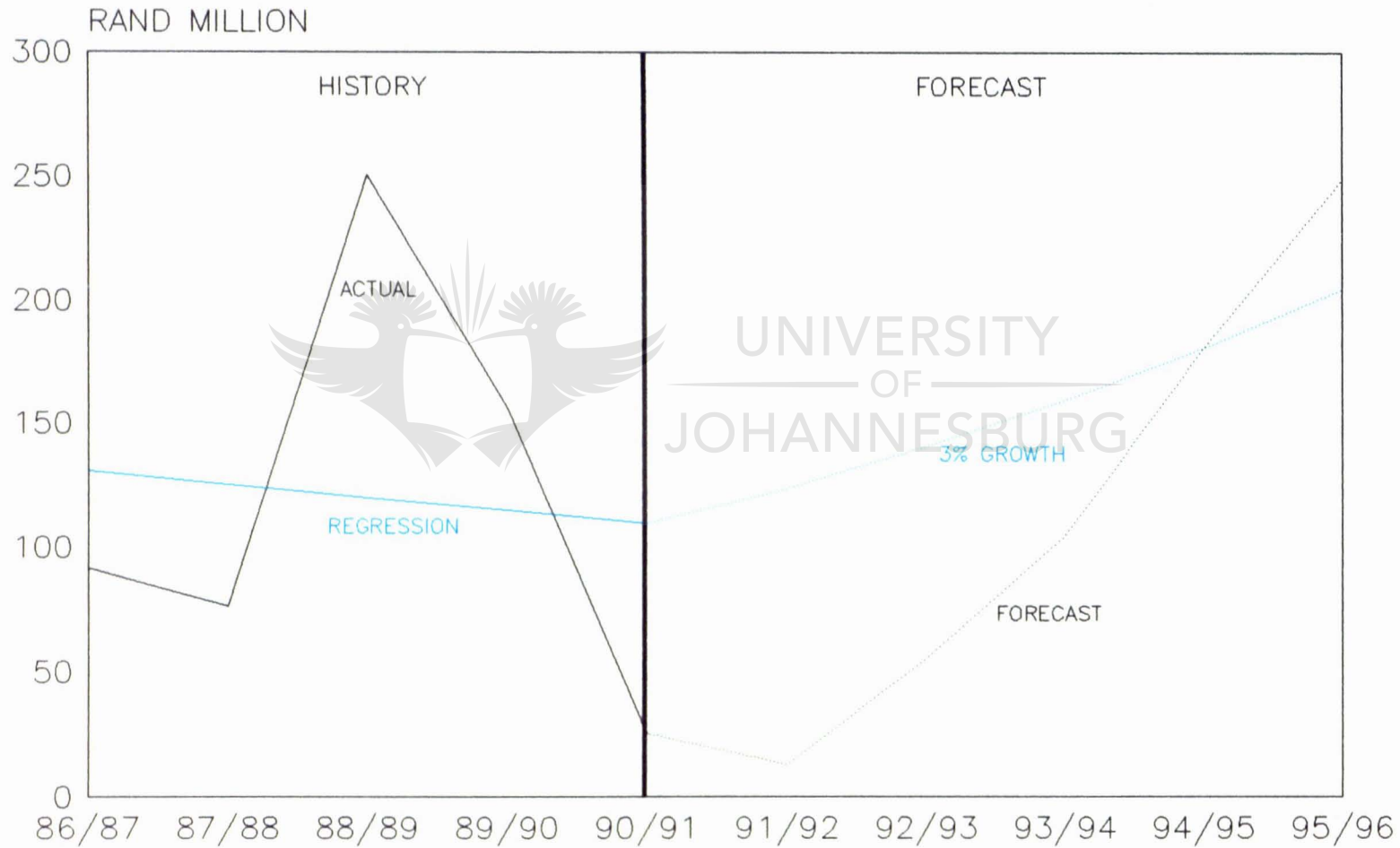
It is also the Division's objective to fully develop its employees and improve relations between management and employees. Development is planned through means of internal training such as on the job training and external courses. ✓

Samancor is also striving to regain technological leadership which it lost to Middelburg Steel and Alloys with their development of the pre-reduction process.

Public responsibility is enhanced through the erection of gas plants (paragraph 3.3.5 p.42) to prevent pollution in the communities in which the plants operate.

