Strategy-Structure Relationship in Kenya Power and Lighting Company Limited

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DECLARATION

This project is my original work and has not been submitted for a degree in any other University

Signed:...................................... ...7-11-2006...
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This project has been submitted for examination with my approval as the University Supervisor.

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Mr. Jackson Maalu **Date**

DEDICATION

To my beloved late parents Mrs. Marion Wambui (Mwari wa Muciju) & Mr. Abraham Ciano, for unwavering commitment and support to the education and learning of their children all the time, and the imparted high moral standards.

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Not that of ourselves we are qualified to take credit of anything as coming from us; rather, our qualification comes from God (2 Corin: 3;5)

ABSTRACT

Major changes took place in both the strategy and structure in the Energy Sector in Kenya over the ten years from 1995 to end 2005. From the mid 1990s the Government of Kenya commenced with a strategy to among others attract investors in to the electricity sub-sector and promote efficiency in the power sector as a whole by segregating the generation business from the transmission, distribution and customers service together with improving assets ownership and management that was to be achieved through the energy sector reform. The reforms or strategies were accompanied by sector structural changes.

On the on-set one would have concluded that structure followed the strategy. However, macro-strategies were expressed and placed on the drawing board and consultations continued to attest to what extent they would accommodate acceptable and workable structures. This study sought to determine the relationship between changes in the structure and strategies and the processes in Kenya Power and Lighting Company (KPLC), and further to establish the factors and or agents that influenced the relationship. Two similar earlier studies were carried out in Kenya on the structure strategy relationship. Matseshe (1999) and Mwangi (2003) whose studies were on manufacturing industries in the private sector concluded that strategy and structure were reciprocal. Mwangi (2003) further concluded that in multinational pharmaceutical manufacturing companies no change in one led to change in the other.

This was a case study that involved in-depth interviews with the management team of KPLC, and the Ministry of Energy covering the processes that took place two in continuous consecutive periods: from late 1995 to around 1999, and 2000 to 2005. The periods are separately significant in that an organizational configuration that is composed of processes, structures, and boundaries and relationships were very different in that the environmental demands from KPLC increased and crystallized progressively in the two periods as time passed, including increased environmental complexities.

During the earlier period the management struggled in maintaining the traditional KPLC structure intact with minimal incremental changes, in spite of the major changes in strategy

that had taken place. It was the period that market–oriented strategy was intimated as opposed to the then existing public-utility-oriented strategy. Two clear phenomenons were observed that abated company structures lagging after strategy changes: considering KPLC is a monopoly, it was observed that organizational efficiency was not a priority as there was not enough incentive to change because under zero-sum competition, performance inefficiencies are transferred to the customer. Thus the classical view that structure must follow strategy appears basically simplistic because other conditions like managerial control and cultures, monopolistic security and uninformed electricity customers contributed greatly towards the lag.

As the KPLC number of transactions increased and as the complexity of internal relationships grew over time, the company was progressively adopting structures that facilitated better and acceptable interactions with the environment. This phenomenon was observed in the period from 2000 to 2005. The organizational structures started to gravitate towards relatively organic type of structure by being more flexible to customer and stakeholders needs through sharing responsibility and increased influence delegated at lower managerial levels through adopted business restructuring. This was evidenced in the structures and strategies that were implemented partly to resolve uncertainties emanating from the new environment. Interlink between the strategy and structure was observed with lesser lags compared to earlier periods.

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Chapter One: INTRODUCTION

1.1 Background

Corporate strategy has been described as an organization's 'sense of purpose' (Ansoff,1965). However, it has been challenged that purpose without developing respective plans or actions to put the purpose is not strategy. Andrew (1971) attempted to represent the sense of purpose and its associated actions when he defined corporate strategy. Many more definitions followed when organizational environments were relatively stable until early 1970's. Expanded exemplification of the strategy definition expanded the scope to portray strategy as defining relationship of an organization with its environment. After the early 1970's, volatility and instability of the business-operating environment put in to jeopardy the long held definitions of strategy. It was recognized that the earlier definitions had taken the static view of strategy, and as such strategy was seen as no longer applicable to the future, but heavily dependent on both remote and competitive environment, and the internal capability of the firm (Pearce and Robinson, 2003). Thus strategy definitions had to reflect the cognisance of the turbulent external environment, as postulated by Johnson and Scholes (2003). Strategic responses involve changes in a firm's strategic behaviour to assure success in the transforming future environment (Ansoff, 1987).

Environment is dynamic and continually changing. While not recapitulating complexity and difficulties an organization is put in by the external environment's "speed of change", it is important to underscore the effect/influence of "pace of technological change and speed of global communication", convergence of and demand of customer needs and global influences. Change in external environment dictates that an organization redraws its strategy, and realigns itself accordingly for survival, growth, or takes opportunity of emerging synergy. Organizations today are seen as less and less stable and enduring institutions, and more as work in progress subject to continuing and continuous change (Burnes, 2004).

1.1.1 Concept of Organizational Strategy & Structure Relationship

The formal structure of an organization can be regarded as a framework for getting things done. Organizations vary in their complexity and economic performance, but it is always necessary to divide the overall management task into a variety of activities to allocate these activities to the different parts of the organization and to establish means of controlling, coordinating, and integrating them. Organization structure defines how job tasks are formally divided, grouped and coordinated. The organizational structure indicates who is accountable for directing, coordinating and carrying out these activities and defines management hierarchies-chain of command. The six elements that managers need to address when designing an organization's structure are specialization, departmentalisation, chain of command, span of control, centralization or decentralization, and formalization (Child et al, 2001).

Today, practitioners and scholars generally acknowledge that organization structures should be designed to meet aims. They involve combining flexibility of decision making, and the sharing of best ideas across the organization, with appropriate levels of management from centre or recognition of devolving the business process to a level that meet the execution of the respective strategy of the organization (Mullins, 2005). This has to a great extent been enabled by the development in information technology and communication, globalization and convergence of market and customers' needs. In deed modern organizations have built flexible structures which, whenever possible encourage teamwork and conform to the speedily changing turbulent environment.

Corporate restructuring refers to changes an organization may prefer to pursue in the long term in order to change both strategic and operational direction of a corporation. Hosts of corporate euphemisms such as restructuring, rationalizing, downsizing, reorganization and re-engineering, all mean the same thing. Charles et al (1998) stated that in most cases companies that engage in restructuring are divesting themselves of diversified activities in order to concentrate more effectively on their core business.

Corporate Restructuring may refer to any of the three types: *Asset restructuring* which entails sale of unproductive assets or lines of business that are peripheral to the core business; *Capital restructuring* that refers to changing capital-debt mix or mixes of different debts and different types of capitals and debts. This most often relates to ownership controls as source of funds or politics and influences; and *Management restructuring or reorganization* that relates to change in top management teams, organizational structures and reporting relationship. The last definition extends to management rightsizing of middle level management and also to affect communication channels, functionalization or regionalization and divisionalization. All these may result in changes in strategy as well as infusion of new technology and processes. This is the adopted definition for the purpose of this study, and it can empirically be precipitated by the previous two definitions.

Over the last thirty years or so a debate has been raging regarding the relationship between the strategy and the structure of an organization. The discussions have drawn attention to the relationship between strategy and structure for much of the time. So far there does not appear to have emerged any settlement of the issue of causal direction or to affirm the relationship's effect on organizational performance. In the initial stages of the debate, it was considered that strategy was decided first and the structure then followed (Chandler, 1962). A newly drawn strategy for an organization will precipitate organizational capability realignment. Chandler and Williamson are the leading proponents of prescriptive approach to relationship between strategy and structure.

Chandler (1987) defined strategy as the determination of the basic long-term goals and objectives of an organization, and the adoption of courses of action and the allocation of resources necessary to carry out these goals, and further contended that it was necessary to develop a strategy. He emphasized that it was after this task was completed that an organization was devised to deliver the chosen strategy. The prescriptive approach states that the purpose of an organizational structure is to allocate work that is necessary to control and integrate the strategies of an organization.

Emergent strategy proponents counter the above in that they propose that relationship between strategy and structure is two-way and even more complex (Senge, Quinn and Mintzberg). Organizational restructuring is internal adjustment in response to the external environment to achieve "*organizational strategic fit*" (Mintzberg, 1990). The fundamental approach is that strategy and the structure associated with it may need to develop at the same time in an experimental way. That is, as the strategy develops, so does the structure. From the emerging view of strategy, an organization will draw a structure/reorganize as a conceptualisation of creating a "*strategic stretch and leverage*" with a view to create new industry space through resources and competencies under its control. From an emergent strategy perspective, the relationship between strategy and structure is more complex. The proponents contend that organization itself may restrict or enhance the proposed strategies.

There sprung a third school that claims that strategy follows structure (Bower, 1970; and Ansoff, 1965). And finally there is the fourth group led by Burgelman (1983) that claims that both chronologies can occur and that strategy exist in a reciprocal relationship; i.e. interlinked relationship. This last model and the underlying assumptions extend beyond chronology and explore the complexities and dynamism of the strategy process itself.

In summary relationship between strategy and structure has been researched in numerous studies. The different views describing the relationship have been advocated by prominent proponents over time. The dynamism introduced in some of the relationship models refers to among others the dominance of the main stakeholders in determining a strategy, the organization external environment and internal capability of an organization, and its ability to mobilize the same among others. From these, begging questions like could the main stakeholder imposed strategic choice be a determinant of emergent structure, could the organization culture be the driving force of a strategy, or does strategy or desired structure drive the relationship or vice versa dominate ongoing debate.

Aosa (1992) concluded that strategy and structure are in a reciprocating relationship. However, he further noted that there are certain characteristics of this relationship in organizations in Africa. Matseshe (1999) in his thesis on structure and strategy relationship in Kenyan firms summarised that the strategy-structures that seemed to emerge are: that structure follows strategy (Chandler, 1962); that strategy follows structures (Burgelman, 1983); that strategy and structure are interdependent (Mintzberg & Quinn, 1991); and that strategy and structure are independent of each other (Majluf, 1996).

1.1.2 Background of Kenya Power & Lighting Company (KPLC) and Reforms

Global, political and economic pressures began to shape the electricity industry in the 1990's, with the beginning of deregulation in the United States and large-scale privatisation programs around the world. Governments embarked on liberalization and unbundling that brought various levels of competition and instability through restructuring to what had been highly regulated and fully integrated monopolies. Further, regulatory changes, coming at different times and at different rates around the globe, are changing the landscape constantly, creating opportunities for new businesses and players while at the same time increasing risks through alteration of the environment.

The international donors imposed aid embargo in 1991-1995 on Kenya that resulted in capital investment shortfall in generation capacity, and a weak transmission and distribution network system. The negative impact caused by the investment shortfall was exacerbated by the economic downturn and with apparent inefficiency and ineffectiveness in the electricity sector. The Government of Kenya after negotiations, however, developed a broad 'Energy Sector Reform Strategy (ESRS) under its policy framework paper (1996-1998). With the pressure from the international demand for unbundling the sector, the Government spearheaded statutory structural adjustments from 1995 that triggered further need for far reaching environmental and market driven strategic changes. The power sector before unbundling was a vertically integrated industry process virtually all managed by KPLC Appendix I & II).

The electricity sector reforms that were substantially completed by mid 1999 in line with the GOK ESRS resulted in: KPLC vertically integrated business process being unbundled and placed under two separate entities:-Generation and generation assets management was placed under Kenya Electricity Generation (KenGen), a wholly owned GOK Company, and also marked the initial entry of privately owned independent power producers (IPP) as private entrants selling bulk power to KPLC; Establishment of a regulatory body-Electricity Regulatory Board (ERB) to oversee the sub-sector operations, ensure competition in the sub-sector generation and set/review tariffs including end customer service level monitoring; Government was left with the role of policy and guidance; and KPLC new business process and operations was changed to transmission, distribution and customer service, all under the monitoring and regulated by ERB. Further, KPLC entered in to multiple power purchase agreements with generators.

KPLC was started in 1922 when East Africa Power & Lighting Company Limited (EAPLC) was incorporated, to generate electricity in Kenya. The EAPLC name was changed to KPLC in 1983. KPLC is a public limited liability company, which has been quoted at the Nairobi Stock Exchange since 1954. The shareholding of KPLC comprises a combined public sector holding of 51% (GOK 41% and National Social Security Fund 10%), while private investors own 49%. It is to date the country's only bulk power purchaser and distributor of electricity. The Company since 1999 purchases about 80% of bulk power from KenGen while the balance is purchased from three independent power producers (IPPs-namely Iberafrica Power (E.A) Limited, Tsavo Power Company Limited and OrPower4 Inc). Besides, KPLC has an energy sales agreement with Uganda Electricity Transmission Company Limited (UETCL) for exchange of energy when available. KPLC also operates on behalf of GOK five isolated diesel power stations and distribution networks under the Rural Electrification Programme.

From 1999, the company found itself with a totally changed business scope, business process, resources and an organization structure applicable to the former business processes after the reforms, in addition to more informed customer with exposure to higher competition due to national liberalization policy in line with the global trends. The urgency of the 'burning platform' situation that further motivated KPLC to sustain major change came from additional environment forces soon thereafter. The major change was inevitable because of the high costs of unresolved problems. and high cost of missed opportunities (Conner. 1992).

The additional urgency of change that forced reformulation and refocusing of its strategy and structure were but not limited to: The severe drought that ravaged the country from 1999-2001, resulting in massive power rationing and reduced sales. This together with other factors resulted in poor financial performance and deteriorated customer service level, subsequently left the company in a very weak financially state; inefficient and unfit for purpose organization structure that was no longer serving the business adequately as expected and high cost of operation: liberalization of the national economy and formation of economic blocks within the Eastern African region in general exposed KPLC customers to global pressure of competition; customers' demands for lower prices and better service quality: and higher demand from stakeholders on the Company to contribute positively to the social-economic growth and improved performance (see appendix III).

1.2 Statement of the Problem

The electricity sub-sector industry stability that electricity sector had enjoyed over a long time up to around 1995 was no more. The industry had been affected by the global pressure. impact of national economy liberalization, and higher expectation from the major stakeholders, culminated to competitive pressure to perform. The pressure to perform emanated from higher customer service demand of quality and reliability of power supply at lower cost among others. Strategic reforms continued to be adopted to reflect the global direction of restructuring. The continuing reforms had precipitated the strategic changes with accompanying or together with changes in organization structures, processes and boundaries and relationships all directly affecting the organization configuration, with their own challenges on implementation of and accomplishment of business performance.

Chandler (1987) and Ansoff (1987) are some of the leading scholars and practitioners of strategy who have held the paradigm that when external environment changes markedly, organizational strategies will follow suite, together with changes or alignment of internal capabilities and in particular fundamental organization structure. This case study attempts to establish the nature of the relationship between strategy and structure.

The influence of liberalization lead to increased competition from imported good and services pitied against the local customers who were dependent on KPLC for supply of electricity. Porter (1985) five forces on substitutes against its customers and power of KPLC customers, and indirect substitutes were partly some of the sources of the need for change. The change was related to both strategy and transformation of internal capability that included organization structure among other resources. KPLC could not afford to ignore the pressure from its customers. Did this change address the competitive pressure?

The stakeholders expectation and in particular the Government on the industry to perform its role in the social-economic contribution to development increased tremendously thus calling for higher level of efficiency. As a consequence organizational strategy change caused KPLC to develop its internal capability to be able to take advantage of environmental opportunities. The challenge was that the sponsor of the envisaged change was not the implementer (KPLC

Board and management), thus arising incongruent objectives. How did this affected strategy and organizational structure changes and the relationship thereto? Having been a monopoly in the energy sector, what relationship emerged between strategy, organization structure and its environment to meet the challenges and expectations?

Some of the three previous studies in Kenya were undertaken by Evans Aosa (1992) in which he confirmed that there are some unique characteristics peculiar to countries that influence Strategic management practice in Africa: Koyio Matseshe (1999) who observed that both strategic changes and structures changed at the same time and both appeared reciprocal: and D Mwangi (2003) who in his study on pharmaceutical industry concluded that there was interlink between strategic and structural changes. However. these researches looked at manufacturing industries and analysed averages results, whereas this case study will evaluate a service industry in a public sector. with heavy influence from the government. and a monopoly context that has been going through change in the last ten years or so. Thus. it is also eminent to establish whether the developed world paradigm of the relationship of strategy and structure applies to an economy in transition like Kenya and under a monopolistic status or state corporation.

1.3 Objective of the Study

The objectives of the study were to:

(a) Determine the relationships between strategy and organization structures in the strategic change and process in the KPLC restructuring, during the period between 1995 and 2005. and

(b) Establish the factors and or agents influencing the relationship.

1.4 Importance of the Study

The findings of this study will benefit a wide spectrum of stakeholders.

(a) The KPC management and its stakeholders in appreciating the relationship between strategy and structure as a result of sector reforms that culminated in to KPLC restructuring. Efforts will therefore be exercised in facilitating to build the relationship more cordially to achieve the objectives of the continuing restructuring.

(b) The other service providers and in particular public utility in appreciating the prime determinant of this relationship to achieve a structure that fits the strategy or vice versa.

(c) The Government of Kenya as the main stakeholder of the electricity sector when sponsoring reforms in the industry may find the study useful in prescribing guidelines and policies.

(d) The study will also be useful to academicians and scholars wishing to use it as a source of reference, or carry out further research as its contributes to existing literature in the field of strategy, strategic change and restructuring.

Chapter Two: LITERATURE REVIEW

2.1 Introduction

Many scholars have studied relationship between organizational structure and strategy with pioneers like Chandler with his 1962 study of environment taking the limelight for a long time. There followed various scholars thereafter as noted hereunder, who researched the relationship after changes of the respective organization structure and strategy. The driving forces of the changes remain to be environment and desired performance of an organization or execution of organizational objectives and policies. Fundamentally the argument has been as to whether changes in strategy will require change in organization structure or change in organization structure will be followed by change in strategy. The relationship has been portrayed to take different shapes and arguments continue as environment continues to be dynamic, interplay of developing information communication technology continues to influence and complexities of modern strategy and business management methods unfold.

2.2 Concept of Strategy

The external environment of an organization is all those conditions and forces that affect its strategic options and determine its competitive situation (Porter 1985). Prior definitions of organizational strategy described it as an organization's 'sense of purpose' by scholars like Ansoff (1969) and many others. Many more definitions followed when environments were relatively stable until early 1970's. Ansoff's definition of strategy regarded strategy exclusively as concerned with relationships between the organization and its environment. On a slightly different approach, Burnes (2004) observed that Chandler defined strategy as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and allocation of resources. necessary for the carrying out these goals. This definition is noted to be broader as it includes internal as well as external factors of an organization. In particular, Chandler sees issues such as organizational structures, production processes and technology as being essentially strategic. It was realized that the early definitions had taken the static view of strategy, and as such strategy was seen as no longer applicable to the future. In a volatile environment, it is important the management identify the structural drivers of change because these are the forces likely to affect the structure of an industry, sector or market (Johnson et al, 2003)

Ansoff (1987) warned that strategy is a very elusive and somewhat abstract concept. This was advanced in the height of an era that was constantly evolving and developing. While it is generally accepted that there is no universal strategy definition, any successful organization manages its strategies in a number of frontiers that include organization's internal tangible and intangible resources, organization's external environment and the organization's value adding ability in its transformation process. Thus, Thompson and Kirkland (1992) emphasised that strategy is the pattern of organizational moves and managerial approaches used to achieve organizational objectives and to pursue the organization's mission. Planned moves and approaches signal how the prevailing strategy is to be embellished or changed.

Notwithstanding the aforesaid. for the purpose of this paper, the definition advance by Johnson et al (2002) that defines strategy as *"the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfil stakeholder expectation"* has been adopted. This is because the definition encapsulates a number of pertinent issues like all organizations are faced with the challenges of managing strategy, configuration of resources, unstable environment, and stakeholders' pressure in meeting the respective expectations.

Ansoff defined an organization as an open system and that it is external environment dependent. Extrapolating this further, one can derive that external environment and an organization are interdependent. It is also worth underscoring that whatever an organization transforms and requires be it goods or services, the repository for the output is mainly the external environment, and the source of the same is the external environment.

Change is inevitable in the history of an organization, and organizations are environment-dependent. More so as the external environment is depository of an organization's output. Where the external environment of an organization changes or dictates changes significantly, this will create pressure for the change of an organization's strategy. Organizations must adapt their internal operations to reflect the new external realities (Ansoff, 1965).

2.1.1 Strategy and Environment Relationship

In the 1990's different firms faced different and changing challenges (Ansoff & Mcdonell, 1990). Ansoff and McDonell further stated that these challenges continue to change and are different with time. As a consequence each organization needs to diagnose its unique pattern of future challenges, threats and opportunities and advance its respective response to these challenges. They continue to emphasize that strategic responses involve changes an organization's behaviour to assure success in the management of the strategic change in line with the demands of the future environment. This is line with alignment of the internal capabilities that include processes, structures and relationships. The generic strategic success hypothesis advanced advocates that an organization's performance is optimum when the three conditionalities are satisfied: aggressiveness of the firm's strategic behaviour matches the turbulence of its environment; responsiveness of the organization's capability (includes structures and resources both tangible and intangible) to match the aggressiveness of the strategy; and the components of the organization's capability should be supportive of one another. The above demonstrates that a firm cannot afford not to adjust the internal capability in order to score as intended on the strategic response that matches the environmental shift/change. Environmental change generates uncertainty that perpetuate prospects of either not surviving or of changing their activities in response to the respective environment. Thus as an organization is an open system, changes or demands from the environment will force the organization to re-define its strategy (strategic change) and realign its internal resources, and capabilities to strategically position itself. This is the road to strategic change.

Organizations that do not respond to the changing environment demand or do not adapt to keep pace with the change; and even in some situations fail to anticipate such change, are likely to suffer and become irrelevant. Porter (1985) noted that environmental turbulence calls for continuous change to keep pace with the first change. Strategy implementation and execution consists of seeing what it will take to make the strategy work and to reach the targeted performance on schedule. In the last two decades organizations have gone through reengineering, re-strategizing, mergers, downsizing, rightsizing, quality efforts and cultural renewal projects all to accommodate strategic change in one way or another (Kotter, 1996).

