strategy+business

The Company That Anticipated History

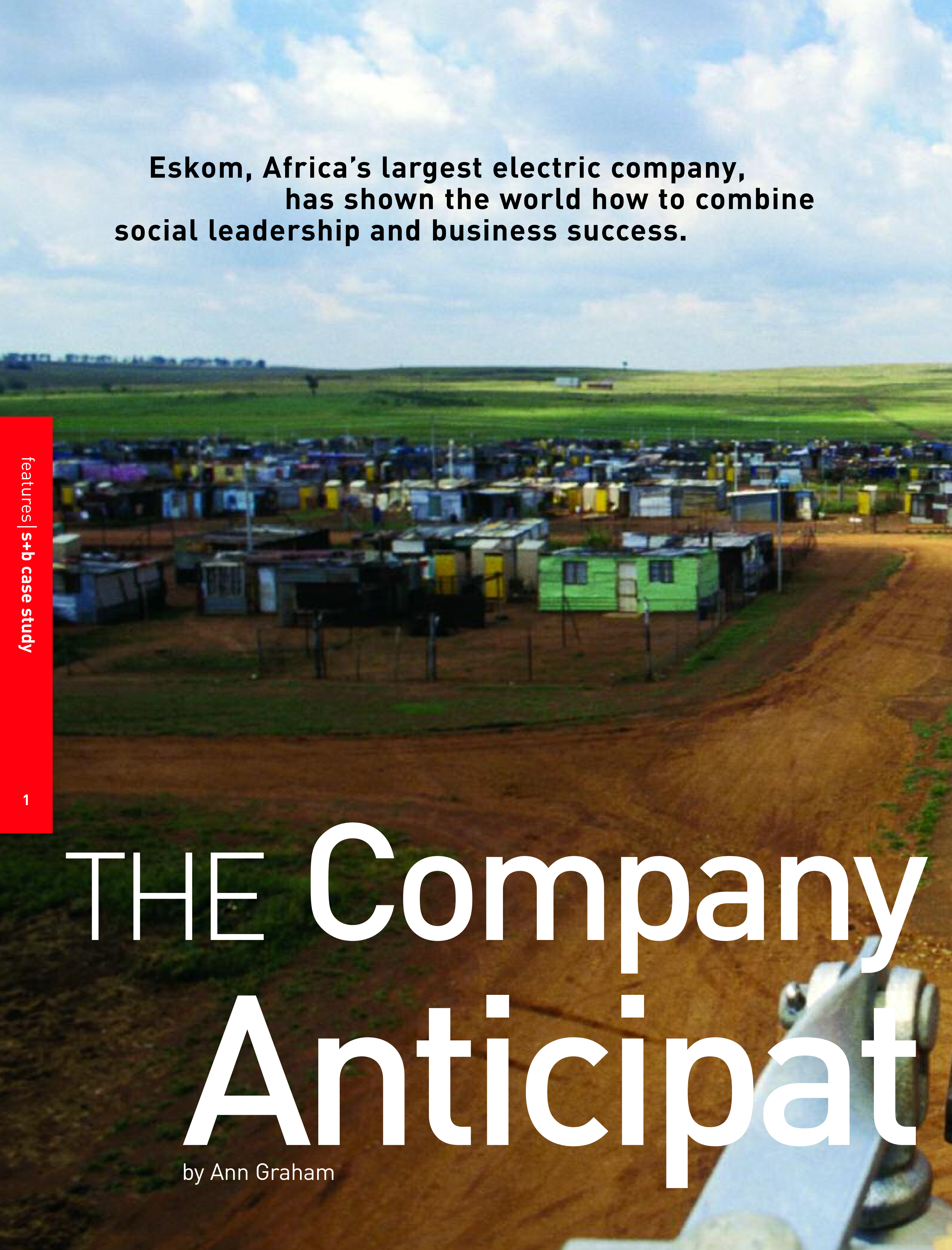
For further information:
editors@strategy-business.com
Booz & Company

from **strategy+business** issue 45, Winter 2006

reprint number 06406

booz&co.