Figure 4.1

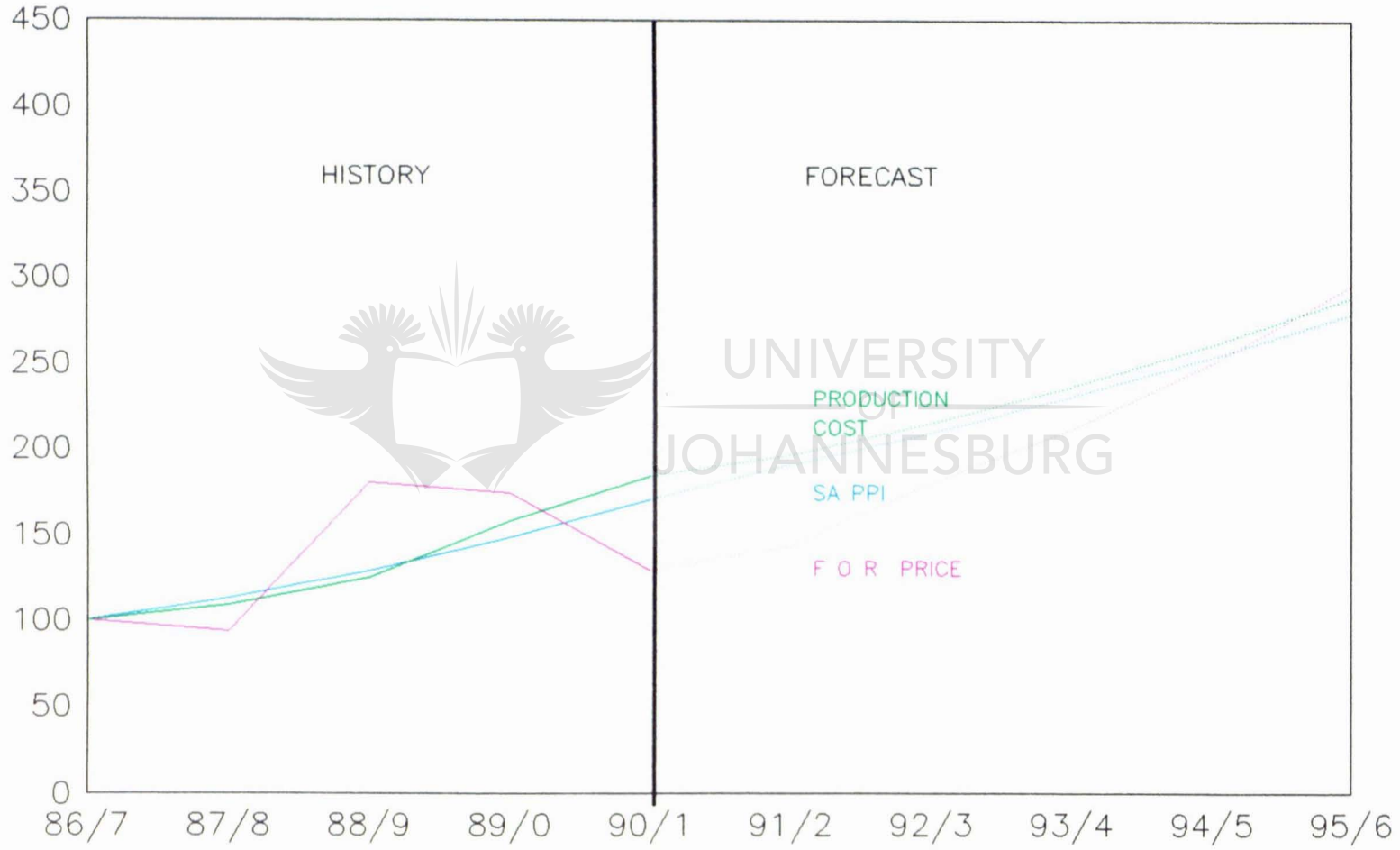
CHROME ALLOYS CONSOLIDATED GROWTH IN INCOME AFTER TAX



SOURCE : SAMANCOR STRATEGIC PLAN (1991)

Figure 4.2

CHROME ALLOYS CONSOLIDATED CHARGE CHROME INDICES – 1986/87=100



SOURCE: SAMANCOR STRATEGIC PLAN (1991)

Top management must ensure that these objectives conform to the following criteria (Pearce & Robinson, 1988:247-248):

- * Acceptable.
- * Flexible.
- * Measurable.
- * Motivating.
- * Suitable.
- * Understandable.
- * Achievable.

4.4 CRITICAL/STRATEGIC ISSUES ✓

Key strategies, which are often called grand strategies, are intended to provide basic direction for strategic actions. Thus they are seen as the basis of co-ordinated and sustained efforts directed toward achieving the Division's long-term objectives. The following key strategic issues have been identified:

- * Maintain and improve the cost competitive position in an inflationary environment. ✓
- * Manage the supply-demand imbalances in the markets.
- * Maintain and improve high standard of customer service.
- * Take advantage of international political change, i.e. reduction of sanctions pressure and liberalisation of Eastern Europe.
- * Generate future growth by technical developments and acquisitions.

- * Accommodate the individual and collective aspirations of the workforce within the Group strategy.
- * Position the Division for the fast changing political scene in the RSA.
- * Manage the Division's limited financial resources to be able to fund future strategic actions as well as ongoing operations.
- * Reinforce safety in the work place.
- * Manage health and environmental issues.

As already mentioned in paragraph 2.4 p.14, the Chrome Division has been identified as being on the business level of a three tiered decision-making hierarchy. Therefore, the grand strategies (Pearce & Robinson, 1988:248) or corporate strategies (Thompson & Strickland, 1987:161) such as concentration, integration, joint ventures, concentric diversification, retrenchment (just to mention a few), are not applicable to this report as they refer to strategies which must be pursued at corporate level by Samancor Corporate and Genmin. A possible topic for future research. ✓

The strategy of integration is briefly touched upon in Table 4.1 p.87-90, where the key issue of supply and demand imbalance can be addressed by take-overs. Samancor could for example take over Middelburg Steel and Alloys (their main competitor) and so control the market.

The main strategy for the Ferrochrome Division to address the key strategic issues (paragraph 4.4 p.84), will be what Thompson & Strickland (1989:105) refer to as a business strategy of striving to be a low cost producer and pursuing a strategy of differentiation.

The planned strategic actions for these strategies are summarised in Table 4.1 p.87-90.