Corporate strategy invariably involves change for people working in organizations. Likewise strategic change is primarily concerned with people and the tasks that they perform in the organization (Lynch. 1987). Sometimes they resist such proposals and make strategy difficult to implement, and also sometimes they are enthusiastic and make a significant contribution to the proposed development. Strategic change is the implementation of new strategies that involve substantive changes to the normal routines of the organization. And managing strategic change involves either prescriptive approach-planned action necessary to achieve the changes (planned or imposed on those who will implement them); and emergent approach.

Kotter (1996) noted that change efforts have helped some organizations adapt significantly to shifting conditions, and have improved the competitive standing of others, while they have positioned a few for further better future. It has however not been that rosy to all. He observed that in many a situation, the improvement has been disappointing and the damage has been appalling with wasted resources and burned-out, scared or frustrated employees. Kotter states that many effective change initiatives create environment for learning by incorporating three cornerstones: new guiding ideas-to help people think and act in new ways; innovation in infrastructure-new practices policies and resources are needed to channel activities in new directions, like new governance structures, new communication vehicle and new ways of learning and working; and theories, methods and tools-bodies of knowledge that guide effective practice.

2.2 Organization Structure and Design

For an organization to achieve its goals and objectives the work and business process of the organization should be divided among its members. Some categorization or structure is eminent to facilitate the effective performance of core or key activities and to support the efforts of the human resources. A structure provides a framework of an organization and its patterns of management in addition to management style (Mullins, 2005). The purpose and work of an organization are carried out by means of a structure. This underscores the need of management to appreciate the importance and effects of organization structure and design.

While design of jobs and work structures must take in to account the nature of the work and characteristics of the human resource, it should as be consistent with the philosophy of the management being followed. Thus, Child (1984) states that jobs structures need to match the appropriate design of organizational systems and the appropriate managerial style. This brings rise to the organization configuration that has been defined by Johnson and Scholes (2002) that the configuration is a triangle composed of structure, process and boundaries & relationships on the third side.

Organizational designs range in variety from the highly structured and standardized bureaucracy to the loose and amorphous boundaryless organization. There are teams and virtual designs that tend to exist somewhere between these two extremes.

There are two extreme models of organizational designs: mechanistic model-synonymous with bureaucracy in that it has extensive departmentalisation, high formalization, limited information network (mostly downward communication), and little participation by low-level members in decision making: and organic models-close to boundaryless organization, its flat, uses cross-hierarchical and cross-functional teams, low formalization, and involves high participation in decision making (Courtright and Fairhurst, 1989).

Some organizations are structured along more mechanistic lines whereas others follow organic characteristics. J M Pennings (1992) in his contingency theory approach to organization design identifies the major forces that are determinants of an organization structure to be: *Strategy*-if management makes a significant change in its organization strategy the structure will need to be modified to accommodate and support this change. Most current strategy frameworks focus on three strategy dimensions-innovation, cost minimization, and imitation, and the structural design that works best with each: *Organization size*-significantly affects its structure as noted by Blau et al (1971); *Technology*-refers to how an organization's transfer of inputs into output; *Environment*-this are suppliers customers, competitors government and regulatory agents etc. Rapid changes in any of the five forces (Porter, 1985) acting on the organization will need a structure that is capable of responding quickly; *Centralization/decentralization* decision-how much does an organization want to control from the centre. This is driven by the nature of the business, style of chief executive, need for local responsiveness, and the need for local service; *Culture*-extent to which organization accepts change, and the ambitions of the organization and its desire to experimentation are all elements to be considered (Johnson, 1989).

2.2.1 Environment and Structure Relationship

Mintzberg's six organizational configurations highlight the situational factors both environmental and internal, and the design parameters relating to key processes effecting development of organizational structures. They range from simple configuration with key process of direct supervision, to divisional configuration, to social control and performance targets as key processes Environmental characteristics will influence the type of organizational structure befitting the situation. The four main characteristics of the environmental types and their impact on the structure noted by Lynch(1997) are:

	Type of Environment	Range	Consequences for organizational structure
1	Rate of Change	Static ←→ Dynamic	As rate increases, the organization needs to be kept more flexible
2	Degree of complexity	Simple ←→ Complex	Greater complexity needs more formal coordination
3	Market complexity	Involved in Single Market ←→ Involved in diversified Market	As markets become more diversified, divisionalization becomes advisable
4	Competitive Situation	Passive ←→ Hostile	Greater hostility probably needs the protection of greater centralisation

Source: Lynch, R. (1997) 'Corporate Strategy', Pitman Publishing.

When an organization operates in a more dynamic environment, it needs be able to respond quickly to the rapid changes that occur. Lynch (1997) observes that in this type of environment, the organization structure and its people need to flexible, well co-ordinated and able to respond quickly to outside influences. The dynamic environment implies a more flexible, organic structure. The organization strategy under the dynamic environment should be dynamic and changeable responsive as the flexible structure.

Under competitive situations markets become more hostile, and this usually needs more centralized structure for the central office to provide extra resources and even legal protection may be needed. On the same analogy Lynch (1997) states that complex environment will usually benefit from decentralized structure, while where a market becomes more complex, there is usually need to divisionalize the organization as long as synergy or economies of scale are unaffected.

2.2.2 Well-Designed Organization?

Creating a new organizational structure is one of the toughest, and most politically explosive challenges that management of an organization faces. Goold and Campbell (2002) stated that organizational structures rarely result from systematic. methodical planning. Rather they evolve over time, in fits and starts, shaped more by politics than by policies. They observed that strategic initiatives stall or go astray because responsibilities are fragmented or unclear.

Most executives are said to sense when their organizations are not working well, but few know how to correct the situation as comprehensive redesign is just too intimidating. It is however, not fully in order to assume that only organization that are not operating undergo restructuring. Senge (1999) reported that the then Chairman of Committee of Managing Directors (a Mr. Cor Herkstroter) of Royal Dutch/Shell in 1995 said that 'leaders of the company were dissatisfied, and decided to change the governance structure, to reframe the ways in which they engaged one another and their customers, and to focus on the process of leadership development, as a way of revitalizing people's initiative, innovativeness and financial accountability throughout the Royal Dutch/Shell group'. He recorded that they made this decision not out of desperation, nor out of anticipation of future crisis, but out of aspiration: deciding that the capabilities and direction that had made them successful in the past would not continue to produce that level of success.

Goold and Campbell (2002) in their research encapsulated their findings in to nine tests of organization design, which can be used to evaluate an existing structure or to create a new one. The first four tests are what they called "getting the fit right" tests as they provide a screen as to whether the structure provides support to the Company's strategy. And the other five are "good design" tests.

1. Market advantage test-Does the design direct sufficient management attention to the sources of competitive advantage in each market.

2. The Parenting Advantage Test-Does the design help the corporate parent add value to the organization?
3. The People Test- Does the design reflect the strength and weaknesses, and motivations of the people involved?
4. The Feasibility Test-Has the management taken account of all the constraints that may impede the implementation of the design?
5. The Specialist Cultures Test- Does the design protect units that need distinct cultures?
6. The Difficult-Links Test-Does the design provide coordination solutions for the unit-to unit links that are likely to be problematic?
7. The Redundant-Hierarchy- Does the design have too many parent levels and units?
8. The Accountability Test-Does the design support effective controls?
9. The Feasibility Test-Does the design facilitate the development of new strategies and provide the flexibility required to adapt a change?

2.2.3 Advances in Organization Structures

The three more common organizational design found in use are simple structure. bureaucracy, and the matrix structure. Mintzberg defines simple structure as one that is not elaborate, and a structure that is characterized by low degree of departmentalisation and has wide span of control. It is mainly found in small organizations. A bureaucracy structure is the concept of standardization to routine activities and with very formalized rules and regulations and tasks are grouped in to functional departments. Its strength lies in its ability to perform standardized activities in a highly efficient manner (Robbin, 2003). And a matrix structure creates dual lines of authority and combines functional and product departmentalisation. The most obvious structural characteristic of the matrix is that it breaks the unity-of-command concept.

However, Robbins (2003) observes that over the last decade or two, senior managers in a number of organizations have been working to develop new structural options that can better help their firms to compete effectively. These are team structure, the virtual structure, and the boundaryless organization. Teams have become an extremely popular means around which to organize work activities, and the structure is used as central device to coordinate work activities. On the other hand virtual structure is based on the idiom of 'why own when you can rent'. This is also called the network or modular organization. This type of structure tends to be centralized, highly dependent on breakthrough in technology and has little or no departmentalisation. The structure is also prevalent in outsourcing.

The third type of structure: boundaryless as described by Robbins (2003) is that it removes both vertical and horizontal boundaries to enable management flatten the hierarchy and minimize ranks, while further breaking down barriers to external constituencies and barriers created by boundaries. He goes on to observe that technological thread that makes the boundaryless organization possible is networked-computers. Among the main practitioners of this structure are mainly the global companies who have taken the balancing of the trade-off between required 'global co-ordination' and local independence and responsiveness (Johnson et al, 2003).

2.3 Strategy-Structure Relationship

In the past it was considered that the strategy was decided first and the structure then followed. Chandler (1962) pioneered the proposition when he noted that, up to early twentieth century, the American companies that moved from craft industry to mass production had their strategies changed substantially. Chandler (1987) defined strategy as the determination of the basic long-term goals and objectives of an organization, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. His research suggested that, once a strategy was developed, it was inevitable to take in to consideration the respective structure required to carry out the strategy so developed. The crafted strategy might require new capabilities like equipment and human resources necessary. This design will facilitate administration of the new organization. It is noted that his studies were based on organizations that had developed from small into larger, more diversified structures. This is the foundation from which the strategy-structure relationship paradigm was based.

The prescriptive approach to strategy-structure relationship that supports that structure follows strategy, recommended that strategy be formulated first and then develop the respective organization structure to support implementation of the strategy. Chandler (1987) had amassed empirical evidence from his study of a number of American firms. Chandler's view was supported by Williamson (1975) who evaluated through his studies on centralized structures of organizations including full implications of diversity that Chandler had not evaluated. Chandler identified four key parameters for strategy growth that would influence organizational structure as being expansion of volume, geographical expansion, vertical integration, and product diversification.

Since the late 1980's another strategic debate concerning organization's ability to change its style and culture was advanced. This type of change can have a profound impact on the firm's development and choice of strategic options, like a more risk-taking style could produce strategic options different from those of a more conservative style.

Schendel (1994) observed that the above concept had two shortcomings in that there is an artificial distinction between the content of the strategy and the process by which the strategy is processed, and that it is incorrect to describe the relationship between strategy and structure as being one-way only. A number of researchers and scholars have argued that it is possible for different organizational structures to actually lead to a different corporate strategy. As a result he advocated that structure should be considered while strategy is being developed.

Mintzberg and Quinn (1991) hold the view that strategy-structure relationship can be described as interdependent. Where the strategy process is emergent, then the learning and experimentation involved may need a more open and less formal organization structure. In their understanding, it does not matter which one comes first, strategy or structure since the two are invariably interwoven. Mintzberg (1990) argued that strategies can rarely be decided in isolation from existing structures. This was based on the fact that structures both enable and constrain particular strategies.

Prahalad and Hamel (1994) suggested that the impact of process and organization on strategy has been constantly underplayed. The contribution of employees in energising the organization and promoting innovation may often be underestimated. Additionally, the quality of management and the organization structure itself will all have an impact on strategy and may even be the source of competitive advantage. On the other hand, Lynch (1997) asserts that it cannot be said that people and process issues arise after the strategy has been agreed. A supporting argument is that organizations with broadly similar resources will differ markedly in their performance because of the ways those companies organize and conduct their activities and not necessarily because of their difference in their respective strategies.

Strategic change from a prescriptive approach has been challenged by Quinn (1980) as being over-simplistic in that it assumes it is possible from the onset to choose precisely the strategies an organization needs to introduce. He asserts that simple strategic solutions may be unavailable and particularly where the changes are complex and controversial; organizational structure may be unable to cope with the obvious solution for reasons of culture, people involved or political pressures; and that organizational awareness and commitment may need to be built up over time thus making it impossible to effect immediate radical change. In his view, strategic change would therefore be progressed through 'logical incrementalism'. This by extension would bring us to evolve the organization structure incrementally.

Professor Mintzberg (1991) has provided a methodology to provide an overview of on-going debate by prescriptive and emergent proponents. He refers to the six parts (operating core, strategic apex, middle line techno-structure, support staff, and ideology) of every organization that must be connected together to add value to the organization; and the six basic coordinating methods that link these parts together. With the combination of these he developed six types of organizational configurations and the way they operate. Researchers and scholars over time have commented that the configurations clearly over-simplify the possible organizational combinations.

Matseshe (1999) has expounded on the observations of Donald (1997), that there are some cases where strategy and structure are independent. These are instances where strategy can change without structure changing. Similarly structure can change without strategy following suit. This situation arises where an organization is a monopoly or oligopoly where it enjoys security. The local studies on the relationship have concentrated primarily on manufacturing private companies that were non-monopolies.

2.3.1 Linking Structure to Strategy

Considerable research has been done to the question of which structure is best, and the collective answer is that it is dependent on the strategy of the organization. But the strategy must be institutionalised-permeate the very day-to-day life of the company, if it is to be effectively implemented (Pearce & Robinson, 2003).

Besides identifying the management practices that can significantly affect an organization's performance, Nohria et al (2003) have developed a list of behaviours that support excellence in each other. This is what they brand as 'Making 4+2 Work for You'. They have identified the four primary management practices (strategy, execution, culture, and structure). The four should be matched with at least two secondary management practices from a choice of four(talent, leadership, innovation, and mergers and partnership). They have underscored the reciprocities and interlink in the primary management practices and in particular strategy and structure. They conclude that those companies that having a strong grasp of the business basics (the primary management practices) outperform their industry peers.

2.3.2 Organization Structures and Implementation of Strategies

The open system school of change management presents an organization as composed of a number of interconnected sub-systems. Miller (1993) identified four organizational sub-systems (*organizational goals and values-stated goals and values; technical-specific* *combination of knowledge, techniques which an organization requires in order to function; psychosocial-organizational culture and organizational climate; and managerial-responsible for relating an organization to its environment, setting goals, determining values, developing comprehensive strategies and designing structures and internal process among others*). The objective of the open system approach is to structure the functions of an entity in such a manner that, through clearly defined lines of coordination, the overall business objectives are clearly pursued. All organizations have some form of more or less formalized structure that has been defined by Child (1977) as comprising 'all tangible and regularly occurring features which help to shape the members' behaviour'. Structures incorporate a network of roles and relationships and are there to help in the process of ensuring that collective effort is explicitly organized to achieve specific ends (Armstrong, 2002).

Organization structures and administrative systems constitute the managerial infrastructure of the firm. An effective managerial infrastructure is critical for the successful implementation of the strategies of the firm. Its ultimate objective is the development of corporate values, managerial capabilities, organizational responsibilities and managerial process to create a self-sustaining set of rules that allow the decentralization of the activities of the firm. Nadler (1992) coined the organizational architecture that today is commonly used to designate the design efforts that produce an alignment between environment, the organizational resources, the culture of the firm and its strategy.

Monitoring organizational structure and business segmentation is the commencement of reconciliation of strategy, operations and structures. The cornerstone of the strategic planning process is the segmentation of the firm's activities into business units. Business segmentation is one of the most critical corporate strategy tasks. It comes after environment scan; which allows to frame all external forces that will be impacting the firm, and after the statement of mission of the organization. Hax and Majluf (1996) stated that segmentation allows grouping of a firm's activities in to coherent categories. They further stated that business segmentation is strongly influenced by the principles commonly used for designing the organizational structure of a firm. Thus, the central questions in organizational design are: how to identify the key *responsibilities*, representing the major tasks of the organization; and how to allocate the proper level of *authorities,* to facilitate the use of the necessary resources to execute the assigned tasks. The process that leads towards the final organizational structure of the firm is only possible through the exercise of a large number of trade-offs and compromises.

Although the two processes of business segmentation and organizational structure design do not have the same final objective, Hax and Majluf proposed that they are strongly linked. One could argue that a complete match between business segmentation and organization structure is highly desirable. This is because the match would greatly facilitate the formulation and implementation of strategy, the congruence between operational and strategic commitment. In cases where organizational structure and business segmentation do not necessarily result in a perfect alignment, significant ambiguity regarding the strategic and operational responsibilities is generated. This are the situations where considerable efforts will have been made to match strategy and structure. The said mismatch results in putting into place such infrastructures of horizontal coordinating mechanism like assigning a manager as liaison, formation of task forces and committees, or even to the extent of recognizing formally the dual responsibilities and authorities by means of matrix organization structures.

Many strategists like Senge (1990) and Mintzberg (1991) have questioned the formalized relationship between employees, managers and directors in an organization as portrayed in form of formal structures. Senge defines learning organizations as where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together. On the other hand importance of politics within organizational structures development cannot be ignored because it can precipitate resistance to learning and therefore deter development of appropriate organizational structure for performance.

However, Lynch (1987) observed that in terms of formalized relationship, they do have real merit and may be particularly appropriate to certain companies and cultures. This also enhances clear approach to the development of organizational structure where modification is required. This is so as formal internal and external communication lines need to be appreciated for coordination and steering the organization forward.

2.3.3 Restructuring as a Consequence of Environmental Changes

Changes in environmental factors precipitate mismatches between the structure of an organization and its environment. Consequently, it is normally inevitable to devise the appropriate strategy that would create a 'fit' between the environment and the organization structure. Thus, as strategy of an organization is dependent on the environment, the company's strategy will cause the company to develop its internal capability that will enable it to exploit the opportunities in the environment or to overcome environmental challenges (Ansoff, 1990).

Corporations undergoing operational and strategic challenges normally follow restructuring strategies. This involves changing the current direction, focus, governance and thinking in order to take advantage of the new opportunities posed by the environment or to turn threats into opportunities. Further, restructuring is effected to overcome identified and anticipated competitive disadvantage or weakness challenges. For an organization to be economically effective, there needs to be a matching process between the organization's strategy and its structure, a concept code named as 'strategic fit' in strategic management.

Globalization has gained importance with the unfolding numerous environmental changes. This relates to trading beyond physical and national boundaries or being affected by influences that emanate beyond these boundaries. As globalization has become more pervasive, organizations have tried to address the organizational issues more fundamentally in terms of redefining all of the issues of structure, processes and relationships. The global configurations are influenced by the balance or trade-off between need for global coordination on one hand, and local independence and responsiveness (Bartlett & Ghoshal, 1998).

Restructuring is both costly and behaviourally demanding and needs to be carefully thought out. Johnson et al (2003) noted that restructuring occurs to create value at strategic business units, to transform performance or to match the skills of the related global family organizations or respective corporate centres. The big bang approach to change can be disruptive and painful. Change in an organization happens at two levels: Business and People/Behavioural levels. From the business level of change one should ensure systemic resistance (inadequacy of resources) change is avoided. Adequate resources should therefore be set aside and a reorganization program drawn out and communicated to meet the costs, preparedness on the processes and structures. From both the business and behavioural aspects, restructuring/reorganization challenges are to meet resources requirement associated with implementation; re-deploy redundant resources and retain those who are to be moved to new areas; counselling and outplacement services for employees who can not find room in the new "company"; redesign the new company around an appropriate structure through de-layering and re-layering; re-asses the emerging organizations' boundaries and relationships; and simultaneously review and revise as necessary processes in an organization to accomplish a winning corporate configuration.

Chapter Three: RESEARCH METHODOLOGY

3.1 Research Design

This is a case study on how KPLC has implemented and/or continued to implement strategic changes and organizational structures from 1995 to 2005. This will provide valuable and focused insight in to the strategy-structure relationship, and to gain in-depth appreciation of the relationship during the continuing restructuring arising from the unbundling of the sector and the unfolding competitive environment.

KPLC was chosen as it met certain criteria that were relevant to the theory underlying the research. The power sector had remained stable until immediately after liberalization of the national economy in the mid 1990's. However, the impact on its customers, and the sector reforms that followed soon thereafter, culminating in to the end of hitherto vertically integrated industry was the onset of redrawing of strategies and a series of new companies and designing of series of organization structures in KPLC. These were within the framework of many consultants' reports and working committees on business processes among others working and commissioned by sponsors, KPLC management and development partners respectively.

3.2 Date Collection

3.2.1 Data collection Method

Primary data was collected were largely qualitative. The study involved contacting respondents through telephone and email to solicit for interview and included emailing letter of introduction, and collected data through detailed personal interviews with the Managing

Director, Chief Managers, Regional Managers and managers of the various functions and business units. Most of them had been involved directly in the major restructuring from year 2001 or affected by the changes in strategies and organizational structures. These interviews were supplemented with one to one interviews with the Permanent Secretary in the Ministry of Energy. He kindly accepted to share his experiences on the unbundling of the electricity sector that he was directly involved in since 1995 and with emphasis on the forces from the Government perspective. The respondents provided valuable data on the degree of organizational changes with respect to structural changes and strategies related to KPLC.

Secondary data was extracted from annual budgetary and statutory financial reports, reports prepared by various consultants at different times, Management reports on a few project committees and in particular relating to strategy (Five year plans) setting and human resources analysis including job evaluations projects. The usefulness of these data as noted provided trail and sequencing of the strategic changes and respective organization structures.

3.2.2 Research Variables

As the objectives of this case study was to determine the relationships between strategy and organization structure in the strategic change and process in the KPLC restructuring, and to establish the challenges that exist in matching strategy with structure and the factors/agents influencing the relationship, the following summarised variables for strategy and structure including other factors were researched.

Table:3.2- Research Variable

Strategy	Structure	Other Factors
Vision or Mission Statement	Number of functions	Political Influence
Business Objectives and Goals	Number of branches	Sponsors of Change
Business units-Regions	Management Layers	Implementation Teams
Customer classifications	Number of managers	Relationship influences
Core Business	Number of employees	Organization cultures
Business Process	Communication channels	

3.3 Data Analysis

Content analysis was used in considering the qualitative nature of data that was collected through in-depth interview (Nachmias et al, 1996). Additionally, data collection and analysis lead to further data collection and analysis as necessary and repeated interviews with a few managers to concretize certain major findings to facilitate forming of opinions.

Chapter Four: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This study was carried out between October 2005 and January 2006. In-depth interviews with 5 Chief Managers, 2 Regional Managers, two managers and the Managing Director were conducted. Sessions with the Managing Director and two chief managers were repeated to collect more data and in-depth information. Additional information was obtained through an interview with the Permanent Secretary in the Ministry of Energy.

