Guiding principles on building sustainable SOEs in South Africa

Name: Ursula Nobulali Fikelepi
Student # 29640254

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Abstract

This paper examines the performance of SOEs in developing countries in competitive sectors such as aviation, telecommunications and energy to ascertain whether there are any common principles that determine such performance. Through a case study analysis and interviews with executive managers of South Africa’s SOEs, the paper will determine whether the common principles ascertained in the successful performance of the other developing countries’ SOEs can be applied to South Africa and whether any differences in principle exist between South African SOEs and other developing country SOEs. The paper uses the strategic management schools of organisational and institutional theory, agency theory and the resource based view to determine if there are any differences in principle between SOEs in South Africa and other developing countries. The paper also explores whether the environments and contexts of the different SOEs materially impacts their performance and ability to create a competitive advantage over a sustained period.

A qualitative approach was used given that this is an explorative study, to provide better insights and in-depth discussion on the relatively new issues that have not been studied in great detail before.

The main research findings are that successfully performing SOEs from developing countries exhibit certain common factors that can be applied by SOEs seeking to reform and improve their performance across developing countries.
Keywords

SOEs – developing countries – success factors – common principles – superior performance – sustainable
Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Signature                                                                             Date
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Chapter 1: Introduction to Research Problem

1.1 Introduction

This chapter will describe the context in which SOEs operate and outline the need for the research and the objectives of the research. The chapter will also explain the relationship between the research problem and the research objectives as well as defining the scope of the research.

State Owned enterprises (SOEs) are a feature of the public sector landscape that have existed for decades for developed and developing countries (Bernier and Simard, 2007). Following the wave of privatisations in the 1980s and 1990s, governments recently have stemmed the tide of privatisation and once again appear to have considered the value of retaining the SOEs to fulfil certain policy aspects and impact countries (Lydall, 2009).

The South African government is no different and has seen an evolution of its public entities from government departments, to parastatals, and in some instances finally incorporating them as companies to be regulated similar to private sector companies (Department of Public Enterprises, 2008). The evolution of organisational forms can be considered as a consequence of the development of economic, political and social situations in which organisations exist and operate (Erakovic & Wilson, 2005). There is a plethora of approximately 300 public entities in South Africa, the majority of which are agencies and provincial entities (Public Finance Management Act, No. 1 of 1999).
The aim of the study is to explore whether there are common elements that contribute to the success of certain SOE (SOEs) in developing countries and whether such elements could be applied to South African SOEs and SOEs from other developing countries.

This paper will focus on the public entities that are incorporated as companies, distinguished from other public entities by the fact that they are regulated by company law, amongst other statutes, and trade from independent balance sheets, are not solely dependent on the state for funding and have both a commercial and developmental mandate from the state. These are called SOE for the purposes of this paper to distinguish them from other public entities and highlight their primary governance regime.

1.2 Context of Study

The performance of these SOEs in South Africa has been mixed with some succeeding and the majority struggling to balance their commercial and developmental imperatives. This in itself limits the state’s ability to impact the economy optimally. In other developing countries, a higher percentage of SOEs perform successfully and are profitable, resulting in the state’s economic role through its SOEs to be associated both with rapid industrial transformation and enhanced equity (Kohli, 2004). Singapore Airlines and Malaysia Airlines are ranked in the top 5 airlines in the world. Similarly, Singapore airline’s parent company (Temasek Holdings (Temasek), which is state owned) is recognised as
one of the most successful sovereign wealth funds in the world (Chatterjee & Dhar, 2006). Other successful SOEs from other developing countries include Petronas (Malaysia’s petrochemical company), Petrobras (Brazil’s petrochemical company), Indian Railways and various telecommunications and energy SOEs. These SOEs are discussed in detail in the paper as part of the case study analysis undertaken.

The study will explore the sustainable competitive advantage and profitability of South Africa’s SOEs. It has been widely reported that the majority of South Africa’s SOEs are loss making, have extremely weak balance sheets, a mixed bag of competent management and generally weak corporate governance, notwithstanding the regulatory framework of the Public Finance Management Act, 1 of 1999 and the new Companies Act, of 2008 and the King Code III on corporate governance (Financial Mail, 2010; Business Day 2010; Mail & Guardian 2010). Even Eskom, once widely touted as one of government’s most famous successful project, which resulted in South Africa having the second cheapest electricity prices in the world, has failed dismally, albeit some of its current financial woes are attributable to government’s indecisiveness and lack of foresight. Eskom, once the darling of the commercial world and financial markets, had a credit rating higher than even government itself. This meant that Eskom could borrow money in the capital markets at much cheaper rates than the South African government.

All that has changed, however, since the state decided to change its previous decision prohibiting Eskom from building additional electricity capacity, all this coming at a heavy price after the country suffered massive electricity shortages resulting in blackouts in January 2008. It could not have come at a worse time,
when global financial markets are in recession, and continue to be very weak with the Euro, South Africa’s largest trading block being hit by massive currency failures and financial system failures in a number of countries in the Euro zone (Greece, Spain and Portugal, amongst others). Ironically, South Africa is embarking on its largest infrastructure build programme using various SOEs (namely, Eskom with the largest build programme at approximately R375 billion – at the last count. Transnet Limited approximately R9 bn, Airports Company of South Africa – ACSA R19bn and the South African National Roads Agency Limited – SANRAL R20bn debt finance).

In South Africa SOEs are playing more than a developmental role and have come to be regarded as commercial enterprises that should earn an internal rate of return (IRR) that will enable them to finance their own operations (e.g. Infraco’s mandate and shareholder’s expectation of the IRR). Similarly, Sentech (notwithstanding receiving the first technology neutral ICT license) continues to struggle because of a poor balance sheet related to its lack of strategic management. Transnet and Eskom are expected to fund their respective infrastructure build programme through leveraging their balance sheets, without direct equity funding from government. SANRAL, largely funded its infrastructure build from issuing bonds in the debt and capital market, similarly ACSA. Since these SOEs are fulfilling critical infrastructure provision which forms a key input for other businesses and institutions, it is important for South Africa’ SOEs to perform well. In developing countries in Asia, SOEs have contributed significantly to the development of infrastructure and the growth of their economies through profits,
taxes and other means arising from strong balance sheets. The situation is different in South Africa because SOEs tend to be less profitable and not well run. Various reasons are posited for the poor financial state of South Africa’s SOEs, including that the state should not be involved in commercial activities and that the SOEs lack strategic direction; too much government intervention and confused mandates. While some critics and commentators advocate privatising SOE, (Financial Mail, 2010) privatisation experience both in South African and even in the world’s developed nations has shown that privatisation is not a panacea for poverty and economic growth (Chang, 2007; Kwoka, 2005 and other). South Africa’s own privatisation experiences yielded very limited results, for example, South African Airways (Pty) Ltd (SAA) failed to develop a strong and robust balance sheet, notwithstanding the introduction of a strategic equity partner through Swiss Air. (DPE, 2008) Swiss Air filed for bankruptcy and had to sell off its SAA shareholding. Airport di Roma disposed of its shareholding in ACSA back to government after being acquired by Macquarie Bank (ACSA, 2008).

In contrast, however, the East Asian countries, e.g. Singapore, Malaysia, South Korea, Vietnam, India, Indonesia, amongst others, have successfully used their SOEs to contribute to economic development and growth and continue holding shares in these SOEs to this day (Kohli, 2004).

The concept of utilising SOEs has long-existed and has been particularly well-used in developing the Asian countries, formerly known as the Asian Tigers, particularly of Vietnam, Singapore, Indonesia, Malaysia, and South Korea. Most recently Brazil, China and India have emerged as dominating developing countries (Kohli,
The majority of the Asian governments have used SOEs with different levels of aggression to grow and develop their countries with varying levels of success (Kohli, 2004).

Singapore, South Korea, Vietnam and Malaysia have been most successful in growing their countries and in investing in international markets through their SOEs, as evidenced by Temasek’s acquisition of Merrill Lynch and the operation of various SOEs from Asia and Latin America in their domestic countries and internationally (Datamonitor, 2009). Recently, China, as a planned and controlled economy has grown its economy into a highly aggressive and dominating force through its SOEs which has also expanded internationally (Lu, Tao, Yang, 2009).

These SOEs have shown superior sustained performance over a number of decades and even through the Asian financial crisis and the current global economic recession have managed to sustain this superior performance, particularly in areas of the economy where even the private sector competitors have been adversely affected and even nearly destroyed by the current economic recession (Prystay, 2009).

It is proposed that SOEs that intend to sustain their performance over the long-term should have a broader perspective of the factors affecting their performance and should appropriately consider this wide range of factors, allotting appropriate weight to each factor in enhancing the company’s performance and developing sustainable competitive advantage (Jones & Hill, 2008).
1.3 Research Problem

Currently there is almost no study on factors contributing to the success of SOEs and thus no attempt at creating a framework that would guide other developing countries and their SOEs to co-ordinate their economic growth programmes towards effective use of SOEs as public policy instruments. The OECD confirmed that it had no knowledge of a study of successful SOE from developing countries (OECD, September 2010). This may be due to the fact that countries that used SOE to develop their economies did so independently of and without regard to the similar programmes from other developing countries.

The South African government is currently reviewing the role of SOE in the economy as part of its developmental state concept. This type of study could contribute towards providing comparative international benchmarks for deliberation and possible incorporation into any SOE and/or economic policy formulation and shareholder oversight. As companies operating alongside private sector companies and at times competing with such private sector companies, SOEs operate within the framework of the corporate form, but have a different type of shareholder who has a public interest focus (Aivazian, Ge, & Qui, 2005).

The paper will discuss the impact of the SOE’s environment in the different developing countries using the organisational theory (Rhenman, 1973), institutional theory (Selznick 1996), Agency Theory (Eisenhardt, 1989) and the resource based view of strategic management (Hoskisson, Eden, Lau and Wright, 2000). This is in order to provide a business management view and framework for the effective
management of SOE to enable them to contribute to economic growth and development. The paper will also compare these successful SOEs to some South African SOEs through interviewing key South African stakeholders to determine any commonalities and/or factors that may hinder the application of any common factors derived from the research. The theoretical framework will be used to determine whether there are differences in principle in these environments, the extent to which they may encourage or hinder a SOE’s ability for superior and sustained performance over its rivals.

Presently we are in an increasingly globalising world economy where fundamental financial and economic principles have been tested states are once again being thrust into the centre of economic stability and growth. Pinpointing the factors that shape the ability of organisations to make strategic choices that will contribute to developing a sustainable competitive advantage is key to helping these organisations compete and perform successfully.

This paper seeks to research the elements that have contributed to the success of the SOEs in these countries. It also seeks to and determine the common themes and principles that could be applied to South African SOEs to contribute to improving their financial position and allow them to contribute to economic growth and development. The paper will focus specifically on SOEs in competitive industries such as telecommunications, airlines, energy/oil, financial services and others. The aim of this study is to identify guiding principles through a study of 12 case studies of successful SOEs in developing countries.
In South Africa, there has been very little academic research on SOEs. The only available publications are news related and very few offer any form of insight into SOEs, their role in the economy and the critical success factors for SOEs. There is also no substantive discussion on similarities and distinctions between SOEs and private sector commercial enterprises. This paper also seeks to contribute to this limited academic research on this subject and to add to the body of knowledge that may assist SOE leadership to improve performance.

1.4 Scope of the Research

The paper excludes SOE that are not commercial enterprises and are not incorporated as companies. Struggling SOE are also excluded, similarly for SOE from developed countries. Some of the difficulties encountered with the question include accurately designing and appropriately defining the question. This area of study is in its infancy and there has been little consolidation of countries’ practices in relation to using SOE as public policy instruments. Consequently, it became challenging to narrow the scope of the research and to clearly define and design the research problem. Other limitations related to the role of government in creating and enabling environment for SOE’s strategic management and successful performance.

1.5 Conclusion

While SOEs were privatised in the 1980s and 1990s, they once again have become focal instruments for government to improve and / or grow their economies. SOEs’ economic role has been strengthened by the recent wave of
nationalisation of struggling key companies in the US and Europe. South Africa is also reviewing the role of SOEs in the economy and in a developmental state. The paper explores factors that have contributed to the services of SOEs in developing countries in Asia and Latin America which factors can be used as guiding factors for SOEs in ‘other developing countries. The paper excludes non commercial SOEs that are not companies and are not in a competitive industry.
Chapter 2: Literature Review

2.1 Introduction

Unlike exploratory research, descriptive studies are “based on some previous understanding of the nature of the research problem” (Zikmund, 2003, p55). This literature review was selected to help develop a deeper understanding on current knowledge available and which is relevant to the research problem.

Various theories have been used to examine the performance of firms and the factors that impact enterprise performance. The concept of strategic management is often used to examine the performance of enterprises and a number of theories and schools underlying such theories are used to examine the strategic management of enterprises. Given this plethora of theories and schools, this paper will focus on three theories of strategic management, namely; institutional theory, which is considered to be the pre-eminent theory for explaining the impacts of institutions on enterprise strategies in developing countries; agency theory and finally the resource-based view (Hoskisson, et al, 2000). The paper will explore whether these theories can also be used to explain the success of some of the successful SOE from developing countries.

Institutional theory has a central role in analysing the performance strategies of enterprises in developing countries due to the stronger influences of government and societal influences in developing than in developing countries (Hoskisson, et al 2000). Once a market starts maturing, the agency theory and resource-based view...
become more important (Hoskisson, et al 2000). A hallmark of developing countries is that they are characterised by fundamental and comprehensively pervasive changes that affect the activities and behaviour of firms (Peng, Wang and Jiang, 2007).

Within institutional theory, the paper will discuss three schools; (1) the Selznick school of “old” institutionalism (Selznick, 1996); (2) Rhenman’s organisation theory (Rhenman, 1973); and (3) the new institutional theory/ new institutionalism (Selznick, 1996). The theories will be used to form the framework for analysing the success of the SOE from developing countries and to explore the extent to which the theories could be used to formulate common elements that can be used to contribute to the sustainable superior performance of SOEs in developing countries.

2.2 Institutional theory

The Selznick school of institutional theory

Institutional theory can be derived from the term “institutionalism” which is defined as “the emergence of orderly, stable, socially integrating patterns out of unstable, loosely organised or narrowly technical activities” (Selznick, 1996) emphasises institutionalisation between an organisation and (Selznick, 1996) to wish value supply intrinsic worth to a structure of process to promote stability.
Institutional theory is critical to assess the performance of SOEs, particularly with a view to improve the performance of such SOEs since characteristics of institutionalised entities impact an organisation’s strategy and structure; and shape the patterns of change for individual organisations (Erakovic & Wilson, 2005). New structures can only evolve if they appear necessary or inevitable and can be evaluated and legitimated against current institutionalised ways of organising (Erakovic & Wilson, 2005). Insofar as SOEs emerged from government departments, at incorporation as companies, they became new structures to the extent that they are government owned unlike traditional companies which are privately owned. Thus SOEs then become evaluated and legitimated against private companies, which are institutionalised ways of organising. The paper will explore whether the fact of government ownership significantly impacts the way SOEs should be evaluated as companies and the extent to which this may impact on their performance.

Selznick (quoted in Scott, 1987) states that an organisational structure is an adaptive vehicle shaped in reaction to characteristics and commitments of participants as well as to influences and constraints from the external environment. As an organisation is institutionalised it acquires a special character that allows it to achieve a distinctive competence or a trained or in-built incapacity (Selznick, 1996).

This institutionalisation renders organisations to be more than mere technical instruments with mechanical and disposable tools (Scott, 1987). Selznick’s form of institutional theory broadens the concept of the form beyond simply maximising
profits and speaks to issues of social concern and corporate responsibility (Selznick, 1996). In Selznick’s institutional theory, organisations can be seen as co-ordinating mechanisms that synchronise the actions of different economic and social agents (Sim, Ong, Agarwal, Parsa and Keivani, 2003). In terms of this approach economic action is social action and the focus is on the process of institutionalising economic action rather than purely the presence of organisations and such economic action (Sim et al.).

The question is the relationship between the institutionalised organisation and its environment and the impact of such environment on the institutionalised organisation. This relationship is discussed in Rhenman’s organisational theory, which studies organisational changes and the ability of organisations to plan in the long-term and align their performance towards such long-range planning. This organisational analysis should help explain whether an organisation’s relationship has any impact on or contributes to its sustainable superior performance.

2.3 Organisation theory

Rhenman’s organisation theory seeks to address the question of improving organisations and making them better (Rhenman, 1973). Rhenman (1973) argues that organisations are subject to social control in that structural changes in an organisation’s environment may impact the organisation’s ability to fulfil the demands of its environment and thus continue being profitable and existing following change in the environment (Rhenman, 1973). The most serious structural changes are those resulting in a change of norms and values (Rhenman,
Irreversible changes in an organisation’s environment create a disjuncture and conflict between the organisation and its environment, which may result in organisational problems, particularly where an organisation’s economic action has been institutionalised as posited by the old institutional theory (Rhenman, 1973).

Profound examples of environmental changes that had an extreme life altering impact on organisations include digitisation and the introduction of the Internet as well as financial crises (the most recent ones being the Asian crisis and the 2008 credit crunch). Both these structural changes affected all types of organisations, including governments globally. For SOEs the most profound environmental changes include their evolution from government department through corporatisation and incorporation as companies resulting in a change in mandate, regulatory framework and performance expectations.

When two systems interact they will immediately affect each other’s behaviour and, in the long run, each other’s structure (Rhenman, 1973). This is particularly noticeable when the systems are goal-oriented and are actively striving to influence each other (Rhenman, 1973). An organisation consists of systems, which include the internal values, power and goal systems developed internally and based on the personal values and goals of its individual employees and shareholders (represented by the individual directors of the organisation’s board of directors).

Similarly, the external environment, represented by the society in which the organisation operates, has value and power systems comprising personal values and goals of its individual members. The value system consists of ideas and
attitudes which govern decision-making (Rheinman, 1923); provides links between
decision makers and between decisions at different times, satisfies important
psychological needs among members of the organisation (Rheinman, 1923); Wittingly,
or unwittingly, organisations will tend to map the complexity of the
environmental elements in their own structures (Scott, 1987). The question to be
explored in this paper is whether this is a greater factor in SOEs specifically in
SOEs from developing countries.

Organisations which fail to forecast environmental change and align themselves to
such changes and leverage off those changes experience a detrimental
dissonance with their environments (Rhenman, 1973). Institutional theory
promotes the importance of the embedded historical organisational position and
the institutional coercive pressures on organisations to change (Erakovic & Wilson,
2005).

Understanding the nature of the organisation and its stage of institutionalisation
helps that organisation to align its institutional and strategic goals (its goal system)
with its structure and where such goals change, for example as a result of changes
in the environment, to align the organisational structure accordingly in order to
optimise and leverage such changes towards achieving superior and sustainable
performance (Rhenman, 1973).

The four types of organisations and their key features are outlined below.
Table 1: Rhenman, 1973.

Internal or strategic goals are ideas about desirable future strategic positions of the organisation. While external or institutional goals are ideas about the effects of organisational operations on the environment (Rhenman, 1973). The alignment between these different goals becomes important since they can be mutually reinforcing in the long term. Effective leaders who are actors, rather than passive observers make choices in the interpretation and meaning of institutions and infuse their actions with meaning based upon these perceptions (Dacin, Goodstein & Scott, 2002).

2.4 New institutionalism

The new institutionalism theory sees organisational environment comprising of varying types of institutions representing the value and meaning dynamics in the
society (Scott 1987, DiMaggio & Powell, 1991). These external institutions have significant influence on the adaptive choices made by the organisations. (Scott 1987, Di Maggio & Powell 1991)

New institutionalism moves beyond discussing why institutions matter and discusses how institutions matter (Peng, Wang and Jiang, 2008). Highlighting the manner in which institutions matter was an interrogation of an apparent underlying assumption of old institutionalism that seemed to indicate a static environment and stable institutional components (Di Maggio and Powell, 1991). The impact of the organisation’s environment is echoed by proponents of the new institutional theory (Abdul-Aziz, Jaafar, Nuruddin and Lai, 2010; Sim et al 2003.) who argue that in discussing organisational change, the emphasis should be on organisations in sectors, rather than the individual organisation (Greenwood & Hinings, 1996). In this regard Selzwick (1996) distinguishes between an organisation and an institution and states that an organisation is institutionalised when it is infused with value beyond prevalent technical requirements (Selwick, 1996)

In South Africa this finds its application in the developments on the corporate governance regime introduced by the new Companies Act and King III. The emphasis is on collective decisions in economic processes compared to simply focussing on economic explanations (Sim et al 2003.). Such focus is critical for SOEs where the government as shareholder is not concerned merely with profit maximisation but has additional public interest and public policy concerns (Smith, 2003).
In discussing how institutions matter, the new institutionalism begins from a premise of organisational change resulting from path-dependent change in the institutional environment (Brinton & Nee, 1995). Path dependence refers to “the lock-in effects stemming from initial conditions on subsequent development and change in the institutional environment” (Nee, 2003). The underlying assumption is that institutions matter in determining performance in organisations and countries (Brinton & Nee, 1995). Thus the process of institutionalisation is located in a wider environment and has a less internal focus as is the case in the old institutionalism (Lowndes, 1996). SOEs (especially large ones) are particularly impacted by failure to adapt to the changing institutional environment since such failure may result in declining industrial output, which may have a ripple effect on the entire economy (Brinton & Nee, 1995).

Notwithstanding discussions around old and new institutionalism, both schools indentify human behaviour to be central to change and its impact on the organisation (Rutherford, 1995). Similarly, organisation theory can be stated to be centred around human behaviour, particularly that of the organisation’s leadership in relation to improving organisational performance (Barzelay & Gallego, 2006). While organisations may respond to external institutional pressures from their environment, this is not the only source of organisational change (Greenwood & Hinings, 1996); since internal technical pressures may have equal influence in compelling change in an organisation (Kraat & Zajac, 1996).

In examining performance of SOEs and seeking to discover principles that will contribute towards the improvement of such performance, organisational change
and the drivers of such change become critical. Institutional theory (both the old and new institutionalism) provides insights to understanding not just change, but the features of organisations that compel change and responses to such pressures for change (March and Olsen, 2006). This contributes towards highlighting the discrete patterns in institutional environments that support distinct organisational forms such as SOEs (Nee, 2003).

Ultimately, institutionalism (the both schools are reconciled) explores interactions between environmental (market) effects and internal capabilities, indicating that competitive environment influences influence the value of a organisation specific institution such as culture (Ingram & Silverman, 2000). To exploit its environment for superior performance, a SOE may consider complying in terms of its organisational form to the institutional environment (Ingram & Silverman, 2000). Thus with an appropriate market structure, a SOE’s institutional innovations can potentially provide a source of sustained competitive advantage (Ingram & Silverman, 2000). Insofar as SOEs are agents for government’s public policy initiatives they can be viewed as agents (Garson, 1998). Further, the institutional arrangement of a company is based on the assumption of a principal agent relationship, which is posited on agency theory.

2.5 Agency theory

Agency theory has been usefully applied to various disciplines, including strategic management (Kim and Mahoney, 2005). Agency theory suggests that an organisation is a nexus of contracts (Hoskisson, et al 2000) which are behaviour
and outcome oriented (Eisenhardt, 1989). In an agency relationship one or more persons (principals) engage another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent (Hill & Jones, 1992). Thus ownership and control are separated (Arce, 2007).

According to agency theory, the assumption underpinning organisational theory, namely that organisations have uncertain futures (e.g. profitability, bankruptcy etc.) creates risk, which influences the behaviour of the principal or agent, i.e. the owner or manager, requiring such risk to be managed through a contractual relationship (Eisenhardt, 1989).

Agency theory assumes a goal divergence between principals and agents (Van Slyke, 2006) with the behaviour features of opportunism and self-interest (Kochlar, 1996). According to agency theory, the central problem is how shareholders as principals ensure that self-seeking executives, as agents, act in the shareholders’ interest rather than their own (Arce, 2007). The board is the principal legal mechanism for dealing with this problem (Caers, du Bois, Jegers, de Gieter, Schepers and Pepermans, 2006), together with other incentives and monitoring mechanisms (Hill & Jones, 1992).

Roberts, McNulty and Stiles (2005) state that in a board, executive directors have both self-seeking and dutiful tendencies and effective non-executive directors work to simultaneously control the former and build on the latter (Roberts, McNulty and Stiles, 2005). Part of the contradiction of agency theory is underscored by the fact that executive directors are responsible, as board, members for overseeing
themselves, as agents – given the responsibility for selfless oversight at the very time they are assumed to be driven wholly by self-interest (Hendry, 2005). Through introducing control and governance mechanisms such as the Board, optimising the risk appetite of principals and agents, increasing incentive alignment between principals and agents and effective [principals monitoring of agents] (Dharwadkar, George and Brandes, 2000) agency theory assumes that these mechanisms may lead to superior performance (Kohhar, 1996).