4.5 PLANNED STRATEGIC ACTIONS

As a result of strategic analysis and choice, the following set of strategic issues, objectives and actions have been identified:

- * Key issue.
- * Proposed strategic action.
- * Objective.
- * Date.

Course of action.

These actions are elucidated in Table 4.1 p.87-90.



Table 4.1

Planned strategic actions

Key Issue	Proposed Strategic Action	Objective	Date	Course of Action
<u>Cost Competitive Position</u> Active cost reduction and control programmes should be maintained to remain the lowest cost producer in a high inflation environment.	- Control input costs.	Increase below inflation rate.	Ongoing	Works.
	- Optimise process parameters with special emphasis on chrome recovery.	Maximise product recovery and improve metallurgical control parameters. 2% improvement in chrome recovery.	"	Works.
	- Monitor progress on results of Krupp kiln tests.	Motivate the process of future expansion.	"	Works - Tubatse.
	- Replace expensive coke with coal and char.	Maximise.	"	Works.
	- Utilise available Eskom tariff systems.	Maximise price benefits.	"	Works.
	- Improve and expand ferrochrome recovery.	Maximise recovery of product.	"	Works.
	- Improve plant logistics and mechanise labour intensive operations.	Improve efficiencies and productivity.	"	Works.

Key Issue	Proposed Strategic Action	Objective	Date	Course of Action
<u>Position in "New S A"</u>	<ul style="list-style-type: none"> - Integrate all wage structures. - Provide equal medical aid, insurance and retirement. - Establish and integrate social amenities and facilities on a non-discriminatory basis. 	Derive full benefits from improved political climate.	By 12/92	Works.
<u>Manage Financial Resources</u>	<ul style="list-style-type: none"> - Reduce working capital: Trade debtors restrict credit limits and payment terms to those laid down by management. 		Ongoing	
	Stocks - reduce raw materials and finished goods to minimum manageable levels as determined from zero base.	Optimal utilisation of cash funds.	"	All.
	Creditors - ensure no early payments.			
	Maximise profits and cash flow.	Improve on budget.	"	All.
<u>Safety</u>	Reinforce safety in the workplace by promoting worker participation in safety issues and management visibility.	Dramatically improve safety records.	"	Works.
			"	
<u>Health and Environment</u>	Manage issues, specifically the limitation of water and air pollution.	Good reputation and standing with authorities and communities.		Engineering.

Key Issue	Proposed Strategic Action	Objective	Date	Course of Action
<p><u>Technological Developments and Acquisitions</u></p> <p>A healthy balance should be maintained between investment in intensive R & D and maintenance of technological leadership and innovation.</p> <p><u>Aspirations in Workforce</u></p> <p>Establish a leading position regarding proactive climate in workplace, enhancing a participative, motivated and satisfied workforce.</p>	<ul style="list-style-type: none"> - Continuous updating of technological data base on competitive technologies. - Target R & D funding. - Strategic emphasis on long-term reductant supply. - Phase out remaining discriminatory practices and attitudes. - Improve management-employee communication. - Embark on more flexible management style. - Set up training Programmes. - Encourage home ownership. - Retain competitive in the labour market. 	<p>Advise top management on preferred process routes.</p> <ul style="list-style-type: none"> - Optimise present processes - Diversify present product range. - Meet customer requirements for products. <p>Dynamic process and product requirements.</p> <p>Group target of December 1992</p> <p>Removal of distrust and disinformation. Promote participation, accountability and development. Improved literacy, safety and accountability.</p> <p>Enhance stability of workforce. Reduce staff turnover, especially skilled employees.</p>	<p>Ongoing</p> <p>"</p> <p>By 12/92</p> <p>Ongoing</p> <p>"</p>	<p>Developments Depts.</p> <p>Works. e.g. IC3 e.g. granulation</p> <p>Works.</p> <p>Works.</p> <p>Works.</p> <p>Works, especially Ferrometals. Works.</p>

Key Issue	Proposed Strategic Action	Objective	Date	Course of Action
<u>Supply/Demand Imbalance</u>	<ul style="list-style-type: none"> - Reintroduce producer discipline. - Consider take-overs of, or mergers with, other producers. - Retain market share. 	<p>Reduce imbalance.</p> <p>Control greater share of production capacity.</p> <p>Not to be adversely affected by oversupply.</p>	<p>Ongoing</p> <p>"</p> <p>"</p> <p>"</p>	<p>Contact with co-producers.</p> <p>Discussions and studies.</p> <p>Marketing policy.</p> <p>Price leadership.</p>
<u>Customer Service</u> Further improve by focussing on customer and market requirements.	<ul style="list-style-type: none"> - Block avenues for attack by other producers. - Further development of quality management system. - Diversify product range as well as chemical and physical specifications. - Technical visits to customers. 	<p>Retain market share.</p> <p>SABS 0157 and/or ISO 9002</p> <p>Maximum variety.</p> <p>Enhance reputation for, and encourage increased consumption of our preferred products.</p>	<p>"</p> <p>"</p> <p>"</p> <p>"</p>	<p>Works - Tubatse.</p> <p>Works/marketing policy.</p> <p>Back-up marketing contact.</p>
<u>International Political Environment and Sanctions</u>	<ul style="list-style-type: none"> - Exploit new markets in Eastern Europe. - Promote positive image of "New South Africa", and exploit previously difficult markets. 	<p>Major supplier to newly democratised countries.</p> <p>Benefit from improved political image and reduction of sanctions pressure.</p>	<p>"</p> <p>"</p>	<p>Marketing visits and research.</p> <p>Marketing visits and research.</p>

4.6 SUMMARY

In this chapter the Division's mission was translated into long-term objectives namely, profitability, productivity, competitive position, employee development, employee relations and public responsibility. Critical issues were identified based on the SWOT analysis and the business strategy of low cost producer and differentiation chosen to address the critical issues.