4.2 Kenya Power & Lighting Company Limited Profile

By definition and practice the Company operated as a state corporation since 1973 when the Government of Kenya acquired majority equity shares, until October 2005 (time of this thesis following sale of some ordinary shares by NSSF, a GoK related authority). Further, KPLC is one of the very few listed state corporations in the Nairobi Stock Exchange (first listed in 1954). The GOK regards KPLC as a prime mover of social-economic development and one deserving state attention for security purpose.

Table: 4.21-KPLC Shareholdings From 1995 to October 2005

		S/Holding-%
	Direct Government of Kenya	40.42%
	GOK related Authorities- NSSF	10.90%
	Total Government & GoK related shareholding	**51.32%**
	Private local residents shareholding	46.06%
	Private Foreign Shareholding	2.62%
	Grand Total	**100.00%**

Source: Company Share Register

By coincidence it was during the time of this research that a shift in ordinary shareholding was transacted when the total GOK and its related authorities ordinary shareholding reduced to 48.4%. A number of legal opinions are being advanced as to whether KPLC still qualifies as State Corporation or not since the government related voting shareholding has fallen below 50% benchmark.

Table 4.22-Shareholding after October 31, 2005 (Percentage)

	Classification	% Holding	
	Treasury	**40.42**	
	NSSF	7.00	
	Kenya Re	**0.08**	48.40
	Residents	**48.98**	
	Non-Residents	**2.62**	**51.60**
	Total		**100.00**

Source: Board Presentation on 7th December 2005

The shift in shareholding did not reduced the enormous power, interest and influence the GOK has over the KPLC operations as GOK continued to hold very substantial stake in terms of preference shares. The non-voting preference shareholding had not changed until end of 2004 when the main stakeholder, to facilitate a financial restructuring following the adverse impact of KPLC performance in 1999 to 2002 and as part of the sector reform introduced a class of preference shares worth KShs.15 billion. Further, the GOK continues to regard electricity sub-sector as a prime mover in the social-economic national agenda, thus attaching a lot of interest.

The Company as the sole distributor of electricity in the Country and the few parameters of the company in the ten years were:

Table 4.23: Company Parameter in 1996 to 2005

	June 1996	June 2005	Growth Last 5 yrs
Transmission & Distribution lines- kms	16,895	27,380	7.6%
Customers	406,578	735,144	6.5%
Units Sold-Millions or GWHrs	3,269	4,215	4.8%
Revenue-Electricity- Shs. Billions	14.9	28.3	
Capital Employed-Sh. Billions (2001=Shs 5.3b)	5.363	24.3	
Capital Expenditure-Last ten Years-Shs. Billions		21.12	
Sales per Employee (KWHrs)	399,000	687,600	
Customers to Employees Ratio	49.62	119.93	
Organizational Structures			
Employees-Staff Numbers	8,193	6,130	[3.6%]
Chief Managers	17	8	
Regions/Regional Managers	0	4	
Managers/Chief Accountants		21	
Regional Business Sizes (% of Total Company):			
Nairobi Region		53%	
West Region		20%	
Coast Region		17%	
Mt. Kenya Region		10%	
Chief Officers		24	38 in April 2006

Source: *Annual Reports and Reorganization Presentations*

4.3 Environmental Factors Influencing Strategies and Structures

4.3.1 Government Influence

From the interview with the Permanent Secretary in the Ministry of Energy it was underscored that the Government recognized the challenges associated with liberalization of the economies in 1990's that included among others electricity rationing and outages (resulting from low investment in the generation and transmission sub-sector and low attention in the distribution and customer services sub-sector), inefficiencies in the electricity sector including increasing costs of operations and observed phenomenon of climate variability. Further, it was explained that the Government of Kenya recognized that low consumption of commercial energy was attributed to high cost of access to electricity, and limited investment in supply (generation) and distribution networks. The commitment of the GOK was such that it spearheaded a Restructuring Task Force (RTF) to oversee the implementation of the Sector Reforms was on track, strongly represented by Investment Secretary, PS-Ministry of Energy, ERB-Secretary; KenGen; KPLC; and an external chairman. Te RTF was reported to have been filling its report to the respective Boards, and the World Bank and GOK.

The Permanent Secretary articulated the Ministry of Energy's Vision as being "*To promote equitable access to quality energy services at least cost while protecting the environment*", which he went further to explain how it dove-tails with the expressed mission. The respondent presented their mission as "*To facilitate provision of clean, sustainable, affordable, reliable and secure energy services for national development while protecting the environment*". From the above, he explained that it was the Government's responsibility to spearhead the sector reforms that he acknowledged altered the electricity sub-sector totally in order for the national goals to be reached. These were achieved by ensuring KPLC embraces the strategies highlighted below, assets ownership and their operations were demystified through assets restructuring, and generation business was open to private sector to possible eventual appropriate level of competition. Additionally he said the other objective was to minimize the Government from policing the electricity sub-sector by establishing a regulatory board for keeping order and representing the end customer. He was satisfied that these were done through the shifting of structures, processes, processes and relationships and boundaries.

Notwithstanding the foregoing, the Government underscored need for national competitiveness following exposure to global competition of the local organizations in the first half of 1990's. This was reckoned by the respondent to have had a very major influence in the unbundling of the energy sector as the Government could not afford to sit back and watch degeneration in to a state national uncompetitive economy arising from an inefficient and ineffective vertically integrated organization like KPLC. Further, to attract or access funding of low cost in the international market, negotiation with development partners was inevitable. These, including development partners' covenants on the table then, precipitated the unbundling of the sector. The respondents went to further emphasise that the economic policy challenge that was facing the Government and continues to, was to put the domestic economy on a recovery path at reasonable pace to redress rising poverty and challenges from the competition posed against local companies.

4.3.2 Organizational Drivers of Change

From the interviews conducted with the KPLC top management, it was noted that the organizational and management restructuring of KPLC has been going on in stages since 1993. The first stage was pegged to improving the customer-staff ratio that was realized through growth in the number of customers, natural attrition and retrenchment of staff. Further improvement was achieved through a combination of factors that included freezing of employment through to June1997; and following the sharing of staff between KPLC and KenGen in September 1997, the ratio further improved to 63 by June 1998.

Table 4.31-Customer-Staff Ratio Trend 1993 to 1998

Year	1993	1994	1995	1996	1997	1998
Customer-Employee Ratio	**31**	**45**	**45**	**48**	**52**	**63**

Source: *HR Reorganization Report to the Board 2001*

Back in 1995 the operations, management and assets of power facilities in Kenya were spread over several parastatal enterprises operating under guidance and supervision of the Ministry of Energy (MOE). By and large the business and assets management was performed under one umbrella-Kenya Power & Lighting Company Limited (KPLC). Most respondents in KPLC who are in the top management team today were either junior officers or in the lower management cadre. They held the view that the split of KPLC and its responsibilities that was proposed and commenced in 1995/6 was driven as follows:

Table: 4.32: Analysis of Staff Views on What Drove Changes in KPLC

	Initiated by %	Who was In charge %	Was Necessary
Government of Kenya	25	40	
World Bank	65	20	
Restructuring Task Force		15	
Board of KPLC	10	10	
Management of KPLC	0	15	
Total Score	**100**	**100**	
Was Necessary-No			80
Was Necessary-Yes			20
Total Score	**100**	**100**	**100**

The analysis indicates that while the restructuring was mainly on KPLC, neither the Board nor management of KPLC was viewed to have initiated the reforms that were to alter the operation and business processes of KPLC. This was extended further to indicate that the Government and the World Bank were in charge to the extent of ninety percent. Again the Board and the Company Management were viewed as being in charge to an extent of a poor 10%. It can be concluded from the feedback today that restructuring and the drastic change in strategy and business processes were perceived as hostile strategies. According to Mintzberg (1990) the deliberately designed strategy by the chief executive (in our case the GoK who is the powerful and influential owner) style of strategy is inflexible in that it is intolerant of deviations from the strategy once formulated and fails to allow organizational learning other that by the GoK and its staff. This was explained to be so during the interviews in that the Government appointed a Restructuring Task Force (RTF) made up mainly of external personalities and Government senior staff to spearhead restructuring of KPLC and KenGen in 2000, and reporting to the government.

In the population interviewed, overwhelming majority expressed their reservation as to whether the reforms were necessary at all. The Government had agreed with the International Development Agency (World Bank) that it would carry the sector reform that would include reorganization of the power sub-sector (to separate regulatory and commercial functions and set up an effective regulatory arrangement, and rationalize the institutions and assets in the sub-sector through separation of generation function and the transmission and distribution functions into two separate organizations); development of an action plan to enhance efficiency through staff rightsizing towards achieving an improved customer/staff ratio; and to encourage private sector involvement through inviting private investment in power development. The following objectives for carrying out the reforms were advanced then:

Table 4.33-Government Objective on Electricity Sub-Sector Reforms

1	Facilitate efficient operation and development in the sector
2	Facilitate the reliable supply of electricity
3	Rationalize asset management and ownership between power sub-sector institutions
4	Promote the sub-sector's financial viability
5	Establish a credible institutional structure and regulatory framework in order to attract financing from the private sector and international donors
6	Ensure adequate protection of customer interests

Source: *Presentation to the World Bank in November 1998*

The expectations of the Government and the purpose of the reforms by KPLC management and staff from the interviews appear to have been incongruent. Appreciating the strategic position is concerned with impact on strategy of the external environment, internal resources, competences, and the expectations and influences of the stakeholders (Johnson et al, 2003). Unfolding changes in the environment, and their impact on the organization and its activities, together with available resources and competences dictate the potential advantages and emerging opportunities or overcoming of threats that an organization can exploit. This is driven by what those people and groups associated with the organization (managers, shareholders and all others who are stakeholders) aspire in terms of expectations and purposes of the respective organization.

Therefore the above objectives and strategies were more endorsed by the Government and the World Bank and least acknowledged by the majority of management of KPLC. More so because the respondents reported that they perceived the strategic change or sector reforms as an agenda to neutralise the enormous influence KPLC was perceived to be wielding, and were also for the whole sector rather than KPLC specific. However, the management currently acknowledges that the impact of the reforms of yesteryears had left the company and its board with enormous task of redrawing strategies to overcome increased competitive forces.

4.4 Changes in Strategies

4.4.1 Restructuring

Although there were five main entities involved in generating, transmitting and distributing electricity in Kenya in 1996, as noted earlier only one entity, KPLC, was responsible for operating and maintaining and managing facilities, as a vertically integrated business operations. Thus the sector reform whose implementation commenced from the 1996 directly impacted on KPLC business operations, processes and relationships, and its future from then on. Organization improvements were to be introduced from the analysis and knowledge of the existing organization and the orientations adopted for the incorporation of new activities or the externalisation of others. The construction of the two operating organizations (i.e. KPLC and KenGen in order to accomplish the business processes) that included the description of duties and attributions comprehensive, complete and detailed organization of the two companies was to be implemented. A comprehensive, complete and detailed organization of the two companies required however an in-depth organizations and structures best adapted to the activities, duties and strategic plans of each company. It was explained that the Government, together with the Board of KPLC in collaboration with the development partners had engaged services of a consultant to facilitate the process of reforms and strategy settings.

4.4.2 Early Management Strategic Responses to the Large Changes

A document representing what was crafted in 1997 to represent objectives, activities and strategies that would reflect functional focus from the management is depicted in the Appendix. The contents were slightly modified through interviews, as the document was partly incomplete. It was evident the objectives for the different functions were being drawn in line with the organizational structures that existed then. Most of the interviewees appeared to have not been involved in the development of the contents of the strategies and the objectives. Pearce and Robinson (2002) stated that company objectives are needed so that random forces do not determine the organization's direction and progress. It is equally true that objectives are valuable only if strategies can be implemented, making achievement of objectives realistic. The respondents felt that implementation of the strategies took longer to effect/craft because they were not adequately sold internally.

Prior to the environmental changes it was explained by respondents that the Company did not have a crafted Corporate Vision and Mission Statements. These were debated and crafted through a group participation of Managers in a retreat ("Managing Director's Leadership Seminar" of February 1998 code named "Safari Park Declaration") that was a change programme in preparation of challenges ahead.

The adopted Vision statement:

'To achieve world class status as a quality service business enterprise so as to be the first choice supplier of electrical energy in a competitive environment'.

The Corporate Mission:

'To efficiently transmit and distribute high quality electricity throughout Kenya at cost effective tariffs, to achieve the highest standards of customer service and to ensure the Company's long term technical and financial viability'.

The two statements and core values had remained in their original state to the time of the research. Thus prior to the drawing of these statements the Company had not crafted any to address its vertically integrated business process, including generation. It was during the time of the interviews that it was noted that efforts and inputs were being solicited from staff to revisit the current statements to reflect any change in the business and the environment it operated in.

The management mobilized its internal resources to prepare for expected the customer service through creation of customer service centers and investment in the ICT to support efficient management and administration of the operations of the network and commercial business processes.

4.5 Managing the Broad Changes in the Sector

The GoK gazetted a number of Acts of Parliament that included among other Power Act 1997 to guide KPLC in its new customer charter and retail tariff regulation guidelines under Electricity Regulatory Board (ERB). Additionally, power purchase agreements (PPA) between KPLC and four new power generators/producers were approved by ERB during the period 1997 to 2000.

New strategies invariably imply strategic changes, and change can be considered as an essence of successful strategy in a dynamic environment. Where a new strategy represents a small incremental change from the past, task of managing strategy implementation may be relatively simple, as it can be done through minor modifications in existing systems and structures. However, challenges arise in strategy implementation when the new strategy represents a radical departure from the past. These types of strategies require changes in many parts of an organization-like reengineering and restructuring-both systemic and behavioural. It is recognized that when an organization undertakes minor modifications in its existing systems and organization structures to address large/major changes in its environment-strategies, more often than not the organization will be compelled to readdress the modifications to the scope that it fully addresses the commensurate major changes in the environment. Strategy implementation is mainly accomplished by changing resource allocations, structures and systems, and skills and staff.

Between 1996 and 1998 the management undertook review of business processes to alleviate business appreciation from the previous tasks analysis to mission and strategy-oriented approach. The reviews were explained to have included consultants, seminars for management staff to address change programmes and build business appreciation. This was explained to be the purpose of promoting understanding of business process as part and parcel of changing business environment with a view to meeting a number of objectives, and resulted in drawing of the mission statements among others. The ones that were emphasised then were customer service centres and exploitation of information and communication technology to run the business; Reengineering initiatives were undertaken in 1997 when "Institutional Strengthening Project" (ISP) was implemented in relation to ICT to streamline business processes. This was to address automation and instil efficiency in the business operations and management. Consequently, customer service as a strategy was positively affected, including organizational structures by this implementation. Efforts were directed towards establishing customer service centres, and creating corporate branding and identities.

During the interviews it was generally expressed that pre-2001, the endeavour in redrawing strategies and new organizational structures for the company were received with mixed reactions:

4.5.1 Corporate Objectives and Strategies were clearly understood by most managers and functional heads. However, the lower cadre did not appreciate the corporate objectives because of lack of detailed communication on the purpose of reform, and environmental factors that occurred-the drought that caused power rationing (and final effect of KPLC-KenGen split in September 1999) in 1999-2000. It was further reckoned that there were no priority areas that were identified to facilitate adequate attention on the implementation of strategies or justify new approaches to structures. Finally there was no comprehensive culture change programme in place nor were there identified internal champions to ensure development of working culture that would support the corporate mission.

4.5.2 Organization Structure in 1999 through to June 2001 resulted in the Managing Director having 21 managers reporting to him. The interviewees felt that this was a result of grouping tasks into specialised functions resulting in many small divisions that reflected respective jobholders' responsibilities as opposed to corporate function/objective. Further, most felt that there was always conflict between Central Office and administrative areas in the endeavour to coordinate activities. This included over-centralization of authority and no empowerment of the areas.

4.5.3 Departmentalisation intimated in the draft organization structure pre-2001through grouping together the 15 divisions (and 16 departments) for effective coordination in to seven or so (Customer Services; Technical Services-Design & Construction, O & M, Energy Transmission, Distribution & other engineering; Finance; Corporate Affairs-PR, Security Services, Corporate Planning, ICT, Special Projects; Company Secretarial & Administration Services; Human Resources Management; Internal Audit; *Logistic- Stores Management, Procurement and Transport;* Regionalize Areas with some autonomy to operate as business units with each manager being empowered with more responsibilities to manage resources. The areas structures reflected the Central Office structures) was meant to address only the wide span of control of the Managing Director, but may not have defined the strategies to pursue. The opinions express were that flexibility in the organization of work and resources were inadequate at the time to accommodate new structure, and customer focus was still a blurred idea. Nevertheless, enormous management effort to fit structure in to the new strategy was evident.

The management in February 2000 appointed a working team to appraise business processes that was to facilitate delivery of objectives derived from newly drawn strategies. This team was explained to have been composed of members from all disciplines. The results of their work culminated in to the consolidation of the July 2001 organizational structures whose aim was to implement and realize the stated strategies that included among other stability of the transmission and distribution network to meet the overall objective of customer service through the new "Regional" business ownership, and to refocus the attention on the fast growing customers numbers at the regions or the points of service delivery. As will be noted later, the management changed the 2001 organizational structure at the end of 2003 but later partially reverted to it early 2006 to be able achieve the strategies expressed in 2001 and to also meet the expectations of the main stakeholders.

4.6 Levels of Competition

Theorists have over time observed that where there is a major change in strategy there is normally no major change in structure soon. This has been defined as lag between the two. Notwithstanding the foregoing, organizations that do not face stiff competition are slower to change their structure than others. KPLC has always been viewed as a monopoly from the point of view of product and service supplied to the market. However, movement of Michael Porter's five market forces of competition and the sixth as recognized in E Aosa (1992) thesis of Government and environment were analysed from input from the interviews as indicated on the basis of before and after reforms:

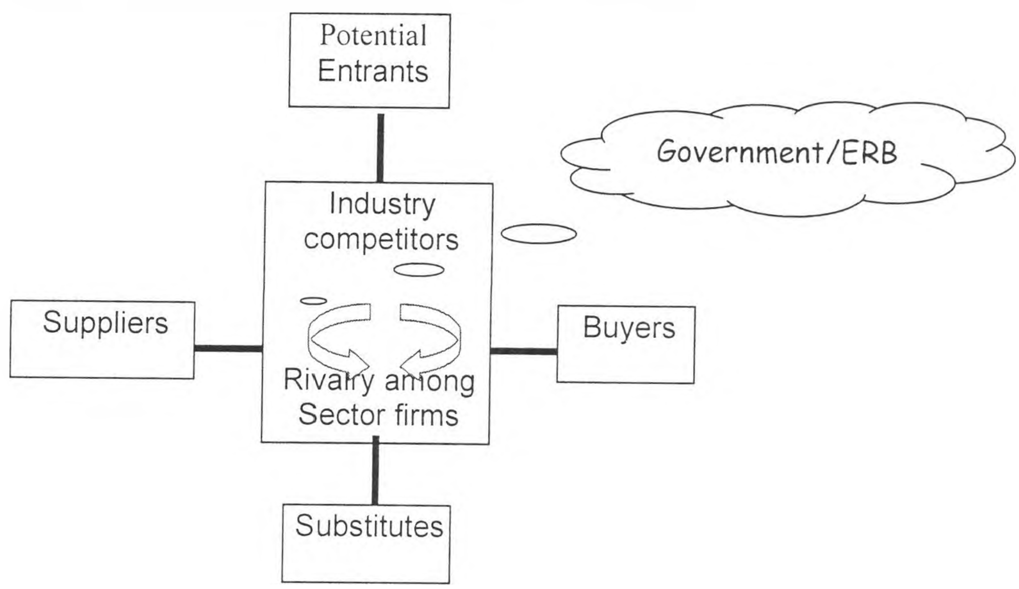
Table 4.61-Analysis of Competitive Forces

Source of Competition-Forces		Competition Level Before Reforms			Competition Level After Reforms		
		L	M	H	L	M	H
1	Customers (Includes pressure groups-KAM)	X				X	
2	Suppliers of Electricity	X					X
3	Substitutes of Electricity	X				X	
4	Forces within Industry-ERB &	X				X	
5	Potential Suppliers (further unbundling)	X				X	
6	Government & Laws (Includes ERB)		X				X

Source: *Data on Respondents Perception* Key: L=Low; M=Medium; H=High.

The movements of the competitive forces have influenced changes and crafting of strategies. A further force under the Government is the economic liberalization where substitutes in the form of manufactured products from outside the country are reckoned as a source of pressure or competitive force. Interviewees felt that customer force may soon be upgraded to higher level as soon as they are well informed of the customer charter and the role of ERB. The management felt the same on the ERB that will soon be empowered through training and resource manpower availability (capacity building).

Table 4.62-Forces Driving Industry Competition (by M. Porter-modified)



The above competitive forces arising from the reforms, the impact of drought of 1999-2000 (described by interviewees as the main burning platform because it created the urgency to address the strategic gap), and Government economic policies were underscored to have accelerated the drawing of the following strategies/objectives in 2001together with subsequent five year strategic plans under a newly established/revamped Corporate Planning division:

Table 4.63-KPLC Corporate Strategies since 2001/02

	Main Strategy-Objective	Comments
1	Enhancement/Support of power generation capacity	Cooperate/Alliance for security of source of supply to support intensive growth
2	Customer Service & Business Growth	Intensive Growth Strategy (Ansoff's) and improved quality of service/product
3	Bulk Power Tariffs Review	Cost leadership & cost of inputs to contribute to improved trading margins
4	Systems Losses Management	Improved Distribution Efficiency to contribute to improved trading margins/low input costs
5	Improvement of Financial & Cost Management	Cost leadership and efficiency; manage redundant assets and resolve increasing cost of running the business (Financial restructuring)
6	Business & Organization Restructuring	High payroll bills, Bloated workforce and incompatible structure to the revised strategy
7	GOK measures to relieve financial obligations Support to Capital Base Re-instatement	Mobilization of resources

Source: *Business Strategies Report November 2001(modified)*

Corporate management's first course of action should be a review of whether any opportunities exist for improving its existing business performance (Kotler, 2004). An organization considers whether it could gain more in performance or market share with its current products in their current markets-"market-penetration strategy"(Ansoff, 1969). Next it appraises whether it can find or develop new markets for its current products (market-development strategy). The KPLC strategies were directed to the current product in to the current market (improve customer service and efficient business operations), and through new markets by promoting and encouraging customer connections (new customer connection policies) in geographical regions not covered hitherto, and maximization of existing distribution networks.