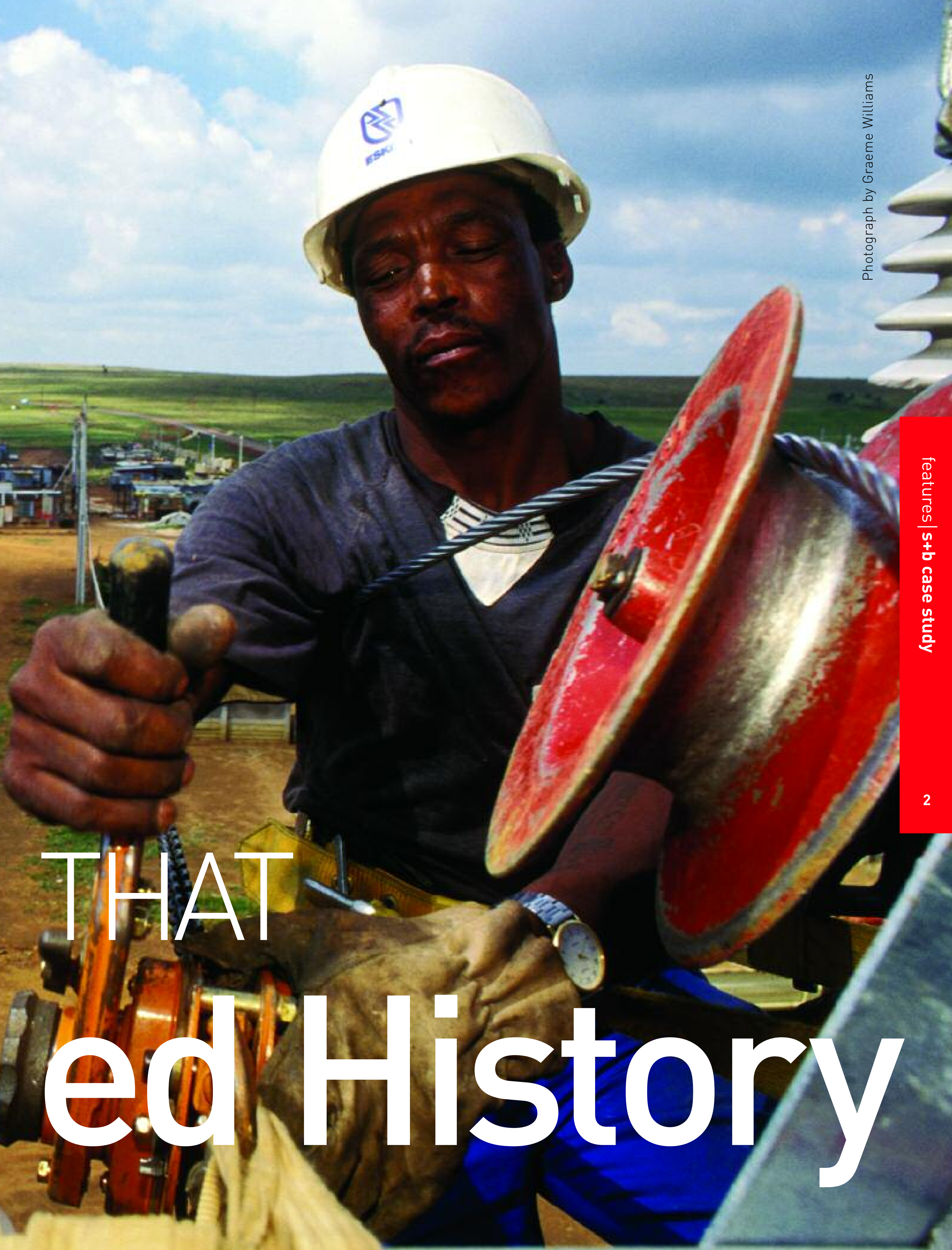
Reprint



Eskom, Africa's largest electric company, has shown the world how to combine social leadership and business success.

THE Company Anticipat

by Ann Graham



THAT
ed History

Photograph by Graeme Williams

Ann Graham
(ann.graham@mac.com) is a contributing editor to *strategy+business* and its former deputy editor. Based in Bronxville, N.Y., she focuses on the role of business in society. Her latest publication, *Learning for Sustainability* (Society for Organizational Learning, 2006), was a collaboration with Peter Senge.

Driving along the old two-lane road from the Republic of South Africa's political capital, Pretoria, to its commercial hub, Johannesburg, a visitor sees two strikingly different nations.

The first South Africa looks like an emerging economy in hypergrowth. Hundreds of acres of rolling hillsides are rapidly giving way to new four-lane highways, office parks, shopping centers, and housing developments of modest and McMansion-style homes. Parking lots in Johannesburg suburbs are jammed with BMWs, Mercedes-Benzes, and Range Rovers. A supermarket called Woolworth's resembles the American haute-healthy food emporium Whole Foods; an apparel store, Kozi Kids, looks like the Gap. Bars and restaurants cater to young, university-educated, upwardly mobile professional blacks — a category that didn't exist 15 years ago. It emerged after the 1994 national election, which brought Nelson Mandela and the African National Congress (ANC), the country's oldest black rights organization, to power.

The second South Africa consists of a predominantly black population mired in poverty. Next door to many of the new malls and mansions are sprawling shantytowns of rusting metal shacks. Men and women in tattered clothes walk from them daily through tall grasses down to the urban roads. On their heads, some balance baskets filled with fruits and vegetables or trinkets they will try to sell to travelers. Day laborers jam themselves into ramshackle minivan taxis that take them to pickup points for construction or farm work. If they're not lucky enough to land those jobs, these itinerant workers might end up in a crowded shopping center parking lot, directing cars to open spaces and hoping to receive a small tip for their service.

South Africa's president, Thabo Mbeki, calls these two South Africas the "first" and "second" economies. They are a legacy of apartheid, the system of racial segregation that governed South Africa from 1946 to 1994, effectively excluding nonwhites (who make up 79 percent of South Africa's 47 million people) from the nation's economy and politics. Even with GDP growth averaging 3 percent since 1994, and more blacks rising out of poverty to enter the first economy, whites' per capita income of 82,000 rand (US$11,000) is still more than five times that of blacks, and black unemployment remains a problem. Officially, unemployment nationwide stands at about 27 percent. Unofficially, the rate is anywhere from 40 to 75 percent among blacks.

Access to electricity is always an important first step up the economic ladder. In South Africa, Eskom Holdings Ltd. provides that first step. A government-owned corporation headquartered in the Johannesburg suburb of Sandton, Eskom generates 95 percent of the country's electricity. Many organizations debate whether their business has social responsibilities, but Eskom's core business is itself a social responsibility. Without electricity, educating children is difficult; families must heat their homes with coal or wood, a major cause of respiratory diseases; and new businesses and employment opportunities can't grow. Eskom receives 80 percent of its revenues from industrial customers, but the company also has a self-imposed mission: to deliver electricity to all individuals, especially those who, in every sense, have lived without power.