Table 4.1 p.87-90 summarises how the strategy of low cost production and differentiation can be achieved. The necessary action with corresponding objectives are listed and assigned to a specific responsibility.

This chapter can be described as the formulation of a strategy, with the next chapter covering the aspects of strategy implementation, which is very important as many strategic plans are never implemented.

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CHAPTER 5

IMPLEMENTATION OF STRATEGY

5.1 INTRODUCTION

After the key strategies are determined and long-term objectives have been tentatively set, the task of implementing the strategy remains. This is done in two phases, namely operationalising and institutionalising. Operationalising is the first phase of implementing the strategy and it consists of setting annual objectives, functional strategies and developing business policies. Due to the sensitivity of information in the annual budget, on management's instruction only the theory will be discussed briefly.

Annual objectives, functional strategies and specific policies provide important means of communicating what must be done to implement the overall strategy. By translating long-term intentions into short-term guides to action, they make the strategy operational. However, the strategy must also be institutionalised - permeate the very day-to-day life of the Division - if it is to be effectively implemented. ✓

Three organisational elements provide the fundamental, long-term means for institutionalising the Division's strategy: structure, leadership and culture.

Thompson & Strickland (1987:205-262) refer to implementing strategy as building a capable organisation, allocating resources (budgets and programs), galvanising commitment to the strategic plan, building a strategy supportive corporate culture and exerting strategic leadership.

A strategy is selected and implemented over time so as to effectively position and guide the Division within a changing environment, but the question is, how is it controlled?

Strategic control is concerned with tracking the strategy as it is implemented, detecting problems or changes in underlying assumptions and making necessary adjustments, whilst in post-action control actual results are measured against a standard.

Four basic types of strategic controls, which will briefly be touched upon in paragraph 5.4 p.102, are:

- * Assumptions control.
- * Implementation control.
- * Strategic surveillance.
- * Special alert control.

5.2 OPERATIONALISING THE STRATEGY

5.2.1 Annual objectives

Annual objectives should translate long-range aspirations into this year's budget. A comprehensive set of annual objectives also provides a specific basis for monitoring and controlling organisational performance. Such objectives can aid in the development of "trigger points" that alert

top management to variations in performance areas that might have serious ramifications for ultimate success of a strategy.

The objectives must be linked to long-term objectives. They differ in time frame, focus, specificity and measurement. To achieve the long-term objectives of profitability, productivity, etcetera, each centre draws up its annual budget as indicated in Figure 2.2 p.18, setting targets for production, production costs and capital expenditure.

As this report is not classified, details of these objectives cannot be given. These objectives must be integrated and co-ordinated between the different centres to ensure no conflict between centres or function.

The individual budgets from each centre are controlled at Head Office to ensure that they conform to the Division's long-term objectives and strategies and then consolidated into an annual business plan for the Division.

5.2.2 Functional strategies

Functional strategies or short-term game plans for the functional areas within the Division are developed by each function. Functional strategies support the implementation of a key strategy by organising and activating specific sub units of the Division (marketing, finance, production and personnel) to pursue the business strategy in daily activities, thereby accomplishing specific annual objectives.

Three basic characteristics differentiate functional and key strategies (Division Head Office) (Pearce & Robinson, 1988:336).

- * Time horizon covered.
- * Specificity.
- * Participation in the development.

The functional strategies identify and co-ordinate short-term actions, usually undertaken in a year or less. They focus on what must be done now to make the Division's strategies work.

A functional strategy is more specific than the Division's strategy and is meant to ensure that managers know how to meet annual objectives. For example the Division's strategy is to be a low cost producer while the functional strategy for the production unit will be to replace coke with coal to reduce costs.

The development of functional strategies is delegated by the business level manager to principal subordinates charged with running the operating areas of the Division. See Table 4.1 p.87-90 for functional strategic actions.

The marketing strategies must entail product, price, place and promotion.

The financial strategies in the Division will cover capital allocation and working capital management. Functional strategies in production/operations will endeavour to produce high quality products at the lowest possible cost.



The strategic importance of functional strategies in the personnel area has increased dramatically in the past couple of years in response to trade union demands. These strategies in personnel should guide effective utilisation of human resources to achieve both the annual objectives of the Division and the satisfaction and development of employees. The strategies involve the following areas:

- * Recruitment, selection and orientation.
- * Career development, performance evaluation and training.
- * Remuneration.
- * Labour relations.
- * Discipline and control.

Most of these strategies are developed and prescribed on a group basis by Samancor and implemented by the Division and its centres.

The next step in implementing a strategy involves the identification of policies that guide and control decisions by operating managers and their subordinates.



5.2.3 Developing policies

Policies are directives designed to guide the thinking, decisions and actions of managers and their subordinates. Policies provide guidelines for establishing and controlling ongoing operations and are often referred to as "standard operating procedures". They can be written and formal, or unwritten and informal. A few examples of policies in operation are:

- * Accounting policy.
- * Capital expenditure policy.
- * Manpower policy.
- * Major repairs policy.
- * Business ethics policy.