For SOE, agency theory presents the tension between a desire to control executive self interest and a desire to facilitate corporate growth and encourage entrepreneurial risk-taking that would contribute towards sustainable and superior firm performance (Ekanayake, 2004).

However, the reality of the business world is that it is confused, uncertain and unpredictable (Hendry, 2005). Information on which decisions must be made is insufficient and overwhelming and there are technical, personal and interpersonal factors at play that are often outside CEO’s control (Van Slyke, 2006). In addition, most developing countries are in a transition phase, still developing their countries and the supporting institutional framework (Dharwadkar, et al, 2000). Such transition creates large macroeconomic and political instability, which together with any potential shocks such as the recent global economic recession, and the financial instability in the Eurozone increase exogenous uncertainty (Hoskisson, et al, 2000). Thus when SOEs seek to improve their performance, particularly in competitive industries, the agency theory is a critical consideration that should inform the internal structural changes required to enable improved performance
and contribute towards effective strategic management of a SOE (Dharwadkar, et al, 2000).

The different environmental conditions that exist in developing countries impact the assumptions of agency theory and the underlying assumptions relating to the behaviour of managers in these countries (Carney, Gedajlovic and Yang, 2009). The paper will consider whether these are material differences that undermine the standard tenets of agency theory, such that the proposed control and governance mechanisms cannot work in developing countries or require some adjustments.

2.6 Resource based view

The Resource based view (RBV) is considered to be one of the pre-eminent strategic management theories of the firm (Barney, 1996). In terms of the resource based view: (1) if a firm possesses and exploits resources and capabilities that are both valuable and rare it will attain a competitive advantage, (2) if these resources and capabilities are also called both inimitable and non-sustainable, the firm will sustain this advantage, and (3) the attainment of such advantages will enable the firm to improve its short-term and long-term performance (Newbert, 2008). The exploitation of valuable, rare resource-capability combinations and the competitive advantages that derive from this exploitation ultimately determine the firm’s level of performance (Newbert, 2008) and distinguish the firm’s ability to achieve and sustain competitive advantage from that of its rivals (Hoskisson, et al 2000).
According to this view, value and rareness (Newbert, 2008), inimitability and non-substitutability determine a firm’s competitive advantage (Hoskisson, et al 2000). A competitive advantage via the implementation of a resource-based strategy is an important means by which a firm can improve its performance (Newbert, 2008). Firms should deploy only those resources and capabilities to which they have access in novel combinations such that they are able to reduce costs and/or respond to environmental conditions (Newbert, 2008).

However, the resource-based view is not simply about the relationship between strategically valuable resources and the firm’s performance (Hult, Ketchen and Slater, 2007). A firm needs to be organised in such a manner that it could exploit the full potential of those resources if it was to attain a competitive advantage. Proper resource exploitation must include organisational components such as structure, control systems and compensation policies (Newbert, 2007). Firms seeking a competitive advantage must also demonstrate the ability to alter them in such a way that their full potential is realised (Newbert, 2007).

Firms looking to attain and/or sustain competitive and performance advantages may well need to possess and exploit valuable, rare, inimitable resources, capabilities and core competencies (Newbert, 2007). Findings suggest that it is the firm’s organising context and its valuable, rare, inimitable capabilities and core competencies, the effective management, synchronisation and alignment of these determines its competitive position (Holcomb, Holmes and Connelly, 2009). The effective management and synchronisation of these competencies and strategic
resources requires certain management discretion and judgment on the durability, appropriability and superiority (Newbert, 2007).

Given the different factors and required action from managers of firms to achieve strategic value and enhance performance, it can be argued that the resource based view is not static (Helfat & Peteraf, 2003). The resource based view is focussed on the heterogeneity of capabilities and resources in a firm (Acedo, Barroso & Galan, 2005). The dynamic resource based view deals with resources and capabilities over time (Helfat & Peteraf, 2003). Through synchronising these resources, a firm’s management exhibits is superiority over rivals by bundling and deploying resources in a way that reinforces and aligns the firm with its strategic and competitive context (Holcomb, et al, 2009). In Chapter 5 and 6 the paper will explore the extent to which this same theory can be applied to SOEs and whether their organisation as companies allows them to apply this theory vis-a-vis other organisational forms.

In order for a firm to generate rents from its resources, it must manage the social context of its resources and capabilities (Hoskisson, et al 2000). A firm’s ability to obtain long-lasting rents from owned and rented inputs depends on a set of restrictive conditions; namely; considerable uncertainty concerning the payoff from the investment (Hennart, 1994). Firms can earn rents because they are well managed and are able to organise interactions and bundle resources and capabilities, human, capital and material in a superior manner to their competitors (Hennart, 1994).
A firm must understand the relationship between its company assets and the changing nature of the institutional infrastructure and the characteristics of the industry (Hoskisson, et al 2000). In a developing economy this may enable the firm to become an aggressive contender domestically and globally, a position that developing countries such as Malaysia, China, Singapore, Brazil, India, Vietnam and South Korea, amongst others, have used through their SOEs to develop their countries (Carney, et al, 2009).

2.7 State-owned Enterprises

SOE can be efficient and well-run, as will be discussed in greater detail in relation to SOE in developing countries in Asia and Latin America, as well as South Africa itself (Chang, 2007). In developed countries such as Austria, France, Norway and West Germany, SOEs were often at the forefront of industrial modernisation (Chang, 2007). This element of the SOE role and contribution to economic growth and development has been extensively used by developing countries (e.g. Singapore, Malaysia, Taiwan, South Korea, Vietnam, Brazil).

SOEs are part of a state’s investment and economic development policy and are often critical for long-term investment and development, to enhance private sector activities and (Chang, 2007). Chang (2007) sets out various theoretical justifications for the existence of SOE, which include the following:

- **Natural monopoly:** where the technical requirements of an industry are such that only one supplier may exist. Consequently, the monopoly supplier may
produce at less than socially optimal level and appropriate monopoly rents.

*Examples: railways, water, electricity*

- **Capital market failure:** private sector investors may refuse to invest in industries that have high risk and/or long gestation period, since capital markets have an inherent bias towards short-term gains and do not life risky large-scale projects with long gestation periods.

- **Externalities:** where private sector investors do not have the incentive to invest in industries which benefit other industries without being paid for the service. *Examples are steel and chemicals.* Interestingly South Africa privatised its steel monopoly producer, while in other developing countries, petrochemical SOEs have been some of the most successful SOEs.

- **Equity:** profit-seeking firms in industries that provide basic goods (e.g. telecommunications, electricity, transport) may refuse to serve less profitable customers such as poor people or people living in remote areas (Chang 2000).

As public policy instruments designed to address areas in the economy, where there is limited to no private sector activity and as facilitators of economic activity, SOE are not intended to maximise profit (Lawson, 1994). The public investment and state ownership of SOE and results in multiple objectives, peculiar constraints and different shareholder representatives, which creates difficulties in modelling SOE (Lawson, 1994).

Due to this argument of state intervention in SOE by government, Erakovic and Wilson (2005) contend that as SOE’s organisational behaviour is externally
influenced by the context in which the SOE is embedded (Erakovic and Wilson, 2005). Given such political and social control exerted over organisations, inevitably through the process of adaptation, organisations conform to the norms and values incorporated in their environments (Erakovic and Wilson, 2005).

2.8 Organisational features and distinguishing factors for SOEs

In South Africa a number of SOEs began as appendix organisations (government departments) which had an agency relationship with their principal, namely the Cabinet. Thus the departments exist to carry out the goals of Cabinet as the executive arm of the state (Rhenman, 1973). Cabinet subsequently decided to corporatise specific resources within the appendix organisation, (for example, historically the deployment of telecommunications copper infrastructure and provision of telephony services to select end-users) into a marginal organisation or corporation. However, when technology developed and a market was created with private sector entities seeking access to such infrastructure and telephony services, the organisation’s functions evolved into regulating access to the infrastructure and commercialising or trading in such access.

As competition develops and a market grows where independent companies begin to compete with the appendix organisation or marginal organisation, then frustration develops, particularly where the appendix or marginal organisation is not designed or structured to maximise and leverage off internal and external efficiencies (Rhenman, 1973). The organisation’s inefficiencies may hinder its
growth and successful performance requiring a depolitisation of the organisation (Rhenman, 1973).

The next phase of development may be developing from a marginal organisation to a corporation i.e. drawing up goals for its own development and having resources to realise such goals, granting the organisation institution status (Rhenman, 1973). This may result from unplanned consequences or as solution to a social problem.

Taking the above example further, in the case of South Africa, this could be the roll out of telephony services, or specifically, the structural changes resulting from technological developments of digitisation commoditising telecommunications infrastructure and creating a lucrative market. The social problem for South Africa was to move from sanctions and economic isolation and join global trading for a such as the World Trade Organisation and to meet fiscal debt obligations from international funding institutions such as the World Bank and International Monetary Fund. The lucrative markets compelled the ring-fencing of the telephony infrastructure into a corporation and sell these assets. The proceeds from the sale were used to meet the fiscal debt obligations and open up the South African economy for international trade.

Where this transformation has occurred in the public sector, it has required institutional change and government has been the source of external pressure (Abdul-Aziz et al. 2010). Both for SOEs and private sector companies, government is among the most influential government actors by virtue of its legislative and regulative controls, and as the sole or majority shareholder, government's influence on SOEs is far greater (Abdul-Aziz et al.).
Thibodeau, Evans III, Nagaran, Whittle (2007) contend that SOEs generally are created and maintained by a political process driven by legitimacy concerns of politicians seeking re-election (Thibodeau, Evans III, Nagaran, Whittle, 2007). In line with this proposition, (Bernier & Simard (2007) state that SOEs are public policy instruments used concurrently with a wide array of other instruments and are the intersection between the state and the market (Bernier & Simard, 2007). SOEs allow the state to intervene in the economy as a form of public sector entrepreneurship and help the state avoid establishing coherent and comprehensive policies and constitute a source of Keynesian intervention in the economy (Bernier & Simard, 2007). As public policy instruments, SOEs have the dual handicaps of bureaucracy, which impedes internal change, and the lack of market mechanism to provide feedback on proposed changes (Thibodeau et al.2007). This does not seem to account for SOE which are dynamic and offer superior sustainable performance. It also fails to consider conglomerates or similarly large organisations which also suffer from prohibitive bureaucracies (for example, banks and multinationals or monopolies that rely on economies of scale, regulation or other exogenous factor to maintain dominance and profits without undergoing significant change.

According to Bai, Li, Tao and Wang (2000), SOEs are charged with efficient production and social welfare provision, which at times includes job creation and skills development, which are crucial for the productivity of the whole economy (Bai, Li, Tao and Wang, 2000). In South Africa, according to the Government’s industrial policy outlined in ASGISA and in the department of trade and industry’s
Industrial policy action plan, SOEs are targeted to contribute to economic growth through infrastructure provision, job creation, skills development (particularly for scarce engineering and artisan skills), creating a local manufacturing sector and thereby helping catapult the economy from a resource based to a Tier2 manufacturing economy (Accelerated and Shared Growth Initiative for South Africa Annual Report, 2008; Industrial Policy Action Plan, 2010). Reviving much required skills of this nature in the capital goods sector requires direct government intervention (Lydall, 2009).

Although government may have introduced a number of organisational and control system reforms (e.g. financial management through the Public Finance Management Act, corporate governance principles and incorporation into a company and thus regulation by company law) much less is known about the effect of such management innovations in government than in the private sector (Thibodeau et al. 2007). Consequently, there is a limited understanding of what processes can produce value-creating internal restructuring. Moreover, in South Africa, even with the introduction of such controls, most SOEs, even those competing with the private sector, have demonstrated little superior sustainable performance, save possibly, Telkom. Even with Telkom, the factors contributing to its success vis-a-vis its former sister companies such as Vodacom and its sustained monopoly position, may not all be attributable to a sustained competitive advantage (Jones and Hill, 2009).

According to Bernier & Simard (2007), the Hafsi model posits that relationships between governments and SOEs follow a cycle (Bernier & Simard, 2007). They
evolve from co-operation to autonomy, which corresponds with Rhenman’s framework of the evolution of an organisation from and appendix to a corporation and ultimately an institution (Bernier & Simard, 2007). Bernier and Simard (2007) further contend that SOEs travel along the life cycle at a speed that is directly related to the power of the firm and inversely related to the characteristics of the institutional setting – requiring integration into a longer time-frame (Bernier & Simard, 2007).

Where SOEs operate as businesses and compete with the public sector, when considering factors contributing to the success and sustainable of a company, the real distinction is not between social organisations and businesses, but between sustainable and non-sustainable businesses (Crisp, 2006). Thus where there may be a temptation to simply privatise some SOEs, Kwoka (2005) cautions that there is a need to identify product, market and provider characteristics best suited to each ownership type (Kwoka, 2005). The quest for superior performance is not simply a matter of prescribing privatisation as there are identifiable circumstances in which the SOE is an appropriate policy instrument (Kwoka, 2005).

Aivazian et al. (2005) also echo that reform of SOEs can effectively improve performance (Aivazian et al. (2005). According to Chen, Firth and Xu (2009), market oriented state shareholders may be the most suitable controlling owners of firms in countries with weak institutional environments (Chen, Firth and Xu, 2009). Some literature appears to recognise the need for SOE reform to ensure sustainable performance and contribution to economic growth and development (Chang, 2007; Bernier & Simard, 2007; Aivazian et al, 2005; Chen et al, 2009;
Abdul-Aziz et al, 2010). Although different authors (Chang, 2007; Bernier & Simard, 2007; Aivazian et al, 2005; Chen et al, 2009, Jones and Hill, 2009) propose varying factors to consider in such reform, there is no clear consensus on the manner of achieving such reform (Girma & Yundan Gong, 2008).

In reviewing the literature relating to some of the successful SOEs operating in competitive industries such as the airline, financial services, telecommunications and energy industries, Raguraman (1997) states that SOEs such as airlines, energy and telecommunication companies have been the object of state intervention from the beginning because they have been considered essential public utilities rather than businesses that can be left to the vagaries of the market place (Raguraman, 1997). They were assigned a strategic role as instruments of public, sometimes foreign, policy, often outweighing any consumer oriented concerns, resulting in state protections through elaborate network of regulatory measures that have restricted market entry (Raguraman, 1997).

However, with the growth and successful operation of some SOEs such as Petrobas and Singapore Airlines, there was a substantial shift in government intervention (Raguraman, 1997). This resulted from governments’ realisation that protecting the interests of their SOEs would be detrimental to the national interest if ultimately it they are allowed to strangle competitiveness and flexibility in terms of being able to respond to changing market needs (Raguraman, 1997).

The research will explore whether this situation obtained in all instances where SOEs were competing against the private sector and determine whether this could
be a factor that enabled the successful SOEs to develop sustainable competitive advantage and remain profitable over a significant period. The paper will also use the three theories of strategic management to assess the elements contributing to the successful performance of these SOEs.

2.9 Conclusion

The analytical framework from the different theories forms the basis against which SOEs as public organisations and as a recognised institutional form can be analysed to explore similarities with the private sector in relation to sustainable superior performance. These theories form part of the framework for analysing strategic management. The business theory of strategic management is used in the paper to explain partially the success of some SOEs in developing country and in particular as one of the key factors used to explain sustainable superior performance and competitive advantage of companies in general.

Institutional theory is used to highlight the importance of SOEs particularly in a developing country’s economy and how such SOEs impact that economy. Organisational theory explains the role of an organisation’s leadership in understanding the organisation’s context and the influence of such understanding on the decision and choices made by such leadership to grow their organisation. Agency theory seeks to understand the internal dynamics of organisations and explores the extent to which the internal dynamics and relationships can be used to benefit the organisation and particularly focuses on the leadership of such organisation. This theory provides an understanding of the importance of
understanding company dynamics and how this could be used to appoint leadership that will guide and direct the company towards the shareholders’ desired goal. This is particularly important for government shareholders who seek to meet their public policy obligations through SOEs and to deliver benefits to a population that will uplift the lifestyles and living standards of the majority of that population that was previously disadvantaged.

RBV further highlights the core competencies of the organisation and the ability of that organisation’s leadership to grow and leverage from those competencies to ensure sustainable superior performance. Arguably this is the theory that highlights the critical nature of a sophisticated, dynamic and high quality leadership as differentiator and distinguishing factor for organisations with sustainable superior performance.

Finally, the discussion on SOEs’ organisational features seeks to highlight and explore whether there are differences in SOEs from the private sector that may inhibit the application of these theories since the theories were developed for and have been analysed against public companies.
Chapter 3: Research Questions

3.1 Introduction

The aim of the research is to contribute to the dearth of research and discussions on SOEs and the factors that contribute to their success. The intention is to contribute to the current Presidential review on SOE, academic research and business management practices and theories relating to the government’s role and activities in the economy. Thus the research has been undertaken and the research questions developed to provide insight on – good

A. whether SOE can perform successfully over a sustainable period of time;
B. whether such successfully performing SOE contribute to economic growth and development; and
C. whether there are any common factors amongst SOEs from different parts of the world..

3.2 Research Questions

Therefore main research question is the existence or otherwise guiding principles which can be inferred from the different theoretical lenses of institutional theory, agency theory and the resource based view which are applicable to SOEs which have been corporatized and incorporated as companies. The related research question is the delineation of such principles if these exist.
The paper will investigate the following specific questions:

Questions must be phrased as questions, must be open, not closed – Avoid questions that ask for 1-word answers – try to use how, what, etc.

1. What is the SOE’s relationship to the external environment and what is the nature of such relationship to the external environment?
2. What is the nature of the SOE’s relationship? Is its relationship to its shareholder different from that of a private sector company to its shareholder or is it the same?
3. In what ways can SOEs be sustainable commercial enterprises that can create value in the economy?
4. How can strategic management be used to discover guiding principles that will assist SOE improve their performance?
5. Do SOE in South Africa operate and compete under similar conditions as SOE in other developing countries?
6. What common factors and themes can be developed for similar SOE in other developing countries?

The interview guide expands on these research questions and is discussed in greater detail in Chapter 4.
4. **Methodology**

4.1 **Choice of Methodology**

The research design was qualitative and descriptive in nature. According to Zikmund (2003) descriptive research helps segment and target markets (Zikmund, 2003). The research segmented the SOE market to SOEs in developing countries and operating in competitive industries. The target market was SOE companies, rather than all public entities, limited to those operating in competitive industries and competing against the private sector successfully.

Zikmund (2003) states that descriptive research seeks to determine answers to *who, what, when, where* and *how*. In the case of this research, such questions included:

1. What is the SOE’s relationship to the external environment and what is the nature of such relationship to the external environment?
2. What is the nature of the SOE’s relationship? Is its relationship to its shareholder different from that of a private sector company to its shareholder or is it the same?
3. In what ways can SOEs be sustainable commercial enterprises that can create value in the economy?
4. Whether strategic management can be used to discover guiding principles that will assist SOE improve their performance?
5. Whether SOEs in South Africa operate and compete under similar conditions as SOE in other developing countries?

6. What common factors and themes can be developed for similar SOE in other developing countries?

Zikmund (2003) further states that frequently descriptive research attempts to determine the extent of differences in the needs, perceptions, attitudes and characteristics of subgroups (Zikmund, 2003). It is thus significant and useful for SOEs as a subgroup to know the extent to which the different environment of governments, geographic and cultural contexts may contribute to the differences in performance and thus limit the cross-border application of the common elements sought to be explored by the paper.

Maxwell (1996) states that the strength of qualitative research derives primarily from its inductive approach, its focus on specific situations or people, and its emphasis on words rather than numbers (Maxwell, 1996). Qualitative studies are especially suited for understanding the meaning, how participants in a study make sense of the physical events and behaviour taking place and how their understandings influence their behaviour (Maxwell, 1996). These studies also help explain the particular context in which the participants act, and the influence that this context has on their actions. The inquiry into the nature of SOEs, their relationship to their external environment and their actions in relation to such environment was aligned to this form of research. Maxwell (1996) further asserts that qualitative researchers typically study a relatively small number of individuals or situations and preserve the individuality of each of these in their analyses...
(Maxwell, 1996). Thus they are able to understand how events, actions and meanings are shaped by the unique circumstances in which these occur (Maxwell, 1996). A major strength of qualitative research is in getting at the processes that led to certain outcomes (Maxwell, 1996). Thus qualitative research was chosen to enable better insight into the factors that have contributed to the superior performance of these SOEs.

The research was a study of 12 (twelve) successful SOEs in developing countries (in Asia and Latin America) to clearly explore and determine the common factors and their cross application to SOEs from different developing countries. The sample selection was confined to highly capital intensive industries in core sectors. The study compared the performance of successful SOE in developing countries with that of South African SOEs and sought to understand the differences and determine characteristics that can be applied generally by SOE in developing countries. The research sought to derive key learnings for South African SOEs that could be developed into guiding principles, which South African SOEs in competitive industries can apply to improve their performance and obtain sustained competitive advantage.

4.2 Unit of Analysis

Hussey and Hussey (1997) maintain that a unit of analysis is the kind of case to which the variables or phenomenon under study and the research problem refer, and about which data is collected and analysed (Hussey & Hussey, 1997).
The unit of analysis is the relationship between a SOE in a developing market and the factor conditions that enable sustainable competitive advantage and performance.

4.3 Population

The population comprised of executive managers and some board members of SOEs. Initially 9) people (policy makers, Ministers, government officials and Board members) were targeted to be interviewed. These individuals were selected because they form the leadership of the government, which is the SOE shareholder. The policy makers, Ministers and government officials formulate policies for SOEs and the economy as a whole. They determine and recommend which SOEs should operate in which sector, whether or not government should retain or exit its investment in a specific SOE. The executive managers and Board members are the leadership of the SOEs that is expected to implement government policy, grow the SOE’s value to enable it to contribute to economic growth and development. The decisions that Boards and executive management make determine the performance of the SOE. They are the leadership that should consider the SOE’s environment and context assess what is required for the SOE to be an effective public policy instrument and meet government’s objectives.

Most importantly, the theoretical framework described and discussed in Chapter 2 applies to them. The Board significantly is the interaction point between the government and the SOE in accordance with the proper corporate governance of
company law and the Public Finance Management Act. These potential interviewees were chosen because they would enrich the study through providing their practical insight based on their experience to help explore the extent to which any success factors could be identified and applied across developing countries.

Due to availability and access constraints only 4 SOE executive managers (comprising a CEO, an Acting CEO who had previously overseen SOEs in two government departments, a Group Corporate Counsel specialising in corporate governance and an Acting Chief Risk Officer who had previously been a risk officer overseeing SOEs) finally were interviewed.

The second part of the population was case studies of 12 SOEs from developing countries is Asia and Latin America, which were Petronas, Petrobras, Singapore Airlines, Temasek Holdings, Singapore Telecom, Indian Railways, State Bank of India, Hindustan Petroleum Corporation, Oil and Natural Gas Corporation Ltd, Beijing Capital Group, Telkomsel and Zhujiang Iron and Steel Company.

4.4 Data Collection/Instrument

An interview guide was used to collect data through interviews. The interview questions were based on the key themes developing from the literature. The interview data was also analysed against these key themes.

Case studies were obtained and purchased from various search engines (Google scholar, OscoHost, JStar, Science Direct) business school and other case study
websites such as (Wiley Inter-science, ACRJ, Stanford University Harvard Business Scholl, India IBSCOC)

The researcher followed the data collection process flow outlined in *Figure 1*.
Figure 1: Data collection flow (Creswell, 1998)

<table>
<thead>
<tr>
<th>Data collection activity</th>
<th>Case Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is traditionally studied? (site/individual)</td>
<td>A bounded system such as a process, activity, event, programme, or multiple individuals</td>
</tr>
<tr>
<td>Typical access and rapport issues</td>
<td>Gaining access through gatekeeper, gaining confidence of participants</td>
</tr>
<tr>
<td>Selecting sites or individuals to study (purposeful sampling)</td>
<td>Finding a case or cases, and atypical case or a maximum variation or extreme case</td>
</tr>
<tr>
<td>Type of information typically gathered (forms of data)</td>
<td>Extensive forms such as documents, records, interviews, observation and physical artefacts</td>
</tr>
<tr>
<td>Recording information</td>
<td>Field notes, interview and observation protocols</td>
</tr>
<tr>
<td>Common data collection issues</td>
<td>Interviewing and observing issues</td>
</tr>
<tr>
<td>Storing data</td>
<td>Field notes, transcriptions, computer files</td>
</tr>
</tbody>
</table>

Table 1: Data collection for case study

Maxwell (1996) states that interview questions should provide the interviewer with the data that will contribute to answering the research questions (Maxwell, 1996). The interview questions developed sought to facilitate the gathering of as much
data as possible to contribute to answering the primary research question (see attached interview guide in Appendix).