Eskom adopted this mandate not in the wake of apartheid's fall, but in the mid-1980s, when it was legally prohibited from providing electricity to black communities. The company's early embrace of "electricity for all" (as the policy is called) allowed the company to play a leadership role early on in the social transformation of South Africa. Not only did the company rethink the value of serving black customers and remake its work force to bring blacks into positions of responsibility — both in defiance of the laws then in place — but it thus positioned itself as one of the very few African companies that could make a play for international expansion. (South African Breweries, now SABMiller, is another.)

Ahead of Change

"One cannot manage change," wrote noted management author Peter Drucker. "One can only be ahead of it." That maxim could be Eskom's motto. By preparing in advance for the end of apartheid, risking its own executives' lives in the process, the company established a pivotal role for itself in the South African economy, and arguably in its culture as well. Eskom's story is the sort often recounted under the banner of corporate social responsibility, but the company's efforts were not primarily motivated by the desire for a good reputation. They had much more to do with resilience and growth as an enterprise.

Eskom's leaders take the position that because no business can perform to its full potential in a society that is failing, companies must be involved in the societal health of their country. "It's not only that society needs strong and sustainable businesses. Businesses need sustainable societies in which to operate," says Wendy Poulton, Eskom's general manager of corporate sustainability. "Our view is if you don't recognize this as a business, you're going to be out of business."

Since the inception of "electricity for all," Eskom has electrified an average of 300,000 additional homes annually. In 2006, Eskom reported delivering electricity to 3.3 million homes, compared to only 120,000 during the last years of apartheid. To be sure, this electrification rate lags behind those of other emerging economies, such as India and China, but it means that 66 percent of the South African public has electricity, which is up from 30 percent a decade ago. This rate is more than four times the percentage in the rest of sub-Saharan Africa. With wholly owned electric power operations in 20 sub-Saharan countries and partnerships in 10 others, Eskom is also trying to be an economic engine for all of Africa — intending to bring electricity to more than a billion people, many of whom still live by candles and kerosene lamps. Currently, Eskom is among the largest utilities in the world, ranking 11th in generation capacity and seventh in sales, according to its 2005 annual report. Electricity sales reached R36.6 billion (US$4.61 billion), with pretax profits of R4.6 million (US$579,710) in the 2005–06 fiscal year.

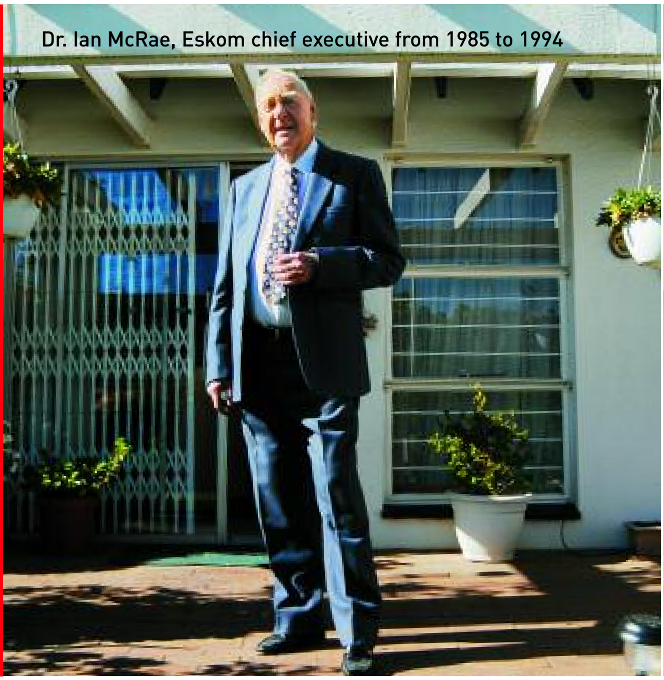
Throughout its history, Eskom has had to manage the complex relationship among South Africa's government, financial, and industrial sectors. The utility traces its origins to private entrepreneurs at the beginning of the 20th century who won the first concessions to transmit electricity to the newly discovered gold deposits of the Witwaterstrand, the mountain range in northeastern South Africa that now houses the richest gold mines on earth. In 1910, when the Union of South Africa was formed, the Transvaal provincial government, representing the heart of the mining region, declared that supplying electricity was too important a public service to leave in private hands. In 1923, when apartheid was still a relatively informal policy in the country, the Electricity Supply Commission, abbreviated to *Escom* (the spelling was later changed), was created to absorb and run South Africa's electricity assets, with no profit requirement.

Escom was one of the first parastatals — South Africa's state corporations. Together with Iscor, which produces iron and steel; Sasol, which refines liquid fuels and other products from coal; and Foskor, which mines phosphate, Escom provided the infrastructure and raw materials to grow South Africa's economy. The parastatals also provided critical support to the government's increasingly separatist regime. After 1948, when apartheid became national policy, the government and therefore Escom effectively wrote off most black townships, arguing that their inhabitants would one day return to the so-called homelands. This homeland policy, or "grand apartheid," inhibited investment in township infrastructure, schools, and other basic services. However, the demand for electricity increased among the white population — enough to drive Escom to expand its generating capacity dramatically in the 1960s and early '70s.

When the utility made plans to erect five coal-fired power stations, Dr. Ian McRae, then the head of power station operations, saw a large problem ahead: a shortage of white workers with the skills needed to staff those plants. "We realized we had all these new power stations coming on and we didn't have the people to operate them," recalls Dr. McRae.

His solution was to begin training blacks to fill these positions, even though most were illiterate and

“It’s not only that society needs strong and sustainable businesses. Businesses need sustainable societies in which to operate,” says an Eskom executive.