4.7 Changes in Structures

Companies often need to restructure their business and marketing practices in response to significant changes in the business environment, such as globalisation, deregulation, technological advancement and market fragmentation (Kolter, 2004). KPLC organizational structures were intimated in 1995 following the expected separation of generation processes from transmission and distribution. Seventeen managers were reporting to the Managing Director then including the generation division. The respondents observed that business operations were highly centralized with emphasis on technical and functional aspects of the organization with insufficient weight on distribution and customer focus. There was a proposed organizational structure for the transmission and distribution business operation that would have reduced span of control to eight, again remaining overly focused on technical excellence with unbalanced attention on the customers being served, nor business expansion and cost of doing business, and overemphasis on tasks instead of implementation of corporate goals and strategies. It is observed that the structures that were being drafted or expanded before 2001 revolved around the thinking and spirit behind the mission statement whose main emphasis was to *"efficiently transmit and distribute high quality electricity...."*

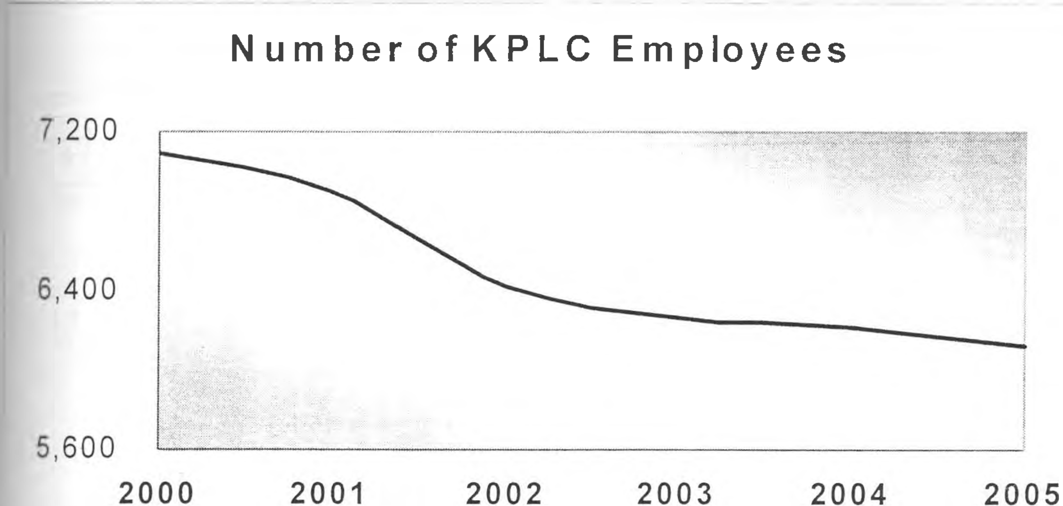
During the ten years of the study there were decreases and changes in business processes, and environment factors continued to unfold affecting KPLC markedly. The approach to both the core functions and the core business of customers' services were performed differently and preparatory work to conceptualise the effect of sector reform of the late 1990's was continuous during these years. Respondents reckoned that the highly turbulent environment was a major challenge to the management on how to redefine the newly created boundaries and relationship of KPLC within the electricity sector in terms f strategies and organizational structures.

It is evident that the company has strived to service a growing market in the distribution and customer service, and increased market spread. It was explained that with the hiving out of generation to KenGen in 1997 the workforce decreased by 1,800 employees. However, the management did not adequately respond to the changes in realigning its manpower and the planned organizational structure to the change in business prior to 2001. It is worth noting that still the management did not re-address the mission statement in line with the expectation by the stakeholders in 2001. The management prepared various organizational structures but delayed any major implementation from 1996 to June 2001, except generation function that was removed from the structure (incremental or step by step changes). However, preparatory work including ISP (Integrated Customer System, Design & Construction System, Incidences Management System, Energy Transmission Management System, Distribution Transmission Maintenance Management System, Facilities Database System, Strategic Planning System and Executive Information System) to facilitate mobilisation of resources, consolidation of information and efficient business processes continued to be implemented in anticipation of prerequisite changes.

Table 4.71- Total Employees/Customers Numbers within the last 8 years

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Employees	8,279	7,167	7,100	7,095	6,900	6,423	6,269	6,216	6,130
% Increase P.A	1.0%	-13.4%	-0.9%	-0.1%	-2.7%	-6.9%	-2.4%	-0.8%	-1.4%

Source: *Annual Report 2005*



The reasons for the changes in the number of employees were explained as being in response to the 2001 strategy implementation on business reorganization and cost management. The highest decreases in1997/98 was following corporate retrenchment soon after announcement of sector reforms so as to improve employee/customer ratio, and as a result of split transfer of generation business process to KenGen, and in 2001/02 again following retrenchment, followed by freezing recruitments and effect of natural attrition when new strategies were adopted. The growth in employee numbers in the last five years was a negative 3.2%. It is worth noting that declines in staff over the years has been recorded against a backdrop of increase in number of customers connected to be supplied with electricity and continued growth in sales.

The structures of the Company have changed in a number of times in the ten years, and the reasons and types of changes as recalled during interviews were triggered by a number of dominant drivers and factors: (Reforms; Customer Service; turnaround; changed technology; centralization; decentralization; Others) in these main designs.

Table 4.72-Organizational Structural Changes and their Drivers

	Year	Reforms	Changed Technology	Centralize	Customer Service	Turnaround Performance	Decentralize	Other
1	**1995/8**	**X**	**X**					
2	**2001/02**	**X**			**X**	**X**	**X**	
3	**2003**			**X**		**X**		**X**
4	**2005/6**				**X**	**X**	**X**	**X**

The scoring above was base on the input from interviewees

4.7.1 1995/98 was recalled to be the initial attempt to incorporate reforms that split the then KPLC vertically integrated business processes. The span of control had been 17 managers reporting to the MD and aspired to reduce this to 10 with elaboration and emphasis on technical departments of transmission and distribution, and improve its benchmarking with other utilities in the world. The business continued to be centralized with administrative area offices around the country.

4.7.2 The 2001/02 was the first major address of changes in strategies and an organizational structure to match the implementation of these strategies. Introduction of Regions as business units and structure with emphasis on business and customer focal points were underscored. Span of control was streamlined to ten managers and decentralization of authority was substantially devolved to the Regions. It is recalled as the most elaborate business reorganization/restructuring.

4.7.3 The end 2003 organizational structure was viewed by many respondents as partial reversal of strides achieved in the 2001 restructuring as wide span of control re-emerged, Regional drives and identified business units were neutralized, autonomy reduced and centralization of function with Regional managers' authority scaled close to the previous area managers' of the pre-2001 organizational structures with higher focus on functions and functional tasks and objectives. The customers' and business focal points that had been established in the previous structures (Zonal Heads and Assistant Regional Managers) were scrapped and replaced with functional directions. emphasising the product and central functional authorities, rather than the market and corporate views. This also brought out a subsequent various task forces to execute a number of unresolved strategic objectives through virtual organizational structures. This was explained to be because the functions were not meeting the expected performance targets. The change in the organizational structure was inferred to have been tied partly to the change in organizational leadership the CEO). A few respondents also indicated that the forces that influenced the gravitation of the structures similar to the past were either frustrated by the slow gains or organizational culture related to centralized configuration with strong bureaucratic central office influence.

4.7.4 In 2005/6 Management Service Contract (MSC) structure was unfolding that was explained to be the brainchild of the donor partners and the MOE as conditionality to a grant/loan for US Dollars 154 million towards "Energy Sector Recovery Programme" (ESRP), and adverse performance or non-performance in non-financial strands like customer connection, quality of supplies among others to management of distribution network that urgently required upgrading.. In parallel the respondents explained that a major exercise of job evaluation was on-going to address gaps perceived in the 2001 and 2003 organizational structures. The Managing Director explained that the proposed structure with MSC was directed towards addressing "Strategy-to-Performance Gap (Performance contract between the Government and the Board). The key objective was to provide executive with directly focused responsibility and accountability for responsive institutional support mechanism to the transmission, distribution and customer service functions. As at the conclusion of this study in early 2006, the Board re-established part of the 2001 organizational structure by appointing among others Assistant Regional Managers to enhance and sustain performance of the affected regions (decentralizing), and also in order to give dedicated attention to the functions of Project Design & Construction, System Operations & Maintenance and Customer Service

Table 4.73-Types of Structures

	No of Branches		**No of Employees**		**No of Managers**		**Managerial Levels**	
1995/8	Areas	6	Decrease	261	Decrease		No Change	
2001/3	Regions-BU	4	Decrease	1.104	Decrease		Decrease	
2003/5	Areas	4	No Change		Increase		Increase	
2005/6	Regions	4	No Change		Increase		Increase	

The initial organizational structures undertaken involved exclusion of generation division from the previously vertically integrated business and transfer/establishment of an independent regulatory board (ERB) that led to reduced employees and divisions (1996), elaborate establishment of customers service centres (1998); changes in the number of managers; abolition of administrative branches (areas) and establishment of business units (regions) with reduction in managers and reduction of employees through retrenchment (2001); increase in number of managers and divisions with shifting of authorities from the Regions to the centre (2003).

The organization structure of 2001 elaborately recognized the change in strategy and its related organization structure, reduced the number of senior management positions of Chief Engineers/Officers and above by 15 from 76 to 61 as shown in the table below. It was responded that it extended to meritocracy recruitment of new management team from outside the organization (open resourcing), and also introduced grass-root business owners (36 zonal heads with their published contacts to customers) at the market levels.

Table 4.74-Year 2001 Organizational Structure Changes

JOB TITLE	PREVIOUS NUMBER	CURRENT NUMBER
Deputy Managing Director	1	1
Chief Managers/Divisional Heads	12	7
Regional Managers	-	4
Managers	17	14
Assistant Managers	4	0
Area/Branch Managers	6	10
Assistant Area Managers	4	0
Asst/Chief Accountants	2	3
Chief Engineers	19	12
Chief Officers	11	10
TOTAL	76	61

Source: *HR Report on Business Reorganization 2001*

In mid 2001, 232 employees were retrenched at a cost of US$3million and in March 2002 additional 872 employees at a cost of US$9.6million bringing total staff retrenched to 1.104 at a total cost of Shs. 978 million. The respondents reported that this was to address the targeted strategy of reduction in manpower costs at Shs. 1.1 billion per year for a period of five years.

The management commenced the second phase of restructuring that included reviewing consistency of KPLC restructuring plan with its stated corporate objectives; conducting workshops on management for the new management team, including preparation of a detailed change management plan; and offering training to selected technical staff in writing job descriptions. Respondents advanced various objectives to improving profitability that were to be achieved by the changes in the organizational structures ranging from adapting to environmental changes, reduce operating costs, to improving customer service through improved quality of product and services.

4.8 Relationship between Structure and Strategy

Alfred Chandler (1962) provided a landmark study in understanding the choice of structure as a function of strategy. He stated that a common strategy-structure sequence was that choice of a strategy; emergency of administrative problems-decline in performance; shift of organizational structure in line with the strategy's needs; and improved profitability and strategy execution. While the pattern of sequence appears to fit in to the KPLC, it may partly be regarded as coincidental as performance was heavily impacted by the drought of the 1999-2000, a period that immediately followed implementation of the sector reform. However, the period was compounded by administrative challenges ranging from operational challenges like systems losses, to adverse performance as per the appendices and organizational structure that did not reflect the changed business processes and relationships.

The trends of the organizational structures prior to 2001 were defined by most respondents to have been influence by past cultures/traditions that included skewed to reflect the emphasis on the technical operational dominant roles and task oriented focus; and partly compelled by the inevitable environmental changes. Organizational structures and strategy changes affect organizational performance. Management will from time to time endeavour to change/modify either of the two to trigger achievement of its objectives or and improvement in its strategies.

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Respondents recalled the gains recorded after the 2001 changes in strategies and structures. Contingency theory advocates that the relation between organizational structure and performance depends upon other organizational and environmental factors such as size, strategy, technology and organizational learning. It is therefore prudent and widely accepted that it is not simply the link but the actual fit between structure and strategy with the environment that generates or creates favourable outcome. Notwithstanding these, the management style and the implementation further influence probability of success in the performance.

The influence the change in strategy had in the structure of the organization was responded to have been low soon after the commencement of the sector reform in 1995/96. The reason was advocated to have been because of the lag in reaction as the management perceived that there was no other implementation to do but hive out the generation division, and that the management did not address the strategic change adequately. This left a redundant and costly organizational structure branded as highly autocratic, that was caught up with the devastating impact of drought (power rationing) of 1999/2000 and the subsequent implementation of strategic changes of 2001. The strategies of June 2001 were reckoned to have generated a very high influence on the organizational structure modelling; more so as it was the first decentralized structures and address customer service and growth with establishment of semi-autonomous Regions and sub-Regions business units.

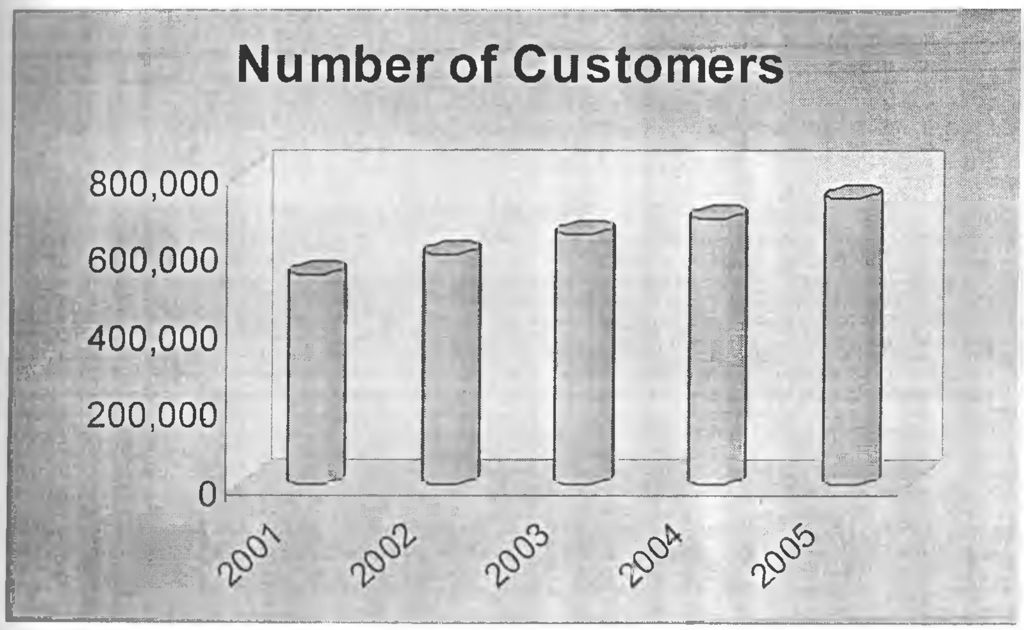
As the customer growth accelerated over years and in particular from year 2000, the management appreciated that traditional centralized structure of KPLC was put under test as quality customer service and resolution of customer complaints was becoming stressful.

While the strategy to expand the business scope had been spelt out, commensurate organizational structure had not been addressed until in 2000/2001.

Table4.81-Customer and Business Growth Trends- 1998 to 2005

	1998	1999	2000	2001	2002	2003	2004	2005
Customers	452,963	472,671	505,951	537,079	593,621	643,274	686,195	735,144
% Increase P.A	6.2%	4.4%	7.0%	6.2%	10.5%	8.4%	6.7%	7.1%
Units Sold-Mlns(GWH)	3,498	3,564	3,365	3,091	3,498	3,654	3,940	4,215
% Increase P.A	2.7%	1.9%	-5.6%	-8.2%	13.1%	4.5%	7.8%	7.0%
Customers/Employee	63.2	66.6	71.3	77.8	92.4	102.6	110.4	119.9

Source: *Annual Report 2005*



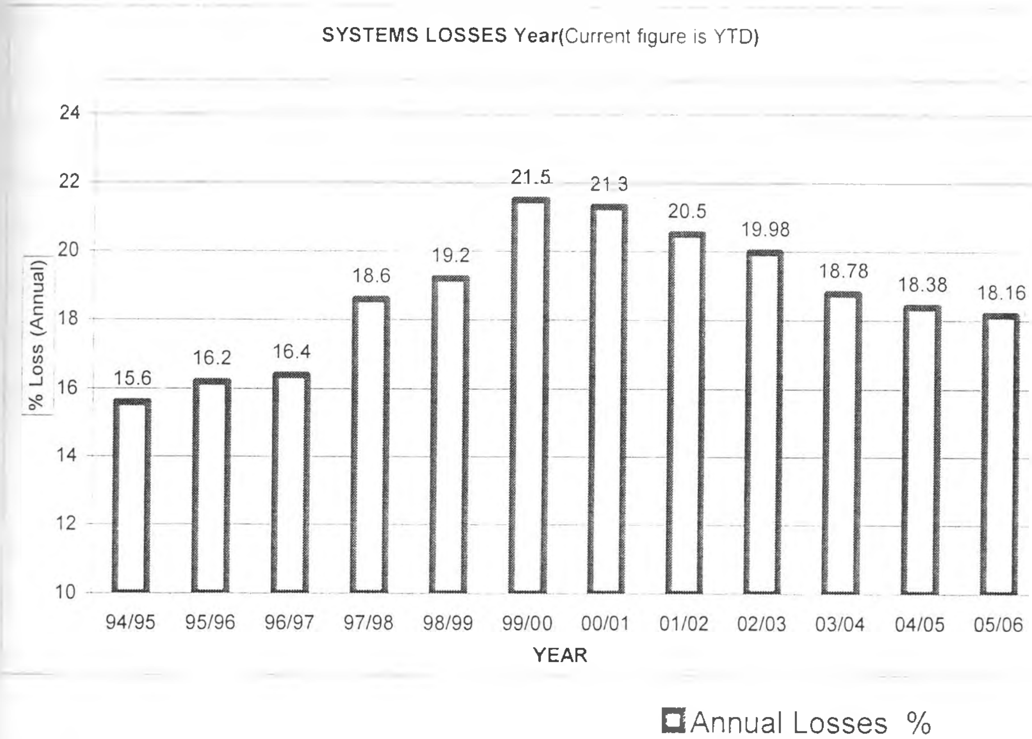
Distribution efficiency (reciprocal of system losses) that is measured as sales units as a percentage of purchased units continued to deteriorate from June 1995 (84.8%) to a low of 78.5% in year 2000, raising serious concern of the stakeholders. This trend precipitated the crafting of the strategy/objective of targeting reduction/management of system losses to a lower level towards the 15% technically allowed with the objective to improve trading margins thus reducing cost of inputs. The level of the system losses and the speed by which the loss reduction objective was achieved up to 2002, precipitated introduction of a *"virtual" organizational structure* led by a "Task Force Leader" appointed in June 2003 to facilitate achievement of the strategy as depicted in the attached organization structure. Additionally the unacceptable distribution efficiency triggered another organizational structure (Energy System Recovery Project) code-named Project Implementation Team (PIT-separate from the normal functional structures).

Table 4.81-Distribution Efficiency

Year- June	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Units Sold-GWH)	3,269	3,406	3,498	3.564	3.365	3.091	3,498	3.654	3.940	4.215
Growth %		4.2%	2.7%	1.9%	-5.6%	-8.2%	13.1%	4.5%	7.8%	7.0%
Distribution Efficiency %	83.80	83.60	81.40	80.80	78.50	78.7	79.5	80.02	81.22	81.62
System Losses %	16.20	16.40	18.60	19.20	21.50	21.30	20.50	19.98	18.78	18.38

Source: *Distribution Efficiency Report &Annual Report 1998-2005*

Table 4.82-Trend in System Losses (allowable is max 15%)



Source: *Systems Losses management Report 2006*

Among the identified causes of the adverse performance were due to lack of investment in the distribution system reinforcement, inadequate attention from the management and increased commercial losses arising from social environment and economic downturn. Following the strategy and organizational structure implementation in June 2001 there was gradual improvement in system losses from the 21.3% in June 2001 to 19.98% in 2003. The speed of improvement triggered the management to further reorganize and put in place a "virtual organizational structure" in September 2003 under a Task Force Leader to spearhead the initiative. The system losses had decline to 18.16% as by December 2005.

The respondents acknowledged and underscored that the changes effected around 2000/2001 were interlinked and inevitable for the survival of KPLC. With environmental changes effected in 1999 and the impact of the drought noted earlier, performance of the organization triggered strategic changes that were expressed in 2001 with the aim of addressing the performance trend. Around the same period and as a result of the business process review, reorganization of processes and relationships and structures were to be drawn to drive home the objectives expressed then. The management reckoned that quality customer service was achievable through devolved central offices structures that were prescribed to be attainable through regional business units whose organizational structures reflected the customer as a mission. This saw the divisions reporting to the Managing Director reduced to eight from the noted seventeen. The observation was that the move addressed high operating costs, reduced level of structures and addressed the interface introduced of many generators and ERB in resolving power purchase costs.

The four Regional Business Units with identified business managers and reorganized divisions (Finance & Procurement, Corporate Planning & R&D; Energy Transmission & Power Purchase among others) were established in 2001 and staff redundancies effected during the period strategies were redrawn.

Table 4.8.4-Summary of Performance 1998 to 2005

	1998	1999	2000	2001	2002	2003	2004	2005
Sale Units-GWh	3,498	3,564	3.365	3,091	3,498	3,654	3,940	4,215
Electricity Sales	15.292	15.513	16,670	16,109	18,699	19,186	20,303	21,755
Fuel C. Recovery	2.781	2.910	6.894	12,080	6,108	3,945	3,020	6,586
Revenue	18.073	18.423	23.564	28.189	24.807	23,131	23,323	28,341
Trading Margin	9.055	8.882	3.644	2,280	4,019	5,017	7,785	10,083
Trading Mgn %	**50%**	**48%**	**15%**	**8%**	**16%**	**22%**	**33%**	**35%**
Op Costs	6.813	6,980	7.095	5.826	5,555	7,745	6,929	8,058
Net Income-BT	**2,005**	**1,722**	**(2,577)**	**(4,106)**	**(2,847)**	**(4,112)**	**874**	**1,979**

Source: *Board Presentation 2005*

The management since 2001 has on a number of occasions responded with changes in organizational structures triggered by poor performance in achieving corporate objectives and accomplishment of strategies. At the time of writing of this study the Board approved change in organizational structures of distribution and customer service to address the poor performance in technical services and to reflect the emphasis of marketing as a function to address "connection policy". The common cord between changes in strategy and organizational structure from the foregoing is performance trends and previously the political inclination.