Maxwell (1996) further recommends triangulation: collecting information form a diverse range of individuals and settings, using a variety of methods (Maxwell, 1996). This reduces the risk that the researcher’s conclusions will reflect only the systematic biases or limitations of a specific method, and it allow the researcher to gain a better assessment of the validity and generality of explanations that are developed (Maxwell, 1996). To mitigate this risk, both primary and secondary data was used and primary data from different sources (interviewees from 4 SOEs and case studies for 12 SOEs) was tested against the secondary data, the theoretical framework and the research questions. Annual Reports of some SOEs were also used to collaborate empirical evidence of sustained performance.

Maxwell (1996) also advocates that observation often enables the researcher to draw inferences about someone’s meaning and perspective that could not be obtained by relying exclusively on interview data (Maxwell, 1996). Personal interviews, rather than telephone interviews, were conducted with the four SOE executive managers at different times and in different venues. One interview was rescheduled and another interviewees had time constraints which resulted in a shorter than preferred interview. There was no possibility of scheduling another interview with the individual. A fifth executive manager was approached but the interview could not proceed due to the interviewee’s unavailability and while the interview guide was emailed to the individual never responded, notwithstanding numerous follow up correspondence.
According to Creswell (1998) a case study involves the widest array of data collection as the researcher attempts to build an in-depth picture of the case (Creswell, 1998). Yin (1989), cited in Creswell (1998) also recommends multiple forms of data collection, namely; documents, archival records, interviews, direct observation, participant observation and physical artefacts (Creswell, 1998). Case studies were sourced from different Internet websites primarily academic search engine websites (Science Direct, EBSCO Host, JStor, Google Scholar, including those from Universities (Harvard) and some case studies were purchased from case study websites (such as Wiley Onkin Library, Harvard Business Review, ECCH, Center for Asian Business cases, University of HK School of business, Asia Case Study Research Center of the University of Hongkong, Stanford Graduate School of Business, IBS CDC, IBS Center for Management Research (ICM, India) Asian case Research International, James Batter Institute of Public Policy). In addition, background research on some developing country government’s approach to their SOE was conducted as well as sourcing OECD data on any studies undertaken in relation to successful SOEs from developing countries.

Given the importance of consistency of the data gathered to minimise errors, the same questions were asked for each category of interviewees (i.e. policy makers, SOE board members, SOE CEOs and SOE executive managers (Zikmund, 2003). Some interviewees were allowed to discuss certain issues at length to enable the interviewer to obtain deeper insight into the thinking of SOE executive managers. However, the interviewer ensured that all the questions were asked and thus followed the interview guide closely. Some interesting insights are outlined in the interview transcripts attached in Appendix B.
4.4 Data Analysis

Zikmund (2003) states that analysis is the application of reasoning to understand and interpret the data that have been collected. In simple descriptive research, analysis may involve determining consistent patterns and summarising the appropriate details revealed in the investigation (Zikmund, 2003).

Creswell (1998) proposes a process of analytical circles to analyse qualitative data, rather than using a fixed linear approach. This, therefore, required the researcher to process the data and allow the data to direct the study to provide better insights.

The data was analysed against the secondary data and key themes to determine the areas of similarity and of difference between South African and successful SOEs from developing countries operating in competitive industries. The data was also analysed to determine whether the interviewees understood the organisational nature and type for SOEs and whether this factor was considered in developing the SOEs’ goal systems.

The interviews were recorded manually, and then transcribed with a computer stored as appears in Annexure E. Themes were SOE success factors, development states, emergent relationship between government / shareholder and the SOEs. The data was analysed to determine common practical experience among the South African SOE and were interrogated against the research questions.
The research questions in Chapter 3 were tested against the interview and case study data. Evidence of sustained superior performance for some SOEs (Temasek, Telkomsel and SingTel was also corroborated through reviewing these SOEs’ annual reports for 2009 and 2010. Additional research methods followed are attached in Appendix D.

Say something about whether you recorded the interviews, transcribed them, highlighted and synthesised the themes, looked for keywords, etc. i.e. how did you analyse the data?

4.5 Research Limitation

The scope was to study only public entities incorporated as companies and thus regulated under company law and other applicable laws. The research excluded other organisational types and forms of public entities used by the government as policy instruments. The SOEs that were studied are those operating in competitive industries such as telecommunications, financial services, transport logistics, oil and petrochemicals, aviation, iron and steel products. Thus case study data monopoly SOEs that provide utility rather than competitive products and services were not studied. The case study method focused on a few companies in developing countries and did not study successful SOEs in developed countries, e.g. OECD countries.
The research excluded other forms of government intervention, for example sector policy and regulation and their impact on SOEs *vis-a-vis* private sector companies.

### 4.6 Conclusion

The data was examined and stored to help meet the research requirements and objectives as outlined in Chapter 1. The research approach was qualitative and was selected to allow the researcher to gather as much data as possible in order to answer the research questions. The approach enabled the researcher to draw inference and gain better insight on circumstances, actions and meanings of events that shape SOE performance in South Africa. Open interviews were conducted to provide an opportunity to speech which some did liberally.

The cases that were chosen are primarily of SOEs in Brazil, India, China and Singapore (Asia & Latin America) which have emerged as dominant global players aggressively challenging the traditional developed economies of North America and Europe. These SOEs have significantly shaped and led growth and development in their respective countries economies.

Given the limited research in successful SOEs and the factors contributing to that success, making this a relatively new area of research, the methodology selected was deemed appropriate to address the research problem discussed in Chapter 1. The data collected and the results of the analysis are discussed in detail in chapter 5 and 6.
Chapter 5: Results

5.1 Introduction

This chapter presents the results in an effort to answer the research questions. As discussed under the methodology section in Chapter 4, data was gathered by using interviews and case study analysis.

While the interviewer had set out to interview 9 people involved with policy, operating and overseeing SOE, only 4 people were accessed and were available for interviews. All 4 of these were in executive management in some of the key SOEs in energy, transport and aviation. The interviewees were asked the questions attached in Appendix E of the paper.

In the case study research method the following principles were followed:

1. Using multiple sources of evidence (different databases, academic search engines, university and case study websites, personal interviews and data from government departments) (Yin, K.Y, 2009);
2. Creating a case study database (the different case studies of the twelve SOEs researched) (Yin, K.Y, 2009); and
In this chapter the results are presented separately for the interviews and each of the research questions, particularly for the case studies. Interesting aspects of the results from both the interviews and the case studies that are relevant to answer the research questions are presented in the body of the text while detailed transcriptions of the interviews and discussions of the case studies are attached in Appendices E and F. The results presented for each question are succinct synthesis and extracts from the case studies researched and are the most relevant and significant in answering the research questions in Chapter 3.

The most significant themes emerging from the results are:

<table>
<thead>
<tr>
<th>Item</th>
<th>Construct</th>
<th>Questions asked in the Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Success elements</td>
<td>Are there any learnings from SOEs in developing countries?</td>
</tr>
<tr>
<td>2</td>
<td>Sustainability</td>
<td>What changes should South African SOEs undertake in order to transform to sustainable enterprises?</td>
</tr>
<tr>
<td>3</td>
<td>Agency theory</td>
<td>Are the values of a SOE independent of its environment and its shareholder?</td>
</tr>
<tr>
<td>4</td>
<td>Competitive advantage</td>
<td>Can SOEs compete against private sector companies?</td>
</tr>
<tr>
<td>5</td>
<td>Strategic management</td>
<td>Is long-range planning necessary for the performance of SOE and what should be the form of such long-range planning?</td>
</tr>
<tr>
<td>6</td>
<td>Comparing South African SOEs to SOEs from other developing countries</td>
<td>Why do SOEs from other developing countries perform better than South African SOEs?</td>
</tr>
<tr>
<td>7</td>
<td>Similarities and differences between public sector SOEs and private sector company's shareholder</td>
<td>Is the relationship between an SOE different to a private sector company's shareholder?</td>
</tr>
</tbody>
</table>
The following research questions were used in reviewing the case studies and the following results were obtained:

5.2 Findings according to Research Questions

5.2.1. What is the SOE’s relationship to the external environment and what is the nature and extent of such relationship?

Research question 1 considered the SOE’s external environment influenced by the public and often directed by the state (government and the Legislature) and its impact (direct and indirect) on the SOE’s behaviour and the decisions taken by management.

1. Petroliam Nasional (Petronas): Championing the developmental mandate
Petronas has been the cash cow for a variety of the Malaysian government projects. The company has been an extremely important resource for large scale state undertakings by expanding into maritime assets, financing major government sponsored infrastructure projects in Malaysia (Von der Mehden & Troner, 2007).

Malaysia, through Petronas, owns its national reserves and Petronas is the sole concessionaire of Malaysia’s petroleum reserves. The Prime Minister is the final arbiter in company policy and frequently has been the source of decisions and strategy (Von der Mehden & Troner, 2007).

Petronas expanded its international operations and became a global player with agreements in 35 countries by 2005. It is speculated that both economic and political forces were behind the move since domestic reserves declined. In addition, it is speculated that Petronas was a vehicle for the then Minister Mahathir to place Malaysia firmly on the international stage (Von der Mehden & Troner, 2007).

2. Oil and Natural Gas Corporation (ONGC): Competing on international projects through government influence

ONGC’s founding objective related to the corporation’s central role in exploring and exploiting India’s energy reserves (Ramaswamy, 2008). The corporation evolved from the Oil and Natural Gas Directorate set up by the Indian government in 1955 to oversee the exploitation of the country’s oil and gas deposits (Ramaswamy, 2008).

ONGC expanded internationally through a subsidiary (OVL) which the Indian government designated as India’s nodal agency in all bilateral energy discussions initiated by government (Ramaswamy, 2008). In several international prospecting acreage transactions competing against Chinese SOEs with financial strength, OVL was forced to rely on India’s diplomatic standing and goodwill (Ramaswamy, 2008).
3. Temasek Holdings (Temasek): Becoming a professional and commercial global entity requires more transparency and less government-like behaviour

Temasek was established in June 1974 as a limited company to manage the Singaporean Government's investments in Government-Linked Corporation and remains wholly owned by the government through the Finance Ministry (Chatterjee & Dhar, 2006). While run similar to private sector companies, and doing the same with its subsidiaries, it is believed to have been chiefly responsible for Singapore’s economic success (Chatterjee & Dhar, 2006).

5.2.2. What is the nature of the SOE’s relationships to its shareholder is it different from that of a private sector company to its shareholder or is it the same?

Research Question 2 demonstrated the different governance considerations for SOEs creating a close link and enabling governments to use SOE as tools for various socio-economic programmes and to further government objectives by creating symbiotic governance structures. The results presented in this section demonstrate the very close relationship between the SOEs and their governments and show how some of the SOEs benefitted from this close relationship.

1. Petronas: direct reporting to the Prime Minister

Petronas management shows a close relationship between the governments, particularly, the Prime Minister’s office, and the company (Von Der Mehden & Troner, 2007).
organised under a Chairman and Board of Directors who report directly to the Prime Minister. (Von Der Mehden & Troner, 2007). The Chairman is selected by the Prime Minister and has considerable personal power (Von Der Mehden & Troner, 2007). The Board is comprised of the Director-General of Economic Planning, the General Secretary of the Minister of Finance, the Director of the Economic and Coordination Unit and the independent advocate and solicitor and four members from Petronas (Von Der Mehden & Troner, 2007).

There has been a long-standing relationship between the Malay majority party leadership (from which have come ministers of Finance, Foreign Affairs, Home and the Prime Minister) in the ruling coalition and the top levels of Petronas management (Von Der Mehden & Troner, 2007).

Petronas was given unopposed control over the nation’s petroleum resources (Von Der Mehden & Troner, 2007). Petronas received its powers from the Petroleum Development Act of 1974, which granted Petronas ownership and exclusive rights and powers over Malaysia’s hydrocarbon resources (Von Der Mehden & Troner, 2007). The Malaysian government acts as a shareholder and receives dividends.

At formation, Petronas goals were stipulated to include

● safeguarding the rights of Malaysia and the legitimate rights and interests of Malaysians in the ownership and development of petroleum resources;

● encouraging local participation in the manufacturing, assembling and fabricating of the plans and fabrication of plan equipment used in the oil industry and in the provision of ancillary and supporting services;

● contributing to the development of agro-based sector of the economy by making available nitrogenous fertilisers; and

● ensuring that the people of Malaysia as a whole enjoy the fullest benefits from the development of the country’s petroleum industry.

(Von Der Mehden & Troner, 2007).
From the very beginning Petronas declared that its agenda included acting for the benefit of the people of Malaysia (Von Der Mehden & Troner, 2007). In 1998 Petronas was prepared to buy a very large number of government bonds to provide liquidity to cash strapped banks during the Asian economic crisis. (Von Der Mehden & Troner, 2007). The rationale was that these activities were a national necessity that aided national development (Von Der Mehden & Troner, 2007). The then Chairman stated: “Whatever we do, we should ensure that it won’t undermine the confidence of the country”. (Von Der Mehden & Troner, 2007).

However, overall, Petronas has remained relatively independent of the government in its day-to-day operations (Von Der Mehden & Troner, 2007). Members of government parties would have liked to use Petronas profits for pet projects, but have been blocked by Petronas with the help of the Prime Minister (Von Der Mehden & Troner, 2007). There is recognition that the appearance of an overly interfering government would have a negative effect on world markets (Von Der Mehden & Troner, 2007).

2. Singapore Airlines (SIA): Autonomy from government shareholder

From inception the Singaporean authorities took a hands off approach to SIA, whilst creating an efficient infrastructure, negotiating traffic rights, preserving labour peace (Sutherland & McKern, 2003).

3. Beijing Capital Group: Consolidated economic and political leadership

The Group’s top management was still under the State’s jurisdiction. Party membership was vital for individual appointment to senior management even in the Group’s subsidiaries (Ho, Wong & Chan, 2001).

The enterprise leadership also held the position of Party Secretary. This helped consolidate
the economic and political role of the head and eliminated dualistic leadership (Ho, Wong & Chan, 2001). When board meetings were held to discuss operational issues, the Group President could consider both political and economic factors (Ho, Wong & Chan, 2001).

4. Singapore Telecom (SingTel): SOE punching above its weight

SingTel was 78% owned by Government through Temasek (Heracleous & Singh, 2005). Most of the non-executive directors on SingTel’s board had strong current or previous links with the government and the firm was viewed as a SOE (Heracleous & Singh, 2005). The Optus acquisition diluted Temasek’s stake in SingTel to 68% (Heracleous & Singh, 2005).

5. Telkomsel: Removing cost barriers by building on parent company resources

Telkomsel was established by the Indonesian government in 1995 as a mobile telecommunications service provider and was Indonesia’s largest cellular operator’s Telkomsel was held through the following SOE: Telkom (43%); Indosat (35%); and the following private sector entities: KPN, a Dutch telecom firm (17%) and Setdco (5%), a private Indonesian firm (Buchanan, Hamilton, McMillan & Yurday, 2003).

In 1996 the company began building base stations and installed antennae on the rooftops of buildings owned by its majority shareholder, Telkom (Buchanan, Hamilton, McMillan & Yurday, 2003). Consequently the company avoided expensive rentals of space. (Buchanan, Hamilton, McMillan & Yurday, 2003) 40% of its base stations outside Jakarta were on top of Telkom buildings (Buchanan, Hamilton, McMillan & Yurday, 2003).

Telkomsel allegedly benefitted from its government ties when spectrum licences were awarded (Buchanan, Hamilton, McMillan & Yurday, 2003).

6. Zhujiang Iron and Steel Company (ZISCO): a key national industrialisation project

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ZISCO was established in 1997 as one of China’s key national projects in the national Ninth Five Year Plan (Huang, 2007). In February 2003 ZISCO’s annual production capacity was two million tonnes of steel sheet products (Huang, 2007).

ZISCO differed from other SOE in China in its organisational structure (Huang, 2007). Unlike the traditional two separate administrative systems of the other SOE, ZISCO had only two party secretaries at the company’s top level (Huang, 2007). The party secretary also was the chairman of the ZISCO Board of directors and the deputy secretary was in charge on all other daily traditional political affairs of the party (Huang, 2007). All functional heads at ZISCO also held the position of party secretary at their function (Huang, 2007).

7. **Indian Railways (IR): policy formulation and development and commercial services combined in the pot mix**

IR reports to the Government of India’s Ministry of Railways (Khanna, Musacchio & Tahilyani, 2009). The Minister assisted by two ministers of state for railways developed the policy direction for IR. (Khanna, Musacchio & Tahilyani, 2009) A railway board had direct influence on IR’s future comprising a chairman, financial commissioner and six functional members were collectively responsible for the direct management of the zonal railways, various production units and subsidiary public-sector undertakings such as Indian Railway Finance Corporation (Khanna, Musacchio & Tahilyani, 2009). The railway board members belonged to various Indian railway services (Khanna, Musacchio & Tahilyani, 2009).

5.2.3 **In what ways can SOEs be sustainable commercial enterprises that can create value in the economy?**

This research question considered the institutionalisation of government’s economic action (using SOE as targeted public policy instruments) in specific sectors for sustainable competitive advantage to enable economic development and growth.
1. **Petronas: Multinational resource SOE and significant contributor to government revenue**

Petronas has been in existence for about thirty (30) years since 1974. It was incorporated in 1974 as Petroliam Nasional (Von Der Mehden & Troner, 2007). For the first half of its life, it was learning of the petroleum business and contracting primarily on upstream operations with limited downstream activities (Von Der Mehden & Troner, 2007). For the remaining fifteen years and more, Petronas expanded its domestic activities into downstream operations including retail business and petrochemicals, expanded abroad into approximately 35 countries, developed its role as a dominant player in oil and gas shipping, and helped finance a series of megaprojects in Malaysia (Von Der Mehden & Troner, 2007).

Petronas expanded into shipping gas and established a subsidiary which owns 30 container ships, 13 chemical and parcel tankers, 53 bulk ships 23 LNG ships, 13 crude and product tankers, 2 passenger’s ferries and 3 liquefied petroleum gas carriers. (Von Der Mehden & Troner, 2007). In 2004 its sales amounted to US$1,998.2 million and its income was $601.5 million. It currently has the largest LNG fleet in the world (Von Der Mehden & Troner, 2007).

Petronas also expanded into financing major government sponsored infrastructure projects in Malaysia, outside its traditional core energy interests (Von Der Mehden & Troner, 2007). The two most noteworthy projects being the Twin Towers and the national government administrative centre Putrajaya both of which turned out to be long-term financial successes (Von Der Mehden & Troner, 2007).

Petronas significantly contributes to national revenue through tax (primarily from the Petroleum Income Tax (Von Der Mehden & Troner, 2007). Recently approximately, 20% of total government revenue has come from petroleum. (Von Der Mehden & Troner, 2007) High oil prices have increased profits and tax revenue (Von Der Mehden & Troner, 2007). In June 2005 Petronas reported a net rise in profits of 50.3% or US$9.35 billion (Von Der Mehden &
Von Der Mehrden and Troner (2007) contend that Southeast Asian petroleum producing nations such as Malaysia have carried out economic and social policies more useful for national development than those policies followed in most Middle Eastern countries with oil and gas resources (Von Der Mehden & Troner, 2007).

2. **ONGC: Fortune 500 global company**

ONGC in 2006 was profitable and one of the largest companies in India with reported sales of $19.237 billion and net profits of $3.929 billion, making it the largest Indian Fortune Global 500 company (Ramaswamy, 2008).

3. **Petrobras: Contribution to Brazil’s GDP**

Petrobras is an integrated state-owned oil company that extracts imports and exports and refines crude oil and distributes gasoline (Bridgman, Gomes & Teixeira, 2006). It is a major player in the world oil industry and was ranked 125th in the 2005 Global Fortune 500 (Bridgman, Gomes & Teixeira, 2006).

It is also very important in Brazil as its sales are 6% of Brazil’s GDP (Bridgman, Gomes & Teixeira, 2006). It is one of the crown jewels and figures prominently in the nationalist movement (Bridgman, Gomes & Teixeira, 2006). Taxes on oil extraction are an important source of revenue for Federal, state and city governments (Bridgman, Gomes & Teixeira, 2006). It also employs skilled, high-wage workers and is a source of local supply contracts (Bridgman, Gomes & Teixeira, 2006).
4. Hindustan Petroleum Corporation Ltd (HPCL): leading example in environmental management

HPCL owns and operates two major refineries and the largest lubricants refineries in India (Koch & Sen, 2009). It won the NDTV Business Leadership Award given to companies that have fuelled the Indian economy and nurtured excellence (Koch & Sen, 2009). Additional awards include national awards for training, environmental management and marketing as well as being best employer in India, most admired retailer, safety innovator and most preferred auto fuel (Koch & Sen, 2009). Its IT projects earned the company an Indian Express Indian Innovation Awards solver trophy for achieving improves logistics and cost reductions, innovations that have led to new benchmarks in retail automation, capacity utilisation, and productivity – the only oil company to win this award (Koch & Sen, 2009).

5. Temasek: Growing the Singaporean economy through targeted investments

Statistics differ on the extent of Temasek and its subsidiary Government Limited Companies’ contribution to the Singaporean economy. The US Embassy in Singapore stated that they contributed around 60% of GDP, while Singapore’s Department of Statistics posits the contribution at 12% of national GDP in 1998, with Multinational companies accounting for nearly 42% (Chatterjee & Dhar, 2006).

Temasek controlled subsidiaries where GLCs had significant shareholdings – 22 first-tier GLCs has own subsidiaries and associates at different tiers – all of which were involved in wide range of sectors such as banking and finance, telecommunications, transport and logistics, property, infrastructure and engineering and utilities, and are registered as companies and are also listed on Singapore’s stock exchange (Chatterjee & Dhar, 2006). In 2001 these accounted for 27% of the total market capitalisation in Singapore (Chatterjee & Dhar, 2006).

6. State Bank of India (SBI): profitable industrialisation
SBI and its associate banks in March 2003 had 13, 579 branches and one of the largest branch networks in the world (IBS Center for Management Research, 2004). It played a key role in providing working capital finance and term loans to Indian industry. (Von Der Mehden & Troner, 2007)

It was the largest commercial bank in India in terms of revenues, assets deposits, branches and workforce. (Von Der Mehden & Troner, 2007)

After its restructuring SBI increased its profits in 2003-4 FY by 18.55% to Rs 36.81 bn of net profits; Rs 95.535 bn operating profits. However, staff costs increased by 13.3% because of additional contribution to pension fund and provision for leave encashment. (Von Der Mehden & Troner, 2007)

7. Telkomsel:

For the 4 years until 2000, Telkomsel increased its market share to 465, and its subscribers more than 3 fold from 189 000 to 1,687 000 (Buchanan, Booz Allen Hamilton, McMillan & Yurday, 2003). Operating revenues increased from 196bn to 2,802 bn rupiah and net income from 52bn to 1,346bn rupiah to have a net income margin of 48% (Buchanan, Booz Allen Hamilton, McMillan & Yurday, 2003).

For 2009, Telkomsel operating revenue was ahead by 12%, net profit by 15% and its customer base up by 25% (Telkomsel Annual Report, 2009). Telkomsel successfully achieved a return to double digit revenue growth, in the trend of declining revenue per minute (Telkomsel Annual Report, 2009). Telkomsel's dominant position was confirmed by its customer base, which reached a total of 81.64 million as of the end of 2009, comprising 49% of the total full-mobility market (Telkomsel Annual Report, 2009)? This achievement yielded growth of 25% for Telkomsel in 2009, the result of securing a net add of 16.34 million users in 2009 on top of the Company's 2008 customer base of 65.30
8. **ZISCO: Continuous satisfactory profits putting Chinese steel on the international map**

In 2006 the company had profits of approximately Rmb 180 million achieving satisfactory profits for the third consecutive year in spite of a tough competitive environment in the Chinese steel industry and significant increases in the price of raw materials (Huang, 2007).

9. **Indian Railways: absorbing Indian employment through a competitive rail network**

In 2008 the company was operating profitably with a cash surplus of $5.8 bn (before dividends) and an operating ration that had moved from 92% in 2004 to 76% in 2008 (Khanna, Musacchi & Tahilyana, 2009).

Indian Railways was one of the largest and busiest rail networks in the world, carrying over 17 million passengers and 2 million tons of freight daily (Khanna, Musacchi & Tahilyana, 2009). It was the second largest non military employer in the world after Walmart. It was also the world’s largest public utility employer with 1.4 million people on its payrolls, indirectly affecting the employment of millions of people (Khanna, Musacchi & Tahilyana, 2009). It had approximately 63 000 route kilometres of network and was the second largest rail network in Asia after China (Khanna, Musacchi & Tahilyana, 2009).

5.2.4. How can Strategic management be used to discover guiding principles that will assist SOE improve their performance? Phrase as a question – as above in ch3
Research Question 4 considered the role of strategic management in SOE to respond to their external environment demonstrating competitive advantage and sustainable performance. This is the question that closely explored the link between the theoretical framework analysis for strategic management and sustainable superior performance with the discussion in Chapter 2.