Policies are imposed on a group basis or derived internally by the Division or centre.

5.3 INSTITUTIONALISING THE STRATEGY

The strategy must be institutionalised. That is, it must be "fitted" into the organisation so that it permeates daily activity. This is accomplished by managing the structure, leadership and culture of the organisation.

5.3.1 Structure

The Ferrochrome Division is regarded as part of a strategic business unit (SBU), the Chrome Division being the SBU. The organisational structure, the formal reporting relationships and responsibilities within the Division are set out in Figure 5.1 p.98. This structure is more of a functional structure.

FIGURE 5.1

CHROME ALLOYS ORGANISATIONAL STRUCTURE

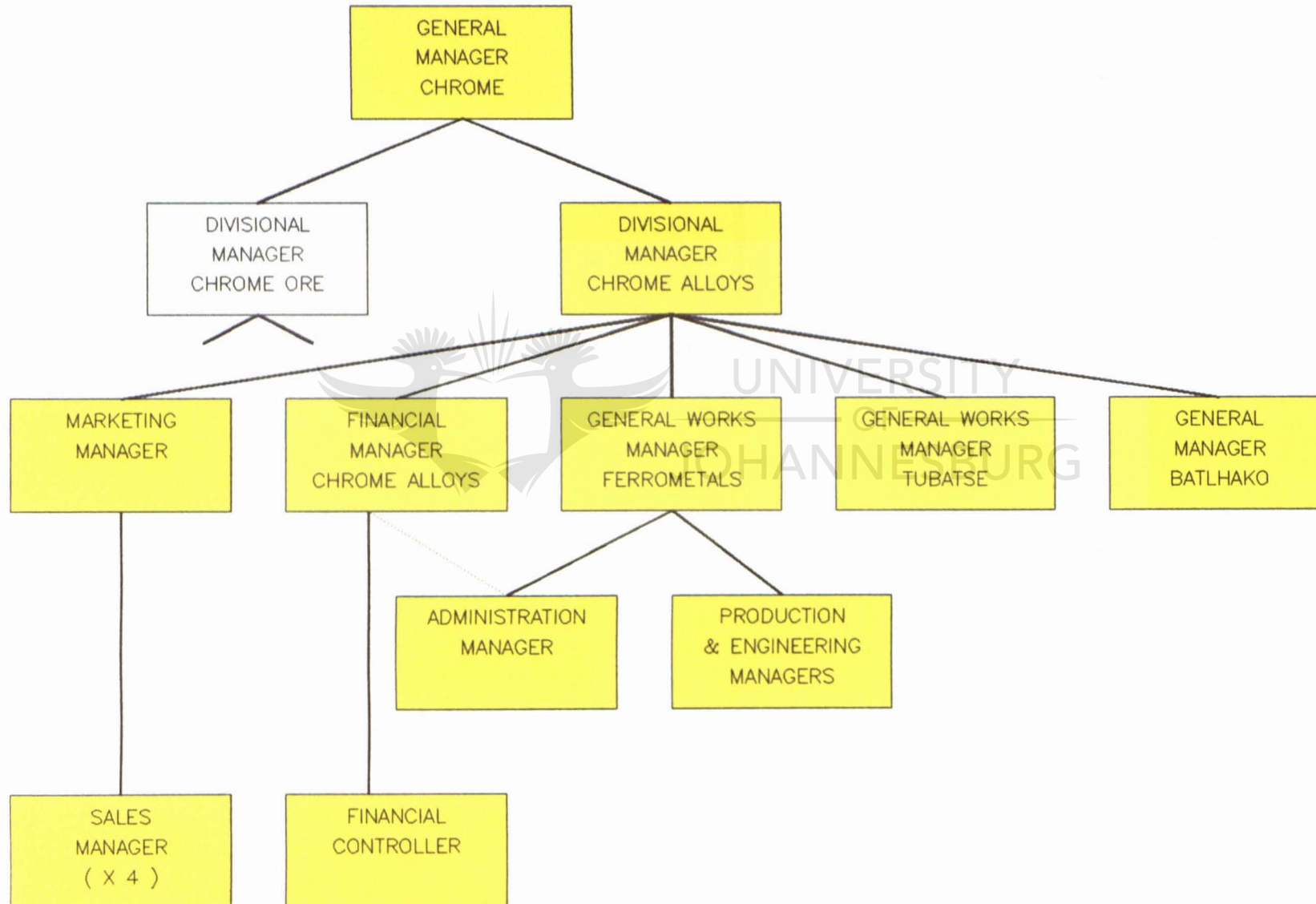
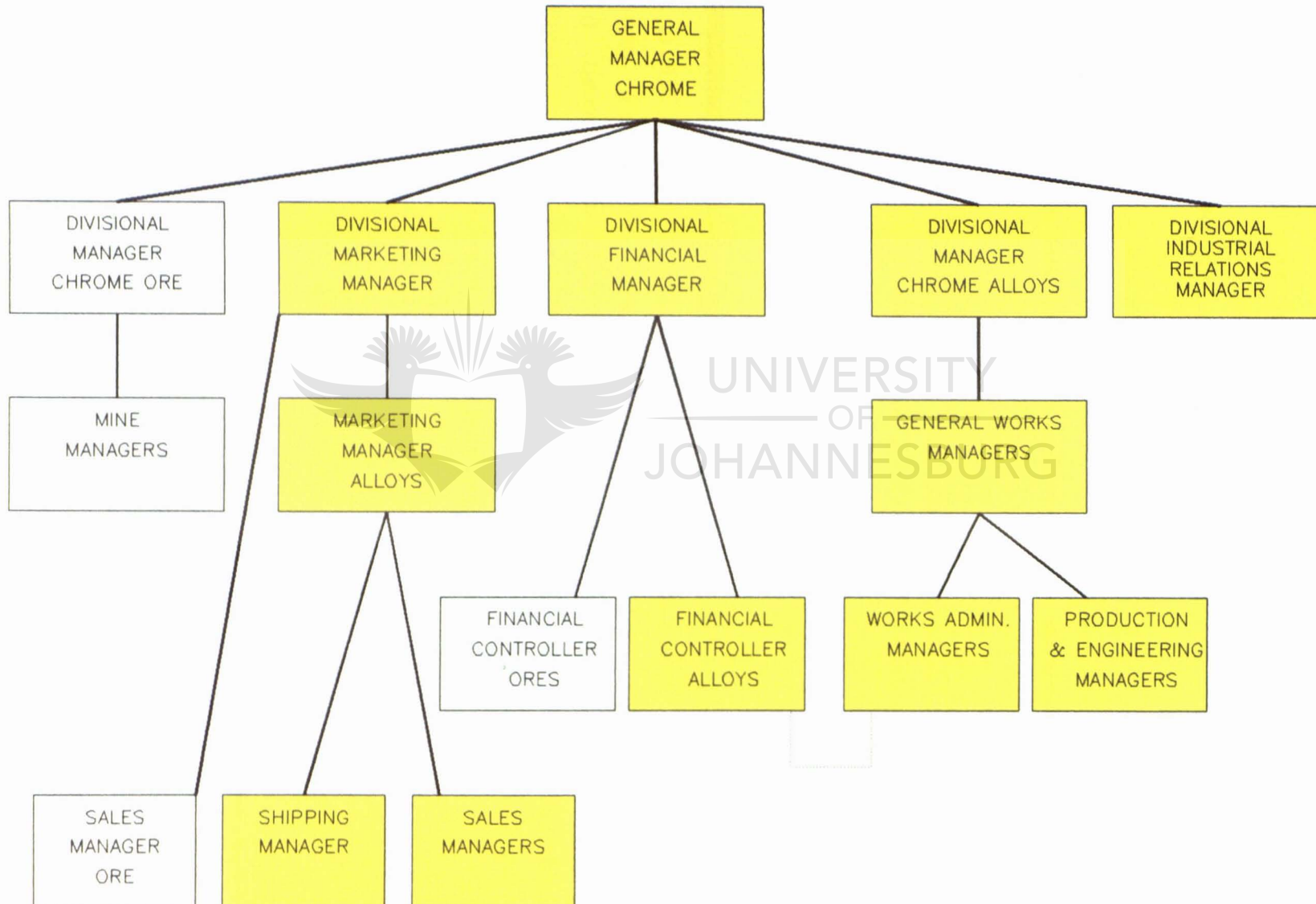