The majority of respondents recorded that with changes in structures, the company realized changes in its performance in both financial and non-financial key performance indicators. This is evidenced in the trends in the various performance data supplied and contained in the report over the respective periods. There was concurrence from a number of respondents that changes in structures prior to 2001 had low influence in corporate performance as a number of the changes in structures were directed towards performance of tasks rather than total business processes. However there were cases where change in structure influenced performance highly. The two cases sited were the turnaround in 2001-2003 business restructuring: structure-strategy changes, and the systems losses reduction "virtual structures" of 2003 with resultant favourable system loss reduction trend recorded without change in the 2001 system loss reduction strategy. However, it was reported that that there was low influence in the strategy change particularly in logistics (procurement and storage of maintenance materials and transport provisions) where strategy change followed structural changes. The structure influenced the methodology and approach to logistics.

Notwithstanding the perceived structure-performance effect above, it was very clear that changes in strategy highly influenced the changes in organizational structures, and that the two jointly in turn influenced performance. The influence on performance and effectiveness of the Company was rated as within medium to high. The changes in strategy in 1997/99 had low influence in changes in organizational structure. However, the relationship was as explained delayed as structure had eventually to follow suit though belatedly.

The organizational structures of 1997/98 were clearly effected following strategy changes that culminated from the enactment of Electricity Power Act of 1997. The organizational structures changes were incremental, and in view of experienced dynamic business conditions brought about by liberalization, globalisation and increased customer awareness organizational restructuring continued to be viewed as an important aspect in addressing business performance. Hence, consistent with KPLCs policy of continuous improvement and in response to emerging challenges, the Board in February 2000, authorised the Company's management to conceptualise and embark on a "Business Reorganization Project" that spearheaded the organization's business growth effort. The Project scope in addition to reviewing and appropriately realigning all internal business processes, sought to enhance the revenue and profitability through improvement of commercial viability and profit ability through improvement of commercial viability and profit orientation in operating units. This in essence formed the basis for the establishment of business units code-named "Regions". The Region is a business unit that is commercially semi-autonomous with territorial coverage defined by distinct customer, customer service and growth and power network boundaries. The underlying drive was decentralization of a hitherto fully centralized organization to promote business performance. Implications of the organizational structure changes influenced performance in terms of efficiency, effectiveness and performance. However, resources limitations and recognized shortfall in the change programme deterred expected gains exaggerating strategy-to-performance gap. The conclusion was that drive to implement and deliver objectives derived by changes in strategy influenced organizational structures.

Notwithstanding the above, organizational structure to a much lower influence was noted to have driven change in strategy change. The case noted related to two departments and functions that traditionally could not be devolved away from the CEO span of control. The security and corporate communication design influenced the corporate strategy to progress. Efforts to devolve them to other functions or even to Regions were met with resistance.

At the time of writing this study further organisational structural changes were announced where re-establishment of Assistant Regional Managers (reporting to the respective Regional Managers) in two main business units that had been scrapped in 2003. The justification behind the appointment was given as "*To enhance and sustain the performance of the regions*". Further, more senior officers' positions were established "*in order to give dedicated attention to the functions of Project Design & Construction, System Operations & Maintenance and Customer Service*" These moves were justified as the organizational structure adopted end of 2003 was not enabling the achievement of the stated strategies and inadequate scoring of the balanced score card as expected by the main stakeholder-the

Government in its performance contract with the KPLC board and management. It is therefore befitting to conclude that changes in strategy and organizational structure are interlinked.

4.9 Factors Influencing Structure-Strategy Relationship

Organizational culture (beliefs, norms and values) gives employees a sense of how to behave, what they should do, and where to place priorities in getting the job done. It can be a major strength when consistent with strategy and thus can be a powerful driving force in the implementation-supportive culture enhancing employee efforts in implementing strategy (Pearce et al, 2003). The opposite will prevent a company from meeting competitive threats or adapting to changing social and economic environment that a new newly crafted strategy is designed to overcome. It is observed that the KPLC endeavoured to embrace a service/marketing-oriented strategy with a fitting organizational structure to replace a public-utility-oriented strategy. Culture appears to have partly diverted or dulled the trend towards this route with the revised organizational structure of 2004 to 2005 that partly re-centralizing the authority and moving back to functional operations when functionalism is preserved and legitimised by professional ethos (preserving service standards that are strongly influenced by professional norms and laid out standards instead of customer or market/environment driven needs), and care-taken by traditionally powerful divisional managers. Culture change is a long process of changing behaviours and values; the hard change tools of structures and systems if used alone are unlikely to deliver the changes in strategies (Johnson & Scholes, 2003). When managers remain functionally focused in a fast-moving environment, they may neither see the need for an overall strategic view nor find it very easy to deliver a co-ordinated response quickly.

Management control and organizational leadership over the corporate operations influenced the organizational structure over time and inherent strategies. The organization both as a state corporation and utility provider was over a long time held as a specialized technical firm whose core objective was to generate, transmit and distribute electricity. The emphasis on technical and administrative tasks and objectives appear to have influenced the centralized organization structure and focus on functional structures that continued to allow greater operational control at a senior level (clear definitions of roles and tasks). Thus, as evidenced by its mission statement drawn in 1998 with noted emphasis on technical value chain; and the organizational leadership under a single strong managing Director for a period of eighteen years, and compounded by the government focus on the organization's national security and strategic nature dictated a certain form of structure to be adopt. The senior managers appeared to have been burdened with operational issues, relying from time to time on their specialised skills as opposed to taking strategic perspective on challenges. This continued until after the Government expressly declared its mission in 2001/2 that reflected the competition among nations and the effect of global approach together with expressed recognition of the social-economic contribution from electrical energy. The approach triggered the focus on strategy of massive customer base expansion, attention on customer quality service as monitored by ERB that called for partial business units/regional attention.

The organizational development over time and resource mobilization in technology in the field of information technology and Communication influenced the strategy-structure relationship in that management control in a centralized system was possible with the investment in integrated packages under the ISP and networking of intranet and internet technology. But to understand properly the relationship between ICT and strategy it is important to ask not just how information processing capability might be "grafted" into business to improve the competitiveness of existing strategies but also how the whole business process including its relationship with organizational structure might be transformed by ICT. The technology supported flatter structure from 2001 that resulted in material reduction of overheads while focusing on the strategy of being closer to customers through the regional units that further managed to perform a lot of processes previous undertaken in the central offices. It was underscored that the management was able to administer Regional and administrative operating through these packages, without which decentralized organizational structure from 2001 that was designed to fit in to changed strategies may not have been welcome.

The company's ability to serve effectively in providing perceived value for money to a great extent is dependent on resources that are at its disposal. These were scarce between 1999 and 2001 and while changes in strategies were formulated and ready, KPLC could not manage to effect new organizational structures to complement execution of objectives. Compounding the above strands was that changing organizational structure and formulating strategies required time and practice that most stakeholders did not appear to have over KPLC.

Multiplicity of factors influenced the relationship in changes in structure and strategies in KPLC ranging from organizational cultures to management control and organizational leadership; development in information technology in 1996 to 1999; availability of resources to mobilise; monopolistic attitude towards market forces: and the management approach and exposure towards urgency in implementation of enabling organizational structures.

Chapter Five: SUMMARY, CONCLUSIONS ANDS RECOMMENDATIONS

5.1 Discussion and Summary

The study reviewed the relationship between structure and strategy in Kenya Power and Lighting Company, a large local statutory corporation (that is also a listed public utility company) and the changes that have taken place in the last ten years. The trends and changes reveal that there have been many changes in structures together with observable changes and redirection of company strategies. Strategic dreams often turn in nightmares if organizations start engaging in expensive, extensive and distracting restructuring. Many organizations continue to endeavour to unlock organizational value by matching their structures to strategies. It is inevitable that an organization has to follow its unfolding environment through appropriate strategic responses and through mobilization of internal resources to deliver what the environment requires from the same organization. The order these responses take between strategy and structure if they take place was the essence of this study.

In many developing countries, diversified and integrated business groups and conglomerates substitute for institutions that support effective markets in goods and services. There have been arguments that their capacity for doing this must be strengthened through restructuring, not destroyed through dismantling. The arguments for restructuring conglomerates are based fundamentally on belief that breaking up these mammoth organizations could reduce their gross inefficiencies and promote greater entrepreneurship. The donor partners from the Western financial community have encouraged governments and business groups in emerging economies to unbundle their assets and conglomerates in the same way that companies in advanced economies did in the 1980's. Although well intended, this advice is flawed, because behind the recommendation that business groups should be broken up to create more focused and efficient companies lies the notion that well-functioning markets can be mandated into existence (Khanna et al, 1999). The reforms that affected KPLC after the dismantalling was substantially harmful in that it appears to have reinforced the inefficiency of the private sector through multiplicity of costs that were born by the customer, and further intensified social distress. The Company was on the verge of collapse in 1999-2000 following the reforms. The country was very ill equipped to handle the aftermath of reliable business value and impact of drought spell that prevailed, until 2003 when the GOK prevailed with a rescue package.

Notwithstanding the forgoing, encouraging KPLC in the short term to pursue alternative internal reforms that improve its performance and its ability to respond to increased competitive forces was the way forward for the sector. The stakeholders had considerable economic and political power that was used not only to block immediate attempts at dismantling unbundling the sector, but also to stifle the longer-term development of electricity sector. The resistance blurred the observable influences between strategy and respective structures designed. The management appear to have adopted a notion that it is far more effective to choose a design that works reasonably well, then develop a "strategic system" to tune the structure to the strategy (Kaplan et al, 2006). Kaplan and Norton state that they have drawn their work from organizations on strategy map and balance scorecard that companies do not need to find the perfect structure for the perfect strategy. This is a premise based on strategy following the structure where an organization designs a customized strategic system to align its structure with the strategy.

The KPLC has evidently evolved from tasks and functions to objectives/strategies and business units oriented structures over the years, and from large number of employees to relatively performance oriented/justified numbers. Appointments of employees to positions were gradually and partly moving towards meritocracy and open resource to satisfy delivery of business objectives. It is noted that there has been continuous effort in reducing employees with relative increase in business scope and improved business performance in a number of frontiers. The relationship between structure and strategy is also evidenced by the impact on the company performance in the last five years.

In the early years between 1995 and 1998 after sector-reform, after a prolonged lag the company adopted incremental changes in organization structure in its endeavour to embrace the strategic changes. The management was further overly biased towards production and technical excellence and product selling, and less outgoing in the customer value proposition and customer service. This was in spite of the competitive forces introduced by the sector reforms. The lag in strategy-structure changes may be defended through the preparatory work the management undertook during the intervening period and inadequacy of resources to effect commensurate organizational structure. This argument may be supported by the bold move the management undertook in February 2000 when it established the "Business Process Review Group" that saw the birth of business units in mid 2001.

Not all forms of organization structures are equally supportive of a given strategy as a structure of a company should be consistent with the strategy being implemented. Therefore a chosen structure derives a different corporate performance. In considering the relationship between KPLC strategies and the structures it has adopted over time, it is noted that in the earlier period it was not very evident. This was attributed to the prescribed strategy from the powerful stakeholder-GOK and donor partners, rather than being directed and owned from in-house. There has been increased pressure to perform and invest in business growth, and even higher pressure to uplift customer service and product quality, which in total have demanded attention on delivery of expectation from different stakeholders. Inevitably these caused change in structures and as noted change in performance.

Considering the environmental changes that have occurred, redrafting of the Corporate Mission statement to reflect expressed emphasis in change in strategy may clear the apparent prime objective/mission of the organization from public-utility oriented approach to market-oriented approach; or put in a different way emphasising customer/market instead of the traditionally held view that it is a technical organization. The proposed Mission Statement for further consideration or adoption would be:

"To provide high quality electrical energy and related services to customers throughout Kenya at cost effective tariffs; maintain quality and motivated manpower; and to ensure the company's long term technical and financial viability; while protecting the environment"

This may facilitate alignment of organizational structure with the main corporate strategy which has again been expressed as "focus on quality product to the customer".

5.2 Conclusions

In the last ten years, the Kenya electricity sector went through major reforms with eventual entry of many players made up of seven (including Ms Mumias Sugar Company 2.5MW generation from bagass) electricity generators, one regulator and one transmission and distribution Company together with Electricity Power Act of 1997 that empowered the customer. All these happened in the second half of the 1990's when the manufacturing environment is reckoned to have been very turbulent which together with depressed economy, cheaper imports and demanding customers in a liberalized economy forced many firms to rationalise their operations in order to improve their performance and achieve more flexibility to respond resolutely to the competitive forces. KPLC was no exception as it was noted had to draw its first vision and mission statements to reflect and express its long-term strategy, a move that denotes appreciation of strategic fit in response to an external environment phenomenon. Additionally, the Company drew and revised its objectives derived from its in 1998.

On the structural design, the company initiated organization structures on the onset of sector reforms and continued as environmental challenges unfolded. These changes as noted earlier included: reduction in number of employees, number of managers and managerial levels, number of areas to later modify them to Regions-business units, cost reduction and creation of cost centres and provision of information communication technology. The most dominant objectives driving most of these changes were improvement in customer service and sales maximization to reduction in staff and operating costs.

It was noted that improvement in corporate performance followed the organizational structure trends. From the observation, strategy variables like change in company business scope, and change in business units and customer focus triggered or caused the structural transformation. There are structural lags noted following change in strategy; the company could not wholly get away with it as performance deteriorated after failing to adjust structures to match strategies on time. This may be from the perspective where Aosa (1992) was led to note that there are some cases where strategy and structure are independent. KPLC has operated as a monopoly and performance inefficiencies have over time been transferred to the customers. This can also be associated with the fact that electricity competition is a zero sum-the system participants divide value instead of increasing it. In some cases, they have even eroded value by creating unnecessary costs. The zero-sum competition has been supported by: taking form of cost shifting to the customer from electricity business units rather than fundamental cost reduction, gaining greater bargaining power against the customer rather than efforts to provide better electricity service, and relying on the regulator and court systems to settle disputes (raising costs through administrative expenses) as the customer is poorly informed.

The study substantially indicates that initial changes in organization structures followed changes in strategy within reasonable lag. This as noted above could be sustained by the zero-sum competition where inefficiencies were passed to the customer. The relationship between strategy and structure from the most recent strategy and structural changes when performance contracts and passing of costs to the customer is sanctioned by the ERB is different and tend to be more reciprocal as operating variables are given prominence and highlights of performance contract with the stakeholder is evaluated with emphasis on financial, operational and non-financial indicators. This follows the axiom that "it's far more effective to choose a design that works reasonably well, then develop a strategic system to tune the structure to the strategy (Kaplan et al, 2006)".

The research covering the processes that took place two in continuous consecutive periods: from late 1995 to around 1999, and 2000 to 2005. The periods are separately significant in that an organizational configuration that is composed of processes, structures, and boundaries and relationships were very different in that the environmental demands from KPLC increased and crystallized progressively in the two periods as time passed, including increased environmental complexities.

During the earlier period the management struggled in maintaining the traditional KPLC structure intact with minimal incremental changes, in spite of the major changes in strategy that had taken place. One may argue that the strategy implementation process was being molded as evidenced by the preparatory work in resource mobilization to solve the internal weaknesses like investment in information and communication technology and product and service branding. It was the period that market–oriented strategy was intimated as opposed to the then existing public-utility-oriented strategy. However, response was still wanting from the organizational cultural and structural point of view. As enactment of laws and procedures enforced market competitive forces, it was inevitable strategy changes were there to stay. Donaldson (1989) observed structural lags and wondered how some firms are able to get away with long delays in adjusting structures to strategies. Two clear phenomenon were observed that abated company structures lagging after strategy changes: considering KPLC is a monopoly, it may be derived that organizational efficiency was not a priority, as there was not enough incentive to change because under zero-sum competition, performance inefficiencies are transferred to the customer. Thus the classical view that structure must follow strategy appears basically simplistic because other conditions like managerial control and cultures, monopolistic security and uninformed electricity customers contributed greatly towards the lag. The company sustained relatively mechanistic relationship with pre-occupation with matters of internal efficiency and centralized authority. Nevertheless, environmental pressures caused some internal organizational adjustments and the proportion of what comes first (strategy or structure) is secondary as achieving the fit between them was what was crucial for success.

The dynamic nature of an organizational structure is partly related to the nature and frequency of transactions between the company and the environment. As the KPLC number of transactions increased and as the complexity of internal relationships grew over time, the company was progressively adopting structures that facilitated better and acceptable interactions with the environment. This phenomenon was observed in the period from 2000 to 2005. The organization structures started to gravitate towards relatively organic type of structure by being more flexible to customer and stakeholders needs through sharing responsibility and increased influence delegated at lower managerial levels through adopted business restructuring. This was evidenced in the structures and strategies of 2001 to 2003 that were implemented partly to resolve uncertainties emanating from the new environment. Interlink between the strategy and structure was observed with lesser lags compared to earlier periods.

5.3 Limitations to the Study

One major limitation was that most of the main architects of the sector reform were not available as they had exited the system. This limited respondents to provide the behavioural and other detailed aspects of the reforms, power, politics and relationships of the early periods.

Another major limitation is that this study was restricted to KPLC alone, whereas the reform gave birth to six other players after the unbundling. This affects the impact of the unbundling and the reaction of the effectiveness of other sector players whose most members of their management in the pre-reform period were associated with KPLC. The two main player are KenGen and ERB whose relationship with KPLC is defined to be either reciprocate or monitor KPLC operations. It may be useful to extend the study to these organizations to comprehensively assess the impact and relationship within the electricity sector.

5.4 Recommendation for Further Research

As this study only considered the relationship the relationship of strategy and structure in KPLC, a research involving all the players in the sector will bring a dimension to explore the notion of zero-sum competition in the regulated electricity market. Advocates of "electricity to electricity" competition suggest that economies of scale and scope do not accrue in power supply contrary to old held paradigm. They centre their arguments on the contestable market theory, suggesting that utilities will be more responsive to market signals (threat of their competitors) than they have been so far to institutional relations. Another area worth studying would be the impact of power and politics in the reforms or strategy-structure relationship in this sector as the main players are Government authorities and how this relates to the publicly quoted utility company like KPLC.

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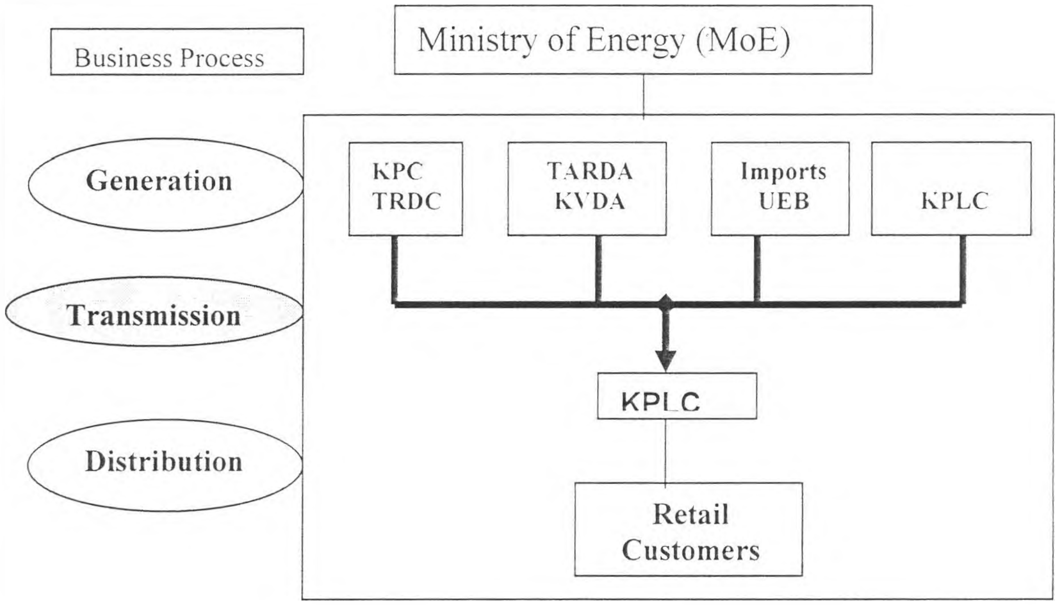
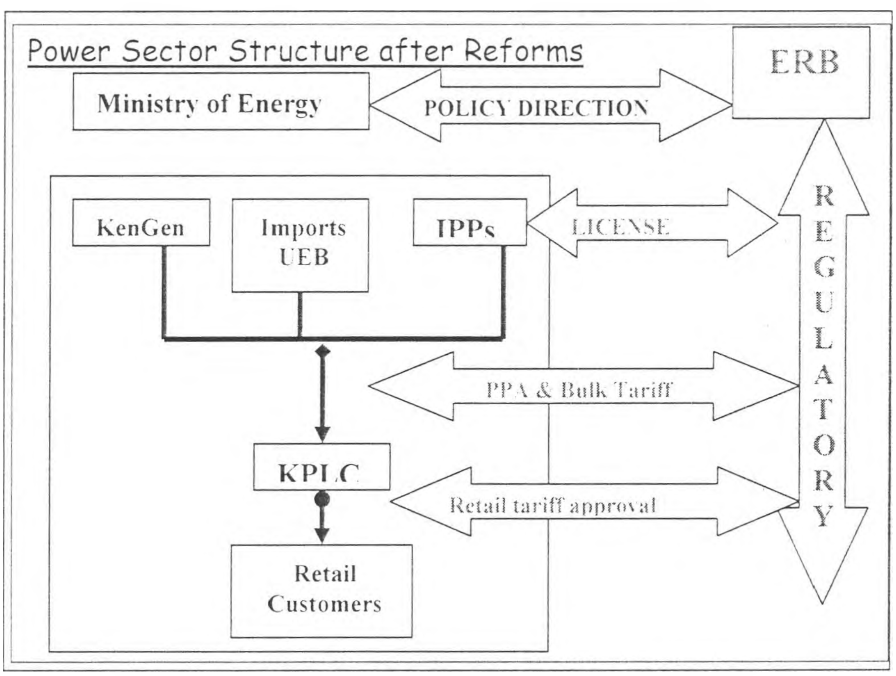
Appendix I: Structure before Reforms

Pre-1997 Power Sector Structure before Reforms



Appendix II: Sector Structure after Reforms



The context went through major strategic changes and reorganizations from 1997 through to the late 2003. How much have the above concepts applied to it? Further, how has it been sailing through the strategic change to realize its realigned strategies and the implementation of the structures?