1. **Petronas: good leadership and vertical integration**

   Petronas is expected to operate as a commercial entity that makes a profit; hence it was formed as a company, rather than a statutory body of the government (Von Der Mehden & Troner, 2007). Petronas is a generally well-run company with a leadership that has developed a good reputation for administrative and financial accountability (Von Der Mehden & Troner, 2007). It is relatively free from corruption (Von Der Mehden & Troner, 2007). Petronas management is generally seen as highly competent and effective (Von Der Mehden & Troner, 2007).

   Petronas is largely free from government interference in its daily operations (Von Der Mehden & Troner, 2007). It sees itself as a business with profit as a prime objective (Von Der Mehden & Troner, 2007). It has been a generally solid and well-respected partner to both private and state entities around the world (Von Der Mehden & Troner, 2007).

   Petronas integrated vertically into downstream activities, which included retail operations in foreign countries (both developed and developing) such as South Africa (Von Der Mehden & Troner, 2007). Petronas also invested heavily in developing countries because it saw opportunities in places where Western, and particularly American, companies had difficulties operating because of issues pertaining to their own government’s foreign policies or non-governmental critics of these regimes (Von Der Mehden & Troner, 2007). Another issue
surrounds the extent of Petronas operations in Muslim countries (Von Der Mehden & Troner, 2007).

2. **ONGC: Restructuring for high performance behaviour and vertical integration**

The corporation introduced a voluntary retirement programme to reduce its bloated workforce and achieved a 10% reduction (Ramaswamy, 2008). The corporation also revamped internal systems to enable smooth functioning of the organisation (Ramaswamy, 2008). The new CEO in 2003 revamped the entire decision-making structure and eliminated the bureaucratic staff approvals by creating a more flat structure for quick decision-making and autonomy down the chain – empowering employees lower down the chain (Ramaswamy, 2008).

The company also sought to encourage high performance behaviour through incentive plans targeting innovation and productivity (Ramaswamy, 2008). The plans were for both individual and group performance (Ramaswamy, 2008). The organisational structure was reworked to allow for autonomous decision-making through the constraints of state ownership (Ramaswamy, 2008). The reforms included a comprehensive redesign of the performance appraisal process resulting in a management development institute (ONGC Academy) to focus on providing leadership and technical training to employees (Ramaswamy, 2008).

The company also reduced its foreign debt through idle cash reserves and ploughed the remaining cash back into the business, all resulting in significant savings for both taxes and interest (Ramaswamy, 2008).

Around 2003 ONGC sought to integrate its business into the downstream segment and to become India’s first integrated major petroleum business (Ramaswamy, 2008). In 2003 ONGC acquired Refinery and Petrochemicals (MRPL) and followed this with a move into retail (Ramaswamy, 2008). ONGC obtained retail licences and opened
fuelling stations by 2005. Owning MRPL allowed ONGC to sell its crude oil to the company at arms-length prices and then sell refined products through its own petrol pumps (Ramaswamy, 2008). In this way the oil subsidies that ONGC was financing would stay within the fold (Ramaswamy, 2008).

Vertical integration promised to give ONGC control of its own destiny, it offered the company wider flexibility in monetising its assets, a crucial determinant of success. ONGC’s CEO observed that integration along the hydrocarbon value chain was not a matter of choice for a company with a global footprint, but an imperative requiring it to squeeze every available paise (cent) out of every molecule of crude (Ramaswamy, 2008). ONGC had to become part of the crude cycle, the refining cycle and the product cycle to tide over any downturn in any one of them (Ramaswamy, 2008).

3. Petrobras: Improved efficiencies – improved performance

Petrobras, following the reform, slashed its use of inputs while maintaining output growth and began to shift its portfolio of oil wells to more productive regions. Petrobras’ subsequent performance lends support to the view that the competitive environment is an important determinant of productivity, regardless of public or private ownership). The prospect of competition resulted in major changes in Petrobras’ management strategy and productivity. Productivity increased mainly due to reallocation of inputs (capital) toward more productive plants and shifted production to more productive wells after the loss of its monopoly.

Overstaffing was reduced and production was shifted to more productive wells. The inefficient use of inputs likely reflected non-economic goals that became less important after the reform. Employment fell rapidly after the reform. Estimates are that previously the company had been overstaffed by 200% - up to 10% of the workforce was political patrons, hired at government’s behest.
4. **HPCL: New skills for a learning, customer-centric organisation**

Company management recognised need for new skills relating to initiative, leadership and creativity and to retain such skills in order to make the company competitive and be customer centric (Koch & Sens, 2009). HPCL also determined to become a learning organisation, as defined by Peter Senge in his *Fifth Discipline* (Koch & Sens, 2009).

In 2003 HPCL top executives articulated a customer centric organisational vision combined with superior agility and becoming a learning and innovative organisation (Koch & Sens, 2009). The organisational vision was followed by formulating business unit strategies to help achieve such articulated vision and embarked upon change management and introduced the Balanced Scorecard for performance measuring, communicating expectations and providing systematic and transparent feedback to employees (Koch & Sens, 2009).

HPCL also launched a multipronged integrated programme of human capital initiatives and processes, which was the core of its learning organisation plan (Koch & Sens, 2009). This programme included target setting at individual and group level, using IT as a key enabler for achieving greater efficiencies without increasing personnel and focussing on training (Koch & Sens, 2009).

5. **SIA: Consistent customer centric services culture, healthy risk appetitive and focused management**

Given its context (Singapore’s small population and country size), SIA was forced to build a preference airline for foreign travellers, over their own national carriers (Sutherland & McKern, 2003). SIA was formed in 1972 following separation from Malaysia and from that date successfully differentiated itself from competitors through focussing on top quality superior service in every area at competitive prices, while yielding a surplus to finance expansion and modernisation and to provide a satisfactory return to shareholders (Sutherland & McKern, 2003).
Through consistency the company developed and evolved, reinforced a culture of customer awareness and care (Sutherland & McKern, 2003). In its consistent approach SIA’s top three kept their focus in industry and market developments (Sutherland & McKern, 2003). The executives also had a healthy risk appetite and were willing to take risks in pursuit of the airline’s long-term objective to diversify its revenue streams and airline acquisition (Sutherland & McKern, 2003). While acknowledging that some risks may not pay off the executives’ focus was to ensure that they don’t risk the airline itself to limit destroying the business (Sutherland & McKern, 2003).

In its acquisition strategy the management looked for airlines in the growth stage with a sustainable product and good management (a mirror of SIA’s old self) (Sutherland & McKern, 2003). An airline’s strong management would allow SIA to focus on the investment and not be distracted or diverted of their managerial focus and attention on the acquired airline thus allowing SIA to focus on its own organic growth (Sutherland & McKern, 2003).

With a shift to a global airline, the company had to review all its operational aspects and organisational structure to ensure that these support a global, rather than regional, airline (Sutherland & McKern, 2003). In the current context of continuous and disruptive change, the airline focuses on its response as the critical differentiator through agility, greater flexibility and communicating organisation-wide (Sutherland & McKern, 2003).

During the 1997 Asian economic crisis, SIA shifted capacity to European, U.S., Australasian and Indian routes less affected by the crisis and by deferring the delivery of aircraft to better match capacity with demand (Sutherland & McKern, 2003). Wages were frozen and rolled back one wage increment (Sutherland & McKern, 2003).

During the 9/11 aftermath services to certain destinations were suspended (Sutherland & McKern, 2003). All but the most essential projects were deferred or cancelled.
By 2002 nearly all suspended services had been restored (Sutherland & McKern, 2003). In addition, SIA had increased services to Australia and China and the airline was able to focus on the long-term strategy of becoming a global company (Sutherland & McKern, 2003).

Regarding its acquisitions of growth airlines, SIA required a good airline with strong management and a route network that complemented SIA’s route network (Sutherland & McKern, 2003). The target airline also had to be posed to mature at a high growth rate if provided with capital for expansion and SIA had to be well perceived in the target's local political environment (Sutherland & McKern, 2003). Thus SIA had to clearly understand the stakeholders in the local environment and their possible reaction to SIA’s takeover (Sutherland & McKern, 2003).


The group’s development strategies included increasing access to domestic and international markets and retaining the Beijing base; grow the group through holding shares, recapitalisation, mergers etc; diversifying the group’s business with investment banking as a base and other industries striving for continuous self-improvement resulting in the Group becoming a large modern transnational group of corporations involved in finance, infrastructure, real estate, tourism, high-tech and trade (Ho, Wong & Chan, 2001).

The Capital Group enjoyed considerable autonomy in making operational and management decisions (Ho, Wong & Chan, 2001).

The Capital Group developed contacts with the MBA schools of the universities in
Beijing and offered field training for MBA students in order to attract high-calibre candidates (Ho, Wong & Chan, 2001). High performers were invited to join the Group after their graduation (Ho, Wong & Chan, 2001).

The peg between total payroll and economic results strengthened the Group’s accountability and incentives to improve performance (Ho, Wong & Chan, 2001).

The Group had a policy of “survival of the fittest” – accordingly, 6 subsidiaries were allowed to shut down due to inefficiency (Ho, Wong & Chan, 2001).

7. **SingTel: aggressive regional and international expansion in key growth markets**

The company’s focus was to create a strong presence in key growth markets in Asia including both fixed network data and wireless mobile services (Heracleous & Singh, 2009). SingTel’s vision was to become the leading Asia-Pacific regional player by investing more in the region (Heracleous & Singh, 2009). The CEO recognised the need to maintain a healthy balance sheet, to retain strategic flexibility in the event opportunities appeared and to avoid the trap of over commitment (Heracleous & Singh, 2009).

SingTel achieved its strategy for revenue and profit growth by investing in countries with high growth potential such as Thailand, India, Philippines and Australia (Heracleous & Singh, 2009). The Optus acquisition enables SingTel to diversify its revenue streams geographically, leading more than half of its revenues coming from outside Singapore and propelling SingTel to the top 5 telecoms companies in the region in terms of revenue (Heracleous & Singh, 2009). In terms of revenue mix it helped SingTel reduce its dependence on international telephony (declining revenue) and to place proportionally more emphasis on growing mobile telephony and data services (Heracleous & Singh, 2009).
8. **Telkomsel: customer oriented growth requiring investing ahead of the market**

The company’s management decided to reinvent itself as a customer-oriented growth company (Buchanan, Booz Allen Hamilton, McMillan & Yurday, 2003). However, management needed to win government and shareholder support before undertaking the company’s transformation (Buchanan, Booz Allen Hamilton, McMillan & Yurday, 2003).

Telkomsel invested in network rollout ahead of demand and based on consultant advice sought to -

- build a service culture;
- create a marketing innovation engine, to gain market share in mobile voice services;
- set up a data incubator, in anticipation of long-term growth in the data services market;
- invest in the network ahead of growth in demand;
- build IT and billing-system structures to service the growth in demand; and
- build a high performance organisation (Buchanan, Booz Allen Hamilton, McMillan & Yurday, 2003).

9. **ZISCO: Improving productivity and organisational structure and ensuring value creation for customers**

In March 2003 management redefined the business strategy in order to improve the production process, product quality and key functional performance, implementation of strategy to consolidate functional performance and to improve cross-functional co-ordination and integration; finally continuous integration and capacity building (Huang, 2007). The focus was on cost reduction in all functions (Huang, 2007).

To achieve its strategy, the company changed its organisational structure to establish a new
functional department, product quality focussing on product quality and customer co-ordination (Huang, 2007). Control and incentive schemes were developed for production, sales and profit (Huang, 2007). Salaries of top and middle management were linked to the company’s financial performance monthly (Huang, 2007). In addition, incentives were introduced to improve production productivity and quality control in co-ordinating two production lines (Huang, 2007). Salary systems were reformed to be more performance based (Huang, 2007).

ZISCO also developed a new organisational culture from production oriented to value creation for customers (true service company) and became market oriented rather than production oriented (Huang, 2007). This focussed primarily on behaviour control and incentives (Huang, 2007). Employees were motivated to participate in creating value for the company and improving their daily operational activities (Huang, 2007).

In 2006 ZISCO also further strengthened integrating its value chain to its customer consumption chains (Huang, 2007). ZISCO obtained value since the reconceptualised products could be sold without a price discount.

10. Indian Railways: Reducing costs and increasing volumes

Turnaround efforts included wagon turnaround, changed maintenance practices to increase the time between successive re-examination of rolling stock, reduce number of examinations and increase utilisation of existing capacity (Khanna, Musacchio & Tahilyani, 2009).

IR's simple strategy was to reduce unit costs and increase volumes (Khanna, Musacchio & Tahilyani, 2009). IR undertook several initiatives to achieve this strategy, borrowing from other transport modes such as airlines upgrading systems (loyalty programmes), charging higher fares for superfast trains (market segmentation and product differentiation), leveraging technology to enhance customer experience (e.g. computerised charting to enable better forecasting of trains) (Khanna, Musacchio & Tahilyani, 2009).
IR also introduced performance related changes for employees and sought to boost employee morale through bonus payments and change their mindsets to help create commitment and loyalty (Khanna, Musacchio & Tahilyani, 2009).

IR financed capital expenditure through increases in retained earnings. In the five years from 2004-2009 IR made $20.5 bn in cash surplus (Khanna, Musacchio & Tahilyani, 2009). The investments led to significant improvements making wagon productivity higher than that of the US railways (Khanna, Musacchio & Tahilyani, 2009).

5.2.5 Do SOEs in South Africa operate and compete under similar conditions as SOE in other developing countries? Phrase as a question – as above in ch3

This Research Question sought to explore similarities between SOE from developing countries to the South African SOE and to explore the extent to which common factors can be applied across developing countries. The results are from interviews conducted with senior SOE managers. The Research Questions were expanded in the attached Interview Guide in Appendix D. While the same constructs at the beginning of this Chapter emerged from the interviews, the majority of interviewees were quite frustrated. While they appeared to be aware of what needed to be done to achieve sustainable superior performance, methods of achieving this performance were not always clear.

1. Corporate Counsel from energy SOE

The Corporate Counsel stated that what he considered to have been the success
elements for the SOE in the past few years are: good leadership, technical competence, and subsidised electricity price. This was due to the SOE acting in the national interest. Thus the focus became more on technical excellence at the expense of the commercial aspects of the business, namely contract management and Commercial negotiation. Contract negotiation and management still plague the SOE today and limited its ability to appropriately allocate power to its customers during the unplanned power outages in 2008.

Key success factors for most companies, including SOE, are that the organisation values and respects good governance.

“[The utility] specifically had a specific culture that is action oriented and has a delivery work ethic. Other success elements for organisations generally include operational excellence; a partnership with labour, rather than an abusive, disrespectful relationship based on entitlement, as is currently the case. ” (Corporate Counsel, 13 August 2010)

Additional success elements are a courageous leadership that can deal with change, while management deals with complexity. For SOEs, the external environment impacts are greater.

The corporate counsel stated that success is the ability to extract efficiencies from any organisation, regardless of the ownership form. For the private sector this means commercial discipline and focus, fresh thinking. By contrast for the state a weak area of potential disadvantage is its bureaucracy, which hampers its ability to make critical decisions. Government must be a responsible shareholder. Good governance will assist government and SOEs in determining appropriate roles and responsibilities for each.
In his understanding, Agency theory refers to conflict and healthy tension, which is best managed by the Board. “It is important that the Board be dispassionate and always considers what is in the best interests of the company.” (Corporate Counsel, 13 August 2010). Incentives should be structured to ensure checks and balances especially against prevailing paradigms. There should be some distance between executive and non-executive directors.

The corporate Counsel strategic management to be Counsel further interpreted about an appropriately skilled board as well as alignment between SOE management and the shareholder. A regulator, who has a rational view of the entire economy and intends to make the industry sustainable, also contributes to the strategic management of SOE. The regulator should operate in the interests of the country, not just the public. A sustainable economy also requires an economic regulator for each sector.

2. **Acting CEO of a Transport SOE**

The CEO stated that SOE’s organisational vision is informed by the shareholder and developed by the Board. The CEO implements the vision, such as is the case in private sector multinationals such as MTN, Standard Bank, Investec and so forth. Management cannot succeed if the shareholder has not set the vision. The shareholder must understand the strategic nature and levers for each SOE.

“There should be clarity on where Government should play, for example in strategic industries where government should invest and grow the industry. Such industries could include maritime services. Other areas government should consider are to increase and focus on research and development spend. It is critical for government to plan and set goals for SOEs and for each sector.” (Acting CEO, 16 August 2010)

3. **Airline Risk Management Executive**

“Poor corporate governance, especially patronage from the Presidency and downwards...
can cause impediments especially when people cannot speak out.”

“The South African government should consider integrated planning.” (Risk Management Executive, 25 August 2010)

According to the Executive, private sector shareholder has a clear focus on expected outcomes from SOEs. Different government departments have different views and have an impact on SOEs. A coherent shareholder should focus on shareholder return. There is constant government interference (as seen with the SABC governance debacles relating to its Board and CEO). SOE also must contend with an overzealous Legislature often acting ultra vires – beyond its mandate.

Further in his view, SOEs create value through security of supply and industry definition. SOEs define the industry by creating networks and hubs (hub and spoke principle). SOEs also invest in areas where the private sector would not go. For example, there are sectors with high entry barriers because of capital intensive investments. These would include water, electricity, pipelines etc. Long range planning should be cohesive and integrated.

The Executive reported that SOE values are not independent of its government shareholder because SOEs are the delivery vehicle for the shareholder. “What is required from the shareholder is clarity of expectations, mandate and management should be allowed to manage the SOE.” Constructive oversight is required; where the shareholder engages with the SOE, the shareholder should be clear on its definition of oversight and have the necessary skills and capacity to implement effective oversight. Patronage, personal enrichment and personal interests should be excluded.

Irrational regulation impedes SOE success. In this regard, the airline faces an annual threat of licence suspension as a result of overregulation and legacy.
These impediments detract from management’s time and resources to run the business effectively.

4. CEO in regional airline

The CEO attributes the airline’s success to the relative autonomy it has from government. Government has only been involved at Board level through Board appointments. There is no government involvement in the company’s commercial affairs. Government even protects the airline against undue Parliamentary interference.

The CEO reported that airline has clearly defined mandate which contributes to success. This enables effective planning. As part of its strategic management for success, the airline focuses on talent attraction and recruitment from any sector. It appoints high performers. Management sets the company direction with some government influence. There is good internal leadership at executive management and Board level. Consequently, there is a clear strategy from management. There are agreed performance measures with government which are monitored and the airline delivers on these.

The CEO also reported that airline has not yet been forced to undertake irrational developments at government’s behest for socio-economic development but which SOE management believes are not financially viable. However, where this happens, government should subsidise such developments.

In the CEO’s view Leadership should be bold enough to appoint good management (e.g. heads of department). Management should divide strategy into measurable short, medium and long-term goals. Management should also develop a strong human capital management (as part of its strategic management) that includes a high performance culture, rewarding and/or addressing non-performance. This goes beyond financial rewards and includes recognition, training etc. Non-performance can also be attitude based, which management should consider and address effectively. Strong human capital management
includes succession planning for continuity and targeting specific employees for equipping for succession planning.

5.2.6 What common factors can be developed for similar SOE operating in other developing countries?

1. Corporate Counsel SOE

Key success factors for most companies, including SOE, are that the organisation values and respects good governance.

“[The utility] specifically had a specific culture that is action oriented and has a delivery work ethic. Other success elements for organisations generally include operational excellence; a partnership with labour, rather than an abusive, disrespectful relationship based on entitlement, as is currently the case.” (Corporate Counsel, 13 August 2010)

According to the Corporate Counsel additional success elements are a courageous leadership that can deal with change, while management deals with complexity. For SOE, the external environment impacts are greater.

“It is important that the Board be dispassionate and always considers what is in the best interests of the company.” (Corporate Counsel, 13 August 2010) Incentives should be structured to ensure checks and balances especially against prevailing paradigms. There should be some distance between executive and non-executive directors.

The Corporate Counsel state that What is required from Government is to set clear targets and let the SOE perform and deliver. Trust is fundamental to this notion of allowing the SOE to perform. Government discipline on roles and responsibilities is required. SOE leadership should be empowered to provide role clarity and performance management and
hold the Board accountable. Strategic management requires an appropriately skilled board with a cascading effect on the types of questions asked.

2.  Acting CEO from Transport SOE

According to the Acting CEO, strategic management is about an appropriately skilled board as well as alignment between SOE management and the shareholder.

A SOE’s organisational vision is informed by the shareholder and developed by the Board. The CEO implements the vision, such as is the case in private sector multinationals such as MTN, Standard Bank, Investec and so forth. Management cannot succeed if the shareholder has not set the vision. The shareholder must understand the strategic nature and levers for each SOE. “There should be clarity on where Government should play, for example in strategic industries where government should invest and grow the industry. Such industries could include maritime services. Other areas government should consider are to increase and focus on research and development spend. It is critical for government to plan and set goals for SOE and for each sector.” (Acting CEO, 16 August 2010)

Economically successful developing countries succeed because of focus and certainty in planning.

3.  Airline Risk Management Executive

The Executive maintained that a critical factor for success is stability at top management: stable leadership, predictability, delivery on mandate, good corporate governance (reputation is the measure), independent funding / support from government.

A coherent shareholder should focus on shareholder return.

“What is required from the shareholder is clarity of expectations, mandate and management should be allowed to manage the SOE.” (Risk Management Executive, 25 August 2010)
infrastructure investment and capital funding

Singularity in expectations: support and co-operation between SOE and government.

4. CEO of Regional airline

The CEO stated that the airline success can be attributed to its relative autonomy from government.

The airline has clearly defined mandate which contributes to success, which enables effective planning. As part of its strategic management for success, the airline focuses on talent attraction and recruitment from any sector and appoints high performers. There is good internal leadership at executive management and Board level. Consequently, there is a clear strategy from management. There are agreed performance measures with government which are monitored.

The CEO reported that the airline has quick decision making and is stable. It took 3 months to appoint a new CEO and the airline has had the same executive management team for 6 years. Political interference contributes to high leadership turnover. The airline had a 5 year strategy and disciplined implementation of that strategy.

The Board encourages the focus on sustainability, and incremental strategy implementation.

According to the CEO, having a competent and experienced Board in the relevant industry and appointing good leadership. Leadership should be bold enough to appoint good management (e.g. heads of department). Management should divide strategy into measurable short, medium and long-term goals. Management should also develop a strong human capital management (as part of its strategic management) that includes a high performance culture, rewarding and/or addressing non-performance. Strong human capital management includes succession planning for continuity and targeting specific employees for
equipping for succession planning.

In the CEOs view, As a key learning SIA has a properly executed plan, clear strategy, best customer service and don’t see them as government owned – which addresses the stereotype of government ownership.

The CEO believes that government should grant the SOE management autonomy to operate the SOE profitably and sustainably and only using performance management as a lever.

5.3 Conclusion on Results

The results are considered to be significant and meaningful for addressing the research problem in light of the sample size of the case studies and the testing of the data against the research questions; together with the triangulation of the strategic management theoretical framework as the analytical framework for exploring common success factors for SOEs as well as the interviews conducted with executive management of South African SOEs and validated evidence from selected SOE Annual reports.

The results show support for some of the literature on strategic management and strategy leadership as critical factors contributing to the sustainable superior performance of organisations. The interview results offered significant insights into SOE leadership and the decision-making of such leadership. These insights should be useful for the South African and other developing country government’s
s undertaking a review of all SOEs from national to municipal level, as well as for appointing Board members as part of SOE leadership.

The full relevance of these results will be discussed in Chapter 6.
Chapter 6: Discussion of Results

6.1 Introduction

This section will discuss the results in Chapter 5 above in terms of the Research Questions as well as the literature review in Chapter 2. Each Research Question outlined in Chapter 3 will be discussed individually and the results obtained from the data collection discussed under the relevant research questions.

6.2 What is the SOE’s relationship to the external environment and what is the nature of such relationship to the external environment?

Research Question 1 sought to establish the impact of the external environment on the decisions taken by the SOE leadership and the consequent performance of the SOE. This is the external environment, represented by the society in which the organisation operates, has value and power systems comprising personal values and goals of its individual members.

The key results under this research question were the following:

- Petronas was a highly profitable business for the Malaysian government that financed large scale government projects unrelated to its core business (Von Der Mehden & Troner, 2007);
- The Malaysian government used Petronas’ international expansion into growth and other developed markets as a vehicle to place the country and its government on the world map (Von Der Mehden & Troner, 2007);
ONGC was central to exploring and exploiting India’s oil reserve and to assist the Indian government to exploit these for commercial gain (Ramaswamy, 2008). Temasek was chiefly responsible for Singapore’s economic success (Chatterjee & Dhar, 2006) and is the Singaporean government’s investment arm globally, which helped the Singaporean government integrate into the global economy (Porter, Ketells, Lall & Siong, 2009).