Dr. Ian McRae, Eskom chief executive from 1985 to 1994


Dr. John B. Maree, Eskom chairman from 1985 to 1997

apartheid outlawed them from being anything more than unskilled laborers. At the time, the laws reserved certain jobs for whites, and white trade unions jealously guarded those rules. (Black trade unions were illegal until 1979.) Breaking the law, though, wasn’t what most concerned Dr. McRae; rather, he worried whether Escom’s employees would support such radical measures. So he set up meetings at each power station with trade union representatives, plant managers, and black laborers to discuss the idea of blacks’ doing jobs traditionally performed by whites. Reassured that there would be minimal resistance, Dr. McRae started introducing blacks into the ranks in the new position of “operating assistant” and providing them with the training to develop their technical skills. He removed the existing educational barriers so that nonwhite operators could move into the position of shift supervisor. “I got people to agree that a good operator, with some experience, could move up,” says Dr. McRae.

By the late 1970s, worldwide condemnation of apartheid had left South Africa isolated, and its economy was stagnating. Demand for power plummeted, and it soon became clear that the power stations Escom had committed to build were no longer needed. After the company jacked up prices to offset the costs of construction and operational misfires, it found itself in financial difficulty.

That’s when the government stepped in. In May 1983, a commission appointed by the Minerals and Energy Ministry and led by mining executive W.J. de

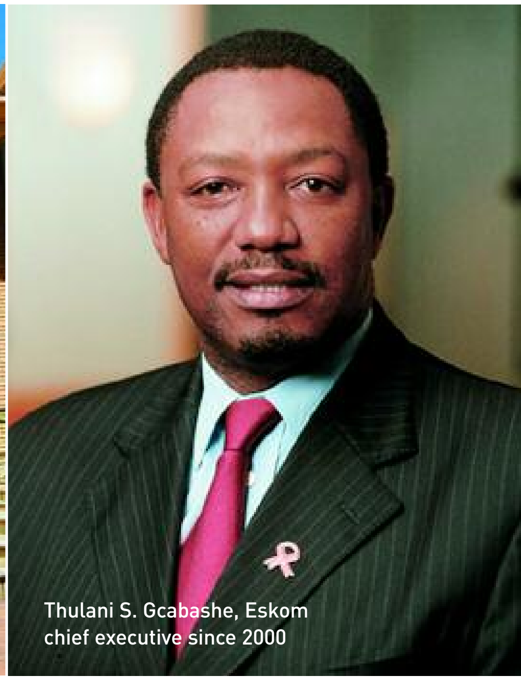
Villiers found fault with Escom's management of forecasting, governance, accounting, and investment. Amid the commission's inquiry, a scandal broke concerning a company accountant who had defrauded Escom of nearly $4 million; he was convicted and the finance chief was forced to resign. Escom was now a national embarrassment. The De Villiers Commission replaced its existing hierarchy with a new two-tier governance structure. An Electricity Council, appointed by and reporting to the government, represented the stakeholders, including consumers and unions, and set policy. Below that was the management board, which ran the company. For the first time, Escom would be accountable for profits and losses.

tive of Armscor, South Africa's defense parastatal.

Drs. McRae and Maree began by looking inward. Using Dr. McRae's signature "walkabouts," a technique he had developed years earlier to make sure he never lost touch with his employees, they met with small groups of senior and middle managers in regional offices, power stations, and distribution and service departments. Morale was low. Consumer criticism had hurt, and Escom-bashing in the press made it worse.

At the head office, the two assembled Escom's best and brightest managers and strategic thinkers into a senior management council they called the "Top 30." A few outsiders were also invited, including Reuel J. Khoza, a management consultant recognized for his entrepre-

Reuel J. Khoza, Eskom chairman from 1997 to 2005



Thulani S. Gcabashe, Eskom chief executive since 2000

Photographs by Jeffrey Barbee

In 1984, the De Villiers Commission nominated Dr. McRae to be Escom's chief executive. For chairman of the new management board, South African President P.W. Botha chose Dr. John B. Maree. The two men, temperamentally quite different, took on financial and cultural reforms together. Dr. McRae was the consummate company man. Soft-spoken and professorial in demeanor, he had started at Escom as an artisan's apprentice in 1947. He was well-liked and respected inside the company and in the industry. Dr. Maree, a turnaround specialist, was renowned for his shrewd political instincts and his blunt management style. A former divisional chair at Barlows Ltd., one of the country's oldest and largest conglomerates, Dr. Maree came to Escom following a three-year stint as the chief execu-

neurial acumen and commitment to social change. (In 1997, he would become Eskom's first black chairman.) Escom's leaders defined their most pressing task as fixing the fiscal mess and turning Escom into one of the world's top utilities. "John and I knew our performance had to be first class, or the government would take over," remembers Dr. McRae. "I had seen all over Africa how disastrous such political interference could be. We had to keep the government out of the engine room."

Electricity for All

Downsizing was a critical step — and a move unheard of at Escom. Over the years, Escom had developed a reputation as an undemanding workplace. People joked that Escom stood for "easy, slow, comfortable." Dr.

Balances of Power

by Louis van der Merwe

Eskom is a microcosm of the core values that characterize the emerging South African nation: proud, innovative, and self-sufficient. The company's greatest strength has always been its keen recognition of the way electricity enables educational and economic success. As the power industry thrives, so do the people.

But ensuring the health of any company in the electric power industry is no easy matter. The long lead time required to bring capital projects online leaves power companies like Eskom vulnerable to the inevitable cycles of shortages and gluts.

Some power companies have relied on governments to stabilize and sustain them during times of oversupply, when they would have otherwise had to downsize. Some have followed market disciplines, expanding or shrinking to fit customer needs. Eskom has always had to combine these two strategies. Today it continues to do so, while faced with a new set of challenges.