Appendix III: Stock Disposition Summary

Stock Disposition Summary as at 31st October 2005

Categories of S/holders	Ordinary Stock Units	(%) **ORD Stocks**	(%) **ORD Stocks-Previous**	4% & 7% Pref. Stock Units	(%) Pref Stocks	*7.85% Redeemable Non-cum Shares
PS-Treasury	32.002.929	**40.44%**	**40.44%**	850.339	40.42%	794.962.491
PS-MoE	1.035	**0.001%**	**0.001%**	0	0	
Kenya Re-Insur.	50,000	**0.62%**	**0.62%**	16.156	0.08%	
NSSF	6.413.801	**8.11%**	**10.40%**	4.300	7.90%	
Total GoK & Parastatals	38.467.765	**48.61%**	51.06%	869.795	48.40%	
Residents	38.633.905	**48.83%**	47.44%	1.177.778	48.98%	
Non-Residents	2.026.330	**2.56%**	**2.56%**	101.427	2.62%	
Grand Total	79.128.000	**100%**	**100%**	2.150.000	100.00%	*794.962.491

*Note: The 7.85% Non-Cumulative Preference Shares are redeemable at the option of KPLC. have no voting rights and are not entitled to receive notice of general meetings. Further, the shares are not listed for trading at the Nairobi Stock Exchange. as they constitute a private transaction.

Letter of Introduction

The Respondent,
Kenya Power & Lighting Company Ltd.
P O Box 30099- 00100
NAIROBI
24th October, 2005

Dear Sir/Madam

RE: Request for Research Data

I am a Postgraduate student in the Faculty of Commerce, University of Nairobi pursuing a Master of Business Administration (MBA) program. I am undertaking a Management Research project as part of the postgraduate requirement. The Project that has been approved is: 'Strategy Structure Relationship in KPLC'.

The case study will explore in depth aspects of restructuring and the electricity sub-sector reforms. The reforms and related strategies and structures have been going on since 1996.

In order to carry out the research, you are among the very few selected to form part of the study that will be progressed through personal interview with the undersigned. You are therefore requested to assist by kindly granting an opportunity for the interview at your convenient. The undersigned will contact you for an appointment. Alternatively you may respond by e-mail.

The information you provide will be treated in strict confidence and is purely for academic purpose. In no way will your name appear in the final research report.

A copy of sample question purely to assist in preparation is attached. Your assistance and co-operation will be highly appreciated

Yours truly,

____

Jonathan Ciano. B. Comm(Hons); CPA(K); AMKIM

Email: jciano@uchumi.com Tel: 254-722-512324

INTERVIEW GUIDE (Managing Director)

1. What brief historical background would you want to share on KPLC as opening remarks?
2. How long have you been in KPLC employment?
3. How long have you been the CEO of this Company?
4. What can you classify as major milestones in KPLC and the energy sector since around 1990 to date?
5. Why do you consider these as major changes?
6. What precipitated these major changes for the sector and your company?
7. Who are the main stakeholders in KPLC in terms of power and interest groups?
8. Among these groups who would you classify as most influential and why?
9. I note your vision is '*To achieve world class status as a quality service business enterprise so as to be the first choice supplier of electrical energy in a competitive environment*'.

    - How long have you had the corporate vision and what is needed to achieve it?
    - Have you had to revisit it to address it due to any of these changes?

10. I also note that your mission is '*to efficiently transmit and distribute high quality electricity throughout Kenya at cost effective tariffs, to achieve the highest standards of customer service and to ensure the Company's long term technical and financial viability*'.

    - What have been the challenges to your achieving this mission in the last decade?
    - What have you put in place as summary corporate strategies to fulfill this mission and does this include organizational set ups/redesign?

11. What would you comment on how they are serving their purpose to the company?
12. Does the company have its spelt out strategy or strategies? And if yes what are they?
13. Please give detailed explanation of the strategies and how they have been drawn?
14. How are you implementing them. when were they drawn and who was involved?
15. Is there anything you would kindly share about the strategies/long term objectives and operational objectives and how they are implemented in relation to how you have drawn your different divisions/functions/regions?

16. It is noted that back in 1998/1999 management of generation business process was reformed and transferred out of KPLC integrated supply chain. What effect did this have in your management approach both operationally and strategically?
17. What other issues arose from the above in terms of your KPLC business from relationship, processes, boundaries etc?
18. Are there factors you would consider to have impacted on strategy or structures changes you have effected? Which and how?

ENVIRONMENT FACTORS (CEO and CHIEF MANAGERS)

The questions I am about to ask you are based on what is solely observed about KPLC operating environment. You may correct the perception as we progress.

19. How long have you worked for KPLC?...
20. What is your current position?.....
21. How long have you occupied this position?.....
22. What was your previous position ?....
23. How would you describe your business environments in the following periods?

		Very Turbulent	Medium	Very Stable
1	1990-1994			
2	1995-1998			
3	1999-2001			
4	2002-2005			

- Please give brief comments on each ....
- Any other additional comments on above that you would like to share:.......................

24. What changes in the environment would you consider to have affected the KPLC business?
25. What would you describe as the source of the environments demand/changes you described on questions above?
    - Customers
    - Government directive-Sector Reforms
    - Price of your product
    - Product Availability and or demand
    - Word Bank and other donor community
    - Weather

- ❑ Economic performance or Liberalization
- ❑ Other

26. What comment would you make in terms of the level of customers demand including lobby groups in terms of the product and service you provide?
27. How would you describe the customer service in the last few years?
28. Do you consider there is any competition or threat to your product?
29. What are the causes of sales units decline between 1998 and 2001
    a. Economic deterioration
    b. Economic liberalization
    c. Price and customer service
    d. Product availability to the customer
    e. Competition from imported goods

30. Have you experienced any changes in customer demands in the past years?
31. Have you experienced changes in GOK demands/directives in the periods referred to above?
32. On any of the two questions above what were these changes?
33. If yes to any of No. 30 or 31, what did the organization do about it

    ....

    ....
34. What are the sources of external influences on KPLC?
35. What comment would you make on level of political influence on the organization?

36. Has ERB demanded improvement of customer service from KPLC in the recent past?

37. What did the organization do about it?
38. Has any development partner demanded any change in customer service level
39. What did KPLC do about it?

STRATEGY CHANGES

40. Has the core business of KPLC changed in the last ten years? What is it?
41. What would you consider to be the source of the core business changes and other?
42. Has the KPLC vision/Mission changed during the same period?
43. How many administrative areas did the Company have pre-2001?......
44. How would you describe the administrative areas that existed up to 2001?
45. What caused the changes from areas to Region in mid-2001?
46. How was the change to business Regions in June 2001 communicated to staff?
47. What was the reason behind the changes?
48. Please explain your understanding of these Regional operations in terms of the objectives/strategies?

49. Has the KPLC core business changed in the last eight years or so? Yes/No
50. Has KPLC changed or re-emphasized its strategies in the last five years?
51. Has the Company endeavoured to improve its sales levels or meet its other objectives including the customer service level?
52. Redefine other changes after 2001 covered under questions 39 to 45....
53. What changes in business market customer or GoK directives may have changed the market in the recent past?

CHANGES IN ORGANIZATION STRUCTURE

54. Are you aware of the corporate organization structure? YES/NO
55. If yes, what is recent structure in the Company? Outline....
56. How many organizational structures changes would you recollect since 1995/1999?
57. What triggered the changes in structures that were undertaken (Reforms: Customer Service: turnaround: changed technology: centralization: decentralization: Others)

	Year		Reduced	Increased
1	1998	Reforms		
2	2000	Customer Service		
3	2001	Turnaround		
4	2002			
5	2003			
6	2005			

58. Forms of changes undertaken?
    a. Number of Areas/Regions
    b. Business integration
    c. Decentralization/Centralization?
    d. Number of employees
    e. Number of Managers
    f. Number of Managerial levels

59. Reasons Behind the structural changes:
    a. Reduce operating costs
    b. Deliver customer service more effectively
    c. Decentralize to reduce bureaucracy
    d. Turnaround the Company.
    e. Meet renewed strategies
    f. Meet demand by main stakeholders
    g. Respond to change in business processes
    h. Others

60. After the changes in the structures mark(x) to describe your function/ 'organization is ....

		2000		2001		2003	
		H	**L**	**H**	**L**	**H**	**L**
A	Flexibility- Most or Least						
B	Flatter or Taller						
C	Encourages Participation-More or Less						
D	Centralized-Decentralized						
E	Driven by Corp. Goals.. More or Less						
F	Respond to customer Need Faster or Slower						

61. What processes were used to draw the 2001: 2003 0r even earlier period structures..
62. Who was driving or sponsoring the organizational and balance sheet restructuring?

BUSINESS PROCESS, RELATIONSHIPS, BOUNDARIES & RESOURCES

63. Have you had to draw new procedures and policies in line with changed structures or strategies?
64. Have you participated in redrawing of and implementation of the changed strategies? Explain.....
65. Has the Company processed redundancy packages during its restructuring in the respective periods?
66. How was the exercise handled including providing resources?
67. How was recruitment and placement conducted on the completion of structures?
68. Recalling from the past what was done before the other, strategy drawing, structure design/definition or the business reform? Explain
69. Were there any special purpose committees or task forces undertaking/directing the processes defined above, or was it by the KPLC management? Explain as necessary.
70. How would you summarize the challenges or crises encountered in the strategy drawing and or structure designing and implementation?
71. Given a chance, what would you have done differently?
72. What regulatory changes have arisen in the last ten years that you consider to have triggered changes in either strategies or organization structures?

INTERVIEW GUIDE (Managers & Chief Officers)

What is your Department's strategic/operational objective?

In light of this, where are and how much is ahead?

What is your Objectives/market? What is your challenging in achieving those goals?

What are your future targets, KPI/objectives?

How has your structure been influenced/evolved over years?

How have you used technology to improve your competitive position?

What are your core competences? How have you made use of them in your prevailing organization structures?

To what extent is your Region/function/Department agile in the following areas?

1. Rethinking strategy – review of strategy formulation & implementation
2. Redesigning structure – design of new procedures that yield high performance
3. Reengineering processes – making significant improvements in work processes

Do all stakeholders view the Regional structure in the same way?

Organizational Structures

B. Organization Structure 1995-Divisions

C. Proposed New Transmission & Distribution Company after Reform

D. 1999 Organization Structure-Divisions

E. 2001-July Organization Structure

F. 2001-Regional Organization Structure & 2001 Sub-Regional Organizational Structure

G. 2001 Zonal Organizational Structure

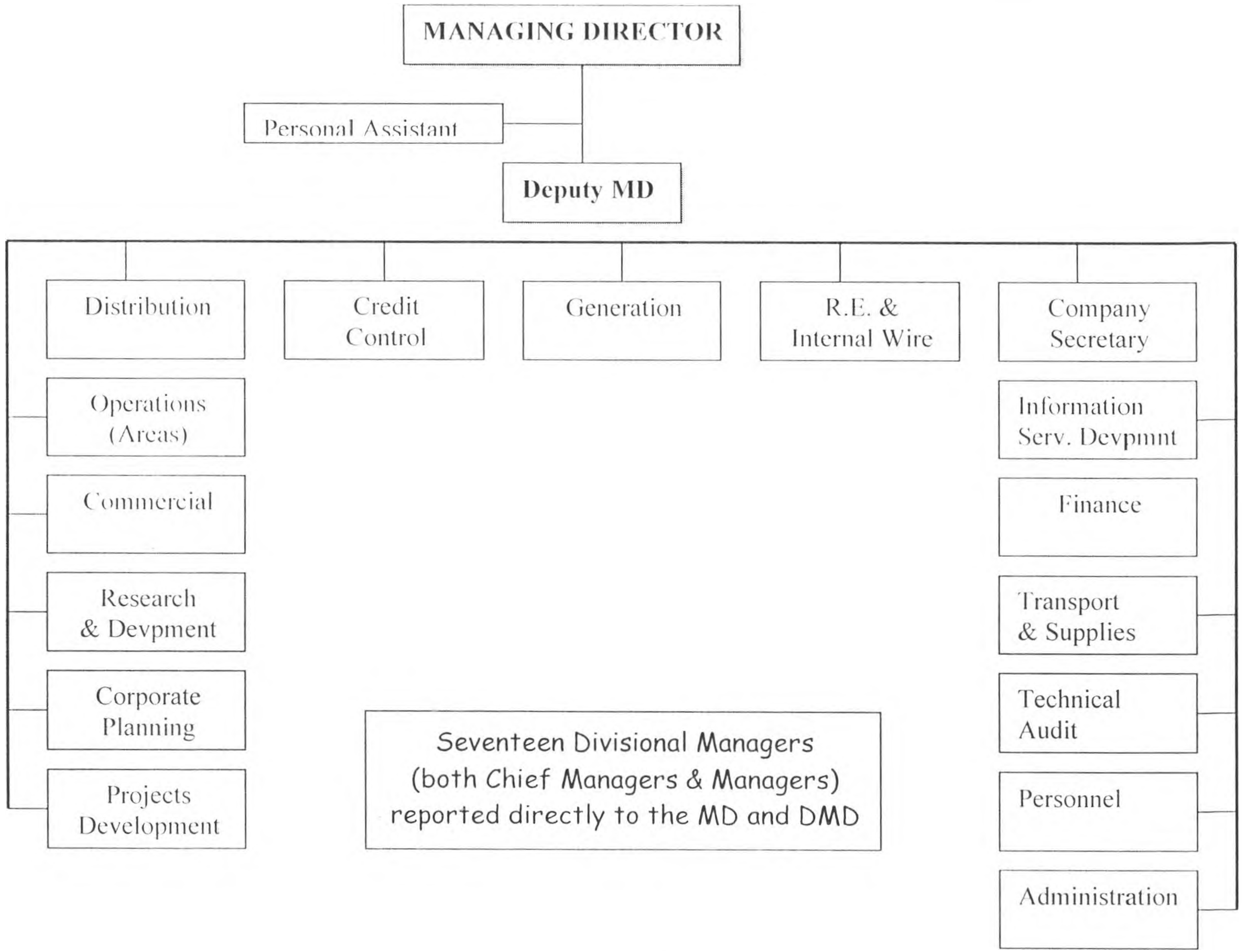
H. Period 2001-2003 Coast Regional Organizational Structure

I. 2003-2005 Organizational Structure

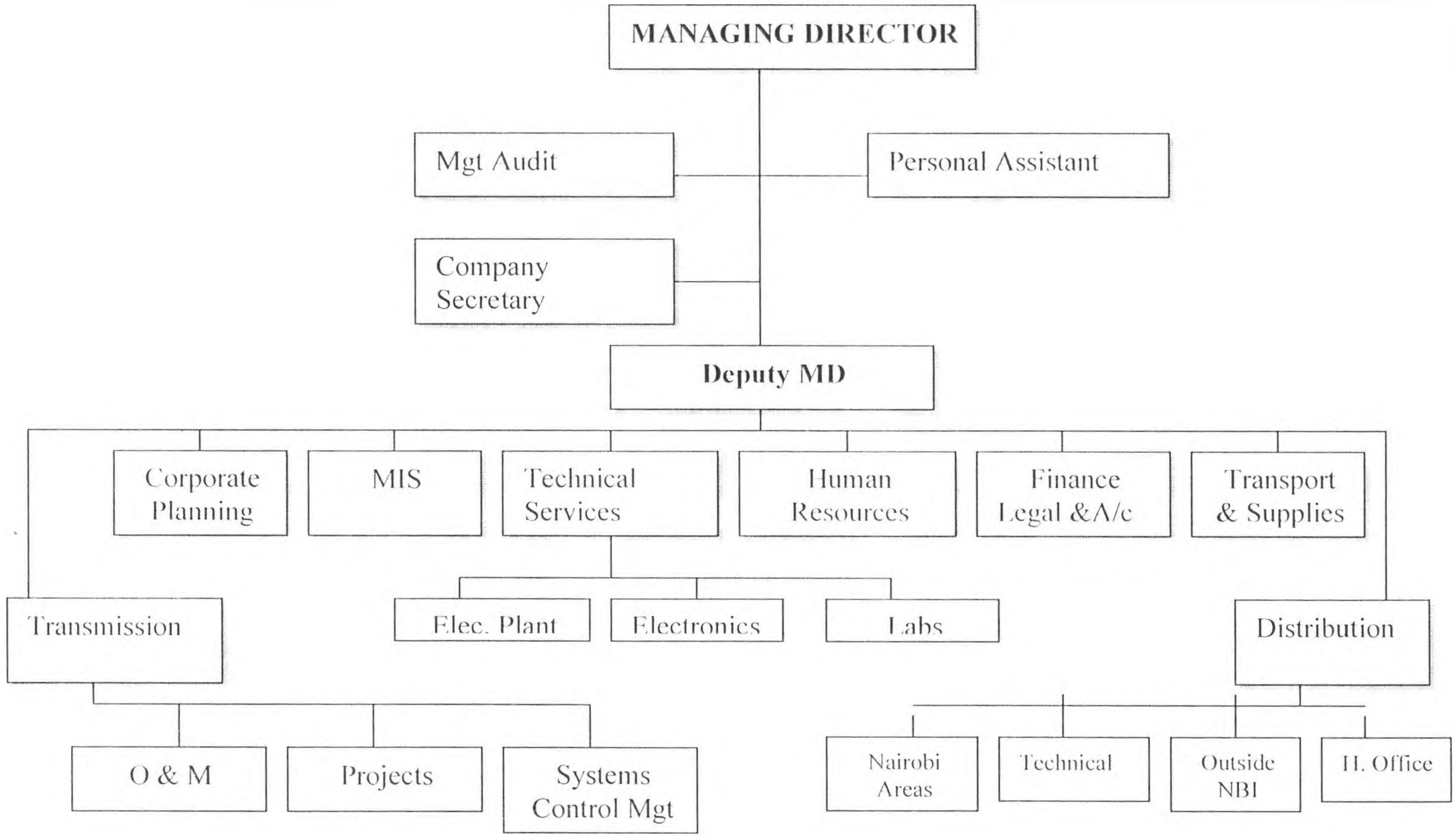
J. 2003-2005 Regional Organizational Structure