6.2.1 Petronas was a highly profitable business for the Malaysian government that financed large scale government projects unrelated to its core business (Von Der Mehden & Troner, 2007)

The research investigated only SOEs that are incorporated as companies and operate commercially. In these SOEs the concept of Agency Theory would apply. Thus while in these SOEs ownership is separated from control, particularly the control of the SOEs’ assets, how the SOE’s management exercises control over such assets can be influenced by the SOEs’ external environment of politics and public policy/perception. The results show that even in the successful SOEs showing superior performance over a sustained period, the external environment often influences the SOE to undertake initiatives that the SOE left to its own devices or a private sector company may not have undertaken.

In line with the Selznick school of institutional theory, Petronas thus became a coordinating mechanism synchronising the government’s actions in financing real estate projects (Sim et al, 2003). It is interesting also to note that in this regard,
Petronas demonstrates the oft repeated statement that government as shareholder has additional public interest and public policy concerns, other than mere profit maximisation (Smith, 2003). However, it appears that with the Singaporean government profit maximisation appears to be the primary criteria for Temasek’s investments and subsidiaries (Chatterjee & Dhar, 2006). The results of SIA and SingTel as pertinent examples in this regard are discussed in greater detail below.

6.2.2 The Malaysian government used Petronas’ international expansion into growth and other developed markets as a vehicle to place the country and its government on the world map (Von Der Mehden & Troner, 2007)

The results show that Petronas’ profitability is also attributable to its international operations in 35 countries (as at 2005) (Von Der Mehden & Troner, 2007). However, the impact of the external environment through its government shareholder also may have had a significant impact on this decision to expand internationally (Von Der Mehden & Troner, 2007). Further, the choice of countries, developing countries such as Sudan, Vietnam and Myanmar, may also have been impacted by Petronas’ external environment through its shareholder, which facilitated entry into markets where other Western oil companies chose not to operate (Von Der Mehden & Troner, 2007).

- The results also demonstrate the impact of Petronas’ external environment and its values through the SOE’s founding goals which include safeguarding the rights of Malaysia and the legitimate rights and interests of Malaysians in the ownership and development of petroleum resources;
• ensuring that the people of Malaysia as a whole enjoy the fullest benefits from the development of the country’s petroleum industry (Von Der Mehden & Troner, 2007).

Petronas’ founding goals and the decision to enter into certain markets as part of its global expansion demonstrate that the value system of the external environment impacts business decisions more acutely in SOEs (Rhenman, 1973). These results also demonstrate that organisations do tend to map the complexity of their environmental elements in their own structures (Scott, 1987). Indeed the interaction between the Malaysian government and Petronas through its shareholding, former employees and officials represented at Board and senior management level does affect the behaviour and in the longer term the structure of a SOE (Rhenman, 1973).

It must be noted that Petronas has succeeded in integrating its external environment to its business decisions and unrelated government were successful; similarly its vertical integration into retail activities internationally (30% of company revenue) and oil and gas shipping contributed significantly to its profitability (Von Der Mehden & Troner, 2007). This demonstrates an understanding of its nature as an SOE and the imperatives of government ownership and objectives and the ability of its leadership to align its institutional and strategic goals with its structure (Rhenman, 1973).

Notwithstanding, such significant impact of the external environment, however, the results also show that Petronas management was no roll over to government
whims as Petronas had support from the Prime Minister to decline financing government pet projects that it deemed financially non-viable (Von Der Mehden & Troner, 2007).

6.2.3 ONGC was central to exploring and exploiting India’s oil reserve and to assist the Indian government to exploit these for commercial gain (Ramaswamy, 2008).

ONGC subsidiary was used as the Indian government’s nodal agency for bilateral energy discussion with other governments (Ramaswamy, 2008). These results demonstrate that SOEs in developing countries are more than mere technical instruments and integrally linked to their environments and contributing to the maintenance of the values and goals of the surrounding communities rather than merely their own self-maintenance as an end in itself (Scott, 1987). Again the statement that these SOEs in developing countries are social and economic actors is demonstrated in the above results (Sim et al, 2003).

ONGC’s exploitation of oil reserves and the use of subsidiaries for international expansion (Ramaswamy, 2008) show the extent to which SOEs are part of the state’s investment and economic development policy and are critical for long-term investment and development as discussed in Chapter 2 (Chang, 2007). Result demonstrates the mutually reinforcing and symbiotic relationship an SOE can have with its government shareholder and highlights patterns that particularly support SOEs as discussed under new institutionalism in Chapter 2 (Nee, 2003).
6.2.4 Temasek is believed to have been chiefly responsible for Singapore’s economic success (Chatterjee & Dhar, 2006) and is the Singaporean government’s investment arm globally, which helped the Singaporean government integrate into the global economy (Porter, Ketells, Lall & Siong, 2009).

The results demonstrate that Singapore has been an investment driven economy through its sovereign wealth fund, Temasek (Porter, Ketells, Lall & Siong, 2009). In this regard, Temasek demonstrated that its economic action became the social action and is institutionalised through this SOE (Selznick, 1996). Temasek’s goals were aligned with those of the Singapore government and became mutually reinforcing (Rhenman, 1973).

6.2.5 Conclusive Findings for Research Question 1

The results indicate that SOEs generally have a positive relationship to their environments.

The following specific areas are worth highlighting:

- SOEs often assume the value and goal systems of their external environment often defined by their shareholder as part of the SOE’s mandate to fulfil government’s public policy objectives, which take into consideration the SOE’s surrounding environment.

- Consequently, a mutually reinforcing and symbiotic relationship develops between SOEs and their external environment as the goals of the SOE and the government converge.
➢ The government’s goals and objectives significantly impact the decisions and behaviour of SOEs (including the SOE’s growth strategies) as the SOEs seek to align their goals and objectives with those of the external policy and governance environment defined by their shareholder.

6.3 What is the nature of the SOE’s relationship to its shareholder? Is its relationship to the shareholder different from that of a private sector company to its shareholder or is it the same?

The results show that the relationship between a SOE and its shareholder is much closer than that of the private sector, particularly the many institutional shareholders of a public company. The public companies are used as a comparator or benchmark for SOEs in this regard due to the size and complexity of the businesses. The results indicate a different corporate governance relationship for SOEs.

The key highlights of the results are listed below and include:

- In Petronas the Board and management has a close relationship to government with the Board Chairperson reporting directly to the Prime Minister and former government officials as Board members (Von Der Mehden & Troner, 2007).
- In Beijing Capital Group membership of the Communist Party is critical for appointment to senior management (Ho, et al, 2001)
- ZISCO’s Board Chairperson is the Party secretary (Humang, 2007)
- IR reports to the Railways Minister (Khanna et al, 2009)
SIA is an anomaly because the Singaporean government has a hands-off/non-interventionist approach (Sutherland & McKern, 2003).

6.3.1 In Petronas the Board and management has a close relationship to government with the Board Chairperson reporting directly to the Prime Minister and former government officials as Board members (Von Der Mehden & Troner, 2007).

The results demonstrate a close relationship which contradicts, the separation of ownership and control as advocated by Agency Theory (Arce, 2007) and a more distant corporate governance relationship. One of the underpinning assumptions of Agency Theory is that of a goal divergence between principals (shareholder) and agents (management) (Van Slyke, 2006). The Board Chairperson’s direct reporting to the Prime Minister may be intended to address and close this divergence or limit its negative consequences, which are demonstrated in the South African SOEs as discussed in Chapter 5.

6.3.2 In Beijing Capital Group membership of the Communist Party is critical for appointment to senior management (Ho, et al, 2001)

The results outline that the symbiotic relationship between the Communist Party and senior management enables political and economic factors to be considered in operational issues (Ho, et al, 2001). Agency Theory as discussed in Chapter 2 presents the tension between a desire to control executive self-interest and a
desire to corporate growth and encourage entrepreneurial risk taking that would contribute towards sustainable superior firm performance (Ekanayake, 2004).

It is arguable that by requiring party membership for senior management, the Chinese government as the shareholder principal that would suffer from the negative consequences of the tension and the corporate executive self-interest is seeking to align the BEIJING Capital Group’s leadership interests, values and goal systems with those of the shareholder and thus the SOE’s surrounding community and external environment.

6.3.3 ZISCO’s Board Chairperson is the Party Secretary (Hung, 2007)

The results demonstrate that in addition to the Board Chairperson being the Secretary of the ruling Communist Party, all functional heads at ZISCO also held the position of party secretary at their function (Huang, 2007). As discussed in Chapter 2, given the uncertainties and vagaries of an unpredictable world, particularly for business (Hendry, 2005) and the transitions in developing countries that create large macroeconomic and political instability, (Hoskisson et al, 2000), close alignment between the shareholder and the SOE Board is critical, particularly if SOE are to remain effective in meeting Government’s objectives as public policy instruments (Lawson, 1994).

The constraint, particularly for corporate governance, arises where the SOE is required to undertake non-viable and uneconomic pet projects that may negatively impact the SOE’s sustainable performance and consequently undermine the
SOE’s effectiveness and government’s own public policy. This then requires the shareholder itself to be supervised. In developing countries such as South Africa where there is a separation of powers and a constitutional democracy, the Legislature and the Judiciary fulfil the oversight and supervisory function over the government shareholder, thus providing the necessary checks and balances to limit irrational instructions on unjustifiable investments.

6.3.4 IR reports to the Railways Minister (Khanna et al, 2009)

The results demonstrate that while the Minister of Railways assisted by two Ministers of State for Railways provided policy direction for IR, IR executive decisions were made directly by a Railway Board, similar to a Board of Directors with direct influence on IR’s future (Khanna, et al, 2009). As discussed in Chapter 2, given that this SOE was in a bid to improve its performance in a competitive railway industry, it was critical that agency theory be considered in any restructuring decisions taken to enable the performance turn around and contribute to effective strategic management (Dharwadkar, et al, 2000). This may have been one of the considerations that informed the CEO’s decision to appoint a civil servant as his special advisor and strategy driver and key implementer ((Khanna, et al, 2009). This would have also assisted the CEO with understanding the Railways Ministry’s objectives and intent with the SOE. Agency theory in complex governance structures such as these highlights the critical necessity of clearly defining roles and responsibilities between the shareholder and the SOE Board and management, as well as clearly defining and articulating the SOE’s mandate, as presented in the results from the interviews in Chapter 5.
6.3.5 SIA is an anomaly because the Singaporean government has a non-interventionist approach (Sutherland & McKern, 2003).

These results indicate strict adherence to corporate governance and a clear separation between the ownership of the SOE and the ownership and control of the SOE’s assets (Hoskisson et al), similar to private sector publicly listed companies and current corporate governance best practices. (King III code on corporate Governance, 2008)

The research results show Singapore to be a fairly unique developing country in that the primary motive of its SOE appears to be profit maximisation similar to private sector businesses (Chatterjee & Dhar, 2006). Temasek appears to be the sole Singapore SOE where public policy exogenous factors have a direct influence (Chatterjee & Dhar, 2006). It must be noted, however, that Singapore’s SOE demonstrate that state ownership does not impede profit maximisation, sustainable competitive advantage and superior performance, which can also be a public policy objective. The results also demonstrates the Hafsi model on the cyclical nature of relationships between governments and SOEs evolving from co-operation to autonomy (Bernier and Simard, 2007).

6.3.6 Conclusive Findings and Meaningfulness of Findings for Research Question 2
The different strategic management theories are markedly emphasised in the case of SOE in relation to the SOE’s relationship to its external environment and the values and norms impressed by the SOE’s context (Rheinman, 1973). The potential conflict of interest from the close relationship requires a careful balance and it remains for future research to determining the extent to which this may constrain a SOE’s ability to achieve sustainable superior performance. The evidence is inconclusive as SOE with government representation in their leadership or reporting directly to government (Petronas, Beijing Capital Group, Indian Railways, ZISCO) all showed that the SOE’s leadership is not impeded from taking strategic decisions that will improve the SOE’s performance and sustainable competitive advantage.

Arguably, government representation within the SOE depends on the specific government’s overall economic objectives and the relevant SOE’s mandate. For SOE wishing to make fundamental changes government involvement was advantageous since decisions could be taken faster as government would be apprised of relevant facts and the attendant process.

6.4 In what ways can SOES be sustainable commercial enterprises that can create value in the economy?

The results show that some of the SOE have existed for over 35 years and remain profitable enterprises even under state ownership. These SOE have become Fortune 500 global players who contribute to their country economies through earnings, funding, tax and other financial means. These SOE have been able to
exploit their core competencies, resources and combine these with the value systems from their environments through innovative means.

The following key results were identified from the data:

- Petronas significantly contributes to Malaysia’s national revenue, tax and funding of Government projects (Von Der Mehden & Troner, 2007)
- ONGC is the largest Indian company to be on the Global Fortune 500 list of companies
- SOE fuelled economic growth and development (Pretobras, SBI, Temasek, HPCL)
- SOE provided social welfare and skills development (ZISCO, IR, HPCL)

6.4.1 Petronas significantly contributes to Malaysia’s national revenue, tax and funding of Government projects (Von Der Mehden & Troner, 2007)

The results show that Petronas is expected to operate as a commercial enterprise that makes profit (Von Der Mehden & Troner, 2007). Petronas appears to have met this expectation as the results demonstrate that in June 2005 Petronas reported a net rise in profits of 50.3% (US$9.35 billion) (Von Der Mehden & Troner, 2007). The results discussed above on Petronas indicate that Petronas was granted and allowed to possess and exploit natural oil and gas resources in India and through its competent management was able to attain a competitive advantage that enabled it to improve its short-term and long-term performance that it has sustained since inception (Von Der Mehden & Troner, 2007). Thus the Petronas results provide evidence of a resource based competitive advantage,
which has contributed to Petronas’ superior and sustainable performance (Hoskisson et al, 2000 and Newbert, 2008).

The results also demonstrate that in recent years approximately 20% of the Malaysian government’s total revenue has come from petroleum, resulting in Petronas also contributing to the Malaysian national revenue through the tax system, primarily in terms of the Petroleum Income Tax (Von Der Mehden & Troner, 2007).

6.4.2 ONGC is the largest Indian company to be on the Global Fortune 500 list of companies

The results show ONGC as India’s largest refining and marketing company with an annual turnover of approximately US$51 billion (2006) and ranked 135th in the Fortune 500 index of global corporations and 25th among petroleum companies worldwide (Ramaswamy, 2008). ONGC also exported significant petrochemical volumes to its neighbouring countries in Asia and the Middle East and expanded its retail networks to Sri Lanka and the bunkering business into Mauritius, the Middle East and East Africa (Ramaswamy, 2008). In this manner, the results demonstrate that SOEs can deploy resources and capabilities in novel combinations that enable them to reduce costs and respond to environmental conditions in line with the RBV discussed in Chapter 2 (Newbert, 2008).

6.4.3 SOEs fuelled economic development and GDP growth in Brazil, India and Singapore
The results show that SOEs’ contribution includes stimulating their national economies. The results also demonstrate Petrobras as a major player in the world oil industry, ranked 125th in the 2005 Global Fortune 500 and contributing to 6% of Brazil’s GDP (Bridgman, et al, 2006). Further, SBI, with one of the largest branch networks for any bank in the world was also critical in providing working capital finance and term loans to the Indian industry (IBS Center for Management and Research, 2003). Finally, Temasek, chiefly responsible for Singapore’s economic success, as discussed above, contributed 12% of Singapore’s GDP and through its subsidiaries contributed to 27% of the total market capitalisation in Singapore (Chatterjee & Dhar, 2006).

These results clearly demonstrate the multiplier effects of SOE going beyond pure profit, but also contributing to the economic development of developing countries by creating export revenue and international presence, thus strengthening the developing country’s geopolitical position and global role/integration (Lawson, 1984; Potter et al, 2009). SOEs such as HPCL, through contributing to their own economies have been able to help their own countries become aggressive contenders domestically and internationally as part of their economic development (Carney, Gedajlovic & Yang, 2009).

6.4.4 SOEs in China and India Provided social welfare and skills development
The results demonstrate some of the complex and extended expectations on SOEs as public policy instruments to provide efficient production and social welfare to grow the economy through creating employment and developing critical skills for the productivity of the entire economy (Bai et al, 2000). ZISCO employed highly skilled graduates to improve its culture as a high performance organisation and recruited from business school to contribute to its competitive advantage and improve its performance (Huang, 2007). Similarly, IR as one of the largest railways worldwide with the second largest rail network, after China, and the second largest non-military employer after Wal-Mart, significantly contributed the development and productivity of the Indian economy (Khanna, et al, 2009). HPCL is another Fortune 500 Indian SOE with annual revenue exceeding US$27 billion (FY07-08) contributing to training, skills development and environmental management by winning awards in these areas and setting leading trends for other SOEs, and specifically energy companies (Koch & Sen, 2009).

In this regard the SOEs also exhibit the distinction between sustainable and non-sustainable businesses around emphasis on strong human capital and its link to superior and sustainable business performance (Crisp, 2006).

6.4.5 Conclusive Findings for Research Question 3

The results also show that the successful SOE contribute significantly to GDP directly through sales and indirectly through job creation or sustaining their suppliers and the value chains of their businesses. Other value additions include
contributing to social goals such as leading environmental, governance and leadership best practices as well as through encouraging and exhibiting learning and innovative practices. These results demonstrate the extent to which the state’s ownership of and public investment in SOEs can result in multiple objectives that peculiarly can be derived only from SOEs (Lawson, 1994).

The SOE have also contributed to industrialisation, country competitiveness and financial services. These SOE results clearly demonstrate that there are identifiable circumstances where SOEs are an appropriate policy instrument that does not require privatisation to perform sustainable for greater economic development (Kwoka, 2005).

6.5 How can strategic management can be used to discover guiding principles that will assist SOE improve their performance?

This research question sought to examine the relevance and applicability of the theories discussed in the literature review to SOEs and the extent to which those theories explain the SOE’s improved performance.

The key findings were:

- Commercial focus and good leadership contributed to superior performance over a sustained period (Petronas, SIA)
- A holistic strategic approach to the entire organisation improved performance (HPCL, ZISCO, Telkomsel, ONGC, SIA)
• Improved efficiencies and vertical integration contributed to improved performance
• Customer orientation (ZISCO, SIA, Telkomsel, SBI)
• Strategic international expansion and growth (all)

6.5.1 Commercial focus and good leadership contributed to superior performance over a sustained period

The results strongly show the critical role of strong competent, skilled and experienced leadership in designing and improving SOE performance. Petronas is a generally well-run company with a leadership that has developed a good reputation for administrative and financial accountability. It is relatively free from corruption. Petronas management is generally seen as highly competent and effective (Von der Mehden & Troner, 2007). According to the RBV discussed in Chapter 2, management discretion and judgment on the external environment, changes therein and their impact on the SOE (Rhenman, 1973), as well as effectively combining and synchronising the firm’s strategic resources with its core competencies and inimitable capabilities provide the competitive advantage that results in superior sustainable performance (Newbert, 2007; Hoskisson et al, 2000).

SIA’s consistent superior performance over its rivals, including the private sector competitors is attributed to the airline being ranked no.1 in the world and the key has been the acts of its management since 1972, which successfully differentiated SIA from its competitors (Sutherland & McKern, 2003). Management decisions
and responses to the Asian crisis, September 11, 2001 negative aftermath severely affecting the airline industry are again attributed for SIA surviving these crises and subsequently emerging as a leading airline (Sutherland & McKern, 2003). Similarly, SingTel’s growth strategy was clearly articulated and executed by its CEO (Heracleous & Singh, 2005).

6.5.2 Holistic strategic approach to the entire organisation improved performance

The results demonstrated that SOEs that restructured for high performance did so with a comprehensive holistic approach that enabled them also to vertically integrate for improved performance. Telkomsel undertook a strategic review to achieve market leadership in a regulated and competitive mobile telecommunications and simultaneously achieve sustained growth (Buchanan, et al, 2003). Telkomsel’s strategic initiatives to improve its performance spanned the organisational culture, structure, marketing growth and demand as well as IT as a key strategy and performance enabler (Buchanan, et al, 2003).

ZISCO’s turnaround strategy had both short-term and long-term objectives (Huang, 2007). The short-term objectives included improving productivity and functional performance, while the medium to long-term strategy related to strategy implementation to consolidate functional performance, improving integration and continuous integration and capacity building (Huang, 2007). In order to become a learning organisation HPCL restructured its organisational strategy, culture and
vision, it business unit strategy as well as its performance measures and management practices (Koch & Sen, 2009).

The holistic approach to strategic management is aligned with the RBV that the firm’s organising context and its organisational components of structure, control systems and compensation policies are necessary for proper resource exploitation and improved performance (Hult, Ketchen & Slater, 2007; Newbert, 2007; Holcomb, Holmes & Connelly, 2009).

6.5.3 Improved efficiencies and vertical integration contributed to improved performance

For most of the SOEs the results demonstrate that the change in business strategy led to improved efficiencies and vertical integration. Petrobras reallocated its capital and production and drastically cut its inputs (particularly labour) while maintaining output growth to improve productivity and performance (Bridgman, Gomes & Teixeira, 2006). OGNC and Petronas vertically integrated their business, thus achieving platforms that facilitated and eased international expansion and growth (Ramaswamy, 2008).

6.5.4 Customer orientation

The results show that customer orientation and a need to service customers were compelling drivers of the new SOE vision and reform. SIA is renowned for its
consistent quality superior service and its customer centric culture which has enabled it to have a healthy and balanced risk taking approach and a strong focussed management to enable growth focussed on servicing customers (Sutherland & McKern, 2003). In this regard, SIA views itself primarily as a service organisation (Sutherland & McKern, 2003).

Similarly, ZISCO’s approach to a value creation strategy was to seek ways to add value to customers and to integrate its products into customers’ consumption chains (Huang, 2007). Telkomsel’s turnaround strategy also focussed on customer-oriented growth underpinned by a service culture, innovation, high performance and innovation (Buchanan, et al, 2003). These strategies indicate a sophistication in business strategy where SOEs choose to use their external environment of the market for growth (Rhenman, 1973), a strategy that is used by other sustainable businesses regardless of the form of ownership (Crisp, 2006). In this regard these firms achieve an advantage over their rivals by bundling and redeploying resources to reinforce and align the firm with its strategic and competitive context (Holcomb et al, 2009).

6.5.5 Strategic international expansion and growth

The results demonstrate that for most SOEs growth was achieved through targeted international expansion. SingTel targeted and invested substantially in international operations in East and South Asia, Australia and Europe (Heracleous & Singh, 2005). Temasek targeted high growth Asian markets such as China and India (Chatterjee & Dhar, 2006). SIA focussed on good airlines with strong
management and complementary networks and which were poised to mature at a high growth rate (Sutherland & McKern, 2003). This strategic approach has enabled SOEs to obtain rents and manage the social context of its resources (Hennart, 1994; Hoskisson et al, 2000).

6.5.6 Conclusive Findings for Research Question 4

The results show that SOEs that initiated strategic changes improved their profitability and performance significantly. Some of the changes were fundamental and the SOE were able to contribute significantly to other socio-economic and sustainability activities such as environmental management (HPCL) resulting in fundamental changes in which the SOE does business becoming innovative and learning organisations (Koch & Sen, 2009).

As the RBV posits, organisations, including SOE, that exploit and leverage their context, symbiotic government relationships to develop capabilities and innovatively combine all these factors for superior performance (Hoskisson et al, 2000). Ultimately, the research indicates that dynamic and strong visionary leadership can contribute significantly to this (Newbert, 2007). In the case studies researched, whenever an SOE confronted adverse structural changes from its environment, the leadership’s decisions responding to such adversity determined whether the SOE would come out on top (SIA, SBI, ZISCO, Beijing Capital Group, Petronas, Petrobras, THE AIRLINE, Eskom, Indian Railways, Telkomsel, SingTel, Temasek) (Rhenman, 1973; Holcomb et al, 2007; Newbert, 2007).
The results also show that in line with the RBV, restructuring for sustainable competitive advantage and superior performance were accompanied with changes in organisation structure, control systems and compensation policies. Finally, the results also indicated that those SOE who initiated restructuring focussing on strategic management also sought to innovate continuously (ZISCO, HPCL, SDI).

6.5 Do SOEs in South Africa operate and compete under similar conditions as SOEs in other developing countries?

The interviews conducted indicated that there is a level of government involvement with SOE. However, the nature and extent of such involvement differs in its ability to contribute to the SOEs’ superior performance and sustainable competitive advantage.

The key highlights of the results are the following:

- Good leadership, technical competence but no commercial focus;
- Lack of clarity of roles and responsibilities between government as shareholder, SOEs and other key stakeholders;
- Limited operational autonomy;

6.6.1 Leadership, technical competence and lack of commercial focus

The results also indicated a lack of strategic focus and management at SOE. While the management acknowledges that strategic management and focus are
some of the critical factors for SOE success, they do not readily implement such
strategic management and focus.

Having strong leadership was a critical success factor identified in the results
linking to the RBV that attaining sustainable competitive advantage requires an
organisational leadership that is aware of the organisation’s inimitable capabilities
and is able to leverage these within its context to achieve such competitive
advantage and superior performance.