I joined Escom (as it was then spelled) in 1975. By the early 1980s, it was entering a period of shortages. Both the skills of its people and the capacity of its plants had been allowed to atrophy. The government, meanwhile, forecast 5 percent annual economic growth, assuming there was enough electricity. I remember going on massive shopping trips overseas for information technology equipment while my colleagues avidly bought turbines. In 1982, we purchased 60 percent of the power generation equipment sold in the West.

When growth slowed dramatically during the late 1980s, Eskom had far more capacity than it needed. That factor gave us the breathing room to build a different type of capacity. We trained black people to be technicians, engineers, and managers of the company. It was not unusual at that time to find people who had leapfrogged from rural or tribal life into Eskom and studied their way through to post-doctoral levels; many are now among South Africa's top business executives.

In 1994, when apartheid ended and the transition to a multiracial, democratic society began, it seemed at first as if there would be more than enough electric power. But demand soared unexpectedly with the rise of a new black middle class and the sudden opening of the economy to world trade. This "economic miracle," as we called it, put unprecedented strain on the electrical power system. It took several years for Eskom's leaders to catch up with the imperative to expand. Now Eskom is rapidly building capacity again.

Eskom is worth watching because it tends to face up to difficult challenges earlier than most. Today, the three most pressing imperatives for power companies, or any company for that matter, can be expressed as "people, prosperity, and planet." (This is also commonly referred to as the triple bottom line, which will almost certainly be used to measure the success of companies in the future.) Eskom has mastered its people issues: Its internal staff composition is very close, demographically, to the composition of its customer base. It is forging ahead with its plans to provide power to everyone, including the difficult task of rural electrification. Eskom is also figuring out the ecological balance it needs to strike in coming years. It is diversifying away from coal toward an energy mix that uses renewable power sources (wind, solar, and fuel cells), nuclear, pumped storage, and other low-emission forms of energy. If its history is any guide, this company will also rise to a leadership position in the environmental domain.

Louis van der Merwe *(louis@cil.net), former head of management, performance, and development for Eskom, is currently director of the Centre for Innovative Leadership (CIL), www.cil.net, a consulting firm with offices in Johannesburg, Dublin, and Amsterdam. He is also an adjunct professor at the Leadership Centre in the University of KwaZulu Natal, South Africa.*

Maree pushed through instant work-force reductions from 66,000 to 60,000. By 1995 the head count was 39,000. (Today it's just under 30,000.) A name change from *Escom* to *Eskom* symbolically cemented the shift and distanced the company from its former identity as the government's supply commission.

While Dr. Maree drove the company to higher performance, Dr. McRae started to champion the vision of "electricity for all" — a response to the change he believed was inevitable. "South Africa was facing political transition, either through armed struggle or political negotiation," he wrote in his memoir, *The Test of Leadership* (EE Publishers, 2006). "When (not if) the ANC came into power, Eskom needed to be performing to the satisfaction of everyone in our country and that included making electricity available to all, not just one third of the population."

Dr. McRae proposed that Eskom begin offering electricity directly to households in the townships. Other executives agreed, but saw his plan as too risky, politically and financially. They weren't convinced blacks really wanted electricity; the few who could afford it complained of poor service and exorbitant bills. Furthermore, there was no commercial logic for growing a customer base of poor households, especially because at the time it was still illegal for Eskom to do so.

"To me the threat of not getting people electricity was greater," recalls Dr. McRae. "In these urban townships, there was no commercial or industrial infrastructure. What really worried me wasn't the lack of electricity; it was poverty."

Before pressing for further support within the company, he decided to see for himself if there was market demand. At great personal risk, he went to townships, where few whites had ever ventured, to ask residents directly whether they wanted electricity, and if they would pay for Eskom's service. With the help of the then-banned ANC, he met at night with people in churches and in their homes. On one visit to Soweto, Dr. McRae learned why the bills were so high: Meters were locked in cubicles on the sidewalks and were not read regularly. "When I went to those meetings, I got a clear signal that they did want electricity if the price was reasonable and they could get decent service," he says.

To buttress his argument, he pointed to the *favelas* of Rio de Janeiro. In these squatter cities, which are similar to South Africa's shantytowns, the residents were eager to buy electricity when delivery was reliable. Dr. McRae won the support of Eskom's board, and in 1989, he launched a drive to bring affordable, safe electricity to the townships.

To achieve that goal, the utility had to devise a completely new way to collect payment. There was no postal service, and most residents had no fixed address and did not hold regular jobs. Eskom came up with a revolutionary prepayment system that is still in use; an in-home metering system that changed the dynamics of the black political struggle — withholding payment was a frequent form of protest — and forever altered the business model of Eskom. The in-home system used fare cards purchased at the post office; customers inserted them into the meter to activate the electricity flow. Four lights in the meter box allowed residents to monitor how much electricity they had left. The system also helped residents and the company avoid a mishap that both hated: service disconnections for nonpayment. Township activists continued to play an advocacy role; for example, they pressed for the replacement of unreliable meters. Meanwhile, as Dr. McRae recalls, new stories of township entrepreneurialism emerged. A man who had baked his family's bread over an open fire invested in two electric ovens, which he used to start a successful bakery business that grew to have seven employees. A skilled welder launched a business with two other men making fencing, security bars for windows, and small steel chairs. Successes like these were the clearest vindication of Eskom's prescience.