K. 2003-2005 System's Losses Virtual Organization Structure

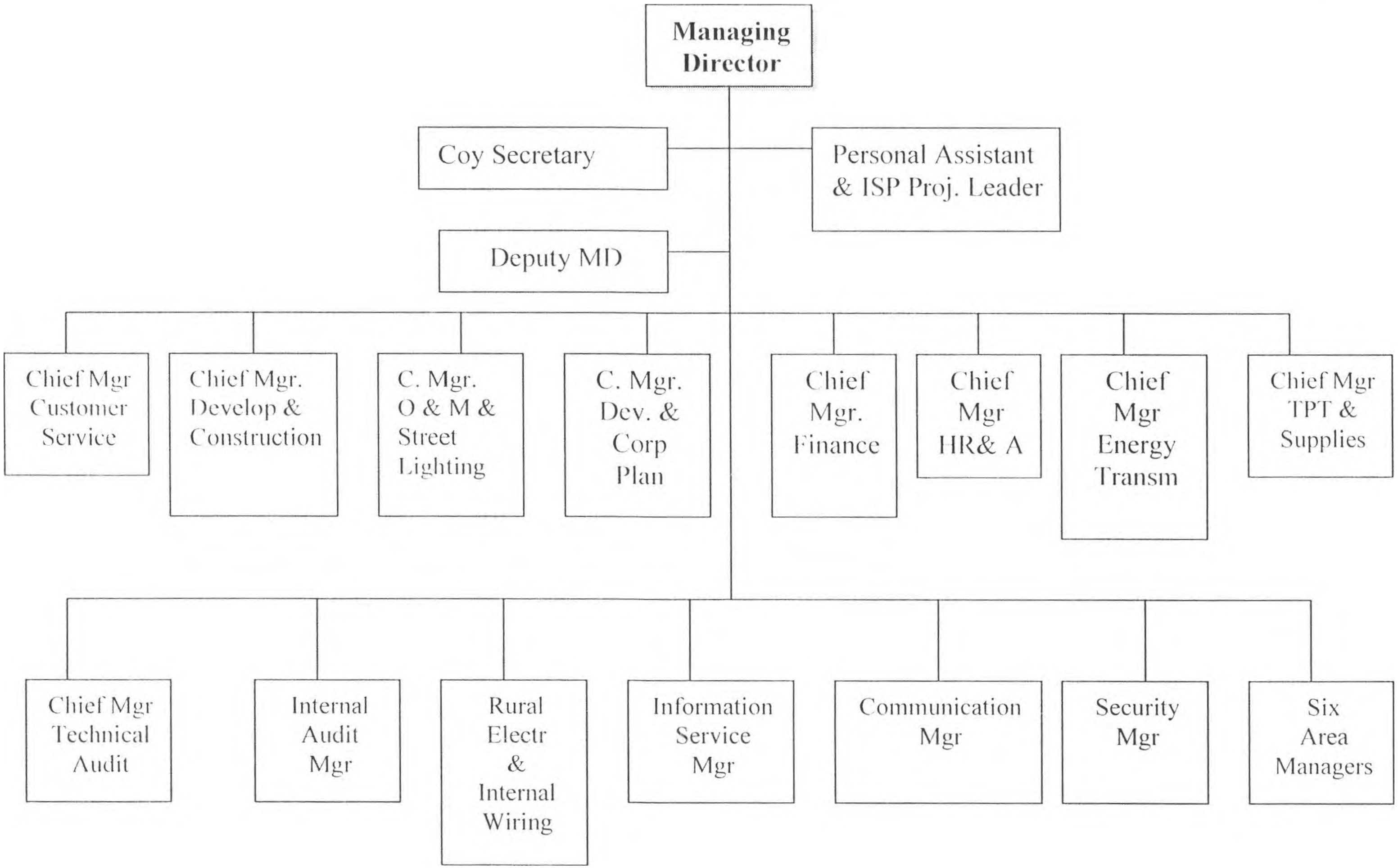
Organization Structure 1995- Divisions



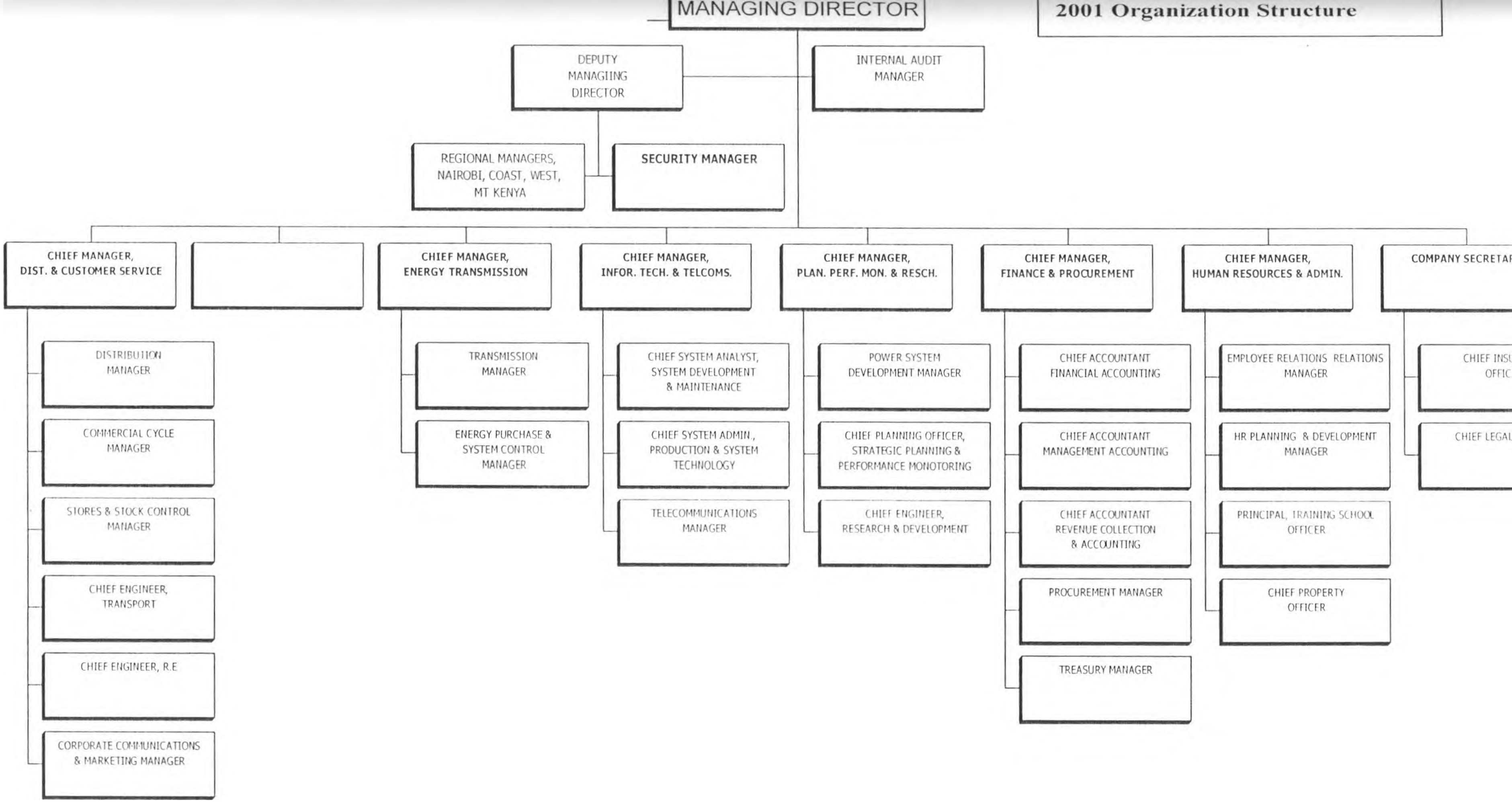
1995 Proposed New Transmission & Distribution Company after Reform



1999 Organization Structure-Divisions

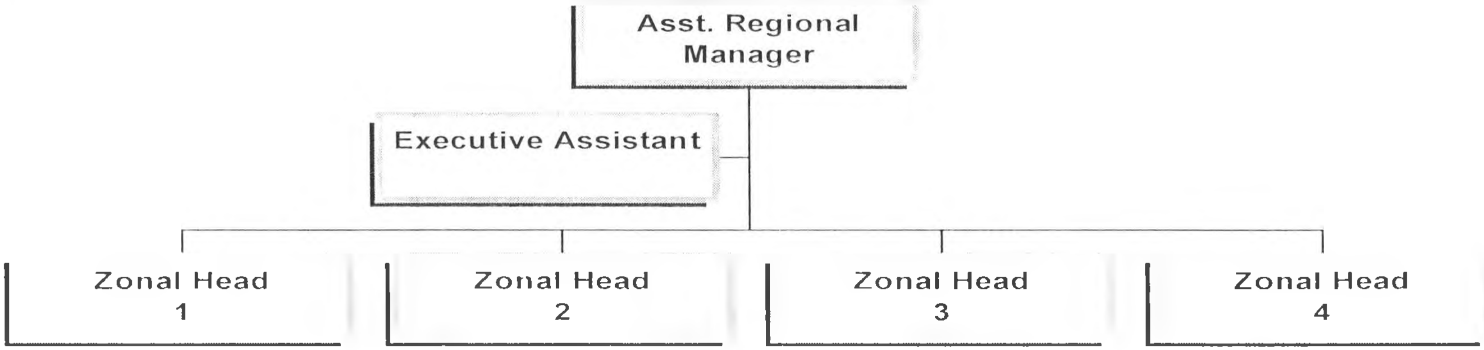


2001 Organization Structure

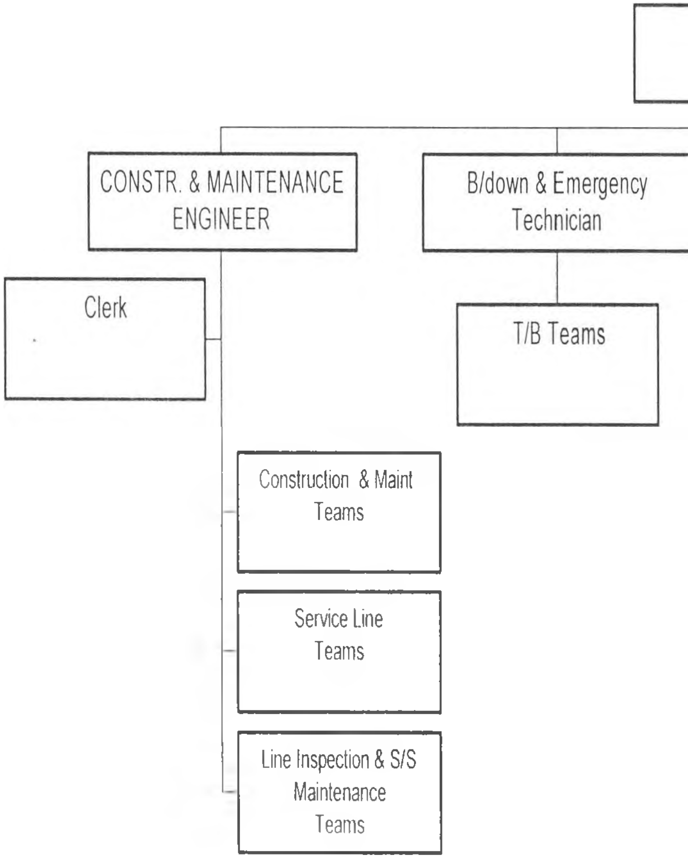


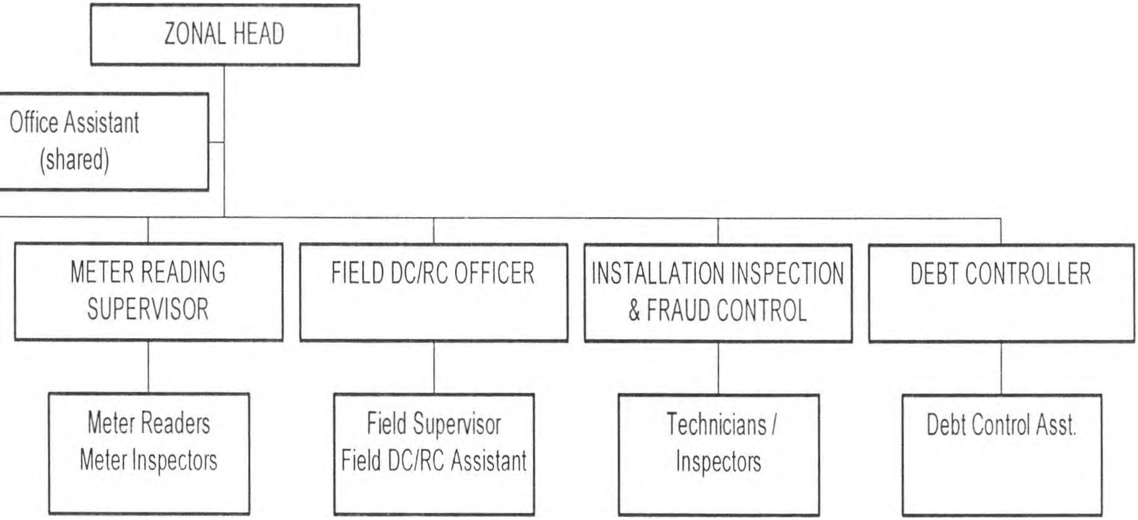
2001 Regional Organizational Structure

2001 Sub-Regional Organizational Structure



2001 Zonal Organizational Structure

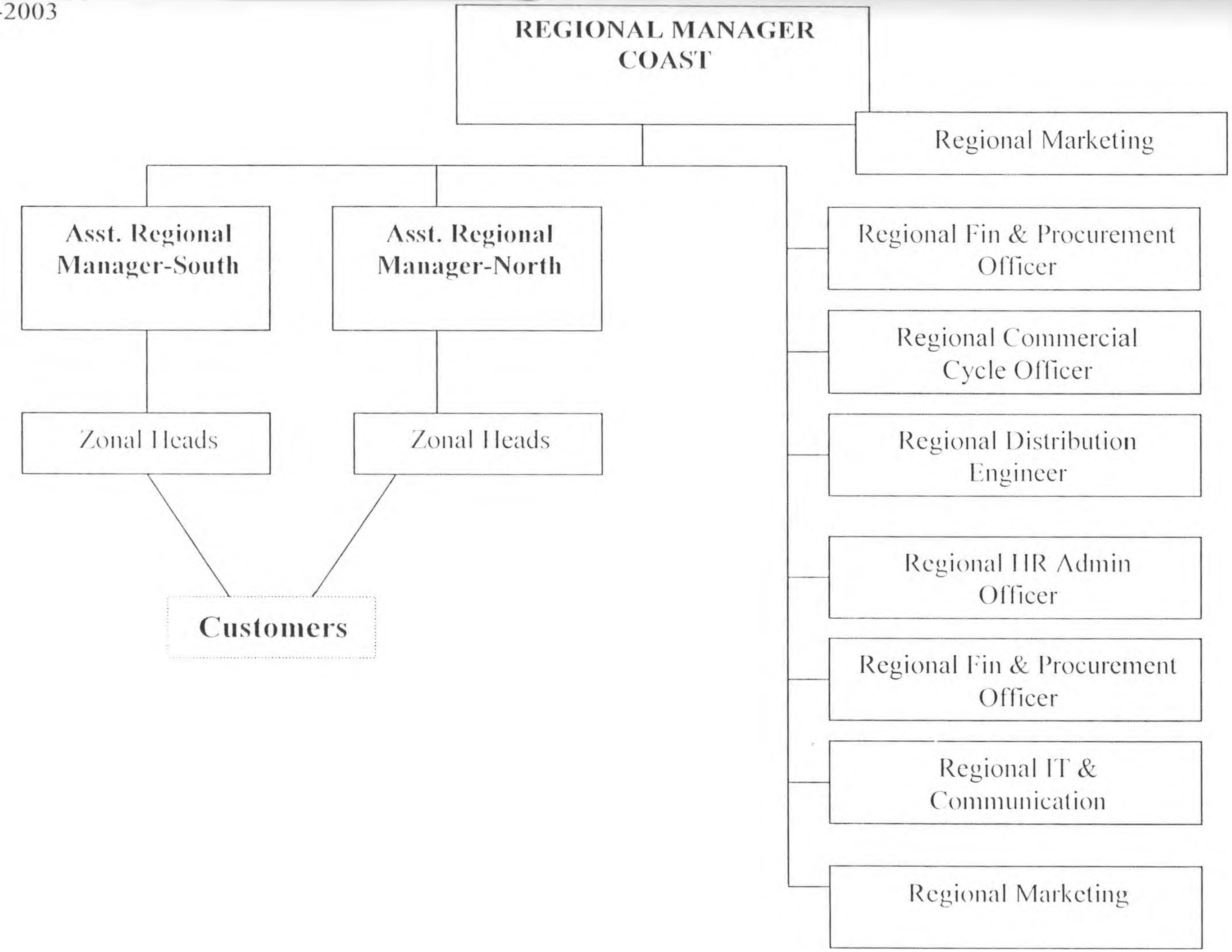



ZONAL HEAD
Office Assistant (shared)
METER READING SUPERVISOR
FIELD DC/RC OFFICER
INSTALLATION INSPECTION & FRAUD CONTROL
DEBT CONTROLLER
Meter Readers
Meter Inspectors
Field Supervisor
Field DC/RC Assistant
Technicians / Inspectors
Debt Control Asst.

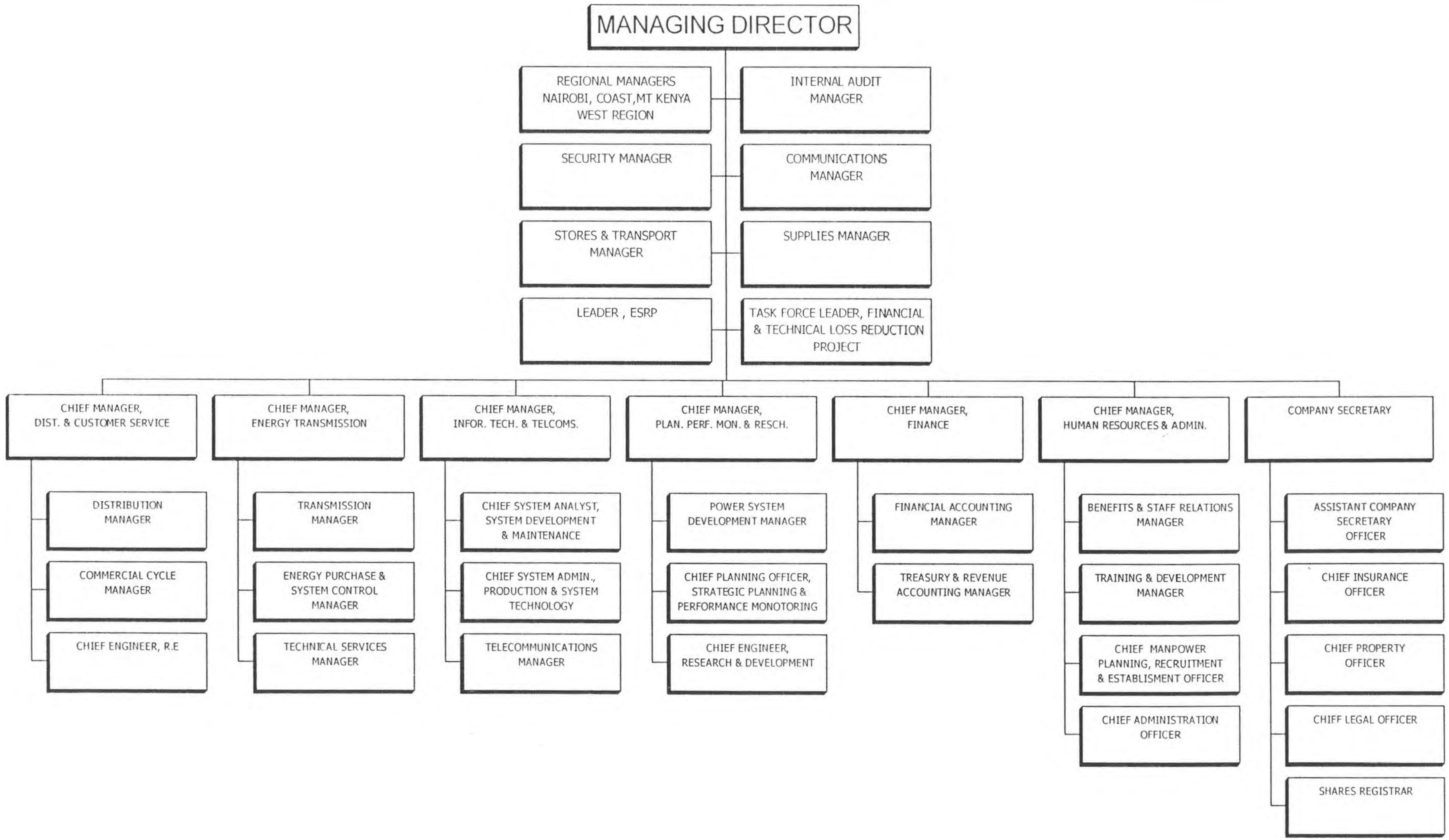
G

Coast Regional Organization Structure: 2001-May 2003

Period-2001-2003



2003-2005 Organization Structure



2003-2005 Regional Organization Structure

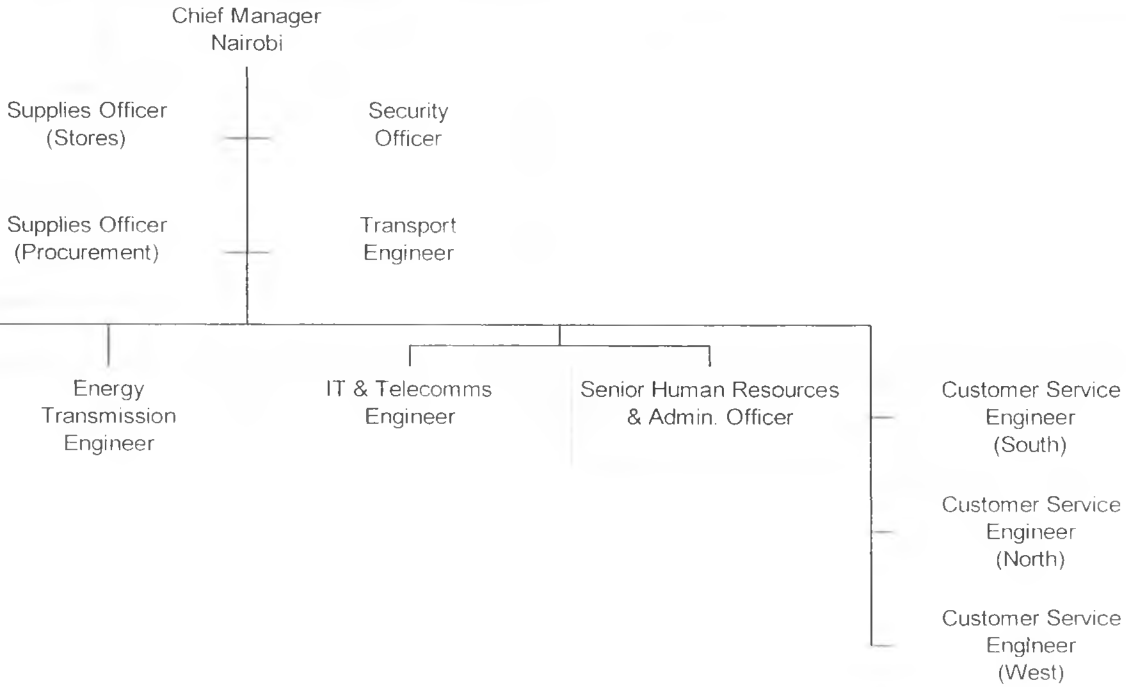
Distribution Engineer (South)

Distribution Engineer (North)

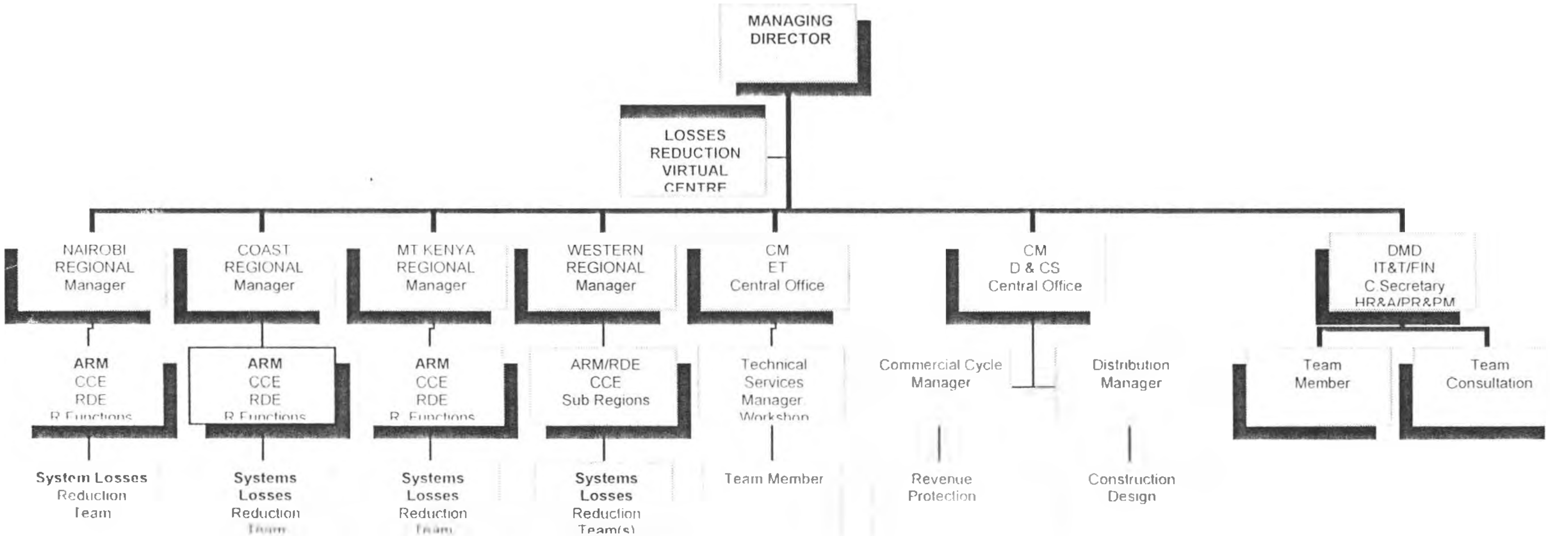
Distribution Engineer (West)