Therefore there appears to be a dissonance between the SOE leadership and its
environment (Rhenmann 1973). Given Rhenman’s (1973) argument that effective
leadership is about the interpretation of one’s context and environment and
aligning one’s actions to optimize and leverage off any changes presented by the
environment, it is arguable whether SOE leadership itself is effective. Institutional
theory, organizational theory and RBV maintain that effective organisations learn to
identify their contexts and align the organisation’s values and behaviour to that
context in order to compete and perform successfully.

History and business management prove time and again that organisations that
have sustainable competitive advantage and superior performance are those that
are able to build future strategic positions using their external environment to
anticipate changes and align their internal arrangements and business choices to
the values and systems of their external environments.
6.6.2 Lack of clarity of roles and responsibilities between government as shareholder, SOEs and other key stakeholders

The common theme from the interviews was that there was lack of clarity from government with regard to SOE mandate, roles and responsibilities vis-a-vis the shareholder, board and management of SOE. Often Government appeared to interfere in the SOE creating further confusion around roles, responsibilities and ultimately accountability of the Board and management. This impeded management’s ability to run the SOE and create a sustainable enterprise that adds value to the economy. Lack of trust was also identified as a critical impediment to empowering the Board and management to run the SOE taking into account Government’s objectives and strategic intent.

Thus strict adherence and enforcement of corporate governance principles is required. While it is acknowledged that in a developing country there may be socio-economic initiatives that government wants to undertake and implement through SOE, there should be clear transparency, accountability and empowered decision making by the SOE on these issues. The ability of successful SOE in countries such as China, India, Malaysia and Indonesia to balance successfully between government socio-economic directives and maintaining a competitive and financially successful SOE requires further study. In particular, Petronas’ ability to navigate government requirements to fund what appear to be unviable projects and yet manage to turn those into profit also requires further scrutiny.
In other developing countries it appears that trust is built through deploying former party or government leadership into SOE Boards or senior management. This helps to address the inherent conflict of agency theory. In addition, in other developing countries there is a collaborative and partnership relationship between government and its institutions and even the private sector, which undermines the inherent conflict of agency theory.

The results further indicate a lack of co-ordinated and integrated planning from the South African government and an inability to balance its different roles as policy maker, regulatory and shareholder.

It further appears that both government and SOE should understand and be clearer about SOE as “co-ordinating mechanisms that synchronise the actions of different economic and social agents.” (Sim, et al, 2003).

Given the large number of SOE, including key SOE such as Transnet and the SABC where there is a leadership vacuum, the results indicate that South African SOE also operate under destabilising conditions and significant uncertainty, particularly where leadership battles are fought publicly and turn around for any decision making is extremely long. This impedes the SOE’s ability to operate effectively sd outlines in the literature review in Chapter 2).

6.6.3  Limited operational autonomy
Lack of autonomy is another critical factor plaguing South African SOE, in terms of the interview results. There also generally appears to be a lack of foresight, vision and planning. In this regard Singapore’s example is instructive as is that of China where governments have been able to grow their respective economies through rigorous planning and vision to benefit their populations, albeit managing their SOE in different manners.

**Conclusive Findings for Research Question 5**

South African SOEs lack good leadership, technical competence or commercial focus. The leadership appears unable to understand, anticipate and exploit the SOE’s external environment for superior performance. While some SOEs may have some or one of the above elements, SOE leadership appears unable to conduct strategic management by combining the SOE’s resources with its inimitable core capabilities and take decisions and exercise judgment and discretion to gain competitive advantage and sustainable superior performance.

50% of the SOE executives interviewed did not indicate a service or customer focus. This again links to the SOE’s ability to maximise on its external environment which includes its customers in order to improve its performance.

SOEs and their government shareholder are not aligned with regards to objectives, goals and visions. There is no trust relationship, no co-ordinated or cohesive planning.
Only 25% of SOE executives interviewed indicated operational autonomy. The rest all strongly highlighted irrational government interference through regulatory uncertainty (irrational regulation), different instructions from different government departments, duplication of oversight, lack of oversight skill in Government and the legislature and lack of focus by government and the SOEs themselves.

6.7 What Common factors and themes can be developed for similar SOE in other developing countries?

This research question sought to develop the critical framework for guiding SOE performance improvement in developing countries across the world and form the crux of the study.

The common factors that emerged from the research are the following:

- Strong competent, skilled and experienced leadership
- Sound trust relationship between government as shareholder and the SOE, including possible government representation at Board and/or senior management level
- Long-range planning and strategic vision and implementation
- Operationalising strategy through aligning organisational design

6.7.1 Strong competent, skilled and experienced leadership
SOE like all organisations require strong visionary leadership that is able to lead the organisation to interact and leverage off its external environment, anticipate changes and be sufficiently agile to exploit those changes for its benefit.

6.7.2 Long range planning and strategic vision

These SOE also vertically integrated their operations and are expected by their governments to behave as commercial entities and be profitable. These SOE are also seen to have good leadership, an effective and competent management. The SOE also have some level of autonomy in their daily operations.

The SOE also operate internationally to diversify and increase their revenue source. In implementing their international expansions and growth, the SOE have clearly targeted acquisition companies with specific criteria on acquisitions, which is aligned to the SOE’s business and growth strategy. The SOE focus on growth markets, particularly in developing countries and also seek opportunities in non traditional markets that rival multinational companies from developed countries ordinarily would not target. This can be seen to be facilitated by the SOE’s government relations with the non traditional developing country governments.

Delivery work ethic is another common factor, the entire organisation and its shareholder working towards the primary goal of financially successfully SOE whose dividends, earnings and taxes can be used for social development. This requires good leadership and a high performance culture that results in productivity and ultimately competitiveness and superior performance. Such culture requires
the organisational structure, value systems and compensation to be aligned towards achieving high performance and productivity.

The results show that SOE that sought to improve their productivity increased their revenue and profits. In addition, these SOE were able to successfully fund other government projects and turn such projects into profitable ventures, a multiplier effect that added further value to the country’s economy through dividends, earnings and taxes, job creation and generally improving the living standards of not only the specific SOE’s employees, but its subsidiaries and the SOE or institutions in which it invested. Petronas is a case in point on this issue.

In addition, these SOE were able to reduce their costs, increase value for customers and contribute to their own competitiveness and superior performance through the additional revenue and profits earned from the satisfied customers. It also meant the SOE had net cash and could expand their business without using debt (which is unsustainable) to fund their expansion activities.

The results also show that once they had achieved a successful business turn around the SOE became customer centric, seeking to innovate and increase their sustainability. Such growth and sustainability could then place the SOE in a position to become global players and invest in developing countries which are viewed by developed countries to be unattractive investment destinations, particularly in Africa and Asia. This creates an opportunity for technology and skills transfer in the investment destinations where other developing countries can also grow their own economies and reduce their debt and dependence on donors and...
investors becoming self sufficient and independent, a reciprocal rather than a paternalistic engagement/relationship.

Using consistency and a healthy risk appetite to realise the SOE’s long-term objectives are also factors that emerged from the results and are aligned to the literature discussed in Chapter 2 on institutional theory, organisation theory and RBV. Consistency includes strict enforcement of criteria, goals and decisions to achieve the SOE’s and the government’s long-term objectives.

6.6.9 Competition or the threat of competition either within the relevant industry or among the portfolio of SOE appears to be another common factor. Thus even with SOE that are natural monopolies there should be some form of competition that will fuel the actions of the SOE’s management. This can be done through enforcement of set performance targets and as part of broader performance management. Cross border transactions and expansion can also introduce competition and incentives to perform for SOE that are monopolies. The threat of disinvestment, the policy of “survival of the fittest” as undertaken by other SOE groups also appears to be another great incentive for SOE performance.

Finally, the results demonstrate that a collaborative partnership and proper stakeholder management contributes to SOE success.

6.7.3 Conclusive Findings for Research Question 6
Successfully performing SOEs have appropriately skilled and competent leadership at Board and management level. This includes leadership that can exercise discretion and judgment to exploit the external environment and undertake strategic management as discussed in Chapter 2 to improve the SOE’s performance.

SOEs should have strong human capital which includes performance measure and management.

There should be clear roles and responsibilities between the government and the SOE, which may include government representation at the SOE Board or senior management.

Shareholder expectations should be aligned with SOE vision, strategy and performance.

Government and SOE leadership should undertake long-term planning to create performance certainty and stability.

SOEs require operational autonomy for high performance.

SOEs should have a service or customer centric culture and goal and should design their organisations to support the achievement of such culture and goal.
Conclusion of discussion

The research findings validate the general literature on the strategic management of SOE and the requirement for strong SOE leadership. The institutional analysis discussed in Chapter 2 indicates a new role for SOE leaders as transformational leaders using collaborative networks in the internal organisation and its external environment to make choices and guide the organisation towards the identified outcome of sustainable superior performance (Garson, 1998). The findings also validate the literature on the need for a collaborative partnership between SOE and their stakeholders, particularly the government to optimise on the SOE’s environment for economic success.

The research objectives in Chapters 2 and 3 have been met.
Chapter 7: Conclusion

7.1 Introduction

This Chapter highlights the main findings of the research and pulls the results together into a cohesive set of findings. The Chapter discusses the Common Factors Framework for sustainable superior SOE performance in developing countries.

Recommendations for SOE management, policy makers and academics are based on the framework and the findings. The chapter ends with a discussion of the research limitations and recommendations for future research.

7.2 Highlights of the Research Findings

It is arguable that to the extent that the external environment in terms of both institutional theory (old and new) and organisation theory, impacts all organisations, for SOE the impact is generally positive where there is strong leadership. The results show that most SOE evolve from a quasi-regulatory (SBI, Telkomsel, Telkom in South Africa, ACSA, Eskom) function to a commercial function.

The SOEs that have demonstrated superior sustainable performance both in the short and long-term appear not only to have been focussed on the profit motive, but also to have understood the relationship between the SOE’s assets and the
changing nature of the institutional infrastructure and industry characteristics (Hoskisson et al, 2000). Petronas and Temasek are some of the most clear illustrations of the intersection between the state and the market (Thibodeau et al, 2007), which enables government to intervene in the economy as a form of public sector entrepreneurship (Bernier & Simard, 2007) for economic growth and development.

The results show that some of the SOE have existed for over 35 years and remain profitable enterprises even under state ownership. These SOE have become Fortune 500 global players who contribute to their country economies through earnings, funding and other financial means. These SOE have been able to exploit their core competencies, resources and combine these with the value systems from their environments through innovative means. This has largely been driven by a competent and effective leadership who are actors, rather than passive observers (Dacin, Goodstein and Scott, 2002).

SOEs that have undertaken major reform to improve their performance have undergone substantive reforms for the entire organisation from its vision and culture to performance measures and management and finally functional performance. Such deep reforms appear to have contributed to improved performance.

In addition, these reforms have largely focussed on serving customers and being attuned to customer demand or even acting ahead of customer demand and innovating to create customer needs for the SOE’s product. Only half of the South
African SOEs interviewed exhibited a similar customer orientation and service focus.

The constraints identified by the South African SOEs can be addressed by consistently implementing the Common factors framework.

7.2.1 Contributions of this research

The literature on strategic management and institutionalism was designed primarily for private sector companies. This study contributes to this literature by showing that these strategic management theories can be applied to SOEs, particularly those that are incorporated as companies and that compete or interact with the private sector in different ways, which may include providing input services, funding, commercial transaction, partnerships and other forms of collaboration.

The literature on SOEs and their ownership and role in the economy is limited on factors that can contribute to SOE success, and is limited in discussing SOE success, generally. The study also contributes to this body of knowledge by exploring the success factors for SOEs in developing economies and explaining some of the factors that have allowed these SOEs to be effective tools for economic development and growth in developing countries.

The research also provides empirical support for the use of SOEs as effective public policy tools under the conditions discussed in the research. Thus the research provides an opportunity for future researchers to measure the effective of
these factors in all SOEs and whether those SOEs which fail to succeed have not implemented the identified success factors.

7.3 Common SOE Success Factors Framework

The framework shows where the research results have been consistent with existing literature, and where new, contradictory results are challenging the status quo. The framework uses the research results compared to certain identified common factors to highlight the superior sustainable performance of SOEs exhibiting the same factors.

The specific areas that are new or contradict literature are:

- SOEs have a very close link with their external environment which may contradict accepted corporate governance principles in developed countries
- SOEs can perform successfully over a sustainable period and help integrate their countries and economies into the global system
- SOEs have good leadership which can also be found in government
- State intervention in the economy can positively generate sustainable economic growth and development
- Privatisation is not the panacea to ensure sustainable superior performance for SOEs
- SOEs can perform as successfully and along similar lines as private sector business for more than profit maximisation
- Successfully performing SOEs are customer centric
The SOE common success factors framework is based on research results combined with the strategic management theoretical framework. This framework can assist SOE managers seeking to improve the performance of their organisations.

### 7.4 Implications for SOE managers/leadership and other stakeholders

This research empirically proves that poorly performing SOEs can improve their performance by, amongst others, applying strategic management reforms in their organisations (Refer to research results on Research Question 4 and 6). Managers intending to reform their SOEs to reverse the trend of declining revenue and operations should apply the Common Success factors for SOEs in developing countries.

Similarly, policy makers, government shareholders and the Legislature should consider and utilise the success elements and experience of the high performing SOEs in developing countries in Asia and Latin America to understand and better improve their policy formulation and SOE oversight.

It is important that SOE managers and policy makers are aware that these identified factors operated within a specific context of a trust relationship and where government created the necessary conditions for SOEs to improve their performance. Strategy implementation is incremental and is over a long period. Thus the managers and policy makers should not take a shotgun approach to reforming the SOEs for improved performance.
7.5 Research Limitations and Recommendations for Future Research

This research has revealed some interesting findings and future research could focus on explaining the causes and/or implications of these. Some research limitations and suggestions for further research are given below:

7.5.1 Population

An obvious limitation is the limited data from South African SOEs and the narrow focus of the research on SOEs that are incorporated as companies and compete with private sector companies. The population could be expanded by future researchers to include non-company SOEs or SOEs operating as monopolies and are servicing the private sector. It may also be interesting to research SOEs that exhibited similar factors identified in the framework but could not sustain their performance. Future research on SOEs from developing countries and their performance and its impact on the economy could be very valuable, especially in determining if the similar factors contribute to the SOE’s success. Future research can also trace the performance trends of SOEs in developing countries to determine if these were dips in performance and what factors accounted for such dips. The research can track any possible factors compelling the decision to reverse revenues of developing country SOEs and improve performance.

7.5.2 Interview Guide
The interview guide was developed to provide an understanding of the experience of South African SOEs. Future researchers may consider sharing some of the experience of SOEs from other developing countries with the South African SOEs and allowing the South African SOEs themselves to compare.

7.5.3 Corporate governance principles

This research did not consider the regulatory and legislative framework governing the SOEs in the area of corporate governance. It must be noted that the SOEs researched all operate within a different commercial law regime, and thus may have different corporate governance principles. Future researchers could research SOEs operating in civil law developing countries to determine if it is possible to have similarly close ties with shareholders.

7.6 Conclusion

This research has challenged some of the accepted literature on the performance of SOEs and Agency Theory, while also confirming other aspects of the literature on strategic management (institutionalism, organisational theory and Resource Based View). The findings have contributed to the body of knowledge through offering new perspectives on the value added by SOEs to economic growth and high performance.

Presenting the results from this research in the form of a framework offers a guiding principle for implementation for SOE management and policy makers. The
framework offers integrated guides against which SOE reform initiatives can be measures against performance.
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APPENDIX A : INFORMED CONSENT LETTER

I am conducting research on guiding principles for sustainable state-owned enterprises (SOEs), and am trying to find out more about how South African SOEs can add value to the economy. Our interview is expected to last about an hour, and will help us understand how South African SOEs perform compared to SOEs from other developing countries and the SOEs contribution to economic development.

Your participation is voluntary and you can withdraw at any time without penalty. Please note that all data will be kept confidential. If you have any concerns, please contact me or my supervisor. Our details are provided below.

Researcher Name: Ursula Fikelepi
Email: Fikelepi@hotmail.com
Phone: 083 288 0353

Research supervisor Name: John North
Email: john@hypernorth.com
Phone: +27 82 089 37 38

Signature of participant: ________________________________

Date: ________________

© University of Pretoria
Signature of Researcher: ______________________________________

Date: ______________________
1. What is the relationship of a SOE to its external environment?

2. Describe the relationship of a SOE to its shareholder. Is it different to a private sector company’s shareholder and the public?

3. Discuss the relationship of values of a SOE to that of its environment and its shareholder?

4. What changes should South African SOE companies undertake in order to transform to sustainable enterprises?

5. How can SOE companies in South Africa create value in the economy?

6. Is long-range planning necessary for the performance of SOE companies and what should be the form of such long-range planning? Make it an open question

7. Are there similarities between SOE companies from different countries and from the developing countries’? Make it an open question

8. Can SOE companies compete against private sector companies in the same industry? Make it an open question

9. Why do SOE companies from other developing countries perform better than South African SOCs?

10. What are the success factors for these better performing SOEs? [you can use different measures to explain such successes]

11. Are there any learnings from these SOEs in other developing countries?
<table>
<thead>
<tr>
<th>PROPOSITIONS/QUESTIONS/HYPOTHESES</th>
<th>LITERATURE REVIEW</th>
<th>DATA COLLECTION TOOL</th>
<th>ANALYSIS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Research question 1</strong></td>
<td>Rhenman, 1973</td>
<td>Questions 1 &amp; 3 in questionnaire</td>
<td>An organisation is a system of systems that co-ordinates and synchronising actions of different economic and social agents</td>
</tr>
<tr>
<td>What is the nature of organisations and is there a relationship between the organisation and its environment?</td>
<td>Sim, Ong, Agarwal, Parsa and Keivani, 2003</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Research question 2</strong></td>
<td>Thibodeau, Evans III, Nagaran, Whittle, 2007</td>
<td>Question 2</td>
<td>SOCs are public policy instruments through which the government intervenes in the economy and are charged with a multiple of tasks</td>
</tr>
<tr>
<td>What is the nature of SOCs and does the type of organisation impact the performance of</td>
<td>Bernier and Simard, 2007</td>
<td></td>
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<td>Research question 3</td>
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<tr>
<td>What factors are common to performing SOCs in emerging economies and can these factors be applied to SOCs in other emerging economies that operate in competitive industries?</td>
<td>Raguraman, 1997</td>
<td>Questions 5, 7, 8 &amp; 9</td>
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<td>Heracleous and Witz, 2009</td>
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<td>Ramirez and Ling Hui Tan, 2004</td>
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<td>Research question 4</td>
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<tr>
<td>How can non-Rhenman, 1973</td>
<td>Questions 4, 6 &amp; 10</td>
<td>Transforming SOCs constitutes institutional</td>
<td></td>
</tr>
</tbody>
</table>
performing SOCs be transformed to improve sustainability and performance?

| Jaafar, Nuruddin, Lai, 2010 |
| Crisp, 2006 |
| Aivazia, Ge, Qui, 2005 |

APPENDIX D: INTERVIEW AND CASE STUDY RESEARCH METHODOLOGY

You don’t have propositions???

The following research questions were tested against the interview data:

- State ownership does not determine the performance and success of a SOE
- SOE contribute to economic development and are critical instruments for government’s development objectives
- SOE in South Africa operate and compete under similar conditions as SOE in other developing countries
- Common factors and themes can be developed for similar type SOE operating within similar industry structures throughout the developing world.
The following criteria was used to test the quality of the empirical research in the case studies (Yin, K.R. 2009)

<table>
<thead>
<tr>
<th>TESTS</th>
<th>Case study tactic</th>
<th>Phase of research in which tactic occurs</th>
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<tbody>
<tr>
<td>Construct validity</td>
<td>• Use multiple sources of evidence&lt;br&gt;• Establish chain of evidence&lt;br&gt;• Have key informants review draft case study report</td>
<td>data collection&lt;br&gt;data collection&lt;br&gt;composition</td>
</tr>
<tr>
<td>internal validity</td>
<td>• Do pattern matching&lt;br&gt;• Do explanation building&lt;br&gt;• Address rival explanations&lt;br&gt;• Use logic models</td>
<td>data analysis&lt;br&gt;data analysis&lt;br&gt;data analysis&lt;br&gt;data analysis</td>
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<tr>
<td>external validity</td>
<td>• Use theory in single-case studies&lt;br&gt;• Use replication logic in multiple-case studies</td>
<td>research design&lt;br&gt;research design</td>
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<tr>
<td>Reliability</td>
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<tr>
<td>- Use case study protocol</td>
<td>data collection</td>
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<tr>
<td>- Develop case study database</td>
<td>data collection</td>
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(Yin, R, K 2009)
The following five analytical techniques were considered and some used in analysing the data and evidence from the different case studies: (Yin, R, K 2009) in your chapter 4, include the ones that you actually used. You actually need a very summarised version in chapter 3 under analysis. Not necessary to have it as an appendix

The concern of the case study analysis is with the overall pattern of results and the degree to which the observed pattern matches the predicted one.

1. **Explanation Building**

   The goal of this technique is to analyse the case study data by building an explanation about the case. The procedure is mainly relevant to explanatory case studies. The case study evidence is examined, theoretical positions revised, and the evidence is examined once again from a new perspective in an iterative mode. The objective is to show how these rival explanations cannot be supported, given the actual set of case study events.

2. **Time-Series Analysis**

   This analysis is directly analogous to the time-series analysis conducted in experiments and quasi-experiments.

   The essential logic underlying a time-series design is the match between the observed (empirical) trend and either of the following: (a) a
theoretically significant trend specified before the onset of the investigation, or (b) some rival trend, also specified earlier.

3. Logic Models

This technique is especially useful in case study evaluations. The model deliberately stipulates a complex chain of events over an extended period of time. The events are staged in repeated cause-effect-cause-effect patterns, whereby a dependent variable (event) at an earlier stage.

As an analytical technique, the use of logic models consists of matching empirically observed events to theoretically predicted events. An analysis could rival chains of events as well as the potential importance of spurious external events.

4. Cross-case Synthesis

This technique applies specifically to the analysis of multiple cases. The analysis is likely to be easier and findings likely to be more robust than having only a single case. Having more than two cases should strengthen the findings even further.

The technique treats each individual case study as a separate study. It aggregates findings across a series of individual studies.

In case study reports consider the following:
• Targeting case study reports: consider the likely or preferred audience and reporting formats. Successful communication with more than one audience may mean the need for more than one version of a case study report.
5.2 Interviews

5.2.1 Mr Mohamed Adam – Corporate counsel from Energy SOE

The Corporate Counsel has been with the SOE since 1997. The interview was held on 13 August 2010 at the SOE offices, Megawatt Park, Sunninghill, Johannesburg. The following themes emerged from the interview: (a) success elements and factors; (b) load shedding – end of the good times); (c) agency theory; (d) competitive advantage.

(a) Success elements and factors

The Corporate Counsel stated that what he considered to have been the success elements for the SOE in the past few years are: good leadership, technical competence, subsidised electricity price. This was due to the SOE acting in the national interest. Thus the focus became more on technical excellence at the expense of the commercial aspects of the business, namely contract management and contract negotiation. Contract negotiation and management still plague the SOE today and limited its ability to appropriately allocate power to its customers during the load shedding.

The company lacked commercial cutting edge similar to conglomerates such as South African Breweries, which includes operational efficiency. However, the SOE’s leadership had to consider
and balance the developmental mandate. There was a general sense of unity within the SOE because national interest was the sole purpose around which everyone converged.

Key success factors for most companies, including SOE, are that the organisation values and respects good governance. “the SOE specifically had a specific culture that is action oriented and has a delivery work ethic. Other success elements for organisations generally include operational excellence; a partnership with labour, rather than an abusive, disrespectful relationship based on entitlement, as is currently the case.”

Additional success elements are a courageous leadership that can deal with change, while management deals with complexity. For SOE, the external environment impacts are greater.

(b) Load shedding (Unplanned power outages)

The SOE was established in 1923 to provide electricity at no profit/loss. In the 1980s the mandate provides electricity in the national interest, subject to resource constraints. The requirement was included in the SOE’s shareholder compact concluded with the Minister of Public Enterprises as its shareholder representative.

The unplanned power outages had a huge impact on the SOE, especially on its reputation and stakeholder relations. The load
shedding made the SOE realise that it had no proper stakeholder relationship management. Consequently, the SOE realised that what was crucial in a relationship with stakeholders was how to make tradeoffs and provide real alternatives.

Key success factors for most companies, including SOE, are that the organisation values and respects good governance. “The SOE specifically had a specific culture that is action oriented and has a delivery work ethic. Other success elements for organisations generally include operational excellence; a partnership with labour, rather than an abusive, disrespectful relationship based on entitlement, as is currently the case.” (Corporate Counsel, 13 August 2010)

Additional success elements are a courageous leadership that can deal with change, while management deals with complexity. For SOE, the external environment impacts are greater.