Equalizing Opportunity

As the company worked to desegregate power delivery, its leaders attacked segregation inside Eskom. Dr. Maree recalls becoming committed to the idea when the company opened its Matimba power station, near the Botswana border, in 1987. "I'll never forget one man who came up to me and said, 'Dr. Maree, electricity has no color. Eskom should not have color.' That really hit me." To be a top-performing utility, he and Dr. McRae declared, Eskom had to fast-track development of the staff from all races. They also argued that Eskom would better serve black customers if black workers at Eskom held positions of authority.

Integration was painful, especially for middle managers. "I remember sending young engineers, one black and one white, to the power stations," says Dr. Steve Lennon, who was then a middle manager and is now Eskom's managing director of resources and strategy. "They were expected to work together, but they weren't allowed to sleep in the same place. I had a fight with one station manager, and ended up transferring a black scientist to another project because of the segregation." At the same time, it was Eskom's social progressiveness and its growing reputation for technical excellence that attracted highly skilled individuals like Dr. Lennon in the first place.

And it also attracted those few black students who had beaten the odds to become engineers. When Ehud Matya graduated from engineering school in 1986, he committed to a four-year stint with Eskom. He had been the first black at his school to win an Eskom-sponsored scholarship, and Eskom had gone out on a limb to award it to him. Assigned to a team piloting a software system at Duvha Power Plant, the largest in the

Ehud Matya became the first black manager at the Duvha Power Plant, where he had once been forbidden to use the toilets.

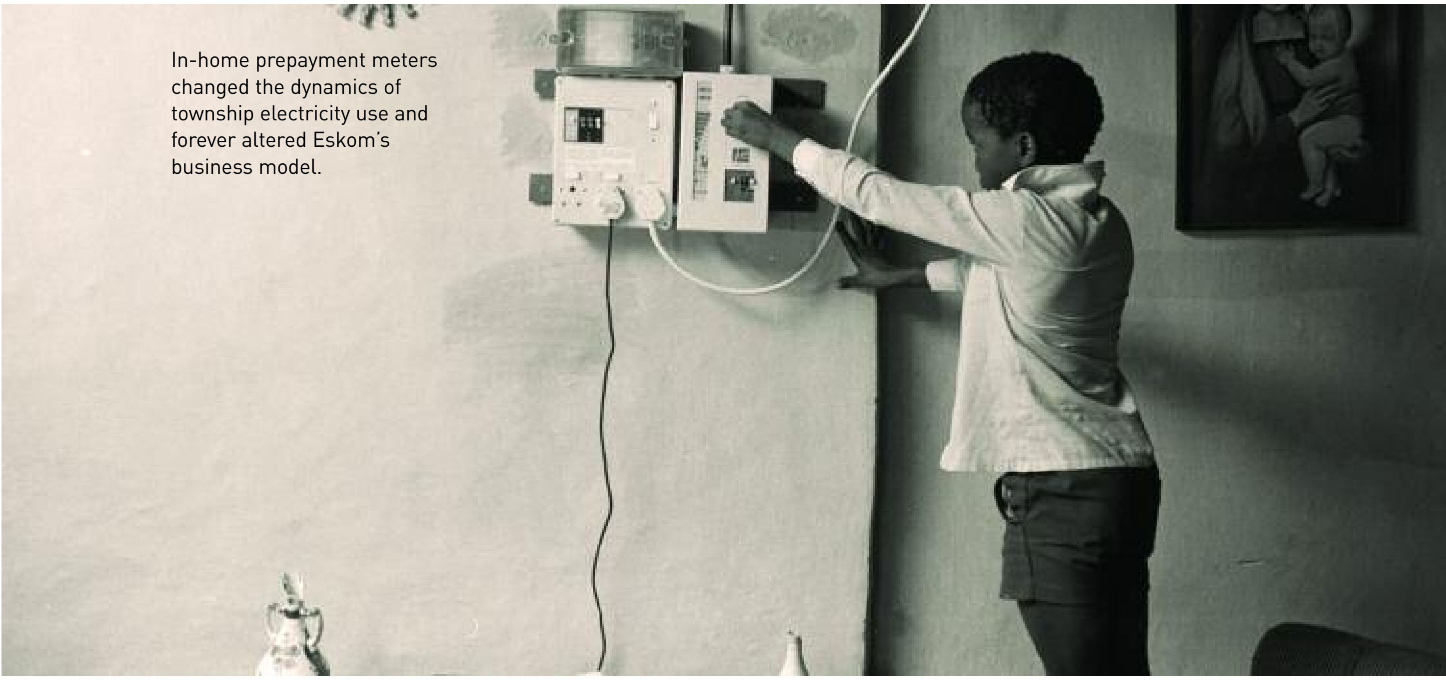
world, he broke the managerial color barrier. Yet lavatories and lunchrooms were still closed to him. Before the year was over, he left Eskom for a job at South African Breweries. "The race issues were more challenging than I had expected," he says.

Dr. Maree concedes that desegregating Eskom was painful for everyone, as well as time-consuming. "It took us two years to get all our regulations changed, because apartheid was still the law." To pave the way for blacks to assume executive positions, including seats on the Electricity Council, Dr. Maree worked his political connections right up to President Botha. At a meeting with the president in 1987, he says, "We agreed Eskom should take a step very few others had taken."

By the end of 1987, conditions had improved enough that Mr. Matya, for one, felt comfortable returning to Eskom. His post this time was chief of logistics at a distribution unit in Bloemfontein, a conservative Afrikaaner stronghold. "I took the job with the clear intent of being part of the transformation process," he says. Then, after the ANC assumed power in 1994, Mr. Matya became the first black manager at Duvha, where he'd once been forbidden to use the toilets. He is currently Eskom's managing director for generation and sits on the executive management committee.