Distribution Engineer (Common Services)

Finance Officer


Chief Manager Nairobi
Supplies Officer (Stores)
Security Officer
Supplies Officer (Procurement)
Transport Engineer
Energy Transmission Engineer
IT & Telecomms Engineer
Senior Human Resources & Admin. Officer
Customer Service Engineer (South)
Customer Service Engineer (North)
Customer Service Engineer (West)

September 2003-2005: System Losses Mgt Virtual Organization Division: Headed By Chief Manager: Special Projects



K

Reorganization & Performance Correspondences

A. 1995-98 Drafted Strategies & Objectives

B. 2001 Business Reorganization Consulting Group

C. 2001 Job Advertisement For Chief Managers

D. Special Team Talk- Business Reorganization April 2001

E. Presentations on 2001 & 2003 Strategies & Structures Review

F. 2001-2003 Zonal Summary (Grass root Business Units)

G. Review of Vision, Mission & Core Values Statements

H. Distribution Interruptions & Restoration Time

I. Performance Contract Key Targets & Performance Report-Jan 2006

J. Operating Profits Graph 1996 to 2005

1995/98 Drafted Strategies & Objectives

Division	Objective	Strategy	Planned Activities
Customer Service	To reduce the time it takes to connect new customers. To reduce waiting time for quotations for supply and connection after payment. To develop policies to enhance customer growth and efficiency of service. To improve mgt of existing customers & revenue To project the right coy image and substation profitability To reduce the non-technical losses. To reduce to minimum debt owed to the coy. Sustaining the coy's long-term viability through prudent revenue and debt management.	Computerise meter reading.	
Design & Construction	To design and construct new electricity lines		Verify technical specification Calculate material & labour estimates Prepare technical proposal and install lines
Operations & Maintenance	To give quality supply of electricity with minimal interruptions Ensure that network is well maintained Ensure prompt response to customer complaints		Carry out transfer and switching of lines with minimal interruptions of supply to customers Distribute electricity to customers Carry out maintenance of street light on behalf of NCC
Energy Transmission	To reduce technical losses Minimize breakdowns Optimise staff capabilities	Upgrade equipment Systems reinforcement	Maintain circuit breakers Train staff
Finance	To manage the financial resources of the Company	Financial Planning & analysis Cash management Manage Budgeting Process	Coordination of budgeting activity Supervision of operations of area offices Production of financial accounts
HR & A	To ensure the availability of well motivated employees with the right skills and optimise distribution among all divisions		Coordinate mgt of the coy staff optimising its distribution among all divisions. Plan training. Manage union policy. Manage employee welfare. Provide office admin support
Project Dev & Corporate Plan	PD: Improve efficiency	Source for more resources to accomplish set objectives	Prepare tender documents. Liase with supplies to ensure timely delivery.

	Reduce cost of construction. Reduce waiting period for new supply. CP: Ensure timely provision of gen & transmission capacity to meet projected demand. Optimise on the sizes of generation & transmission lines. Ensure financial viability of development plan and the utility		Liase with O&M and R&D to ensure that stds are complied with. Certify contractor works. Undertake long term planning for gen and transmission. Coordinate tariff studies. Coordinate co-ordinate planning.
Area Offices	Implement agreed activities so as to accomplish coy's objectives. Facilitate motivation, boosted morale and enhanced welfare of the area for the purposes of enhanced productivity	Develop commercial activities	Carry out activities related to commercial management. Manage the execution, contracting and control of the distribution projects.
Transport Department	Ensure there is adequate means to transport materials & labour To provide safe and efficient transport	Develop transport policies and to set motor vehicle maintenance and repair standards	Coordinate definition of transport needs Manage operations of company fleet including elaboration and enforcement of operation norms and procedures Manage transport admin process for company fleet

NAGING DIRECTOR'S OFFICE

LEPHONE: 243366
LEGRAMS:
LECTRIC" NAIROBI
X: 250067
. BOX 30099
IROBI

The Kenya Power & Lighting
Co. Ltd.

STIMA PLAZA,
KOLOBOT ROAD,
PARKLANDS, NAIROBI
KENYA

STAFF/15/BWN/fom

16th March, 2000

BUSINESS REORGANISATION CONSULTING GROUP

Bilha W. Ndubai	James Njuguna
David Wamiti	Ben Chumo
Joseph Gathuru	David Monandi
Mumbua Giati	George Muckoya
Hannah Kamau	Earnest Kiano

The Board has approved Management's recommendation that a business review and reorganisation exercise be undertaken as a continuation of the re-engineering process. The review will focus on Company processes, systems, organisation structure, business units, staffing norms and optimisation of other resources. The objective is to optimise resources, put in plan an organisation that continually enhances customer service and records improved financial performance.

You have been appointed as a member of the Consulting Group that will undertake the assignment under the guidance of a Steering Committee.

As this is going to be a full-time activity over the next few months, your head of Division will make necessary arrangements to release you from most of your normal day to day duties.

I take this opportunity to wish you and other members of the Committee success in this important corporate undertaking.

Yours faithfully,

S. K. GICHURU
MANAGING DIRECTOR

What were the basic principles underlying the proposed new organization structures?

A) Commercialisation

1. Involves bringing the functioning of a public sector company into line with that of private sector companies.
2. This was to entailed arms length regulation by gok, which was to be achieved on the basis of a performance contract between each company and the regulator; and clear guidelines concerning the roles and functioning of the separate Boards.

B) Distinguishing clearly between operational and functional activities:

- Organizations chart that were to have the characteristics of: be clear and as simple as possible, and ensure efficient management of people. The organization charts for the two companies were aimed at clearly distinguishing between operational and functional activities. This involved creation of operational divisions with full responsibility for the operational activities under their authority.

C) Delimiting clear areas of responsibility

- The org charts were to be built around units which were fully responsible for the specific activity for which performance targets could be set and monitored.

D) Decentralization

- Aimed at decentralizing activities while introducing a monitoring system enabling performance to be followed on a management by objectives approach, and allowing each company to function in a way that was consistent corporately.

E) Corporate Planning

F) Streamlining reporting relationships

G) Corporate Performance Indicators

- Electrification of Kenya-Indicator-Electrification rate to measure the degree of the rural electrification development in the country
- Service to Customers-Indicator- Average waiting time for customer connection- for distribution division
- Product delivered to customers-indicator-Average out of supply duration/customer
- Efficiency of the electrical system-indicator-Total energy losses
- Expenses-Revenue balance-indicator-Cost of distribution per kWh
- Human Resources-indicator-No of customers per employee
-

KENYA POWER AND LIGHTING COMPANY LIMITED

JOBS ADVERTISEMENT

The Kenya Power & Lighting Company Ltd. is a public utility company responsible for transmission and distribution of electrical energy throughout the country. The Company buys power in bulk from several generating companies that include KenGen and independent power producers (IPPs) and in turn retails to its customers.

The power industry is undergoing a transition period entailing sectoral restructuring with focus on eventual privatization. The new strategic focus of the Company and subsequent organizational restructuring requires appointment of the senior management team to drive the operational and strategic change processes. Applicants will be required to demonstrate:

- Strong leadership skills
- Dynamism and ability to work in a fast changing environment
- Ability to achieve results
- Knowledge of current industry trends
- Innovativeness with an interest in new technologies, products and methods
- Ability to translate the corporate vision and mission into specific and measurable objectives
- Ability to select, develop and motivate teams to meet challenging objectives
- Record of superior performance
- Good communication skills
- People management skills
- Business acumen
- IT user skills for common office packages and network systems

1. **HEAD OF ENERGY TRANSMISSION**
2. **HEAD OF DISTRIBUTION & CUSTOMER SERVICE**
3. **HEAD OF INFORMATION TECHNOLOGY & TELECOMMUNICATIONS**
4. **HEAD OF HUMAN RESOURCES & ADMINISTRATION**
5. **HEAD OF FINANCE & PROCUREMENT**
6. **HEAD OF PLANNING, RESEARCH & PERFORMANCE MONITORING**
7. **COMPANY SECRETARY**
8. **REGIONAL MANAGER (4 POSTS)**

Duties and Responsibilities

Reporting to the Corporate Head Office (Deputy Managing Director), a Regional Manager will serve as the head of regional business unit. The duties and responsibilities for this position entail strategic management of the business unit to achieve its organisational goals and regional performance targets including profitability, efficiency, reduction of technical and commercial losses, quality customer service, optimisation of human and other resources, business growth and network expansion; ensuring that regional operations are consistent with and serve corporate objectives; functional management of the business unit with emphasis on an integrated business approach and commercial culture; preparation and implementation of regional energy and financial budgets; representing the Company in external fora; and ensuring a positive corporate image is projected within the territorial scope of the business unit.

Applications should be submitted to PriceWaterhouseCoopers, P. O. Box 43963, Nairobi, Rahimtullah Tower, Upper Hill Road, 7th Floor, latest by **18th April, 2001.**

SPECIAL TEAM TALK –Business Reorganization (April 2001)

Attached please find the Special Core Brief on Business Re-organisation. Kindly e-mail a copy of this brief to each briefer in your area/division. Briefing should start immediately you receive this brief. We would encourage you to use this brief together with all other information that you have when briefing your teams. Please ensure that this information is cascaded down to all staff in your areas/divisions. Your support in making TT a success is most appreciated.

Thank you

Pauline Kathambana- (Corporate Communication Department)-Date 11th April 2001

BUSINESS RE-ORGANISATION

(i) In line with the current global business trends, the Kenya Government and KPLC with support from the World Bank, found it necessary to restructure the Company.

(ii) By restructuring, the Company would be transformed into a trim, efficient and profitable entity capable of overcoming any challenges.

(iii) The restructuring would facilitate optimal resource allocation and utilisation and ultimately enhance productivity and profitability.

(iv) Consequently, PriceWaterhouseCoopers consultants were invited to carry out a review of the organisational structure, functions and operations of the Company in June 1999.

(v) The review was aimed at identifying a more desirable corporate structure that would leave the Company leaner, flatter and more efficient.

(vi) Based on this review and guidelines issued by the Government, an in-depth business re-organisation process was initiated internally.

(vii) Among other things, the reorganisation of the Company will involve the reduction of divisions from the current 15 to seven, and right sizing of staff.

(viii) Following acceptance of recommendations of the business reorganisation exercise by the Government of Kenya and the KPLC Board, implementation of the restructuring process has now commenced.

(ix) Senior management positions have been advertised in the press for applications from within and outside the Company.

(x) The consulting firm, PriceWaterhouseCoopers in conjunction with the government-appointed KPLC Restructuring Task Force will shortlist applicants and conduct interviews.

(xi) The new management team is expected to be appointed by the KPLC Board by May 15, 2001.

2001 BUSINESS REORGANIZATION

The Company implemented Business Reorganization in 2001 whose objectives were:

1. To improve business performance through reduction of operational costs and improvement in productivity
2. To review and realign business processes and optimize use of resources hence improve operational efficiency
3. To right-size and establish a flatter organization structure
4. To establish fully fledged commercially viable business units
5. To place more focus on customer needs through delivery of quality service
6. To sensitize the workforce on the Company's Corporate vision, mission and core values

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2003 REVIEW OF THE 2001 STRUCTURE

Reasons for reviewing the structure

- Weak operational linkages between Zonal operations and functional levels in Regions and Central Office
- Zones were too expensive to run and a lot of resources were required including human resources
- Conflict of responsibilities between functional specialists in Regions/Central Office and Zonal operations
- Resources were not being utilised optimally
- Divisional Heads under Central Office had little control of what happened in Zones although they were accountable for results
- Checks and balances in some functions were weakened

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RESULTS OF THE 2003 REVIEW

- Abolition of positions of Zonal Heads and authority was vested on Functional Heads
- The Regional geographical boundaries were left intact
- Central Office and Regional functions were reorganised
- Authority and accountability levels for Divisional and Regional Managers were also redefined

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ZONES SUMMARY

2001 to Sept 2003

NAIROBI REGION

NAIROBI NORTH
ZONES
Ngara / Eastleigh
Parklands / Kitsuru
Dandora / Kiambu
Ruiru / Githurai

NAIROBI SOUTH
ZONES
Buru Buru / Umoja
Industrial Area / Embakasi
City Centre / Jericho
Komarock / Kayole
Machakos / Makueni

COAST REGION

NORTH COAST
ZONES
Lamu / Malindi
Nyali / Ribe

SOUTH COAST
ZONES
Mombasa Island
Kwale / Ukunda
Changamwe / Mariakani
Voi / Loitokitok

MT, KENYA REGION

MT. KENYA NORTH
ZONES
Nyeri / Environs
Meru / Nanyuki / Isiolo
Embu / Kerugoya

MT. KENYA SOUTH
ZONES
Thika/Kitui
Muranga

WEST REGION

WEST KENYA
ZONES
Kisumu / Environs
Kericho / Sotik
Kisii / Migori
Kakamega / Bungoma
Busia / Bondo

CENTRAL RIFT
ZONES
Nakuru / Environs
Molo / Eldama Ravine
Nyahururu / Maralal
Narok / Naivasha

NAIROBI WEST
ZONES
Kikuyu / Lavington
Karen / Kiserian
Limuru / Mai Mahiu
Upper Hill / Kileleshwa

NORTH RIFT
ZONES
Eldoret Town
Kitale / Lodwar
Kapsabet / Londiani
Kabarnet / Iten

KPLC

: CHIEF MANAGER, PLANNING, RESEARCH &
PERFORMANCE MONITORING

MANAGING DIRECTOR
CHIEF MANAGERS
REGIONAL MANAGERS
INTERNAL AUDIT MANAGER
STORES, STOCK CONTROL & TRANSPORT MANAGER
SUPPLIES MANAGER
SECURITY MANAGER
COMMUNICATIONS MANAGER

Your Ref:
Our Ref: CMPR&PM/081/EKK/ekk

5th January, 2006

REVIEW OF THE VISION, MISSION AND CORE VALUES STATEMENTS

The process of reviewing the company's Vision, Mission and Core Values statements was initiated during 2004/05 so as to better reflect the aspirations, core business and values of the company. The existing statements were also found to be too wordy and thereby do not sufficiently encourage internalisation by staff.

A draft list of suggested new Vision, Mission and Core Values statements has been drawn up by my Division, which includes some contributions received from members of staff during the competition concluded in June 2005. You are requested to peruse the enclosed suggestions and to make comments on preferences, changes or new statement proposals to assist in the finalisation of the short list. We request receipt of your comments by 30th January 2006.

After taking the comments into account, the shortlist will be forwarded to the Management Committee for final selection of recommended new statements.

A soft copy of this memo and enclosure will be sent to you by e-mail.

Chief Manager: Planning, Research & Performance Monitoring
Encl.

Distribution Interruptions Per Year and Restoration Time

YEAR		1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
No. of break downs								
Low voltage								
Nairobi	North					28,635	32,588	34,337
	South	102,020	87,099	88,373		20,677	23,718	24,991
	West					27,309	26,926	28,371
Coast	North	28,375	21,071	13,711		8,318	9,451	
	South					8,490	9,551	18,321
West k	Central Rift	5,800	5,765	5,469		7,481	4,864	5,505
	North Rift	4,658	4,546	3,630		9,047	7,388	8,361
	West Kenya	10,759	8,318	4,762		3,695	2,796	3,164
Mt Ken	North	7,894	6,011	5,917		7,789	6,607	6,728
	South					3,944	4,934	5,025
Total		**159,506**	**132,810**	**121,862**	**115,196**	**125,385**	**128,823**	**134,803**
Interruptions per 100 custom		**34**	**26**	**23**	**19**	**19**	**19**	
11KV		4,304	2,922	5,151				4,229
33/40KV		661	712	1,732				1,626
66KV		127	42	203	3,588	4,172	3,722	68
		5,092	**3,676**	**7,086**		**4,172**		
Average response time								
Nairobi	North					11.87	13.02	12.4
	South					10.36	10.12	10.82
	West					9.76	14.12	10.19
Coast						6.16	6.69	6.39
West ke	Central Rift					3.51	3.59	3.43
	North Rift					6.01	7.21	5.88
	West Kenya					9.71	17.74	9.5
Mt Keny	North					6.1	7.55	6.15
	South					8.47	7.68	8.53

THE KENYA POWER AND LIGHTING COMPANY LIMITED
MD PERFORMANCE CONTRACT KEY TARGETS & PERFORMANCE REPORT FOR JANUARY 2006

PERFORMANCE INDICATOR	Unit of Measure	Weights	2001/02	2002/03	2003/04	Actual 2004/05	Targets for 2005/06	January Cumulative Target	January Cumulative Actual	Cumulative Variance %
Financial Indicators										
Total Electricity Revenue (Including Fuel)	Kshs mill.		24,808	23,131	23,866	28,241	33,872	19,759	19,822	0.3%
Electricity Revenue (Excluding Other & Fuel)	Kshs mill		17,506	17,991	20,303	20,080	21,422	12,496	13,166	5%
Revenue Growth % (Excluding Other & fuel cost recovery)	%	4	8.7%	2.8%	12.8%	5.7%	6.7%	6.7%	12.6%	88%
Bulk power purchase cost per KWh	Kshs per kWh	1	4.6	4.0	3.1	3.7	4.3	4.27	4.32	-1%
Operating T& D Costs	Kshs mill.	5	(9,114)	(9,182)	(7,709)	(8,682)	(9,088)	(5,301)	(4,797)	10%
Trading Margin Ksh mill	Kshs mill.		4,019	4,348	8,327	10,003	10,528	6,141	6,040	-2%
Trading margin as % of Revenue	%	3	16.2%	18.8%	34.9%	35.4%	31.1%	31.1%	30.5%	-2%
Profits Before Tax	Kshs mill.	7	(2,849)	(4,112)	874	1,946	2,011	1,173	1,415	21%
Total KPLC Operating Cost (T&D) per MWh sold in constant 2003 prices Kshs without depreciation	Kshs per MWh	5	2,726	2,180	1,571	1,388	1,300	1,300	1,314	-1%
Average Number of Debtor Months All Customers	No. of months	2	2.5	2.5	2.3	2.1	2.0	2.04	1.94	5%
Current Ratio (current assets/current liabilities)	Ratio	1	1.1	0.8	1.1	1.3	1.1	1.1	143.2%	30%
Revenue Collection as per cent of total billing	%	2	95.6%	96.2%	97.0%	97.6%	97.6%	97.6%	97.9%	0.3%
TOTAL WEIGHT 1		35								
Non-Financial Indicators										
Compliance with the Budget	%	3					100%	100%	95.8%	-4%
Compliance with the Procurement Plan	%	4					100%	100%	89.0%	-11%
Compliance with the Business Plan	%	6					100%	100%	95.0%	-5.0%
Implementation of ISO certification project	Timing	2					100%	58%	61.3%	5%
TOTAL WEIGHT 2		15								
Operational Indicators										
Annual Sales KPLC	GWh		3,498	3,654	3,940	4,215	4,473	2,609	2,584	-1%
Annual Sales Growth	%	3	13.0%	4.5%	7.8%	6.6%	6.5%	6.5%	6.0%	-7%
Distribution Efficiency	%	6	79.5%	80.0%	81.2%	81.9%	82.6%	82.3%	80.9%	-2%
New Customers connected 2005/06 (Actually metered)		6	56,542	49,653	42,921	48,949	150,000	87,500	35,242	-60%
Waiting Period for New Connections Upon Payment (days)	Days	1	64	85	133	188	75	75.0	349	-365%
Implementation of Scheduled Projects	%	4				63.5%	100.0%	51.5%	34.5%	-33%
Average Repair Response Time to Restoration for Service Calls	Hours	2	6.5	7.4	9.6	8.1	6.0	6.0	6.1	-2%
Implementation of preventive maintenance plans for transmission and distribution	%	3				132%	100%	100%	134.2%	34%
a. Average Number of Low Voltage Breakdowns per month	Number	2	9,711	10,838	10,735	11,234	6,500	6,500	10,995	-69%
b. LV breakdowns per 100 customers per year	Number	2		20	19	18	11	6.2	10.0	-61%
Average number of transformer failures per month	Number	1	70	81	72	76	25	25.0	70.1	-181%
Transmission Line Faults No/100km/year weighted average for 132kV and 220kV	No /100km/ year	1	3.0	3.1	2.9	1.6	2.5	1.5	0.8	48%
Average interruption time for programmed maintenance	Hours	1	8.7	7.8	8.5	8.2	8.0	8	7.2	10%
Customer to Staff Ratio	Ratio	1	92	103	110	120	128	124	126	1%
Sales Per Employee MWh	MWh per person	1	565	606	634	684	742	433	422	-3%
TOTAL WEIGHT 3		35								
Dynamic / Qualitative Indicators										
Customer Satisfaction - Number of customer complaints on power system incidents per 100 customers	No. per 100 customers	1	37.2	38.1	35.0	33.6	31.0	18.1	17.2	5%
Customer Satisfaction - Carry out Satisfaction Survey	%	1					1	58%	50.0%	-14%
Staff Skills Needs Assessment	Extent	1					100%	58%	33.3%	-43%
Introduction of Customer Service Charter	% Charter prepared	1				-	100%	58%	0.0%	-
TOTAL WEIGHT 4		15								
OVERALL TOTAL WEIGHT		100								