(c) Sustainability

The Corporate Counsel stated that, this is the ability to extract efficiencies from any organisation, regardless of the ownership form. For the private sector this means commercial discipline and focus, fresh thinking. By contrast, for the state a weak area of potential disadvantage is its bureaucracy, which hampers its ability to make critical decisions. Lack of clarity regarding roles and
responsibilities impedes sustainability; thus it is important to ensure appropriateness of different parties’ roles going forward. Government must be a responsible shareholder. Good governance will assist government and SOE in determining appropriate roles and responsibilities for each.

(d) Agency Theory

The Corporate Counsel stated that, the theory refers to conflict and healthy tension, which is best managed by the Board. “Management sees things from management’s side. However, there is the danger of dogma which results in parochial vision, where people climb on their hobby horses. It is important that the Board be dispassionate and always considers what is in the best interests of the company.” Incentives should be structured to ensure checks and balances especially against prevailing paradigms. There should be some distance between executive and non-executive directors.

(e) Competitive advantage

The Corporate Counsel stated that the SOE is still busy on the exercise of core competencies in the areas of: operational skills, infrastructure planning and developing, prepaid technology as well as distribution to historically disadvantaged areas. Competencies to be improved upon and developed include building power
stations. As a utility manager, the SOE has neither innovative capacity nor commercial competence.

The SOE subsidiary lacked commercial focus and consequently concluded bad deals and took bad decisions. The corporatisation and commercialisation of the SOE introduced a complex governance system with a management board and electricity council. Political interference was and continues to be a huge threat in terms of leadership, governance and funding for SOEs.

According to the Corporate Counsel, what is required from Government is to set clear targets and let the SOE perform and deliver. Trust is fundamental to this notion of allowing the SOE to perform. Government discipline on roles and responsibilities is required. SOE leadership should be empowered to provide role clarity and performance management and hold the Board accountable. Strategic management requires an appropriately skilled board with a cascading effect on the types of questions asked.

2) Acting CEO of Transport SOE

The Acting CEO of the Transport SOE prior to being the interviewee was the Chief Director: Corporate Finance at the Department of Public Enterprises (DPE),
and subsequently joined the Department of Transport (DoT) as the DDG: Corporate Finance/transactions.

The following themes were discussed with the acting CEO:

- Strategic management of SOE;
- How South African SOE compare to SOE from other emerging economies; and
- The developmental state

a) Strategic Management

SOE can have successful partnerships with private sector entities, however partnerships should be chosen very carefully. An example of a successful SOE partnership with the private sector is that of ACSA with Airport di Roma, which contributed to ACSA’s success, which ACSA continues to experience today.

The acting CEO stated that Strategic management is about an appropriately skilled board as well as alignment between SOE management and the shareholder. A regulator who has a rational view of the entire economy and intends to make the industry sustainable, also contributes to the strategic management of SOE. The regulator should operate in the interests of the country, not just the public. A sustainable economy also requires an economic regulator for each sector.

A SOE’s organisational vision is informed by the shareholder and developed by the Board. The CEO implements the vision, such as is the case in private
sector multinationals such as MTN, Standard Bank, Investec and so forth. Management cannot succeed if the shareholder has not set the vision. The shareholder must understand the strategic nature and levers for each SOE. “There should be clarity on where Government should play, for example in strategic industries where government should invest and grow the industry. Such industries could include maritime services. Other areas government should consider are to increase and focus on research and development spend. It is critical for government to plan and set goals for SOE and for each sector.” (Acting CEO, 16 Aug 2010). This can also be co-ordinated by the Department of Trade and Industry. Based on the Acting CEO comments it appears that better co-ordination is required between the different government entities and departments to ensure coherent, achievable and effective strategies and economic growth using SOE and other tools.

b) How South African SOE compare to SOE from other developing countries

According to the Acting CEO economically successful developing countries succeed because of focus and certainty in planning. Singapore has a master plan for a 100 year period. This provides certainty about the country’s future especially when investing because it allows for proper planning by investors and the country. The government and policy makers set the goal to be achieved and assess the plans and policies then consolidate these based on that goal.

c) Developmental state
One should consider the geopolitical position of such state, including its neighbours as well as its foreign policy position. This includes cross border rail links or power links, as can be seen in the SOE model, which has built and partners with neighbouring African countries’ power utilities to supply electricity. Other examples include ACSA and its public-private partnership (PPP) operations, for example, in India.

3) Acting Chief Risk Officer for Airline

The acting Chief Risk Officer and a member of airline’s Executive Committee. Prior to that he was the Chief Director: Risk Management at DPE.

According to the acting Chief Risk there are no successful SOE in South Africa. Even the ones who previously performed well now find themselves in controversy (examples include SASRIA). ACSA and THE AIRLINE are possibly successful. The themes emerging from the discussion with the acting Chief Risk include: success factors; differences between public and private sector shareholders, how SOE create value; similarities between SOEs from developing countries; and key learnings.

a) Success factors

The CRO reported that critical factor for success is stability at top management: stable leadership, predictability, delivery on mandate, good corporate governance (reputation is the measure), independent funding /
support from government. Success is a combination of all these factors.

“Poor corporate governance, especially patronage from the Presidency and downwards can cause impediments especially when people cannot speak out.” (Acting CRO, 25 Aug 2010)

According to the Acting CRO the airline is currently running inefficient fleet because of Government’s industrialisation policy and its National Industrialisation Participation Programme (NIPP) package championed by the Department of Trade and Industry (dti), which ignores SOE specific issues. It ignores the SOE’s competitive environment and landscape, which constrain the SOE’s ability in commercial negotiations resulting in SOE paying higher prices than its competitors. This, in turn, increases the SOE’s cost base and makes it uncompetitive.

NIPP is only one window and speaks to direct beneficiation and excludes the indirect benefits (such as revenue for SOE from foreign denominated currency). Government must consider a cohesive holistic national approach, which is currently lacking. For example, Emirates considers its entire value chain and the focus is on the priorities of the nation. The South African government should consider integrated planning.

(b) Differences between a public and private sector shareholders

The acting CRO stated that A private sector shareholder has a clear focus on expected outcomes from SOEs different departments have different views
and have an impact on SOE. For example, on one hand the dti and the DoT awards aviation, the airline licences by considering routes emphasising the dti’s trade and tourism ties. In Contrast the DPE and National Treasury focus on sustainable performance which requires the airline to consider profitable routes, which sometimes are not necessarily those where South Africa has trade links. A coherent shareholder should focus on shareholder return. There is constant government interference (as seen with the SABC governance debacles relating to its Board and CEO). SOE also must contend with an overzealous Legislature often acting *ultra vires* – beyond its mandate.

(c) How SOE create value in the economy

The acting CRO further stated that SOEs create value through security of supply and industry definition. SOEs define the industry by creating networks and hubs (hub and spoke principle). SOEs also invest in areas where the private sector would not go. For example, there are sectors with high entry barriers because of capital intensive investments. These would include water, electricity, pipelines etc. Long range planning should be cohesive and integrated.

SOE values are not independent of their government shareholder because SOE are the delivery vehicle for the shareholder. “*What is required from the shareholder is clarity of expectations, mandate and management should be allowed to manage the SOE.*” (Acting CRO, 25 Aug 2010) constructive
oversight is required; where the shareholder engages with the SOE, is clear on its definition of oversight and has the necessary skills and capacity to implement effective oversight. Patronage, personal enrichment and personal interests should be excluded.

Irrational regulation impedes SOE success. In this regard, the airline faces an annual threat of licence suspension as a result of overregulation and legacy. It is the only airline operating in South Africa with this constant threat and this constitutes an additional risk that is difficult to manage. Another legacy matter that inhibits SOEs success is onerous legacy contracts. These impediments detract from management’s time and resources to run the business effectively.

(d) Similarities between SOE from developing countries

The Acting CRO identified poor infrastructure, lack of infrastructure investment and capital funding as commonalities in developing countries. These clearly constrain SOE growth and success. These appear to be linked to uncertainty or the government’s lack of focus on the rationale for establishing SOE rather than implementing government objectives and policy using other instruments. “Where SOEs are established, it allow them to operate freely and , consider the rationale for establishing a SOE.”
(e) Key learnings

The acting CRO reported that Singapore can provide learnings on singularity in expectations: support and co-operation between SOEs and government.

4. CEO of Regional Airline

The CEO has been with the airline for more than 5 years in different capacities. The themes emerging from the interview are SOE success factors, lessons from other developing countries and SOE value contribution.

(a) Success factors

The CEO attributes the airline success to the relative autonomy it has from government. Government has only been involved with the airline at Board level through Board appointments. There is no government involvement in the company’s commercial affairs. Government even protects THE AIRLINE against undue Parliamentary interference. For example, when Parliament wanted to interfere on the airline’s ticket pricing, there was unanimous response that this was undue interference in the airline’s commercial affairs.

The airline has clearly defined mandate which contributes to success. This enables the airline to plan effectively. As part of its strategic management for success, the airline focuses on talent attraction and recruitment from any sector. The airline `appoints high performers. Management sets the
company direction with some government influence. Good internal leadership at executive management and Board level. Consequently, there is a clear strategy from management. There are agreed performance measures with government which are monitored and the airline delivers on these.

The CEO reported that the airline was already successful when it was unbundled from its parent company Limited, a freight logistics SOE. As a small airline, it was shielded from interference because of clear responsibilities. There has been a control of information access and government has respected the airline’s ability to deliver and clearly communicate changes. “Large SOEs should fix communication channels and have less media visibility.” Examples of these are the media controversies relating to governance and the SOEs’ willingness to run to the media whenever there are disagreements with government). It is necessary for SOE management to distinguish between internal management issues and those that require external communication. “Building internal relationships and trust – spend a lot of time internally. As you plan, build credibility by implementing some quick wins.” (CEO, 28 Aug 2010)

According to the CEO, the airline has quick decision making and is stable. It took 3 months to appoint a new CEO and the airline has had the same executive management team for 6 years. Political interference contributes to
high leadership turnover the airline had a 5 year strategy and disciplined implementation of that strategy.

Sustainability requires all companies to have a developmental mandate (e.g. King III). CSI, environmental sustainability and profitability all go together and must be balanced. For example, pilots are a scarce skill, this requires investment in education and training. In the short term management must be competent and convince the Board on the long-term planning of contributing to the education and training of future pilots. The Board encourages the focus on sustainability, and incremental strategy implementation.

Another example is with communities. Sometimes communities can protect a company’s assets. For example, the airline had an instance with wild animals on the runway. the airline got the army and the community to assist in removing the wild animals. Prior to getting this community and security force involvement, a the airline plane had been hit by a bird that got into the engine and damaged the aircraft, grounding it for 4 months. This resulted in the airline becoming involved in bird conservation, including even choosing to fly at night in far flung, remote and rural areas so as not to disturb animals – which has good benefits for flying visibility and preserving assets. Sweating the assets increases insurance premiums because the aircraft is flying in poor conditions.

The airline has not yet been forced to undertake irrational developments at government’s behest for socio-economic development but which SOE
management believes are not financially viable. However, where this happens, government should subsidise such developments.

(b) Learnings from SOEs from other developing countries

The CEO states that having a competent and experienced Board in the relevant industry and appointing good leadership. Leadership should be bold enough to appoint good management (e.g. heads of department). Management should divide strategy into measurable short, medium and long-term goals. Management should also develop a strong human capital management (as part of its strategic management) that includes a high performance culture, rewarding and/or addressing non-performance. This goes beyond financial rewards and includes recognition, training etc. Non-performance can also be attitude based, which management should consider and address effectively. Strong human capital management includes succession planning for continuity and targeting specific employees for equipping for succession planning.

As a key learning Singapore Airlines has a properly executed plan, clear strategy, best customer service and don’t see them as government owned – which addresses the stereotype of government ownership.

(c) SOE value contribution

The airline contributed to the 2010 Soccer world cup by carrying players to different destinations. The airline had to plan appropriately, implement the
plan and stick to it and even step in where necessary because it did not want to see the world cup fail and due to national interest. This is an indication that SOE do care about national interest. However, the SOE and its shareholder often differ on the definition of national interest and when SOE should carry out such national interest. Again this speaks to the requirement for a trust relationship between the SOE and the shareholder. Some of these differences can be addressed through clear mandate and shareholder expectations, firm performance management at both shareholder and SOE level, while granting the SOE autonomy to operate the SOE profitably and sustainably and only using performance management as a lever.

The airline operates under a frequency, availability and timing business model. Frequency presents opportunities for passengers to fly, which helps attract business passengers. Availability is the working engine allowing passengers to give you money, while being reliable in making the airline available to passengers. They can buy the product (different distribution channels that are available). The number of seats increases without incurring additional costs. Timing contributes to reliability – by flying on time and at the right time – cancel where cannot increase capacity.

All governments have a similar mandate the difference is in management The shareholder protects the SOE in terms of interface with other government departments and gives management autonomy to operate the SOE.
APPENDIX F: CASE STUDIES

1: Petroliam Nasional (Petronas)

Petronas has been the cash cow for a variety of the Malaysian government projects. The company has been an extremely important resource for large scale state undertakings by expanding into maritime assets, financing major government sponsored infrastructure projects in Malaysia. (Von der Mehden & Troner, 2007).

Malaysia, through Petronas, owns its national reserves and Petronas is the sole concessionaire of Malaysia’s petroleum reserves. The Prime Minister is the final arbiter in company policy and frequently has been the source of decisions and strategy. (Von der Mehden & Troner, 2007).

Petronas expanded its international operations and became a global player with agreements in 35 countries by 2005. It is speculated that both economic and political forces were behind the move since domestic reserves declined. In addition, it is speculated that Petronas was a vehicle for the then Minister Mahathir to place Malaysia firmly on the international stage (Von der Mehden & Troner, 2007).

Petronas expanded into maritime assets and acquired shipping interests. By 2005 its shipping subsidiary had 127 vessels (Von Der Mehden & Troner, 2007).

Petronas management shows a close relationship between the government, particularly, the Prime Minister’s office, and the company. Petronas is organised under a Chairman and Board of Directors who report directly to the Prime Minister. The Chairman is selected by the Prime Minister and has considerable personal power. The Board is comprised of the Director-General of Economic Planning, the General Secretary of the Minister of Finance, the Director of the Economic and Coordination Unit and the independent advocate and solicitor and four members from Petronas.

There has been a long-standing relationship between the Malay majority party leadership (from
which have come ministers of Finance, Foreign Affairs, Home and the Prime Minister) in the ruling coalition and the top levels of Petronas management. (Von Der Mehden & Troner, 2007).

Petronas was given unopposed control over the nation’s petroleum resources (Von Der Mehden & Troner, 2007). Petronas received its powers from the Petroleum Development Act of 1974, which granted Petronas ownership and exclusive rights and powers over Malaysia’s hydrocarbon resources (Von Der Mehden & Troner, 2007). The Malaysian government acts as a shareholder and receives dividends.

At formation, Petronas goals were stipulated to include

- safeguarding the rights of Malaysia and the legitimate rights and interests of Malaysians in the ownership and development of petroleum resources;
- encouraging local participation in the manufacturing, assembling and fabricating of the plans and fabrication of plan equipment used in the oil industry and in the provision of ancillary and supporting services;
- contributing to the development of agro-based sector of the economy by making available nitrogenous fertilisers; and
- ensuring that the people of Malaysia as a whole enjoy the fullest benefits from the development of the country’s petroleum industry.

(Von Der Mehden & Troner, 2007).

From the very beginning Petronas declared that its agenda included acting for the benefit of the people of Malaysia. In 1998 Petronas was prepared to buy a very large number of government bonds to provide liquidity to cash strapped banks during the Asian economic crisis. The rationale was that these activities were a national necessity that aided national development. The then Chairman stated: “Whatever we do, we should ensure that it won’t undermine the confidence of the country”.

However, overall, Petronas has remained relatively independent of the government in its day-to-day operations. Members of government parties would have liked to use Petronas profits for pet
projects, but have been blocked by Petronas with the help of the Prime Minister. There is recognition that the appearance of an overly interfering government would have a negative effect on world markets. (Von Der Mehden & Troner, 2007). Petronas has been in existence for about thirty (30) years since 1974. It was incorporated in 1974 as Petroliam Nasional. For the first half of its life, it was learning the ropes of the petroleum business and contracting primarily upon upstream operations with limited downstream activities. For the remaining fifteen or so years, Petronas expanded its domestic activities into downstream operations including retail business and petrochemicals, expanded abroad into approximately 35 countries, developed its role as a dominant player in oil and gas shipping, and helped finance a series of megaprojects in Malaysia (Von Der Mehden & Troner, 2007).

Petronas expanded into shipping gas and established a subsidiary which owns 30 container ships, 13 chemical and parcel tankers, 53 bulk ships 23 LNG ships, 13 crude and product tankers, 2 passenger’s ferries and 3 liquefied petroleum gas carriers. In 2004 its sales amounted to US$1,998.2 million and its income was $601.5 million. It currently has the largest LNG fleet in the world.

Petronas also expanded into financing major government sponsored infrastructure projects in Malaysia, outside its traditional core energy interests. The two most noteworthy projects being the Twin Towers and the national government administrative centre Putrajaya. The Towers and the LNG shipping subsidiary turned out to be long-term financial successes.

Petronas significantly contributes to national revenue through tax (primarily from the Petroleum Income Tax). Recently approximately, 20% of total government revenue has come from petroleum. High oil prices have increased profits and tax revenue. In June 2005 Petronas reported a net rise in profits of 50.3% or US$9.35 billion.

Von Der Mehrden and Troner contend that Southeast Asian petroleum producing nations such as Malaysia have carried out economic and social policies more useful for national development than
those policies followed in most Middle Eastern countries with oil and gas resources (2007). Petronas is expected to operate as a commercial entity that makes a profit, hence it was formed as a company, rather than a statutory body of the government. It complies with rules from the Securities and Exchange Commission and some of its subsidiaries are listed on the Malaysia stock exchange. There is foreign equity participation in its subsidiaries, thus requiring it to act more openly in financial matters.

Petronas is a generally well-run company with a leadership that has developed a good reputation for administrative and financial accountability. It is relatively free from corruption. Petronas management is generally seen as highly competent and effective.

Petronas is largely free from government interference in its daily operations. It sees itself as a business with profit as a prime objective. It has been a generally solid and well-respected partner to both private and state entities around the world.

It is an integrated global company with upstream and downstream operations in countries in Africa, the Middle East, Asia, Europe and Australia. A significant percentage of its profits come from overseas enterprises.

Petronas has expanded its retail and marketing and has 729 service stations in Malaysia, amounting to 40% of market share. As of 2005 it maintained over 1250 service stations in South Africa through its Engen Limited subsidiary and another 117 service stations in Thailand and retailed petroleum products in the Sudan and Indonesia. Petronas also has a substantial share in a new refinery under construction in Sudan and plans to expand its retail operations there. 50% of company revenue comes from petroleum exports from Malaysia, domestic market revenues account for 20% and international activities bring 30% (Von Der Mehden & Troner, 2007). Petronas is involved in upstream exploration and production in 59 ventures in 26 countries and is the operator for 29 of these ventures in the Middle East, Africa and Asia (Von Der Mehden & Troner,
There were also downstream activities involving activities such as petrochemicals, retailing, gas pipelines and LNG and engineering in Latin America, Australia, Asia, Africa, Europe and the UK (Von Der Mehden & Troner, 2007). In 2006 Petronas bought a US$1.1 billion stake in Rosneft, a Russian company. (Von Der Mehden & Troner, 2007).

Petronas saw opportunities in places where Western, and particularly American, companies had difficulties operating because of issues pertaining to their own government’s foreign policies or non-governmental critics of these regimes. Another issue surrounds the extent of Petronas operations in Muslim countries.

Petronas expanded into maritime assets and acquired shipping interests. By 2005 its shipping subsidiary had 127 vessels. (Von Der Mehden & Troner, 2007).

In 2004 of the 50 major petroleum companies, Petronas was ranked 19th in revenues, 7th in net income, 12th in total assets, 24th in oil output, 10th in gas output, 20th in liquid reserves and 11th in gas reserves. In 2006 Petronas exported 57% of its petroleum, processed 84.3 million barrels in its own domestic refineries and supplied the remainder to other domestic refineries.

Petronas launched large scale international bond sales with ease, including a US$2.675 offering in 2002, the largest bond issue by an Asian corporation.

2: Oil and Natural Gas Corporation (ONGC)

ONGC’s founding objective related to the corporation’s central role in exploring and exploiting India’s energy reserves. The corporation evolved from the Oil and Natural Gas Directorate set up by the Indian government in 1955 to oversee the exploitation of the country’s oil and gas deposits. (Ramaswamy, 2008).
ONGC expanded internationally through a subsidiary (OVL) which the Indian government designated as India’s nodal agency in all bilateral energy discussions initiated by government. In several international prospecting acreage transactions competing against Chinese SOE who had financial strength, OVL was forced to rely on India’s diplomatic standing and goodwill. (Ramaswamy, 2008).

ONGC in 2006 was profitable and one of the largest companies in India with reported sales of $19.237 billion and net profits of $3.929 billion, making it the largest Indian Fortune Global 500 company (Ramaswamy, 2008). The corporation introduced a voluntary retirement programme to reduce its bloated workforce and achieved a 10% reduction. The corporation also revamped internal systems to enable smooth functioning of the organisation. The new CEO (Raha) revamped the entire decision-making structure and eliminated the bureaucratic staff approvals by creating a more flat structure for quick decision-making and autonomy down the chain – empowering employees lower down the chain. Ramaswamy, 2008).

The company also sought to encourage high performance behaviour through incentive plans targeting innovation and productivity. The plans were for both individual and group performance. The organisational structure was reworked to allow for autonomous decision-making through the constraints of state ownership. The reforms included a comprehensive redesign of the performance appraisal process resulting in a management development institute (ONGC Academy) to focus on providing leadership and technical training to employees (Ramaswamy, 2008).

The company also reduced its foreign debt through idle cash reserves and ploughed the remaining cash back into the business, all resulting in significant savings for both taxes and interest. The government listed 10% of the company’s shareholding in 2004, which shareholding was oversubscribed three times within 20 minutes, record breaking in the Indian stock market.
By 2007, the Indian government owned 74% of the shares in ONGC. In that same year, ONGC represented 10% of the market capitalisation represented by the Mumbai Stock Exchange, which is the largest stock market in India. (Ramaswamy, 2008).

Around 2003 ONGC sought to integrate its business into the downstream segment and to become India’s first integrated major petroleum business. In 2003 ONGC acquired Mangalore Refinery and Petrochemicals (MRPL) and followed this with a move into retail. ONGC obtained retail licences and opened fuelling stations by 2005. Owning MRPL allowed ONGC to sell its crude oil to the company at arms-length prices and then sell refined products through its own petrol pumps. In this way the oil subsidies that ONGC was financing would stay within the fold. (Ramaswamy, 2008).

Vertical integration promised to give ONGC control of its own destiny, it offered the company wider flexibility in monetising its assets, a crucial determinant of success. ONGC’s CEO observed that integration along the hydrocarbon value chain was not a matter of choice for a company with a global footprint, but an imperative requiring it to squeeze every available paisa (cent) out of every molecule of crude. ONGC had to become part of the crude cycle, the refining cycle and the product cycle to tide over any downturn in any one of them. (Ramaswamy, 2008).

From 2001-2006 sales rose from approximately US$5.7 BILLION TO $12.7 billion and profits from US$1.6 billion to $3.5 billion. In 2007 the corporation was ranked as the best Exploration and Production (E&P) Company in Asia, third amongst global E&P companies and 23rd among global energy companies. (Ramaswamy, 2008).

3: Petrobras

Petrobras is Brazil’s SOE oil company producing 965 of total oil produced in Brazil (Bridgman, Gomes & Teixeira, 2006).
A newly elected Brazilian government ended Petrobas’ legal monopoly rights over production, refining, importing and exporting oil. Petrobas immediately sharply increased its productivity growth without any government indication to privatise or break up the SOE. (Bridgman, Gomes & Teixeira, 2006).

Petrobas was expected to assist in economic development through excess employment. If privatisation is not possible, reducing barriers to competition can increase productivity. The competitive environment is an important determinant of productivity, regardless of ownership. (Bridgman, Gomes & Teixeira, 2006).

In 1995, Brazil ended Petrobas’ legal monopoly rights over production, refining, import and export of oil. Immediately after this change, productivity growth increased sharply. The reform opening up the market to competition was not accompanied by any other change. (Bridgman, Gomes & Teixeira, 2006).

Petrobas is an integrated state-owned oil company that extracts, imports and exports and refines crude oil and distributes gasoline. It is a major player in the world oil industry and was ranked 125th in the 2005 Global Fortune 500. It is also very important in Brazil as its sales are 6% of Brazil’s GDP. It is one of the crown jewels and figures prominently in the nationalist movement. Taxes on oil extraction are an important source of revenue for Federal, state and city governments. It also employs skilled, high-wage workers and is a source of local supply contracts. (Bridgman, Gomes & Teixeira, 2006).