Eskom's willingness to integrate its work force as far back as the 1970s paid an enormous dividend in building the company's capacity for leadership. "I joined the company in 1993, when the country's transformational initiatives were in their infancy," says Thulani S. Gcabashe, Eskom's current chief executive officer, who started as an electrification manager in Natal. "Eskom saw its chance to get an early start — make our own mistakes and learn from them. So by the time the rest of society was ready to start putting out guidelines, we were the ones being consulted. If you look at the Employment Equity Act of 1998, it is very much based on what we started doing in the 1990s." Even today, Eskom is one of the few South African corporations to consistently meet or exceed the requirements of the first post-apartheid government's 1995 Reconstruction and Development Program, which included targets for promoting affirmative action and bringing water and electricity to poor communities. In 1993, 60 percent of all Eskom employees were black, and 5 percent of the managerial, supervisory, and professional staff were black. By the time Dr. Maree retired in 1997, more than 50 percent of the managerial and technical professionals were black. The next chairman and CEO, respectively, Mr. Khoza and Mr. Gcabashe, aimed by 2000 to fill half of all supervisory personnel and top managerial positions with nonwhites. "In the end, we achieved this goal a year ahead," says Mr. Gcabashe. "We also said 1.75 million homes will have electricity by the year 2000, and we beat that goal a year ahead, too." Eskom's nonwhite supervisory and managerial goal for 2010 is 65 percent.

Eskom's top executive team is made up almost exclusively of blacks, as is its board of directors. (Dr. Lennon is the only white member of the executive management committee.) Eskom appointed its first black chairman of the board, Mr. Khoza, in 1997. (He stepped down in 2005. His successor is Valli Moosa, a former minister of the environment.) Mr. Gcabashe is Eskom's first black CEO. (He is scheduled to retire at the end of 2007.) By contrast, as of March 2006, Sasol — South Africa's state-owned synthetic fuel and chemical company — had appointed only its second black executive director in 12 years.



In-home prepayment meters changed the dynamics of township electricity use and forever altered Eskom's business model.

Photograph by Guy Stubbs

As the South African government formalizes and expands its regulations on training and promoting non-white managers, companies scramble to formulate their compliance strategies. But Eskom has already met the government requirements, and is now concentrating on recruitment and development strategies, to fill its pipeline of managerial and technical talent in a market where such talent is in short supply.

"We start to recruit young men and women in high school and support them through university. Then we bring them into the business in a two-year training program," says Mr. Gcabashe. The Eskom Foundation, a social investment nonprofit founded by Mr. Khoza and Allen J. Morgan, a former CEO who succeeded Dr. McRae, funds health, education, and small business programs for disadvantaged South Africans. The foundation provides scholarships to promising students and helps schools develop teaching resources in math and science. Eskom is also promoting a first generation of women in management. In 1993, about 8 percent of Eskom professionals were women. Now the number is 30 percent, which includes the only female power station manager in the world, and a senior transmission manager responsible for ensuring the stability of the national grid.

Ubuntu Management

When Mr. Khoza succeeded Dr. Maree, he brought along his own visions for Eskom. As the company's first black chairman, accountable to South Africa's first black government, Mr. Khoza felt his mandate was to complete the integration of Eskom while ensuring it continued to perform at a high level.

To meet this management challenge, he applied an African humanist philosophy known as *ubuntu.* Translated from Zulu as "I am because you are, you are because we are," ubuntu is based on the idea that human beings derive their primary identity from the communities where they live and work, and that these communities must therefore demonstrate respect for people in large and small ways. Mr. Khoza says the ubuntu ethic helped him recognize that white executives held most of the skills and knowledge needed to manage the company. "I could not behave like a bull in a china shop and decree that there will be black managers tomorrow," he says. "I strove to understand the business, not just the business as it technically performs, but the people who deliver and how to motivate them to deliver."

Selling that view inside and outside Eskom was critical to Mr. Khoza's success, and he was tested almost immediately. When he arrived, Eskom's longtime head of finance, who was white, was considering a lucrative job offer. It would have been politically expedient to replace him with a black executive, but Mr. Khoza worked hard to persuade the man to stay at Eskom. "If he had left, the entire finance and treasury department would have followed him and I would have been left with a void," says Mr. Khoza. He saw an opportunity to turn the executive into a valuable ally. What won the employee over, says Mr. Khoza, "was not giving him a counteroffer in terms of money, but selling him on a philosophy."

In his book *The Power of Governance: Enhancing the Performance of State-Owned Enterprises* (coauthored with Mohamed Adam; Pan Macmillan, 2005), Mr. Khoza explains Eskom's credo since 1994: "At the heart of the transformation process was a continued commitment by Eskom and the South African government to superlative performance. This encompasses economic, financial, and operational excellence, social and environmental responsibility, and good governance." It also encompassed a new, almost obsessively detailed dedication to tracking results, in a company that had once "lost" $4 million. The 400-page 2005 annual report lists virtually everything the company achieved or did not achieve, down to the attendance records of directors at board meetings. Although some consider the report overkill, Eskom's executives and managers continually scrutinize the data to develop strategy and improve performance. For example, the company's Human Resources Sustainability Index (HRSI), described by the company as a "measure of Eskom's ongoing ability to achieve its human resources objectives," covers 26 indicators of employee health and wellness, competence, satisfaction, and race and gender equity. "One needs to institutionalize putting race, gender, and performance into a productive context," says Mpho Letlape, Eskom's managing director for human resources.