FIGURE 5.2

PROPOSED CHROME ALLOYS ORGANISATIONAL STRUCTURE



The post of General Manager Chrome has only recently been created with the amalgamation of the Chrome Ore and Alloys Divisions into one division as it used to be a number of years ago. Changes could still be implemented by the new general manager.

A possibility is the appointment of a financial and marketing manager for the Chrome Division as a whole and not per subdivision.

As these two subdivisions are interrelated, the above appointments would prevent any conflict of interest.

The role of the divisional managers could be changed to oversee operations/production.

The proposed organisation structure could be as per Figure 5.2 p.99. With elimination of the conflict of interest between the ores and the alloys division, the structure would best be suited to implement the strategy of low cost producer. As Ferrochrome is the value added product, the lower the ore input cost the greater the competitive advantage the Division has regarding costs.

5.3.2 Leadership

While organisational structure provides the framework for strategy implementation, people are the mechanisms for organisational actions. The effectiveness of their actions depends on leadership and culture. Two leadership issues are of importance; the role of the general manager and the assignment of key managers.

5.3.2.1 General Manager

As stated in the previous paragraph, the General Manager Chrome (or Chief Executive for the Chrome Alloys Division) has only recently been appointed. Although it is still too early to comment on his leadership, it can be said that it appears he will fulfil his role as catalyst in the strategic management of the Division.

5.3.2.2 Key managers

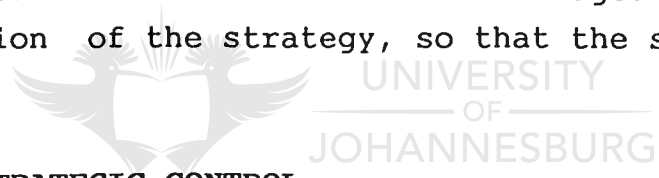
The strategy determines which key personnel are appointed. Therefore, to be a low cost producer, competent general works managers are required and sound financial control is also important.

The people occupying the key positions in the Division have all proved themselves over a number of years. They have the ability, the education, personality and proven track record and make up a very competent team.