Petrobas, following the reform, slashed its use of inputs while maintaining output growth and began to shift its portfolio of oil wells to more productive regions. Petrobas’ subsequent performance lends support to the view that the competitive environment is an important determinant of productivity, regardless of public or private ownership. The prospect of competition resulted in major changes in Petrobas’ management strategy and productivity. Productivity increased mainly due to reallocation of inputs (capital) toward more productive plants...
and shifted production to more productive wells after the loss of its monopoly. (Bridgman, Gomes & Teixeira, 2006).

Overstaffing was reduced and production was shifted to more productive wells. The inefficient use of inputs likely reflected non-economic goals that became less important after the reform. Employment fell rapidly after the reform. Estimates are that previously the company had been overstuffed by 200% - up to 10% of the workforce was political patrons, hired at government’s behest. (Bridgman, Gomes & Teixeira, 2006).

4: Temasek Holdings (Temasek):

Temasek was established in June 1974 as a limited company to manage the Singaporean Government’s investments in Government-Linked Corporation and remains wholly owned by the government through the Finance Ministry (Chatterjee, 2006).

While run similar to private sector business corporations, and doing the same with its subsidiaries, it is believed to have been chiefly responsible for Singapore’s economic success. Temasek’s culture, which includes secrecy, indicates the results of developing under government (Chatterjee & Dhar, 2006). Temasek Holdings is an Asia investment house headquartered in Singapore.

With a multinational staff of 380 people, we manage a portfolio of S$186 billion, focused primarily in Asia and Singapore. (Chatterjee & Dhar, 2006).

Guided by an independent board, we operate autonomously on commercial principles to maximise long-term returns. Our total shareholder return since inception 36 years ago is 17% compounded annually. (Chatterjee & Dhar, 2006).

We have a corporate credit rating of AAA/Aaa by Standard & Poor's and Moody's respectively.
Statistics differ on the extent of Temasek and the GLC’s contribution to the Singaporean economy. The US Embassy in Singapore stated that they contributed around 60% of GDP, while Singapore’s Department of Statistics posits the contribution at 12% of national GDP in 1998, with MNCs accounting for nearly 42% (Chatterjee & Dhar, 2006).

Temasek controlled subsidiaries where GLCs had significant shareholdings – 22 first-tier GLCs has own subsidiaries and associates at different tiers – all of which were involved in wide range of sectors such as banking and finance, telecommunications, transport and logistics, property, infrastructure and engineering and utilities, and are registered as companies and are also listed on Singapore’s stock exchange. In 2001 these accounted for 27% of the total market capitalisation. (Chatterjee & Dhar, 2006).

Temasek’s investment strategy has principally been geared towards creating global corporate. The key strategy focus areas were strategic development (investing in and building up high growth organisations – including companies with strategic advantages and intellectual capital such as biotech companies), corporate development (fostering a learning environment that can deliver future business leaders) and capital resources management (cash, currencies, fixed income, equities, private equity and debt funds). Temasek disinvested from businesses that had no scale and low returns on capital. While 755 of investments are in Singapore the target is to reduce this to a third, with a third in developed countries and the final third in developing countries, particularly in Asia. (Chatterjee & Dhar, 2006).

The then CEO Ho Ching stated that he lived on the basis that everybody’s lunch can be eaten even his own. (Chatterjee & Dhar, 2006).

Statistics differ on the extent of Temasek and the GLC’s contribution to the Singaporean economy. The US Embassy in Singapore stated that they contributed around 60% of GDP, while Singapore’s Department of Statistics posits the contribution at 12% of national GDP in 1998, with MNCs accounting for nearly 42%. (Chatterjee & Dhar, 2006).
By 2005 Temasek’s diversified global portfolio measured S$103 billion, delivering a total shareholder’s return of 18% compounded annually over the last 31 years, including an average annual cash dividend exceeding 7% to government. (Chatterjee & Dhar, 2006).

5: **Singapore Airlines (SIA):**

From inception the Singaporean authorities took a no-hands approach to SIA, whilst creating an efficient infrastructure, negotiating traffic rights, preserving labour peace. SIA’s guiding philosophy was that no one owed it a living and was determined to compete on its own with limited government assistance – true competitive neutrality? Resilience and self-sufficiency. (Sutherland & McKern, 2003).

The airline also benefitted from a very far-sighted government and visionary political leadership that allowed people to believe that they would make it through. Consequently, Singaporeans have a deep rooted sense of identity and understanding. For the airline it allowed them to develop a very fundamental service culture. (Sutherland & McKern, 2003).

Given its context (Singapore’s small population and country size), SIA was forced to build a preference airline for foreign travellers, over their own national carriers (Sutherland & McKern, 2003). SIA was formed in 1972 following separation from Malaysia and from that date successfully differentiated itself from competitors through focussing on top quality superior service in every area at competitive prices, while yielding a surplus to finance expansion and modernisation and to provide a satisfactory return to shareholders.

Through consistency the company developed and evolved, reinforced a culture of customer awareness and care. In its consistent approach SIA’s top three kept their focus in industry and market developments. The executives also had a healthy risk appetite and were willing to take
risks in pursuit of the airline’s long-term objective to diversify its revenue streams and airline acquisition. While acknowledging that some risks may not pay off the executives’ focus was to ensure that they don’t risk the airline itself to limit destroying the business.

In its acquisition strategy the management looked for airlines in the growth stage with a sustainable product and good management (a mirror of SIA’s old self). AN airline’s strong management would allow SIA to focus on the investment and not be distracted or diverted of their managerial focus and attention on the acquired airline thus allowing SIA to focus on its own organic growth. (Sutherland & McKern, 2003).

With a shift to a global airline, the company had to review all its operational aspects and organisational structure to ensure that these support a global, rather than regional, airline. In the current context of continuous and disruptive change, the airline focuses on its response as the critical differentiator through agility, greater flexibility and communicating organisation-wide. (Sutherland & McKern, 2003).

During the 1997 Asian economic crisis, SIA shifted capacity to European, U.S., and Australasian and Indian routes less affected by the crisis and by deferring the delivery of aircraft to better match capacity with demand. Wages were frozen and rolled back one wage increment. (Sutherland & McKern, 2003).

During the 9/11 aftermath services to certain destinations were suspended. All but the most essential projects were deferred or cancelled. By 2002 nearly all suspended services had been restored. In addition, SIA had increased services to Australia and China and the airline was able to focus on the long-term strategy of becoming a global company. (Sutherland & McKern, 2003).

Regarding its acquisitions of growth airlines, SIA required a good airline with strong management and a route network that complemented SIA’s route network. The target airline also had to be posed to mature at a high growth rate if provided with capital for expansion and SIA had to be
well perceived in the target’s local political environment. Thus SIA had to clearly understand the stakeholders in the local environment and their possible reaction to SIA’s takeover. (Sutherland & McKern, 2003).

6: State Bank of India (SBI):

SBI started in the early 19th century and was the first joint stock bank in British India. In the early 1920s it was a commercial bank, a bankers bank and a banker to government fulfilling a quasi-central bank role until the establishment of India’s Reserve Bank in 1935. Consequently, SBI became a commercial bank and even during Independence in 1947 operated primarily in urban areas and entrenched its dominant position. SBI played a key role in funding Indian industry.

SBI and its associate banks in March 2003 had 13,579 branches and one of the largest branch networks in the world. It played a key role in providing working capital finance and term loans to Indian industry.

After its restructuring SBI increased its profits in 2003-4 FY by 18.55% to Rs 36.81 bn of net profits; Rs 95.535 bn operating profits. However, staff costs increased by 13.3% because of additional contribution to pension fund and provision for leave encashment.

In 2003 SBI had 8 business units- corporate banking, international banking and domestic banking for concentrating on core business areas, associate unit looking after these banks, credit division to monitor overall credit, finance, corporate development and inspection for in-house work. SBI was the largest commercial bank in India in terms of revenues, assets, deposits, branches and workforce.

When competition was introduced into the Indian banking sector in the 1990s, SBI restructured and offered a number of new products and services, forged alliances with other business entities, entered new areas of business and adopted novel ways of reaching out to customers and
providing them value-added services.

The bank focussed on service delivery against international benchmarks and sought to increase customer satisfaction and convenience, freeing up time for branch manager and staff to focus on sales and marketing, simplifying process for employees, enhancing competitiveness, increasing profitability through higher market share and improved process efficiency. Additionally, SBI launched innovative value-added products and services to project a customer friendly image. SBI also undertook various marketing initiatives to enhance its reach.

7: Beijing Capital Group:

The Group's top management was still under the State's jurisdiction. Party membership was vital for individual appointment to senior management even in the Group’s subsidiaries (HO, Wong & Chan, 2001).

The enterprise leadership also held the position of Party Secretary. This helped consolidate the economic and political role of the head and eliminated dualistic leadership. When board meetings were held to discuss operational issues, the Group President could consider both political and economic factors. (HO, Wong & Chan, 2001).

The group’s development strategies included increasing access to domestic and international markets and retaining the Beijing base; grow the group through holding shares, recapitalisation, mergers etc; diversifying the group’s business with investment banking as a base and other industries striving for continuous self-improvement resulting in the Group becoming a large modern transnational group of corporations involved in finance, infrastructure, real estate, tourism, high-tech and trade. (HO, Wong & Chan, 2001).

The Capital Group enjoyed considerable autonomy in making operational and management
The Capital Group developed contacts with the MBA schools of the universities in Beijing and offered field training for MBA students in order to attract high-calibre candidates. High performers were invited to join the Group after their graduation. (HO, Wong & Chan, 2001).

The peg between total payroll and economic results strengthened the Group’s accountability and incentives to improve performance. (HO, Wong & Chan, 2001).

The Group had a policy of “survival of the fittest” – accordingly, 6 subsidiaries were allowed to shut down due to inefficiency. (HO, Wong & Chan, 2001).

The Group was managed by its Board of Directors. Only projects that had been evaluated by internal or external experts could be discussed during the board meetings. (HO, Wong & Chan, 2001).

8: Singapore Telecom (SingTel)

SingTel was 78% owned by Government through Temasek. Most of the non-executive directors on SingTel’s board had strong current or previous links with the government and the firm was viewed as a SOE. The Optus acquisition diluted Temasek’s stake in SingTel to 68%. (Heracleous & Singh, 2009).

The company’s focus was to create a strong presence in key growth markets in Asia including both fixed network data and wireless mobile services. SingTel’s vision was to become the leading Asia-Pacific regional player by investing more in the region. The CEO recognised the need to maintain a healthy balance sheet, to retain strategic flexibility in the event opportunities appeared and to avoid the trap of over commitment (Heracleous & Singh, 2009).
SingTel achieved its strategy of revenue and profit growth by investing in countries with high growth potential such as Thailand, India, Philippines and Australia. Following its acquisition of telecom businesses such as Optus in Australia, SingTel applied stricter accounting standards. SingTel had amortisation profits on its operating profits and emphasised EBITDA as its main financial measure of performance, which is unaffected by choice of accounting methods for charges such as depreciation and amortisation. SingTel’s annual report for 2002-3 reflected a $350m savings. (Heracleous & Singh, 2009).

The Optus acquisition enables SingTel to diversify its revenue streams geographically, leading more than half of its revenues coming from outside Singapore and propelling SingTel to the top 5 telecoms companies in the region in terms of revenue. In terms of revenue mix it helped SingTel reduce its dependence on international telephony (declining revenue) and to place proportionally more emphasis on growing mobile telephony and data services. (Heracleous & Singh, 2009).

SingTel proceeded with its international expansion strategy in Indonesia and the Netherlands. With these transactions, SingTel became a large regional player and subsequently invested significantly in infrastructure. Contributions from overseas investments helped cushion continuing revenue decline in 2002 from the Singapore operations. In 2002 SingTel had 50% market share (decline from 56% in 2001). In 2000-1 SingTel had profits after tax of $2bn. In 2002 the PAT were $1.63bn. (Heracleous & Singh, 2009).

In 2003 SingTel consolidated its regional expansion strategy. (Heracleous & Singh, 2009).

Underlying net profit increased 13 per cent to S$3.91 billion, with revenue growing at the same rate to S$16.87 billion. The Board has recommended a final ordinary dividend of 8.0 cents per share. Together with the interim dividend of 6.2 cents per share, the Group is delivering a 14 per cent increase in total dividends to S$2.26 billion (Annual Report, 2010). (Heracleous & Singh, 2009).
Today, more than 70 per cent of proportionate EBITDA is derived from outside of Singapore and international telephony services now account for just 4.2 per cent of revenue compared to 38 per cent back in 1999. In addition, our mobile services are present in eight markets with access to 293 million mobile customers; and we have a network of 37 overseas offices to serve the communications needs of our corporate customers. The Group now ranks among the Top 15 global telecommunications companies 1. (Heracleous & Singh, 2009).

SingTel captured 45.2 per cent of the mobile market.

9: Telkomsel

Telkomsel was established by the Indonesian government in 1995 as a mobile telecommunications service provider and was Indonesia’s largest cellular operator’s Telkomsel was held through the following SOE: Telkom (43%); Indosat (35%); and the following private sector entities: KPN, a Dutch telecom firm (17%) and Setdco (5%), a private Indonesian firm (Buchanan, Hamilton, McMillan & Yurday, 2003).

In 1996 the company began building base stations and installed antennae on the rooftops of buildings owned by its majority shareholder, Telkom. Consequently the company avoided expensive rentals of space. 40% of its base stations outside Jakarta were on top of Telkom buildings. (Buchanan, Hamilton, McMillan & Yurday, 2003).

Telkomsel allegedly benefitted from its government ties when spectrum licences were awarded. (Buchanan, Hamilton, McMillan & Yurday, 2003).

For the 4 years until 2000, Telkomsel increased its market share to 465, and its subscribers more than 3 fold from 189,000 to 1,687,000. Operating revenues increased from 196bn to 2,802 bn rupiah and net income from 52bn to 1,346bn rupiah to have a net income margin of 48%. (Buchanan, Hamilton, McMillan & Yurday, 2003).
For 2009, Telkomsel operating revenue was ahead by 12%, net profit by 15% and its customer base up by 25% (Telkomsel Annual Report, 2009). Telkomsel successfully achieved a return to double digit revenue growth, in the trend of declining revenue per minute (Telkomsel Annual Report, 2009). Telkomsel's dominant position was confirmed by its customer base, which reached a total of 81.64 million as of the end of 2009, comprising 49% of the total full-mobility market. This achievement yielded growth of 25% for Telkomsel in 2009, the result of securing a net add of 16.34 million users in 2009 on top of the Company’s 2008 customer base of 65.30 million, which represented more than 50% of the total national net additional mobile users in 2009. Given the difficult global economic climate of 2008-2009, this was a remarkable accomplishment. (Buchanan, Hamilton, McMillan & Yurday, 2003).

The company's management decided to reinvent it as a customer-oriented growth company. However, management needed to win government and shareholder support before undertaking the company’s transformation. (Buchanan, Hamilton, McMillan & Yurday, 2003).

The company was incorporated in 1995 and is based in Jakarta, Indonesia. PT Telekomunikasi Selular is a subsidiary of PT Telekomunikasi Indonesia Tbk. By the end of March 2009, Telkomsel had 72.1 million customers which based on industry statistics represented an estimated market share of approximately 50% (Annual Report, 2009). Telkomsel is the leading operator of cellular telecommunications services in Indonesia by market share.

Telkomsel’s consultants advised the company that Indonesia’s cellular market was set for rapid and sustained growth and Telkomsel had to capture such growth through aggressive investment in network capacity in order to guarantee quality service to existing clients and to capture new clients and retain its dominant market share. Consequently, Telkomsel invested in network rollout ahead of demand. (Buchanan, Hamilton, McMillan & Yurday, 2003).
The consultants proposed that Telkomsel –

- builds a service culture;
- creates a marketing innovation engine, to gain market share in mobile voice services;
- sets up a data incubator, in anticipation of long-term growth in the data services market;
- invests in the network ahead of growth in demand;
- builds IT and billing-system structures to service the growth in demand; and
- builds a high performance organisation.

(Buchanan, Hamilton, McMillan & Yurday, 2003).

Telkomsel's gross revenues have grown from Rp 3.59 trillion in 2000 to Rp 44.42 trillion in 2008 (Annual Report, 2009) Over the same period, the total number of Telkomsel's cellular subscribers increased from approximately 1.7 million as at 31 December 2000 to 65.3 million as at 31 December 2008 (Annual Report, 2009)

Telkomsel has the largest network coverage of any of the cellular operators in Indonesia, providing network coverage reaching over 95% of Indonesia’s population and is the only operator in Indonesia that covers all of the country's provinces and regencies, and all counties (“kecamatan”) in Sumatra, Java, and Bali/Nusra. (Buchanan, Hamilton, McMillan & Yurday, 2003).

10: Zhujiang Iron and Steel Company (ZISCO)

ZISCO was established in 1997 as one of China's key national projects in the national Ninth Five Year Plan. In February 2003 ZISCO's annual production capacity was two million tonnes of steel sheet products. (Huang, 2007).

ZISCO differed from other SOE in China in its organisational structure. Unlike the traditional two separate administrative systems of the other SOE, ZISCO had only two party secretaries at the company's top level. The party secretary also was the chairman of the ZISCO Board of directors and the deputy secretary was in charge on all other daily traditional political affairs of the party.
All functional heads at ZISCO also held the position of party secretary at their function. ZISCO also outsourced most of its auxiliary services and limited the total number of employees to about 600. Most of the employees held university qualifications.

In 2006 the company had profits of approximately Rmb 180 million achieving satisfactory profits for the third consecutive year in spite of a tough competitive environment in the Chinese steel industry and significant increases in the price of raw materials. (Huang, 2007).

In March 2003 management redefined the business strategy in order to improve the production process, product quality and key functional performance, implementation of strategy to consolidate functional performance and to improve cross-functional co-ordination and integration; finally continuous integration and capacity building. The focus was on cost reduction in all functions. (Huang, 2007).

To achieve its strategy, the company changed its organisational structure to establish a new functional department, product quality focusing on product quality and customer co-ordination. Control and incentive schemes were developed for production, sales and profit. Salaries of top and middle management were linked to the company’s financial performance monthly. In addition, incentives were introduced to improve production productivity and quality control in co-ordinating two production lines. Salary systems were reformed to be more performance based. (Huang, 2007).

A cross functional team was also established. All these changes resulted in stabilised and improved production in late 2003 – an immediate result. (Huang, 2007).

Other changes related to procurement and marketing which added substantial value to customers (Huang, 2007).

The company management believed that it could achieve sustainable growth through continuous value creation focusing on marketing and product development and cost reduction in all functions. Ultimately it also could create value for the employees as their performance measures would be linked to the company’s performance. (Huang, 2007).

Consequently, ZISCO developed a new organisational culture from production oriented to value creation for customers (true service company) and became market oriented rather than production oriented. This focussed primarily on behaviour control and incentives. Employees were motivated to participate in creating value for the company and improving their daily operational activities. (Huang, 2007).

The result was a successful lowering of energy consumption (electricity, gas and oil for...
production) through benchmarking and target setting; reduced interest charges and improved company cash flow. (Huang, 2007).

By June 2006 ZISCO had increased its thin steel production process by 50% and could supply more thin steel products to its customers and thus improve its competitive advantage and financial performance. Potentially, Rmb 1m of profit were added to ZISCO monthly. (Huang, 2007).

In 2006 ZISCO also further strengthened integrating its value chain to its customer consumption chains. ZISCO obtained value since the reconceptualised products could be sold without a price discount. (Huang, 2007).

11: Indian Railways

IR reports to the Government of India’s Ministry of Railways. The Minister assisted by two ministers of state for railways developed the policy direction for IR. A railway board had direct influence on IR’s future comprising a chairman, financial commissioner and six functional members were collectively responsible for the direct management of the zonal railways, various production units and subsidiary public-sector undertakings such as Indian Railway Finance Corporation. The railway board members belonged to various Indian railway services. (Khanna, Musacchi & Tahilyana, 2009).

In 2008 the company was operating profitably with a cash surplus f $5.8 bn (before dividends) and an operating ration that had moved from 92% in 2004 to 76% in 2008 (Khanna, Musacchi & Tahilyana, 2009).

Indian Railways was one of the largest and busiest rail networks in the world, carrying over 17 million passengers and 2 million tons of freight daily. It was the second largest non military employer in the world after Walmart. It was also the world’s largest public utility employer with 1.4 million people on its payrolls, indirectly affecting the employment of millions of people. It had approximately 63 000 route kilometres of network and was the second largest rail network in Asia after China. (Khanna, Musacchi & Tahilyana, 2009).

Turnaround efforts included wagon turnaround, changed maintenance practices to increase the time between successive re-examination of rolling stock, reduce number of examinations and increase utilisation of existing capacity. (Khanna, Musacchi & Tahilyana, 2009).
IR increased tariffs in certain commodities and made significant investments in technology to enhance productivity – freight operations information system – an integrated information and management system for controlling and monitoring the various activities in freight operations to ensure tracking of consignments, optimise supply of empty rakes for loading and lay the foundation for a complete logistics management system to furnish real time information on the chain of physical distribution. (Khanna, Musacchi & Tahilyana, 2009).

IR’s simple strategy was to reduce unit costs and increase volumes. IR undertook several initiatives to achieve this strategy, borrowing from other transport modes such as airlines upgrading systems, charging higher fares for superfast trains, leveraging technology to enhance customer experience (e.g. computerised charting to enable better forecasting of trains). (Khanna, Musacchi & Tahilyana, 2009).

IR’s business model relied heavily on making profits on cargo and cross-subsidising passenger traffic. (Khanna, Musacchi & Tahilyana, 2009).

IR also introduced performance related changes for employees and sought to boost employee morale through bonus payments and change their mindsets to help create commitment and loyalty. (Khanna, Musacchi & Tahilyana, 2009).

IR achieved enhanced productivity through increased passenger volumes and freight businesses and in ton kilometres per employee and passenger kilometres per employee. Freight unit costs declined by 11.5% and labour productivity measured in terms of net ton kilometres per employee increased by 47% from 2001 – 2008. However, employee productivity was still lower than in China and USA. (Khanna, Musacchi & Tahilyana, 2009).

IR financed capital expenditure through increases in retained earnings. In the five years from 2004-2009 IR made $20.5 bn in cash surplus. The investments let to significant improvements making wagon productivity higher than that of the US railways. (Khanna, Musacchi & Tahilyana, 2009).

12: Hindustan Petroleum Corporation Ltd (HPLC)

HPLC owns and operates two major refineries and the largest lubricants refineries in India. It won the NDTV Business Leadership Award given to companies that have fuelled the Indian economy and nurtured excellence. Additional awards include national awards for training, environmental management and marketing as well as being best employer in India, most admired retailer, safety innovator and most preferred auto fuel. Its IT projects earned the company an
Indian Express Indian Innovation Awards solver trophy for achieving improves logistics and cost reductions, innovations that have led to new benchmarks in retail automation, capacity utilisation, and productivity – the only oil company to win this award. (Koch & Sens, 2009).

Company management recognised need for new skills relating to initiative, leadership and creativity and to retain such skills in order to make the company competitive and be customer centric (Koch & Sens, 2009). HPLC also determined to become a learning organisation, as defined by Peter Senge in his *Fifth Discipline*.

In 2003 HPLC top executives articulated a customer centric organisational vision combined with superior agility and becoming a learning and innovative organisation. The organisational vision was followed by formulating business unit strategies to help achieve such articulated vision and embarked upon change management and introduced the Balanced Scorecard for performance measuring, communicating expectations and providing systematic and transparent feedback to employees. (Koch & Sens, 2009).

HPLC also launched a multipronged integrated programme of human capital initiatives and processes, which was the core of its learning organisation plan. This programme included target setting at individual and group level, using IT as a key enabler for achieving greater efficiencies without increasing personnel and focussing on training. Thus in 2008, HPLC became the first oil company to win a technical assistance grant from the U.S Trade Development Agency. The grant allowed HPLC to contract with a major US oil company to train personnel in asset reliability and inspection for pipeline and refinery assets (Koch & Sens, 2009).

A fortune 500 company with annual sales exceeding $27bn in the 2007-8 financial year. (Koch & Sens, 2009).

In the 1990s HPLC operated in a state-regulated oil industry with little private sector participation, where industry growth was planned by the government. Subsequently, the industry was liberalised and HOLC competed with multinationals, and still enjoyed solid financial performance (Koch & Sen, 2009).

Following its transformation, the company experience significant performance increases which encompassed higher sales and market share to 17.7% in 2008, 35% increase in the number of high performing managers (who earned performance linked rewards). Its aviation unit achieved 43% sales growth and a compound annual growth rate of 35% in 2007-8 financial year and was top ranked as INida’s fastest growing jet fuel supplier. It is the only Indian aviation fuel company to win the Golden Peacock award for environmental management (Koch & Sens, 2009).
In 2008 both refineries won the Greentech Gold Award for outstanding environmental management. (Koch & Sens, 2009).