Eskom has also been a national leader in the fight against HIV/AIDS. In 1987, it launched South Africa's first workplace programs, shining a light on the then-taboo disease with education and treatment programs. It continues to add programs on AIDS awareness and prevention. "Last year, 95 of our colleagues passed away from HIV/AIDS-related diseases. That is a lot of people, but it would have been far worse if we had not started acting when we did," says Mr. Gcabashe.

Eskom sustains its social leadership without sacrificing financial performance. The company has consistently earned a profit since recovering from near-bankruptcy in 1984. It has also earned investment-grade credit ratings from Standard & Poor's, Moody's, and Fitch — a claim few state-owned utilities in developing countries can make.

Confronting the Future

Despite its many accomplishments, Eskom still faces significant challenges. Several major power outages in the Western Cape and local rolling blackouts and tension over rising electricity prices hit Eskom all at once in early 2006. Consumers grew angry, and Eskom became a campaign issue during the local government elections in March. To the country's leading business newspaper, *Business Day,* the year 2006 was Eskom's "horror year. In 12 short months, the electric utility that could do no wrong suddenly became a problem child."

Eskom has addressed the problems. The national rolling blackouts that media predicted never materialized, and the Koeberg nuclear power plant, a primary supplier for the Western Cape, is now back online. Eskom has negotiated a multiyear price agreement with the regulatory agency that keeps electricity prices in line with inflation. In July 2006, the government announced a long-range energy plan for the country, which includes a five-year, R97 billion ($12.2 billion) program — the largest in 20 years — to expand and upgrade Eskom's capacity. Two-thirds of the money will go to generation, including new coal technology, hydro, and gas options; the rest will go to distribution, transmission, new business, and renewable energy. Eskom is working with Plug Power, an American fuel cell manufacturer, and IST Holdings, a South African power industry equipment distributor and longtime Eskom supplier, on a pilot project to make fuel cells affordable. "I had a guy at one American utility tell me that unless I had 100 years of proven field experience, he didn't want to talk to me. A utility needs to be conservative, but Eskom pushes for innovation more than most," says Mark Sperry, chief marketing officer of Plug Power.

A plaque near the entrance to Eskom's headquarters marks the place where a time capsule was buried to mark the company's 75th anniversary in 1998. The capsule will be opened in 2023, Eskom's centennial year. "May the contents highlighting past achievements be a source of inspiration to those achievers of the future," the plaque says. Most of Eskom's current leaders, black and white, were there on the day that capsule was buried, and like most South Africans, they have lived through the transformation of the country and the company.

"I was born in South Africa in 1959, so I'm a product of apartheid. I was designed a racist," says Dr. Lennon. "It is one of those things that South Africans who were born in the late '50s, who went through the public education system, and who are honest with themselves, spend a lot of time thinking about and regretting. But my time at Eskom, and in South Africa, during this transition has been an incredible life experience. What is so exciting is that, as an individual, you can do a lot to create positive change."

Because the lead time for building new power stations is 20 to 25 years, Eskom will always face difficulties in anticipating power capacity needs. And politics is always a complicating factor. No matter how successful Eskom is at keeping the government out of the engine room, it still must answer to those in charge — for good and ill. Debates over pricing and privatization are never settled.

In that light, Eskom's biggest asset is arguably the resilience its leaders, white *and* black, have cultivated throughout the company since the 1980s. That resilience, in turn, has allowed it to stay in front of public-sector trends and needs, a critical capability in a government-owned power utility. "The advantage of being ahead of the game, says Mr. Gcabashe, "is not that you can dictate the terms of legislation, but you can influence the thinking around issues based on the experience you already have."

But one doesn't have to be government-owned, or African, to find inspiration in Eskom's story. These days, every company's performance is in some way tied to the social and political environment in which it operates. If Eskom is a model for companies facing such enormous changes as global warming and soaring health-care costs, then the most effective approach is not risk management as usual. Eskom thrived by anticipating the course of history and stepping out in front of change, thereby building its capacity to lead. Its example suggests that any other company can do the same. ✚

Reprint No. 06406

Resources

Anton Eberhard, "The Political Economy of Power Sector Reform in South Africa," working paper no. 6, Program on Energy and Sustainable Development at the Center for Environmental Science and Politics, Stanford Institute for International Studies, April 2004, http://iisdb.stanford.edu/pubs/20183/WP6,_10_May_04.pdf: Context for Eskom's challenges as the primary electricity supplier in South Africa.

Linda A. Hill and Maria Farkas, "A Gentler Capitalism: Black Business Leadership in the New South Africa," Harvard Business School working paper no. 06-057, 2006, www.hbs.edu/research/pdf/06-057.pdf: An informative profile of another South African company's effort to recruit and develop black managers.

Charlayne Hunter-Gault, *New News out of Africa: Uncovering Africa's Renaissance* (Oxford University Press, 2006): The respected American journalist provides fresh perspective on pre- and post-apartheid South Africa, and prospects for the continent.

Reuel J. Khoza and Mohamed Adam, *The Power of Governance: Enhancing the Performance of State-Owned Enterprises* (Pan Macmillan, 2006): The former chairman of Eskom offers views on governance of state-owned enterprises and on the narrowing gap between public- and private-sector management.

Ian McRae, *The Test of Leadership: 50 Years in the Electricity Supply Industry in South Africa* (EE Publishers, 2006), www.eepublishers.co.za/view.php?sid=943: Eskom's former chief executive tells his story.

strategy+business magazine
is published by Booz & Company Inc.
To subscribe, visit www.strategy-business.com
or call 1-877-829-9108.

For more information about Booz & Company,
visit www.booz.com

Originally published as "The Company That
Anticipated History" by Ann Graham.