5.3.3 Culture

Culture is described as the shared beliefs and values of organisational members, or simply, the personality of the organisation (Haasbroek, 1990a:1), and it may be a major asset or liability when implementing strategy. This personality must be managed. Any change in strategy must be communicated effectively, people must believe in it for it to succeed (Haasbroek, 1990b:3). Mission statements should bond corporate culture (Anderson, 1987:120). The

Chrome Division's Mission statement is fully supported by its personnel. However, in this report the cultural climate required to implement the selected strategies, was not analysed. All that will be said is that the culture of Samancor has changed since Genmin gained control of Samancor. Previously Samancor was a dynamic independent organisation. Today Samancor is part of a large group where change occurs slowly. This was frustrating for the Samancor personnel but slowly they have got used to it - but it definitely did affect morale. At this stage Samancor does not have a strong culture as a result of the control by Genmin and the appointment of general managers from Genmin. The philosophies and beliefs of these general managers differ from the old Samancor culture and it will take time for a new culture to be established or strengthened. The culture will have to be managed as part of the implementation of the strategy, so that the strategy can be controlled.



5.4 STRATEGIC CONTROL

Strategic control is concerned with tracking the strategy as it is implemented and Pearce & Robinson (1988:405) say managers are concerned with the following questions:

- * Is the organisation moving in the right direction? Are assumptions correct?
- * Is the organisation performing? Are objectives being met?

Thompson & Strickland (1987:377) phrase these question as follows:

- * Are decisions being made consistent with policy?
- * Are resources sufficient?
- * Are assumptions correct?
- * Are goals and targets being met?
- * Should the organisation proceed as planned?

The Chrome Alloys Division has no formal mechanisms to carry out strategic control.

At the time of preparing the annual business plan, certain assumptions are prescribed by Genmin while others are developed by the Division itself.

These assumptions are not formally, systematically and/or continuously checked.

Environmental and industrial factors are monitored by the market research section and brought to the attention of the marketing section at their regular meetings.

Implementation control is designed to assess whether the strategy should be changed in the light of result at certain predetermined check points. Unfortunately no strategic check points exist in the Chrome Division, therefore no implementation control is exercised.

Strategic surveillance, like assumptions control, is carried out informally by the market research section and indirectly by anyone in the Division through the reading of journals such as, amongst others, the Metal Bulletin.

Special alert control where sudden unexpected events are monitored in order to amend strategy, are non existent in the Chrome Division.

5.5 OPERATIONAL CONTROL

While strategic controls are useful to top management, the primary concern to the operating level is the allocation and use of the Division's resources.

Operational control systems guide, monitor and evaluate progress in meeting the annual objectives.

The type of operational control used in the Division is the annual business plan.

Annually the business plans are drawn up based on the key assumptions prescribed by Genmin and Samancor top management.

Revenue, expenditure and capital budgets are drawn up per centre and consolidated for the Division.

The annual business plan consists of a detailed budget for the first year and a forecast for the next four years.


The business plan is first approved by Samancor and then by Genmin, after which it becomes the standard against which all performances are measured, deviations identified and corrective action initiated.

Monitoring of the budgets is conducted through a series of formal meetings.

At the operating centres a management meeting is held monthly, where a detailed operating report is discussed. This meeting is attended by all managers at the centre, the Divisional Manager and Head Office representatives from the Marketing and Financial sections.

Deviations of 10% or higher are identified and corrective action initiated.

Later in the month the Chrome Executive Meeting is held at Head Office.



This meeting is chaired by the General Manager Chrome and attended by the Divisional Manager Chrome Alloys and Chrome Ore together with the General Managers of the centres and mines.

The next step up in the control and monitoring process is the Samancor Executive Meeting attended by the Managing Director and Divisional General Managers.

5.6 REWARD SYSTEMS

Evaluation of strategy is that phase of strategic management in which managers try to assure strategy is properly implemented and objectives are being met. If high performance was rewarded, managers would be motivated to evaluate their strategies (Thompson & Strickland, 1987: 381-382).

A performance appraisal system was introduced in Samancor two years ago and tied to a bonus system to focus on the attainment of strategic objectives and the implementation of functional strategies.

However, it now appears that the bonus system is being scrapped, but at this stage there is no clarity on the subject.

5.7 SUMMARY

The first concern in the implementation of a key strategy is to operationalise that strategy throughout the Division. This chapter briefly discussed three important tools to accomplish this: annual objectives (budgets), functional strategies and policies.

While these tools represent the start of implementation, the strategy must still be institutionalised - must permeate the basic foundation of the Division.

This chapter also examined the institutionalisation phase of strategy implementation. It covered institutionalising the strategy by looking at the three elements which must be managed to "fit" the strategy: structure, leadership and culture.

An effective structure is in place although it could be changed by the new General Manager.

Leadership in the Division is very competent, as is reflected in the record results achieved over the past two years.

After implementation and institutionalisation of the strategy control, and evaluation is necessary.

Although no formal strategic control mechanisms exist in the Division, operations control is effective by means of the annual business plan.

The business plan is used to set standards of performance against which actual performance is measured, deviations identified and corrective action initiated.

The budgeting process in the Division is used effectively to pass on the strategic objectives to the lowest levels, and it serves as the backbone of the control system.

CHAPTER 6

SUMMARY, FINDINGS AND RECOMMENDATIONS

6.1 SUMMARY

Samancor is the most dominant player in the Ferrochrome business. To maintain this position and improve its profitability, Samancor's Ferrochrome Division must be managed strategically.

In the introductory chapter the questions were raised: what are the principles of strategic management and how can they be applied to the Chrome Alloys Division so that a competitive advantage can be gained?

Strategic management was defined as the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of an organisation. With the principles of strategic management being "the deliberate effort to adapt the Division to its changing environment through the formulation and implementation of these competitive strategies.

Strategic management was presented as a three tiered process with benefits far outweighing risks and with the mission statement defining the current and future business activities.



Once the mission has been established, the environment must be analysed to determine its impact on the Division. The environment consists of an internal and external section.

The external (remote/macro) environment can be divided into economic, social, technological, legal, ecological and political spheres.

The internal or operating environment involves factors in the immediate competitive situation such as customers, suppliers, personnel and industry analysis especially regarding competitors and competitive situation analysis.

The environmental scanning leads to strengths, weaknesses, opportunities and threats being identified and following strategic analysis and choice, long-term objectives and strategies are formulated.

The strategy must then be implemented through operationalising and institutionalising it. By setting objectives and managing the organisation structure, leadership and culture the strategy is "fitted".

Once implemented and even during implementation the strategy must be controlled.

6.2 FINDINGS AND RECOMMENDATIONS

- * The principles of strategic management were defined as the deliberate effort to adapt the Division to its changing environment through the formulation and implementation of competitive strategies (paragraph 2.1 p. 11).

- * The Samancor Ferrochrome Division was classed as being on the second business level in the three tiered hierarchy, and should be concerned with "doing the right things" whereas the managers at the works should stress doing things right". ✓
- * The Chrome Alloys Division's mission was derived from and is subordinate to the Samancor Mission and melding with it to show real growth. Measured in terms of the requirements set out in paragraph 2.7.1 p. 24, the mission describes the products but does not describe the markets or technology. As regards the philosophy, it only refers to profitability and growth and ignores the other factors such as public image and self concept.
- * From an analysis of the Division's external environment it was shown that the economic factor in the remote environment impacts the most on the Division, especially with regard to exchange and inflation rates. The control of costs would be the most critical issue. ✓
- * The competitive position was the most important factor in the operating environment and was analysed further by way of industry analysis. Rivalry amongst competitors, especially South African producers, is fierce, as the industry is in an oversupply situation. Some form of rationalisation and capacity cuts will have to take place. The conclusion about industry attractiveness is: short-term unattractive; long-term attractive.
- * In reply to the introductory chapter's question on how the principles of strategic management can be applied to gain competitive advantages, a SWOT analysis was carried out. The results are summarised as follows:

* Strengths

- World's largest producer of Ferrochrome.
- Modern, well maintained facilities.
- Personalised marketing.
- Reputation as reliable supplier.
- In-house raw materials.
- Pre reduction know-how.
- Plants situated near chrome ore sources reducing transport costs.
- Financial, technical and management backing of the Genmin group.

* Weaknesses

- Current production process electricity intensive with high costs.
- Situated in South Africa with its political stigma.
- Ferrosilicon has undesirable high aluminium content.
- Lack of participation by Blacks in the decision-making process.

* Opportunities

- Concern regarding instability in former Eastern Europe.
- New markets in democratised Eastern Europe.
- Closure of uncompetitive producers in the Northern Hemisphere.
- Political benefits associated with the "New South Africa".
- Availability of Ferrochrome fines for production of chrome oxide.
- Potential growth of chromium steels is higher than that of other steels.
- Alternative production techniques less dependent on electricity.
- Possible joint ventures/or take overs.
- Establishing in-house agents overseas.

* Threats

- High inflation rate impacting on production costs.
- Removal of export incentives.
- Substitution of chromium by some other product.
- Distructive labour practices by employees.
- Uncertainties regarding economic policies of future government.
- Take over of foreign producers by their governments.
- Increased environmental costs.

As can be seen, the Division has many opportunities and threats and taking into consideration its strengths and weaknesses, it will have to be managed carefully if its mission and subsequent objectives are to be achieved

* Critical issues (paragraph 4.4 p. 84-85) and key strategies (Table 4.1 p. 87-90) to address these issues, were identified. ✓

* The Division has competitive advantages, the in-house supply of relatively cheap chrome ore being the most important, resulting in relative cost advantages. Therefore the main strategy to gain a competitive advantage recommended for the Division was to strive to be the, or one of the, lowest cost producers and to apply a strategy of differentiation. The Chrome Division must also strive to regain technological leadership which it lost to Middelburg Steel and Alloys with their development of the pre reduction process.

* It was predicted that the structure of the division could be changed with the appointment of a new General Manager and the amalgamation of the Alloys and Ores Divisions into a single Chrome Division.

- * Although no formal strategic control mechanisms exist in the division, operations control is effective by means of the annual business plan as standard.

- * It is the writer's opinion that the division's long-term survival rests on strategies adopted at higher levels than addressed in this report. The strategies of the Samancor Management Committee, even as high up as the Genmin Executive, will determine the long-term future of the division. With rivalry among South African producers fierce in an oversupply market, producer discipline can only be achieved through mergers or takeovers whereby one producer becomes dominant. This could be identified as a subject for further research.

- * The writer's main criticism against the annual process of strategic planning in the Division is that in reality a one year budget is drawn up and merely extrapolated for the next four years. Little strategic planning is actually done.

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